

CP11/29^{★★}

Financial Services Authority

Deposit protection: raising consumer awareness

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The Financial Services Authority invites comments on this Consultation Paper. These should reach us by 9 March 2012.

Comments may be sent by electronic submission using the form on the FSA's website at: www.fsa.gov.uk/Pages/Library/Policy/CP/2011/cp11_29_response.shtml.

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A confidential response may be requested from us under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Tribunal.

Copies of this Consultation Paper are available to download from our website – www.fsa.gov.uk. Alternatively, paper copies can be obtained by calling the FSA order line: 0845 608 2372.

Abbreviations used in this paper

The Authorities	The FSA, Her Majesty's Treasury and the Bank of England
BCOBS	Banking: Conduct of Business sourcebook (part of the FSA Handbook)
CBA	Cost benefit analysis
COMP	Compensation sourcebook (part of the FSA Handbook)
CP	Consultation Paper
DGSD	Deposit Guarantee Schemes Directive
EEA	European Economic Area
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
ISA	Individual Savings Account
SCV	Single customer view
SYSC	Senior Management Arrangements, Systems and Controls (part of the FSA Handbook)

1

Overview

Introduction

- 1.1 We propose requiring deposit takers to prominently display stickers and posters in branches and on websites (in electronic form) explaining their compensation arrangements. The aim of these proposals is to raise consumer awareness of deposit protection and its limits. In this Consultation Paper (CP) we are asking for feedback on these proposals.

Background

- 1.2 Deposits held in the UK are protected in one of two ways if a deposit taker fails:
- i) by the Financial Services Compensation Scheme (FSCS) if the deposit is held by an FSA-authorized deposit taker. This includes:
 - UK banks;
 - UK building societies;
 - UK credit unions;
 - non-EEA banks operating in the UK; and
 - UK subsidiaries of European Economic Area (EEA) banks.
 - ii) by the EEA home state deposit guarantee scheme if the deposit is held by the UK branch of an EEA deposit taker. So if an EEA branch were to fail a UK depositor would need to apply for compensation in the country where the bank is based.
- 1.3 At the beginning of this year two key changes were made to strengthen compensation arrangements for deposits protected by the FSCS. First, the compensation limit for deposits increased to £85,000.¹ Second, faster payout mechanisms were introduced. If an FSCS

¹ The FSCS compensation limit of £85,000 is the sterling equivalent of the €100,000 compensation limit specified under the Deposit Guarantee Schemes Directive (DGSD) for all EEA member states deposit guarantee schemes.

participant deposit taker defaults, the FSCS will now pay out the majority of eligible depositors within seven days and the rest within 20 working days.

- 1.4 But consumers should be aware that there is not unlimited deposit protection. In his speech to the Lord Mayor's dinner at the Mansion House on 15 June 2011, the Chancellor of the Exchequer said:

'I remind everyone with deposits that we have increased the level of deposit insurance to 100% for sums up to £85,000 and we have made clear that there is no implicit taxpayer guarantee for sums above that level.'

- 1.5 In 2009, the FSA, Her Majesty's Treasury and the Bank of England (the Authorities) launched a strategy aimed at raising consumer awareness of the FSCS and depositor protection. (There is further detail on the strategy in Chapter 2.) The strategy responds to concern that awareness of depositor protection amongst consumers is low, with the risk that this can contribute to increasing the likelihood of a run on a deposit taker, as was seen with Northern Rock in 2007.
- 1.6 Despite the strategy's existing approaches, research earlier this year suggests there has not been a sustained increase in consumer awareness of the FSCS. We recognise that engaging consumers on deposit protection is particularly difficult. Improved awareness will be a long-term challenge which needs to continue during normal, as well as difficult, financial times. We believe that now is the appropriate time to introduce further awareness raising measures.

Proposals

- 1.7 We believe firms need to do more to inform depositors about how deposits are protected and the limits to deposit protection. In this CP we seek feedback on additional measures that will complement the existing strategy.
- 1.8 We propose that deposit takers prominently display, in their branches and on their websites, posters and/or stickers detailing deposit protection arrangements. FSA-authorised firms will be required to display standard stickers and posters produced by the FSCS. EEA deposit takers with branches in the UK will be required to produce their own equivalent material. The EEA material must include a mandatory statement that clearly identifies their deposit protection scheme and makes it clear that they do not participate in the FSCS.
- 1.9 We also propose that all deposit takers provide, on request, explanatory leaflets about the extent of deposit protection, where leaflets are available from the applicable scheme.

Structure of this CP

- 1.10 Chapter 2 outlines the context for our proposals. In Chapter 3, we set out the details of our proposed disclosure requirements. Our cost benefit analysis (CBA), compatibility statement, draft Handbook text and a consolidated list of questions are included in separate annexes.

Who should read this Consultation Paper?

