New deposit guarantee limit to be £85,000

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The Financial Services Authority (FSA) has today confirmed that the new deposit compensation limit for the United Kingdom will increase from £50,000 to £85,000 per person, per authorised firm, from 31 December 2010.

This is the Sterling equivalent of the €100,000 deposit compensation limit which comes into force in all European Economic Area (EEA) member states at the end of the year.

Further changes coming into effect on 31 December 2010 are:

- Fast payout rules, with a target of a seven day payout for the majority of claimants and the remainder within the required 20 days.
- Gross payout, which protects customers by ring fencing their deposits if they have savings and loans with the same firm. Currently, any outstanding loan or debt would be deducted from any compensation.
- This new pan European requirement replaces the existing UK arrangement which has been in place since 2009, and which allowed for separate compensation cover for customers with deposits in two merging building societies.

Sheila Nicoll, director of conduct policy at the FSA said:

“The need to maintain customer confidence in the banking system is one of the key lessons from the financial crisis.

“Today’s announcement completes a radical overhaul of depositor compensation. In future, all the still-separate national compensation schemes across the entire European Economic Area will offer cover at €100,000 or the local currency equivalent - a limit which will protect the vast majority of depositors.

“Alongside increasing the amount of depositor compensation, raising awareness of the compensation scheme is vital. The UK’s Financial Services Compensation Scheme will begin a publicity campaign in the New Year to inform customers of the compensation limits and of the importance of ensuring that they are covered, and by which national scheme."

Customers need to understand the type of firm they are doing business with, and how this can affect which scheme would pay the compensation should anything go wrong.

The UK's Financial Services Compensation Scheme (FSCS) covers deposits with UK banks and 'subsidiaries' of foreign banks which operate in the UK. However, deposits in 'branches' of EEA banks operating in the UK will not be covered by the FSCS, but rather by the scheme of the country where the branch has its headquarters.

Notes to editors

1. The Handbook Notice gives details of these changes.
2. The Financial Services Compensation Scheme (FSCS) will begin a campaign in the New Year to increase awareness of the FSCS, compensation limits and to encourage customers to understand the details of the cover provided.
3. The FSA regulates the UK financial services industry and has four objectives under the Financial Services and Markets Act 2000: maintaining market confidence; securing the appropriate degree of protection for consumers; fighting financial crime; and contributing to the protection and enhancement of the stability of the UK financial system. The FSA regulates the prudential soundness of UK banks and 'subsidiaries' of foreign banks, and has responsibilities relating to the conduct, but not prudential soundness, of EEA banks operating in the UK as branches.

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