

## Packaged Bank Accounts – Insurance Benefits

31 July 2012

### LATEST DEVELOPMENTS

The **Financial Services Authority ("FSA")** has published [Consultation Paper CP12/17](#) which includes new rules requiring banks and building societies to check whether customers are eligible to claim on insurance cover before selling them a packaged bank account.

This briefing highlights the main issues for clients to consider.

### BACKGROUND

1. In October 2011, the FSA published its proposals for the sale of non-investment insurance policies as part of a packaged account ([CP11/20](#)) with the aim of addressing consumer issues surrounding the rapidly growing packaged bank account market.
2. Packaged bank accounts are **current accounts bundled up with a range of insurance policies** and other features e.g. overdraft facilities or priority airport passes.
3. The FSA estimates that **one in five** of the UK adult population now has a packaged bank account and it therefore wants to increase the level of consumer protection within the market.
4. The new rules and guidance will come into effect from **31 March 2013**.

### NOTEWORTHY POINTS

#### *Eligibility*

- The new rules and guidance will explicitly require that applicable firms will need to check whether a customer is **eligible to claim** under each policy and share that information with them.
- So, where a **travel policy** is sold as part of a packaged bank account, a firm must establish if the customer has any **pre-existing medical conditions**; how these affect their eligibility to claim and inform the customer accordingly.
- Firms will need to send **annual eligibility statements** to customers reminding customers about eligibility applicable eligibility requirements.
- The FSA is considering whether the **annual eligibility statements** should be sent to customers by way of a **separate mailing** to ensure prominence.

#### *Travel Insurance*

- The FSA is also consulting on whether the banks and building societies should **proactively inform customers once they have triggered an age limit restriction** for claiming under travel insurance or warn them when it is about to be triggered.

#### *Suitability*

- If the sales adviser is recommending policies in the package they must establish whether each policy is suitable for the customer by:
  - (i) establishing the customer's **demands and needs**;
  - (ii) taking **reasonable steps** to establish whether each policy is suitable for those demands and needs;
  - (iii) **telling the customer** if their demands and needs are not met;
  - (iv) **explaining its reasons** for any **recommendations** given; and
  - (v) **keeping a record** of the suitability assessment for each sale for at least 3 years.
- (b) provide customers with an **annual eligibility statement** setting out requirements to claim each of the benefits under each insurance policy in the package i.e. to prompt customers to check if their circumstances have changed and/or whether or not the policies still meet their needs.

#### *Price Transparency*

- The FSA remains concerned about the **lack of transparency** in the packaged bank account market. It recognises, however, that any charge for policies may be difficult to identify as premium. The FSA will therefore continue to monitor the market and is consulting on **switching off ICOBS 6.1.13R** for packaged bank accounts (which requires firms to disclose separately the individual premium for each insurance policy).
- The **European Commission** recently published its **Retail Package** of proposals which includes changes to the Insurance Mediation Directive that would ban **'tying'** in relation to packaged products i.e. firms would not be able to sell an insurance product with another service where the insurance product could not be purchased separately. The **implications** of these **proposals** are **not yet clear**, however, they are only likely to take effect in 2014 at the earliest.

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### On-going Monitoring

- The monitoring of packaged bank accounts promoting **monthly costs advertised alongside yearly benefits** is also being considered by the FSA.

### NEXT STEPS

OCTOBER 2012:	CP12/17: FSA Consultation Paper on Packaged Bank Accounts: New ICOBS Rules for the Sale of Non-Investment Insurance Contracts (responses due by 29 October 2012)
DECEMBER 2012	FSA expects to issue a Policy Statement with final rules on the content and distribution of the annual eligibility statement and switching off ICOBS 6.1.13R
MARCH 2013:	New rules due to come into effect from 31 March 2013

### COMMENT

The aim of the FSA's proposals is to put customers in a position to make **informed decisions** when thinking about buying insurance policies as part of a packaged bank account. The objective being to **limit the potential** for a customer later finding that they are **not eligible to claim** or that the **policy is unsuitable** in some other way.

The new rules will require an **alteration in sales processes**. Given the FSA's aim stated above, coupled with the spirit of the current **IMD2** proposals on **bundled products**, it is hard to see why these rules will not become applied more broadly. As such, it seems inevitable that the new rules will also **become applicable** to insurance policies offered to consumers as benefits attaching to other financial packaged products e.g. **credit cards and charge cards**.

### FURTHER INFORMATION, TRAINING & RESPONSES

For more information, to enquire about training or to request assistance in responding to the FSA Consultation Paper please contact the person with whom you usually deal or Victor Fornasier / Clare Douglas

Websites: [www.fsa.gov.uk](http://www.fsa.gov.uk)



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