

The financial services **compensation scheme** for deposit taking activities

Purpose of this Information

The following information summarises the main provisions of the Financial Services Compensation Scheme which are relevant to shares and deposits in a building society. Building societies and other participants in the Scheme are under a legal obligation to provide information about the Scheme to an actual or intending investor. The Scheme does not cover the amounts owed under mortgages and information relating to mortgages is overleaf.

The Scheme

Introduction: All UK building societies are participants in the Financial Services Compensation Scheme established under Part XV of the Financial Services and Markets Act 2000. The Scheme is administered by the Financial Services Compensation Scheme Limited (FSCS), a body established by the Financial Services Authority (FSA). The Scheme is governed by FSA Rules.

Activation of the Scheme: Before the Scheme can be activated, the FSA or a court must make a determination about a building society participant in the Scheme. This would usually happen if it was determined that a participant was unable to repay investments which were due and payable. An example of where this might happen is if there had been a winding-up order in insolvency proceedings.

Amount of Protection: Under the Scheme, payments are limited to a maximum of £50,000 (in respect of claims made on or after 7 October 2008). The payment is calculated by reference to all the investor's protected shares with, and deposits in, the society. Therefore, for example, if a claimant had two separate accounts with the society, one containing £2,000 and the other £1,500, he or she would receive £3,500. If the claimant had two separate accounts, one containing £40,000 and the other £25,000, he or she would receive £50,000. Please see 'Joint Accounts' below for where there is more than one investor.

Protected Currencies: Most shares or deposits with a building society are held in pounds sterling, but all other currencies are also covered.

Interest on an Account: Interest earned on accounts at the time the shares or deposits become due and payable is covered by the Scheme (within the limit of the maximum payment). If a winding-up order against a society has been made by the Court, interest will immediately stop being paid on the society's accounts.

Shares and Deposits which are Protected All building society shares and deposits are protected by the Scheme except -

- (i) a bond issued by a building society which is part of its capital (for example subordinated debt);
- (ii) a secured deposit;
- (iii) a deferred share issued by a building society (usually permanent interest bearing shares);
- (iv) a non-nominative deposit (that is, a deposit made without disclosing the depositor's identity).

Investors who are Protected: Most investors are protected including individuals and small firms, but there are some exceptions, such as larger companies, government bodies, large partnerships, large mutual organisations and local authorities. Further details of exclusions can be found on the Financial Services Authority website at <http://fsahandbook.info/FSA/html/handbook/COMP/4/2>.

Joint Accounts: In the case of a joint account each joint owner is treated as having a claim for his or her share, and unless there is evidence about their respective shares, they will each be regarded as entitled to an equal share. For example, if two people have a protected investment of £110,000 the maximum compensation to each would be £50,000, which would usually mean a maximum total payment of £100,000.

Partnerships: If two or more persons have a joint beneficial claim, the claim is to be treated as the claim of the partnership if they are carrying on business together in partnership. Otherwise the 'Joint Accounts' rules (above) apply.

Trustees: If a claimant's claim also includes a claim as a trustee, his or her claim as trustee will be treated as being separate from the claim in his or her own right. If the same person claims as trustee for different trusts, these will be treated as claims of different claimants. If two or more trustees of the same trust make a claim, their claim will be treated as that of a single person. If the claimant has a claim as a bare trustee for one or more beneficiaries, the beneficiary or beneficiaries will be treated as having the claim. There are further rules relating to trustees.

Personal Representatives: Where a person numbers among his or her claims a claim as a personal representative of someone who has died, the claimant will be treated in respect of that claim as if he or her were standing in the shoes of that other person.

Agents: If a claimant has a claim as agent for one or more principals, the principal or principals will be treated as having the claim.

Funding the Scheme: The cost of the FSCS in respect of savings and deposits in building societies, banks and others, and the cost of compensation payments under the Scheme, is funded by contributions from the businesses that are covered by the Scheme (including building societies, banks and others).

Making a Claim under the Scheme

The Rules of the Scheme require a claim to be brought to the FSCS within a set time (normally within six years of the date on which the claim occurred). In practice, a building society would give to the FSCS a list of the names and addresses of the investors who may be able to claim under the Scheme. The FSCS would then send a claim form to each investor for completion. Full details of how to complete the form would be provided at the time.

Each claim would need to be verified before payment could be made. This could involve further questions being asked of those who have claimed and the FSCS asking the liquidator or administrator to confirm the amount of the investment on which the claim is based and to confirm that the claim does not relate to shares or deposits of a type that are not covered by the Scheme. Again, detailed procedures would normally be notified at the time.

Claims would be paid as soon as practicable (subject to the checking procedure) once the share or deposit became due and payable. In liquidation, that share or deposit would become due and payable on the date that the final winding-up order is made - in all other cases it would continue to its original maturity date. Payments would be made, normally by cheque in the currency of the account in which the share or deposit was held.

The Scheme and Mortgages

The Scheme does not cover mortgage loans and if a society or a bank was subject to insolvency proceedings or in liquidation, a borrower will still have to make monthly payments and comply with all the terms of the mortgage, as the mortgage is an asset of the institution. As a general rule the institution is entitled to "set-off" what is **due to** a customer on one account (usually a savings account) against what is **due from** that customer on another account (usually a mortgage account). Before any payment can be made the Scheme takes into account what the customer owes under any mortgage to the same institution.

Example 1 - if a claimant had a savings account balance of £50,000 and a mortgage account balance of £65,000, then the savings balance would be set-off against the mortgage balance leaving the claimant owing £15,000. No payment would be made by the Scheme as full credit has been given for the claimant's savings.

Example 2 - if a claimant had a mortgage account balance of £50,000 and a savings account balance of £65,000, then after the mortgage balance has been set-off against the savings balance, the claimant will have a savings balance of £15,000 and the claimant would be entitled to £15,000 under the Scheme.

The Scheme continues to be reviewed by the Treasury, FSA and Bank of England and this may mean changes to the amounts protected and the way the Scheme works in the future.

Further Information

The Rules covering the Scheme are very detailed and this factsheet does not deal with every aspect of the Scheme's operation. Information about the operation of the Scheme is available on the FSCS website at www.fscs.org.uk. If you have any queries about the Scheme they may be addressed to -

Financial Services Compensation Scheme, 7th Floor, Lloyds Chambers, 1 Portsoken Street, London E1 8BN
Tel: 0207 892 7300, Fax: 0207 892 7301/7337, Email: enquiries@fscs.org.uk



Head Office, Yorkshire House, Yorkshire Drive, Bradford BD5 8LJ
0845 1 200 100

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