



Plan and Budget: 2010/11
Financial Services
Compensation Scheme



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Our role, objectives and assumptions



Our objectives

We aim to achieve and be recognised for sustained professionalism and fairness in providing financial compensation, in a reasonable time and at a reasonable cost. You can find more information about our aims and objectives at:

www.fscs.org.uk/industry/about-the-fscs

Our role

We are the UK's independent statutory compensation fund for customers of financial services firms authorised by the Financial Services Authority (FSA). We can pay compensation if a firm is unable, or likely to be unable, to pay claims against it. Set up under the Financial Services and Markets Act 2000 (FSMA), the FSCS became operational on 1 December 2001 and protects:

- deposits
- insurance policies
- insurance broking (for business on or after 14 January 2005)
- investment business and
- home finance advice and arranging (for business on or after 31 October 2004).

We are funded by levies on the industry, recoveries and borrowing, where appropriate. You can find more information about our funding at www.fscs.org.uk/industry.

Our assumptions

This document is our Plan and Budget: 2010/11, based on our latest working assumptions about our likely future business. It contains information about the claims volumes, costs and recoveries we anticipate that we could experience during 2010/11. These assumptions are based on our experience of current claims trends as well as other information from the FSA, Financial Ombudsman Service (FOS) and the industry. We use this data specifically to assess our funding and initial levy requirements. They should not be viewed as forecasts of more general application. In particular, they do not provide a risk outlook for possible new claims areas, nor are they intended to offer an economic forecast.

Whilst our assumptions are informed by existing claims trends, we have to bear in mind that these may not provide an accurate guide to the future. Unforeseen events in the markets, which have been under particular strain, can impact upon our assumptions and our funding and subsequent levy requirements may change substantially as a result. We do not levy unless there is a reasonable expectation that we would have to meet the costs of claims in a particular area. This principle is set out in the Rules made by the FSA which state we have to have reasonable grounds for believing that for compensation cost funding we will need the money in the 12 months following the levy.

Our funding requirements include the costs of running the Scheme (including interest payments on loans) and compensation costs. These requirements depend on a number of factors including likely claims volumes, uphold rates and the amount and timing of recoveries we make. These factors are largely beyond our control. The indicative funding requirements in this document are therefore likely to be subject to change. We will review and update these funding requirements before we make firm levy decisions in March.

Details of our powers to raise levies are in the FSA handbook, FEES chapter 6.

Summary of indicative initial levies being announced

Summary of indicative initial levies being announced		2010/11	2009/10		
		Indicative Levy	Proposed Interim Levy	Prospective Interim Levy	Levy Already Raised
		£m	£m	£m	£m
SA01	Deposit (excluding SDDs)	4.0			22.5
SB01	General Insurance Provision	34.5			69.0
SB02	General Insurance Intermediation	50.5		20.0	8.5
SC01	Life and Pensions Provision	3.0			2.0
SC02	Life and Pensions Intermediation	13.5			19.0
SD01	Investment Fund Management	3.5			4.0
SD02	Investment Intermediation	19.0	70.0		30.0
	Structured products (likely to be SD02 in the first instance, but may trigger an SD01 levy)			20.0	
SE02	Home Finance Intermediation	0.5			1.0
Total (excluding Specified Deposit Defaults)		128.5	70.0	40.0	156.0
Specified Deposit Defaults (SDDs)					
		£m			
SA01	Deposit – interest on loans to 31 March 2010	376.9	Payable by 1 September 2010		
SA01	Deposit – interest on loans to 31 March 2011	302.7	Payable by 1 September 2011		

Chairman's foreword

David Hall



David Hall
Chairman

This Plan and Budget: 2010/11 comes at a time when the reverberations of the recent events in the financial markets continue to be felt by consumers and firms alike. During the next year, our role in helping to protect and promote consumer confidence by compensating people when firms fail will be as important as ever.

We know the industry is keen to understand our assumptions for 2010/11 in advance of the levy announcement. This document reflects our commitment to openness and keeping you informed. It contains information about our preliminary claims estimates for the next financial year as well as our indicative funding needs. We try to be as clear and transparent as we can about the reasons for our levies.

We work in an unpredictable environment. As a result, our assumptions can and do change over time. This year new and complex product areas are coming to the fore which will affect the shape of the levy we announce in March. We will update our assumptions before then and you can find more information about our claims assumptions on page 10.

In such tough economic times, we recognise the levy to be unwelcome news for the industry, but each levy is calculated under our rules and we take care not to over levy wherever possible. We trust the industry will recognise the benefits that can result from our work and the contribution it makes to consumer confidence and market stability.

