FSCS Podcast #32: FSCS wrap-up: 7 picks from our Interim CEO Martyn

Lila Pleban 00:01
Welcome to protect your money with FSCS, the podcast from the Financial Services Compensation Scheme. I'm Lila Pleban, Chief Communications Officer at FSCS, and in this series, the fantastic FSCS team will help you understand how we can help to protect your money so you can feel confident your money is safe. I hope you enjoy the podcast.

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Jess Spiers 00:29
Welcome to the FSCS podcast. I'm your host, Jess Spiers, and I'm Senior Content Manager at FSCS. So FSCS, which is the Financial Services Compensation Scheme, exists to protect customers of authorised financial services firms that have gone bust by paying eligible people compensation.

We launched the podcast just over two years ago now and we thought it was a great time to reflect on some of the highlights from along the way. And joining me today is our Interim Chief Executive Martyn Beauchamp, and he has picked some of his top clips from past episodes, which he'll be sharing with us today. Welcome, Martyn.

Martyn Beauchamp 01:06
Hi Jess, thank you for having me on. I was wondering if I would ever get the call. I have to say it was hard to narrow it down, but the clips I've chosen today really tell the story of who FSCS is, and the important work we do to protect people's hard-earned money. As we go through, we'll be hearing from members of the brilliant FSCS team, who have also made me feel really welcome since recently joining the organisation.

Jess Spiers 01:32
Fantastic. So just before we get started a quick heads up for you, Martyn: I'm going to be asking you our usual question at the end of the episode. So, we're all about keeping your money safe at FSCS but which toy got you smashing open your piggy bank as a child? Okay, let's kick off. Martyn, what's the first clip you've picked for us?

Martyn Beauchamp 01:51
Let's begin with a scene setting clip that explains how FSCS fits into the overall financial services industry, which somewhat confusingly, is full of organisations known by acronyms beginning with an F. In this clip, we join Nigel and Josh in Episode 19.

Nigel Yeates 02:09
There's a real alphabet soup of names in the financial protection space in the UK. The idea of this podcast is to talk through who they are, what they do and how they all fit together, especially in relation to us at FSCS. Okay, let's first talk about the regulators.

Josh Rendall 02:24
Yeah, so there are two regulators in the financial services industry. One is the Financial Conduct Authority or the FCA. And then we also have the Prudential Regulation Authority or the PRA, and they do different things. So, the FCA regulates behaviour of financial services firms and that is there to protect customers and operates independently from government.

The Bank of England's PRA regulates and supervises major banks, building societies, credit unions, insurers, and major investment firms. So, the FSCS is accountable to these regulators via various formal committees, and in turn, the regulators themselves are accountable.

Nigel Yeates 03:04
Yeah, absolutely. And another key organisation that consumers should know about is the Financial Ombudsman Service. Please tell us a little bit more about them.

Josh Rendall 03:12
Yes, so like FSCS, the Financial Ombudsman Service is not a regulator. However, FSCS and the Ombudsman act under different rules that are set by the regulators, who we just mentioned before. So, the Ombudsman settles complaints between consumers and live businesses, they resolve disputes fairly and impartially and have the power to put things right. By a live business, we mean firms that are still operating and can respond to and settle complaints by themselves.

Nigel Yeates 03:38
Great, and as we mention on all of our podcasts here at the FSCS, we protect consumers when authorised financial services firms fail. If the firm you've been dealing with has failed and can't pay claims against it, we can then step in to pay compensation, if that's applicable under our rules. So, Josh to clarify, both the Ombudsman and FSCS offer a completely free service to consumers, don't they?

Josh Rendall 04:00
Absolutely right Nigel. So the FSCS protects a range of financial services and products. In fact, we are the widest in the world amongst compensation schemes. So we cover banks, building societies, credit unions, deposits, insurance failures, funeral plans, debt management, investment, home finance, advice, payment protection insurance, some pension provider failures, pension investment failures and pensions advice.

So in terms of the FSCS, we work closely with the FCA and the PRA, but we operate independently of them. Quite often, which is understandable, people confuse us with the FCA, or think we're a part of it. So it's great to have this podcast to try and explain everything. I think the challenge is that all the acronyms begin with F.

Nigel Yeates 04:41
Definitely that's that alphabet soup I was talking about earlier.

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Jess Spiers 04:45
Yeah, an alphabet soup is definitely about right. What's clip number two, Martyn?

Martyn Beauchamp 04:49
Well, most people, Jess, know us for protecting their deposits with their bank or their building society or their credit union. Here are Emma and Oliver from Episode 21, to explain how FSCS protects your deposits, and also how that protection is funded. Spoiler alert: it's not by the taxpayer.

