

08/15***

Financial Services Authority

Financial Services
Compensation Scheme:
Review of limits

October 2008



Contents

1	Overview	3
2	Our approach	9
3	Deposits	12
4	Investments and home finance mediation	14
5	Insurance	16
6	Home finance lending and administration	19
7	Temporary high deposit balances	21
8	Recovery of losses from the failed firm	24

Annex 1: Cost benefit analysis

Annex 2: Compatibility statement

Annex 3: List of questions

Appendix 1: Draft Handbook text

The Financial Services Authority invites comments on this Consultation Paper. Comments should reach us by 5 January 2009.

Comments may be sent by electronic submission using the form on the FSA's website at (www.fsa.gov.uk/Pages/Library/Policy/CP/2008/cp08_15_response.shtml).

Alternatively, please send comments in writing to:

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It is the FSA's policy to make all responses to formal consultation available for public inspection unless the respondent requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure.

A confidential response may be requested from us under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Tribunal.

Copies of this Consultation Paper are available to download from our website – www.fsa.gov.uk. Alternatively, paper copies can be obtained by calling the FSA order line: 0845 608 2372.

1 Overview

- 1.1 The Financial Services Compensation Scheme (FSCS) began operation in December 2001. The scheme is the UK's statutory compensation fund for customers of authorised financial services firms. It can pay compensation if a firm is unable, or likely to be unable, to pay claims against it. This will generally be because the firm has stopped trading and has insufficient assets to meet claims, or is "in default" as described in our rules. The scheme is funded by levies on authorised firms.
- 1.2 The review of the FSCS limits forms part of the programme of work that falls under the heading of Banking Reform. The Tripartite authorities – HM Treasury, the FSA and the Bank of England (the 'authorities') in conjunction with the FSCS – have issued four papers in this area over the last year,¹ setting out the authorities' plans to enhance financial stability and depositor protection. The authorities have five objectives, one of which – providing effective compensation arrangements in which consumers have confidence – will be delivered in part by the proposals in this Consultation Paper.
- 1.3 We are also undertaking an in depth examination of the compensation framework as part of this objective. Of vital importance is the ability to provide compensation to eligible depositors quickly and effectively. Working with the British Bankers' Association and the FSCS, we have engaged external consultants to help identify the costs and benefits of the proposals included in the first of two Tripartite consultation documents published in July to inform our policy proposals with the aim of achieving a fast payout. These proposals include, but are not limited to:
 - payment of compensation on a per account or per brand basis instead of per depositor per authorised firm basis;
 - moving to a gross rather than net payout²; and
 - the introduction of a single customer view (a reliable and consistent view of eligible aggregate customer deposit position with an institution).

1 http://www.fsa.gov.uk/pubs/discussion/banking_reform.pdf
http://www.fsa.gov.uk/pubs/cp/JointCP_banking_stability.pdf
http://www.fsa.gov.uk/pubs/cp/jointcp_stability.pdf
http://www.fsa.gov.uk/pubs/cp/joint_doc_stability.pdf

2 Whether amounts owed by the claimant under a mortgage or loan with the failed firm should be set off (net payment), as is the case now, against the amount owed to the claimant by the firm or not (gross basis).

- 1.4 The authorities are committed to a payout within seven days and we aim to publish a consultation paper on our proposals early in the New Year. This consultation will also look at other issues related to the payment of compensation. These will include the simplification of the eligibility criteria for making a claim to the FSCS and raising consumer awareness of the compensation scheme.
- 1.5 We believe that it is essential that consumers are provided with enough information with which they can make responsible decisions in the management of their finances, as well as comfort and assurance that their money is appropriately protected. We have engaged external consultants who will help us identify the gaps in consumer awareness, the degree of information consumers need and how it should be delivered. Working with the FSCS, we aim to create a communications strategy which delivers the correct amount and level of information to consumers, and this may involve voluntary action by the industry as well as FSA rules requiring firms provide certain information to consumers.
- 1.6 **This paper reviews the limits of compensation payable by the FSCS. The FSCS protects:**
- **deposits;**
 - **life and general insurance;**
 - **investment business;**
 - **home finance mediation – (e.g. mortgage) advice and arranging³;**
- 1.7 The FSCS covers, in general, losses to consumers arising out of an obligation to them by an authorised firm, which that firm cannot meet because it does not have the money to pay it⁴. These obligations include the following:
- a. deposit obligations to repay a claim in respect of a protected deposit the consumer has made with an authorised deposit taker;
 - b. insurance obligations under an insurance contract (general, life insurance and compulsory insurance);
 - c. claims in relation to investment business – e.g. obligations to pay the consumer compensation for loss caused by mis-selling;
 - d. claims for misappropriation or loss of assets held for the benefit of the client (e.g. through fraud).
- 1.8 The FSCS does not cover every kind of loss that consumers might face. In particular, the FSCS does not provide cover for investment risk – the risk that the value of an investment can go down as well as up.

3 In this Consultation Paper, and in our rules, we use the term “mediation” to describe the activities of advising and arranging.

4 Investment risk is not covered because firms do not generally have an obligation to protect customers against the fluctuation in the price of investments, nor would it be reasonable to require them to do so. However, they may have an obligation to provide an appropriate risk warning that the price of an investment can go down as well as up.

- 1.9 We reviewed the FSCS limits in 2005. As reported in Policy Statement 06/4 of June 2006⁵, we found that:
- most claims were still well below the current maximum limits;
 - there was no evidence that consumer behaviour and market confidence were being significantly affected by current limits;
 - FSCS limits significantly exceeded EU minimum limits (€20,000) for deposits and investments; and
 - there was no evidence of significant or widespread consumer detriment, or distortions to consumer behaviour, either then or anticipated in the immediate future, that would justify recommending changing the limits.
- 1.10 At that time, we said we would review the FSCS limits again in 2009. However, the current market conditions, which led to the removal of the co-insurance element of the deposit limit on 1 October 2007 (so that cover was provided for 100% of £35,000 without consultation), have led us to carry out a review of the limits this year. This was mentioned in a consultation document on financial stability and depositor protection issued by the authorities in January 2008⁶. Chapter 5, on consumer confidence and compensation arrangements, outlined that the FSA would consult on the FSCS compensation limits, including those applying to financial products other than deposits. A further July Tripartite consultation document reported on responses to the earlier paper and explained that the FSA's consultation was expected to propose as the lead option an increase to the compensation limit for protected deposits to £50,000, on a per person per bank basis.
- 1.11 On 2 October 2008 the FSA Board agreed to increase the FSCS deposit compensation limit to £50,000, from 7 October 2008. It also agreed to make changes to the way that recoveries from the estate of a failed deposit taker would be allocated to people with deposits above the new protected limit of £50,000. The relevant new rules have been made without following the normal consultation and CBA procedures, in line with section 155(7) of the Financial Services and Markets Act which allows the FSA to waive these procedures if it “considers that the delay involved in complying with them would be prejudicial to the interests of consumers”. This consultation sets out the rationale for these changes, includes a CBA on which they were based, and describes how they relate to our proposal for changes to the other FSCS limits. Further details are given in chapters 3 and 8.
- 1.12 We are also proposing to make changes to the other non-deposit FSCS limits, but in this case we did not feel it was necessary to act without undertaking our usual consultation procedure. Further details of our proposals are given in chapters 4, 5 and 6, which are summarised as follows:

5 Review of Compensation Scheme and Ombudsman Service limits and miscellaneous amendments to the Compensation sourcebook – www.fsa.gov.uk/pubs/policy/ps06_04.pdf

6 Financial stability and depositor protection: strengthening the framework – January 2008 – www.fsa.gov.uk/pubs/cp/JointCP_banking_stability.pdf

- The FSCS investment limits and home finance intermediation limits currently cover 100% of the first £30,000 of a claim, and 90% of the next £20,000. This gives a total coverage of £48,000. In each case we are proposing to increase the cover to 100% of the first £50,000;
- The FSCS life insurance, general insurance and general insurance intermediation limits cover 100% of the first £2,000 of a claim, plus 90% of the remainder (without any upper limit). In each case we are proposing to remove the lower level of coverage of 100% of the first £2,000, and so the future level of cover will be 90% of the total claim, again without any upper limit⁷.

1.13 Comments on these proposals are invited, and should be received by 5 January 2009

1.14 As well as reviewing the current limits for the various existing FSCS sub-schemes, we have:

- looked again at the exclusion of mortgage lending and administration from the scope of the FSCS;
- considered possible solutions for protecting temporary high deposit balances held with a failed deposit-taking firm; and
- reviewed for all sub-schemes the method used for allocating recoveries⁸ from failed firms between claimants and the FSCS. This affects how much claimants with losses over the FSCS limits might recover.

1.15 We discussed our proposals informally with trade bodies and Which? before finalising them for this consultation. The trade bodies we met were the Association of British Insurers (ABI), Association of British Credit Unions (ABCUL), Association of Independent Financial Advisers (AIFA), Association of Private Client Investment Managers and Stockbrokers (APCIMS), British Bankers' Association (BBA), Building Societies Association (BSA), Council of Mortgage Lenders (CML) and Investment Management Association (IMA).

EEA firms

1.16 Our proposals will affect mainly UK firms. However, they may also affect firms based in other European Economic Area (EEA) member states which do business in the UK the position regarding incoming EEA firms⁹ is as follows:

- *Insurers* – we require incoming insurers to join the FSCS. So our proposals will apply to incoming EEA insurers in the same way as they apply to UK insurers;
- *Firms topping up into the FSCS* – certain types of firm can 'top-up' into the FSCS if the scope and/or level of cover provided by their home country scheme is less than that provided by the FSCS¹⁰. This applies to credit institutions such as banks

⁷ The one exception to this is compulsory insurance, which currently covers 100% of claims without any upper limit. We are not proposing to change this.

