Financial Services Authority

FINAL NOTICE

To **GE Capital Bank Limited** (FSA ref: 2045721)

Of: **6 Agar Street**
London
WC2N 4HR

Date: **30 January 2007**

TAKE NOTICE: The Financial Services Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS (the FSA) gives you final notice about a requirement to pay a financial penalty.

1. THE PENALTY

1.1 The FSA gave you a Decision Notice on 26 January 2007 which notified you that, pursuant to section 206 of the Financial Services and Markets Act 2000 (the Act), the FSA had decided to impose a financial penalty on GE Capital Bank Limited (GECB/the firm).

1.2 The firm has confirmed that it will not be referring the matter to the Financial Services and Markets Tribunal. Accordingly, for the reasons set out below and, having agreed with the firm the facts and matters relied on, the FSA imposes on the firm a financial penalty of £610,000.

1.3 The penalty is imposed for breaches by the firm of the following Principles for Businesses in relation to general insurance:

(a) failing to conduct its business with due skill, care and diligence (Principle 2);

(b) failing to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems (Principle 3); and

(c) failing to pay due regard to the interests of its customers and failing to treat them fairly (Principle 6).

2. REASONS FOR THE PENALTY

2.1 The primary business of GECB is the provision of credit finance through loans, credit cards and store cards. The firm is the credit provider for store cards offered by many of the UK's high street retailers. For a number of years the firm has sold insurance products, mainly the Account Cover product sold in relation to its store cards. This includes payment protection insurance (PPI), purchase protection insurance and price protection insurance. Account Cover is a monthly renewable cover. The firm has been regulated by the FSA since December 2001 and previously by the Bank of England. General insurance policies became regulated by the FSA on 14 January 2005.

2.2 In the period from Q2 2005 (the relevant period) in relation to its general insurance business the firm breached Principles 2, 3, and 6, in the following areas:

(a) Sales: the firm failed, where appropriate, to review, amend and then operate its sales procedures to ensure that all customers received adequate information about the policy before they made a decision on whether to take the insurance.

(b) Training: in light of evidence that sales staff were not complying consistently with its sales procedures, the firm failed to amend its training procedures.

(c) Monitoring and Management Information: the firm failed, where appropriate, to review, amend and then operate its monitoring procedures to ensure that the monitoring for training, sales, commission incentives, penetration rates, complaints, cancellations, and claims, was effective and appropriate for its business. The firm failed adequately to act in response to the management information which was collected and available. By Q2 2005 this ought to have alerted the firm to the fact that its procedures were not working as intended and were not resulting in sales which were consistently compliant with FSA requirements.

(d) Customers: the firm failed to implement any procedure to contact customers to remedy the non-compliant sales which were identified by its monitoring procedures.

(e) Compliance: the firm failed to resource its compliance function adequately and in proportion to the sales distribution model adopted by the firm.

The breaches by GECB stem from a failure to review and amend its systems and controls for the sale of insurance in light of the evidence emerging from Q2 2005 that its procedures were not in practice delivering consistently compliant sales. The insurance could be sold on behalf of GECB by store staff employed by high street retailers across the UK and therefore the firm operated an unusually large sales distribution model. The failures had the potential to impact upon a very large number of customers. The FSA expects firms to review their systems and controls and to change them quickly if they are not operating as intended.

2.3 The FSA considers that the breaches have been mitigated by the changes made or proposed by the firm following the commencement of the FSA investigation. In particular:

(a) The firm has paid in full all previously excluded claims made by customers who were sold a policy on or after 14 January 2005.

(b) The sales process, and in particular the documentation used at point-of-sale has been redesigned to make it more likely that the firm's procedures will be adhered to. This amended sales process has been rolled out to the majority of the firm's retailers, and in relation to most of the insurance products offered by the firm. On the telesales side, the firm is continuing to review its scripts, and its training for telesales staff.

(c) The firm has developed and is implementing a risk-based approach to monitoring using a wide range of tools including mystery shopping, observation, customer contact and desk-based analysis of data on sales. The firm has appointed 50 new 'field' compliance and training staff to visit stores to monitor sales and training. Importantly, the system for reporting and escalating management information (MI) is being enhanced. Additional controls are being implemented to enable senior management to respond to MI by suspending insurance sales by individuals or stores which fail to meet the appropriate standards.

