



Annual Report 2009/10

By David Hall, Chairman

The financial markets and the FSCS continued to feel the effects of the financial crisis during 2009/10.

Throughout the year we worked closely with the Tripartite Authorities (HM Treasury, Bank of England and FSA) to ensure that we are well positioned to meet the demands of our changing role.

We have worked hard to develop our systems and to lay the foundations for major improvements which will benefit consumers and allow for more efficient and effective delivery of compensation. This is an ambitious but deliverable agenda, combining measures to implement regulatory and legal reforms to enhance the role of the FSCS as the financial safety net for consumers. We aim to use outsourcing to allow us to be increasingly responsive to fluctuations in our workload and to manage costs even more efficiently. An important element of the reforms will be the preparations for faster payout of compensation to customers of deposit-taking firms from the start of 2011.

This year we also completed the validations for the FSCS contributions to the transfer of deposit accounts for Bradford & Bingley plc, Heritable Bank Plc and Kaupthing Singer & Friedlander Limited, while at the same time pursuing recoveries. We are pleased to report that this year we made recoveries of more than £1bn, from Heritable Bank Plc and Kaupthing Singer & Friedlander Limited, which will help to reduce the principal amount of the loans from HM Treasury which was used to fund the costs of the banking failure.

We have also made a provision of £400m for our estimated liability for Dunfermline Building Society based on the latest information available to us. The cost of this default will be attributed to the Deposit class.

The bulk of our claims work in the second part of 2009/10 focused on investment and Payment Protection Insurance (PPI) claims. The investment claims in particular placed considerable demands on levy payers, which we recognise can sometimes be difficult, but we have a statutory duty to compensate consumers. We believe the very existence of the Scheme has played an important role in helping to revive consumer confidence in financial services. This in turn will help to support a stable and profitable financial services industry.

ALSO IN THIS ISSUE

Chief Executive's summary

Claims update

PPI update

Update on bank & building
society failures



David Hall, Chairman



Chief Executive's summary

By Mark Neale

The FSCS achieved a huge amount in 2009/10. We completed a large number of claims, resolved outstanding issues from the banking failures, and made significant investment in response to the demands for faster payout and our increased responsibilities.

In 2009/10 we completed more than 21,000 claims paying more than £204m in compensation to consumers. Of these more than 17,400 were investment and PPI claims. PPI claims have increased significantly during the year, rising to more than 2,400. We expect the numbers of claims in this area to continue to grow in 2010/11. The increase in investment claims came as a result of claims against brokers; many of these involved complex issues that the FSCS had to resolve. We completed over 15,000 claims during the year. The majority relate to Keydata Investment Services Limited (Keydata). Keydata generated several different types of claims with a number of complicated legal issues to resolve. We are still looking into whether we will be able to compensate investors for some categories of claims, but we will keep investors and the industry informed. The interim levy for Keydata costs, raised in March 2010, is subject to judicial review. We remain of the view that these costs were correctly allocated under our rules, but encourage the industry to participate in the debate about FSCS's funding through the FSA review.

At the start of 2009/10 we concentrated on clearing the claims relating to the banking failures, alongside completing the validations and pursuing recoveries highlighted by the Chairman. We will not be contributing to the costs of Dunfermline Building Society until the end of the resolution process; however we have made an initial provision of £400m for the FSCS's liability. The final contribution will not exceed the amount the FSCS would have paid out in compensation in the event of an insolvency.

Our Annual Report demonstrates the vital service the FSCS provides to consumers and the benefits that it brings to the industry in delivering consumer protection and promoting consumer confidence. To continue to increase consumer confidence we will be launching an awareness campaign in January 2011. There is more information in the Annual Report and Accounts 2009/10.

Alex Kuczynski, who acted as interim Chief Executive for the last part of 2009/10, discusses the challenges the Scheme faced as well as its achievements during 2009/10 in more detail on pages 10 to 17 of the Annual Report and Accounts 2009/10.

The full [FSCS Annual Report and Accounts 2009/10](#) can be downloaded from our website at www.fscs.org.uk

Annual Report & Accounts overview

Banking and building society defaults

- The total compensation the FSCS has paid including the payments made on behalf of HM Treasury is £23.6bn.
 - £20.3bn was paid on FSCS's behalf and the remaining £3.3bn was paid on behalf of HM Treasury.
- A provision of £400m has been made for FSCS's estimated liability for Dunfermline Building Society. The cost of this will fall to the Deposit sub-class.
- The validations for the FSCS's contributions to the deposit account transfers from Bradford & Bingley plc, Heritable Bank plc and Kaupthing Singer and Friedlander Limited have been completed.
 - Bradford & Bingley validation - £15.65bn
 - Heritable Bank validation - £457m
 - KSF validation - £2.52bn
- During 2009/10, the FSCS received £1.06bn in recoveries from Heritable Bank Plc and Kaupthing Singer & Friedlander.

