

# PS12/22

Financial Services Authority

## Packaged bank accounts

New ICOBS rules for the sale of non-investment insurance contracts

Feedback to CP12/17 including final rules



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This Policy Statement reports on the main issues arising from Consultation Paper 12/17 *Packaged bank accounts – New ICOBS rules for the sale of non-investment insurance contracts (July 2012)* and publishes final rules.

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# Abbreviations used in this paper

<b>AES</b>	Annual eligibility statement
<b>CBA</b>	Cost-benefit analysis
<b>CP</b>	Consultation Paper
<b>ICOBS</b>	Insurance Conduct of Business sourcebook
<b>OFT</b>	Office of Fair Trading
<b>PS</b>	Policy Statement



# 1

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## Introduction

- 1.1 In October 2011 we consulted<sup>1</sup> on our proposals for new eligibility and suitability rules for the sale of insurance as part of a packaged bank account. This was to ensure that consumers are in a position to make an informed decision about the insurance policies in the package and to limit the potential risk that they rely on one or more of the policies, only to find out later that they are unexpectedly unable to claim because they are ineligible or the policy was not suitable for their needs.
- 1.2 We published feedback to these proposals and the final rules in July 2012.<sup>2</sup> At the same time we consulted on further proposals to address feedback on the content and distribution of the new annual eligibility statement (AES), and premium disclosure for insurance provided in this way. The proposals were to:
- specify the requirements for the content and distribution of the annual eligibility statement (AES) with effect from 31 March 2013; and
  - switch off our ICOBS rule on separate premium disclosure, with effect from 1 January 2013, for packaged bank accounts.
- 1.3 This Policy Statement (PS) provides feedback on the responses received to these proposals and publishes the final Insurance Conduct of Business sourcebook (ICOBS) rules.

### Structure of this paper

#### Annual eligibility statement (Chapter 2)

- 1.4 Respondents agreed with our proposal that the AES should be a separate document provided to the customer in a separate mailing to avoid possible confusion with marketing information. Firms said this should not prevent them combining the AES with the annual charges summary they already send to their customers, and requested that we amend the

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1 CP11/20: [www.fsa.gov.uk/library/policy/cp/2011/11\\_20.shtml](http://www.fsa.gov.uk/library/policy/cp/2011/11_20.shtml)

2 CP12/17: [www.fsa.gov.uk/library/policy/cp/2012/12-17.shtml](http://www.fsa.gov.uk/library/policy/cp/2012/12-17.shtml)

draft rule to allow this. For the reasons we explain in Chapter 2 we do not think that this would achieve the right outcome for consumers.

- 1.5 The proposed requirement for the statement to be personalised to notify customers when any person entitled to claim benefits under the travel policy triggers the age limit also received support but firms asked us to modify the draft rule so that it only applied to the account holder(s) (as this is the only reliable age information they hold).
- 1.6 In Chapter 2 we confirm that with effect from 31 March 2013 we will implement the requirements consulted on in CP12/17 with two amendments. A minor amendment to clarify our intention that the AES must be provided 'in writing'. This would include distribution by email. The second amendment is made to clarify who the requirement to personalise the AES applies to. We have amended it to apply to the 'customer', which in the case of a packaged bank account will be the account holder(s).

### Transparency (Chapter 3)

- 1.7 In Chapter 3 we confirm that with effect from 1 January 2013 we will make the amendment, consulted on in CP12/17, to switch off ICOBS 6.1.13R in relation to separate premium disclosure for connected contracts, for insurance sold as part of a packaged bank account.
- 1.8 Our next step to improving transparency is to work with firms to make changes to their financial promotions so that their customers have the information they need to understand both the costs and benefits of choosing a packaged bank account compared to a non-packaged version.

## Who should read this Policy Statement?

### Firms

- 1.9 This PS should be read by all firms selling insurance as part of a packaged bank account. It will also be of interest to insurers and, more generally, retail intermediary firms selling general insurance products.

### CONSUMERS

If you have a packaged bank account or you want to know more about these accounts, you will be interested in this paper.

We confirm that we are introducing a new rule to ensure that the annual reminder you receive, with important information about the insurance policies provided with your bank account, must be a standalone document and not included with any other mailing to you.



