



FSCS 2010/11 annual levy set at £148m and 2009/10 interim levy confirmed at £80m

By David Hall, Chairman

Welcome to this edition of Outlook. It contains important information on the 2010/11 levy, as well as details of costs relating to Keydata Investment Services Limited and payment protection insurance (PPI) claims.

The FSCS Board has confirmed the annual levy for 2010/11 at £148m and an interim levy for 2009/10 of £80m for the Investment Intermediation sub-class.

The main drivers of compensation costs for 2010/11 are expected to be investment and insurance mis-selling claims. There have been a number of high profile investment firms that have been declared in default, thereby increasing costs to that sector of the industry in this year. These include Keydata Investment Services Limited, Pacific Continental Securities (UK) Limited, and Square Mile Securities Limited. Insurance costs have also increased, for the Insurance Intermediation sub-class, largely due to the growth of PPI claims. For general insurance providers, there are continuing claims in the run off of Chester Street, Drake Insurance Plc, and Independent Insurance, as well as claims relating to Builders Accident Insurance Limited (BAI).

We realise that the increase in costs comes at a difficult time for firms, but the existence of the FSCS provides consumer confidence in the financial services industry. A full breakdown of the final levy by sub-class is shown in table one on page four.

We will raise a separate levy on the Deposits class for the 2009/10 interest repayments on the FSCS loans from the bank failures during 2008, currently estimated at £376.3m. The interest repayment on the specified deposit defaults (SDD) loans is due to HM Treasury on 1 October 2010. The actual amount due will be confirmed to the Deposits class early in the summer.

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David Hall, Chairman



Interim Chief Executive's summary

By Alex Kuczynski

Our levies are based on projections of the number and value of claims that we expect to pay in 2010/11. The financial markets in the past year have remained uncertain and we have seen a number of high profile defaults, particularly in the investment sector. The amount we are levying firms in 2010/11 reflects this increased activity.

In addition to the general annual levy for 2010/11, the FSCS is raising an interim levy of £80m (in 2009/10) on the Investment Intermediation sub-class. Of these costs, £58m arises from claims against Pacific Continental Securities (UK) Limited, Square Mile Securities Limited, and Keydata Investment Services Limited. In addition, £22m of the 2009/10 interim levy is to fund the cost of claims relating to structured products. Following publication of our Plan and Budget in February, we know that the allocation of costs arising from Keydata Investment Services Limited has attracted particular interest. Before we allocate costs we always carefully consider which is the correct funding class or sub-class. In our view, costs for Keydata Investment Services Limited are to be attributed to the Investment Intermediation sub-class. A detailed note on the FSCS's decision is available on our website, which we encourage all interested parties to read.

We indicated early in 2009/10, that PPI claims were likely to increase. Although our revised projections show that we will not need to issue an interim levy on the General Insurance Intermediation sub-class in 2009/10, the number of PPI claims is rising. We expect to receive nearly 8,000 PPI claims during 2010/11 and more than £61m of the £148m 2010/11 annual levy has been allowed for these claims.

Alongside our delivery of compensation to individual claimants, 2010/11 will be a busy year for the FSCS. We are working hard to ensure that at the end of the year we are ready to meet our statutory responsibilities, including being ready to pay deposit claims within 20 working days and validating the sample 'single customer view' files to be provided by deposit takers. Work to improve consumer awareness continues, and in the autumn of 2010 we will be launching our campaign to raise awareness of the FSCS. This will be good for consumer confidence and benefits the industry.

Levy - The Key Points

2009/10 interim levy

- The FSCS has decided not to issue the 2009/10 interim levy of £20m on the General Insurance Intermediation sub-class that was proposed in the 2010/11 Plan and Budget.
- As noted previously, the proposed 2009/10 interim levy on the Investment Intermediation sub-class is £80m.

2010/11 annual levy

- The annual levy for 2010/11, including compensation costs and management expenses, has been set at £148m.
- The FSCS estimates it will receive more than 20,000 new claims in 2010/11 and will complete more than 28,000 claims (excluding insurance payments and 2008/09 SDD).
- The 2010/11 annual levy for the General Insurance Provision sub-class has increased to £41.5m, from the original assumption of £34.5m.
- The 2010/11 annual levy for the General Insurance Intermediation sub-class has increased by £10.9m to £61.4m.
- The 2010/11 annual levy for the Investment Intermediation sub-class has increased to £24m from our assumption of £19m.
- All other sub-class levies either have reduced slightly from the assumptions made in the Plan and Budget or remained the same; apart from Home Finance Intermediation where there has been a marginal increase.

Levy for interest on SDD loans

- The levy for the SDD loan interest is now estimated at £376.3m (reduced by £0.6m from the figure in the Plan and Budget); this will fall to the Deposits class.

