



IMMEDIATE: 12.02.10

MEDIA INFORMATION

FSCS Plan and Budget 2010/11 published – Rising PPI and investment claims driving costs for remainder of 2009/10 and 2010/11

Rising payment protection insurance (PPI) and investment claims are key drivers of compensation costs for the rest of 2009/10 and into 2010/11, according to the Financial Services Compensation Scheme (FSCS).

The FSCS Plan and Budget provides its early assumptions about claims and associated funding needs for the coming financial year. Overall, the FSCS expects the volume of claims it receives in traditional areas of its business, such as mortgage endowment and pensions review claims, to decrease. But the FSCS expects PPI claims to increase significantly for the rest of 2009/10 and into 2010/11. This means the FSCS will issue more decisions next year as it completes claims arriving towards the end of this financial year.

And the FSCS warns the costs of major investment failures in 2009/10 are the reason for the interim levy of at least £70m¹ it expects to issue in March. The costs will fall to investment intermediaries. They are for the failures of Pacific Continental Securities (UK) Limited, Square Mile Securities Limited and Keydata Investment Services Limited.

Additional interim levies of up to £20m each may also be necessary for the costs of structured product provider failures and for PPI claims in 2009/10. The FSCS expects the cost for PPI claims to fall to the General Insurance Intermediation sub-class and the cost of structured products claims to fall to the Investment Intermediation sub-class.

The potential interim levies on the Investment Intermediation sub-class could breach the annual compensation cost levy limit for this sub-class, triggering an interim levy on the Investment Fund Management sub-class. The FSCS will confirm the position on these before determining and announcing the levy decisions in March.

¹ In its levy announcement for 2009/10, the FSCS said it would levy firms in the investment intermediation sub-class £30m with the possibility of a further levy of an estimated £28m later in the year for defaults which had recently been declared. Those defaults now account for £27m of the proposed £70m interim levy. The balance of £43m relates to claims against Keydata Investment Services Limited, which was confirmed in default on 13 November 2009.

Against the backdrop of continuing uncertainty in the markets, the FSCS says in its initial indicative levy announcement that financial services firms are likely to pay a levy of £128.5m in 2010/11. In addition, deposit taking firms will pay interest costs estimated at £376.9m² on loans to fund compensation for the five bank defaults in 2008/09.

Of the total indicative levy for 2010/11, general insurance provision and general insurance intermediation claims will together account for £85m while investment intermediation claims will account for at least £19m.

FSCS Chief Executive, Loretta Minghella, says: "The FSCS will continue playing a valuable role in promoting consumer confidence in 2010/11 by paying compensation when firms fail.

"In the light of recent investment firm failures, we are expecting the costs of investment compensation to rise significantly over the coming months. In addition, PPI claims will be an important driver of our business next year and will contribute to significant costs estimated at £50.5m in the General Insurance Intermediation sub-class. Although the situation is fluid, our current assumption is that around 8,000 PPI claims will come in during the next year. That's almost double the number we expect this year.

"In such tough economic times, we recognise that the interim and annual levies will be unwelcome news for firms. We take great care in determining our indicative levies though our primary obligation is to deliver compensation to those entitled to our protection. Doing so helps to promote consumer confidence, which also benefits the industry."

The FSCS will review its claims and funding assumptions, and then announce interim levies and the initial 2010/11 levy in March.

Press Enquiries:

Mark Oakes	020 7892 7370	mark.oakes@fscs.org.uk
Sarah McShane	020 7892 7882	sarah.mcshane@fscs.org.uk
Sarah-Jane Savage	020 7892 7896	sarah-jane.savage@fscs.org.uk

For more information about the FSCS visit www.fscs.org.uk

Notes to editors

The full Plan and Budget: 2010/11 contains a break down of the indicative levies by class and sub-class. It is available at <http://www.fscs.org.uk/industry/publications/plan-and-budget/>.

² For the interest on the loans accruing to 31 March 2010 and to be collected by 1 September 2010.