

Treasury Committee

Oral evidence: Work of the Financial Services Compensation Scheme, HC 2239

Wednesday 3 July 2019

Ordered by the House of Commons to be published on 3 July 2019.

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Members present: Nicky Morgan (Chair); Rushanara Ali; Colin Clark; Mr Simon Clarke; Charlie Elphicke; John Mann; and Alison Thewliss.

Questions 1-108

Witnesses

I: Caroline Rainbird, Chief Executive Officer, FSCS; and Jimmy Barber, Chief Operating Officer, FSCS.

Examination of witnesses

Witnesses: Caroline Rainbird, Chief Executive Officer, FSCS; and Jimmy Barber, Chief Operating Officer, FSCS.

Q1 **Chair:** Good morning and thank you very much for being here for this evidence session on the Financial Services Compensation Scheme. I am going to ask you both to introduce yourselves and then the Committee will ask a series of questions about the work of the scheme and, obviously, particular cases and experiences. Ms Rainbird, perhaps we can start with you.

Caroline Rainbird: Yes. Thank you all for inviting me here today. I am Caroline Rainbird, the CEO of the Financial Services Compensation Scheme or FSCS. I joined the scheme on 13 May this year, so I am quite new in the role.

Chair: We will bear that in mind.

Caroline Rainbird: Thank you very much. It's still very early days for me, and that's why it's very helpful for me to have Jimmy alongside me.

Q2 **Chair:** Mr Barber, perhaps you could introduce yourself.

Jimmy Barber: Good morning. My name is Jimmy Barber. I am the chief operating officer at FSCS and I have been there for three and a half years, so I'm hopefully here to help with a bit of the context.

Chair: You know a bit more.

Jimmy Barber: Hopefully.

Q3 **Chair:** Lovely. Ms Rainbird, you have obviously come from a distinguished career in financial services, joining the scheme almost two months ago. Perhaps you can give us some initial thoughts from having joined and managing the transition. I don't know whether there was a handover from your predecessor.

Caroline Rainbird: No—well, Mark and I had a series of informal meetings before I joined, but there was a week's gap between his leaving and my joining. Yes, I have been in the role for a couple of months. I have spent a lot of time going round the business, meeting the team and understanding what the scheme does. I have been in financial services for 30 years and have been lucky enough to do a whole host of jobs, but that has really been on the commercial banking side, so this role enables me to use that experience but in a very different context.

What has been really interesting and important has been for me to understand the work we do for all our customers. Unlike with many other companies and certainly the financial services companies that I have worked for, all our customers come to us at, regrettably, a very difficult



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time in their life, so it's very important for me to understand how the team and how Jimmy and his team focus on serving the customers well, but also balancing that with our levy holders—all 49,000 of them—because obviously every penny we pay out in compensation comes from them, so we need to be very mindful of that. Our third key area of stakeholders is the regulators and HMT.

- Q4 **Chair:** Did you have any immediate thoughts on going round? Was there anything where you thought, "This is clearly an area that we are going to have to push on or to change"?

Caroline Rainbird: What is nice for me is that this is a company that has been operating well and has a long-established history, so for me it is building on the customer journey and, while it sounds slightly buzzwordy, the end-to-end customer experience. I am sure Jimmy will have an opportunity to talk about those. That is really important to us. It is very difficult when people come to us. They are often confused, angry, upset and all those emotions, and we need to understand and ensure that we do the right thing for all our stakeholders. I have been truly impressed with how we engage with customers—both the team based down here in London and the team we have based up in Glasgow, which is the customer-facing side.

The other stand-out for me is the fact that the organisation is very resilient. We need to be, and we are tested regularly. If, God forbid, something happens and we have to respond quickly to a crisis, we have a good sign-off and we are well prepared and able to do that. For me it has just been meeting people, listening and understanding.

- Q5 **Chair:** Great. Kathryn Sherratt, who was the CFO, left on 23 May, just one day after her departure was announced. Did that come out of the blue? Did she have a notice period? Why did she leave so quickly?

Caroline Rainbird: Jimmy, you might know. I think she gave her notice in at the beginning of the year.

- Q6 **Chair:** Okay. But it wasn't publicly announced until she was literally about to go.

Caroline Rainbird: No. I was aware of it as I was coming up to final interview process, and I had the opportunity to meet Fiona Kidy, who is our interim CFO. There is nothing sinister there.

- Q7 **Chair:** Do you have a plan to fill the post on a permanent basis?

Caroline Rainbird: Yes. We will fill it on a permanent basis. I met Fiona and was very impressed by her, so I think it is only right that she gets an opportunity to do that role on an interim basis. That also gives me an opportunity to think, so Fiona will be one of those candidates as we go through the process. The finance team are very good and impressive.

- Q8 **Chair:** You mentioned resilience. One of the inquiries we are also doing is into IT failures of financial institutions. I think when TSB's IT systems failed last year, there was not really a role for the FSCS because,



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although customers were struggling to get hold of their money, it was not the bank that had failed, but the IT system. I wonder whether perhaps that has been discussed more broadly and whether you have a view on it. How long is an IT failure at a bank allowed to continue before the FSCS might have a role in that?

Caroline Rainbird: Jimmy may be able to provide a bit of context, so I will hand over to him in a moment. By way of a brief reminder, our protection kicks in when a firm has failed. Clearly, having been in banking and been involved in one form or another with supporting RBS in its IT crisis, I can see that a number of issues have emerged, but those are not as a consequence of banks' failing. Jimmy, I don't know whether there is anything you want to add?

Jimmy Barber: That is absolutely right, Caroline. We are here to protect firms when they fail, but from our perspective, looking at our resilience, we look at resilience in terms of IT systems—we have redundancy in those systems and we test that thoroughly on a regular basis, so that we can be confident that we can manage if something happens to our IT systems, but resilience for us is also about whether we can manage and scale up when firms fail. We also have contingency plans for every product, which are thoroughly and constantly tested to ensure that we are prepared.

Q9 **Chair:** So if a bank's or insurance company's IT system was to fall over, and if as a result that led to their going out of business because they could not service demands or claims or whatever, the FSCS would be able to step in at that point?

Jimmy Barber: If a bank goes out of business, we are here to protect customers. We are prepared, whether it is a medium-sized bank through to independent financial advisers. We cover a wide range of products so, yes, we would be prepared.

Q10 **Chair:** The PRA and the FCA are required under the Financial Services and Markets Act to ensure that at all times the scheme can exercise its required functions. You have mentioned your own IT resilience, but are there any impediments or risk factors that you face, or anything you have to report to the PRA or FCA that might impede the functions of the FSCS at any point?

Jimmy Barber: We work with the regulators and the industry on being prepared. That is the key focus for us—are we prepared to handle failures and then, when firms fail, how effectively do we handle them? They are the main areas of focus for us.

Caroline Rainbird: And we have just received our annual letter from the PRA confirming that they are very pleased with our resilience. Generally they have no areas of concern. They would like us to look at some areas in the normal course of business, but they are very pleased with the resilience and the work that is being done, and constantly being done. We just recently, a few months ago, went through European banking—the EBA—testing. It is something we very much focus on—maybe more so than would be suggested for a 200-person organisation. We need to be



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able to respond in the event of any crisis—that contributes to confidence in the financial services industry.

Jimmy Barber: We have a constant cycle of testing, and we test the technology, but we also test whether the processes would scale up—whether the people are capable of doing the job, and through to “Can we access funding in a timely fashion?” From our tests, and also our live performance, we are always looking at how we can improve resilience. As an example, one thing that we did recently to help build the scale is we trained everyone in the organisation to be able to handle phone calls in the event of a large failure. That includes our executive, our lawyers or our PAs. Everyone is involved in that. That is the sort of thing that we might drive improvements on.

