FCA
Financial Services
Consumer Panel

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**Financial Services Consumer Panel response to the Prudential Regulation Authority's (PRA) proposals in connection with the limit of protection available from the Financial Services Compensation Scheme (FSCS)**

The Financial Services Consumer Panel (the Panel) is an independent statutory body. We represent the interests of individuals and Small and Medium-size Enterprises (SMEs), hereafter generally referred to collectively as consumers, in the development of policy and regulation of financial services in the UK.

Our focus is predominantly on the work of the FCA, but we are responding to this consultation paper due to its potentially important impact on the FCA's work and the protections afforded to consumers of financial services.

The protection afforded by the FSCS to consumers and other depositors is extremely valuable. The Panel agrees that knowing the deposit protection limit helps to increase consumer confidence in the financial system. Accordingly, we consider having the right FSCS deposit protection limits provides depositors with confidence that their deposit balances up to the limit are protected, and this in turn can help reduce the likelihood of runs on deposit taking firms, promote stability in the financial system and help provide a firm foundation for growth. More generally, we note the Government has encouraged greater responsible risk taking by consumers in order to promote growth. Consumers may be more willing to take such risks if they feel they have appropriate protection, should things go wrong.

<u>Proposals to increase the current limits</u>

The Panel is therefore supportive of proposals to increase the current limits to reflect the impacts of inflation since the current limits were implemented. As the consultation paper notes, over time, inflationary pressures can lead to a real-terms reduction in the protection afforded.

We agree that such a situation can lead to lower confidence in the limits and the financial system more generally. We also agree that changes to reflect inflationary changes should be made regularly to help ensure material gaps in the available protection are avoided.

We note that based on changes to CPI, £85,000 in January 2017 has increased to £113,669 as at 31st December 2024. The Panel completely agrees that:

- Depositor awareness and understanding of the applicable limits is a key factor in maintaining confidence in the deposit protection framework;
- Having a round number for the limit is likely to be more memorable and so help to raise awareness and build confidence among depositors.

We can therefore understand why the PRA is proposing a new limit of £110,000. However, the Panel would urge the PRA to reconsider whether a new limit of £115,000 would be more appropriate, given:

- This is closer to the calculated inflation adjusted figure of £113,669;
- A limit of £115,000 would have a longer shelf-life in terms of providing the desired level of depositor protection in the face of inflation since the calculation date and future inflationary pressures[1];
- It is desirable that the limit does not change regularly – in order to aid awareness among depositors as well as to limit costs to firms associated with ensuring disclosure materials are up to date.

While we recognise a higher limit may attract slightly higher costs to firms in the short term, we would be surprised if the difference would be material, especially when considered over the longer term. In any event, we think it is unlikely that any increased costs would be disproportionate given the expected benefits to depositors and financial markets more generally (as outlined in the consultation paper).

We therefore encourage the PRA to give this careful consideration, noting the recent FCA Financial Lives survey identified an increasing trend for consumers to hold cash savings.[2]

The Panel is very supportive of the continuation of a higher limit for certain Temporary High Balance (THB) claims. For all the above reasons,

[1] Indeed given the current rate of inflation, it looks like £115,000 may not properly reflect an inflation adjusted figure at the point when any new rate is set to be introduced.

[2] https://www.fca.org.uk/publication/financial-lives/fls-2024-cash-savings.pdf at slide 42.

the Panel is supportive of the proposed increase from £1m to £1.4m. We share the PRA's views that increasing this limit in this way would not offend the general FSMA regulatory principle that consumers should take responsibility for their decisions.[3]

Disclosure materials

As noted above, depositor awareness and understanding of the applicable limits is a key factor in maintaining confidence in the deposit protection framework. The Panel is therefore supportive of the PRA's proposals to increase the transparency and readability of consumer facing materials that firms are required to provide regarding applicable FSCS limits. In particular, we welcome the proposal to ensure relevant information is placed in third party premises, such as banking hubs, to reflect changes in how many deposit takers are now operating.

However, we would encourage the PRA to consider how more could be done to increase consumer awareness where multiple brands are operating under the same authorisation. Consumers need to know that the FSCS limit applies to the one authorisation and not to the various brands separately. We consider that many consumers are unlikely to understand this important limitation on FSCS protection and could easily be caught out. It is also important that consumers are able to clearly identify the brand(s) where the FSCS applies, given the large number of legal entities that any one firm may have. In this regard, we note that there appears to be no standard approach regarding whether to operate under single or multiple authorisations. We also note the large range of brands active in deposit taking, particularly in the cash savings market and in the online space.

Although the PRA mentions in paragraph 1.18 that it has made clear that FSCS benefits could apply to individuals, companies and other entities, this is not as widely known as it should be. Consequently, we consider this information should be made more prominent in disclosure materials. Furthermore, the situations where the THB applies should also be made readily available to consumers.

FSCS limits applicable to FCA-regulated products

Finally, the Panel feels it is important to note the risks to depositor awareness, knowledge and confidence if the FSCS limits applicable to FCA-regulated products differ from those applicable to deposits. This is particularly the case where such limits are set by reference to a fixed figure. In our view, it is likely that the principles, policy considerations and proposals set out in the consultation paper in relation to the FSCS

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[3] Similarly, we do not consider the proposed increase to the generally applicable limit would offend this principle either.

limit for deposits are likely to apply to the FSCS limits applicable to many other financial products.

Accordingly, to the extent the limits applicable to deposits are increasing, the Panel would urge the FCA to prioritise a review of the FSCS limits applicable to those products regulated by the FCA in order to introduce consistency and minimise the period during which different limits apply. We would urge the PRA to encourage and support the FCA to undertake such a review.

Yours sincerely,

Chris Pond
Chair of the Financial Services Consumer Panel