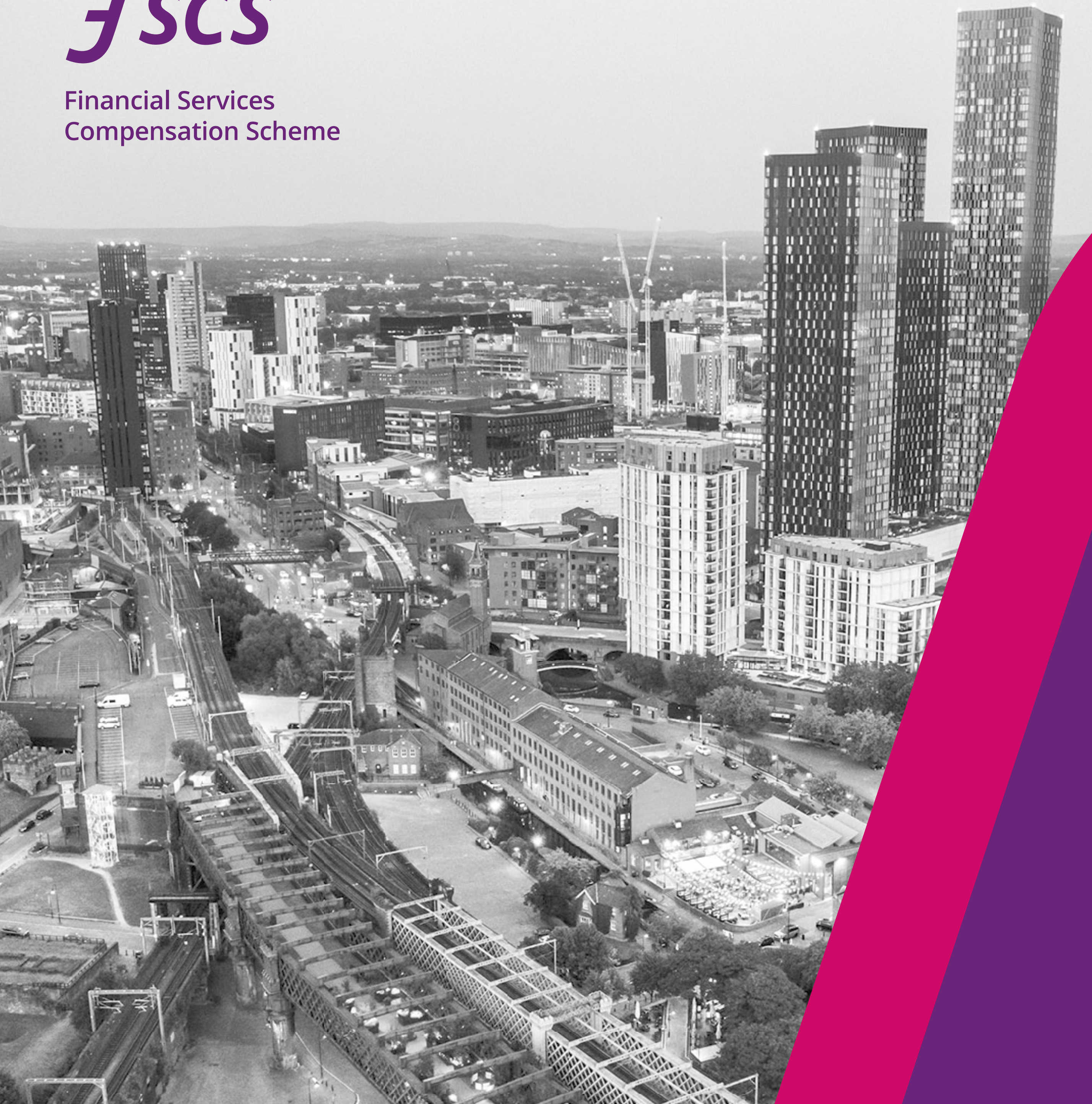
Financial Services
Compensation Scheme



Outlook

May 2024

www.fscs.org.uk

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About **FSCS**

FSCS is the UK's financial compensation scheme that protects customers of authorised financial services firms if they fail or have stopped trading.

FSCS is independent and can pay compensation if an authorised financial firm fails and is unable to pay back money it owes its customers. FSCS's service is completely free to use and is funded by the financial services industry.

Interim Chief Executive's statement

Welcome to May 2024's Outlook report. This latest edition provides an update on compensation figures and the levy for 2024/25, following the first look we published in November.

In addition to this report, we have a dedicated webpage at www.fscs.org.uk/outlook where you can find more information and the Outlook archive.