Q11 **Chair:** I want to just ask about the gender pay gap but, Ms Rainbird, I want to give you the opportunity to clarify: you talked about the RBS IT crisis. I think you meant TSB.

Caroline Rainbird: No, I used to work for RBS, not TSB.

Q12 **Chair:** So when you talked about an IT crisis you meant something in RBS?

Caroline Rainbird: Yes—I am sure you remember the 2012 IT incident.

Chair: Yes. I just didn’t want it to get on the record if it was not right. Perhaps you can just talk to us about your latest gender pay gap and diversity work. Is this a priority for you in your new role?

Caroline Rainbird: Yes. Any organisation needs to be very aware of diversity and inclusion, and particularly given that we serve a wide range of consumers, it has always been important for me in any organisation to make sure that the organisation is diverse and inclusive. I am still learning about this journey, but we have a number of targets that meet and sit in line with our strategy around gender split—50:50 across leadership roles. We are at 35% at the moment. Good progress is being made, but there is still more to be done. My coming in has helped that a little bit. We are also very strong on what we call mature workers, or older workers. I have also contributed to that category as well, much to my upset—25% of our workforce is what we would call mature talent. We are also strong on diversity in terms of ethnic diversity. We have a 20% target of BAME leaders, and we have a target to try and get our technology team, which is always a bit of a stubborn and maybe a lagging indicator—we have a target there of having around 20% of women in that team.

Jimmy Barber: As Caroline said, we are very committed to diversity and see real benefits in it. We are also signatories to the women in finance charter and we were founding signatories of the Business in the Community race at work charter. We have been involved in a lot of the work they do around mentoring people from BAME backgrounds. We have had a number of awards for doing this sort of stuff—this week we were shortlisted for the national diversity awards—but we know it is not really about winning awards. Actually, as Caroline says, our customers are really



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diverse and we have found it is a real benefit to have a diverse workforce. We also believe that diversity and inclusion will help us to underpin our successful strategy in the 2020s.

Q13 **Chair:** What is your latest gender pay gap?

Caroline Rainbird: I was just about to come on to that, because I know you asked that. In 2014 it was 18%, and it is at 11.8% as of today—so work is being done.

Q14 **Chair:** Is that the mean or the median one?

Caroline Rainbird: That is median. It is going in the right direction, but there is still work to be done.

Q15 **Colin Clark:** Do you think the current level of FSCS coverage is appropriate and sufficient?

Caroline Rainbird: Our coverage level of our schemes and eligibility is determined by the regulator—by the FCA and the PRA—so I would defer to them because they provide the level and we implement it.

Q16 **Colin Clark:** But the level of coverage has been increased to some products since 1 April 2019. What caused the increase? Do you think further changes are required or are coming down the track?

Caroline Rainbird: I will let Jimmy talk about the specific change. Again, we have a very close working relationship with the regulator. If they chose to make any changes to coverage, products and so on, we would work with them and implement it.

Q17 **Colin Clark:** What was the reasoning behind that?

Jimmy Barber: To be honest, you would have to speak to the regulator about the reasoning, but one of the real advantages is that a lot more of our products are now at the same level, so it is much easier to understand. Before, we had deposits at £85,000 and investments and other products at £50,000. Although it is still complex today, at least more products are around £85,000.

Q18 **Colin Clark:** Charles Randell described it as the most generous financial protection scheme of any country he had come across. How does it compare with other countries? It is based on the €100,000 EU-wide level of coverage, so how generous is it? Was he getting at the fact that it was more generous because it went into products beyond just bank accounts?

Jimmy Barber: In terms of the breadth—if you are defining generosity as the breadth and depth of it—yes, we believe that we cover more products than other schemes globally. We also think that is reflective of the mature, sophisticated financial service industry that we have in the UK.

Q19 **Colin Clark:** I suppose the potential criticism is that it is effectively a subsidy for IFAs who do not have that level of coverage. Is that a reasonable criticism?



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Jimmy Barber: I think you have got to bear in mind that the majority of the products that we protect are low risk. The majority that we pay out on are PPI, insurance and products like that.

In terms of high-risk products, it is important to note that we don't actually protect the product's performance. If someone invests in a high-risk product and they just lose money, we don't protect that. What we protect is where people are misled or facts are misrepresented in terms of advisers. We protect the advice of people going into high-risk products.

There was a good example recently at one of our focus groups. A teacher was worried about saving for her retirement and she was approached by an expert adviser who told her that he had a great opportunity that offered good returns for very low risk.

She thought it was a perfect opportunity for her. She put her £25,000 pension into storage pots that are now worthless. It is that sort of advice that would be unsuitable for that individual that we would protect.

- Q20 **Colin Clark:** Just on that point, during the time of the previous chief executive officer, Mark Neale, 60% of the £3.3 billion that was paid out was, in his words, due to "mis-selling or bad advice". The Committee could really do with knowing if other agencies are failing the FSCS. You pick up the pieces. I know I am asking for an opinion. Should other agencies be picking this up before you have to compensate?

Jimmy Barber: To be honest, that is a question for other agencies to answer. Our focus is on whether, when financial services firms fail, we are well prepared to deal with it, and whether we are ready to handle it whatever range or size or scale it is.

- Q21 **Colin Clark:** I suppose consumers would rather that failure does not happen in the first place. As you have already explained, people come to you in some distress and very anguished. I don't imagine it is always quite what they expect.

Jimmy Barber: Which is why one of the four pillars of our strategy going into the 2020s is around how we can support prevention of claims. How can we share some of the information that we have with the regulators and industry to help them drive improvements?

Caroline Rainbird: We can give real examples of where the scheme is supporting people. We can also give real stories. Jimmy just quoted a teacher story there. There are a number of stories and that is probably a more useful way of illustrating how the scheme works and how we work with the authorities—the regulators.

- Q22 **Colin Clark:** One of the examples, I think from Mark, is that pension products should be kitemarked by the FCA, to ensure that consumers can be confident that they are buying good value. I think that comes to the crunch of it, doesn't it? You are still dealing with it. You're having to pay



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out when it goes wrong.

Consumers must say to you, "I didn't expect it to go wrong. I thought it was safe." We just had a recent scandal. Are we getting this the wrong way round? Is it that the horse has almost bolted and we are tidying up rather than we have locked the stable door?

Caroline Rainbird: We are here as a compensation scheme and we need to make sure that we do that first and foremost. We can feed in stories around that. We do work and have conversations—that is part of our strategy—and work around pensions is one good piece that has been done. We are also working with the FCA on anti-phoenixing: preventing inadequate financial advisers from rising from the ashes as a claim management company to claim against their failings. We can highlight that, and the way I would characterise it is working with the authorities.

Q23 **Colin Clark:** It is better to get it right first time. I supplied retailers for years, and you would never be forgiven for saying, "I'll compensate you" when I got it wrong. They just would not accept it.

Jimmy Barber: We are certainly keen to work on building awareness of our protection. We certainly found that that has worked positively in deposits. It does drive consumer behaviour, so it stops people from causing runs on a bank. Our research shows that in pensions it encourages people to take advice and invest more for their futures. We have driven high levels of awareness of deposit protection, but in our other products it is much lower. So we are keen to work with industry on how we build people's understanding of that protection.

Q24 **Colin Clark:** My last question is this: given the experience in other countries during the financial crisis, in the event of multiple or large defaults, including significant customer loss over your FSCS limit—I think you just touched on it—do you think that an increase in the coverage limit is likely?

Caroline Rainbird: Again, that would be determined by the regulators. If they chose to do that, we would work with them to implement it.

