



Financial Services
Compensation Scheme

Beyond compensation:

The role of FSCS in raising consumer trust and confidence
in the UK financial services industry



May 2023

www.fscs.org.uk



Foreword

The UK's financial services industry is among the country's most vibrant, competitive and internationally respected sectors, and one that sits firmly at the heart of the global financial system. It is also key to the UK's prosperity, contributing more than £173 billion to the economy in 2021, while also being an important enabler for other industries.

Yet despite its significance, the general public's trust in the industry is sometimes low. This exclusive research from FSCS reveals only a quarter of adults trust the industry to act in their customers' best interests, with only utilities, a sector facing high consumer scrutiny due to price hikes and record profits, managing to beat financial services to the bottom of the trust pile.

Despite this, our research highlights that the protection FSCS provides is an important driver of trust and confidence amongst consumers. Our ambitions for a robust financial services industry that helps reduce consumer harm is embedded in the four pillars of our [strategy](#), to Prepare, Protect, Promote and Prevent. We are committed to achieving these goals through the delivery of a compensation service that is known and trusted, working closely with our partners across the sector to design and implement continuous reforms that respond to the ever-changing economic climate.

Since conducting our research in November 2022, events have shifted the landscape further. The collapse of Silicon Valley Bank (SVB), earlier this year, served as a powerful reminder of how easily trust, and the confidence that goes with it, can be lost. Ripples from the collapse were still being felt across the sector, as news of a second high-profile failure surfaced in the form of Credit Suisse, leading many to recall memories of the global financial crisis of 2007-08. While changes in policy and regulations have given us better tools to deal with such challenges, making the outcome and circumstances very different today, it is important to remain vigilant as the events of the past few months highlight how quickly a loss in trust and confidence can erode financial stability.

These events have undoubtedly tested consumer confidence in the protections available within the deposits space, bringing matters concerning some aspects of deposit protection to the fore. It is therefore timely to review and debate how these existing protections can remain relevant in a changing environment. We welcome the opportunity to contribute with our unique FSCS insights.

The recent banking failures have also come at a time when the country is steering its way through a period of multiple challenges. The economy continues to be impacted by the lingering effects of the global pandemic, rising costs of living and the war in Ukraine. Alongside this, media coverage has focused on the challenges of sluggish growth and high inflation. During these volatile times, it is vital that consumers can trust the financial institutions that serve them and feel confident that their money is safe.

FSCS plays an important role in this. A majority of those surveyed as part of this research agree that FSCS supports financial stability in the UK. Furthermore, a recent evaluation of customers who had experience of claiming with FSCS, found that three quarters agree the scheme helps increase their trust in the industry. Consumers are not alone in this perception. More than two thirds of Members of Parliament polled by FSCS towards the end of 2022 agreed that the protection FSCS provides improves the stability of the UK financial services industry, with only 2% disagreeing and the remaining respondents expressing no opinion. This indicates the need for continued engagement with parliamentarians to ensure they are well-informed of the value of FSCS protection to their constituents.

A clear opportunity also exists to leverage FSCS's role in economic growth. Our continuous monitoring of consumer attitudes and behaviours shows people are more confident in managing different financial products if they understand that FSCS protects them. When coupled

with the strong regulatory framework that underpins the industry, holding the businesses that operate within it to high standards, a trusted protection scheme can also support vibrant investment and economic activity. Our research found almost two thirds of consumers are more likely to invest or spend more of their money when providers are FSCS protected. This contribution to growth can help the industry maintain its pre-eminent international position, making the UK an attractive place to do business and encouraging further investment into the country.

To effectively tackle the economic challenges and embrace the opportunities ahead, all stakeholders must work collectively to understand how the trust derived from FSCS protection can be future-proofed in an ever-evolving environment. We intend to be an active voice in this conversation, and we call on our Government, regulatory and industry partners to work with us and explore how together we can better support consumers to feel confident that the industry is safeguarding their financial futures.

Marshall Bailey OBE,
Chair



Introduction

Why FSCS is exploring the topic of trust

FSCS's mission is to *provide a trusted compensation service for consumers which helps to raise public confidence in the financial services industry*. Our mission is built on the principle that awareness of a statutory compensation scheme helps reassure consumers that their money is protected if their authorised financial services firm fails.

Today's consumers are dealing with challenging financial realities. Rising costs and a squeeze on real incomes mean many are facing financial uncertainty that could reach well into their future. Innovations in technology are also changing our financial landscape, creating both opportunities for industry growth, as well as greater access, but also growing complexity for consumers. Whether navigating mortgage rates, pension values or deciding where to deposit hard-earned savings, consumers are having to make increasingly sophisticated decisions to safeguard their financial future.

In addition, the recent unrest in the banking sector highlights the importance of a trusted deposit protection scheme that is fit-for-purpose for both eligible individuals and small businesses. Against this backdrop, it has never been more important for the public to have trust in the financial services industry and confidence that their money is safe. Our research has found that understanding FSCS's role in promoting trust and confidence is key to this and can help contribute to greater financial stability.

FSCS's role in promoting trust and confidence

Awareness that FSCS exists can help consumers feel more confident when making decisions about their finances and buying protected products. Similarly, a deeper understanding of FSCS protection can empower consumers to make more informed decisions about their finances, which helps to prevent consumer harm. Knowledge of FSCS can also help maintain confidence in a crisis by reducing the risk of panic, as this research shows 55% of consumers agree that FSCS supports financial stability in the UK, while only 4% disagree. Considering how we increase that confidence for the future will be critical.

FSCS regularly monitors awareness of our brand and the impact this has on attitudes and behaviours towards personal finances. Our new research on this topic adds further evidence, showing almost two thirds of adults agree that FSCS helps improve consumer confidence in the UK financial services industry, while only 3% disagree.

As our understanding of what drives consumers' financial decisions has matured, our monitoring of consumer awareness has also evolved, placing greater focus on fostering a deeper understanding of FSCS protection. Working closely with our regulatory partners, we will further develop our measures for awareness and understanding of FSCS over the coming year to help improve our collective insights on the impact of FSCS protection.

Why trust matters to us

Insights from this research can help inform the strategic work that FSCS is doing to promote consumer protection and help prevent harm. Our work with industry and regulators on the use of the 'FSCS protected' badge, a visible marker of our protection, is just one example of how, together, we can help improve trust and confidence in the sector. Of equal importance is understanding the less tangible ways that FSCS adds value for the industry, addressing some of the misperceptions regarding FSCS protection and the impact that existence of a compensation scheme can have on consumer and firm behaviours.

Improving trust and confidence in the UK financial services industry is a goal that can only be achieved through collaboration. We hope this research is a useful contribution to the discussion and helps inform all stakeholders in the sector about the role that FSCS can play in supporting the industry to thrive.

Caroline Rainbird,
Chief Executive

Key findings

We conducted consumer research in November 2022 among a total of 2,001 UK adults aged 18+ with financial services products. The key findings show:

25%

Only 25% of consumers say they **trust** the UK financial services industry **to act in the best interests of its customers**, while 31% say they distrust it.

42%

are **concerned** about **a lack of protection if things go wrong**, while 40% are concerned about **firms going out of business**. These were the third and fourth top concerns regarding the industry, behind fear of scams/fraud and handling of personal data.

#1

The top driver of trust is **improved consumer protection**.

After being shown a definition of FSCS:

68%

Agree that FSCS **protects consumers**.

63%

agree that **FSCS helps improve consumer confidence** in the UK financial services industry, while only 3% disagree. Agreement with this statement is much higher (79%) among those who, prior to this survey, were aware of FSCS and understood its role within the industry.

55%

A majority (55%) agree that **FSCS helps support financial stability** in the UK (only 4% disagree). Again, this is much higher (71%) for those who were already aware and understand the role of FSCS.

67%

agree that they are **more likely to shop around for providers** that are **FSCS protected** (only 5% disagree).

63%

say they are **more likely to save/invest/spend more** of their money if a provider is **FSCS protected** (only 6% disagree).

59%

are **more likely to recommend a provider** if it is **FSCS protected** (only 6% disagree).

51%

are **more likely to manage their money online** if they can find out about FSCS protection on a provider's website (only 10% disagree).

45%

are **less likely to keep their money in cash** (e.g. under the mattress) after hearing about FSCS (only 15% disagree).

45%

are **more likely to try a provider they haven't heard of before** if it is FSCS protected (only 13% disagree).

14%

say that the existence of **FSCS may encourage irresponsible behaviours**.

16%

believe that the existence of **FSCS may encourage risky investments**.

44%

say that the **industry meeting the cost of compensation** when a provider fails **is a driver of trust**.



Financial services in context

Trust in the overall industry is low...

Financial services is the second least trusted industry, out of seven surveyed. Building consumer trust in this area is very hard, given the higher levels of distrust. This is why exploring the role FSCS plays in this area is so important.

