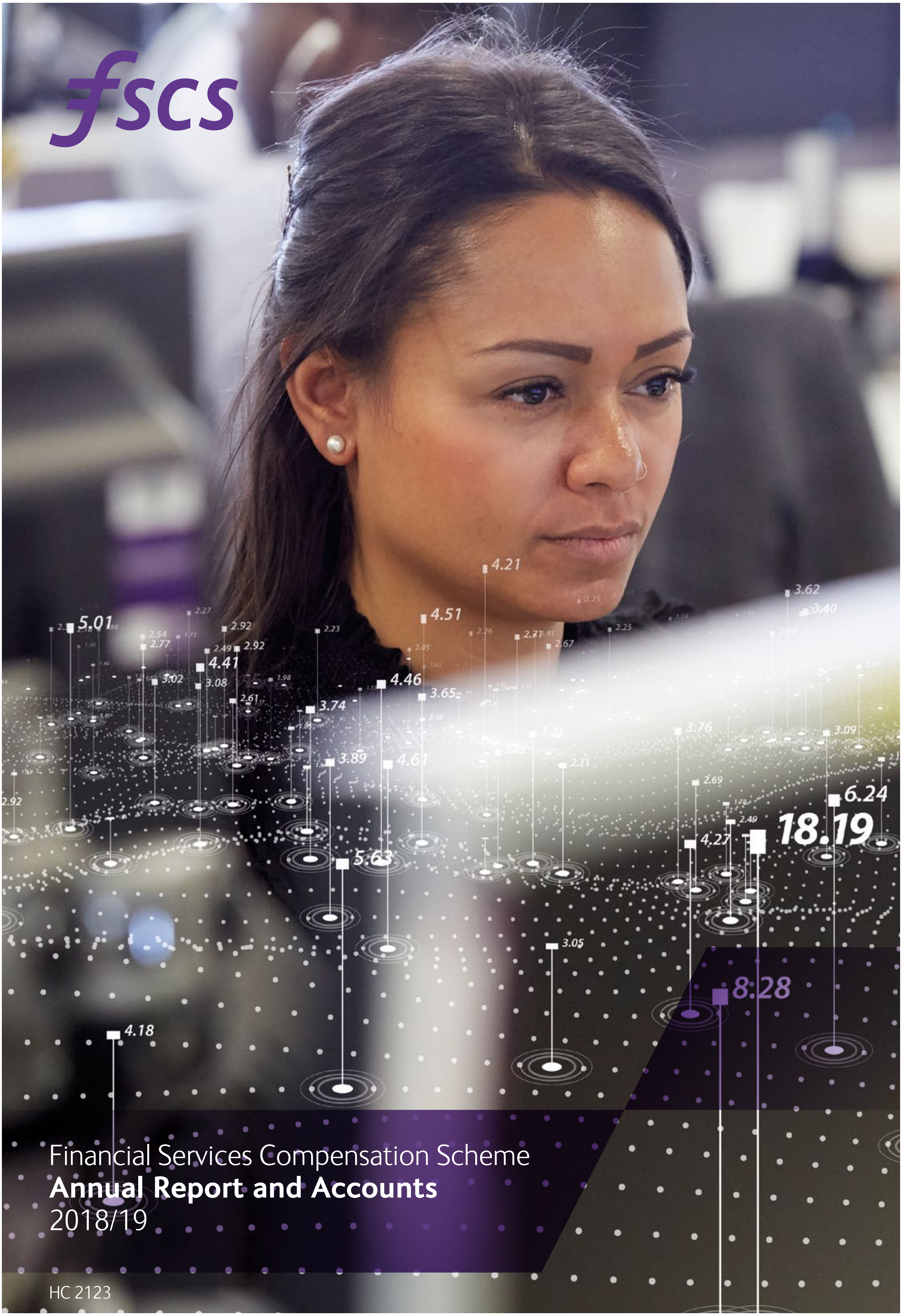

Financial Services Compensation Scheme

Annual Report and Accounts

2018/19

HC 2123

Financial Services Compensation Scheme

Annual Report and Accounts

2018/19

Presented to the House of Commons pursuant to Section 7 of the Government Resources and Accounts Act 2000

Ordered by the House of Commons to be printed on 27 June 2019

HC 2123 part i of ii

An accompanying Financial Services Compensation Scheme Annual Report and Class Statements (part ii) was also presented to the House of Commons on 27 June 2019

This publication is available at www.gov.uk/official-documents.

Any enquiries regarding this publication should be sent to us at FSCS.

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CONTENTS

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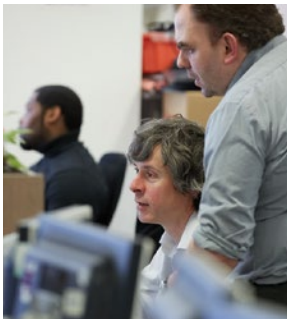
BUSINESS HIGHLIGHTS

The main highlights from 2018/19

Moved online

97% of claims submitted are online



Tested

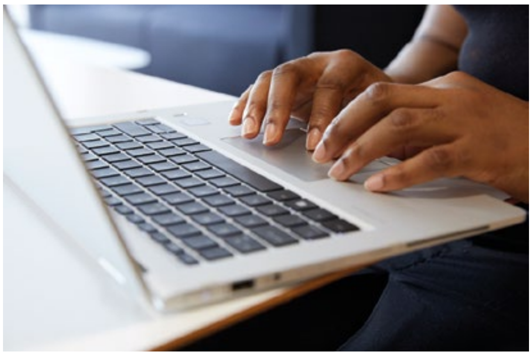
Tested our contingency planning to European Banking Authority guidelines

Helped

Helped 425,760 customers to get back on track

Levied

Funded by levies on 49,224 regulated financial services firms

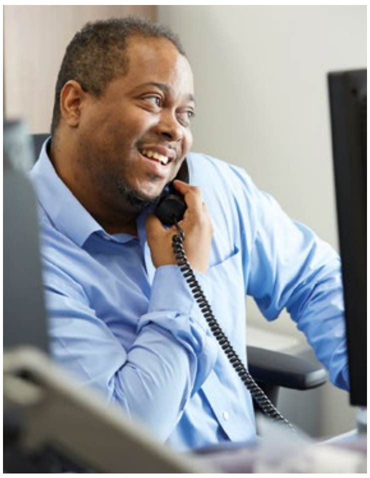


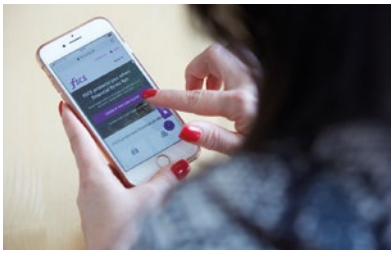
Redeemed

Recovered £4.7bn from Bradford & Bingley and fully repaid all loans from HM Treasury

Recovered

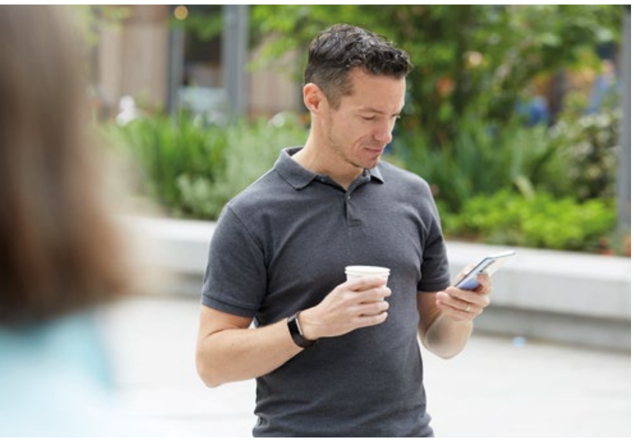
Recovered £26m from other estates





Published

Published our Strategy for the 2020s



Transitioned

Transitioned to a single outsourced claims processing partner

Paid

Paid £473m compensation to help customers get back on track

Satisfied

Customer satisfaction reached 82% average throughout the year

Communicated

Over three-quarters of the UK remain aware of FSCS or a protection scheme

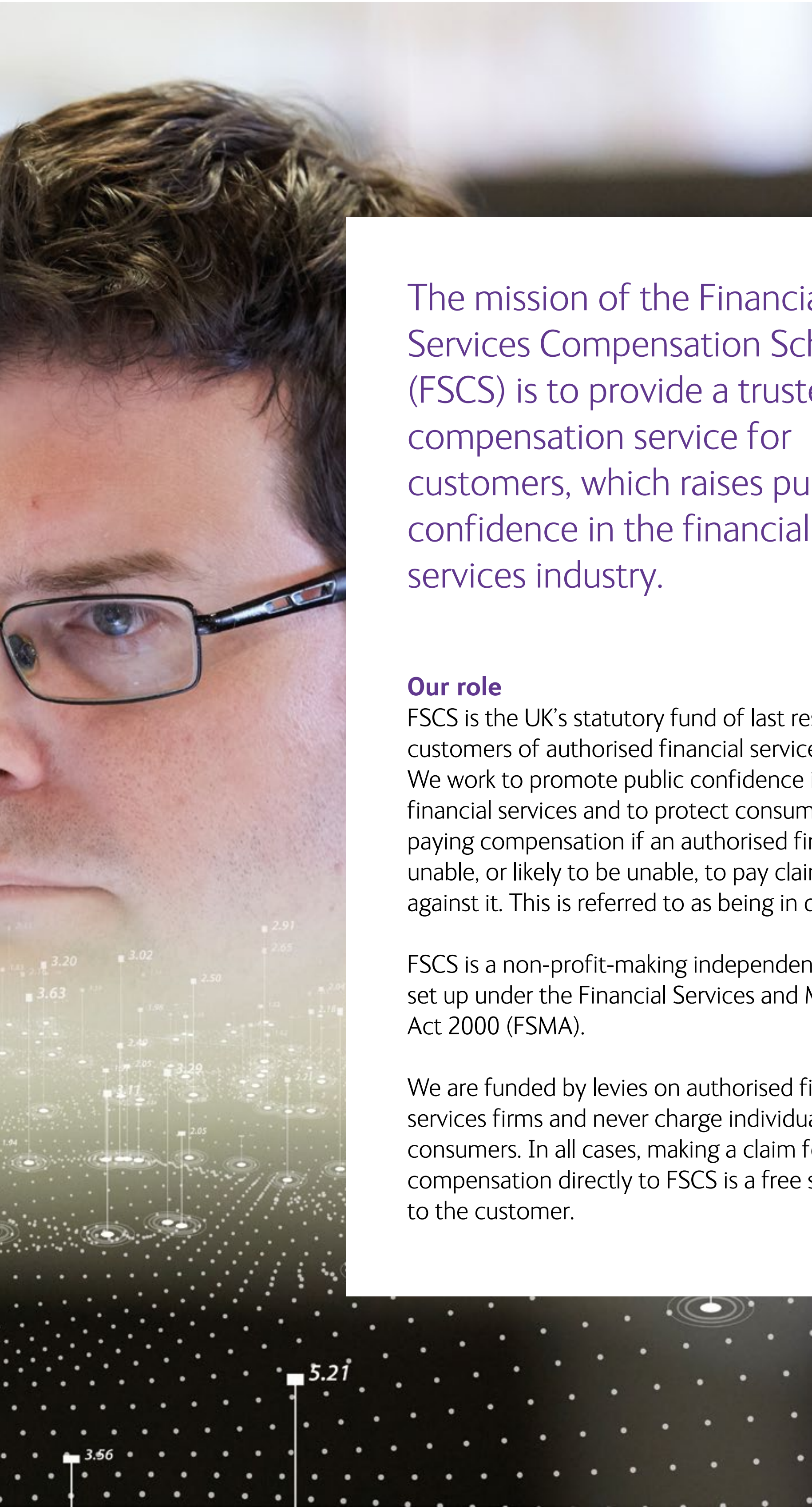
Accelerated

Paid 100% of depositors in failed credit unions within seven days, where information is available, and reduced end-to-end claims time for other products from 154 days in 2017/18 to 139 days in 2018/19

Responded

96% of complaints responded to within 20 working days; 91% of complaints and reviews (combined) responded to within 20 working days

OUR MISSION AND ROLE



The mission of the Financial Services Compensation Scheme (FSCS) is to provide a trusted compensation service for customers, which raises public confidence in the financial services industry.

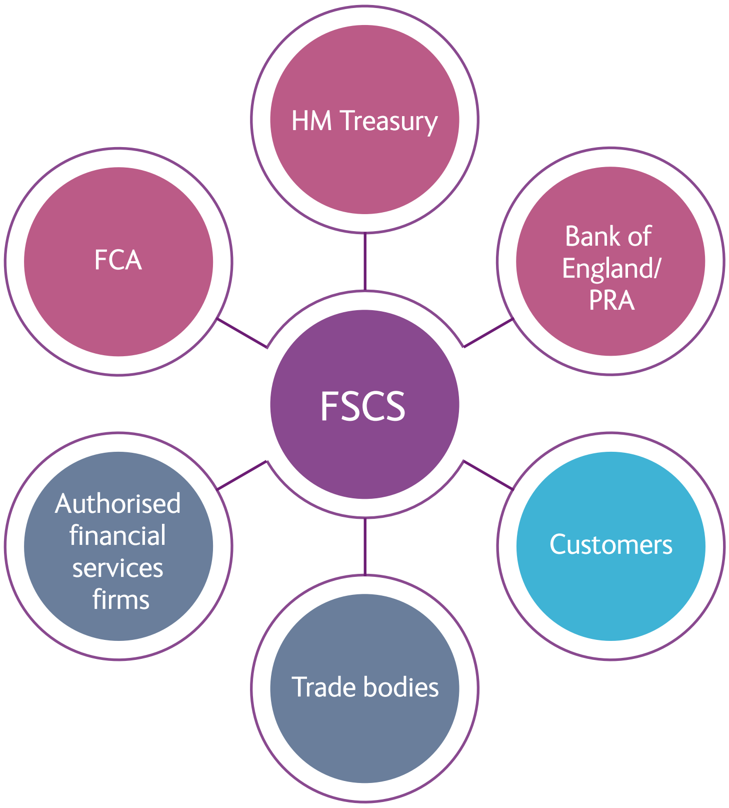
Our role

FSCS is the UK's statutory fund of last resort for customers of authorised financial services firms. We work to promote public confidence in UK financial services and to protect consumers by paying compensation if an authorised firm is unable, or likely to be unable, to pay claims against it. This is referred to as being in default.

FSCS is a non-profit-making independent body, set up under the Financial Services and Markets Act 2000 (FSMA).

We are funded by levies on authorised financial services firms and never charge individual consumers. In all cases, making a claim for compensation directly to FSCS is a free service to the customer.

Relationship with our stakeholders



Our scope of protection

Our protection includes deposits, insurance policies, investment business, insurance broking, home finance advice and debt management. For more information, see www.fscs.org.uk/what-we-cover.

Our governance

FSCS is operationally independent, but accountable to the Financial Conduct Authority (FCA) and the Bank of England's Prudential Regulation Authority (PRA), and to HM Treasury. We are a private company limited by guarantee, with a Board of Directors whose terms of appointment ensure they run the Scheme independently of the UK regulators. Further details of how we are governed are in the corporate governance report on page 53. Under FSMA, the FCA and the PRA must do what is necessary to ensure that, at all times, FSCS can exercise its required functions. FSCS works very closely with regulatory authorities to ensure that we can respond effectively to any failures.

We evaluate future risks and have developed detailed contingency plans to ensure that we are prepared for a variety of events.

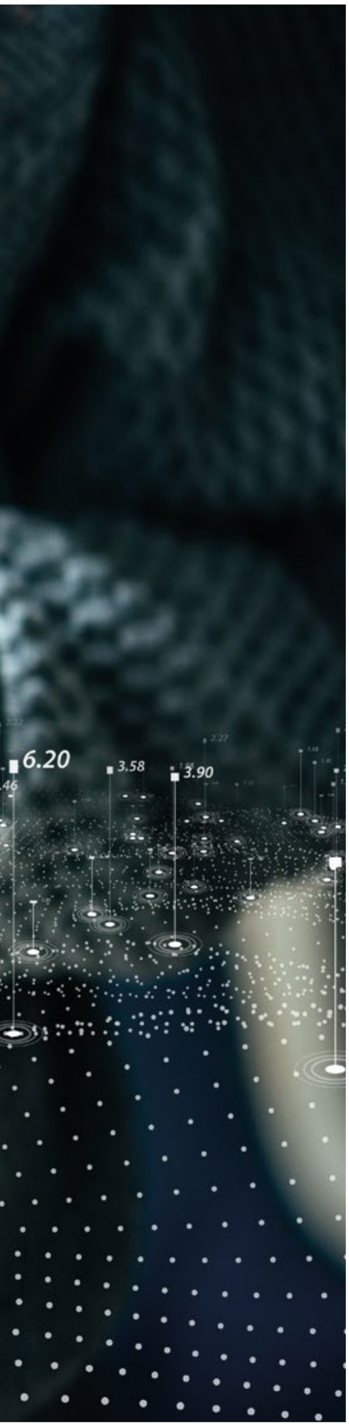
Our limits

The level of compensation we pay depends on the type of claim. FSCS only pays compensation for financial loss. Compensation limits are per person per firm, and per claim category. These limits can be found on our website at: www.fscs.org.uk/what-we-cover.

Recoveries

After payment of claims, FSCS must pursue recoveries that are "reasonably possible and cost-effective". We make recoveries from claims on the estates of failed firms as part of the insolvency process and from claims against professional indemnity insurers. We may also seek recoveries against other third parties where they contributed to customers' losses. Our recoveries reduce the costs of compensation to the levy payers.

01 CHAIRMAN'S STATEMENT



We have an ambitious and exciting agenda

When I wrote the foreword to last year’s report, I had been Chairman for only a few months. I am now a year wiser and this year’s experience has left me feeling more impressed than ever with the role that FSCS plays in protecting consumers and underpinning confidence in the financial services industry.

What is distinctive about that role is not only the range of stakeholders to which we must account – our customers obviously, but also consumers generally, the regulators and, of course, the industry that funds us – but also the demands that this imposes on the organisation.

FSCS must focus hard on the service it provides day-to-day to the many people making claims, but also look outwards to our impact on the stability of the financial services industry and on the firms that pay our levies. Our top priority must be to provide a responsive, easy-to-use and sympathetic service to our customers. We must also ensure that we can scale that service to meet major failures or another crisis.

But we cannot lose sight of the fact that the compensation paid by FSCS, important though it is to confidence, is also an index of failure of financial services businesses. Paradoxically the cost of this failure falls mainly on those firms that are doing the right things and meeting consumers' needs.

Mark Neale, in his review, describes how FSCS has straddled these competing demands in 2018/19 and, in particular, how the Scheme has responded to the needs of its customers, while improving the efficiency of its service.

From my perspective as Chairman, these demands have manifested themselves mainly in the work the Board has done in the last year in developing a strategy for the 2020s – published in November as *FSCS into the 2020s: Protecting the Future*. I think this has been an important, salutary and hugely well-conducted exercise.

Board members and I have made a point of engaging with our stakeholders to hear their views about FSCS's priorities in the next decade. So we have talked to representatives of the industry. We have had extensive discussions with the regulators and HM Treasury. We have, of course, paid much attention to the views of our customers and the perceptions of consumers more generally.

We have also looked hard at what will change in the 2020s: customers' expectations; the technology available to meet those expectations; and trends in the development of financial services.

It is clear to us that, if the 2010s were the decade in which FSCS took on board the lessons of the financial crisis and geared up to deal with major failures, the 2020s will be the decade in which FSCS gets to grips with the consequences of pensions freedom and wider consumer choice, and the more complex claims this new world will give rise to.

Against that background, we characterise our priorities for the next decade as four key pillars:

Prepare

We must continue to prepare. Major failures – even another crisis – can occur; FSCS must be able to protect consumers if and when they do. We must, in particular, be ready and able to pay depositors in a failed bank, building society or credit union within seven days. And we want to be just as effective when it comes to the failures of insurance or investment companies.

Protect

Self-evidently, we must protect. That's what we're here for. We must continue to invest in our service and our outsourcing partnership with Capita to ensure a fast, accurate and empathetic service that puts our customers back on track. An outstanding service is also a condition for wider trust in FSCS.

Promote

On the back of that outstanding service, we must promote awareness of our protection. We want people to understand FSCS protection so that they don't panic when things go wrong, and we also want them to make informed choices about financial products. We want to ensure that, when failures occur, those affected know that FSCS provides a free and easy-to-use service that will deliver just as good an outcome as going through an expensive representative.

Prevent

We want to work with our partners in the industry and with the authorities to prevent failures in future, to reduce the emotional distress and loss to consumers and the costs to firms. We have the means to do this. As a result of our work protecting consumers and making recoveries, we gain important insights into the causes of firm failure. We also gain valuable intelligence about the directors and advisers involved in mis-selling. By pooling these insights with the rest of the regulatory family, we can help improve foresight and supervision. By working with the Money and Pensions Service, we can ensure that consumers are better aware of the risks – and, of course, of FSCS protection.

This is an ambitious and exciting agenda.

What I have seen of FSCS and its people in 2018/19 leave me in no doubt at all that FSCS will rise to these challenges. This is a fine organisation, with committed and professional people who are inspired by our mission to protect consumers.

As a special note, and on behalf of the Board and everyone involved at FSCS, I would like to extend my deeply felt appreciation for the leadership of Mark Neale. After nine years at the helm of FSCS, Mark has decided to leave this year. During his tenure, he has been personally responsible for overseeing some significant changes to the Scheme, and has been leading change every year. He has been devoted to good outcomes for society, and has been unfailingly fair in the application of our judgements when individual cases were not clear-cut. As FSCS has evolved, Mark has been a tremendous servant to all of our stakeholders and, while we transition to our new Chief Executive, Caroline Rainbird, we continue to benefit from Mark's knowledge. We owe him our thanks.

It is a testament to the standing and reputation of FSCS that we have been able to attract a world-class leader like Caroline. Her array of financial services experience, understanding of the regulatory landscape and passion for the consumer meant she was the obvious candidate. Her industry pedigree will particularly help our work on tackling the causes of compensation and improving fairness for all consumers.

Building on the outstanding work of Mark Neale I'm confident that Caroline will successfully lead the delivery of our strategy for the 2020s and I look forward to working with her.

Marshall Bailey
Chairman,
Financial Services Compensation Scheme
14 June 2019

02

CHIEF EXECUTIVE'S REVIEW

This year effectively brings to an end the decade overshadowed by the financial crisis of 2007/08

This is the ninth and final Annual Report that I shall introduce, as I stand down from FSCS after nine years as CEO.

2018/19 – the year reported on here – effectively brings to an end both FSCS's existing five-year strategy – *Vision for a Confident Future* – and the decade overshadowed by the financial crisis of 2007/08.

Looking back

For much of my time as CEO, FSCS has focused on putting in place the capacity to ensure that we are able to respond to major failures or to another crisis. It is salutary to recall that, although FSCS, by common consent, emerged with much credit from the crisis, this owed more to skilful improvisation than to settled plans and resilient capabilities.

At the end of the crisis, FSCS was able to return deposits in a failed bank, building society or credit union in weeks, not days. Our handling of other claims was entirely paper-based, with different processes in place for different categories of claim, and cumbersome communications in place between FSCS and our outsource partners.

The result was an experience for consumers that was clunky, slow and unresponsive; for our stakeholders, including levy payers, it was expensive and poorly controlled.

What is more, FSCS's protection, even for deposits, was poorly understood by consumers.

Our achievements

As a result of the investments we have made over the intervening years, FSCS has been able, since 2011, to return deposits in under seven days. We did so successfully following eight credit union failures in 2018/19, including that of the Dial-A-Cab Credit Union, which was the biggest failure of a deposit-taker since the financial crisis.

We have enabled customers to make other claims online since 2016, and more than 95% now do so. These claims are now handled electronically on an upgraded platform that we share with our claims-handling partner. So claims progress smoothly and with good control, backed by reliable management information.

As a result of these reforms, our service is both better and cheaper:

- We reduced the end-to-end claims-handling time from 154 days in 2017/18 to 139 days in 2018/19.
- As a result, customer satisfaction rose from an average of 79% in 2017/18 to an average of 82% during the year.
- We did this more cheaply, with a 3% like-for-like saving on claims-handling costs since 2017/18.

FSCS is also more resilient than in 2010. We are well-integrated into the regulators' contingency planning for future failures. We have robust contingency plans in place for all eventualities and exercise them regularly. In 2018/19, FSCS led a multi-agency exercise to test the arrangements for financing the cost of a major bank failure.

This year, we have also moved to a single customer service partnership with Capita which will give FSCS access to a depth of resource and a technical know-how which will stand us in good stead as we develop our service further and respond to future failures.

FSCS is also much better known than it was at the beginning of the decade. Over 75% of adults are now aware of FSCS or a protection scheme. This is a powerful force for stability in the event of future bank, building society or credit union failures. The challenge now is to extend awareness of FSCS protection to retirement savings, where consumers have more choice, but also face new risks.

So FSCS now has industrial-strength capabilities to call on and a growing public reputation.

We can also, however, be fast on our feet and improvise when we need to do so, and we always seek, where possible, to provide consumers with continuity of service, not just monetary compensation.

So, for example, in 2018/19 we were able to arrange new insurance for many UK policyholders affected by the failure of the Danish insurer, Alpha. And, in collaboration with the administrator, PwC, we arranged the transfer of most of the money and assets held by clients of the failed broker dealer, Beaufort Asset Clearing Services Limited, to another provider. We also compensated those clients for the costs of returning their money and assets.

Finally, we should remember that another legacy of the financial crisis was substantial debts owed by FSCS to HM Treasury incurred to finance compensation to depositors in the Icelandic banks and Bradford & Bingley. When I arrived as CEO in 2010, our balance sheet had a daunting £19.6bn debt, matched by claims on the estates of the failed banks.

I'm pleased to say that I leave FSCS with that debt now entirely paid off. In fact, the last instalment was repaid in May 2018 when FSCS received its share of the sale proceeds of the second tranche of the Bradford & Bingley mortgage book.

This brings to a conclusion intensive work by FSCS, alongside our partners in HM Treasury and the industry. Over my tenure, we have also recovered £3.7bn from other estates to offset our levies on the industry. This includes £26m recovered in 2018/19.

I should end by thanking the three chairs I have worked with – David Hall, Lawrence Churchill and Marsh Bailey – for their unfailing support, colleagues on the FSCS Board for their guidance and challenge and, above all, FSCS's own people for their commitment and professionalism.

Our next chapters

I hope I have contributed something to the achievements outlined in my review. But by far the greatest part of the credit for FSCS's progress is down to the strategic direction set by the Board, and to the efforts of FSCS's people, to provide an outstanding service to those in need of our protection.