Q25 **Colin Clark:** At the moment, if people have five different accounts holding the same amount, they are covered for every account. It is not cumulative.

Caroline Rainbird: In different organisations, yes.

Q26 **Colin Clark:** But it must be in different organisations. So connected banks—RBS, for example, with its different brands—provide just one cover.

Caroline Rainbird: Yes.

Q27 **Chair:** The answer to the question Colin asked about the limits was to raise it with the regulators. I understand that they make the decision, but do you feed back in? Post-Brexit, potentially we will not be bound by the EU limit in the same way. Do the regulators ask for your views on what compensation has been claimed for, whether the £85,000 is sufficient and



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how many people you are not able to fully compensate because of that limit? Is that an annual discussion before the limits are set?

Jimmy Barber: We work really closely with the regulators. While they set the rules for us to operate within, we do consult with them on those rules. We would provide them with data and information on what we are paying out.

Caroline Rainbird: And they would need that. The payments we pay out come from our levy holders, so we need to be open and transparent throughout the process. We have regular formal and informal meetings where we will be sharing information around a whole host of things. Some of that is to address what you are talking about, and some of it is about the wider intelligence and data sharing.

Chair: That is interesting.

Q28 **John Mann:** I am just mulling over this concept of mature talent. I am looking around the table—

Chair: You are it, John.

John Mann: I wonder which of my colleagues could join me in that accolade.

Chair: You are too much of a gentleman to say.

John Mann: Is the opposite immature talent?

Caroline Rainbird: I was told that it was the politically correct way to refer to it.

Chair: It is a great way to refer to it.

John Mann: I think we will have to stick with the words “senior” and “experienced” here. But we could contemplate it.

Jimmy Barber: We were told “older workers” or “mature talent”. We preferred mature talent.

Caroline Rainbird: We both fell into the category, so it is what we felt more comfortable with.

Q29 **John Mann:** You say in your annual report and accounts that 76% of adults are aware of you or of a protection scheme. Do 76% of people know who you are?

Jimmy Barber: No. Seventy-six per cent. of people would have heard of a protection scheme or would believe that their savings were protected. They have seen the badges and stuff like that. If you just said FSCS alone, around about 25% of people would have heard of FSCS as an organisation.

Q30 **John Mann:** Would they have heard of it and know what it is?



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Jimmy Barber: Yes. There is a level of understanding and recognition of us.

- Q31 **John Mann:** Are you talking about the general public here? I'd put it to you that I doubt if 25% of MPs would be able to give an explanation of who you are.

Jimmy Barber: In terms of the understanding and recognition of us as an organisation and of our protection, if the question is, "Does everyone understand the detail of our protection?" then the answer would be "No." Our protection is complex and that is one of the challenges that we face.

As an example, a product might be protected if it was held in a certain way, but exactly the same product held in different manner wouldn't be protected. Within our regulations, we have three different definitions of what small business is, depending on the type of product. Understanding the detail of our product and our coverage is a challenge.

- Q32 **John Mann:** Are people aware of what protection there is for retirement savings?

Caroline Rainbird: No. I think the 75% really comes from the work across the bank industry. So, everybody who has a bank account will see the badge of "FSCS protected" whether you log in on your mobile app, you go online or you go into your branch. You will see that; the banks are prominently displaying our logo and our badge. I have noticed that, as I have explained where I've been starting to work. People have a recognition—they might not be able to get the acronym or the words that go with the acronym—that there is a compensation scheme that will compensate them if their bank fails, up to £85,000.

- Q33 **John Mann:** In some circumstances. There's an ambiguity, isn't there, in terms of banking licences and banking brands?

Caroline Rainbird: Yes. It needs to be authorised and regulated.

- Q34 **John Mann:** Does the public know that?

Caroline Rainbird: If you are asking about e-money and some of those newer products, it won't apply there, but the work that we have done and the work that we have had reported back on us will testify that 75% of people will have heard of a compensation scheme. They might not be able to remember its name. They will probably relate it to their bank product.

- Q35 **John Mann:** Are you telling us that the coverage to deposits doesn't just apply to each banking licence but to each banking brand?

Caroline Rainbird: It is not a banking brand; it's the banking entity—the regulated entity. Obviously, banks themselves will have different brands and names within their regulated entity.

- Q36 **John Mann:** Could people get caught out, not realising that?

Caroline Rainbird: That may be the case.

- Q37 **John Mann:** That's the point, isn't it? As an organisation, you are



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overstating how well people understand what you do. I put it to you that 25% of MPs wouldn't be able to give you a clear answer of exactly what the situation is, never mind the general public.

Caroline Rainbird: I don't think we sit here today and say that that is the right or acceptable level. This is a compensation that isn't just for deposits. It's for—

Q38 **John Mann:** But there is an issue there about how you get the information out, isn't there?

Caroline Rainbird: Yes.

Jimmy Barber: The deposits constitute about 3% of the claims we pay in a year. As you mentioned, people don't understand well enough about protection around their retirement savings. Only about 26% of people would recognise that their retirement savings were protected.

Q39 **John Mann:** Are there people who are not making claims who ought to be and how many?

Jimmy Barber: From our perspective, we work within a set of rules that are established by the Government and regulators. Our role within that is to pay all the protected claims.

Q40 **John Mann:** I understand. I am asking, what is your estimate of the number of people who would be eligible but haven't made a claim to you?

Jimmy Barber: I don't think we would be able to estimate that.

Q41 **John Mann:** Is it nearer to 1% or 50%?

Jimmy Barber: When firms fail, we work with the administrators and liquidators of those firms, to try to ensure that everyone within those firms who may have a claim is informed.

Q42 **John Mann:** How?

Jimmy Barber: We do a number of things. We will reach out to people using digital channels and in writing. Most recently, last week we had people down in south Wales to meet British Steel pensioners, to ensure that they understand whether they are protected and where they have losses, so that we can cover them.

Q43 **John Mann:** Do you require those who hold the data on the potential claimants to send information from you? I am sure that it will be clear and well written—I do not doubt that for a moment. Do you require the liquidators or whoever to send that information out? Do you have the powers to do that and do you use those powers?

Jimmy Barber: We collaborate well with the liquidators and the FCA.

Q44 **John Mann:** I am not asking whether you work well, but whether you require them to do so.

Jimmy Barber: We can do. We have not so far had a problem with liquidators wanting to collaborate with us on this. It is in everyone's best



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interest to ensure that if there are losses and eligible protected claims, we pay them.

- Q45 **John Mann:** But it is not necessarily in everyone's interest to get their act together to reach out to everybody, because that costs money and takes time. There is a world of difference in a proper campaign to get information out to people and people actually getting that information, isn't there? You must have a major role in that.

Jimmy Barber: We absolutely do play a part when a firm has failed. On our website, we have recently set up landing pages for every firm that has failed, which we are looking at, so that customers can understand what protection there is and where it is in the process.

We are proactively emailing people to ensure that they get updates, as we have done with the London Capital & Finance issue at the moment. We have been very publicly transparent about the situation there.

- Q46 **John Mann:** It would be helpful if you were to send to this Committee and to every MP a really clear information sheet, showing how you do that and how a Member of Parliament can assist that process if he or she is so inclined. Perhaps you could give some examples of the kind of cases where you are trying to reach out to people. I think that would be in your interests and the interests of the country. It may be that there are plenty of MPs who would be more than willing to actually do that.

Jimmy Barber: I think the British Steel pensioners is a really good example of where we have been very proactive. We have been down to south Wales and collaborated with the MPs.

Caroline Rainbird: I am meeting Nick Smith tomorrow to talk about what more we can do, because we have paid a limited or relatively small number of claims, which we have received, but we know there are likely to be more.

