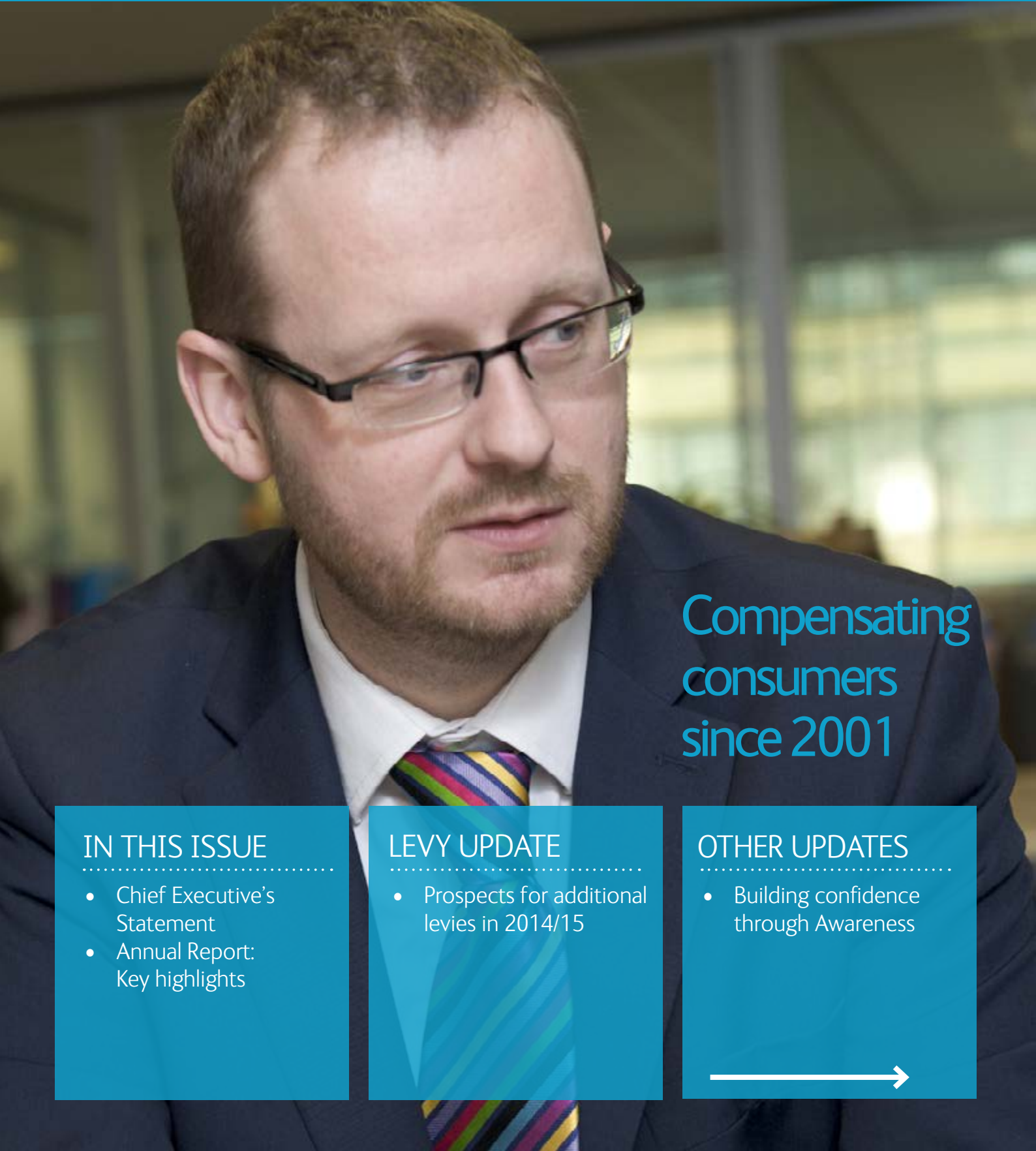


outlook



August 2014



Compensating consumers since 2001

IN THIS ISSUE

- Chief Executive's Statement
- Annual Report: Key highlights

LEVY UPDATE

- Prospects for additional levies in 2014/15

OTHER UPDATES

- Building confidence through Awareness



CHIEF EXECUTIVE'S STATEMENT



Mark Neale, Chief Executive

Supporting the delivery of financial stability is just one of the key purposes of FSCS. We do this on a daily basis by contributing to a properly functioning market in which financial services businesses can succeed, but can also fail without destabilising the market itself or damaging consumers.

Our Annual Report and Accounts 2013/14, which we published last month, provide a detailed account of how we have met this objective during another demanding year. It was a year in which FSCS received over 39,000 new claims, dealt with over 200,000 enquiries, and paid out £243m in compensation.

