Financial Services Compensation Scheme

Plan and Budget: 2009/10

Financial Services Compensation Scheme

Contents

Overview
Our role, objectives and assumptions

Our objectives

The Financial Services Compensation Scheme (FSCS) aims to achieve and be recognised for sustained professionalism and fairness in providing financial compensation, in a reasonable time and at a reasonable cost. You can find more information about our aims and objectives at www.fscs.org.uk/industry/about_us.

Our role

We are the UK's independent statutory compensation fund for customers of financial services firms authorised by the Financial Services Authority (FSA). We can pay compensation if a firm is unable, or likely to be unable, to pay claims against it.

Set up under the Financial Services and Markets Act 2000 (FSMA), The FSCS became operational on 1 December 2001 and protects:

- deposits
- insurance policies
- insurance broking (for business on or after 14 January 2005)
- investment business and
- home finance advice and arranging (for business on or after 31 October 2004).

We are funded by levies on the industry, recoveries and borrowing, where appropriate. You can find more information about our funding at www.fscs.org.uk/industry.

Our assumptions

This document is the FSCS's Plan and Budget: 2009/10, based on our working assumptions about our likely future business. It contains information about the claims volumes, costs and recoveries we anticipate that we could experience during 2009/10. These assumptions are based on our experience of current claims trends as well as other information from the FSA, Financial Ombudsman Service (FOS) and the industry. We use this data specifically to assess our funding and initial levy requirements. They should not be viewed as forecasts of more general application. In particular, they do not provide a risk outlook for possible new claims areas, nor are they intended to offer an economic forecast.

Whilst our assumptions are informed by existing claims trends, we have to bear in mind that these may not provide an accurate guide to the future. Unforeseen events in the markets, which are under particular strain at present, can impact upon our assumptions and our funding and subsequent levy requirements may change substantially as a result. We cannot levy in advance where there is not a reasonable expectation that we would have to deal with claims in a particular area. This principle is set out in the Rules made by the FSA which state we have to have reasonable grounds for believing we will need the money in the 12 months following the levy.

Our funding requirements include the costs of running the Scheme (including interest payments on loans) and compensation costs. These requirements depend on a number of factors including likely claims volumes, uphold rates and the amount and timing of recoveries we make. These factors are largely beyond our control. The indicative funding requirements in this document are therefore subject to change. We will review and update these funding requirements before we set the final levies in April.

You can find more information on our forecasts on page 12 and pages 15 to 21. Details of the FSCS's powers to raise levies are in the FSA handbook, Fees chapter 6.

Summary of indicative, initial levies being announced

	Note	Indicative sums, accruing in:		Indicative levy amounts, to be collected
		2008/09	2009/10	2009/10
		£m	£m	£m
Specified Deposit Defaults (SDDs)	1			
Interest on loans	2	415.5	632.0	415.5
Other related costs		19.5	13.3	32.8
		435.0	**645.3**	**448.3**
Pacific Continental Securities Ltd: Interim 2008/09 compensation cost levy		**40.0**		**40.0**
Other Costs	3			
Management expenses			32.8	32.8
Compensation costs			120.4	120.4
		0.0	**153.2**	**153.2**
Totals		**475.0**	**798.5**	**641.5**

Notes:

1 The SDDs relate to the five bank failures during 2008/09 including Bradford & Bingley, Kaupthing Singer and Friedlander, Heritable, Landsbanki Islands hf (Icesave) and London Scottish Bank.

2 The SDD interest accrual in 2009/10, estimated at £632.0m is payable on 30 September 2010, and will be levied at a time in the summer of 2010 to ensure sufficient money is collected and available to make that payment.

3 Other costs in 2009/10 include management expenses and compensation cost estimates for Pacific Continental Securities Ltd.

Chairman's foreword
David Hall

David Hall
Chairman

This Plan and Budget 2009/10 comes against the backdrop of recession, uncertainty in the markets and a changing role for the Scheme going forward. This Plan and Budget contains our initial estimates for claims volumes for 2009/10 as well as our first indicative funding requirements.

To put this into context, between December 2001 and September 2008, the FSCS paid about £1bn in compensation. Since last September, we have made compensation payments of more than £20bn, largely under statutory arrangements not in place a year ago and funded largely from loans rather than levies in the first instance. Our payments have been made in response to the defaults of Bradford & Bingley, Heritable, Kaupthing Singer and Friedlander, Landsbanki (Icesave) and London Scottish Bank. The Scheme has meanwhile continued its work across the financial services sector including in the areas of insurance and investment failure. Our work has been crucial in helping to bolster confidence in the financial services industry.

