Financial Services
Compensation Scheme

Outlook

November 2024

www.fscs.org.uk

Contents

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 the latest edition of Outlook, my third since I joined FSCS as Interim CEO last October.

I continue to be proud to lead an organisation that makes such a significant contribution to trust and stability in the UK financial services sector, putting customers back on track when they experience harm due to the actions of firms that have since failed.

In this edition, we provide an update on compensation figures and the associated levy for 2024/25 and share a first look at the forecast for 2025/26.

You can find out more and access previous editions at www.fscs.org.uk/outlook

Progress in 2024

When we set our management expenses budget back in January and our last compensation forecast in May, we signposted a major change to our operating model. We took the strategic decision to bring the majority of our claims management in-house, giving us more control over customer experience, productivity, knowledge management and flexibility to handle the variety of claims we receive each day.

In June, we announced that we had appointed PwC as our new claims partner and the team at PwC are now starting to handle claims for us as part of a managed transition to our new operating model. I'm pleased to report that this transformation programme is progressing well and is on schedule to be fully embedded in the 2025/26 financial year.

FSCS is tasked with assessing claims and paying compensation as efficiently as possible. During the first half of this financial year, we've increased claims decisions by 18% year-on-year and maintained our high customer satisfaction and quality scores. Crucially, this means that we are getting more customers back on track, which is at the heart of everything we do. This is testament to the talent and hard work of the teams across FSCS and our claims partners.

Over two-thirds of our advice claims are now considered highly complex, doubling from one third a few years ago. Claims increasingly require more specialist resource, deeper investigation and more time to complete, with data-gathering challenges a key driver of claim timescales. We're continually working hard to identify areas where we can optimise the time taken to complete a claim without significantly increasing costs.

You can hear more about what we're doing in this area in the video that accompanies this edition of Outlook.

Our latest forecast for 2024/25

The 2024/25 levy remains as forecast in May 2024 at £265m.

We now expect to pay slightly more compensation during 2024/25 than anticipated in May - £372m, up from £363m. This is mainly due to the progress on claims decision volumes mentioned above.

Alongside paying out compensation to customers, maximising recoveries from failed firms is a critical part of what we do. We use the money we recover to offset the levy and, where possible, return extra compensation to customers who lost more than our compensation limits.

We've continued to secure substantial recoveries and we now expect to recover almost double against our forecast in May. This is part of the reason we are able to keep the 2024/25 levy as previously forecast, even with the compensation figure having increased slightly.

An initial look at 2025/26

Our first total levy forecast for 2025/26 is £394m. This is currently based on compensation costs totalling approximately £367m in the 2025/26 financial year, which is broadly flat compared to 2024/25.

While compensation remains flat, surplus balances have been reduced by £171m in total, which is why the overall levy forecast has increased. The class balances are lower because historical surpluses have now been fully used to offset the annual levy in prior years.

For 2024/25 we saw a reduction between the November 2023 initial forecast and May's updated forecast. We do not expect to see a similar reduction again as we do not have these surplus balances to offset the levy in 2025/26.

Early in the new year we'll publish our Budget Update. This will provide full details of our expected management expenses for 2025/26, which form part of the overall levy and are jointly consulted on by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA). In May, we'll update our forecast and confirm the final levy.

You can find full details of our forecasts broken down by funding class in the rest of this report.

Martyn Beauchamp
Interim Chief Executive

2024/25 - final levy update

The 2024/25 levy remains as forecast in May 2024 at £265m, and no additional levy from firms is expected for the remainder of the financial year.

Total compensation costs for the year are now forecast at £372m, a slight increase from our May forecast of £363m.

This is mainly due to an increase in the number of decisions our claims handlers are now expected to make in 2024/25, mostly relating to claims in the Investment Provision and Life Distribution & Investment Intermediation (LDII) classes. This reflects the hard work of the teams at FSCS and our claims partners as we transition to our new operating model.

This was partially offset by reduced compensation costs in the General Insurance Provision class due to lower than forecasted settlements on some high value claims (where a claim is more than £500k) and the movement of some costs into 2025/26.

At the same time, we've continued to secure substantial recoveries. We now expect to recover almost double against our forecast in May. Recoveries made in 2024/25 have been used to offset the levy.

For more details regarding the 2024/25 levy update for each class, please see page nine onwards.

