

outlook

News from the Financial Services Compensation Scheme

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FSA consults on FSCS' management expenses limit: A decrease of over 5%

The FSA has recently issued CP209 - a Consultation Paper on FSCS' 2004/05 Management Expenses Levy Limit. The proposed limit of £12.5m is 5.8% lower than the 2003/04 figure of £13.3m.

FSCS' Management Expenses cover three elements:

- base costs - the costs of running the Scheme;
- specific costs - management costs directly attributable to claims; and
- establishment costs - this year's levy will mark

the last time these costs will be included.

Base and establishment costs are shared across all participant firms in proportion to their FSA periodic fees. Specific costs are allocated to relevant Contribution Groups.

The Management Expenses are included in the annual levies raised by the Scheme. These levies include amounts to cover the likely compensation payments the Scheme will make in a financial year. An announcement of the total amounts required will be made in the Spring.

CP209 also covers adjustments to the tariff base for pension fund management companies in the A4 Contribution Group, including a possible new cap on the Levy Limit for firms in this Group, and two further minor clarifications to the COMP Rules.

The deadline for responses on the CP is 19 February. Respond to: Bob York, Consumer Division, FSA, 25 The North Colonnade, Canary Wharf, E14 5HS
Tel: 020 7066 4102;
Fax: 020 7066 4103;
cp209@fsa.gov.uk



"The reduction in our management expenses budget reflects further productivity savings made by the Scheme and a reduction in the number of pensions review claims the Scheme is expecting to handle in 2004/05," says Head of Finance, Nick Gooderham (pictured left).

Endowments, bonds & more

In this issue readers will find information about the work the Scheme has done during the first half of 2003/04.

Mortgage endowment claims continue to make up a large proportion of the enquiries received by

the Scheme. There is currently no sign of a decrease in enquiries about these, and other, investment claims.

Having declared R J Temple in default in November 2003, the Scheme is now receiving a

number of claims concerning high income ("precipice") bonds and split capital investment trusts.

For further developments and other news please see the back page.



from the Chairman

Welcome to the latest edition of **OUTLOOK**, the FSCS' newsletter for authorised firms.

This issue provides details of the work we have done over the first half of 2003/04, and ties in with the FSA's Consultation Paper on our Management Expenses Levy Limit for 2004/05.

I am pleased that our proposed budget for 2004/05 at £11.8m is 4.8% lower than our current budget of £12.4m, and that the overall levy limit currently being consulted on is 5.8% lower than for 2003/04.

If you have any questions about the Scheme, or would like more information about FSCS, please visit our website, www.fscs.org.uk, or contact our Customer Service Team on 020 7892 7300.

Nigel Hamilton, Chairman

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Take part in our
web survey!



Michael Blair, QC



Sarah Brown



Ken Culley, CBE



Bernard Day, OBE



Graeme MacLennan



Luke March



Tim Vogel



John Young, CBE

FSCS' Board of Directors

The conduct of the Compensation Scheme is the responsibility of its Board of Directors, appointed by the Financial Services Authority (FSA). Under the Financial Services & Markets Act 2000 (FSMA) the FSA appoints FSCS Directors on terms which secure their independence from the FSA in the operation of the Scheme. The Chairman's appointment (and removal) is also subject to Treasury approval.

Biographical details of all board members can be found in our Annual Report or on our website. FSCS' Chairman, Nigel Hamilton, is pictured on page 1. FSCS' Chief Executive, Suzanne McCarthy, is pictured on the back page.

2003-04 Half Year Review

FSCS' role is to pay compensation to eligible consumers. Claims are handled by different Sub-schemes, depending on the type of claim. Here's a round-up of the work of each of our Sub-schemes for the period 1 April - 30 September 2003.

Deposit

The Accepting Deposits Sub-scheme deals with claims made against failed banks, building societies and, since July 2002, credit unions.

During the first six months of 2003/04, the deposit claims team handled 318 claims resulting from the defaults of eight credit unions. Payments totalled £132,346 in the period.