2009/10 is likely to be a very difficult year for consumers and firms alike. In such a context we recognise the levy will not be welcome news for firms, including the banks, building societies and credit unions who will contribute to the interest costs of the bank defaults in 2008/09. We understand your concerns and try to provide as much clarity as we can about the likely impact in 2009/10 as well as providing an early indication of the possible interest charges that will be due from deposit taking firms in 2010.

Our levy requirements are likely to come in at least three different phases:

- An interim 2008/09 levy of up to £40m towards the costs of the Pacific Continental Securities Ltd default, to be collected in April;
- The annual 2009/10 levy for an estimated £186m for our other costs (except interest on bank default loans) to be collected in Q1 2009/10; and
- A further 2008/09 special levy for an estimated £415m, being the interest accruing on the bank default loans in the period to 31 March 2009 and to be collected by 30 September 2009.

You will find more about this on pages 9 and 10.

We said in last year's Plan and Budget that the FSCS would face many challenges during the course of 2008/09. As the figures above show, this has been borne out by the events of the last year, including the failures we have dealt with and new legislation making its way through Parliament.

During 2008/09, we have been called upon to come to the aid of consumers and pay compensation in a variety of methods, some of which we could not have predicted when the FSCS was set up. The full range included paying for deposit transfers in accordance with orders made under the Banking (Special Provisions) Act 2008, paying out on behalf of the Government and handling compensation claims where an overseas compensation scheme also has jurisdiction. The latter showed how problems in other parts of the world can impact on the UK and UK consumers. It was important that we responded quickly to these issues to help restore consumer confidence and maintain financial stability.

Whilst the FSCS has played an expanded role in these events which has had an impact on our operations and accountabilities, we are mindful that not all the costs are for our levy payers to bear. The Board remains committed to ensuring that recoveries are made wherever reasonable and practicable to do so and that costs incurred on behalf of others are not passed to the levy payer. We pursue recoveries proactively to help offset levies and funding requirements in the sector from which the recoveries were made. The majority of recoveries historically have been made from the insolvent insurance estates but the FSCS is also entitled to recoveries in relation to the banks that went into default in 2008/09. An important part of our work in the coming year will be to ensure that recoveries are vigorously pursued.

There has been a significant upturn of interest in the Scheme and in the expectation of it. You need to look no further than the increased public and media scrutiny we faced during 2008/09 to know that interest in compensation, and a desire for more information about it, is running at a very high level indeed. We have experienced a much higher level of general enquiries about the protection we can offer from around the time of the problems at Lehman Brothers in September. Even though we were not directly involved with the failure of Lehman Brothers, consumer enquiries about our coverage across the board rose significantly from that point, not just in relation to deposits.

As the Icelandic banks failed, consumer enquiries rose again. In a single week in October 2008, we received over 19,000 enquiries compared with approximately 73,000 in the whole of the previous financial year. Whilst many of these enquiries were default specific, general enquiries continue at a high level. Addressing these consumer information needs will be an important feature of our work in 2009/10 and we will be launching a campaign to help increase understanding of the FSCS as highlighted in the FSA consultation paper on reforming the statutory framework for the FSCS (CP09/3).

We are continuing to engage with our colleagues in Europe and beyond on issues of common concern. This will be a continuing feature of our work again in 2009/10 so that we can share our experience and learn from the experiences of others. Being ready for what could come our way increasingly means being able to mount a possible international response as our work on Icesave shows.

Underscoring all of our work in the coming year will be a focus on delivering an efficient and effective compensation service on behalf of consumers and the industry. The changes and increased expectation that will result from the Banking Bill demonstrate clearly the need to continue developing the organisation's ability to respond to problems in new ways. Our planned investment in systems, management and technical capability will help us to sustain our capacity to deliver what is and may be required of us. Our role as a safety net for UK consumers of financial services has never been more important.

Chief Executive's overview
Loretta Minghella

Loretta Minghella
Cheif Executive

Last year, I said in the Plan and Budget that 2008/09 was going to be a year unlike any other since the FSCS was set up. At the time, it was clear that the future would hold much change including new legislation which would change the role of the FSCS. However, no one predicted a financial crisis with consequences this severe for the UK and requiring the FSCS to become so significantly involved.

