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FSCS announces 2004/05 levy requirements for each Sub-scheme

The Financial Services Compensation Scheme (FSCS) has announced its levy requirements for 2004/05 to cover each of its Sub-Schemes (Insurance, Designated Investments and Accepting Deposits).

- £130m will be raised from general insurance firms, to pay compensation for general insurance claims such as those relating to Independent Insurance and Chester Street.
- £33.2m will be raised from firms in the Investment Sub-scheme Contribution Groups for claims against investment firms relating to non-pensions review investments, such as endowments.
- £55m will be raised for anticipated pensions review compensation costs, affecting firms in the ring-fenced A16 (Pensions Review) Contribution Group.
- No levy is currently being raised against firms in the Accepting Deposits Sub-scheme, as FSCS holds sufficient funds to cover anticipated compensation payments and management expenses in that area.

“These levies should come as no surprise. We indicated last year that a levy would be required on general insurance firms. We have also been highlighting the rise in claims against investment firms for products such as endowments for some time,” says FSCS’ Chief Executive Suzanne McCarthy.

The funds will be used to cover compensation payments and management expenses in 2004/05.

It is expected that invoices will be issued to affected firms along with invoices for the FSA periodic fees.

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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.

There is a limit to how much FSCS can levy for compensation costs 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.

FSCS' Management Expenses Levy Limit is set following an annual consultation exercise by the Financial Services Authority (FSA). If additional management expenses are required in any one financial year (for example, because of changes in the level of claims being handled by the Scheme) a further consultation paper can be issued by the FSA.

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. (Establishment costs are spread over three years from 2002/03.)

Previous levies

- May 2003:** **£87.9m** for pensions review and other investment claims, of which some £80m related to pensions review claims.
- April 2002:** **£56.4m** for pensions review and other investment claims of which some £50m related to pensions review claims.
- Jan 2002:** **£150m** on firms in the general insurance contribution group, mainly to cover claims against Independent Insurance and Chester Street.

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.