(d) The firm has developed and is implementing a procedure to ensure that non-compliant sales will be followed-up with the customer. In appropriate cases, the firm will review previous sales made by staff found to be following non-compliant selling practices.

(e) To reduce the risk that any customer may have suffered detriment as a result of the breaches outlined above the firm will be undertaking a comprehensive customer contact exercise. Until that process is complete the firm has undertaken that it will not seek to rely on any policy exclusions for new claims made.

The firm has undertaken to continue to roll out the improvements referred to above across its business and will consider whether further enhancements are necessary. In addition, GECB has undertaken to continue its review of its systems and controls to identify and implement further enhancements to its processes.

2.4 The FSA considers that the substantial changes to the firm's systems and controls for selling insurance and the proposals to conduct a comprehensive customer contact exercise and to pay redress where appropriate are significant steps in demonstrating the firm's commitment to treating customers fairly (TCF). These are important mitigating factors which, along with all other relevant factors, have been taken into account by the FSA in making its decision on the level of penalty.

2.5 In addition, the FSA has had regard to the nature of the insurance being sold and the likely financial impact on the customer. For most consumers this type of insurance will not be as significant a transaction as some other types of general insurance. The financial impact on most customers was likely to have been modest.

2.6 The firm has received full credit for settlement of the disciplinary case at an early stage; it has received a 30% discount for settling the case at stage one. Were it not for this discount the penalty would have been £871,000. Without the firm's commitment to remedial action and appropriate redress the financial penalty would have been substantially higher.

3. RELEVANT STATUTORY PROVISIONS

3.1 Section 206 of the Act states:

> "*If the Authority considers that an authorised person has contravened a requirement imposed on him by or under this Act, it may impose on him a penalty, in respect of the contravention, of such amount as it considers appropriate.*"

3.2 The FSA's Principles for Businesses, as set out in the FSA's Handbook of Rules and Guidance (the FSA Handbook) represent a general statement of the fundamental obligations of firms under the regulatory system.

(a) Principle 2 provides: *"A firm must conduct its business with due skill, care and diligence."*

(b) Principle 3 provides: "*A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.*"

(c) Principle 6 provides: "*A firm must pay due regard to the interests of its customers and treat them fairly.*"

3.3 The FSA has also had regard to the rules and guidance contained in the FSA Handbook, in relation to SYSC, TC, PRU, and ICOB. The FSA's rules and Principles constitute requirements imposed on authorised persons under the Act.

4. FACTS AND MATTERS RELIED ON

Background

4.1 Following the FSA's first thematic review of PPI the firm was referred to Enforcement.

4.2 The firm provides consumer credit through store cards, credit cards and sales finance (loans). The firm finances many of the store cards offered by the UK's high street retailers. These store cards are usually branded in the name of the retailer rather than in the name of GECB.

4.3 The firm sells a range of insurance policies in relation to its consumer credit products. In 2005 the main insurance policy sold by the firm was a bundled insurance package known as 'Account Cover'. This included:

(a) payment protection insurance: which would pay off a percentage of the store card debt on a monthly basis in the event of unemployment resulting from sickness, accident or redundancy;

(b) purchase protection: which insured items bought with the store card against loss or accidental damage;

(c) price protection: which insured the customer against the risk that items purchased might be reduced in price within a set period after purchase; and

(d) life cover: which would pay off the balance of the card in the event of the insured's death.

4.4 The benefits available with Account Cover varied according to the age, employment status, and other circumstances of the customer. In addition to Account Cover, the firm offered other insurance products with a variety of features, for example Balance Cancellation Cover which was designed to pay off the customer's card balance in one lump sum in the event of unemployment resulting from sickness, accident or redundancy.

4.5 In 2005 the firm sold over 850,000 new insurance policies. The gross premium income collected by the firm as agent for the underwriter from this new insurance business was approximately £8 million. GECB's consolidated gross income from all of its operations in 2005 was over £900 million.