- 1.11 This CP will be of interest to all deposit takers operating in the UK, including banks, building societies and credit unions, and their relevant trade bodies. It is also of interest to EEA banks and overseas banks operating in the UK. Northern Ireland credit union representatives should read the proposals in this paper. The consultation paper will also be of interest to consumer representatives.

CONSUMERS

Consumers and consumer representative groups will be interested in the proposed new rules. The aim of these proposals is to ensure that consumers are aware of the protection which applies to the deposits they hold in banks, building societies and credit unions should their deposit taker fail. It is also to ensure that consumers are informed of the limits of that protection to enable consumers to make informed decisions.

2

Raising consumer awareness

- 2.1** During the financial turbulence of 2008-9 the failures of Bradford & Bingley, Landsbanki subsidiary, Heritable Bank plc, Icesave, Kaupthing Singer & Friedlander Ltd (KS&F) and London Scottish Bank plc; as well as the problems with Northern Rock in September 2007, revealed that most consumers were unaware of the FSCS and deposit protection schemes. Low awareness of deposit protection could make a run on a deposit taker more likely if consumers were to rush to withdraw their deposits in times of crisis.
- 2.2** This chapter summarises our existing two-tier approach to raising consumer awareness and discusses the impact of potential changes being negotiated to the Deposit Guarantee Schemes Directive (DGSD). It then outlines new proposals which support our strategy and complement the existing approaches.

Existing two-tier approach

- 2.3** In 2009, following the Authorities' commitment to raise awareness of the FSCS, the FSA consulted on implementing – and, in conjunction with the FSCS, implemented – a two-tier strategy aimed at raising consumer awareness.
- 2.4** The first element was the introduction of detailed disclosure rules (COMP 16) at the start of 2010. The rules require all UK-authorised deposit takers and EEA deposit takers branching into the UK to provide a detailed disclosure. The disclosure provides details of the compensation arrangements of the particular firm, and is provided to depositors on a six-monthly basis on account statements, or electronically via internet banking or email.^{2 3 4}

² If a deposit taker communicates with its customers less frequently than six-monthly the disclosures are only required to be made on an annual basis (COMP 16.3.6R).

³ Firms should also be aware that in addition to the COMP 16 disclosure rules, the Banking: Conduct of Business sourcebook (BCOBS) includes a requirement for all deposit takers to provide or make available 'appropriate information' in good time, in easily understandable language and in a clear and comprehensible form, to enable customers to make informed decisions. Guidance in BCOBS clarifies that appropriate information should include information about compensation arrangements (BCOBS 4.1.4G).

⁴ Firms should also be aware of their obligations in relation to provision of information to depositors under the Credit Institutions (Protection of Depositors) Regulations 1995.

- 2.5 However, as discussed below, changes to the DGSD currently being negotiated will require us to review the disclosure rules.
- 2.6 The second element was a high-level communication strategy emphasising the existence and role of the FSCS. The strategy was led by the FSCS, which developed a comprehensive consumer awareness campaign. This launched on 6 January 2011 with TV adverts, posters and other press activities. More than 30 firms voluntarily took part in the campaign in some form, from including campaign material in their own leaflets to training staff on the FSCS.
- 2.7 The FSCS took a baseline assessment of consumer awareness before launching its campaign. This found that (unprompted) awareness levels of the FSCS have dropped since the financial crisis, from 9% in 2009 to 3% in 2010.
- 2.8 Following the campaign, the FSCS conducted further research. The campaign showed some positive results, with more than twice the anticipated media coverage, and twice as many visits to the FSCS website during the campaign compared to before the campaign was launched. The campaign also performed well at reaching traditionally harder to reach audiences.⁵ However, the FSCS research also showed that there has not been a sustained improvement in consumer awareness.
- 2.9 Mystery shopping results reveal that firms have shown some improvements when providing information about deposit protection. Research carried out by the FSCS earlier this year showed that 50% of deposit takers' staff mentioned the FSCS when asked what would happen if their firm went bust. This is an improvement from 40% in 2010, but remains disappointing.⁶
- 2.10 In conjunction with the Authorities, the FSCS is considering its next steps and will communicate with industry and consumer stakeholders in due course.

Deposit Guarantee Schemes Directive (DGSD)

- 2.11 The DGSD requires all member states to set up schemes to compensate consumers if a deposit taker defaults (i.e. it is unable to pay claims against it).⁷ Under the DGSD, banks who passport into other EEA states and offer deposit taking services must participate in their home state compensation scheme. This means that some UK consumers are protected by the FSCS, while others are protected by their EEA bank's home state scheme.
- 2.12 Our existing disclosure requirements go some way towards making consumers aware of this, with separate disclosures tailored for deposit takers participating in the FSCS and incoming EEA deposit takers. However, we anticipate that proposed changes to the DGSD will require us to review and make changes to our existing disclosure rules.

5 C2DE consumer segments, defined as: skilled working class (C2), working class (D), and those at the lowest level of subsistence (E).

6 These results are consistent with research published by Which? in May this year, that showed banks performed poorly when providing advice on individual savings accounts (ISAs).