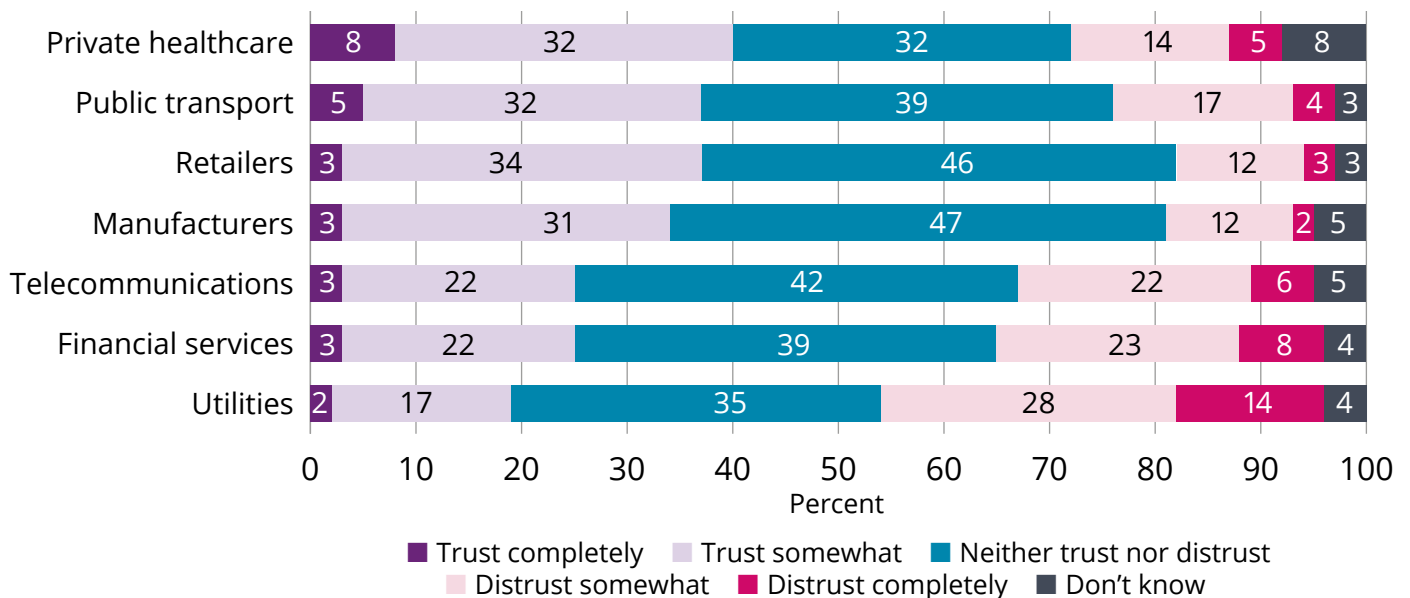
Only 25% of adults with financial services products say they trust the UK financial services industry to act in the best interests of its customers, while 31% distrust it.

Levels of trust are higher for the public transport (36%) and telecommunications industry (26%). Of those surveyed, only trust in the utilities industry was lower (19%).

Competition in these industries tends to be more limited, which makes it harder for consumers to shop around and/or change providers when something goes wrong. This also means consumers may have fewer options when facing an increase in prices, something that would likely have been exacerbated in recent months. As such, it is quite telling that an arguably more vibrant and competitive industry such as financial services still fails to enjoy higher levels of trust. This research explores the main concerns among consumers in a later section (see Figure 3: Concerns about financial services providers).

Figure 1: Trust in financial services and other industries

“Do you trust the following industries in the UK to act in the best interests of their customers?”



Base: 2,001 UK adults aged 18+ with a financial product
Source: FSCS, November 2022

...but big variance between sectors

Unsurprisingly, levels of trust vary widely between different sectors within the industry. Banks and building societies lead the way, with this type of provider being trusted more than the average for the industry (see Figure 1). On the other hand, lenders, insurers, and investment managers tend to drive distrust across the industry. More people distrust these sectors than trust them.

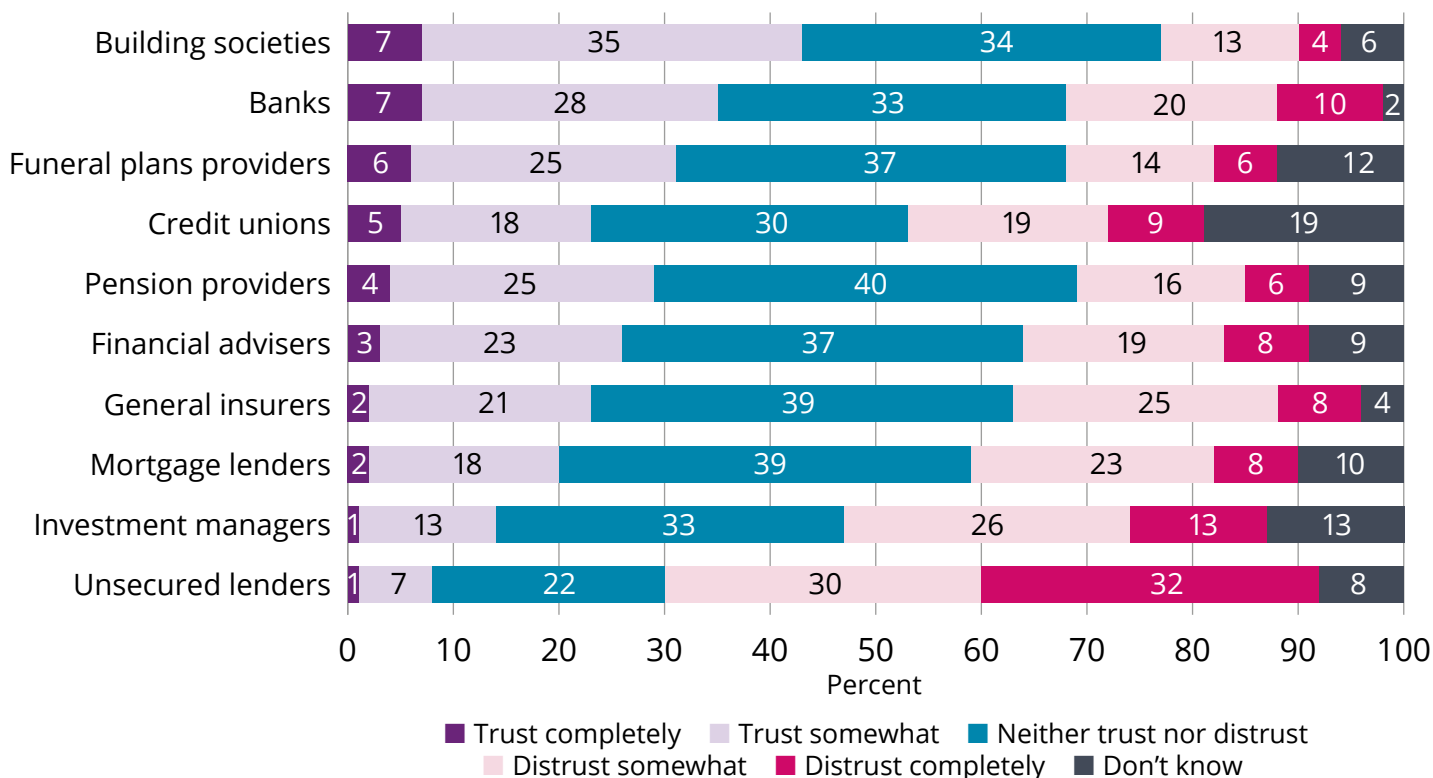
These results are in line with those of the FCA’s [Financial Lives Survey](#), which has consistently found low levels of trust in both the overall industry and individual

sectors. However, that research has also found that more positive perceptions emerge when consumers are asked about their own providers, with people generally having higher levels of trust in their own providers than they do in the overall sector.

Financial advisers sit somewhere in the middle in terms of trust. The [January 2023](#) edition of this consumer research series focuses on this topic, which is particularly relevant to FSCS given its impact on the volume of claims and the high levels of compensation paid out for claims associated with financial advice.

Figure 2: Trust in the financial services industry, by sector

“Do you trust the following types of providers in the UK to act in the best interests of their customers?”



Base: 2,001 UK adults aged 18+ with a financial product
 Source: FSCS, November 2022



Concerns and drivers of trust

Consumer protection is one of the top concerns...

42% of consumers are concerned about lack of protection if things go wrong, while 40% are concerned about firms going out of business. These are among the top worries regarding financial services providers. We regularly monitor consumer attitudes towards firm failures as part of our ongoing research activities. These were the third and fourth top concerns regarding the financial services industry, behind fear of scams/fraud and handling of personal data.

Consumers are more likely to be concerned about issues that affect them personally, rather than by more abstract topics underlying the reputation of the industry, such as the ethics of businesses and staff. However, high executive pay is a concern for 39% of consumers.

