Financial Conduct Authority

Regulator Assessment: Qualifying Regulatory Provisions

Title of proposal: Packaged Bank Accounts – Thematic Review (FCA TR16/8)

Lead regulator: FCA

Date of assessment: March 2017

Commencement date: October 2016

Origin: Domestic

Does this include implementation of a Cutting Red Tape review? No

Which areas of the UK will be affected? Whole of UK

Brief outline of proposed new or amended regulatory activity

TR16/8 assessed how firms implemented the packaged bank account rules in the Insurance: Conduct of Business Sourcebook (ICOBS) that the FCA introduced in March 2013.

A packaged bank account is a current account that comes with at least one insurance policy (such as travel and mobile phone insurance). It may also include a range of other non-insurance goods or services (such as airport lounge access).

The thematic review looked at the packaged bank account customer journey. It assessed the sales process, the approach to reviewing ongoing eligibility and the complaints process.

The overall objectives of the review were:

1. To assess how firms have implemented the specific packaged bank account ICOBS rules introduced in 2013 in relation to eligibility checks and annual eligibility statements, to ensure customers:
   a. can easily determine if the cover is appropriate for their current circumstances and
   b. are given the opportunity to reassess their eligibility to claim under the policies each year
2. To assess whether customers received fair outcomes when they made a complaint about their packaged bank account.

The review identified some areas of good practice, particularly the customer-centric approaches generally adopted by firms. However, we observed some practices in our review samples which, if they were replicated more widely, would indicate that firms are at risk of failing to meet our requirements.

Key findings in the review highlight three main areas of relevance for firms offering PBAs:

1. Checking eligibility;
2. Annual eligibility statements;
3. Complaint handling.

The Thematic Review does not create any new standards for firms. Rather, the review sought to highlight which elements of existing sales practices do not meet a standard already set out in existing rules, following their introduction in 2013. However, firms in response to the guidance may change their approach to meeting the rules and we have estimated the costs.

Which type of business will be affected? How many are estimated to be affected?

There are a total of 13 firms that have offered PBAs, 9 of these firms have a back-book of PBA accounts (the other four having migrated these customers to other, non-PBA, accounts, 8 firms have a PBA on sale currently.

Price base year	Implementation date	Duration of policy (years)	Business Net Present Value	Net cost to business (EANDCB)	BIT score
2016	2016	10	-13.2	1.4	7.0

Please set out the impact to business clearly with a breakdown of costs and benefits

Firms should use this TR as a basis to assess their sales procedures and determine whether they are meeting the minimum standard or of they have work to do to bring their operations up to the existing specified standard.

Firms that were non-compliant with pre-existing rules may have faced costs from additional staff training; changes to processes and procedures; system changes and changes to oversight processes. The main costs to implement the rule changes would and should have been made ahead of the relevant ICOBS (ICOBS 5.1.3A R, ICOBS 5.1.3B R and ICOBS 5.1.3C R) rules being implemented in 2013.

The TR highlights deficiencies in the sample firms handling of mis-selling complaints, and indicates some of the common errors found. Firms will be expected to assess whether these errors would be applicable to them and re-assess customer complaints and pay suitable redress where appropriate.

PART 1: Familiarisation and gap analysis costs

Although the existing rules require firms to review ongoing eligibility and the complaints process, there will be a cost to firms to consider whether they are complying with the rules, and our report is likely to involve firms in additional activity beyond BAU. This would include familiarisation with the reports contents and a gap analysis of their existing processes plus any rectification required.

There are 13 firms covered by the review (those that are currently offering Packaged Bank Accounts and those that have offered them in the past) that would be expected to familiarise themselves with its content.

We estimate that familiarisation with the report and a gap analysis versus existing procedures would cost an average of £12,000 per firm.[1] Familiarisation cost covers firms reading and digesting the report, as well as any gap analyses or remediation work necessary as a result of the report. We based our calculations on the following information and assumptions:

We arrived at the 5 day estimate based on supervisory conversations with firms about their procedures relating to this specific issue, as well as the remaining time for readers to digest and react to the content and relevance of the report to the firm.

- The 33 page thematic report contains approximately 12,000 words which would be at a reading speed of 100 words per minute[2] would be read by six staff at each firm,
- These six staff at each firm (from compliance, internal audit, distribution/sales, complaints, IT and product line functions) spent 5 days each to undertake gap analysis,
- We use an hourly rate of £48 (The 2016 Robert Half salary guide) for each member of staff*.*

Therefore, we estimate the total one-off familiarisation and gap analysis costs to 13 firms to be approximately £160,000.

