

£175 MILLION COMPENSATION PAID TO CONSUMERS IN 2004/05

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort, paid out almost £175 million to consumers in 2004/05. Figures published in the FSCS's annual report, today, show:

- **INSURANCE:** £113m was paid in compensation for claims relating to insolvent insurance firms such as Independent Insurance and Chester Street.
- **INVESTMENTS:** investment claims handled by the Scheme increased by 256%, largely due to mortgage endowments and precipice bond mis-selling. The amount of compensation paid for these claims rose by 293%, to just under £15m.
- **PENSIONS REVIEW:** claims being considered by FSCS for the mis-selling of personal pensions are falling as the Pensions Review draws to a close. Compensation paid was down by 25% to just under £47m.
- **DEPOSITS:** only 400 claims were received during 2004/05. These related to three credit unions that became insolvent. Compensation paid for deposit claims dropped by 43% to £0.2m.
- No claims were received for mortgage advice and arranging, or insurance broking during 2004/05.
- **ENQUIRIES:** Telephone enquiries to the FSCS rose by 75% (to 43,281), written enquiries rose by 48% (to 34,897).

Commenting on the annual report, Loretta Minghella, Chief Executive of FSCS, said:

"FSCS plays a vital role in protecting consumers and maintaining confidence in the industry. Without our help thousands of consumers would have nowhere to turn. Last year was a challenging one for the Scheme as we experienced a large increase in claims and enquiries, particularly in relation to investments.

"We are streamlining our processes and reducing waiting times where we can, whilst controlling costs as much as possible for those firms that fund the Scheme. With large increases in claims coming to us, some claimants are waiting longer for a decision on their claim than we would like. We are therefore prioritising those cases where consumers are suffering an immediate financial loss, and taking measures to reduce turnaround times generally for all claims."

This year's annual report contains more detailed facts and figures about FSCS and its work, to help consumers and the industry increase their understanding of the work of the Scheme. **(See page 2)**

More key facts from the annual report:

- 286 firms were declared in default during 2004, bringing the total number of firms in default since 1 December 2001 (N2) to 652. To 31 March 2005 the total number of firms declared in default is 2,490 (including defaults declared by the Investors Compensation Scheme from 28.8.88 – 30.11.2001). (**See notes to editors, page 3**).
- Levies received from regulated firms were £237.64m.
- Management expenses were £13.91m.
- Total recoveries made were £50.25m.
- The Scheme's remit was expanded during 2004/05 to include mortgage advice and arranging and general insurance intermediation.

Claims information:

- 11,900 new investment claims were received in 2004/05, compared to 3,300 in 2003/04. 4,900 decisions were issued. Offer rates differ according to the type of claim and product. Each claim is looked at on its merits, and has to fall within our jurisdiction. There are limits to the protection FSCS provides (**see notes to editors on page 3**).

Investment claims by product:

- Precipice bonds: 1,200 decisions were issued with 84% resulting in an offer of compensation. The average compensation payment was £8,200.
 - Mortgage endowments: 3,300 decisions were issued, with 38% of those resulting in an offer of compensation. The average compensation payment was £2,700. A significant percentage of claims are currently being rejected in relation to mortgage endowments because the claim falls outside our jurisdiction (**see notes to editors on page 3**).
 - Other general investment – 400 decisions were issued, with 50% of decisions resulting in an offer of compensation. The average compensation payment was £12,000.
- Pensions Review: 3,400 new claims were received during 2004/05. 3,900 decisions were issued, with 64% resulting in an offer of compensation. The average compensation payment was £17,000.
 - Credit unions: 400 claims were received in the year. 420 decisions were issued, with 93% resulting in an offer of compensation. The average compensation payment was £525.
 - Insurance claims are usually handled by the appointed run-off agent and presented to FSCS for checking and payment. 41,104 payments were made in 2004/05.

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For further information contact:

HEATHER TILSTON

htilston@fscs.org.uk

0207 892 7370

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NOTES to editors:

The Financial Services Compensation Scheme (FSCS) is the UK's statutory fund of last resort for customers of authorised financial services firms. This means that FSCS can pay compensation if a firm is unable, or likely to be unable, to pay claims against it. FSCS is an independent body, set up under the Financial Services and Markets Act 2000 (FSMA). The service is free to consumers.

FSCS is funded by levies on authorised firms – those that are regulated by the UK's independent financial watchdog, the Financial Services Authority (FSA).

FSCS protects deposits, insurance, investments, and mortgage business.

There are limits to the protection FSCS can provide.

1. Compensation limits:

- Deposit claims: up to £31,700. (100% of the first £2,000 and 90% of the next £33,000).
- Insurance contracts: 100% of the first £2,000 of a claim or policy, plus 90% of the remainder, with no upper limit. Compulsory insurance contracts (for example third party motor insurance) are protected in full. These limits also apply to business conducted on or after 14 January 2005 by insurance brokers.
- Investment claims: £48,000 (100% of the first £30,000 and 90% of the next £20,000). An investment claim must have arisen on or after 28 August 1988 to fall within our protection. This is the date when an investor compensation scheme was first established in the UK.
- Mortgage advice and arranging (for business conducted on or after 31 October 2004): £48,000 (100% of the first £30,000 and 90% of the next £20,000).
- FSCS can pay compensation only for financial loss.

2. General limitations

- We can pay compensation only if a claim is eligible under our rules, which are made by the Financial Services Authority (FSA). The rules tell us which types of claim are eligible for compensation, and limit the amounts of compensation we are allowed to pay.
- **DEFAULT DECLARATIONS:** As a fund of last resort, under our rules FSCS can pay compensation only when an authorised firm is unable, or likely to be unable, to pay claims made against it. We describe this as being in default. We will carry out an investigation to establish the financial position of the firm. If a firm (or its principals) is able to meet claims, those claims fall outside our jurisdiction, even if the firm has stopped trading.
- The Scheme was set up mainly to assist private individuals, although smaller businesses are also covered.