

# Changes to the Financial Services Compensation Scheme. Depositor protection for temporary high balances.

In October 2014 the government announced proposals to change the Depositor Protection rules on cash to improve the protection of the Financial Services Compensation Scheme (FSCS) for temporary higher balances (THBs).

The UK FSCS currently protects savers on deposits of up to £85,000 per person per banking licence.\*

But, from Friday 3 July 2015, savers who have large sums of money in bank or building society accounts as a result of certain events will see up to £1million per provider per event protected for up to six months, in addition to the usual limit.

\* It has been announced that this level will be dropping to £75,000 after 31st December 2015.

## Which deposits are eligible?

Deposits that qualify as THBs include the following:

- monies deposited in preparation for the purchase of a private residential property by the depositor;
- monies that represent the proceeds of sale of a private residential property; or
- proceeds of an equity release in a private residential property.

Also covered are sums paid to the depositor in respect of the following:

- benefits payable under an insurance policy;
- compensation for personal (including criminal) injury;
- state benefits paid in respect of a disability or incapacity;
- a claim for compensation for wrongful conviction;
- a claim for compensation for unfair dismissal;
- redundancy;
- marriage or civil partnership;
- divorce or dissolution of a civil partnership;
- benefits payable on retirement;
- benefits payable on death;
- a claim for compensation in respect of a person's death;
- a legacy or other distribution from the estate of a deceased person; or
- it is held in an account on behalf of the personal representative of a deceased person for the purposes of realising and administering the deceased's estate.

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# Questions & Answers

**Q: Are sums of money received before the scheme is operational eligible? Or will it be the case that only money received on or after 3rd July is covered?**

**A:** Rules come in to force on 3 July so only apply to firm failures that happened on or after 3 July but the money may have been deposited before this date.

**Q: If money received before 3rd July is covered does the 6 month cover period start from the 3rd July or the date of the event?**

**A:** The protection for THBs begins from the later of:

1. the first date on which a THB is credited to a depositor's account, or to a client's account on a person's behalf; and
2. the first date on which the THB becomes legally transferable to the depositor.

**Q: Where money is received from a life policy in the event of death, is the event death or the pay-out? Would the cover start from the date of death or the date that the pay-out is received?**

**A:** The protection for temporary high balances begins from the later of:

1. the first date on which a THB is credited to a depositor's account, or to a client's account on a person's behalf; and
2. the first date on which the THB becomes legally transferable to the depositor

**Q: As payouts from endowment policies are eligible as well as pure protection policies, are maturity or surrender values covered as well as payouts in the event of death?**

**A:** The relevant rule stipulates that a THB comprises [at least one of...] sums paid to a depositor in respect of benefits payable under an insurance policy. The rule does not restrict such payments to payouts in the events of death.

**Q: If money is received from two life policies in the event of death totalling more than £1million would this count as one event (i.e. death) and cover only up to £1million or two events (proceeds from the policies) and therefore cover the full amount?**

**A:** THB protection is based on per event per authorised entity basis, therefore if money received from two life policies from the same death is deposited at the same authorised firm then the depositor would only receive up to £1million. However, if money from the life policies were deposited at two separate firms and both those firms failed then the depositor would receive two lots of £1million cover.

**Q: How is a pension lump sum defined? Is it the 25% tax free amount only or will someone who decides to take the whole fund as a lump sum be covered up to £1million per provider?**

**A:** The relevant rule stipulates that a THB comprises [at least one of...] sums paid to a depositor in respect of benefits payable under an insurance policy [or...] sums payable on retirement.

**Q: In the event of a winning a sum of money, for example a lottery win, gambling winnings or other cash prizes, would these and other types of winnings be covered for up to £1million per provider as part of this policy?**

**A:** FSCS will assess and verify THB claims. However, the Prudential Regulation Authority (PRA) has set out the sort of deposits it expects to benefit from THB protection and doesn't expect lottery wins or gambling wins to fall under any of the categories provided with THB protection under the depositor protection rules.

## Contact Us



Anna Bowes  
Director and co-founder  
anna@savingschampion.co.uk



Claire Riou  
Private Client Adviser  
claire@savingschampion.co.uk



Philip Irwin-Brown  
Private Client Adviser  
philip@savingschampion.co.uk



Perry Pearce BSc (Hons)  
Private Client Adviser  
perry@savingschampion.co.uk

Beazer House, Lower Bristol Road, Bath BA2 3BA  
Telephone: 0800 321 3582 From mobile: 0330 330 3582  
email: [concierge@savingschampion.co.uk](mailto:concierge@savingschampion.co.uk) website: [www.savingschampion.co.uk](http://www.savingschampion.co.uk)

Company Registration Number: 07805574.  
Registered Address: SavingsChampion.co.uk, No 2 The Bourse, Leeds, LS1 5DE