The operational impact of responding to five banking defaults in quick succession and now Pacific Continental Securities Ltd – which may prove to be our biggest investment default to date – will continue to present challenges over the coming year.

The banking defaults

To understand the proposals in this document, it is important to have a good understanding of the banking defaults of last Autumn and what work they continue to involve which will carry on into 2009/10. We describe the financial implications in more detail on pages 9 and 10. Key activities over the next year will obviously include continuing to pay outstanding claims (such as claims for fixed term deposits, due to mature in 2009/10).

Although a primary obligation is to ensure that consumers get the compensation they are due as swiftly as possible, we have obligations to levy payers as well. In relation to three of the five banking defaults, we were involved in paying a total of £17bn to transfer accounts from the failed banks to an acquiring bank (ie £14bn paid to Abbey for deposits held with Bradford & Bingley and £3bn to ING for certain accounts held with Kaupthing Singer and Friedlander and Heritable). These amounts were based on FSA estimates and we now have the task of validating those estimates.

Given that around 2.7m accounts were involved, this is a substantial and important exercise.

In relation to all of the banking defaults, as we have already paid over £20bn in FSCS compensation, we have started the process of seeking recoveries for levy payers which will serve to reduce the amounts which will have to be funded by levies over the years to come. Bradford & Bingley is being wound down, three of the banks are in insolvent administration in the UK, one is subject to the process in Iceland. We have extensive experience of recoveries work and recognise the challenges involved in ensuring that we recover for levy payers everything we reasonably can.

Non-banking defaults

Of course our remit is broader than the banking sector and we will continue to deal with defaults across the whole financial services industry. Aside from the banking defaults, the main drivers of compensation costs will be in relation to existing defaults in the insurance and investment sectors. In the insurance providers area, the Chester Street failure of 2001 is expected to take most of the £69m we expect to levy in 2009/10, as the Independent estate costs reduce.

In the investment intermediaries area, the failure expected to generate the highest costs is Pacific Contintental Securities Ltd, which we declared in default in January. Although it is too early without seeing all the claims to say what the costs of that failure may be, we are estimating compensation to be in the range of £40m – £70m. Another investment firm, Square Mile Securities, is also in liquidation and we are considering whether it should be declared in default. Our very preliminary estimates of the potential compensation costs for it are in the range of £5m – £15m.

We are also expecting to handle a reducing volume of mortgage endowment, pension, splits and other investment mis-selling claims and deposit claims relating to credit unions. We have begun to receive a number of payment protection insurance claims this year, and although it is too early to say whether this will be a rapidly growing area of our work, as it has been for others, we do expect to receive more of these claims in 2009/10.

Enhancing our capacity to deal with increased volatility

Beyond the day-to-day business of dealing with defaults and paying compensation, we need to recognise the profound changes which are happening in the markets and in the role of the FSCS.

Six months ago, we had fewer than 5,000 unresolved claims; one of October's banking defaults, Landsbanki (Icesave) generated over 200,000 claims on its own.

Six months ago, we had never paid depositor compensation except in response to an application form on a case by case basis. We have now paid depositor compensation by single transfer as in the £14bn payment for Bradford & Bingley, and by operation of an online claims platform for individual savers, successfully used by 190,000 people who banked with Icesave.

Six months ago, our relationships with the Tripartite authorities were largely focused on policy issues. We have since worked very closely with them on the banking defaults and are now HM Treasury's agent in paying compensation above our statutory limits on four of the five deposit failures, which they are funding.

Similarly six months ago, our international experience was largely confined to research and relationship building. We now have very practical experience of a cross-border failure.

What has come home to us in the past six months is the degree of volatility to which we have to be ready to respond, and the extreme pressures that can be placed on an organisation like ours in times of market stress. All of the changes we are facing require us to build greater capacity to manage this volatility.

This is not just a question of bringing in more staff. Given the volatility we face, we will always need to work with external advisers and third party suppliers of claims handling and customer call handling services for example, as it would never make sense for us to staff up for every eventuality. Relying on third party suppliers to help manage increased volatility requires us to strengthen our own resources in the areas of contingency planning, third party procurement, contract management, audit of third party services, and risk management.

In a time where more reforms are being contemplated (for example in the EU), we are also increasing our capacity to contribute to policy development, domestically and internationally, so that changes which others make to our obligations over time continue to benefit from our practical experience and make a positive difference to what we can deliver.