Successful £17m recovery from failed insurance firm

In addition to paying out compensation to customers, making recoveries from failed firms is a critical part of what we do. We use the money we recover to reduce the levy.

For the 2024/25 financial year, we now forecast recovering approximately £33m, which is £17m higher than our May forecast. This is because we received a £17m dividend in relation to Enterprise Insurance Company plc (Enterprise).

Enterprise was placed into liquidation in July 2016 and since then FSCS has been paying out compensation to eligible customers.

Following these pay-outs and as part of our recoveries process, we have been working closely with Enterprise's insolvency practitioner (IP) to recoup as much of these compensation costs as possible.

We continue to work closely with the IP and other organisations, to recover additional money with an aim to further reduce the impact of compensation costs on levy payers.

For more information on our recoveries work, please see www.fscs.org.uk/about-us/funding/recoveries

2025/26 - initial levy forecast

In 2025/26 we are expecting to pay £367m in compensation, similar to the £372m forecast for 2024/25. However, the levy is forecast to be higher than this year at £394m as we expect lower surpluses to be taken forward.

As discussed in previous Outlook forecasts, these cash surpluses have kept the levy below compensation levels in the last two financial years. This is no longer the case for 2025/26 as they have been used up in most classes, resulting in a higher overall levy. In total surplus balances have been reduced by £171m.

The key drivers behind our levy forecast for the next financial year include:

- A small reduction of compensation costs in 2024/25 to the LDII and General Insurance Provision classes, but significantly lower opening balances.
- A lower opening balance in the Investment Provision class, as well as increased compensation costs in relation to self-invested personal pension (SIPP) operator claims.
- An increase in claims decisions following the introduction of a new operating model in 2024/25, which will be fully embedded in the 2025/26 financial year.

We expect to recover £32m from previously failed firms next year and this has been included in the 2025/26 forecast. Any recoveries made are used to offset the levy.

For more information regarding the 2025/26 forecasts for each class, please see page nine onwards.

Surpluses

Surpluses arise when FSCS costs are lower than forecast, for example, when fewer firms failed than expected during the pandemic, compensation costs were below forecast. They can also occur when recoveries exceed forecast.

Management expenses budget

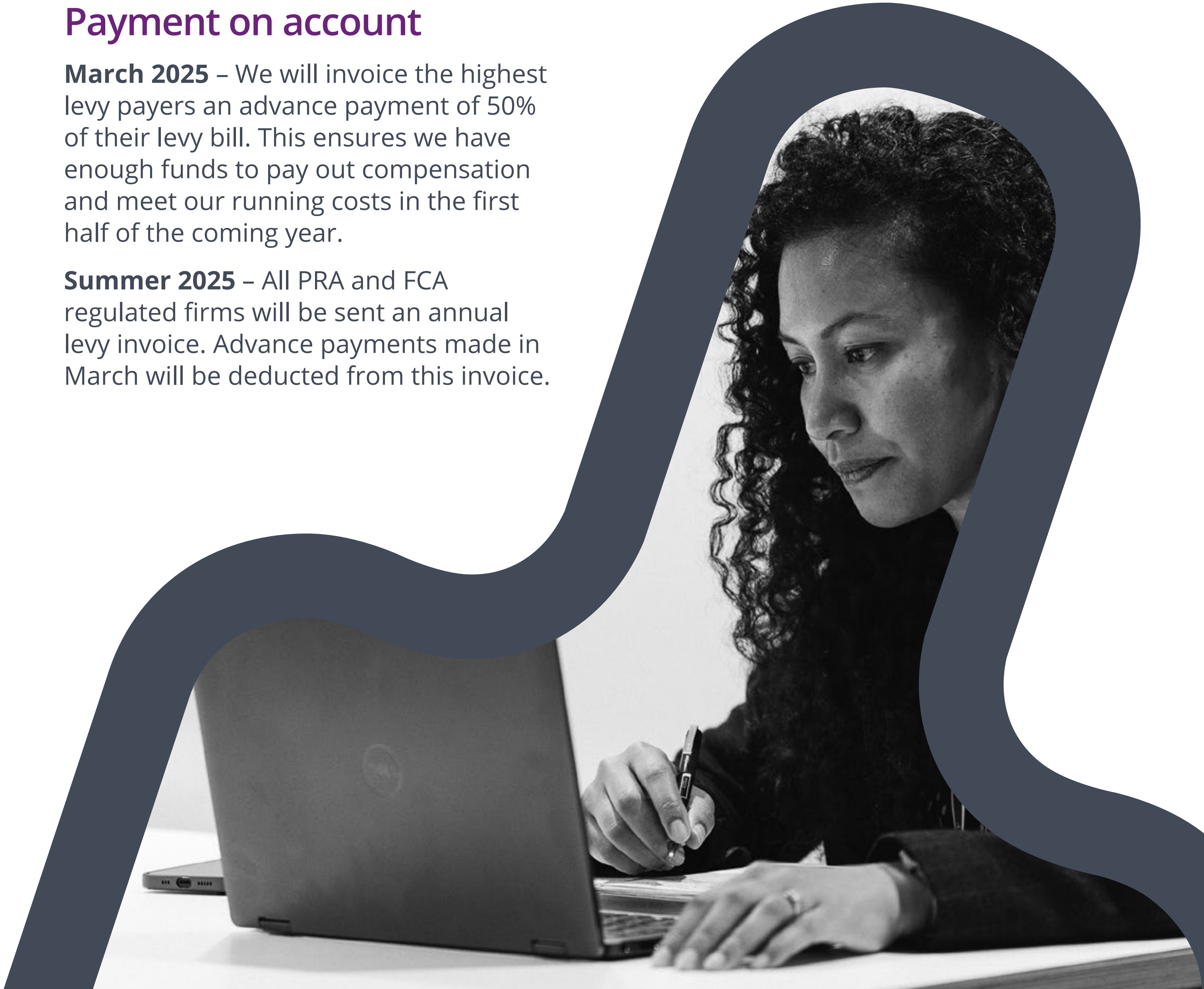
The indicative levy for 2025/26 includes an approximate amount for our management expenses. These are our day-to-day running costs, including costs associated with processing claims.

