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FSCS calls for more funds to handle rising numbers of investment claims

The Financial Services Compensation Scheme (FSCS) is today (Monday) alerting authorised firms that it will need to increase its Management Expenses Levy Limit for 2004/05 to enable it to handle further increases in the number of investment claims being received by the Scheme, particularly relating to mortgage endowments. FSCS is the fund of last resort for customers of authorised financial services firms. Its role is to protect customers of a firm that is unable to pay claims against it, usually because it has ceased business.

“The Scheme plays a vital role in maintaining consumer confidence and reassuring them that if a financial services firm fails they will be protected,” says Ron Devlin, Interim Chief Executive.

“Despite allowing for a substantial increase in endowment claims when we did our budget planning in October 2003, at double the rate then being received, the number of enquiries and claims coming to the Scheme has exceeded all expectations,” says Ron Devlin. “Claim volumes increased dramatically in the last six months of 2003/04 and current trends suggest that these increases will continue for the foreseeable future. We are also having to take into account claims that might come to the Scheme which relate to “precipice” bonds, following the failures of investment firms that sold these products.”

FSCS has set up dedicated teams to handle endowment and other investment cases, but more resources are now needed to handle further increases in the numbers of claims being received.

The FSA will be consulting on increasing FSCS’ Management Expenses Levy Limit from £12.5m, set in March 2004, to £17.6m later this month. When the original Limit was published the FSA alerted firms that this might need to change if claims continued to rise. To help firms manage their cash flow, any increase in management expenses won’t be levied until 2005/06. Compensation costs are also likely to rise, by an estimated £15m. FSCS does not intend raising further levies for increased compensation costs during 2004/05, although this will have to be kept under review.

FOR FURTHER INFORMATION CONTACT:

Heather Tilston or Suzette Browne on:

- 0207 892 7370 htilston@fscs.org.uk
- 020 7892 7372 suzette.browne@fscs.org.uk

Key facts for journalists:

- New general investment claims (i.e. non-pensions review) received rose from a total of 841 in 2002/03 to 3,342 in 2003/04. The majority of new claims were for mortgage endowment mis-selling and were received during the last six months of 2003/04.

NEW MORTGAGE ENDOWMENT CLAIMS RECEIVED		
2002/03		678
2003/04		2,471
Of which:	April – Sept 2003	595
	Oct 2003 – Mar 2004	1,876

- FSCS has had to increase its original estimates (made in October 2003) of expected new mortgage endowment claims for 2004/05 to 7,000 potential new claims, on top of those already in hand. FSCS has also now had to include an estimated 4,000 potential “precipice” bond claims.

Type of investment claim	Claims at 1.4.04	Projected new claims in year 2004/05	Expected output capacity in year 2004/05	Projected claims in hand at 31 March 2005
Endowments	2,581	7,000	6,755	2,826
Precipice bonds*	332	4,000	2,000	2,332
Pensions review	5,315	2,418	4,785	2,948
Other	253	480	480	253
Total	8,481	13,898	14,020	8,359

* Claims are processed after a bond has matured.

Further information about the proposed increase in the Management Expenses Levy Limit can be found in the latest edition of the Scheme’s newsletter for authorised firms, *OUTLOOK*, published today. The Scheme’s Annual Report for 2003/04 is also being published this week. Both publications can be downloaded at www.fscs.org.uk

ABOUT FSCS

The Financial Services Compensation Scheme (FSCS) is the statutory fund of last resort for customers of authorised finance sector firms. FSCS was set up to protect consumers who have claims against firms that are unable to pay them, usually because they’ve gone out of business or become insolvent.

The Scheme, which is funded by compulsory levies on authorised firms, covers business with authorised deposit takers, insurance and investment firms; this includes banks, building societies and credit unions, insurance companies and independent financial advisers.

There are limits to the amount of compensation the Scheme can pay. For investment claims this is £48,000 (100% of £30,000 and 90% of the next £20,000).