Financial Services
Compensation Scheme

Mel Stride MP
Chair of the Treasury Select Committee
House of Commons
London
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Dear Mel,

Financial Services Compensation Scheme

I hope you are keeping well in these challenging times.

I noted with interest your recent evidence session with the Financial Conduct Authority (FCA) and the questions you raised on the impact of the FSCS levy to financial advisers and I thought you might like an update on the work we are doing in this area.

We recognise the problem that rising costs have for advisory firms, particularly during a challenging economic backdrop. While there is no simple solution to what is a complex problem, FSCS is committed to reducing the levy within the areas that we can control and have taken a three pronged approached.

The first are our efforts to continually innovate so that our management costs are as low as possible. This year we used Artificial Intelligence (AI) for the first time to analyse 700,000 phone call recordings in the LCF investigation. Also, our strategic partnerships with our outsourced claims handling partners meant that our like-for-like claims handling costs fell by 8% in 2019/20.

Secondly, we make recoveries wherever possible and if cost-effective, and have recovered £262m over the past five years, helping reduce future levy costs for the industry.

Finally, under the Prevent workstream as part of our five-year strategy, we are collaborating with our regulatory and industry stakeholders to help prevent future failures and drive better outcomes for consumers. Our aim for this long term workstream is that it will lead to the lowering of future compensation costs and therefore reduced levy bills for advisers.

FSCS is regularly in contact with the Personal Investment Management and Financial Advice Association (PIMFA) as well as Independent Financial Advisors, regulators and consumer groups to look at how changes can be made to help educate people to make informed decisions.

You will be aware that the FCA has recently issued a “Call for Input” on how to tackle the cost of compensation. It is my view that it is crucial to tackle the root causes of the problem, i.e. increasing poor outcomes for consumers, and not just the symptoms, e.g. increasing levies. This will lead to a sustained reduction in the levy and an increase in good outcomes for consumers. I am keen to ensure that FSCS continues to work closely with the industry, regulators, government, and consumer groups as the solution will come from collective effort across all these parties.

I understand this will be a busy time for you, nevertheless, if you wish to discuss this subject in more detail please let me know, I will be happy to arrange a virtual meeting.

Yours sincerely,

Caroline Rainbird
Chief Executive