We will provide further details in our January 2025 Budget Update when the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) will carry out a public consultation on our management expenses budget (also known as the Management Expenses Levy Limit).

Payment on account

March 2025 – We will invoice the highest levy payers an advance payment of 50% of their levy bill. This ensures we have enough funds to pay out compensation and meet our running costs in the first half of the coming year.

Summer 2025 – All PRA and FCA regulated firms will be sent an annual levy invoice. Advance payments made in March will be deducted from this invoice.



Levy breakdown – PRA classes

Deposits

The forecasts within the Deposits class remain as previously outlined in May's Outlook.

Compensation paid out in this class so far includes £2.5m for the failure of Castle & Crystal Credit Union Ltd, which was declared in default on 21 May 2024.

In 2024/25, the Deposits class paid £14m in levies which included £1m in provider contributions to the Life Distribution and Investment Intermediation (LDII) class.

2025/26 forecast

For 2025/26, our initial forecast indicates that the Deposits class will pay approximately £29m in levies, which is a £14m increase on 2024/25. This is due to a reduced opening balance from £14m in 2024/25 to £1m in 2025/26.

As has been the case in recent years, we forecast a small number of credit union failures in the next financial year.

The 2025/26 levy forecast includes provider contributions to the LDII class of £3m.

Deposits 2024/25 forecast fund balances	May 2024 forecast (£m)	Latest update (£m)	Variance (£m)
Opening balance	13.7	13.7	0.0
Compensation	(12.0)	(12.0)	0.0
Recoveries	1.0	0.8	(0.2)
Interest	0.3	0.4	0.1
Management expenses	(14.8)	(14.8)	0.0
Levy paid – excluding provider contributions to the LDII class	13.0	13.0	0.0
Closing surplus/(deficit)	**1.2**	**1.1**	**(0.1)**
Total levy including provider contributions to the LDII class	**14.4**	**14.4**	**0.0**

Deposits 2025/26 forecast	2024/25 levy update (£m)	2025/26 forecast (£m)	Variance (£m)
Total levy including provider contributions to the LDII class	**14.4**	**28.6**	**14.2**

Deposit Acceptors

The Deposit Acceptors class only contributes towards the levy if the retail pool is triggered. For 2024/25 and 2025/26, this is not currently expected to occur.