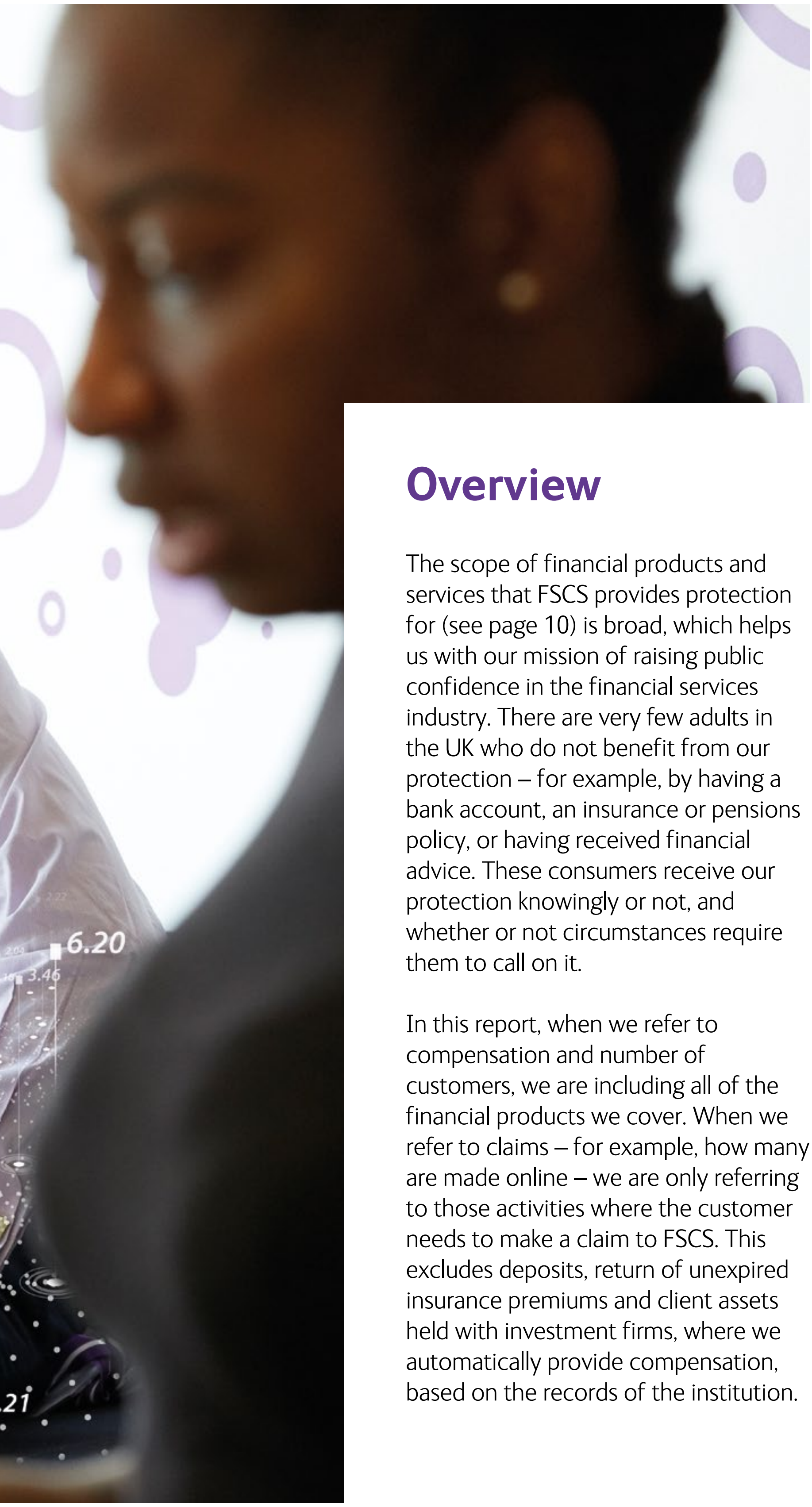
This is also my opportunity to thank Kathryn Sherratt who steps down as CFO this Spring after three years as CFO and seven years at FSCS. Kathryn has revolutionised our approach to business planning and budgeting, has been a consistent champion of value for money, and has contributed hugely to FSCS's reputation for transparency.

Mark Neale
Chief Executive (to 3 May 2019),
Financial Services Compensation Scheme

03

STRATEGIC AND PERFORMANCE REPORT

The Strategic and Performance Report reviews the Scheme's role and strategy, together with our performance during 2018/19.



Overview

The scope of financial products and services that FSCS provides protection for (see page 10) is broad, which helps us with our mission of raising public confidence in the financial services industry. There are very few adults in the UK who do not benefit from our protection – for example, by having a bank account, an insurance or pensions policy, or having received financial advice. These consumers receive our protection knowingly or not, and whether or not circumstances require them to call on it.

In this report, when we refer to compensation and number of customers, we are including all of the financial products we cover. When we refer to claims – for example, how many are made online – we are only referring to those activities where the customer needs to make a claim to FSCS. This excludes deposits, return of unexpired insurance premiums and client assets held with investment firms, where we automatically provide compensation, based on the records of the institution.

During the year, we helped 425,760 customers to get back on track. The total number of people we have helped is much larger: some of these payments were to people with families and the compensation will have made a difference to their lives and, in many cases, enabled them to recover life savings. Some of the payments were to companies, where compensation will have helped them to continue operating, supporting their staff, suppliers and other stakeholders.

These payments were financed by levies on 49,224 regulated financial services firms.

In 2018/19 we declared 83 firms to be in default, across all classes of activity. However, owing to the time it might take a customer to realise they have a claim, we do not expect to have yet received all claims relating to these defaults. No matter what stage a customer is at with their claim, we aim to make the process simple and easy to follow.

Our customer journey can be seen on pages 28 to 29.

Strategy

Although the environment around us has changed, our mission has stayed the same: to provide a trusted compensation service for customers which raises public confidence in the financial services industry.

Vision for a Confident Future

In 2014 we published a five-year strategy, *Vision for a Confident Future,* which now comes to a natural end. Over these five years, we focused on seven Key Imperatives. We wanted to improve our service to customers and to find new ways of delivering that protection. We wanted to ensure that consumers more generally were aware of our protection for deposits to guard against unnecessary withdrawals of funds in any future bank or building society failure. We wanted to enhance our value for money, our preparedness and our professionalism as creditors. As a necessary condition for achieving all these things, we wanted to engage our own people more closely and to deepen their professionalism. Though we want to make further improvements on all fronts, we have been successful at meeting the intentions of our previous strategy.

> Employee engagement reached 79% as measured by an in-depth survey of all colleagues

> 93% of employees see our work as making a positive difference to society, and 89% are proud to work here

Serving our customers

During the year, we:

- reduced average end-to-end claims-handling time from 154 days in 2017/18 to 139 days in 2018/19;
- paid out 100% of deposit compensation within seven days of failure, where information is available; and
- increased customer satisfaction to an average of 82%.

Diversifying compensation routes

During the year, we:

- provided continued cover for over 350,000 customers of failed insurance companies by transferring policies. This enabled customers with car insurance policies, for example, to continue driving legally;
- facilitated the transfer of over £400m of customer assets and £38m of cash to new custodians, following the failure of Beaufort Asset Clearing Services Limited (see page 36); and
- continued to offer customers compensation via electronic transfer, cheque or collecting cash over the counter for smaller sums.

Improving value for money

During the year, we:

- continued to focus on providing value for money to the levy payer, with like-for-like claims-handling costs 3% lower in 2018/19 than in 2017/18.

Raising awareness

During the year:

- 76% of adults were aware of FSCS or a protection scheme;
- we continued to work with financial services providers to increase the visibility of our brand and our protection; and
- we put in place an innovative agreement with deposit takers for the use of our 'Protected' badge.

Contingency planning

During the year, we:

- facilitated an exercise with representatives from the regulatory and financial authorities to validate the cross-authority considerations from a funding perspective to safely resolve a failed firm. In the scenario, we were successful in validating the access to funding and associated processes and procedures. We also tested cross-border exchange of data, the end-to-end resolution process, and the use of disaster recovery sites. Useful lessons emerged which we are taking forward;
- continued our programme of Single Customer View (SCV) assurance; and
- reviewed and refreshed our contingency plans across our areas of coverage.

Achieving excellence as a creditor

During the year, we:

- recovered £4.7bn from Bradford & Bingley, the remaining amount of the £20.4bn of compensation we provided during the 2008/09 banking failures;
- recovered a further £26m from other failures, reducing the burden on industry; and
- continued to monitor and pursue other available recovery opportunities.

Engaging our people

During the year, we:

- became a founding signatory of the Business in the Community Race at Work Charter. This follows our signing of the Women in Finance Charter earlier this year;
- worked alongside Business in the Community as part of their Age at Work Leadership Team and supported the Department for Work and Pensions' Fuller Working Lives campaign;
- recruited a new Chief Executive, Caroline Rainbird, to replace the outgoing Mark Neale, whose engagement and enthusiasm will be sorely missed at the Scheme;
- achieved employee engagement of 79% as measured by an in-depth survey of all colleagues; and
- found that 93% of our employees see our work as making a positive difference to society, and 89% are proud to work here.

Protecting the future

This year we published our strategy for the 2020s, *Protecting the Future*, which can be found online at www.fscs.org.uk/about-fscs/mission-and-strategy. In this, we identified the key challenges we expect to face as we move into the 2020s:

- Customer expectations
  - Customer expectations are rising – companies are harnessing digital technology to offer customers quicker, easier, more personal services.
  - Financial markets are changing fast – new ways to save and invest. Financial protection and education will need to keep pace with complexity and innovation.
- Choice, complexity and vulnerability
  - People are expected to make more sophisticated financial decisions, particularly about retirement savings – with this comes greater risk and the need for better information.
  - Approximately half of UK adults show characteristics of potential vulnerability – low financial knowledge, low financial resilience, poor health or life events impacting on their financial well-being.
- Technology and data security
  - Pace of technology change creates opportunities to improve ease and speed of service, at a lower cost to levy payers.
  - Commitment to keeping personal data secure in a technology-driven world remains critical.
  - Continual challenge to simplify our online service, especially for complex claims.
- Prevention as well as protection
  - Our industry stakeholders recognise the role that FSCS protection can play in giving consumers the confidence to seek independent financial advice and buy financial products.
  - FSCS must also be proactive in sharing its insights and intelligence with the regulators in order to reduce the risk of future failure.

To address these challenges, our strategy for the 2020s focuses on four pillars, representing an evolution of the previous seven imperatives, which our Chairman's Statement discusses further. But the notions of excellence as a creditor, value for money, and people engagement endure.

Prepare

FSCS must be able to protect consumers in a crisis or in the event of major failures to maintain public confidence and financial stability.

Protect

FSCS is known and trusted for protection that puts people back on track through outstanding customer experience.

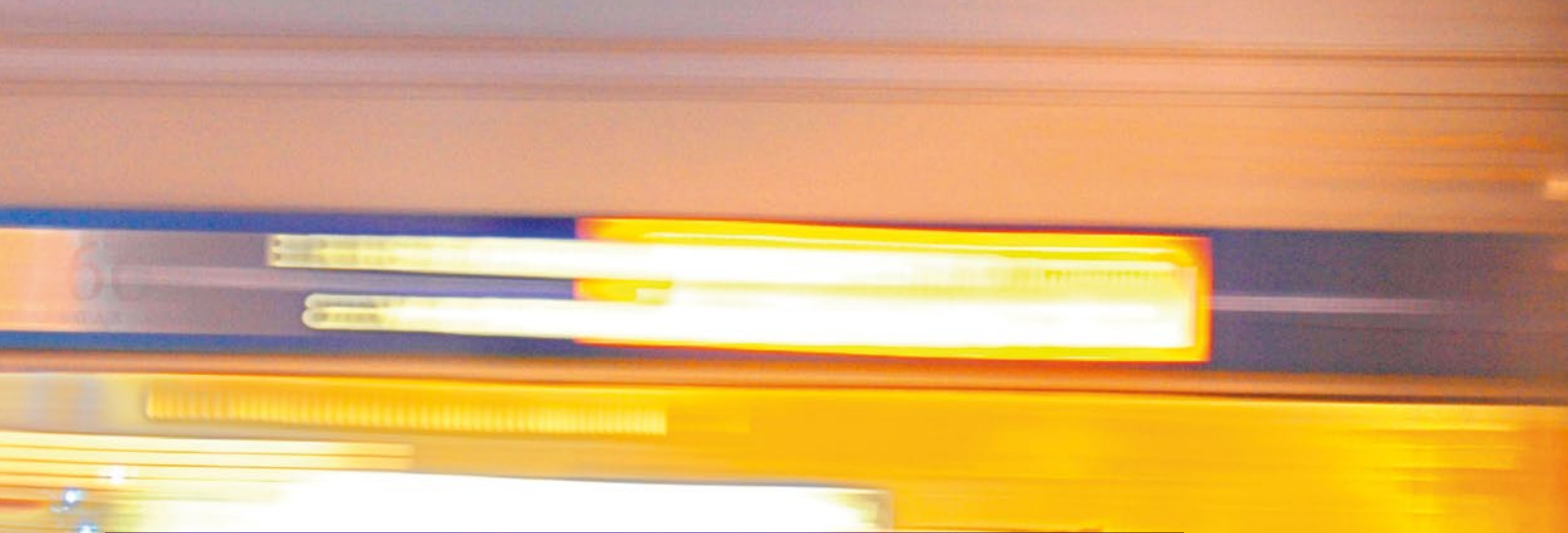
Prevent

FSCS collaborates with our regulatory and industry stakeholders to prevent future failure and to reduce compensation costs.

Promote

The full range of FSCS protection is known about and trusted.

CASE STUDY:
DIAL-A-CAB CREDIT UNION



Dial-A-Cab Credit Union
When the London-based Dial-A-Cab Credit Union (DACCU) failed on 4 September 2018, FSCS took immediate action to ensure a successful outcome for its customers.

The largest credit union to have failed since the financial crisis of 2008, DACCU presented a series of new challenges that enabled us to test our capabilities and our resilience to failures.

Although DACCU had only approximately 1,200 customers, its deposit balance totalled £22m. As the DACCU group also included a separate credit union, Harp, we had to deal with two failures on the same day and had two sets of customers to compensate. Good planning and execution was therefore crucial if we were to return customers' balances within our seven-day target.

In line with our standard practice, we worked closely with the Bank of England's Prudential Regulation Authority and the credit unions' Administrators to ensure we responded swiftly and effectively.

A significant factor for a successful and timely payout is the quality of a firm's Single Customer View (SCV) – the record of customers' details and balances – as this enables us to calculate and pay their compensation. SCVs often require some remediation work, and this case was no exception. It involved us supporting DACCU onsite to resolve issues with its data and software, including removing duplicate records and updating incomplete addresses.

Our review of the SCV highlighted another major challenge – that 89 customers held deposits over the maximum compensation limit of £85,000. To minimise additional distress, we worked to establish if customers could claim compensation in excess of the £85,000 limit as a temporary high balance (THB). A THB is when we protect up to £1m of an individual's deposit, held for up to six months prior to the date of default, when that deposit is the result of a life event such as the sale of property or an inheritance.

Working with the Administrators, we made sure that customers received very clear instructions on how to proceed if they felt they had a potential THB claim. We also reviewed the firms' records and transactions to proactively identify customers who might have had a valid THB claim.

Despite these challenges, customers were paid within seven days. We also paid our first THB claim, demonstrating that our processes for assessing these worked successfully.

Vision for a Confident Future also made commitments we aimed to achieve by March 2019. We achieved significant progress against these in 2018/19.

Our commitment by 2018/19	Our achievement
Consumers and customers	
We handle 60% of all claims online, providing customers with an easy-to-access and user-friendly portal that enables them to monitor their claim.	We introduced our online claims service for both direct and represented customers in 2016/17. Following the rollout we have consistently received over 95% of claims via this channel.
Customers have greater choice in how they deal with us, including more options for claiming compensation and receiving payments in a way that suits them.	Customers can now make claims online as well as by paper application. Additionally, we have used web chat, emails and SMS to communicate with customers.
We continue to pay most straightforward deposit claims within seven days of a bank, building society or credit union failing.	We have consistently compensated Deposit customers within seven days of credit union failures, where information is available.
We deal with most claims for non-deposit compensation faster than before – within three months.	We improved the speed of settling claims significantly during this period. In 2017/18, over 95% of claims were settled within their target dates of three months, or six months for complex claims. In 2018/19, we set a more demanding ambition of processing claims within five working days of receiving all of the required information.
Customers benefit from greater continuity and options for resolution, which means we don't have to pay compensation directly to them, but can place their money with another firm.	In the past year alone we have applied this approach to both investment failures such as Beaufort Securities, where FSCS funded the transfer of money and assets to a new broker, and to insurance failures, where FSCS funded the cost of replacement insurance policies.
70% of all UK adults are aware of FSCS or a protection scheme, which leads to increased consumer confidence.	Awareness of FSCS or a protection scheme has been consistently above 70%. In our most recent survey, in late 2018, it was at 76%.
Customer satisfaction survey results improve from 65% to 70%.	Customer satisfaction results have improved steadily year on year. In 2018/19 they averaged 82% across the year.
We support financial services firms to provide accurate information to consumers about FSCS at least 80% of the time in their contact with their customers.	We are working with the industry through mystery shopping exercises to raise awareness and understanding of FSCS protection and limits within all sectors of the industry.

Industry	
FSCS will be more open, accountable and transparent to the industry that pays for it.	We renewed our website and update it regularly. Our Communications team use new media as well as traditional methods to ensure the industry is fully informed on developments at FSCS.
Levy payers have easy access to the performance indicators and information that they need to review our performance and hold us to account.	We now publish a separate *Annual Report and Class Statements* document, specifically for industry. We continue to issue our *Plan and Budget* and *Outlook* publications, and to hold industry events.
Firms receive more information in advance about the potential impacts of failure. They also get more certainty, or better signalling, about future levies.	We are keen to reach out to the industry where possible to forewarn levy payers of possible costs, and we use trade bodies' briefings and our PR team to do so.

Our commitment by 2018/19	Our achievement
Our continuing commitment to maximising recoveries from failed firms offsets the costs of their failure.	We recovered £15.7bn from Bradford & Bingley plc and £1.1bn from other estates over the past five years, and continue to actively monitor the cost of pursuing recoveries against the benefit we might receive.
All major deposit takers and financial services firms inform consumers about FSCS protection in their advertising and marketing.	Our badge is now used by all major deposit takers. This has helped contribute to the high levels of awareness of our protection for Deposits.
FSCS protection for insurance is part of consumer awareness.	While we have publicised our protection of Insurance and Pension products, this is an area of ongoing focus for us.
We work with the regulators to deal with any future changes to our funding model.	Following consultations, FSCS's new funding model is now in place from 1 April 2019.
We resolve the 'legacy' deposit cases from 2008/09.	We have now fully repaid HM Treasury all the £20.4bn borrowed to compensate deposit customers from the 2008/09 banking crisis, along with over £3bn of interest. This was paid for by recoveries from the estates of the failed banks and from levies on other deposit takers.

Authorities	
FSCS continues to work closely with the Authorities on contingency planning and responses to problems in financial services.	We have planning meetings with FCA and PRA to ensure that we are better prepared for failures of regulated firms.
Improved contingency plans are in place across all industry sectors, and tested regularly.	Contingency plans are periodically updated and tested. We have followed the European Banking Authority (EBA) guidance for testing deposit readiness and are working on a scenario exercise for life insurance.
FSCS is seen as a leading source of expertise on financial services compensation at national, European and international levels.	We are active in international associations, hosting delegations from across the world and speaking at conferences and events in Europe and beyond. We are keen to share and learn from best practice.

Our people	
We achieve Investors in People and Best Companies accreditation.	We were consistently recognised as 'One to Watch' by Best Companies over the life of the strategy, and achieved Silver Investors in People accreditation in 2018.
Employee engagement is 20% higher than the baseline set in 2013/14.	Today engagement is 14% higher, which has been achieved against a backdrop of significant organisational change. This remains an area of focus for FSCS.
Career development plans are in place for all employees.	Bespoke personal development plans were implemented as part of the new Performance Achievement approach in 2018.
Our people can rotate their job roles within FSCS or externally.	We have supported secondments across the regulatory family as well as rotations and career development within FSCS.
Our people get an average of four days of learning a year to develop their skills, knowledge and professionalism.	We have continued to make a significant investment in the personal development of our employees and consistently achieved this target over the life of the strategy.
We have a family-friendly working environment and policies in place.	We have a family-friendly working environment where every job can be flexible, and our family leave policies are supportive and compassionate.

Customer journey

Discovering FSCS

Research shows that the more people are aware of our protection, the more confident they are about buying financial products. In the case of deposits, the assurance of FSCS protection should also reduce the risk of a run on a bank or building society at a time of stress.

We have an agreement with banks and building societies to include the FSCS badge in their communications, including their application forms and websites, as well as their advertising. We are grateful to UK Finance and the Building Societies Association for their support. We are working with the pensions and insurance industries with the aim of reaching a similar agreement.

Awareness of FSCS or a protection scheme reached 76% in the year.

"Discovering that you've been given bad financial advice is sickening; it's a horrible feeling to realise that all your security has gone and you have nothing to leave your children."

Making first contact

Customers can contact us by telephone, email, post or the web chat on our website. We have an online claims service, where customers can quickly discover whether they have a valid claim, and can then submit applications for compensation.

During the year, we conducted a full review of the design of our end-to-end claims service, to ensure that customers can get in touch with us – and remain in touch and updated on their claim – in a manner that most suits them.

"I'm old and prefer human interface but digital works well and is more efficient."

"The phone calls were reassuring – at least you can hear a voice."

"You've got absolutely nothing to lose by making an enquiry to see if you're eligible to make a claim. We didn't think we'd ever get anything back, but we felt it was worth pursuing almost as a matter of principle."

Completing the application

Our online claims service is used by almost all customers who claim from us directly, and is used for all of the claims that come to us via representative firms. This is a more efficient process and is more user-friendly for our customers – for example, by automatically skipping questions that are not relevant to their specific circumstances, and allowing customers to submit copies of documents online, rather than by post.

The online service is also a more efficient process for our claims assessors and better value for money for our levy payers.

Paper application forms are still available for customers where required.

"Pretty straightforward – the form was long, but the questions were easy."

"Staff are friendly and courteous."

"FSCS guided me through what I needed to do – it was a feeling that they weren't in it for them, that they wanted to help people who were a victim."

Investigating the claim

The assessment of claims is unique to each customer's individual circumstances: the same advice given to two different customers may have been unsuitable for one, resulting in compensation, but not unsuitable for the other, resulting in no compensation.

We have no records relating to customers' claims other than what is provided by the customers themselves and the firms they claim against. This can mean a delay in getting all of the relevant information, and also that we may ask for further information during the investigation process, if needed.

Where other circumstances arise outside our control – for example, the need to liaise with the regulator or law enforcement – we are unable to progress claims until these issues are resolved.

"The timescales (in the acknowledgement email) set my expectations. It was out of my hands, so I could sit back and let the process happen."

"The way they dealt with it, and the ease of it, just impressed me."

"FSCS are really helpful, they've got listening skills, which is great."

Getting the decision

Our focus is on providing a responsive, easy-to-use and empathetic service to customers, while also ensuring value for money for the firms that pay our levy. All decisions made by a claims assessor are reviewed by a more experienced colleague prior to the claims decision being finalised and any compensation quantified. We also conduct extensive quality assurance, by undertaking a further review of a sample of claims each month. Any lessons are provided as feedback to the claims assessors.

When dealing with claims, we identify any potentially vulnerable customers, such as credit union members receiving welfare benefits. We may then make special arrangements to maintain their access to money.

"FSCS are fair and they help people."

"I saw the words 'We are pleased to award you' and I just couldn't believe my eyes, I was so thrilled and relieved."

"To get this money back is such a relief."

"Dealings with FSCS have been good. I spoke to a helpful gentleman who could tell me that the claim had been processed and I would be getting a payment."

Dealing with any issues

Customers who are dissatisfied can contact us. This is typically either about the decision we have made, including the amount of compensation paid, if any, or about the handling of the claim. A complaints handler will investigate the issue, along with any additional evidence, and seek to resolve the issue. Customers who remain unhappy with the final decision on a claim may seek a judicial review.

Customers unhappy over the handling of a claim may ask for their complaint to be referred to the Independent Investigator, who will carry out a review and write a report that is considered by our Board of Directors.

This year, six complaints have been referred to the Independent Investigator. The Annual Report of the Independent Investigator can be found on page 51.

"The guy I spoke to was really, really lovely. He explained it really well without making me feel like an idiot – he was just really nice."

"I felt confident. I knew I wouldn't be forgotten about."

Staying engaged

Each stage of the journey is important to us. We work with an external research agency to ask customers a series of questions about how satisfied they are with us at each of three milestones in the claims process:

1. Following completion of their application.
2. While we are investigating their claim.
3. After they have received the decision on their claim.

This gives insight into the experiences of online customers (the overwhelming majority of our customers) and, importantly, lets us know where we need to improve.

Satisfaction at decision stage is, unsurprisingly, heavily influenced by whether the customer is awarded compensation.

"FSCS is more of a main body that I can trust more, like an official organisation – not someone that might have a vested interest in themselves."

"I haven't got anything negative to say. We got the money back, so it can't be more positive than that."

Awareness of FSCS or a protection scheme reached 76% in the year

BASED ON A TRUE STORY: **OUR INSURER WENT BUST**

> We lost everything in the flood. What happened next was worse. Our insurer went bust; I felt completely paralysed. We thought we'd be homeless.

"We found out our insurer was covered by the Financial Services Compensation Scheme, which meant we could get our money back. We called FSCS and they took us through everything we needed to do. That gave us the confidence to rebuild our home. It meant we got our lives back – and our dog back.

"Because it was free and automatic when we took out the insurance, we didn't think much of it at the time. We didn't really know what it was. But now, we're never buying anything financial that isn't FSCS protected."

To find out more, visit www.fscs.org.uk/what-we-cover/insurance/flood/

Customer service

Because of the unpredictability and volatility of our workload, our strategy is to continue to outsource our claims-handling work.

Following a market procurement exercise, in 2018/19 we implemented a strategy to move from multiple suppliers to a single partner to provide our outsourcing requirements as the most efficient and effective approach to deliver service quality and value for money. Capita was our chosen outsource partner to provide claims processing, customer contact and document management services.

As part of the transition, we prioritised maintaining the quality and accuracy of claims handling. This has included operating a new accreditation programme, ensuring that claims handlers and the reviewers who quality check them, are appropriately qualified. This focus on quality has enabled our quality score to remain above 95% throughout 2018/19, which is based on a monthly review of a sample of claims to ensure that there are no significant adverse impacts on the customer – for example, decisions, amounts or timescales.

Our customers are often under stress because they have lost hard-earned savings or pensions, and so our aim is to provide an outstanding customer experience, including to reduce the time taken for customers to receive decisions. Over the year our customers have experienced real reductions in the end-to-end handling time of their claims – the average time from submission of a claim to receiving a decision has decreased from 154 days in 2017/18 to 139 days in 2018/19. This means we are helping our customers get back on track faster. This average excludes any claims for General Insurance, where the initial claims assessment is performed by the failed insurance company's Run-Off Agent.

