Your money is safe, FSCS tells Bradford & Bingley depositors

It is business as usual for depositors and other customers of Bradford & Bingley, who need have no concerns about the safety of their money. That is the message from the Financial Services Compensation Scheme (FSCS) today after it stepped in with the tripartite to help 2.5m customers of Bradford & Bingley after the bank failed to meet its regulatory requirements. The FSA has declared the firm in default.

The Scheme is contributing some £14bn to enable retail deposits held in Bradford & Bingley and covered by the FSCS to be transferred to their new owner Abbey.

FSCS worked closely with the tripartite authorities – HM Treasury, the Bank of England and the Financial Services Authority - on the initiative to protect savings in the bank. Under the plan, all the bank’s deposits have transferred seamlessly today to Abbey. Bradford & Bingley’s retail customers will automatically become customers of Abbey. This transfer has been carried out with support from HM Treasury and FSCS.

FSCS Chief Executive Loretta Minghella says: “FSCS has stepped in along with the Government, the Bank of England and the Financial Services Authority to protect savings at the Bank. This initiative means that some 2.5m people can rest assured that their money is safe and they will not lose it because of the problems at Bradford & Bingley. They can access their accounts in the normal way and it is business as usual for them.

“Working in concert the authorities have responded decisively to the problems at Bradford & Bingley when it became apparent that the firm would not be able to resolve them. No one likes to see any firm get into difficulty, but this package ensures that the depositors’ savings are safe. The decision to act was not taken lightly, but the primary objectives were to reassure the customers of the bank that their savings are protected and for levypayers to contribute to costs of protection in a proportionate and managed way.
“The money we are contributing reflects FSA’s estimates of what we would have had to pay out if we had to pay compensation in the usual way. Our contribution means that people have immediate access to their accounts without having to send claims to FSCS and FSCS having to assess each claim individually.”

Ms Minghella was speaking after the Chancellor of the Exchequer Alistair Darling announced the move today. She said FSCS borrowed the money from the Bank of England to fund its contribution to the rescue package. FSCS is funded by compulsory levies on authorised financial services firms.

FSCS’s contribution to assist Bradford & Bingley depositors is being funded via a loan from the Bank of England, which will shortly be replaced by a loan from HM Treasury. Repayments of the loan will be initially on an interest-only basis, at a rate of one year LIBOR plus 30 basis points, with the first payment due at the end of September 2009.

It is expected that the amount owed by FSCS will be reduced over time by recovery of funds from the sale or run-off of the assets of the remaining business of Bradford & Bingley in public ownership.

A Transfer Order under the Banking (Special Provisions) Act 2008 paved the way for FSCS to contribute to the costs of protecting savers at Bradford & Bingley.

FSCS Chief Executive Loretta Minghella said: “In contributing to this initiative, the FSCS is helping to support consumer confidence in the financial services industry. Although we will need to call on the financial services industry to contribute to the costs of compensation, we recognise the potential impact on firms at this difficult time. We will therefore be levying for interest only for the first three years. When it comes to repaying the amount we borrowed in three years time, we will agree with the Treasury a sensible repayment schedule in the light of market conditions at that point.”

For more information about FSCS see Notes to Editors section or visit www.fscs.org.uk

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Notes to Editors:

1. About FSCS

The Financial Services Compensation Scheme (FSCS) is the UK’s statutory compensation scheme for customers of authorised financial services firms. This means that FSCS can pay compensation if a firm is unable, or likely to be unable, to pay claims against it. FSCS is an independent body, set up under the Financial Services and Markets Act 2000 (FSMA). Our service is free to consumers. As the UK’s statutory compensation scheme, FSCS can only pay for financial loss where a firm is unable to meet claims. Compensation aims to put consumers back into the position they would have been in had they not invested.

2. UK’s statutory Compensation scheme

As the UK’s statutory compensation scheme, FSCS can only pay for financial loss where a firm is unable to meet claims.

FSCS protects:

- Deposits
- Insurance broking (for business on or after 14 January 2005)
- Investment business (on or after 28 August 1988)
- Life and general insurance policies
- Mortgage advice and arranging (for business on or after 31 October 2004)

3. Authorised firms

Our rules are made by the Financial Services Authority (FSA), the independent watchdog set up by government under FSMA to regulate financial services in the UK and protect the rights of consumers. The rules tell us which types of claim are eligible for compensation, and limit how much compensation we are allowed to pay. Firms need permission from the FSA to carry out a regulated activity, which covers activities such as accepting deposits, insurance business and investment business. In this case, aspects of our rules have been amended by today’s transfer order.

Dealing with an authorised firm gives consumers access to the Financial Ombudsman Service (FOS) and FSCS. Consumers can check that the firm they are dealing with is authorised by contacting the FSA’s Consumer Helpline on 0845 606 1234.