7 Directive 94/19/EC of the European Parliament and of the Council of 30 May 1994 on deposit-guarantee schemes.

- 2.13 Under proposed changes to the DGSD, deposit takers may be required to provide a standardised detailed disclosure to intending depositors. It is also proposed that existing depositors receive information about deposit protection via their account statements or internet banking.
- 2.14 We continue to monitor developments in Europe. It is currently proposed that member states will implement the revised DGSD into national legislation by the end of 2012, but there have been significant delays in the negotiations. We will consult on any changes needed shortly after the final directive has been published.

Strengthened measures

- 2.15 Awareness of deposit protection is important to maintaining consumer confidence and financial stability. Given this, we believe that there is scope, alongside existing approaches and emerging European proposals, to introduce further requirements on deposit takers. We believe these requirements will complement and strengthen current measures aimed at raising consumer awareness.
- 2.16 In forming this view we have taken into account the work on the FSCS campaign, by both the FSCS and firms, the existing disclosure rules and the potential for additional disclosure changes as a result of changes to the DGSD. The measures introduced so far have not resulted in a sustained improvement in consumer awareness of the FSCS and firms generally continue to perform poorly in providing information about the FSCS. We have also taken into account our recognition that detailed disclosures can be of limited effectiveness in changing consumer behaviour.
- 2.17 On this basis we believe that there is a case for measures that:
- a) offer consumers clear, accessible, accurate and consistent information about deposit protection;
 - b) provide consumer-friendly material that alerts, but doesn't alarm, consumers about the existence of deposit protection whether from the FSCS or an EEA scheme;
 - c) point to ways in which they can find additional information should they wish to do so; and
 - d) avoid unnecessary cost and duplication by building on the investments already made by the FSCS and efforts made by firms.

Q1: Do you believe that it is important for consumer confidence and financial stability that UK consumers should be made aware of deposit protection? If so, do you agree with the aims set out above for additional measures?

3

Disclosure in branches and on websites

- 3.1** We propose that deposit takers must display a poster and/or sticker stating their deposit protection scheme. We expect this material to be displayed prominently in branches and on websites (in electronic form). Its presentation (including its size) should catch consumers' attention. In addition, where it is available from the applicable deposit guarantee scheme, we propose deposit takers provide, on request, a detailed information leaflet.
- 3.2** The sticker and poster are intended to provide key information about compensation arrangements and prompt consumers to seek more information if they need it. The leaflet will give consumers additional information to take away and read in more detail if they want to.
- 3.3** In this chapter, we set out the details of who these requirements will apply to, what information will need to be provided and how the information must be provided.

Who will these requirements apply to?

- 3.4** We propose that all deposit takers operating in the UK should be subject to the proposed requirements. Northern Ireland credit unions which are presently regulated by the Department of Enterprise, Trade and Investment (Northern Ireland) will also be subject to these requirements when they become subject to other FSA disclosure rules.⁸ Different obligations will apply to FSCS participant firms (UK and non-EEA deposit takers) and incoming EEA branches.

⁸ Ministers in the Northern Ireland Executive and Her Majesty's Government have agreed that responsibility for regulating Northern Ireland credit unions will transfer to the FSA on 31 March 2012. For further information please refer to our paper, PS11/18.

FSCS participant firms – UK and non-EEA deposit takers

- 3.5 UK and non-EEA deposit takers including UK banks, building societies, credit unions, non-EEA overseas banks and EEA banking subsidiaries who participate in the FSCS will be required to provide material developed by the FSCS.
- 3.6 We propose that the FSCS stickers and posters contain the following statement:
- ‘Your deposits are protected up to £85,000 by the Financial Services Compensation Scheme, the UK’s deposit protection scheme. Any deposits you hold above this amount are not covered.
- Please [ask/click – delete as appropriate] here for further information or visit www.fscs.org.uk.⁹*
- 3.7 We are not mandating the content of the information leaflets, but suggest that the FSCS include the following in its information leaflets:
- I. the maximum amount of compensation payable by the compensation scheme, per depositor;
 - II. a statement saying that if the firm is unable to meet its financial obligations, eligible UK depositors will be entitled to claim up to the compensation scheme’s maximum payment for deposits;
 - III. that compensation is paid per depositor, per authorised firm, including a description of how joint accounts are treated and the impact of multiple trading names on compensation payout;
 - IV. a description of how set-off applies (i.e. that consumers debts with the failed depositor are ignored when compensation for deposits is paid);
 - V. details of any other significant conditions that payment of compensation is subject to;
 - VI. the time limit for paying compensation by the compensation scheme; and
 - VII. a statement that further information (including eligibility to claim) is available from the firm and the FSCS and the relevant contact details.

⁹ The statement will appear as written with the first statement and second statement on separate lines. The second statement should also appear in smaller font.

