

outlook

The Newsletter for the Financial Services Compensation Scheme

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from the Chairman

I am pleased to announce the publication of our third Annual Report, which covers our first full year of operations since the Scheme took over responsibility for compensation at N2 (1 December 2001).

This newsletter aims to bring you some of the key facts and figures from our 2002/03 Annual Report.

This year has again seen FSCS grow and develop. I believe this Report shows that we are achieving our objectives in ensuring that eligible consumers receive appropriate, timely compensation and that our services are provided as efficiently and effectively as possible.

The Board recognises, however, that there is no room for complacency, and the Scheme must continually strive for improvement in its performance.

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

I hope you find this newsletter interesting and informative.

Nigel Hamilton, Chairman

First full year results:

An efficient, effective and innovative Scheme, says Nigel

FSCS' first full year of operation as the UK's single financial services compensation scheme has been a success, according to Chairman Nigel Hamilton. "I believe that we have established an efficient, effective and innovative compensation scheme."

In his statement to the Scheme's 2002/03 Annual Report, Nigel highlights some of the work FSCS has done to meet the challenges it has faced so far.

For example, the systems put in place to handle potential claims against insolvent credit unions worked well when FSCS declared its first credit union default in September 2002. This followed their inclusion in the regulatory system from 2 July 2002.

FSCS has also taken an innovative approach when faced with old problems, as illustrated by the Board's agreement to allow FSCS to participate in scheme closure arrangements for failed insurance companies.

Recognising that it must be

prepared for the failure of any authorised firm, major or otherwise, and as part of its contingency planning, FSCS has upgraded its communications functions. These include enhanced telephone and website capabilities and an agreement with a call centre to ensure the Scheme could cope with any sudden influx of enquiries.

New areas

The Scheme is also looking ahead to other possible new areas of work, currently being consulted on by the FSA, including new areas of High Street business and possible new compensation arrangements for Lloyd's policyholders.

"The decisions made as a result of these consultations will affect FSCS' involvement in these sectors, and we recognise that we must be ready to handle any new types of claims that may come to us," says Nigel.

Control

The Report also highlights a strong culture of internal checks and controls.

To help FSCS to monitor its work and processes, the Scheme has set up comprehensive internal auditing systems, through its Quality Processing Unit and through a programme of independent reviews carried out by the Scheme's internal auditors, Deloitte & Touche.

The Scheme is also continuing its efforts on cost efficiency, to reduce the burden on the industry as much as possible.

For example, last year we reported on the favourable comparison between our first year's management costs as against the expected operating costs of the previous compensation schemes. (*'Industry saves 23%', Outlook Issue 2*)

This year the Scheme has been able to operate slightly below its 2002/03 management expenses budget. Further, despite increasing the number of pensions review cases to 7,000, from 5,000 in 2002/03, our budget for 2003/04 is only 2.4% higher than that of the previous year.

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FSCS at work



FSCS helps thousands of consumers each year who have lost money because an authorised firm cannot pay claims against it. Here's just one example of how we have helped.

Rona Marlow with her one year old grandson Louis

Rona Marlow had been in a variety of management jobs before moving into the higher education sector as a lecturer. Her change of career prompted her to think about the future and she planned to join the university's pension scheme.

However, whilst visiting a financial adviser with her husband to discuss other arrangements she mentioned her pension plans.

"I was told I was 'not doing the right thing' and would get money back and a far better return if I followed his advice," she says. "I explained at the time I was financially very naive and was relying on his advice."

Rona was assured that she would do better if she didn't join the occupational scheme but took out a personal pension. "Oh, the benefits I was going to get!"

However, a few years later she was concerned to discover that she could have a problem.

"I started reading various articles that were appearing in the media, indicating that poor advice had been given, particularly for people in my age group."

Rona thought she might have lost out financially and tried to contact the firm but the adviser had ceased trading. She also tried to join the university's scheme, but was unable to do so, so she contacted the compensation scheme for advice.

It was established that poor advice had been given, and Rona had lost out financially as a result. Compensation was paid to put Rona back into the position she would have been in had she not taken the advice.

"It was very unexpected," says Rona. "I was delighted and I did write to FSCS to say thank you."

"It's made a lot of difference, apart from my state pension this is the only income that I have. Had I been on my own, it would have made an even greater difference."

Facts and figures

Management expenses, compensation payments and levies 2002/03.