⁸ Recoveries are the distribution of assets as part of an insolvency process of a failed firm.

⁹ An incoming EEA firm is a firm that wishes to carry on business in the UK through a branch or on a cross-border basis.

¹⁰ Under 'top-up' the home country scheme remains responsible for the initial cover and needs to ensure that its customers are aware of this.

covered by the Deposit Guarantee Schemes Directive, insurance intermediaries covered by the Insurance Mediation Directive, investment firms subject to the Markets in Financial Instruments Directive (MiFID) and management companies subject to the Directive on undertakings for collective investment in transferable securities (UCITS Directive). In each case, the FSCS will provide protection for the difference between the protection provided by the home country scheme and the FSCS. So our proposals will affect the overall level of protection provided to consumers buying the products or services of these firms. A list of the firms that have chosen to top-up into the FSCS is available on their website – www.fscs.org.uk.

Structure of this Consultation Paper

1.17 This Consultation Paper (CP):

- a) describes the changes we have recently made to the deposit limit;
- b) sets out our proposals for amending the limits in relation to i) investments and home finance mediation; and ii) the insurance sub-schemes;
- c) explains why we consider that mortgage lending and administration should continue to be outside the scope of the FSCS;
- d) looks at possible options for protecting temporary high deposit balances;
- e) sets out our position on how recoveries from failed firms should be dealt with in future; and
- f) contains draft rules reflecting our proposals under b), but not on temporary high balances, where the CP seeks views on a range of possible options, some requiring rules and others which might form part of a market solution.

Who should read this paper?

- 1.18 The CP will be of interest to a wide range of trade bodies and to all authorised firms whose products or activities are covered by the FSCS – deposit takers, investment firms, home finance intermediaries, insurers and insurance intermediaries. It will also be of interest to mortgage lenders – both as lenders and as firms that may be called upon to pay levies for home finance mediation – and to mortgage administrators.

Consumers

All the proposals in this CP will be of interest to consumers and consumer bodies, in particular:

- the recent change to the deposit limit and the allocation of recoveries;
- the proposed changes to the current compensation limits for investments, home finance mediation and the insurance sub-schemes;
- our view that mortgage lending and administration should remain outside the scope of the FSCS; and
- the options for dealing with temporary high deposit balances.

Next steps

- 1.19 Consultation on the proposals in this CP ends on 5 January 2009. On most issues we will then finalise the proposed rule changes and publish final rules with a Policy Statement later in 2009. If, following this consultation, we decide to pursue a rules based solution on temporary high deposit balances, we will carry out a further consultation on any draft rules in the New Year.

Transitional provisions

- 1.20 We see no need for transitional provisions for the proposed changes to the limits. If adopted following consultation, they would apply to claims on firms which are in default on or after the date on which the rules introducing the new limits were made.

2 Our approach

- 2.1 This chapter explains how we have approached our review of the FSCS limits, bearing in mind our statutory objectives and the principles set out in the Financial Services and Markets Act 2000 (FSMA), and in particular:
- a) consumer protection – securing an appropriate degree of protection for consumers;
 - b) public awareness and market confidence – promoting awareness of the benefits and risks associated with different kinds of investment or other financial dealing, and the provision of appropriate information and advice; and
 - c) the need for us to consider the effects of our proposals on competition.
- 2.2 Research¹¹ shows that consumer understanding of the compensation scheme and the FSCS limits is poor, and a separate strand of our work is looking at improving consumers’ knowledge of the protection available to them. When looking at possible changes to the FSCS limits we have aimed to simplify them where possible, while not placing unreasonable burdens on levy payers.
- 2.3 The factors we have taken into account in our review are set out below. We recognise that they cannot all be applied equally to the current limits, and in some cases there are trade-offs to be made between them.

Simplicity

- 2.4 We consider it is essential for the limits to be capable of being expressed in a simple way, so they can easily be understood by consumers. They should also, where possible, be simple for the FSCS to operate, to speed up the handling of claims and reduce claims handling costs.

11 Results of the consumer research will be available from end October and will inform any future developments on compensation reform as a result of the Banking & Compensation Reform project.

Equality of treatment

- 2.5 The limits should not be a significant factor for consumers' choice of one type of product over another.

'Coinsurance' should be avoided

- 2.6 'Coinsurance' requires consumers to bear a part of their loss. This can be achieved in the following ways:
- a) through an upper limit – for example, from 7 October 2008 the limit for deposits is set at £50,000, and claimants cannot recover more than this amount from the FSCS, although they may receive further amounts as a result of recoveries from the failed firm;
 - b) by applying a lower percentage than 100% to part of the loss. For example, the current limit for investments is 100% of the first £30,000 and 90% of the next £20,000. A claimant with a loss of £50,000 would receive £48,000;
 - c) through applying a lower percentage than 100% to the whole claim, for example, by paying 90% of any claim.
- 2.7 When the limits were introduced, we thought that coinsurance could act as an incentive for consumers to take care in their choice of product or service provider and encourage them to spread their investments between providers. However, experience has shown that consumers are either unaware of the type of coinsurance described in b) above, or do not understand it, so it does not have this effect. It also detracts from our wish to have limits that can be explained simply. We are proposing to move away from this type of coinsurance, while still retaining a maximum limit or applying a lower percentage than 100% to the whole claim where appropriate.

Consumers should continue to have a degree of responsibility for their decisions

- 2.8 Consumers cannot be expected to carry out in-depth analysis of the risk of particular firms failing, and the FSCS exists to mitigate this risk. However, it is not intended to provide an absolute level of protection. The limits we set should not encourage consumers to completely disregard the risks involved when choosing a product or product provider. Compensation coverage should generally not be unlimited. The exception to this is in the insurance sub-scheme where coverage has no upper limit but restricted to 90% for most kinds of insurance claims and 100% for compulsory insurance. Consumers are required to take on compulsory insurance as a matter of public policy with the intention of protecting third parties (e.g. those injured in motor accidents). In this case consumers have no incentive to take out an excessive level of cover, because they would not personally benefit doing so. And to limit the coverage would undermine the public policy purpose.

2.9 The simplest approach, and the easiest for consumers to understand, would be to have a uniform limit for all types of products and services, including insurance. However, this would fail to take into account the particular nature of insurance, which has the purpose of protecting consumers and third parties against uncertain events which may impose uncertain costs. Our proposals therefore distinguish between two main categories¹²:

- a) the non-insurance sub-schemes (not including deposits) – investments and home finance mediation;
- b) the insurance sub-schemes – life and general insurers and mediation of non-investment insurance.

12 We are considering the limits for personal pensions (other than those provided by insurers which fall in to the insurance sub-scheme) separately and not in this CP.

3 Deposits

- 3.1 Deposits can be held with different types of deposit taker such as banks, building societies and credit unions, but for ease of reference we refer in this CP to ‘banks’. Deposits do not include funds received in exchange for the issue of electronic money¹³, since electronic money is excluded from FSCS coverage¹⁴. And the limit applies to accounts with each authorised entity and not necessarily to accounts with each trading name. If all the brands within a single firm are covered by a single FSA authorisation, the FSCS limit will apply once to all accounts within that firm. But it will apply separately to accounts with brands of firms that are separately authorised.
- 3.2 We announced in the July Tripartite consultation document that our lead option for the deposit limit was an increase from £35,000 to £50,000, and noted that we planned to consult in the autumn on this basis. Since July, we have done further work on this issue, including cost benefit analysis, and this has tended to confirm our initial view that an increase to £50,000 is the best option, in the current circumstances. This being the case, our usual approach would then be to go out to consultation on a proposal for such an increase. However, a number of factors have arisen that have persuaded us that it would be right to make this change now, without undertaking consultation.
- 3.3 As mentioned above, our proposal to raise the limit to £50,000 has been known since July. Although we have not formally consulted, this has been the subject of considerable public discussion, and there appears to be a general expectation the limit will eventually be raised to this level. Furthermore, ongoing market turbulence has meant that consumers appear to be increasingly concerned about the level of coverage that is available for their savings, and we have noted that some customers are moving their savings to reduce the amount they have in a particular institution down to the limit. Given that we had concluded that an increase to £50,000 was the right move to make, we felt it was interests of consumers to reduce any continuing uncertainty by making this change now.

13 Electronic money (e-money) is defined under our rules as: monetary value, as represented by a claim on the issuer, which is: (a) stored on an electronic device; (b) issued on receipt of funds; and (c) accepted as a means of payment by persons other than the issuer.

