



Annual Report 2007/08

By David Hall, Chairman

The financial services industry faced enormous challenges in 2007/08. Yet, amidst the very difficult market conditions which prevailed from late summer 2007 onwards and the challenge and uncertainty of what was an extraordinary year, I am pleased to report that FSCS resolved close to 22,000 claims, significantly reduced waiting times for consumers, and paid more than £82m in compensation. This brings the total compensation paid by FSCS since we were set up in 2001 to over £1bn.

2008/09 is also likely to pose further issues for the industry because of the on-going turbulence in the markets. The credit crunch and the run on Northern Rock highlighted a number of questions around the legislative framework which governs our work, exposing a gap between public expectations and the limitations the current framework imposes on us, particularly in paying compensation quickly. These affect the degree to which we can protect consumers and help to maintain market confidence.

FSCS has worked closely with the Tripartite authorities (HM Treasury, the Financial Services Authority and the Bank of England) on proposals to strengthen the UK system for depositor protection, recognising the importance of ensuring the debate benefited from the practical experience and knowledge within FSCS. This culminated in Tripartite consultation documents published in January and July which contain proposals to strengthen our framework.

We believe the proposed changes will do much to strengthen consumer protection and market confidence, and will help to ensure FSCS is in a better position to protect depositors by paying compensation more quickly if a bank fails. The issues outlined in the consultation documents are complex, and finding the right solutions to the outstanding questions will be vitally important.

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David Hall, Chairman

Chief Executive's Statement

Loretta Minghella

2007/08 was a year of achievement, challenges and changes that will continue to influence our work for the next few years.

Away from the spotlight on the banking sector, we were dealing with a diverse portfolio of compensation claims across the industry. Despite a busy and challenging year, FSCS delivered some notable successes.

We set and published clear service standards and targets in our Plan and Budget against which stakeholders could measure our performance. As more fully explained in the annual report, we met or exceeded the majority of our service targets during the year. We focused in particular on driving out the older claims from our work in progress, reducing the proportion over 6 months old to 8% (compared with 27% at the previous year end, and 42% the year before that). We were also meeting our target of resolving 90% of all claims within six months by the year end. In addition, 96% of credit union claims were decided within two weeks.

Events last autumn meant that we had to re-prioritise aspects of our project work; nonetheless, we still completed many of the planned projects. Further details of the projects are on page 4 of Outlook.

Claims volumes during 2007/08 were lower than previously forecast, particularly for mortgage endowment and pensions review claims. In this environment of highly uncertain but declining claims volumes we took a hard look at our non-outsourcing costs and took steps to contain them during the year. We came in £6m under budget for the year, partly because our outsourcing costs vary with claims volumes, which helped us to contain our operating costs.

We moved to a new funding system at the beginning of April 2008. As a result we now have a more sustainable and equitable funding system that will allow us to deal with a greater range of failures. One of the central features of the new system is its "widening pool" of contributions within and between the new sub-classes, which gives us a potential total annual levy amount of more than £4bn. You can find more information about the move to the new system on page 102 of the Annual Report.

The events that shook market confidence before and following the run on Northern Rock are still being felt at FSCS and in the industry. They also drove home for us how important it will be for any changes to compensation to be as straightforward and easy to explain as they are to apply.

Our claims handling strategy, which combines our own staff with those of our outsourcers, has served us well over the last three years. However, in a changing environment and in the light of experience, we now need to think about whether it will remain the best operating model for FSCS in the future. We started a strategic review of our operating model in 2007/08 and completing it will be an important part of our work in 2008/09.

In conclusion, while 2007/08 was a year of challenges and achievements for FSCS, it was also a year in which FSCS improved its service to consumers and contained costs for levy payers, reinforcing our commitment to being as efficient and effective as possible. 2008/09 already holds new challenges for the Scheme. We look forward to addressing them and continuing to develop FSCS in the years ahead.

