

Plan and Budget: 2012/13  
Financial Services  
Compensation Scheme



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# Our role, mission and aims



## Our mission

Our mission is to provide a responsive, well-understood and efficient compensation service for financial services, which raises public confidence in the industry.

## 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), FSCS became operational on 1 December 2001 and protects:

- deposits
- insurance policies
- general 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 (and recoveries and borrowing, where appropriate). You can find more information about our funding at [www.fscs.org.uk/industry](http://www.fscs.org.uk/industry).

## Our aims

In taking forward our mission, we aim to:

- respond quickly, efficiently and accurately to consumer claims for compensation
- raise public awareness of the protection provided by FSCS
- ensure that FSCS operates as cost efficiently as possible and maximises recoveries from the estates of failed providers
- be ready to respond to defaults in the financial services industry to protect consumers and financial stability
- enhance the capability of FSCS by enabling the people who work for us to develop their skills, knowledge and professionalism.

The later sections of this plan and budget document discuss our plans regarding these five aims in more detail.

You can find more information about our aims and objectives at: [www.fscs.org.uk/industry/about-the-fscs](http://www.fscs.org.uk/industry/about-the-fscs).

# Chairman's foreword

## David Hall



**David Hall**  
Chairman

This is the last foreword that I shall contribute, as Chair, to FSCS's annual Plan and Budget. In doing so, I am struck by the extent of the transformation in FSCS's role and importance in the six years that I have led the Board.

When I took over as Chair in 2006, FSCS had been in existence for five years. It had played a useful role in protecting consumers, but the Scheme had mostly made modest payments in response to mostly small-scale failures. We had by then paid out less than £1 billion in total, and no more than £202 million in any one year.

The banking failures of 2008/09 changed all that. In 2008 FSCS paid out over £20 billion to 4 million savers. As important as the payout itself, were the lessons learned.

It was clear that the arrangements for resolving a failing deposit-taker badly needed overhauling and, central to that, was an upgrading of the role and importance of deposit protection. If we were to avoid a repeat of the Northern Rock queues, people needed to be confident that their savings were fully safeguarded up to a well-understood

upper limit, needed to be sure that they would get their money back fast and needed to be aware of the arrangements in place to achieve these things.

I would add that the public also want to be reassured that FSCS could protect their money effectively in the event of a major failure in any other part of the regulated financial services industry.

In this Plan and Budget, you can read about the practical steps FSCS is taking to ensure that it has the capability to provide this protection and raise awareness of its existence.

The transformation of FSCS's capability is matched by reform of the legal and regulatory framework within which we work.

Following the banking failures, new legislative provisions and updated processes have been introduced that now enable us to pay the great majority of depositors in a failed bank, building society or credit union within seven days – and every eligible depositor within 20 working days.

Looking forward, the current Government's proposed regulatory framework will create focused responsibilities under the Prudential Regulatory Authority (PRA), and the Financial Conduct Authority (FCA). We look forward to working within this new structure and to ensuring the continuing provision of an efficient and effective integrated compensation service which protects consumers and supports financial stability. Plans for this new framework are already underway and FSCS will be working with both organisations to develop a close and effective working relationship.

I particularly welcome the fact that the Government's proposals maintain the integrity and independence of FSCS as the unified provider of compensation across all regulated financial services. Our independence is critical to maintaining the confidence of both consumers and the industry; it will be important

that nothing in the new arrangements detracts from that independence. Our coverage of all regulated financial services – the widest of any Scheme internationally – gives us the critical mass and economy of scale to be confident of meeting future challenges.

We expect to see further legislative requirements as a result of European developments. We are waiting for final proposals for the revision of the Deposit Guarantee Schemes Directive (DGSD) and the Investor Compensation Scheme Directive (ICSD) to be announced during 2012. Following the publication of a White Paper on Insurance Guarantee Schemes in July 2010, we also expect the European Commission to undertake further work in this area during 2012.

In addition to FSCS's continuous work with our international counterparts in the areas of deposit, investor and insurance guarantee schemes, this year FSCS will host the International Association of Deposit Insurers (IADI) Annual General Meeting and Conference in October 2012.

FSCS can be proud of what it has achieved in its ten year existence, and these achievements have stood it in good stead for the challenges that lie ahead. As I enter my final months as Chair of FSCS I am confident that the organisation is moving in the right direction, and that I am leaving it in the capable hands of my successor, Lawrence Churchill who I am pleased to welcome to FSCS. I feel privileged to have been Chair of FSCS since March 2006 and I am confident that Lawrence's experience and skills will prove invaluable to FSCS in the future.

# Chief Executive's overview

## Mark Neale



**Mark Neale**  
Chief Executive

Welcome to our Plan and Budget 2012/13.

David Hall described the changing role of the Financial Services Compensation Scheme and the central part we now play in underpinning financial stability by providing protection for the full range of regulated financial services. The job of the executive team at FSCS and of all the people who work here is to ensure that the Scheme has the capability to meet these demands.

We are very clear that this means that we must not only be able to provide a responsive and efficient service to consumers who need our help in 2012/13, but also that we must continue the task of transforming FSCS so that we can respond effectively to any future financial crisis. We must be able to expand our capacity quickly, smoothly and with no loss of service quality to meet large or multiple business failures in future. And we must be able to do this while minimising the costs we impose on the industry which funds FSCS.

In this report, you can read about the progress of this transformation and the further steps we shall be taking in 2012/13.

We have already put in place a business model which relies on out-sourcing the great majority of claims we receive. This enables us to respond efficiently to a fluctuating and unpredictable workload. And we have also now established and bedded in our capability to pay out the great majority of depositors in a failed bank, building society or credit union in seven days.

In the year ahead, we shall be building on these investments by:

- taking forward our strategy to raise awareness of the protection the Scheme provides to the general public. We shall be doing this in partnership with the industry by focusing our efforts on getting the message across at times and in places when it is most relevant to consumers, for example, at the point of sale;
- improving our service to consumers by enabling them to engage with us through channels they find convenient, including on-line. This will include an option to pay-out savers in a failed deposit-taker electronically;
- moving all our services onto the modern IT platform which supports faster pay-out of deposits and, in the process, achieving efficiency gains through consistent processes and improved controls;
- reviewing, with our partners at the FSA, our funding arrangements to put them on a long term, sustainable and fair footing for our levy payers.