Emma Barrow 05:07
This episode we're going to focus on protection for probably the first thing that comes to mind when you think about money, your everyday bank accounts. FSCS protects the money you keep in your current and savings accounts as long as these are held with a bank, building society or credit union that's authorised by the Prudential Regulation Authority or PRA.

It's the part of FSCS protection that's most well-known. It came into the spotlight recently in March 2023 with Silicon Valley Bank UK, which was very close to insolvency, but was bought by HSBC. If the bank had entered insolvency, FSCS would have stepped in. So Oliver, I'd like to ask you what happens if FSCS does need to step in because a deposit taker has become insolvent?

Oliver Gordon 05:49
Well, prepare is a core part of the FSCS strategy. It's all about ensuring we can protect consumers in a crisis or in the event of major failures to maintain public confidence and of course, financial stability. Now, I emphasise consumer there, as this is something that has been brought to light recently, in the case of SVB UK, as all of their direct customers were in fact businesses, and not individuals like you or I. Regardless though, FSCS would still have stepped in as businesses are indeed eligible for FSCS protection, but the limit still is the same.

Emma Barrow 06:29
So yes, it is indeed the same protection, whether you're a business or an individual and charities as well. People often don't realise if charities hold their money in bank accounts, which, you know, it's where most people keep their money. It's the same, they also have that protection. Another thing, Oliver that is misunderstood is how we actually fund that compensation. So, if FSCS does have to step in and pay compensation for deposits, how is that funded?

Oliver Gordon 06:53
Well, firstly, and perhaps really importantly, we are funded by industry and not the taxpayer, it's really important to highlight that. And we do this by raising an annual levy based on the amount of compensation we expect to need. Now, just briefly, for those

who don't know, a levy is essentially a financial contribution to the cost of compensation relative to the size of the organisation. So, for example, a bank pays based on the number of protected deposits it holds, compared to the size of the total industry.

So, with that context, we go about calculating this levy based on a forecast, which is very carefully put together in collaboration with our regulatory partners. But failure is, of course, hard to predict, and so there are many factors involved. Now, in the event that more funding is required, we can raise a supplementary levy for deposits, we can raise up to £1.5 billion each year, which is funded by that deposit sector that I mentioned.

So that's active banks, building societies and credit unions. But in order to meet our seven-day payout, we could need that money very, very quickly. And so if we don't have enough within our own bank account, for example, we have a credit facility, and indeed overdraft that can get us very speedily up to that £1.5 billion threshold that I mentioned. In an extreme scenario, we also have the ability to access funding via His Majesty's Treasury. And that's where the failure is of such a size, that we're beyond the £1.5 billion that I've already mentioned.

Emma Barrow 08:32
Thanks, Oliver. So yeah, that kind of misconception around our funding is something again, we see quite a lot, we see people assuming that it is public money or taxpayer money that's used to fund us. But as you quite rightly say, it's the industry who pay for the cost of our compensation.

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Jess Spiers 08:49
Okay, so that was a little bit about current and savings accounts and FSCS protection in this area. What have you got next for us Martyn?

Martyn Beauchamp 08:57
We're staying on the topic of everyday money with this next clip. It's from Episode 24 Jess, where you and Michelle demystify banking licenses. If anyone listening isn't sure what a banking licence is or why you'd even need to know, this next clip is for you.

Jess Spiers 09:13
So let's now talk about banking licences. So, why do people need to be aware of them and how they can affect how much of your money is protected?

Michelle Rajendran 09:20
A bank or building society can have more than one brand within it and all those brands share the same banking licence. So, this means that brands appear to be separate are actually connected, and that has an impact on how much of your money is protected.

Jess Spiers 09:36
Yeah, that's right. So, what exactly is a banking licence, Michelle?

Michelle Rajendran 09:40
A banking licence is a certification to show that a firm is authorised by the regulators to start a bank and accept customers money. Being authorised by the Prudential Regulation Authority, which is part of the Bank of England, is legally required. New banks must also have approval of the Financial Conduct Authority.

Jess Spiers 10:03
Okay, and why are banking licences important for people to understand?

Michelle Rajendran 10:07
As we said earlier, banks within the same brand share a single licence and have the same firm reference number, or what we say, FRN. The FRN is a six-digit number that's assigned to the bank on the FCA's Financial Services Register when it's authorised. If you've got money in multiple accounts with banks that are part of the same group and have the same FRN, we have to treat them as one bank. This means our compensation limit applies to the total amount you hold in all your accounts with these brands, not each account individually.