We are doing this because it is important that you are reminded to check whether you would be entitled to claim under the policies and whether there is anything you need to do, for example contacting your bank or the insurance company, to make sure you are covered. This important reminder might not be prominent enough if it is combined with unrelated information about your bank account or other marketing material.

We also confirm that we will be working with firms to change the way in which packaged bank accounts are advertised to you. We think that this will help you when choosing your bank account and improve your understanding of the costs and benefits of a packaged bank account compared to a non-packaged bank account.

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### **Equality and diversity implications**

- 1.10** We said in CP12/17 that we considered our proposals did not give rise to any new equality and diversity implications that we did not consider in CP11/20. We think that the new requirement for firms to alert customers who trigger the age limit for travel insurance will be of significant benefit for older customers and the proposal received support from respondents who agreed with this.
- 1.11** We have not specified the format for the annual statement so the new rule will not prevent firms from providing the statement in a range of formats appropriate for their customers' different needs, such as large print or Braille.

# 2

## Annual eligibility statement

- 2.1 This chapter sets out the feedback received to our proposed new ICOBS rule to specify the content and distribution requirements for the AES that firms must provide to the customer annually with effect from 31 March 2013 i.e. ICOBS 5.1.3CR, as confirmed in CP12/17.
- 2.2 The purpose of the AES is to remind the customer to review their eligibility under each of the policies. We are concerned that the important information it contains may be obscured if the statement is part of another mailing. Therefore we proposed a new requirement that the statement should be a standalone document sent to the customer in a separate mailing, and contain only the information required by ICOBS 5.1.3CR. This is to help the customer focus on the important information and prevent possible confusion, or customers dismissing the statement if it is sent with unrelated information relating to their bank account or other marketing material.

### Feedback

- 2.3 Respondents were supportive of our proposal and agreed that the statement should be kept separate from other unrelated information or mailings that might be sent to the customer. However, firms requested that we amend the draft rule to allow for the AES to be included with the annual summary of fees and charges.<sup>3</sup> They felt this would be appropriate as their customers prefer to have all the information about their account and any additional benefits sent to them in one document rather than separate mailings.

#### Our response

Our proposal that the AES should be provided as a standalone document in a separate mailing was based on evidence which tells us that too much information (at the same time) creates complexity for consumers and it does not help them focus on what is important.

<sup>3</sup> An annual summary of charges designed to implement the transparency initiatives set out in the Office of Fair Trading (OFT) October 2009 report [www.offt.gov.uk/shared\\_offt/personal-current-accounts/OFT1123.pdf](http://www.offt.gov.uk/shared_offt/personal-current-accounts/OFT1123.pdf)

A combined statement is likely to be several pages long and contain a lot of different information. It is, in our view, therefore not the most helpful way to focus the customer's attention on the specific eligibility criteria (qualifying requirements) to claim each benefit under each policy in the package.

The rule would not prevent a firm from providing the customer with such a combined annual statement in addition to the separate AES. This might meet a different need for the customer to have an overall summary of the costs and benefits of their package but we do not agree that it would achieve the intended outcome of the AES.

- 2.4 Another concern raised by firms was our proposed requirement for firms to personalise the AES 'Where a firm is aware that any person entitled to claim the benefits under a travel insurance policy included in a packaged bank account has reached an age limit on claiming (or will reach an age limit before the next annual statement is due)'. Respondents representing consumers said they think it is really important that consumers are kept informed about their eligibility to claim and that if a firm knows that someone has reached the age limit to claim under the travel insurance – i.e. it has information about the person's age – this should be included in the AES.
- 2.5 Firms told us that they do not collect age information about persons other than the account holder(s). They felt that it would be an unreasonable requirement if they had to collect new information in order to comply with the requirement to personalise the AES; changes to systems and processes would be required to collect and maintain the data resulting in significant costs and time to implement, which they had not allowed for in their costs. They were also concerned about the data protection implications of holding sensitive information not relating to their customer. Firms therefore requested that we change the draft rule to refer to the account holder(s) only and perhaps include a requirement to provide a prominent warning to check the age criteria for other persons who might be entitled to claim benefits under the travel insurance policy.

### Our response

When we proposed the draft rule it was not our intention to require firms to collect additional information. We said in CP12/17 that we think travel insurance is the one area where it would be proportionate to require a degree of personalisation of the AES as we understand that firms will readily have information about the age of the account holder(s).