Implementing current reforms

The Banking Bill making its way through Parliament, combined with the rules to be made by the FSA alongside the Bill, will bring with it a range of new tools to deal with banking failure and new ways of financing them. To gear up for the much speedier depositor payout envisaged by the reforms, we will have to invest in new IT systems, and train our staff in the new systems and the new powers and rules. We also have to put in place the new processes and arrangements to work with the Tripartite authorities as any problems in the deposit sector arise.

To make sure that consumers are aware of the FSCS and understand the new limits put in place after FSA's consultation, we will, as David Hall explained, be carrying out a consumer awareness campaign which we plan to design in collaboration with consumer and industry representatives. We also need to upgrade our website to be able to exploit the potential benefits of an interactive website to provide easier access to information for consumers and to facilitate online applications.

The planned improvements to our service, rooted in the need to manage greater volatility and implement legislative reforms, will increase our core management expenses compared with 2008/09. We have not taken the decision to increase our costs lightly, and believe that all these measures are essential to ensure our effectiveness and efficiency in the future. By taking these measures in the coming year, we can play our part to help restore and support consumer confidence in financial services, as well as meet the compensation needs of retail consumers in the event that an authorised financial services firm goes into default.

Deposit defaults

The FSCS was called upon to pay compensation in relation to five bank failures during 2008/09, with the costs of these being one of the main drivers of our costs in 2009/10. They include:

- Bradford & Bingley: The FSCS contributed £14bn to the cost of transferring the retail deposit book to Abbey pursuant to an order made under the Banking (Special Provisions Act 2008). This was an estimate of gross compensation the FSCS would have paid to the bank's 2.5m customers had the FSCS been called upon to pay compensation in the normal way. This estimate is being validated by the FSCS and may lead to a different final figure for the cost of compensation, which could be higher or lower than the estimates provided in the relevant transfer order.
- Heritable and Kaupthing Singer and Friedlander banks: the FSCS contributed approximately £3bn (£500m in respect of Heritable and £2.5bn in respect of Kaupthing Singer and Friedlander) to enable the vast majority of retail deposits held in Heritable and Kaupthing Singer and Friedlander and covered by the FSCS to be transferred to ING. These costs (funded by loans) are also being validated by the FSCS and the final costs could be higher or lower than the original estimate. In addition, the FSCS is processing claims (which are still arriving) for accounts not covered by the transfers to ING. Where claimants are eligible for the FSCS protection, the FSCS is acting as HM Treasury's agent for amounts over £50,000. Any payments made by the FSCS on behalf of HM Treasury will be not be covered by the FSCS levies but will be met from funding provided by HM Treasury.
- Landsbanki Islands hf (Icesave): the FSCS is paying compensation directly to about 214,000 UK consumers on behalf of the Government and in respect of the liabilities of the Icelandic Scheme as well as in respect of its usual obligations under the FSCS rules. The vast majority of UK Icesave customers have been paid using an online compensation system built on the Icesave web site but manual applications continue to arrive and many fixed term deposit claims are not due until 2009/10 and beyond. The total FSCS compensation cost is estimated to be £1.4bn, which will cover compensation above the Icelandic limit of €20,887 and up to the FSCS limit of £50,000. The Icelandic Scheme is responsible for an estimated £2.2bn and the UK Government for about £800m. Levy payers are not liable to fund the amounts below €20,887 and above £50,000.
- London Scottish Bank: The FSCS was called upon to pay compensation after the bank went into administration. The FSCS is paying compensation directly to about 10,000 depositors with about £273m in deposits in a range of fixed term accounts (including accounts up to the FSCS limit and those eligible depositors with higher amounts guaranteed by HM Treasury). Again, the FSCS agreed to administer the Government's top-up payments at the Government's expense.

The FSCS compensation costs mentioned above are being met from Government loans. All the loans are on an interest-only basis for the first three years, with the interest rate set at 12 month LIBOR plus 30 basis points for this period. The interest rate is reset at the first of each month for that month, using the average of 12 month LIBOR over the preceding five working days. The principal is not required to be repaid in the first three years, except in so far as the FSCS receives any recoveries in that time. Arrangements for repaying the principal outstanding will be agreed in three years time in the light of prevailing market conditions.