4.6 All of the firm's insurance sales are non-advised. Approximately 5% of the firm's insurance business is transacted by telephone. The rest of the firm's insurance sales are face-to-face transactions carried out in retail stores. Typically, the insurance will be offered when the customer is buying merchandise and has agreed to open a new store card account. These sales are carried out by retail staff employed by the stores as sales assistants (retail assistants) - individuals who are otherwise unconnected with and unfamiliar with the regulatory environment. The retail stores are appointed representatives (ARs) of the firm and at any one time, following the training required by the firm, approximately 300,000 retail assistants employed by the stores will be permitted to sell insurance on its behalf. As a result of staff turnover within the retail sector, in a typical 12 month period over 500,000 retail assistants will, following the training required by the firm, be permitted to sell insurance on behalf of GECB.

Insurance Sales Process - retail stores

4.7 The sales process for the insurance involved retail assistants recommending the features and benefits of having a store card and encouraging the customer to open a store card account. Once the customer had agreed to open a store card account the staff would offer the insurance by verbally introducing some of the elements of the Account Cover. The sales process did not require staff to describe all the elements of Account Cover. The printed application form for the store card contained a section where the customer could opt for insurance. The policy summary containing a written explanation of the key features of the insurance was contained on the customer copy of the application form, on the reverse of the third page of the application pack used by the retail assistants. To comply with FSA requirements, staff were obliged to draw the attention of the customer to the importance of reading the policy summary and particularly the section of the policy summary which contained details of the important exclusions or limitations.

4.8 Having designed this sales procedure with the assistance of in-house and external legal advisers, the firm failed, in light of evidence emerging from Q2 2005, to review, amend and then effectively to operate the procedure. Important information about the insurance was not provided to customers in good time before the conclusion of the contract. The firm's own mystery shopping from February to December 2005 indicated that between 57% and 76% of the 2,500 retail assistants sampled were not drawing the attention of the customer to the importance of reading the written policy summary. In the absence of this, the customer had no adequate explanation of the main features, benefits, exclusions and limitations of the insurance product being sold until after the transaction had been completed. These failures were widespread in that the same defects were found in selling practices across different stores and branches throughout the firm's UK operation.

4.9 The regulatory requirements are designed to ensure that written information about the insurance is provided to customers before they make a decision on whether to take the insurance. These requirements are important in any non-advised sale but they were particularly important in this case because it was not always explained verbally to customers at any point that they were being asked to buy insurance which, in addition to purchase protection and price protection, included payment protection insurance and life cover. The omission of pre-contractual information relies inappropriately on the ability of the customer to consider the policy documentation post-sale and to exercise cancellation rights within the cancellation period.

4.10 The firm has developed and is implementing an improved sales process for providing customers with adequate information about features, benefits, exclusions and limitations in good time before they make their decision on whether to take the insurance. The firm has amended and is amending the majority of its application forms used in stores so that the front page of the form contains a prominent statement in large type reminding retail assistants to draw the attention of the customer to the importance of reading the pre-contractual information. GECB has undertaken to continue to roll out improvements across its business. In addition, a new control has been added to the application process. Approval of the store card application and the insurance application at credit check stage will only be given when the retail assistant has confirmed the customer has been shown the policy summary, in particular the relevant exclusions and limitations. The firm is continuing to work with the insurer to revise the terms and conditions of the policy and to minimise the exclusions which should in turn enable sales staff to follow a more straightforward sales process. This is something which the FSA has encouraged firms to do in an effort to ensure that TCF is embedded throughout the life cycle of financial products.

Training for sales staff- retail stores

4.11 Prior to the commencement of general insurance regulation, the firm designed and implemented a sales training procedure to deliver training to the retail assistants at the ARs who would be selling insurance on behalf of GECB. The firm chose to use a methodology that it had used for other compliance requirements over a number of years. The firm trained managers and team leaders employed by the ARs so that they in turn would cascade the training to their staff - a 'train the trainer' approach. Using this method the firm cascaded the training to more than 300,000 retail assistants in stores across the UK.

