

Thematic Review

TR16/8

Packaged bank accounts



October 2016

We have carried out this work in the context of the existing UK and EU regulatory framework. We will keep it under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework, including as a result of any negotiations following the UK's vote to leave the EU.

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1. Executive summary

What does this report cover?

- 1.1** We have carried out thematic work on packaged bank accounts, assessing how firms implemented the packaged bank account rules¹ in the Insurance: Conduct of Business Sourcebook (ICOBS), that we introduced in March 2013. These rules require firms to establish and record customers' eligibility to claim on the insurance policies in their packaged bank account and to send customers annual eligibility statements prompting them to review their eligibility. We also tested whether customers who complained about their packaged bank account received fair outcomes.
- 1.2** The review covered a range of firms and involved mystery shopping, desk-based reviews of data, policies and procedures, firm visits and complaint file reviews. Our assessment covered the period from October 2014 to April 2016, during which there was a significant increase in the number of complaints about packaged bank accounts.
- 1.3** This report provides examples of good practice that we have identified and areas of weakness that firms need to address.

What is a packaged bank account?²

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).

Other personal current accounts are available that provide a range of benefits, such as cashback on transactions. These accounts are referred to as reward accounts. These accounts are not packaged bank accounts and are not covered in this review.

Why have we undertaken this work?

- 1.4** In 2014 we estimate there were over 9 million customers with packaged bank accounts in the UK. While this number has fallen since then, there are still a substantial number of customers in the UK with this type of account. Customers can find these accounts complicated to understand because they contain a bundle of insurance and non-insurance benefits. It is important that customers understand whether they are eligible to claim on the insurance policies in their

¹ ICOBS 5.1.3.

² A packaged bank account can be defined as 'an arrangement under which a firm provides a retail banking service as part of a package which includes access to other goods or services, whether or not a fee is charged'. FCA Handbook Glossary

account. There is a risk that customers suffer detriment if they rely on one or more policies, only to find out later that they are ineligible to claim. We wanted to test how firms have implemented the rules we introduced in 2013, which were designed to mitigate this risk. In response to the rising number of complaints about packaged bank accounts, we also wanted to see how well firms handled complaints.

Who should read this paper?

- 1.5** The review should interest all regulated firms that provide, have provided or are considering providing packaged bank accounts. It should also interest consumers who have, previously had or are considering having a packaged bank account. Our findings on complaint handling may also be of general interest to all regulated firms who deal with complaints. Trade bodies representing these firms and organisations that represent consumers may also wish to read this report.

Key findings

- 1.6** We continue to believe there is a place in the market for packaged bank accounts, as they can provide good value and convenience for customers. Through our review, we have 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. Firms have more to do to ensure customers are treated fairly, both when they take out a packaged bank account and when they complain.

Headline findings

Checking eligibility

Our mystery shopping suggested that the new rules we introduced in 2013 have raised standards. However, the mystery shopping also showed that firms were not consistently checking eligibility for every type of insurance in the package. In addition, our desk-based review indicated that firms' records lacked enough detail to demonstrate that eligibility had been established for all insurances.

Annual eligibility statements

Firms were broadly complying with our rules, but there was room for improvement in designing the statements in a way that increases the likelihood of customers engaging.

Complaint handling

In the files we reviewed from the end of 2014, firms did not consistently deliver fair outcomes for customers who complained that their packaged bank account was mis-sold. This may be a contributory factor in both the high referral rate to the Financial Ombudsman Service and the high uphold rate at that time. Firms generally achieved fair outcomes for customers who made other types of complaint. We will undertake an additional review of more recent mis-selling complaints to find out whether the steps that firms have taken since 2014 have raised standards.

Checking eligibility

- 1.7** Firms have made improvements on checking eligibility at the point of sale, but based on our mystery shopping sample there remains work for them to do. We found that firms have made some progress with checking eligibility for travel insurance, including for pre-existing medical conditions. This is positive given the potential scale of detriment if customers cannot claim for medical treatment overseas.
- 1.8** However, in the mystery shops, we observed firms did not consistently establish eligibility for each insurance policy. In addition, the checks they undertook could have been more interactive. Therefore, there is a risk that the mystery shoppers were not in a position to fully understand whether they would be eligible to claim on the insurances within their packaged bank account. In addition, our desk-based review of firms' records of their eligibility checks indicated that they were not adequately robust.