So, what challenges did FSCS face in 2013/14? We saw a year in which claims volumes decreased, while claims complexity increased. It appears that PPI claims may have passed their peak. However, there has been a steady rise in more complicated failures, particularly in the investment sector.

I used my introduction in this year's annual report to highlight the impact failures such as Catalyst have on FSCS. This growing complexity of claims affects not just the workload of FSCS, but has wider implications for the industry, reflected in our annual levy. I also discussed my concern over the increasing number of SIPP claims. I very much support the action FCA is taking to ensure the protection of consumers.

2013/14 was also a year in which we continued to make great strides in achieving recoveries, an element of our work I know is of particular interest to the industry. The money we recover from the estates of failed businesses and others, which amounted to £353m last year, enabled us to offset the costs of compensation to our levy payers for 2014/15. Updates on our recoveries will be in future editions of *Outlook*.

We try to provide as much certainty as we can for the industry about our costs. Our new approach to funding aims to give the industry greater certainty and to reduce the likelihood of interim levies. We have provided an early indication on page 6 of the prospects for additional levies in 2014/15. At the moment an interim levy is unlikely. However, in the Life and Pensions intermediation sector there is a risk because of SIPP Provider claims. We are monitoring this closely and will keep the industry informed of any developments. As always, I should remind you that these are only indications; the picture can change as we move through the year.

Looking to the future, it is vital that we respond to a changing environment and deliver a service which meets consumers' expectations. Our Connect programme, which will enable consumers to make a claim to FSCS through an online portal, is a first for us and will go live in this financial year. We expect it to make a huge difference to the way in which

“ We try to provide as much certainty as we can for the industry with regards to our costs. Our new funding has been designed to give the industry greater certainty and help reduce the likelihood of interim levies. ”

FSCS manages its claims process while strengthening our capabilities to meet potential future demands. We will continue to update the industry.

Finally, we have provided an overview of the next phase of our consumer awareness programme on page 7. Alongside the continued support from the industry, we look forward to ensuring that the FSCS protection message helps to boost and sustain consumer confidence, promoting financial stability.



ANNUAL REPORT: KEY HIGHLIGHTS

In July we published our Annual Report and Accounts in which we provided a full and balanced assessment of FSCS's performance over the year.

Below is a snapshot of FSCS's performance during 2013/14:

£243m

FSCS paid out £243m in compensation during 2013/14, compared with £326m in 2012/13. Compensation in the General Insurance Provision sector rose by £10m from 2012/13, but fell in the Investment Intermediation sector to £71m (from £105m in 2012/13). The fall was due to declining numbers of new PPI claims.

39,000

We received over 39,000 new claims from consumers during 2013/14. While PPI claims seem to have peaked for the time being, there is a steady rise in more complex claims. The indications are that rising complexity will be a continuing feature of FSCS's work.

£353m

We recovered £353m from the estates of failed firms, including £241m from the major banking failures of 2008/09.

200,720

We handled 200,720 enquiries about our work. The enquiries were often more complex than in the past, reflecting the type of claims that we are receiving.

£1.1bn

The levies we received totalled £1,111m, compared with £726m in 2012/13. This figure included provision for interest costs and a capital repayment levy totalling £791m arising from the major banking failures of 2008/09, payable by banks, building societies, and credit unions only.

£57.7m

FSCS management expenses for the year were £57.7m, excluding the costs of processing Welcome Financial Services Limited PPI claims, which do not fall on the industry, and the loan interest for the major banking failures of 2008/09.

Raising awareness

Just over 60% of the public are aware of FSCS or the fact of a protection scheme.

To read the full document, please see our Annual Report and Accounts 2013/14, which is available on our [website](#).



CLAIMS EXPERIENCE OF THE YEAR

Claims, decisions and average payments by class.

| | New claims received | | Total decisions | | Uphold rate | | Average paid | | |
|---|---------------------------------------|---------------|-----------------|---------------|-------------|------------|---------------|---------------|--------|
| | 2013/14 | 2012/13 | 2013/14 | 2012/13 | 2013/14 | 2012/13 | 2013/14 | 2012/13 | |
| Deposit (SA01) | 6,066 | 9,737 | 6,070 | 9,740 | 99.8% | 99.9% | £633 | £314 | |
| General Insurance Int. (SB02) | All (excluding Welcome ¹) | 12,120 | 19,035 | 13,881 | 18,165 | 75.2% | 74.5% | £3,915 | £4,149 |
| | Welcome | 8,289 | 16,370 | 6,514 | 17,550 | 92.2% | 91.4% | £1,463 | £1,402 |
| Life and Pensions Provision (SC01) | 0 | 3 | 3 | 5 | 66.7% | 20% | - | £595 | |
| Life and Pensions Intermediation (SC02) | 4,248 | 3,691 | 3,944 | 3,598 | 44.8% | 49.6% | £11,104 | £13,172 | |
| Investment Provision (SD01) | 2 | 8 | 5 | 11 | 100% | 45.5% | £7,377 | £12,451 | |
| Investment Intermediation (SD02) | 7,823 | 12,300 | 7,373 | 12,255 | 83.4% | 89.6% | £10,939 | £9,488 | |
| Home Finance Intermediation (SE02) | 710 | 886 | 847 | 917 | 3.5% | 4.1% | £39,994 | £13,865 | |
| TOTAL | 39,258 | 62,030 | 38,637 | 62,241 | N/A | N/A | £5,136 | £4,415 | |
| General Insurance Provision (SB01) ² | 14,328 | 10,766 | 13,339 | 10,298 | 7,505 | 5,749 | £6,785 | £7,656 | |