4.12 The firm failed to review, amend and then operate the procedure effectively to address the concerns raised by the firm's own evidence of widespread non-compliant selling practices. The firm ought to have concluded that the training was not working and that it required review and amendment to ensure that the retail assistants were provided with the knowledge necessary for them to have the ability required for the performance of their duties in relation to the sale of insurance. The training of those directly involved in the sale of insurance needed to focus on the customer-facing elements of the FSA requirements, namely the importance of providing customers with relevant information to enable them to make an informed decision and an understanding of treating customers fairly. The FSA does not expect retail staff to have a detailed knowledge of the FSA handbook. It is, however, important that they understand how to put the Principles into effect in their sales environment, so as to deliver a compliant outcome and the appropriate level of customer protection.

4.13 The firm has undertaken to continue to strengthen and further enhance its insurance training for retail assistants to increase awareness of the underlying FSA rules and Principles, for example in relation to the over-arching need to treat customers fairly and the need to ensure that all communication is clear, fair and not misleading. The firm did not effectively monitor the quality of training cascaded by the in-store trainers, so the firm is piloting a system to monitor and quality-control the delivery of training to retail assistants. These changes, when combined with a more robust sales process, should increase the likelihood that retail assistants will adhere to the firm's procedures and produce compliant sales.

Monitoring - retail stores

4.14 The firm operated an ongoing mystery shopping programme in which representatives of the firm posed as customers interested in opening a store card with insurance (the mystery shopping programme). The mystery shopping programme was limited in that:

(a) selling practices in breach of FSA requirements could be 'passed' as compliant under the scoring system employed by the firm;

(b) the monitoring was not risk-based, it was almost entirely random and ad-hoc in relation to which stores and which retail assistants were approached;

(c) there was no or very limited targeting of the mystery shopping by reference to data such as sales volumes, penetration rates and complaints; and

(d) the mystery shopping programme was carried out by the firm's sales managers and was unable to examine the whole of the sales process.

4.15 The firm did not use other systems for more effective and appropriate monitoring of in-store selling practices, for example observing and monitoring retail assistants while they were selling. The task of supervising insurance sales was not carried out by the firm. Its compliance staff did not visit stores to observe actual sales nor was responsibility for supervision of actual sales properly delegated to appropriately qualified staff at the ARs.

4.16 In 2005 the firm received over 5,000 complaints relating to the sales process. The complaints were not routinely analysed to identify whether problems were arising from particular stores, departments or retail assistants. Generally the firm did not trace sales back to particular retail assistants. Only in unusual cases, for example suspected dishonesty, would the firm retrieve the original paper copy of the application form in order to identify which individual made a particular sale.

4.17 In addition, the firm failed to implement any system for recording and monitoring the amount of commission incentives paid to retail assistants. As a result, it had no system to enable it to assess whether the incentive arrangements might give rise to a conflict with any duty owed to the customer. The firm failed to implement a system to control incentives paid to retail assistants. It did not link commission payments to compliant sales: incentives were paid to, and retained by, retail assistants whether or not the sale was compliant with regulatory requirements.

4.18 The firm undertook limited monitoring of cancellations data but did not implement a system for post-sale compliance reviews based on data such as sales volumes, penetration rates and complaints. The firm did not implement any system to collect information on sales by individual retail assistants to enable the firm to manage the risks of non-compliant sales. MI was collected at store level; however, the firm failed to implement adequate procedures for the use, presentation, analysis and escalation of the available information in such a way as to identify and manage regulatory risks. As a result, the firm failed to act effectively and in a timely manner in response to the information produced by the monitoring which was undertaken. These failures by the firm had the potential to expose a significant number of insurance customers to a risk of non-compliant selling and a risk of modest financial loss.

4.19 The firm has developed and is implementing significantly improved monitoring procedures to enable it to manage the regulatory risks presented by the nature and scale of its insurance business. The firm is introducing a risk-based system for monitoring insurance sales which will be targeted at stores or particular retail assistants based on risk factors derived from analysis of data such as sales volumes, penetration rates, cancellations, complaints and rejected claims. The firm has corrected the scoring system of its mystery shopping to ensure that sales in breach of FSA requirements cannot be 'passed' as compliant. It has employed approximately 50 new compliance and training personnel whose role will be to visit stores, observe actual sales to customers as they take place, conduct mystery shopping, undertake compliance audits of stores and quality assess the delivery of training. The firm is introducing a procedure to track levels of incentives paid to retail assistants. High-selling retail assistants will be targeted for monitoring, including mystery shopping. Incentives will be withheld and permission to sell insurance will be withdrawn from retail assistants and stores who repeatedly breach compliance requirements.

