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'Enormous' FSCS levy looms if mid-sized bank collapses

Nicole Blackmore | 09-Oct-2008

The FSA has admitted that Financial Services Compensation Scheme levy payers may see an "enormous" increase in fees if a mid-sized bank fails following last week's increase to the compensation limit.

The FSA's review of the FSCS, released last week, states that the failure of a banking institution could have huge cost implications for the rest of the industry. It says: "This might result in a modest increase of the amount the FSCS (and ultimately FSCS levy payers) had to cover in the event of a failure of a small institution but could constitute an enormous amount should a mid-sized bank fail.

"For example, the failure of an institution with, for instance, £5bn in protected deposits would increase FSCS costs by £400m.

"This excludes the possible knock-on effects to the market of funding such a large amount at a time when funding is tight."

Last week, the FSA increased the compensation limit for bank deposits from £35,000 up to a total of £50,000 for individual customer claims and joint accounts will be eligible to claim up to £100,000.

Churchouse Financial Planning managing director Keith Churchouse says: "It seems as though advisers, among others, are just going to end up carrying the can for banks."

The FSA review says it will consult on whether the compensation limit should be increased further, the speed at which the FSCS can pay compensation and the rules surrounding whether deposits are covered on a legal entity, a brand or an account basis.

£450m bill, p7

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