Levy breakdown – PRA classes

General Insurance Provision

The compensation costs within the General Insurance Provision class have reduced by £10m compared to our May forecast. This decrease can be attributed to:

- The estate of Green Realisations 123 Ltd (formerly MCE Insurance Company Ltd) achieving lower settlements on some of its high value claims.
- The movement of some costs related to East West Insurance Company Ltd into 2025/26. FSCS is working hard to maximise recoveries which should result in a lower lifetime cost of the failure against the levy.

During the 2024/25 financial year, FSCS expect to recover £29m in this class, which is more than we had previously forecast in May. This increase is mainly in relation to Enterprise Insurance Company Ltd at £17m.

As a result, the projected year-end balance for this class is £29m. This is £28m higher than previously forecast due to the higher recoveries made and a £10m reduction in forecasted compensation costs for the rest of the year.

The class surplus will be carried forward and used to offset the levy for 2025/26.

General Insurance Provision 2024/25 forecast fund balances	May 2024 forecast (£m)	Latest update (£m)	Variance (£m)
Opening balance	64.4	64.4	0.0
Compensation	(137.9)	(127.5)	10.4
Recoveries	11.8	28.9	17.1
Interest	1.5	1.8	0.3
Management expenses	(7.3)	(7.3)	0.0
Levy paid – excluding provider contributions to the General Insurance Distribution class	69.0	69.0	0.0
Closing surplus/(deficit)	**1.5**	**29.4**	**27.9**
Total levy including provider contributions to the General Insurance Distribution class	**69.0**	**69.0**	**0.0**

2025/26 forecast

We currently anticipate that compensation costs for this class in 2025/26 will be £118m, which is a £10m decrease compared to our latest 2024/25 forecast. This is mainly because we are not expecting any new failures in this class in the next financial year and the compensation payments are predicted to be in relation to legacy insurance firm failures.

At this early stage, we are currently forecasting a £90m levy for this class. This is a £21m increase, mainly as the class opening balance in 2025/26 of £29m is lower than the 2024/25 opening balance of £64m.

There is currently no requirement to pay provider contributions to the General Insurance Distribution class.

General Insurance Provision **2025/26 forecast**	**2024/25 levy update (£m)**	**2025/26 forecast (£m)**	**Variance (£m)**
Total levy including provider contributions to the General Insurance Distribution class	**69.0**	**90.0**	**21.0**

Levy breakdown – PRA classes

Life & Pensions Provision

The forecasts within the Life and Pensions Provision class remain as anticipated in May's Outlook. We are not expecting any new firm failures during the remainder of 2024/25.

The levy for this class is driven by provider contributions to the LDII class, which we forecast at approximately £10m for 2024/25.

2025/26 forecast

Our initial forecast indicates that the levy payable by firms will be £18m, which is approximately an £8m increase on 2024/25.

As in prior financial years, we do not anticipate any new firm failures for this class in 2025/26. The reason for the levy increase next year is due to higher estimated provider contributions required for the LDII class.

Life & Pensions Provision 2024/25 forecast fund balances	May 2024 forecast (£m)	Latest update (£m)	Variance (£m)
Opening balance	(0.6)	(0.6)	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
Levy paid – excluding provider contributions to the LDII class	0.0	0.0	0.0
Closing surplus/(deficit)	**(0.6)**	**(0.6)**	**0.0**
Total levy including provider contributions to the LDII class	**9.5**	**9.5**	**0.0**

Life & Pensions Provision 2025/26 forecast	2024/25 levy update (£m)	2025/26 forecast (£m)	Variance (£m)
Total levy including provider contributions to the LDII class	**9.5**	**18.0**	**8.5**

Debt Management

Firms in the Debt Management class did not pay a levy in 2024/25 as we did not expect any firm failures or associated compensation costs. The latest forecast remains the same as previously stated in our May Outlook.

2025/26 forecast

We currently do not anticipate any firm failures or compensation payments to customers in the next financial year, therefore no levy would be payable by this class in 2025/26.

Debt Management 2024/25 forecast fund balances	May 2024 forecast (£m)	Latest 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
Levy paid	0.0	0.0	0.0
Closing surplus/(deficit)	**0.0**	**0.0**	**0.0**
Total levy	**0.0**	**0.0**	**0.0**

Debt Management 2025/26 forecast	2024/25 levy update (£m)	2025/26 forecast (£m)	Variance (£m)
Total levy	**0.0**	**0.0**	**0.0**

Levy breakdown - FCA classes

Funeral Plans

Firms in the Funeral Plans class were not required to pay a levy in 2024/25. As previously anticipated, there have been no firm failures in this class and no failures are expected to occur in the remainder of 2024/25. No additional levy is currently anticipated.