14 By the FSMA 2000 (Regulated Activities) (Amendment) Order 2002 (SI 2002/682)

- 3.4 On 2 October 2008 the FSA Board decided to increase the deposit limit from £35,000 to £50,000, from 7 October 2008.
- 3.5 Until now, the FSCS has paid compensation to depositors on a per person per authorised institution basis. We are not proposing anything in this consultation exercise that would change this, but will be considering this, and may bring forward proposals in the further consultation that we expect to undertake in the New Year (as mentioned in paragraph 1.4). However, there are a number of aspects of this definition that affect the way the limit applies to consumers, and we would welcome any preliminary views on these issues.
- 3.6 The first question is the issue of brands. Consumers with sums of money over the limit may wish to increase their effective FSCS coverage by splitting their money up, and depositing it in different authorised institutions. Sometimes it may not be immediately apparent to consumers how to do this. Some deposit taking institutions operate several businesses, often with very different brand names. We have no objection in principle to banks operating different brands, and they may have good business reasons for doing this, but this can lead to misunderstanding by consumers as to the extent to which they are covered. It has been suggested that one way of dealing with this would be to move to payment of compensation on a per brand basis, but there are difficulties with this, not least that this would require the FSA to define what is a 'brand'.
- 3.7 Another suggestion that has been made is that the limit would apply on a by account basis. The advantage of this is that it would speed up payment in the event of a failure. It would not be necessary for the FSCS to identify all of the different accounts that a particular customer had with a bank, before it could work out the amount of compensation payable. The disadvantage is that it could tend to undermine the limit itself. It may be that banks would simply open a new account every time one of their customer's deposit reached the limit.
- 3.8 In order to address these issues, we need to know more about consumers understanding of the FSCS rules, specifically the way that payment of compensation would take place following a bank failure. We have two pieces of work underway on these issues, and we expect the results shortly (as mentioned in paragraphs 1.3 and 1.5). Once received, we will be able to bring forward any formal policy proposals. In the meantime, we would be grateful for any preliminary views.
- Q1: We are raising the limit for banks to 100% of £50,000 on 7 October 2008. Do you agree with this? If not, please give your reasons.
- Q2: Do you think that we should continue to offer compensation on a per authorised entity basis, or should we move to a per brand or per account basis? If a per brand or per account basis is preferred, please give you reasons and explain how you consider branding should be defined and applied.

4 Investments and home finance mediation

4.1 This chapter concerns the following FSCS sub-schemes:

a) *Investments* – this sub-scheme covers:

- provision of investments – the provision of investment products and the management of the funds invested in these products. This scheme covers, for example, fund managers (but not life insurers, which come under the insurance sub-scheme); and
- mediation of investments – the distribution and sale of these products, which may involve advice on which products to buy. This class covers the sale of both life and non-life investment products e.g. unit trusts.

b) *Home finance mediation* – this sub-scheme covers intermediaries advising on or arranging house purchase finance. It also covers mortgage lenders when advising on or arranging a mortgage.

4.2 The investment and home finance mediation sub-schemes currently have a limit of 100% of the first £30,000 and 90% of the next £20,000, so a maximum payment of £48,000. Removing this type of coinsurance, as proposed in paragraph 2.7, would lead to a limit of 100% of £50,000, which is the same as the limit that will be set for deposits. We propose that there should be a uniform limit of 100% of £50,000 for both sub-schemes.

4.3 The new limit has been arrived at by taking account of all the general principles set out in Chapter 2 (simplicity, equality of treatment, avoidance of coinsurance and retaining a degree of consumer responsibility for their decisions) and would have the following impact:

a) *Investments*: with the current limit (100% of the first £30,000 and 90% of the next £20,000), the maximum payout is £48,000, so there would be only a slight increase as a result of moving to 100% of £50,000;

b) *Home finance mediation*: the current limit is the same as that for investments, so again there would only be a slight increase from the current maximum payout of £48,000 to a new maximum of £50,000.

Q3: Do you agree that the limit for investments and home finance mediation should be set at 100% of £50,000 to match the limit for deposits? If not, please give your reasons.

5 Insurance

5.1 The insurance sub-scheme is the second main category under our new proposals. This sub-scheme consist of:

- a) *Long-term insurance – provision*: this covers the failure of life insurers, and protects the products they offer, including personal pensions and pure protection contracts (term, income protection and critical illness insurance). It covers only the provision of these products. It does not include mediation of personal pensions, which fall under the investment sub-scheme (see Chapter 4). It also does not cover mediation of pure protection contracts, which fall under the non-investment insurance mediation sub-scheme – see c) below.
- b) *General insurance – provision*: this covers the failure of general insurers and protects the products they offer, both compulsory insurance (such as motor third party insurance and employers’ liability insurance) and non-compulsory insurance such as household and private medical insurance.
- c) *Non-investment insurance mediation*: this covers mediation of most of the products that fall under the Insurance: Conduct of Business sourcebook (ICOBS), so both general insurance and pure protection contracts.

5.2 The current limits for these sub-schemes are:

- *Long-term insurance*: the FSCS is required by our rules¹⁵ to try to achieve continuity of this type of insurance, for ‘at least 90%’ of the benefits. This can be done through a transfer of policies, or by substitute policies being issued by another insurer. If this cannot be achieved, the limit for the compensation payable is 100% of the first £2,000 and 90% of the remainder, with no upper limit.
- *General insurance*: the limit is 100% of the claim, with no upper limit, in respect of compulsory insurance. For non-compulsory insurance, the limit is 100% of the first £2,000 and 90% of the remainder, with no upper limit.
- *Mediation of non-investment insurance*: the limits are the same as for provision of general insurance – 100% of the claim, with no upper limit, for compulsory insurance, and 100% of the first £2,000 and 90% of the remainder, with no upper limit, for non-compulsory insurance.

15 See 3.3 R of the Compensation Sourcebook, at <http://fsahandbook.info/FSA/html/handbook/COMP/3/3>

- 5.3 Our new proposals continue to distinguish between compulsory and non-compulsory general insurance:

Compulsory general insurance

- 5.4 We are not proposing any change for compulsory insurance. These types of insurance have been made compulsory as a matter of public policy, and have the primary purpose of protecting third parties rather than the consumer who takes out the cover. Both provision of these types of insurance (which falls under b) in paragraph 5.1 above) and mediation (which falls under c) would continue to benefit from 100% protection, with no upper limit.

Non-compulsory general insurance

- 5.5 The general principles set out in Chapter 2 are not as relevant for non-compulsory general insurance as they are for investment-type products:
- Insurance provides protection for consumers against a wide range of uncertain events, and a cash limit on the compensation payable, for example, if a house burnt down, it might not provide sufficient protection for consumers' needs. So a maximum limit on the amount payable would not be appropriate;
 - The different types of insurance for the most part protect different needs, so the FSCS limits have a limited influence on the choice of one product rather than another;
 - A cap is not appropriate to encourage diversification, as it would generally not make sense to take out, for example, more than one household insurance policy in case one insurer became insolvent. And the common law principle of indemnity means that, in general, policyholders cannot recover more than their actual loss;
 - The absence of any upper limit is unlikely to encourage consumers to disregard the risks involved in particular products when choosing which product to buy.

Long-term insurance

- 5.6 Long-term insurance other than pure protection contracts (term, income protection and critical illness insurance) is different to general insurance in that it often has an investment element, so can be seen as an alternative to other forms of investment. However, it tends to be a long-term contract, normally taken out for reasons that combine saving and protection, and so meets different needs to shorter-term investments such as unit trusts that are capable of being realised at short notice.

Our proposals

- 5.7 For these reasons, we continue to consider that the insurance sub-schemes should be treated in a different way to those in the first main category (investments and home finance mediation). We are not proposing to introduce an upper limit. However, the general principle that the limit should be simple for consumers to understand is still a valid one. The current limit is not easy to understand, and will in any case not normally apply on failure of a life insurer, as the FSCS is under a duty to try to achieve continuity of cover rather than pay compensation.

- 5.8 Our proposal is that the limit for all the insurance sub-schemes (apart from the limit for compulsory insurance) should be simplified by removing the 100% band applying to the first £2,000 of the loss. This would lead to a limit of a straight 90% of the whole claim, with no upper limit.
- 5.9 The result of this change would, for example, be that a claimant with a loss of £2,000 would only receive £1,800, rather than the full value of the claim. However, this change is likely to affect life insurance and general insurance in different ways:
- In life insurance cases, the FSCS is required to try to transfer the existing policies, or arrange for substitute policies to be provided by another insurer. This must be for at least 90% of the benefit that policyholders are entitled to under their contracts if reasonably practicable. This will benefit many policyholders, because they may not be able to buy new policies on the same terms as before, particularly if their health has deteriorated. The FSCS will only pay compensation where a transfer or provision of substitute policies is not practicable or beneficial to the generality of eligible claimants. However, with the current limit, claimants with policies worth less than £2,000 may prefer the payment of compensation at 100%, and so might object to a transfer. This could disadvantage those claimants with policies providing benefits worth more than £2,000, by disrupting the transfer process;
 - In general insurance cases, the same issue does not arise. Most general insurance is renewed annually, so a cash payment, which in most cases will involve a return of the unexpired part of the annual premium, is an adequate form of compensation. The arguments in favour of change here are simplicity and streamlining of the processing of claims by the FSCS. However, our CBA has shown that many claims would be for around £2,000 or less. The average annual household expenditure on general insurance is £800. So our proposed change could lead to a small cash loss to many claimants. However, removing the 100% band would speed up payments by the FSCS. At the moment, if a person has two or more policies with the failed insurer, the FSCS must take account of all of them when calculating the total amount of compensation payable. This may not be easy, because firms do not always have systems that will enable the FSCS to quickly establish whether one policy is connected to another. But if the limit is a flat 90%, the FSCS can simply pay this amount as and when it processes a particular policy.
- 5.10 On balance, we consider the benefits of removing the 100% band outweigh the disadvantage to consumers of the possible loss of £200. So our proposal is that the compensation payable should be 90% of the whole claim for all non-compulsory insurance.

Q4: Do you agree that the limit for provision and mediation of non-compulsory insurance – both life insurance and non-compulsory general insurance – should be amended to 90% of the whole claim, with no upper limit? If not, please give your reasons.