3.8 The FSCS will develop the final format of the material based on its consumer awareness campaign material, but adapted to focus specifically on deposits. Once finalised, the FSCS will make the material available for firms to either print themselves or purchase at an appropriate cost.¹⁰ We expect the material FSCS develops to be of a sufficient size and format that attracts consumers' attention and to be capable of being easily understood. The FSCS will be seeking feedback from industry to develop the stickers, posters and leaflets in parallel with this consultation.

Q2: Do you have any comments on the proposed statement to be included in FSCS posters and stickers?

Q3: Is the information set out above the right information to include in the FSCS information leaflets for consumers to take away? If not, what information should (or should not) be provided?

Incoming EEA branches

3.9 A different approach needs to apply to incoming EEA branches as their deposits are not protected by the FSCS. Protection is provided by the EEA home state deposit protection scheme. We recognise that other EEA schemes may not have equivalent marketing material to the FSCS.

3.10 We propose that firms who participate in EEA schemes design their own stickers and posters, which include the following prescribed statement:

'Your deposits are protected up to 100,000 euro by [insert name of compensation scheme] the [insert home state of scheme] deposit protection scheme and are not protected by the UK Financial Services Compensation Scheme. Any deposits you hold above this amount are not covered.

*Please [ask/click – delete as appropriate] here for further information or visit www.fscs.org.uk*¹¹

3.11 When developing their own stickers and posters we suggest that EEA branches take into consideration the size and format of the material produced by the FSCS for UK firms. Alternatively, we could prescribe a template for incoming EEA firms' stickers and posters, including prescribing their size and format. We would appreciate feedback on our proposed approach and the alternative approach of prescribing a template.

¹⁰ The final cost of the material will depend on the costs to FSCS to produce the material and will not be known until the material is finalised.

¹¹ The statement will appear as written with the first statement and second statement on separate lines. The second statement should also appear in smaller font.

3.12 EEA schemes may not produce an information leaflet on deposit protection that firms can provide consumers. Therefore, the requirement on incoming EEA branches to provide an information leaflet, will only apply if a leaflet is available in English from the home state scheme. If firms believe it is beneficial to their consumers they can, of course, provide brochures in other languages. Annex 2 sets out our analysis of the equality and diversity implications. We note that the DGSD may require deposit guarantee schemes to include certain consumer information on their websites which could form the basis of a leaflet for EEA firms in the future.

Q4: How should EEA deposit takers' stickers and posters be produced? Should EEA deposit takers produce their own stickers and posters, or should we require firms to follow a template?

How should this information be disclosed?

3.13 We believe that the posters or stickers are likely to be most effective in alerting consumers where they have opportunities to take out deposit products and where consumers carry out their day-to-day banking. So, we are proposing that the material is displayed prominently in branches and on websites (in electronic form). Its presentation (including its size) should catch consumers' attention.

Branches

3.14 We believe firms should prominently display stickers and posters in branches or stores. Firms should where possible display a sticker or poster in the branch window and either:

- I. stickers at the cashier windows or cashier desks; or
- II. a poster displayed inside the branch.

Q5: Have we identified the most appropriate ways for firms to display the stickers and posters in branches?

Websites

3.15 We propose that the electronic equivalent of the stickers or posters should be prominently displayed on all web pages where deposit takers advertise new accounts, with links to the information leaflets. The electronic equivalent stickers and posters should include the proposed statements for both FSCS participant firms and incoming EEA branches. For EEA firms, where the home state scheme does not have an electronic information leaflet available in English, firms should link to the home state scheme's website instead.

Q6: Do you agree that deposit takers should also display the specified deposit protection information on their websites?

3.16 We remind firms of their obligations under conduct of business requirements¹² – and FSA Principles for Business, in particular principle 7 – to disclose appropriate information about compensation arrangements to customers at point of sale and on an ongoing basis. Firms should ensure that any information provided to customers is fair, clear and not misleading. Firms should also ensure that staff are competent to answer consumer queries on all compensation arrangements that apply to the financial services they provide i.e. deposits, insurance, investments and mortgage intermediation.

Credit unions

3.17 Credit unions will also be subject to the new disclosure requirements. In initial discussions, the sector raised the concern that it would be difficult for credit unions with no permanent location (for example, a credit union may periodically operate from a church hall etc) or website to implement the proposals.

3.18 In these circumstances, we would not expect the credit union to display the stickers or posters at all times. We would only expect the required FSCS material to be displayed when the credit union is operating. A credit union without a website would not be expected to display the material online.

Implementation date

3.19 The draft rules are attached in Appendix 1. Subject to the feedback to this consultation, we intend to have new rules in place by May 2012. The FSCS will also make available the material to firms from May. Given the importance of ensuring that consumers are informed about deposit protection, we propose to give firms three months to implement the new requirements. This means that firms will need to have the information in place from August 2012.

Q7: Do you have any comments on the draft rules?

Q8: Do you agree with the proposed three-month implementation period for firms?

