

FSCS calls for the industry to play a powerful role in restoring consumer confidence

Consumer confidence has taken a battering in the last three years and financial services firms need to do more to restore confidence in the system, according to Mark Neale, Chief Executive of the Financial Services Compensation Scheme (FSCS).

Mr Neale made the comments in a speech to the Insurance Institute of London on 5 January. He called for firms to play a powerful role in restoring consumer confidence. Central to this is working even more closely with the FSCS to reassure their customers that they have the protection from the Scheme, which the industry funds.

In a wide-ranging speech, Mr Neale said: “Just as short memories blinded many people to the perils of the growing economic imbalances of the “NICE” decade, so even shorter memories now assume that stagnation is natural order of things. Growth will resume, though more quickly and decisively if policy-makers work with the grain of necessary re-balancing; more slowly if not.

“And FSCS’ role in all of this is to provide life support by underpinning confidence in financial services. So a key message from me today is that we must work together even more closely than we have done so far – and we have worked together well – in order to get these messages across. It’s as much in your interest as ours.”

Picking out the challenges facing the FSCS in the future, Mr Neale went on to cover the issue of FSCS funding. The Scheme, he said, had to pay consumers compensation when firms go bust. And although the industry generally supports the FSCS, there is some unhappiness with its funding model set in 2008.

“We are well aware that many in the industry regard our current funding arrangements.... as unsatisfactory. My message to you today is get involved in the FSA review. Your views are hugely important.”

The FSCS chief executive believes there are three important considerations in the funding debate:

- predictability of the levy.
- fairness in the system.

- certainty of funding for the FSCS so it can pay compensation to consumers when firms fail.

Moving on to being ready for failures, Mr Neale, said it may be many years before another crisis happens on the scale of 2008. And the FSCS had done much with the authorities in the last three years to improve its ability to respond, including bringing in faster payout for depositors.

“But we need to be prepared. And by ‘we’, I mean not just FSCS but its partners in government, the regulators and industry. This means raising the level and intensity of our contingency planning. All the partners need to have the experience of working together on realistic exercises to forge relationships and test protocols. And we all, collectively, need to think through how we would resolve major failures in other parts of the industry.”

“Even with the need for the industry to win back confidence, the principle of consumer responsibility remains important,” said Mr Neale. That was why, Mr Neale explained, FSCS did not compensate for normal investment risk.

“But this principle is put in question by the growing complexity of many new products. This complexity is often driven by an honourable desire to mitigate risk. And the reality is that all too often risk mitigation results in hidden costs and new risks – like counter-party risk – that are hard for consumers to understand or evaluate.”

Pointing out that FSCS could not compensate for risks that had been disclosed but not understood, Mr Neale asked the gathering whether the industry should focus instead on designing simple products with much more transparent risk.

The FSCS was set up in 2001. Since then it has paid out almost £26bn and helped more than 4.5m people. It protects deposits, insurance, investments.

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Notes to Editors:

1. About the FSCS

The Financial Services Compensation Scheme (FSCS) is the UK's statutory compensation scheme for customers of authorised financial services firms. This means that the FSCS can pay compensation if a firm is unable, or likely to be unable, to pay claims against it. The FSCS is an independent body, set up under the Financial Services and Markets Act 2000 (FSMA), and funded by a levy on authorised financial services firms. The FSCS does not charge individual consumers for using its service. For more information visit www.fscs.org.uk