This end-to-end measure includes all activities, some of which FSCS cannot directly control, for example, third parties or customers furnishing further information to support the claim. Consequently, in transitioning to a single supplier, we have set a new and demanding ambition of five days to process and reach a decision on claims once all the required information is received; 30% of customers are now receiving decisions within five days, and 84% within 30 days, of all the required claim information being available. It has, however, taken longer than expected to have all the capability in place to meet demand, and so we are working to improve this performance in 2019/20.

In addition to our work processing non-deposit claims, we compensated 100% of depositors in failed credit unions in seven days or less, where the credit union was able to provide the appropriate information. These customers did not need to submit a claim to us.

These results have been appreciated by our customers, with customer satisfaction increasing from an average of 79% in 2017/18 to an average of 82% in 2018/19.

Understandably, not all customers are happy with the decision they have received and may ask us to reconsider our decision, or to complain about the handling of their claim. In 2018/19, we received over 25,000 claims but also 1,171 complaints about how we handled claims, along with 1,338 customers asking us to review the decision they received, where they were hoping for a more favourable decision.

As part of our commitment to deliver an empathetic service, it is important to us that customers understand the reasons for our decisions and feel they have been treated fairly, so we prioritise responding to complaints. We set ourselves a target of 20 working days in which to respond to complaints and reviews. For claims-handling

Reviews and complaints

	Total
Reviews over a decision	1,004
Reviews over a calculation	334
Total reviews over decisions	**1,338**
Complaints over poor communication	410
Complaints over delays	246
Complaints over other handling issues	515
Total complaints over handling	**1,171**
Total reviews and complaints	**2,509**

complaints, we met the 20-day service level agreement (SLA) in 96% of cases, with an average response time of 12 days. When including reviews over decisions, where further calculation work or internal investigation is often required, we met the SLA in 91% of cases, with an average response time of 14 working days.

Our performance should be viewed against the backdrop of the claims we receive becoming increasingly complex. Claims relating to pensions, which often require the most – and the most technical – information to be collected and processed, have increased from 22% of those received in 2017/18 to 26% in 2018/19. The reasons for this, which we predict will continue, are varied – the High Court has ruled that Self-Invested Personal Pension (SIPP) operators are under a greater duty of care than understood previously; members of defined benefit pension schemes who transferred their pension elsewhere following the introduction of pension freedom are increasingly discovering that they have received bad financial advice; and the compensation limits of the Financial Ombudsman Service (FOS) are set to increase, which means it may take fewer upheld claims to FOS for a firm to be put into default, and so for claims against those firms to be made against FSCS.

This increasing complexity, and the associated challenges to recruit and train sufficient claims handlers and reviewers, means we have temporarily extended the services of a former outsource partner to ensure an appropriate customer experience. This has resulted in higher total claims-handling costs than had been forecast. However, we still achieved a 3% reduction in like-for-like claims-handling costs against 2017/18, and the single partner arrangement includes further year-on-year price per claim reductions.

People

We recognise that to deliver on our new strategy, *FSCS into the 2020s – Protecting the Future,* we need to continue to develop our people.

Central to this is our commitment to creating an inclusive workplace where everyone can succeed in achieving his or her personal and professional goals; an environment where everyone is treated with dignity and respect, where the talents and skills of different groups are valued, and where productivity and customer experience improve because our workforce is happier, more motivated and more aware of the benefits that inclusion can bring.

We want to recruit from the widest pool of talent – colleagues with the right blend of skills, qualifications, competencies, experience, knowledge and attitude.

In the last 12 months FSCS became a founding signatory of the Business in the Community Race at Work Charter. Following a meeting of business leaders at Number 10 Downing Street attended by FSCS, the Charter was formally launched by the Prime Minister, Theresa May, on 11 October 2018. The Prime Minister said:

Every employee deserves the opportunity to progress and fulfil their potential in their chosen field, regardless of which background they are from, but too often ethnic minority employees feel they're hitting a brick wall when it comes to career progression.

The Charter is composed of five principal actions for leaders and organisations across all sectors, in the same way that the Women in Finance Charter commits its signatories to promoting greater gender diversity and setting internal targets for progression. FSCS was delighted to also become a signatory this year and to publish gender-specific recruitment targets for the first time.

Alongside this, our work on recruiting, retraining and retaining older workers continued to be recognised for its best practice. We are now working alongside Business in the Community as part of their Age at Work Leadership Team and supporting the Department for Work and Pensions' Fuller Working Lives campaign.

Our ongoing focus on developing our people – from all backgrounds – was recognised in the Training Journal Awards in December 2018.

We have also been nominated in four categories in the inaugural FT Adviser Diversity in Finance Awards, which celebrate the individuals and companies that are proven to be taking active steps towards a more inclusive, diverse and fair industry.

Awards/nominations

☆ **Short-listed**
Best Leadership Development Programme,
Training Journal Awards, 2018

☆ **Bronze Award Winner**
Best Organisational Development Programme,
Training Journal Awards, 2018

☆ **Short-listed**
Diverse Company of the Year,
National Diversity Awards, 2019

☆ **Short-listed**
Employer of the Year,
FT Adviser Diversity in Finance Awards

☆ **Short-listed**
Trailblazing Company of the Year,
FT Adviser Diversity in Finance Awards

☆ **Short-listed**
Diversity Marketing and Recruitment Campaign of the Year,
FT Adviser Diversity in Finance Awards

☆ **Chief People Officer, David Blackburn, short-listed**
Diversity Champion of the Year Award,
FT Adviser Diversity in Finance Awards

Gender pay gap

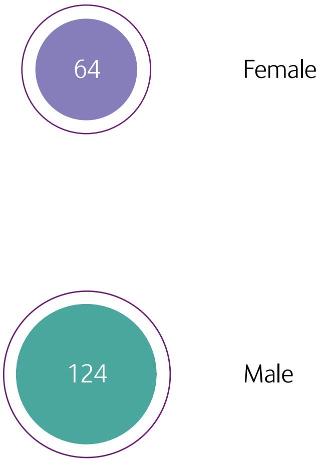
Our values send a positive message on diversity and inclusion to managers, employees, potential employees, partners and customers. Legislation requires all companies with more than 250 employees to measure and report gender pay gap information on an annual basis. The gender pay gap describes the difference between the average pay for men and women.

While not subject to the legislation, we already review our pay on a regular basis to identify where bias may occur, so we can remedy any problems. We are delighted that, over the course of the last 12 months, we have continued to narrow the gender pay gap at FSCS – something we are committed to continuing over the coming year.

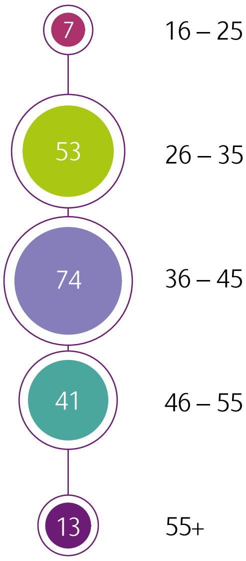
The headline gender pay gap (between the basic pay for all women in the organisation against the basic pay for all men) as at March 2019 is 10% in favour of males, using mean pay as the basis for comparison (March 2018: 16.3%), or 4.8% in favour of males using median pay (March 2018: 15.6%). These figures need to be set into the context of the wider economy, where the gap between the median pay for men and women is currently 17.9% (March 2018: 18.4%).

Diversity and inclusion

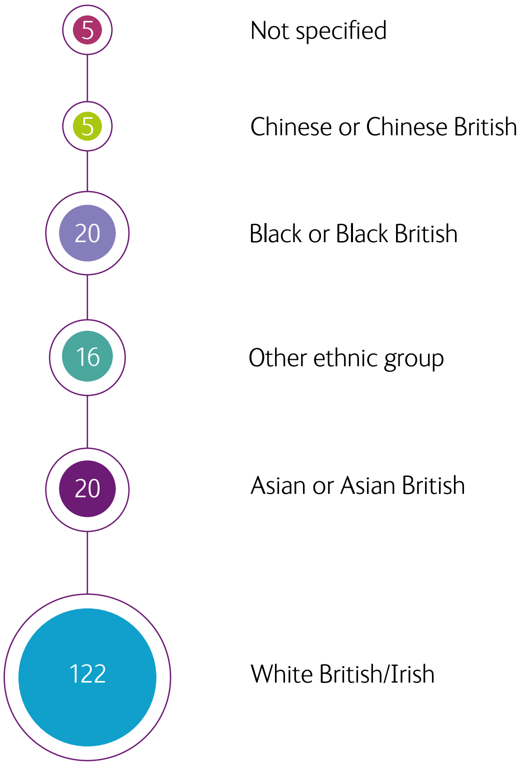
FSCS employee numbers by gender determination



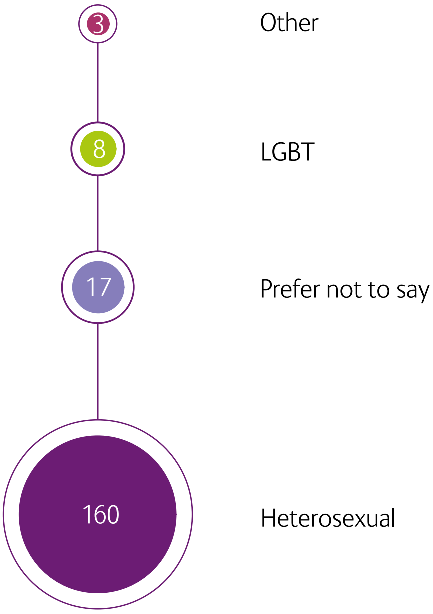
FSCS employee numbers by age band



FSCS employee numbers by ethnic identity



FSCS employee numbers by sexual identity



FSCS employee numbers by individuals with disabilities

CASE STUDY: **BEAUFORT**

Beaufort

Following the indictment of Beaufort Securities Limited (BSL) and some of its staff by the US Department of Justice on allegations of securities fraud and money laundering, BSL was placed in administration and Beaufort Asset Clearing Services Limited (BACSL) was placed into Special Administration on 1 March 2018.

These two failures are complicated to resolve, and FSCS is working closely with the Insolvency Practitioners (IPs) and the creditors' committee to compensate customers. BACSL was the custodian for client assets and cash for around 17,000 retail clients and about 500 corporate clients.

Under the Special Administration Regime, customers can be liable to pay for the costs of returning their assets and money. This can be time-consuming for an IP, and often the defaulted company itself does not have sufficient assets of its own to pay for this.

Rather than have customers pay these costs and then claim compensation from FSCS, we agreed to pay the administration costs on their behalf as compensation (within our limits). By taking this action, customers' assets could be transferred to a new broker without losing any tax wrappers such as Individual Savings Accounts (ISAs) or Self-Invested Personal Pensions (SIPPs). This also means that we can pay the compensation over the life of the winding-up, reducing our immediate cash flow need and therefore the impact on levy payers.

As of 31 March 2019, more than £400m of client assets and £38m of client cash had been successfully returned to 16,348 BACSL customers, restoring their access to their investments. Fewer than 10 individuals will suffer financial losses as a result of the BACSL failure, all of whom had client money in significant excess of FSCS compensation limits.

However, there are still some customers who have not had their assets returned – often this is where a new broker is unwilling or unable to take on the types of assets held by BACSL – and we are working with the IPs to resolve this. The US criminal case has added a layer of complexity.

FSCS is also handling negligence claims against BSL for poor advice and inappropriate discretionary fund management. As of 31 March 2019, we had received 1,255 claims.

Looking outwards

We report on work we are doing relating to the future of the industry and environment.

FSCS funding review

Following the Financial Conduct Authority (FCA) FSCS Funding Review, that began in 2016, and a number of consultations, the new rules took effect in April 2019. These amend the FSCS funding model by:

- merging the Life and Pensions and Investment Intermediation classes;
- requiring product providers to contribute around 25% of the compensation costs which fall to the intermediation classes; and
- moving pure protection intermediation from the Life and Pensions Intermediation class to the General Insurance Intermediation (Distribution) class.

There will also be changes to the FSCS compensation limit for investment provision, investment intermediation, home finance and debt management claims, increasing to £85,000 from April 2019.

Rules were also introduced requiring Personal Investment Firms (PIFs) to have Professional Indemnity Insurance policies that do not limit claims, where the policyholder or a third party is insolvent, or where a person other than the PIF (for example, FSCS) is otherwise entitled to make a claim. The changes, which came into effect on 1 June 2019, are intended to ensure that more consumer claims are paid by insurers, which could help to reduce the cost of FSCS to other firms, and enhances our recovery prospects.

International work

Internationally, we continue to work closely with our counterparts and are actively involved in bodies such as the European Forum of Deposit Insurers (EFDI), the International Association of Deposit Insurers and the International Forum of Insurance Guarantee Schemes (IFIGS). This provides important knowledge transfer, establishes our cross-border relations and helps us to fulfil our cross-border obligations.

We have hosted meetings for the EFDI Stress Testing Working Group and the IFIGS Management Committee. FSCS has also participated in the ongoing work of the European Banking Authority (EBA) on the review of the Deposit Guarantee Schemes Directive (DGSD).

We have also hosted a number of international guests, including visitors from the Netherlands, South Africa, Ghana, Gibraltar, the Channel Islands and the Isle of Man.

UK withdrawal from the European Union

As a business, FSCS has been busy preparing for the UK's withdrawal from the European Union.

While the UK is a member of the EU for as long as the UK continues to be bound by EU obligations during an implementation period, the UK financial system will continue to be regulated in accordance with its existing obligations as an EU Member State. FSCS will continue to protect depositors, policyholders, investors and others.

FSCS has worked closely with HM Treasury, the Bank of England and the FCA on the implications of EU withdrawal for FSCS and consumers. The impact of EU withdrawal on the framework for financial regulation in the UK, and FSCS protection, will depend, in part, on the relationship that the UK agrees with the EU in the future. Any changes affecting FSCS will be communicated to all stakeholders and we will work with the UK Authorities to ensure clear and consistent messages.

Claims mixture

Levy years

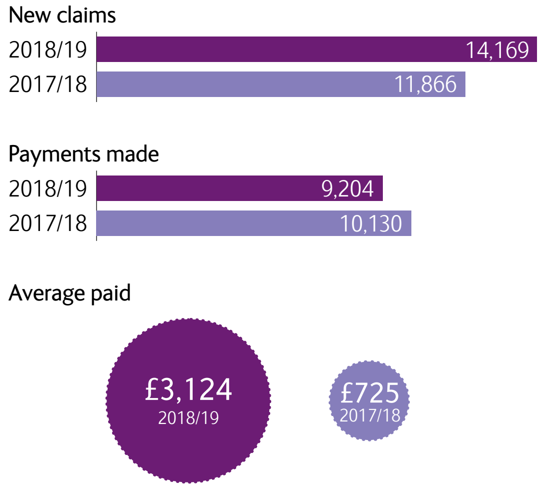
Although our financial year runs from April to March, previously our levy year ran from July to June. From July 2018, for all compensation classes other than Deposits, we raised a nine-month levy to March 2019, rather than a 12-month levy, to align the levy and financial years, and we abated the annual levy limits commensurately. The Deposits levy year remains from July to June.

Types of levy

Each financial services class of activity pays levies towards compensation paid for that class of activity. The levies raised at the start of the year are referred to as 'final levies' and any further levies raised are 'supplementary levies'. To avoid our levies being unduly onerous on the industry, annual levy limits are placed on each class. Where we need to collect more money to pay out in compensation, the excess is paid by certain other classes. This is referred to as the 'retail pool'.

We levy for compensation costs and for our management expenses separately.

Deposits (SA01)

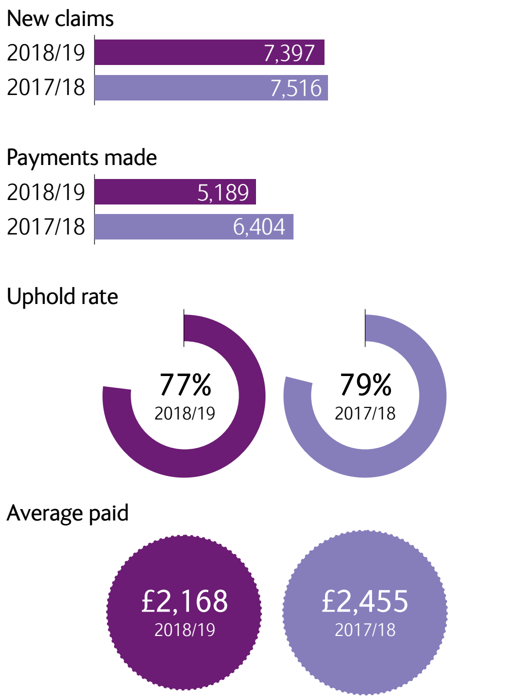


FSCS compensates depositors when a bank, building society or credit union becomes insolvent.

During 2018/19, FSCS paid out over £29m in this class, the largest amount of compensation for Deposit failures since the 2008 financial crisis. Of this, £22m was paid to customers of Dial-A-Cab Credit Union – one of eight credit unions to fail in 2018/19, a slightly higher number than in recent years. FSCS raised a supplementary levy of £13m in January 2019 to cover this failure.

Despite the higher number of payouts, the average time from placing a credit union into default to compensating customers was under three days, with several of these defaults seeing our quickest payouts – and all comfortably within our seven-day time frame.

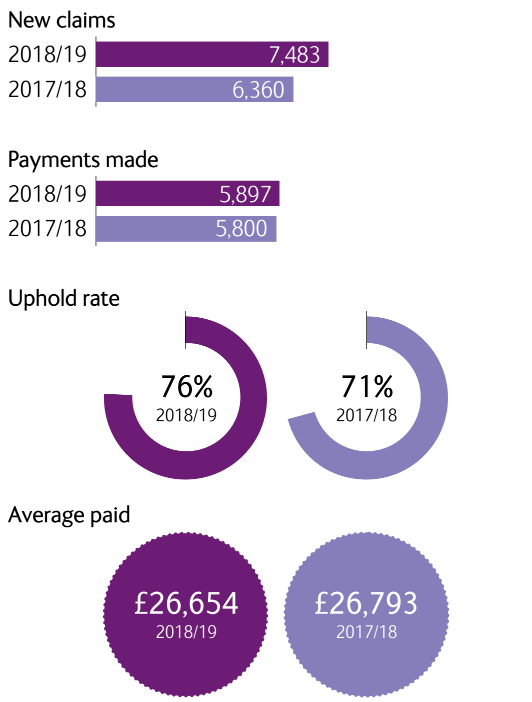
General Insurance Intermediation (SB02)



During 2018/19, the funds previously provided by Welcome Financial Services Limited to meet compensation costs were fully utilised. Since December 2018, compensation costs have been funded through the levy class – the total value of these costs was £1.6m.

The total compensation paid in this class, almost all of which related to Payment Protection Insurance (PPI), was £11m, down £5m from 2017/18, despite the impending PPI complaints deadline. This was due to a reduction in the volume of claims received and upheld, and a lower average payment for those we compensated.

Life and Pensions Intermediation (SC02)

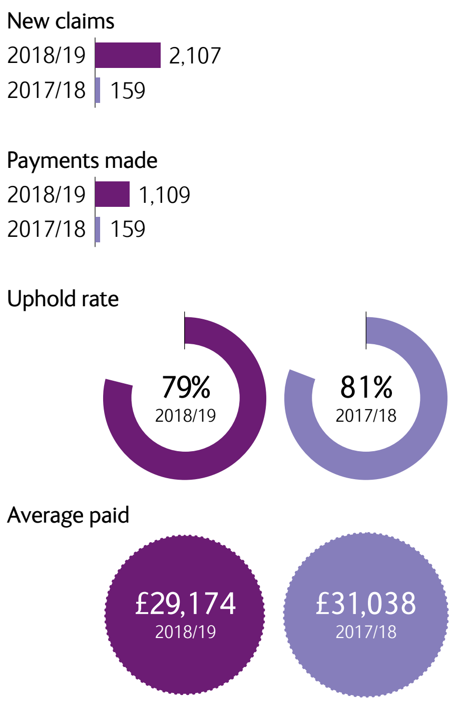


Most of the claims received in this class over the past few years have been SIPP-related – typically involving advice given by financial advisers to move pension savings out of existing occupational pension arrangements and invest in other investments within SIPP wrappers. These investments are often high risk and unsuitable for most investors, so some inevitably fail and become illiquid. This trend began four years ago, and costs are still rising.

In 2018/19, FSCS paid £123m in compensation for SIPP-related claims, £11m higher than in 2017/18.

Overall FSCS paid £157m in this class for the 12 months of 2018/19, £2m higher than 2017/18, and again necessitating a large supplementary levy of £78m, which was funded by the retail pool.

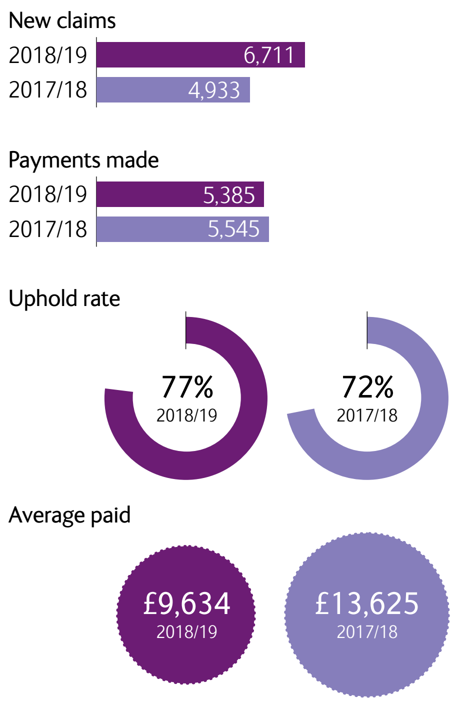
Investment Provision (SD01)



In 2018/19, the Investment Provision class saw a large increase in claims and compensation costs: up to £33m from just £5m paid out in the previous year. This growth has been caused by the default of three SIPP operator firms – Stadia Trustees, Brooklands Trustees and Montpelier Pension Administration Services – which were all declared in default in January 2018.

As a result of changes to the FCA handbook's FEES rules, increased levy collections from higher tariff data created a surplus in this class, which was used to fund the retail pool contribution.

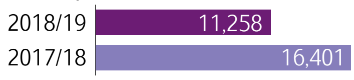
Investment Intermediation (SD02)



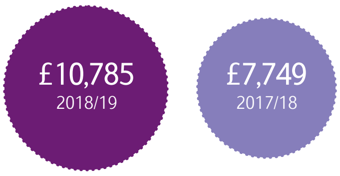
As in previous years, during 2018/19 FSCS continued to see a significant, albeit lower, number of Investment Intermediation claims in relation to negligent advice to invest in unsuitable pooled investments. The figures shown exclude customers of Beaufort Asset Clearing Services Limited, for which we made a provision of £50m in 2017/18. During 2018/19, we facilitated the transfer of over £400m of assets and £38m of cash for 16,348 Beaufort customers, by paying the costs of administration directly.

General Insurance Provision (SB01)

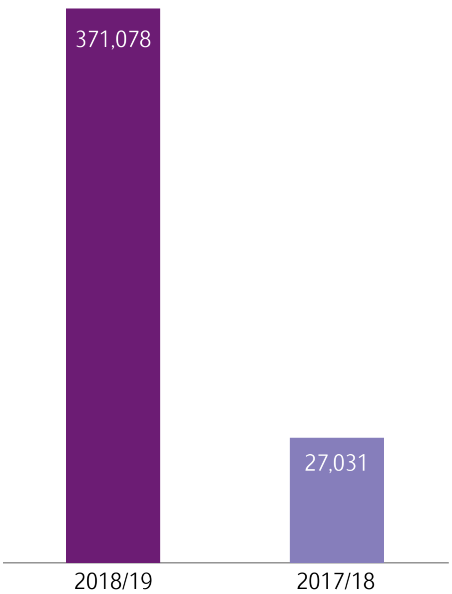
Claims paid



Average paid



Premiums returned



Average returned

FSCS paid £144m in compensation in 2018/19 for claims against 22 estates. This was a £7m increase on the previous financial year. The amount paid in the nine-month levy period from July 2018 to March 2019 was £114m, £17m higher than the forecast used when we set the final levy in April 2018. The main reason for this increase was the failure of Alpha Insurance A/S, which was declared in default on 8 May 2018, shortly after the final levies were announced. FSCS raised a supplementary levy of £14m to cover the deficit, at the same time as the retail pool levies were collected in January 2019. Alpha Insurance was responsible for the large number of premiums returned to customers or policies transferred in 2018/19 – 371,000 compared to 27,000 in 2017/18.

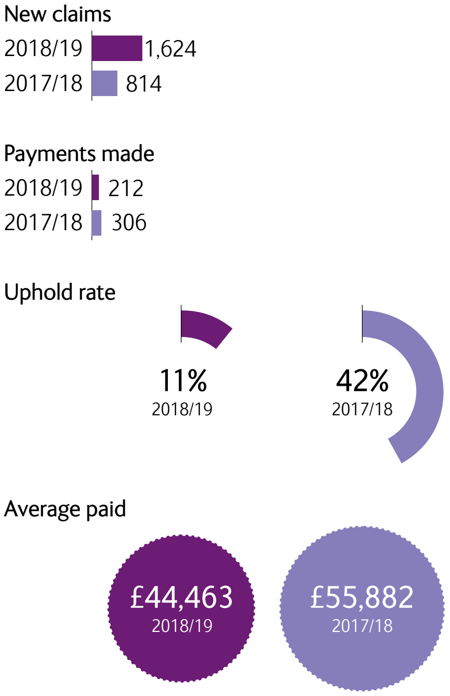
There were two further insurance companies which failed towards the end of 2018/19 – Horizon and Qudos – however, these are both smaller in size than Alpha and resulted in less than £1m paid in compensation in 2018/19.

Recoveries made in this class in 2018/19 amounted to £4m – far lower than the amount of £94m recovered in 2017/18 which was largely funded by the closing distribution from Independent Insurance.

