

outlook

The Newsletter for the Financial Services Compensation Scheme

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FSCS Second Annual Report: Industry saves 23%

At the end of FSCS' first year management costs were some 23% less than if the separate compensation schemes had continued to operate, Chairman Nigel Hamilton has announced in FSCS' Second Annual Report, *The Way Ahead*.

And FSCS made a 26% saving on its projected budget forecast for 2001/2002.

"Rationalisation does make excellent financial and operational sense," he says in his statement.

"Having a single scheme promotes cost efficiencies, and provides a single point of contact for both consumers and levy payers.

"It also enables us to pursue operational improvements that the previous, smaller schemes found difficult to introduce."

In his statement Nigel Hamilton highlights two key areas of work for the Scheme:

- Improving operational controls – not only to ensure that services continue to be robust during periods of normal operations, but also for those times when business continuity may be threatened by unforeseen events.

- Raising awareness about the work of the Scheme amongst industry and consumers.

As well as maintaining

good links with the FSA, FSCS has been working with trade bodies to ensure that their members understand the Scheme's role, and to ensure that we are aware of issues that may affect FSCS.

FSCS also commissioned MORI to conduct research into consumer attitudes towards the safety of their money and investments, and their general awareness of compensation.

The results of the survey prompted the production of a consumer guide and the implementation of several awareness raising strategies that include working with consumer advice centres.



from the Chairman

I am pleased to announce the publication of our second Annual Report, *The Way Ahead*. This is our first Annual Report as the UK's single financial services compensation scheme.

As a single Scheme we have had an interesting few months, and, I believe, a successful start.

This newsletter aims to bring you the highlights and key facts of the report.

We want to ensure that relevant and timely information is easily available about our activities, and the publication of this second edition of our industry newsletter *Outlook* is part of our programme for achieving that goal.

We are always open to suggestions on how we can improve our communications, and we look forward to any comments you may have.

If you would like more information about FSCS, or copies of our Annual Report, please visit our website, www.fscs.org.uk, or contact our Helpline on 020 7892 7300.

Nigel Hamilton, Chairman

A testing time for the Scheme



Chief Executive, Suzanne McCarthy.

"2001/02 produced novel issues and new problems, to which we have taken a pragmatic approach," she says in her statement in the Annual Report. (See back page)

"This Report explains our recent achievements and expectations for the year ahead," says Suzanne.

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Michael Blair, QC



Sarah Brown



Ken Culley, CBE



Bernard Day, OBE



Graeme MacLennan



Luke March



Tim Vogel



John Young, CBE

FSCS Board members

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 the 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.

FSCS is independent from the FSA, although accountable to it, and, ultimately, to the Treasury.

Board members (from top): Michael Blair, QC; Sarah Brown; Kenneth Culley, CBE; Bernard Day OBE (from June 2002); Graeme MacLennan; Luke March; Tim Vogel (from April 2002); John Young, CBE. FSCS' Chairman, Nigel Hamilton, and Chief Executive, Suzanne McCarthy, are pictured on page one.

FSCS is dealing with compensation claims arising from pre (and post)-N2 failures, and working to develop a strong and effective single compensation scheme.

Sub-Scheme activities

Deposit

The deposit claims team has handled a small number of claims from the collapse of London Trust Bank, and even the odd claim still coming through from the collapse of BCCI. Payments made from 1 December 2001 to 31 March 2002 totalled approximately £19,000.

The team has also been focusing on the inclusion of credit unions which became regulated by the FSA on 2 July this year.

Deposit team members have been involved in international discussions on deposit insurance, giving FSCS the opportunity to share information and our experiences with other countries.

The assets and liabilities of the Deposit Protection Board (DPB) were transferred to FSCS as at 1 December 2001, with net funds of £9.4m being received by FSCS into the Accepting Deposits Sub-Scheme.

Insurance

The day-to-day work of the insurance claims team is agreeing (and paying) compensation for claims against failed insurance firms like Independent and Chester Street.

Compensation payments for claims against failed insurers from 1 December 2001 - 31 March 2002 totalled approximately £26m.

