

Packaged Bank Accounts – Insurance Benefits

December 2012

LATEST DEVELOPMENTS

The **Financial Services Authority ("FSA")** has published its new ICOBS rules on packaged bank accounts.

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](#)); and subsequently [CP12/17](#) in July 2012, both 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** (although the change to price disclosure rules ICOBS 6.1.13R will come into effect 1 January 2013).

ANNUAL ELIGIBILITY STATEMENTS

- The new rules require that applicable firms 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 must send **annual eligibility statements** in writing to customers reminding customers about applicable eligibility requirements and these **statements** must be sent to customers by way of a **separate mailing** to ensure prominence.

TRAVEL INSURANCE

- Banks and building societies must **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.

PRICE TRANSPARENCY

- The FSA has remained concerned about the **lack of transparency** in the packaged bank account market.
- It has recognised, however, that any charge for policies may be difficult to identify as premium.
- The FSA has, therefore, ruled that **ICOBS 6.1.13R** will be switched off for packaged bank accounts (which requires firms to disclose separately the individual premium for each insurance policy).

ON-GOING MONITORING

- The FSA is not proposing new rules in relation to their proposed suite of measures to help consumers better compare and shop around in this market, although they intend to work with firms to improve the way in which packaged bank accounts are advertised to consumers.

NEXT STEPS

1 JANUARY 2013	ICOBS 6.1.13 WILL BE SWITCHED OFF FOR PACKAGED ACCOUNTS
31 MARCH 2013	THE OTHER NEW RULES WILL COME INTO EFFECT

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**.

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Websites: www.fsa.gov.uk



Victor Fornasier

Partner, London
T +44 20 7296 5423
victor.fornasier@hoganlovells.com



Clare Douglas

Associate, London
T +44 20 7296 5954
clare.douglas@hoganlovells.com

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