Overall we expect the number of incoming claims to fall next year, but we will see an increase in the number of decisions we issue as we complete claims which are expected to arrive towards the end of the current year. Our indicative levy accounts for this. You will recall that when announcing our final levy last April, we said that

we expected to require another £28m for claims against Pacific Continental Securities (UK) Limited, Square Mile Securities Limited and other investment firms we have declared in default. This has proved to be necessary. Claims against these firms and significant costs resulting from new defaults including Keydata Investment Services Limited mean we have to issue an interim levy for additional costs we are facing in the current year.

Meanwhile, in traditional areas of our business such as mortgage endowments and pensions review claims, we are experiencing a slow downward trend in claims volumes. Similarly, we will continue to pay compensation to eligible retail depositors affected by the bank failures as fixed term accounts run off. Loretta says more about this in her section on page 8.

The banking failures of 2008/09 remain important this year even though most of the work to deliver compensation is complete. We have borrowings totalling some £20bn with HM Treasury for the compensation costs of the bank failures. These loans are repayable on an interest only basis for the first three years at 12-month LIBOR plus 30 basis points.

With the vast majority of claims from the banking defaults now resolved, our work in this area will concentrate on recoveries.

The costs of these defaults are reduced by recoveries from the failed banks. So far we have received £879m in recoveries for these cases.

Indicative levy requirements

Our indicative levy requirements come in three parts:

- **Investment Intermediation: a 2009/10 interim levy** of £70m before 31 March 2010 to cover the balance of costs of Pacific Continental Securities (UK) Limited and Square Mile Securities Limited (£27m), as well as Keydata Investment Services and other investment claims expected in the year (£43m);
- **Deposit: a 2009/10 levy** for Specified Deposit Defaults (SDDs) for an estimated £376.9m for the interest accruing on the bank default loans to 31 March 2010 and to be collected by 1 September 2010; and
- **The annual 2010/11 levy**, currently estimated as an indicative total of £128.5m, for our expenses and estimated compensation costs for the coming year (excluding interest on SDD loans).

Two additional interim levy announcements for 2009/10 totalling £40m may also be necessary. These are for the costs of structured products and PPI claims, which could demand up to £20m each this year. We are keeping our PPI estimates under review because the claim volumes and types are sensitive to many factors. We expect the allocation for the PPI claims to be the General Insurance Intermediation (SB02) sub-class, and the structured product claims are likely to fall to the Investment Intermediation (SD02) sub-class. We will update the industry as soon as we know more, especially as the growing costs for the SD02 sub-class may exceed the £100m compensation cost levy limit, with any excess being borne by the SD01 sub-class.

Challenges ahead

In last year's Plan and Budget, we told you the Scheme was going through significant change. More change is on the way. New UK and European legislation, rule changes and other policy developments will impact on what is expected of us.

We are working on several major projects as part of a change programme. Some of these are necessary responses to new legislation and rules, and others concentrate on developing our organisation to meet growing expectations of the service we offer. They include preparing to meet a seven day target for pay out if a bank or building society should fail in the future. This involves working with the industry to ensure we have access to data we need to payout quickly, (the "single customer view"). This is critical to paying retail depositors quickly and we are on track to deliver these vital projects by the 2011 deadlines.

The Financial Services Bill, now before Parliament, also contains a proposal to extend our remit to handling claims on behalf of schemes in other countries. We believe this will benefit consumers by making it easier for them to claim without having to apply to a scheme in another country. We have started work with various European counterparts to consider how such arrangements might work.

Finally, as you will be aware, the FSA will be reviewing our funding model in 2010/11.

Conclusion

The feedback we receive from consumers shows they appreciate our efforts to help them, though there is still room for improvement. We aspire to a higher standard of customer care. The investments we are making in our organisation reflect our ambition to be more responsive, efficient, and effective for the levy payer and the consumer. To support this work going forward we are also restructuring the Board, adding new Executive Directors to reinforce the leadership of the organisation.

We continue to believe that having an independent, integrated compensation scheme benefits consumers and the industry through consumer confidence and financial stability.

David Hall
Chairman

Chief Executive's overview

Loretta Minghella



Loretta Minghella
Chief Executive

Sharply increasing claims costs in some areas are set to be one of the dominant themes of 2010/11. The costs of compensation in the areas of investments and payment protection insurance are rising as a result of major failures. We have to respond to claims as they are made to fulfil our statutory remit and this has consequences for the levies firms pay.

We are experiencing a steep rise in investment claims this year that will continue into 2010/11. Dealing with claims relating to major defaults such as Pacific Continental Securities (UK) Limited, Keydata Investment Services Limited and in relation to structured products is having major implications for our work and therefore the levy in both 2009/10 and into 2010/11, as David highlighted in his Foreword.

Our indicative levy for 2010/11 is £128.5m including compensation costs and management expenses, but excluding the interest costs of loans to fund the bank failures. This is lower than in 2009/10 but is still a substantial figure. We will provide more information on claims volumes and costs throughout the year because we recognise the impact this has on firms.