Jess Spiers 10:49
Yeah, absolutely. And we know that this is something that people can easily not realise. So, how can people go about checking if their banks are part of the same banking group and share FSCS protection.

Michelle Rajendran 10:59
So, I know this is all confusing, but we have a great tool on our website. So, the easiest way to check is to use the FSCS Bank and Savings Protection Checker, and the URL is fscs.org.uk/check. You then enter the name of your bank and how much is in your account and then the result will show you how much of your money is protected. You repeat this step for any other bank accounts you hold, and we will tell you if your banks are connected and if any of your money is at risk.

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Jess Spiers 11:34
I seem to remember Michelle and I having a few last-minute meeting room complications and swaps when we recorded that episode, but I don't think you can tell when you're listening back! Okay, so I think your next clip is all about claiming compensation at FSCS, isn't it Martyn?

Martyn Beauchamp 11:47
That's right and it was an important one to include, as it's very much at the heart of what we do at FSCS. Let's go back to last year, and Episode 10, which I've actually recommended to a few friends who wanted to understand how to claim with us. And there are some key things that we want people to know. So let's join Nigel and Adam to hear more.

Nigel Yeates 12:08
For our customers, losing their money when a firm fails is a stressful and often emotional time. Adam, what are some of the key things we do at FSCS to make claiming and getting their money back as easy as possible?

Adam Farley 12:19
So if it's your bank, building society or credit union that's failed, you don't need to make a claim with us. Systems are in place, which means we'll return your money automatically and that will be within our compensation limits. If an insurance company has failed, we'll try and secure a seamless cover with another insurer or raise the return of the remaining premiums if that's not possible. For all other claims, that's mortgages, pensions, PPI, investments, and debt management, you'll need to use our easy-to-use online claims service.

Nigel Yeates 12:48
Great, that's all very clear. And what are the options for customers in terms of making a claim?

Adam Farley 12:54
There are two main choices for customers. The first is to claim directly with us at www.fscs.org.uk. You can quickly and easily use our checking tool, which is just called 'check if you can claim'. It takes about a minute to enter some basic details, and we can tell you if you're eligible. And if you are eligible to claim, you can then make an application online.

Nigel Yeates 13:15
And the 'check if you can claim' tab is very clear on our website. So moving on, how else do we support customers?

Adam Farley 13:23
So our claims specialists will explain everything in plain language for you as they support you through the process. You can also check your claims progress on your own at any time on your online account.

Nigel Yeates 13:33
Great, thank you, and what was the second option that we talked about earlier?

Adam Farley 13:37
So, some customers choose to use a representative like a solicitor or claims management company to submit their application. These companies will usually charge you a fee to handle your claim. This fee is important to note, if you claim directly with FSCS, you'll receive 100% of any compensation you're eligible for. This could mean thousands of pounds more back in your pocket.

Nigel Yeates 13:57

That is definitely worth noting, thanks.

Adam Farley 14:00
Yes, it's important to take time to understand your available options and the potential costs first. The fees will usually be a percentage of the total compensation you receive. So these can end up being quite high if you're not careful.

Nigel Yeates 14:11
And is the process the same for both methods?

Adam Farley 14:14
So whether you use a representative or claim directly with us, you'll have to provide the same information. If you're not sure or you need some help, just give us a call and we can support you through the process.

Nigel Yeates 14:24
Talking of representatives, consumers may have also heard the term personal representative mentioned. Where do they fit in?

Adam Farley 14:30
Again, this is a great way to claim directly with FSCS. But there's some additional supports. If for example, you struggle with forms or computers, you can ask a friend or family member to help by nominating them as your personal representative. We will use them as your contact and ask them send us your documents.

Nigel Yeates 14:46
Excellent. I can definitely think of some people who would use that support.

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Jess Spiers 14:50
Yeah, there's some really key information about claiming with us there, Martyn.

Martyn Beauchamp 14:54
Yes, and we always want to make sure people know it's completely free to claim with us if you come directly to us. My next clip is from Episode 22 and it's about what to do after you receive compensation from us, and we're talking about pension claims specifically in this clip. Once you have your compensation, it's not always obvious what your next step should be and Paul and Conor have some ideas.

Paul Yates 15:17
Every year, we're contacted by over 100,000 customers, whether they receive compensation or not. And they can often leave FSCS with limited knowledge and low confidence about how to reinvest in a safe, informed way in the future. In fact, some customers receive compensation from us and don't cash their cheque at all.

Conor Richards 15:38
And why is that? Why would some people not cash their cheques?

Paul Yates 15:42
I think it's often because they're scared to lose their money again. Let's say you've received unsuitable pension advice to transfer your pension to another provider. Your new provider went bust and you'd lost your pension pot. That's obviously a really horrible experience to go through, and a lot of people don't want to go through that again. So some put off making financial decisions completely, even if they've received money back from us.