Annual eligibility statements

- 1.9** Throughout the term of an insurance 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 on each of the benefits under the policy and recommend that the customer review their circumstances and whether they meet these requirements.
- 1.10** Firms are broadly complying with our rules on annual eligibility statements. Most firms are including appropriate information in the statements, for example, by setting out the key exclusions and limitations for each insurance policy, and we found most firms are trying to comply with the spirit of the rules.
- 1.11** Firms have evolved their statements over time to encourage customer engagement, but we consider that they could give further thought to how they could design the statements to make them as effective as possible. Firms must ensure that they do not include additional information that is not allowed under our rules.

Complaint handling

- 1.12** We reviewed a sample of packaged bank account complaints that firms received between October and December 2014. We found that firms achieved fair outcomes in 88% of cases where customers made a complaint that did not relate to mis-selling. However, where customers complained that their account was mis-sold, firms only achieved a fair outcome in 44% of cases. We identified detriment, or a likelihood of detriment, in 38% of mis-selling complaints, compared to only 9% of non mis-selling complaints. We understand that some of these customers would have subsequently referred their case to the Financial Ombudsman Service and achieved a fair outcome.
- 1.13** Where firms fully adhered to their own policies and procedures for handling mis-sale complaints, we found that they achieved good outcomes in 99% of cases. This indicates that firms' approaches supported fair customer outcomes, if firms followed them in practice. However, for mis-selling complaints, firms only followed policies and procedures in 22% of cases, compared to 72% for non mis-selling complaints.
- 1.14** We recognise that our review took place at a time when the number of packaged bank account complaints was increasing, and that firms would not, at that time, have fully implemented the lessons from our thematic review of complaint handling.³ Nevertheless, firms fell well below the required standards.

³ We published the findings from this work in November 2014.

- 1.15** Firms have been focused on making improvements since 2014. There has been good engagement from senior management and there is some evidence to suggest standards have improved. We also note the Financial Ombudsman Service has reported falling uphold rates.⁴ However, the weaknesses we identified during our review lead us to question how consistently firms are achieving fair outcomes today. In our complaint centre visits, we observed some inconsistencies in how complaint handlers adhered to policies and procedures, suggesting the issues we identified in our file reviews may continue. Senior management's oversight appeared to be hampered by gaps in management information and data. We also observed weaknesses in some firms in the challenge the second and third lines of defence (firms' Compliance and Internal Audit functions) provide to the business.

Next steps

For the FCA

- 1.16** We will be reviewing an additional sample of mis-sale complaints that firms received between March and May 2016 to test whether they have improved the quality of their packaged bank account complaint handling. We will not be testing additional non mis-sale complaints as, in the review sample, these were largely handled well.
- 1.17** We plan to hold a roundtable with firms selling packaged bank accounts to confirm our expectations in relation to how they check and record eligibility. As part of our broader work on behavioural economics, we will also consider how any behavioural research on customer communications may be relevant to the design and use of annual eligibility statements.

For firms in our sample

- 1.18** We have provided firm-specific feedback to firms in our sample and set actions to address the weaknesses we have identified. We will be following up with these firms to ensure the improvements they make are effective.

For firms not in our sample

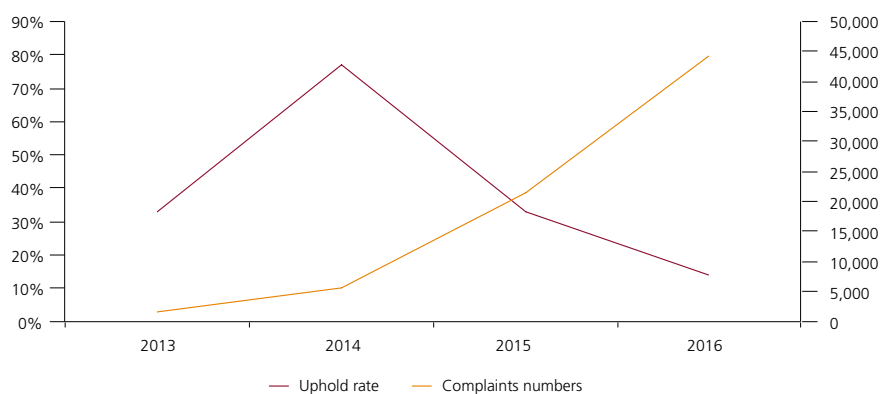
- 1.19** Firms not included in our work should consider how our findings apply to them, taking action where needed.