Investment failures

In our Plan and Budget: 2009/10, we predicted Pacific Continental Securities (UK) Limited would generate high costs in the Investment Intermediation area. We levied £30m and expected to levy about £28m more for this and other defaults already declared. Our experience bears out this assumption. The volume and value of claims coming in this year means we are likely to have to issue an interim levy of £70m to firms in the Investment Intermediation sub-class to cover investment claim costs. Of this, £27m is for claims against Pacific Continental Securities (UK) Limited and the other investment firms we were aware of in March

2009 and the balance is for Keydata Investment Services Limited which was not predicted at that time. Keydata Investment Services Limited claims account for almost £43m of the interim levy that we expect to issue before the end of March 2010.

For 2010/11, our assumption is that more Keydata Investment Services Limited claims are likely to come in along with the residual Pacific Continental Securities (UK) Limited and Square Mile Securities Limited claims. Together with other claims, this results in a total indicative levy of £19m for the Investment Intermediation (SD02) sub-class in 2010/11.

We have also started paying compensation for claims in respect of structured products against NDF Administration Limited, Defined Returns Limited and Arc Capital and Income plc and these will continue into next year. Our latest assumption is that 1,750 claims will be paid before the 2010/11 indicative levy is raised, so we may need to issue an £20m interim levy to cover these costs. We expect the costs to fall to the SD02 sub-class and there is the real prospect of exceeding the £100m, annual compensation cost levy limit for the sub-class.

In addition to these firms, we are continuing to see more failures coming to us in the investment area, and these are likely to impact further on our funding requirements later in the year.

Payment protection insurance (PPI) claims

We are experiencing a significant increase in the number of PPI cases. This is consistent with the Financial Ombudsman Service and trends in the wider industry. Last year, we said PPI claims would be a rapidly growing area of our work this year. In the first half of 2009/10, we received as many PPI claims as we estimated for the

whole year. The costs of compensation may be significant, estimated at an additional £20m for the current year.

Because of increasing activity on PPI claims, an interim levy may be needed to fund the compensation costs for 2009/10, which we believe will fall to the General Insurance Intermediation sub-class (SB02). We will update firms as matters develop and revise our estimates before levying firms.

PPI claims are also expected to be an important driver of our business for 2010/11. Our 2010/11 indicative levy for the SB02 sub-class to cover the potential costs of PPI, insurance intermediary failures and a share of our management expenses is £50.5m.

Our current assumption for 2010/11 is that around 8,000 claims will come in during next year, almost double the number we estimate for this year. The situation is unpredictable and the numbers of claims we receive could vary.

A full break down of our expected funding requirements by sub-class is on pages 17 to 21.

Other claims areas

Our statutory remit is wide. We deal with claims for compensation resulting from defaults across the financial services industry. This means we deal with claims ranging from the failure of credit unions to major investment failures, financial advisers or bank or insurance claims.

So I am happy to report that claims in some long standing areas of work such as mortgage endowments and pensions review cases continue a downward trend. Our indicative levy for 2010/11 in Life and Pensions Intermediation is £13.5m, down from £19m in 2009/10.

In the deposits area, the number of credit union failures slowed in 2009/10 and is not yet increasing in the second

half of the year. Our indicative levy for the Deposit class is £4m, excluding the interest costs of the 2008/09 bank failures.

There is also good news for the General Insurance Provision sub-class. Claims for existing estates such as Chester Street and Independent continue, but we estimate an indicative levy of £34.5m for 2010/11, down from £69m in 2009/10.

Banking defaults

Our indicative interest costs levy for firms in the Deposit class is expected to be almost £377m. This will be for payment by 1 September 2010. The current estimate for accrued interest costs in 2010/11 is £302.7m. Changes in interest rates can have a dramatic effect on the interest the Deposit class will pay. A 0.5% increase in rates results in an approximate £100m increase in the annual interest payment amount. Our costs could increase or decrease as a result.

We continue to pay compensation for maturing fixed term deposits following the failures. These will continue to be payable until 2013.

Our estimates do not include any provision for the costs associated with the failure of Dunfermline Building Society (other than our management costs). We expect to make a contribution to the costs of the resolution under the Special Resolution Regime but the amount and timing are uncertain. We will give firms more information on the likely timing and impact of these costs when they become clear.

A summary of our work on the bank failures, including the progress on validations, is in the table on page 14.

Changes ahead

As David has highlighted in his section, we are going through a period of rapid

change and increasing expectations. We need to be able to respond to ever more complex problems in new and innovative ways, while being efficient, effective and user friendly to claimants. We are working on several major projects as part of a change programme. Some of these are necessary responses to new legislation and rules, and others concentrate on developing our organisation.

We have set up a two-year programme to oversee, co-ordinate and drive our efforts to develop the organisation and to be ready for the changes coming our way. The aim of these is to strengthen the organisation so it is better able to respond to claims whether complex or unpredictable, and adapt to any future legislation or regulatory reforms. More information is on page 15.

