

In Brief



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Compensating consumers since 2001

IN THIS ISSUE

- FSCS explained
- Protection
- Levies
- Case studies



FSCS explained

“FSCS has protected more than 4.5m consumers since 2001 and paid out more than £26bn in compensation...”

Our Mission.

Providing a trusted compensation service for customers, which raises public confidence in the financial service industry.

We are independent of government and the financial industry. We were set up under the Financial Services and Markets Act 2000, becoming operational on 1 December 2001. As we head into our 15th year of compensating consumers, The Financial Services Compensation Scheme is proud to be part of supporting confidence in financial services, which benefits both the industry and consumers, as well as contributing to financial stability.

FSCS is the UK's compensation scheme of last resort for customers of financial services firms authorised by the Financial Conduct Authority (FCA) or the Prudential Regulation Authority (PRA).

FSCS may pay compensation to customers of authorised financial services firms that fail. This will generally be because they have stopped trading and are unable to pay protected claims against them or likely to be 'in default'.

FSCS has protected more than 4.5m consumers since 2001 and paid out more than £26bn in compensation.

In 2015/16, FSCS paid out £272m in compensation to consumers as a result of 32,000 claims.



Protection

The Financial Conduct Authority and the Prudential Regulation Authority set our compensation limits and rules. The PRA's rules cover claims related to deposits and life and general insurance policies, and the FCA's rules cover claims related to investment business and the advice and arranging of general insurance and home finance. The actual level of compensation consumers receive depends on their claim. FSCS only pays compensation for financial loss. Compensation limits are per person per firm and per claim category.

The maximum levels of compensation are:

- **Deposits:** £75,000 per person per authorised firm; £150,000 for joint accounts.
- **From 3 July 2015,** the FSCS provides a £1m protection limit (or unlimited in some cases) for temporary high balances, such as from a house sale, held in a deposit with your bank, building society or credit union if it fails.
- **Investments:** £50,000 per person per authorised firm (for claims against firms declared in default from 1 January 2010).
- **Home Finance (e.g. mortgage advice and arranging):** £50,000 per person per firm (for claims against firms declared in default from 1 January 2010).
- **Insurance Business:** there is no upper limit on the amount of protection (for claims against firms declared in default from 3 July 2015).
- **General insurance advice and arranging:** there is no upper limit (for business conducted on or after 14 January 2005).
- **Claims under compulsory insurance,** such as employers liability, motor indemnity policies professional insurance and certain claims for injury, sickness or infirmity of the policyholder are also 100% protected. Life insurance policies are protected to 100% (from 3 July 2015). FSCS protects other types of insurance, 90% of the claim with no upper limit.

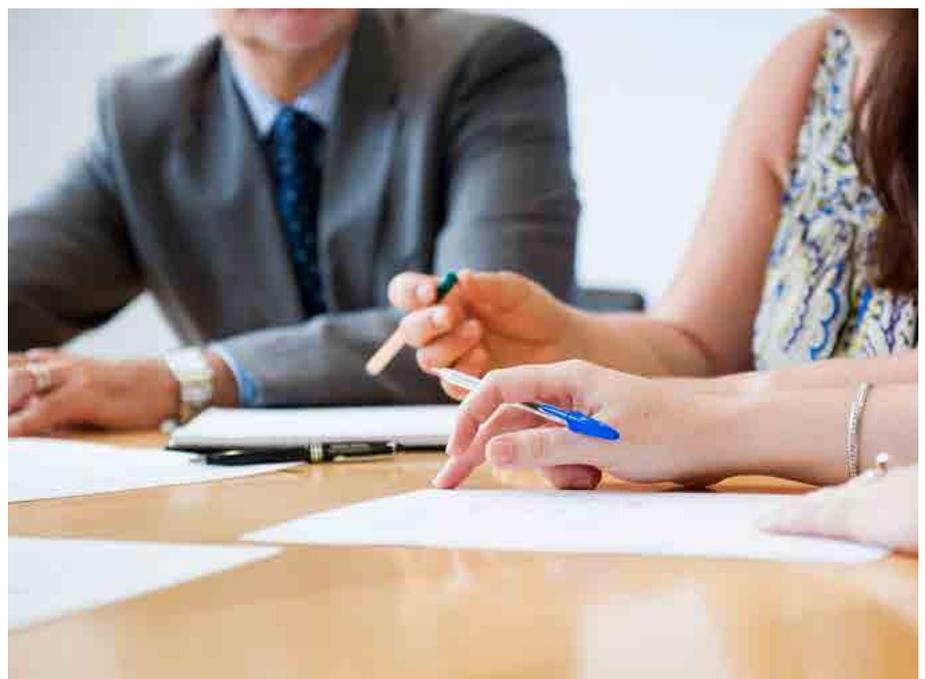
We provide a handy deposit protection checker for people at <http://protected.fscs.org.uk>

Examples of authorised financial services firms are:

- Banks
- Building societies
- Credit unions
- Insurance brokers
- Insurance companies
- Investment firms
- Financial advisors
- Mortgage brokers

Examples of financial service products:

- Current accounts
- Savings accounts
- ISAs
- Insurance policies
- Investments (such as shares, unit trusts)
- Mortgages
- Pensions policies



Levies

FSCS is funded by levies on firms authorised by the PRA and the FCA. FSCS costs are made up of management expenses and compensation payments.

