

Rt Hon Mel Stride MP  
Chair, Treasury Select Committee  
House of Commons  
London  
SW1A 0AA

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22 January 2021

Dear Mr Stride,

## **FSCS: Plan & Budget**

FSCS has today published its yearly edition of Plan & Budget and I am pleased to provide you with a copy of the publication, which can be found [here](#). This yearly document provides an update on the levy position for 2021/22, confirms the supplementary levy for 2020/21 and provides an update on forecasted management expenses. Some highlights from the Plan & Budget can be found below.

The past year has been incredibly challenging, with the impact of COVID-19 touching all aspects of our lives. FSCS has responded well to these challenges, and successfully adapted to the new working conditions, with no resulting impact on our claims service.

COVID-19 is likely to continue affecting the economy for some time and coupled with a rising trend of failures in some funding classes, means we are anticipating an increase in failures across the industry over the coming years. To prepare for this throughout 2021/22, FSCS is currently forecasting a levy of £1.04bn, a 48% increase on last year. This figure is based on our best estimates and will be confirmed in the next Outlook report, which will be published in May.

As well as a rise in compensation costs, FSCS's management expenses budget being consulted on is £90.5m, a 9% increase on our November 2020 forecast, and a 16% increase on our 2020/21 budget. The increase is due to a rise in the anticipated number of claims (72% rise compared to the 2020/21 original forecast, and a 6% increase on the latest forecast for 2020/21), as well as the growing complexity, and therefore processing costs, of claims.

FSCS has also revised down the forecasted 2020/21 supplementary levy, announced in the November 2020 Outlook report, from £92m to £78m, with invoices being issued over the coming weeks. This is due to fewer London Capital & Finance (LCF) claims being upheld than forecasted in November 2020.

While the levy funds the compensation and service we provide, which helps protect consumers, improves market stability, and increases confidence in the finance sector generally, we appreciate that increasing levy costs could put pressure on firms' finances.

As I outline within Plan & Budget, we believe that decisive action is needed from the entire industry to address the issue of the rising levy. The key and sustainable way to do this is for all parties to improve

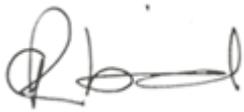
outcomes for consumers. FSCS believe that there are a number of suggested measures that could be undertaken to help bring about change. One such measure is the introduction of a traffic light warning system – which is well understood in other sectors, for example, food packaging – where a red, amber, green structure highlights the risks of different products in a simple, clear way. We appreciate the challenge of implementing this, so would recommend targeting simple products first.

Scams are also an ongoing factor in consumer harm, and we continue to fight this despicable practice. In the last year we have been working with the regulatory family in the fight against scams and have helped launch a ‘COVID-19 and your pension’ guide. The guide highlights the rise in pension scams and supports pension-savers by signposting them to the right place for help with their pension. We have also played our part by sharing our unique data and insights with the FCA to help them identify and act against those negatively profiting from consumers.

We are prepared for a difficult and uncertain year ahead and we look forward to working with the industry and the FCA on measures to improve consumer outcomes. We need to see multiple interventions and fundamental shifts across the sector, and we are ready to contribute by providing insights, an independent view on the issues, and recommendations that could transform the financial services market.

I understand this will be a busy time for you, nevertheless, FSCS would welcome the opportunity to discuss our suggested measures and would be happy to arrange a meeting. In the meantime, if you have any concerns or questions, do let me know and I would be happy to discuss them.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Caroline Rainbird', with a stylized flourish at the end.

Caroline Rainbird  
**Chief Executive**