During the last year, we have also done much to develop our contingency planning. It is central to how well we respond to defaulted firms. Our efforts involve working with the Tripartite Authorities to ensure our plans are as robust as possible. In 2010/11, we plan to build on all of this work.

Management expenses (excluding SDDs)

The latest management expenses amount forecast for 2009/10 is £39.8m (excluding SDDs). This is £5.6m higher than the Budget of £34.2m set at this time last year, (refer to the Summary of Management Expenses on page 22). The increase is largely due to higher outsourcing costs necessary to process the increased claims relating to Keydata, PPI and structured products.

The expenses budget for 2010/11 is £45.1m (excluding SDDs). £8.3m is expected to be spent on the change programme and £4.1m of expenditure on the consumer awareness project, (which was levied in 2009/10, but the main costs will now be incurred in 2010/11).



However, outsourcing costs are expected to fall by £4.2m next year compared with the 2009/10 forecast, although owing to uncertainty surrounding claims volume assumptions and timing, the final costs for 2009/10 and 2010/11 are both susceptible to significant change.

FSCS funding model review

The debate about the costs of compensation and who should pay has been intensified following the banking failures of 2008. The compensation funding model (which is subject to FSA rules) will be reviewed by the FSA. We welcome the debate and will play an active part in the review.

Conclusion

The last few years have witnessed many changes in the financial services sector and in our organisation. More change is on the horizon and the future will be challenging for the industry and for us. Working with the industry and others we are confident we are in a good position to continue promoting consumer confidence.

Loretta Minghella
Chief Executive

Claims and compensation assumptions

When determining the key assumptions used in our planning, budgets, funding and levies, we face a high degree of uncertainty. This relates to the likelihood and timing of possible defaults and the volumes, types and timing of claims arising.

In developing our assumptions, we have to consider not only our existing work, but also the potential work from new defaults and new product areas. We participate in planning and review exercises with the FSA and the FOS, as well as meeting regularly with trade bodies to discuss issues and anticipated trends. These meetings and dialogues help inform our views of the likely number and timing of potential claims faced by the Scheme.

Our budget and levy assumptions are then based on a point felt to be the "most likely" within a range of probable claims scenarios, but clearly, these remain subject to considerable uncertainty and are likely to change over time.

However, recent years have shown that some unexpected larger failures have significantly impacted our estimates.

Accordingly, we continually monitor claims trends and default prospects, and review and update assumptions, to help us determine the resources, expenses and levies required to pay the claims we expect within target service levels.

A table of our current claims assumptions is given below, and more detailed explanations for Keydata and structured products follow.

Summary table of current claims assumptions

Type of claim	2009/10		2010/11			
	New claims assumptions MOST LIKELY OUTCOME	Estimate of completed claims MOST LIKELY	New claims assumptions LOWER	New claims assumptions MOST LIKELY	New claims assumptions UPPER	Estimate of completed claims MOST LIKELY
Mortgage Endowments	2,700	2,880	1,700	2,300	2,900	2,650
Investments exc Pacific Continental, Square Mile, Keydata & Structured Products	1,840	1,600	500	860	2,570	1,120
Pacific Continental	2,380	3,910	30	60	120	90
Square Mile	1,050	2,210	20	30	120	50
Keydata	12,100	2,750	-	2,900	12,500	12,250
Structured Products	1,600	950	-	150	2,200	800
Deposit (Credit Unions only)	2,000	1,980	1,000	2,000	4,000	2,000
Pensions & FSAVC's	540	460	460	550	670	550
Insurance Intermediation (inc PPI)	4,020	2,650	4,250	8,100	25,500	8,710
Mortgage Advisers	130	110	100	150	300	150
Total claims exc Insurance payments & 2008/09 deposit defaults	28,360	19,500	8,060	17,100	50,880	28,370

Keydata and structured products



The majority of Investment Intermediation claims received in the first part of 2009/10 related to Pacific Continental Securities (UK) Limited and Square Mile Securities Limited. New claims in respect of these two firms have now slowed and we are not expecting significantly more claims against these firms. Since the middle of the year, however, we have seen further claims come to us from this sector, in particular Keydata and structured products.

Keydata Investment Services Limited

Keydata has started to generate a large number of new claims in the second half of 2009/10 and this is expected to continue into 2010/11. Claims are mainly falling into two categories.

The first category is where there is evidence to suggest that underlying assets held in some of the funds may have been misappropriated. A number of these investments were sold to investors as ISAs, and it has now been confirmed by HM Revenue and Customs (HMRC) that these did not meet the necessary requirements to qualify as ISA investments. This category is expected to generate around 5,000 claims across 2009/10 and 2010/11, with costs being spread over these two years.

