

IMMEDIATE RELEASE: 8th April 2005

FSCS sets initial 2005/06 levy at £160.7m

FSCS has set its initial 2005/06 levy at £160.7m; a reduction of some £42m on forecasts made in January and a reduction of £77m on 2004/05 levy amounts. This initial levy excludes funding for potential splits claims, due to significant uncertainties about the likely volume and nature of claims in this area. An additional levy for these claims remains likely during 2005/06. Other adjustments reflect a reduction in expected compensation payments for general insurance claims and increases in anticipated payments for precipice bond claims, based on latest claims experience. Details of the initial levies by contribution groups are given on page 2.

Loretta Minghella, Chief Executive said:

“In setting our levies, we seek to ensure that we will have enough money to pay claims that we expect to settle in the coming year. We also seek to avoid levying more money than we need. The key challenge for FSCS is striking a balance between the needs of those who need to claim compensation and those who pay for it. Our business is inherently uncertain and there are many variables that impact on our forecasts. Claims information changes daily and our forecasts are updated as new information is received. Our funding needs are ultimately determined by the number and value of claims received.”

“Although the prospect of substantial volumes of splits claims remains, there are significant uncertainties about the timing, number, nature and costs of claims. For example, the administration of Exeter Fund Managers Limited (EFM) is at a very early stage, and the company is not currently in default.”

Any queries about the administration of Exeter Fund Managers Limited should be directed to the administrators at PricewaterhouseCoopers. Contact: Caroline Feltham on (020) 7212 3097.

“In light of all the uncertainties, our Board does not believe it is reasonable to levy for possible splits claims at this stage. However, a separate levy for splits later in 2005/06 remains likely. This could impact on firms in contribution groups A7, A9, A12 and A13.”

“We have also adjusted the allocation to contribution groups in respect of other investment claims, which include precipice bond and endowment claims. In particular, our levy requirement on firms in A13 has increased by £7.4m, compared to our forecast in January, to reflect increases in anticipated compensation payments for precipice bond claims, based on our recent and current claims experience. FSCS now has considerably more hard information about these claims, compared with the information available in January. We appreciate that this is a significant increase for the firms affected. However, it reflects our latest experience of actual compensation payments made so far and anticipated costs for 2005/06.”

FSCS levies, not including any amounts for splits, will be included on a single invoice covering FSA, FOS and FSCS fees, which will be sent out by the FSA from June onwards, payable within 30 days. The FSA is working with the Small Business Practitioner Panel, trade associations and FSCS to see if the market can provide credit facilities to enable firms to pay by instalments.

PRESS ENQUIRIES: Heather Tilston on 0207 892 7370, email: htilston@fscs.org.uk

Levies by contribution groups (excluding splits)

Contribution group	2005/06 forecast £m	2005/06 Initial levy ¹ £m	2004/05 levy amounts ² £m	Increase / (decrease) on 2004/05 £m
Accepting deposits				
A1 Deposit takers	0.0	0.0	0.0	0.0
Insurance				
A3 General insurance	95.0	78.0	139.7	(61.7)
A4 Life insurance	0.0	0.0	0.0	0.0
Investments				
A7 Fund managers	27.0	0.2	0.1	0.1
A9 Managers of AUTs, ACDs and depositories	0.7	0.0	0.5	(0.5)
A10 Dealing as principal	0.0	0.0	0.3	(0.3)
A12 Brokers holding client money	16.0	12.3	7.2	5.1
A13 Brokers not holding client money	30.0	37.4	25.4	12.0
A14 Corporate advisers	0.1	0.1	0.1	0.0
Pensions review	32.0	31.0	64.4	(33.4)
A18 Mortgage brokers	0.4	0.4	0.0	0.4
A19 Insurance intermediaries	1.7	1.3	0.0	1.3
Totals	202.9	160.7	237.7	(77.0)

Claims forecasts 2005/06 (excluding splits)

Type of claim	Estimate of new claims	Estimate of claims completed	Estimated compensation payments ³
<u>Investments:</u>			£m
Endowments	7,000	8,400	9.3
Precipice bonds	2,700	3,700	28.0
Others, excluding splits	1,100	1,300	9.6
Total investments	10,800	13,400	46.9
Pensions review	400	4,400	66.0
Credit unions	0	40	0.5
M&GI firms ⁴	1,000	700	unknown
Total claims	12,200	18,540	
Insurance payments ⁵	12,000	12,000	159.5
Estimated value of compensation payments 2005/06			£272.9m

¹ Levies are set to recover anticipated compensation payments and management costs (less recoveries and interest receipts) and take into account fund balances in hand.

² Estimated.

³ Excludes FSCS management expenses.

⁴ Mortgage and general insurance intermediaries. The value of possible compensation payments is currently unknown.

⁵ Figures relate to payments only. Insurance claims are usually handled by the appointed run-off agent and presented to FSCS for checking and payment.