

DIVERSIFYING & SAFEGUARDING YOUR COMPANY'S CASH

# A GUIDE TO THE FINANCIAL SERVICES COMPENSATION SCHEME (FSCS)



# Contents

---

Executive Summary	01
What is the Financial Services Compensation Scheme?	02
FSCS protection and cash deposits	03
FSCS limits and how they have changed	04
Who qualifies for protection?	05
Exclusions from FSCS deposit protection	06
Banking licences and shared FSCS cover	06
Which providers are covered under the FSCS?	07
How Flagstone can help	08

# Executive Summary

In the course of our day-to-day work at Flagstone, it's become apparent that a great deal of confusion exists around how the Financial Services Compensation Scheme (FSCS) applies to cash deposits. The FSCS is the compensation mechanism set up by the Government in 2001 to protect consumers in the event that a financial provider ceases to trade or cannot meet claims made against it.

This lack of clarity is particularly prevalent when it comes to how the scheme's protection applies to different types of depositor, especially in relation to companies and charities. Confusion persists as to whether these entities qualify for protection or are excluded, and whether protection is contingent upon them meeting certain qualifying criteria such as balance sheet size, turnover and the number of employees they have.

This guide has been created to clarify key information relating to how the FSCS applies to cash deposits, providing you with an understanding of the key features of the scheme. It explores the different criteria to be aware of, how they have changed and why, and importantly what the current levels of protection are, with any qualifications for inclusion.



## KEY POINTS

- The Financial Services Compensation Scheme (FSCS) was set up by the Government in 2001. In respect of bank deposits, it provides compensation to depositors if an authorised<sup>1</sup> financial services provider is unable to repay its clients' deposits.
- In addition to providing protection to individual savers and joint account holders, corporate and charity depositors are also covered by the FSCS, regardless of the size of the company or charity (subject to a few exclusions detailed on page 6).
- For depositors, FSCS protection has a limit of £85,000 per depositor, per banking licence. For joint accounts the limit is £170,000.
- Up until 2015, there were restrictions to the provision of FSCS deposit protection for companies (designed to exclude large corporates). The criteria for qualification until 2015 were that the company had to employ fewer than 250 staff; have a turnover of no more than £44m and a balance sheet of no more than £39m. For clarity, these restrictions no longer apply. All companies are now protected by the scheme irrespective of their size.
- There are however a number of entities that do not qualify for FSCS protection as depositors:
  - credit institution
  - financial institution
  - investment firm
  - insurance undertaking
  - reinsurance undertaking
  - collective investment undertaking
  - pension or retirement fund<sup>2</sup>
  - public authority, other than a small local authority.
- Depositors need to be mindful that banks can and do share banking licences. If two banks share a licence then the limit for compensation is £85,000 in total, shared across both banks. In that event, to ensure that your deposits maintain their FSCS protection, you should ensure that they do not exceed the £85,000 limit in total across both institutions. You can refer to the Financial Services Register to check a specific institution and confirm whether any other institution shares its banking licence here: <https://register.fca.org.uk>
- Not every institution that offers banking services in the UK is covered under the FSCS. Some institutions offer banking services but are not authorised by the Prudential Regulation Authority (PRA) and therefore may not be covered by the scheme. You can confirm whether an institution is protected using the FSCS checker: <https://protected.fscs.org.uk/tools/check-your-money-is-protected/>

<sup>1</sup> Authorised by the Prudential Regulation Authority (PRA)

<sup>2</sup> Deposits by personal pension schemes, stakeholder pension schemes and occupational pension schemes of micro, small and medium sized enterprises are not excluded.



## What is the Financial Services Compensation Scheme?

---

The Financial Services Compensation Scheme (FSCS) was set up by the Government in 2001 under the 'Financial Services and Markets Act 2000' to provide consumers with compensation in the event that any authorised<sup>1</sup> financial services provider, holding their money, became insolvent or was unable to meet claims against it.

A non-profit organisation, it is funded entirely from levies which authorised financial services companies pay on an annual basis. It is, therefore, free to consumers and independent of both the Government and the financial services companies themselves.

A wide range of financial services and products are covered by the FSCS, including investments and insurance policies. It is cash deposits, however, which we will be focusing on.

In this guide, we will be outlining the key features of the FSCS as it relates to cash deposits, so that you are able to make an informed decision about how to optimise the protection available to you.

<sup>1</sup> A firm authorised by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority, depending on the product covered.