The full FSCS Annual Report and Accounts 2007/08 can be downloaded from our website at www.fscs.org.uk

Annual Report headlines

- FSCS expenses were £6m under budget for the year after cost-saving measures and a lower than expected volume of claims.
- FSCS recouped almost £20m in recoveries in 2007/08, which helped to offset the £82m spent on compensation.
- A levy refund to general insurers amounted to £40m.
- Total compensation payments amounted to over £82m, including almost £46m for general insurance claims.
- Total claims received were 16,490, a reduction of 33% on 2006/07.
- Endowment claims were the biggest driver of new claims at 7,410.
- 3,470 splits claims were completed during the year.



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Loretta Minghella,
Chief Executive

Delivering consumer compensation: Claims key facts and figures

Summary of claims by product

Type of claim	Claims received 2007/08	Claims completed 2007/08
Mortgage endowments	7,410	13,625
Splits	4,705	3,470
Other investments	1,160	1,520
Total investments	13,275	18,615
Pensions review & FSAVCs	390	505
Deposits (credit unions)	2,680	2,750
Insurance intermediaries	110	70
Mortgage advice	35	20
Total claims	16,490	21,960
Insurance payments*		9,451

*Insurance claims are usually handled by the appointed run-off agent and then presented to FSCS for checking and payment.

Summary of total claims

During 2007/08 FSCS:

- received 16,490 new claims, compared to 24,540 in 2006/07 – a reduction of 33%.
- completed 21,960 claims, compared to 31,260 in 2006/07 – a reduction of 30% reflecting lower volumes of new claims.

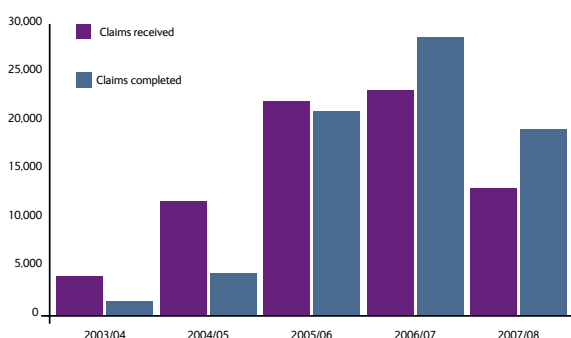
Investment claims

- 13,275 new claims were received during the year, compared to 22,790 in 2006/07, a reduction of 42%.
- 18,615 claims were completed during the year, compared to 27,550 in 2006/07, a reduction of 33%.
- 13,625 mortgage endowment claims completed. 45% resulted in an offer of compensation.
- 3,470 splits claims were completed. 16% resulted in an offer of compensation.
- 1,520 other general investment claims were completed. 27% resulted in an offer of compensation.

Average compensation payments for investments were:

- £1,800 for mortgage endowment claims.
- £5,500 for splits claims.
- £15,150 for other general investment claims (excluding splits).

Investment claims and decisions made



Pensions review & free standing additional voluntary contribution claims:

- 390 new claims were received during the year, compared to 683 in 2006/07, a reduction of almost 43%
- 505 claims were completed during the year, a reduction of 72%.
- 75% of decisions resulted in an offer of compensation.
- The average compensation payment was £27,750.

Whilst this work is tailing off as predicted, our current forecast is that this work will continue at a low level into 2009.

Accepting deposits claims:

- 2,680 new claims were received during the year, compared to 1,025 in 2006/07, an increase of more than 160%.
- 2,750 claims were completed during the year, an increase of almost 55%. Just over 96% of credit union claims were completed within two weeks.
- 98% of decisions resulted in an offer of compensation.
- The average compensation payment was £480.

General insurance provider claims:

- 9,451 payments were made in 2007/08.
- Compensation payments totalled £45.8m.

Insurance claims are usually handled by the appointed run-off agent and then presented to FSCS for checking and payment.

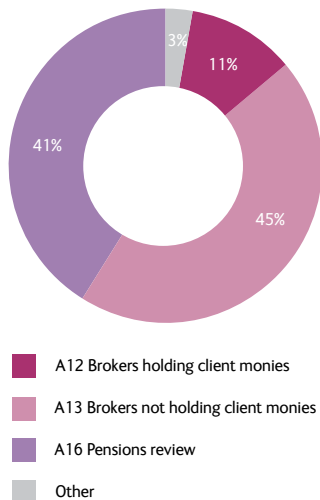
Insurance mediation claims:

- 110 new claims were received during the year, compared to 35 in 2006/07, an increase of over 214%
- 70 claims were completed during the year, compared to 100 in 2006/07, a reduction of 30%.
- 91% of decisions resulted in an offer of compensation.
- The average compensation payment was £1,350.

