

FSCS Protection Guide

What is the FSCS?

The Financial Services Compensation Scheme (FSCS) is the UK's statutory fund of last resort for customers of financial services firms. This means that FSCS can pay compensation to consumers if a financial services firm is unable, or likely to be unable, to pay claims against it. The FSCS is an independent body, set up under the Financial Services & Markets Act 2000 (FSMA) becoming operational on 1 December 2001 (although they may cover claims from before this date).

The FSCS deals with claims against authorised firms (those regulated by the Financial Conduct Authority or the Prudential Regulation Authority) that are unable, or likely to be unable, to pay claims against them. This will generally be because a firm has stopped trading and has insufficient assets to meet claims, or is in insolvency. The FSCS describe this as a firm being in default.

What the FSCS Protects

Where a client is eligible to claim under the FSCS, the FSCS provides cover up to specified limits depending on the type of investment being made. Below are the limits that apply for the different types of investments they protect.

- **Deposits**

The current maximum level of protection is £85,000 per person, per firm and £170,000 for joint accounts. This covers deposits made by private individuals and small businesses to any authorised firm protected by the FSCS. From 1 January 2016 the deposit limit for bank accounts will be set at £75,000 per person, per firm and £150,000 for joint accounts. The level is changing because the FSCS deposit protection limit is reviewed every five years based on a sterling amount equivalent to €100,000.

Bank customers who temporarily have a large sum deposited may be protected for up to £1m for 6 months from the date the funds are transferred into their account. Details of the types of deposits covered by the temporary increase in the deposit limit can be found in the “what we cover section” of the FSCS website.

- **Insurance policies**

The FSCS protects policyholders in the event of an insurer failing. Protection is at 100% where claims:

- Arise in respect of a liability subject to compulsory insurance; or
- Arise in respect of a liability subject to professional indemnity insurance; or
- Arise from the death or incapacity of the policyholder due to injury, sickness, or infirmity;

Protection is at 90% where claims arise under other types of policy with no upper limit.

No protection is available for Goods in Transit, Marine, Aviation and Credit Insurance. Contracts of reinsurance are also not protected.

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- **Home Finance**

The maximum level of compensation for claims against firms declared in default on or after 1 January 2010 is £50,000 per person, per firm.

- **Investments**

The maximum level of compensation for claims against firms declared in default on or after 1 January 2010 is £50,000 per person, per firm.

- **Pensions (Retirement Savings)**

The compensation limit which applies to pensions will be dependent on the way the pension has been invested:

- **Deposits:** if a client chooses to deposit their pension fund into a bank, building society or credit union, protection is up to £85,000 per person, per firm. This level changes to £75,000 per person, per firm from 1 January 2016.
- **Investments:** if a client chooses to place their pension fund directly into investments (other than insurance products), you are protected up to £50,000 per person, per firm.
- **Retirement income:** if a client is already drawing a set retirement income from their pension pot from a life assurance contract, such as an annuity, income is protected by the FSCS to 100% if anything happens to the provider.
- **Pension Life Savings:** if a client is still building up your pension pot, 100% of the pot will be protected if it is directly managed in a life insurance contract.
- **Investment Life Policy Savings:** these are long-term life insurance policies which have a savings element, such as endowment policies or investment bonds. Any investment life policy savings held in pensions are protected up to 100% with no upper limit.
- **Death or Incapacity:** the FSCS will pay 100% of claims if it arises from death or incapacity, if anything happens to the provider.

Where a claim involves mis-selling of long term insurance, then FSCS deals with it as investment advice. For example, if someone receives bad advice to transfer their retirement savings to a FSCS protected personal pension, then FSCS protects the claim up to £50,000.

Further details on the FSCS

If you require further details on the FSCS you can find further details on their website www.fscs.org.uk or you can contact them by telephone on 0800 678 1100.