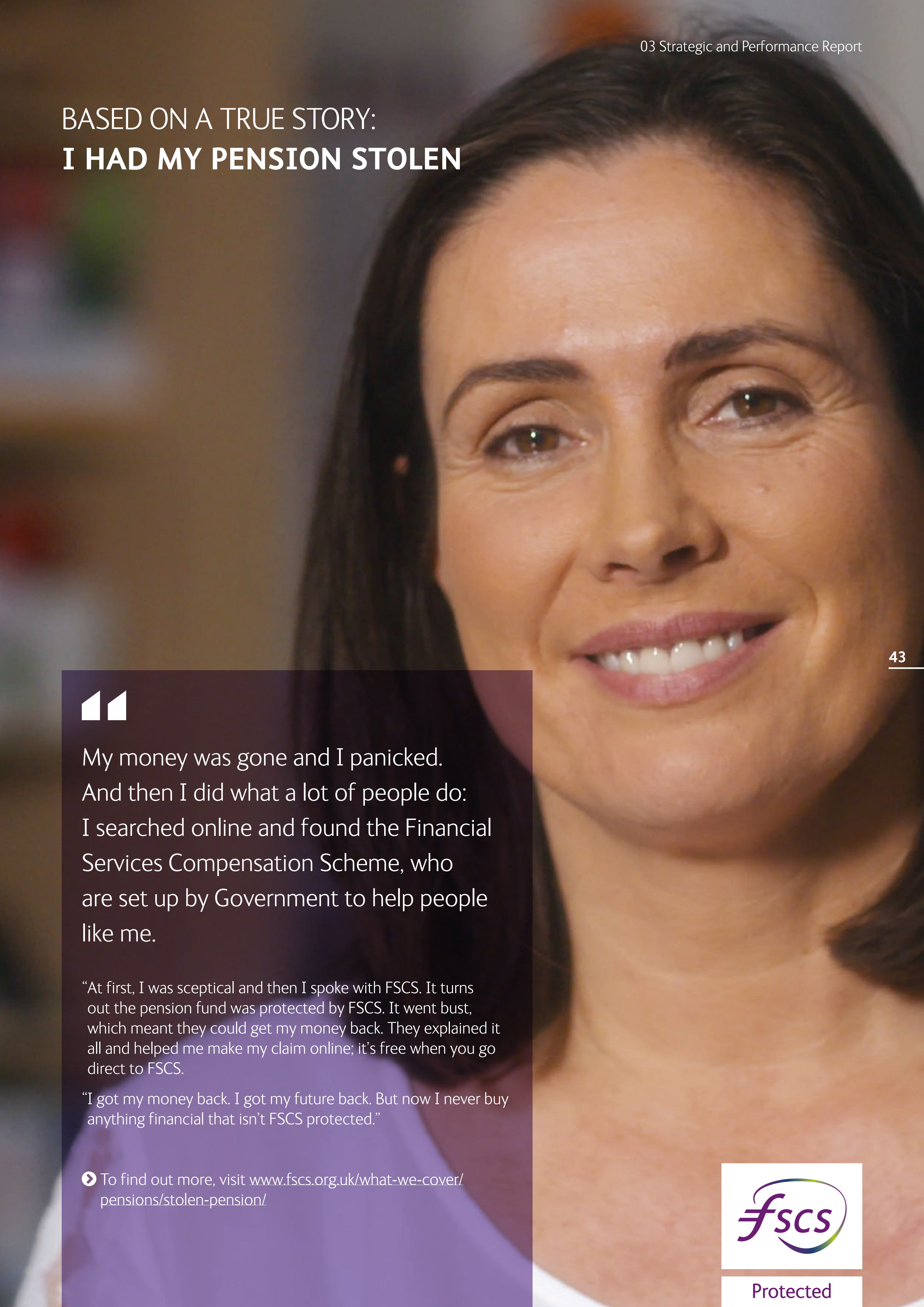
Debt Management (SK01)

As of 1 April 2018, the scope of FSCS coverage includes debt management, covering claims for client money lost when a protected debt management firm fails. This levy is paid by consumer credit lenders and debt management firms. We paid no compensation for Debt Management during 2018/19; however, members of the class paid levies towards our administration (Base) costs and to the retail pool levy.

Home Finance Intermediation (SE02)



In 2017/18, FSCS paid £17m in compensation for Home Finance Intermediation. The vast majority of claims in this category related to a specific firm, Fuel Investments Limited. In 2018/19, most of the claims against this firm were completed, and FSCS paid only £9m in compensation in this class, £9m below the original forecast. This created a surplus, which was used to offset the retail pool contribution due from the class. The remainder was rolled forward to reduce the 2019/20 levy requirement.



BASED ON A TRUE STORY:

I HAD MY PENSION STOLEN

My money was gone and I panicked. And then I did what a lot of people do: I searched online and found the Financial Services Compensation Scheme, who are set up by Government to help people like me.

“At first, I was sceptical and then I spoke with FSCS. It turns out the pension fund was protected by FSCS. It went bust, which meant they could get my money back. They explained it all and helped me make my claim online; it’s free when you go direct to FSCS.

“I got my money back. I got my future back. But now I never buy anything financial that isn’t FSCS protected.”

To find out more, visit www.fscs.org.uk/what-we-cover/pensions/stolen-pension/

fscs Protected

Financial review

A summary of FSCS's financial strategy, position and outlook.

FSCS's financial strategy supports our delivery of an efficient and effective compensation scheme, that builds consumer confidence and contributes to the UK's financial stability. We raise sufficient levies to make compensation payments to customers when due and make recoveries from failed estates. Our focus is to demonstrate value for money through effective cost control.

Our financial framework and governance

Financial framework

FSCS is funded by the financial services industry. Section 213 of the Financial Services and Markets Act 2000 (FSMA) gives the Bank of England's Prudential Regulation Authority (PRA) and the FCA powers to make rules governing the Scheme's operations. This includes FSCS's powers to raise levies to pay compensation and those surrounding the payment of compensation. FSCS has a Memorandum of Understanding (MoU) with both the PRA and FCA.

Our accounts are consolidated into HM Treasury Group annual resource accounts. Through interim and final accounts consolidation processes, we provide HM Treasury with appropriate reassurances on the operation of systems, controls and processes that underpin the production of our accounts within relevant levels of materiality, which represent a true and fair view.

Business planning and budgets

We have an annual business-planning cycle and prepare forecasts internally on a quarterly basis. Following a public consultation, our annual budget is approved by the Prudential Regulation Committee of the Bank of England and by the FCA board. Once agreed, we publish the budget for the industry.

Our Plan and Budget is presented to stakeholders in the financial services industry as part of an annual stakeholder event. This also gives a forward look to expected claims and compensation costs.

Treasury management

FSCS is a cash operation funded by industry levies. Levies are typically received in the second quarter of the financial year; however, payments on account for the largest 1,000 levy payers are now starting to be received around the start of the year. Any funds in excess of £20m are held at the Bank of England. Our liquidity is underpinned by an overdraft facility of £20m and a revolving credit facility of £1.45bn underwritten by a syndicate of banks.

FSCS can also access funds from HM Treasury, if required, through the National Loans Fund or any other appropriate source.

Annual Report and Accounts

Our Annual Report and Accounts are prepared under the Companies Act 2006 and International Financial Reporting Standards (IFRS) as adopted by the EU. In addition to the Annual Report and Accounts, we are publishing the Class Statements in a separate document, for our levy payers, trade bodies and financial services regulators. Class Statements summarise the source and application of funds from our levy payers by class so that levy payers can follow levies set at the beginning through to the end of the financial year. Our 2018/19 Class Statements may be found on our website at www.fscs.org.uk/about-fscs/industry-enquiries/publications/annual-reports/

Summary of financial performance

During the year, we experienced unforeseen volumes of claims related to Life and Pensions Intermediation. This resulted in supplementary levies being raised to cover increased compensation costs. In responding to these challenges, we incurred £2.7m additional claims processing costs. Through savings and efficiencies, we absorbed £1.2m of these costs within our budget.

We utilised £1.5m of the unlevied reserve to cover the remainder of our cost increase. The unlevied reserve is in place to deal with an unexpected number of claims. We advised the PRA and FCA in advance of our intention to utilise the unlevied reserve, and reported this to the industry.

Levy income

	Year ended 31 March 2019 (£'000)	Year ended 31 March 2018 (£'000)
Compensation costs	447,534	444,965
Recoveries income	(14,881)	(30,140)
Levy income for compensation costs	**432,653**	**414,825**

Levy income for compensation costs remains broadly consistent with the prior year. The movements in compensation costs, by funding class, are shown below.

Other levy income	Year ended 31 March 2019 (£'000)	Year ended 31 March 2018 (£'000)
Base costs	26,244	24,492
Specific costs	48,169	45,194
Loan interest	14,211	99,009
Pension obligations	(4,272)	(5,177)
Total management expenses	**84,352**	**163,518**
Total levy income	**517,005**	**578,343**

Compensation costs

Funding class	Year ended 31 March 2019 (£'000)	Year ended 31 March 2018 (£'000)
Deposits	29,167	(14,165)
General Insurance Provision	158,588	136,324
General Insurance Intermediation	11,262	15,666
Life and Pensions Intermediation	157,227	155,528
Investment Provision	32,398	4,902
Investment Intermediation	49,475	129,454
Home Finance Intermediation	9,417	17,256
Total compensation cost	**447,534**	**444,965**

Compensation costs

The total value of compensation payments paid in the year was £473m. Compensation costs, as recognised in the Financial Statements and the Class Statements, total £448m. The total value of compensation payments paid in 2017/18 was £405m, with £445m recognised in the Financial Statements and the Class Statements. The differences are mainly due to compensation accrued or provided for in 2017/18 being paid in 2018/19.

The relative stability of the compensation costs recognised in the financial statements contrasts with some relatively large year-on-year changes within the levy classes, however. Investment Intermediation has dropped from £129m to £49m, principally due to a £50m provision in 2017/18 for the return of assets and cash to customers of Beaufort Asset Clearing Services. The actual payment of this compensation began in 2018/19, and is the main reason compensation payments made and compensation costs reflected in the financial statements differ. The failure of Dial-A-Cab Credit Union in 2018/19 and the release of the remaining provision for Dunfermline Building Society in 2017/18 were the main causes of a £43m increase from 2017/18 in the Deposits class. The failure of three SIPP operators in the Investment Provision class increased the total cost of compensation in that class from £5m in 2017/18 to £32m in 2018/19.

For further information on compensation costs, see pages 38 to 42.

Recoveries

On 26 April 2018, UK Asset Resolution announced a sale of Bradford & Bingley mortgage assets. Financial completion took place on 23 May 2018, involving loan repayments of £4.7bn to HM Treasury for the remaining FSCS loan. Interest on the loan of £14.2m was paid to HM Treasury in 2018/19. No recoveries income was recognised for this in the year as it had been recognised in prior years.

Recoveries income in the year was £15m, down from £30m in 2017/18. This comprises cash receipts and changes in assumptions about future recoveries. At year-end we have a recoveries receivable balance of £40m.

Utilising the expertise and resources of our new panel of law firms, as announced in January 2019, we are pursuing a number of different recoveries avenues, including:

- continuing to focus across UK and international jurisdictions, where the underlying investment has failed (in SIPP mis-selling and other similar cases) – by way of example, recoveries against the Harlequin Group of Companies;
- pursuing a portfolio of recoveries against the Professional Indemnity insurers of various firms declared in default by FSCS; and
- working more closely with other UK agencies, such as the FCA and the Serious Fraud Office, to maximise recoveries. This work also supports the Prevent pillar of our new strategy for the 2020s.

Administrative expenses

During the year, there was an increase in administration expenses to £74.2m. This was against the backdrop of rising SIPP and Pension claims volumes, coupled with increased costs supporting our strategic transition to a single outsource partner, Capita. This necessitated utilising £1.5m of the unlevied reserve where we could not absorb cost increases with efficiency savings. Other causes of cost increases included rising cyber attacks on our infrastructure, which required the enhancement of our cyber security and the establishment of a security operations centre, and the increased complexity of the legal challenges we face.

Pension costs and defined benefit pension scheme

FSCS administers a money purchase scheme in which all employees are eligible to participate and receive an employer contribution of at least 6%.

Our defined benefit pension scheme has been closed to new members and future accrual since 30 June 2011. A contribution of £1.9m (£1.9m in 2017/18) was made during the year to honour our commitment to eliminate the pension scheme deficit by 2022.

Actuaries for FSCS have calculated that, as at 31 March 2019, the defined benefit pension scheme had a surplus of £6.8m (March 2018: surplus of £2.5m). This is calculated under International Accounting Standard (IAS) 19, for the purpose of the statutory financial statements. Actuaries to the defined benefit pension scheme produced a triennial valuation of the pension scheme's funding position as of 1 April 2018, which shows a deficit. This is because The Pensions Regulator requires this to be prepared on a prudent basis. For this reason, FSCS is continuing to make annual contributions into the pension scheme to eliminate the deficit, as measured by the pension scheme.

FSCS is entitled to recover any surplus contribution upon wind-up of the pension scheme.

Balance sheet

Our assets are principally cash and recoveries receivable, which we recognise in line with our accounting policy for recoveries.

Critical accounting judgements and key estimation uncertainties

The key areas of uncertainty and judgement in the financial statements are as follows.

Compensation costs

Compensation costs consist of compensation payments made during the year and a provision for future compensation not paid. The provision is the best estimate of compensation that has been offered but not paid at the Balance Sheet date, plus our best estimate for future return of funds and return of premium payments for existing failures that have not yet been paid.

Levies and recoveries

We have made judgements about the timing and number of claims arising in the year from which we set our levy. Levy income is recognised after taking into account costs associated with the compensation scheme. Any surplus or deficit in levy income is deferred as payable to or receivable from levy payers.

We estimate the timing and value of recoveries receivable based on information available to the directors at 31 March 2019, including Insolvency Practitioners' statements of estimated outcomes and other reports published as part of the various insolvency processes. Nevertheless, the timing and final outcome of recoveries are uncertain.

Outsourced claims-handling costs

Outsourced claims-handling costs consist of: (a) invoices paid during the year and accruals for decisions made but not invoiced; and (b) the cost of claims at various stages of the claims-handling process, which we call 'work in progress'.

Approval of the Strategic and Performance Report

This was approved by the Board on 21 May 2019 and signed on its behalf by:

Caroline Rainbird
Chief Executive, Financial Services Compensation Scheme
14 June 2019

BASED ON A TRUE STORY:
I LOST MY LIFE SAVINGS

I was saving for my daughter's education and thought the credit union was safe – a lot of the guys at work had money in it. But the credit union went bust, which meant the money, all £20,000, was gone. I was carrying on as normal. I had no idea the union had gone bust: one morning, I got a letter from the Financial Services Compensation Scheme about it.

"When the credit union went bust, FSCS had stepped in. They'd been working through the paperwork to track me down – and make sure I got my money back. They told me that my money was safe: FSCS would compensate me in full automatically. So with the letter was a cheque for £20,000 – FSCS doesn't even charge a fee or commission.

"Now I tell all the other drivers: don't put your money anywhere else unless it's FSCS protected, and you know your money is safe."

To find out more, visit www.fscs.org.uk/what-we-cover/credit-unions/cabbie/

fscs Protected

BASED ON A TRUE STORY: **OUR RETIREMENT SAVINGS WERE INVESTED INTO A SCAM**

We invested our retirement savings in a scam and nearly lost our home. The scheme went bust, we lost all our money and we were left with a huge mortgage on our home and no way to pay it off.

"FSCS couldn't get our investment back: that was gone forever. But they could help us with the remortgage. Because we'd taken it out with an FSCS-protected provider, we could claim for the misleading advice we were given, so FSCS could pay us compensation.

"It wasn't everything we lost, but it was enough to make sure we didn't lose our home and that made all the difference to our lives. The service was completely free, with no charges or commission. When we thought we'd lost everything, and we couldn't trust anyone, it got us back on our feet."

To find out more, visit : www.fscs.org.uk/what-we-cover/investments/property-scam/

fscs Protected

04 ANNUAL REPORT OF THE INDEPENDENT INVESTIGATOR

April 2018 to September 2018

In September 2018 the term of the existing Independent Investigator, David Bland OBE, came to an end, and FSCS appointed a new Independent Investigator, Caroline Trewhitt. Between last year's report and the appointment of Ms Trewhitt, Mr Bland conducted three reviews for FSCS, all of which identified areas where FSCS's service fell below the expected standards.

We would like to take this opportunity to thank Mr Bland for his time with us as our Independent Investigator.

During 2018/19, the Independent Investigator process changed. Previously, the Independent Investigator's reports were submitted for consideration at the next Board meeting. Now, reports are submitted to the Chief Operating Officer and the Chief Corporate Affairs Officer for their review and any decision on next steps, which might include recommendations for process improvements. These reviews and our responses to them are then subsequently issued to the Board for information. This change in process allows for a more immediate response and implementation of any necessary changes.

October 2018 to March 2019

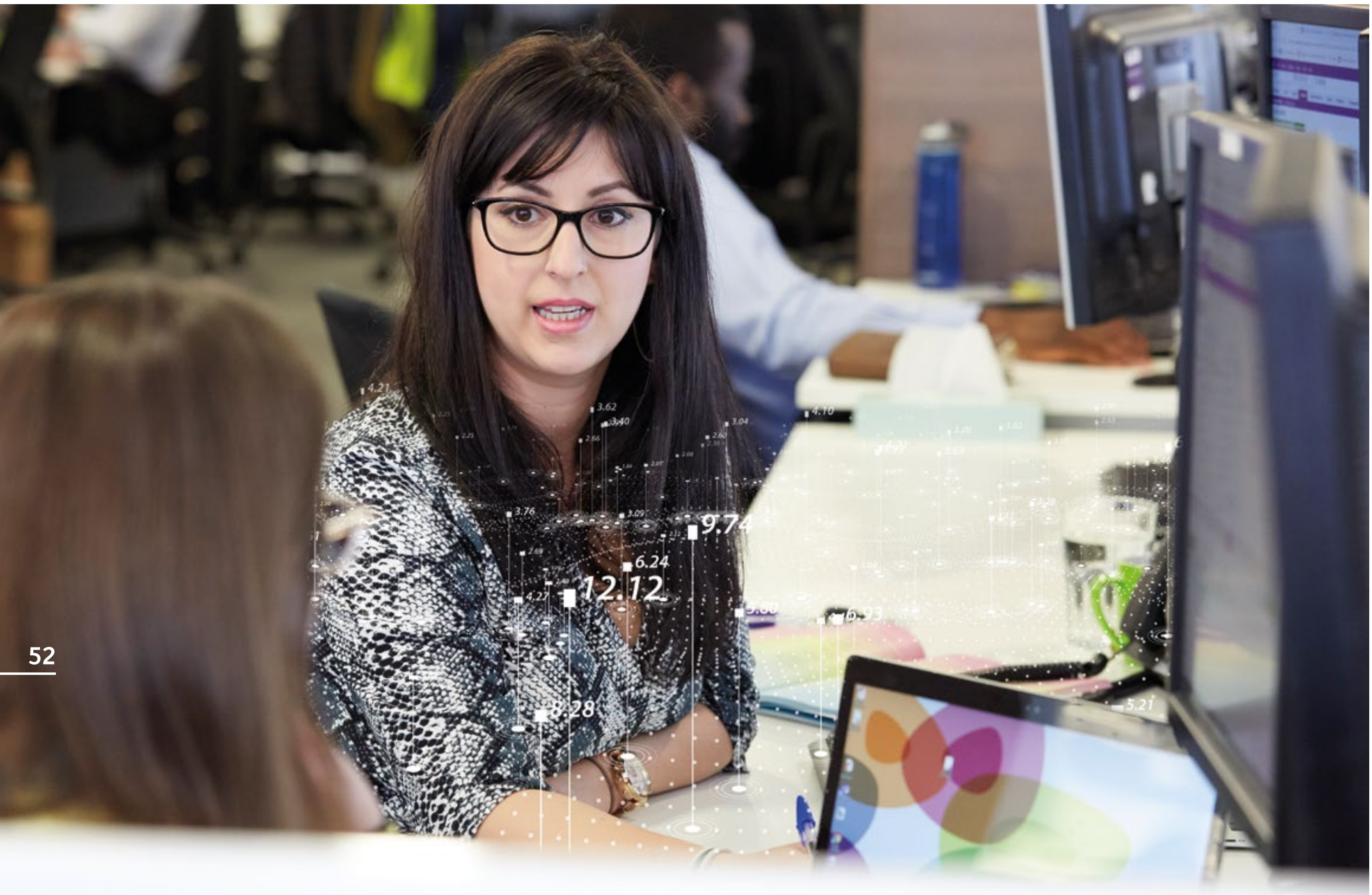
"Since my appointment in October 2018 I have received three referrals from FSCS. I aim to complete my reviews within four weeks depending on the complexity of the case and the volume of material. FSCS provides me with an electronic copy of all the documents and other supporting material held for a given case. This includes emails and, where available, any call recordings. I review all material sent to me. For all three referrals my initial examination gave rise to a series of supplementary questions that were directly addressed with FSCS staff.

"Of the three cases referred to me, I upheld two and rejected one. I provide FSCS with a detailed report for each referral and seek to address the specific points raised by the complainant and any other relevant observation concerning case handling. Specifically, I will look to alert the FSCS Board to any evidence that points to potentially wider systemic weaknesses.

"I am satisfied that FSCS has been fully transparent in providing access to the relevant material for each referred case. I am also satisfied that my recommendations have been followed up with each complainant and that FSCS considers any process-specific findings that I highlight in my reports.

"I have visited FSCS's office in London to see the complaints process in action and over the coming year, I will also be visiting Capita in Glasgow to see the claims process firsthand."

Caroline Trewhitt
Independent Investigator



05 ACCOUNTABILITY REPORT

Statement of Accounting Officer's Responsibilities

HM Treasury has designated the Chief Executive as the Accounting Officer for FSCS. The Chief Executive's responsibilities as Accounting Officer are set out in the FSCS and HM Treasury framework document. These responsibilities broadly include:

- ensuring the regularity and propriety of public funds;
- keeping proper records;
- day-to-day operations and management of FSCS and performance reporting; and
- ensuring that appropriate standards of governance, decision-making and financial management are maintained.

As shown under Board changes, between 4 May and 12 May 2019, no Chief Executive was in place. FSCS's Chief Operating Officer, Jimmy Barber, was the Accounting Officer during this period.

Corporate Governance Report

The FSCS Board is committed to high standards of corporate governance. As the Scheme is not a listed company, it need not comply with the UK Corporate Governance Code (the Code). However, to ensure best practice, the Board has chosen to follow it voluntarily.

This section explains how FSCS has applied the main principles of the Code issued in April 2016 and where it has departed from some of the Code's provisions. The Scheme complied throughout the year with the Code except for the provisions listed at the end of this section. The Code was revised in July 2018, to take effect for reporting periods from 1 January 2019. FSCS will therefore start to apply the new Code from 1 April 2019 for the 2019/20 financial year.

The Board

The FSCS Board currently consists of 10 directors, seven of whom are non-executive directors, including the Chairman. The biographies of the directors are set out on pages 61 to 63.

The appointment and removal of Board members is made by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA). The appointment, reappointment and removal of both the Chairman and the Chief Executive are also approved by HM Treasury. All appointments and reappointments of directors are for periods of no more than three years. The appointment process is overseen by the Nomination and Governance Committee and is described on page 59.

The Board considers all the non-executive directors to be independent, within the meaning set out in provision B.1.1 of the UK Corporate Governance Code, and all directors are also subject to a conflicts of interest policy in line with the Companies Act and the company's Articles of Association to prevent any potential interference with the independence of their judgement on Board matters.

Board changes:

Marshall Bailey
Chairman (non-executive director)
1 April 2018 – 31 March 2021

Mark Neale
Chief Executive (executive director)
4 May 2010 – 3 May 2019

Caroline Rainbird
Chief Executive (executive director)
13 May 2019 – 12 May 2022

Kathryn Sherratt
Chief Financial Officer (executive director)
15 Dec 2015 – *Resigned* 23 May 2019

Further details of terms of appointment are given on page 60.

In addition, the FCA and PRA approved the reappointments of three non-executive directors (Mark Adams, Marian Glen and Charles McKenna) and three executive directors (Jimmy Barber, Alex Kuczynski and Kathryn Sherratt) for further periods as shown in the table on page 60.

Deputy Chairman and Senior Independent Director

Charles McKenna is FSCS's Deputy Chairman and Senior Independent Director (SID), and has occupied these roles since 1 July 2017. The SID acts as a sounding board to the Chairman and is available to other directors when necessary, should concerns arise.

Board Diversity

FSCS actively seeks diversity on the Board, and ensures that this is considered as part of the recruitment process. Board appointments continue to be based on merit, measured against objective criteria, and the skills and experience the individual can bring to the Board. Accordingly, FSCS has not set specific measurable objectives for how it applies its Board diversity approach.

Operation of the Board

The Board has a formal schedule of matters reserved for its decision, which includes:

- setting FSCS's strategy;
- setting policy;
- overseeing FSCS's operations and reviewing the Scheme's performance;
- approving the Plan and Budget;
- approving levies above specified limits; and
- responsibility for the risk management and internal control systems.

Certain matters are delegated to committees of the Board and these are described in each committee's Terms of Reference. The duties of the Audit Committee, Risk Committee, Remuneration and Human Resources Committee, Nomination and Governance Committee and Claims Decisions Committee are summarised in this report.

The Board met 10 times during the year and held two strategy days off-site, at which the strategic direction of FSCS was reviewed. Following recommendations made in the 2017 Board Evaluation, the Board decided to reduce the number of Board meetings generally, but in months where there was no Board meeting, there would be an informal telephone update for directors. During the year there were four of these calls.

The Board believes that it receives and has timely access to the relevant information needed to make appropriate decisions. Directors review this on an ongoing basis to ensure that the Board continues to receive sufficient, accurate, timely and clear information.

The Company Secretary, appointed by the Board, attends all Board and Committee meetings and is responsible for ensuring that Board procedures are followed and that appropriate records are kept, as well as for advising, through the Chairman, on governance matters. Directors are permitted to obtain independent professional advice, as required, on any matter that might help them carry out their duties.

Strategy review

During the year, the Board developed a new FSCS strategy for the 2020s, framed around four pillars: prepare; protect; prevent; and promote. This is described on page 24. This was further explored through a series of internal briefings and external stakeholder events.

Induction and training

New directors are involved in a comprehensive induction process designed to enable them to quickly become familiar with FSCS. Their induction includes meeting existing Board members and staff across several key business areas.

Directors are also offered training as part of their continuing professional development. They take up opportunities to refresh their knowledge and skills so they can stay up to date on specific FSCS issues, their duties as directors, and with industry and regulatory changes. External speakers, including senior officials from the FCA and PRA, are also invited to discuss relevant matters with the Board from time to time outside of formal Board and Committee meetings.

Annual director appraisal

The Chairman arranged to meet each of the non-executive directors and the Chief Executive individually to carry out an annual performance review. These reviews include feedback from other directors, offered as part of a structured annual review process using a questionnaire, and from the Chairman's regular discussions with directors outside of formal meetings. The Deputy Chairman carries out the Chairman's performance review on behalf of the Board, and the Chief Executive carries out the annual performance reviews of the other executive directors.

Board effectiveness review

The Board carries out a formal and rigorous evaluation of its own performance, and that of its committees, on an annual basis. These evaluations are externally facilitated every three years, with the last externally facilitated Board Evaluation carried out in 2017.

In late 2018, the Board conducted its annual review of its own effectiveness and that of its committees using an online feedback form containing detailed questions on how the Board works together and its balance of skills, experience, independence, company knowledge and diversity. To supplement the annual review, the Chairman maintained regular contact with directors outside formal Board/Committee meetings to obtain views on Board performance, and met the non-executive directors from time to time without the executive directors present.