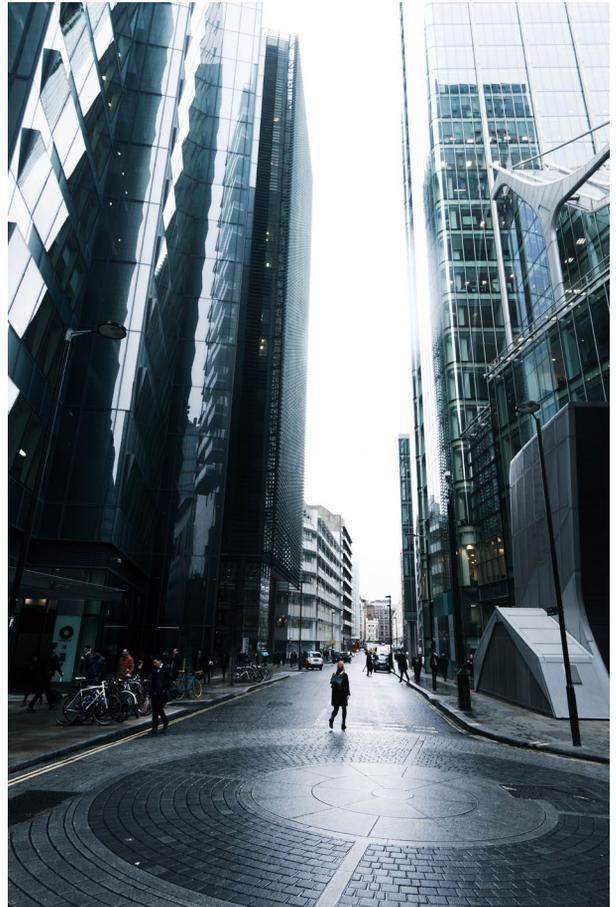
## FSCS protection and cash deposits

The FSCS provides protection for customers of FCA authorised banks, building societies and credit unions. Since 2011, £60 million in compensation has been paid by the FSCS to customers of one failed UK bank and 50 failed credit unions, demonstrating the effectiveness of the scheme and the importance as a depositor of having a clear understanding of how it works.

For cash deposits, the FSCS protects up to £85,000 per depositor per banking licence (up to £170,000 for joint accounts)\*. This is the highest level of protection the scheme has offered since its inception in 2001.

FSCS protection limits do vary between the different financial products covered. For investment products, for example, the limit is only £50,000. These differing limits for different financial products can cause confusion.

Ensuring you are fully aware of the protection limit enables you to make informed decisions when depositing your cash, based upon your clear understanding of how much of your money is protected, and whether you want to spread your money between different banking licences to benefit from as much protection as possible.



\* As at 7th December 2018

# FSCS limits and how they have changed since the scheme's inception

Since its inception, there have been a number of changes to the limit of protection provided by the FSCS.

These limits and the way in which they were calculated can still be found, referenced on the internet, but as obsolete, legacy posts, which are potentially misleading. Consequently, whilst the internet is the go-to source of information and clarification for most people these days, it is responsible for much of the confusion that exists around FSCS compensation limits and eligibility.

In 2007, only the first £2,000 of a consumer's savings and 90% of their next £33,000 were protected. The FSCS deposit limit was subsequently raised to £35,000 in October 2007 and then £50,000 a year later, to raise consumer confidence in the banks amid economic uncertainty.

A European-wide directive mandated that all national compensation schemes protect a limit of £85,000 (£100,000 in the Eurozone), on 1st January 2011 to prevent savers moving their money across borders to seek out higher limits of protection, such as when Ireland offered a blanket guarantee during the financial crisis. Consequently, the FSCS protection limit was raised to reflect this amount, for the first time.



Since then, the limit has changed twice due to currency fluctuations changing the value of the €100,000 limit in its sterling equivalent. It reduced to £75,000 in December 2015 to reflect the strength of the pound, before increasing to £85,000 again on January 1st 2017 following the drop in the value of the pound after the Brexit vote.

It has remained at £85,000 since, but it is easy to see how these historic changes have caused confusion about the current limit of protection.

Importantly, while the protection limit is only examined every five years, it has changed twice in the last three years due to changes in the value of the pound. Further currency fluctuations may mean that the limit will change further, so keeping abreast of changes is vital to stay informed about how much of your cash deposits are protected.

## Who qualifies for protection?



In addition to individual savers and joint account holders, corporate and charity depositors are also covered by the FSCS, regardless of the size of the company or charity.<sup>1</sup>

A business or charity depositing up to £85,000 with a bank or building society which holds its own banking licence, benefits from that deposit being fully protected by the FSCS. Each subsequent deposit of up to £85,000 held with a different bank (with its own banking licence) similarly benefits from FSCS protection.