Over 400 deposit-taking firms that contributed to the original compensation fund for customers of BCCI shared a refund of £4m which FSCS distributed in October. This distribution increases the amount refunded from £69.3m to £73.3m - over 90% of the value of the contribution (£80.3m) made in 1992.

Previous refunds were made by the Deposit Protection Board.

Investments

Compensation payments in the period totalled £33m. Approximately 94% of these payments were in relation to pensions review claims.

During this period FSCS has been considering whether improvements could be made to the processing of some types of non-pensions review investment claims, particularly mortgage endowment claims, in order to clarify the decisions process and speed up compensation payments.

These include:

- the introduction of a fact sheet and initial questionnaire to help potential claimants determine whether they might have an eligible claim;
- the introduction of a tailored application form; and
- the introduction of Exasoft (Mortgage Fundamentals) IT package.

Insurance

The Insurance Sub-scheme is responsible for overseeing payments to protected policyholders of insolvent insurance firms.

FSCS is currently dealing with claims against insurers such as Independent Insurance, Drake and Chester Street. This work passed to the Scheme from the Policyholders Protection Board when FSCS took over responsibility for compensation on 1 December 2001.

Protected policyholders' claims are initially handled by the claims staff of the insolvent companies or outsourced by the particular insolvency practitioner to run-off agents. The claims are then presented to FSCS for agreement.

Payments of £64.6m were made during the period.

Insurance audit programme

In recognition of its responsibilities to levy payers to ensure that compensation monies are being correctly spent, FSCS implemented an auditing programme of claims handled by run-off agencies.

The initial, general findings of this programme are that claims decisions and judgements exercised in the areas of policy liability, legal liability, eligibility and quantum are consistent with good practice.

There are areas where the Scheme has made recommendations to improve claims handling, notably in the area of tackling backlogs of work.

Evidence suggests that our work has been instrumental in improvements made in the processing of protected claims.



Mystery shopper exercise reaps rewards

You may remember from our last issue that FSCS carried out a 'mystery shopping' exercise to try to establish what information customers receive when they ask about compensation arrangements.

FSCS has been working closely with a number of large firms to raise awareness of the work of the Scheme amongst their staff, after the research showed that it would be help-

ful for staff to have more information about the Scheme.

The Association of British Insurers, the British Bankers Association and the Building Societies Association have also raised the issue amongst their members.

We would like to thank all firms and bodies involved for their co-operation.

LEVY ANNOUNCEMENTS TO BE MADE IN THE SPRING

FSCS expects to make its annual levy announcements for 2004/05 at the beginning of the next financial year (April 2004). These levies will include management expenses and compensation costs.

Compensation costs are allocated to Contribution Groups by reference to the type of claim anticipated.

The amounts needed to cover compensation costs will be determined once we have assessed the likely fund balances at the end of the financial year 2003/04 and estimated the likely compensation payments.

Levies raised in 2003/04

A levy of £87.9m was raised in 2003/04. This consisted of £80m on firms in the A16 (Pensions Review) Contribution Group and £7.9m on firms in Designated Investment Contribution Groups, for other investment claims.

Invoices were issued by the FSA, which acts as our collection agent, and the levy has been successfully collected.

Management expenses for 2003/04 are expected to be within budget.

FEBRUARY RETURNS REMINDER

Tariff data

Firms in Contribution Groups A1 (accepting deposits), A3 & A4 (insurance business) will shortly be asked for tariff data by the FSA.

For reference see Chapter 13, Section 6 of the FSCS Rules, (FSA Handbook, under Redress, Compensation). The deadline for receipt of this data by the FSA is 27 February 2004.

About the Scheme

FSCS officially took over responsibility for compensation in the financial services sector from N2 (1 December 2001), when the Financial Services and Markets Act 2000 (FSMA) came into force.

FSCS was established under the terms of FSMA, and replaced existing schemes including the Deposit Protection Scheme, the Building Societies Investor Protection Scheme, the Investors Compensation Scheme and the Policyholders Protection Scheme.

It is accountable to, but independent from, the UK's regulator, the Financial Services Authority (FSA), and

funded by compulsory levies on authorised firms.

