

Strengthening the safety net



Caroline Rainbird

➤ Financial Services Compensation Scheme CEO, Caroline Rainbird, chats to Sophie Smith about the plans to review its compensation limit, the growing complexity of pension claims, and the key aims for the FSCS in 2023

➤ The Financial Services Compensation Scheme (FSCS) recently welcomed Financial Conduct Authority (FCA)'s plans to review the compensation limit for pension claims. Can you tell us a bit more about why you feel a review is needed?

We believe the current compensation limits remain appropriate for most financial products and activities covered by FSCS protection. However, we have actively called for a review of the compensation limit for pensions because year-on-year we are seeing rising levels of uncompensated loss among pension

customers. Uncompensated loss is where the money we can return to customers is less than the total amount they lost due to FSCS's £85,000 compensation limit.

For pension advice claims, including pension transfers, the rise in uncompensated loss has been greater than any other claim type. In fact, almost 1,400 pension advice claims were above FSCS's limit of £85,000 in 2021/22. This figure has risen steadily over the past six years, resulting in over £450 million of uncompensated loss.

When it comes to pensions compensation, we would like to see a reduction in the gap between FSCS's £85,000 limit and the amount that the Financial Ombudsman Service (FOS) can tell a business to pay, which is currently £375,000. Someone who has lost, say, £200,000 from their pension is able to get it all back from the FOS if the company responsible for their loss is still trading. Contrast this with someone else who has lost the same amount but can only recover £85,000 because the company they were dealing with has gone out of business. This is having a huge impact on customers, and we are hearing heartbreaking stories from people who have lost significant amounts of money, often when they are at, or close to, retirement and unable to recoup these losses.

➤ FSCS previously said that handling claims in areas such as pension transfers is growing "ever-more complex", predicting a continuation of this trend in 2023. How do you plan to deal with this growing complexity?

Over the past few years, the number of relatively straightforward claims we've received like those relating to PPI have reduced, with more complex pensions claims increasing. These more

complicated claims take much longer to process, and require much more evidence and documentation from customers, which all must be worked through before we can make a decision.

In order to address this, we are investing in our people and systems, with a three-year plan to enhance our claims handling capabilities so we can effectively look ahead, plan for the future and deal with the changing claims landscape. Our aim is to bring in specialist resources where necessary, but also to develop our own in-house capabilities in vital areas such as data, insight and policy.

We are also committed to investing in technology, finding and developing new, innovative ways to process claims, such as our new data lake and search tool. The data lake is a large pool of unstructured data, which our tool can search and highlight keywords within the documents. This reduces the manual handling time for each claim. It means our expert claims handlers only need to review the specific pages or files that have been identified, to ensure the findings are accurate. It also reduces the overall time a customer waits for a decision as we spend less time requesting and chasing information from third parties.

Technology is also allowing us to increasingly be able to proactively analyse and assess the entire data set from a failed firm, without even needing to involve individual customers. This means that for some firms, customers may no longer have to make a claim and compensation can be paid to them automatically.

➤ Looking more broadly, what future trends do you expect in the pension claims space in 2023, and does FSCS have any further work to share in the pension area for 2023?

We are estimating that there will be a 40 per cent reduction in self-invested personal pension (SIPP) advice claims over the next year, with no large advice firm failures expected in 2023/24.

However, as I mentioned, handling claims in areas such as pension transfers and SIPP operator failure is growing ever-more complex, and we expect this will continue. The sharp increase over recent years in overall compensation costs has been driven primarily by claims arising from the two Financial Conduct Authority investment-related funding classes – Life Distribution and Investment Intermediation (LDII) and Investment Provision. With this in mind, we are expecting an increase in compensation paid for complex pension claims decisions in 2023.

And it is important to remember that while it is difficult to predict the future, we do know that it is the actions that firms take now that will result in the claims we receive in the future. This is due to the inherent lag in the system, with around 80 per cent of people who need to bring claims to us not realising they had been given unsuitable advice until at least five years after the event. That is why it is the joint responsibility of our industry to help reduce consumer harm in the future, preferably by preventing

harm happening in the first place. This is the best way to improve outcomes for consumers, increasing consumer confidence, reducing uncompensated losses (as there are reduced losses) and preventing the emotional loss associated with financial harm, which can also be devastating.

▶ The FCA recently confirmed its plans for the BSPS redress scheme, alongside a consultation on plans to extend its temporary asset retention rules. What impact do you expect this redress scheme to have on the FSCS, and are you able to share any further updates on the FSCS's financial estimates for the scheme?

The proposed extension to the asset retention measures will hopefully reduce the number of relevant firms that become insolvent. This would increase the availability of assets of firms that do become insolvent. If this happens it would be more likely that these firms will be able to meet their liabilities or, if necessary, have an orderly winddown. This would reduce some of the impact on both consumers and FSCS levy payers.

Now the final rules for the BSPS redress scheme are in place we will be able to share the expected impact in our next *Outlook* publication, which is due to be published in the spring.

In such a fast-moving environment we are constantly reviewing our forecasts and are

committed to regularly publishing updates for the industry.

▶ The FSCS has previously taken steps to raise awareness of FSCS pension protections. What impact do you think this work has had on savers, and does FSCS have any plans to expand on this work in the year ahead?

Last year we published some research that looked at consumer trends, attitudes and behaviours towards pensions and SIPPs. It highlighted the confusion for consumers and lack of engagement surrounding pensions, which can be very complex products.

In the past year we have launched a new TV and radio advertising campaign designed to increase public awareness and understanding of the protection FSCS can offer when pension advisers and providers fail. The campaign has been very successful in helping us increase the number of people visiting our website to learn more about protection and check whether their pension is protected by using our Pension Protection Checker tool.

In recent years, consumers are being asked to make more sophisticated financial decisions, particularly about their retirement savings. This means it is more important than ever that they do their homework. They can start by using the Pension Protection Checker on our website or speak with their provider or adviser before they invest.

We will continue to promote the protection that FSCS provides using a variety of tools including our series of questions people should ask their pensions provider or adviser, our podcast episode and the information on our website. We will also continue our work with regulatory partners, the financial services industry, and other key stakeholders to help raise awareness of our protection and help people make informed decisions about their pensions.

▶ Written by Sophie Smith