During the year we are also planning our relocation to new offices in the City that will enable all our staff to work more closely and efficiently on the same floor (rather than the two floors that we use in our current premises). This will also cut our costs.

To deliver this programme of work the proposed management expenses budget for 2012/13 is £65.2 million (compared with £59.0 million in 2011/12). On a like

for like basis, we expect our spending next year to fall in comparison to this year, but the overall budget is nevertheless rising because of a number of new demands. These include the costs of a £1 billion syndicated loan facility which will enable FSCS to deal with any cash flow requirements imposed by a major failure. We also expect to incur substantial continuing legal costs in pursuing recoveries, in particular following the failure of Keydata.

More details of the budget expenses required to fund our plans, and the likely costs of compensation next year, are given in Chapter 3.

Initial indicative levy amounts for 2012/13 are proposed as follows:

- £221 million in respect of the 2012/13 Annual Levy; and
- £360.7 million in respect of 2011/12 interest on the loans taken out to fund compensation for the major bank failures in 2008.

None of our expense or levy estimates includes any allowance for MF Global.\* However, we are working closely with the administrators, KPMG, who are in the process of reconciling the client accounts. Until this exercise is complete, we will not know how much compensation is likely to be payable or when. We will keep all interested parties informed of developments.

\* FSCS is currently dealing with MF Global UK Limited. More information about this firm is available on the FSCS website.

# Chapter 1

## Business environment and strategy



FSCS must be able to provide a responsive, efficient and well-understood compensation service in normal times, with the ability to expand its capacity cost-effectively and with no loss of service standards to meet potential large or multiple failures in the future should they occur. We must meet published service standards which reflect people's reasonable expectations and provide our service through all the channels which people would expect of a modern service provider, including e-channels.

### Business environment: we face an unpredictable workload...

FSCS's strategy for delivering this commitment is shaped by:

- **Extreme volatility and unpredictability of demand.**

In FSCS's first decade -

- the number of new claims arriving at FSCS has ranged from a low of 8,000 in 2002/03 to a high of more than 4 million in 2008/09; and
- compensation payments have ranged from £82 million in 2007/8 to £20 billion in 2008/09.

- **New legislative framework** requiring us to pay-out the great majority of depositors in a failed bank, building society or credit union within seven days - and everyone in 20 working days.

- **Low public awareness** of the protection FSCS provides and hence the risk of unnecessary alarm in response to failure (and occasionally wrong assumptions that money is protected by FSCS when it is not). Levels of awareness of a compensation scheme remain below 50% of consumers. Brand awareness of FSCS, both prompted and unprompted, is around 40%.

- **Increasing complexity and cost of recovering assets** from the estates of failed providers, including the banks which failed in 2008 and investment companies like Keydata.

- The need for FSCS to integrate effectively into **contingency planning and resolution for future major failures**.

### ...to which we have responded with an out-sourced business model...

In the face of these demands, FSCS has put in place a business model which relies on out-sourcing the great majority of claims (around 95%) so that our capacity and costs can adjust rapidly up or down to changes in demand without detriment to our ability to meet service standards. To this end, FSCS has a framework agreement with three major outsource providers enabling us to maintain competitive tension for new work in the light of both price and performance.

FSCS has also invested in a capability to pay the great majority of depositors in a failed bank, building society or credit union in seven days and all eligible depositors in 20 working days. This capability is based on Single Customer View (SCV) files provided by banks, building societies and credit unions on a variety of pay-out methods, including, as things stand, cheques and the post office counter service.

The adoption of an out-sourced business model has caused us to extend the skill base within FSCS itself to provide greater depth of professionalism in:

- managing out-source suppliers;
- managing risk and contingency planning;
- handling data from failed businesses;
- enhancing the financial analysis

of failed businesses to maximise recoveries; and

- running major projects.

This strengthens the strong professional base on which FSCS was built.

Our business model also places much greater emphasis on:

- contingency planning and capacity to work with partners to resolve major failures: we recognise, in particular, that, together with its partners, FSCS must have in place workable plans to deal with major failures in all sectors of the financial services industry, not just the deposit-taking sector; and
- raising awareness of the protection FSCS provides: if FSCS is to make a full contribution to financial confidence and stability, we must do more to reassure the majority of people that their money, particularly (but not just) their deposits, is safe and warn the minority whose money is outside the scope of FSCS protection.

### ...enabling us to respond effectively to the challenges we have faced since 2007/08...

As a result of these reforms, FSCS has greater capacity as an organisation now than it had five years ago.

In 2007/08 FSCS:

- handled around 30% of claims internally.
- had no fast deposit pay-out capability.
- lacked the full range of professional skills to manage an outsourced business model effectively.
- lacked industrial strength IT to support our business model.

By the end of 2011/12 we shall have:

- a functioning fast pay-out capability which has already delivered seven day pay-out for the great majority of depositors in eight failed credit unions and one failed bank in 2011. In all cases we met the seven day target for paying out straightforward accounts, often sending cheques to savers in fewer than seven days;
- completed the implementation of our internal "target operating model" which, within stable overall staff numbers of around 185 FTE, has seen a significant extension of our skills base;
- launched a strategy to raise awareness of FSCS protection, with strong industry backing and FSCS's first ever public advertising campaign;
- made significant progress in upgrading and stabilising the IT supporting our out-sourced business model; and
- established an internal Resilience Team to coordinate contingency planning and disaster recovery within FSCS and liaise with our partners on planning for future failures outside FSCS.

### ...but with more to do in 2012/13 and beyond.

To realise our vision of a responsive and efficient service which can scale up or down in response to demand, we recognise that there is more to do. In particular, we now need to:

- develop our strategy to raise awareness of FSCS protection in the light of the lessons learned in 2011 so that most people are aware of, and have confidence in, the protection we provide and do not panic in response to risks that would be covered by that protection;
- improve the service to consumers by enabling claimants to engage with us through a variety of channels;
- move all our services on the up-to-date processing system installed to support faster pay-out so we support one unified system, not two;
- streamline and consolidate our processes and controls, minimising hand-offs and ensuring management information is relevant, timely and consistent;
- embed quality across our processes by focusing on continuous improvement;
- continue to enhance the procurement and management of our outsource partners in a professional and consistent manner; and
- continue to transform the culture of FSCS so that it is a more proactive and accountable organisation.