6 Home finance lending and administration

- 6.1 Home finance mediation (including where a mortgage lender advises on or arranges a home finance transaction) is covered by the FSCS, but home finance lending and administration are not, even though they are regulated activities.
- 6.2 In our consultation on the Mortgages and Home Finance: Conduct of Business sourcebook (then the Mortgages: Conduct of Business sourcebook) in 2000, we considered whether home finance lending and administration should be covered by the FSCS. We concluded that there was very little evidence of past losses and that it would not be proportionate or cost-effective to bring these activities within the scope of the scheme¹⁶. In November 2007 (in Policy Statement 07/19 on the FSCS Funding Review¹⁷) we said recent experience had shown that losses could arise, although in limited circumstances, depending on where a consumer was within the property chain. This led us to review the exclusion of lending and administration.

Home finance lending

- 6.3 The types of loss that customers can suffer will vary, depending on which stage of the transaction they have reached. They generally arise when the customer has been given an offer of finance by a lender but the finance has not yet been supplied. They could include:
- a) fees paid directly to the failed firm for the provision of the home finance (for example, arrangement fees);
 - b) fees for services not provided by the failed lender and which relate to a specific property (e.g., survey and search fees);
 - c) possible increased costs or non-availability of a replacement home finance; and
 - d) costs directly associated with delayed or cancelled completion. For example, someone who has already exchanged contracts will be bound to proceed even if funds are not available, and could be liable to the seller of the property they are purchasing.

16 Paragraphs 19.26-28, CP98 (June 2001) - www.fsa.gov.uk/pubs/cp/cp98.pdf

17 Paragraphs 1.24 and 3.34, PS07/19 (November 2007) - www.fsa.gov.uk/pubs/policy/ps07_19.pdf

- 6.4 Customers who already have home finance are unlikely to suffer significant loss, since their finance is likely to be taken over by another lender.
- 6.5 We have considered whether it would be appropriate for the FSCS to cover any of the types of loss listed in paragraph 6.3. However we continue to consider that home finance lending should be outside the scope of the FSCS. The finance being provided is a liability rather than an asset of the consumer. There is also the question of the form that any compensation might take. There would be serious difficulties in both principle and practice about the FSCS becoming involved in providing funding to cover the non-provision of home finance. This could lead to it underwriting imprudent lending decisions of the failed lender or fraudulent self-certification home finance applications. We also consider that the FSCS should not be involved in providing compensation for certain indirect costs such as survey fees. Such costs are not covered for other types of business. We propose that home finance lending should not be brought within the scope of the FSCS.

Home finance administration

- 6.6 Home finance administration is limited to contacts with borrowers, for example, to notify them of changes to interest rates, and to collecting payments under the contracts. Losses could arise, for example, if firms under-collect on repayments and borrowers then find they owe more than expected, so have to make additional repayments, although lenders may be likely to allow flexibility on how this is done.
- 6.7 Consumers' overall financial position should not be affected by failure of a firm carrying out home finance administration, as the firm carrying out the administration is acting for the lender and not the consumer. So we do not consider that it would be appropriate to bring this activity within the scope of the FSCS.

Q5: Do you agree that it is appropriate for home finance lending and administration, including the losses listed in paragraph 6.3, to remain outside the scope of the FSCS?

7 Temporary high deposit balances

- 7.1 This chapter looks at possible solutions to cases where a consumer may have a high deposit balance for a limited period. Only a small minority of consumers are likely to have permanent deposits above the FSCS limit and, as mentioned previously, the FSCS limit is not intended to provide an absolute level of protection. However, a far greater number may have deposits for a limited period which may exceed the compensation limit. This could happen, for example, in the period between selling one property and buying another, or after receiving an inheritance or a pension lump sum. Such consumers are in a very different position to consumers who choose to have a high balance in their account on a permanent basis. The risk of their bank failing during the period that they have a high balance is low, but the impact of such a failure could be very high. The limit for deposits would not necessarily provide sufficient protection in all such cases.
- 7.2 The January 2008 Tripartite consultation document (mentioned in paragraph 1.10 of this CP) referred to the following possible solutions:
- relying on consumers spreading their balances among a number of banks. It was noted that this was already possible, but might not be a realistic option for consumers who have to hold large sums of money for a short period;
 - private deposit insurance. It was noted that there was currently no market for this product in the UK and it was not clear whether or how such a market could be developed; and
 - applying an increased (possibly unlimited) FSCS compensation limit to accounts that met certain conditions, such as being non-interest bearing, or allowing balances above the compensation limit to be placed in certain special accounts.
- 7.3 Also, in the UK, individuals can lend to the government, for example through National Savings and Investments, to deposit their short-term high value deposits, backed by HM Treasury. It might be possible for consumers to make use of this to deposit temporary high deposit balances.
- 7.4 The July Tripartite consultation document noted – in paragraphs 5.11 to 5.14 – that there had not been a great deal of comment on this issue by respondents to the January consultation document, although there were concerns that it would be

difficult to devise a workable and realistic system for providing special treatment for certain accounts. It noted that we would be undertaking further work over the summer and that this would include looking at the possibility of market-led solutions.

7.5 The current position is as follows.

Rules-based solution

7.6 We have considered whether higher (or even unlimited) FSCS protection could be introduced for temporary high balances. However, it is difficult to define the circumstances in which such protection would be given.

7.7 One approach would be to limit this protection by purpose e.g. it could cover money that represents the proceeds of the sale of a house. Alternatively, cover might be limited to a specific period, or only apply when money is placed in a particular kind of account such as a specially protected category of new non-interest bearing accounts. Or we might apply some combination of these factors.

7.8 But this kind of approach has difficulties. We would not wish to undermine the normal limit by providing the higher protection in a very wide range of circumstances. On the other hand, very strict criteria for the higher protection could be difficult to explain (and so detract from our aim of simple consumer messages) and could lead to consumers being just outside the boundaries for the protection. (Suppose, for example, that one of the criteria was that protection was provided only for three months, and the purchase of a new house took longer than three months to arrange.) There is also the question of whether any protection should also cover money held in client accounts as well as in a consumer's own account, for example, when a solicitor holds money from the sale of a house in a client account in preparation for transfer to the seller of the consumer's new property. Such deposits are covered by the FSCS, so would be subject to the normal limit unless protection was extended to them.

Market solution

7.9 Since the July Tripartite Consultation Document was published, we have consulted provider and advisory trade associations and legal and accountancy professional bodies about a possible market solution. We asked the following:

- a) Did any products of this kind currently exist? (The answer to this was 'No'.)
- b) Were such products likely to be developed or marketed by provider firms in the future?
- c) If such products were developed, were they likely to be bank-based (i.e. attached to a particular account) or free-standing insurance-based products?
- d) If such products existed, was it likely that advisory and professional firms would recommend that their clients make use of these?

7.10 In general the trade bodies were not convinced that any consumer demand exists for any new specialist product. They did not think it likely that such products would find a wide market if they were developed. A strong theme running through the responses

was that offering this type of product to consumers could undermine confidence in the individual banks providing this benefit or the banking industry as a whole.

- 7.11 There was also little enthusiasm from professional bodies for the idea of recommending these products to clients.

Conclusion

- 7.12 We have not yet reached a conclusion on what, if any, solution would be appropriate, as we do not consider that we have sufficient information to put forward a definite proposal. So this CP does not include any draft rules. Instead, we have included questions about this issue in the consumer research we have commissioned. These will ask whether consumers are concerned about the risks involved, and whether they would be likely to make use of new insurance products or new types of bank accounts or would wish their professional advisers such as solicitors to do so on their behalf. The results were not available before we published this CP, but we expect they will be published later this year. We are also seeking views in this CP on the various options described in this chapter, and will, if appropriate, consult on draft rules in the New Year.

- 7.13 We are therefore seeking views on the various options, as follows:

- Q6: Please state whether you think there should be:
- a) a rules-based solution; or
 - b) a market-led solution.
- Please give your reasons.
- Q7: If you think there should be a market-led solution, what type of solution do you think would be appropriate?
- For example:
- a) an insurance product for individual consumers;
 - b) an insurance product for banks themselves; or
 - c) special non-interest bearing accounts that would benefit from full FSCS protection.
- Please give your reasons.
- Q8: If you think there should be a rules-based solution, what criteria would you apply? For example, should protection be:
- a) for a limited period, such as six months?
 - b) just for balances linked to the consumer's primary residence?
 - c) for balances relating to sale of the consumer's primary residence, pension assets and inheritances?
 - d) some combination of the above?
 - e) all temporary high balances?
 - f) if you think all temporary high balances should be covered, how would you define these?
- Please give your reasons.
- Q9: Should protection also cover temporary high balances held in client accounts, for example, those of a solicitor or financial adviser?

8 Recovery of losses from the failed firm

Deposits

- 8.1 Chapter 3 describes how the FSA will be increasing the deposit limit from £35,000 to £50,000. At the same time, the FSA also changed the rules relating to how recoveries from the estate of a failed deposit taker would be allocated to people with deposits of more than £50,000.
- 8.2 The July 2008 Tripartite consultation document said (in paragraph 5.10) that the FSA expected changes to the compensation limit for deposits to be accompanied by a change in the method of allocating recoveries from the assets of a failed bank between the FSCS and depositors with funds above the FSCS limit. It also (in paragraph 5.5) noted that the precise way in which the FSCS's existing deposit protection arrangements operate was not well understood and that the FSA had published a feedback statement on its website giving more details¹⁸. That statement – published on 3 June 2008 – explained how the current compensation limit would be applied in the event of a bank failure and other possible approaches.
- 8.3 The new rules that we have made now provide that recoveries will be allocated between the FSCS and depositors using what was referred to as the ‘rateable’ method in our June 2008 feedback statement. But to set this in context, it may be helpful to briefly describe once again what alternative approaches exist (for the sake of convenience, all of the examples given below assume the deposit limit to be set at the new level of £50,000).

