

FSCS publishes its Plan and Budget: 2014/15
Total levies of £313m and increased PPI claims

The Financial Services Compensation Scheme (FSCS) today publishes its Plan and Budget: 2014/15. The document provides its early assumptions about future claims and indicative estimates of its levies on financial services firms for the coming financial year. The Plan and Budget is for consultation. Responses are invited by 21 February 2014.

The 2014/15 levy is the first to be calculated under the new 36 month funding approach. The aim of this new approach is to reduce the volatility of annual levies and the likelihood of interim levies. In 2014/15 financial services firms are likely to pay a total levy bill of £313m to cover compensation and base costs. This excludes the continuing costs of the major bank defaults of 2008. That compares with total levies so far in 2013/14 of £285m. However, FSCS expects to raise an additional levy of £30m on investment intermediation firms before the end of 2013/14 to cover a potential deficit on this class. FSCS will confirm final levy amounts before the end of the financial year.

The Scheme currently expects the overall volume of new claims it receives to be roughly 20% above that in 2013/14 (34,724 compared to 28,052). In particular claims volumes in 2014/15 from payment protection insurance (PPI) claims will continue to be significant. The cost of these will fall to the general insurance intermediation sector, accounting for £62m of the annual levy.

Of the estimated £313m required, FSCS expects to levy the investment intermediation sector for £105m. This is in part because FSCS is preparing to deal with claims against Catalyst, as reported in our November 2013 issue of Outlook, for its role in promoting bonds backed by ARM Asset Backed Securities SA.

We expect to see an increase in compensation costs in the general insurance provision sector because of noise induced hearing loss and mesothelioma claims on the estates of Chester Street, Builders Accident Insurance and Independent Insurance. FSCS also saw one new default in 2013/14 in this sector: Millburn Insurance Company Ltd (although the costs of this default are not yet clear).

Compared to the 2013/14 annual levy, levies for two sectors will reduce and costs will increase in five sectors.

FSCS Chief Executive Mark Neale says: "Our mission is to provide a responsive, well-understood and efficient compensation scheme for customers of financial services, which raises public confidence in the industry. Published for the first time alongside our longer-term vision, our Plan and Budget 2014/15 outlines how we will achieve our aims and demonstrates our accountability to our stakeholders. We invite stakeholders' responses to this consultation.

"2014/15 marks the first time we will calculate the annual levy with our new 36 month funding approach. An approach we believe will go some way to reducing volatility of annual levies and provide the industry with greater certainty.

“This year will also see FSCS continue to modernise its claims process, enabling consumers to engage with us on-line. This will deliver a better service for consumers and improved efficiency for levy payers.”

The Scheme continues to strengthen its ability to respond efficiently to any future financial crisis. FSCS continues to invest in projects that will enhance its ability to deal with an uncertain environment and fluctuating demands. The main areas FSCS will focus on during 2014/15 include:

- re-engineering our claims processes to enhance the responsiveness of our service and to improve efficiency;
- raising the awareness of FSCS protection, particularly deposit protection; and
- sharpening our strategies and processes for managing external suppliers to enhance cost-effectiveness as part of the wider transformation of our finance capability.

FSCS will review its claims and funding assumptions and announce the 2014/15 levy in April.

Responses to the Plan and Budget may be sent to planandbudget@fscs.org.uk by 21 February 2014.

Notes to editors

The full Plan and Budget: 2014/15 contains a breakdown of the indicative levies by sector. It is available at www.fscs.org.uk/industry/publications/plan-and-budget/.

For general information about the FSCS visit www.fscs.org.uk

Information on the FSCS funding system is available at <http://www.fscs.org.uk/industry/funding>