...and the main driver of trust

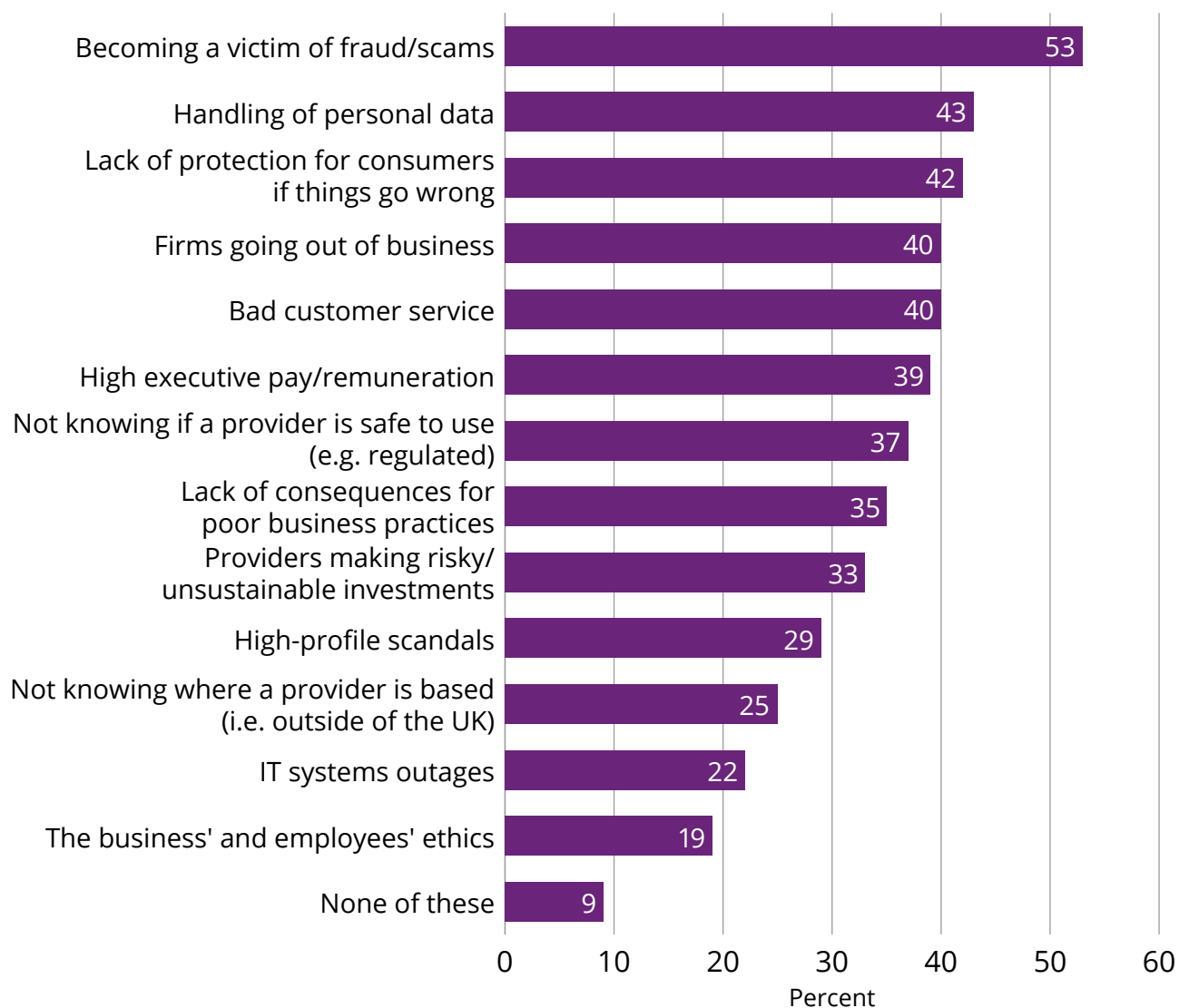
When asked what would improve their trust in the financial services industry, the most common responses were improved consumer protection (54%), legal consequences for activities that lose customers' money (49%) and the industry meeting the costs of compensation when providers go out of business (44%). Leveraging existing protections, such as the existence of FSCS, could be a quick win when raising confidence and trust, which is why we continue to work with industry to improve awareness and understanding of FSCS protection.

"I feel FSCS is well run and an important institution, that operates efficiently and ethically and has helped me regain my faith in people."

FSCS customer,
2022/23 financial year

Figure 3: Concerns about financial services providers

*"Which of the following concern you about financial services providers in the UK?
Please select all that apply."*

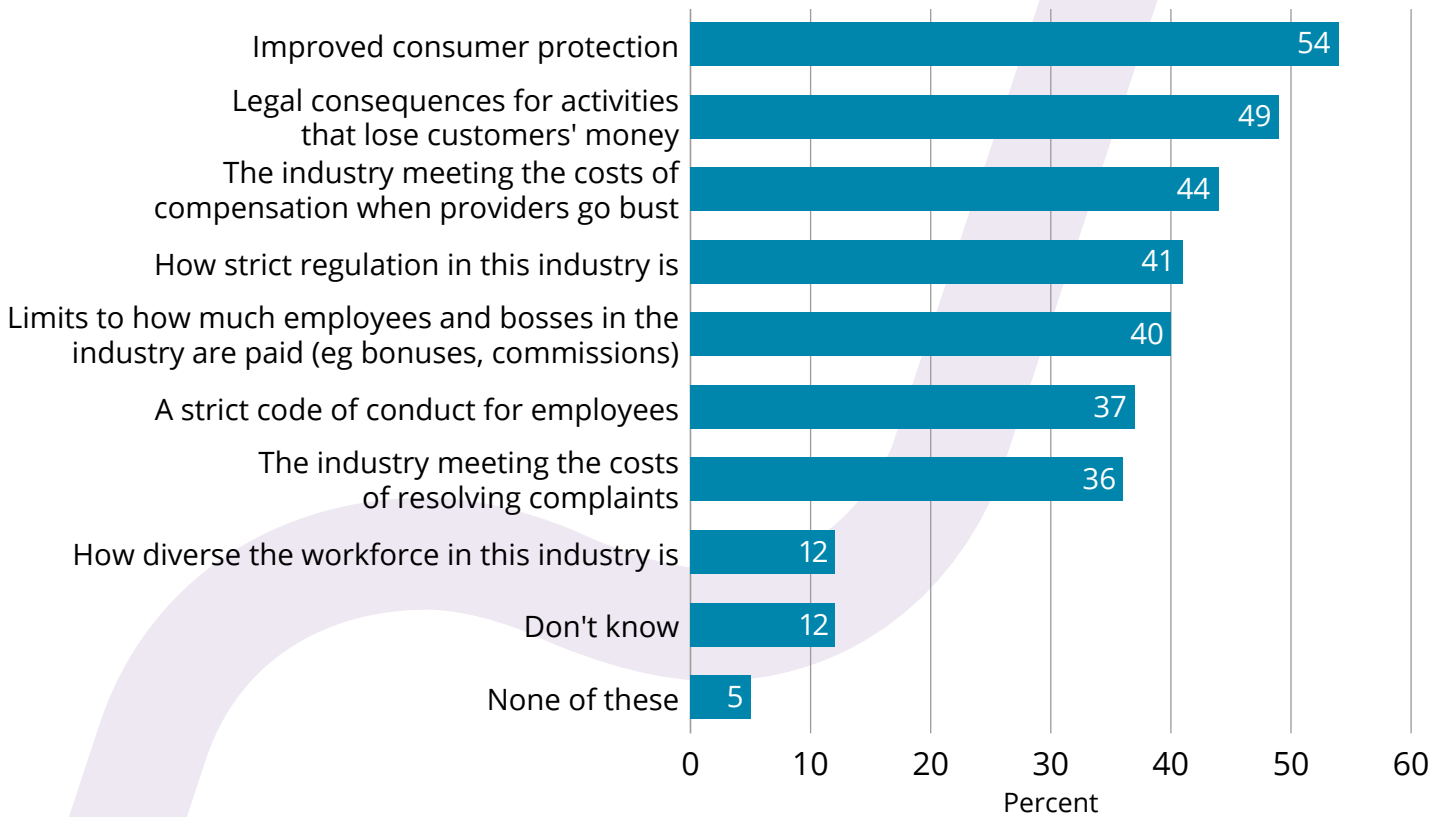


Base: 2,001 UK adults aged 18+ with a financial product

Source: FSCS, November 2022

Figure 4: Drivers of trust

“Which of the following would improve your trust that the UK financial services industry acts in the best interests of its customers? Please select all that apply.”



Base: 2,001 UK adults aged 18+ with a financial product

Source: FSCS, November 2022

“It's the likes of the FSCS that restores our faith in these bad times. Thank you for being there for us.”

FSCS customer,
2022/23 financial year



Identifying safe providers

As explored above, trust in the financial services system is low but levels of trust vary between sectors within the industry. We asked survey respondents what would help them identify individual providers that are safe to use, for example the existence of protection if something goes wrong.

This is a relatively complex topic for consumers to grasp, largely due to the fact that eligibility criteria and compensation limits for FSCS protection does not apply uniformly across different products and activities.

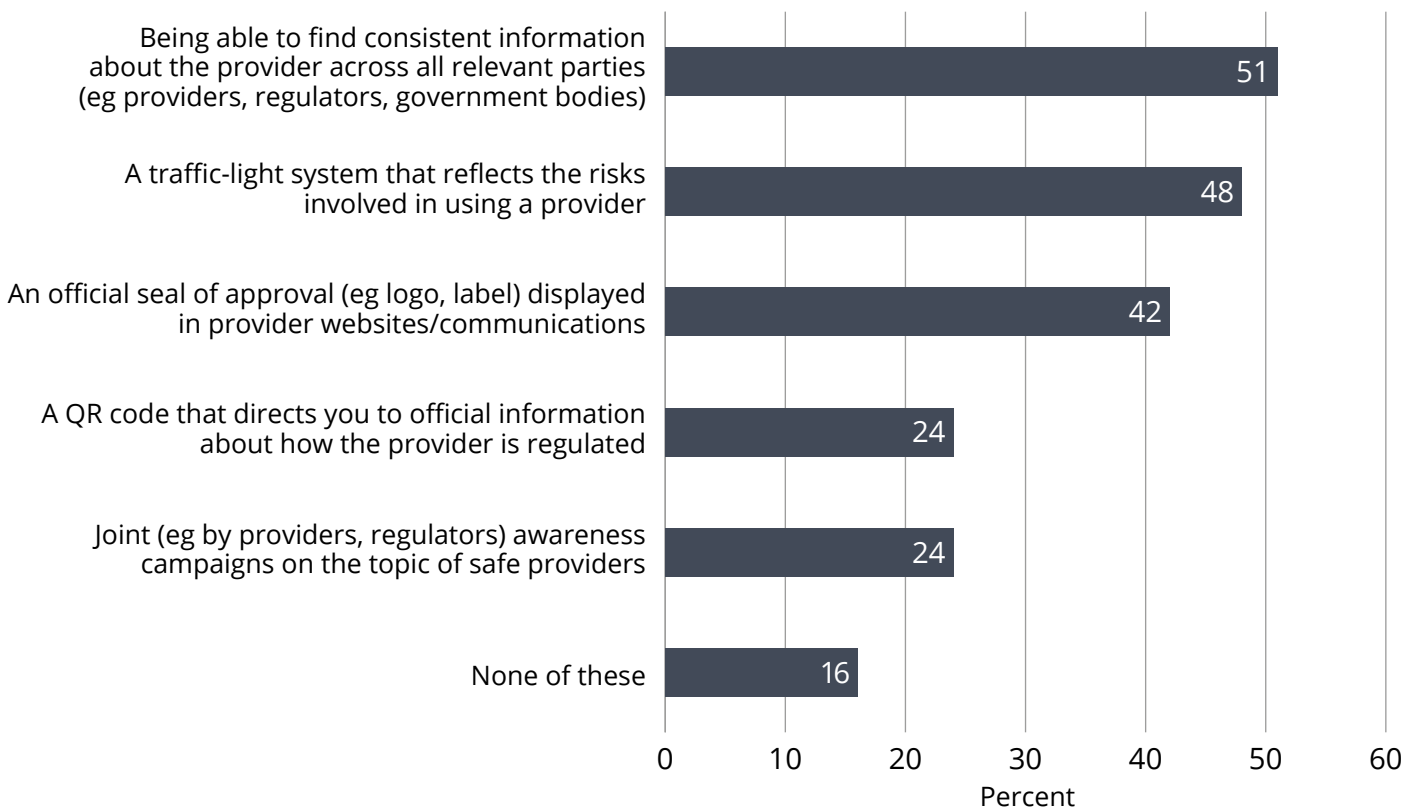
However it is interesting to note that the most common response was simply being able to find consistent information about the provider across all sources such as regulators, providers, and government bodies, chosen by half (51%) of respondents. A quarter of respondents (24%) say that joint awareness campaigns would be helpful in improving consumer understanding, which also highlights the importance of collaboration between key stakeholders in the industry to provide clear and consistent information to consumers.