- Q47 **John Mann:** It is not always obvious that there is a claim, is it? I have a case that I have just referred to you this week, which has been with the financial ombudsman for some time. That raises two questions: the clarity of whether there is a claim and the overlapping between FOS and yourselves. Is there an issue of overlap that needs more addressing?

Caroline Rainbird: The main difference between the FOS and ourselves is that we deal with companies that have gone bust, and the liabilities there under, whereas the FOS handle companies that are still in existence. The other difference is that we will process claims and compensation payments ourselves, whereas the FOS will direct the company against which compensation is paid. I don't think there is an overlap. We work closely with them. They are part of our regulatory family.

- Q48 **John Mann:** In the case that I have, there clearly is an overlap, because there is a mortgage, there are loans, and there is receivership that has emerged in relation to part of it.

What has happened I find a little disturbing: the FOS, in their usual way,



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fail to write back to me as the authorised representative, and write to my constituent instead—that is a separate problem, because they should be coming back directly to me—but then recommend that my constituent writes to you. There is an overlap there, because this has been going on for some time.

In a situation such as that, should the ombudsman themselves not directly refer it to you? If they are deeming that it is a case for you, then that should go directly to you and not back to some confused constituent who does not really have a clue who you are, and just knows that they are in problems and may have been done over.

Caroline Rainbird: I am more than happy to look at your specific case; it sounds as though you have written to me already.

Q49 **John Mann:** I am sure you will, but I am talking about the general principle here.

Jimmy Barber: The general principle is right, and we talk to the ombudsman about how cases come to us from them and how we share information. At the end of the day, people may have been through many years of difficulty by the time they come to our door, so we work with the ombudsman and I talk to my opposite at the ombudsman about how we can improve the processes for the hand-offs between organisations, to make that tough journey for customers as easy as possible.

Q50 **John Mann:** Could you take this back and discuss it with them, please? Obviously the ombudsman comes in front of this Committee as well. It seems to me that what ought to happen in this case, without going into the details—this is what has been recommended by them and it has now happened—is that the ombudsman should have contacted you and said, “Look, this is a case for you; it isn’t a case for us.”

You should then be writing to me and my constituent to say, “This appears to be a case for us, so we are taking it over. Are you happy with that?” Of course, the answer from my constituent would immediately, rationally, be yes, and from me, looking knowledgeably at it, the answer would also have been yes.

Rather than its going back and people thinking, “Well, I’m getting nowhere here. I’m being palmed off to another body I haven’t heard of”, it seems to me that that ought to be the process in place. By definition, it will be the most complex cases where there is some ambiguity over who is responsible. Perhaps you could take that away.

Caroline Rainbird: Most certainly; we will look at the specific case and there may well be some learnings from that, but we will also look more generally. I am more than happy to do that.

Q51 **John Mann:** One final question about your communications strategy: what is the biggest improvement you are going to make over the next couple of years to get that communications strategy right, so that people out there know what is possible and what is not, and how to go about benefiting from what is possible?



Jimmy Barber: We are looking at two things. We have recently tested using digital channels to explain genuine customer stories to our customers. When we tested that, more than 8 million people viewed our videos end to end in a two-month period.

That is quite an effective way, but, to be honest, one of the biggest things we will look at and continue to have conversations with the industry about is how to display our badges. That has really helped with the banking industry, where we worked with the industry to do that, and we are in conversation with both the pensions and insurance industries on doing that. Those are the two things that will probably make the biggest difference to building awareness.

Q52 **Chair:** I have to say that I looked at my mobile banking app the other day and, for the first time, clocked your initials—I don't know whether that was just because I happened to be looking for it or because they had made it more obvious. Just before I hand on to Alison, like every service, things will go wrong and there will be customer complaints. What are the main grounds for complaints and how quickly do you resolve things? What stats do you have on that?

Jimmy Barber: In terms of complaints, you have to bear in mind that, when people come to us, as Caroline said, they do so on the back of something bad having happened to them, so they are not in a good space. They have been misadvised, they have lost money, their financial services firm has then failed and they have nowhere else to turn. We have to be empathetic to their situation. Some of the things we have issues with in terms of people complaining will be things such as the clarity of communications. As you have said, Mr Mann, some of these cases can be enormously complex. How do we get that complexity and simplify it down so people can understand? In the last year, we have dealt with some new types of claims as well. Again, how do we make sure, when we are dealing with stuff for the first time, that we are as clear as we can be? Some of

the complexity that we have had to deal with in the last year has caused some delays, which sometimes cause people to complain. While we pay out to a number of people, we have had more than 1 million contacts with customers in the last year, so our complaints have to be taken in that context.

Q53 Chair: To put that in context, what was the time period—is that for the last year?

Jimmy Barber: In the last year, we have had 1 million contacts with customers—not complaints—so we have a lot of interaction with our customers. During that time, we have halved the ratio of complaints to decisions, but there is still more work to be done. We have an independent complaints team who deal with those complaints, and if a customer is not satisfied, we have an independent investigator who sits separately from the company, who is an industry expert who deals with a handful of complaints every year.

We try to turn round complaints quickly. Our average turnaround for last year was 12 days. We listen to what our customers are saying. We think it is really important to understand the real root cause of why people are complaining, so we have a root cause team who look at those and try to feed back and drive improvements as a result of complaints.

Caroline Rainbird: We all make sure that we listen, whether it be listening to calls or reading letters. I have been in the job for only a few weeks, but I have certainly listened to some calls, because that is where you can really get the context. I see letters and I respond to letters. That is a really useful way to get insights into how customers are feeling and hear that at the grassroots. We make sure that, at all levels, we see and understand customer complaints.



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Jimmy Barber: We survey customers every month to understand how satisfied they are with our service. We also run focus groups on a regular basis so that we can question and see first hand what the impact of our service is and how well we are doing.

Q54 **Alison Thewliss:** The Committee recently published its report on vulnerable customers' access to financial services. I am keen to find out what assistance you provide to vulnerable customers who may not have access to an alternative bank account and who may have special requirements so they can access their funds.

This came up at my surgery last week. The DWP would not pay a constituent's social security payments into her credit union account. She was away on a bus trip. They eventually paid it into her friend's account who was on the bus trip with her. She had no other means of an alternative bank account, which is pretty common among my constituents. I am keen to find out exactly how you would go about getting money to them.

Jimmy Barber: We are very conscious of vulnerable customers. Because of the situation our customers find themselves in, it is really important for our staff to be able to understand that and spot it, and be able to manage it and support customers through the process. All our staff are trained in dealing with that. Quite often, they have to deal with customers in quite distressed situations.

We also work with other organisations and will often recommend customers to get the right level of help from the Money and Pensions Service or the Samaritans or wherever they need help. We also monitor the customer's claim through the journey to make sure that they do not have any problems at any point.

There are a couple of good examples, to build on what you were saying, of where we have dealt with credit unions, where you often find a number of vulnerable customers. We dealt with one not so long ago on the south coast where we spotted—we get automated files to make payouts to deposit organisations, including credit unions—that there were high levels of vulnerability. There were homeless people, addicts, people on benefits and people with mental health issues. We felt that just sending a cheque to somebody was not going to be any use to them, so we arranged with the administrators and the credit union to get those people paid in cash. Equally, when we were dealing with the Kensington and Chelsea credit union failure, our staff spotted that there were a number of addresses in Grenfell Tower so, again, we worked with the authorities to trace those people to make sure that they got their money back.

Caroline Rainbird: We have a number of ways in which, as Jimmy said, we can make payments in the event of a credit union failure, whether that be through people having another bank account or, if they don't, cash over the counter at a post office. We have also looked at different ways in which we can send funds to them. The payments team, in particular, and a



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lot of the support team are very aware of the wide range of customers and vulnerabilities within that.

