

# 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. An example of where this might happen is if there had been a winding-up order in insolvency proceedings.

## Amount of Protection

### Savings

From 31 December 2010, the deposit compensation limit is 100% of the first £85,000 loss, per person, per firm.

The payment is calculated by reference to all the investor's protected shares and deposits in the firm. Therefore, if a claimant had two separate accounts, one containing £20,000 and the other £15,000, the individual would receive £35,000 (100% of the deposit). If the claimant had two separate accounts, one containing £35,000 and the other £55,000, the individual would receive a maximum of £85,000.

### Home Finance (Mortgage Advice and Arranging)

The FSCS provides protection if an authorised mortgage firm is unable to pay claims against them.

The main area of mortgage business that could give 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

The following are not protected by the FSCS:

- A large company (see below for definition)
- A large partnership, unincorporated association or mutual association (at least £1.4m in net assets)
- 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 not more than £6.5 million
- Balance sheet total not more than £3.26 million
- They have not more 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 is made by the Court, interest will immediately stop being paid on that date.

## 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 £170,000, the maximum compensation would be £85,000 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 Helpline (0845 606 1234) or their website [www.fsa.gov.uk](http://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 verify and deal with each claim. This could involve further questions being asked of the claimants. 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. Further information about the operation of the Scheme is available on the FSCS website at [www.fscs.org.uk](http://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](mailto:enquiries@fscs.org.uk)



Check with us what protection the  
Financial Services Compensation  
Scheme offers you  
[www.fscs.org.uk](http://www.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](http://www.fsa.gov.uk)

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