Previous loss allocation method

- 8.4 This method which applied until the recent rule change was a loss protection scheme. This meant that a depositor would be protected up to the limit for his net loss for any protected deposit. So the FSCS, in return for paying compensation up to the limit, took over the depositor's rights against the bank and paid over any recoveries received from the estate of the bank to the depositor unless and until the deposit had been fully repaid.

18 Feedback on Tripartite consultation document: operation of the Financial Services Compensation Scheme (FSCS) for deposit protection – www.fsa.gov.uk/pubs/other/Tripartite_feedback.pdf

- 8.5 So, for example, assuming a 50% recovery rate, if a protected depositor has £100,000 with the failed bank, he would initially receive £50,000 from the FSCS. The FSCS would later receive a 50% recovery (£50,000) from the liquidator and pay it over to the depositor. The depositor's total recovery would be £100,000. The FSCS's recovery would be nil.

Previous Deposit Protection Board (DPB) method

- 8.6 Before the current regulatory system was set up in 2001, the Deposit Protection Board (DPB – the predecessor of the FSCS in relation to deposits) was in operation and the system worked differently. The DPB protected the first part of a protected depositor's loss. It would take over the depositor's rights against the failed bank (up to the amount of compensation paid) and would be reimbursed by the liquidator for any compensation payment it had made to the depositor.
- 8.7 Following the example above and assuming today's compensation limit and a recovery rate of 50%, a depositor with £100,000 with the failed bank would have a total recovery of £50,000. The depositor would receive £50,000 from the DPB. Once the liquidator had finalised the liquidation, the whole of the recovery (£50,000) would be paid to the DPB. The depositor would suffer a total loss of £50,000.

The 'rateable' method

- 8.8 The 'rateable' method lies in the middle ground between the two methods described above. The depositor would receive the compensation payment up to the limit in the usual way. The recovery percentage (i.e. the percentage of assets recovered by the liquidator of the bank) would then be applied to the amount of the depositor's original deposit over the FSCS limit.
- 8.9 Using the same example as above, the depositor has £100,000 deposited with the failed bank and as such receives compensation from the FSCS of £50,000. They are then entitled to recover part of their remaining loss (£50,000) at the 50% recovery rate. The total recovery for the depositor is £50,000 (FSCS payment) plus £25,000 (50% of the remainder of their loss of £50,000). The total payment received by the depositor is £75,000 and total loss is £25,000.
- 8.10 With all these methods, the depositor would receive full compensation from the FSCS up to the compensation limit. Whether he received any further payments would depend on the assets recovered by the liquidator. Liquidations of banks can take many years and there is no certainty that depositors would receive any payments in addition to the FSCS payment.
- 8.11 Assuming that the liquidator would be able to recover sufficient assets for further payments to be made, the depositor would receive most under the FSCS loss allocation method, least under the DPB method and an amount somewhere between the FSCS and DPB methods under the rateable method. Similarly, at any given cost to the levy payers, the DPB method results in the lowest cost to levy payers, the loss allocation method the highest cost and rateable a middle ground between the two. The following example shows what the consumer would receive in certain scenarios, and the cost to the levy payers. The table assumes a deposit of £100,000, a FSCS limit of £50,000 and recovery rates of 50%, 70% and 90%:

Consumer's total recovery and levy payers' net compensation costs

Previous FSCS rules				DPB rules			Rateable option		
Recoveries	50%	70%	90%	50%	70%	90%	50%	70%	90%
Consumer receives back, including FSCS payment	£100,000	£100,000	£100,000	£50,000	£70,000	£90,000	£75,000	£85,000	£95,000
Consumer loses	£0	£0	£0	£50,000	£30,000	£10,000	£25,000	£15,000	£5,000
Levy payers contribute	£50,000	£30,000	£10,000	£0	£0	£0	£25,000	£15,000	£5,000

Impact on consumers and firms

- 8.12 Under the FSCS loss allocation method, depositors with more than the FSCS limit in their accounts receive recoveries up to the compensation shortfall, while the FSCS would not recover any part of the compensation it has paid out. In contrast, under the rateable system, both parties share the burden. So the move to the rateable system benefits FSCS levy payers¹⁹, by offsetting the increase in the deposit limit to £50,000. In contrast consumers with more than the limit in their accounts will receive less following a bank failure than they would have done under the previous FSCS method.
- 8.13 However, the limit is not only intended to determine what will happen when an institution fails, and the FSCS pays out compensation. It is also intended to enable consumers to plan where they will put their money in the future. In this respect, the increase in the limit to £50,000, which is certain and can be used as a basis for planning, may be of greater benefit to them than a method for allocating recoveries which provides no certainty of how much will be paid out, because this will depend upon the circumstances of any potential future failures, including the extent of the recoveries made.

Non-deposit sub-schemes

- 8.14 The move to the rateable method is limited to deposits. We are not proposing to make any change to the other FSCS sub-schemes. Our reasons for this are as follows.

Insurance sub-schemes

- 8.15 The previous loss allocation, DPB and rateable methods are alternative ways of allocating losses between depositors and FSCS levy payers above a fixed cash limit. The insurance sub-schemes do not have any such limit, but pay a percentage of the total claim. So a rateable method could not be applied to them.

¹⁹ If a bank fails, and the FSCS pays out compensation to customers, it will raise a levy from other FSA authorised firms in order to cover the cost of this.

Investment and home finance mediation sub-schemes

8.16 These schemes will, if our proposed new limits are adopted, have the same limits as that for deposits (100% of £50,000). They also operate in the same way at present as the deposits sub-scheme. It would be possible to move to the rateable method for these sub-schemes. However:

- when a deposit taker fails, the quantification of a claim is a relatively simple matter of assessing the debt at the default date, as all the information should be available in the accounts of the failed firm. In contrast, most investment and home finance mediation claims relate to negligence or poor advice. So liability for the claim and quantification of the loss may not be easy to establish. The claim will often be the subject of negotiation or litigation, with third parties (former partners of advising firms or professional indemnity insurers) disputing the amount to be paid;
- negligence-type claims may involve both an independent financial adviser (IFA) and a provider – the IFA for advice and the provider for materials it provided or its administration of the investment. So, the FSCS may wish to pursue a claim against the provider after it has paid out compensation for the claim against the IFA; and
- under the previous loss compensation method, the FSCS is likely to be the only party involved in dealing with insolvency practitioners, insurers and third parties, so they would negotiate and conclude claims as they considered appropriate. Some conflicts of interest can arise between the interests of the FSCS and claimants with claims greater than the compensation limit. However, we believe that consumers are in a better position overall than if the FSCS was not able to be the sole party involved in dealing with the whole claim. With the previous FSCS system, if the FSCS recovers more than the compensation it has paid out, the surplus is paid to claimants. With the new rateable method, they would only get a percentage (i.e. the recovery percentage) of their loss above the compensation limit, so might wish to intervene in the settlement process themselves to see whether they could get a better deal.

8.17 For these reasons, we do not propose to change the recovery method used for the non-deposit schemes.

Q10: Do you have any comments on our move to the rateable method for dealing with recoveries in the deposit sub-scheme?

Q11: Do you agree with our proposal not to move to the rateable method for the other sub-schemes? If not please give your reasons.

Cost Benefit Analysis

Introduction

1. Sections 155 and 157 of FSMA require the FSA to perform a cost benefit analysis (CBA) of its proposed rules and proposed guidance relating to rules, and to publish the results. The FSA is not required to publish a CBA if the costs arising from its proposed rules would be no more than the costs under existing requirements, or if any cost increase would be of minimal significance.
2. The main benefits of a compensation scheme are the payments to customers of failed firms. The main costs are the levies to finance those payments. These costs are initially borne by firms who, in the longer term, are likely to pass them on to their customers through higher charges. In addition, there are the administrative costs of running the scheme and the beneficial effect on consumer confidence engendered by the existence of the scheme.

Summary

3. As outlined in the main body of our consultation paper, it is difficult to provide a clear and concise picture of what costs and benefits one might expect from the policy changes that have been recommended or, in the case of the change to the deposit limit, have now taken place. The main reasons are the unpredictability of the likelihood and size of future failures of firms, the possibility that a failure may be resolved without recourse to the FSCS and the unpredictability of future behaviour of depositors/policyholders. As we cannot outline the actual aggregate costs and benefits, we are restricted to providing illustrative examples to demonstrate the effect of the new rules.
4. There are three broad categories: 1) the deposit sub-scheme; 2) the investment and home finance mediation sub-schemes; and 3) the provision of life insurance, and the provision and intermediation of general insurance. In the first category, we will be changing the limit from £35,000 to £50,000. In the second category, the FSA plans to introduce a limit of £50,000 with no coinsurance. In the third category, 90% of the protected claim is planned to constitute the new limit with compulsory insurance remaining with 100% cover.

Benefits

5. The main rationale for the changes is simplification of the limits. It is hoped that the benefits that arise from simplification are improved consumer and market confidence. It is not clear whether the changes we are proposing to limits alone would achieve these benefits. It may be that, combined with the successful implementation of other planned Banking Reform policies (e.g. measures to improve consumer understanding of the FSCS, and to achieve faster payout following a failure) that the desired benefits may arise. But due to the unpredictability of future behaviour (of consumers, depositors and markets), particularly in times of crisis, it will not be possible to quantify the benefits with certainty.

