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FSCS PLAN AND BUDGET: 2008/09 – A YEAR OF CHANGE

Financial services firms are expected to pay a net total of £30.7 million in FSCS levies in the next financial year, according to the Financial Services Compensation Scheme (FSCS). The news comes in the Scheme's Plan and Budget: 2008/09, which is out today (6 February). The FSCS Plan and Budget provides an initial forecast of future business activity and funding needs of the Scheme.

The Scheme is currently predicting an estimated gross total 2008/09 funding requirement of £130.8million. However, after fund balances in the current contribution groups at the end of 2007/08 are taken into account, initial indications are that firms may only have to pay a net total of £30.7 million through their FSCS levy. 2008/09 will be the first year of a new FSCS funding regime[1] after a review carried out by the Financial Services Authority. This establishes Classes and Sub-classes of firms for funding purposes, and ends the current Contribution Group system.

Loretta Minghella, Chief Executive of FSCS comments: "2008/09 will bring a range of challenges and changes for FSCS. The uncertainty in the financial markets provides a difficult backdrop against which to forecast claims, though we currently anticipate the total number of claims will be less than last year. In addition, we expect new legislation and FSA rules on financial stability and deposit protection to change the way FSCS operates and the protection we can provide. Our priority throughout will be to ensure that claimants benefit from high quality, efficient claims handling whatever challenges and changes come our way."

The Scheme forecasts[2] it will receive around 14,000 new claims in 2008/09, significantly less than new claims in 2007/08. FSCS projects that it could complete more than 17,000 claims within the year, including up to 9,000 mortgage endowment claims.

FSCS will make a formal levy announcement in March 2008.

A full copy of FSCS's Plan and Budget 2008/09 can be downloaded from:
http://www.fscs.org.uk/files/documents/pdfs/xdfrlsktlncwcoj.pdf

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Notes to Editors:

[1] The new FSCS funding regime comes into effect on 1 April 2008. Five classes will replace the 12 current contribution groups. The five new funding classes are life and pensions; investments; deposits; general insurance and home finance. Within these Classes are Sub-classes for providers and intermediaries (except for deposits).

The 2008/09 levy period 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 £130.8m to cover compensation costs (net of recoveries) and management expenses (net of interest). The FSA is consulting on a expenses levy limit (MELL) for FSCS of £30.24 million, down from £37.52million in 2007/08.

The "clean break" transitional arrangements of the new funding model require FSCS to fix fund balances at 31 March 2008 in each existing contribution group. Firms must then be credited with their share of the balance of funds, or issued with a debit note if the contribution group's costs exceed income.

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 a member of a previous contribution group from 1 April 2007. Full details of the transition rules are available from the FSA (*PS07/19, FSCS Funding Review - Feedback on CP07/5 and made text* http://www.fsa.gov.uk/pages/Library/Policy/Policy/2007/07_19.shtml *).* Firms not members of previous contribution groups but 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.

[2] FSCS cannot levy in advance where there is not a reasonable expectation that it would have to deal with claims in a particular area. This principle is enshrined in the Rules set for it by the FSA which state FSCS has to have reasonable grounds for believing it will need the money in the 12 months following the levy.

Whilst there is a relationship between the economic environment, complaints in the live market, and what claims might come to FSCS, there is no direct correlation. As a result the estimates in this Plan and Budget do not provide a risk outlook for possible new claims areas, nor are they an economic forecast. They can change according to developments in the markets or where consumers for reasons of their own choose to claim, or not to claim. FSCS funding requirements depend on a number of factors including likely claims volumes, uphold rates and the amount and timing of recoveries we make. FSCS reviews and updates its forecasts before it sets the levy in March. The indicative funding requirements in this document are therefore subject to change.