Other defaults

- The FSCS paid £204m in compensation.
- We received a total of 31,592 claims, an increase of 185% from 2008/09.
- We completed a total of 21,802 claims, an increase of 100% from 2008/09.
- 145 firms were declared in default.
- More than 24,000 investment claims were received and more than 15,000 were completed.
- 2,411 PPI claims were received in 2009/10. We expect PPI claims to continue to be a growing area of our business in 2010/11.

Other facts

- In 2009/10, we handled close to 96,000 enquiries.
- During 2009/10, we made recoveries of £14.76m excluding recoveries from the banking failures.

Claims - Key Facts & Figures

Summary of total claims figures (excluding banking failures)

Summary of claims by funding sub-class			
Ref		Claims received 2009/10	Claims completed 2009/10
SA01	Deposit	1,112	1,105
SB02	General Insurance Intermediation	2,513	1,831
SC01	Life & Pensions Provision	4	4
SC02	Life & Pensions Intermediation	3,427	3,433
SD01	Investment Fund Management	65	124
SD02	Investment Intermediation	24,301	15,188
SE02	Home Finance Intermediation	170	117
Total Claims		31,592	21,802
SB01	General Insurance Provision*	See note*	14,958

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

Deposit class (excluding the banking failures)

The majority of claims during 2009/10 came from credit unions. Eight credit unions were declared in default during the past year, compared to three in 2008/09.

- 1,112 new claims were received in 2009/10, compared to 603 in 2008/09.
- 1,105 claims were completed in 2009/10, compared to 659 in 2008/09.
- More than 93% of claims resulted in an offer of compensation, similar to 94% in 2008/09.
- The average compensation payment for this sub-class was £881, with the average compensation payment for Credit Unions being £368.
- More than 85% of claims received were completed within the service standard of eight weeks, similar to that of 86% in 2008/09.

General Insurance Provision sub-class

There were 14,958 compensation payments in 2009/10, a substantially higher number compared with 2008/09 when there were 8,890. Compensation payments totalled £60.2m.

- The largest cost was for employers' liability insurance policies issued by Chester Street Insurance Holdings Limited. The compensation costs of this estate for 2009/10 stand at £39.1m, which is slightly lower than £40.3m in 2008/09.
- The increase in total spend from £50.8m in 2008/09 to £60m in 2009/10 is substantially attributed to the settlement of one large professional indemnity claim across three older estates: English & American Insurance Company Limited, Bermuda Fire & Marine Insurance Company Limited and North Atlantic Insurance Company Ltd where a large professional indemnity claim settled at £6.6m. The new failure of Aldgate Insurance Company Limited cost just in excess of £1m.
- There were increased numbers of payments because of the reimbursement of individual claim defence costs on Chester Street Insurance Holdings Limited.

General Insurance Intermediation sub-class

We have seen a steep increase this year in new claims, largely related to PPI. The initial influx of these claims took some time to complete as there were a number of technical issues to determine. We worked to resolve these issues and establish an effective claims process. However, the completion of claims very much depends on us receiving information from third parties in a timely way.

- 2,513 new claims were received in 2009/10, compared to 740 in 2008/09.
- 1,831 claims were completed during the year, compared to 150 in 2008/09.
- Of the total new claims received, 2,411 related to PPI and 908 of these related to one defaulted firm, Picture Financial Services Plc.
- 102 of the new claims received were for other types of insurance intermediation claims, compared to 205 in 2008/09. These included, for example, claims relating to employers' liability and public liability insurance. Of the total, 60% of claims resulted in an offer of compensation. The average compensation paid was £1,152.
- Of the PPI claims, 1,645 were completed and 89% of the claims resulted in an offer of compensation. The average compensation paid was £8,540.

Life & Pensions Provision sub-class

Very few claims arose in this area of our work during 2009/10.

- Four claims were made in respect of Oaklife Insurance Company Ltd, three of which have been paid. There were no claims in 2008/09.
- Compensation payments totalled £7,396.

Life & Pensions Intermediation sub-class

This sub-class mainly comprises Mortgage Endowments, Pensions Review and Free Standing Additional Voluntary Contribution claims (FSAVCs). We received fewer claims in this sub-class during 2009/10 compared to 2008/09.