The key points raised in the review were discussed by the Board in December 2018, which included seeking greater opportunities for the Board to meet outside formal Board meetings – both as a whole and with senior officials from regulatory and industry bodies. Other areas for improvement included tightening disciplines around clear and concise Board papers, non-executive directors receiving additional briefings, both formal and informal, from FSCS staff and management on key functions and process enhancements, and additional opportunities to engage with FSCS staff. It was accepted that, while there were no fundamental shortcomings in the operation of the Board, these and other initiatives should help to improve the Board's visibility and its overall efficiency and effectiveness.

COMMITTEES OF THE BOARD

- Board
  - Audit Committee
  - Risk Committee
  - Remuneration and Human Resources Committee
  - Nomination and Governance Committee
  - Claims Decisions Committee

Audit Committee

Committee members as at 31 March 2019


Mark Adams (Chairman)


Steven Cooper


Charles McKenna


Patrick Neville

Roles and responsibilities

The roles and responsibilities are set out in the Terms of Reference for the Committee. Its key responsibilities are to review the financial reporting process, the system of internal control, audit process and the company's process for monitoring compliance with laws and regulations.

The Board is satisfied that at least one member has recent and relevant financial experience and that the Audit Committee as a whole has relevant competence to FSCS's role.

The Committee met four times during the year, and reported to the Board after each meeting.

The Chief Executive, Chief Corporate Affairs Officer, Chief Financial Officer, internal auditors and external auditors attended most meetings by invitation.

What the Committee has done

Governance

During the year, the Committee:

- reviewed the internal control arrangements and assisted with the transition of structure and provider of internal audit services;
- held discussions with both internal and external audit without the Executive;
- reviewed the Scheme's Health and Safety obligations;
- received reports on fraud and money laundering;
- reviewed the Whistleblowing Policy;
- received reports on data protection;
- considered reports on quality assurance reviews;
- reviewed its Terms of Reference; and
- carried out a review of the effectiveness of the Committee.

Financial reporting

The Committee:

- considered the significant accounting judgements and estimates made in connection with the financial statements, together with the appropriateness of the accounting policies;
- considered the appropriateness of the going concern presumption;
- reviewed the Annual Report and Class Statements; and
- reviewed the statements in the Annual Report and Accounts and made recommendations to the Board, following which the Board concluded that the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable, and provided sufficient information to enable the company's performance, business model and strategy to be assessed.

Internal audit

The Committee:

- set and reviewed the internal audit plan;
- considered the results of internal audit reports and the action plans to address audit recommendations;
- reviewed and approved the Internal Audit Policy and Internal Audit Charter; and
- carried out its annual review of the internal audit function.

The internal auditors had separate discussions with the Chairman of the Audit Committee.

External audit

The Committee:

- reviewed the external audit function and process, including the performance of the external auditors.

The external auditors performed no non-audit services during the year.

A report on the Risk Management Framework is given on pages 73 to 77.

Risk Committee

Committee members as at 31 March 2019


Charles McKenna (Chairman)


Mark Adams


Patrick Neville


Helen Parker

Roles and responsibilities

The roles and responsibilities are set out in the Terms of Reference for the Committee. Its key responsibilities are to review FSCS's risk management approach, its approach to risk tolerance and its mitigation of those risks. It also reviews FSCS's contingency planning arrangements and disaster recovery plans.

The Committee met six times during the year, and reported to the Board after each meeting.

The Chief Executive, Chief Corporate Affairs Officer, Chief Risk Officer and internal auditors attended most meetings by invitation.

What the Committee has done

During the year, the Committee:

- considered the implementation of the revised Risk Management Framework and its enhancements;
- reviewed the Scheme's Risk Profile (a standing item for each meeting);
- reviewed the contingency planning arrangements for large business failures in the financial services industry;
- reviewed the Scheme's disaster recovery arrangements;
- received reports on information and cyber security;
- reviewed its Terms of Reference; and
- carried out a review of the effectiveness of the Committee.

A report on the Risk Management Framework is given on pages 73 to 77.

Remuneration and Human Resources Committee

Committee members as at 31 March 2019


Marian Glen (Chairman)


Marshall Bailey


Steven Cooper


Helen Parker

Roles and responsibilities

The roles and responsibilities are set out in the Terms of Reference for the Committee. Its main responsibilities include executive director remuneration, FSCS's broader remuneration policy, employee benefit structures, the ongoing development and execution of the People strategy, monitoring corporate responsibility and overseeing diversity and inclusion.

The Committee met four times during the year, and reported to the Board after each meeting.

The Chief Executive and Chief People Officer attended most meetings by invitation.

What the Committee has done

During the year, the Committee:

- made recommendations to the Board for the approval of the Chief Executive's remuneration package and determined the remuneration packages of other executive directors, having taken into account comments from the Chief Executive – in the case of executive directors, performance and market data provided by external consultants are taken into account and remuneration incorporates a performance-related element;
- made recommendations to the Board on the proposed salary budget in the light of market conditions in the UK economy;
- reviewed FSCS's performance as part of its determination of the size of the bonus pool;
- reviewed succession planning;
- considered the results of the equal pay audit;
- considered remuneration-related implications for FSCS of the new UK Corporate Governance Code (2018);
- approved changes to the group personal pension plan;
- received reports on exit interviews;
- reviewed and revised the Scheme's Remuneration Policy and Expenses Policy;
- reviewed its Terms of Reference; and
- carried out a review of the effectiveness of the Committee.

FSCS engaged Twentysix Consulting as remuneration consultants. Twentysix Consulting has no other connection with FSCS.

A fuller report on directors' remuneration is given in the Directors' Remuneration Report on pages 64 to 69.

Nomination and Governance Committee

Committee members as at 31 March 2019

Marshall Bailey (Chairman)

Marian Glen

Charles McKenna

Mark Neale

Roles and responsibilities

The roles and responsibilities are set out in the Terms of Reference for the Committee. Its main responsibilities include Board composition and succession planning, reviewing membership of the Board committees, liaising with the PRA and FCA on appointments/reappointments of Board members and overseeing the Board's governance arrangements and other corporate governance issues.

The process for appointing and reappointing directors involves:

- the Committee discussing Board composition (including mix of skills and experience, diversity and Board size);
- engaging with the FCA and PRA on the process;
- appointing an external search consultancy for new appointments; and
- using a selection panel of FCA, PRA and FSCS representatives to make proposals for FCA and PRA approval (and HM Treasury, in the case of the Chairman and Chief Executive).

The Committee met two times during the year, and reported to the Board after each meeting. Additional discussions regarding appointments and reappointments of directors were also held outside of formal meetings.

What the Committee has done

During the year, the Committee:

- received updates on the recruitment of the new FSCS Chief Executive, who was appointed by the FCA and PRA, with approval from HM Treasury, with effect from 13 May 2019, as well as on the recruitment of an additional non-executive director;
- having reviewed the composition of the FSCS Board and terms of appointment in light of expiring appointments of directors in 2018/19, recommendations were made to the FCA and PRA who approved the reappointments of three non-executive directors and three executive directors;
- considered implications for FSCS of the new UK Corporate Governance Code (2018);
- reviewed its Terms of Reference; and
- carried out a review of the effectiveness of the Committee.

Odgers Berndtson was engaged as external search consultancy for the recruitment of the new Chief Executive and a new non-executive director, both appointments scheduled to commence in mid-2019. Odgers Berndtson has no other connection with FSCS.

Claims Decisions Committee

Roles and responsibilities

The Claims Decisions Committee meets on an ad hoc basis to consider marginal or unusual claims and difficult claims issues referred to it by the Executive. It consists of three directors: the Chief Executive (or another executive director) and any two non-executive directors. The non-executive directors are selected at the time the Committee meeting is convened.

There were no meetings of the Committee held during the year.

Attendance at meetings and appointment terms

	Board	Audit Committee*	Remuneration and Human Resources Committee*	Nomination and Governance Committee*	Risk Committee*	Claims Decisions Committee*	Appointment date	Expiry of term/ Resignation
No. of meetings held	**10**	**4**	**4**	**2**	**6**	**0**		
Non-executive directors:								
Mark Adams	10	4	–	–	6	–	1 Jun 2015	31 May 2021
Marshall Bailey	10	–	4	2	–	–	1 Apr 2018	31 Mar 2021
Steven Cooper	9	3	3	–	–	–	1 Jul 2017	30 Jun 2020
Marian Glen	8	–	4	2	–	–	1 Feb 2013	31 Jan 2020
Charles McKenna	7	4	–	2	6	–	1 Feb 2013	31 Jan 2021
Patrick Neville	10	4	–	–	5	–	1 Jul 2017	30 Jun 2020
Helen Parker	9	–	4	–	6	–	1 Jul 2017	30 Jun 2020
Executive directors:								
Jimmy Barber	9	–	–	–	–	–	4 Jan 2016	3 Jan 2022
Alex Kuczynski	10	–	–	–	–	–	1 Feb 2010	31 Jan 2022
Mark Neale	10	–	–	2	–	–	4 May 2010	3 May 2019
Caroline Rainbird	–	–	–	–	–	–	13 May 2019	12 May 2022
Kathryn Sherratt	9	–	–	–	–	–	15 Dec 2015	*Resigned* 23 May 2019

*Attendance shown only for committee members.

THE BOARD OF DIRECTORS

Executive Directors

Caroline Rainbird
(Chief Executive, with effect from 13 May 2019)
Caroline brings a wealth of global experience from a career spanning 30 years within the financial services sector encompassing senior regulatory, strategic, commercial, operational, investment banking, and client-led roles. Between 2009 and 2017 she held senior positions at Royal Bank of Scotland (RBS) working most recently as Managing Director of Regulatory Affairs, where she was responsible for defining and delivering the bank's strategic and proactive engagement and profile with its global regulators, advising the Bank Board and Executive on its regulatory engagement and compliance, as well as monitoring bank-wide upstream regulatory risks and delivering mandatory regulatory change programmes. Prior to this, Caroline was Director of RBS's Corporate Services Division, where she was responsible for the global strategy, operations, service delivery, financial performance and risks of one of the largest cost areas within RBS. From 1995 to 2009 she worked at ABN AMRO, undertaking a number of leadership and transactional roles within Group Shared Services, Finance, Change Management and Structured Finance.

Alex Kuczynski
(Chief Corporate Affairs Officer)
Alex was previously General Counsel and, before that, Head of Legal at FSCS. His role as Chief Corporate Affairs Officer brings together our work in areas that include legal support and the recoveries function, company secretariat, risk management and quality assurance, organisational resilience, communications and policy, and international relations. Alex joined from the Investors Compensation Scheme, where he was Head of Legal, and acted as Interim Chief Executive from March to May 2010. He is active in a number of international associations, for example, as Vice-Chairman of the European Forum of Deposit Insurers, a member of the Executive Council of the International Association of Deposit Insurers, and with the International Forum of Insurance Guarantee Schemes.

Jimmy Barber
(Chief Operating Officer)
Jimmy joined FSCS in early January 2016 in a critical role bringing together the delivery of our service to customers and the IT and data architecture which supports that service. He worked as the Operations Development Director and (before this) as the Commercial Operations Director at the RSA Insurance Group, where he had been since 2007. In these roles Jimmy was responsible for business transformation and improvement and for the delivery of shared services across the UK. Before the RSA, Jimmy held major operational roles at Capital One and at Ladbrokes.

Non-Executive Directors

Marshall Bailey OBE
(Chairman)
Marshall has substantial experience of leading complex international committees and boards. His background spans a range of sectors, including banking and capital markets, government regulation and public policy, and he has taken a particular interest in working with codes of conduct.

Marshall is Chairman of LCH Group Holdings Limited and an independent director of London Stock Exchange Group plc. He is the non-executive Chairman of CIBC World Markets in London, and a member of the Audit Committee for the London branch. Additionally, he represents the Public Investment Fund in Saudi Arabia on the Board of the National Commercial Bank in Jeddah. He volunteers on the Board of the CFA Society of the UK, as well as the East End Community Foundation in Tower Hamlets.

Mark Adams
Mark is a Chartered Accountant and retired as a partner at Deloitte LLP and as an Insolvency Practitioner in 2013. For 25 years, he has been at the centre of resolving many of the major financial services sector failures, including insurance sector failures in the UK, Japan, Bermuda and the Channel Islands, and more recently the banking sector failures in Iceland. Mark is currently a non-executive director of Raphaels Bank, also being Chair of its Audit and Risk Committee, and has extensive experience in resolution planning with the UK Authorities in the banking and building society sectors. In addition, he has expertise in advising bank and bondholder lenders to financial institutions experiencing stress or undergoing restructuring processes. Mark has been a provisional liquidator, scheme administrator or administrative receiver to various financial institutions.

Steven Cooper
Steven is the Chief Executive of C. Hoare & Co, having most recently been Chief Executive at Barclaycard Business Solutions, managing the payments division for Barclaycard globally. Within his 30 years in the banking industry, Steven had been Chief Executive of Personal Banking at Barclays for both UK and Europe, where he gained a wealth of experience in the rapidly changing landscape of consumer banking with digital technology and data. He has also led UK Business Banking and businesses for Barclays in Africa, India and offshore locations. Steven is currently a non-executive of Robert Walters plc and sits on a number of advisory boards, including being a Commissioner for the Social Mobility Commission, and is also an alumnus of Harvard Business School.

Marian Glen
With more than 25 years' experience of corporate finance, Marian was a solicitor at Linklaters in the City specialising in mergers and acquisitions, joint ventures and financial services before joining Shepherd and Wedderburn (S&W) where she was a corporate partner for many years. Latterly as Head of Financial Services at S&W she worked on a range of deals in the financial services sector before being appointed UK General Counsel at the global insurer Aegon, joining its UK Executive and Global Leadership teams. Marian now has a portfolio of non-executive roles. She is a non-executive director and Audit Committee member of Shires Income plc and is a non-executive director and Chair of the Audit Committee of Martin Currie Global Portfolio Trust plc. In addition, Marian is a non-executive director of The Medical and Dental Defence Union of Scotland, where she is also a member of the Audit and Risk Committee. She is a former non-executive director of Friends Life Group, the FTSE 100 insurance group.

Charles McKenna
(Deputy Chairman and Senior Independent Director)
Charles has a background in law and spent more than 30 years with law firm Allen & Overy, including 22 years as a Partner specialising in corporate, financial services and regulatory law. He has an extensive understanding of international business activity and challenges, including strategy development, corporate governance, risk management, corporate finance, restructuring and insolvency, joint ventures and other commercial arrangements. Charles also has a wealth of experience and expertise in the financial services sector where he advised banks, investment managers and brokers, financial institutions and regulatory bodies. In the 1980s, he was involved in the formation of the Securities Association, the first UK self-regulating organisation, which included advising on its constitution and rulebook. He served for three years on the Board of Hart Citizens Advice Bureau.

Patrick Neville
Patrick is a Chartered Accountant and has had an extensive career in financial services, operating in leadership roles across banking, asset management and insurance. Formerly Chief Financial Officer at Aviva Investors, Patrick was also Finance Operations Director for Aviva's UK Life and General Insurance businesses and spent 16 years with Royal Bank of Scotland, latterly as Finance Director of the Cards and Direct Finance business. He brings to the Board a strong track record in the delivery of large-scale change and a deep understanding of the implementation and operation of risk and control frameworks in financial services. Patrick is also non-executive Chair of PATAC Ltd, an investment trust administration company, and a director of Decisioning Blueprints Ltd.

Helen Parker
Helen brings an in-depth understanding of consumer research, policy and communications across a range of essential markets. She was Deputy Chief Executive of Which?, Europe's largest independent consumer organisation and, before that, served as its Director of Policy, Editorial Director, and Editor of *Which?*. Her non-executive experience now includes being a committee member of Healthwatch England, the independent consumer champion for users of health and social care. She is also a member of the Independent Consumer Challenge Group established by the energy regulator Ofgem as part of its price control process for UK energy networks. She previously served as a non-executive director of the Fundraising Standards Board, then the regulator of UK charity fundraising, and as a Council member of Consumers International, the world federation of consumer rights groups with 200 member organisations in 100 countries.

DIRECTORS' REMUNERATION REPORT

Certain parts of this report are subject to audit, and these are marked in the relevant sections.

Annual report on remuneration

Non-executive directors' fees are reviewed and set by the FCA and the PRA. FSCS is responsible for setting the remuneration for executive directors. The Remuneration and Human Resources Committee considers the full remuneration package for the Chief Executive and makes recommendations to the Board for approval. The Chief Executive is not present when this remuneration package is being considered. The remuneration packages of the other executive directors are determined by the Remuneration and Human Resources Committee. A fuller description of the work of the Remuneration and Human Resources Committee is given on page 58.

Directors' remuneration table for 2018/19

Audited section	2018/19					
	Fees and salary[1] £'000	Taxable benefits[2] £'000 (nearest £100)	Performance-related bonus[3] £'000	Pension[4] £'000 (nearest £1,000)	Total £'000	Fees and salary[1] £'000
Non-executive						
Mark Adams	**25-30**	**2.5**	–	–	**30-35**	25-30
Marshall Bailey	**75-80**	–	–	–	**75-80**	–
Margaret (Liz) Barclay	–	–	–	–	–	5-10
Lawrence Churchill	–	–	–	–	–	75-80
Steven Cooper	**20-25**	–	–	–	**20-25**	15-20
Marian Glen	**25-30**	**6.2**	–	–	**35-40**	25-30
Charles McKenna	**25-30**	–	–	–	**25-30**	25-30
Patrick Neville	**20-25**	**5.3**	–	–	**25-30**	15-20
Caroline (Jayne) Nickalls	–	–	–	–	–	5-10
Helen Parker	**20-25**	**1.0**	–	–	**25-30**	15-20
Robert (Paul) Stockton[5]	–	–	–	–	–	0[5]
Executive						
Jimmy Barber	**235-240**	**2.2**	**45-50**	**31**	**320-325**	230-235
Alex Kuczynski	**225-230**	**2.1**	**25-30**	**20**	**275-280**	220-225
Mark Neale	**260-265**	**0.0**	**35-40**	**23**	**325-330**	260-265
Kathryn Sherratt	**185-190**	**0.8**	**25-30**	**16**	**230-235**	165-170
Highest paid director's total remuneration[6] (£'000)					**300-305**	
Median total remuneration for FSCS staff[6] (£)					**55,227**	
Remuneration ratio[6]					**5.5**	

2017/18			
Taxable benefits[2] £'000 (nearest £100)	Performance-related bonus[3] £'000	Pension[4] £'000 (nearest £1,000)	Total £'000
2.8	–	–	25-30
–	–	–	–
–	–	–	5-10
11.4	–	–	85-90
–	–	–	15-20
7.8	–	–	35-40
–	–	–	25-30
4.8	–	–	20-25
0.1	–	–	5-10
0.3	–	–	15-20
–	–	–	0-5[5]
2.0	40-45	26	300-305
2.0	20-25	20	265-270
–	30-35	23	315-320
0.8	20-25	16	205-210
			290-295
			53,741
			5.5

Notes:

1 The Chairman and other non-executive directors are paid fees, and executive directors are paid salaries. Executive directors do not receive fees or any additional remuneration in respect of their roles as directors. Salaries and fees are stated for the financial year in respect of which they are earned and relate to each director's period of appointment. All directors were in their post for the 2018/19 year. For executive directors, the figures in the 'Fees and Salary' column constitute basic salary, with adjustments for non-taxable benefits and for other benefits paid through PAYE. More details on directors' salaries and fees are given in the relevant section below.

2 'Taxable benefits' represent the gross value of benefits, whether cash or non-cash, that are chargeable to UK income tax. The figures in this column include certain employee benefits taken up by executive directors and any *taxable expenses* directly and properly incurred by directors in the performance of FSCS duties. For the Board as a whole, these *taxable expenses* amounted to £15,000 in 2018/19 (2017/18: £27,100) (to the nearest £100). The majority of these additional taxable expenses relate to non-executive directors' travel to FSCS, and any associated subsistence, for attending Board and Committee meetings, and include the associated income tax and National Insurance liability, which is met by FSCS in accordance with HM Revenue & Customs guidelines.

3 'Performance-related bonus' is stated for the financial year in respect of which it is earned. More details on the bonus framework are given in the relevant section below.

4 'Pension' is shown as the amounts paid by the employer to defined contribution pension schemes, including any 'matching' contributions made by FSCS, and cash in lieu of pension. Other details are given below under 'Directors' pension entitlements'.

5 For the 2017/18 comparative year, by arrangement and agreement with Paul Stockton's employing company, Mr Stockton did not receive a Board fee. Instead, the normal annual fee for non-executive directors of £24,500, together with the £5,000 per annum additional fee payable to the Chairman of the Audit Committee, was invoiced by, and paid to, his employing company. The invoiced amounts included VAT, so the annual amount payable in respect of Mr Stockton's non-executive directorship of FSCS for 2017/18, up to 30 November 2017 (the date he left the Board), was £22,437. No part of this benefit passed to Mr Stockton.

6 This section of the table shows the relationship between the remuneration of the highest-paid director and the median remuneration of the organisation's workforce. The banded remuneration of the highest-paid director in 2018/19 was £300,000-£305,000 (2017/18: £290,000-£295,000). This was 5.5 times (2017/18: 5.5 times) the median remuneration of the workforce, which was £55,227 (2017/18: £53,741). Excluding the highest-paid director, remuneration ranged from £18,863 to £288,978 (2018: £18,189 to £278,485). For this purpose, total remuneration includes salary, bonus and taxable benefits. It does not include pension contributions or cash in lieu of pension. Full details of the remuneration of the highest-paid director are given on page 67 under 'Highest-paid director' and in Note 10 to the financial statements.

Highest-paid director

Audited with the notes to the financial statements

The highest-paid director in 2018/19 and 2017/18 was the Chief Executive, who received aggregate remuneration of £304,371, comprising basic salary of £264,648, bonus of £39,697, and other emoluments of £26 (2018: £294,782, comprising basic salary of £262,028, bonus of £32,754, and other emoluments of £0). Payments for cash in lieu of pension have been made of £23,256 (2018: £23,025). The Chief Executive did not receive additional remuneration in respect of his role as director.

Directors' remuneration framework

Directors' fees and salaries

Non-executive directors

The current non-executive director fees, including those of the Chairman, were set in April 2011 and have not changed since.

The fees paid or payable to the Chairman in 2018/19 were set at £75,000 a year (2017/18: £75,000), and fees paid or payable to other independent non-executive directors were set at £24,500 a year (2017/18: £24,500). Additional fees paid or payable to the chairs of the Audit Committee, Risk Committee, and Remuneration and Human Resources Committee were set at £5,000 a year (2017/18: £5,000). The Chairman of the Board was also the Chair of the Nomination and Governance Committee but does not receive an additional fee for this role. Similarly, an additional fee is not payable to the Deputy Chairman and Senior Independent Director for these roles.

Executive directors

The Remuneration and Human Resources Committee has applied certain principles when reviewing executive remuneration.

First, as with the organisation more generally, the growth in the salaries of individual executive directors should be set with regard to external comparators. For this purpose, FSCS regards the median salary for equivalent roles as the appropriate benchmark. This is to ensure that, broadly, FSCS matches market rates in order to motivate and retain, but not necessarily to pay significantly more or less generously than the market.

Second, the salaries of executive directors are subject to the same starting salary and salary progression procedural guidance as for other staff. Pay growth for the coming year was taken as 2%. In some circumstances FSCS may allow salaries to increase faster than the annual inflationary increase to reflect specific market pressures or recruitment challenges for in-demand roles, or where the loss of critical people jeopardises FSCS performance.

Salaries for executive directors were subject to an independent market pay review carried out across the organisation by external consultants for salaries in 2018/19. These benchmarking exercises are usually carried out every other year, so in alternate years, including for 2019/20, benchmarks and salaries are generally increased in line with the overall uplift in the salary bill as agreed by the Remuneration and Human Resources Committee and the Board.

The salaries of executive directors were reviewed and determined in line with the above principles and by reference to the performance assessments and benchmark data.

Performance-related bonus

Audited section

Executive directors were eligible to be considered for a performance-related bonus. These bonuses are not available to non-executive directors.

The key principle underpinning the bonus system is that bonuses should be non-consolidated performance awards reflecting the contribution of the executive director concerned to the performance of FSCS as a whole. Objectives are set for each executive director, and include an element of strategic objectives linked to the performance of the organisation as a whole. These are measured and reviewed during the course of the year and at year-end along with other aspects of individual performance. The maximum bonus award is 20% of salary.

Executive directors' bonuses may be clawed back by the company where control failures or misreporting of performance information come to light after the award of bonuses which, had they been known when the bonuses were awarded, would have materially affected bonus decisions.

Directors' pension entitlements

Audited section

During the year, one director (2017/18: one) had a prospective entitlement to a defined benefit pension as well as accruing retirement benefits under the money purchase pension scheme. Three additional directors (2017/18: three) also accrued retirement benefits during the year under the money purchase pension scheme only. The non-executive directors are not entitled to a pension funded by FSCS.

The executive directors in post during the year were members of the defined contribution (money purchase) pension scheme, on the same terms as for other employees. For the 2018/19 year, the rules in place meant that FSCS made contributions equal to 6% of basic salary, which increased to 8% after two years of service and 10% after five years of service. Employees were able to make contributions to the plan, which FSCS matched with an employer's contribution up to a maximum of an additional 5% of basic salary. A new contribution structure has been put in place with effect from April 2019, so this will apply to the 2019/20 financial year.

The defined benefit (final salary) pension scheme closed to future accrual on 30 June 2011. Defined benefit pension entitlements accrued for Alex Kuczynski as a result of participation in the defined benefit pension scheme from his date of joining the pension scheme to the date of the pension scheme closing to future accrual on 30 June 2011. The accrued pension is the pension that the member is entitled to receive when he reaches pension age, albeit that this increases in line with the pension scheme's rules between 31 March 2019 and his normal retirement date (age 60). Mr Kuczynski may elect to retire earlier than his normal retirement date but the pension will be subject to an actuarial reduction. Due to the nature of these defined benefit pension rights being different from retirement benefits accruing in a defined contribution scheme, further details are given in the table below:

Alex Kuczynski				
Accrued pension at 31 March 2019 £'000	Real increase in pension £'000	CETV at 31 March 2018 £'000	CETV at 31 March 2019 £'000	Real increase in CETV £'000
34	0	1,189	1,297	(80)

Definitions

- A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the defined benefit pension scheme benefits accrued by a member at a particular point in time. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement if the member chooses to leave a scheme and transfer their accrued benefits.

- The 'Real increase in CETV' reflects the change in CETV using actuarial factors based on market conditions at the start and end of the period. The 'Real increase in CETV' is net of the increase in accrued pension due to inflation.

Other benefits

Executive directors are entitled to receive other benefits. Some of these, such as private medical cover, dental insurance, a 'virtual GP facility' and gym discounts, are included as taxable benefits in the remuneration table above, and pension benefits are described in the section above. Other benefits available to executive directors, in common with other employees, include life assurance, critical illness cover, health screening, travel insurance, flexible working, flu vaccinations, childcare vouchers, annual professional subscriptions and access to the employee assistance programme helpline.