The second category of claim is where underlying funds are still in existence, but HMRC has confirmed that these funds, which were promoted as eligible for inclusion in an ISA, do not meet the requirements for qualifying as ISA investments. Investors are potentially liable to pay tax on these investments until the point the investments mature or are sold. The number of claims we may receive in this category is still uncertain, although it could be as high as 14,000. We are working with the Administrator, the firm and HMRC to implement an efficient process for

paying claims. We appreciate that the increasing volume of these claims will potentially generate substantial costs for the Investment Intermediation sub-class (SD02).

Structured products

We have also seen a number of structured product firms fail recently, namely NDF Administration Limited, Defined Returns Limited and Arc Capital and Income plc. These firms, which specialised in marketing structured products, went into administration during October.

We expect an initial 1,750 claims relating to investments in so called 'capital secure' products in 2009/10 and anticipate making decisions on these claims during the remainder of 2009/10 and into the early part of 2010/11, with total costs currently expected to be in the region of £20m. We are also reviewing other potential types of claim and loss, so the total cost of structured products claims remains uncertain at the present time.

We are liaising with the FSA and the respective Administrators to improve our understanding as much as possible about the activities of the firms to determine which Investment sub-class should bear the relevant costs.

Service standards



We receive a wide variety of claims for many different product types and of varying complexity and urgency. Our turnaround times for claims are affected by many factors, including the type of claim, how complex it is, the rules we have to apply and whether we have to wait for information from third parties (such as liquidators or other providers).

We set different target service levels for different activities and types of claims. Where possible, we give priority to people who may be facing hardship when making a claim.

Our target service levels for 2010/11 are:

- (i) Telephone calls are dealt with as they are received, wherever possible. However, if we have to call someone back, we aim to do so within 48 hours of the enquiry being received in 90% of cases. In practice we consistently beat this target and have recently introduced improved telephony systems to help ensure we continue to do so.
- (ii) We propose to maintain the maximum time taken to answer complaints and MPs' letters at 15 working days in 90% of cases, but we plan to reduce the target maximum turnaround time for other correspondence to 10 days in 90% of cases from 1 April 2010.
- (iii) We will send out an application form within five working days of a request, in at least 90% of cases, where consumers may have a claim that is potentially within our remit.
- (iv) Where a firm is unable to meet claims made against it, we aim to make 50% of default declarations within six months of the start of our investigations, and complete all investigations within 12 months.
- (v) Where the firm is already in default, we will aim to issue a decision on 90% of claims within six months of receiving a completed application form (with a few exceptions). Of the remaining 10%, no claims should be older than 12 months, unless exceptional circumstances apply.
- (vi) In respect of credit union claims, we currently aim to achieve a turnaround time of at least 90% of claims being completed in eight weeks. In practice, the vast majority of credit union claims are completed within a month. From January 2011, the Scheme will be required to pay the majority of deposit compensation claims within 20 working days. As mentioned elsewhere in this publication, our projects to deliver this are well underway and on track.
- (vii) We will issue compensation payments within 10 working days of written acceptance of a compensation offer in 90% of cases. For pension reinstatement, or pension loss claims, where compensation takes the form of an annuity, we will arrange compensation within 10 working days of receipt of all necessary information from third parties, for example, the notification of reinstatement costs or an annuity quotation.

Specified Deposit Defaults (SDDs) and Dunfermline Building Society



Major banking defaults

During 2008/09, the FSCS was instrumental in safeguarding depositors' money of some £20bn following the failures of five banks and one building society – Bradford & Bingley plc (B&B), Kaupthing Singer & Friedlander Limited (KSF), Heritable Bank Plc (Heritable), Landsbanki Islands hf (Icesave), London Scottish Bank Plc (London Scottish) (these are collectively termed the Specified Deposit Defaults (SDDs)) and Dunfermline Building Society.

We continue to make good progress in paying compensation for maturing fixed term deposits on Icesave and London Scottish, and in respect of KSF claims where amounts were held in client accounts. Compensation for maturing fixed term deposits in run off will continue to be payable until 2013.

A summary of compensation paid to date, recoveries made or anticipated, and the position on our work to validate the amounts we paid for the bulk transfer of accounts on B&B, KSF, and Heritable is set out in the table on the following page.

SDD funding

We continue to have significant borrowings of some £20bn in the form of loans from H M Treasury to cover compensation costs paid and payable. Interest costs on borrowings are classed as a specific cost element of the management expenses, not a regular "base" cost. This means that the interest costs are attributable only to the class in which the defaults arose, namely the Deposit class.

Interest on existing loans is calculated at 12-month LIBOR plus 30 basis points, adjusted monthly. For the 2009/10 estimates actual interest rates have been applied for the first half of this year and an assumed rate of 1.538% has been applied thereafter, which is consistent with our previous practice. We do not forecast interest

rates. The estimates for 2009/10 also make various assumptions about the levels of loan principal, allowing for further draw-downs and recoveries / repayments received. On this basis, our estimate for accrued interest costs in 2009/10 is £346.7m, and for 2010/11 is £302.7m.

