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MEDIA INFORMATION

FSCS announces £148m general levy for 2010/11 and confirms an interim levy for 2009/10

The Financial Services Compensation Scheme (FSCS) today confirms an interim levy of £80m on investment intermediation firms. The FSCS has revised its assumptions following the publication of its Plan and Budget: 2010/11. The interim levy is for costs relating to Pacific Continental Securities (UK) Limited, Square Mile Securities Limited, Keydata Investment Services Limited, and other investment firms it has declared in default (totalling £58m), and for structured product claims (accounting for £22m).¹

At the same time, the FSCS has decided insurance intermediation firms will not receive an interim levy in 2009/10 for the costs of payment protection insurance (PPI) claims. After refining its assumptions and estimates for the current year, these costs will be levied in 2010/11. PPI claims are becoming a growing area of the FSCS's work and will be one of the main drivers of costs in 2010/11, according to the FSCS.

The FSCS has set the 2010/11 general levy at £148m. More than £61m of this will go to firms in the General Insurance Intermediation sub-class, mainly to cover the costs of PPI claims. For the Investment Intermediation sub-class, the levy is £24m, for the estimated costs of known defaults for 2010/11.

Together with investment and PPI claims, the other main area of claims costs for 2010/11 is general insurance. The General Insurance Provision sub-class will pay a levy of more than £41m for 2010/11, mainly to cover the ongoing claims costs from the Builders Accident Insurance Limited (BAI), Chester Street, Drake Insurance Plc, and Independent Insurance estates.

In addition, firms taking deposits are currently estimated to pay just over £376m to cover the interest cost to 31 March 2010 from the FSCS's loans for the bank defaults of 2008. The FSCS will confirm the final 2009/10 interest levy to firms in the early summer, to enable it to pay loan interest to HM Treasury by 1 October 2010.

However, next year, the FSCS expects the volume of claims it receives in longer standing areas of its business, such as mortgage endowment and pensions review claims, to decrease.

Alex Kuczynski, Interim Chief Executive, says: "The costs of PPI, investment and insurance claims are among the main drivers of FSCS costs this year and into 2010/11. After further refining our assumptions, we have set the levy for the coming year at £148m. Our duty is to help consumers of authorised financial

services firms who are entitled to our protection. This is good for consumer confidence and benefits the industry.”

Notes to editors

¹ The Plan and Budget: 2010/11 raised the possibility of two interim levy amounts for the Investment Intermediation sub-class (totalling £90m) before the end of 2009/10. An amount of £70m was proposed for Pacific Continental Securities (UK) Limited, Square Mile Securities Limited, Keydata Investment Services Limited, and other investment claims. An additional amount of £20m was proposed to cover the potential costs of claims relating to structured product failures.

FSCS 2010/11 levy at a glance.

Proposed final levy and initial indicative figures, compared	Proposed levy	Plan & budget – initial indicative levy	Change: Increase / (reduction) in funding	Comment
Sub-class	£m	£m	£m	
SA01 Deposit	4.0	4.0	0.0	
SB01 General Insurance – provision	41.5	34.5	7.0	Revised forecast claims volumes and increased costs relating to Drake and Chester Street insurance estates.
SB02 General Insurance – intermediation	61.4	50.5	10.9	Revised claims forecasts in 2009/10 mainly relating to PPI. No interim levy in 2009/10 and reforecast costs moved into 2010/11 levy.
SC01 Life & pensions – provision	2.0	3.0	(1.0)	Revised claims forecasts reduce the total levy.
SC02 Life & pensions – intermediation	11.5	13.5	(2.0)	Revised claims forecasts reduce the total levy.
SD01 Investments – fund management	3.0	3.5	(0.5)	
SD02 Investments – intermediation	24.0	19	5.0	Revised claims forecasts. This includes known defaults only. In the case of further significant defaults in the year, an additional levy may be required.
SE01 Home finance – provision	0.0	0.0	0.0	
SE02 Home finance – intermediation	0.6	0.5	0.1	
Total levy amount	148.0	128.5	19.5	

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