What the interest means for the levy

The FSCS will pay interest in arrears, with interest for the period to 31 March each year being payable on 30 September of that year. The first interest payment on the loans – estimated here at £415m – is due at the end of September 2009 for the initial loan period until 31 March 2009. It has been agreed that levies to cover interest and other expenses in respect of the funding of compensation payments for all the institutions included in the SDD's shall not exceed an aggregate amount of £1bn per annum for the first three years. At the time of writing this document, interest rates were falling so the final totals in the levy in late March/early April could fall. However, it should be noted that the final amounts of draw-down against the loans depends on various factors, including the final value of claims paid, which will also affect the interest accruing.

In addition, the FSCS will accure interest charges in the course of 2009/10 that will it will have to pay by 1 October 2010. We currently estimate these interest charges to be in the region of £632m depending on the prevailing interest rates during the year and levels of principal. Levy payers should note that this does not make any allowance for recoveries in 2009/10 as it is still too early to say what these recoveries may be. The FSCS will levy for these interest and related costs in 2010/11, due before 30 September 2010.

These interest charges will be levied as specific management expenses, to firms in the deposits class.

The FSCS currently expects to incur management expenses of £19.5m in handling these failures in 2008/09 and £13.3m in 2009/10 all of which it plans to collect in the 2009/10 annual levy round.

Other claims and compensation assumptions

Jonathan Clark
Director of Claims

In developing our assumptions of both management costs and compensation costs, we have to consider not only our existing work, but also the potential work from new product areas. We participate in planning and review exercises with the FSA and FOS as well as meeting regularly with trade bodies to discuss issues and anticipated trends, and these meetings and dialogues help inform our views.

Our assumptions must take account of volumes, value of claims, uphold rates and timing of any default. Volumes of claims arising from a default will inevitably be linked to the size of firm that is in default as well as the nature of any sales that were made. We can use historical data to assist us in estimating the likely number of claims from a given default. However recent years have shown some larger failures, most notably in the investments area, have impacted our estimates and demonstrated the point that we have made before that using historical data does have limitations.

Our assumptions include an estimate of claim values and again we use historical data to inform our judgments. If our early review of a potential default leads us to conclude that the values are likely to vary markedly from historic trends in any work area we will review our forecast accordingly. A further factor to consider is the predicted uphold rate in relation to the claims: this is our reasonable assessment of the percentage of claims that are likely to result in a compensation payment. We have to reflect the fact that not all claims for compensation are upheld and that uphold rates can vary markedly between lines of business and from firm to firm.

Finally, the timing of the default and the return of application forms will impact the assumptions we use. Whilst we operate to investigate defaults to a service standard, we can experience difficulties in getting the data we need to form a view about whether a claim can be sustained against a firm and this is a vital component of the default. Once a firm is in default, we take steps to make potential claimants aware that they may claim. However, we have found that application forms are not always returned as quickly as we plan for. Inevitably, this impacts on the speed at which costs are incurred.

In 2009/10, the picture for the investment work we know about is dominated by two firms: Pacific Continental Securities Ltd in default and Square Mile Securities Ltd (not yet declared in default). Both firms could potentially generate a large number of claimants and our assumptions reflect this fact. However, there remains a range of possible outcomes and we have settled our working assumptions with that in mind.

Claims Assumptions* 2009/10
Table 1

Type of claim	Estimate of completed claims*for 2008/9	New claims assumptions 2009/10 LOWER	New claims assumptions 2009/10 MOST LIKELY	New claims assumptions 2009/10 UPPER	Estimate of completed claims for 2009/10 MOST LIKELY
Mortgage Endowments	5,694	2,400	3,000	3,600	3,000
Investments** exc splits	2,450	2,000	3,200	9,384	4,650
Splits	2,400	–	50	100	140
Deposits* (Credit Unions only)	3,250	3,000	4,250	5,500	4,250
Pensions and FSAVC's	795	400	600	800	840
Insurance Intermediaries	750	400	800	2,000	750
Mortgage Advisers	75	50	150	250	150
Total claims* exc Insurance payments	**15,414**	**8,250**	**12,050**	**21,634**	**13,780**

Notes:

* excluding five bank failures in 2008/9.

** including Pacific Continental Securities Ltd and Square Mile Securities Ltd (not yet declared in default).

Pacific Continental Securities Ltd

Pacific Continental Securities Ltd is an investment company that ceased trading in June 2007 and was put into liquidation in March 2008. The Scheme declared the firm in default in January, on the basis the firm is unable or likely to be unable to pay claims against it.

