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Dear Carol

## **CP11/20\*\* - Packaged bank accounts: New ICOBS rules for the sale of non-investment insurance contracts**

This is the Financial Services Consumer Panel's response to CP11/20\*\*, covering packaged bank accounts.

### **Overview**

The Panel is pleased that the FSA is looking at a number of issues surrounding packaged bank accounts. Although consumers can benefit from the insurance policies and additional services offered by such accounts, these could also be a source of consumer detriment. In particular, we are concerned about a number of features of the packaged bank account market:

- the lack of transparency around the price of these accounts;
- the lack of clarity around the level of cover provided by the insurance policies;
- a risk that a consumer's eligibility to claim under an insurance policy only becomes clear at the point they try to make a claim;
- the requirement for some policies to be activated, which is not clear to consumers;
- the potential for mis-selling of packaged products, particularly where sales incentives are not aligned with the best interests of consumers - such as the requirement to take out a packaged account to access other services or preferential rates; and
- the value for money these packaged bank accounts provide for consumers.

Although the Panel is broadly supportive of the proposals, we do have a number of concerns which we have outlined in our response to the detailed consultation questions below. In particular, we believe the new eligibility rules could go further to ensure consumers fully understand their eligibility to claim under the different insurance policies. This includes requiring both the point-of sale and annual

eligibility statements to clearly highlight which policies the consumer needs to activate. We also believe the annual statement should help consumers understand whether their eligibility to claim under the different insurance policies has changed from one year to the next.

The Panel considers it important to increase the level of price transparency of packaged bank accounts. While we accept, for the reasons outlined in the consultation, that it may not be appropriate to disclose the cost of the individual policies, we believe greater price transparency is needed to help consumers assess whether they are receiving value for money and compare different services. As a minimum, we believe both the monthly and annual cost of these accounts should be disclosed.

The Panel also believes that the FSA should conduct consumer research to consider whether packaged bank accounts offer value for money or whether these are products of convenience. Given the historic and potential future growth of these accounts, we consider it essential for the FSA to ensure the market is working effectively for consumers.

### **Detailed questions**

#### ***Q1: Do you agree with our proposal for a new eligibility rule for the sale of insurance policies as part of a packaged bank account?***

The Panel supports the proposal to require a firm selling a packaged bank account to tell their customers whether they are eligible to claim under the individual insurance policies. When taking out a packaged bank account, it is essential consumers are clear about their eligibility to claim. This enables consumers to assess whether the packaged bank account offers value for money. More fundamentally, consumers may rely on insurance policies packaged as part of the account. We are concerned that for many consumers, their eligibility to claim only becomes apparent when they need the policy most; when they look to claim. This is especially important for key policies such as travel insurance, where an unknown restriction on a consumer's ability to claim could lead to significant financial and emotional stress.

However, to help consumers benefit fully from these accounts, we believe the FSA's proposed eligibility rule could, and should, go further. The Panel is aware that a number of insurance policies included within a packaged bank account require 'activating'. This includes mobile phone insurance and some travel insurance policies. While we understand that some insurers allow consumers to activate a policy at the point they make a claim, we believe the proposed eligibility statement should clearly identify the policies consumers are expected to activate and those where cover is provided immediately.

In addition to the proposed point-of-sale eligibility rule, we believe the FSA should closely monitor incentive structures around the sale of packaged accounts to ensure consumer requirements rather than sales rewards drive their promotion. We consider it essential that firms operate appropriate sale rewards around the promotion of these accounts. This is especially important considering the market is

characterised by little switching and some packaged bank accounts tie consumers into a fixed-term deal.

***Q2: Do you agree with our proposal for a new rule requiring an annual eligibility statement of the insurance policies provided as part of a packaged bank account?***

We support the proposed requirement for firms to provide all customers that hold a packaged bank account with an annual eligibility statement. As the FSA has noted, insurance policies included as part of a packaged bank account are not annually renewable like stand-alone insurance contracts. There is therefore no natural trigger point for the customer to review the level of cover and assess whether they are getting value for money. By requiring firms to provide an annual eligibility statement, this will encourage more consumers to review their cover.

However, again we believe the FSA's requirements should go further by helping consumers to understand whether their eligibility to claim under an insurance policy has changed from one year to the next. We consider this especially important for key policies, such as travel insurance, where some schemes only provide cover for consumers under 65. We believe the statements should reflect basic changes in a consumer's circumstances which affect their eligibility to claim, such as a change in the consumer's age or if they have moved outside the UK. We do not believe this requirement would be too costly or onerous, indeed, the Panel is aware of at least one bank that writes to their packaged account customers when they reach 65 to alert them to a change in their eligibility to claim under the travel insurance policy. The Panel strongly supports this proactive approach and hopes that this becomes the market norm.