Costs

6. The most significant change will be the increase in the deposit limit from £35,000 to £50,000, which means an increase of 8% of deposits covered. The FSCS is currently a pay as you go scheme, so this would be a contingent liability, which would not materialise unless an institution failed. This might result in a modest increase of the amount the FSCS (and ultimately FSCS levy payers) had to cover in the event of a failure of a small institution, but could constitute an enormous amount should a mid-size bank fail: e.g. the failure of an institution with, for instance, £5 billion in protected deposits would increase FSCS costs by £400 million. This excludes the possible knock-on effects to the market of funding such a large amount at a time when funding is tight. The move to a rateable system which will be made at the same time as the increase in the limit will, depending on recoveries, reduce the overall costs of providing compensation in the event of a bank being declared “in default”.
7. The changes to the limits for investments and home finance mediation have relatively small effects in terms of the additional amounts the FSCS’s levy payers could be liable to pay (i.e. £2000 for claims of £50,000 and above or 10% of the claim that exceeds £30,000 if the claim is lower than the new limit), as it only affects a small percentage of potential claimants (i.e. those that have claims above £30,000), and will involve a relatively small increase in FSCS protection of £48,000 to £50,000. According to historic FSCS payments data, the removal of coinsurance for investments would increase FSCS payments by around 1.4%.
8. For life insurance and general insurance provision and intermediation, the removal of the 100% protection for the first £2,000 means a small decrease in payments to claimants in case of default: namely £200 for those with claims of at least £2,000 and 10% of the claim for those with balances below this threshold. In practice, the cost to life policyholders might be lower if transfers can be made at better terms than the 90% minimum that the FSCS is required to achieve.
9. It is unclear that the economic benefits from changes in limits alone will outweigh the costs, given the expected costs will be influenced by which sector the failure occurs and by the nature of the firm that fails.

Rateable system for balances above the banking limits

10. Unlike the loss allocation system where depositors with more than £35,000 in their accounts would have received all the eventual recoveries while the FSCS received nothing, under the new rateable regime both parties share the burden. Under the loss allocation system, depositors with balances above the protection limit get payment of compensation up to the FSCS limit²⁰ and any recoveries up to the amount of their deposit. Under the rateable system depositors will receive payment up to the limit plus the first tranche but not all of any recoveries made. The DPB²¹ system ensured that the FSCS was fully reimbursed prior to further recoveries being given to the depositor.
11. There are no significant incremental costs or benefits resulting from the move to the rateable system – simply transfers between depositors and levy payers. The distribution of payments between parties under the various systems is shown in table 3.

Deposits

12. We will be changing the limit for depositor protection from the £35,000 per protected depositor per FSA authorised deposit taking firm to a limit of £50,000.
13. Table 1 below shows how the change in limits affects the coverage of depositors in aggregate.

Table 1: level of coverage under different limits

Deposit protection limit	<i>BSA data – building societies</i>		<i>BBA data – banks</i>	
	% of individuals covered	% of total balances covered	% of accounts covered	% deposits covered
£35,000	95	69	96	52
£50,000	97	77	98	60
£100,000	100	99	99	73

Notes: Building society data – responses from 49 societies representing 99% of the sector’s assets. BBA data – based on two large banks.

Benefits

14. One benefit of this specific change is the simplification of the limits. Benefits that arise from simplification are improved consumer and market confidence. It is not clear the changes proposed to limits alone would achieve these benefits. However, it is possible that these benefits would be achieved if these changes are combined with the successful implementation of the FSA’s other planned Banking Reform policies noted earlier in paragraph 5. There is also, as can be seen above, a direct benefit to depositors through the increase in the deposit protection offered.

²⁰ Naturally, the payments may not exceed the original size of the deposits.

²¹ The DPB was in place before the FSCS came into operation. The DPB operated in a default in a way such that repayment of levy payers took priority over additional payments to the claimant. Once the DPB recovered its payment in full, any further recoveries were paid directly by the Insolvency Practitioner to the claimant.

Table 2: Illustrative example for actual cost increase given failure of a notional deposit taker

	Firm One	Firm Two
Protected deposits	£5b	£10b
Increase in coverage of total balances	8%	8%
Increase in costs before any recoveries	£400m	£800m

15. The results stated here are actual upfront costs. This is the increase in up front payment by the FSCS which does not include any potential recoveries. They are based on the aggregate increase of 8% of total balances covered. For banks the coverage increases from 52% to 60%, for building societies the increase is 69% to 77%²². It is based on the current deposit structure and eligibility criteria rather than attempting to include possible future events, such as the possibility of the number of deposits exceeding the previous protection threshold of £35,000 growing over time.
16. The numbers in the examples show the additional costs given the possibility of default for companies of a certain size. However, the calculation of expected costs incurred by an increase in deposit protection limits is hampered by two main factors: 1) The fact that defaults of banks and building societies have, historically, been rare events; and 2) the fact that the FSCS is not pre-funded, which means that any increase in protection is not reflected in the levies to the industry. Payments depend on a default taking place. Any calculation must therefore be based on certain assumptions on future default probabilities and cannot take advantage of historical experience²³.
17. The potential effect of moral hazard²⁴ is difficult to quantify but is a factor that may not be neglected. Depositors may, for instance, be tempted to consolidate their accounts as a reaction to the higher coverage, which again would have an effect on the likely payouts in case of default.
18. There is an increased probability that the cost of a bank failure will exceed the annual amount firms can be required to pay in FSCS levies²⁵: Given higher limits, the size of a defaulting deposit taker needed to exceed the maximum amount the FSCS can levy on its members will certainly be lower than at present.

22 The aggregate numbers for the whole deposit taker market, as provided by BBA and BSA were used for calculations. The coverage varies between building societies and banks but the increase in FSCS payouts remains the same, i.e. eight percent of overall protected deposits.

23 Calculations of expected costs to FSCS taking these failure probabilities into account lead us to a cost estimate in the range of £200 million to £350 million. However, these numbers have to be taken with caution because they are based on market data (Moody's KMV expected default frequencies) with all their advantages and disadvantages and the assumption that the current status quo reflects sufficiently well the situation in the future.

24 Moral hazard in this case is the incentive for consumers to engage in transactions with higher risks in some circumstances (including the reluctance to carefully select their banking service provider) because they believe any downside risk will be covered by the guarantee scheme.

25 Current contribution limit set for the deposit taking sub-scheme is 0.3% of protected deposits (£2.4bn, as at 2005).

19. The move to the rateable method of dealing with recoveries from failed firms will have no effect on consumers who have deposits at or below the new £50,000 FSCS limit. However, for those with deposits above the limit, the move may reduce the total return they would have otherwise received under the present system of recoveries.
20. To illustrate the possible effects of the move to the rateable system we have analysed several scenarios set out in table 3. For completeness the DPB method is also included. It can be seen that for any given recovery the cost to the levy payers is always lower under the DPB method.
21. This change is a transfer payment from consumers to the FSCS's levy payers, and from the levy payers' point of view, will tend to offset²⁶ the effect of the increase in the deposit limit from £35,000 to £50,000. The extent to which this will happen will depend upon the particular circumstances of any failure, including the number of customers with deposits above the limit, the size of these deposits, and the extent of the recoveries from the failed firm. Depositors with monies over the new limit will never be better off if a failure occurs under the new rateable or DPB system. As can be seen in table 3: (highlighted in bold) a depositor with £100,000 in the loss allocation system and assuming a 90% recovery will recover £100,000. Under the rateable system the depositor will stand to recover £95,000 and £90,000 under the DPB system. A depositor with £60,000 will be fully compensated under the loss allocation system but will only receive £59,000 under the rateable system and £54,000 under the DPB. So the greater the amount deposited the greater the proportionate loss.
22. It is worth pointing out that the transfer will only operate if and when there is a failure. In the absence of failure, and for the purposes of planning, it is only the limit itself that is relevant. This is clear, certain and known in advance. So consumers are likely to prefer a higher limit to an uncertain chance of recovering more in future.

Table 3: Comparison of the different systems for recoveries

100k deposit, £35k limit

Recoveries	Loss allocation system			Rateable option			DPB method		
	50%	70%	90%	50%	70%	90%	50%	70%	90%
Consumer receives	£85,000	£100,000	£100,000	£67,500	£80,500	£93,500	£50,000	£70,000	£90,000
Consumer loses	£15,000	£0	£0	£32,500	£19,500	£6,500	£50,000	£30,000	£10,000
Levy-payers contribute	£35,000	£30,000	£10,000	£17,500	£10,500	£3,500	£0	£0	£0

²⁶ The offsetting depends on actual recoveries and is limited to the fact that the initial payment by the FSCS is an immediate upfront payment as opposed to recoveries which may take many years to materialise.

100k deposit, £50k limit

Consumer receives	£100,000	£100,000	£100,000	£75,000	£85,000	£95,000	£50,000	£70,000	£90,000
Consumer loses	£0	£0	£0	£25,000	£15,000	£5,000	£50,000	£30,000	£10,000
Levy-payers contribute	£50,000	£30,000	£10,000	£25,000	£15,000	£5,000	£0	£0	£0

£60k deposit, £35k limit

Consumer receives	£60,000	£60,000	£60,000	£47,500	£52,500	£57,500	£35,000	£42,000	£54,000
Consumer loses	£0	£0	£0	£12,500	£7,500	£2,500	£25,000	£18,000	£6,000
Levy-payers contribute	£30,000	£18,000	£6,000	£17,500	£10,500	£3,500	£5,000	£0	£0

£60k deposit, £50k limit

Consumer receives	£60,000	£60,000	£60,000	£55,000	£57,000	£59,000	£50,000	£50,000	£54,000
Consumer loses	£0	£0	£0	£5,000	£3,000	£1,000	£10,000	£10,000	£6,000
Levy-payers contribute	£30,000	£18,000	£6,000	£25,000	£15,000	£5,000	£20,000	£8,000	£0

Investments

23. We are proposing to change the limit for investor protection from the current limit of 100% of the first £30,000 and 90% of the next £20,000 (maximum of £48,000) per investor per FSA authorised firm, to a limit of 100% of £50,000. By eliminating the coinsurance element, the compensation limit increases thus by £2,000.