PART 2: Impact of good practice

The review suggested a number of areas of good practice that may have benefits for previously compliant firms. The good practice examples are shown in the table below:

Examples of Good Practice		**Benefits and Possible Costs of Adopting Practice**
3.3 Box 1	Some firms asked a series of specific questions to ascertain whether the mystery shopper had a particular medical condition. As travel insurance policies often cover family members, firms should gather relevant information from the customer to assess eligibility of family members covered by the policy.	This approach should make the sale easier for the customer to understand by giving specific examples of pre-existing medical conditions. The Handbook rules already require that reasonable steps are taken to establish the customer is eligible for each insurance product. This approach would be one (of a number of possible) ways of doing this implicit in the existing rules. This is a restatement of the current requirements – the use of "customer" in the rule is defined, with respect to ICOBS, as a person who is a policyholder and the policy holder is defined as "including any person to whom, under the policy, a sum is due, a periodic payment is payable or any other benefit is to be provided…" We have provided an analysis of the expected costs firms may face updating systems in line with this good practice in PART 3 below.
3.3 Interactivity	Those (firms) who used an interactive sales process were better at establishing eligibility than those who did not.	Interaction is not covered in the existing rules although the intent was established in Consultation CP12/17 that said "this suggests the need for interaction between the firm and the customer, rather than the passive giving of information". The rules require reasonable steps be taken to establish the customer is eligible for each insurance product, suggesting that use of an interactive sales process would be a reasonable

[2] *The100 words per minute speed of reading technical text is based on EFTEC (2013), "Evaluating the cost savings to business revised EA guidance - method paper".*

		approach to achieving this. While some firms have implemented processes based on the points made in the CP, the TR does go beyond the rule requirements in this area and those firms that update their processes in response would incur costs: These would include the management and compliance costs of developing the new sales processes (this would likely be changing sales scripts from simple closed questions to a short series of open questions), systems development of the process and training for sales staff. We have provided an estimate of the costs in PART 3 below.
3.6 Box	One firm kept comprehensive eligibility records, asking the customer a list of questions, recording the answers on a system and sending the assessment to the customer. The assessment clearly outlined which insurance policies the customer was and was not eligible for.	ICOBS 5.1.3B R requires that a firm must make a record of the eligibility assessment. It does not require a firm to send a copy of the assessment to the customer so this would appear to go above and beyond this requirement. However ICOBS 5.1.3A R (2) does require that the customer is informed whether they would be eligible to claim on each insurance product. We have provided an estimate of the costs in PART 3 below.
3.16	With respect to Annual Eligibility statements, the TR states , some firms need to make changes to provide the specific information required.	Any changes firms need to make would be to bring them up to the required standard with respect to ICOBS5.1.3R, and therefore outside scope for costing.
3.17	Firms should avoid straying into providing additional information that is not related to eligibility.	If the annual eligibility statements issued by firms contain additional information beyond that specified, they would be considered non-compliant with ICOBS5.1.3R and would need to amend such statements to ensure compliance.
3.18	Most firms have undertaken work to make their annual eligibility statements more impactful, including testing the communication with consumers and commissioning behavioural economics work. Some firms had not done this and the TR suggests statements could be better designed more to improve customer engagement	The activities suggested by the TR would appear to go beyond the requirements of the existing rules. However, firms did report that they felt there was poor engagement with these statements by customers and expressed a desire to improve this to ensure customers were fully aware of the product and the benefits they were entitled to from the product. There would be a cost to the industry of doing this, impacting a maximum of 9 firms (there are 9 firms across the industry that we believe have a back book of PBAs and hence need to be compliant with this rule) – some of