¹² COBS Conduct of Business Sourcebook, ICOBS Insurance: Conduct of Business sourcebook, MCOB Mortgages and Home Finance: Conduct of Business sourcebook and BCOBS: Banking Conduct of Business sourcebook.

Future considerations

Disclosure of specific personalised information

- 3.20** In 2009, we said we had explored the idea of disclosure on a more personalised level. This would involve giving the consumer information on their aggregated balances in relation to the protected limit, based on information taken from the firms' single customer view (SCV). We recognised that personalised disclosure would impose additional costs on industry and advised firms that they may wish to design their SCV systems with the possibility of personalised disclosure in future. We are not proposing to mandate disclosure of personalised information now. But it remains a possibility in the future.

Annex 1

Cost benefit analysis

1. Section 155 of Financial Services and Markets Act 2000 (FSMA) requires us to publish a cost benefit analysis (CBA) when we propose new rules, or amendments to rules, unless we consider the proposals will result in no costs or to an increase in costs of minimal significance. This CBA, therefore, estimates the costs and analyses the benefits that will arise from the proposals set out in this CP.
2. The proposals will affect the deposit-taking subclass of the FSCS and EEA banks that operate branches in the UK. Based on 2011 data, we estimate that the population affected consists of 153 UK banks, 79 non-EEA banks, 49 building societies, 631 credit unions and 85 EEA banks. We have included in the credit union population 177 Northern Ireland credit unions due to be transferred to FSA regulation and FSCS participation, on 31 March 2012.
3. To estimate the potential costs to firms in June this year we surveyed deposit takers through the relevant trade bodies.¹ Based on an outline of the proposals, firms were asked to estimate the costs of implementing the proposals. We received responses from the Building Societies Association (BSA) and the Association of British Credit Unions Ltd (ABCUL) on behalf of their members. We also received responses directly from three UK banking groups. The following provides initial estimates of the cost and benefits from the additional disclosure proposals.

Benefits

4. We believe that the benefits of these additional measures will be similar to those cited in CP09/03 for the introduction of the COMP 16 disclosures and will contribute to realising the benefits of strengthening the FSCS regime. The benefits of the proposals relate to raising consumer awareness² and improving market confidence (with the aim of reassuring consumers that their money will be protected in the event of a bank failure). Raising

1 The British Bankers' Association, Building Societies Association, Association of British Credit Unions, Scottish League of Credit Unions, Ace Credit Unions and UK Credit Unions. We have not surveyed non-EEA deposit takers or Northern Ireland credit unions.

2 Since 2009, our objective to raise public awareness has been removed. We now have the objective of contributing to financial stability and must 'have regard to public awareness of the UK financial system'.

consumer awareness about compensation arrangements may also contribute to financial stability by reducing the risk of a run on a deposit taker.

5. By raising awareness of the limits to protection, consumers can also choose whether they need, or wish to, act to alleviate the risk of being unprotected (ie having funds over £85,000 in one authorised entity), thereby improving consumer protection. We recognise, however, that inertia has a dominant impact on consumer behaviour and that the probability of consumers acting on the additional disclosure to mitigate the risk of being unprotected is likely to be low.
6. The FSCS recently undertook research to evaluate its campaign and the impact on consumer awareness of the measures to date. The measures have not shown a sustained improvement in consumer awareness of FSCS (see discussion in Chapter 2 for more). This may suggest that firms need to do more to inform consumers about compensation arrangements.

Costs to the FSA and FSCS

7. The one-off and ongoing costs to the FSA will not be significant and will be absorbed into existing business costs.
8. The FSCS has already developed much of the content which may be appropriate for UK-authorised firms. However, we will need to review the material to ensure it meets our aims. Some additional development costs will be incurred by the FSCS, but we do not consider these costs to be material. The FSCS estimates that the design of leaflets and posters will cost approximately £5,000. Additionally, print costs for the FSCS could be incurred if it chooses to allow firms to order the material (instead of firms printing it themselves). However, these costs will be offset by a small charge to firms who order material, to recoup printing costs. Any additional costs will form part of FSCS management expenses levy which will be levied across all FSCS participant firms.

Costs to firms

9. We believe the overall costs to firms will not be significant, as we are looking to the FSCS to produce standardised material which will be made available to UK authorised firms (this includes non-EEA banks who are FSA authorised). The main costs to firms will be printing stickers, posters and leaflets and updating their websites. We expect that firms will face ongoing compliance costs stemming from: monitoring and updating branch and website material; restocking information leaflets; and increased queries from consumers about compensation arrangements.

Initial costs

Printing costs

10. Table 1 sets out the estimated cost per unit of printing a FSCS leaflet, poster and sticker received from survey respondents. Based on an estimate of each bank branch, credit union or building society requiring 100 leaflets, 10 posters and 10 stickers³ on an annual basis, we estimate that the average cost per physical location per year to the deposit taker would range between £35-360.