2025/26 forecast

In 2025/26, we are not expecting any firm failures or compensation costs, therefore no levy is currently required.

Funeral Plans 2024/25 forecast fund balances	May 2024 forecast (£m)	Latest 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
Levy paid	0.0	0.0	0.0
Closing surplus/(deficit)	**0.0**	**0.0**	**0.0**
Total levy	**0.0**	**0.0**	**0.0**

Funeral Plans 2025/26 forecast	2024/25 levy update (£m)	2025/26 forecast (£m)	Variance (£m)
Total levy	**0.0**	**0.0**	**0.0**

General Insurance Distribution

The figures within the General Insurance Distribution class remain largely as anticipated in May. There is, however, a relatively small surplus of approximately £5m expected that will be taken forward and used to offset the 2025/26 levy.

2025/26 forecast

We currently expect no levy to be required for the General Insurance Distribution class in 2025/26. This is mainly because we are not anticipating any new firm failures within this class and we continue to see a decrease in Payment Protection Insurance (PPI) claims.

The expected 2024/25 class surplus of £5m will be carried forward to 2025/26 to cover the costs forecast for this class next year.

General Insurance Distribution 2024/25 forecast fund balances	May 2024 forecast (£m)	Latest update (£m)	Variance (£m)
Opening balance	6.0	6.0	0.0
Compensation	(0.4)	(0.5)	(0.1)
Recoveries	0.0	0.0	0.0
Interest	0.1	0.1	0.0
Management expenses	(0.8)	(0.8)	0.0
Levy paid – including provider contributions from the General Insurance Provision class	0.0	0.0	0.0
Closing surplus/(deficit)	**4.9**	**4.8**	**(0.1)**
Total levy excluding provider contributions from the General Insurance Provision class	**0.0**	**0.0**	**0.0**

General Insurance Distribution 2025/26 forecast	2024/25 levy update (£m)	2025/26 forecast (£m)	Variance (£m)
Total levy	**0.0**	**0.0**	**0.0**

Levy breakdown - FCA classes

Home Finance Intermediation

The forecast for the Home Finance Intermediation class remains largely the same as expected in May's Outlook except for a slight increase of £0.3m in compensation costs. This is due to an increase in new claims and decisions compared to our last forecast.

2025/26 forecast

No new firm failures are currently expected for 2025/26. However, we do anticipate that there will be around £0.3m in compensation payments for firm failures from previous financial years.

Given the anticipated £1m surplus from 2024/25, this should cover forecasted costs for 2025/26 and so the Home Finance Intermediation class is currently not expected to pay an annual levy in 2025/26.

Home Finance Intermediation 2024/25 forecast fund balances	May 2024 forecast (£m)	Latest update (£m)	Variance (£m)
Opening balance	1.5	1.5	0.0
Compensation	(0.2)	(0.5)	(0.3)
Recoveries	0.0	0.0	0.0
Interest	0.0	0.0	0.0
Management expenses	(0.3)	(0.3)	0.0
Levy paid	0.0	0.0	0.0
Closing surplus/(deficit)	**1.0**	**0.8**	**(0.2)**
Total levy	**0.0**	**0.0**	**0.0**

Home Finance Intermediation 2025/26 forecast	2024/25 levy update (£m)	2025/26 forecast (£m)	Variance (£m)
Total levy	**0.0**	**0.0**	**0.0**

Home Finance Providers

The Home Finance Providers class is not FSCS protected. Home Finance Providers pay provider contributions to the Home Finance Intermediation class and contribute to the retail pool levy if required.

This class has not been required to pay any contributions in 2024/25 and is not currently expected to in 2025/26.

Levy breakdown - FCA classes

Investment Provision

Compensation costs for this class have increased by £14m to a total of £70m compared to May's Outlook. This increase is largely a result of:

- More self-invested personal pension (SIPP) operator and general investment claims decisions expected to be processed than May's forecast.
- An increase in Section 27 claims costs, as the average compensation value for these claims is higher than originally forecast.

