

PRESS RELEASE: 8th July 2003

## **FSCS publishes first ‘full year’ Report (1 April 2002/31 March 2003)**

The Financial Services Compensation Scheme (FSCS) has today (Tuesday) published its Annual Report covering the first full year of operation as the single compensation scheme for customers of authorised financial services firms. The Scheme made a 2.2% saving on its 2002/03 management expenses budget. Compensation payments amounted to £194.4m, with recoveries of £46.0m receivable.

The Scheme’s first full year of operation has been a success, according to Chairman Nigel Hamilton. “I believe that we have established an efficient, effective and innovative compensation scheme,” he says.

In his Chairman’s statement Mr Hamilton highlights some of the work FSCS has done to meet some of the initial challenges it has faced, which include:

- the introduction of processes to handle potential claims against credit unions, which became regulated on 2 July 2002. These enabled the Scheme to cope well with claims from the first credit union defaults;
- participation in scheme closure arrangements for failed insurance companies which enable the release of assets to creditors at an earlier stage whilst still allowing FSCS to handle any outstanding protected claims;
- enhanced communication facilities, including upgrades to the website and an agreement with a call centre to ensure the Scheme could cope with any sudden influx of enquiries, as part of its general contingency planning.

FSCS has also extended its internal auditing processes, and developed its IT capability, to assist its continued efforts to reduce costs and improve efficiency.

FSCS took over responsibility for compensation on 1 December 2001, when the Financial Services and Markets Act 2000 came into force. Previously existing compensation schemes, including the Deposit Protection Board, Investors Compensation Scheme and Policyholders Protection Scheme, ceased to operate at this time.

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## NOTES FOR EDITORS

FSCS acts as a fund of last resort for customers of authorised financial firms and is funded by the industry. The Scheme can pay compensation if a regulated firm is unable (or likely to be unable) to pay claims against it. In general, this is when a firm stops trading or is insolvent. FSCS covers deposit-takers (being banks, building societies and credit unions), insurance and investment firms.

It became the single compensation scheme at N2 (1 December 2001, when the Financial Services and Markets Act came into force), and took over responsibility for compensation from the previously existing compensation schemes, including the Investors Compensation Scheme (ICS), Policyholders Protection Board (PPB) and Deposit Protection Board (DPB). The previous schemes ceased to exist at this time.

Copies of the Annual Report can be downloaded from its website, [www.fscs.org.uk](http://www.fscs.org.uk) or can be obtained by contacting the Scheme on 0207 892 7300.

### Facts and figures

#### *Payments:*

- Payments made by the Deposit Sub-Scheme decreased from £117,000 (£97,000 DPB / £19,000 FSCS) in 2001/02 to £61,000 (-48%) in 2002/03.
- The amount paid out by the Insurance Sub-Scheme has increased from £85.3m (£58.7m by PPB/ £26.6m FSCS in 2001/02) to £131.3m in 2002/03 (+ 53.9%), largely due to claims against general insurers Independent, Drake and Chester Street.
- Payments made by the Investment Sub-Scheme increased from £44.9m in 2001/02 (£30.9m ICS/ £14m FSCS) to £63.0m (+40%). £59.5m of this related to pensions review claims.

#### *Enquiries & claims:*

The number of enquiries received by the Customer Service Team has more than doubled, from 17,000 (ICS/FSCS) in 2001/02 to 41,000 in 2002/03, of which over 80% related to investment claims (pensions review and other investments).

The number of new claims received by the Investment Group, which handles non-pensions review claims, has increased from 528 (2001/02) to 841 (+59.2%). This increase is largely due to endowment complaints.

The number of new claims received by the Deposit Sub-Scheme increased from 33 (2001/02) to 162 (2002/03). This increase reflects the receipt of claims from members of insolvent credit unions, which came under the protection of the Scheme from 2 July 2002.