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MEDIA INFORMATION

FSCS publishes Plan and Budget: 2009/10

The Financial Services Compensation Scheme (FSCS) today publishes its Plan and Budget 2009/10 containing first indicative estimates of its levies on financial services firms for 2009/10.

The FSCS Plan and Budget provides the Scheme's initial assumptions of future claims and its funding needs for the coming financial year. It covers the full range of the FSCS's work including insurance and investments.

Coming against the backdrop of continuing uncertainty in the markets, the FSCS says financial services firms are likely to pay a levy of £186m in 2009/10 against £130.8m (excluding a possible interim levy of up to £40m) in 2008/09. In addition, deposit taking firms will pay the interest costs on loans to fund the five bank defaults in 2008/09.

Those bank defaults mean the FSCS will issue a special levy estimated at £435m to cover the interest on Government loans in 2008/09 and the related costs of the bank defaults. These loans are being used to fund compensation for customers of Bradford & Bingley plc, Heritable Bank plc, Kaupthing Singer & Friedlander Ltd, Landsbanki Islands hf (Icesave) and London Scottish Bank plc. Only the deposits class will pay these costs. In addition, the FSCS will also accrue interest charges on the loans in 2009/10 that it will have to pay by 1 October 2010. It currently estimates these interest charges to be in the region of £632m depending on the prevailing interest rates during the year and levels of principal drawn down.

Apart from the banking defaults, the main drivers of FSCS costs in 2009/10 will be in the insurance and investments areas. In the insurance area, the Chester Street failure of 2001 is expected to take most of the £69m levy in the general insurance sub-class.

During 2009/10, the FSCS anticipates that it will continue dealing with claims from the bank defaults (for example fixed term deposits that mature in 2009/10) while also handling a reducing number of mortgage endowments, pensions review and other investment claims, including claims against Pacific Continental Securities. The FSCS is also expecting payment protection insurance (PPI) claims in 2009/10 although it says it is too early to predict what the volume or value of the claims might be.

FSCS Chief Executive Loretta Minghella says: “2008/09 is proving to be a very challenging year for consumers, the industry and the FSCS. The year marks a watershed for the FSCS with significant interest in the Scheme and increasing expectations of it as well as an expanded role. The FSCS has been called upon to compensate the holders of some 3m accounts in five banks which have failed while continuing its work in other sectors including insurance and investments.

“2009/10 is again likely to be a very difficult year for consumers and firms alike. In such a context, we recognise the levy will not be welcome news for firms. Whilst our primary obligation is to deliver compensation to those entitled to our protection, we will be vigorously pursuing recoveries from the failed firms to help offset the costs of compensation for the levy payer. These include recoveries from the banks in default.

“We recognise the profound changes that are happening in the markets and the implications for the FSCS. We cannot be certain about the number or nature of defaults that we will handle in 2009/10 but what has come home to us in the past year is the degree of volatility to which we have to be ready to respond. This places extreme pressures on an organisation like ours in times of market stress. All these changes require us to build greater capacity to manage this volatility. As a result, we believe it is essential to enhance our organisation and invest in some critical areas to allow us to respond even more effectively in the future.

“Our role as the safety net for UK consumers has never been more important and will continue to grow in 2009/10 following the enactment of the Banking Bill. We will continue playing our part in helping to restore consumer confidence in financial services with all the benefits that can bring for consumers and industry alike.”

Notes to editors

The full Plan and Budget 2009/10 contains a break down of the indicative levies by class and sub-class. It is available at [www.fscs.org.uk/industry/publications/annual reports](http://www.fscs.org.uk/industry/publications/annual%20reports).