

I wish to make two comments/observations on the limits and methodology for the FSCS scheme as follows:

1. The compensation limit for deposits should be set at a higher amount than £35000 per individual (£70000 for joint accounts). There are a number of reasons for this:
  - i. Consumers do not have the necessary information to properly evaluate the credit risk of the financial institution taking the deposit at the time the deposit is made; the necessary **current** information for such an evaluation is not put in the public domain. Publicly available information (eg annual reports) is already out of date by the time it is published [hence credit rating companies require greater access to the financial institutions position before producing any credit rating assessments]. The regulatory authorities also require greater access to the financial institution's position as part of their monitoring process. Thus, the consumer must rely on the regulatory authorities – in this case the registration of the financial institution by the FSA – in assessing the creditworthiness of the financial institution that is taking the deposit. Therefore the compensation limits for deposits by consumers should be set to cover almost all (ie well over 99%) rather than just 97% (by number) of consumer deposits; the key consideration should be coverage by value rather than by number.
  - ii. The thought that “particular” deposits, which meet certain conditions, could be given higher protection seems unreasonable. For example, one suggestion is that such deposits should be non-interest bearing; are the banks to be given this windfall from large non interest-bearing deposits? Why should the consumer be penalised by such an approach?
  - iii. Why should the FSCS limit for “investments” be higher than for deposits – currently £48000 for investments vs £35000 for deposits. Both investments and deposits are “savings” of the individual and should be equally protected. The current system is thus biased in favour of savings that are classified as investments rather than deposits; there does not seem to be any logical reason for such a bias.

I would suggest that the compensation limits for all savings – be they deposits or investments - be increased to at least £100000 per individual (£200000 for joint accounts).

2. There is an unreasonable methodology within the way in which the FSCS is currently operated (I have confirmed with the FSA that my understanding of the current rules is correct). This is best illustrated by three examples (the first two examples have occurred in practice but there have not been any problems with the financial institutions concerned), viz:
  - i. A consumer makes two term deposits with two separate financial institutions, each institution being separately registered with the FSA. Each term deposit is for £35000 and for a three year period and therefore the consumer's £70000 (being 2 deposits of £35000 with 2 separate financial institutions) is 100% covered by the FSCS. After the consumer has made his two deposits the two institutions merge (or one is acquired by the other) and change their FSA registration to a single registration for the merged financial institution. Under the current methodology the consumer's protection is thereby reduced to 50% (£35000 out of £70000) as there is now only one FSA registration. The consumer is unable to withdraw any of their deposit as the funds are "locked in" as three year term deposits. Thus the consumer has done his homework at the time of making his deposits (in ensuring that the deposits were fully covered by the FSCS at the time the term deposits were made) but an extraneous act (the merger of the two financial institutions) over which the consumer has no control has arbitrarily reduced the level of his protection.
  - ii. A consumer makes two deposits of £35000 each with two separate financial institutions that are part of the same group. At the time the consumer made his deposits each financial institution had its own separate FSA registration and therefore the consumer's £70000 (being 2 deposits of £35000 with 2 separate financial institutions) is 100% covered by the FSCS. Subsequently the group decides to have just one FSA registration that covers all members of the group. Under the current methodology the consumer's protection is reduced to 50% (£35000 out of £70000) as there is now only one FSA registration. This change in FSA registration may not be publicised (as would probably happen in the example above where one institution is merged/acquired) and the consumer may therefore be completely unaware of the change until it is too late. Thus, again, the consumer has done his homework at the time of making his deposits (in ensuring that the deposits were fully covered by the FSCS at the time the term deposits were made) but an extraneous act (a change of policy within the financial institution group) over which the consumer has no control (and may not be aware of) has arbitrarily reduced the level of his protection.

- iii. A third, perhaps less likely example, is when a term deposit is made with an FSA registered financial institution. Subsequently the institution changes its business model and therefore gives up its FSA registration. If this institution subsequently runs into problems there is no protection for the consumer as the institution has no FSA registration. Thus, yet again, the consumer has done his homework at the time of making his deposit (in ensuring that the deposit was fully covered by the FSCS at the time the term deposit was made) but an extraneous act (a change of policy within the financial institution) over which the consumer has no control (and may not be aware of) has arbitrarily reduced the level of his protection.

This method or operation of the FSCS seems unreasonable. The cover provided by the FSCS should depend upon the FSA registration of the financial institution at the time the deposit was made **NOT** on the FSA registration at the time the financial institution runs into problems.