- 3,427 claims were received during the year, compared to 4,634 in 2008/09.
- 3,433 claims were completed during the year, compared to 5,987 in 2008/09.
- 52% of claims resulted in an offer of compensation.
- The average compensation payment was £6,858

Investment Fund Management sub-class

Claims in the Investment Fund Management sub-class relate to Split Capital Investment Trusts (splits). Some splits claims also fall into the Investment Intermediation sub-class.

- 65 claims were received during the year, compared to 848 in 2008/09.
- 124 claims were completed during the year, compared with 848 in 2008/09.
- 55% of claims received an offer of compensation.
- The average compensation payment was £11,613.
- 79% of completed claims were within the agreed service standard. This was because we had to process a number of older and more complex claims which required a significant amount of work to bring them to a conclusion.

Investment Intermediation sub-class

Much of our work during 2009/10 involved high volumes of claims arising from defaults in this sub-class, many of which were extremely complex.

A substantial number of claims were made against Pacific Continental Securities (UK) Limited and Square Mile Securities Limited. Three firms providing structured products were also declared in default during 2009/10 giving rise to over 1,200 claims between them.

However, the biggest default in 2009/10 was Keydata Investment Services Limited, resulting in over 17,500 claims.

- 24,301 claims were received during the year compared to 4,170 in 2008/09. The significant increase is attributable to the high volume of claims we received as a result of the Keydata Investment Services Limited default. At the same time, claims against Pacific Continental Securities (UK) Limited and Square Mile Securities Limited continued in similar volumes to 2008/09.
- 15,188 claims were completed during the year, compared to 1,372 in 2008/09.
- 90% of claims resulted in an offer of compensation.
- Average compensation paid was £10,799.
- 96% of claims met the service standard.



The larger components making up claims in this sub-class are set out in more detail below:

Pacific Continental Securities (UK) Limited

- 2,465 claims were received during the year, compared to 2,411 in 2008/09.
- 3,900 claims were completed during 2009/10, compared to 888 in 2008/09. The increase is because the default was declared in 2008/09 which meant the majority of claims were settled in 2009/10.
- 90% of claims resulted in an offer of compensation.
- Average compensation was £11,444.
- 93% of claims met the service standard.

Square Mile Securities Limited

- 1,064 claims were received during 2009/10, compared to 1,369 in 2008/09.
- 2,252 claims were completed during 2009/10, compared to 193 in 2008/09. Again, the difference is because of the default being declared late in 2008/09.
- 95% of claims resulted in an offer of compensation.
- Average compensation was £9,766.
- 92% of claims met the service standard.

Firms providing structured products

In October 2009, three structured product firms were declared in default: NDF Administration Limited, Defined Returns Limited and Arc Capital & Income Plc. All three had promoted structured products which were exposed to the failure of the Lehman Brothers Group in 2008.

- 1,288 claims were received during the year.
- 999 claims were completed during the year.
- 99% of claims resulted in an offer of compensation.
- Average compensation was £15,841.
- 100% of claims met the service standard.

Keydata Investment Services Limited (Keydata)

This default was new in 2009/10. The FSCS has dealt with two main categories of claims.

Category One: Keydata funds backed by SLS Capital SA

Investors in the Keydata Secure Income Bond issues 1, 2 and 3 have been told by the administrators that the assets underlying their funds have been misappropriated, apparently by a third party not directly connected to Keydata. It has also been confirmed that the funds, which had been promoted as being eligible for inclusion in an ISA, were not in fact ISA eligible.

- 4,841 claims were received during the year.
- 3,595 claims were completed during the year.
- 91% of completed claims resulted in an offer of compensation.
- Average compensation is £9,823.
- 100% of claims met the service standard.

