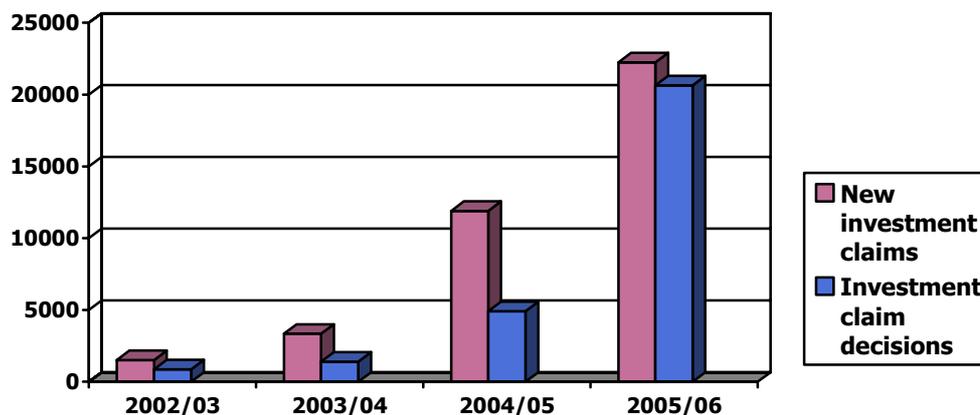


180% INCREASE IN CLAIMS COMPLETED AS NEW APPROACH BY FSCS DELIVERS

The Financial Services Compensation Scheme (FSCS), the UK's financial fund of last resort for customers of financial services firms, paid out £201.22m of compensation to consumers in 2005/6, compared to £174.71m in 2004/05.

The figures, revealed as part of the FSCS's annual report (published on 5th July), show a record increase of 180% in claims¹ completed by FSCS for compensation (26,000 completed claims in 2005/06, up from 9,220 in 2004/05). The increase resulted from strategies put in place by FSCS to deal with surges in the number of endowment compensation claims received by the Scheme: 20,100 new endowment claims were received during the year, an increase of 131% on 2004/05 (itself a year of unprecedented numbers of new claims received by the Scheme).



Commenting on the annual report Loretta Minghella, chief executive of the FSCS, said:

"The last financial year marked a real turning point for FSCS. A year ago the FSCS was facing a rising backlog of claims, driven by the rise in endowment complaints. We gave a commitment to consumers that we would put in place measures to deal with this rise in claims, and promised that we would complete 15,000 endowment claims in the financial year. We have delivered on this promise, and exceeded it – we completed over 16,000 endowment claims in the year. Our strategies are now really starting to pay off.

We handled this increase in output largely by increasing our efficiency in-house and extending our claims handling capability through the use of outsourcing; I am particularly pleased to report that a 180% increase in output compares to an increase in our management costs for the year of 62%. However, although we have made significant progress, we recognise that there is more to do to reduce claim-handling times going forward."

¹ Investment, pensions review, deposit claims and claims against insurance brokers. For claims against insolvent insurers, the run-off agent appointed by the insolvency practitioner usually settles claims and FSCS audits their work before authorising payment.

FSCS 2005/06 facts and figures:

- Of the endowment claims completed in 2005/06, 46% resulted in an offer of compensation with the average amount paid being £2,000.
- Over 3,000 precipice bond claims were handled during the year; 84% resulting in an offer of compensation. The average compensation paid to consumers for these claims was £7,000.
- The FSCS completed 4,900 pensions review claims, 81% of which resulted in compensation being paid. The average compensation payment was £22,700 and total pension review payments made during the year were £69.75m.
- General insurance was the biggest sector for compensation payments by value: £93.19m was paid in compensation over the year for claims relating to insolvent insurers such as Independent Insurance and Chester Street.
- Over the year the FSCS handled nearly 95,000 telephone enquiries (an increase of 120% on the previous year) and 45,550 written enquiries. The surge in enquiries reflected increases in endowment claims.
- It was a record year for recoveries – FSCS made recoveries of £108.69m, which is unusually high. Significant recoveries were made from the estates of insolvent insurers as some of the older estates draw to a close and final distributions are made to creditors (including FSCS).

Some of the key issues for FSCS during 2005/06

FUNDING

During 2005/06 the Financial Services Authority (FSA) launched a review of the funding arrangements for the compensation scheme following concerns about the sustainability and fairness of the current system. FSCS is an independent body under the Financial Services and Markets Act 2000 (FSMA); the FSA is charged with making its rules, which include how the Scheme is funded.

David Hall, chairman of the FSCS commented:

"The FSCS needs a funding system that is practical, perceived to be fair, sustainable, cost-effective and, importantly, provides us with the funds we need to pay compensation, when we need them. We welcome the funding review because, for some time now, it has been clear that many people in the industry feel that the current system fails one or more of those tests.

"We've indicated to the FSA and industry that our preference is for a funding scheme that would spread the costs over a wider group of firms than the current scheme does and would provide 'catastrophe' cover in the event of a significant failure."

Levies raised by FSCS during 2005/06 amounted to £95.40m (net of £42m refunded to general insurers in March 2006 following significant recoveries received).

- ❖ General insurance (A3) - £10.30m
- ❖ Mortgage advice and arranging (A18) - £0.36m
- ❖ General insurance mediation (A19) - £1.08m
- ❖ Investments: £83.66m
 - A7 Fund managers - £0.21m
 - A12 Advisory brokers holding client money or assets - £12.24m
 - A13 Advisory brokers not holding client money or assets - £36.99m
 - A14 Corporate finance advisory firms - £0.10m
 - (A16) IFA Pensions Review claims - £34.12m

NEW AREAS: SPLIT CAPITAL INVESTMENT TRUSTS AND INSURANCE BROKING

Splits claims remain on the horizon for the FSCS, with potential claims likely from both Exeter Fund Managers and BFS Investments plc. FSCS is working with the administrators of Exeter and the joint liquidators of BFS to establish the financial position of the firms, and their ability to pay claims. If the firms are unable to meet claims made against them, FSCS may be able to step in to protect consumers who have lost money.

Insurance broking, which became regulated from 14 January 2005, has so far generated few claims of financial significance for FSCS during the year. Two insurance broking firms were declared in default during 2005/06, with claims relating mainly to emergency medical situations, due to a failure by the broker to place travel insurance cover, and return of premium claims.

– ends –

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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). It protects deposits, insurance, investments, and mortgage business. The service is free to consumers.

FSCS became operational on 1 December 2001, when FSMA came into force. It replaced previous compensation bodies, including the Deposit Protection Board, Investors Compensation Scheme and Policyholders Protection Board at that time.

FSCS is funded by levies on authorised firms – those that are regulated by the UK's independent financial watchdog, the Financial Services Authority (FSA). The rules for FSCS are made by the FSA under the terms of the Financial Services and Markets Act 2000 (FSMA).