Jimmy Barber: That's one of the things that we consider when we look at our service going forward and how we design our service. We have to design it with that vulnerability in mind.

- Q55 **Alison Thewliss:** If somebody does not have an alternative bank account, how long will it take you to find them to get them the money and to make sure that they are able to access the money?

Jimmy Barber: In the example I gave you, we worked with the PRA, the administrators and the credit union on making sure—in that example, we timed it so that it would be at the right time for when people were receiving benefits so that nobody was left stranded. We manage the timing in those particular examples.

- Q56 **Alison Thewliss:** How much chasing do you do if somebody has moved or their address details are not correct? You gave the example of people in Grenfell Tower. How much chasing do you do, and at which point do you say, "No, we just can't find that person"?

Jimmy Barber: We try to trace people where possible, but there is a point. It depends on the individual and the circumstances around the particular failure. There isn't a set point at which you give up—it depends on the amount of money that we are chasing for and what likelihood of success there is, but we use tracing agencies to help us.

- Q57 **Alison Thewliss:** Let's say that person turns up later and says, "Oh, I'm entitled to something." Can they then go back to the claim, or is that it, finished and closed? What's the kind of time period?

Jimmy Barber: No, if somebody came back with a historical claim like that, we would absolutely pay out to them.

- Q58 **Alison Thewliss:** Is there any time limit on that?

Jimmy Barber: No, not really. Our records are kept for a long while.

- Q59 **Alison Thewliss:** That's interesting. From the recent incidents of service disruption in the banking sector such as that involving TSB, we are all aware of how important it is that customers are able to access their money and of how quickly debt can arise if they are not able to do so, so can you tell me a bit more about the average time spent seeking to pay out funds in circumstances like those of TSB, and are there any cases of customers who are still waiting for a payout weeks after losing access to their accounts?

Caroline Rainbird: We would not have been involved in that specifically because TSB is still operating and obviously not in default. I would imagine that they would be taking that up with TSB, so it's a question more for TSB, I think.

- Q60 **Chair:** But, more broadly, how long does it take? What sort of speed are we talking about? Again, people obviously need access to their money.



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Caroline Rainbird: We had a credit union failure two weeks ago, I think—it was my first failure, and the payments left our offices within 48 hours of the credit union failing. That's as much down to the work that the industry has done on single customer views and quick and faster payments. It was a relatively small, 200-customer credit union, and the team, to go back to the earlier point on resilience, is well practised and well tested, so in that situation, it's relatively simple and timely, and with single customer view, barring any small issues within that—on that particular one, we were able to send all those payments out within 48 hours.

- Q61 **Alison Thewliss:** If customers are penalised for not being able to pay something on time because they did not have access to their account, would any compensation be offered by you, or is that a matter for their bank, if that bank is still going?

Caroline Rainbird: That would be a matter for their bank.

- Q62 **Alison Thewliss:** Would the FSCS be able to meet your targets for payouts with a large deposit-taking institution? Some of the credit unions we have mentioned are relatively small. What is the extent to which you would be able to do that if it were a bigger institution?

Caroline Rainbird: We are tested on that. We test ourselves around resilience. Is the payout time for deposits five days or seven days?

Jimmy Barber: Seven days for payout, and we have funding with a syndicate of banks to be able to draw down money quickly should we need it, beyond any support that we would get in terms of borrowing money from the Government.

Caroline Rainbird: We have a large overdraft facility and a revolving credit facility, both of which are in place and which we can access if we need those funds quickly.

Alison Thewliss: That's useful to know.

- Q63 **Charlie Elphicke:** May I start by picking up some supplementaries on the whole scope of coverage question by my colleague Colin Clark, who has been unavoidably detained, and was unable to stay with us?

Chair: He has left. He has not been detained; that's the point—he's gone.

Caroline Rainbird: It sounds rather sinister, actually.

Charlie Elphicke: He is detained elsewhere. Am I allowed to ask you about the issues surrounding London Capital & Finance?

Chair: No, because Simon is doing that.

Caroline Rainbird: That is a heads-up that we will be getting a question or two on it.

- Q64 **Charlie Elphicke:** I will leave that to Simon. In the meantime, on a separate but allied issue, I have a problem with the collapse of so-called Premier FX, and I am interested in whether that is covered. Premier FX is



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an outfit that took money as deposits—acted like a deposit taker—but it was outside its scope of regulation. The question is whether someone might be able to make a claim to the scheme where an authorised institution is acting outside their scope of authorisation but holding themselves out as able to undertake the transaction concerned.

Caroline Rainbird: I do not know the details of what you are talking about specifically. I am not sure from what you are saying whether they are regulated and authorised themselves.

- Q65 **Charlie Elphicke:** Yes, they were. They were regulated and authorised by the FCA, but they undertook activities which went beyond their authorisation and held out that they were authorised for that.

Caroline Rainbird: I am not sure if we are familiar with—you say Premier FX?

Jimmy Barber: We could certainly have a look at that specific scenario.

- Q66 **Charlie Elphicke:** If you could write to me about it I would be very appreciative because about £10 million has been lost by a number of people, including my constituent Dr Pauline Creasey. It concerns many fellow Members of Parliament who have similar constituency cases where money has been lost in that case. I would appreciate you writing to me and letting me know what their options are on that score.

Let me turn to the customer experience of the claims process. For cases where customers have to initiate the claim—for example mis-selling—how do you ensure that they are fully informed?

Jimmy Barber: In terms of the customer experience and keeping people informed, people apply for a claim via an online portal, which we have designed and evolved to make it as simple as possible. We then have a team in Glasgow who are available either by phone or by webchat to answer any queries. Throughout the customer journey, we keep people updated on how their claim is going. Then, at the end, we communicate the decision to people by a letter.

- Q67 **Charlie Elphicke:** Why did you take so long on the Lifetime SIPP Company? People hold that up as a kind of disaster as to how it has been handled.

Jimmy Barber: I think Lifetime took us an amount of time to resolve. I think you have to bear in mind that the first SIPP operators we only just declared as failures last January, so this is a new type of failure for us. Lifetime was the first time we looked at that type of failure and it took us quite a while to establish that there were protected claims. Now we have established that, we are in the process of working out those claims and handling those claims. The novelty of Lifetime took us longer than perhaps would be ideal for customers.

We keep customers informed of our progress. We had to involve a lot of legal experts—sometimes the business models that are involved in these failures can be very complex. They can involve all sorts of assets such as



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Caribbean hotels or Australian wheat farms or Ukrainian energy, which we have to value. The legal process to establish that there are protected claims, so that we can deal with customers in the right way, can take a while.

Charlie Elphicke: What are you doing regarding the emerging risk of an increase in these SIPP claims? It is not quite going to be PPI, but there might be a step change with you getting a whole load of claims on this, so how will you handle it?

Jimmy Barber: It goes back to the earlier points we were making about resilience and being prepared for failures. At the moment we have been recruiting and increasing the numbers of staff we have in our teams in Glasgow. We are also always looking at improving the efficiency of some of the processes to make sure that we can handle those claims as effectively as possible. We absolutely are alive to any potential issues there are in the operational space.

Q68 **Charlie Elphicke:** Turning to insurance claims, how long on average does it take for customers to receive compensation? What are you doing to ensure that new insurance is provided for continuity of cover?