The team is also looking at whether the closure of some Schemes of Arrangement is possible, as well as looking ahead to the possible inclusion of insurance brokers in FSCS. The FSA will be consulting on that issue later this year.

Investment

Compensation payments against failed investment firms in the financial year 2001/02 totalled £44.93m, of which approximately 90% were Pension Review payments (ICS to 30 November 2001, FSCS from 1 December 2001).

Pension Review claims remain a large part of the work for this Sub-Scheme, along with other investment claims against defaulting IFAs.

In May FSCS announced a levy of £56.4m on firms in the Investment Sub-Scheme. Approximately 90% of that relates to Pension Review cases.

Pension Review update

The former regulators established the Pensions Unit (now the FSAPU) to identify and check cases for investors advised by firms that were no longer authorised. These firms are known as 'departed' firms. If, once checked, a case shows a loss, the FSAPU writes to the investor to tell them this and passes their case on to FSCS.

The FSA estimates that, in total, there might be around 20,000 more cases to be dealt with by FSCS. Between April 2001 and March 2002 ICS/FSCS dealt with around 5,000 Pension Review cases. (Investors Compensation Scheme (ICS) to 30 November 2001, FSCS from 1 December 2001). This year (2002-03) FSCS anticipates dealing with around 6,000 cases.



FSCS at work

One of FSCS' first challenges was to build one Scheme to take over from the pre-existing schemes.

The 'early start' made by FSCS in February last year helped to ensure that the changeover at N2 was smooth and organised. Since then FSCS has been working to create one strong team. FSCS has certainly found the experience of staff joining FSCS from the pre-existing Schemes invaluable in this.

The work of our support teams

Communications

This team's principal focus has been raising awareness of the Scheme amongst its stakeholders.

Customer Services

The Customer Services Team is dedicated to answering queries from claimants, levy payers and the general public. During 2001/02 it handled more than 17,000 telephone and written enquiries. This team is also responsible for FSCS' Customer Satisfaction Surveys.

Facilities

During 2001/02 this team had primary responsibility for the Scheme's move to its new offices at Lloyds Chambers.

Finance

The finance team ensures settlement of agreed compensation claims and manages our internal financial information, procedures and controls and our treasury function. In January 2002 the finance team issued and collected FSCS' first levy raised on general insurance firms.

HR

A new HR Team was recruited over the summer of 2001. It fell to them to tackle the crucial personnel issues associated with the creation of a new organisation.

Information Systems

This team ensured that during the move to our new premises the transfer of the Scheme's IT functions was successful.

The FSCS Board authorised a major review of all FSCS' systems during the past year and approved the development of a new FSCS Information Systems strategy.

Legal

The Scheme's legal department was closely involved in preparing for the assumption of FSCS' powers and, in particular, the introduction of the new rules and policies.

In addition, the team has continued its advisory work on individual claims and the management of the Scheme's recovery function, relying on the rights assigned to it by compensated claimants.

Quality Programme Unit (QPU)

QPU's main function is quality assurance reviews of work done by the claims teams.

QPU was heavily involved in preparing the Scheme for its new role and developing FSCS' approach to risk assessment, and it continues to be responsible for overseeing the Scheme's business contingency plans.

Where FSCS fits in

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

FSCS replaced eight 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 a levy on authorised firms.

The Scheme acts as a final safety net for consumers who have claims against regulated finance sector firms that are unable to pay them.

This is generally because they have gone out of business or are insolvent. FSCS covers deposits, insurance and investments.

The protection isn't total - there are limits to the compensation we can pay (see below).

But the Scheme plays a vital role in reassuring consumers that, if a financial services firm fails, they are protected, as far as our compensation limits allow.

Credit unions joined the Scheme from 2 July 2002.

Compensation limits

There are limits to the cover the Scheme provides.

Consumers do have to accept they must take some responsibility for their money and the decisions they make.

The Scheme is only triggered when a financial services firm is unable, or likely to be unable, to pay claims against it.

- Claims against deposit-takers

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

- Claims against investment firms

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

- Claims against insurance firms

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.