It is worth noting that, unlike a personal joint account which benefits from up to £170,000 FSCS protection (i.e. effectively double the personal individual protection limit), corporate deposits (even where the company is a partnership of two people) are treated as having been made by a single entity and thus only benefit from up to £85,000 protection per bank.

This means that corporates and charities can greatly benefit from spreading their cash deposits between different banking licences, in order to maximise FSCS protection.

There have been changes to the scope and definition of which depositors are protected by the FSCS, and as such there is a great deal of outdated information on the internet relating to exclusions and qualifications which again has the potential to create confusion.

Up until 2015, there were restrictions to the provision of FSCS deposit protection for corporates, designed to exclude larger companies. The criteria for qualification until 2015 were that a qualifying corporate depositor had to have fewer than 250 employees, a turnover of no more than £44m and a balance sheet of no more than £39m: the definition of an SME created by a European Directive.

These restrictions no longer apply, but in combination, all of the above aforementioned factors have served to make this very simple issue seem much more complicated than it actually is.



<sup>1</sup> Some types of firm are excluded - See page 6.

## Exclusions from FSCS deposit protection

There are a number of restrictions and exclusions in relation to FSCS deposit protection. If the holder and any beneficial owner of the deposit haven't been properly identified and verified by the deposit taker, then FSCS protection won't apply, due to anti-money-laundering requirements. Similarly, if the deposit results from transactions where there has been a criminal conviction for money-laundering, the FSCS will not provide compensation.

There are a number of entity types that do not qualify for FSCS protection. For clarity, we have listed these here:

- credit institution
- financial institution
- investment firm
- insurance undertaking
- reinsurance undertaking
- collective investment undertaking
- pension or retirement fund\*
- public authority, other than a small local authority.

## Banking licences and shared FSCS cover



An important consideration when deciding where to deposit your cash between different institutions, is whether the FSCS protection is shared.

Some banking institutions share licences. This may happen where two banking brands are part of the same group, or a brand is relying upon another bank for its back office and clearing capacity. In these instances, deposits held would only be provided with FSCS protection of up to £85,000.

For example, if bank A and bank B share a licence, and your company deposited £80,000 with bank A, and £80,000 with bank B, if both banks were to default, you would only will receive £85,000 in compensation for the £160,000 deposited. There would in effect be a £75,000 shortfall.

It's important therefore to understand which banks share licences. To determine this, you can refer to the Financial Services Register for a specific institution, and it will list any additional institutions which operate under that licence (<https://register.fca.org.uk>).

\* Deposits by personal pension schemes, stakeholder pension schemes and occupational pension schemes of micro, small and medium sized enterprises are not excluded.

# Which banks are covered under the FSCS?

All PRA authorised and regulated banks and building societies are covered under the FSCS.

It's important to note, however, that this does not mean that all banks are covered by the scheme. Some financial institutions offer banking "type" services, but without a full UK banking licence. These include money remittance services and e-money institutions, which are authorised and regulated by the FCA for their respective services, but are not authorised by the PRA. If you are unsure, check with the institution with which you hold money directly. Alternatively, the FSCS themselves have a checker, which can be accessed here:

<https://protected.fscs.org.uk/tools/check-your-money-is-protected/>

Additionally, many EU-based banking providers operate in the UK under what is known as a "passport scheme", where they are regulated by their local financial authority and not the PRA.<sup>1</sup> In these cases, your protection comes from the compensation scheme of that institution's home country. In the EU this is generally €100,000 (following the same European Directive as the FSCS), but this should be checked with the institution with which you hold cash deposits, as they can vary between countries. The qualifying criteria for these might also be different. While some of these schemes, such as the French "Fonds de Garantie des Dépôts et de Résolution" (FGDR), similarly protect business and charities, they all have differing criteria to the FSCS. If you are unsure, check with the institution which holds your deposits directly.



Further, there are several "off-shore" banks that offer savings products to UK customers. These are institutions regulated under an international banking licence, where the funds are held in a region other than the UK or the EU, such as Guernsey or Jersey. These banks are usually regulated by their local financial authority, not the FCA, and as a consequence, are not covered by the FSCS. Offshore banks may have their own protection schemes, such as the Guernsey Banking Deposit Compensation Scheme (GBDCS). The protection limits of these schemes are in no way governed by the European directive, and as such vary considerably. For example, the Swiss Depositor Protection Scheme protects the equivalent of £78,668, whilst the GBDCS protects £50,000. Additionally, some of these schemes limit how much compensation they pay out in a defined period, which could greatly affect the level of compensation received if a large bank defaults. If you would like to know about the protection scheme for an offshore institution with which you hold cash deposits, contact that institution directly.