⁴ An upheld complaint is when the Financial Ombudsman Service disagrees with a firm's decision in favour of the customer.

2. Our approach

Why did we undertake this review?

- 2.1** In 2014 we estimate there were over 9 million customers with packaged bank accounts in the UK. While this number has fallen since then, there are still a substantial number of customers in the UK with this type of account.
- 2.2** Since 2013, complaints regarding packaged bank accounts have increased significantly. In the year to March 2013, the Financial Ombudsman Service received 1,629 new cases; by the year to March 2016, this figure had increased to 44,260. However, the number of new cases for the last available quarter (April to June 2016) is down on the same period last year (7,315 compared to 12,119). The Financial Ombudsman Service's uphold rates decreased significantly to 14% in the year to March 2016, compared with 77% in the year to March 2014 and 33% in the year to March 2015. The figure for the last available quarter was 23%.⁵



- 2.3** Packaged bank accounts can provide good value and convenience but, because they are a bundle of many different products, they can be complicated to buy and sell. It is important that customers are clear about their eligibility to claim on the insurance policies and can use this information to make an informed decision about the overall value of the product. There is also a risk that customers rely on one or more of the policies, only to find out later that they are unable to claim because they are ineligible. For example, travel insurance policies may exclude certain pre-existing medical conditions; it is important that customers are made aware of this and the potential impact on their eligibility to claim.
- 2.4** These risks led us to introduce new ICOBS rules in 2013, specifically covering insurances included in packaged bank accounts. Separate rules were required because packaged bank accounts are different to standalone insurance policies, where customers usually seek particular insurances as they need them. Packaged bank account customers do not necessarily open the account because

⁵ Financial Ombudsman Service's 'ombudsman news' (www.financial-ombudsman.org.uk/publications/ombudsman.htm).

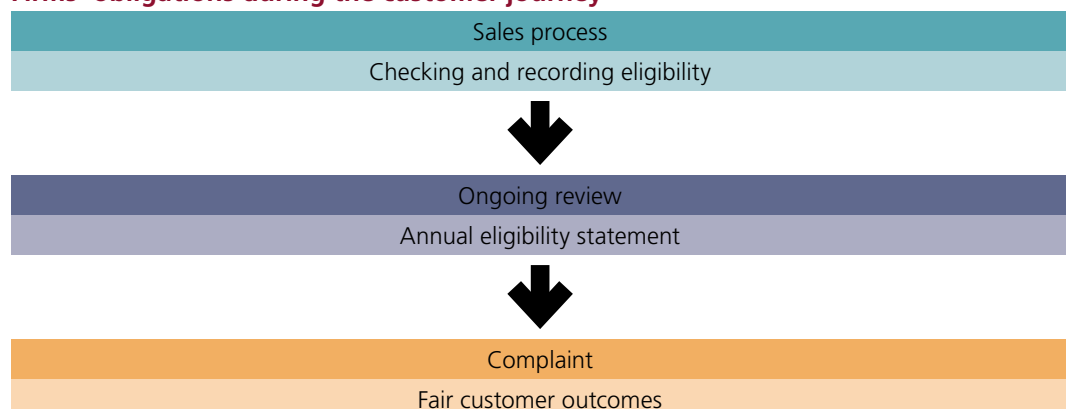
they need all of the insurance policies included. Our rules aim to ensure customers can make an informed decision about the insurance policies in the package. The rules require firms to establish and record customers' eligibility to claim on each insurance policy, and to send them an annual eligibility statement prompting them to review their eligibility on an ongoing basis.

