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FSCS refunds £4m to deposit-takers

Over 400 deposit-taking firms that contributed to a fund to provide protection for UK deposits following the collapse in 1992 of the Bank of Credit & Commerce International SA (BCCI) will share a refund of approximately £4m being distributed by the Financial Services Compensation Scheme (FSCS), it was announced today (Thursday).

The payment increases the amount refunded from £69.3m to £73.3m - over 90% of the value of the initial contribution (£80.3m) made in 1992.

“We are very pleased to be able to make this distribution,” says FSCS’ Head of Finance, Nick Gooderham. “We work very closely with liquidators to maximise recoveries.”

The Bank of England called for a contribution from deposit-takers in 1992 to cover compensation payments to customers of failed banks. The amount levied (£80.3m) was raised mainly to cover payments to BCCI customers. The Deposit Protection Scheme, the compensation scheme protecting UK deposits at the time, (operated by the Deposit Protection Board) administered the payments until 30 November 2001.

FSCS took over responsibility for compensation payments on 1 December 2001, when it became the single compensation scheme under the Financial Services & Markets Act 2000, covering deposits, insurance and investments.

Transitional arrangements provide for FSCS to make repayments from recoveries received from the liquidators of BCCI. Previous refunds were made by the Deposit Protection Board.

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NOTES FOR EDITORS

The Bank of Credit & Commerce International SA (BCCI) was put into provisional liquidation on 5 July 1991.

- Compensation payments totalling approximately £78.5m have been made to BCCI customers (Deposit Protection Scheme to 30 November 2001, FSCS from 1 December 2001).
- Recoveries totalling £74.5m have been received from the liquidators of BCCI and other deposit-taking defaults.
- The Deposit Protection Scheme was established under the Banking Act 1979 and continued under the Banking Act 1987, as amended. On 1 July 1995 the Scheme was amended by the Credit Institutions (Protection of Depositors) Regulations 1995. All UK and Non-EEA incorporated institutions authorized under the Banking Act 1987 to accept deposits in the United Kingdom were required to join the Scheme. The Scheme covered 90% of a bank's total liability to a depositor in respect of protected deposits, subject to a maximum payment to any one individual of £18,000.
- As at midnight on 30 November 2001, FSCS took over responsibility for providing deposit protection in the UK, under the terms of FSMA 2000. The Deposit Protection Scheme activities ceased at that time. All rights, assets and liabilities of the Scheme were transferred to FSCS. The level of protection provided to any one depositor increased to 100% of the first £2,000 and 90% of the next £33,000.
- The FSMA 2000 (Transitional Provisions, Repeals and Savings) (Financial Services Compensation Scheme) Order 2001 provides for FSCS to make repayments from money recovered under the Banking Act 1987 "to such persons, and in such amounts as [FSCS] considers fair and equitable in the circumstances, having regard to the payments made by such persons by way of contributions.."
- Section 55 (3) of the Banking Act 1987 provides that: "Repayments to institutions shall be made pro rata according to the amount of the special contribution made by each of them but the Board may withhold the whole or part of any repayment due to an institution that has become insolvent and, in the case of an institution that has ceased to be a contributory institution, may withhold its repayment or make it to any other contributory institution which, in the opinion of the Board, is its successor."
- Comp13.4.17R further specifies that recoveries must, as far as possible, be refunded to the firms that contributed to ... the special contribution (whether or not the firms are participant firms at the time that the recoveries are made).
- No levies have been raised by FSCS in respect of compensation payments against authorised deposit-takers to date.

About FSCS

FSCS acts as a fund of last resort for customers of authorised financial firms and is funded by the industry. It was set up under the terms of the Financial Services and Markets Act 2000. The Scheme can pay compensation if a regulated firm is unable (or likely to be unable) to pay claims against it. In general, this is when a firm stops trading or is insolvent. FSCS covers deposits, insurance and investments. FSCS became the single compensation scheme at N2 (1 December 2001, when FSMA 2000 came into force), and took over responsibility for compensation from the previously existing compensation bodies, including the Investors Compensation Scheme (ICS), Policyholders Protection Board (PPB) and Deposit Protection Board (DPB). These bodies ceased to exist at this time.