		which have already done this. We have outlined our estimate of the costs in PART 3 below.
3.18 box	Five examples of techniques used to make eligibility statements clearer and more engaging are provided.	The activities suggested by the TR would appear to go beyond the requirements of the existing rules. Firms reported that they felt there was poor engagement with these statements by customers and that they wished to improve this in order that customers were fully aware of the product and the benefits they were entitled to. There would be a cost to the industry of doing this, impacting a maximum of 9 firms – some of which have already done this. We have outlined our estimate of the costs in PART 3 below.
3.20 Box	The amount of work undertaken by some firms (with regard to three lines of defence) appeared disproportionately low compared to the strategy for packaged bank accounts and/or the risk rating applied.	This is outside the scope of the ICOBS PBA rules, although it falls within the requirements of Principle 3 – Management and Controls (A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems) and the various SYSC provisions, including SYSC3.1.1 – A firm must take reasonable care to establish and maintain such systems and controls as are appropriate to its business. As this falls within existing requirements we do not believe that this adds any additional costs to firms.
3.23	A few firms' product areas conducted regular outcome testing, mystery shopping and telephone sale call reviews to check that PBAs were sold correctly. TR 16/8 goes on to list a number of other practices that were employed by firms to help them comply with existing rules e.g. 3.24 and 3.26 below.	This is outside the scope of the ICOBS PBA rules although it falls well within the requirements of Principle 3 – Management and Controls and the various SYSC provisions. Weaknesses found were incompatible with existing rules therefore costs were included at the time that the rules were introduced. No new costs are included at this stage.
3.24	Some firms performed second and third line work on eligibility checks and some included this in annual compliance review.	This is outside the scope of the ICOBS PBA rules although it falls well within the requirements of Principle 3 – Management and Controls and the various SYSC provisions. Weaknesses found were incompatible with existing rules therefore costs were included at the time that the rules were introduced. No new costs are included at this stage.
3.26	Some firms regularly	The activities suggested by the TR

	review their annual eligibility statements.	would appear to go beyond the requirements of the existing rules. However, firms would reasonably be expected to keep these statements fit for purpose and, as such, this would appear to fall into a business as usual expectation. There would be a cost to the industry of doing this, impacting a maximum of 9 firms – some of which already review their annual eligibility statements. We have outlined our estimate of the costs in PART 3 below.
3.28	Some firms did not collect management information on the effectiveness of them. Useful management information might include where customers: complained after receiving the annual eligibility statement; contacted the firm to cancel their packaged bank account; or indeed. Made a claim on one of the insurance policies	The activities suggested by the TR would appear to go beyond the requirements of the existing rules. The TR suggest that firms should collect management information and provides an example of what might be captured. There would be a cost to the industry of doing this, impacting a maximum of 9 firms – some of which have already done this. We have outlined our estimate of the costs in PART 3 below.
4.26 Box	One firm used Compliance to carry out testing on specific complaint handling issues. These reviews were fed back to the business and Compliance then verified this until it was satisfied improvements had been made.	Under FCA SYSC rules (SYSC3.1.1 – A firm must take reasonable care to establish and maintain such systems and controls as are appropriate to its business) we expect firms to have sufficient QA and oversight of the complaint handling operation. It is reasonable to expect firms to perform reviews to ensure processes were sufficient in complying with existing requirements. Weaknesses found were incompatible with existing rules therefore costs were included at the time that the rules were introduced. No new costs are included at this stage.
4.32	Firms should do more to ensure they are collecting and sharing adequate information internally to analyse root causes of complaints and potential conduct risk.	We would expect firms to be covering this under DISP provisions (DISP 1.3.3). In respect of complaints that do not relate to MIFID business, a respondent must put in place appropriate management controls and take reasonable steps to ensure that in handling complaints it identifies and remedies any recurring or systemic problem, for example, by: 1) analysing the causes of individual complaints so as to identify root causes common to types of complaint.

PART 3: Estimates of cost complying with good practice

We have estimated costs for those elements of good practice that could be viewed as additional to the rules and guidance already in place. However as no costing data was collected at the time of the review and it is considered disproportionate to collect the data now, some two years since the commencement of the review and six months after publication, we have estimated the costs using information previously collected and have indicated where external sources of data were available.

3.3.Box 1

Asking consumers additional questions to ascertain whether they have certain medical conditions is likely to increase the length of time sales take. In FSA CP 11/20, we consulted on estimates that establishing eligibility for insurance would take 15 minutes with an additional cost of £2 per customer. Given we estimate that asking additional questions around medical conditions will increase the time taken by a further 5 minutes (or £0.67 per customer), roughly a third of the additional time of the previous changes. This estimate of time seems reasonable for a small number of questions with yes or no answers. We assume that this will affect around 270,000 sales a year. This is because there are 9 million packaged bank accounts and in current accounts there is a switching rate of approximately 3% per year. We therefore estimate that costs of these additional questions (taking into account inflation) to be around £0.19m per year.