An official seal of approval, such as a logo displayed on websites and in communications, is the third most preferred option among consumers to help them identify safe providers. Although currently limited to deposits, the 'FSCS Protected' badge is familiar to consumers as it's already used by all banks, building societies and credit unions. We are currently exploring its potential to help us raise awareness and understanding of FSCS protection across a wider range of products.

We also asked about the appeal of more novel approaches, such as a simple traffic-light system or a QR code. Although these initiatives may prove challenging to implement in a complex and ever-evolving industry such as financial services, these results tell us to keep an open mind when considering innovative options that prove successful in other sectors or that are fit for the digital age.

Figure 5: Identifying safe providers

“Which of the following would make it easier for you to identify financial services providers that are safe to use (eg you would be protected if something goes wrong)?”



Base: 2,001 UK adults aged 18+ with a financial product
 Source: FSCS, November 2022



“Being aware and well informed about how their money is protected is vital in increasing consumers’ trust and confidence in banks and the industry, supporting them to make confident financial decisions. FSCS remains committed to working collaboratively with the industry to raise awareness and promote the protection we offer.”

Lila Pleban,
 Chief Communications Officer, FSCS



Awareness and understanding of FSCS

After exploring overall consumer attitudes towards the financial services industry, our research focused on the specific topic of FSCS. Survey respondents were shown a definition and were then asked a number of questions about our role within the industry.

Consumer perceptions vary widely depending on existing levels of awareness and understanding, with those having prior knowledge of our role being significantly more likely to hold positive perceptions of both FSCS and the industry.

FSCS regularly measures awareness and understanding of our brand. The research conducted for this report, presented below, first shows a definition of FSCS and then asks people whether they had heard of it before. Overall, 72% of consumers say they have heard of us before. However, 45% of all consumers, and a majority (62%) of those who have heard of FSCS, admit to not having a good understanding of our function. Only 28% of consumers say they had heard of FSCS and had a good understanding of our role prior to seeing the definition shown.

"Just to know my pension is safe has restored my faith in financial services."

FSCS customer,
2022/23 financial year

A note on measuring consumer awareness

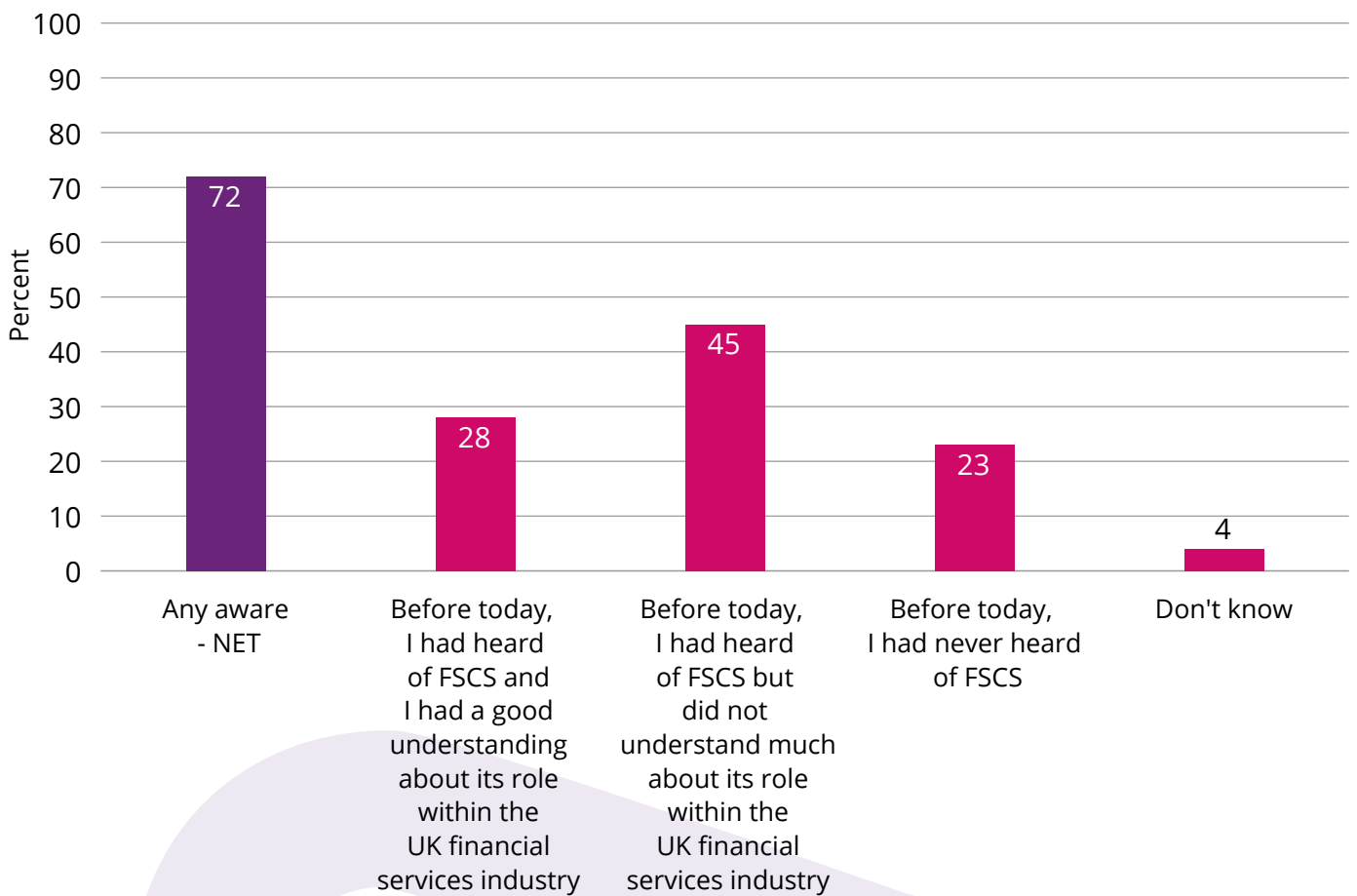
There are different ways of asking consumers what they know of FSCS or our role within the industry, with different methodologies delivering different results. We have trended figures since November 2014, which have typically been reported in our Annual Reports, that arrive at a combined awareness figure fluctuating between 72% and 83%. The most recent statistic, from November 2022, states that 79% of adults are either aware of there being a scheme that compensates consumers when financial providers go bust, or that have heard of FSCS.

Separate results from our monthly brand tracking and consumer research, which uses a more robust methodology for measuring awareness, arrive at different figures which are still consistent with previous trends. These found that, on average, around 27% of adults are aware of an organisation that compensates consumers when financial services providers go out of business, while 43% have heard of the Financial Services Compensation Scheme (FSCS) before, over the February 2021-March 2023 period.

Figure 6: Awareness and understanding of FSCS

“The Financial Services Compensation Scheme (FSCS) can pay compensation when regulated financial services providers go out of business. Set up by the government, FSCS is independent and funded by the UK financial services industry. Consumers can keep 100% of the compensation they’re owed when claiming directly through its free online service.”

Based on the description you have seen, which of the following applies to you?”



Base: 2,001 UK adults aged 18+ with a financial product

Source: FSCS, November 2022

Stark differences between demographics

Knowledge is not consistent across the population. Women, younger age groups, those on lower household incomes and with no or small levels of savings and investments are all less likely be aware of

FSCS and understand its role within the industry. These demographics are also less likely to hold a variety of financial products, which may help explain their lack of familiarity with existing protections. However, higher awareness and understanding of FSCS is correlated with much more positive perceptions of its role within the industry (see Figure 10: Impact of FSCS on consumer attitudes towards the industry).

