

Fact Sheet - Financial Services Compensation Scheme (FSCS)

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The FSCS only covers firms that are authorised by the Financial Services Authority (FSA).

All SIPP providers since 2007 - referred to as operators in the FSA rules - must be authorised by the FSA.

Types of scheme

Generally SIPPs are established in one of two ways:

- » As a contract of insurance under a deed poll
- » Under a trust, usually a master trust, covering all investors although each investor may be a joint trustee along with the corporate trustee.

Deed poll scheme

Each plan is established as an individual contract of insurance, issued by a life assurance company. The life assurance company is usually the scheme operator and will be authorised and regulated by the Financial Services Authority. Investors will each receive an individual policy.

The insurance company is the legal and beneficial owner of the assets.

Master trust scheme

Investors become members of the scheme and are generally issued with a membership certificate. The trustee(s) is/are the legal owner of the assets with the member as the beneficiary. Where the member is a co-trustee they will be required to be a co-signatory on the bank account and when making other investments.

SIPP operator defaults

Where the SIPP operator defaults it is for the investor to make a claim under the FSCS.

Where the SIPP is a contract of insurance, the maximum amount an investor can claim for under the FSCS, in the event of the operator defaulting, is 90% of the value of the SIPP. This amount is currently uncapped.

Where the SIPP is a trust based arrangement, the maximum amount that an investor can claim for under the FSCS in the event of the operator defaulting is £50,000.

Underlying assets of a SIPP

Where the custodian or provider of the underlying assets fails then the SIPP operator or trustee can potentially claim under the FSCS on behalf of the scheme member.

The level of compensation payable depends on the status of the custodian or provider, the nature of the investment and the eligibility under the FSCS. In addition, should you hold assets personally with the same provider this may restrict the level of compensation payable to the SIPP.

Deposit accounts

The current limit is £85,000 per individual SIPP investor per banking group.

Insurance based investments

In the event that an insurance company provider of a trustee investment plan or similar product fails then:

- » Under a Deed poll scheme no claim can be made
- » Under a Master trust scheme the insurance claim limits would apply. That is, 90% of the claim with no upper cap.

Other investments

If the firm providing the investment is regulated by the FSA then the level of potential claim is up to £50,000.

If the investment firm providing the investments is not regulated by the FSA, then no claim can be made against the FSCS. For investments provided by European firms who are regulated by their home state regulator the SIPP operator and trustee may be able to claim but this is not certain.

Summary

To understand how FSCS protection relates to SIPPs, one must first establish the legal structure of the SIPP scheme.

The level of investor protection offered to SIPP investors will depend on the way the SIPP is established and its legal structure. The protection also depends on how the underlying investments are held.

Given the importance to investors of compensation arrangements it's important that advisers fully understand the legal structure of any SIPP operator that they do business with – and also fully appreciate the potential implications and impact on compensation arrangements.

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