Reflections on the previous year

As detailed in this report, in some classes we upheld fewer claims than expected in 2023/24. The amount of compensation paid on some claim types was also lower, impacted by the broader economic conditions. To illustrate, the average compensation amount on pension transfer claims was around £35,000 in 2023/24, whereas in 2022/23 it was almost 30% higher at around £45,000.

The timing of larger failures has also impacted the number of claims we were able to complete during 2023/24, hence our year-end figures. Firms such as Rowanmoor Personal Pensions Ltd, which was declared in default in December 2023 with more than 1,500 claims against it, have made a difference to our forecasts with many compensation payments moving into the next financial year. The pace of remediation in the building sector has also meant a number of high value policy claims for a failed insurer, East West Insurance Company Ltd, are being settled later than initially anticipated.

At the same time, we made a number of successful recoveries in 2023/24, with more than £54m recovered from the estates of failed firms and other third parties.

Altogether, this means surpluses in some funding classes have been carried forward to 2024/25.

Our Annual Report, which will be published in the summer, will include full details of our performance and claims figures for 2023/24.

Finding the balance in 2024/25

In addition to surpluses carried forward from 2023/24, we've refined our forecast for the year ahead – learning from what we've seen recently and taking note of persisting trends. This means a reduction in the compensation we expect to pay in 2024/25 (now £363m) and a decreased levy from our early forecast in November 2023 (now £265m).

Predicting failures and claims volumes in advance is difficult, not least due to external conditions that are beyond our control such as the timings of firm failures or prevailing economic conditions. Customers often contact us many years after the firm they had been doing business with failed. Indeed, around 85% of claims are made five or more years after the original advice was given, which means it can be challenging to predict when a claim will be made.

Each year, these uncertainties mean it's likely that we'll either find ourselves in the situation where we have surpluses, or we need to ask for a supplementary levy.

First and foremost, we know that supplementary levies might be difficult for industry to manage, and the way we forecast means we haven't needed to raise any since 2020. However, large surpluses are also not ideal, and we're being cautious with our planning for the year ahead. One area we're mindful of is recoveries, as the timing of their receipt is often unpredictable. In November 2023 we forecasted around £7m for the year ahead - we now expect to recover £17m. Any more than this will of course be welcome news but will change our forecasts and could result in further surpluses.

We're transitioning to a new operating model this year and have factored the costs associated with this into our forecasts for 2024/25. As detailed in January's Budget Update, we're increasing our in-house resource, and we've built an appropriate provision into our management expenses to allow for an overlap as we bring new teams on board. As with any change, there are risks which could lead to unexpected costs. We may face recruitment challenges or need to adjust our resourcing to meet unexpected needs.

We reached the first big milestone in the transition to our new operating model on 1 April by opening our in-house contact centre. The team has been performing well, and it's fantastic having them, and by extension our customers, at the heart of the office. We'll continue to share updates on this strategically important transition throughout the year.

The next Outlook will come in the autumn, with a half-year update and a first look at 2025/26.

Martyn Beauchamp
Interim Chief Executive

Our latest levy update

The annual levy for 2024/25 is now £265m. This is lower than the indicative levy announced in the November 2023 Outlook, and a small decrease from the final 2023/24 levy of £270m.

During 2024/25, we now expect to pay £363m in compensation. This is also lower than our first forecast in November.

Contributing to these forecast reductions was paying out less compensation in 2023/24 than we initially expected. We also successfully recovered more than £54m from the estates of failed firms and other relevant third parties.

These factors led to surplus funds which have been used to offset the 2024/25 levy.

No retail pool levy is anticipated in 2024/25 as no class is expected to breach its annual levy limit.

Further details on our compensation forecasts and surpluses for each funding class are included in this report. We'll publish final figures for 2023/24 in our Annual Report in the summer.

The movement in our latest forecast is mainly driven by variations in two funding classes – Life Distribution & Investment Intermediation (LDII) and General Insurance Provision.

In the LDII class, a £51m decrease in compensation paid in 2023/24 created an additional surplus compared to our early forecast in November 2023. In part, this surplus was due to reduced average compensation values on pension transfer claims. There were also lower than expected payment volumes for British Steel Pension Scheme (BSPS) pension claims and fewer firms failed than expected during the redress scheme.

For 2024/25, the LDII class's compensation forecast has also decreased by £68m. This is due to a reduced uphold rate and lower average compensation value for pension claims since the initial forecast. We're also now expecting to receive fewer new claims and we're forecasting lower compensation costs for special administration firm failures.

In the General Insurance Provision class, a £27m decrease in compensation costs in 2023/24 created an additional surplus above our early forecast in November 2023.