The Scheme acts as the fund of last resort for consumers who have claims against regulated finance sector firms that are unable, or likely to be unable, to pay them. This is generally because they have gone out of business or are insolvent. FSCS covers deposits, insurance and investment business.

The protection isn't total - there are limits to the compensation we can pay (see below). But the existence of a fund of last resort means that if a financial services firm does fail, there is some protection.

Compensation limits

There are limits to the cover provided by FSCS.

The Scheme is only triggered when an authorised firm is unable, or likely to be unable, to pay claims against it. This is generally because it has ceased trading or is subject to an insolvency action, such as administration or liquidation.

Compensation payments are limited as follows:

Deposit protection (e.g. if a bank, building society or credit union is unable to repay its depositors).

£31,700 (100% of £2,000 and 90% of the next £33,000).

Investment claims (e.g. loss arising from bad investment advice or poor investment management. The Scheme is also triggered if a firm cannot return investments or money owed to its customers).

£48,000 (100% of £30,000 and 90% of the next £20,000).

Insurance policies (e.g. if a firm is unable to meet policyholders' claims or continue cover).

100% of the first £2,000 plus 90% of the remainder of the claim or value of the policy. Compulsory insurances are covered in full.

Where FSCS fits in

Is the firm still trading

If consumers have a complaint or claim against a firm that is still trading, they should contact that firm directly.

If the complaint is not resolved they can contact the Financial Ombudsman Service.

To contact the Ombudsman:

0845 080 1800

'Departed' firms

If the firm is no longer trading, is insolvent or can't be traced, consumers can contact FSCS.

FSCS will declare a firm 'in default' once it has established that the firm does not have sufficient assets to pay claims against it. A declaration of default opens the way for claims for compensation to be considered by the Scheme.

FSCS: 0207 892 7300

The CEO's view

It has been a busy half year for the Scheme according to Chief Executive Suzanne McCarthy.

"Mortgage endowment claims continue to have an impact on the Scheme," she says.

"Claims for mis-selling of split capital investment trusts and high income bonds are also likely to impact on the Scheme, following the default of R J Temple in November, and other possible defaults on the horizon."

European perspective

Suzanne has also been busy on the European front, in her role as Chair of the European Forum of Deposit Insurers (EFDI). Forum members also involved with investment protection



**Chief Executive
Suzanne McCarthy**

schemes met at FSCS' offices at the end of September to share information and look at the EC's forthcoming review of the Investor Compensation Directive (Directive 97/9/EC).

EFDI Members will continue to discuss issues of mutual concern.

Five minutes will make a difference

FSCS is seeking your views on its existing website.

We have launched an online survey, accessible from the home page, covering issues such as:

- Does the existing website give you what you need?
- Are there other features that you might find useful in the future.. for example, more detailed levy information and email bulletins?

We would appreciate your comments.

Visit:

www.fscs.org.uk

Click on the link on the home page

News update

Lloyd's policyholders are now included

Lloyd's policyholders now have the protection of FSCS should the Lloyd's Central Fund fail. They were included from 1 January 2004. By extending protection to these policyholders the FSA has ensured that they are protected by FSCS as a fund of last resort, should it be necessary.

Insurance intermediaries and mortgage brokers to follow

A number of new areas will be regulated by the FSA this year and next.

Mortgage brokers

Mortgage brokers will be regulated by the FSA from 31 October 2004, which means that their customers will have access to FSCS as a fund of last resort.

We hope to be able to provide further information about our arrangements for the inclusion of these firms in our Summer edition of Outlook.

Long-term care insurance

Long-term care insurance will become a regulated product from 31 October 2004.

Insurance intermediaries

After 14 January 2005 customers of insurance intermediaries will have the protection of FSCS.

Working together

FSCS is working with the FSA and relevant trade bodies to ensure that the Scheme is fully prepared and ready to handle any claims which may arise from any of these new areas.

Compensation limits to be reviewed later this year

The FSA is planning to issue a Consultation Paper to review the level of the FSCS' compensation limits before the end of 2004.

This fulfils a commitment made by the Regulator to review these within three years of the Scheme becoming operational.