

Financial Services Compensation Scheme (FSCS)

Introduction

The Financial Services Compensation Scheme is the UK's compensation fund of last resort. The scheme can pay compensation if an authorised financial services firm is unable to meet its financial obligations.

The Financial Services Compensation Scheme was established under Part XV of the Financial Services and Markets Act 2000. The Scheme is administered by the Financial Services Compensation Scheme Limited (FSCS), and covers business conducted by firms authorised by the Financial Services Authority (FSA).

Activation of the Scheme

Before the Scheme can be activated, the FSA or a court must make a determination about a participant in the Scheme. This would usually happen if it was determined that a participant was unable to repay investments which were due and payable. An example of where this might happen is if there had been a winding-up order in insolvency proceedings.

Amount of Protection

Savings

From 30 June 2009, the deposit compensation limit is the higher of £50,000 or €50,000. In the event of default, the Euro amount will be calculated by reference to the currency exchange rate on the day of default.

The payment is calculated by reference to all the investor's protected shares and deposits in the Society. Therefore, if a claimant had two separate accounts with the Society, one containing £20,000 and the other £15,000, he or she would receive £35,000 (100% of the deposit). If the claimant had two separate accounts, one containing £35,000 and the other £45,000, the individual would receive a maximum of £50,000 (or €50,000, whichever higher).

Home Finance (Mortgage Advice and Arranging)

The FSCS provides protection if an authorised mortgage firm is unable to pay claims against them. For example, if the Society goes into administration or liquidation. The main area of mortgage business giving rise to a claim relates to suitability of advice for a customer's circumstances at the time. The FSCS will only pay for financial loss incurred. The maximum level of compensation for claims against firms declared in default on or after 1 January 2010 is 100% of the first £50,000 loss, per person, per firm.

General Insurance policies

The maximum level of compensation for claims against firms declared in default on or after 1 January 2010, is 90% of the claim with no upper limit. Compensation may be claimed if a customer is not told about a relevant exclusion or if advice leads to insufficient cover.

Investors who are Protected

Most investors are protected including individuals and small firms, but there are some exceptions:

- A large company
- A large partnership
- A large mutual association
- A local, provincial or municipal authority
- A person whose claim arises from transactions relating to a conviction they have received for money laundering.

In broad terms, limited companies (separate from the Directors) have the same level of protection per institution if two of the following statements are true:

- Turnover less than £6.5 million
- Balance sheet total less than £3.2 million
- They have less than 50 employees

Protected Currencies

Most shares or deposits with a building society are held in pounds sterling, but all other currencies are also covered.

Interest on an Account

Interest earned on accounts at the time the shares or deposits become due and payable is covered by the Scheme (within the limit of the maximum payment). If a winding-up order against a Society has been made by the Court, interest will immediately stop being paid on the Society's accounts.

Shares and Deposits which are Protected

All building society shares and deposits are protected by the Scheme except:

- i) a bond issued by a building society which is part of its capital (for example subordinated debt);
- ii) a secured deposit;
- iii) a deferred share issued by a building society (usually permanent interest bearing shares);
- iv) a non-nominative deposit (that is, a deposit made without disclosing the depositor's identity).

Newbury Building Society does not have any of these types of accounts.

Joint Accounts

For joint accounts, each account owner is treated as having a claim for his or her share, and unless there is evidence about their respective shares, they will each be regarded as entitled to an equal share. For example, if two people have a protected investment of £110,000, the maximum compensation would be £50,000 (or €50,000) each. The limit relates to the combined amount in all the claimant's accounts with the Society, including their share of any joint account, and not to each separate account.

Partnerships

If two or more persons have a joint beneficial claim, the claim is to be treated as the claim of the partnership if they are carrying on business together in partnership. Otherwise the joint account rules (above) apply.

Trustees

If a claimant's claim also includes a claim as a trustee, his or her claim as trustee will be treated as being separate from the claim in his or her own right. If the same person claims as trustee for different trusts, these will be treated as claims of different claimants. If a group of people claim as trustees their claim will be treated as that of a single person. If the claimant has a claim as a bare trustee for one or more beneficiaries, the beneficiary or beneficiaries will be treated as having the claim. There are further rules relating to trustees.

Personal Representatives

Where a person has a claim as a personal representative of someone who has died, the claimant will be treated in respect of that claim as if he or her were standing in the shoes of that other person.

Agents

If a claimant has a claim as agent for one or more principals, the principal or principals will be treated as having the claim.

Multiple accounts with companies in the same group

If a claimant holds accounts with two or more firms covered by a single FSA registration, the Scheme will only pay up to the maximum limit in total, regardless of how many different institutions a person holds accounts with or the number of accounts that they hold.

Questions about how an organisation is authorised can be directed to the Financial Services Authority Consumer Contact Centre (0300 500 5000) or their website www.fsa.gov.uk.

Funding the Scheme

The cost of the FSCS in respect of savings and deposits in building societies, banks and others, and the cost of compensation payments under the Scheme, is funded by contributions from the businesses, that are covered by the Scheme.

Making a claim under the scheme

The Rules of the Scheme require a claim to be brought to the FSCS within a set time (normally within six years of the date on which the claim occurred). In practice, a building society would give to the FSCS a list of the names and addresses of the investors who may be able to claim under the Scheme. The FSCS would then send a claim form to each investor for completion. Full details of how to complete the form would be provided at the time.

Each claim would need to be verified before payment could be made. This could involve further questions being asked of those who have claimed and the FSCS asking the liquidator or administrator to confirm the amount of the investment on which the claim is based and to confirm that the claim does not relate to shares or deposits of a type that are not covered by the Scheme.

Claims would be paid as soon as practicable (subject to the checking procedure).

Further information

The Rules covering the Scheme are very detailed and this leaflet summarises the main provisions of the Financial Services Compensation Scheme, which are relevant to shares and deposits in a building society. Further information about the operation of the Scheme is available on the FSCS website at www.fscs.org.uk. If you have any queries about the Scheme they may be addressed to:

Financial Services Compensation Scheme
5th Floor, Lloyds Chambers
1 Portsoken Street
London E1 8BN

Tel: 0207 892 7300
Fax: 0207 892 7301/7337
Email: enquiries@fscs.org.uk

Financial Services Authority (FSA)

The Financial Services Authority (FSA) is an independent, non-governmental body, given statutory powers by the Financial Services and Markets Act 2000 to regulate financial services in the UK.

For more detailed information visit www.fsa.gov.uk

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