The proposed draft rule stated '*Where a firm is aware*' and therefore did not require firms to collect additional information to that required to comply with existing rules. The information a firm collects is likely to differ depending on a range of factors e.g. the policy's terms and conditions and whether it is sold on an advised or non-advised basis.

However, we have carefully considered firms' requests to amend the draft rule to require the AES to be personalised for the 'account holder(s)'. Given that this will reflect what in practice firms would actually have done under the draft rule we have decided to make this change, to make things clearer. In the case of a packaged bank account the 'customer' would be the account holder(s). Therefore, we have amended the draft rule to require the AES to be personalised for the 'customer', which is defined in the Glossary and is consistent with other provisions in ICOBS.

If the policy covers family members, it would seem sensible to include a reminder to check the ages of those family members. This is likely to be relevant information under the requirement to provide the qualifying requirements to claim (ICOBS 5.1.3CR(1)) and therefore we do not think it is necessary to add this requirement to the AES rule.

For the avoidance of doubt, as with standalone sales by intermediaries, under ICOBS when a firm is arranging insurance as part of a packaged bank account it must specify the demands and needs of the customer. In our view, if the customer's need is for their family members to be protected, a firm will need to gather relevant information from the customer to assess whether the policy meets their needs – although we do not prescribe in detail how they record or retain this information. This is the case whether the sale is advised or non-advised.

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**2.6** Firms asked for further clarification about both the content and distribution of the AES. Substantive points raised were:

- i) It should be possible to include in the AES mailing details of any changes to policy terms and conditions.
- ii) Some customers have opted to receive all their bank correspondence electronically and therefore it should be possible to provide the statement to these customers via their preferred method e.g. by email or accessing information about their account via the bank's online portal.
- iii) The information in the AES should include all the benefits provided in the package and for the insurance policies it should include helpful information such as warning about dual cover and how to claim.

**2.7** Another respondent told us that its own consumer research (of bank account customers) said that any communication should be simple, written in plain English and free of jargon. And that it would be helpful to test the AES with a group of consumers to gauge their understanding and how to improve the AES if necessary.

### Our response

For the same reasons as in paragraph 2.3, in relation to the annual summary of charges, it would not be appropriate to include information about other benefits or the full policy terms and conditions in the AES mailing. Any changes to policy terms and conditions that affect the qualifying criteria to claim will need to be reflected in the AES and if the terms and conditions of the policy change at any time during the year firms will need to inform their customers<sup>4</sup> at the time of the change, giving them appropriate notice of the changes.

It is not our intention to be any more prescriptive about the information a firm can include in the AES. This is set out in the rule (ICOBS 5.1.3CR).

Our intention was to allow firms to distribute the AES in the most appropriate way for their customers, including via email. If we had intended to restrict distribution we would have expressly excluded certain distribution methods. However, in order to ensure clarity we have amended the draft rule to include ‘in writing’ which means<sup>5</sup> in legible form and capable of being reproduced on paper, irrespective of the medium used.

Where the customer’s preference is to receive information about their bank account online, a requirement to log in to the bank’s secure portal to view the AES might reduce the likelihood that the customer will access the statement. We think that firms will want to consider ways to limit this risk.

As always, a firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.<sup>6</sup> In doing this firms might wish to consider using plain and clear language in a suitable format and font size for the customer.

- 2.8** Responses also included a suggestion that the requirement for the statement to be personalised to notify customers who trigger the age limit for the travel insurance should be extended to other types of insurance policy included in the package, where age is a relevant eligibility criteria.

### Our response

We proposed the personalisation for the travel insurance element because we identified a significant risk of detriment if customers do not realise they are not

<sup>4</sup> ICOBS 6.1.5R Ensuring customers can make an informed decision: A *firm* must take reasonable steps to ensure a *customer* is given appropriate information about a *policy* in good time and in a comprehensible form so that the *customer* can make an informed decision about the arrangements proposed.

ICOBS 6.1.5G: The appropriate information *rule* applies pre-conclusion and post-conclusion, and so includes matters such as mid-term changes and *renewals*. It also applies to the price of the *policy*.