We also recognise a continuing need to maintain the support of the industry which funds us by operating efficiently, maximising recoveries from the estates of failed businesses and ensuring that we are funded on a sustainable basis which commands wide support across the industry.

# Chapter 2

## 2012/13 Plans



This chapter sets out what we plan to achieve in 2012/13 both in delivering a service to consumers and in carrying forward the transformation of FSCS to make it fit for the future.

Our key priorities for the year will be to:

- meet our service standards (consumers);
- take forward our strategy to raise awareness of the protection FSCS provides (general public);
- support the review of our funding arrangements to put them on a sustainable footing (levy payers);
- continue the reengineering of our organisation, processes and systems so that we can meet future challenges (consumers, government/regulators);
- move offices to provide a better and more efficient working environment which reinforces our values (our own people).

This chapter is divided into five sections:

- (i) Consumers/claimants - meeting our service standards,
- (ii) General public – developing our consumer awareness strategy,
- (iii) Levy payers – efficient operation and the maximisation of recoveries,
- (iv) Government & regulators – resilience and readiness,
- (v) Our own people – developing our professionalism.



## Our aim

Our aim is to respond quickly, efficiently and accurately to consumer claims for compensation.

### (i) Consumers/claimants – meeting our service standards

Our top priority in 2012/13, as in every year, will be to provide a responsive and efficient service to the people who need our help because they have lost money as a result of the failure of a regulated financial services business.

In planning to meet the needs of claimants, we need both to make assumptions about the volume and types of claims we may receive and set the service standards to which we will commit in dealing with those claims.

#### Claims

The outsourcing expenses, compensation costs and levies outlined later in this document are based on our latest working assumptions about our likely future business. When determining the key assumptions used in our planning, budgets, funding and levies, we face a high degree of uncertainty as to the likelihood and timing of possible defaults and the volumes, types and timing of claims arising.

Our assumptions are based on our experience of current claims trends as well as other information from the FSA, the Financial Ombudsman Service and the industry. Clearly, these assumptions may change over time. 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.

Accordingly, the assumptions should not be viewed as forecasts. In particular, they do not provide a risk outlook for possible new claims areas.

The assumptions for 2012/13 are set out in figure 1 below.

Figure 1

### Claims assumptions\* 2011/12 and 2012/13

Sub-class	Default/ Type of claim	2011/12		2012/13			
		New claims assumptions	Estimate of completed claims	New claims assumptions	New claims assumptions	New claims assumptions	Estimate of completed claims
		for 2011/12	for 2011/12	for 2012/13	for 2012/13	for 2012/13	for 2012/13
		MOST LIKELY	MOST LIKELY	LOWER	MOST LIKELY	UPPER	MOST LIKELY
SA01	Deposits*	4,000	4,000	5,000	7,500	12,000	7,500
SB02	Insurance Intermediaries (inc PPI, but excluding Welcome Financial Services Ltd)	13,725	12,796	6,800	17,400	51,000	17,850
SC02	Mortgage Endowments	2,446	2,899	1,000	2,175	3,500	2,260
SC02	Pensions & FSAVC's	252	239	100	240	400	240
SC02/	Investments	1,827	1,605	1,000	2,100	5,000	2,100
SD02**	exc Keydata, Wills & Co, CF Arch Cru, MF Global and Structured Products						
SD02	Arch Cru	654	353	0	360	2,500	660
SD02	Keydata	1,195	3,996	0	160	1,260	186
SD02	Wills & Co	792	1,891	0	0	0	0
SD02	Other Stockbrokers	1,317	1,411	100	600	2,000	600
SD02	Structured Products	228	332	0	15	1,000	15
SE02	Mortgage Advisors	1,356	896	500	1,800	3,000	2,100
	<b>Total claims* exc insurance payments</b>	27,792	30,418		32,350		33,511

**Notes:**

\* Excluding major bank failures

\*\* Depending on the nature of the claim, some will fall to Life & Pensions intermediation, and some to Investment intermediation. Based on historic data, the estimated compensation costs of these claims have been split 30:70 between SC02 and SD02.

\*\*\* The forecast for SD02 does not currently include any estimates in respect of MF Global. We are working closely with the administrators, KPMG, who are in the process of reconciling the client accounts. Until this exercise is complete, we will not know how many claims or how much compensation are likely to be payable.



## Expected claims trends for 2012/13

The 2011/12 financial year saw continued significant claim volumes within the Investment Intermediation sector arising from the defaults of Keydata Investment Services, Wills & Co and other investment firms, together with significantly higher volumes of payment protection insurance (PPI) claims than we had previously experienced.

We broadly assume that the overall volume of new claims received next year will be maintained, but the mix will change significantly, as claim numbers arise in newer workstreams, such as PPI and mortgage advice. We are not currently expecting any new significant failures or other product based trends to emerge, although we cannot rule these out.

### Deposits (SA01)

Based on our recent experience of credit union failures combined with continuing adverse financial conditions, we have increased our projections of the number of credit union claims we expect. However, our assumptions do not provide for the failure of any significant deposit taker(s).

### General Insurance Provision and Intermediation (SB01 & SB02)

We expect that the most significant claim area for the Scheme in 2012/13 will continue to be Payment Protection Insurance (PPI) claims. These costs fall to the General Insurance Intermediation sector. We expect that volumes will continue to increase from existing levels, following an established trend, which mirrors the experience of the Financial Ombudsman Service and experience in the wider industry; this category is expected to generate around 16,500 new claims during 2012/13.

### Life and Pensions Provision and Intermediation (SC01 & SC02)

We expect that 2012/13 will see marginally lower volumes of Mortgage Endowment and Pensions/FSAVC claims compared with prior years.

### Investment Fund Management and Investment Intermediation (SD01 & SD02)

The major defaults, for example, Keydata Investment Services Limited and Wills & Co, are expected to be largely worked out in 2011/12. Volumes of claims arising from smaller stockbrokers are also expected to fall in 2012/13. However, volumes of general investment claims look to grow slightly next year.

The projections for SD02 do not currently include any estimates in respect of MF Global. We are working closely with the administrators, KPMG, who are in the process of reconciling the client accounts. Until this exercise is complete, we will not know how many claims or how much compensation are likely to be payable.