FSCS compensation costs are allocated to one of eight classes based on the type of claim.

Classes:

- deposits,
- life and pensions,
- general insurance,
- general insurance intermediation,
- life and pensions intermediation,
- investment intermediation,
- investment provision and
- home finance intermediation.

Since April 2014, FSCS has used a 36 month funding model, which allows us to levy the greater of one-third of the next 36 months' expected compensation costs, or the costs expected over the next 12 months from the date of the levy, subject to the annual class thresholds. This aims to limit volatility of our costs to firms to aid financial planning.

Management expenses attributable to specific classes are then added to the final amount required at the end of the five-step process. The forecast costs for management expenses, including outsourcing costs, are calculated for the following 12 months (not 36 months). Each year, the PRA and FCA consult on the FSCS annual management expenses levy limit.

Annual Levy 2016/17

The 2016/17 annual levy amounts to £337m. This compares to the £319m final levy raised in 2015/16. The increases are in the deposits and general insurance provision and intermediation sectors. In addition to the overall levy, FSCS will recover interest costs – also £337m – for Treasury loans to FSCS in respect of Bradford and Bingley and Kaupthing Singer & Friedlander, made during the banking crisis in 2008.

More information

FSCS produces regular information for the industry and consumers

FSCS Outlook

<http://www.fscs.org.uk/industry/publications/industry-newsletters/>

FSCS Annual report

<http://www.fscs.org.uk/industry/publications/annual-reports/>

Companies in default

<http://www.fscs.org.uk/what-we-cover/search-for-companies-in-default/>

Case studies

Retiree impressed by FSCS

Mike Ryan

Retiree Mike Ryan first had dealings with The Rainbow Credit Union Limited in 2009, when he transferred his wife's account into his name after she passed away. He decided to continue banking with them, seeing it as a viable alternative to payday lending organisations.

He received notification about The Rainbow Credit Union Limited going into default on 16 September 2016 and was assured about the protection in place from FSCS and the compensation that would be provided within 7 days.

Mike already knew about FSCS and he explained: "I had been aware of the Scheme for a number of years, as the ISAs I have money in are protected by FSCS, so I knew I was eligible for compensation."

What impressed Mike was the speed and efficiency of the service and he said: "They were swift and efficient in compensating me and helping me to transfer over to London Capital Credit Union."

He felt relieved when told he would be compensated as a result of The Rainbow Credit Union Limited going into administration. He spoke about what may have happened if FSCS hadn't been able to help him or if the Scheme didn't exist:

"I was very happy. The amount I had deposited in Rainbow Credit Union Limited was not a large sum of money, but any loss would have impacted me and affected my level of trust in financial products had I not been protected by FSCS."

After being compensated, Mike told other people about the Scheme, in particular his son. "I made my son aware of FSCS and how they compensated me when The Rainbow Credit Union Limited went into default. He is not particularly financially savvy and had not previously heard of FSCS. I have since guided him towards investments with firms protected by the Scheme", he recalled.

He thought it was important for people to know that the Scheme exists and concluded:

"I think it is crucial people know when they are protected, so they can put their trust in organisations when investing or opening an account. Awareness of the FSCS badge and the protection available can be a great help when making financial decisions."

Pensioners get back lump sum with help from FSCS

Keith Richardson

Seventy-eight year old retired salesman, Keith Richardson, wanted to consolidate his finances and invest a lump sum in a low to medium risk scheme. "I wanted a safe investment that would provide my wife and I with a regular income", he said.

Keith was no financial expert and, after drawing up a shortlist of possible independent financial advisers, decided to use a local firm.

"In the early stages I had lots of discussions with my adviser about various products. And on his recommendation, invested my money in a scheme, which I was led to believe, was low risk", Keith added.

"Things were going very well and we met up on a regular basis. He still had a passion for the product that was sold to me, and in some ways it reassured me. I felt that I had made the right decision", Keith continued.

However, it wasn't long before things began to go wrong. The first signs were unreturned phone calls and unanswered letters.

Keith explained:

"No matter how hard I tried, I just couldn't get hold of my adviser or the investment company. It was then that I became really concerned and contacted the Financial Ombudsman Service for help. It turned out that they had both gone bust so I was referred to the FSCS

to see if I could get my investment back as I was badly advised – I had requested a low to medium risk investment but was pushed into one that carried a much higher risk".

