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Dear Carol

CP12/17 - Packaged bank accounts

This is the Financial Services Consumer Panel's response to CP12/17 in relation to further changes to the packaged bank account market.

The Panel has long been concerned that packaged bank accounts could be a source of consumer detriment. Although some consumers can benefit from the insurance policies and additional services offered by such accounts, their ability to claim under each policy is rarely clear. We therefore welcome the work the FSA has undertaken to look into this market and are pleased the FSA has decided to implement the proposals set out in CP11/20.

In our response to CP11/20, we argued that banks should personalise the annual eligibility statement to help consumers understand whether their ability to claim under the different insurance policies has changed from one year to the next. We therefore welcome this further consultation to introduce such a requirement but, having looked into this market further, feel this should be extended beyond just travel insurance policies.

The Panel supports the FSA's intention to proceed with work to improve transparency in the packaged bank account market. We believe the FSA should undertake consumer research to assess how transparency could be improved and whether banks' promotion of packaged bank accounts is helping or hindering consumers' ability to understand the insurance cover included with these accounts.

Q1: Do you agree with our proposal for a new rule to specify our requirements for the content and distribution of the annual eligibility statement?

And

Q2: Do you have any comments on our draft rule for the content and distribution of the annual eligibility statement?

The Panel has always supported the FSA's intention to require banks to send an annual eligibility statement to their packaged bank account customers. However, as we outlined in our response to CP11/20, we believe the FSA should require firms to personalise these statements to ensure customers remain clear about their ability to make a claim under each policy.

The Panel is pleased that the FSA has decided to undertake a further consultation to require personalised annual eligibility statements to be provided to consumers who have, or will, exceed an age restriction. However, we believe this requirement should be extended beyond travel insurance policies.

The Panel feels there are good reasons to extend this requirement to other policies where the consumer's eligibility to claim could be restricted by a change in their circumstances which a bank might reasonably be expected to know. For example, some accidental death or life insurance policies included with a packaged bank account have age restrictions on the type and level of cover.¹ The Panel therefore believes the proposed rule *ICOBS 5.1.3C R (2)* should be changed as follows:

Where a firm is aware that any person entitled to claim the benefits under a ~~travel insurance~~ policy included in a packaged bank account has reached an age limit on claiming benefits (or will reach an age limit before the next annual statement is due), it must state this clearly and prominently in the statement and on an annual basis thereafter.

By changing the proposed rule as we advocate, this will ensure a consistent approach across all insurance policies included with a packaged bank account. From a consumer perspective, it is logical to expect that, where a bank alerts you to change in your eligibility to claim on a travel insurance policy due to a change in your age, they would do so for other policies. Our proposed change to *ICOBS 5.1.3C R (2)* will also serve to future proof the rule by ensuring any policy, with an age or other restriction, provided with a packaged bank account in the future would be required to provide a personalised annual statement as well.

The Panel strongly supports the proposal to require firms to send the annual eligibility statement to consumers as a standalone document, separate from any marketing material or other correspondence which could obscure the information. To ensure these statements achieve the desired outcome of raising consumer awareness of their eligibility to claim, we encourage the FSA to assess their effectiveness after introducing the proposed rule *ICOBS 5.1.3C R (3)*.

Q3: Do you agree with our proposal to switch off ICOBS 6.1.13R for packaged bank accounts?

As we outlined in our response to CP11/20, the Panel accepts it is not appropriate to require firms to disclose separately the cost of individual policies included within a packaged bank account. We therefore agree with the proposal to disapply *ICOBS 6.1.13R* for packaged bank accounts.

However, the Panel continues to believe there should be greater price transparency within the packaged bank account market to help consumers assess whether they are receiving value for money and compare different services. While we recognise legislative changes emanating from Europe could have an impact on this market, these reforms are unlikely to be implemented in the short-term. We therefore

¹ Natwest's Advantage Gold provides accidental death insurance of £15,000, which drops to £7,500 when the customer reaches 70 while HSBC's Advance provides £3,000 of life cover which is downgraded to Accidental Death cover for over 70s.

strongly welcome the FSA's intention to take steps to improve transparency in the market now.

The Panel believes the FSA should commission consumer research to better understand how greater transparency in the packaged bank account market could benefit consumers and help them shop around for the most suitable and best value package. This research should also consider the effect of financial promotions on consumers' understanding of the policies included with a packaged bank account.

Yours sincerely,

Adam Phillips
Panel Chair