### Home Finance Intermediation (SE02)

We expect that the recent trending increase in claims volumes will continue through 2012/13, although from a relatively small base compared with other claims types.



## Our service standards

Our current service levels reflect our understanding of what consumers want of FSCS, as well as the practical constraints we face in dealing with often complex claims.

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 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).

Our current target service levels for 2012/13 are set out in figure 2 on page 13.

## Customer Treatment Strategy

Claimants and the experiences they have are crucial to us consistently delivering our vision of a responsive and efficient service. With this in mind, we are developing a formal approach to our customer delivery through our Customer Treatment Strategy. Using external research into what claimants thought were the most important elements of our service, and internal expertise, we have developed the strategy by which we will design and deliver our claim process within the operating context of our rules and the need to deliver our services cost effectively.

Our strategy covers:

- the claimant experience with a focus on minimising undue stress as claimants go through a claim;
- people and culture;
- channels, where we will look to offer choice where it makes reasonable financial sense;
- segmentation, where we will look to understand the needs of claimants with additional needs; and
- our approach to measuring and reporting the claimant experience.

We are working on how this strategy translates into measurable requirements. This means we will be introducing a wider set of service standards during 2012/13. We will maintain the current standards until this work is completed.

We are also working on necessary changes to the process and behaviours needed to allow us to achieve the revised standards initiated due to the Customer Treatment Strategy. This will partly be achieved through a Business Process Review, which commenced in the last quarter of 2011/12 and will run for 18 months. We will seek to deliver any non technical improvements prior to the full roll out.

Figure 2

Activity	Claim type	Service Standard
Answering Telephone Calls	All	80% within 20 seconds 95% within 90 seconds
Responding to Correspondence	Stage 1 Complaints & MP Letters	90% within 10 working days
	Stages 2 & 3 Complaints	90% within 15 working days
	Other Correspondence	90% within 10 working days
Sending Application Forms	Deposits	<i>Not applicable as application forms are not used for deposit claims</i>
	Non-deposits	90% within 5 working days
Confirming Claim Decisions	Deposits	Majority of compensation within 20 working days (target 7 days)
	Non-deposits	90% of claims within six months of receiving a completed application form Of the remaining 10%, no claims should be older than 12 months, unless exceptional circumstances apply
Making Compensation Payments	General	90% within 10 working days of acceptance of a compensation offer (where applicable)
	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



## Our aim

Our aim is to raise public awareness of the protection provided by FSCS.

### (ii) General public

FSCS is developing phase two of its consumer awareness programme. The first phase ended in March 2011 and FSCS has been using what it learned to shape its approach to the next phase.

This includes a strategy of emphasising the protection FSCS offers consumers and also taking a more product-based approach. The aim of this is to ensure that our message is relevant to people at the point when they are considering or taking out new products. The purpose is to “speak to” consumers at a point of relevance when the protection provided by FSCS is salient to their circumstances.

The strategy for phase two will target two key objectives and behaviours:

- in the event of a failure, consumers are reassured, react calmly, and do not panic, and
- those consumers who are at risk now, e.g. they have money over the compensation limit or in unregulated products, are aware of the risk and make informed decisions (even if that decision is to remain at risk).

Accordingly our objectives are to **reassure** the majority that their money and savings are safe, and to **warn** those who unwittingly put their money at risk.

The Scheme will continue to work with its Consumer Awareness Advisory Panel which is made up of all the industry organisations and consumer representatives. The Panel played a significant role in shaping the first phase of FSCS activity and supports the programme.

Firms also did much to support FSCS during phase one. The industry will continue to have a key role in promoting the Scheme during the next phase of the programme and is a vital channel to consumers. Firms have direct and regular contact with consumers and are well placed to communicate about FSCS. As a result, we will continue to work closely with firms to make sure we convey the FSCS protection when it is relevant for their customers.

In addition, we are working with the FSA on new requirements for deposit takers to display information about FSCS. An FSA consultation paper was published in December 2011 which included proposals for FSCS posters and stickers in branch and on websites, as well as having an information leaflet available on request for consumers.

In developing its plans for 2012/13, FSCS examined and rationalised all its communication activity. The scheme is still developing its proposals but has set aside a provision of about £2.9 million for consumer awareness in 2012/13.

Raising awareness of the protection we provide will help to improve consumer confidence. This, in turn, aids financial stability, which benefits the industry.



## Our aim

Our aim is to ensure that FSCS operates as cost-efficiently as possible, and maximises recoveries from the estates of failed providers.

### (iii) Levy payers

FSCS is funded by the industry, and we must be able to demonstrate that we provide value for money. This covers both the efficiency with which we provide our services and our effectiveness in making recoveries from the estates of failed businesses or other parties where applicable. These recoveries offset the compensation costs we pay. We are also very conscious that, though FSCS must meet all eligible claims for compensation and cannot reduce those costs, firms are keenly interested in ensuring that the costs are spread fairly across the industry.

This section accordingly sets out:

- (a) major changes in the management expenses required to run the Scheme, deliver our commitments, handle our workloads and implement our improvement plans;
- (b) prospects for recoveries in 2012/13; and
- (c) FSCS's objectives for the review of funding, on which FSA will consult later this year.

### Management expenses

The Scheme's management expenses budget is set to ensure it can provide a responsive, well-understood and efficient compensation service for financial services, which raises public confidence in the industry.

The proposed Budget for 2012/13 is £65.2 million (compared with £59.0 million in 2011/12), comprising:

- budgeted management expenses for like for like continuing operations, including outsourcing costs, of £38.2 million;
- strategic change investments of £14.6 million – described in figure 3 overleaf;
- a range of new activities in the Scheme, which will cost £8.6 million in 2012/13 – described in figure 4 overleaf;
- an allowance of £3.9 million for professional and legal expenses, provided in order to pursue recoveries, for example, from Keydata Investment Services Limited.

Details of the budget expenses required to fund our plans, and the likely costs of compensation next year, are given in Chapter 3. The FSA is currently consulting on our management expenses levy limit. The consultation is published on the FSA's website [www.fsa.gov.uk](http://www.fsa.gov.uk).