Telesales

4.20 The firm operated a call centre which sold approximately 46,000 insurance policies in 2005, which represented 5% of the firm's insurance sales. Telesales staff employed by the firm contacted customers who did not opt for insurance when they first applied for credit. These were non-advised insurance sales conducted and concluded by telephone. As a result the FSA's rules did not require the customer to be provided with written information before the conclusion of the sale. Instead, the firm was obliged to provide certain pre-contractual information to the customer during the telephone call, with full written information to be provided after the sale. The sales process required staff to follow a sales script, some parts of which were required to be read out verbatim and other parts allowed the telesales staff some discretion about what was said and how to say it.

4.21 Up until May 2005 each telesales team was assigned a 'coach'. The coaches were appointed on the basis of their sales ability and as role models: they had no specific training in relation to compliance monitoring. Their role was to listen to sales calls and to provide feedback to the telesales staff on sales performance and also had some element of compliance monitoring. The coaching positions were phased out in May 2005. In June 2005 the firm established a telesales monitoring team and a procedure for monitoring calls to check adherence to the scripts. The team monitored one sale for every member of telesales staff per day, plus any sales calls which were unusually short or long and one non-sale per day.

4.22 Between 20 June 2005 and 19 December 2005 the firm's monitoring team checked 2,517 sales calls. It failed 1,761 of those (70%) for not adhering to the firm's prescribed sales process. For 13 of the 25 weeks the failure rate exceeded 90% of calls sampled. The firm failed to review and amend its sales, training and monitoring procedures in light of this evidence that its processes were not resulting in compliant telephone sales of insurance. Significant numbers of the firm's telesales did not comply with FSA rules and Principles.

4.23 In the course of the investigation the firm provided the FSA with recordings of 196 sales calls made by the firm between April and November 2005, including 57 calls which had been monitored by the firm. The FSA found all 196 calls to be deficient, most on the basis of multiple compliance breaches, for example telesales staff:

(a) deviated from the script by omitting or changing the firm's mandatory wording intended to obtain explicit consent from the customer to proceed with a telephone sale based on limited information about the insurance being offered; and

(b) provided the customer with inaccurate or misleading information. For example, asserting that there were "*only four exclusions*" when the policy terms and conditions for that type of cover contained 12 exclusions or omitting scripted exclusions or limitations.

These operational failings were widespread in the sample analysed, in that they were not limited to particular months, specific products, scripts, policies, or particular telesales staff.

4.24 Of the 196 calls, 25 had been reviewed by the telesales monitoring team and 'passed' as compliant. Following a review of these calls, the FSA has failed all 25 for compliance breaches, including: failure to obtain explicit consent from the customer to receiving only limited information; failure to check whether the customer was self-employed; and failure to give the customer accurate information regarding the exclusions on the policy.

4.25 The firm ought to have concluded that the telesales monitoring team required additional compliance training over and above that provided to telesales staff; that there was insufficient compliance oversight of the monitoring team; and that the checking and scoring system used by the team system required amendment to ensure that it adequately captured all of the relevant matters, and adequately checked adherence to the firm's scripts. This failure to review and amend the monitoring meant that monitoring staff could pass as compliant calls which did not comply with FSA rules or the firm's own scripts.

4.26 The firm failed to review and amend its sales, training and monitoring procedures in light of the evidence that its processes were not delivering compliant sales. The firm should have amended:

(a) scripts to address the defects identified;

(b) training material to remove out-of-date legislation and to ensure that telesales and monitoring staff received adequate training in relation to the underlying FSA rules and Principles which applied to the sale of a regulated insurance product; and

(c) monitoring of telesales to ensure that the monitoring system adequately covered the applicable regulatory requirements.