¹ Due to the restructuring arrangement put in place for Welcome Financial Services Limited (Welcome), the costs of handling and compensation for these claims will not fall on levy payers.

² FSCS does not directly process claims for General Insurance Provision as it does for other classes. The nature and complexity of these claims mean there is no direct correlation between the numbers of payments and the numbers of 'decisions' or 'uphold rates' in any one year.

PROSPECTS FOR ADDITIONAL LEVIES IN 2014/15

- = Lower Risk
- = Medium Risk
- = Higher Risk

| Class | Future prospects - Likelihood of further interim levy in 2014/15 | Budgeted Fund Balance at 30 June 2015 (£m) | Latest Forecast Fund Balance at 30 June 2015 (£m) | Reason for variance |
|---|---|--|--|---|
| Deposits (SA01) | ● | 0.35 | 7.77 | Lower credit union payments in 2013/14 |
| General Insurance Provision (SB01) | ● | 0.89 | 9.92 | Lower compensation payments in 2013/14 |
| General Insurance Intermediation (SB02) | ● | 7.41 | 3.74 | PPI costs in 2014/15 slightly greater than budgeted |
| Life & Pensions Provision (SC01) | - | - | - | - |
| Life & Pensions Intermediation (SC02) | ● | 0.54 | 0.40 | Risk of increased compensation from SIPP claims |
| Investment Provision (SD01) | - | - | - | - |
| Investment Intermediation (SD02) | ● | 0.07 | 30.64 | Increased recoveries |
| Home Finance Intermediation (SE02) | ● | 0.36 | (0.21) | |

BUILDING CONFIDENCE THROUGH AWARENESS

The next phase of our consumer awareness programme is due to kick off in a few weeks with a fresh new look and feel. In addition, we will be expanding our channels with a new online video element and a major partnership programme.

Watch out for the new programme in September; it will really build on what we've done so far and we are confident it will engage and resonate with our target audience. It will continue through 2015/16. We will provide more detail in the next edition of Outlook.

Total awareness of FSCS protection currently stands at 60%. That's up more than 30 percentage points since 2008. At the lowest point, awareness of FSCS was in the single digits. You may remember that one of the factors people cite in the run on Northern Rock was lack of awareness of the Scheme. That led to a Tripartite requirement to boost awareness of FSCS.

Focusing on deposits, the new drive will put FSCS protection in the spotlight again. We will be on the radio, online and in print. Research shows this is working well for us so far and helping to make more people aware of the protection we provide. That's vitally important.

Independent research for FSCS shows the more aware people are of our protection, the more confident they are. This leads to benefits for the industry, because it means people are more likely to buy products. In fact 60% of people who say they were told about FSCS when taking out a new product said it was a factor in their decision. And the other 40% who say they were not told about FSCS, say it would have influenced their decision if they had been told.

So continued (and full) compliance with disclosure requirements remains important. FSCS is rolling out the new look materials across its marketing but will also be pushing it in-branch for deposit takers, aligning all our materials with the overall consumer awareness programme.

The industry plays a crucial role in helping to promote consumer awareness of FSCS. That will continue in the next phase when we are looking to the industry to do the heavy lifting. Some firms are leading the way by including us in their advertising, for which we're grateful.

One of the key developments in the consumer awareness programme is the recognition of the growing impact of video, digital and social media engagement. We have developed a digital partnership with a major national news organisation to help us deliver engaging content via YouTube videos. This is all part of making sure that our information engages our audience and builds further awareness. Their perceptions of finance and savings are different now than they were immediately following the crisis, so we're reflecting that to make sure our message lands.

At the same time, our work to develop an FSCS "badge" for simple products is almost complete. After extensive consumer testing and senior industry engagement, now we're getting ready to launch it and will update you in the next edition of Outlook.

Contact us:

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Please include your name and address with any messages sent