Partly, this was due to large insurance payments being delayed because of the complex nature of building insurance claims in relation to East West Insurance Company Ltd. As explained further in the levy breakdown (under General Insurance Provision), many claims remain in the investigation phase, remedial work has not yet started and so these claims have not proceeded to settlement.

The General Insurance Provision class's compensation forecast for 2024/25 has decreased by £34m. This was mainly due to updated claims management information being received on the Green Realisations 123 Ltd (formerly MCE Insurance Company Ltd) and East West Insurance Company Ltd failures, which has led us to adjust our monthly forecasts. Furthermore, we expect no new general insurance failures in 2024/25.

We're also forecasting £10m in additional recoveries in 2024/25 compared to November's Outlook.

Overall, the reductions in the total compensation forecast for 2024/25 have been partially offset by an £8m increase in the Investment Provision class's forecast. This includes anticipated additional compensation for claims against self-invested personal pension (SIPP) operators under Section 27 of the Financial Services and Markets Act 2000 (FSMA).

We continually review our forecasts as the assumptions we use are affected by various factors, including when firms fail and the timing and complexity of claims that we receive. We're also alert to the fact that a number of claims come to us many years after a firm failure or after poor advice was given. In calculating this latest forecast, we've also taken into account the transition to our future claims-handling model. You can read

more about this in our Interim Chief Executive's statement.

This May 2024 Outlook provides our latest compensation forecasts and the levy payable by each funding class for the 2024/25 financial year. We'll publish the next edition in autumn 2024.

Payment on account

All PRA and FCA regulated firms will be sent an annual levy invoice in summer 2024.

We've already invoiced the largest levy-paying firms £102m in early 2024 as payment on account for the 2024/25 levy.

This will be deducted from their annual levy invoice.

Levy breakdown – PRA classes

Deposits

The Deposits class has seen a decrease in the levy amount from £26m to £14m since our indicative levy forecast in November.

The main reason for this decrease is that compensation costs were £11m lower than anticipated in 2023/24. This was because there were only two small credit union failures (where we paid out approximately £1.3m) in 2023/24. This contributed to a £14m class surplus which has been carried forward and used to offset the 2024/25 levy.

Approximately £1m of the levy will be provider contributions to the LDII class and the remainder will cover costs in the Deposits class.

Deposit Acceptors

The Deposit Acceptors class only contributes towards the annual levy if the retail pool is triggered. For 2024/25, a retail pool levy isn't currently expected.

Fund balances

2024/25 forecast fund balances	November's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	3.2	13.7	10.5
Compensation	(12.0)	(12.0)	0.0
Recoveries	1.0	1.0	0.0
Interest	0.4	0.3	(0.1)
Management expenses	(14.1)	(14.8)	(0.7)
Annual levy receipts	23.0	13.0	(10.0)
Total closing surplus/(deficit) Please note that the 'Annual levy receipts' excludes provider contributions.	**1.4**	**1.2**	**(0.2)**
Total levies The 'Total levies' includes provider contributions to other classes. Please note, the 'Total levies' is not the sum of each column. This row shows the November forecast in comparison to the latest levy update.	**25.9**	**14.4**	**(11.5)**

Levy breakdown – PRA classes

General Insurance Provision

The levy for this class has decreased from £146m to £69m.

The decrease in the levy can be attributed in part to the class surplus being £33m higher than November's initial forecast. This surplus has been carried forward to offset the 2024/25 levy. The reasons behind this additional surplus include:

- Compensation paid in 2023/24 was £27m lower than expected as some large loss claims, where a claim is more than £500k, have moved into 2024/25 and beyond. This was mainly in relation to East West Insurance Company Ltd, where a number of large, complex structural building warranty claims reside.
- The majority of East West Insurance Company Ltd claims remain in the investigation phase and remedial work hasn't yet started, which is where significant compensation outlay will occur.

Fund balances

2024/25 forecast fund balances	November's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	31.6	64.4	32.8
Compensation	(171.4)	(137.9)	33.5
Recoveries	1.8	11.8	10.0
Interest	0.8	1.5	0.7
Management expenses	(7.6)	(7.3)	0.3
Annual levy receipts	146.0	69.0	(77.0)
Total closing surplus/(deficit) Please note that the 'Annual levy receipts' excludes provider contributions.	**1.1**	**1.5**	**0.4**
Total levies The 'Total levies' includes provider contributions to other classes. Please note, the 'Total levies' is not the sum of each column. This row shows the November forecast in comparison to the latest levy update.	**146.0**	**69.0**	**(77.0)**

Levy breakdown – PRA classes

General Insurance Provision

Additional reasons for the decreased 2024/25 levy include:

- The 2024/25 compensation costs are now expected to be £34m lower than forecast in November. This decrease mainly relates to:
  - a £10m reduction for East West Insurance Company Ltd following updated analysis of claims costs and the expected timing of payouts for building remediation works.
  - a £14m reduction in compensation costs for Green Realisations 123 Ltd (formerly MCE Insurance Company Ltd) based on additional actuarial information being received and the lower average monthly compensation paid in 2023/24.
- £10m in additional recoveries forecast across insurance estates compared to November's initial forecast.

