Financial Conduct Authority

Regulation round-up special issue:

Financial Services Compensation Scheme

Special Issue: Reviewing the funding of the Financial Services Compensation Scheme (FSCS)

Banks & building societies // Investment managers & stockbrokers
Financial advisers // Wealth managers & private banks
Mortgage advisers // Insurers & insurance intermediaries
Consumer credit // Credit unions

Welcome to a Special Issue of Regulation Round-Up

David Geale, Director of Policy

'We are keen to have a wide-ranging debate of the issues and to hear from as many stakeholders as possible'

I'm delighted to welcome you to a special edition of Regulation Round-Up, focused on our recent consultation on the future funding of the Financial Services Compensation Scheme (FSCS).

The FSCS plays a key role in ensuring that consumers can use financial services with confidence, but this comes at a cost to the industry. We know that both the size of the cost and its allocation between firms carrying out different activities are controversial topics.

Our consultation explores ways in which costs that fall to the FSCS might be allocated differently in ways that tackle fee volatility and spread the cost more effectively. There is no obvious solution that will satisfy all stakeholders - if there was we would already be using it. However, the system can certainly be improved, and that is what we are aiming to do.

We are keen to have a wide-ranging debate of the issues and to hear from as many stakeholders as possible. The sector section below highlights the chapters we feel are most relevant to individual sectors. We encourage you to respond to the consultation and give details of how you can do so below.

In our 'hot topic' sections, we highlight potential ways in which the cost to the FSCS might be reduced through more effective professional indemnity insurance (PII) for adviser firms. We also look at ways in which any cost which falls to the FSCS may be allocated to make the system more sustainable.

Hot topic:
Professional Indemnity Insurance - Chapter 3 and Chapter 5

The Financial Advice Market Review recommended that we look at the professional indemnity insurance market for adviser firms, and we are currently doing this.

Our starting position is that the FSCS should be the fund of last resort, to be called upon only once other sources such as indemnity insurance have been exhausted. However, in many cases we have found that insurance does not perform that role if a firm becomes insolvent.

In our consultation paper we pose a number of questions for discussion. The answers will help us to understand how this insurance currently works and how it might be improved in the future. In particular, we are interested in exploring whether the FCA should seek to define in more detail the kind of PII that firms should be required to hold, and the impact on firms and consumers if we did this.

Find out more

Hot topic:

Risk-based levies - Chapter 4 and Chapter 10

The current FSCS funding system imposes levies on firms which are proportional to their income from a particular regulated activity. While this has the advantage of simplicity, it means costs are allocated without reference to how much risk the firm's activities might pose to the FSCS.

In our consultation paper we discuss possible approaches to risk-based levies. These include imposing higher levies on firms involved in distributing riskier investment products and insurance brokers that place business with unrated insurers.

We are also consulting on rules which would allow us to collect data on firms distributing certain kinds of investment product, to further inform our policy thinking.

Banks & building societies

Chapter 9 discusses our proposals to extend FSCS coverage to the intermediation of structured deposits and debt management firms, which has implications for deposit takers and lenders.

Investment managers & stockbrokers

We discuss possible changes to the structure of the FSCS funding classes in **chapter 7**.

Our proposals for introducing product provider contributions are set out in **chapter 8**.

In **chapter 9**, we consult on changes to the way claims about investment management should be treated.

Financial advisers

Much of the consultation paper will be of interest to financial advisers, particularly the discussion of professional indemnity insurance in **chapter 3** and **chapter 5**.

Financial advisers may also be interested in the discussion of risk-

Wealth managers & private banks

We discuss possible changes to the structure of the FSCS funding classes in **chapter 7**.

Our proposals for introducing product provider contributions are set out in **chapter 8**.

based levies set out in **chapter 4** and **chapter 10**.

We discuss possible changes to the structure of the FSCS funding classes in **chapter 7**.

In **chapter 9**, we consult on changes to how claims about investment management should be treated.

Mortgage advisers

The key focus of our discussion in **chapter 5** is PII that covers investment advice. However, we would also welcome your views on other areas of PII, such as insurance for mortgage intermediaries.

You may also be interested in **chapter 7**, where we set out and illustrate different options for changing the FSCS funding classes.

Insurers & insurance intermediaries

Insurers will be interested in the discussion of our proposals for introducing product provider contributions which are set out in **chapter 8**.

Insurance intermediaries may be interested in our discussions of the funding classes in **chapter 7** and of risk-based levies set out in **chapter 4**.

The key focus of our discussion in **chapter 5** is PII that covers investment advice. However, we would also welcome your views on other areas of PII, such as cover for insurance intermediaries.

Consumer credit

In **chapter 9**, we set out our proposal for extending FSCS coverage to debt management activity, which will be of interest to debt managers, lenders and the wider sector.

Credit unions

Chapter 9 discusses our proposals to extend FSCS coverage to debt management firms, which has implications for lenders.

How to respond

We are asking for comments on this Consultation Paper **by 31 March 2017**

How to respond

Please use our **online response form**

Alternatively, you can:

- email: **cp16-42@fca.org.uk**
- telephone: 020 7066 7630
- write to:

Cosmo Gibson
Redress Policy
Strategy & Competition
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London, E14 5HS

Next steps

We will consider your feedback and expect to publish our final rules and a further Consultation Paper on proposed rule changes in Autumn 2017

The Autumn 2017 paper will consult on specific proposals in those areas where we have set out a range of options.

The Financial Conduct Authority
25 The North Colonnade London E14 5HS
www.fca.org.uk