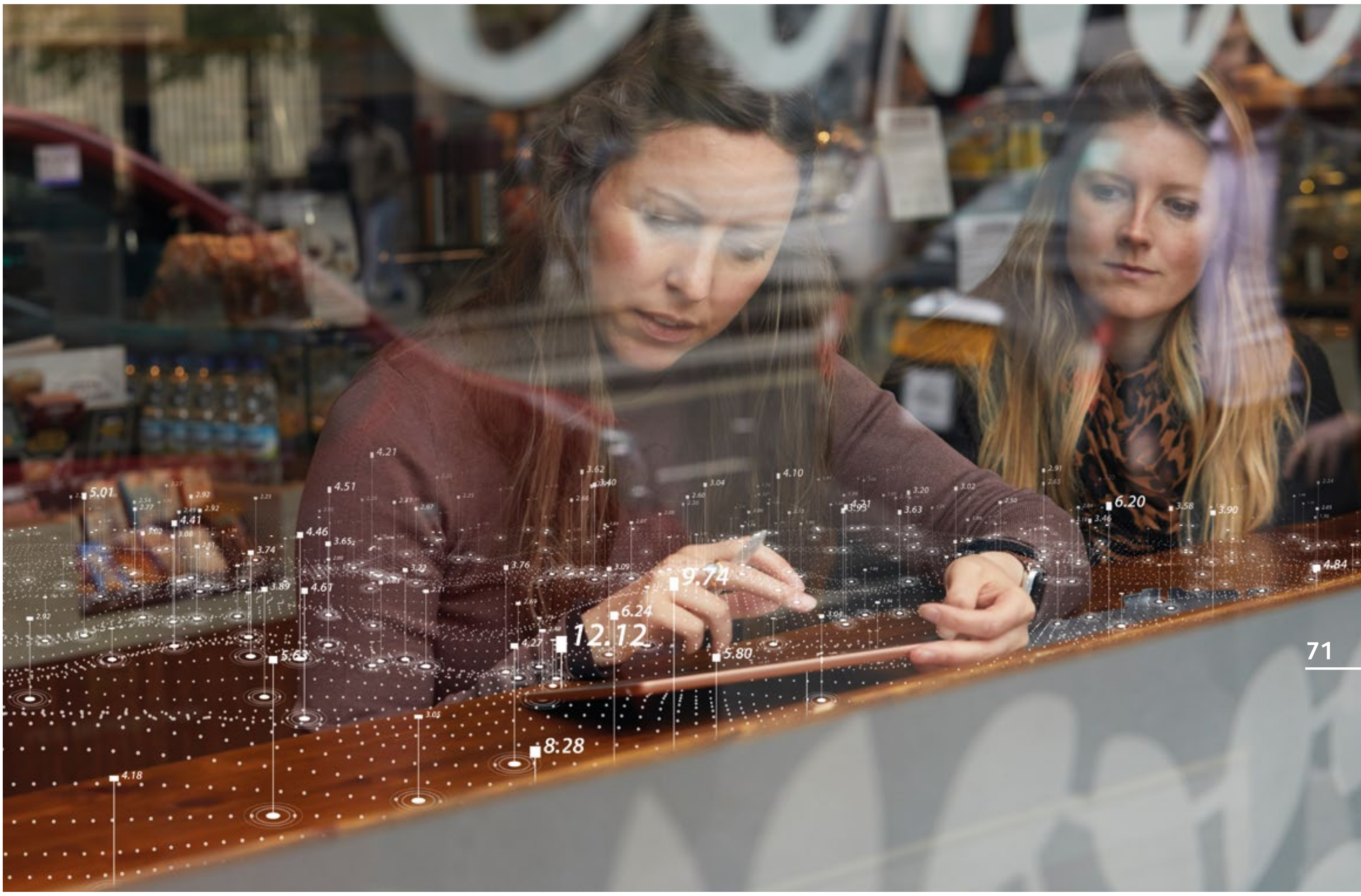
Remuneration for executive directors holding other non-executive positions

Executive directors may hold positions in other organisations as non-executive directors, and decisions on whether the remuneration earned from such appointments may be retained are made on a case-by-case basis. There are no remunerated external non-executive positions held by any of the executive directors.

Compliance with the UK Corporate Governance Code

FSCS has complied throughout the period covered by this report with the relevant provisions set out in the UK Corporate Governance Code (the Code) issued in April 2016, with the exception of the following:

Code provision	FSCS position
B.2.1 (making recommendations for Board appointments) – Nomination Committee should lead the process for Board appointments and make recommendations to the Board.	• Joint FSCS/FCA/PRA process; • Directors appointed by FCA and PRA (with HM Treasury approval also for Chairman and Chief Executive).
C.2.2 (viability statement) – Directors should explain how they have assessed the company's prospects, over what period and why they consider that period to be appropriate.	• Audit Committee concluded, given the nature of FSCS and the way it is funded, that it is not appropriate for FSCS to produce a viability statement under this Code provision.
D.1.1 (certain provisions for executive directors' performance-related remuneration) – Performance-related remuneration schemes for executive directors should include provisions to enable the company to recover sums paid or withhold the payment of any sum, and specify the circumstances in which it would be appropriate to do so.	• Remuneration and Human Resources Committee revised Remuneration Policy to include a bonus 'clawback' provision for executive directors, but not 'deferral'.
D.2.2 (setting remuneration for the Chairman and Chief Executive) and D.2.3 (remuneration for non-executive directors) – Remuneration Committee should have delegated responsibility for setting executive directors' remuneration, and the Board or a committee should determine the remuneration of non-executive directors.	• Remuneration and Human Resources Committee determines the remuneration of all executive directors except that of the Chief Executive, which is determined by the Board; • FSCS cannot set remuneration for its Chairman and non-executive directors – this is done by the FCA and PRA, with appropriate input from FSCS.
Section E (relations with shareholders) and other provisions relating to shareholders – Provisions relating to the maintenance of a dialogue with shareholders and investors.	• FSCS does not have shareholders, but there is close and regular liaison with other key stakeholders, such as levy payers, trade bodies, HM Treasury, the FCA, and the PRA.




12.12
6.20
5.80
6.93
5.21

RISK MANAGEMENT REPORT

Our approach to risk management

Risk management is a crucial enabler to deliver FSCS's strategy and achieve its goals. Our success as an organisation depends on our ability to identify and exploit opportunities as well as control the adverse impact of threats. To deliver our ambitions, risk assessment and management are central to the Executive Team agenda.

Our risk management is designed to provide reasonable, but not absolute, assurance that the risks facing FSCS are assessed and mitigated, and that all information that may need to be disclosed is reported to senior management and the Board.

Risk management and internal controls

The Board is responsible for determining the nature and extent of the principal risks it is willing to accept in achieving its strategic objectives. The Board is responsible for maintaining sound risk management and internal control systems.

Governance structure, accountabilities and delegations: A comprehensive Board and Executive governance structure is in place with clear accountabilities and delegations. The CEO and Executive Team (both collectively and individually) operate through documented delegations and role profiles.

Policies: A set of overarching FSCS policies is in place and responsibility for approval of these policies rests with the Chief Executive, the Board or the relevant Board committee, as defined in each policy. Policy owners are responsible for the maintenance, communication, compliance monitoring (including logging of breaches or exceptions) and for assessing the impact of breaches on the control environment.

Key processes: FSCS has identified several key processes to discharge its statutory obligations. FSCS has a single claims processing platform for all claims (other than Deposit and General Insurance claims), which is used by both FSCS and its outsource partners, thus reducing FSCS's exposure to fraud and error while protecting the security of our data and systems architecture.

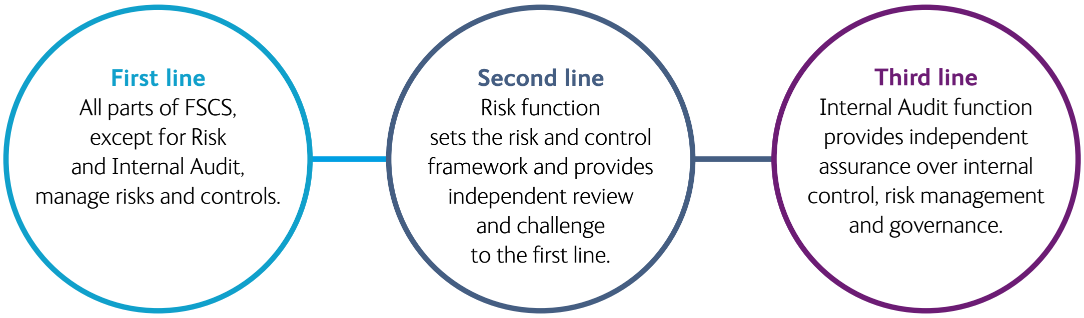
Integrated assurance: Following the implementation of a revised Enterprise Risk Management Framework (ERMF) in 2016/17, testing of core controls was performed during 2017/18. The control testing enabled more detailed reporting of residual risks to take place and for improvement activities to be targeted for any ineffective controls. We have further improved this element of the ERMF during 2018/19, by adopting a broader assurance approach, beyond just control self-assessment, to include other sources across the three lines of defence. These activities are being co-ordinated to ensure that any efficiency gains can be achieved and to better align risk management performance with business performance.

Internal audit: During the year, the Scheme moved to an outsourced internal auditing arrangement that is an independent, objective assurance and consulting activity designed to add value and improve the Scheme's operations. This will help the Scheme accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes in an efficient manner. The Internal Audit function continued to deliver a risk-based audit plan to provide management and the Board with independent assurance over the effectiveness of the risk management and internal control systems. This was considered as a key source of assurance during the year.

In addition, FSCS sets and operates an incident management process to identify and remedy significant incidents. It also has defined continuity and resilience objectives and plans that are reviewed and exercised as part of a cyclical but risk-responsive plan.

Whistleblowing: Whistleblowing arrangements are in place to ensure that concerns can be raised in confidence and investigated appropriately.

Risk Management Framework



The Risk Management Framework

The Risk Management Framework was revised and enhanced in 2016/17 to incorporate some emerging sound practices and this was implemented over 2017/18 and 2018/19.

FSCS operates a risk governance approach based on the 'three lines of defence' model. This governance model is illustrated above.

FSCS recognises the importance of sound enterprise risk management practices and the need to continuously improve these. We have completed a full post-implementation review of the effectiveness of the Risk Management Framework in 2018/19. The review has enabled feedback and lessons learned to be captured and enhancements to be made to improve further and embed the Framework.

The Enterprise Risk Management (ERM) improvement activity commenced in the last quarter of 2018/19 and will continue into 2019/20. The primary objectives are to make the ERM processes simpler and proportionate to the Scheme's operating model while embedding the appropriate risk accountabilities in accordance with our risk governance approach.

As second line, the Risk function maintains a level of independence from the first line, reporting both to a member of the Executive Team and to the Board's Risk Committee. The Risk function maintains a central Risk Register, which is derived from relevant extracts of business/functional risk registers maintained by the first line. It also provides a summary Risk Profile to the Executive Team and the Board's Risk Committee every quarter.

Principal risks and risk tolerance

FSCS's ability to fulfil our mission 'To provide a trusted compensation service for customers, which raises public confidence in the financial services industry' depends on our ability to deliver the following:

- providing a well-understood service that delivers accurate compensation payments;
- achieving a level of service that meets customers' reasonable expectations and our service standards;
- maintaining the security of information;
- ability to respond to major failures or crises; and
- maintaining awareness among consumers.

Consequently, these are the principal risk areas underpinning FSCS's Risk Management Framework. The Board has instituted risk tolerances in relation to each of these areas. These identify the level at which FSCS can tolerate a risk materialising and guide first-line management in designing and implementing controls to keep FSCS within these tolerances. Any occurrences of risks outside agreed tolerance levels are reported to the Risk Committee and appropriate actions taken to remedy them. The Risk Committee reports to the Board after each meeting.

Principal Risk	Mitigation approach
FSCS pays the wrong amounts or the wrong people	• All non-insurance compensation payments for claims are subject to a peer review, either within the outsource partners or FSCS. All payments are approved at and made by FSCS. • General Insurance claims are typically assessed by the Insolvency Practitioner (IP) responsible for the failed insurance company. Deposit payments are verified using the data provided by the failed firm's IP. • The quality assurance (QA) function undertakes 'back-end' checks on a random sample of claims. Where incorrect payments or other errors are detected, QA follows up directly with those responsible, whether outsource partners or internal colleagues. QA also works with the internal complaints team to identify any emerging issues and patterns.
FSCS provides a poor service that fails to meet service standards and which damages customer confidence and trust	The Board reviews and monitors the following against a set of performance targets: • customer satisfaction; and • claim resolution time and outcomes. The Board also regularly reviews customer complaints and findings from customer and consumer research, and receives reports from the Independent Investigator which can be found on page 51.
FSCS does not protect market-sensitive or personal information	FSCS has achieved and maintains an ISO 27001 accredited registration covering the protection of market-sensitive information in the delivery of services. This accredited registration was independently reviewed and recertified in late March 2019 with no major nonconformities. In terms of improvements planned for this year, we are: • introducing a Security Operations Centre (SOC) to strengthen our response to security incidents. This went live in April 2019; • strengthening our Data Loss Prevention Plan to prevent accidental disclosure by employees who have access to sensitive data; and • continuing to enhance our ISO 27001 and General Data Protection Regulation (GDPR) compliance, focusing on staff training, data classification and ownership, third-party supplier management and ensuring that our data-handling policies and procedures are clear, easy to understand and accessible – for example, by strengthening incident reporting and escalation procedures.

Principal Risk	Mitigation approach
FSCS cannot respond effectively to a major failure or financial crisis	FSCS's Risk Committee monitors both the likelihood of, and our own preparedness for a wide range of failures of UK firms, which would trigger FSCS protection. • FSCS undertakes regular exercises with its partners to validate its preparedness to implement its continuity plans and works with the Regulatory Authorities on its testing and planning. • Samples of Single Customer View (SCV) files maintained by deposit takers to facilitate an FSCS payout are reviewed annually by FSCS and the results reported to the firms involved and to the regulator. • FSCS has a borrowing facility with a consortium of banks to ensure that it can meet the cash flow requirements of a seven-day payout in the event of the failure of a bank or building society. • FSCS has undertaken work to review the issues that it may be faced with in the event of the failure of a life insurer, and any improvement work identified will continue into 2019/20.
FSCS protection is unknown or not understood	FSCS commissions market research quarterly into levels of awareness of FSCS and/or of our protection. This reached 76% during the year.

Risk Tolerance Issues

Four issues were identified during 2018/19 that represented breaches of FSCS's risk tolerances:

- **Inadvertent disclosure of personal information:** A small number of instances were identified whereby correspondence relating to FSCS customers was sent to the wrong individual. In addition, in two instances, information was inadvertently sent to a third-party firm relating to customers the firms did not have an interest in. These disclosures did not include sensitive or prejudicial personal information so none of the information disclosed could have caused damage to the individuals concerned. FSCS has taken steps to improve controls to reduce the risk that personal information is inadvertently disclosed.

- **Response to investment failures:** In two cases (Strand Capital Limited and Beaufort Securities Limited) FSCS did not meet its service standard in relation to the timely response to an investment failure. Both firms had complicated client money issues that needed to be resolved by the Joint Special Administrators before FSCS was able to commence compensation payments, and the delay in paying compensation was outside FSCS's control. In the case of both firms, the compensation process has commenced.

- **Claims errors:** FSCS breached its tolerance in relation to payment errors identified through quality assurance activities. The breach related to an overpayment made to a customer (which was subsequently stopped before payment was made).

Process improvements and enhanced training and guidance have been implemented to address the identified issues.

- **Customer complaints**: For the months of December 2018 and January 2019, FSCS breached its tolerance for responding to customer complaints within its service standard. This was a short-term issue and service has since returned to within target levels.

Risk profile in 2018/19, including emerging risks

As of 31 March 2019, the Accountable Executives attested to the identified sources of assurance in relation to the risks that they own, the effectiveness of controls operated by their functions, issues identified during the year and implications for the organisation's control environment.

FSCS's risk profile has highlighted changes to the following key risks during 2018/19:

- Following a procurement exercise in 2017/18, in July 2018 FSCS moved to a single outsourced claims supplier arrangement with Capita. The arrangement covered the handling of compensation claims and other associated claims processes. This arrangement involved transitioning service from three previous supplier arrangements to the new arrangement with Capita and the establishment of a new operations centre in Glasgow. FSCS continues to carefully manage the risks associated with the transition, and subsequently as the service is established, to ensure that the required service levels are met.

- FSCS has continued to closely monitor developments in relation to the UK's withdrawal from the EU and implications for the operation of the Scheme. FSCS continues to work closely with HM Treasury, the Bank of England and the FCA on the implications of EU withdrawal for FSCS and consumers to ensure clear and consistent messaging to stakeholders. Furthermore, FSCS has developed plans to ensure that its operations will not be adversely affected by the UK's withdrawal from the EU, regardless of the conditions upon which the withdrawal is undertaken.

- Cyber and information security continues to be an area of focus, considering the continuing external threats that could impact on FSCS and its customers and the requirements established by the Data Protection Act 2018 and GDPR in May 2018. FSCS has implemented the required systems and processes to meet the new legislation/requirements supported by ongoing maturity work to strengthen compliance. Additionally, a review of the organisation's information assets is progressing to ensure that adequate and effective controls are in place where needed. The new Security Operations Centre will ensure that threats to FSCS's systems are identified and addressed around the clock. This service will be fully operational by the start of 2019/20 and will be a key aspect of FSCS's ongoing management of its cyber and information security threats.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2019

The directors of Financial Services Compensation Scheme Limited (FSCS) present their report, together with the audited financial statements of FSCS on pages 89 to 121 for the year ended 31 March 2019.

The directors have chosen to prepare these financial statements in accordance with International Financial Reporting Standards (IFRS). This has been done to enhance the quality of the financial information, with the aim of making the financial statements easier to compare and understand internationally, and to increase transparency.

The directors

The directors of the company who were in office during the year and up to the date of signing the financial statements, all of whom are independent non-executive directors unless stated, were as follows:

Mark Neale
Chief Executive and Executive Director
(resigned 3 May 2019)

Caroline Rainbird
Chief Executive and Executive Director
(appointed 13 May 2019)

Aleksander (Alex) Kuczynski
Executive Director

Kathryn Sherratt
Executive Director
(resigned 23 May 2019)

James (Jimmy) Barber
Executive Director

Marshall Bailey
Chairman

Mark Adams

Steven Cooper

Marian Glen

Charles McKenna

Patrick Neville

Helen Parker

Directors' remuneration

Details of directors' remuneration are shown in the Directors' Remuneration Report and in Note 10: Directors' remuneration.

Directors' indemnity and insurance

FSCS maintains insurance to indemnify itself, its directors and its officers against claims arising from its operations. The company has granted qualifying third-party indemnities (as defined in the Companies Act 2006) to its directors in relation to acts or omissions arising in the ordinary course of their duties. These were in force at the date of the approval of this report.

Statement of disclosure of information to auditors

Each of the persons who is a director at the date of this report confirms that:

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

(b) he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information, and to establish that the company's auditors are aware of that information.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with IFRS as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the income or expenditure of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Corporate governance and financial risk management

A statement of corporate governance, including financial risk management and principal risks and uncertainties, is contained earlier in this Accountability Report. Information on the use of financial instruments by the company is disclosed in Note 16. In particular, the company's exposure to credit risk, liquidity risk and interest rate risk is separately disclosed in that note.

Going concern

The directors are satisfied that FSCS is in a position to meet its obligations as they fall due. As such, FSCS is a going concern and it is appropriate that these financial statements are prepared under the going concern basis.

Independent auditor

Under the Financial Services Act 2012, the Comptroller and Auditor General is the statutory auditor of FSCS.

Approval of the Accountability Report

The Accountability Report comprises:

- Statement of Accounting Officer's Responsibilities
- Corporate Governance Report
- Directors' Remuneration Report
- Risk Management Report
- Directors' Report

This was approved by the Board on 21 May 2019 and signed on its behalf by:

Caroline Rainbird
Chief Executive, Financial Services Compensation Scheme
14 June 2019

06 AUDITOR'S REPORT

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

Opinion on financial statements

I certify that, I have audited the financial statements of the Financial Services Compensation Scheme Limited (FSCS) for the year ended 31 March 2019 which comprise the Statements of Comprehensive Income, Financial Position, Cash Flows and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law, and the International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Directors' Remuneration Report that is described as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of FSCS's affairs as at 31 March 2019 and of the result for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the Companies Act 2006 and HM Treasury directions issued under the Financial Services and Markets Act 2000.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied by the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Conclusions relating to principal risks, going concern and viability statement

I have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require me to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing FSCS, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to FSCS's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the directors' explanation in the annual report as to how they have assessed the prospects FSCS, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that FSCS will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the FSCS in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The regularity framework described in the table below has been applied:

Regularity Framework	
Authorising legislation	Financial Services and Markets Act (FSMA) 2000; Financial Services Act 2012; The Financial Services (Banking Reform) Act 2013
Parliamentary authorities	None
HM Treasury and related authorities	None

OVERVIEW OF MY AUDIT APPROACH

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that I identified.

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around levy income, an area where my work has not identified any matters to report.

The areas of focus were discussed with the Audit Committee; their report on matters that they considered to be significant to the financial statements is set out on page 57.

There has been two changes in this year's report to the risks identified in my prior year report:

Following the repayment of the remainder of FSCS's loan to HM Treasury in May 2018, recoveries from Bradford and Bingley are no longer considered a significant risk to the financial statements.

General insurance cut-off has been recognised as a significant risk to the audit, following the identification of a significant volume of General Insurance claims between acceptance and payment at year-end which had not been accrued in 2017-18.

Key audit matter 1

Completeness and valuation of recovery receivables

FSCS recovers funds from the administrators of failed firms' estates to offset compensation that has been paid out to its customers.

In line with accounting standards, an asset must be recognised when FSCS becomes party to contractual provisions. There is however a significant degree of judgement and uncertainty in estimating the value of such expected recoveries. Therefore, I have classified it as a key audit matter.

How the scope of my audit responded to the risk

I tested the design and implementation of controls that FSCS had in place to mitigate these risks. In doing so I applied professional scepticism in the assessment of the adequacy of management's review of their accounting estimates and assumptions used in calculating the recovery of receivables at the year-end.

In addition:

- I tested the completeness of other receivables through, for example, an assessment of the completeness of 2017-18 receivables to evaluate the effectiveness of this control last year.
- I performed an assessment of the policies and processes behind receivables recognition.
- I tested those receivables recorded at 31 March 2019 to supporting information.

Key observations

My testing identified misstatements in the recoveries receivables balances, resulting in a material overstatement. FSCS have adjusted for these misstatements. I have therefore issued a recommendation to management regarding implementation of a more formal process for the development, update and review of accounting estimates, to improve the quality of estimates produced.

Overall, post adjustment, the results of my testing across these areas were satisfactory.

Key audit matter 2

General insurance expenditure – Cut off

General insurance claims for which FSCS will be required to pay compensation are handled by run-off agents. In 2017-18 I identified a material number of general insurance claims between acceptance of offer and payment at year end which had not been recognised in the draft financial statements. FSCS based its estimate on an extrapolation of cash payments after the balance sheet date.

To improve the accuracy of the estimate in 2018-19, FSCS changed its methodology and requested that run-off agents provide it with quarterly information to support the valuation, including the dates of FSCS-protected settlement offers, amounts and the dates of any acceptance.

This is a change of methodology for a significant accounting estimate where I identified material error in the prior year. Therefore, I have classified it as a key audit matter.

How the scope of my audit responded to the risk

I tested the design and implementation of controls that FSCS have put in place to mitigate this risk. In doing so I applied professional scepticism in the assessment of the adequacy of management's processes for accurately recording provisions for general insurance compensation expenditure at year-end.

In addition:

- I reconciled the circularisation returns provided by the Insolvency Practitioners to the total recognised in the accounts.
- I confirmed that materially all insolvency practitioners were circularised.
- I tested a sample of post year-end payments and agreed these to the circularisation listing.

Key observations

Overall, the results of my testing on this area was satisfactory.

Application of materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the company's financial statements at £8 million which is approximately 1.5 per cent of gross expenditure, a benchmark that I consider to be the principal consideration for users in assessing the financial performance of the entity.

There were significant revisions compared to prior period, when materiality was £23.4 million. At 31 March 2018 the financial statements still recognised a financial asset of £4.7 billion reflecting recoveries expected in relation to Bradford and Bingley. These were received in May 2018, and therefore total financial assets no longer represented the principal consideration for users assessing the financial performance of the entity.

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors reported in Directors' Remuneration. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

I agreed with the Audit Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £160,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

I have not reported any unadjusted audit differences to the Audit Committee.

Responsibilities of the Directors for the financial statements

As explained more fully in the statement of directors' responsibilities in respect of the financial statements, the directors are responsible for:

- the preparation of the financial statements and for being satisfied that they give a true and fair view;
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- assessing FSCS's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Financial Services and Markets Act 2000 and International Standards on Auditing (ISAs) (UK).

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FSCS's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on FSCS's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Audit scope

The scope of my audit was determined by obtaining an understanding of the entity and its environment, including entity-wide controls, and assessing the risks of material misstatement. It was designed to address the key risks and took account of materiality as set out above. I audited all of FSCS's income from both levies and recoveries, with particular focus on the receivable portion of recoveries as discussed above. I also performed detailed testing giving assurance on materially all expenditure and assets, I considered FSCS's framework of authorities throughout my testing, and ensured controls reviewed and transactions tested were consistent with these. This work gave me the evidence I needed for my opinion on the financial statements as a whole.

Other Information

Directors are responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Remuneration Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

In this context, I also have nothing to report in regard to my responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where I conclude that those items meet the following conditions:

- Fair, balanced and understandable: the statement given by the directors that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the necessary information to enable users to assess the entity's performance, business model and strategy, is materially inconsistent with my knowledge obtained in the audit; or
- Audit Committee reporting: the section describing the work of the Audit Committee does not appropriately address matters communicated by me to the Audit Committee.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT

Directors' remuneration

In my opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the HM Treasury directions made under the Financial Services and Markets Act 2000;

I also report to you if, in my opinion, certain disclosures of directors' remuneration required have not been made. I have nothing to report arising from this duty.

The strategic and directors' reports

In my opinion, based on the work undertaken in the course of the audit, the information given in the Strategic and Performance Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic and Performance Report or the Directors' Report.

The corporate governance statement

In my opinion, based on the work undertaken in the course of the audit the information given in the corporate governance report, in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by Financial Conduct Authority (the FCA Rules), in respect of internal control and risk management systems in relation to financial reporting processes, and about share capital structures, is consistent with the accounts and has been prepared in accordance with applicable legal requirements.

Based on my knowledge and understanding of FSCS and its environment obtained during the course of the audit, I have identified no material misstatements in this information.

MATTERS ON WHICH I REPORT BY EXCEPTION

Adequacy of accounting records information and explanations received

I report to you if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff;
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made;
- I have not received all of the information and explanations I require for my audit; or
- a corporate governance statement has not been prepared by the parent company.

I have nothing to report arising from this duty.