It was the first time Keith had heard about the FSCS but the scheme changed his life. He said:

"Dealing with the FSCS was a pleasure - staff were very helpful and professional.

They looked at my case impartially and within months of my initial contact and completing an application form, I received a cheque from them. It was so unexpected, but meant so much to my wife and I. We could finally put the nightmare behind us and get on with the rest of our lives".

Case studies

Novice investor gets money back from FSCS after adviser goes bankrupt

Susan S

Susan was an inexperienced investor who, in the midst of a life-changing event, wanted to secure her financial future. With little knowledge of financial products, Susan hired an independent financial adviser (IFA) to help guide her through the financial maze.

As a low to medium risk investor, Susan's main objective was to strike a balance between income generation and protection. Having explained her wishes to her IFA, she naturally assumed that his recommendations would fit in with this.

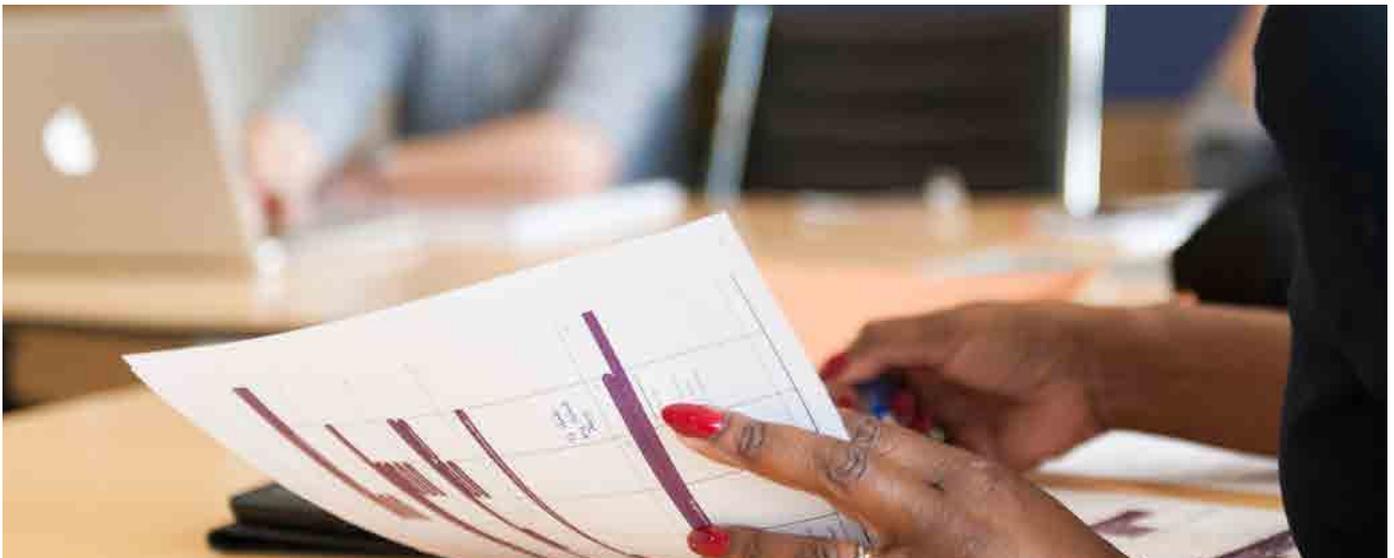
"I wasn't very good with financial investments and relied heavily on my IFA to do the right things. One of his recommendations was to pull out the money I had in an old Personal Equity Plan and invest it in a bond. Later, some more investments were made in a SIPP with links, I later learned, to a property company in Dubai," Susan explained.

"I remember having many meetings with him but very little actions came out of them. I was also given lots of papers to sign without a full explanation of exactly what I was signing up to, or being provided with copies."

At first some of the investments were generating an income but this became less and less as the management costs were so high. Susan became disillusioned

and acquired a new IFA who, after reviewing her case, informed her that the investments were high risk. On his advice, she complained to the Financial Ombudsman Service (FOS) on the grounds that her attitude to risk wasn't taken into account when the investments were made. While awaiting the outcome, Susan discovered that her first IFA had been made bankrupt. This resulted in her case being passed to the FSCS, and the FSCS compensating her for the losses.

Susan summed up her joy. She said: "I couldn't stop smiling once I had received the cheque. It restored my faith in institutions like the FSCS. I have since told all my family and friends about the scheme and my happy outcome."



Contact us:

For more information please contact the communications team at: communications@fscs.org.uk

You can also refer constituents who may have questions about guarantee of financial services or the work of FSCS: **0800 678 1100**

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