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FSCS confirms interim levy for 2008/09 and announces levies for 2009/10

The FSCS today (30 March 2009) confirmed an interim levy of £38m on investment intermediation firms for costs in 2008/09 relating to Pacific Continental Securities Ltd and Square Mile Securities Ltd.

The FSCS also announced that financial services firms will pay a general levy of £156m in 2009/10.

In addition, firms taking deposits will be expected to pay just under £406m to cover the estimated expenses to 31 March 2009 arising from the bank defaults of 2008. That is lower than the figure of £435m published in the FSCS Plan and Budget and reflects interest rate reductions. The final 2008/09 amounts are expected to be announced and levied in the early summer, to enable the FSCS to pay loan interest to the Treasury by 1 October 2009.

Apart from the bank defaults, the drivers of compensation costs include insurance claims, payment protection insurance claims against brokers, mortgage endowment claims (although these are slowing) and a less predictable flow of other investment and deposit claims.

Loretta Minghella, FSCS Chief Executive, says: “2008/09 was a difficult year for consumers and firms. A number of high profile bank defaults put the spotlight on our work and the help that we provide for consumers when things go wrong. It highlighted the important role that the FSCS plays in helping to promote consumer confidence.

“2009 also brought two significant defaults in the investments area following the failures of Pacific Continental Securities and Square Mile Securities. We have now received almost 3,500 claims against the firms and have refined our earlier assumptions about the costs of claims against the firms both for 2008/09 and 2009/10. This has enabled us to fix the interim levy for 2008/09 and the first levy for 2009/10 for the investment intermediation sub-class.

"Whilst most sub-classes will see no change from the indicative levies we published in our Plan and Budget: 2009/10, we recognise that the levy comes at a very difficult time for firms. They can rest assured that we have taken steps to avoid over-levying and to contain our costs."

Notes to editors:

Breakdown of 2009/10 FSCS general levy by class and sub-class:

- A Deposits, at £22.5m to cover the costs of credit union failures and also the on-going non-interest management expenses of the bank defaults in 2008/09.
- B1 General insurance provision, at £69.0m;
- B2 General insurance intermediation sub-class where the levy will be £8.5m, up from the £5m in the Plan and Budget. This reflects the potential costs of PPI compensation after the FSCS refined earlier projections on the volume of claims;
- C1 Life & pensions provision, at £2.0m;
- C2 Life & pensions intermediation, at £19.0m;
- D1 Investments fund management, at £4.0m;
- D2 Investment intermediation sub-class where FSCS is announcing an indicative levy of £58m. However, the FSCS will initially levy firms in the class £30m for 2009/10 with a further levy of an estimated £28m possible later in 2009 when the amount required should become clearer. The increase follows revised assumptions about claims against Pacific Continental Securities Ltd, Square Mile Securities Ltd and other investment broking firms.
- E2 Home finance intermediation, at £1.0m; and
- E1, Home finance provision - no levy at this time.

The FSCS also estimates that the interest for 2009/10 on the loans for bank defaults could be in the region of £493m and will be collected in the summer of 2010.

These amounts do not include any provision for the FSCS costs associated with the failure of Dunfermline Building Society. The FSCS will update the industry on the likely timing and impact of these costs when this becomes clear.

The FSCS did not levy for the costs of Pacific Continental Securities Ltd or Square Mile Securities Ltd when it set its levy for 2008/09 because the firms were not yet in default and it did not have the information it needed to assess the volume or value of the claims. The interim levy of £38m covers the costs of claims during 2008/09 and some of the costs expected during 2009/10, ahead of the collection of the 2009/10 general levy.