- ♦ Management expenses were £11.9m (a 2.2% saving against the projected budget).
- ♦ Total compensation payments amounted to £194.4m, with recoveries of £46.0m receivable.
- ♦ 2002/03 levy collected £56.0m (Investment Sub-scheme).
- ♦ Fund balances at 31 March 2003 amount to £118.0m.

Compensation payments by Sub-scheme

- ♦ Accepting Deposits: 162 payments were made totalling £0.06m.
- ♦ Insurance Business: the value of payments totalled £131.3m.
 - 'Top three': Independent - £78.8m, Drake - £25.8m, Chester Street - £12.8m
- ♦ Designated Investments: 3,355 pensions review and 301 non pensions review payments were made totalling £63.0m.
 - A16 (pensions review): £59.5m
 - A13 (Brokers not holding client money / assets): £3.0m
 - A12 (Brokers holding client money / assets): £0.5m

Endowment complaints rise

Complaints about the possible mis-selling of endowment policies have been hitting the headlines in the last few months. But it is not only the Financial Services Authority and the Ombudsman that are dealing with enquiries.

The Customer Services Team (CST) at FSCS has also been kept busy with a continuing flow of work dominated by endowment-related enquiries.

CST estimate that they are currently dealing with around 2,800 such enquiries each month, resulting in approximately 150 claims (monthly).

FSCS has introduced a new telephone voice message system and streamlined its

enquiry handling processes to enable the team to handle this amount of enquiries.

New factsheet

A new endowment factsheet and questionnaire have also been developed to provide consumers with information about the kinds of complaints FSCS is able to consider, which include:

- endowment maturing after retirement age and customer is unable to continue paying premiums;
- incorrect term;
- churning;
- risk inadequately explained.

The role of FSCS: a fund of last resort

FSCS is the fund of last resort covering authorised deposit-taking, insurance and investment firms. The Scheme acts as a safety net for customers of financial services firms who are unable, or likely to be unable, to pay claims against them, generally because they are insolvent or have gone out of business.

There are limits to the compensation FSCS can pay, and claimants have to be eligible under our rules.

For copies of our Annual Report, or for further information about the work of the Scheme, and our limits, visit our website: www.fscs.org.uk, or telephone 020 7892 7300.

And then there were ten..

The FSCS Board, with the appointment of Bernard Day, was increased to ten members this year. The FSA Board re-appointed FSCS' Chairman, Nigel Hamilton, and three of its directors, Sarah Brown, Kenneth Culley and Graeme MacLennan, to further terms. 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' Chairman, Nigel Hamilton, is pictured on page one. Chief Executive, Suzanne McCarthy, is pictured on the back page.



Michael Blair, QC



Sarah Brown



Ken Culley, CBE



Bernard Day, OBE



Graeme MacLennan



Luke March



Tim Vogel



John Young, CBE

The work of our Sub-schemes

Deposit

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

No new bank failures were reported during 2002/03, and the team continued to process claims against London Trust Bank, AY Bank and BCCI.

When credit unions came under the Scheme's protection their depositors automatically became entitled to the same level of compensation available to bank and building society depositors.

Thameswood Credit Union became, in September 2002, the first credit union declared in default by FSCS.

Four other credit unions were declared in default towards the end of the financial year: Guide Post and Scotland Gate Credit Union; Cathall Community Credit Union; Fairswan Credit Union and Tendring Dial Credit Union.

Several other credit unions have been referred to us by the FSA for consideration, and we expect that we will declare more in default in 2003/04.

Insurance

The Insurance Team is responsible for dealing with claims for compensation that arise following the failure of an authorised insurance firm. It is currently dealing with claims still coming in from the failure of 25 general business insurers and one small life assurance firm. This work passed to FSCS from the Policyholders Protection Board (PPB) when FSCS formally acquired its powers on 1 December 2001.

There were no new failures in this period, and the principal activity revolved around the payment of compensation in respect of the 2000/01 failures of Independent, Chester Street and Drake.

During 2002/03 the main focus of the Insurance Team has been to improve processes and procedures specifically by:

- introducing an enhanced in-house audit of claims handling and run-off agencies;

- working with insolvency practitioners to examine the issues surrounding closure of insurance "estates" and developing a robust model. This should enable a number of these to be closed, thus releasing an earlier and enhanced dividend to creditors, including FSCS, without extinguishing protected policyholders' rights to claim compensation;

- working with insolvency practitioners and their claims handling agents to introduce improved work practices aimed at speeding claims processing; and

- developing detailed contingency plans with particular emphasis on the issues that might arise from a large insurance firm failure. Two life assurance experts have been recruited to assist us in this work.