Home finance advice and arranging:

- 35 new claims were received during the year, compared to seven in 2006/07, an increase of 400%.
- 20 claims were completed during the year, compared to five in 2006/07, an increase of 300%.
- 60% of decisions resulted in an offer of compensation.
- No payments have been made as at 31 March 2008 as we waited for offers to be accepted.

Delivering consumer compensation: Financial summaries



2007/08 Levies by contribution group:

Contribution group	£m
A3 General insurance*	0.59
A4 Life assurance	0.56
A7 Fund managers	0.52
A9 Managers of AUTs	0.11
A10 Dealing as principal	0.27
A12 Brokers holding	10.48
A13 Brokers	41.90
A14 Corporate finance advisory	0.13
A16 Pensions Review	37.75
A18 Home finance advice and arranging	0.01
A19 Insurance mediation	1.93
Total	93.07

* Net of £40m repayment

Management expenses

- Our Management Expenses Levy Limit (MELL) is set annually by the FSA after consultation. It limits the amount FSCS can levy and spend on management costs.
- FSCS's MELL for 2007/08 was £37.52m, based on forecast budget expenditure of £32.04m plus a reserve contingency of £5.48m.
- Total actual management expenses for 2007/08 were £25.86m.

Recoveries

During 2007/08 FSCS recouped recoveries of £19.9m from firms declared to be 'in default' and any relevant third parties.

Under FSCS rules, we are required to pursue recoveries where "reasonably possible and cost-effective". Our Recoveries Policy is available on our website at www.fscs.org.uk

Forecasting funding requirements

For 2007/08 levy forecast we took into account the forecast fund balances for each contribution group at the start of the levy period, estimated net interest receipts and potential recoveries likely to occur. We considered the resources needed to handle the different types of claims, their likely costs and the likely value of compensation payments. We then calculated the required levy amount to ensure the forecast fund balance at the end of the financial year was sufficient to cover the required funding until the date of the next levy collection.

Fund balances

The total contribution group fund balances at 31 March 2008 amounted to £108.81m as follows:

Contribution group	£m (debit)
A1 Accepting deposits	1.83
A3 General insurance	72.24
A4 Life insurance	0.17
A7 Fund managers, holding client money*	(1.03)
A9 Managers of an AUT*	(8.25)
A10 Dealers as principal	0.05
A12 Brokers holding client monies	6.00
A13 Brokers not holding client monies	23.33
A14 Corporate advisers	0.05
A16 Pensions review	12.86
A18 Home finance advice and arranging	0.16
A19 General insurance mediation	1.40
Total	108.81

With the exception of the Accepting Deposit fund balance, which is required to be carried forward against future costs, all fund balances as at 1 April 2008 are being given back to qualifying firms as a credit or charged as a debit in 2008/09. This enabled FSCS to raise the first levy for the new funding regime, implemented from 1 April 2008, from a base of zero, levying the new sub-classes from that date.

* The deficits in A7 and A9 relate to the costs of split capital investment trusts claims against Exeter and BFS. The majority of Exeter claims have been allocated to the A9 contribution group and most BFS claims have been allocated to the A7 contribution group.

Delivering consumer compensation: Projects update

During 2007/08, FSCS undertook a number of projects to help generate efficiency gains and process improvements. They included:

- Development of a suite of internal performance measures and an infrastructure to implement, manage and control them.
- Implementation of claims process improvements.
- Establishing a new approach to quality assurance which covers all aspects of our service.
- A review of claims policies and procedures manuals to ensure consistency, clarity and for more rapid transfer of processes to outsourcers, particularly for new areas of claims.
- Development of our IT systems to improve functionality and the flow of information between teams.
- The development of further online services on the FSCS website.
- Implementation of a new approach to rewarding our staff.
- The strengthening of our project management capacity to develop and deliver training, tools and improved standards to support the sustained and successful delivery of projects.
- Management development training, including project management, and technical training for staff.