Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

Telephone: 020 7066 9346
Email: enquiries@fs-cp.org.uk

Clare Vicary
Financial Conduct Authority
25 The North Colonnade
London
E14 5HS

26 July 2018

By email: cp18-11@fca.org.uk

Dear Clare

CP18/11: Reviewing the Funding of the Financial Services Compensation Scheme (FSCS)

The Financial Services Consumer Panel (the Panel) welcomes the opportunity to respond to this consultation. We generally support the proposals on changes to the funding class structures and agree that product providers should contribute to funding the FSCS.

However, we remain concerned about the adequacy of the level of cover for pensions claims, which continue to rise in numbers and value. This should be subject to regular review to ensure that consumers do not lose out on compensation. The FCA should also bear in mind that consumers cannot manage the risk of their pension investments provider going bust, whereas they can spread their deposits over several providers.

In addition, there should be more effective information sharing between the FCA, the FSCS, the Financial Ombudsman Service[1] and the Money Advice Service so that consumers can be better protected by preventative action before a firm fails. The FSCS should work more closely with the authorisations team at the FCA on 'phoenix' firms, to ensure that consumers are protected. They should also jointly consider how to handle liabilities which are transferred to the FSCS from failed firms which then re-emerge.

Yours sincerely

Sue Lewis
Chair
Financial Services Consumer Panel

[1] http://www.financial-ombudsman.org.uk/publications/pdf/independent-review-2018.pdf

Questions for discussion

Q1. Do you have any views on our proposal to prevent personal investment firms (PIFs) from buying PII policies which exclude claims when the policyholder or a related party is insolvent?

No comment.

Q2: Do you have any views on the potential to require PIFs to hold additional capital in trust, for the purposes of contributing to any FSCS claims?

No. However, as stated in our previous response, the Panel supports an assessment of the introduction of risk-based levies.

Q3: Do you have any views on requiring PIFs to obtain a surety bond?

No comment.

Q4: Do you have any comments on our proposals to merge the Life and Pensions Intermediation funding class with the Investment Intermediation funding class?

The Panel agrees with the proposals.

Q5: Do you agree with our proposal to move pure protection intermediation from the Life and Pensions Intermediation funding class to the General Insurance Distribution funding class?

Yes.

Q6: Do you agree with our proposal to change the class thresholds for FCA product provider classes to represent 25% of the relevant intermediary claims funding class threshold? If not, what alternative would you suggest?

The Panel supports the reasoning behind this proposal but the contribution should be reviewed in future to ensure its aims are still being met.

Q7: Do you have any comments on our proposal for how the retail pool will operate?

No comment.

Q8: Do you agree that we should increase the FSCS compensation limit for investment provision, investment intermediation, home finance intermediation claims and debt management claims from £50,000 to £85,000?

The Panel understands the logic of bringing limits in line with deposit protection. However, this still leaves inconsistencies when it comes to pensions: limited protection in drawdown but 100% protection for insurance based annuities. Moreover, for increasing numbers of people, the levels will be inadequate. They have not been changed since October 2009 and should be assessed more frequently.

We note that the FSCS has seen rising pension claims in relation to transfers as consumers exercise their pension freedoms. For investments within any kind of pension vehicle or wrapper the Panel believes consumers should be protected up to £1m as it is not possible for consumers to protect themselves against the risk that a provider goes bust. For other savings products, consumers can manage the risk by diversifying above the deposit guarantee scheme limit.

Q9: If you do not agree with the proposal above, do you have an alternative proposal?

No comment.