Conor Richards 16:11
Yeah and that's really sad, isn't it? Because it's really harming them twice. Once because they've lost the money in the first place. And then twice because they're not putting their compensation back to use. So, putting it back into a pension, where it can be accumulating more money for their retirement later down the line.

Paul Yates 16:27
Yeah, exactly. And that's harmful because the lost time will impact the growth of their future pension pot. As I said earlier, for many, making financial decisions after losing money is a really daunting experience. And that's totally understandable. That's why we wanted to do today's episode to talk about where you can go for support in making these kinds of decisions, and hopefully get people feeling more confident about putting their compensation to use.

Conor Richards 16:56
Thanks, Paul. So before we go any further, can you talk a little bit about why we've chosen pensions for this episode?

Paul Yates 17:01
Yeah, there's a couple of reasons. First, pensions are the product we see the most claims for year-on-year. They can also be some of the most complicated products in the market to understand. It's also the product, we see the highest amount of uncompensated loss for, which is when customers receive our maximum compensation limit, but it's not enough to cover the amount of money they lost.

That's why it's so important to put your compensation to use in the right way. Because you want to get your money safely invested and back to work as quickly as possible. I'd also say we wanted to keep it simple, the information you should seek and organisations that can help you with a pension decision, is very different to that of other financial service products that FSCS protect.

Conor Richards 17:50
Great. Thanks, Paul. I think it's worth shouting out here that all of this information could be of use to you whether you're a pension customer waiting for a decision on your

claim, or if you're someone who's had their claim decision back and you've already received compensation.

We understand that not knowing if you're going to get any compensation can be a really difficult situation. So, we've not only included organisations that can help once you've received that money back, but also some who can help while you wait, especially if you're someone that's experiencing financial difficulties or struggling with your mental health. So, Paul, do you want to kick us off by talking about where you can get support on your pension?

Paul Yates 18:24
Yeah, so if you're thinking about making a pension decision, there are a couple of organisations out there that can definitely help. MoneyHelper is a free organisation backed by the government that can offer free, impartial advice and guidance on your pension. They can book you a Pension Wise appointment, you'll get your pension options explained, how each option is taxed, and they'll break down your next steps in a really simple way. To qualify, though, you'll need to be over 50 and you'll need to have a UK based defined contribution pension, not final salary pension or a career average pension.

Conor Richards 19:04
So it sounds like MoneyHelper can offer quite a bit of support there. I just have one question. So ,what if I've lost track of a workplace pension? Where would I go from there?

Paul Yates 19:13
Yeah, that's a really good question. The pension tracker from Pensions Advice UK can help in that case. The service is free if you've got more than £30,000 already in your pension. Alternatively, if you've got some basic info from previous pensions, you can find pension contact details on the gov.uk website. Once you've found any lost pensions, merging them can make them easier and cheaper to manage. MoneyHelper can help here as well. Their website has guidance on bringing pension pots together.

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Jess Spiers 19:49
Yes, some really useful information there. So we're on to our penultimate clip, I believe Martyn?

Martyn Beauchamp 19:54
That's right, and it's from Episode 15, which we released back in November 2022. We teamed up with Which? to give you three ways to keep your money safe. And I recommended this episode to my mum and dad, and I know they found it useful.

What still strikes me about this episode is that it's highly relevant over a year later, as we continue to see pressures on the cost of living. This clip in particular gives some great suggestions of what you can do if you find yourself in debt. Here we join you Jess, chatting to Sam Richardson from Which?

Jess Spiers 20:25
So, Sam, from Which?'s is point of view, have you got any advice on how people can pay off their debts?

Sam Richardson 20:31
Yes, we do. We got quite a lot of advice on our website, if you do go to which.co.uk/debt, but I'll just list off a few of my favourites. I think the first step which is really, really helpful is just to list your debts, you know, in some sort of spreadsheet or just on a piece of paper, which are the most expensive of your debt. So, by most expensive, I mean, not just the size of the debt, but the interest you're paying on it. You could look at your recent bank statements to see how much you're repaying for each type of debt.

It's those debts that have the biggest monthly repayments you really need to focus on, you know, so for example, my mortgage is, it's a huge amount of money. But the repayments each month are predictable, they're factored in, they're not growing. That's quite different from say, a very expensive overdraft or credit card debt.

Once you've listed those debts, if there are ones which are credit card debts, you could consider switching to a balance transfer credit card. This is a credit card for essentially receiving debts from other credit cards. What it gives you is a certain number of months where you don't have to pay interest on your debt, you still need to make minimum repayments. But that's a lot less than having to pay the interest as well.