Investment

A) The Pensions Group, together with the FSA's Pensions Department, continues to process those claims resulting from the pensions review that relate to "departed" firms. This work accounts for around 88% of this Sub-scheme's activities.

FSCS has set itself stretching targets in order to ensure that claims are processed as expeditiously as possible. Last year's Report referred to the windfalls benefits obstacle that delayed certain payments. This has now been removed, and cases previously held up because of this issue have been receiving priority.

B) The Investment Group processes all investment non-pensions review claims. 2002/03 has seen a marked rise in the number of new claims, from a total of 528 in 2001/02 to 841 in 2002/03.

This increase, occurring predominantly in Quarter 4, has been mainly due to the greater number of endowment claims being received, which currently represent some 70% of the claims being handled by this Group.



FSCS Chief Executive, Suzanne McCarthy

FSCS 'comes of age'

During the past 12 months our policies, procedures and processes have been tested and found to be robust, according to Chief Executive Suzanne McCarthy.

"This year saw FSCS come of age," she says.

"Our aim remains to ensure that high standards are maintained and to seek innovations and improvements wherever possible."

In her statement in the 2002/03 Annual Report (see extract below), Suzanne outlines the work FSCS has been doing in this area.

'During the year the Scheme has introduced additional measures to assist us in evaluating the efficiency with which we use our resources, our customer satisfaction and our staff management.

In addition, internal Service Level Agreements have been developed to ensure that our operations are effective and well co-ordinated.

To meet the challenges facing us and to extend our communications facility, the Scheme has considerably developed its IT capability. During 2002/03 our enhanced website went live, our HR database was improved and we began rolling out our new Claims Management System. This is part of our wider IT Strategy Project, which remains both on target and within budget.

Further, recognising the potentially damaging effect if FSCS

were to lose, as a result of some kind of disaster, some, or all, of its on-site files and documents, we have brought forward the start of the Document Management element of this project.

Staff commitment

FSCS appreciates that its success is very much dependent on its staff. Our high retention rate of around 94% is a good indicator of our staff's commitment to the Scheme.

We have also been fortunate, as we have grown, to have been able to recruit high quality staff.

Our last Report mentioned several initiatives that were being taken forward to reinforce FSCS as a good employer. During 2002/03 the recommendations made by the dedicated staff working groups were realised with results being seen in the areas of induction, training and development and communications.

Efficiency reviews

During 2003/04 we will evaluate further our ways of working by carrying out targeted process and cost efficiency reviews on the claims processes of the three Sub-schemes, and, if improvements are identified, will design programmes to introduce them.

Having successfully come through our first full year of operations, I believe that the Scheme is ready and able to cope with whatever demands are made upon it.'

Consumers need more information about FSCS

Consumers are often not being given the right information when they ask about compensation arrangements, according to recent research by FSCS. Following a survey of deposit-taking and insurance firms:

- Less than a quarter of researchers (21%) were correctly told the name of the compensation scheme when they asked about compensation arrangements if a firm is unable to pay claims against it. Details given of the protection available from FSCS were patchy, if mentioned at all, and few gave accurate contact details for the Scheme.
- 41% of researchers were either told that there was no protection at all, or were not provided with any information about the protection available.

Why consumers need to know

Consumers need to know about FSCS because the existence of a scheme provides reassurance that they will be compensated in the event of a company failure. The existence of a safety net lessens the risk of a single failure triggering a wider loss of confidence in the sector generally.

Consumers should be aware of the role of the Scheme - and the limitations to the compensation available - to enable them to make informed choices about what they do with their money. It should go hand in hand with information provided to customers about the FSA and the Ombudsman.

They also need to know how to get in touch with us if they need help.

How you can help

Financial services staff play a key role in providing information to customers. We produce a consumer guide, *How we can help*, giving basic details about the Scheme and can supply stocks of this for distribution by firms.

After approaches made by us last year, a number of firms have already distributed our leaflet to their branches, and provided training for their staff.

Contact us

If you would like copies of our consumer leaflet, or would like our assistance in devising training material, please contact:

Heather Tilston, Head of Communications

Tel: 0207 892 7370 Fax: 0207 892 7371

or by email: htilston@fscs.org.uk.