The FSCS anticipates that it will have to levy for costs relating to Pacific Continental Securities Ltd by the end of 2008/09. The final costs of the default will depend on factors such as the volume and value of claims as well as the uphold rate. These will only become clearer once the FSCS starts to process the claims in greater volume.

Initial estimates indicate that the FSCS may need to issue an interim levy of up to £40m to firms in the D2 investment intermediaries sub-class. By March 2009, the FSCS will be in a better position to assess further the cost of claims based on actual claims experience, and make a firm decision about the interim levy and any further levy amounts which may be required to fund the default. The current indicative levies for 2009/10 include a further £30m for Pacific Continental Securities Ltd claims.

The FSCS is expecting three broad categories of claims relating to:

- Mis-selling of US 'Regulation-S' shares and AIM shares; many claims relate to allegations that shares sold by Pacific Continental Securities Ltd were not suited to the investor's risk profile or investment objectives.
- Claims for the return of property for cash or shares which have not been returned following administration.
- Other claims: for example, claims for Contracts for Difference investments.

So far the Scheme has received fewer than 400 claims from people who think they may have a claim against the firm. More than 4,000 other people have told the liquidators they think they might have a claim against the firm and the FSCS has written to them with information about the claims process.

Service standards

The FSCS receives a wide variety of claims for many different product types and with varying complexity and urgency. Our turnaround times for claims are affected by many factors, including the type of claim, how complex it is, and whether we have to wait for information from third parties such as liquidators.

However, we set different target service levels for different types of claims according to their complexity. For instance, we currently complete the vast majority of credit union claims within a month. Where possible, we give priority to people who may be facing hardship when making a claim.

Our target service levels for 2009/10 are:

(i) Telephone calls are dealt with as they are received. However, if we have to call someone back we aim to do so within 48 hours of the enquiry being received, in 90% of cases.

(ii) We aim to answer correspondence (including complaints) within 15 working days in 90% of cases.

(iii) We will send out an application form within five working days of a request in at least 90% of cases, where consumers have a claim that is potentially within our remit.

(iv) Where a firm is unable to meet claims made against it, we aim to make 50% of default declarations within six months of the start of our investigations, and 100% within 12 months.

(v) Where the firm is already in default, we will issue a decision on 90% of all claims within six months of receiving a completed application form. Of the remaining 10%, no claims should be older than 12 months unless exceptional circumstances apply.

(vi) In respect of credit union claims, we have updated our service standard. We now aim to achieve a turnaround time of at least 90% of claims being completed in eight weeks. In practice, the vast majority of credit union claims are completed within a month.

(vii) We will issue compensation payments within 10 working days of written acceptance of a compensation offer, in 90% of cases. For pension reinstatements, or pension loss claims where compensation takes the form of an annuity, we will arrange compensation within 10 working days of receipt of all necessary information from third parties, for example, the notification of reinstatement costs or an annuity quotation.

Financial issues and funding
What it means by class and sub–class

Class A deposit	Estimated initial indicative funding requirements, comprising: **2008/09** Specified Deposit Default[1] (SDD) estimated loan interest accrued to 31 March 2009 – £415.5m. (Note: no interest levies will be raised until actual figures are known.) Related management expenses £19.5m. **2009/10** 2009/10 management expenses of £20.5m, including SDD related costs of £13.3m and £7.2m for ongoing work, and £2.0m for compensation costs for credit union defaults. SDD estimated loan interest accrued to 31 March 2010, payable by the FSCS by 1 October 2010 and to be levied in the early Summer of 2010, £632.0m.
Cost drivers	The SDD interest and related management expenses for both 2008/09 and 2009/10, and claims relating to credit union and non–SDD bank failures and a share of the FSCS's management expenses for 2009/10.
Predicted fund balance at 31 March 2009	A deficit of £18.5m is anticipated, representing the 2008/09 management expenses not levied of £19.5m, net of some £1.0m as previous credit union compensation cost estimates proved high. Accrued estimated interest in 2008/09 of £415.5m will be levied in the early summer of 2009.
Previous year levy and amount paid: £5.0m	The 2008/09 levy benefited from £1.8m of funds available as at 1 April 2008. Excluding the SDD activity and loan interest estimates which are described within the Plan, the levy increase of £2.4m (£9.2m less (£5.0m + £1.8m) arises from the higher levels of work attributed to this class in managing greater volatility and in implementing compensation reform.