<sup>5</sup> GEN 2.2.14R and GEN 2.2.15G

<sup>6</sup> Principle 7 Communications with clients.

eligible to claim due to their age. At the current time we have no evidence to suggest that there is a similar significant risk of detriment in relation to other types of policy in the package such that we should extend this requirement.

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- 2.9 Some firms requested more time to implement the AES as a result of the requirement to personalise with age information for the travel insurance, or if we did not agree to the AES being combined with annual charges summary. Firms also asked us to confirm that with implementation of the rule with effect from 31 March 2013, the first annual mailing cycle must be completed by 31 March 2014.

### Our response

Implementing the AES is an important feature of the measures we consulted on to mitigate the risk of consumer detriment in this market, for both existing<sup>7</sup> and new customers. We are keen to see this implemented as soon as possible. Firms may wish to phase in the AES and we confirm that the first annual mailing cycle, for existing customers at 31 March 2013, must be completed by 31 March 2014 and annually thereafter. This effectively gives firms 12 months in which to implement. Consequently we do not see a good reason to change the effective date of the rule from 31 March 2013.

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## Cost benefit analysis

- 2.10 In CP12/17 we said:

- We were satisfied that the one-off and ongoing costs for the AES will be within those used for the CBA when we consulted on ICOBS 5.1.3CR to introduce the AES, and that the ongoing costs already take into account the costs of a separate mailing.
- By specifying our requirements for the content and distribution of the AES we will ensure that the benefits set out in CP11/20 are realised. It will ensure that the statement is clearly brought to the customer's attention and important information is not obscured by other unrelated and distracting information.

- 2.11 One respondent indicated an additional cost for them to provide the AES in a separate mailing.

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<sup>7</sup> CP11/20: CBA

### Our response

The original CBA and costs from firms for implementing the AES were based on a separate mailing, so we consider that both the one-off costs and ongoing costs provided in the CBA remain reasonable.

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## Implementation

- 2.12** Having considered the feedback, and for the reasons explained in this chapter, we intend to implement ICOBS 5.1.3CR(2) and (3) with effect from 31 March 2013. This will include the changes to the draft rule in CP12/17 explained in our responses at paragraphs 2.5 and 2.7.

# 3

## Transparency

- 3.1** This chapter sets out the feedback received to our proposal to switch off ICOBS 6.1.13R – Price disclosure: connected goods or services, for insurance policies sold as part of a packaged bank account. We explained in CP11/20 and CP12/17 that because this product is a fixed bundle<sup>8</sup> we do not think the rule achieves its aim to ensure the customer knows whether the policy is compulsory or optional, and the separate cost of the premium for the insurance policy.<sup>9</sup>
- 3.2** We said that the benefit of switching off ICOBS 6.1.13R for the sale of insurance as part of a packaged bank account would provide clarity for firms and avoid different interpretations of this rule. Also, we do not expect it to lead to changes in firms' behaviour or any material costs and we therefore proposed to make the amendment with effect from 1 January 2013.
- 3.3** Responses indicate a range of views about whether or how the rule applies to packaged bank accounts, but did not comment on the proposed effective date. One respondent suggested that we require disclosure of the separate premiums on request. All other respondents who commented agreed that it serves no purpose and it is right that in the circumstances we should switch it off, for these sales.
- 3.4** Some respondents were keen to emphasise that, while they agree that requiring a breakdown of the individual insurance premiums would not provide the right outcome for consumers, they still wish to see improved transparency of this product for consumers.

### Our response

We have concluded, through consultation, that it would not be helpful to consumers to have a breakdown of the insurance premium for packaged bank account sales and therefore we do not think it would be proportionate to require disclosure on request.

<sup>8</sup> A packaged bank account is typically a current account bundled with a range of insurance policies, access to preferential terms for other financial services (e.g. overdraft, personal loan or mortgage), and sometimes non-financial products and services (e.g. VIP airport lounge access, music downloads) for which the customer often pays a monthly account fee.

<sup>9</sup> CP11/20: Paragraph 3.5 'This is because they know that the policies are not optional (i.e. they form part of the package) and the price (monthly fee) is set for the package they choose.'



## Implementation

- 3.5 Having considered the feedback, and for reasons explained in this chapter we intend to implement this amendment to ICOBS 6.1.13R with effect from 1 January 2013, as proposed in the draft rule in CP12/17.