We're not expecting any new firm failures in 2024/25, therefore all expected compensation costs relate to failures that have already occurred. The expected compensation costs for 2024/25 are now £138m.

As stated in our November 2023 Outlook forecast, firms won't be required to pay a provider contribution to the General Insurance Distribution class in 2024/25.

Levy breakdown – PRA classes

Life & Pensions Provision

We don't expect any firm failures to occur in this class during 2024/25.

The levy for this class is driven by provider contributions to the Life Distribution & Investment Intermediation (LDII) class. As the expected compensation costs for the LDII class have reduced, the levy for 2024/25 will be £10m, which is an £11m decrease on the indicative levy published in November.

Fund balances

2024/25 forecast fund balances	November's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	(0.5)	(0.6)	(0.1)
Compensation	0.0	0.0	0.0
Recoveries	0.0	0.0	0.0
Interest	0.0	0.0	0.0
Management expenses	0.0	0.0	0.0
Annual levy receipts	0.0	0.0	0.0
Total closing surplus/(deficit) Please note that the 'Annual levy receipts' excludes provider contributions.	**(0.5)**	**(0.6)**	**(0.1)**
Total levies The 'Total levies' includes provider contributions to other classes. Please note, the 'Total levies' is not the sum of each column. This row shows the November forecast in comparison to the latest levy update.	**20.5**	**9.5**	**(11.0)**

Levy breakdown - FCA classes

General Insurance Distribution

As stated in the November 2023 Outlook, there will be no levy required for firms in this class as we're not expecting any new firm failures. We're also continuing to see a decrease in Payment Protection Insurance (PPI) claims, which continue to be the main type of claims in this class.

In 2023/24, we received an additional £2.4m in recoveries which wasn't anticipated in November, largely relating to Strathearn Insurance Services Ltd. The 2023/24 class surplus was carried forward and should be sufficient for compensation payments in 2024/25.

Fund balances **2024/25 forecast fund balances**	**November's Outlook forecast (£m)**	**Latest levy update (£m)**	**Variance (£m)**
Opening balance	3.4	6.0	2.6
Compensation	(0.5)	(0.4)	0.1
Recoveries	0.0	0.0	0.0
Interest	0.1	0.1	0.0
Management expenses	(1.7)	(0.8)	0.9
Annual levy receipts	0.0	0.0	0.0
Total closing surplus/(deficit) Please note that the 'Annual levy receipts' includes provider contributions.	**1.4**	**4.9**	**3.5**
Total levies The 'Total levies' excludes provider contributions from other classes. Please note, the 'Total levies' is not the sum of each column. This row shows the November forecast in comparison to the latest levy update.	**0.0**	**0.0**	**0.0**

Levy breakdown - FCA classes

Life Distribution & Investment Intermediation (LDII)

The levy payable by firms in this class is now £66m, a £75m decrease from November's indicative forecast. The main reason for the reduction is that compensation for this class in 2023/24 was £130m, £51m lower than forecast in November 2023. This was mainly due to reduced average compensation values on pension transfer claims, lower payment volumes for BSPS pension claims and fewer firms failing than expected during the redress scheme.

These lower compensation costs resulted in an additional £57m surplus, which was carried forward and used to offset the 2024/25 levy.

Fund balances **2024/25 forecast fund balances**	**November's Outlook forecast (£m)**	**Latest levy update (£m)**	**Variance (£m)**
Opening balance	57.2	114.5	57.3
Compensation	(224.2)	(156.4)	67.8
Recoveries	4.0	4.0	0.0
Interest	1.7	2.3	0.6
Management expenses	(30.3)	(35.6)	(5.3)
Annual levy receipts	193.0	90.0	(103.0)
Total closing surplus/(deficit) Please note that the 'Annual levy receipts' includes provider contributions.	**1.5**	**18.7**	**17.2**
Total levies The 'Total levies' excludes provider contributions from other classes. Please note, the 'Total levies' is not the sum of each column. This row shows the November forecast in comparison to the latest levy update.	**140.4**	**65.5**	**(74.9)**

Levy breakdown - FCA classes

Life Distribution & Investment Intermediation (LDII)

The expected compensation costs for 2024/25 have also decreased from £224m to £156m. This is largely due to:

- Reduced pensions uphold rates and average compensation values from November's forecast.
- Expecting to receive fewer new claims.
- Forecasting lower compensation costs for special administration firm failures.