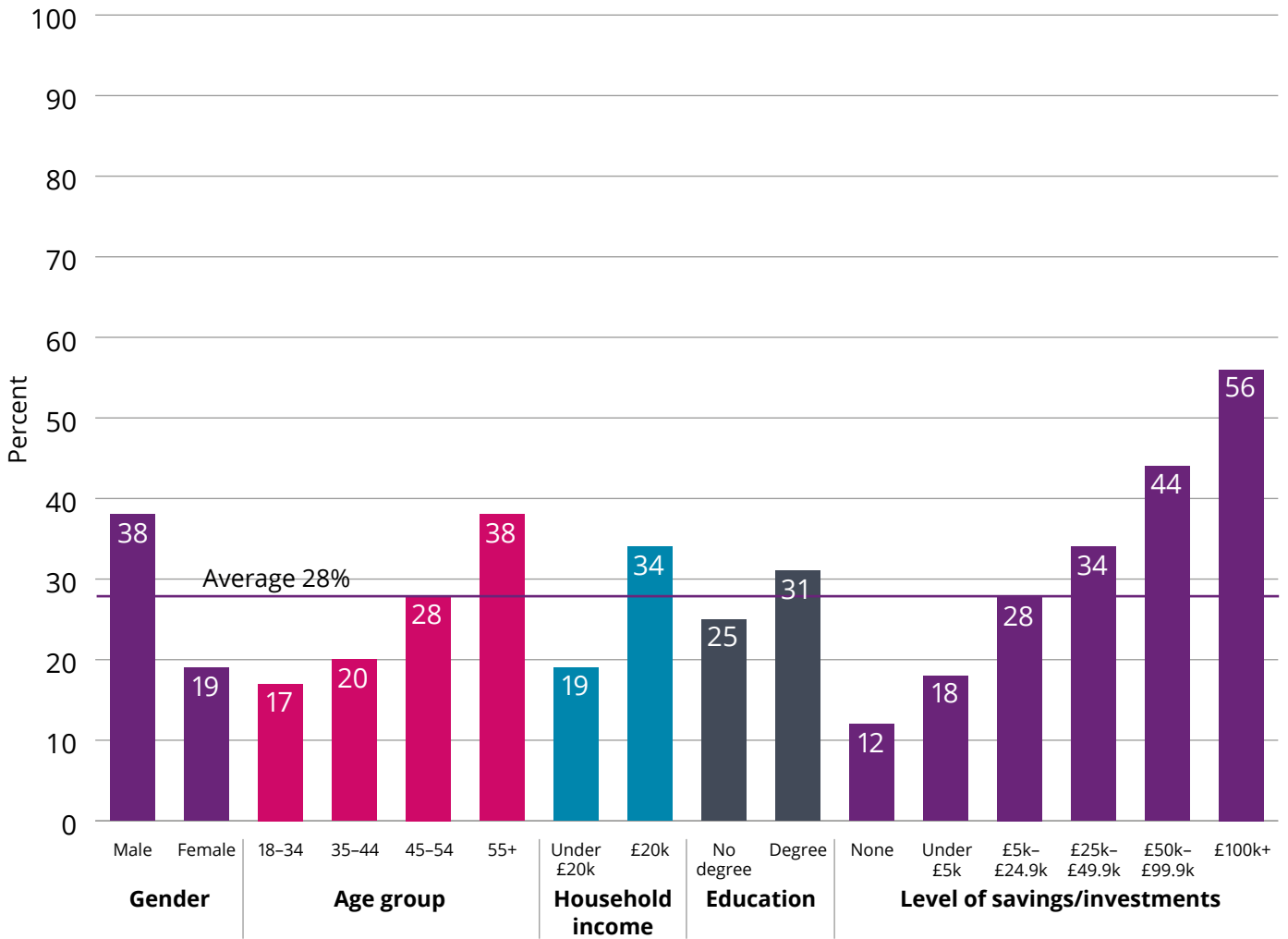


“We continuously seek to promote the work of FSCS and its role within the industry to consumers through a variety of channels. We’ve recently expanded our social media presence, particularly looking to engage a younger demographic. Our informative podcasts were introduced to provide in-depth detail about FSCS protection in a more friendly format, from protecting your pensions to ways to boost your money confidence. We will continue to strive to publish useful information to help consumers increase their awareness and understanding of FSCS protection.”

Emma Barrow,
Head of Communications, FSCS

Figure 7: Awareness and understanding of FSCS, by demographic

*“Based on the description you have seen, which of the following applies to you?
 - Before today, I had heard of FSCS and I had a good understanding about its role within the UK financial services industry”*



Base: 2,001 UK adults aged 18+ with a financial product
 Source: FSCS, November 2022



Most important factors of FSCS protection

Being a free, direct, and independent service resonates most with consumers

As part of our research, we wanted to understand what aspects of our protection are most relevant to consumers. We split our definition into six key statements, and asked survey respondents to rank them in order of importance. As is the case with perceptions of the overall industry (see Figure 3: Concerns about financial services providers and Figure 4: Drivers of Trust), consumers are most likely to be interested in issues that affect them personally and that are relatable, rather than with the 'behind the scenes' of a complex industry.

The statement that was most often ranked first or second was *'Consumers can keep 100% of compensation when claiming directly with FSCS'*, followed by *'FSCS is independent'* and *'FSCS offers a free online claims service'*. Working with industry stakeholders to promote these factors of our protection could be key when raising awareness and understanding of FSCS.

A free and independent service

FSCS is independent, and our service is free of charge, customers who claim with us directly will keep 100% of the compensation they are owed.

Losing money can be an incredibly stressful and often emotional experience. This is especially true when a financial firm, that customers have entrusted with their money, goes out of business leaving no clear routes for redress. That's why our aim is to make it as simple as possible for customers to make a compensation claim via our free online service.

Some customers prefer to use a representative, like a solicitor or claims management company (CMC) to submit a claim on their behalf. Feedback from our customers highlights that a lack of confidence, lack of financial knowledge or a perception that a representative may be able to secure a more successful outcome for their claim, are the main reasons for not claiming directly with us.

It is important customers are aware of any fees that may apply when using a representative who typically charge a percentage of the total compensation recovered.

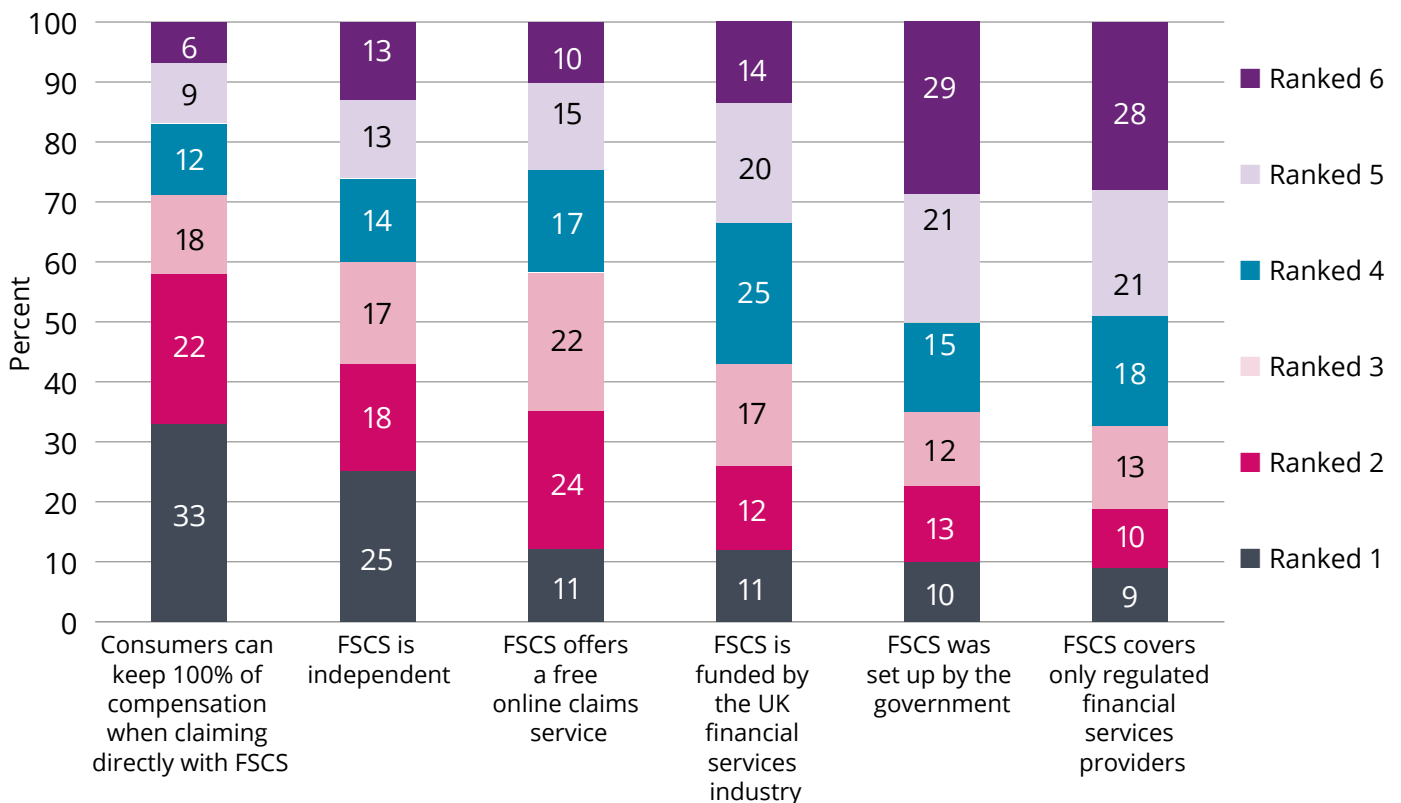
Awareness that FSCS is funded by the industry can be a key driver of trust

Interestingly, the fact that FSCS is funded by the industry was on average ranked higher in importance to consumers than knowledge that it's been set up

by the government. This can be a key driver of trust, with 44% of consumers saying that the industry meeting the cost of compensation when providers fail improves their trust in the sector (see Figure 4: Drivers of trust). These results indicate that it is important for consumers that the industry takes responsibility when things go wrong.