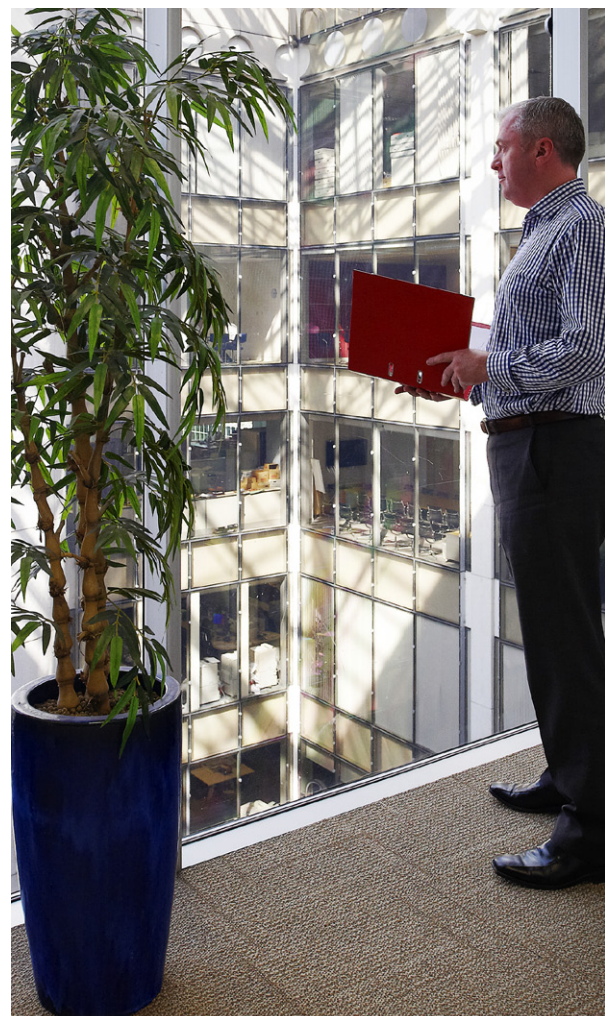
Category Two: Keydata funds backed by Lifemark SA, confirmed as being non-ISA eligible

- 12,922 claims were received during 2009/10.
- 3,194 claims were completed during the year.
- 86% of completed claims resulted in an offer of compensation, meaning that the claimant is eligible and that the FSCS will meet the tax liability when it arises. At this point, the FSCS will pay compensation direct to HM Revenue & Customs, avoiding the need for the individual to settle the tax liability themselves.
- 100% of claims met the service standard of six months.

Home Finance Intermediation sub-class

We continued to see a steady increase in the number of new Home Finance Intermediation claims in 2009/10.

- 170 new claims were received during 2009/10, compared to 79 in 2008/09, an increase of 119%.
- 117 claims were completed during 2009/10, compared to 54 in 2008/09, an increase of 122%.
- 15% of claims resulted in an offer of compensation.
- The average compensation payment was £8,563.
- Claims are expected to continue to increase in volume in 2010/11.





PPI update

In 2009/10, the FSCS experienced an increase in the number of PPI claims coming in to the Scheme. Volumes of these claims have grown significantly during the last year and we expect them to continue increasing. The claims are mainly as a result of failed credit brokers. We will update firms further on PPI when we publish our half year update.

The increase in claims has resulted in a substantial increase in the levy on firms in the General Insurance Intermediation sub-class, from £8.5m in 2009/10 to £61m for 2010/11. Although we are aware that not all firms within the sub-class sold PPI, each FSCS funding sub-class is made up of firms which broadly engage in similar regulated activities.

FSCS's changing role

Over the year the FSCS has worked closely with the Tripartite Authorities to ensure the Scheme is in a position to deliver the demands of our changing role and meet new statutory requirements which have emerged from legislative changes. These changes have strengthened the FSCS's ability to pay compensation more efficiently.

To enable us to provide a better service to consumers in the event of a failure, the Scheme has embarked on a programme of improvements. A large part of this programme involves the preparations to enable the FSCS to make compensation payments in seven days, in the event of a deposit taker failing. We are working closely with deposit takers so that both the FSCS and the industry are prepared for the new requirements in the new year. The FSCS has also been working on an updated internal operating structure and on developing its outsourcing model, which will enable it to scale its operations up or down depending on its workload.

As well as implementing changes to the Scheme's day to day operations, the FSCS has been fully engaged with the discussions on consumer protection at a European and international level. The Scheme has a lot of practical experience which it has been sharing with its European counterparts, which has helped to strengthen consumer protection across Europe. We will continue to participate in the work of the European Forum of Deposit Insurers and the International Association of Deposit Insurers.

Bank and building society failures

In 2009/10, the FSCS resolved most of the outstanding claims relating to the banking failures. In total, the FSCS has now made compensation payments of £23.6bn. £20.3bn was paid on FSCS's behalf and the remaining £3.3bn was paid on behalf of HM Treasury. The Scheme continues to pay compensation for fixed term deposits as they mature.

During the year, the FSCS completed the validations for Bradford & Bingley plc, Heritable Bank Plc and Kaupthing Singer & Friedlander Limited. The Scheme also made recoveries of £1.06bn from Heritable Bank Plc and Kaupthing Singer & Friedlander Limited which have made helpful reductions to the loans. A claim has been filed in the winding-up proceedings for Icesave, which is subject to challenge from other creditors and has been referred to the Icelandic court process. The FSCS continues to work closely with UK Financial Investments on the recoveries for Bradford & Bingley plc, but the timescale and amounts are uncertain.