Conclusions relating to principal risks, going concern and viability statement

Under International Standards on Auditing (UK), I am required to report to you if I have anything material to add, or to draw attention to, in relation to the directors' disclosures in the annual report and financial statements:

- confirming that they have carried out a robust assessment of principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity;
- describing those risks and explaining how they are being managed or mitigated;
- on whether they considered it appropriate to adopt the going concern basis, and their identification of any material uncertainties to the entity's ability to continue over a period of at least twelve months from the date of approval of the financial statements; and
- explaining how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

I have nothing material to add, or to draw attention to, on these matters.

REPORT

I have no observations to make on these financial statements.

Comptroller and Auditor General (Statutory Auditor)
National Audit Office
157-197 Buckingham Palace Road
London, SW1W 9SP
18 June 2019


4.21
4.51
4.46
3.65
3.74
3.89
4.61
3.76
9.74
6.24
4.10

07 FINANCIAL STATEMENTS AND NOTES

Statement of comprehensive income

	Note	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Income:			
Levy income in respect of compensation costs		432,653	414,825
Other levy income		84,352	163,518
Total levy income	*4*	517,005	578,343
Recoveries	*5*	14,881	30,140
Total income		531,886	608,483
Expenditure:			
Compensation costs	*6*	(447,534)	(444,965)
Administrative expenses	*8*	(72,803)	(67,973)
Interest payable	*12, 14*	(14,211)	(99,009)
Net interest on the net defined benefit obligation/(asset)	*20*	86	(49)
Total expenditure		(534,462)	(611,996)
Surplus/(deficit) before tax		**(2,576)**	**(3,513)**
Surplus/(deficit) after tax		**(2,576)**	**(3,513)**
Other comprehensive income			
Remeasurements on defined benefit pension scheme	*20*	2,576	3,513
Total comprehensive result for the year		–	–

All of FSCS's operations are continuing.

A statement of changes in equity has not been presented as there were no equity balances brought forward or any changes in equity balances during the year.

The Notes on pages 92 to 121 form part of these financial statements.

Statement of financial position

	Note	As at 31 March 2019 £'000	As at 31 March 2018 £'000
ASSETS			
Non-current assets			
Property, plant and equipment		843	1,007
Other non-current financial assets	*11*	27,601	40,094
Employee benefit asset	*20*	6,767	2,495
		35,211	**43,596**
Current assets			
Trade and other receivables	*11*	84,302	4,817,636
Cash and cash equivalents	*12*	129,741	206,172
		214,043	**5,023,808**
Total assets		**249,254**	**5,067,404**
EQUITY AND LIABILITIES			
Equity			
Reserves		–	–
Total equity		–	–
Non-current liabilities			
Other non-current financial liabilities	*13*	34,368	42,589
Provisions	*15*	368	318
Employee benefit liability	*20*	–	–
		34,736	**42,907**
Current liabilities			
Bank overdraft	*12*	3,089	14,313
Trade and other payables	*13*	155,849	144,795
Interest bearing loans and borrowings	*13, 14*	–	4,677,873
Loan interest payable	*14*	–	99,009
Provisions	*15*	55,580	88,507
		214,518	**5,024,497**
Total liabilities		**249,254**	**5,067,404**
Total equity and liabilities		**249,254**	**5,067,404**

The Notes on pages 92 to 121 form part of these financial statements. These financial statements are exempt from the requirements of Part 16 of the Companies Act 2006 by virtue of Section 482 (non-profit-making companies subject to public sector audit) of that Act.

The financial statements on pages 89 to 121 were approved by the Board of Financial Services Compensation Scheme Limited (registered number 3943048) on 21 May 2019 and signed on its behalf on 14 June 2019 by:

Marshall Bailey
Chairman, Financial Services Compensation Scheme

Statement of cash flows

	Note	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Operating activities			
Net cash generated from operations	*17*	4,726,201	11,126,687
Net cash flows from operating activities		**4,726,201**	**11,126,687**
Investing activities			
Purchases of property, plant and equipment		(314)	(378)
Net cash flows used in investing activities		**(314)**	**(378)**
Financing activities			
Decrease in loans	*14*	(4,677,873)	(10,976,636)
Drawdown from revolving credit facility		50,000	–
Repayment of revolving credit facility		(50,000)	–
Returns on investments and servicing of finance	*12, 14*	(113,221)	(306,388)
Net cash flows used in financing activities		**(4,791,094)**	**(11,283,024)**
Net increase/(decrease) in cash and cash equivalents		(65,207)	(156,715)
Cash and cash equivalents at 1 April	*12*	191,859	348,574
Net cash and cash equivalents at 31 March	*12*	**126,652**	**191,859**

Notes to the financial statements for the year ended 31 March 2019

1 Constitution

Financial Services Compensation Scheme Limited (FSCS) is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006 as a company limited by guarantee. The members of the company are the directors of the company, and liability is limited to an amount not exceeding £1 for each member. FSCS has no share capital and no ultimate controlling party.

FSCS was established as the designated Scheme Manager under Section 212 of the Financial Services and Markets Act 2000 (FSMA). FSCS, as Scheme Manager, operates nine broad funding classes based on identifiable industry sectors – Deposits, General Insurance Provision, General Insurance Intermediation, Life and Pensions Provision, Life and Pensions Intermediation, Investment Provision, Investment Intermediation, Home Finance Intermediation and Debt Management.

The registered office is 10th Floor, Beaufort House, 15 St Botolph Street, London EC3A 7QU.

2 Accounting policies

BASIS OF PREPARATION

The financial statements have been prepared on a going concern basis in accordance with the Companies Act 2006, International Financial Reporting Standards (IFRS) as adopted by the EU and the Accounts Direction issued by HM Treasury. The directors are satisfied that FSCS is in a position to meet its obligations as they fall due, given its statutory rights to raise levies on Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) authorised firms. As such, FSCS is a going concern and it is appropriate that these financial statements are prepared under the going concern basis.

Section 218 of the FSMA requires us to prepare a statement of the value of each of the funds established by FSCS (the Scheme Manager). These statements, referred to as the Class Statements, are separate from the statutory financial statements of the Scheme Manager and have not been prepared under the basis of IFRS. The Class Statements are prepared by the Scheme Manager in accordance with the FCA Handbook and the PRA Rulebook. These statements can be found at www.fscs.org.uk.

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided.

The principal accounting policies for the Scheme Manager are set out below.

a) Revenue recognition

Levies for compensation costs

FSCS recognises levies receivable in respect of compensation costs on an accruals basis to match compensation costs net of recoveries recognised as income during the period. Any excess funds are ultimately repayable to the levy payer (with shortfalls similarly recoverable from the levy payer), by way of a return or a reduction in next year's levy, in accordance with the funding rules set by the FCA and the PRA.

Recoveries

Recoveries are recognised when received or, if earlier, on receipt of notification in respect of dividends from Insolvency Practitioners (IPs), or when notified and agreed in respect of other recoveries. Where no notification is received or agreed, recoveries are also recognised when it is probable that the future economic benefits will flow to FSCS and the value can be measured reliably (based on the best information available to the directors). This differs from the treatment in the Class Statements, where recoveries are only recognised on receipt or notification.

Other operating income

FSCS recognises levy revenue raised from authorised firms in respect of management fees to cover the administration costs of FSCS when incurred. The management expenses levy is used to fund FSCS's overheads and is split between base costs and specific costs. All firms contribute to the base costs, which are the costs of running FSCS and are not dependent on levels of activity. Specific costs are the costs of assessing claims, making payments and any other costs that can be directly attributable to a particular class.

Any deficit or surplus in the defined benefit pension scheme will eventually be funded through, or used to reduce, future levies on levy paying firms. Consequently, an asset and accrued levy income, or a liability and deferred levy income, is recognised in these financial statements.

b) Compensation costs

Compensation costs are only recognised when the eligibility and quantum of the claim are known, or for reinstatement cases when fully valued. In most cases, this is when the claim has been assessed and a decision has been made, as before that point the eligibility and quantum of the claim cannot be known.

In the case of deposit defaults, Special Administration Regime (SAR) defaults and return of premium cases, these do not generally require an application form or decision to be made by FSCS; therefore, the expenditure is recognised when the firm is declared in default. In addition, compensation costs payable under various Orders (referred to as deemed compensation) are recognised when the firm is declared in default.

c) Financial instruments

Trade and other receivables

Receivables are recognised in the statement of financial position when FSCS becomes a party to the contractual provisions of the instrument. Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. This excludes recoveries receivable, which are subsequently measured at fair value through profit and loss at each reporting date. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that an asset is impaired. The allowance recognised is measured as the difference between an asset's carrying value and the estimated future cash flows deriving from the continued use of that asset, discounted if the effect is material.

Trade and other payables

Payables are recognised in the statement of financial position when FSCS becomes a party to the contractual provisions of the instrument. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits and other short-term liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Borrowings

Borrowings are recognised in the statement of financial position when FSCS becomes a party to the contractual provisions of the instrument. Borrowings are measured initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Interest is charged to the statement of comprehensive income over the term of the borrowings. Interest accrued within a financial period becomes due and payable in accordance with the terms of the loans.

d) Welcome Financial Services Limited

FSCS declared Welcome Financial Services Limited (Welcome) in default on 2 March 2011. Welcome sold a substantial number of Payment Protection Insurance and other insurance policies and its restructuring arrangements provide for it to make payments to FSCS to fund compensation costs and the costs associated with handling claims. Payments made by Welcome to FSCS are ring-fenced and will only be used to pay for costs relating to Welcome. Such payments are shown in the statement of financial position of FSCS as an asset and in Current liabilities – Trade and other payables, since any excess payments will ultimately be repaid to Welcome under agreed terms. Compensation costs and recoveries are shown in FSCS's statement of comprehensive income. The costs associated with the handling of claims are shown in FSCS's statement of comprehensive income under administrative expenses and are recovered from Welcome. Funds received from Welcome were fully utilised during the year, so any further claims on FSCS will be funded by levies on the Insurance Intermediation class.

e) Provisions, legal challenges and costs

A provision is recognised in the statement of financial position when there is a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. No provision is established where a reliable estimate of the obligation cannot be made.

On occasion, legal proceedings are threatened or initiated against or by FSCS. A provision is made for the estimated full cost in respect of any such proceedings where at the end of the year it is probable that there is an obligation which will require an outflow of economic benefit.

f) Interest payable

Loan interest payable is charged to the statement of comprehensive income in the period according to the terms of the loans, as described in Note 14.

g) Interest receivable

Interest received on cash deposits is credited to the classes in proportion to their relative fund balance.

h) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the start of the month in which the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are charged to the classes.

i) Third-party arrangements as agent

FSCS works for and makes compensation payments on behalf of third parties, as agent; these are recoverable from such parties. Any amounts so due from third parties are shown in the statement of financial position.

Management expenses incurred in performing work on behalf of third parties are recovered from such parties by FSCS and not allocated to the classes or funded by levy payers.

j) Taxation

FSCS is only liable to pay corporation tax on investment income. The related tax on interest income is charged to the classes as shown in the statement of fund movements.

k) Pension Scheme

FSCS operates both a defined benefit pension scheme (Pension Scheme) and a money purchase scheme.

The pension costs for the Pension Scheme are accounted for in accordance with International Accounting Standard (IAS) 19 “Employee Benefits”. The aggregate Pension Scheme asset/liability recognised in the statement of financial position is the excess or deficit of the present value of the Pension Scheme’s assets over the value of the Pension Scheme’s liabilities. Any deficit will be funded by future levies and any surplus used to reduce future levies. The deficit or surplus for funding purposes will be that calculated for the Pension Scheme, which is required by The Pensions Regulator to be prepared on a prudent basis. This may differ from the IAS 19 deficit or surplus shown in these financial statements.

The costs of the money purchase scheme are charged to the statement of comprehensive income as incurred.

Further details are contained in Note 20.

l) Changes in accounting policy

i. New and amended standards adopted by FSCS

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" and is effective for annual periods beginning on or after 1 January 2018. FSCS has undertaken an assessment of IFRS 9 and this standard did not have a material impact on FSCS because FSCS does not operate a business model to hold financial assets with contractual cash flows representing both principal and interest. Consistent with prior years, all financial assets are classified as fair value through profit or loss (FVTPL). As a consequence of all financial assets being classified as FVTPL, there is no impact from changes to the impairment model as a result of IFRS 9.

IFRS 15 "Revenue from Contracts with Customers" replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations. This standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. FSCS receives income from levies and recoveries only. FSCS has undertaken an assessment of IFRS 15 and concluded that this standard is not applicable to levies or recoveries because these are regarded as non-exchange transactions, which fall outside the scope of IFRS 15. IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" states that, in the absence of a standard or an interpretation that specifically applies to a transaction, other event or condition, management must use its judgement in developing and applying an accounting policy that results in information that is relevant and reliable. Management has chosen to continue to apply the existing accounting policies for levies and recoveries (Note 2(a)) as these policies have been developed by considering the fundamental principles in the International Accounting Standards Board (IASB) Conceptual Framework and meet the core principles of IFRS 15.

There were no other IFRS or IFRS Interpretations Committee interpretations effective for the first time in the financial year beginning on or after 1 April 2018 that have a material impact on the company.

ii. New standards, amendments and interpretations issued but not effective for the financial year beginning on or after 1 April 2018 and not early adopted

IFRS 16 "Leases" replaces IAS 17 "Leases" and is effective for annual periods beginning on or after 1 January 2019. IFRS 16 requires lessees to recognise a right of use asset and a liability for future payments arising from a lease contract. Lessees will recognise a finance charge on the liability and a depreciation charge on the asset which could affect the timing of the recognition of expenses on leased assets. Lessor accounting requirements remain aligned to the current approach under IAS 17. This change will mainly impact the properties that FSCS currently accounts for as operating leases. FSCS applied IFRS 16 on 1 April 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of amounts due to levy payers in respect of base costs as at 1 April 2019, with no restatement of comparative information. FSCS will recognise a right of use assets of £2,527,000 and a liability of £2,956,000 for the future lease payments in the statement of financial position from 1 April 2019. All other leases are of low value and will continue to be expensed as payments are made.

There are no other IFRS or IFRS Interpretations Committee interpretations as yet effective that would be expected to have a material impact on the company.

3 Accounting judgements and key estimation uncertainties

As identified in the Financial review – Critical accounting judgements and key estimation uncertainties, on page 48, there are a number of matters of estimation and uncertainty. In applying the accounting policies as set out in Note 2, those uncertainties could impact on the amounts recognised in the financial statements.

The key areas of judgement and uncertainties identified in the financial statements are:

- in preparing these financial statements, a fundamental judgement has been applied to revenue recognition in respect of levy income. Levy income represents fees to which FSCS deemed it was entitled during the financial year, after taking into account costs associated with running the compensation scheme, including compensation costs less recoveries and management expenses incurred. Any surplus or deficit against levy income in the year is therefore held payable or receivable on the statement of financial position as the intention is to return any surplus, by way of a refund or a reduction in next year's levy, or claim any deficit in the following year;
- the value and expected timing of recoveries through dividends from the estates of failed firms, as explained in Note 11;
- the value and expected timing of provisions for compensation costs, as explained in Note 15; and
- the current valuation of the defined benefit pension scheme, as explained in Note 20.

4 Levy income

In FSCS's financial statements, levies are recognised on an accruals basis, taking into account the costs that have been incurred and any recoveries it has made. The table below shows the total of all constituent parts of levy income for the year reported in the statement of comprehensive income (SoCI).

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Levy income recognised in SoCI		
Levy income in respect of compensation costs	**432,653**	**414,825**
Other levy income:		
Levy income in respect of base costs	26,244	24,492
Levy income in respect of specific costs	48,169	45,194
Levy income in respect of loan interest	14,211	99,009
Levy income in respect of pension obligations	(4,272)	(5,177)
	84,352	**163,518**
Total levy income	**517,005**	**578,343**

5 Recoveries income

Recoveries income recognised in the statement of comprehensive income of FSCS is analysed below:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Other defaults	8,319	23,225
2008/09 banking failures	6,562	6,915
	14,881	**30,140**

6 Compensation costs

The table below provides an analysis of the compensation costs by funding class.

Funding class	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Deposits (excluding 2008/09 banking failures)	29,167	(14,165)
General Insurance Provision	158,588	136,324
General Insurance Intermediation	11,262	15,666
Life and Pensions Intermediation	157,227	155,528
Investment Provision	32,398	4,902
Investment Intermediation	49,475	129,454
Home Finance Intermediation	9,417	17,256
Total compensation costs	**447,534**	**444,965**

Deposits (excluding 2008/09 banking failures) includes a net credit of £nil (2018: £20,173,000) in relation to a provision adjustment for Dunfermline Building Society.

7 Administrative expenses and interest payable

Administrative expenses and interest payable incurred by FSCS which were specifically levied to levy payers are shown in the table below by levy class:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Deposits	12,736	11,386
General Insurance Provision	4,574	3,835
General Insurance Intermediation	5,620	7,762
Life and Pensions Intermediation	12,808	12,561
Investment Provision	2,473	136
Investment Intermediation	9,392	8,688
Home Finance Intermediation	728	826
Base costs	26,242	24,492
IAS 19 pension adjustments	(1,610)	(1,713)
Other – interest payable	(161)	–
Total administrative expenses	**72,803**	**67,973**
Deposits – interest payable	14,050	99,009
Other – interest payable	161	–
Total administrative expenses and interest payable	**87,014**	**166,982**

8 Administrative expenses

	Note	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Staff costs	*9*	15,579	14,657
Accommodation and office services		2,880	2,863
IT maintenance costs		4,188	3,742
Outsourced claims-handling costs		17,875	17,158
Consultancy		2,049	1,946
Welcome costs		258	452
Change, including IT development costs		8,256	8,690
Depreciation – owned assets		457	248
Press and communications		3,503	3,285
Auditor's remuneration:			
Statutory audit of the financial statements		154	154
Other audit services		–	–
Legal and professional fees		7,135	5,732
Bank charges		6,630	5,882
Other		3,839	3,164
		72,803	**67,973**

Welcome costs are funded by Welcome Financial Services Limited as part of its restructuring arrangements (see Note 2(d)).

9 Staff costs

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Wages and salaries, including the executive directors	12,799	11,998
Social security costs	1,582	1,530
Other pension costs	1,198	1,129
	15,579	**14,657**

The employer's pension contributions shown above include the liability for contributions in respect of service during the year.

The average number of employees of FSCS during the year was as follows:

	Year ended 31 March 2019	Year ended 31 March 2018
Average number of employees:		
Executive Committee and internal audit	6	7
Operations	103	103
Non-operations	78	81
	187	**191**

Non-operations includes Corporate Affairs, Finance, People Team and Facilities.

10 Directors' remuneration

As at 31 March 2019, there were seven independent non-executive directors (2018: seven) and four executive directors (2018: four). The directors of the company who were in office during the year can be found within the Directors' Report. Total remuneration paid to directors is as follows:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Aggregate remuneration	1,322	1,266
Pension contributions	90	85
	1,412	**1,351**

Retirement benefits during the year accrued to one director (2018: one) under FSCS's defined benefit scheme and four under the money purchase scheme (2018: four).

The highest paid director, the Chief Executive (2018: the Chief Executive), received aggregate remuneration of £304,371 (comprising basic salary of £264,648, bonus of £39,697 and other emoluments of £26) (2018: £294,782 (comprising basic salary of £262,028, bonus of £32,754 and other emoluments of £0)). Payments of £23,256 have been made for cash in lieu of pension (2018: £23,025). The Chief Executive did not receive any additional remuneration in respect of his role as director.

The fees paid to the Chairman are set at £75,000 per annum (2018: £75,000) and the fees paid to the independent non-executive directors, or their employers, are set at £24,500 per annum (2018: £24,500). Additional fees paid to the chairmen of the Audit Committee, Remuneration and Human Resources Committee, and Risk Committee were set at £5,000 per annum (2018: £5,000). In addition, business related expenses totalling £14,982 (2018: £27,127) were reimbursed to the independent non-executive directors. The Chairman and the other independent non-executive directors are not entitled to a pension funded by FSCS.

11 Receivables

Trade and other receivables: amounts falling due within one year

	Note	31 March 2019 £'000	31 March 2018 £'000
Amounts due from the FCA	*18*	10,192	2,577
Levies receivable, net of provision:			
Deposits		40	–
General Insurance Provision		4,428	(1,649)
General Insurance Intermediation		554	6,985
Life and Pensions Intermediation		605	69
Investment Provision		4,014	4,321
Investment Intermediation		650	2,127
Home Finance Intermediation		5	904
Debt Management		118	–
FCA retail pool		385	5,203
In respect of base costs		190	24
Net amounts due from levy payers in the following classes:			
Deposits		2,222	95,317
General Insurance Provision		16,495	–
Life and Pensions Intermediation		1,778	1,818
Investment Intermediation		24,507	5,444
Recoveries receivable in respect of other defaults	*13*	2,488	4,608
Recoveries receivable in respect of the 2008/09 banking failures		9,935	4,684,338
Other receivables		579	518
Prepayments		5,117	5,032
		84,302	**4,817,636**

Other non-current financial assets: amounts falling due after more than one year

	Note	31 March 2019 £'000	31 March 2018 £'000
Recoveries receivable in respect of the 2008/09 banking failures		18,789	21,930
Recoveries receivable in respect of other defaults	13	8,812	18,164
		27,601	**40,094**

Total recoveries receivable in respect of other defaults of £11,300,000 (2018: £22,772,000) include £nil (2018: £2,706,000), which FSCS expects to receive from firms declared in default in the General Insurance Provision class, and £11,300,000 (2018: £20,067,000) from firms declared in default in the Investment Intermediation class. A corresponding amount has been recognised to reflect the amounts payable to the levy payers in respect of recoveries receivable (see Note 13).

Total recoveries receivable of £28,724,000 (2018: £4,706,268,000) relate to the 2008/09 banking defaults, of which £9,935,000 (2018: £4,684,338,000) is shown within amounts falling due within one year and £18,789,000 (2018: £21,930,000) is shown within amounts falling due after more than one year.

The timing and value of recoveries receivable is estimated based on information available to the directors up to the date of signing these accounts, including Insolvency Practitioners' statements of estimated outcome and other reports published as part of the various insolvency processes; however, the timing and final outcome are uncertain. Insolvency Practitioners' statements of estimated outcome and other reports are categorised as level 3 within the fair value hierarchy. These amounts could change significantly if administrator assessments change.

The movements in recoveries receivable in the statement of financial position is analysed below:

	Receivable at 31 March 2017 £'000	Movements in recoveries receivable £'000	Receivable at 31 March 2018 £'000	Movements in recoveries receivable £'000	Receivable at 31 March 2019 £'000
Current recoveries receivable:					
Other defaults	125,826	(121,218)	4,608	(2,120)	2,488
2008/09 banking failures	11,004,340	(6,320,002)	4,684,338	(4,674,403)	9,935
Non-current recoveries receivable:					
Other defaults	10,106	8,058	18,164	(9,352)	8,812
2008/09 banking failures	4,702,820	(4,680,890)	21,930	(3,141)	18,789
	15,843,092	**(11,114,051)**	**4,729,040**	**(4,689,017)**	**40,024**
Less: amounts recognised in the Class Statements but not received by the year-end date:					
Bradford & Bingley plc	–	10,976,636	–	–	–
Kaupthing Singer & Friedlander Limited	–	18,704	–	–	–
	15,843,092	**(118,711)**	**4,729,040**	**(4,689,017)**	**40,024**

On 25 April 2017, £10,976,636,000 of the loan owed to HM Treasury was redeemed using proceeds from the sale of two separate Bradford & Bingley (B&B) asset portfolios to Prudential and funds managed by Blackstone. In November 2017, UK Asset Resolution (UKAR) announced it had launched a further asset sale process, which, subject to market conditions and value for money, will enable the repayment of the remaining £4,677,873,000 of the FSCS loan and, in turn, HM Treasury.

As at 31 March 2018, B&B owed FSCS £4,677,873,000 (2017: £15,654,509,000) as a result of FSCS's contribution to the cost of resolution. As B&B did not enter into an insolvency process, there is no creditors' committee in which FSCS can participate.

On 26 April 2018, UKAR confirmed that following an open and competitive process it had agreed to sell two separate portfolios of buy-to-let and residential owner-occupied mortgages to an investor group led by Barclays Bank PLC for a total of £5.3bn. Financial completion took place on 23 May 2018, involving loan repayments of £4.7bn to HM Treasury for the remaining FSCS loan. This means that the £15.65bn of compensation FSCS paid when B&B was nationalised in 2008 has now been repaid in full.

Balances with other government bodies

Amounts falling due within one year	31 March 2019 £'000	31 March 2018 £'000
Balances with other central government bodies	–	4,677,873
Balances with public corporations	10,192	2,577
Sub-total: intra-government balances	**10,192**	**4,680,450**
Balances with bodies external to government	74,110	137,186
Total receivables	**84,302**	**4,817,636**

Amounts falling due after more than one year	31 March 2019 £'000	31 March 2018 £'000
Balances with other central government bodies	–	–
Sub-total: intra-government balances	–	–
Balances with bodies external to government	27,601	40,094
Total receivables	**27,601**	**40,094**

12 Cash and cash equivalents, overdraft, facilities and class borrowings

As at 31 March 2019, FSCS had bank facilities of £1,470m, comprising a 364-day sterling revolving credit facility of £1,450m expiring on 17 March 2020, and an overdraft facility of £20m. Any drawdown of the revolving credit facility is subject to Board approval.

	31 March 2019 £'000	31 March 2018 £'000
Cash at bank	129,741	206,172
	129,741	**206,172**
Bank overdraft	(3,089)	(14,313)
	126,652	**191,859**

The recast Deposit Guarantee Schemes Directive requires FSCS to have ex-ante funding of 0.8% of the amount of covered deposits of its members (to be built up by 2024). The Government confirmed its intention to use the existing bank levy to meet this funding requirement. FSCS will access this fund from HM Treasury, through the National Loans Fund or any other appropriate source, for a term and at an interest rate to be agreed at the time. The amount of the borrowing facility available to FSCS is determined by HM Treasury. As at 31 March 2019, this facility was not utilised. Any amounts drawn from this facility will be replenished by means of FSCS levies on the Deposits class in subsequent years.

During the year, FSCS made a drawdown of £50m from the revolving credit facility. This was fully repaid and interest of £161,000 was charged.