Figure 8: Most important factors of FSCS protection

“Based on the description you have seen, which of the following is most important to you with regards to FSCS? Please rank 1-6 in order of importance”



Base: 2,001 UK adults aged 18+ with a financial product
 Source: FSCS, November 2022



Impact of FSCS on consumer behaviours

FSCS is very likely to have a positive effect on behaviours...

Consumers are highly likely to agree that FSCS contributes to desirable behaviours that encourage competition and improve consumer outcomes. This research found that people are more likely to shop around for, spend more money with and recommend a provider if it is FSCS protected.

- **67%** of adults who own financial products agree that they are **more likely to shop around for providers** that are FSCS protected (only 5% disagree).
- **63%** say they are **more likely to save/invest/spend more** of their money if a provider is FSCS protected (only 6% disagree).
- **61%** say they are **more likely to seek regulated financial advice** if the adviser is FSCS protected (only 5% disagree).
- **59%** are **more likely to recommend a provider** if it is FSCS protected (only 6% disagree).

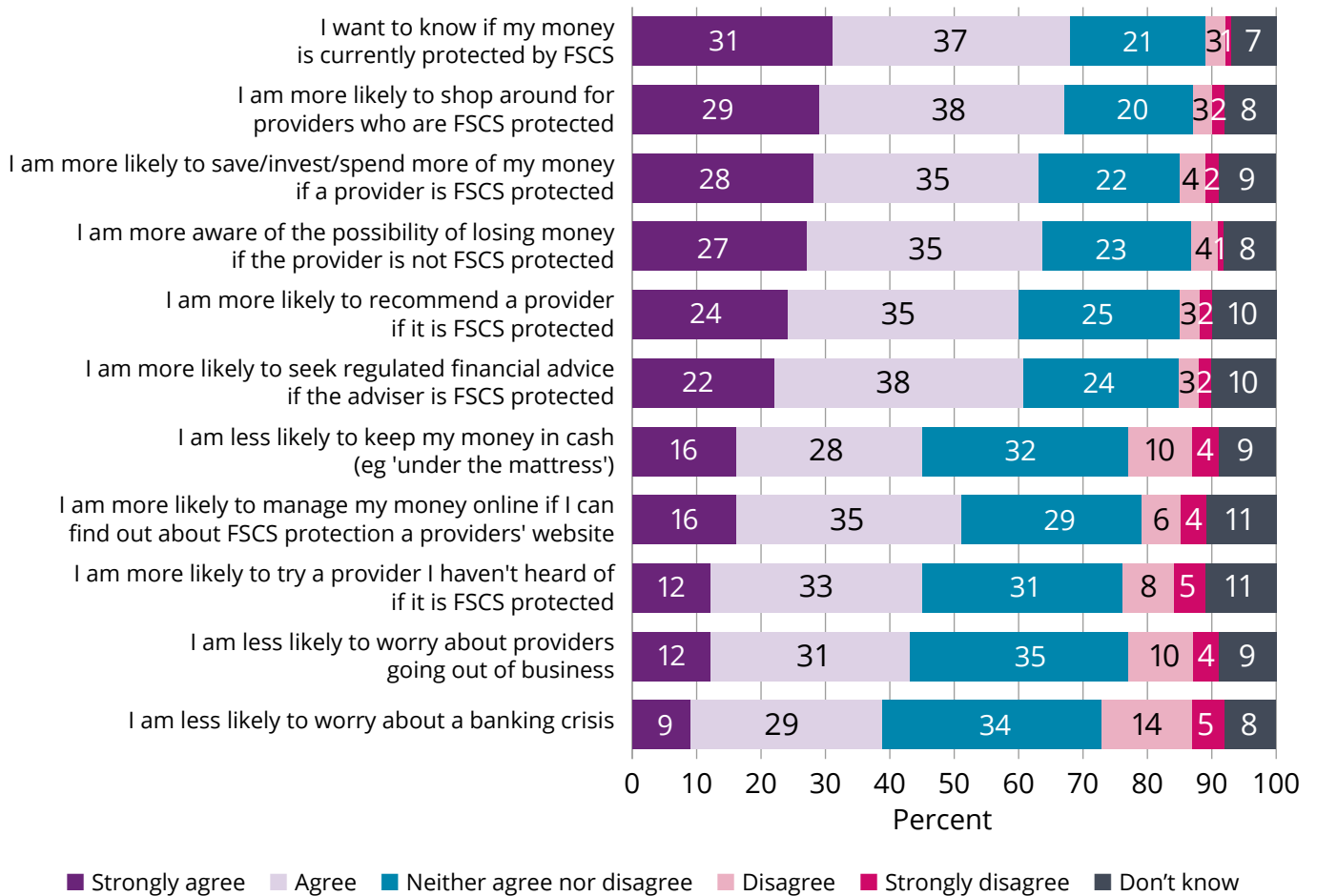
...which can benefit new entrants and innovative providers

- **51%** of consumers are **more likely to manage their money online** if they can find out about FSCS protection on a provider's website (only 10% disagree)
- **45%** agree that they are **more likely to try a provider they haven't heard of before** if it is FSCS protected

Showcasing FSCS protection could also be beneficial for new entrants and challenger brands, which in this industry tend to be digital-first and not operating under a well-known consumer brand. For example, 37% of consumers are concerned about not knowing if a provider is safe to use (see Figure 3: Concerns about financial services providers).

Figure 9: Impact of FSCS on consumer behaviours

“Based on what you have read, how much do you agree or disagree with the following statements about the existence and role of FSCS?”



Base: 2,001 UK adults aged 18+ with a financial product
 Source: FSCS, November 2022



“Whether seeking financial advice or looking to invest, save or spend their money, our research shows consumer confidence increases with the knowledge that the financial products they are buying are FSCS protected. This hints that FSCS protection can contribute to growth in the industry as six out of ten consumers are more likely to use or recommend a provider, that is FSCS protected, highlighting their trust in FSCS and the protection we provide.”

Jonathan Pallant,
 Head of Stakeholder and Public Affairs, FSCS



Impact of FSCS on trust, confidence, and stability

FSCS has a crucial role to play in improving consumer trust and confidence...

Leveraging FSCS protection is a clear way of improving trust and confidence in this industry. The fact that positive perceptions of the role FSCS plays are much higher among those who are aware of FSCS and understand our role highlights the importance of continuing our work to promote our protection.

- **68%** of adults who own financial products **agree that FSCS protects consumers**. Improved consumer protection is the main driver of trust in this industry (see Figure 4: Drivers of trust).
- **63%** of consumers **agree that FSCS helps improve consumer confidence in the UK financial services industry**, while only 3% disagree. Agreement with this statement is much higher (79%) among those who, prior to this survey, were aware of FSCS and understood its role within the industry. It is also higher (76%) among those with savings and investments of £50,000 and more.

... and supporting stability

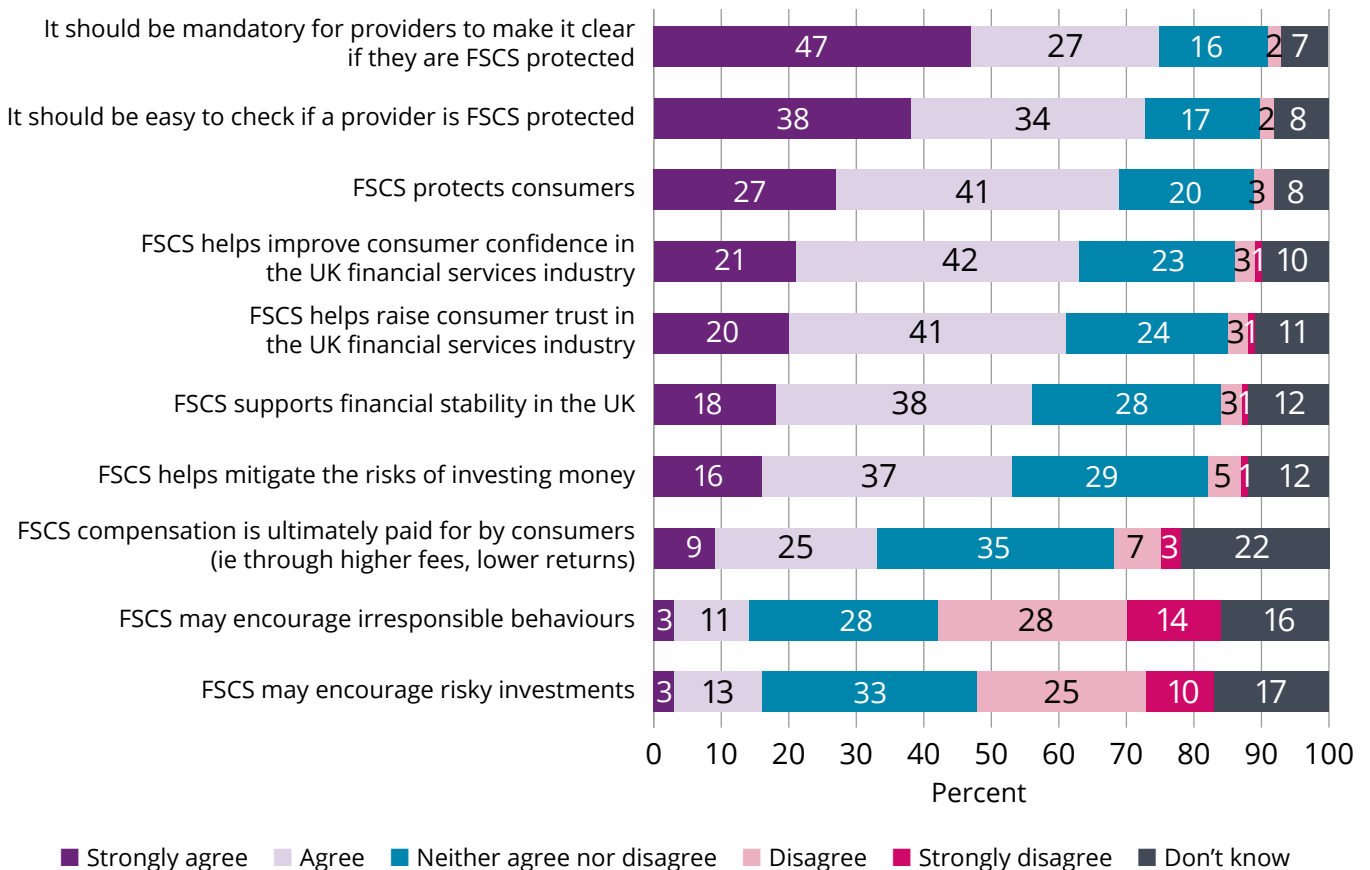
Trust and confidence in the system is critical to financial stability. Without them, more people are likely to react to uncertainty and market turmoil by seeking to pull their money out of products or firms perceived as at risk, worsening liquidity and confidence pressures. This is key in the context of squeezed real incomes and high economic uncertainty. Research conducted for the [March 2023](#) edition of this series found that, as a result of the rising cost of living, consumers are taking more risks with their money in order to gain a better return while some of those able to have been accessing their pension pots early.

