



## The Financial Services Compensation Scheme (FSCS)

The Financial Services Compensation Scheme is the scheme that protects retail customers should a financial services firm default on its obligations. There are five sub schemes and the compensation you may be able to claim will depend on the type of product provider your investment is with.

### Deposits

The deposit scheme covers 100% of bank and building society deposits up to a maximum of £85,000 per person per authorised firm. This means that joint investors are covered for £85,000 each and the amount held in a joint account will usually be split 50/50 between the two account holders. This can be important if you have more than one account, for example if a husband and wife have a joint account with £150,000 in it and the wife also has an account in her own name for £20,000 then only £160,000, rather than the full £170,000 is covered. This is because the husband and wife are assumed to have £75,000 each in the joint account. As the wife also has £20,000 in her own name, this gives her a total of £95,000 but she is only covered for £85,000.

It is important to note that the limit applies at the authorised firm level. In some financial services groups there is only one authorisation across the group. For example, Lloyds TSB and HBOS have separate authorisations but HBOS has only one authorisation covering Halifax, Bank of Scotland, Birmingham Midshires and Clerical Medical. You can check this on the FSA website as firms with the same authorisation have the same FSA registration number. There is a table on the FSA website giving details.

Prior to 31<sup>st</sup> December 2010, if you had a mortgage, loan or credit card with a financial firm, as well as savings, then the loan would be offset against your savings in determining the amount of compensation. If you have a claim against the FSCS after 31<sup>st</sup> December 2010 the offset rules no longer apply and so your savings are protected up to the deposit limit.

### Money Market Funds

Money market funds are usually offered by mutual fund providers and so will be covered under the investment sub scheme. However, the compensation scheme only pays out if the product provider defaults and does not pay out if one or more of the assets in the underlying fund defaults. If you invest in a money market fund then you have the credit risk on the underlying assets should an asset in the portfolio default. For example, if a money market fund held a Lehman's bond and this defaulted then the fund would not be able to claim compensation.

# Factsheet

## Life Bonds

Life bonds issued by insurance companies, for example guaranteed bonds, are covered under the insurance scheme. This covers 90% of your investment with no upper limit. For large investments you have better protection with a life bond than with a deposit or mutual fund as there is no compensation limit. If you have a unit linked bond then you have FSCS protection if the insurance company defaults but are not covered if an asset held in the unit linked fund defaults.

## National Savings

National Savings are not covered by the compensation scheme. However, as National Savings is government backed, it has an implicit UK government guarantee and is usually considered risk-free.

## Compensation Limits

New compensation limits came into effect from 31<sup>st</sup> December 2010 for deposits and from 1<sup>st</sup> January 2010 for Investment Firms and Insurance Companies. The amount of compensation available varies according to the type of provider. The schemes for deposits and mutual funds are capped, with a maximum payout of £85,000 for deposits and £50,000 for mutual funds. For large investments, insurance bonds have better compensation because the scheme is uncapped and the payout is calculated as 90% of the amount invested. The table below illustrates the maximum amount of compensation for different investment amounts:

**Financial Services Compensation Scheme Limits**

Investment Amount	Type of Provider		
	Deposit (Banks & Building Societies)	Authorised Investment Firm	Insurance Company
£10,000	£10,000	£10,000	£9,000
£25,000	£25,000	£25,000	£22,500
£50,000	£50,000	£50,000	£45,000
£100,000	£85,000	£50,000	£90,000
£500,000	£85,000	£50,000	£450,000

## Useful Links

FSA website:

UK banking and savings groups

[http://www.moneymadeclear.fsa.gov.uk/about\\_the\\_fsa/compensation/uk\\_groups.html](http://www.moneymadeclear.fsa.gov.uk/about_the_fsa/compensation/uk_groups.html)

FSA Register

<http://www.fsa.gov.uk/register/home.do>

FSCS Website: <http://www.fscs.org.uk>