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MEDIA INFORMATION

FSCS PLAN AND BUDGET 2007/08

Endowment claims forecast to remain at high levels

The Financial Services Compensation Scheme (FSCS), the UK's financial compensation fund of last resort, is forecasting that it will receive around 39,000 new claims in 2007/08. The majority of these are expected to relate to endowment policies, although it also expects to be dealing with split capital investment trusts (splits) claims relating to Exeter Fund Managers (In administration) and BFS Investments plc (in joint liquidation) during the year (See *notes to Editors*). It currently expects to complete over 43,000 claims during the year, an increase of 28% compared to current forecasts for 2006/07.

Loretta Minghella, FSCS Chief Executive commented:

"In 2005/06 the strategies we put in place for dealing with significant numbers of endowment claims being received by FSCS really paid off. We increased claims output by 180% to match demand, and expect that to increase by a further 32% during 2006/07. We forecast continuing high levels of endowment claims will be received in 2007/08 and will continue our efforts to deliver an efficient service to consumers whilst keeping the costs of running the Scheme to a minimum."

The FSA will consult on a Management Expenses Levy Limit for FSCS of £37.52m for 2007/08 (2006/07 £37.06m), which is based on a budget of £32.04m (2006/07: £29.37m) and a reserve contingency of £5.48m to enable FSCS to deal with claims if these arrive in volumes outside its central forecasts. FSCS forecasts that its initial overall levy in 2007/08 from FSA regulated firms to pay and process claims will be £104.6m (compared to £74.8m in 2006/07). Splits claims are not included in this initial levy indication.

Loretta Minghella, FSCS Chief Executive added:

"Our work is demand driven, and we have to be able to respond quickly to fluctuations in claims volumes. We also must have the funds available to pay compensation when we need to, and we recognise that our levies are sometimes tough news for those sectors of the industry that must pay them. However, having an efficient and effective compensation service is good for consumer confidence and good for the industry as a result. We think an increase in our management expenses budget of 9% compared to an increase in claims output of 28% for 2007/08 demonstrates our commitment to achieving that."

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Notes to Editors:

1. The Financial Services Compensation Scheme (FSCS) is the UK's statutory "last resort" compensation scheme for customers of financial services firms, created under the Financial Services and Markets Act 2000. It provides a free service to consumers and can help people who have lost money after doing business with an authorised firm if a firm is unable to meet claims made against it. FSCS is an independent body. It is funded by levies on authorised firms. This year the FSA will be consulting on a new funding structure for FSCS. It is expected to publish a Consultation Paper on its proposals in the first quarter of 2007.
2. FSCS's Plan and Budget 2007/08 (including breakdowns for levy payers / contribution groups) can be downloaded from www.fscs.org.uk/latest_news.
3. Not all claims made to the FSCS are upheld – approximately 46% of endowment claims are paid with average compensation of £2,000; 83% of pensions review claims are upheld, with an average payment of £24,600 and approximately 37% of other investment claims are upheld with an average pay out of £15,200.
4. FSCS is forecasting that it will deal with splits claims in relation to EFM and BFS during the year, although it is too early to predict accurately the timing, volume of claims or the amount of compensation that FSCS will need to pay. The costs for handling these claims, and potential compensation payments, have not been included in FSCS's initial levy forecasts.

2007/08 claims forecasts*

Type of claim	Estimate of claims in progress 1 April 2007	New claims forecast LOWER forecast for 2007/08	New claims forecast MID POINT forecast for 2007/08	New claims forecast UPPER forecast for 2007/08	Estimate of claims completed at 31 March 2008	Estimate of claims in progress 31 March 2008 MID POINT
Investments						
Mortgage endowments	12,300	21,000	26,500	31,700	28,000	10,800
Others exc splits	660	1,000	1,200	1,400	1,200	660
Total Investments	12,960	22,000	27,700	33,100	29,200	11,460
Pensions review	660	300	440	440	790	310
Credit Unions	250	3,000	4,000	5,000	4,000	250
M&GI	720	1,500	2,550	3,600	2,550	720
Total claims**	14,590	26,800	34,690	42,140	36,540	12,740
Splits claims	3,700	2,000	4,000	5,000	6,640	1,060
Total inc. splits	18,290	28,800	38,690	47,140	43,180	13,800
Insurance payments***	N/A	12,000	14,000	16,000	14,000	N/A

Year-by-year comparisons: Investment claims received and completed



* Figures are rounded. ** Not including splits claims *** Payments only. Claims are handled by run-off agents appointed by the insolvency practitioners.