The existence of a statutory compensation scheme can help assuage key concerns. Lack of protection if things go wrong and providers going out of business are key worries for 42% and 40% of consumers in this industry, respectively (see Figure 3: Concerns about financial services providers).

A majority (55%) of consumers agree that FSCS helps support financial stability in the UK (only 4% disagree). Agreement with this statement is much higher (71%) for those who were already aware of FSCS and understand our role, and among those with higher levels of savings and investments.

Figure 10: Impact of FSCS on consumer attitudes towards the industry

“Based on what you have read, how much do you agree or disagree with the following statements about the existence and role of FSCS?”



Base: 2,001 UK adults aged 18+ with a financial product

Source: FSCS, November 2022

This research has also found that, based on what they now know about FSCS (See Figure 9: Impact of FSCS on consumer attitudes):

- **45%** of consumers are **less likely to keep their money in cash** (e.g. under the mattress), while only 15% disagree
- **42%** are **less likely to worry about providers going out of business** (while only 14% disagree)

- **38%** are **less likely to worry about a banking crisis**, twice as many as those who disagree (19%), when an explanation of the role of FSCS is provided to them

As mentioned, since conducting this research in November 2022 global events have shifted the banking landscape. We are committed to continue monitoring this space to understand if and how consumer perceptions and attitudes may have been impacted.

Mythbusting

Only a minority believe FSCS contributes to undesirable behaviours

From the consumer perspective, our findings indicate that the existence of FSCS does not result in risky decision-making or irresponsible behaviours. Although these topics tend to be complex for the average consumer to understand, there are concerns among some industry stakeholders that this research helps to counter.

- Only 14% of consumers say that the existence of FSCS may encourage irresponsible behaviours. Agreement with this statement is significantly higher (23%) among those who are willing to take risks with their money.
- Only 16% of consumers believe that the existence of FSCS may encourage risky investments (25% among those who are willing to take risks with their money).

Our research has found that consumers are more likely to associate these undesirable outcomes with individual providers and their perception of the way the industry is regulated and rules are enforced, rather than the specific role of FSCS.

- 49% say that legal consequences for activities that lose customers' money would improve their trust in the financial services industry (see Figure 4: Drivers of trust)
- 35% of consumers identify lack of consequences for poor business practices as a concern, while 33% worry about a provider making risky/ unsustainable investments (see Figure 3: Concerns about financial services providers).
- When asked about their perception of how the industry is regulated, only 25% of consumers believe risky behaviours are discouraged and 19% believe bad providers are penalised. Just 14% say responsible consumer behaviour is incentivised (see Figure 11: Perceptions of how the industry is regulated, by awareness of FSCS).



“It has been suggested that the mere existence of FSCS may encourage some consumers to behave irresponsibly and take risks assuming they can fall back on FSCS protection if things go wrong. Our research clearly demonstrates that this is a red herring.”

Jay Sheth,
Head of Policy, FSCS



Reasons for using providers that are not FSCS protected

Consumers who are less risk-averse are more likely to consciously forego FSCS protection

After showing a definition of our protection, we asked consumers what would convince them to choose a provider that is not FSCS protected. Accessing a better deal or being able to afford the gamble were the top reasons, followed by a lack of awareness of FSCS protection.

The responses were highly linked to consumers' attitudes towards risk. Those who are generally willing to take risks with their money are more likely to say that the reasons to end up with an unprotected provider would apply to them. For more information on what drives people to choose riskier investments, see the [April 2023 edition](#) of this series, which focuses on consumer attitudes towards investing in cryptocurrencies.

Awareness of FSCS can help consumers when making decisions about their finances, increasing their confidence in buying protected products and understanding the risks of unprotected ones. This research found that 63% of consumers are more aware of the possibility of losing money if the provider is not FSCS protected (see [Impact of FSCS on consumer behaviours](#)).

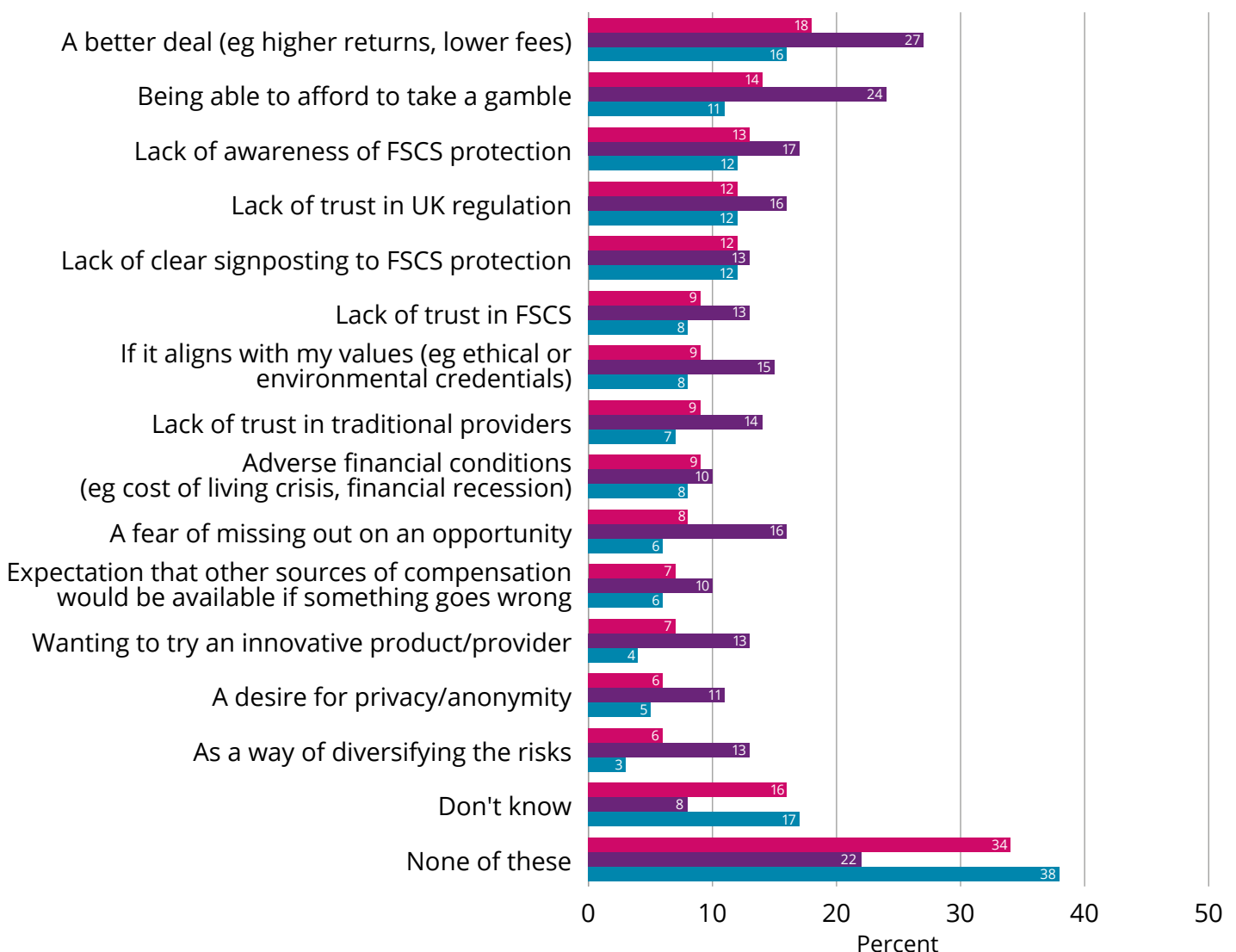
"You need to have faith in someone when dealing in Finance. I believe FSCS gives this."

FSCS customer,
2022/23 financial year

Figure 11: Reasons for using providers that are not FSCS protected, by willingness to take risks with their money

“Based on what you now know about FSCS, which of the following could make you choose a provider or product that is not protected by FSCS? Please select all that apply.”

“In general, how willing or unwilling are you to take risks with your money?”