The Panel also believes it is important for the annual eligibility statement to be a clear and concise document, to encourage consumers to read the information included and take any action as necessary. While we appreciate that it may not be appropriate to dictate the structure of these statements, we do believe the FSA should require key information to be highlighted. This would include any health exclusions which may apply to a travel insurance policy and highlighting policies which the consumer has not yet activated. We believe these measures are essential if the introduction of annual eligibility statements is going to achieve the stated objectives.

***Q3: Do you agree with our proposal for a new suitability of advice rule for the sale of insurance policies as part of a packaged bank account?***

The Panel supports the proposed suitability of advice rule for firms providing advice in relation to a packaged bank account. We believe it is important for consumers who seek financial advice to be confident that the recommendation provided is suitable for their financial needs.

***Q4: Do you have any comments on our draft rules?***

The Panel do not have any specific comments beyond those outlined in our response to questions 1 and 2.

***Q5: Do you agree our proposals are proportionate considering any equality and diversity issues?***

The Panel believes it is important that any changes to financial regulation, including the regulation of packaged bank accounts, do not negatively impact more vulnerable members of society. While we take some comfort that the industry has indicated that the proposals do not create any equality or diversity implications, we encourage the FSA to monitor the affect of any rule changes.

We agree with the FSA's assessment that the benefits of a better sales process for all consumers outweigh the negative impact a longer sales process would have. Although the eligibility requirements will add time and cost to the sales process, as we have outlined in our response to question 1, we believe this will ultimately benefit consumers.

***Q6: Do you have any comments on our interpretation of ICOBS 6.1.13R or our view on the merits of separate disclosure of individual premiums for each insurance policy sold as part of a packaged bank account?***

***and***

***Q7: What price information do you think consumers would find most helpful when choosing a packaged bank account?***

The Panel strongly supports the need to increase price transparency within financial services, including packaged bank accounts. However, we accept, for the reasons outlined in the consultation, that it would not be appropriate to separately disclose the cost of individual policies included within a packaged bank account.

Despite this, 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. For this reason, we welcome the FSA inviting suggestions around how greater transparency can be achieved. However, we encourage the FSA to undertake their own consumer research to assess, independently of any suggestions received, how increased price transparency can help consumers shop around.

The Panel suggests, as a minimum, the annual cost of a packaged bank account should be disclosed alongside the monthly fee the consumer pays. As the FSA has outlined in the consultation, when assessing whether a packaged bank account offers value for money, consumers often compare the cost of the packaged bank account to the combined cost of the 'one or two' stand-alone policies which interest them most. Given that some stand-alone policies, such as breakdown cover and travel insurance, may be quoted as an annual premium, we consider it important that the annual cost of a packaged account is provided to help consumers compare different policies.

***Q8: Do you have any comment on our cost-benefit analysis relating to the proposed new rules for eligibility and suitability?***

The Panel agrees that the proposed eligibility rules will help consumers make purchases more appropriate to their circumstances. However, we are not convinced

this will lead to an increase in the number of consumers switching accounts or shopping around. We believe the proposals are most likely to benefit those consumers who have already made a decision to shop around or are considering upgrading their existing bank account. The Panel remains concerned that the real or perceived costs of changing bank account providers mean many consumers are paying more for their banking services than necessary. We believe there should be a wider debate about the true cost of banking services which consumers currently perceive to be free.

We also believe the FSA should undertake consumer research to fully assess whether packaged bank accounts offer good value for money or whether these are products of convenience. We are concerned that many consumers may purchase these accounts because they are conditional on accessing preferential services, such as special overdraft, mortgage or loan rates. Indeed, research conducted by Which? suggests that a significant proportion of consumers who hold a packaged bank account do not use the policies included. We believe the FSA's research should focus on:

- identifying the number of existing packaged bank account holders that are not eligible to claim under one or more of the insurance policies included with the account;
- the number of claims made under a policy held as part of a packaged bank account compared to stand-alone products;
- the claims success rate compared to stand-alone products; and
- whether more vulnerable consumers are less likely to make a successful claim under a policy included with their packaged bank account.

Yours sincerely,

Adam Phillips  
Chairman