



A guide for credit unions

The Financial Services Compensation Scheme

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Introduction

The purpose of this booklet is to provide credit union staff and volunteers with information about the Financial Services Compensation Scheme and the function it performs when a credit union fails. It also provides an overview of a number of requirements being placed on all deposit takers including credit unions, which are designed to promote confidence and protect the deposits of credit union members.

The Financial Services Authority (FSA), the Treasury and the Bank of England have recently completed a programme of work designed to strengthen the protection offered to credit union members (and customers of other deposit takers such as banks and building societies). As a result, the FSA and the FSCS are planning to increase public awareness of the compensation arrangements that will operate should a deposit taker get into difficulty and not be able to pay back money it owes its depositors.

This booklet focuses on the deposit protection offered by the FSCS. However, more information about the different product types that are covered can be found under the 'What we cover' section of the FSCS website at www.fscs.org.uk.

Disclaimer

We will keep the issues under review and update the document as we engage with trade bodies and credit unions. However, this document should not be relied on as legally definitive or conclusive or comprehensive.

We cannot accept responsibility for any errors or omissions or any act arising from them. If deposit takers have any doubts about a particular regulatory requirement, they are strongly advised to seek their own expert and legal advice.

About the Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) is the United Kingdom's compensation scheme of last resort for customers of financial services firms. This means the FSCS can pay compensation to customers if firms (such as credit unions) are unable, or likely to be unable, to pay depositors their money back. The FSCS describes this situation as a firm being "in default".

The FSCS:

- is an independent body set up under the Financial Services and Markets Act 2000 (FSMA), and does not charge consumers for using its service;
- covers business conducted by firms authorised by the Financial Services Authority (FSA), the independent "watchdog" set up by law to regulate financial services in the UK.
- operates under rules made by the FSA which set out which types of claim are eligible for compensation and limit how much compensation we are able to pay.



About the Financial Services Compensation Scheme (contd.)

Who is protected?

The FSCS was set up mainly to protect private individuals, although smaller businesses are also covered. Larger businesses are generally excluded, although there are some exceptions to this (for deposit and insurance claims).

The FSCS provides protection for the customers of all credit unions in the UK that are authorised by the FSA.

When does protection apply?

If a credit union is unable, or likely to be unable, to repay its members, the FSCS will be triggered. This may happen, for example, if a credit union is subject to an insolvency action, such as liquidation or administration.

Once the FSCS is satisfied that a credit union is unable, or likely to be unable, to repay its members, it declares the credit union in default. The FSCS is able to pay compensation only if a credit union has been declared in default.





What is protected?

From 30 June 2009, the compensation limit for claims against credit unions for deposits is the higher of £50,000 or €50,000 per person.

Please note that credit unions in Northern Ireland and the Channel Islands are not covered by the FSCS.

Different limits may apply for other types of business.

How can members make a claim?

Should a credit union be declared in default, the FSCS will provide information about how claims will be paid. The FSCS will also publicise a default declaration via the media and the FSCS website.

Previously claimants have been required to submit an application form to make a claim for compensation. However, recent changes to the FSA rules allow the FSCS to make compensation payments without an application form in certain circumstances. These changes are designed to ensure members receive compensation as quickly as possible, although the completeness and accuracy of a credit union's records will affect the speed of any payout process.



Faster Payout Requirements

The Faster Payout information in this booklet provides a summary of the key points credit unions should be aware of following the recent FSA rule changes. The FSA Compensation rules are known as the COMP rules.

To facilitate faster payout, the FSA has introduced a new rule, effective from 31 December 2010, for credit unions (and other deposit takers) which requires them to ensure they can provide information to the FSCS, within 72 hours, on all customers who are eligible to submit a compensation claim. This will enable the FSCS to pay compensation to eligible depositors of failed deposit taking firms quickly and effectively.

The Faster Payout Q&A on the FSCS's website set out in further detail the information to be provided, known as the Single Customer View (SCV).

SCV requirements

Credit unions with more than 5,000 accounts held by eligible claimants must be able to submit an electronic SCV file in a format that is readily transferable to, and compatible with, the FSCS's systems.

However, credit unions that have under 5,000 eligible claimants are able to opt out of the electronic SCV requirements by notifying the FSA that they wish to be exempt. To do this, smaller deposit takers should provide the FSA with details of:

- the number of accounts held by eligible claimants; and
- a statement confirming that the credit union is opting out of the electronic SCV requirements.

Once credit unions have received confirmation from the FSA that their notification has been received, they:

- are not required to maintain or transmit SCV files electronically (COMP 17.2.1R(2));
- do not have to have a system which is capable of automatically identifying the amount of compensation payable to each eligible claimant (COMP 17.2.3R(3));
- do not have to have a system which includes a check facility which allows them to identify if any portion of an eligible claimant's deposit is over the maximum payment for a protected deposit (currently £50,000) (COMP 17.2.5R);
but these credit unions will still be required to provide an SCV file in paper format within 72 hours of a default, or of a request being received from the FSCS. The required fields are illustrated in the Faster Payout Q&A on the FSCS's website.

More information

Contact details and a template for the notification can be found in Appendix 1.

For full details of the SCV requirements please read FSA Policy Statement 09/11, FSA Policy Statement 09/18 and the Faster Payout Q&A on the FSCS's website.





Faster Payout Milestones

6 December 2009 - 30 December 2010: Electronic exemption notification

Notification that the deposit taker has fewer than 5,000 accounts held by eligible depositors, and that it chooses not to comply with the electronic SCV requirements in COMP 17.2.1R(2), COMP 17.2.3R(3) and COMP 17.2.5R.

31 July 2010: Pre-implementation Report

To be submitted to the FSA providing a status report on progress (for the period up to and including 30 June 2010) towards meeting the relevant SCV requirements.