Figure 3

### Change investments – improving the Scheme’s effectiveness and efficiency

FSCS will continue to undertake a programme of change investments, to improve our service and increase our efficiency. The 2012/13 change investment project portfolio is forecast to cost £14.6 million.

The key FSCS projects next year are:

- re-engineering FSCS business processes so that consumers can engage with us through a range of channels, including e-channels, and so that all services are delivered to a standard model and supported by the up-to-date IT system introduced for fast pay-out – £6.3 million;
- the next stage of the Scheme’s strategy to raise consumer awareness of the protection the Scheme can provide, which will be focused both at consideration and at point of sale, when most relevant to consumers – £2.9 million;
- implementation of electronic payment project for faster deposit pay-out enabling savers in failed banks, building societies or credit unions to log on to a website to give instructions about pay-out, including the option of payment direct into a second account with another provider – £0.7 million;
- relocation of FSCS staff on a single floor of new office premises, occupying less space and at lower rent – £1.7 million; and
- a number of other projects costing around £3 million in total.

We expect these investments, once fully implemented from 2013/14, to deliver a reduction in FSCS’s cost base of at least £1.3 million annually.

Figure 4

### New activities for the Scheme

The Scheme will also take on a number of essential new activities in the next few months, which are expected to add £4.8 million to FSCS’s cost base this year and £8.6 million in 2012/13.

For 2012/13, the budget increases comprise:

- (i) £6.1 million for a syndicated short term financing facility, to enable the Scheme to access funds up to £1 billion in the event of a significant failure and thus ensuring the Scheme can pay out compensation without having to wait for a special levy to be raised;
- (ii) £1 million for standby electronic pay-out capability; these are ongoing costs which will be incurred once the electronic payment project for faster deposit pay-out, mentioned above, has been completed. This will remove the need to make all deposit compensation payments by cheque; and
- (iii) £1.4 million to set up and run an additional new outsource work stream from mid 2012/13.

## Recoveries – reducing the costs of compensation for levy payers

The Scheme actively pursues opportunities to recover the costs of compensation wherever it is possible and cost-effective to do so.

A key focus of FSCS's efforts in this respect are the estates of the banks which failed in 2008.

The Scheme has paid out total compensation of some £20.3 billion in respect of the five major bank failures, Bradford & Bingley, Icesave, Kaupthing Singer & Friedlander, Heritable and London Scottish Bank.

FSCS has outstanding loans of approx £18.5 billion with HM Treasury in respect of the funding of compensation for these failures. Figure 5 below sets out what FSCS is doing to maximise recoveries from these failures.

Figure 5

### 2008/09 Bank Failures

As at 31 December 2011, the Scheme had made total recoveries of £0.67 billion from Heritable Bank Plc, Kaupthing Singer & Friedlander Limited, London Scottish Bank Plc and Icesave, which have made helpful reductions to the loans, thereby reducing the burden on levy payers.

Our expected total recoveries from these failures are as follows:

- Heritable Bank Plc: 86% – 90%
- Kaupthing Singer and Friedlander Limited: 79% – 86%
- London Scottish Bank Plc: c. 30%
- Icesave: c. 90%

FSCS will not contribute to the cost of Dunfermline Building Society until the end of the resolution process, but in its last financial statements, the Scheme made a provision of £455 million based on the latest information available to it.

Bradford & Bingley has also forecast full repayment of the FSCS claim in due course. FSCS continues to work with UK Financial

FSCS is also pursuing recoveries following major failures in other sectors.

Following the significant compensation paid to investors with Keydata Investment Services Limited and the settlement with Norwich & Peterborough Building Society resulting in recoveries of some £30 million, FSCS is taking further action to seek to recover costs from both the assets of Keydata and the underlying investments, as well as from firms who were responsible for the sales of Keydata bonds to investors. We are claiming significant recoveries from both the Lifemark entity and claims against the advisor firms. However, we do not currently forecast receiving any such recoveries in 2012/13.

FSCS is also taking action to recover compensation from firms responsible for the sales of PPI policies and other structured products.

## Funding review

FSCS must retain the support of the industry which funds us. We have strongly supported the FSA's review of our funding. We look forward to the publication of the consultation document later in 2012 leading to the development of arrangements which command wider industry support.

Those arrangements will need to address three key criteria:

**Predictability** – businesses find the unpredictability of our current system of post hoc levies hard to manage;

**Fairness** – the current approach to pooling costs can lead to businesses bearing costs for the failure of products they would never sell, provide, or recommend, which means businesses run bigger risks than they would assume;

**Certainty** – FSCS must be able to count on access to the finance it needs when it needs it.

Investments on the recoveries from Bradford & Bingley, but the timescale is still uncertain.

To fund the compensation relating to the major bank failures, FSCS borrowed from the Bank of England. These loans were refinanced by the Treasury. Interest costs on borrowings by FSCS are classed as a "specific cost" attributable to the deposit class.

The interest expense for the major bank failures is the main component of FSCS's management expenses. This is particularly sensitive to the level of interest rates on the loans for the major bank failures.

Levies to pay for the interest costs of the loans for the major bank failures are currently invoiced by the FSA in July of each year, and are payable by firms to FSCS by 1 September. The invoice relates to the levy period preceding each July – for example, invoices sent in July 2012 will be for the costs incurred between 1 April 2011 and 31 March 2012.

The interest costs of the loans for the major bank failures for the 2011/12

financial year, which will be levied in July 2012 for payment by FSCS to HMT on 1 October 2012, are currently estimated to be £360 million based on actual costs to date and an average interest rate of 1.99% for the remaining months of 2011/12.

The current arrangements for the major bank failure loans are to be reviewed from 1 April 2012 and the ongoing terms to be applied in 2012/13 are still to be agreed with HM Treasury. The 2012/13 major bank failure costs therefore include an illustrative amount of £374.9 million for interest, based on the interest rate applied in 2011/12 (12 month LIBOR + 30 basis points.)

We are actively engaged with HM Treasury in working out a repayment schedule which will be based on market conditions. We will keep the BBA and BSA informed of our discussions, and 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 which class(es) or sector(s) they will fall.



## Our aim

Our aim is to be ready to respond to defaults in the financial services industry, to protect consumers and financial stability.