When we can help

Here are some examples of the kinds of claim FSCS deals with:

Mr X was advised to transfer his pension from an occupational pension scheme to a personal pension. When he discovers that the advice was inappropriate and he has lost money as a result, he finds that the independent financial adviser he dealt with is no longer trading.

Mrs Y's car has been damaged in an accident and she wishes to make a claim against her insurer, but she finds it has gone into provisional liquidation. Her policy still has six months' cover left on it.

Mr & Mrs Z have a current account and savings with a bank that becomes insolvent.

Mr B was advised to buy an investment product that was inappropriate for his needs. The investment company that sold it to him is no longer trading.

Mrs K has a claim for flood damage on her home insurance policy, but the insurer has gone into liquidation.

Miss L is a member of a credit union that becomes insolvent.

From a year of transition to a year of consolidation

The next financial year will be one of consolidation, according to FSCS Chief Executive, Suzanne McCarthy (pictured on the front page).

"2002/03 will be a testing time for the new Scheme, giving us our first opportunity to assess the workability of our rules, policies and procedures," she says.

"We are determined to demonstrate that we can provide first-rate value for money."

In her Annual Report statement Suzanne highlighted the issues and problems faced by the new Scheme last year.

These included the handling of claims against Independent and Chester Street insurance companies.

"These failures produced not just a large volume of claims, but also several difficult and sensitive issues," says Suzanne.

FSCS successfully raised its first levy in January 2002 of around £150m on the general insurance contribution group, and recently announced a levy of £56.4m on contribution groups within the Investment Sub-scheme.

Around 90% of this levy will be used to pay claims relating to the on-going 'departed' firms Pension Review.

Understanding the industry

FSCS has three Industry Committees covering deposits, insurance and investments.

Committee members consist of FSCS Board members plus experienced industry practitioners who have been co-opted onto each Committee. Committee members may invite other industry experts to advise them from time to time. The Committees:

- Look at issues affecting industry which could impact on the Scheme.
- Review the flow of work and likely future workload for the Scheme.
- Monitor the Scheme's relationship with levy payers.

Deposit-taking

In addition to receiving reports from the co-opted members, Gordon Pell, of Royal Bank of Scotland, and Matthew Wyles, of Portman Building Society, this Committee kept under general review the work of the Accepting Deposits Sub-Scheme.

This included noting the activities of the Deposit Protection Board (DPB) to which FSCS was providing operational support until 1 December 2001 and the Scheme's operations thereafter.

During the year the Committee has been particularly interested in the preparations being made for the inclusion of credit unions within FSCS' remit.

The Committee was also concerned with ensuring that good communication links existed between FSCS and the relevant trade associations.

Insurance

As with the Deposit-taking Industry Committee, this Committee's co-opted members, Iain Lumsden, of Standard Life, and Stephan Pater, of Royal & Sun Alliance, gave presentations on developments in this sector.

The Committee was especially committed to making certain that all necessary actions were taken to ensure a smooth transition of responsibilities from the Policyholders Protection Board (PPB) to FSCS.

Regarding FSCS' own activities, the Committee was kept aware of the flow of work and estimates of activity, the outcome of FSCS' insurance levy and discussions held between FSCS and the Association of British Insurers on various matters.

Other issues considered included the possibility of closures of some Schemes of Arrangement.

Investment

The co-opted members, Allan Daffern, former director of Willis National Ltd, and Chris Lyttelton, of NCL Investments Ltd, updated the Committee on developments within this sector.

In addition to reviewing our Investment Sub-Scheme's work, (both pension and non-pensions), the Committee also considered the FSA's consultation paper on the handling of Endowment Mortgage Complaints in the context of the Scheme's practices.

New website launched

FSCS has updated and redesigned its website to provide even more information and functionality for stakeholders.

It includes:

- a new industry section with details about how the Scheme is funded;
- Frequently Asked Questions (and answers);
- a searchable database of firms declared in default; and
- electronic versions of all our publications.

You can visit the site at:
www.fscs.org.uk