1 Specified Deposit Default loans (SDD) – comprising, as at 31 December 2008 those for Bradford & Bingley, Heritable, Landsbanki Islands hf (Icesave), Kaupthing Singer and Freidlander and London Scottish Bank plc.

Sub-class B1 General insurance provision	£69.0m 2009/10 estimated initial indicative funding requirement.
Cost drivers	Claims relating to ongoing existing estates including Independent Insurance and Chester Street, and a share of the FSCS's management expenses.
Predicted fund balance at 31 March 2009	£27.2m
Previous year levy, £73.8m and amount paid: £nil	The 2008/09 levy payable benefited from an off-set of funds available from previous years.

Sub-class B2 General insurance intermediation	£5.0m 2009/10 estimated initial indicative funding requirement.
Cost drivers	Claims relating to insurance intermediary failures and a share of the FSCS's management expenses.
Predicted fund balance at 31 March 2009	Deficit of £0.5m (initially forecast £0.2m credit), which is due to the higher level of claims expected to be paid in 2008/09, arising in particular from PPI cases.
Previous year levy, £2.0m and amount paid: £0.7m	The 2008/09 levy payable benefited from an off-set of funds available from previous years. The 2009/10 levy is set to fund the current year cost estimates associated with ongoing PPI claims, the overdrawn amount as at 1 April 2009 and a proportionately higher level of management expense base costs due to an increased proportion of FSA periodic fees to this sub-class.

Sub-class C1 life and pensions provision	**£2.0m** 2009/10 estimated initial indicative funding requirement.
Cost drivers	A share of the FSCS's management expenses.
Predicted fund balance at 31 March 2009	An excess of expenditure over income of £0.1m (initially forecast £0.2m credit), which is due to the slightly higher than forecast share of 2008/09 management expenses.
Previous year levy, £1.0m and amount paid: £0.6m	The 2008/09 levy payable benefited from an off-set of funds available to firms from credits in former contribution groups where they had an interest, including A16 – IFA pensions review cases. The levy increase arises from increases in management expense base cost amounts and allocations in 2009/10.

Sub-class C2 life and pensions intermediation	**£19.0m** 2009/10 estimated initial indicative funding requirement.
Cost drivers	Claims relating to mortgage endowments, pensions review and other life and pensions claims, plus a share of the FSCS's management expenses.
Predicted fund balance at 31 March 2009	£10.2m (initially forecast £5.3m). The actual tariff data received from firms varied from estimates of the former A12 / A13 tariff data split between life and pensions and investments, with a greater proportion ending up under this sub-class. The consequences were that levy receipts were some £5.2m greater than forecast.
Previous year levy, £32.0m and amount refunded: £1.4m.	The 2008/09 levy payable benefited from an off-set of funds available to firms from credits in former contribution groups where they had an interest, including A16 – IFA pensions review cases, and most firms were paid a refund. The levy reduction reflects the lower mortgage endowment case-load, and the further tailing-off of pensions review cases.

Sub-class D1 investments fund management	**£4.0m** 2009/10 estimated initial indicative funding requirement.
Cost drivers	Claims relating to splits (BFS & Exeter) plus a share of the FSCS's management expenses.
Predicted fund balance at 31 March 2009	Deficit of £0.3m, (initially forecast, in credit at £0.4m). Compensation costs exceeded the initial forecast by some £1.5m, with higher costs attributed to splits cases.
Previous year levy, £7.0m and amount paid: £16.9m.	The 2008/09 levy payable included unfunded splits costs from the previous year.

Sub-class D2 investments intermediation	Estimated initial indicative funding requirements of **£44.0m**, (excluding a prospective levy of up to £40m relating to Pacific Continental Securities Ltd, with final announcement and levy invoices expected to be issued by 31 March 2009.
Cost drivers	Claims relating to investment mis-selling and property claims principally in respect of Pacific Continental Securities Ltd and a share of the FSCS's management expenses.
Predicted fund balance at 31 March 2009	The balance of £16.5m reflects the proposed 2008/09 levy to be announced before 31 March 2009 in respect of Pacific Continental Securities Ltd and other defaults now being funded, and lower levy receipts of £3.3m, due in part to the tariff data reporting, referred to under sub-class C2, above, offset by lower management expense allocations of £0.4m.
Previous year levy, £9.0m and amount paid: £5.7m.	The 2008/09 levy payable included repayments, estimated at £3.2m from brought forward balances as at 1 April 2008. The further 2008/09 levy is to fund the estimated compensation costs through to 1 July 2009, by which time it is assumed that the 2009/10 levy receipts arrive.

