



ShareSoc

UK Individual Shareholders Society

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Financial Conduct Authority

Via Email: cp16-42@fca.org.uk

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Response to Review of Funding of the Financial Services Compensation Scheme

Dear Sirs,

This response to the above named consultation is submitted by ShareSoc, the UK Individual Shareholders Society. We are a not-for-profit organisation representing the interests of our Members who are individual investors from across the United Kingdom.

Our answers to the questions in the Consultation Paper are as follows (we have only responded to those questions that are likely to be relevant to our Members):

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

Answer: Although these questions do not directly affect our Members, we sympathise with those firms who complain that firms who are conducting business in sectors, or in ways, that are of higher risk should be paying a higher levy. The costs associated with such business would then be passed on to the appropriate firms and their clients rather than others. At present the costs incurred by our Members indirectly in the funding of the levy are becoming a substantial burden on the costs of investing even when our Members have chosen not to get involved in risky sectors. We therefore are generally in favour of the introduction of risk-based levies.

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

Answer: Yes to a) and b), and c) where identifiable.

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

Answer: Yes.

Q4: Do you have any views about the current effectiveness, or otherwise, of PII cover including in reducing the number and cost of claims on the FSCS, and about the role of PII in providing compensation to consumers who have claims against failed firms?

Answer: No comments.

Q5: Do you have any views or suggestions about the possible features of more comprehensive, mandatory PII insurance? Do you have any suggestions about other possible tools, remedies or approaches which could be used to reduce the scale of funding currently required by the FSCS?

Answer: No comments.

Q6: Do you have any views on the impact of a requirement on PIFs to hold more comprehensive PII? For example, what would be its impact on the PII market, the financial advice market and on consumers in general?

Answer: It would seem reasonable that PII insurance should be sufficient to avoid the need to call on the FSCS. It might increase the costs of some financial services and products, and cause firms to avoid certain classes of business or smaller clients but there is no good reason for the industry as a whole to be subsidising particular classes of business. The FSCS effectively acts as an insurance scheme, but a commercial insurer providing PII cover is likely to be a better judge of the risks associated with certain firms or classes of business they provide and hence price more appropriately.

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

Answer: Yes we support an increase in the compensation limits for all those classes. The existing limit of £50,000 is totally inadequate particularly as regards ISAs, SIPP's and other investments where advice provided is defective. For those who are saving for retirement, the minimum sum required to provide a pension anywhere need the equivalent of a living wage is as much as £1 million (assuming current annuity rates, a joint life, with 3% escalation would only provide £36,000 p.a. on £1 million). Therefore any lesser amount in compensation for loss of the investment could impose severe hardship. We consider that £1 million should be the compensation limit.

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

Answer: We cannot see any logic in differentiating. So far as the consumers are concerned, they need both covered.

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

Answer: Likewise we cannot see any logic in differentiating apart from the technical difficulties of doing so mentioned in the consultation report.

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

Answer: There are clearly substantial risks faced by investors in this area which they may not be aware of. It is unclear why there are objections to extending coverage of FSCS to loan-based crowdfunding other than the difficulty of identifying who would fund the scheme even though the risks that are not covered by other means seem relatively few. However, we certainly believe that only firms involved in such loan crowdfunding should finance the extension of FSCS compensation into this area.

Q11: Do you have any comments about the scope of the FSCS and whether promoting financial products, or any other activities, should be included within its coverage?

Answer: We agree that it is not necessary to extend the coverage of FSCS to the promotion of financial products for the reasons given.

Q12: Do you agree that it would not be justified for the FSCS to utilise a credit facility to further smooth levies, given the costs involved?

Answer: No comments.

Q13: Do you believe that we should seek to reduce the number of funding classes, in order to reduce volatility of FSCS levies?

Answer: No comments.

Q14: What are your views on the different funding classes we have set out here? Do you have any alternative proposals?

Answer: No comments.

Q15: Do you agree with our intention to keep the current class thresholds for intermediary classes, merging the thresholds if appropriate to adopt a revised class structure?

Answer: No comments.

Q16: Do you agree with our intention to keep our current class threshold of £200m for the investment provision class?

Answer: No comments.

Q17: Do you have any views on the idea of a fixed levy for smaller firms?

Answer: No comments.

Q18: Do you have any comments on the mechanism by which we would propose to incorporate product provider contributions into the intermediary claims classes, for the various different class structure options described?

Answer: No comments.

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

Answer: No comments.

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

Answer: No comments.

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

Answer: We agree FSCS protection should be extended to these products/services.

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

Answer: We agree in general although we do not understand why alternative investment funds (AIFs) should be treated differently to other CISs. We suggest they should be included.

Q23: Do you agree with our proposed new approach to Lloyd's of London?

Answer: No comments.

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

Answer: No comments.

Q25: Do you agree with our proposal to remove the rule relating to paying FSCS levies by quarterly direct debits or should we consider other options?

Answer: No comments.

Q26: Do you have any comments on our proposed class threshold and tariff measures for the new debt management claims class?

Answer: No comments.

Q27: Do you have any comments on our proposed tariff measures and metrics for calculating the deposit taker contribution for direct sales in relation to structured deposits?

Answer: No comments.

Q28: Do you have any comments on how, in future, we might calculate any provider contributions required from deposit-takers, in relation to structured deposits, if we were to consult in detail on this approach?

Answer: No comments.

Q29: Do you have any comments on our decision to maintain the current tariff measures, except for life and general insurers?

Answer: No comments.

Q30: Do you have any comments on our proposal to bring the tariff bases for insurers into line with the PRA's approach?

Answer: No comments.

Q31: Do you agree with our proposal to require firms that must pay some of their FCA/PRA levies on account to also make a payment on account in respect of their FSCS levy?

Answer: No comments.

That concludes our submission.

Yours sincerely,

Roger Lawson
Deputy Chairman

Note to readers: the consultation document referred to is present here:

<https://www.fca.org.uk/publication/consultation/cp16-42.pdf>