4.27 The firm has reviewed and amended and is continuing to review and amend its systems and controls for telesales. Some scripts have been re-written to address the concerns raised in the course of the FSA investigation, training has been amended, and a stronger disciplinary regime has been put in place for staff who choose not to adhere to the firm's procedures. The firm is conducting a comprehensive review of its telesales procedures - including a review of the scripts against the policy terms and conditions and regulatory requirements - to improve the processes further. In addition, the firm has increased training for the telesales monitoring team, including a fortnightly exercise where all team members will listen to the same calls, to ensure consistency of reviewing standards.

Customers - retail stores and telesales

4.28 The firm failed to implement a procedure to remedy non-compliant sales. When its monitoring detected non-compliant sales the firm made no attempt to contact customers to remedy the non-compliance. Further, the firm had no system for retrospective checking of previous insurance sales made by those whose selling practices had been identified as non-compliant. When non-compliant sales and/or non-compliant selling practices were identified the firm did not have a procedure for identifying and contacting other customers who may have been at risk. This represents a serious failure on the part of the firm to consider the interests of its insurance customers and a failure to treat them fairly. The firm has now introduced a feedback loop to customers to remedy defects when non-compliant telesales are detected. Field compliance staff will be able to contact customers to follow up any defects in sales made by retail assistants.

Compliance function

4.29 The firm failed to resource the compliance function adequately. Given the nature and scale of the business, the compliance function of the firm was significantly under-resourced, its role was inadequately specified, it was remote from the operational sales areas and it operated in a largely consultative capacity. Within the firm, responsibility for compliance issues was not apportioned with sufficient clarity between the compliance, legal and operational areas.

4.30 The firm has subsequently hired additional compliance resource to improve its systems and controls for dealing with the regulatory risks identified above; recruited additional training staff; restructured reporting lines so that relevant functions report to compliance as well as to operational managers; and the firm has generally increased the involvement of the compliance function in operational matters.

5. PRINCIPLE BREACHES

5.1 By reason of the facts and matters set out above, the FSA considers that the firm has contravened Principles 2 and 3 of the FSA's Principles for Businesses. In particular the firm:

(a) failed to exercise due skill, care and diligence in that it failed to review and amend its systems and controls for selling insurance on the basis of the evidence available to it from Q2 2005 that its procedures were not consistently resulting in compliant sales; and

(b) failed to take reasonable care to maintain a risk management system which was proportionate to the operational model that the firm employed. Where a firm chooses to operate through a large and complex distribution model, Principle 3 requires such firms to have in place processes, systems and controls which are tailored to the risks posed by that business model.

5.2 In addition, by reason of the facts and matters set out above, the FSA considers that the firm has contravened Principle 6 of the FSA's Principles by failing to pay due regard to the interests of its customers and failing to treat them fairly. In particular, the firm:

(a) failed to consistently draw the attention of customers to important information in good time before the conclusion of the sale of a regulated product;

(b) failed to provide accurate information to customers during telesales calls and failed to obtain explicit consent to proceeding with a sale on the basis of limited information; and

(c) failed, until the commencement of the FSA's investigation in November 2005 to take remedial action or other steps to investigate customer detriment or to conduct a comprehensive customer contact exercise and to pay redress where appropriate.

6. PENALTY

6.1 The FSA has considered the disciplinary and other options available to it and has concluded that a financial penalty is the appropriate sanction in the circumstances of this particular case. The principal purpose of the imposition of a financial penalty is to promote high standards of regulatory conduct. It seeks to do this by deterring firms who have breached regulatory requirements from committing further contraventions, helping to deter other firms from committing contraventions and demonstrating generally to firms the benefit of compliant behaviour.