This class will receive provider contributions from the Life & Pensions Provision (£10m), Investment Provision (£14m) and Deposits (£1m) classes in 2024/25.

Levy breakdown - FCA classes

Investment Provision

Since the indicative levy was published in November, the forecast for this class has increased from £44m to £69m. This includes £14m as provider contributions to the LDII class.

The main reasons for the increase include:

- In February 2024 we paid out £38m in compensation for Hartley Pensions Ltd, increasing our compensation forecast from November by £15m.
- The Hartley Pensions Ltd compensation payments also led to a reduced 2023/24 closing balance, and less funds than we initially forecast being carried forward to offset the 2024/25 levy.
- For 2024/2025, there is now an anticipated £8m increase in compensation costs against self-invested personal pension (SIPP) operators for Section 27 claims.

Fund balances

2024/25 forecast fund balances	November's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	39.8	22.7	(17.1)
Compensation	(48.5)	(56.1)	(7.6)
Recoveries	0.0	0.0	0.0
Interest	2.0	0.9	(1.1)
Management expenses	(7.0)	(7.3)	(0.3)
Annual levy receipts	15.0	55.0	40.0
Total closing surplus/(deficit) Please note that the 'Annual levy receipts' excludes provider contributions.	**1.3**	**15.1**	**13.9**
Total levies The 'Total levies' includes provider contributions to other classes. Please note, the 'Total levies' is not the sum of each column. This row shows the November forecast in comparison to the latest levy update.	**44.2**	**68.6**	**24.4**

Levy breakdown - FCA classes

Home Finance Intermediation

As announced in November's Outlook, firms in this class won't be required to pay an annual levy in 2024/25.

We're not expecting any new firm failures in this class and the compensation payments are forecast to be approximately £250k. This amount is for failures that have already occurred, and the class's 2023/24 class surplus is sufficient to cover these costs.

Home Finance Providers

Please note that the Home Finance Providers class isn't FSCS protected. Home Finance Providers pay provider contributions to the Home Finance Intermediation class and contribute to the retail pool levy if required.

As we're not expecting a retail pool levy in 2024/25, the Home Finance Provider class isn't required to pay any contributions to the Home Finance Intermediation class, or any other class.

Fund balances

2024/25 forecast fund balances	November's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	1.8	1.5	(0.3)
Compensation	(0.1)	(0.2)	(0.1)
Recoveries	0.0	0.0	0.0
Interest	0.2	0.0	(0.2)
Management expenses	(0.8)	(0.3)	0.5
Annual levy receipts	0.0	0.0	0.0
Total closing surplus/(deficit)	**1.0**	**1.0**	**0.0**
Total levies Please note, the 'Total levies' is not the sum of each column. This row shows the November forecast in comparison to the latest levy update.	**0.0**	**0.0**	**0.0**

Levy breakdown - FCA classes

Debt Management

As stated in November's indicative levy forecast, we're not expecting any firm failures or compensation costs for the Debt Management class during 2024/25 and the levy remains nil.

Fund balances

2024/25 forecast fund balances	November's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	0.0	0.0	0.0
Compensation	0.0	0.0	0.0
Recoveries	0.0	0.0	0.0
Interest	0.0	0.0	0.0
Management expenses	0.0	0.0	0.0
Annual levy receipts	0.0	0.0	0.0
Total closing surplus/(deficit)	**0.0**	**0.0**	**0.0**
Total levies Please note, the 'Total levies' is not the sum of each column. This row shows the November forecast in comparison to the latest levy update.	**0.0**	**0.0**	**0.0**

Levy breakdown - FCA classes

Funeral Plans

In 2024/25, we're not expecting any firm failures or compensation payments for funeral plan customers. Therefore, as stated in the indicative levy forecast from November 2023, no levy is payable in 2024/25.

Fund balances

2024/25 forecast fund balances	November's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	0.0	0.0	0.0
Compensation	0.0	0.0	0.0
Recoveries	0.0	0.0	0.0
Interest	0.0	0.0	0.0
Management expenses	0.0	0.0	0.0
Annual levy receipts	0.0	0.0	0.0
Total closing surplus/(deficit)	**0.0**	**0.0**	**0.0**
Total levies Please note, the 'Total levies' is not the sum of each column. This row shows the November forecast in comparison to the latest levy update.	**0.0**	**0.0**	**0.0**

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