13 Payables

Trade and other payables: amounts falling due within one year

	Note	31 March 2019 £'000	31 March 2018 £'000
Compensation payable		3,214	996
Net amounts held on behalf of levy payers:			
General Insurance Provision		–	28,277
General Insurance Intermediation		3,694	14,956
Life and Pensions Provision		183	181
Investment Provision		18,735	4,617
Home Finance Intermediation		8,845	1,237
Debt Management		118	–
FCA retail pool		385	5,203
Payments on Account		83,243	–
Social security and other taxes		483	442
Due to claimants and/or Welcome		–	3,096
Accruals		10,868	5,608
Deferred income in respect of base costs		6,742	3,702
Deferred income in respect of Independent Insurance		–	1,220
Loans due to HM Treasury	*14*	–	4,677,873
Distribution of surplus owed to customers		5,217	–
Net amounts due to levy payers in respect of recoveries receivable	*11*	2,488	4,608
Amounts due to levy payers of the Deposits class in respect of the 2008/09 banking failures		9,935	69,188
Other payables		1,699	1,464
		155,849	**4,822,668**

Non-current liabilities: amounts falling due after more than one year

	Note	31 March 2019 £'000	31 March 2018 £'000
Amounts due to levy payers of the Deposits class in respect of the 2008/09 banking failures		18,789	21,930
Net amounts due to levy payers in respect of recoveries receivable	*11*	8,812	18,164
Amounts due to levy payers in respect of pension surplus		6,767	2,495
		34,368	**42,589**

Under revised funding rules, FCA instructed the largest 1,000 levy payers to make payments on account for FSCS's 2019/20 levy. These firms were invoiced in February, with a due date of 1 April 2019. As at 31 March 2019, invoices totalling £135,102,000 were issued, of which £83,217,000 was collected, leaving amounts due from levy payers of £51,885,000. The amounts received are held to the credit of those individual firms rather than to any particular funding class and are shown separately in Note 13 and in the Class Statements. These funds will be applied to reduce the payments of these firms when the 2019/20 annual levies are invoiced in July 2019, which are allocated against funding classes. FSCS has presented the receivable and the liability on a net basis in the statement of financial position after considering the fundamental principles in the IASB Conceptual Framework and the requirements of IFRS 15.

The £28,724,000 (comprising current amounts due of £9,935,000 and non-current amounts due of £18,789,000) (2018: £91,118,000 (comprising current amounts due of £69,188,000 and non-current amounts due of £21,930,000)) due to levy payers of the Deposits class in respect of the 2008/09 banking failures represents the current fund balance of that class after taking into account the future recoveries FSCS expects to receive from the estates of those firms declared in default (the timing and final outcome are uncertain). Once the final outcome is known and the recoveries have been received, any excess funds will be repayable to the levy payers, by way of a return or a reduction in future years' levies, in accordance with FSCS's funding rules.

Balances with other government bodies

Amounts falling due within one year	31 March 2019 £'000	31 March 2018 £'000
Balances with other central government bodies	483	4,678,315
Sub-total: intra-government balances	**483**	**4,678,315**
Balances with bodies external to government	155,366	144,353
Total payables	**155,849**	**4,822,668**

Amounts falling due after more than one year	31 March 2019 £'000	31 March 2018 £'000
Balances with other central government bodies	–	–
Sub-total: intra-government balances	–	–
Balances with bodies external to government	34,368	42,589
Total payables	**34,368**	**42,589**

14 Loans

As a result of the 2008/09 banking failures, various arrangements were made during 2008/09 to obtain unsecured loans from HM Treasury and the Bank of England. The facilities with the Bank of England were subsequently refinanced to cover accumulated interest and principal by HM Treasury. Details of loans with HM Treasury are as follows:

Loans

	Principal outstanding as at 31 March 2018 £'000	Drawdown from (and repayment to) HM Treasury £'000	Recoveries £'000	Compensation payments on behalf of HM Treasury £'000	Principal outstanding as at 31 March 2019 £'000
Loan in respect of:					
Bradford & Bingley Plc	4,677,873	–	(4,677,873)	–	–
	4,677,873	–	**(4,677,873)**	–	–

Loan interest payable

	Principal outstanding as at 31 March 2019 £'000	Interest outstanding as at 31 March 2019 £'000	Interest outstanding as at 31 March 2018 £'000
Loan in respect of:			
Bradford & Bingley Plc	–	–	99,009
	–	–	**99,009**

The loan interest relating to 2017/18 of £99,009,000 and 2018/19 of £14,050,000 was paid to HM Treasury on 1 October 2018.

PRINCIPAL TERMS AND CONDITIONS

As at 31 March 2018, FSCS only had a loan facility agreed with HM Treasury for the Bradford & Bingley (B&B) default. The outstanding principal under this facility is repayable through recoveries from B&B. FSCS and HM Treasury had previously agreed that the period of the loan would reflect the expected timetable to realise assets from B&B.

On 25 April 2017, £10,976,636,000 of the loan owed to HM Treasury was redeemed using proceeds from the sale of two separate B&B asset portfolios to Prudential and funds managed by Blackstone. In November 2017, UK Asset Resolution (UKAR) announced it had launched a further asset sale process, which, subject to market conditions and value for money, will enable the repayment of the remaining £4,677,873,000 of the FSCS liability and, in turn, HM Treasury.

On 26 April 2018, UKAR confirmed that following an open and competitive process it had agreed to sell two separate portfolios of buy-to-let and residential owner-occupied mortgages to an investor group led by Barclays Bank PLC for a total of £5.3bn. Financial completion took place on 23 May 2018, involving loan repayments of £4.7bn to HM Treasury for the remaining FSCS loan. This means that the £15.65bn of compensation FSCS paid when B&B was nationalised in 2008 has now been repaid in full.

INTEREST

Under the original terms of the refinanced loans, interest accrued within a financial year (Interest Accrual Period) becomes due and payable six months after the last day of the Interest Accrual Period (being 1 October), and is calculated using 12-month LIBOR plus 100 basis points, adjusted monthly. Following a review of the terms and in light of market conditions, the margin on the rate of interest payable for loans outstanding was increased and is calculated at 12-month LIBOR plus 111 basis points, effective from 1 April 2015. This rate will be subject to a floor equal to HM Treasury's own cost of borrowing as represented by the rate published by the Debt Management Office for borrowing of an equivalent duration.

15 Provisions

	As at 31 March 2018 £'000	Change in the year £'000	Utilised in the year £'000	Unwinding of discount £'000	As at 31 March 2019 £'000
Compensation cost	82,587	27,836	(55,139)	–	55,284
Levy provision	5,920	(2,517)	(3,107)	–	296
Other	318	50	–	–	368
Total provisions	**88,825**	**25,369**	**(58,246)**	–	**55,948**
Current	88,507	25,319	(58,246)	–	55,580
Non-current	318	50	–	–	368
	88,825	**25,369**	**(58,246)**	–	**55,948**

COMPENSATION COST PROVISION

The provision for compensation costs of £55,284,000 includes estimates for return of funds, return of premiums and general insurance claims. This takes into account our best estimate of the most likely number of claims FSCS expects to receive and of the amount of these claims, using the best information available to the directors at this time.

Compensation costs include £3,700,000 estimated for Strand Capital Limited and £11,800,000 estimated for Beaufort Asset Clearing Services Limited (BACSL). This takes into account our best estimate of the most likely number of claims FSCS expects to receive and of the value of these claims, using the best information available to the directors at this time. For BACSL, this is based on the estimate of the administrator as to how much FSCS may be liable to contribute to investors' losses. We made a provision of £50,000,000 for BACSL in 2017/18 and made interim payments totalling £38,200,000 during 2018/19, leaving a provision of £11,800,000 remaining. There are significant judgements which had to be made in arriving at this estimate and the final outcome could be significantly different.

A provision of £26,753,000 was made for the return of premiums on the failures of Alpha Insurance A/S of Denmark and Qudos Insurance A/S. This provision was arrived at using our best estimates from a variety of sources on the likely number of policies FSCS would be paying and the associated cost of unexpired premium based on broker or customer submissions. There are significant judgements which had to be made in arriving at this estimate and the final outcome could be significantly different.

Compensation costs include an amount of £10,331,000 for other general insurance claims. This is an estimate of unpaid compensation claims that were accepted on or before 31 March 2019. The provision is based on submissions from Run-Off Agents who receive the acceptance of offers, where possible, or a review of post-year-end payments to determine the value of claims likely to have been accepted on or before 31 March 2019. Due to other third parties being involved, the Run-Off Agents may not be aware of all acceptances unless these third parties provide notification. These are not expected to be material. There are significant judgements that had to be made in arriving at this estimate because FSCS does not hold all the information pertaining to general insurance claims, and the final outcome could be different.

LEVY PROVISION

A number of firms applied for a reduction in the amount levied and requests for refunds were received from levy payers due to errors in the tariff data submitted by them to the FCA. Based on the best information available to the directors, a provision of £296,000 (2018: £5,920,000) has been made in the accounts for credit notes to be raised.

16 Financial risk management

The company's financial risk management policy is disclosed below:

LIQUIDITY RISK

Liquidity risk is the risk that FSCS is unable to meet its payment obligations associated with its financial liabilities as they fall due. FSCS manages its liquidity by carefully monitoring the projected income and expenditure related to its day-to-day business. Each month, FSCS identifies liquidity up to the point when it next expects to levy the majority of fees. FSCS also has available to it, for liquidity purposes, £1,470m of facilities, comprising a 364-day sterling revolving credit facility of £1,450m expiring on 17 March 2020 and an overdraft facility of £20m at a fixed margin above bank rate. Any usage of the revolving credit facility would be subject to Board approval.

In the event that FSCS is unable to raise sufficient levies and the facilities mentioned above do not provide adequate funds, FSCS would request a loan from HM Treasury.

INTEREST RATE RISK

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company's exposure to the risk of changes in market interest rates related primarily to the company's debt obligations with floating interest rates (see Note 14). All loans due to HM Treasury were repaid in full on 23 May 2018.

Any interest rate risk to FSCS is mitigated by the ability to raise levies on the financial services industry as a whole, therefore any interest rate risk is ultimately passed on to and absorbed by the levy payers.

The table below summarises the maturity profile of the company's financial liabilities based on expected undiscounted payments.

As at 31 March 2019	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Interest bearing loans and borrowings	–	–	–	–	–	–
Trade and other payables	–	13,049	142,800	34,368	–	190,217
Loan interest payable	–	–	–	–	–	–
	–	**13,049**	**142,800**	**34,368**	–	**190,217**

As at 31 March 2018	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Interest bearing loans and borrowings	–	4,677,873	–	–	–	4,677,873
Trade and other payables	–	7,514	137,280	18,164	–	162,958
Loan interest payable	–	–	99,009	16,471	–	115,480
	–	**4,685,387**	**236,290**	**34,635**	–	**4,956,312**

CREDIT RISK

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with FSCS, resulting in a financial loss to FSCS. FSCS's principal financial assets are cash and cash equivalents, together with levies and recoveries receivable.

FSCS's credit risk falls into three main categories:

i. the collection of levies from the financial services industry: the FCA, which collects the levies on behalf of FSCS, has a strong record in collecting levies;

ii. the placement of those levies as deposits with various counterparties: FSCS only invests with those financial institutions that meet its minimum credit rating as assigned by credit-rating agencies; and

iii. recoveries receivable from claims against institutions where FSCS has paid compensation (most often made through an insolvency process).

Any credit risk to FSCS is mitigated by the ability to raise levies on the financial services industry as a whole, therefore any loss due to credit risk will be absorbed by the levy payers.

CURRENCY RISK

FSCS is recovering funds from a number of institutions where the recoveries will be in foreign currencies. Changes in the exchange rate for US dollars or euros may affect the value recovered. Any currency risk to FSCS is mitigated by the ability to raise levies on the financial services industry as a whole, therefore any loss due to currency risk will be absorbed by the levy payers.

FAIR VALUES

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables, other current assets and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair value of unquoted instruments, loans from HM Treasury and the associated financial assets recoveries receivable in respect of the 2008/09 banking failures is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Set out below is a comparison by class of the carrying amounts and fair values of the company's financial instruments that are carried in the financial statements. Financial assets and financial liabilities that have a fair value that approximately equals their carrying amounts are not disclosed in the table below.

	Carrying amount		Fair values	
	As at 31 March 2019 £'000	As at 31 March 2018 £'000	As at 31 March 2019 £'000	As at 31 March 2018 £'000
Financial assets				
Recoveries receivable in respect of the 2008/09 banking failures	28,724	4,706,268	28,724	4,692,588
Financial liabilities				
Loans	–	4,677,873	–	4,688,408

The difference between the fair values of the recoveries receivable in respect of the 2008/09 banking failures and the loans is predominantly attributable to the present value of loan interest payable. This difference is funded by levy payers in the Deposits class.

17 Reconciliation of the profit/(loss) on ordinary activities before interest and tax to net cash inflow from operating activities

The statement set out below relates cash flows to items shown in the statement of comprehensive income and statement of financial position movements:

	31 March 2019 £'000	31 March 2018 £'000
Surplus on ordinary activities before interest and tax	11,635	95,496
Depreciation	457	248
Loss on disposal	21	–
Decrease/(increase) in receivables	4,745,827	11,331,397
Increase/(decrease) in payables	2,834	(322,712)
Difference between pension charge and cash contributions	(1,696)	(1,664)
Increase/(decrease) in provisions for liabilities and charges	(32,877)	23,922
Net cash inflow from operating activities	**4,726,201**	**11,126,687**

18 Transactions with related parties

During the year, FSCS entered into transactions with the FCA as a related party. The FCA and the PRA appoint, and have the right to remove, directors to the Board of FSCS and they establish the rules under which FSCS operates. The FCA and the PRA are considered to be related parties but not controlling parties during the year.

During the year, the FCA provided an agency service to FSCS to collect tariff data, issue levy invoices and collect levy monies on its behalf. Levy invoices, net of credit notes, were raised for £614,894,000 (2018: £536,663,000), including £46,020,000 raised as a levy for the interest on the loans relating to the 2008/09 banking failures, during July 2018, and £64,539,000 raised as a supplementary levy during February 2019. Collections of £570,004,000 (2018: £520,208,000) were received from levy payers. The fee for the agency service was £383,000 (2018: £378,000).

Overall, payments of £562,389,000 (2018: £518,567,000) were made by the FCA to FSCS, leaving amounts due from the FCA to FSCS at 31 March 2019 of £10,192,000 (2018: £2,577,000).

During the year, FSCS did not enter into any transactions with the PRA.

HM Treasury is not considered to be a related party or a controlling party. However, in the interest of transparency, full disclosure of the transactions with HM Treasury has been made. These transactions with HM Treasury comprise loan drawdowns and repayments, loan interest fees, loan commitment fees and compensation payments on behalf of HM Treasury.

All loan drawdowns, repayments and interest fees in the year as well as the balance owed at year-end are disclosed in Note 14.

19 Contingent liabilities and contingent assets

COMPENSATION COSTS

As at 31 March 2019 and 31 March 2018, compensation payments may become due as a result of claims made to us by customers of authorised financial services firms that have failed. To qualify for compensation, customers must be eligible under our rules. These rules are outlined in the FCA Handbook and in the PRA Rulebook sections on Depositor Protection and Policyholder Protection. FSCS can only pay compensation for financial loss and there are limits to the amounts of compensation FSCS pays. There is significant uncertainty around the number of claims we will receive from customers, the likelihood of eligible claims, the type or product of those claims, the amount of compensation we will pay and the timing of those payments. Therefore, it is not practicable to provide an estimate of the costs of potential claims we may receive or claims we have received but not yet decided on.

RECOVERIES RECEIVABLE

FSCS has a statutory duty to pursue recoveries that are reasonably possible and cost-effective to pursue, which will offset some of the compensation FSCS will pay out. At 31 March 2019 and 31 March 2018, FSCS had a number of ongoing recoveries actions against failed firms, the insurers of those failed firms, or other third parties, which are deemed probable to succeed. However, some of these have not been recognised as assets in the statement of financial position because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of FSCS.

There are no other material contingent liabilities or contingent assets identified at the reporting date.

20 Retirement benefits

FSCS operates both a money purchase scheme and a defined benefit pension scheme (the Pension Scheme), which was closed to new staff and closed to future accrual on 30 June 2011.

MONEY PURCHASE SCHEME

The non-contributory money purchase pension scheme, for permanent and fixed-term contract staff, was set up with effect from 1 February 2001. FSCS makes contributions of 6%, with incremental increases of 2% after two years' service, and a further 2% after five years. Employees may make voluntary contributions, to which up to a further 5% will be matched by FSCS.

Amounts paid by FSCS into the money purchase scheme amounted to £1,479,000, and £141,000 was outstanding to be paid at 31 March 2019 (2018: £1,375,000 and £110,000 respectively).

DEFINED BENEFIT PENSION SCHEME WITH MONEY PURCHASE UNDERPIN (HYBRID PENSION SCHEME)

FSCS operates a funded scheme with defined benefits payable that are underpinned by the value of notional money purchase units allocated to members in respect of service prior to 1 April 2002. Assets are held in separate Trustee-administered funds. An actuarial valuation of the Pension Scheme was carried out as at 1 April 2018. The valuation used the projected unit method and was carried out by Buck (the trading name in the UK for Buck Consultants Limited), professionally qualified actuaries.

The Trustees have the primary responsibility for governance of the Pension Scheme. Benefit payments are from Trustee-administered funds and the Trust is governed by UK regulation. Responsibility for governance of the Pension Scheme, including investment decisions and contribution rates, lies jointly with the company and the Trustees. The Trustees comprise representatives of FSCS and members in accordance with the Trust Deed and Rules.

Principal actuarial assumptions at the statement of financial position date are:

	31 March 2019 % (p.a.)	31 March 2018 % (p.a.)
Discount rate	2.55	2.60
Pension increase rate (where increase is based on RPI inflation capped at 5% p.a.)	3.10	3.00
Pension increase rate (where increase is based on CPI inflation capped at 3% p.a.)	2.05	1.95
RPI inflation assumption	3.25	3.10
CPI inflation assumption	2.25	2.10

The following standard mortality tables published by the Institute and Faculty of Actuaries and projections of future mortality improvements have been used:

Pre- and post-retirement: 105% S2PMA light for males and 100% S2PFA light for females, with future improvements to mortality projected using the Continuous Mortality Investigation (CMI) mortality projections model 2018, with a 1.25% per annum long-term trend rate for males and 1.25% per annum long-term trend rate for females from 2008 onwards, allowing for an individual member's year of birth.

Key assumptions	31 March 2019	31 March 2018
Life expectancy at 60 for male aged 60	27.2	27.5
Life expectancy at 60 for female aged 60	28.2	30.7
Life expectancy at 60 for male aged 45	28.2	28.8
Life expectancy at 60 for female aged 45	29.4	31.8

For the 31 March 2019 disclosures, 75% of members are assumed to exercise their option to commute the maximum amount of their pension for a Pension Commencement Lump Sum using the cash commutation factors in place as at 31 March 2019. The proportion of members commuting the maximum cash available is also consistent with last year's assumption.

For the 31 March 2019 disclosures, 80% of male and 75% of female members are assumed to have eligible adult dependants of the opposite sex, with males assumed to be three years older than females.

The assumptions were chosen by FSCS, with professional advice.

At 31 March 2019, the Pension Scheme's assets were invested in a diversified portfolio that consisted primarily of equities.

The fair values of the Pension Scheme's assets are set out below:

As at 31 March 2019	Quoted £'000	Unquoted £'000	Total £'000
Global equities	8,590	–	8,590
Property	–	2,247	2,247
Indexed-linked gilts	5,237	–	5,237
UK corporate bonds	3,173	–	3,173
Diversified growth funds	–	12,087	12,087
Cash and net current assets	667	–	667
Alternative	3,311	–	3,311
Total assets	**20,978**	**14,334**	**35,312**

As at 31 March 2018	Quoted £'000	Unquoted £'000	Total £'000
Global equities	18,914	–	18,914
Property	–	2,151	2,151
Indexed-linked gilts	4,519	–	4,519
UK corporate bonds	2,601	–	2,601
Hedge funds	–	–	–
Diversified growth funds	–	3,383	3,383
Cash and net current assets	973	–	973
Total assets	**27,007**	**5,534**	**32,541**

The assets as at 31 March 2019 are consistent with the Pension Scheme's investment strategy as set by the Trustees. As the Pension Scheme matures, it is intended to reduce the level of investment risk by moving towards a position that is predominantly liability matching in nature. This involves an asset liability management framework that has been developed to achieve long-term investments that are in line with the obligations under the Pension Scheme. Within this framework, the objective is to match assets to the pension obligations by investing in long-term fixed interest and index-linked securities with maturities that match the benefit payments as they fall due and in the appropriate currency. FSCS actively monitors the duration and the expected yield of the investments that are matching the expected cash flows arising from the pension obligations.

The Pension Scheme does not invest in the sponsor's own financial instruments, including property or other assets owned by the sponsor.

The amounts recognised in the statement of financial position are as follows:

	31 March 2019 £'000	31 March 2018 £'000
Fair value of assets	35,312	32,541
Present value of obligations	(28,545)	(30,046)
Funded status	**6,767**	**2,495**
Adjustment in accordance with paragraph 64 of IAS 19 (the "asset ceiling")	–	–
Net defined benefit asset/(obligation)	**6,767**	**2,495**

Movement in net defined benefit asset/(obligation) over the year	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Net defined benefit asset/(obligation) at beginning of the year	2,495	(2,682)
Employer contributions	1,920	1,920
Expense recognised in income statement	(224)	(256)
Remeasurement gain/(loss) recognised in other comprehensive income	2,576	3,513
Net defined benefit asset/(obligation) at end of the year	**6,767**	**2,495**

Changes in present value of the defined benefit obligation	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Opening defined benefit obligation	30,046	32,987
Past service cost	31	–
Interest cost	772	871
Distributions	(691)	(1,469)
Experience (gains)/losses	(1,367)	–
Losses (gains) on curtailments	–	–
Actuarial (gains)/losses	(246)	(2,343)
Closing defined benefit obligation	**28,545**	**30,046**

SENSITIVITY ANALYSIS OF THE PENSION SCHEME LIABILITIES

The sensitivity of the principal assumptions used to measure the Pension Scheme liabilities is set out below:

	Change in assumption	Value of Scheme liabilities £'000
No change to the assumptions		28,545
Discount rate reduced by	0.25%	30,283
Discount rate increased by	0.25%	26,939
Inflation and associated pension increases increased by	0.25%	30,052
Inflation and associated pension increases reduced by	0.25%	27,321
Life expectancy increased by	1 year	29,589

DESCRIPTION OF RISKS TO WHICH THE PENSION SCHEME EXPOSES FSCS

If the Pension Scheme assets do not move in line with Pension Scheme liabilities, then a deficit may arise. As the Pension Scheme matures, FSCS intends to reduce the level of investment risk by moving towards a position that is predominantly liability matching in nature. The majority of benefits are linked to inflation and so increases in inflation will lead to higher liabilities (although in most cases there are caps in place that protect against extreme inflation). Increases in life expectancy will increase pension scheme liabilities. The inflation-linkage of the benefits also means that inflationary increases result in a higher sensitivity to increases in life expectancy.

Changes in fair value of the Pension Scheme assets	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Opening fair value of assets	32,541	30,305
Contributions paid by employer	1,920	1,920
Interest income	858	822
Return on Scheme assets, excluding interest income	963	1,170
Distributions	(691)	(1,469)
Administration expenses	(279)	(207)
Closing fair value of assets	**35,312**	**32,541**

Expenses recognised in the income statement	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Past service cost	31	–
Administration expenses	279	207
Net interest on the net defined benefit obligation/(asset)	(86)	49
Total expense/(income)	**224**	**256**

Remeasurement effects recognised in other comprehensive income	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Return on Pension Scheme assets, excluding interest income	963	1,170
Experience (losses) arising on the Pension Scheme liabilities	1,367	–
Changes in financial assumptions underlying the present value of the Pension Scheme liabilities	(1,137)	1,175
Changes in demographic assumptions underlying the present value of the Pension Scheme liabilities	1,383	1,168
Net actuarial losses recognised in the period	**2,576**	**3,513**

	£'000
Best estimate of employer contributions to be paid over following year	1,920
Expected future benefit payments	
Year ending 31 March 2020	257
Year ending 31 March 2021	291
Year ending 31 March 2022	466
Year ending 31 March 2023	375
Year ending 31 March 2024	546
Five years ending 31 March 2029	3,463

As required by IAS 19, the projected unit method has been used to determine the liabilities.

FSCS has agreed with the Trustees that the funding objective is to aim to ensure the Pension Scheme has sufficient and appropriate assets to cover its technical provisions (which are effectively the liabilities in respect of service already completed) under the Scheme Specific Funding regulations (the pension scheme operates under the Pensions Act 2004 regulatory framework).

The valuation of the Pension Scheme's liabilities for accounting purposes has been carried out at a different date from when the Pension Scheme's last actuarial valuation was carried out to determine the funding position and using some different assumptions. Therefore, the figures quoted in this Note are different from those disclosed in the last actuarial valuation report as would usually be expected. The figures set out in this Note are calculated according to the requirements of IAS 19. Separate calculations will be carried out for the Trustees and possibly the sponsor, to monitor and control the funding of the Pension Scheme using assumptions selected by the Trustees.

FSCS estimates the duration of the Pension Scheme liabilities on average to fall due around 23 years.

21 Other disclosures

HM Treasury has issued an Accounts Direction requiring FSCS to disclose the following information:

SICKNESS ABSENCE

FSCS actively promotes the health, safety and well-being of its staff, aware that this helps to boost morale, staff engagement and, in turn, excellent performance. The average number of working days lost to sickness absence during the year to 31 March 2019 was 6.4 days per person (2018: 4.9 days per person).

EXIT PACKAGES

FSCS is required to disclose summary information on the use of exit packages, in accordance with the Accounts Direction issued by HM Treasury. The following table includes exit packages as they relate to all employees, and exit packages are accounted for in full in the year of departure.

Exit package cost band	Number of compulsory redundancies Year ended 31 March 2019	Number of other departures agreed Year ended 31 March 2019	Total number of exit packages by cost band Year ended 31 March 2019	Number of compulsory redundancies Year ended 31 March 2018	Number of other departures agreed Year ended 31 March 2018	Total number of exit packages by cost band Year ended 31 March 2018
<= £10,000	–	1	1	5	–	5
£10,001–£25,000	2	2	4	5	3	8
£25,001–£50,000	4	–	4	8	–	8
£50,001–£100,000	–	–	–	4	1	5
£100,001–£150,000	–	–	–	–	–	–
£150,001–£200,000	–	–	–	–	–	–
Over £200,001	–	–	–	–	–	–
Total number of exit packages by type	**6**	**3**	**9**	**22**	**4**	**26**
Total resource cost (£'000)	**195**	**52**	**247**	**662**	**111**	**773**

FSCS is not required to follow the provisions of the Civil Service Compensation Scheme as its principal governance arrangement is with the FCA and the PRA. Any FSCS exit packages are approved in line with our own internal procedures.

SPECIAL SEVERANCE PAYMENTS

There were two special severance payments made during the year to 31 March 2019 totalling £23,279 (2018: one special severance payment of £52,500).

LOSSES AND SPECIAL PAYMENTS

Total losses and special payments were £50,688 (2018: £401,588) during the year to 31 March 2019. There were no individual losses or special payments exceeding £300,000.

By phone on:

0800 678 1100 or

020 7741 4100

Lines are open from
8.30am to 5.30pm
(Monday to Friday
excluding public holidays)

By post to:

Financial Services
Compensation Scheme
10th Floor
Beaufort House
15 St Botolph Street
London
EC3A 7QU

Online enquiry form

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