Sub-class E1 home finance provision	**£0m** 2009/10 estimated initial indicative funding requirement.
Cost drivers	Not applicable.
What will firms in this sub-class pay?	This sub-class will only be levied for funding requirements that exceed the levy limit of £70m in sub-class E2, Home finance – intermediation.

Sub-class E2 home finance intermediation	**£1.0m** 2009/10 estimated initial indicative funding requirement.
Cost drivers	Compensation costs, and a share of the FSCS's management expenses.
Predicted fund balance at 31 March 2009	£0.9m (initial forecast £0.1m). This is due to lower than expected management expenses, and higher levy receipts as firm's tariff data became more readily available.
Previous year levy, £1.0m and amount paid: £0.9m.	The 2008/09 levy payable was net of a small brought forward balance which was off-set to firms by way of credit notes. There is no change to the levy requirements, which anticipate the funding of compensation costs of £1.1m, and leaves an anticipated balance after funding estimated compensation costs for Q1, 2010/11 of £0.3m.

Financial issues and funding
Management expenses

Table 2
Management expenses by type

	Budget 2009/10 £m	Forecast 2008/09 £m	Budget 2008/09 £m
Staff employment and outsourcer costs	15.57	15.08	15.40
Accommodation and office services	2.77	2.46	2.98
Other costs, including professional fees in pursuit of recoveries, IT, depreciation	6.70	6.18	5.46
Project related costs (including reform project costs)	2.05	0.83	0.90
Enhanced organisation costs	3.10	0.67	
Consumer awareness programme	4.00		
Total	34.19	25.22	24.74
Specific deposit default loan interest and other related costs	645.37	435.03	
Reserve contingency	320.44		5.50

The FSA is consulting on the Management Expenses Levy Limit for 2009/10 of £1bn. The reserve contingency is the balance between our budgeted costs and that number.

Table 3
Management expenses, base and specific split

	Budget 2009/10 £m	Forecast 2008/09 £m	Budget 2008/09 £m
Base costs	11.83	5.41	5.17
Specific costs including loan interest	667.73	454.84	19.57
Total	679.56	460.25	24.74

Table 4
2009/10 summary of forecast sub-class accounts

2009/10 summary	Total 2009/10 £m	Deposits £m	GI Provision £m	GI Intemediation £m	Life & pensions Provision £m	Life & pensions Intemediation £m	Investment fund managers £m	Investments Intemediation £m	Home finance provision £m	Home finance Intemediation £m
Compensation costs [1] (net of recoveries)	147.4	2.4	73.6	1.7	0.1	16.1	0.3	52.1	0.0	1.1
Management expenses base costs	11.8	3.4	0.7	1.2	1.6	2.0	1.2	1.3	0.0	0.4
Management expenses specific costs	35.7	17.1	1.9	0.7	0.2	7.6	1.9	6.2	0.0	0.1
Total management expenses	47.5	20.5	2.6	1.9	1.8	9.6	3.1	7.5	0.0	0.5
Interest received net of tax	(1.2)	(0.1)	(0.8)	(0.0)	(0.0)	(0.2)	(0.0)	(0.1)	0.0	(0.0)
Loan interest accrual [2]	632.1	632.1								
Levy for 2009/10	(166.5)	(22.5)	(69.0)	(5.0)	(2.0)	(19.0)	(4.0)	(44.0)	0.0	(1.0)
Levy for 2008/09 – SDD interest and management expense [3]	(435.0)	(435.0)								
Movement in the year	224.3	197.4	6.4	(1.4)	(0.1)	6.5	(0.6)	15.5	0.0	0.6
Projected funds (in credit) / debit at 1st April 2009	380.1	434.0	(27.2)	0.5	0.1	(10.2)	0.3	(16.5)	0.0	(0.9)
Funds (in credit)/debit at 31st March 2010	604.4	631.4	(20.8)	(0.9)	(0.0)	(3.7)	(0.3)	(1.0)	0.0	(0.3)

[1] Excluding any SDD payments and recoveries which will be dealt with through borrowings.
[2] Expected to be levied in the early Summer of 2010.
[3] The SDD's relate to the five bank failures during 2008/09 including Bradford & Bingley, Kaupthing Singer and Friedlander, Heritable, Landsbamki Islands hf (Icesave) and London Scottish Bank.

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