Item		Banking groups	Building societies	Credit unions
Unit cost	Leaflets	£0.05-0.20	£0.09-0.25	£0.05
	Posters	£2.00-5.70	£1.20-25.00	£2.00-7.00
	Stickers	£2.50-7.80	£1.50-8.50	£1.00-2.00
Average total cost per location or branch*		£50.00-155.00	£36-360	£35-95
* Based on each location or branch requiring 100 leaflets, 10 posters, and 10 stickers				

11. We believe the main factor in the cost to firms of displaying the printed material is the number of physical locations or branches within its network. We have estimated the overall cost to the industry broken down by segments in Table 2. These estimates are based on approximately 10,500 UK bank branches and 2,000 building society branches⁴ and the assumption that each credit union, non EEA bank and EEA bank has only one location.
12. As we did not have survey results from non-EEA banks, or EEA banks, we have estimated that the cost for the branches of these banks will be the average cost of the sector, ranging from £35 to £360.
13. Based on these assumptions, the average cost to the industry would range from approximately £600,000 to £2.4m. Table 2 shows how the costs vary between the different types of deposit takers. The highest burden will be borne by the UK banks, which have the largest branch network. However, we would expect the large banking groups to be able to achieve some economies of scale.

³ The credit union sector highlighted that coordination between credit unions would be needed to make up minimum print orders, which could require minimum lots of 100 stickers or leaflets to be printed.

⁴ Information provided to the FSCS by the British Bankers' Association and the Building Societies Association respectively, in 2010.

Type of deposit taker	Number of deposit takers	Average industry costs
UK banks	153	£525k-1.6m
Non-EEA banks	79	£3k – 30k
Building societies	49	£72k-720k
Credit unions	631	£22k – 60k
EEA banks	85	£3k – 31k
Total		£625k – 2.441m

Websites

14. Building societies and banking groups stated that updating company websites would not result in substantive costs and any costs incurred would be part of usual operating expenses. Credit unions are less likely to be able to absorb web costs as part of usual business expenses and we estimate potential costs of £150 of staff or web developer time per credit union ie a total cost of around £95,000 for the credit unions currently regulated by the FSA and around £27,000 for the Northern Ireland credit unions. These estimates are at the top end of the range and do not take into account the fact that, in practice, some firms will have a smaller increase in their compliance costs.

Staff training and consumer queries

15. Firms also cited that there would be upfront costs to train staff about the FSCS. We do not believe this is a valid cost as firms should already be training staff under existing SYSC rules. We recognise that there may be some costs incurred in briefing staff about the potential for increased queries as the result of displaying this material. The potential cost of increased queries is discussed further in the ‘ongoing costs’ section below.

EEA banks and non-EEA banks

16. We did not receive any survey responses from EEA or non-EEA overseas banking groups. The industry costs estimated above are based on the UK banking groups who responded to the survey. Non-EEA overseas banks participate in the FSCS when operating in the UK. Like UK banks, they will only incur costs for printing leaflets, posters and stickers designed and made available by the FSCS. No design costs would be incurred.
17. EEA firms will face some additional setup costs as they will not be able to just print the FSCS standardised material but will have to develop their own stickers and posters. We are unable to estimate the potential incremental size of these costs to EEA firms, but we do not expect these to be significant, as the requirements for EEA firms are not materially different from the requirements for all other deposit takers.

Ongoing costs

Printing and web updates

18. On an ongoing basis, firms will need to monitor any changes to the FSCS material and our rules. Firms will also need to restock the information leaflets regularly. We believe that these costs will be minimal. Some of the printing and web update costs estimated previously would be incurred each time firms were required to change the material by us or the FSCS (potential changes could include changes to the deposit compensation limit). We do not know how often this might occur.

Consumer queries

19. Firms are likely to receive an increased number of consumer queries regarding FSCS and depositor protection as a result of displaying the additional information. The number and cost of increased queries could not be estimated; but firms noted that the cost per query could be up to £1.67 per query, in staff time. Firms also noted that an increase in the numbers of queries might result in longer queues and increased customer dissatisfaction. However, even if this initiative is more effective than the latest FSCS awareness campaign, we still believe that it is unlikely to result in a very large influx of consumer queries or significant new costs.

Q9: Do you have any comments on our analysis of the costs and benefits of the proposals?

Annex 2

Compatibility statement

1. This annex explains the reasons for concluding that our proposals are compatible with our general duties under section 2 of FSMA and our regulatory objectives, which are set out in sections 3 to 6 of FSMA. The requirement to establish a compensation scheme is set out in FSMA and, in relation to a compensation scheme for depositors, the DGSD. This compatibility statement should be read against that legal background.

Our regulatory objectives

Consumer protection

2. The existence of a compensation scheme for depositors helps to secure protection for consumers, to a defined limit. The FSCS scheme forms part of our consumer protection toolkit; detriment to consumers could result if they were unaware of the existence of FSCS and deposit protection. In particular, the lack of knowledge of depositor protection could contribute to a run on a deposit taker which would adversely impact consumers. Depositors need access to their deposits to meet daily liquidity needs. Knowledge that they could have quick access to compensation to meet that liquidity need is likely to be a factor in reducing the risk of a run on a deposit taker. Also, making sure that consumers are aware of the limits of compensation, including the £85,000 monetary limit, allows consumers to take the decision to act to ensure that all their money is fully protected.