## Next steps

- 3.6 We said in CP12/17 that we would look at a possible suite of measures which together will help consumers to better compare and shop around in this market. One of the areas we would focus on is financial promotions. In particular:

- whether pricing claims relating to the value of the benefits provided by a packaged bank account are clear, fair and not misleading; and
- ensuring that packaged bank accounts that are promoted as being convenient meet customers' reasonable expectations for this.

- 3.7 At the present time we are not proposing new rules in this respect. We will continue to work with firms to improve the way in which packaged bank accounts are advertised to consumers. As we said in CP12/17, our objective is that consumers who choose this product understand what they are buying and the performance of the product meets their expectation.



## Annex 1

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# List of non-confidential respondents

Age UK

Association of British Insurers

British Bankers' Association

Citizens Advice Bureau

The Consumer Council (Northern Ireland)

The Co-operative Banking Group

Financial Services Consumer Panel

Ms Jacqueline Fry (address withheld)

Macmillan Cancer Support

The Royal Bank of Scotland Group

Sundhararajan S, Srivathsan K M and Prakaash Kumar S



## Appendix 1

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# Made rules (legal instrument)

## **PACKAGED BANK ACCOUNTS (AMENDMENT) 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); and
  - (2) section 156 (General supplementary powers).
- 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 as follows:
- (1) the amendments in Part 1 of the Annex come into force on 1 January 2013;  
and
  - (2) the amendments in Part 2 of the Annex come into force on 31 March 2013.

### **Amendments to the Handbook**

- D. The Insurance: Conduct of Business sourcebook (ICOBS) is amended in accordance with the Annex to this instrument.

### **Citation**

- E. This instrument may be cited as the Packaged Bank Accounts (Amendment) Instrument 2012.

By order of the Board  
13 December 2012

## Annex

### Amendments to the Insurance: Conduct of Business sourcebook (ICOBS)

In this Annex, underlining indicates new text and striking through indicates deleted text.

#### Part 1: Comes into force on 1 January 2013

##### 6 Product information

...

Price disclosure: connected goods or services

- 6.1.13 R (1) If a *policy* is bought by a *consumer* in connection with other goods or services a *firm* must, before conclusion of the contract, disclose its *premium* separately from any other prices and whether buying the *policy* is compulsory.
- (2) In the case of a *distance contract*, disclosure of whether buying the *policy* is compulsory may be made in accordance with the timing requirements under the distance communication *rules* (see *ICOBS* 3.1.8R, *ICOBS* 3.1.14R and *ICOBS* 3.1.15R).
- (3) This rule does not apply to policies bought in connection with other goods or services provided as part of a packaged bank account.

#### Part 2: Comes into force on 31 March 2013

##### 5 Identifying client needs and advising

...

Eligibility to claim benefits: policies arranged as part of a packaged bank account

...

- 5.1.3C R (1) Throughout the term of a *policy* included in a *packaged bank account*, a *firm* must provide the *customer* with an eligibility statement, in writing, on an annual basis. This statement must set out any qualifying requirements to claim each of the benefits under the *policy* and recommend that the *customer* reviews his circumstances and whether he meets these requirements.
- (2) Where a *customer* has reached an age limit on claiming benefits under a travel insurance *policy* included in a *packaged bank account* (or will reach an age limit before the next annual statement is due), a *firm* must state this clearly and prominently in the statement and on an annual basis thereafter.

- (3) The statement (provided under *ICOBS 5.1.3CR(1)*) must not:
- (a) include any information other than that required under this *rule*; or
  - (b) form part of another *document* provided to the *customer* by the *firm*; or
  - (c) be included in the same mailing as any other *document* provided to the *customer* by the *firm*.



## Appendix 2

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# Designation of Handbook provisions

1. FSA Handbook provisions will be ‘designated’ to create a FCA Handbook and a PRA Handbook on the date that the regulators exercise their legal powers to do so. Please visit our website<sup>1</sup> for further details about this process.
2. We plan to designate the Handbook Provisions which we are proposing to create and/or amend within this Consultation Paper as follows:

Handbook Provision	Designation
ICOB5 6.1.13R	FCA
ICOB5 5.1.3CR	FCA

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<sup>1</sup> One-minute guide <http://media.fsahandbook.info/latestNews/One-minute%20guide.pdf>

**PUB REF: 003069**

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