Interest rates are currently at historic lows and may rise in the future. As a guide, for every 0.5% change in the interest rate, the interest amount payable is affected by some £100m in a full year. We do not hedge against interest rate movements.

Validation of amounts transferred

As explained in the *FSCS Annual Report and Accounts: 2008/09* further interest will be payable on any additional amount borrowed following the exercise to validate 'deemed compensation' payments made in connection with transfers of accounts to Abbey and ING, for which a further amount to be levied in respect of 2008/09 is currently estimated at some £30.2m.

Interest to 31 March 2010, and the further £30.2m, is expected to be levied from firms in the Deposit class this summer, payable by 1 September, for settlement with H M Treasury on 1 October 2010.

SDD Recoveries

We have now received some £879m in dividend payments from two of the banking failures, namely Heritable and KSF and we expect to receive further dividends in the spring of 2010.

The following table includes the current views on future recoveries for each of the major banking defaults. Recoveries will help reduce the cost to the industry of these failures.

Summary of Specified Deposit Defaults (SDDs) 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
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' and Investors' 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.

Change programme, Faster Payout and Consumer Awareness



Project Work for 2010/11

In the last 18 months, we have dealt with many challenges, especially the high profile banking failures, and more will be expected of us in the future

In response to these challenges, we have established a change programme of projects, aimed at transforming and strengthening the Scheme's processes, structure and operations in order to meet these new requirements. This activity will improve our efficiency, effectiveness and flexibility. The work will also enable us to deal with greater claims complexity and volatility as well as to handle the wider remit and greater future expectations demanded of us.

Our role needs to expand to help improve consumer confidence by significantly increasing consumer awareness, assisting the Bank of England, HM Treasury and the FSA to help ensure financial stability, and to be more proactive in helping set and deliver compensation policy in the UK and overseas, particularly within Europe.

The most urgent priority is our need to deliver the requirements on compensation and banking reform and implementing the measures following the Banking Act 2009 and the FSA Policy Statements. In particular, we must be able to deliver faster pay out, in the event of a deposit failure, and launch a communications programme to increase consumer awareness of the FSCS. These key requirements are discussed in more detail below.

The total 2010/11 budget expense for this project activity is £8.3m plus the ring fenced element of £4.1m to support our consumer awareness campaign (much of which was levied last year).


Faster payout for deposit taking firms

We must ensure that we are able to meet our statutory responsibilities following the FSA's Policy Statement on Banking and Compensation Reform (PS09/11). These reforms come into effect on 31 December 2010.

These reforms require deposit taking firms to provide an SCV file of all eligible claimants to the FSA and us by 31 January 2011, to facilitate faster payout in the event of failure.

To address these requirements projects have commenced and will continue in 2010 in order to:

- re-engineer our current deposit compensation procedures and physical payout solutions to facilitate the faster payout of claims (in no more than 20 working days, but with a working target for most deposits of seven days) for a failed deposit taker from 1 January 2011;
- support external engagement with deposit takers on the provision of an SCV. Development of these SCVs will take significant effort for the industry, and we are working with industry bodies and deposit takers to help ensure common understanding of the requirements;
- enable development of an SCV verification system that will be used to undertake a validation exercise of the sample SCV files provided by deposit takers by 31 January 2011. Experian have been selected as our partner for the development and ongoing hosting and delivery of this SCV system. In addition to supporting the validation exercise, this system will also be a key element of our future deposit compensation processes that will enable faster payout in the event of a deposit taker failure.



We have a dedicated section on our website (www.fscs.org.uk) where we provide updates on our progress, as well as answer frequently asked questions about this work.

Consumer awareness

The FSA's Policy Statements also confirmed the need to build consumer awareness of the FSCS. We have commenced work on a consumer awareness programme which will be undertaken in two phases:

- Phase 1: General awareness building of the FSCS to tell consumers about the existence of the Scheme and to provide reassurance. A TV, press and online advertising campaign, is scheduled to launch in the autumn.
- Phase 2: Provision of more specific information to educate consumers about the detail of the protection that the FSCS provides.

We recognise that engaging with the industry and other key stakeholders is vital to help us shape the work of the campaign and reach consumers. A number of channels have been set up to help us reach a cross-section of industry representatives. These include an Advisory Panel and a programme of interviews to gather a variety of external views. The Advisory Panel has been set up to provide a consultative forum for the project, and to help act as a touchstone of opinion and influence in the shaping of the strategy going forward. The Advisory Panel consists of representatives from trade bodies, the FSA and consumer representatives from the FSA Consumer Panel and Which?