■ Total* ■ Willing to take risks with their money** ■ Unwilling to take risks with their money***

Base: 2,001 UK adults aged 18+ with a financial product

*Total sample of 2,001, including 436 who are neither willing nor unwilling to take risks with their money and 19 who don't know

**Includes 35 who are very willing and 321 who are willing to take risks with their money – NET

***Includes 613 who are unwilling and 577 who are very unwilling to take risks with their money – NET

Source: FSCS, November 2022



Perceptions of how the industry is regulated

Awareness and understanding of FSCS linked to more positive perceptions

Regulation in an industry like financial services is a particularly complex topic, with which the average person is not likely to be familiar. Although hard to assess with this type of research, we wanted to have an idea of the opinions the average consumer has of how the industry is regulated.

Of those surveyed, the most common perceptions about regulation are that it encourages competition and discourages risky behaviours among providers. Consumers are much less likely to believe that it incentivises responsible consumer behaviour, empowers consumers or that regulators themselves are up to date with technological developments.

However, perceptions tend to be much more positive among those who, prior to this survey, had heard of FSCS and had a good understanding of its role within the industry. For instance, 35% of those who are aware and understand FSCS's role as a compensation scheme, say that firms are properly supervised by the industry's regulators, compared to 21% for the total sample of adults with financial products and 13% of those who had not heard of FSCS before.

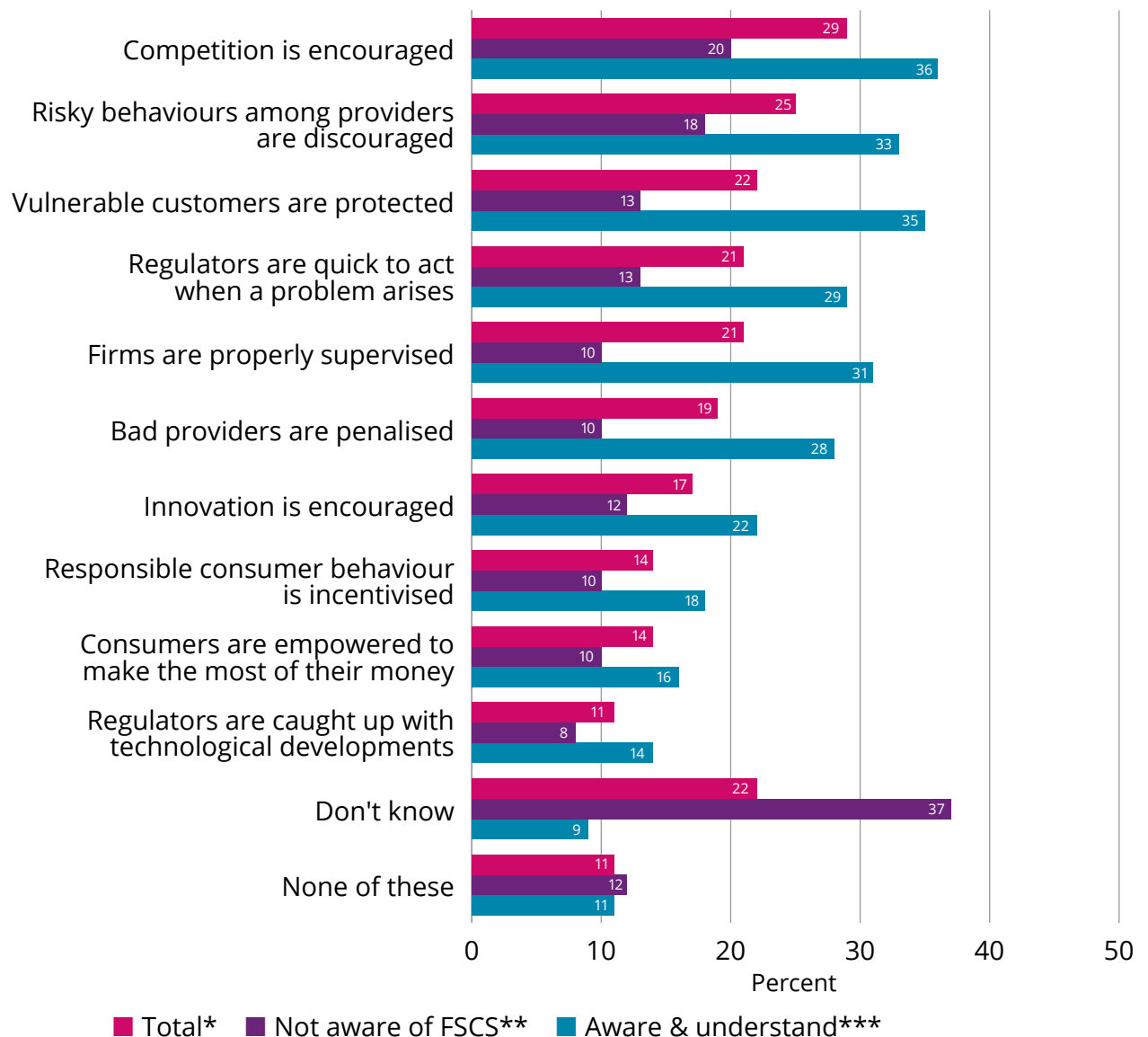
Conversely, those who had never heard of FSCS before are much less likely to have positive perceptions, and significantly more likely to simply answer 'don't know' to this question.

"After my experience with FSCS I have been feeling much more confident in the financial services industry and believe that they are more above board."

FSCS customer,
2022/23 financial year

Figure 12: Perceptions of how the industry is regulated, by awareness of FSCS

“Which of the following do you think applies to how the UK financial services industry is regulated? Please select all that apply.”



Base: 2,001 UK adults aged 18+ with a financial product

*Total sample of 2,001, including 893 who, prior to this survey, had heard of FSCS but didn't have a good understanding of its role within the industry

**Base is 552, including 463 who, prior to this survey, had never heard of FSCS and 89 who don't know

***Base is 556 who, prior to this survey, had heard of FSCS and had a good understanding of its role within the industry

Source: FSCS, November 2022

Key takeaways

- Financial services is the second least trusted industry, out of seven surveyed. Building consumer trust in this area is very hard, given the higher levels of distrust. This is why exploring the role FSCS plays in this area is so important.
- Lack of protection when things go wrong and firms going out of business are among the top concerns regarding providers in this sector. Improved consumer protection, legal consequences for poor consumer outcomes and the industry being made accountable for compensation are the top drivers of trust for consumers. Leveraging existing protections, such as the existence of FSCS, could be a quick win when raising confidence and trust, which is why we continue to work with industry to improve awareness and understanding of FSCS protection through our communications strategy.
- Awareness and understanding of the role FSCS plays can be key to improving trust and confidence in this industry, as well as encouraging people to keep their money invested in the UK financial services ecosystem, making the most of the products available for their needs.
- Positive attitudes towards the role of FSCS are much more common amongst those with prior knowledge and understanding of FSCS, and among those with higher levels of savings and investments.
- Awareness and understanding of FSCS also relates to desirable consumer behaviours that encourage competition. Consumers are more likely to shop around for, spend more money with, recommend, use the online services of and try a new brand when they know the provider or product is FSCS protected.
- From the consumer perspective, the existence of FSCS does not result in risky decision-making. Although these topics tend to be complex for the average consumer to understand, they are more likely to associate this undesirable outcome with individual providers and the way the industry is regulated and rules are enforced, rather than the specific role of FSCS.
- Perceptions of how the industry is regulated tend to be much more positive among those who, prior to this survey, had heard of FSCS and had a good understanding of its role within the industry.

About FSCS

The Financial Services Compensation Scheme (FSCS) can pay compensation when authorised financial firms go out of business. It is independent, provides a completely free service for consumers and is funded by the financial services industry.

FSCS is best known for protecting deposits held in banks, building societies and credit unions. It can also pay compensation for insurance, investments, investment and pension advice, home finance advice, PPI and debt management plans and funeral plans.

FSCS's mission is to provide a trusted compensation service which helps to raise public confidence in the financial services industry.

FSCS is the statutory UK compensation scheme to protect consumers of financial services, set up by parliament under the Financial Services and Markets Act 2000 (FSMA). FSCS can step in when a regulated firm is unable to meet its customers' claims.

Our service is free to the individuals and businesses who need our help. By providing this service, FSCS contributes to market confidence, supports financial stability, and protects consumers.

FSCS is operationally independent but accountable to the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and operates within the rules set by the regulators.

Since the scheme began on 1 December 2001 FSCS has declared more than 4,200 firms in default, paying out £26.5bn in compensation to 6.5m customers who lost money as a result.

In addition to paying compensation to customers of failed firms, FSCS also makes recoveries where it is cost-effective to do so to offset the costs levied on the industry.

Since 2015 we have recovered more than £280m from the estates of failed firms and third parties, such as professional indemnity insurers.

You can find out more about FSCS and our strategy on our website at www.fscs.org.uk/about-us/

Research methodology

All figures presented in this report (unless otherwise stated) come from exclusive consumer research commissioned by FSCS to understand consumer perceptions and attitudes towards trust in the financial services industry and their understanding of FSCS's role in it.

This research was conducted online among 2,001 people age 18+ in the UK. All interviews were conducted as online self-completion between 4th and 16th November 2022, and collected based on controlled quotas evenly distributed between age group, gender and region. All respondents were reported to own financial services products.

Note: figures may not add up to 100% due to rounding.

If you would like to discuss any aspect of this report, please speak to your usual FSCS contact, or you can email our research analyst at irene.salazar@fscs.org.uk



Contact us

For more information

call: 0800 678 1100

email: communications@fscs.org.uk

visit: www.fscs.org.uk



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