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MEDIA INFORMATION

FSCS publishes its Plan and Budget: 2012/13

Increasing volumes of PPI claims account for more than a quarter of total levy

The Financial Services Compensation Scheme (FSCS) today publishes its Plan and Budget: 2012/13. FSCS estimates the indicative levy on financial services firms for 2012/13 is likely to be £221m compared with levies raised in April 2011/12 of £217m.

The annual levy is based on FSCS's assumptions for future claims volumes and recoveries across the full range of its work and is split across nine different financial sectors.

During 2012/13, FSCS is expecting the overall volume of new claims it receives to remain broadly the same as 2011/12 (32,350 compared to 27,800). A large proportion of the annual levy, £120m, will fall to the insurance sector, mainly due to an increase in Payment Protection Insurance (PPI) claims. FSCS expects PPI claims to be the most significant area of growth in 2012/13. More than three-quarters of all the PPI claims the FSCS receives come from claims management companies, which charge consumers up to 25% of their compensation in fees.

The majority of claims connected to high-profile investment failures, including Keydata Investment Services Limited and Wills & Co Stockbrokers Limited, should be complete in 2012/13. However, FSCS's current projections indicate that an interim levy of at least £40m may need to be raised on the investment intermediation sector before the end of March. This will meet claims that are paid before the next levy becomes available at the beginning of July.

Compared to the 2011/12 annual levy, levies for five sectors will reduce, two sectors are static and costs will increase in three sectors.

FSCS Chief Executive Mark Neale says: "Our accountability to our stakeholders and our commitment to keep costs to a minimum remains a key priority for us. A major focus for us in the coming year will be to pursue recoveries from major failures in order to reduce the costs on the industry.

"The existence of FSCS and its ability to respond to unpredictable workloads contributes to financial stability. That is why it is important for FSCS to invest in order to enhance its capacity to deal with large or multiple failures."

The interest costs for 2011/12 for the loans related to the bank failures from 2008/09 are expected to be £360.7m. This cost will fall to deposit taking firms. The final amount owed will be calculated by the Bank of England at the end of the financial year and levies will be issued in July.

The Plan and Budget outlines investments the Scheme will focus on during 2012/13 to strengthen FSCS's ability to respond efficiently and effectively to any future financial crisis. FSCS is investing in projects that will enhance its ability to deal with fluctuating demands. The main areas FSCS will focus on during 2012/13 are:

- putting in place the ability to make electronic payments to large numbers of claimants;
- developing our strategy to raise awareness of FSCS protection; and
- streamlining our processes and controls in order to improve efficiency.

FSCS will review its claims and funding assumptions and announce the 2012/13 levy at the end of March.

Notes to editors

The full Plan and Budget: 2012/13 contains a break down of the indicative levies by sector. It is available at <http://www.fscs.org.uk/industry/publications/plan-and-budget/>

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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/>