Financial issues and funding

What it means by class and sub-class

<p>Class SA01 Deposit</p>	<ul style="list-style-type: none"> • £4.0m 2010/11 initial indicative levy. • £376.9m¹ indicative levy payable by 1 September 2010 to fund loan interest amounts on borrowings related to the Specified Deposit Defaults (SDDs). • The estimated 2010/11 interest accrued to 31 March 2011 is currently £302.7m. This will be levied for payment by 1 September 2011.
<p>Cost drivers</p>	<p>The SDD loan interest and related management expenses for both 2009/10 and 2010/11, claims relating to credit union defaults and a share of management expenses for 2010/11.</p>
<p>2009/10 levy: £22.5m. SDD Interest and related management expenses for 2008/09, totalling £406.0m, levied in July 2009</p>	<p>The SDD interest amounts to be levied in 2010 are expected to benefit from interest rates which have moved downwards since the loans were first taken out. The underlying principal amount will reduce as recoveries are expected to exceed further advance draw-downs.</p> <p>Otherwise, lower management expense estimates for 2010/11 are further enhanced by the available funds brought forward which reduce the 2010/11 funding requirement.</p>

¹ No interest levies will be raised until actual amounts are known.

Sub-class SB01 General Insurance Provision	£34.5m 2010/11 initial indicative levy.
Cost drivers	Claims relating to ongoing existing estates, mainly Chester Street, and a share of management expenses.
2009/10 levy: £69.0m	Compensation costs after recoveries are expected to increase in 2010/11, but the higher than expected forecast fund balance at 1 April 2010 allows for a lower levy in 2010/11.

Sub-class SB02 General Insurance Intermediation	<ul style="list-style-type: none"> • £50.5m 2010/11 initial indicative levy. • A prospective interim 2009/10 levy of £20.0m, for PPI claims. It is important to note that the PPI claims element of the funding requirement is still to be determined and the outcome is expected to be updated in March 2010.
Cost drivers	Claims relating to PPI, in particular and a share of management expenses.
2009/10 levy: £28.5m, which includes the prospective further interim levy of £20.0m referred to above, and the £8.5m already raised	The funding covers significant projected increases in estimated compensation costs as well as management expenses for the year of £7.1m.

Sub-class SC01 Life and Pensions Provision	£3.0m 2010/11 initial indicative levy.
Cost drivers	A share of management expenses, mainly 'base costs' attributable by reference to projected levy-payers' FSA periodic fees.
2009/10 levy: £2.0m	The projected levy increase arises from overall increases in management expense base costs.

Sub-class SC02 Life and Pensions Intermediation	£13.5m 2010/11 initial indicative levy.
Cost drivers	Claims relating to mortgage endowments, pensions and other life claims, plus a share of management expenses.
2009/10 levy: £19.0m	The 2010/11 levy reduction reflects the projected available fund balance at the start of the year.

Sub-class SD01 Investment Fund Management	<p>£3.5m 2010/11 initial indicative levy. Note: Should compensation cost levies in 2009/10 exceed the limit of £100m for the SD02 sub-class, the excess will be allocated to this sub-class.</p> <p>See SD02 box and footnote one.</p>
Cost drivers	The run-off of claims relating to splits plus a share of management expenses.
2009/10 levy: £4.0m	The 2010/11 projected levy is lower due to an reduction in compensation costs.

Sub-class SD02 Investments Intermediation	<ul style="list-style-type: none"> • £19.0m 2010/11 initial indicative levy. • A prospective interim 2009/10 levy of £70.0m. This relates to the further Pacific Continental and Square Mile Securities and other investment firms' costs not levied within the 2009/10 Annual Levy of £30m, plus Keydata compensation costs. • A possible interim 2009/10 levy for £20.0m to cover structured product claims.
Cost drivers	Claims relating to investment mis-selling and property claims, including Keydata, stockbroking firms in default, structured products and a share of management expenses.
Amounts levied in 2009/10, including £30m already levied, plus the prospective 2009/10 further levies referred to above of £70.0m and £20.0m: totalling £120.0m¹.	Our current view of required interim 2009/10 levies suggests this sub-class may reach the annual compensation cost levy limit of £100m in 2009/10. The excess levy amount would then be attributed to SD01. Management expenses (which for 2009/10 are estimated at £7.3m) are not included in the levy limit.

¹ The raising of 2009/10 levy amounts for structured products depends not only on confirmation of claims and compensation estimates, but also final determination of the sub-class to which the defaults relate. Our current view is that structured products costs would be for SD02 Investment Intermediation. If compensation costs for SD02 exceed the £100m limit for that sub-class, then the excess will be levied against the SD01 sub-class.

Sub-class SE01 Home Finance Provision	£0.0m 2010/11 initial indicative levy
Cost drivers	Not applicable.
What will firms in this sub-class pay?	This sub-class will only be levied for funding that exceeds the levy limit of £70.0m in sub-class SE02.

Sub-class SE02 Home Finance Intermediation	£0.5m 2010/11 initial indicative levy
Cost drivers	Compensation costs and a share of management expenses.
2009/10 levy: £1.0m	The levy requirements anticipate funding compensation costs of £0.1m.