## (iv) Government & regulators – resilience and readiness

FSCS must be ready to meet future failures. With this in mind, in 2011/12 we introduced our new capability to pay the majority of eligible depositors in failed banks, building societies and credit unions in seven days. In 2012/13, we shall work with our partners to develop further our contingency planning and preparedness.

### The new Regulatory Regime – relationships with PRA and FCA

Plans for the new regulatory structure to replace the FSA are already underway and FSCS will be working with the successor bodies, the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA), to develop close and effective working relationships.

### New legislative requirements: EU Directives

#### European developments

On 12 July 2010, the European Commission adopted a legislative proposal for a thorough revision of the Deposit Guarantee Schemes Directive (DGSD). The initial proposals from the Commission have been debated by the European Council and European Parliament but agreement has not yet been reached. A final text may be agreed in Q1 2012.

In July 2010 the Commission also published proposals for the revision of the Investor Compensation Scheme Directive (ICSD) and a final proposal in this area may be made during 2012. Amendments to Directives must be implemented by Member States and FSCS will work closely with the relevant Authorities to implement likely changes to FSCS.

The Commission also published a White Paper on Insurance Guarantee Schemes in July 2010 and we expect the European Commission to undertake further work in this area during 2012. FSCS will work alongside the UK Authorities to represent the views of FSCS and its stakeholders in this area.

#### Other international developments

FSCS will continue to work with our international counterparts in deposit, investor and insurance guarantee schemes to exchange ideas and experience. FSCS will host the International Association of Deposit Insurers (IADI) AGM and annual conference in October 2012.

### Business contingency planning and resolution for possible future major failures

Although it may well be many years before another financial crisis occurs on the scale of 2008, sooner or later another will arise, and it is likely to be different from that of 2008. FSCS, along with its partners in government, the regulators and the industry, needs to be prepared for any such crisis. This means raising the level and intensity of our contingency planning. We need to have experience of working with our partners through exercises to forge good relationships and test protocols. We also need to think about the resolution of major failures across all parts of the industry.

FSCS has been working to improve its readiness for the future failures we might face. We are in the process of reviewing and exercising our contingency plans to ensure that they are fit for purpose, particularly in light of the likely volatility and unpredictability of claims volumes.



We are also reviewing the way we identify future risks that could impact FSCS – a process of “Horizon Scanning”. This aims to identify possible future claims trends and other events that could affect FSCS in future, and measures the probability and impact of these events occurring. Our “Horizon Scanning” will help to ensure that FSCS can be better prepared for failures when they happen.

We have analysed how the 2012 Olympic and Paralympic Games might impact FSCS, and put together a plan to ensure that we can still provide a high level of service to consumers and our other stakeholders in the lead up to and during the course of the Games. In November 2011, FSCS was pleased to take part in the Marketwide Exercise. The test scenario was set during the 2012 Olympic Games and enabled us to test our updated continuity plans. FSCS found the exercise extremely useful.

### **Risk management**

In addition to business contingency planning, FSCS also adheres to corporate governance best practice with a formal approach to the enterprise management of risk. Structured processes exist for the identification, assessment and treatment of all risk types. These are reviewed frequently by the Scheme’s Executive Committee, with oversight being exercised by the Board and the Audit Committee. Business and process change initiatives are also conducted with reference to the relevant control environment with risk assessments conducted using formal tools and supporting governance.



## Our aim

Our aim is to enhance the capability of FSCS by enabling the people who work for us to develop their skills, knowledge and professionalism.

## (v) Developing the capability of our people

The success of any organisation depends on its people. Attracting, retaining and developing the right people is critical for FSCS. It is essential to providing the best and most cost-effective service possible to consumers and our stakeholders. In 2012/13, we will build on our work in this area in the last two years following a major change programme.

Our aim is to be an employer of choice. And we are working steadily towards that by developing our people. To do this we have a new people strategy that puts developing a high performance culture centre stage along with pay, performance management, training and truly engaging our staff.

During 2011, we established a new organisational structure to meet the challenges we face. In 2012/13, we plan to consolidate our structure by developing all our staff – new and experienced – to drive improvements and to meet our service targets. A key part of this will be work to develop the core competencies of our staff in important areas like communication, analytical thinking and managing relationships. Doing so will help us to capitalise on our new organisational structure and benefit consumers and the industry.

During the year, we will also develop our resource management capability by increasing our focus on financial planning, budget control and supplier management. This reflects our commitment to delivering quality and value-for-money in our services.

Our staff have a strong commitment to the organisation and to the people it exists to serve. To make sure they have the skills and experience to do this, we will invest in training and tools that support career development. This will allow them to improve their performance and achieve their full potential. At the same time, embedding sound performance management will be a priority for us during 2012/13.

## Our people survey

FSCS commissioned Best Companies to survey our people. The first results of this survey show we are off to a good start by achieving “One to Watch” status. But we have more to do. The results of the survey are driving improvement plans in 2012/13 that will help us to realise our ambition of being an employer of choice and providing an even better service.

In all of this, we are putting our values centre stage. We are focusing on delivery, working together, making a difference and striving for excellence.

And we will continue working to deliver on our commitment to equality and diversity during 2012/13. We will continue developing our monitoring, training and policies and processes to make a reality of this commitment.

## Chapter 3

### The numbers: the levy in 2012/13



This chapter sets out more financial information about the plans described in previous chapters and the consequences for the levy in 2012/13.

It breaks this information down according to the key components of FSCS's costs:

- FSCS's own management expenses and the base and specific cost levies to which they give rise;
- projected compensation costs and the associated levies covering the period July 2012 – June 2013; and
- the interest costs of the loans made by HM Treasury to FSCS in 2008 to meet the costs of compensating depositors in the failed banks.

#### Overview: indicative levies for 2012/13

Set out below are our indicative proposals for levies to cover FSCS's forecast funding requirements for 2012/13.

Levies payable in	2012/13 £m
<b>Indicative 2012/13 Annual Levy: All relevant classes/sub-classes</b>	221.0
<b>Deposits: Major bank failure loans – 2011/12 interest costs</b>	360.7

The current arrangements for the major bank failure loans are to be reviewed from 1 April 2012 and the ongoing terms to be applied in 2012/13 are still to be agreed with HM Treasury. The 2012/13 major bank failure costs therefore include an illustrative amount of £374.9 million for interest, based on the interest rate applied in 2011/12 (12 month LIBOR + 30 basis points.)

