

FSCS Podcast – Episode 14 Mini-pod: What is a temporary high balance?

00:01 – Jess Spiers (Jingle)

Welcome to Protect Your Money with FSCS, the podcast from the Financial Services Compensation Scheme. Today we've got a mini pod for you, a special bite sized episode where we talk through a particular topic to explain it all simply. In this series, we explain how we can help to protect your money so you can feel confident your money is safe. Let's get into the conversation now.

00:29 - Nigel Yeates

So welcome to this mini episode of The FSCS podcast. I'm your host Nigel Yeates Communications and Stakeholder Business Partner at FSCS. I'm joined today by my colleague Fiona Kidy, Chief Financial Officer at FSCS. We'll get into the topic of temporary high balances in just a second. But before we do, we know that a lot of our listeners may well have seen the FSCS logo on their banking apps or statements, and consumers are certainly more familiar with us around our protection for deposits in their accounts.

Of course we protect many other financial products and encourage everyone to visit www.fscs.org.uk for more information. So as background, Fiona, how can we protect consumers you hold money in a UK authorised bank building society or credit union?

01:13 - Fiona Kidy

So firstly, let's clarify what we mean by UK authorised. The bank building society or credit union must be authorized by the Prudential Regulation Authority. Secondly, let's talk about what a credit union is. In simple terms, credit unions are like banks, they usually offer savings and loans, and customers are part of a member owned non-profit cooperative. A membership of a credit union can be linked to a particular employer, industry or geographical area.

01:42 - Nigel Yeates

Great, and what are the pounds amounts covered?

01:45 - Fiona Kidy

So FSCS automatically pays the majority of deposit customers back their money within 7 to 10 days, up to a maximum of 85,000 pounds per person, per banking group. And we'll come back to what a banking group is in a minute.

02:00 - Nigel Yeates

Thanks. That's good. Now let's go into more detail about temporary high balances the subject of this podcast, what is a temporary high balance?

02:08 - Fiona Kidy

So it is what it says on the tin. At certain points in your life events could occur that mean the balance in your bank account is a lot higher than it normally would be. For example, if you sell your private home, get an insurance payout, a redundancy payment, divorce settlement, retirement fund or even an inheritance.

02:30 - Nigel Yeates

Great thank you and what is covered?

02:33 - Fiona Kidy

So FSCS protects temporary high balances of up to a million pounds for six months. And the six months of protection begins from either when the money is credited to your account or a client or solicitors account on your behalf. Or the first date when the temporary high balance becomes legally transferable to you, whichever is the latest. And without going into too much detail on the legally transferable point. It's usually something like the date of probate or the date of completion or the house sale, or a date when the judgement is made awarding damages.

The protection limit applies per person to each life event separately. For joint accounts, each account holder can individually claim for the proportion they're entitled to potentially up to a million pounds each. But there is one exception where the £1 million limit on FSCS protection for temporary high balances does not apply. And that's for personal injury or incapacity compensation. For these there is no limit on compensation.

03:36 - Nigel Yeates

Great, thank you. I believe there's been some changes in the six month cover recently?

03:41 - Fiona Kidy

Yes, there has been. During the pandemic the PRA extended the six month cover to 12 months, in response to the impact of COVID on the residential property and investment markets. And this was to recognise that some people had reduced access to banking services. But again, this was only temporary though. So that now the rule is back to being six months cover.

04:02 - Nigel Yeates

Thank you. And we should also note that deposit firm failures are very rare and FSCS can't confirm if you'd be eligible for temporary high balance cover until a bank building society or credit union actually fails. The reason for this is we need to review all the evidence first and make a decision based on that. Okay, so Fiona, what guidance would you give to people with a temporary high balance?

04:23 - Fiona Kidy

One thing consumers should consider is to spread their balance across several accounts with different financial institutions that are FSCS protected, to ensure you are protected within our limits.

04:33 - Nigel Yeates

Excellent. And there's one important limitation to note about banking groups, isn't there?

04:39 - Fiona Kidy

Yes, there is. If you have money in multiple accounts with banks that are part of the same banking group and share a banking license, we have to treat them as one bank. That means that our £85,000 pound compensation limit applies to the total amount you hold across all these accounts, not to each separate account.

04:58 - Nigel Yeates

Thank you, and what are some examples of this?

05:01 - Fiona Kidy

For example, people may not be aware that the Bank of Scotland, Bank of Wales, Birmingham, Midshires, and Halifax are all in the same banking group. So if you had more than £85,000 in your account across these banks FSCS would only be able to protect up to a total of £85,000. So you could be at risk of losing money. Another example is HSBC and First Direct, they share a banking group, you can see more about this at www.fscs.org.uk on our protection checker on the check your money is safe page. Also, the PRA maintains a full PDF list on their site.

05:42 - Nigel Yeates

Great, thank you. And yeah, definitely the check your money is safe page is a great reference point on our site. We additionally get fairly regular questions in our contact centre around temporary high balances. So let's try and look at some more specifics.

05:56 - Fiona Kidy

Good idea!

05: 58 – Nigel Yeates

We often get asked about the £1 million temporary high balance and if this includes our standard £85,000, or if this is as well as?

06:07 - Fiona Kidy

It is as well as, for example, the protection is our usual £85,000 plus the maximum £1 million temporary high balance. Under the temporary high balance rules that million pound limit applies to the individual not to the account. And this is per life event per deposit taker.

06:29 - Nigel Yeates

Thanks very much. That's all clear. Now to look at a specific example we recently had a call into the contact centre about the six-month period and a house sale. A house which was the depositor's main private residence as buy-to-let is not covered. This was sold in December 2021, as the owners were relocating to a different part of the country and moving into rental accommodation whilst they searched for a new property purchase. So the temporary high balance started then.

06:57 - Fiona Kidy

Okay, so what was their question?

06:59 - Nigel Yeates

They'd recently been accepted as buyers on a new property, but the six-month protection was running out in a few days' time, and they wondered where that left them.

07:07- Fiona Kidy

In this case, the purchase transaction as it has started and is separate from the sale transaction on their previous home, starts a new period of six months protection, specifically from the date they were accepted as buyers. We must note though, as mentioned earlier, deposit firm failures are very rare. We can't confirm whether a particularly temporary high balance is protected unless or until a bank building society or credit union fails, as we need to review all the evidence before we know if there's a claim.

07:37 - Nigel Yeates

Thanks so much for all your answers, Fiona, some really useful information in there. And there is more background as you mentioned on our website www.fscs.org.uk. We hope everyone has

enjoyed listening to this mini podcast today and we hope that the examples we've given give you a bit more clarity around temporary high balances. You can find all of our podcasts on our website and the usual places you'd find your podcasts. We'd love to hear what you think so please do rate and review us and you can also let us know on our social channels. Just search for @FSCS, thanks everyone for listening!