Benefits

24. It is hoped that the benefits that could arise from simplifying the limit are improved consumer and market confidence. The proposal also means investments and deposits (savings accounts in particular) are treated consistently, which will prevent the risk of distortions arising due to treating similar products differently which in turn eases consumer choices.

Costs to the FSCS levy payers

25. Our analysis of the effects of the proposal is based on the FSCS's claims experience from December 2001 to December 2007. The FSCS made 46,543 payments totalling

£421m during this period. Of these payments, 9.6% were above £30,000 and therefore affected by the application of coinsurance.

26. If coinsurance had not been applied to the compensation payments made during the period December 2001 to December 2007, claimants would have, as a group, benefited from payments being approximately 1.4% higher.

Table 4: changes in payouts for investments²⁷

	Current rules (i.e. actual payouts)	100% of £50,000
Total payments	£421m	£427m
Increase in payouts		£6m
Average increase per year		£1m

27. Table 5 gives the numbers and percentages of claims between various bands and shows the number of claims that have had coinsurance applied (i.e. the amount by which the compensation payment is reduced because the claim exceeded £30,000) and those claims that have been above the proposed £50,000 limit.

Table 5: FSCS claims experience for different bands

Amount	Number of claims paid	Value of claims paid (£m)	Percentage (%)
Below £30,000	42,085	216	90.44
Between £30,000 and £50,000	2911	200	6.25
Over £50,000	1547	4.8	3.31

Home finance mediation

28. FSCS protection now extends to include home finance mediation conducted on or after 31 October 2004. The FSCS has since only made three compensation payments – two of the claims were valued below the current compensation limit and one was valued over the compensation limit.
29. The current limit for home finance mediation protection was intentionally set as the same as that for investments, and we are proposing to retain this consistency²⁸. We propose to change the limit for home finance mediation from 100% of the first £30,000 and 90% of the next £20,000 (maximum of £48,000) per claimant per FSA authorised firm, to a limit of 100% of £50,000. The compensation limit increases thus by £2,000.

²⁷ For the sake of simplicity, the calculations underlying the table assume that payout patterns are stable over the years and failure rates do not change significantly over time.

²⁸ Refer CP174: Prudential and other requirements for mortgage firms and insurance intermediaries, at <http://www.fsa.gov.uk/Pages/Library/Policy/CP/2003/174.shtml>

Insurance

30. We are proposing that the 100% band applying to the first £2,000 of the loss for all the insurance sub-schemes (apart from compulsory insurance) should be removed. This would lead to a limit of a straight 90% of the whole claim or a maximum reduction of payouts of £200 per claimant.

Benefits

31. The benefits of simplification outlined for the proposed change to depositor and investor protection also apply to the proposed change to insurance protection. The benefits from simplifying the limits are improved consumer and market confidence. The proposal will also have cost-reducing benefits to the FSCS, as the associated administration relating to the coinsurance element will be removed. This, in turn, should generate benefits to consumers in terms of faster resolution of their claims²⁹.

Long-term insurance

32. A long-term insurer has not failed since the FSCS was established in December 2001. If a long term insurer failed, the FSCS has a duty to first seek continuity of the insurance policies by transferring these to another institution. If continuity is not possible, the FSCS can proceed to payout.
33. Our analysis of the effects of the new limits is based on three examples from different class sizes. The value of the claims may vary depending on the line of business which a particular failed insurer may have focused on. Therefore the examples might slightly overstate the actual reduction in payouts for some firms with a particular emphasis on lines of business with low amounts involved. Given that most life insurance balances are likely to be above the current 100% coverage limit of £2,000, the reduction in payouts per policy in case of default (and the policies are not taken over by another institution) is likely to be £200³⁰.

²⁹ Coinsurance requires the FSCS to identify the total amount of coverage from all policies that a person may have with the failed firm before it can calculate the total amount of compensation to be paid. If coinsurance is removed, the FSCS can pay out 90% on each policy immediately.

³⁰ Rough estimations show that the average life policy is around £11,000 but can in some cases considerably deviate from this figure.

Table 6: Illustration of the change in payouts for life insurance claims in case of default

<i>Total numbers in £</i>			
<i>Size of firm</i>	Current rules	Proposed rules (90%)	Full coverage (100%)
Large	30bn	29bn	32bn
Medium	3bn	2.8bn	3.1bn
Small	300m	285m	315m
Absolute and relative change in payouts:			
Large		-1bn (-3.3%)	+2bn % (+6.7%)
Medium		-0.2bn (-6.7%)	+0.1bn (+3.3%)
Small		-15m (- 5%)	+15m (+5%)

General insurance

34. The same limits that apply to long term insurance apply to (non-life) insurance (referred to as general insurance). The difference is, however, that general insurance contracts are usually based on a short (e.g. one year) term basis. Hence, payments are likely to be significantly lower than for long term insurance. In most cases insured events do not take place at the same time as the default event; payouts would in most cases only be a cash payment covering the unexpired part of the premium.
35. Between 2002/03 and 2006/07, FSCS made a total of nearly 240,000 payments to policyholders or beneficiaries to compensate them for losses related to general insurance failures. Total payments over the period amounted to £530m, with average payment amounting to £2,236 – though these figures provide some context the usefulness is limited for our current purposes, as they include compulsory insurance claims (paid at 100% with no upper limit) and we are focusing on non-compulsory general insurance.
36. The number of payments is an overestimate of the number of claimants who have benefited from the existence of the scheme, since more than one payment can be made in relation to a single claim (including third party insurance claims under compulsory insurance, which belong to a different category for the purposes of FSCS paying compensation). Correspondingly, the average payment underestimates the average amount of compensation received by claimants. The FSCS has also made some significantly higher and lower compensatory payments to individual claimants. For example, in the Independent Insurance failure, discussed below, the compensation payments included amounts of £13.50 and £1.23m.
37. Independent Insurance and Chester Street are the two major examples of general insurance failures dealt with by the FSCS. While these examples provide some context, several assumptions have been made in relation to the data so the figures should be treated with caution. The Independent Insurance data has been refined to exclude payments made under the compulsory insurance category and the

professional indemnity category³¹. As Chester Street is the other example of a large UK insurance failure, information is provided for completeness – though it is less useful for current purposes, as the data shows the total compensation payments made, and is therefore affected by the inclusion of compulsory insurance claims.

38. Under the current compensation limit, the average payment in the period of 2002/03 – 2006/07 for Independent Insurance would have been about £5,031, and £5,758 for Chester Street.

Table 7: Illustrative examples for changes in payouts for insurance claims³²

<i>Total numbers (payments 2002/03 – 2006/07) in £</i>			
<i>Name of firm</i>	<i>Current rules</i>	<i>Proposed rules (90%)</i>	<i>Full coverage (100%)</i>
Independent Insurance	41.80m	40.18m	44.60m
Chester Street	103m	99m	110m
Absolute and relative change in payouts:			
Independent Insurance		-1.62m (-4%)	+2.8m (+6.7%)
Chester Street		-4m (-3.9%)	+7m (+6.8%)

39. As noted above, the most likely source of individual loss is the loss of unexpired premium. Due to data limitations we can take an indirect approach in analysing the effect of shifting from the current compensatory limits. The total average household yearly expenditure on general insurance is £800, meaning that the maximum an average household could lose is ten percent of the £800 (i.e. £80). The actual average loss for households in relation to their yearly expenditure on general insurance could be lower than £80 (compared to the maximum £200), as some of the yearly premium may have already been used at the date that the insurer defaults.³³

Non-investment insurance mediation

40. FSCS protection was extended to include non-investment insurance mediation in January 2005. It is currently set at 100% of the first £2,000 and 90% of the remainder with no upper limit.

31 The FSCS's predecessor scheme (the Policyholders Protection Board under the Policyholders Protection Act) protected 'a partnership or other incorporated body of persons all of whom are individuals'. Under the current FSA COMP rules, the definition of eligible claimants excludes large partnerships and risks beyond the EEA – thereby almost certainly vastly reducing the potential for the FSCS to make voluminous and significantly valued payments in this area.

32 Both failures occurred prior to the December 2001 establishment of the FSCS, but the FSCS assumed responsibility for the cases from its predecessor. The payments were based on the previous scheme – being 90% with no upper limit. The figures in the table have been adjusted to show what would have been paid under the current, proposed and 100% limits.

33 Source: ABI (using figures based on ONS household expenditure data).

41. The FSCS has paid 104 claims, with total compensation payments of £142,466. Of the 104 claims, 101 were to compensate for the unexpired premium claims (premiums paid to a broker where a policy was never in force) and three were indemnity claims.
42. Based on the FSCS (limited) claims experience, the changes in table 8 can be estimated.

Table 8: change in payouts for non-investment insurance mediation claims

	Current rules	Proposed rules
Total FSCS payments	£142,466	£128,200
Average payment per year	£55,000	£49,500
Decrease in payout per policyholder		£137
Decrease in total per year		£5,500

Compatibility statement

Introduction

1. This Annex explains the reasons for concluding that our proposals for the FSCS's compensation limits in the CP are compatible with the FSA's general duties under section 2 of FSMA and with the regulatory objectives set out in sections 3 to 6. We are required, as outlined in sections 155 and 157 of FSMA, to make this statement.

