



9th May 2003

FSCS announces £87.9m levy

The Financial Services Compensation Scheme (FSCS) has today announced that it will raise a levy of £87.9m to cover compensation payments and management expenses in 2003/04. This includes £80m for anticipated pensions review compensation costs, affecting firms in the ring-fenced A16 (Pensions Review) Contribution Group. The remaining £7.9m will be raised from firms in the Investment Sub-scheme Contribution Groups for non-pensions review investment claims.

“Firms were advised last year that FSCS was increasing its processing capacity to speed up completion of the departed firms element of the pensions review. This, inevitably, has an impact on the levy,” says FSCS’ Chief Executive Suzanne McCarthy.

No levy is currently being raised on firms within the Insurance and Accepting Deposits Sub-schemes, as FSCS holds sufficient funds to cover anticipated compensation payments and budgeted management expenses for those sectors in 2003/04.

It is expected that invoices will be issued to affected firms in June and August, in line with the FSA’s invoicing programme.

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NOTES FOR EDITORS

Levy limits

FSCS operates on a 'pay-as-you-go' basis, and raises levies to cover the projected costs of the Scheme in a financial year. Compensation payments are kept under regular review throughout the year. FSCS normally undertakes a levy process once every financial year, although further levies can be raised if compensation payments exceed those anticipated or if there were to be a major new default in that financial year.

Under its rules FSCS can only raise in any one financial year:

- Accepting Deposits: 0.3% of protected deposits (cumulative)
- Insurance firms: 0.8% of a participant firm's annual relevant net premium
- Designated Investments: not more than £400m per annum

Sub-schemes and contribution groups

For levying purposes FSCS is split into three Sub-schemes: accepting deposits, insurance business and designated investments. The Sub-schemes comprise one or more contribution groups. Authorised firms are allocated to a contribution group (or groups) by virtue of their regulated permissions.

The contribution groups within the Sub-schemes are: Accepting Deposits (A1), Insurance Business (A3-A4) Designated Investments (A7-A15), and Pensions Review (A16).

Only companies within a specific contribution group (or groups) can be levied in respect of compensation payments against that group or groups. All firms contribute to the base cost part of management expenses and establishment costs.

Previous levies

In January 2002 FSCS raised a levy of £150m on firms in the general insurance contribution group, mainly to cover claims against Independent Insurance and Chester Street.

In April 2002 FSCS raised a levy of £56.4m to cover pensions review and other investment claims of which some £50m related to pensions review claims.

Funds in hand

Funds held by the Scheme are being used to cover compensation claims and management expenses allocated to those Sub-schemes where a levy is not being raised (Accepting Deposits & Insurance). These consist of monies passed to FSCS by two of its predecessor schemes, the Deposit Protection Scheme and the Policyholders Protection Scheme, at 1 December 2001 (when FSCS became the single compensation scheme for the UK financial services sector), recoveries made by FSCS and funds remaining from its previous levies. Interim levies can still be made during the year, should the need arise.

Background

FSCS provides a fund of last resort for consumers who have claims against authorised finance firms that are unable, or are unlikely to be able, to pay claims against them. This is usually when a firm has gone out of business or is insolvent. FSCS became operational on 1 December 2001, replacing the previous eight Schemes.