The impact of the levies on each sub-class

The 2010/11 annual levy has been set at £148m. Although this has increased by £19.5m from initial figures shown in the Plan and Budget, the FSCS's revised projections show that we will not need as much funding before the 2010/11 levy is collected as we first thought, so less funding is required from the 2009/10 interim levies.

This is what the 2010/11 annual levy means for different sectors of the industry.

The 2010/11 annual levy for the Investment Intermediation sub-class has increased from £19m (published in the Plan and Budget 2010/11) to £24m. The costs are to cover claims relating to Keydata Investment Services Limited, Pacific Continental Securities (UK) Limited, Square Mile Securities Limited and structured product claims. We have not included amounts for defaults that may be declared in the year. In the event of significant future defaults during 2010/11, a further levy may be required. The proposed 2009/10 interim levy on the Investment Intermediation sub-class of £70m for Keydata Investment Services Limited, Pacific Continental Securities (UK) Limited and Square Mile Securities Limited has been reduced to £58m. The proposed interim levy of £20m for claims against structured products has been increased to £22m. This results in a 2009/10 interim levy of £80m.

The General Insurance Intermediation sub-class 2010/11 annual levy has increased, from £50.5m to £61.4m. The FSCS's revised projections showed that there is no need for any levy to fund PPI claims before the annual levy is collected. This removes the need for a 2009/10 interim levy on the General Insurance Intermediation sub-class. Instead some of the costs have been added to the 2010/11 annual levy for this sub-class. This has resulted in the 2010/11 annual levy increasing by £10.9m, to £61.4m (but this cost to the sub-class is £9.1m less than the combined interim and annual levy figures proposed in our Plan and Budget).

The 2010/11 annual levy for the General Insurance Provision sub-class has increased from £34.5m to £41.5m and covers claims relating to Chester Street, Drake Insurance Plc, and Independent Insurance in particular. In addition, this allows for certain claims relating to BAI, which are on hold pending a court ruling, which is due to be announced shortly.

The 2010/11 annual levy for the Home Finance Intermediation sub-class has increased minimally by £0.1m because of revised claims estimates relating to mortgage advice.

The levies for all other sub-classes have either reduced from the assumptions made in the Plan and Budget, due to revised claims estimates, or remained the same.

The total amount due for the 2009/10 SDD loan interest levy will be confirmed early in the summer and is due to be collected by 1 September 2010, and will be paid to HM Treasury on 1 October 2010. The current estimate is £376.3m (a reduction of £0.6m from the figure in the Plan and Budget). The figure includes an estimated £30.3m for additional interest following the validations of the amount of FSCS's contribution to the transfer of accounts. This cost will fall to firms in the Deposits class.

Further details of the calculations for the annual levy for 2010/11 can be seen in tables one, two and three on pages four and five.

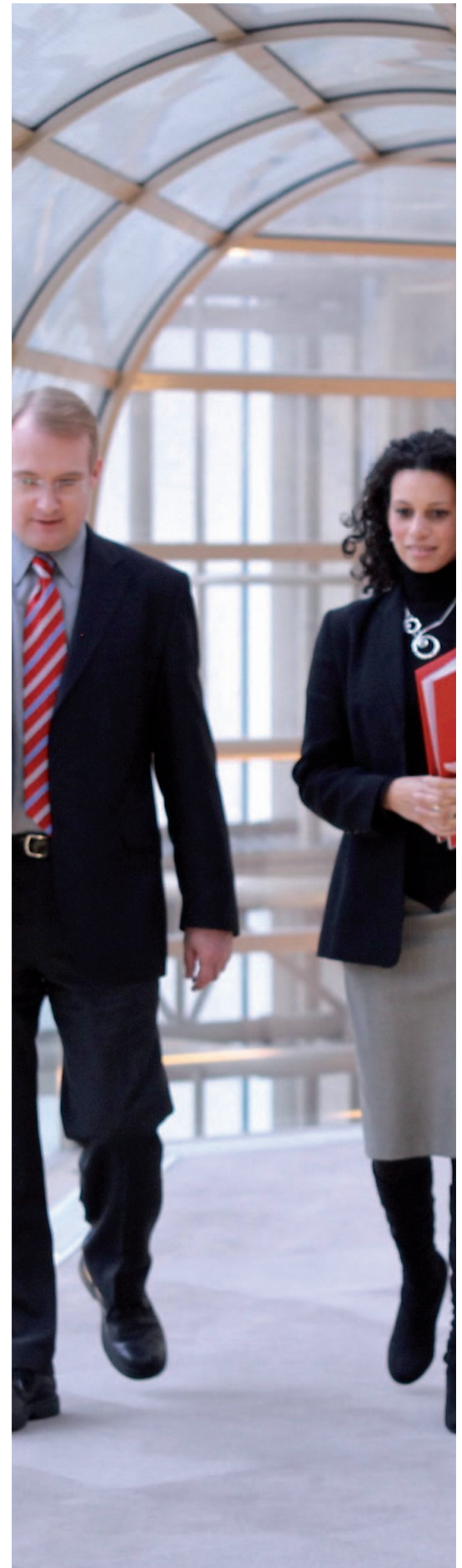


Table one compares the 2010/11 levy to the proposed levy in the Plan and Budget 2010/11.