The FSCS will not contribute to the cost of Dunfermline Building Society until the end of the resolution process, but the Scheme has made a provision of £400m based on the latest information available to it.

A levy of £377.43m for the interest on the loans with HM Treasury will be sent to firms in the Deposit class shortly. This is a slight increase on the £376m announced in March. This is due to a number of factors, but the main reasons are that the principal loan balance with HM Treasury increased following the completion of the validations and an increase in interest rates in March. Although we received some recoveries that reduced the principal, this did not happen until the very end of the year, so the recoveries had little impact on the interest costs. The outstanding principal on the loans is due to be repaid from 2012. A repayment schedule will be worked out based on market conditions closer to the time. Once we have a repayment schedule agreed with HM Treasury, we will let the industry know when levies are due, how much they will be and on who they will fall.

Update on the Banking Defaults and Dunfermline Building Society

Firm	B&B	Heritable	KSF	Icesave	London Scottish	Dunfermline Building Society
Date of default/insolvency	27 September 2008	7 October 2008	8 October 2008	8 October 2008	30 November 2008	30 March 2009
Initial estimate of deemed compensation amounts which the FSCS has contributed to the costs of transferring deposit accounts	£14bn	£500m	£2.5bn contributed by the FSCS to cost of transfer, less a repayment of £266.5m on 30 March 2009	N/A (no accounts transferred)	N/A (no accounts transferred)	The FSCS contribution will be net, i.e. the costs of resolution are to be calculated only after the level of recoveries is known
Validation of the FSCS deemed compensation amounts for transferring deposit accounts	£15.65bn	£457m	£2,514m	N/A (no accounts transferred)	N/A (no accounts transferred)	In progress. The FSCS contribution will be net. A provision of £400m has been made in the year ended 31 March 2010. This includes estimated interest
Number of accounts transferred and/or paid at 31 March 2010	All c.3.6m accounts transferred to Abbey in September 2008	22,344 accounts transferred to ING Direct in October 2008. Plus 340 accounts paid	c. 157,000 accounts transferred to ING Direct in October 2008. Plus 6,822 accounts paid	292,579 accounts paid	8,291 accounts paid	c. 260,000 accounts transferred to Nationwide Building Society in April 2009
Value of accounts paid at 31 March 2010 (Note 1)	N/A	£8.1m £7.4m FSCS £0.7m HMT	£342m £65.9m FSCS £276.4m HMT	£4.41bn £2.24bn Iceland DIGF* £1.40bn FSCS £0.77bn HMT	£191m £170m FSCS £21m HMT	N/A
Estimated value of accounts yet to be paid (Notes 1 and 2)	N/A	£83k £50k FSCS £33k HMT	£16.2m £1.56m FSCS £14.65m HMT (Note 3)	£99.2m £35.1m Iceland DIGF £43.8m FSCS £20.3m HMT (Note 3)	£78.3m £67.5m FSCS £10.8m HMT (Note 3)	N/A
Estimated total value of compensation liability/cost to FSCS, before recoveries	£15.65bn (deemed)	£464m (£457m deemed) (£7m paid direct)	£2,582m (£2,514m deemed) (£68m paid direct)	£1,444m (paid direct)	£237m (paid direct)	N/A
Recoveries as at 31 March 2010	N/A	Received three dividends totalling 35% and amounting to approximately £162m	Received three dividends totalling 36% and amounting to approximately £896m	N/A	N/A	N/A
Prospects for future recoveries	B&B's management forecast repayment of the FSCS loan in due course but precise timing remains uncertain. We are actively working with UKFI and HMT on this issue	A further interim dividend is expected in summer 2010. Anticipated total dividend: 79% to 85%	A further interim dividend is expected in summer 2010. Anticipated total dividend: 65% to 78%	Uncertain – pending Icelandic Court ruling	Anticipated total dividend: 30% to 60%	Recoveries are paid to HMT and the FSCS pays the contribution to the shortfall

Note 1: Includes amounts paid on behalf of HM Treasury (HMT) and, in the case of Icesave, Iceland's Depositors' and Investors' Guarantee Fund as well as compensation under the FSCS rules.

Note 2: Includes some accounts where an application form has yet to be received by the FSCS.

Note 3: Includes fixed-term deposits that are due to be paid at maturity.

*Iceland's Depositors' and Investors' Guarantee Fund