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Financial Conduct Authority  
25 The North Colonnade  
Canary Wharf  
London E14 5HS

31 March 2017

Dear Cosmo,

## **CP16/42 - Reviewing the funding of the Financial Services Compensation Scheme**

This is the response of the Financial Services Consumer Panel to the consultation on the funding of the Financial Services Compensation Scheme (FSCS).

The Panel believes there is reasonable awareness among consumers of FSCS coverage for deposits. However, this is not the case for other products, and we would like to see more done to increase the awareness and understanding of FSCS protection for other products and services, particularly in relation to retirement products. Harmonised protection levels, for long-term insurance products and for investments and investment advice would provide clarity, and help to avoid confusion for consumers of what is covered and what is not.

There should be adequate protection levels in place, across all relevant products, in order to support better consumer protection, particularly in light of pension freedoms.

We agree that the PII market should be able to take some of the strain regarding compensation. It is likely that a private sector solution is likely to judge risk more effectively.

We have only responded to the questions where we have substantive comments.

### **Q1: Do you agree with the introduction of risk-based levies? Should we also consider other regulatory responses?**

While this funding model should not be used as a tool for managing firms' business-models, we do agree that the time is right for the FCA to look at whether it should introduce risk-based levies. In the first instance, we believe the FCA should establish whether there is a link between higher risk products and business models, and the number of claims on the FSCS.

### **Q2: Do you believe that risk-based levies could be appropriate in relation to: a) higher risk investment products; b) insurance brokers that choose to place business with unrated insurers; and c) any other types of specific products or services?**

We believe there is more work for the FCA to do here. The FCA should explore whether there is any link between individual classes of authorised persons, and subsequent claims on the FSCS.

### **Q3: Do you agree in principle that product providers should contribute towards FSCS funding relating to claims caused by intermediary defaults?**

Yes. Product providers are responsible for how their products are distributed and benefit from the consumer confidence generated by FSCS protection.

### **Q7: Would you support an increase to the FSCS compensation limit in relation to any or each of the investment provision, investment intermediation and life & pensions intermediation classes? If so, do you have any views on what those limits should be?**

Yes. The Panel does not believe the current award limit of £50,000 is set at the right amount and the lack of consistency between limits for insurance-based investments and non-insurance

based investments may not be evident to consumers. However, unless the award limit is unlimited, there will always be some consumers who could potentially lose out on compensation.

Where the limits are set, should depend to some extent, on whether the cost of increased compensation will ultimately be borne by consumers. We believe the FCA should consider whether protection levels equal to the FOS limits, or equal to the temporary high balance limit for example, may prove to be clearer for consumers to understand, and far easier for the FSCS to communicate. We believe the compensation levels, and the ultimate cost to consumers, should be assessed in order to set the right levels are for all compensation, rather than just assessing compensation limits for the FSCS in isolation.

That said we believe that pensions investments, within any kind of pension vehicle or wrapper, should be protected up to £1 million as it is not possible for consumers to protect themselves against the risk that a provider goes bust. For other savings products, consumers have the option to diversify above the deposit guarantee scheme limit.

**Q8: Would you support a proposal to differentiate between investment provision and investment intermediation, and to introduce higher limits for either? If so, do you have any views on what those limits should be?**

We believe that it is right for the whole supply chain to take some responsibility; limits for both investment provision and investment intermediation should be equal. However, as we say above, more work is required to ascertain what this limit should be.

**Q9: Would you support a proposal to seek to make a distinction between pensions-related investment business and non-pensions investment business, and apply higher limits for pensions-related investments? If so, do you have any views on how the distinction might be made and what those limits should be?**

We believe that a consistent and clear approach to compensation limits is the only way for consumers to understand what is protected and what is not. However, we do agree that, post pension freedoms, there is a case for making a distinction between pensions-related investment business and non-pensions investment business.

The Lifetime ISA (LISA) blurs the distinction between pension and non-pension investments, as may other products yet to emerge. Some products may not fit into existing categories and the FCA and FSCS will need to bear this in mind.

**Q10: Do you have any comments about the possible risks to investors posed by crowdfunding and whether these might justify introducing FSCS protection?**

Crowdfunding can help meet demand from both savers and borrowers. However, we believe that FSCS cover would add to potential investors' sense of security in what is essentially a risky product, and would therefore send the wrong message. Furthermore, the FCA is currently conducting other work in this area, and we believe this should be concluded before any potential expansion of the FSCS remit is considered.

**Q19: Do you agree with our proposals to include protection for client money for debt management activities within the scope of FSCS protection and our proposed funding arrangements?**

Yes. The Panel has long been concerned about consumers effectively depositing their money with debt management firms, without the protections offered by deposit-takers.

**Q20: Do you have any views on whether or not coverage should be extended to negligent advice provided by debt management firms?**

We believe that all negligent debt advice should be covered, not just that provided by commercial debt management firms. However, it will be important to define 'negligent advice'. If it is too hard to define and identify then the protection will be meaningless.

We agree that lenders with certain consumer credit permissions should pay the additional levy to cover this cost. Many lenders already claim they pay for debt advice to be delivered.

However, they have little idea of how good or bad that advice is. As we say above, we believe that it is right for the whole supply chain to take some responsibility.

Free debt advice agencies are currently working to bring together best practice on advice, which could potentially provide the FSCS with some guidelines on what good advice should look like.

**Q21: Do you agree with our proposals to extend FSCS protection to structured deposits intermediation and to fund it through the Investment Intermediation and Investment Provision classes?**

Yes

**Q22: Do you agree with our proposed approach to provide FSCS protection for claims relating to fund management?**

Yes

**Q24: Do you agree with our proposal for a new reporting requirement on higher risk products in the RMAR?**

Yes, as we believe this would support supervision, build a better understanding of the market and provide the FCA with the data that it would need to assess how it calculates future levies.

Yours faithfully

Sue Lewis  
Chair, Financial Services Consumer Panel