Jimmy Barber: Our goal is to pay out insurance claims within three months of us receiving all of the required information, and we always do that. The challenge is not how quickly we pay out, but how quickly we get the information. With the insurance companies we have dealt with in the last couple of years, the data has been somewhat mixed at times. In some parts of their business we have paid out very, very quickly, and in other parts where the data is of a lower quality, it has taken us a number of months to pay out. What we do is, as you say, try to ensure that where possible there is continuity of cover for policyholders and that we can arrange transfers for customers. We work with the brokers and administrators of the estate to ensure that that happens.

Q69 **Charlie Elphicke:** Everyone knows that the financial ombudsman is besieged by claims masterminded by claims management companies. It has become like an internet-style DNS attack on the financial ombudsman, virtually grinding them to a halt. Do you find the same sort of thing, with claims management companies causing a vast swath of claims to come towards you, which means that you cannot help the people genuinely in need? Or has it not got to that stage yet?

Jimmy Barber: That is another reason why we think it is important for customers to know about our protection, because they can come direct to us and they will receive 100% of their compensation. We think it is important for people to be aware of that. At the moment, about 70% of our claims come via claims management companies. We are working on how we can make sure that people understand our protection and that, when something goes wrong, they can come direct to us. We are a free-to-use service. When somebody does choose to use a claims management company, we have to bear in mind the customer at the end of that claim. We collaborate effectively with claims management companies to ensure that the customer gets the best experience possible.



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Q70 Charlie Elphicke: Do you think there is a case for saying, "Claims management companies are a pestilence in the system. No one can use a claims management company any more. Come to us direct and we will help you"? If consumers could be convinced that your culture is open, supportive and helpful, we could then say, "You don't need these people. We will ban them, and we will take a different culture and approach particularly to support and help." Would that make the whole system more efficient and work better?

Caroline Rainbird: We would always prefer that customers come directly to us for the reasons Jimmy said: they get 100% of their compensation. We are a free service and there is no VAT to be paid on top. We will do whatever we can to encourage that and signpost that. Any help that anyone else can give along those lines will ultimately only benefit the end user customer.

Q71 Charlie Elphicke: Do you think the time has come to ask the searching questions about the whole claims management company culture and that maybe we ought to start thinking about a ban?

Caroline Rainbird: Again, we would be guided by the regulator, because they set our eligibility criteria and how we operate. We would certainly welcome sharing our experience of where we can give good examples of where customers have come to us directly and how we have been able to service them.

Q72 Charlie Elphicke: This is my last question. My concern is that effectively you have a whole load of snake oil salesmen preying on vulnerable people who may have lost money and may be worried about the situation. In many cases, all they do is prey on them and make off with any compensation they get, or a large slug of it, leaving them short-changed. We cannot have people taken advantage of and exploited in that way. How do we best protect people from being taken advantage of, and ensure that their access to the support and compensation they need is maximised?

Caroline Rainbird: Again, it comes down to promoting our service and talking about our service. We are always looking at ways in which we can improve our service and client experience—the industry talking about the fact that we are a free independent service. If you come to us and you are eligible, we will pay you compensation and you will get 100% of that compensation.

Q73 Mr Clarke: Charlie stole my thunder there. How often do you receive inquiries from consumers affected by products that fall outside the scope of FSCS regulation?

Caroline Rainbird: I am not sure of the actual numbers. I don't know if we have got a figure on that but we can certainly provide that.

Q74 Mr Clarke: It would be interesting to get an understanding of the scale of demand or potential interest in those products. That leads neatly to London Capital & Finance. What is the position as things stand today on whether their customers will be eligible for any form of compensation?



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Caroline Rainbird: We issued our most recent press release on Friday, which I am sure you have seen. We said that there are protected claims that may result in compensation for some of the 11,500 LCF investors. On the face of it, when LCF collapsed, it was a mini-bond instrument. We have been consistent that that core activity was outside our coverage. However, I am sure Jimmy will talk a little bit more about that detail.

As a consequence of calls and inquiries, we felt it was really important to investigate. We worked very closely with the administrator and have now, through that process of reviewing a significant number of documents and listening to phone calls—we both have listened to some of those—we believe that there are instances where Surge, which was acting on behalf of LCF, may have given misleading advice in certain cases.

We made that most recent press release on Friday. Addressing Mr Elphicke's points, we have asked the potential 11,500 investors to fill in a pre-questionnaire form, because then they can come straight to us. We have had a significant number of those people who have already registered for updates.

We have had a significant uplift since Friday of people who have registered filling in some basic information, so that we can do some further investigation. That is not a claims form, and we would stress that. If we could reuse some of that information to help customers, we will through a claims process.

We need more information to understand exactly what has been going on. As I am sure you can imagine, it is complex and complicated but we need to ensure that we do the right thing for both potential claimants and to ensure that we are effective with our levy payers as well.

Mr Clarke: Incorrect advice, or just plain misleading advice, clearly has the potential to be extraordinarily expensive for the scheme but also for those paying into the scheme. I suppose I have two questions. First, what steps will you take to try to ensure that such advice is not offered in other instances again? If a company is found to have offered misleading advice about the protection that you guys provide and then you end up having to stump up, to what extent can you seek redress against the firm that offered that advice?

Caroline Rainbird: Jimmy, do you want to talk about some of the work we have done in establishing through LCF? What I would say is that clearly the regulator needs to look at this. We can provide insights based on our specific experience but it would be very much for the regulator.

Q75 **Mr Clarke:** You will be providing that. I hope, in the event that Surge are found to have been providing this advice definitively, that you do because the regulator needs to crack down on that really strongly.

Caroline Rainbird: We expect to be contacted by the various investigations that are currently under way to provide information. Would it be helpful if we talk about some of the work that we have done around LCF because that can give you some practical examples?

Q76 Mr Clarke: Yes, please.

Jimmy Barber: Going back to the point that we are here to operate within a set of rules and our goal is to pay all eligible protected claims within those rules, when customers and the administrator started to raise some concerns with us earlier in the year that maybe there were some areas we should look at within LCF, we started to investigate it. As an independent organisation, it is important that we look at that and satisfy ourselves about the issues raised.

As Caroline says, we worked with the administrators, the FCA and our legal counsel, but also our legal teams and operations teams that look at about 100 firms every year and have to investigate, so they have a lot of experience in this space. Our investigation, as Caroline said, also included us listening to calls, because we wanted to hear the evidence of this first hand. Our board also then looked at all the legal analysis and all of the investigation to form the final decision: that we believed that there was advice given, there were misrepresented facts, and as a result that could lead to losses that we would be able to compensate.

Q77 Mr Clarke: In so far as that compensation is then going to be paid, from which pool will it be drawn?

Jimmy Barber: It comes out of the investments pool.

Q78 Mr Clarke: In terms of the potential scope of other regulated activities that could lead to claims in principle from the scheme, what consideration has been given to dealing in investments as principal while operating a collective investment scheme?

Jimmy Barber: Sorry?

Mr Clarke: In terms of other regulated activities that could lead to claims on the basis of advice provided to customers, have you looked at dealing in investments as principal while operating a collective investment scheme?

Jimmy Barber: We look at every individual failure—every individual failure has unique circumstances. We would look at it and understand in some of those instances whether there was, as we found with LCF, activity that was regulated and they did have permissions but it wasn't done correctly. Often, we find some instruments where the product wouldn't necessarily be protected, but the activity is. Selling on principal would be a good example.

Q79 Mr Clarke: I think this is the context in which Premier FX arose. I understand—I have received notification from the clerks—that your website says that Premier FX is not covered by your scheme. Is there a case that those products should be brought within FSCS protection, given that e-money institutions can often resemble bank accounts in many meaningful aspects? They can have a sort code, they can have an account number, but obviously they do not then have that same degree of coverage.



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Caroline Rainbird: We do not cover them at this point in time.

Q80 **Mr Clarke:** But is there a case in principle for considering an extension?