3.3 Interactivity

If firms change their sales process to allow more interactivity with consumers, they are likely to face one-off system costs. The largest of these costs being IT costs. Other costs include staff training, changes to marketing material and product literature and the costs of senior management time in considering and implementing these changes, including any changes to product design.

In FSA CP 11/20, we consulted on our estimate that costs of changes to sales process would be £10m for the IT costs and £3m for the non-IT costs. The guidance builds on these rules and is unlikely to result in such significant changes. However, we use these costs to estimate the costs of this specific piece of guidance. In CP11/20, it was noted that the IT costs may have been overestimated as one firm estimated that its costs would be £5m. Removing this outlier implies a cost per firm of £0.42m per firm and applying this cost to the 8 firms still selling packaged banks accounts and adjusting for inflations we estimate IT costs of £3.6m. Making a similar adjustment to the non-IT costs, we estimate (taking inflation into account), that the costs would be a one-off cost of £1.9m. Overall the cost would be a one off cost of £5.6m

3.6 Box

If firms are required to send a copy of the eligibility assessment to consumers, then the highest possible cost to firms per consumer will be if they send consumers a letter (they could equally send an email which would be cheaper). However, assuming all new consumers are sent letters and that each letter costs around £150. Then our estimate is £0.41m per year.

3.18

Firms undertaking consumer testing of their eligibility statements will incur on-off costs. These costs will most likely arise as they recruit external research organisations. There are a range of different research approaches they could use. We have estimated these costs using our experience of contracting external research agencies to undertake research for the FCA. Broadly, banks could use either qualitative approaches (such as focus groups) or qualitative approaches (such as surveys). If firms used only one simple approach then the cost could be as low as £30k but using both approaches in a more sophisticated way could cost up to £150k. We use the upper bound in our estimates. We estimate that the eight firms still selling packaged bank accounts will each incur costs of £0.15m from such research and therefore there will be a one-off cost of £1.2m

3.18 box

The costs of changes set out in box 3.18 are likely to have been estimated within the costs estimates for both the testing estimated in 3.18 and the systems changes estimated in 3.3 Interactivity.

3.26

Firms in doing annual reviews of their eligibility statements are likely to incur similar costs as they would incur during their gap analysis. This is because the activity is likely to be very similar. We estimated that the gap analysis would be around £0.15m for 13 firms. However, only 8 firms continue to sell packaged bank accounts. We therefore assume that only for the 8 firms still selling packaged bank accounts incur these costs on an ongoing basis, but. We estimate these costs overall at £0.1m per year.

3.28

As a result of the guidance firms are likely to collect, analyse and review additional management information on both new sales and existing customers. We assume that an analyst will undertake one weeks of work on additional data collection and analysis per year at a contractor daily rate of £330 per day (taken from the Robert Walters salary survey 2016). We also estimate that directors would spend an additional hour reviewing this information. We therefore estimate that overall the 9 firms that still provide packaged bank accounts would incur costs of £0.03m per year.

Table: Costs estimates, £m

	One off	**Ongoing**
Familiarisation	**0.01**	
Gap analysis	**0.15**	
3.3 Box 1	**0.19**	
3.3 Interactivity	**5.60**	
3.6 Box		**0.41**
3.18	**1.20**	
3.26		**0.10**
3.28		**0.03**
Total	**6.99**	**0.54**

For the other elements of the guidance, we have not estimated costs as we believe that compliant firms will not incur any new additional costs from the guidance.

We are not required to provide costs for firms seeking to comply with pre-existing rules. Cost for such compliance is outsider the scope of the Enterprise Act. This is particularly the case for examples of good practice outlined in 3.16, 3.17, 3.20, 4.26 (box) and 4.32. Good practice examples in 3.23 and 3.24 have similarly not been costed as the range of examples illustrated within TR 16/8 and existing Management and Controls and SYSC provisions already applying have led us to conclude that we were not imposing any additional requirements though this document.

The cost to the industry of the mis-sale complaint handling remediation exercise has not been assessed. Where firms identify that there may be failures in their back-book of complaints we would expect any potential unfair outcomes to be investigated and remediation provided where necessary. This is to ensure customers that have previously received an unfair outcome to their complaint are put back into the position they should have been in if the complaint had been handled correctly.

Please provide any additional information (if required) that may assist the RPC to validate the BIT Score.

Link to TR16/8:

https://www.fca.org.uk/publication/thematic-reviews/tr16-8.pdf

Link to Robert Half salary centre:

https://www.roberthalf.co.uk/news-insights/salary-centre-2016