What is an FCA Redress Scheme?

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Guidance prepared by S&W Partners Limited.

Background

A **redress scheme** is one of the Financial Conduct Authority's (FCA) most powerful tools for addressing widespread consumer harm. It allows the regulator to impose structured, consistent rules across an industry to ensure affected consumers receive compensation where Firms have failed to meet regulatory standards. While not frequently used, redress schemes are reserved for situations where the **scale or nature of harm requires a coordinated response beyond standard complaint handling**.

This document provides a practical overview of what redress schemes are, how they work, and what they mean for BVRLA members and their consumers.

Definition and Purpose

A consumer redress scheme is a formal set of rules issued by the FCA under which Firms are required to:

1. **Investigate** whether they have **failed to comply with applicable regulatory requirements**.
2. **Determine** whether that failure caused (or may cause) **loss or damage to consumers**.
3. If so, **calculate and pay appropriate redress** to affected consumers.

The purpose is to ensure **fair, consistent, and timely** compensation across the industry, especially in cases where harm is systemic or where Firms may otherwise apply inconsistent approaches to resolving complaints.

When does the FCA use a Redress Scheme?

Redress schemes are rare. The FCA typically prefers Firms to resolve issues using existing complaint handling rules. However, when harm is widespread or complex, and when existing mechanisms are insufficient or inconsistent, the FCA may intervene with a scheme.

Notable examples include:

- **British Steel Pension Scheme (BSPS)** – addressing unsuitable pension transfer advice.
- **SWAPs Scheme** – a voluntary scheme negotiated with banks.
- **Arch Cru Investment and Diversified Funds**– covering failures in investment fund disclosures.

Interestingly, high-profile cases like PPI and Mortgage Endowments were not handled through redress schemes. In those cases, the FCA introduced specific complaint handling rules later in the process, but the issues had already escalated beyond the point where a scheme could be effectively implemented.

Legal Basis and FCA Powers

The FCA has statutory powers under the Financial Services and Markets Act (FSMA) to impose redress schemes. These powers allow the FCA to:

- Set **binding rules** for how Firms assess claims.
- **Define methodologies** for calculating redress.
- Monitor **compliance and outcomes**.
- Require Firms to **report progress and results**.

In some cases, the FCA may pursue a voluntary scheme, where terms are negotiated with Firms. This can allow for faster implementation but may attract criticism if perceived as lenient or lacking transparency.

Establishing a Scheme

Implementing a redress scheme involves several formal steps:

1. **Identifying Harm:** The FCA must determine that there has been regular or widespread failure across the industry.
2. **Understanding the Problem:** The regulator must fully understand how harm occurred to prescribe appropriate rules.
3. **Consultation:** A public consultation is held, allowing stakeholders to provide feedback on the proposed scheme.
4. **Final Rules:** After considering feedback, the FCA publishes a policy statement with final rules.
5. **Implementation and Monitoring:** Firms apply the rules, and the FCA monitors outcomes to ensure compliance.

This process ensures transparency and fairness, giving Firms and other stakeholders the opportunity to challenge or influence the scheme's design.

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Key Features of a Redress Scheme

A well-designed redress scheme typically includes:

- **Scope Definition:** Clear guidance on which products, time periods, and customer types are covered.
- **Assessment Methodology:** Rules for determining whether harm occurred.
- **Redress Calculation:** Prescribed formulas or principles for calculating compensation.
- **Timelines:** Deadlines for completing reviews and making payments.
- **Monitoring and Reporting:** Requirements for Firms to report progress and for the FCA to publish updates.

In some schemes, Firms may be required to submit outcomes to the FCA for review, especially in complex or high-risk areas.

Benefits of a Redress Scheme

For Consumers:

- **Consistency:** Ensures similar cases are treated similarly across Firms.
- **Clarity:** Provides clear rules and expectations.
- **Access to Compensation:** Helps consumers receive redress, even if they haven't complained where the scheme is 'opt out'.

For Firms:

- **Certainty:** Reduces ambiguity in how to handle affected cases.
- **Efficiency**: Enables structured planning and resource allocation.
- **Reputation Management:** Demonstrates proactive compliance and consumer protection.

For the Industry:

- **Level Playing Field**: Prevents competitive disadvantage for Firms acting responsibly.
- **Regulatory Confidence:** Reinforces trust in the financial system.

Challenges and Considerations

Despite the benefits, redress schemes can be complex and resource-intensive. Firms must consider:

- **Data Preparedness:** Historical records may be incomplete or difficult to access.
- **Operational Readiness:** Systems and teams must be equipped to handle large volumes of reviews and communications.
- **Financial Impact**: Firms may need to allocate significant funds for redress and administration.
- **Governance and Oversight**: Strong controls are needed to ensure compliance and quality.

The FCA may prescribe elements of customer communication, but Firms remain responsible for ensuring all interactions meet Consumer Duty standards.

Conclusion

Redress schemes are a powerful regulatory tool designed to protect consumers and restore trust in financial markets. While they are not used lightly, their implementation signals serious concern about industry practices and consumer outcomes.

For Firms, understanding what a redress scheme entails, and preparing accordingly, is essential. Whether your organisation is directly in scope or not, the principles and expectations set by the FCA will likely influence broader regulatory standards and consumer expectations.

Contact

BVRLA Compliance Team- compliance@bvrla.co.uk

Checklist produced by:

S&W Partners Group Limited- Regulatory.Consulting@swgroup.com

Regulatory compliance consulting services | S&W Group

45 Gresham Street, London EC2V 7BG.

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