Caroline Rainbird: That would be down to the FCA to determine. Clearly, if they decided to widen the scope—or narrow it, in fact—we would adapt whatever rules they saw fit.

Q81 **Chair:** This is the point, I think, about the claims where people are coming to you, asking if you cover them, and you say, “Not at the moment” or “Not in our rules”. That is why it has got interesting, I would have thought, to know what you are turning down—for a very good reason, because it is not currently in the rules—and feeding that back to the regulators and saying, “We are getting more queries about e-money” or about mini-bonds. Is that conversation happening, or does it need to happen?

Caroline Rainbird: We feed in information. We will discuss trends. They will also talk to us about other products that they may be considering, and they may ask our view on the ease of being able to pay compensation around that. It is an ongoing discussion. We have a close working relationship right through to Andrew and Charles, and all the way down. We work very closely with them, and as and when they decide to change the eligibility criteria, we would follow because we would have been involved in discussions leading up to that and understanding what that would mean, how it would work in operation, and so on.

Q82 **Mr Clarke:** When was the last time a new product was added to the scope of the scheme?

Jimmy Barber: Our coverage was expanded to handle debt management firms over a year ago, but there were consultations involving that and any changes to our rules. A good example of what Caroline mentioned about sharing data is that we share data on a daily basis with the FCA on phoenixing and some of the things that we see. We do share the intelligence that we have.

Q83 **Mr Clarke:** One of the issues is the use of the FCA logo. Going back to LCF, there are apparently customers who felt that the FSCS would provide security, in so far as the FCA logo appeared on LCF’s website. Is that something that you are raising with the regulators?

Caroline Rainbird: That is something for the regulator themselves to think about; I know they are doing so, and they will consider it, but that is something for the regulator.

Q84 **Mr Clarke:** Finally, on communications strategy and the specific case of LCF—because, obviously, lessons will have to be learned by all parties—have you considered anything that you would want to take away from this regarding future scenarios where you end up with a financial firm failing?

Caroline Rainbird: At this point in time, we are focusing on the now. There is a tremendous amount of work that needs to be done. There will



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be some lessons learned, I am sure, in many areas, but the important thing for us at the moment, given the anxiety felt by that group, is to focus all our attentions on where we are.

- Q85 **Rushanara Ali:** I have a follow-up question on LCF; I have a number of constituents, including a couple who came to see me who put their life savings into what I think they thought was an ISA, but I will write to you more about that. Having completed the questionnaire and so on, what amount of compensation should they accept? Is there a cap of 20% set for what they can get? What can they get?

Jimmy Barber: No. The compensation limit for this class of business would be £85,000.

Caroline Rainbird: Up to £85,000.

Jimmy Barber: Yes, up to £85,000. I think the 20% that you are referring to may be the number that was stated by the administrator for if they recover direct from the estate and not from the FSCS.

- Q86 **Rushanara Ali:** Okay, so they could expect up to £85,000?

Jimmy Barber: If they have an eligible claim.

Caroline Rainbird: And depending on actual loss.

Rushanara Ali: Thank you very much; I will send you the details about that case. I move on to Brexit—

Chair: You can't really escape it.

- Q87 **Rushanara Ali:** It is the inescapable topic. What will be the impact of Brexit on FSCS protection, and how have you prepared for that?

Caroline Rainbird: In simple terms, FSCS protection for UK-based customers of UK authorisation firms will not change as a result of Brexit, regardless of what happens—whether we leave with or without a deal, or any scenario in there.

For customers or firms based in the EEA, things may change. Obviously, that will depend on where things are, and we encourage those customers to check with their firm as and when we know what the situation is.

For many customers—UK-based customers and UK-authorized firms—things will not change. In terms of preparedness and resilience, as we talked about earlier, we tested a wide range of scenarios that we might possibly face, and Brexit is no different. We have resilience and planning around that so that we can ensure that we can continue to respond, whatever the scenario may be.

- Q88 **Rushanara Ali:** Sorry, but I thought that once the UK leaves the EU, some EU-domiciled firms operating in the UK that were previously covered by their own domestic protection system will now be covered by FSCS. You are saying that that is not necessarily the case and they need to seek advice?



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Caroline Rainbird: For UK-based customers of UK-authorised firms it will not change, but for any other customers or firms based in the wider EEA there may be changes, depending on what happens.

- Q89 **Rushanara Ali:** Of the ones that are covered, how many new firms will that include? Roughly how many are there that would be included?

Jimmy Barber: That would be a question for the regulators to answer in terms of firms coming in.

- Q90 **Chair:** So the example would be a pensioner, a UK citizen living in France, taking advice on an investment from a UK firm. What we are trying to get at is whether Brexit affects that. Do you want to write to us about that?

Caroline Rainbird: Yes. We will come back to you on that, because it is a technical point.

- Q91 **Chair:** A lot of UK citizens in the EU could well be taking advice and making decisions for UK-authorised firms.

Caroline Rainbird: I think I know the answer, but I would rather consult, so I will come back to you on that.

Chair: Please do write to us. Thank you.

- Q92 **Rushanara Ali:** So you do not know how many new firms you will have to take on. It is probably one to write to us about, if you have some idea, as well as what it would cost—what sort of resource implication that would be for you. I know you have set aside some additional resources.

Caroline Rainbird: Yes, we have an additional budget for Brexit-related costs. To take a step back, as a general point one of the tests we focus on is our resilience and ability to respond in any scenario. We are tested on that. We work very closely with the PRA around that. As a general point, both the PRA and ourselves are satisfied with our ability to respond in the event of any situation occurring.

- Q93 **Rushanara Ali:** So you are fully prepared and able to facilitate pay-out upon any failure soon after Brexit. You can give us an assurance that you are ready for whatever, come what may.

Caroline Rainbird: Brexit or not, that is a statement that stands.

Jimmy Barber: As Caroline said, we have plans for future products. We test those thoroughly. That is regardless of what causes the failure. We are prepared to handle those. We hope that we don't use those plans, but it is good to know that they are there and tested, should we need them.

- Q94 **Rushanara Ali:** I know that we have left it for you to write to us about how many new firms you would have to take on, but I think that is probably the unknown area where there could be some risk. "Risk" is perhaps too strong a word, given how well prepared you are saying you are, but it would be useful to understand how well prepared you are. Given that you don't know, you can't really estimate or say how many new firms you will have to deal with. Do you follow my point?



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Caroline Rainbird: I can understand the question. I think it is probably better if we come back to you separately on that.

Rushanara Ali: We could do with some assurance around that, because it sounds like you have done everything that you can, except for the parts that are not known. I suspect that is the case for a lot of organisations in this country.

Chair: You are not alone in that.

Caroline Rainbird: It is comforting to know.

- Q95 **Rushanara Ali:** Finally, I know that others have talked about customer awareness, but in the Brexit context—the complexity post Brexit of coverage, particularly around insurance, insurance products and so on—do you feel that customers have enough information to understand whether they will be covered by you or not? You have covered a number of questions around current awareness, and different routes through people who come to you and are aware or not, but this is a new and challenging area that people have to get to grips with.

Caroline Rainbird: Again, building on what we were saying before, we work very closely with the PRA, FCA and HMT around these scenarios. We keep our website up to date. Clearly, if we have customers ringing and making inquiries, we will respond to them. It is difficult for me to speak on behalf of customers.

- Q96 **Rushanara Ali:** Is there any way that people are being contacted directly? I am not suggesting that you should, but is there a route? Obviously there are some organisations that start to contact people. For example, accountants started contacting their clients before the end of March to notify them that there will almost certainly be issues if there is no deal.