Market confidence

3. This objective requires us to seek to maintain confidence in the UK financial system. In our view, supported by the consumer research undertaken in 2008/9⁵, having an effective and fast payout process underpins retail consumer confidence in the financial system. However, it can only do so if consumers are aware of the compensation arrangements and the speed of payout.

⁵ www.fsa.gov.uk/pubs/consumer-research/crpr75.pdf

Financial stability

4. These proposals should ensure that depositors are aware of the scheme that protects them so that they can manage their deposits appropriately. The proposals may reduce the probability that there will be a run on a deposit taker by retail depositors.

The reduction of financial crime

5. These proposals do not impact on the reduction of financial crime.

Compatibility with the Principles of Good Regulation

6. Section 2(3) of FSMA requires that, in carrying out our general functions, we must 'have regard' to a number of specific matters. Of these, the following matters are relevant to our proposals.

The need to use our resources in the most economic and efficient way

7. Our proposals will result in minimal costs to the FSA and the FSCS. The FSCS will incur minimal design costs to develop the marketing material we propose firms use. The FSCS is also likely to offer firms the option to order the material from them pre-printed. The FSCS will re-coup this cost from firms with a small fee for ordering pre-printed material. In our view this cost is justified by the benefits the proposals will deliver to consumers and the wider economy.

The principle that a burden or restriction should be proportionate to the benefits

8. In our opinion the costs associated with our proposals are proportionate to the benefits delivered. We recognise that it is difficult to claim incremental benefits from these proposals, given consumer awareness work undertaken to date. We also recognise that inertia has a dominant impact on consumer behaviour and the probability of consumers acting on the additional disclosure to alleviate the risk of being unprotected is low. However, raising awareness by providing consumers with generic information about deposit protection is a relatively small cost to deposit takers, but gives consumers the necessary information to be able to act.

The international character of financial services and markets and the desirability of maintaining the competitive position of the UK

9. The UK's high standing as an international financial centre depends in part on its reputation for sound regulation. Increased awareness of deposit protection will help ensure

that the UK financial services market is seen, internationally and domestically, as well regulated and protecting consumers.

The need to minimise adverse effects on competition and the desirability of facilitating competition between those who are subject to any form of regulation

10. The disclosure requirements apply to all UK deposit takers as well as EEA deposit takers that passport into the UK. The cost of our proposals are, therefore, broadly even across all deposit-taking firms operating in the UK.

Enhancing the understanding and knowledge of members of the public of financial matters (including the UK financial system)

11. The key objective of the proposals for further disclosure requirements on deposit takers is to increase consumer awareness of depositor protection. As such, the proposals are consistent with this principle.

Equality and diversity implications

12. We have assessed the equality and diversity impact of our proposals. We believe these proposals have the potential to affect the following protected groups.

Age

13. Older consumers may be less likely to access information on the internet. So providing this information both in branches and on websites will ensure they are not adversely affected.

Disability and race

14. Consumers with reading difficulties, visual impairment, or with difficulties reading English may be disadvantaged by receiving information in a written form. It is the FSCS's usual practice to offer information in Braille and in an auditory form for those visually impaired and in other languages for those who have difficulty understanding English.
15. Firms should consider how they can make their literature more accessible, to minimise any adverse impacts on protected groups.
16. We would welcome any comments on the equality and diversity implications we have identified in relation to these proposals.

Annex 3

List of questions

- Q1:** Do you believe that it is important for consumer confidence and financial stability that UK consumers should be made aware of deposit protection? If so, do you agree with the aims set out above for additional measures?
- Q2:** Do you have any comments on the proposed statement to be included in FSCS posters and stickers?
- Q3:** Is the information set out above the right information to include in the FSCS information leaflets for consumers to take away? If not, what information should (or should not) be provided?
- Q4:** How should EEA deposit takers stickers and posters be produced? Should EEA deposit takers produce their own stickers and posters or should we require firms to follow a template?
- Q5:** Have we identified the most appropriate ways for firms to display the stickers and posters in branches?
- Q6:** Do you agree that deposit takers should also display the specified deposit protection information on their websites?
- Q7:** Do you have any comments on the draft rules?
- Q8:** Do you agree with the proposed three-month implementation period for firms?

Q9: Do you have any comments on our analysis of the costs and benefits of the proposals?

Appendix 1

Draft Handbook text

COMPENSATION SOURCEBOOK (DEPOSIT-TAKING FIRMS' DISCLOSURE REQUIREMENTS) (NO 2) INSTRUMENT 2012

Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):
- (1) section 138 (General rule-making power);
 - (2) section 156 (General supplementary powers);
 - (3) section 157(1) (Guidance);
 - (4) section 213 (The compensation scheme); and
 - (5) section 214 (General).
- B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on *[date]*.