Compatibility with our statutory objectives

2. Our duty is, as far as is reasonably possible, to act in a way which is compatible with our regulatory objectives and which we consider most appropriate for the purpose of meeting those objectives.
3. The proposals will support our statutory objectives of securing the appropriate degree of consumer protection, market confidence and public awareness.
4. We do not expect the proposals to have any impact on its objective of reducing financial crime.

Consumer protection

5. The proposals are designed to help us meet our consumer protection objective by securing an appropriate degree of protection for consumers if a firm is unable, or likely to be unable, to pay claims against it. The factors we have taken into account in setting the limits, set out in Chapter 2, to achieve this appropriate degree of protection are: the need for the limits to be capable of being expressed in a simple way; that the limits should not be a significant factor for consumers' choice of one type of product over another; and that co-insurance should be avoided. We have also taken into account our view that consumers should continue to have a degree of responsibility for their decisions.
6. FSMA requires us to have regard to the differing degrees of experience and expertise of customers when securing the appropriate degree of protection. Accordingly compensation cover is to be largely directed towards those customers least able to sustain a financial loss – namely private individuals and small firms. The limits are

set to capture those private individuals and small firms least able to sustain loss but also to cap compensation for those who are able to sustain financial loss. We are satisfied that the changes proposed are an appropriate contribution to achieving its consumer protection objective.

7. Our proposals in this CP, whilst mainly increasing the protection available, do not have a significant impact on consumers' need to take responsibility for their own decisions.

Market confidence

8. Simplifying the limits so they are capable of being easily understood is intended to result in improved market confidence. We expect that the proposals in this CP are capable of benefiting firms as well as consumers by enhancing market confidence and assisting with faster handling of claims by the FSCS. Market confidence will be improved as the proposals will minimise confusion and simplifying the compensation arrangements available. They will also provide consumers with a greater sense and level of protection giving consumers a greater sense of security which we believe will feed into confidence in the system generally.

Public awareness

9. Simplifying the limits and how they are applied across products (for example removal of co-insurance) will make it easier for consumers to understand the scheme, it will also be easier to publicise the scheme and so awareness of the scheme will be raised accordingly.

Compatibility with the Principles of Good Regulation

10. Section 2(3) of FSMA requires that, in carrying out our general functions, we must have regard to a number of specific matters. Of these, the following matters are particularly relevant to our proposals.
 - The need to use our resources in the most efficient and economic way
11. Our proposals generally will not materially affect either our systems or its processes.
 - The principle that a burden or restriction which is imposed on a person or on the carrying on of an activity, should be proportionate to the benefits, considered in general terms, which are expected to result from that burden or restriction.
12. In the event of the FSCS paying claims, a greater burden will fall on firms where we have proposed an increase in the compensation limit. Those firms will also incur a one-off burden of familiarising themselves with the new rules and making the appropriate changes to their current statements relating to compensation (in literature which firms give consumers, on websites and through any other channel). These burdens are expected to be outweighed by the benefits of having a simplified compensation scheme with improved cohesiveness and by the increase of consumer confidence.

- The desirability of facilitating innovation connected with regulated activities.
13. There is nothing in our proposals that restricts product innovation.
 - The international character of financial services and markets and the desirability of maintaining the competitive position of the United Kingdom.
 14. The proposed changes to the limits may strengthen the competitive position of the United Kingdom if the enhanced protection available to consumers of failed firms improves market and consumer confidence in the financial system in a proportionate manner.
 - The need to minimise the adverse effects on competition that may arise from anything done in the discharge of those functions.
 15. We do not consider that the changes on which we are consulting will have any adverse effects on competition as they do not introduce any new distinction between regulated firms.
 - The desirability of facilitating competition between those subject to any form of regulation by us.
 16. The proposals will have the same effect on competition as FSA's existing rules as they would apply to the same firms as the present rules being amended.
 - Acting in a way most appropriate to meeting statutory objectives.
 17. We consider that our proposals relating to the limits changes of the FSCS are the most appropriate way of meeting our statutory objectives, and, in particular, our consumer protection and market confidence objectives for the reasons explained in this CP.

List of questions

- Q1: We are raising the limit for banks to 100% of £50,000 on 7 October 2008. Do you agree with this? If not, please give your reasons.
- Q2: Do you think that we should continue to offer compensation on a per authorised entity basis, or should we move to a per brand or per account basis? If a per brand or per account basis is preferred, please give you reasons and explain how you consider branding should be defined and applied.
- Q3: Do you agree that the limit for investments and home finance mediation should be set at 100% of £50,000 to match the limit for deposits? If not, please give your reasons.
- Q4: Do you agree that the limit for provision and mediation of non-compulsory insurance – both life insurance and non-compulsory general insurance – should be amended to 90% of the whole claim, with no upper limit? If not, please give your reasons.
- Q5: Do you agree that it is appropriate for home finance lending and administration, including the losses listed in paragraph 6.3, to remain outside the scope of the FSCS?
- Q6: Please state whether you think there should be:
a) a rules-based solution; or
b) a market solution.
- Q7: If you think there should be a market solution, what type of market solution do you think would be appropriate? For example:
a) an insurance product for individual consumers;
b) an insurance product for banks themselves;
c) special non-interest bearing accounts that would benefit from full FSCS protection.
Please give your reasons.

- Q8: If you think there should be a rules-based solution, what criteria would you apply? For example, should protection be:
- a) for a limited period, such as six months; or
 - b) just for balances linked to the consumer's primary residence; or
 - c) for balances relating to sale of the consumer's primary residence, pension assets and inheritances; or
 - d) some combination of the above; or
 - e) all temporary high balances?
 - f) if you think all temporary high balances should be covered, how would you define these?
- Please give your reasons.
- Q9: Should protection also cover temporary high balances held in client accounts, for example, those of a solicitor or financial adviser?
- Q10: Do you have any comments on our move to the rateable method for dealing with recoveries in the deposit sub-scheme?
- Q11: Do you agree with our proposal not to move to the rateable method for the other sub-schemes? If not please give your reasons.

Draft Handbook text

**COMPENSATION SOURCEBOOK (COMPENSATION LIMITS) INSTRUMENT
2009**

Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 138 (General rule making power);
 - (2) section 156 (General supplementary powers);
 - (3) section 157(1) (Guidance);
 - (4) section 213 (The compensation scheme); and
 - (5) section 214 (General).
- B. The rule-making powers listed above are specified for the purposes of section 153(2) (Rule-making instruments) of the Act.

Commencement

- B. This instrument comes into force on [] 2009.

Amendments to the Handbook

- C. The Compensation sourcebook (COMP) is amended in accordance with the Annex to this instrument.

Citation

- D. This instrument may be cited as the Compensation Sourcebook (Compensation Limits) Instrument 2009.

By order of the Board
[] 2009

Annex
Amendments to the Compensation sourcebook (COMP)

In this Annex, underlining indicates new text and striking through indicates deleted text.

TP 1.1 Transitional Provisions Table

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional provision applies		Transitional provision	Transitional provision: dates in force	Handbook Provisions: coming into force
...					
<u>18</u>	<u>Amendments to COMP 10.2.3R introduced by the Compensation Sourcebook (Compensation Limits) Instrument 2009</u>	<u>R</u>	<u>Provisions and definitions arising out of (2) only apply to defaults on or occurring after [] 2009</u>	<u>From [] 2009 indefinitely</u>	<u>[] 2009</u>

- 10.2.2 G The limits apply to the aggregate amount of *claims* in respect of each category of *protected claim* that an *eligible claimant* has against the *relevant person*. Consequently, a claimant who has, for example, a *claim* against a *relevant person* in connection with *protected investment business* of ~~£30,000~~ £40,000 and a further such *claim* of £20,000, will only receive the £50,000 limit. ~~not receive 100% compensation for both *claims*; instead he will receive £48,000 (100% of the first £30,000 and 90% of the next £20,000). Similarly, if a claimant receives more than one payment in respect of a *claim* or *claims* on one or more *protected contract of insurance*, the claimant will only receive 100% of the first £2,000 of the total paid, and not 100% of the first £2,000 of each payment.~~

Table Limits

This table belongs to COMP 10.2.1R

10.2.3 R

Type of claim	Level of cover	Maximum payment
...		
<i>Protected contract of insurance when the contract is a relevant general insurance contract</i>	(1) Where the claim is in respect of a liability subject to compulsory insurance: 100% of claim.	Unlimited
	(2) Where the claim arises under the Third Party (Rights against Insurers) Act 1930, is in respect of a liability within COMP 5.4.5R(1)(b), and is in connection with an Article 9 default: 90% of the claim.	Unlimited
	(3) (2) In all other cases: 100% × first £2,000 90% of remainder of the claim.	Unlimited
<i>Protected contract of insurance when the contract is a long-term insurance contract</i>	100% × first £2,000 At least 90% of the remaining value of the policy as determined in accordance with COMP12.	Unlimited
<i>Protected investment business</i>	100% × first £30,000 90% × next £20,000 £50,000 of claim	£48,000 £50,000
<i>Protected home finance mediation</i>	100% × first £30,000 90% × next £20,000 £50,000 of claim	£48,000 £50,000
<i>Protected non-investment insurance mediation</i>	(1) where the claim is in respect of a liability subject to compulsory insurance: 100% of claim	Unlimited

	(2) In all other cases: 100% x first £2000 90% of the remainder of the claim	Unlimited
...		

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