31 December 2010: SCV Implementation deadline

Deposit takers to have implemented the new SCV requirements (in either electronic or paper format, whichever is applicable).

31 January 2011: Implementation and SCV Reports

Submission deadline for Implementation Report to the FSA

31 January 2011: SCV file (electronic only)

Submission deadline of sample SCV file to FSA. Deposit takers should note that the SCV file should contain either 10% of the total protected deposits, or 10,000 records, whichever is the lower figure.

31 January 2011: Verification Phase

Sample SCV file to be sent to the FSCS no later than 31 January 2011

31 July 2011:

The FSCS to complete Verification of sample SCV file no later than 31 July 2011

Ongoing: Compliance reviews

The FSA have planned ongoing regulatory supervision of Faster Payout which may involve on-site visits to review compliance with the rules.

Key information



Customer Eligibility

Only those customers who meet the eligibility criteria should be included in the SCV file provided to the FSCS. The eligibility criteria have recently been simplified and most individuals will qualify as eligible for compensation. More information about eligibility can be found in the Faster Payout Q&A on the FSCS's website.

Calculations

When generating a single customer view file for a depositor, deposit takers are required to calculate, for all eligible accounts;

- the total compensatable amount; and
- the total balance of all deposits held by each customer.

In both instances any interest due up to and including the date of default or the date the SCV sample file is run should be included.

Under the new FSA COMP rules, any negative balances, such as overdrafts or loans, no longer need to be 'set off' or deducted from any accounts, and as such should be excluded from the SCV calculations.

Transmission

In January 2010, the FSCS appointed Experian to act as the FSCS Verification provider. For credit unions subject to the electronic data verification requirements, further information will be made available regarding transmission and verification processes as soon as practicable. This information will be made available via the FSCS website, and the credit union trade bodies.

Disclosure Requirements

The FSA has introduced rules designed to improve general awareness of the FSCS and the protection it offers depositors. The FSCS is also undertaking a two tier approach to raise awareness, involving a national awareness campaign as well as the provision of information from deposit takers such as credit unions. The FSCS is leading on the national awareness campaign and will provide more information to the relevant trade associations in due course.

The FSA believes that regular disclosure is an effective way of raising consumer awareness of the FSCS. From the 1st January 2010, deposit-takers need to notify their eligible customers that they are protected by the FSCS.

This information should be provided every six months (or every twelve months if the communication is to the holder of an account which does not receive regular communications, e.g. passbook accounts), and should be by the communication method best suited to the customer.



For example, the FSA considers inclusion of the information on the account statement to be the most appropriate method for depositors who receive paper based statements.

If members have passbook accounts and do not receive regular statements, the most appropriate method of disclosing information about the FSCS to them is likely to be with an annual mailing.

The required disclosure wording can be found in Appendix 2. The FSCS also provides more information about the disclosure requirements on its website.

The FSA's Policy Statement 09/11: Banking Compensation and Reform can be found at (http://www.fsa.gov.uk/pubs/policy/ps09_11.pdf).



Frequently asked questions

The FSCS has produced an SCV Faster Payout Q&A document which is available on its website at www.fscs.org.uk.

We have already engaged directly with the British Bankers' Association, the Building Societies Association and credit union trade associations regarding the first edition, and we will continue to do so as subsequent updates are produced.

How to contact the FSCS

Write to us at:

Financial Services
Compensation Scheme
7th Floor, Lloyds Chambers
1 Portsoken Street
London
E1 8BN

Telephone us on:

0800 678 1100 or 020 7892 7300

Fax us on: 020 7892 7301

Email us at: enquiries@fscs.org.uk

Visit our website at: www.fscs.org.uk



Appendices

Appendix 1 - Electronic SCV requirements exemption notification to the FSA

Contact details

Zayna Ali
Savings & Investments Dept
Small Firms and Contact Division
Financial Services Authority
25 North Colonnade
Canary Wharf, London
E14 5HS

Notification template

Firm (credit union) name:

FSA Firm Registration Number:

Number of accounts held by eligible claimants:

We, (Name of credit union), confirm that we have chosen not to comply with the electronic SCV requirements in the FSA handbook.

We understand we are still required to comply with all the other FSA SCV requirements as laid out in chapter 17 of the Compensation Sourcebook in the FSA handbook.

We understand that we are required to submit our pre implementation report to the FSA by 31 July 2010.

We confirm that our credit union currently has fewer than 5,000 accounts held by eligible depositors. We will inform the FSA if/when we have 5,000 or more accounts held by eligible depositors.

Name of Notifier:

Name of credit union

Position of Notifier:

Signature of Notifier:

Date of signature:

Contact telephone number and email:

Appendix 2 – Disclosure wording (COMP 16.3)

Important information about compensation arrangements

We are covered by the Financial Services Compensation Scheme (FSCS). The FSCS can pay compensation to depositors if a [credit union] is unable to meet its financial obligations. Most depositors – including most individuals and small businesses – are covered by the scheme.

In respect of deposits, an eligible depositor is entitled to claim up to [insert FSCS maximum payment for protected deposits]. For joint accounts each account holder is treated as having a claim in respect of their share so, for a joint account held by two eligible depositors, the maximum amount that could be claimed would be [insert FSCS maximum payment for protected deposits] each (making a total of [insert FSCS maximum payment for protected deposits x 2]). The [insert FSCS maximum payment for protected deposits] limit relates to the combined amount in all the eligible depositor's accounts with the [bank/building society/credit union – delete as appropriate], including their share of any joint account, and not to each separate account.

For further information about the scheme (including the amounts covered and eligibility to claim) please ask at your local branch, refer to the FSCS website: www.FSCS.org.uk, or call 0800 678 1100.



Financial Services Compensation Scheme

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