RELEASE: 10.04.2008	MEDIA INFORMATION

FSCS INITIAL "NET" LEVY CONTRIBUTIONS TO DECREASE BY £2.4 MILLION AS NEW FUNDING SYSTEM TAKES EFFECT

The Financial Services Compensation Scheme (FSCS) has set its levy for 2008/09 at £131.7m. The industry will pay an initial net levy of £28.3m in new money for 2008/09 to fund the Scheme. This reduces the overall bill to the industry by £2.4m from the figure of £30.7m published in the FSCS Plan and Budget 2008/09 after FSCS refined its claims and compensation projections for the year.

Although the bill to the industry has reduced, the total levy requirement for the year shows an increase of £0.9m from original forecasts published in FSCS's Plan and Budget 2008/09 in February, including compensation costs and management expenses. The increase is due to a projected increase in the cost of splits claims and claims against mortgage advisers.

The overall reduction in the industry's net total bill reflects the transitional arrangements for the new funding system, which came into effect on 1 April 2008. Funds held at 31 March 2008 will go back to firms as credit or debit notes as part of the transitional arrangements. FSCS estimates that it will have total closing fund balances of £103.4m at the end of the financial year, slightly higher than previously anticipated.

The proposed levy does not include any provision for possible claims against Pacific Continental Securities Ltd (in liquidation). FSCS is not permitted to levy for costs unless it reasonably expects to need them in the year following the levy. FSCS is working with the liquidators who are still gathering information. We are not yet in a position to gauge the likely volume or value of the claims should the firm be declared in default. A separate levy for costs arising will be made if necessary.

Loretta Minghella, Chief Executive of FSCS, said: "2008/09 is going to be a year unlike any other since FSCS was set up. It is not only bringing continuing uncertainty in the markets but also the introduction of a new, more sustainable funding system.

"This levy reflects a range of factors including a tailing off of mortgage endowment and pensions review claims. The lower number of claims coming in means that FSCS does not need to levy the industry for as much in 'new money' as in previous years. That will provide some welcome news to the industry. However, we are anticipating higher costs associated with splits and mortgage advice claims. That means that a couple of sub-classes will see moderate increases in the overall levy for the year after we revised our forecasts for 2008.

The current main drivers of FSCS compensation costs include insurance claims, mortgage endowment claims that are slowing, splits and a less predictable flow of other investment and deposit claims. Both mortgage endowments and pension review claims are on a sustained downward trend.

The Scheme currently forecasts it will receive around 11,000 new claims in 2008/09, significantly less than new claims in 2007/08. FSCS projects that it could complete more than 14,000 claims within the year, including more than 5,000 mortgage endowment claims.

2008/09 is the first year the Scheme has raised a levy from a zero base under the new funding system. Under it the 12 former contribution groups have been replaced with five new funding classes consisting of deposit, general insurance, home finance, investments and life and pensions. Within these classes are sub-classes for providers and intermediaries (except for the deposit class).

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Notes to editors

1. A full description of the 2008/09 levy by sub-classes is in our newsletter, Outlook, which can be downloaded from the industry section of www.fscs.org.uk

2. The 2008/09 funding for compensation costs covers 12 months from 1 April 2008 plus the first quarter of 2009/10. This takes into account the timing of levy receipts, assumed to be 1 July each year. Our current initial estimate for 2008/09 funding requirements is £131.7m to cover compensation costs (net of recoveries) and management expenses (net of interest).

3. The “clean break” transitional arrangements of the new funding model require FSCS to identify fund balances at 31 March 2008 in each existing contribution group. Firms will then be credited with their share of the balance of funds in each of their groups or issued with a debit note if the contribution group’s costs have exceeded income.

4. The net amount to be paid by individual firms will depend on what credit (or debit) they receive, based on 2007/08 tariff data in their previous contribution group(s), combined with their share of the funding requirement in the new sub-class(es), based on 2008/09 tariff data. Firms will only receive credit or debit notes from previous contribution groups if they were members of that contribution group from 1 April 2007. Firms that were not members of the previous contribution groups from that date but are now allocated to relevant sub-classes will pay their share of the full funding requirement in that Sub-class(es), without adjustment for credits or debits.

5. Firms in the deposit class, previously in the contribution group A1, benefited from funds transferred from the previous deposit protection board (DPB), at N2, which amounted to £9m. These funds have been used to pay deposit claims, such as the few remaining BCCI claims, those against London Trust Bank and credit union claims. Of the funds transferred at N2, less than £1m is estimated to remain as at 31 March 2008. The transitional requirements for money transferred from the DPB restricts the use of this money to deposit claims and related funding needs. The funds will continue to be used to pay claims against deposit-takers, such as credit unions, and have been used to reduce the 2008/09 funding requirement in the deposit sub-class.