Third tip, check if you're eligible for any benefits. I'd really recommend going to the website Turn2Us. And that's ‘turn’, the number 2, and then ‘us’ because it's got a free online calculator to work out if you're eligible for benefits. There are quite a few out there and you may not be aware of all of them.

I'd also recommend talking to lenders that you've borrowed money from. There's this idea that you know, lenders want to see you in financial difficulty, and it's just not true. Lenders don't want to see you lose your house, for instance, that's the absolute worst thing for a mortgage lender because they lose out as well.

And in fact, they're obliged by the regulator to offer flexibility to customers that are in financial difficulty. That could be a payment holiday, we don't have to make payments for a certain number of months. It could be an instalment plan for paying off your debt. But if you don't ask you don't get, so I'd really recommend just getting on the phone to lenders, you know, they are there to help you out. It's worth the time.

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Jess Spiers 22:53

Yeah, it was great to chat to Sam for that episode, he had loads of good advice to share. So on to our final clip, Martyn. What have you picked?

Martyn Beauchamp 23:00
My final clip covers an important function of FSCS that is often missed - and that's our recoveries process. We work really hard behind the scenes to recover the money that we pay in compensation from failed firms or other third parties with responsibility for customer claims. Here are James and Farah from Episode 17 to tell you more.

James Darbyshire 23:21
Sure, yes FSCS is primarily known for paying compensation to customers when firms go bust. And certainly if you bring a claim to FSCS, you might think that well, that's the end of the journey, certainly for our customers, that's usually true. But for us, actually, it can be the beginning of another long journey in terms of pursuing recoveries, which is one of the other main functions that FSCS performs.

So in terms of what a recovery is, it's essentially a legal claim that we pursue to try and recover the costs of compensation that we paid to customers. And we do that normally, in a couple of ways. We either pursue claims against the failed firms, or it could be against any other party who had some involvement in whatever was being sold to the customer in the first place. So basically, we're looking at a way of recouping those costs from people who were involved and somehow have a legal liability that we can go after.

I mean, I guess in terms of what's the kind of test that we use, it's really a commercial test. So if we think it's cost effective, and it's a claim that is reasonably possible, then that's something that we would pursue.

Farah Baldock 24:25
All right, I see. Were there any other examples or things like that, that you might want to highlight?

James Darbyshire 24:31
One other good example, actually, of the kind of importance of the recoveries where it was the recovery we did in relation to the financial crisis going back in 2008. So obviously, those were very extraordinary times. And in fact, FSCS, not long after the collapse of Lehman Brothers in September 2008, other banks with retail customers started to fail.

And we were triggered and in fact, over the period of about, I think, three or four months, we paid out nearly £21 billion in compensation, which was obviously pretty extraordinary and meant we had to borrow that money from the government to be able to pay that money out. And obviously put those customers back on track at a very volatile time.

But it also then started the process of pursuing recovery. So a lot of these recoveries are essentially claims in the insolvency of these banks, which were largely UK banks, but sometimes they were UK subsidiaries of Icelandic banks, you may remember, there was an internet bank called Icesave, which was one of the banks that failed.

Anyway, in terms of recoveries, we pursued claims in the insolvencies of these banks and in fact, the final dividend came through on one of those insolvencies in 2020. So over a decade later, and we've recovered just over £20 billion in recoveries. So the difference actually, ultimately being the interest that was paid on the loan that we've got from the government in the first place. So, it was a very successful recovery, and obviously, a very important one for our levy payers.

Farah Baldock 25:57
Absolutely. And well, a decade long recovery process. That's quite impressive, and I can see how it really kind of shows how complex these actions can be. And it sounds like there's a lot of work going on behind the scenes of a failure to recover from those compensation costs.

Jess Spiers 26:14
That's a wrap then! Thanks a lot, Martyn, for choosing those clips for us. And I've just got one final, all-important question for you. So, we're all about keeping your money safe at FSCS but what was the toy that got you breaking open your piggy bank as a child?

Martyn Beauchamp 26:29
Well, once Santa had taken care of the unaffordable basics like ZX Spectrum and space Lego, I spent every penny I had on vinyl. And I remember coming out of my local record shop with a copy of Blondie’s 'Parallel Lines', and I must have only been around five, so that must have taken a while to pay off.

Jess Spiers 26:48
That's a pretty cool answer Martyn, I've got to say.

So if you want to hear more from FSCS, you can find all of our podcast episodes on our website and wherever you usually listen to your other podcasts. Give us a follow and you'll never miss a new episode. Thanks very much for listening.

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