The proposed indicative 2012/13 Annual Levy (i.e. excluding interest on the major bank failure loans) amounts to £221 million. This is allocated to classes and sub-classes as follows (the 2011/12 Annual Levy is shown for comparison):

Class and Sub-class	2012/13 Indicative Annual Levy £m	2011/12 Annual Levy* £m
<b>SA01 Deposits (excluding major bank failure loan interest)</b>	15.0	6.0
<b>SB01 General insurance – provision</b>	63.5	50.5
<b>SB02 General insurance – intermediation</b>	57.0	69.5
<b>SC01 Life &amp; pensions – provision</b>	0.0	0.5
<b>SC02 Life &amp; pensions – intermediation</b>	18.0	21.5
<b>SD01 Investments – fund management</b>	0.0	0.0
<b>SD02 Investments – intermediation</b>	33.0	34.0
<b>SE01 Home finance – provision</b>	0.0	0.0
<b>SE02 Home finance – intermediation</b>	5.0	1.0
<b>Base costs</b>	29.5	34.0
<b>Totals</b>	<b>£221.0m</b>	<b>£217.0m</b>

\* Excludes 2011/12 interim levy for SD02

The proposed initial indicative levy amounts for 2012/13 are all within the class and sub-class levy limits for compensation costs, with no requirement for cross-subsidy.

We do not levy unless there is a reasonable expectation that we would have to meet the costs of claims in a particular area. Before any actual levies are announced and issued, assumptions will be reviewed and re-estimates will be made as necessary, to ensure that the amounts levied are current.

## Potential interim levy

In arriving at these indicative levy amounts we have assumed that any potential additional funding required for failures in the investment intermediation sector will have been raised via an interim levy before the end of March 2012. Our current projection is that we may face a deficit of at least £40 million on investment intermediaries before the 2012/13 levy becomes available.

We have not included any amount in respect of MF Global. Once the potential cost of compensation is known it could impact both on the potential interim levy and the 2012/13 indicative levy.

## Management Expenses Budget

The table in figure 6 breaks down FSCS's management expenses budget for 2012/13 and compares it with the budget for 2011/12 and expected outturn for this year.

Figure 6

FSCS Management Expenses	2012/13 Budget	2011/12 Budget	Against 2011/12 Budget inc/(dec)	2011/12 Reforecast	Against 2011/12 Reforecast inc/(dec)
<i>Rounding errors occur</i>					
	£m	£m	£m	£m	£m
Continuing operations expenses – excludes outsourcing costs	24.5	23.2	1.3	24.7	(0.2)
Outsourcing costs	13.6	13.9	(0.3)	12.8	0.8
<b>Total continuing operations costs</b>	<b>38.2</b>	<b>37.1</b>	<b>1.0</b>	<b>37.5</b>	<b>0.7</b>
Change investments	14.6	21.4	(6.9)	16.8	(2.2)
<b>Total operations and investment expense</b>	<b>52.7</b>	<b>58.6</b>	<b>(5.8)</b>	<b>54.3</b>	<b>(1.6)</b>
New activities	8.6	0.5	8.1	4.8	3.8
Major recoveries initiative	3.9	0.0	3.9	5.3	(1.4)
<b>Total expenses excluding major bank failure expenses</b>	<b>65.2</b>	<b>59.0</b>	<b>6.2</b>	<b>64.4</b>	<b>0.8</b>
Plus major bank failure expenses*	376.1	346.9	29.2	360.7	15.4
<b>Total Scheme management expenses</b>	<b>441.3</b>	<b>405.9</b>	<b>35.3</b>	<b>425.1</b>	<b>16.2</b>
Reserve contingency within MELL	558.7	594.1	(35.3)		
<b>MELL</b>	<b>1,000.0</b>	<b>1,000.0</b>	<b>0.0</b>		

\* The current arrangements for the major bank failure loans are to be reviewed from 1 April 2012 and the ongoing terms to be applied in 2012/13 are still to be agreed with HM Treasury. The 2012/13 major bank failure costs therefore include an illustrative amount of £374.9 million for interest, based on the interest rate applied in 2011/12 (12 month LIBOR + 30 basis points.)

For the purpose of the levy these management expenses are then split between base costs and specific costs. In calculating the levy we also take into account any expected surplus or deficit on management expenses at 1 April 2012.



### (i) Budgeted management expenses – Base costs

Base costs are defined in the rules as management expenses that are not dependent on the level of claims. These are charged to firms by reference to their FSA periodic fees. The base cost calculation assumes a core staffing requirement of the Chief Executive and senior management team and a proportion of other non-claims staff, with related accommodation, depreciation, IT and other overheads also treated as base. Base costs also include all of the strategic change investment costs.

In total, base costs will amount to £30.4 million for 2012/13 (down from £34.0 million last year). In addition a £1.4 million surplus in respect of 2011/12 (caused in part by forecast change programme costs being lower than budget) will be carried forward to 2012/13, giving a total base costs levy of £29.5 million (after allowing for a small surplus at 31 March 2013).

The base costs levy is allocated to FSA fee blocks as set out in figure 7 below (with last year's base costs levy for comparison):

Figure 7

#### Base costs summary

		2012/13 indicative levy £m	2011/12 indicative levy £m
A000	Minimum fee	0.9	1.4
A001	Deposit takers	10.0	10.3
A002	Home finance providers	0.5	0.8
A003	General insurance	2.0	2.6
A004	Life insurance	3.7	3.9
A006	Society of Lloyd's	0.0	0.1
A007	Fund managers	2.1	2.4
A009	Operators/trustees CIS	0.5	0.5
A010	Firms dealing as principal	3.0	2.5
A012	Advising/arranging (holding client money)	2.4	2.3
A013	Advising/arranging (not holding client money)	1.5	3.1
A014	Corporate finance	0.7	0.7
A018	Home finance mediation	0.6	1.1
A019	General insurance mediation	1.6	2.3
<b>Total base costs levy</b>		<b>£29.5m</b>	<b>£34.0m</b>



### (ii) Budgeted management expenses – Specific costs

The remaining management expenses are treated as specific costs, which are allocated to FSCS funding classes and sub-classes and paid for by firms in proportion to their tariff bases. The main elements are outsourcing costs and staff costs. The allocation of these specific costs to classes and sub-classes is shown in the concluding table.