Amendments to the Handbook

- D. The Compensation sourcebook (COMP) is amended in accordance with the Annex to this instrument.

Citation

- E. This instrument may be cited as the Compensation Sourcebook (Deposit-taking Firms' Disclosure Requirements) (No 2) Instrument 2012.

By order of the Board
[date]

Annex

Amendments to the Compensation sourcebook (COMP)

In this Annex, the text is all new and is not underlined.

After COMP 16.3, insert the following new section.

16.4 Compensation information: branches and websites

UK domestic firms and non-EEA firms: branches

16.4.1 R A *firm* that is a *UK domestic firm* or a *non-EEA firm* must, in each of its *UK* branches and (where applicable) in each of its *branches* established in the *EEA* under an *EEA right*, prominently display the *FSCS's* standard sticker or poster with respect to its protection of *protected deposits* where possible in the following ways:

- (1) displaying the *FSCS's* standard sticker or poster in the branch window; and
- (2) displaying either:
 - (a) the *FSCS's* standard sticker at each cashier window or desk; or
 - (b) the *FSCS's* standard poster inside the branch.

UK domestic firms and non-EEA firms: websites

16.4.2 R A *firm* that is a *UK domestic firm* or a *non-EEA firm* must, on all pages of its website where it advertises new accounts operated by any of the *firm's* *UK* branches or (if applicable) branches established in the *EEA* under an *EEA right*:

- (1) display prominently (in electronic form) the *FSCS's* standard sticker with respect to its protection of *protected deposits*; and
- (2) provide from the sticker an electronic link to the *FSCS's* standard leaflet with respect to its protection of *protected deposits*.

UK domestic firms and non-EEA firms: request for further information

16.4.3 R A *firm* that is a *UK domestic firm* or a *non-EEA firm* must immediately provide the *FSCS's* standard leaflet on *protected deposits* to any *person* that requests further information about deposit protection.

UK domestic firms and non-EEA firms: content of sticker and poster

16.4.4 R The *FSCS's* standard sticker or poster required of a *UK domestic firm* or a *non-EEA firm* must contain the following statements together:

- (1) “Your deposits are protected up to £85,000 by the Financial Services Compensation Scheme, the UK's deposit protection scheme. Any deposits you hold above this amount are not covered.”
- (2) “Please [ask/click – delete as appropriate] here for further information or visit www.fscs.org.uk.”

The statement required by (2) must be in a new paragraph and in a smaller font.

- 16.4.5 R A *UK domestic firm* that accepts *protected deposits* through an overseas *branch* may provide the information required by *COMP* 16.4.1R and *COMP* 16.4.3R in the local language (which may be either the *FSCS*'s standard sticker, poster or leaflet in that language or the *firm*'s own translation of that sticker, poster or leaflet).

Incoming EEA firms that accept deposits through UK branches: branches

- 16.4.6 R An *incoming EEA firm* that *accepts deposits* through a *UK branch* must, in each of its *UK branches*, prominently display a sticker or poster with respect to the protection of *deposits* by the compensation scheme of its *Home State* where possible in the following ways:
- (1) displaying the sticker or poster in the branch window; and
 - (2) displaying either:
 - (a) the sticker at each cashier window or desk; or
 - (b) the poster inside the branch.

Incoming EEA firms that accept deposits through UK branches: websites

- 16.4.7 R An *incoming EEA firm* that *accepts deposits* through a *UK branch* must, on all pages of any website where it advertises new accounts operated by the *UK branch*:
- (1) display prominently (in electronic form) a sticker with respect to the protection of *deposits* by the compensation scheme of its *Home State*; and
 - (2) provide from the sticker an electronic link to a leaflet with respect to the protection of *deposits* by the compensation scheme of its *Home State* where such a leaflet is provided electronically and in English by the relevant scheme or, where a leaflet is not available, a link to the *Home State* scheme's website.

Incoming EEA firms that accept deposits through UK branches: request for further information

- 16.4.8 R An *incoming EEA firm* that *accepts deposits* through a *UK branch* must, immediately provide a leaflet on the protection of *deposits* by the compensation scheme of its *Home State* to any *person* that requests further information about deposit protection where such a leaflet is provided by the relevant scheme in English.

Incoming EEA firms that accept deposits through UK branches: content of sticker and poster

- 16.4.9 R The sticker or poster required of an *incoming EEA firm* must contain the following statements together:
- (1) “Your deposits are protected up to 100,000 euro by [insert name of compensation scheme] the [insert home state of compensation scheme] deposit protection scheme and are not protected by the UK Financial Services Compensation Scheme. Any deposits you hold above this amount are not covered.”
 - (2) “Please [ask/click – delete as appropriate] here for further information or visit [insert website address of scheme].”

The statement required by (2) must be in a new paragraph and in a smaller font.

PUB REF: 002842

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