Is there any way that communication is happening or is likely to happen, either directly or indirectly, to give people clarity? Most people—75%—know who you are, but not necessarily what you do. I suspect that lots of people here in Parliament know about you if there is casework, or if there is a debate or Committees such as this. Given that there are so many different institutions, how will try to raise awareness about who you are and what you do, directly rather than indirectly, particularly given Brexit?

Caroline Rainbird: We are keeping our website up to date. We are more than happy to take any guidance that we get from the regulators, who obviously set our eligibility criteria. If there are changes, they will be advising us and we will need to take—

- Q97 **Rushanara Ali:** Do you do much online marketing? You have so much Facebook coverage. More than 85% or 90% of my constituents have Facebook pages. Companies, particularly dodgy ones, seem to promote stuff that they should not be promoting. Are agencies getting in on the act to do positive things through social media advertising and marketing to make people aware? That is not particularly expensive, but it seems like putting stuff on a website seems quite passive, frankly. Given that



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only 25% of people know directly who you are—the full name is a bit of a mouthful, which is why I will carry on calling it the FSCS—

Caroline Rainbird: I still have to think, and I have been there for seven weeks.

Jimmy Barber: I have been there for three and a half years and I still have to think.

We changed our marketing strategy about a year ago and we moved to much more digital channels, because it is much more effective, reaches people much better, and is very cost effective. We did that on the back of using and promoting some videos that show the protection outside of deposits, to really bring to life the stories of people who come to us.

What we found, as I said earlier, was that those videos had more than 8 million views in a two-month period when we tested them out, so that has really helped. They increased awareness and trust of us by more than 80% of the people that we surveyed. It is a really good way of doing it. We are also much more active on social media.

Q98 **Rushanara Ali:** Are you likely to deploy some of those techniques for some of these emerging challenges, should you find them a challenge, to communicate to people?

Caroline Rainbird: If anything comes up and it will be useful. I saw a recent short 30-second animation about what the FSCS do, which I found eminently useful for coming here—I am more than happy to share it. It is very useful and simple and it clearly says our coverage, what is covered and some of what is not covered.

Q99 **Rushanara Ali:** One final thing is about the fact that there are so many different places for people to go to—the FOS and you guys; there are all sorts of different regulators. Human beings have multiple interconnected needs—we do not live our lives in silos—yet the institutions operate like that.

Have you done much to market what you do and who does what more comprehensively, so that if you are a citizen looking at this, you are going to one place, rather than trying to figure out who does what? In this Committee, we have lots of people who say, “We don’t do this. We do that.” It is a bloody nightmare, frankly, for a lot of our constituents. Is there an attempt to try to help people to navigate and join up across the organisations when you communicate to the public?

Caroline Rainbird: I have a couple of quick comments on that. It is not easy. We all use acronyms and we have to be careful about that, because they all sound very similar.

Q100 **Rushanara Ali:** It is also just very complicated what each agency does, and people feel that there are loopholes that organisations—I am not having a go; I am just saying. Our constituents feel that they go from pillar to post. This case is a good example, and it will run on. The TSB case is running and running, and tens of thousands of people are still



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waiting to find out what is going to happen in their cases. The FOS deals with some of it, then you are asked to go somewhere else, and so on.

Caroline Rainbird: There is a lot of passion around it.

Rushanara Ali: I am just expressing the kinds of cases we have to deal with week in, week out.

Caroline Rainbird: I have a couple of quick answers. We are looking closely, as part of our strategy, at promoting ourselves and whether we use online channels and how we can distinguish ourselves and our brand. That is very much work that we are continually doing. I am also meeting the CEOs of FOS and MAPS—all of us are called Caroline, actually—and the regulator to look collectively at what we can do.

I am a very practically minded person. It is important. They all have important roles to play, but we need to make sure that it is clear. At the end of the day, we are all here for the consumer. We need to make sure that we are clear and articulate about what we do and when we cannot help people. It is something that we are very aware of and that I want to focus on with the other CEOs and the regulator to see what we can do. It is a point well made. We're doing bits and pieces, but I definitely agree that there is more that can be done.

Rushanara Ali: We can certainly help because we can push that information out.

Q101 **Chair:** Including through this inquiry.

I have just two final questions. One is about Arch Cru and is more for Mr Barber, on the basis that he was there when the annual report for 2017/18 was published. It said:

"Arch Cru investors were discovered to have been paid incorrect compensation amounts resulting in both underpayments and overpayments...The error was found to have in part originated from a failure to update the static data input into the spreadsheet used to quantify compensation due."

What have you taken away from that internally, to provide confidence that that will not happen again?

Jimmy Barber: Yes. That was a historic issue that we faced that had happened some years previously. I won't go into massive detail about it, but the lesson is learned on that. In particular with that type of investment, where we were seeking external data and we have models that help us calculate, we have looked at and tightened up our processes around that. We then go through a six-monthly cycle of testing those as well. That has all worked since.

Q102 **Chair:** One of the questions that John Mann asked earlier was about the banking licences and the banking brands. There could be a confusion. For example, with HSBC and First Direct people might expect each account to be covered, because they would see them as different entities, although I don't think they are. Is it right that the compensation applies to the



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banking licence, so is it the entity that has the banking licence?

Caroline Rainbird: It is the legal entity.

Jimmy Barber: Yes. It's the licence.

Q103 **Chair:** So, if a customer has £85,000 in an account with HSBC and £85,000 in an account with First Direct—let's just indulge and assume that they both fall over—would that customer get one lot of £85,000?

Caroline Rainbird: Yes.

Jimmy Barber: Yes.

Q104 **Chair:** Moving on from that—again, it goes back to consumer awareness of that point—how does ring-fencing of the large banks, which is also something that has come in, affect the risks to the FSCS of large pay out? What happens between a ring-fenced bit of a bank and a non-ring-fenced bit?

Jimmy Barber: To be honest, that is a question for the PRA to answer. From our perspective, we are prepared to handle deposit failures and we have plans and contingency plans that are thoroughly tested.

Q105 **Chair:** You might want to write to us about this because it is new, but some big institutions have ring-fenced bits and non-ring-fenced bits. It is possible that there might be investors or depositors who have deposits in both. Again, it would be interesting to know if there is that same issue about whether they only get covered once, because it is the same entity, although the bank has been split into a ring-fenced bit and a non-ring-fenced bit.

Caroline Rainbird: We will come back and confirm, but I think it is the same answer as the first one. It is the one licensed entity, notwithstanding how that organisation has chosen to structure itself for ring-fencing or outside the ring fence.

Q106 **Chair:** In the light of this, has ring-fencing affected the levy that banks are paying to the FSCS? Do those changes affect what they pay?

Jimmy Barber: The levy is based on the failures that we actually pay out on.

Q107 **Chair:** Sorry, could you unpick that a bit further? How do you mean?

Jimmy Barber: We calculate it based on the pay outs that we have made through the year.

Caroline Rainbird: It will go to the authorised firm. I guess how the authorised firm decides to pay it—within how it decides to allocate it—is entirely up to them. The bill will go out to the authorised firm via the regulator. We will advise the regulator of the claims we've got on it and forward predict—

Q108 **Chair:** From that institution or from them?



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Caroline Rainbird: Yes, but again how that is allocated within that organisation—ring-fenced bank or non-ring-fenced bank—is really up to that organisation.

Chair: Thank you both very much indeed for the evidence this morning. We were saying that we certainly haven't had the FSCS in front of the Committee while I have been chairing, which is almost two years. You have probably escaped our scrutiny for quite a few years, actually. We are very grateful. I think what you do is very relevant to a lot of inquiries that we are carrying out and a lot of the issues we are pursuing. Thank you very much for your time this morning.