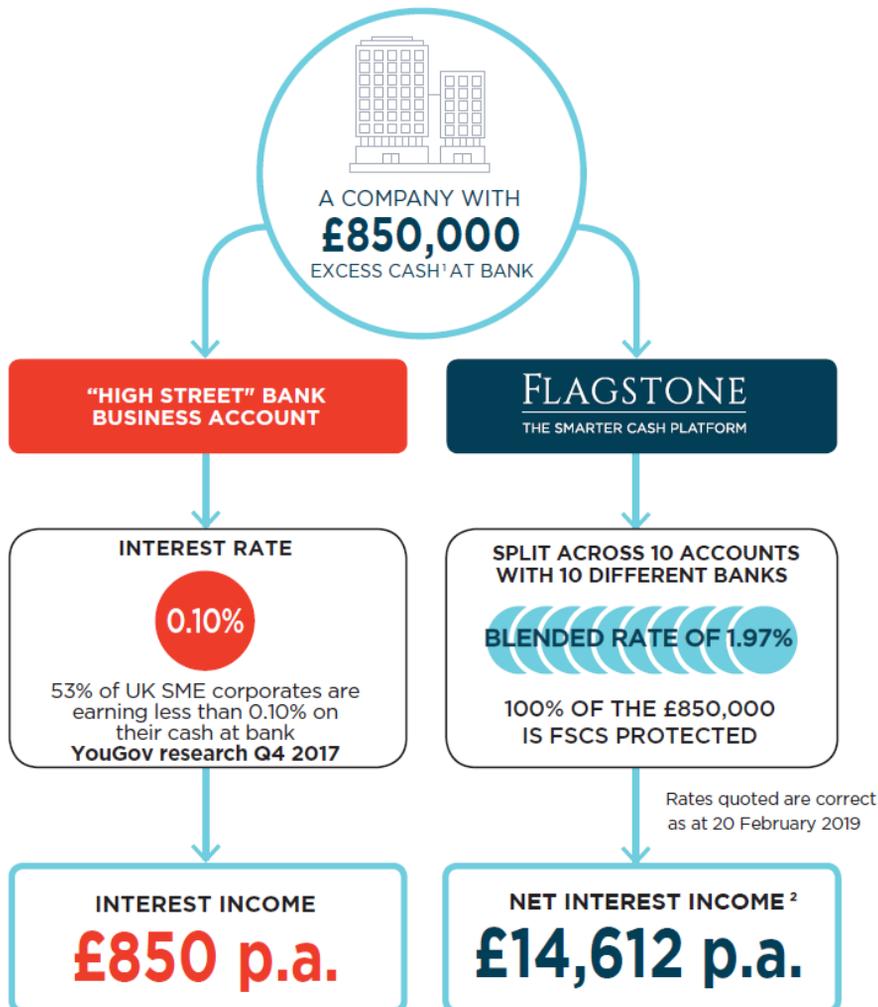
<sup>1</sup> Some European Banks do operate under a full UK Banking Licence, rather than the passport scheme.

# How can Flagstone help you to maximise FSCS protection?

The Flagstone platform is a simple, secure way to optimise the protection that the FSCS provides, whilst at the same time eliminating the hassle of opening multiple accounts to avail of that optimal FSCS protection.

A single Flagstone application enables clients to compare and research hundreds of accounts from more than 40 different UK FCA and PRA authorised banks, and then open multiple accounts in a matter of mouse clicks. The platform empowers you to diversify your cash across multiple institutions with different banking licences to ensure that more of your funds are FSCS protected, whilst also achieving the best possible interest rate and removing the hassle and paperwork of opening multiple accounts, with multiple banks.

To find out more, call us on **0203 745 8139** or visit our website, <https://www.flagstoneim.com>



<sup>1</sup> 'Excess cash' = Cash not required for the day to day running of the business.

<sup>2</sup> Net of Flagstone's annual management charge of 0.25% of the value of the funds held on the platform.

**FLAGSTONE**  
THE SMARTER CASH PLATFORM

1st Floor, Clareville House,  
26 27 Oxendon Street,  
London  
SW1Y 4EL

+44 (0)20 3745 8139

**SmarterCash@FlagstoneIM.com**  
**www.FlagstoneIM.com**