FSCS Management expenses

Management expenses and the MELL

	Budget 2010/11 £m	Forecast 2009/10 £m	Budget 2009/10 £m
Continuing operations expenses	22.5	21.8	23.6
Outsourcing costs	10.2	14.4	2.9
Total operations management expenses	32.7	36.2	26.5
Change programme (excluding consumer awareness programme)	8.3	3.2	3.6
Consumer awareness programme	4.1	0.4	4.1
Total	45.1	39.8	34.2
Specified deposit default management expenses	2.6	7.4	13.4
Specified deposit default loan interest	302.7	346.7	632.0
Total management expenses	350.4	393.9	679.6
Less: Consumer awareness programme, levied in 2009/10, but not yet spent	(3.7)		
Reserve contingency	653.3		320.4
Management Expenses Levy Limit (MELL)	1,000.0		1,000.0

The FSA is consulting on the MELL for 2010/11 of £1bn.

The reserve contingency is the difference between our budgeted management expenses, not yet levied, and the MELL.

The movement in costs between the 2009/10 budget and forecast arises mainly from increased outsourcing costs which are necessary to handle the increased volumes of Keydata, PPI and structured products claims.

Management expenses – base and specific costs split

	Budget 2010/11 £m	Forecast 2009/10 £m	Budget 2009/10 £m
Base costs*	20.9	12.2	11.9
Specific costs excluding SDD loan interest	26.8	35.0	35.7
SDD loan interest**	302.7	346.7	632.0
Total	350.4	393.9	679.6

*The increase in base costs in 2010/11 is mainly attributable to the proposed expenditure on the change programme.

**The reduction in loan interest between the 2009/10 budget and the forecast for this period is due to the reduction in the interest rate used in the budget of 3.427%, the recoveries received during the year and the adjustments to the loan principal in the budget to reflect the actual liability.

2010 / 11 summary of forecast sub-class accounts

Funding Sub Class code	Notes	Total	Specified Deposit Defaults Payments	Total deposit excluding SDD Loans	Deposits SA01	General Insurance Provision SB01	General Insurance Intermediation SB02	Life & Pensions Provision SC01	Life & Pensions Intermediation SC02	Investment Management SD01	Investment Intermediation SD02	Home Finance Provision SE01	Home Finance Intermediation SE02
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Compensation costs (net of recoveries)	1	(159.3)		(159.3)	(0.6)	(62.3)	(44.7)		(12.9)		(38.7)		(0.1)
Management expenses:													
Base costs		(20.9)		(20.9)	(6.4)	(1.8)	(1.8)	(2.4)	(3.1)	(1.9)	(2.4)		(1.1)
Specific costs		(26.8)		(26.8)	(6.8)	(1.7)	(5.3)	(0.5)	(4.2)	(0.7)	(7.4)		(0.2)
Loan interest	2	(302.7)		(302.7)	(302.7)								
Total management expenses		(350.4)		(350.4)	(315.9)	(3.5)	(7.1)	(2.9)	(7.3)	(2.6)	(9.8)		(1.3)
Interest received net of tax		0.2		0.2			0.1				0.1		
Movement in the year		(509.5)		(509.5)	(316.5)	(65.8)	(51.7)	(2.9)	(20.2)	(2.6)	(48.4)		(1.4)
Forecast Fund balance at 1 April 2010	3	(20,389.9)	(20,016.4)	(373.5)	(366.9)	48.1	(7.4)	0.0	10.7	(0.6)	(58.7)	0.0	1.3
Levies payable in 2010/11													
SDD Interest levy 2009/10	4	346.7		346.7	346.7								
Validation interest levy 2008/09		30.2		30.2	30.2								
Indicative annual levy for 2010/11		128.5		128.5	4.0	34.5	50.5	3.0	13.5	3.5	19.0		0.5
Proposed interim levy 2009/10		70.0		70.0							70.0		
Prospective further interim levies		40.0		40.0			20.0				20.0		
Levies payable in 2011/12													
SDD Interest levy 2010/11	2	302.7		302.7	302.7								
Forecast Funds at 31 March 2011	5	(19,981.3)	(20,016.4)	35.1	0.2	16.8	11.4	0.1	4.0	0.3	1.9	0.0	0.4

Notes

1. Excluding any SDD payments and recoveries which will be dealt with through borrowings
2. Expected to be levied in July 2011
3. The forecast fund balances at 1 April 2010 include the levied amount of £3.7m in respect of the consumer awareness programme, which is now expected to be spent in 2010/11
4. The SDDs relate to the five bank failures during 2008/09 including Bradford & Bingley, Kaupthing Singer and Friedlander, Heritable, Landsbanki Islands hf(Icesave) and London Scottish Bank
5. The forecast funds at 31 March 2011 anticipate the SDD interest levy of £302.7m