Table one

Proposed final levy and initial indicative figures, compared	Proposed levy	Plan & Budget – initial indicative levy	Change: Increase / (reduction) in funding
Sub-class	£m	£m	£m
SA01 Deposit	4.0	4.0	0.0
SB01 General Insurance Provision	41.5	34.5	7.0
SB02 General Insurance Intermediation	61.4	50.5	10.9
SC01 Life & Pensions Provision	2.0	3.0	(1.0)
SC02 Life & Pensions Intermediation	11.5	13.5	(2.0)
SD01 Investments Fund Management	3.0	3.5	(0.5)
SD02 Investments Intermediation	24.0	19	5.0
SE01 Home Finance Provision	0.0	0.0	0.0
SE02 Home Finance Intermediation	0.6	0.5	0.1
Total levy amount	148.0	128.5	19.5

Table two shows FSCS's claims assumptions for 2010/11 by sub-class.

Table two

Sub-class	Sub-class code	New claims assumptions 2010/11	Decisions assumptions 2010/11
Deposits	SA01	3,800	3,500
General Insurance Provision	SB01	2,000	2,000
General Insurance Intermediation	SB02	5,980	6,280
Life and Pensions Provision	SC01		
Life and Pensions Intermediation	SC02	2,953	3,298
Investment Fund Management	SD01	6	6
Investment Intermediation	SD02	5,695	13,660
Home Finance Intemediation	SE02	200	200
Total exc Insurance payments		20,634	28,944

Table three shows FSCS's new claims assumptions for 2010/11 by product type and the number of claims we expect to complete.

Table three

Product	New claims assumptions 2010/11	Decisions assumptions 2010/11
Mortgage Endowments	2,300	2,645
Investments (inc Splits, Stockbrokers etc)	5,802	13,767
Pensions & FSAVCs	552	552
Deposits - exc Bank failures	3,800	3,500
Insurance Intermediaries	7,980	8,280
Mortgage Advisors	200	200
Total exc Insurance payments	20,634	28,944



Table four shows a summary of Specified Deposit Defaults (SDDs) and Dunfermline Building Society.

We are aware that deposit takers are keen to receive information as to the position of the banking defaults from 2008. We set out below the table published in the Plan and Budget last month and will update this table in our next publication.

Table four

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
Number of customer deposit accounts at default	All c.3.6m accounts transferred to Abbey	22,344 accounts transferred to ING Direct. 422 not transferred	c.157,000 accounts transferred to ING Direct. 7,236 not transferred	298,290 (No accounts transferred)	11,950 (No accounts transferred)	c. 260,000 accounts transferred to Nationwide
Initial estimate of amount the FSCS has contributed to cost of transfer of 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	N/A	FSCS contribution will be net i.e. costs of resolution are to be calculated only once the level of recoveries is known
Number of accounts transferred and/or paid at 31 December 2009	All c.3.6m accounts transferred to Abbey in September 2008	22,344 accounts transferred to ING Direct in October 2008. Plus 340 paid	c. 157,000 transferred in October 2008 Plus 6,748 paid	290,899 paid	6,928 paid	c. 260,000 accounts transferred to Nationwide
Value of accounts paid at 31 December 2009. Note 1	N/A	£8.1m	£324m	£4.36bn	£156m	N/A
Number of accounts yet to be paid. Note 2	N/A	5	313 Note 3	5,506 Note 3	4,927 Note 3	N/A
Estimated value of accounts yet to be paid Notes 1 & 2	N/A	£129k	£33m Note 3	£131m Note 3	£113m Note 3	N/A
Validation of maximum FSCS compensation and liability for transfer estimates as at 31 December 2009	In progress. £15.75bn within a range of £15.56bn to £15.79bn	In progress. Current estimate £457m	In progress	N/A (No accounts transferred)	N/A (No accounts transferred)	In progress
Recoveries	B&B's management forecast repayment of the FSCS loan in due course but timing remains highly uncertain. We are working with HMT on this issue	Received two dividends totalling 28.8% and amounting to £147m. A further interim dividend is expected in Spring 2010. Anticipated total dividend – 70% to 80%	Received two dividends totalling 30% and amounting to £732m. A further interim dividend is expected in spring 2010. Anticipated total dividend – 60% to 75%	Uncertain	Anticipated total dividend – 30% to 60%	N/A (costs of resolution are to be calculated only once the level of recoveries is known)

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

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

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

The difference between the paid, outstanding and overall figures are the no-claim accounts.