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## **£150m levy on general insurance firms**

The Financial Services Compensation Scheme (FSCS) today announced that a levy of £150m (0.66% of leviabale income) will be raised against general insurance firms.

The levy will be used to pay compensation for general insurance claims, including those against Independent Insurance and Chester Street.

“One of our main aims is to make sure that consumers receive compensation promptly, when they need it. This levy will ensure that the necessary funds are available,” says FSCS Chief Executive Suzanne McCarthy.

“This levy should come as no surprise to the insurance sector,” she said. “The Policyholders Protection Board (PPB) had intended to raise a levy to cover these costs, but found that they did not have the legal powers to raise a levy for compensation costs incurred after N2. We expect that the majority of insurance companies will already have put funds aside to cover this.”

FSCS is the UK’s single safety net for customers of financial services firms that have gone out of business. The Scheme took over responsibility for paying compensation from 1<sup>st</sup> December 2001, the date when the Financial Services & Markets Act came into force (N2), replacing existing compensation schemes including the Policyholders Protection Scheme.

The Scheme acts as a safety net for consumers if an authorised finance firm is unable to pay claims against it. This is usually when a firm has gone out of business. FSCS covers insurance, deposits and investments, and is funded by the financial services industry.

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# NOTES FOR EDITORS

## Funding

FSCS is funded by levies on authorised firms. For levy purposes there are two types of costs: compensation costs and management expenses.

- Compensation costs – the actual compensation payments made – will be allocated to specific contribution groups.
- Management expenses – these are split into the costs of running the scheme (base costs) and specific costs, which relate to the cost of assessing claims and making payments. All firms contribute to base costs which are allocated by reference to a firm's FSA periodic fees. Specific costs are allocated to relevant contribution groups. All firms also contribute to establishment costs – the costs of setting up FSCS – which are being spread over three years from March 2002. The calculation of a firm's contribution will again be by reference to their FSA periodic fees.

## Sub-schemes and contribution groups

For levying purposes, FSCS is split into three sub-schemes: insurance, deposits and investments. The sub-schemes are divided into contribution groups. Authorised firms are allocated to a specific contribution group (or groups) by virtue of their regulated permissions.

The insurance sub-scheme is divided into two contribution groups: long term insurance and general insurance. Only companies within a specific contribution group (or groups) can be levied in respect of compensation payments for that group and as such this levy is being raised only against firms in the general insurance contribution group.

## Previous levies made by the Policyholders Protection Board

1992: £37.7m	<i>(0.25% of leviable income)</i>
1993: £80.9m	<i>(0.5% of leviable income)</i>
1994: £174.8m	<i>(1% of leviable income)</i>
1995: £48.3m	<i>(0.25% of leviable income)</i>

## Future levies

The FSCS expects to make annual levies of all authorised firms, as necessary, from April 2002. Compensation costs will be levied on a 'pay as you go' basis and will directly reflect the projected costs of the Scheme in that financial year. No further levies are expected this financial year (1 April 2001 – 31 March 2002).

## BACKGROUND

*Eight compensation schemes have been replaced by the FSCS as a result of the implementation of the Financial Services & Markets Act. They are:*

- *Building Societies Investor Protection Scheme;*
- *Deposit Protection Scheme;*
- *Friendly Societies Protection Scheme;*
- *Investors Compensation Scheme;*
- *PIA Indemnity Scheme;*
- *Policyholders Protection Scheme;*
- *Section 43 Scheme (which covers business transacted with listed money-market institutions);*
- *The arrangement between the Association of British Insurers and the Investors Compensation Scheme Ltd for paying compensation to widows, widowers and dependents of deceased persons.*