### (iii) Compensation costs

We project total compensation costs forward to 30 June 2013 to reflect the fact that our annual levy only becomes payable from July. In effect, therefore, the element of our levy which covers compensation costs is based on a 1 July - 30 June year, with compensation costs arising in the first quarter of the 2012/13 financial year covered by the annual and interim levies raised in 2011/12. We estimate that at 31 March 2012 we will have funds of £87.0 million in respect of levies raised in 2011/12 (including the possible 2011/12 interim levy on SD02 referred to earlier in this Plan and Budget), to fund compensation costs for the period to 30 June 2012.

Unforeseen events in the markets 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. The rules made by the FSA state we have to reasonably anticipate the compensation cost funding we will need in the 12 months following the levy.

Our assumptions about compensation costs are based on “most likely” claims assumptions for the year ahead. These assumptions were discussed in chapter 2. We then adjust these costs to reflect our expectations about the recoveries we shall achieve over the same period.

The projected compensation costs for the period to 30 June 2013 (net of projected recoveries) are quantified as £237.8 million and are set out by class and sub-class in figure 8.

Figure 8

Sub-class	Projected net compensation costs to 30 June 2013 £m
SA01 Deposits	15.8
SB01 General insurance – provision	98.8
SB02 General insurance – intermediation	70.7
SC01 Life & pensions – provision	0.0
SC02 Life & pensions – intermediation	18.5
SD01 Investments – fund management	0.0
SD02 Investments – intermediation	32.7
SE01 Home finance – provision	0.0
SE02 Home finance – intermediation	1.3
<b>Totals</b>	<b>£237.8m</b>



## Costs of the major bank failures from 2008/9

For 2011/12, interest costs are estimated at £360.7 million. The actual amount will be calculated after the year end, by the Bank of England, and the levy invoices will be based on this calculation. Levy notices will be issued by end July 2012, due for payment 30 days later, to allow for funds to be available to settle the liability due to HM Treasury by 1 October 2012.

The estimate of the 2011/12 major bank failure interest cost is based on actual costs to date and an average interest rate of 1.99% for the remaining months of 2011/12. Future costs could therefore be materially different from these estimates. It is noted that a 0.5% change affects the annual interest cost by some £100 million, and underlying assumptions about the amount of principal can also change (if, for example, further recoveries are received before the year end).

The current arrangements for the major bank failure loans are to be reviewed from 1 April 2012 and the ongoing terms to be applied in 2012/13 are still to be agreed with HM Treasury. The 2012/13 major bank failure costs therefore include an illustrative amount of £374.9 million for interest, based on the interest rate applied in 2011/12 (12 month LIBOR + 30 basis points.)

## 2012/13 forecast class and sub-class fund accounts (excluding loans for the major bank failures)

Funding Sub Class code	Notes	Total	Deposits		General Insurance		Life & Pensions		Investment Fund Management		Home Finance Provision		Home Finance Intermediation		Base costs	
			SA01	SB01	SB02	SC01	SC02	SD01	SD02	SE01	SE02	SE01	SE02	SE01	SE02	SE01
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Compensation costs (net of recoveries) to 30 June 2013	1	(237.8)	(15.8)	(98.8)	(70.7)	0.0	(18.5)	0.0	(32.7)	0.0	0.0	0.0	(1.3)			
Management expenses to 31 March 2013:																
Base costs		(30.4)														(30.4)
Specific costs		(36.0)	(4.8)	(3.4)	(10.0)	(0.1)	(4.4)	(0.5)	(9.7)	0.0	0.0	0.0	(3.1)			
Loan interest		(374.9)	(374.9)													
Total management expenses	2	(441.3)	(379.7)	(3.4)	(10.0)	(0.1)	(4.4)	(0.5)	(9.7)	0.0	0.0	0.0	(3.1)			(30.4)
<b>Amount to be funded</b>		<b>(679.1)</b>	<b>(395.5)</b>	<b>(102.2)</b>	<b>(80.7)</b>	<b>(0.1)</b>	<b>(22.9)</b>	<b>(0.5)</b>	<b>(42.4)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(4.4)</b>			<b>(30.4)</b>
<b>Funded by:</b>																
Forecast Fund balance at 1 April 2012	3	(273.7)	(354.1)	39.2	24.0	0.8	5.3	0.5	9.8	0.0	0.0	0.0	(0.6)			1.4
<b>Levies payable in 2012/13</b>																
Major bank failures interest levy 2011/12	4	360.7	360.7													
Annual levy for 2012/13		221.0	15.0	63.5	57.0	0.0	18.0	0.0	33.0	0.0	0.0	0.0	5.0			29.5
<b>Levies payable in 2013/14</b>																
Major bank failures interest levy 2012/13	2	374.9	374.9													
<b>Forecast Surplus/(Deficit)</b>	5	<b>3.8</b>	<b>1.0</b>	<b>0.5</b>	<b>0.3</b>	<b>0.7</b>	<b>0.4</b>	<b>0.0</b>	<b>0.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>			<b>0.5</b>

**Note 1:** Projected net compensation costs for the period 1 April 2012 to 30 June 2012. The compensation costs for the period 1 April 2012 to 30 June 2012 are to be funded by levies raised in 2011/12 and included in the forecast fund balance at 1 April 2012.

**Note 2:** The current arrangements for the major bank failure loans are to be reviewed from 1 April 2012 and the ongoing terms to be applied in 2012/13 are still to be agreed with HM Treasury. The 2012/13 major bank failure costs therefore include an illustrative amount of £374.9 million for interest, based on the interest rate applied in 2011/12 (12 month LIBOR + 30 basis points.) The major bank failures are the five banks that failed during 2008/09, namely Bradford & Bingley plc, Kaupthing Singer and Friedlander Limited, Heritable Bank plc, Landsbanki Islands hf (Icesave) and London Scottish Bank plc.

**Note 3:** The forecast fund balance at 1 April 2012 is used to fund compensation costs to 30 June 2012. The SA01 Deposits balance excludes the £455m provision made in the 2010/11 financial statements for Dunfermline Building Society.

**Note 4:** The 2011/12 major bank failures interest costs, expected to be levied in the summer of 2012.

**Note 5:** The forecast surplus/deficit at the end of the funding period.