6.2 The FSA's policy on the imposition of financial penalties is set out in Chapter 13 of the Enforcement Manual (ENF 13) which forms part of the FSA Handbook. Section 13.3 of the Enforcement Manual sets out some of the factors that may be of particular relevance in determining the appropriate level of financial penalty. These have been taken into account by the FSA in determining the appropriate level of penalty in this case. Chapter 13 of the Enforcement Manual at paragraph 13.3.4 states that the criteria listed in the manual are not exhaustive and all relevant circumstances of the case will be taken into consideration. In determining whether a financial penalty is appropriate, and its level, the FSA is required therefore to consider all the relevant circumstances of the case. The FSA considers the following factors to be particularly relevant in this case:

Seriousness

6.3 The FSA has had regard to the seriousness of the contraventions, including the nature of the requirements breached, the number and duration of the breaches and the number of consumers who may have been impacted. The level of financial penalty must be proportionate to the nature and seriousness of the contravention. Details of the breaches identified in this case are set out above. As stated in paragraph 2.5 above, in determining the seriousness of the contraventions the FSA has had regard to the nature of the insurance being sold and the potential impact on the affected consumers. The FSA acknowledges that the potential consumer detriment for this type of insurance product is not as significant as with some other types of insurance. However, for the reasons detailed below the FSA considers that the breaches identified in this case are serious contraventions:

(a) from Q2 2005 the firm had information available to it which ought to have alerted it to the risk of non-compliant sales;

(b) a large number of customers were exposed to a risk of modest financial loss because of the failure to consistently provide important information prior to the sale; and

(c) defects in the procedures of large firms such as GECB are particularly serious because the failure to have adequate procedures, or adequate monitoring to ensure that procedures are implemented and adhered to, have the potential to expose a large number of customers to an unacceptable level of risk.

The extent to which the conduct was deliberate or reckless

6.4 The FSA does not allege that the misconduct on the part of the firm was deliberate. The FSA considers it particularly serious that the firm continued to sell insurance through its ARs when it ought to have realised from Q2 2005 that its mystery shopping results showed that it was not consistently complying with the relevant FSA requirements for the sale of insurance.

The size, financial resources and other circumstances of the firm, and the amount of profits accrued or loss avoided

6.5 The details in relation to the size and resources of the firm are set out above. The firm had sufficient financial resources to staff its compliance function to a level commensurate with the amount of general insurance business being transacted, and proportionate to the complexity of the business model adopted by the firm. It had adequate financial resources which could have been used to resolve the problem once they had been identified, both in terms of new systems and remedial steps in relation to affected customers.

6.6 The FSA has had regard to the fact that the firm has sufficient resources to pay the penalty.

Conduct following the contravention

6.7 Full credit is given for settlement at the earliest opportunity. The level of financial penalty imposed in this case has been subject to a full, stage one, discount of 30%.

6.8 The steps which the firm is taking to improve its systems and controls to prevent a reoccurrence are set out above. The FSA considers these proposals for redress and remedial action to be significant steps forward in demonstrating the firm's practical commitment to the principle of TCF.

Disciplinary record and compliance history

6.9 The firm has not been subject to any previous enforcement action by the FSA.

Previous action taken in relation to similar failings

6.10 In deciding on the level of penalty, the FSA has taken into account previous action taken by the FSA in relation to similar contraventions by other firms.

7. DECISION MAKERS

7.1 The decision which gave rise to the obligation to give this Final Notice was made by the Executive Settlement Decision Makers on behalf of the FSA.

8. IMPORTANT

8.1 This Final Notice is given to the firm in accordance with section 390 of the Act.

Manner of and time for payment

8.2 The financial penalty of £610,000 must be paid in full by GE Capital Bank Limited to the FSA by no later than 13 February 2007, 14 days from the date of the Final Notice.

If the financial penalty is not paid

8.3 If all or any of the financial penalty is outstanding on 14 February 2007, the FSA may recover the outstanding amount as a debt owed by GE Capital Bank Limited and due to the FSA.

Publicity

8.4 Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this notice relates. Under those provisions, the FSA must publish such information about the matter to which this notice relates as the FSA considers appropriate. The information may be published in such manner as the FSA considers appropriate. However, the FSA may not publish information if such publication would, in the opinion of the FSA, be unfair to you or prejudicial to the interests of consumers.

8.5 The FSA intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

FSA contacts

8.6 For more information concerning this matter generally, you should contact Graham Turner (Tel: 020 7066 1432) of the Enforcement Division of the FSA.

William Amos
Head of Retail 1
Enforcement Division