The projected year-end class surplus is £1m, which is £14m lower than forecast earlier this year due to the higher compensation costs outlined above.

Investment Provision **2024/25 forecast fund balances**	**May 2024 forecast (£m)**	**Latest update (£m)**	**Variance (£m)**
Opening balance	22.7	22.7	0.0
Compensation	(56.1)	(70.1)	(14.0)
Recoveries	0.0	0.0	0.0
Interest	0.9	1.0	0.1
Management expenses	(7.3)	(7.3)	0.0
Levy paid – excluding provider contributions to the LDII class	55.0	55.0	0.0
Closing surplus/(deficit)	**15.1**	**1.3**	**(13.8)**
Total levy including provider contributions to the LDII class	**68.6**	**68.6**	**0.0**

2025/26 forecast

We currently forecast compensation costs to be in the region of £85m, which is £15m higher than 2024/25. The majority of the claims and associated compensation costs are expected to relate to SIPP operator claims at £81m.

The 2025/26 levy for this class is currently forecast at £97m, compared to £69m in the 2024/25 financial year. This is due to a reduced opening balance from £23m in 2024/25 to £1m in 2025/26, as well as higher compensation costs.

The 2025/26 levy forecast includes £71m for costs in its own class and £26m as provider contributions to the LDII class.

Investment Provision **2025/26 forecast**	**2024/25 levy update (£m)**	**2025/26 forecast (£m)**	**Variance (£m)**
Total levy including provider contributions to the LDII class	**68.6**	**96.8**	**28.2**

Life Distribution & Investment Intermediation (LDII)

LDII class compensation costs have increased by £5m to £161m in comparison to our May forecast. The main reasons for this include:

- An increase in general investment claims decisions now forecast due to more new claims related to Reyker Securities plc.
- An increase in Special Administration Regime costs for WealthTek LLP as the timing of payments has been brought forward following updated information from the Insolvency Practitioner.
- Additional claims decisions across general investment and SIPP advice due to an increase in claims handlers.

These increases are partially offset by a reduction in costs for pension claims, as fewer decisions are now expected due to a decrease in new claims.

The projected year-end surplus in this class is £14m, which is £5m lower than previously anticipated. This is mainly driven by higher compensation costs than originally forecast. The class surplus will be retained and used to offset the 2025/26 levy.

Life Distribution & Investment Intermediation (LDII) 2024/25 forecast fund balances	May 2024 forecast (£m)	Latest update (£m)	Variance (£m)
Opening balance	114.5	114.5	0.0
Compensation	(156.4)	(161.4)	(5.0)
Recoveries	4.0	3.2	(0.8)
Interest	2.3	2.7	0.4
Management expenses	(35.6)	(35.6)	0.0
Levy paid – including provider contributions from other classes	90.0	90.0	0.0
Closing surplus/(deficit)	**18.7**	**13.5**	**(5.2)**
Total levy excluding provider contributions from other classes	**65.5**	**65.5**	**0.0**

2025/26 forecast

Compensation costs for this class are estimated to be £152m in 2025/26, which is £9m lower than 2024/25. This is mainly driven by a decrease in new SIPP advice claims as a result of fewer SIPP advice firm failures and the majority of WealthTek LLP's Special Administration Regime payments having been paid in the 2024/25 financial year.

This is partially offset by an increase in decisions related to general investment claims forecast for 2025/26.

Whilst the compensation costs remain broadly similar, the indicative levy for this class is currently £124m for 2025/26, an increase of £58m compared to 2024/25.

This is mainly because the opening balance for 2025/26 at £14m is expected to be significantly lower than 2024/25 at £115m.

This class is also expected to receive £46m in provider contributions from other classes.

Life Distribution & Investment Intermediation (LDII) 2025/26 forecast	2024/25 levy update (£m)	2025/26 forecast (£m)	Variance (£m)
Total levy	**65.5**	**123.6**	**58.1**

TenetConnect Ltd and TenetConnect Services Ltd went into administration on 5 June 2024. The firms provided financial advice and associated compliance services. We are currently investigating these firms to see if FSCS protection applies and if any compensation may be due. Since administration, we've been working closely with the Joint Administrators to secure and organise data from Tenet. As this conclusion has not yet been reached, compensation costs for these firms have not been included in our latest forecasts and an update will be provided in our May 2025 Outlook.

Contact us

Contact us

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