

Geaneen Hayes
Financial Services Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

27 August 2009

Dear Geaneen,

CP 09/16: Financial Services Compensation scheme: Verification of the single customer view and changes to deposit compensation

The Consumer Panel does not wish to comment in detail on the questions in the Paper, but would like to use this opportunity to reiterate its outstanding areas of concern regarding compensation. The Panel would welcome the articulation of the FSA's stance on these issues in order to bring clarity for consumers.

Overall the proposals for a single customer view appear logical against the backdrop that the FSCS has found that the data firms hold is not always accurate or complete enough to facilitate fast payout. There are therefore very sensible reasons why the FSCS has come up with proposals for a single customer view and for data requirements to facilitate prompt payout.

We therefore support the intention behind this proposal, but ultimately the cost of the system will be borne by the consumer. We note that the figure of £891.8m amounts to around £20 per head of the adult population: we question whether this is a proportionate cost, particularly when there are already regulatory obligations which require firms to manage customer data effectively. We also expect that the regulator and the industry have learned lessons over recent months and are taking action to ensure that the risks of future failures are minimised substantially.

Moreover, we ought to be able to expect firms to hold reliable and appropriate data regarding their customers without recourse to establishing the single customer view. As an alternative to establishing the single customer view we suggest that the FSA could make rules requiring firms to hold such records, without being prescriptive with firms about how they hold them. We note that the Treasury White Paper proposes that firms have in place a contingency plan which would be deployed in the event of a failure. The holding of

comprehensive and appropriate records could be an important part of this plan.

If protection were to be allocated on the basis of brand rather than authorised entity, we see no reason why the single customer view should be considered necessary. We therefore repeat our call for protection on the basis of brand. We welcome the action that the FSA has taken to provide that the regime as it applies to Building societies cover each brand: we believe that, for consistency across the marketplace, protection should be afforded by brand. It has been suggested that protection on the basis of brand is outlawed by the Deposit Guarantee Schemes Directive. However we note that the European Commission is explicitly consulting on whether protection can be on the basis of brand. We, therefore, urge the FSA to ensure that protection can be applied on the basis of brand. Given the amount of consolidation which has taken place in the market, protection by brand is necessary to enable consumers to have the required amount of protection.

We have a particular concern about those consumers who hold short term high balances which would not be covered by a guarantee scheme. We believe that coverage should be extended to cover pension deposits, compensation, inheritance, property transactions, divorce settlements, redundancy payouts; proceeds of life policies; proceeds of buildings insurance and payments awarded by employment tribunals.

We have a particular concern with regard to SIPP. The SIPP market is substantial – figures in the public domain show some 500,000 SIPP plans in existence, holding about £30 billion of consumers' pension contributions - and given the relatively wide range of assets that can be held in a SIPP, they remain an attractive option for many consumers. According to a 2008 survey by Money Management¹ the total number of insured and self-invested SIPPs of those providers surveyed was 314,799 and there were around 80,000 trustee based SIPPs with total assets of around £22bn. There is a difference in the way in which the Financial Services Compensation Scheme applies to SIPPs. Insured SIPPs – those offered generally by life assurance companies – are covered as to 100% of the first £2,000 and 90% of the remainder with no upper limit, whereas trustee SIPPs are protected only up to a maximum of £48,000 (100% of the first £30,000 and 90% of the next £20,000). From a consumer perspective this is an anomaly that must be addressed. Our view is that all trustee based SIPP assets should be protected to the same unlimited level as insured SIPP assets.

As SIPP holders approach retirement their funds will be switched into cash backed assets prior to the likely purchase of an annuity and will, ultimately, be held in a bank account as a large lump sum. There does not seem to be provision so far for such cash sums to be protected beyond the level applied to other bank balances, currently £50,000. We believe that it would be wholly unfair for consumers to be exposed to substantial losses at a point in their

¹ Money Management September 2008 supplement self invested personal pensions: doing your own thing

lives where, by definition, they are unlikely to be in a position to recoup the monies and where the capital sum is likely to represent a lifetime's savings. We strongly recommend the extension of forthcoming rules on 'temporary high balances' to cash balances relating to SIPPS and other personal pensions saving.

As a final point we note that with regard to term deposits, the FSA considers the date of default to be the appropriate date to calculate and award compensation, rather than the end of the term. We would agree that this is the appropriate date.

I hope this is helpful, yours sincerely

A handwritten signature in cursive script that reads "A. Kay Blair". The signature is written in dark ink on a white background.

Kay Blair

Vice Chairman, Financial Services Consumer Panel