- 2.5** The purpose of this thematic review was to determine whether firms are meeting the requirements of the packaged bank account ICOBS rules. Given that firms had also seen a dramatic increase in complaint numbers in relation to packaged bank accounts, this review also looked at whether firms achieved fair outcomes for customers who complained.
- 2.6** Good complaint handling is an important step in the customer journey. It provides the means by which a customer should ultimately receive fair treatment if they believe they have not been treated fairly.

What was the scope of the review?

- 2.7** Our 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 our 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.

Firms' obligations during the customer journey



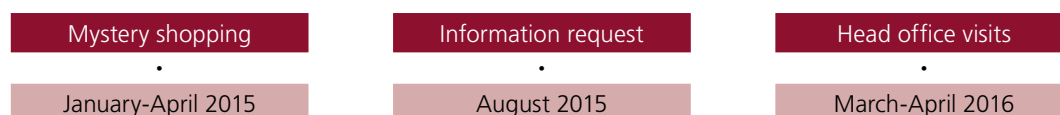
What time period does our review cover?

- 2.8** Our assessment covers the period October 2014 to April 2016.

How did we carry out our review?

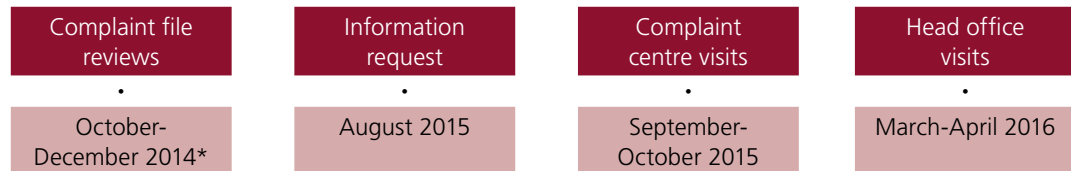
- 2.9** We assessed a range of regulated firms who have packaged bank account customers. The review involved various strands of work to assess how firms have implemented the ICOBS rules and how they handle complaints. Not all firms were involved in all strands.

Methodology for testing compliance with the ICOBS rules



- 2.10** To test firms' compliance with the ICOBS rules we introduced in 2013, our methodology involved three stages.
- 2.11** Firstly, we carried out mystery shopping between January and April 2015. This gave us an insight into how firms had implemented the rules on checking eligibility and whether sales practices for packaged bank accounts were likely to deliver good customer outcomes more broadly. The mystery shops were spread over a wide geographical area and included sales conducted both in-branch and over the telephone. We included a range of customer types including mystery shoppers with pre-existing medical conditions and older mystery shoppers, as well as new customers and existing customers looking to upgrade. To help us understand what would normally happen when customers request a current account, we asked the mystery shoppers to enquire about current accounts in general. Mystery shoppers were asked to complete the sales process and take out a product. This approach helped us understand what factors might affect a customer's decision to purchase a product.
- 2.12** Secondly, we undertook a desk-based review of information that firms submitted in response to our information request. We reviewed annual eligibility statements, eligibility records and other information, including the processes around them.
- 2.13** Finally, we interviewed senior staff during our head office visits between March and April 2016 to understand more about firms' packaged bank account strategies and oversight. We particularly focused on how firms implemented and maintain ongoing oversight of the ICOBS rules. This allowed us to clarify, validate and challenge the findings from our mystery shopping and desk-based review.

Methodology for testing complaint handling



* *These dates relate to the time period we assessed, rather than when we undertook the work.*

- 2.14** To test how firms handle complaints about packaged bank accounts, our methodology involved four stages.
- 2.15** Firstly, we obtained data from firms that enabled us to request a sample of packaged bank account complaint files from October to December 2014.⁶ Our sample included mis-sale and non mis-sale complaints. While mis-sale complaints have driven the increase in complaints to firms and the Financial Ombudsman Service, we also wanted to understand other issues that packaged bank account customers complain about. We have given more detail about types of mis-sale and non mis-sale complaints in our detailed complaint handling findings.
- 2.16** Our sample also contained a mixture of complaints that the firm upheld (decided in the customer's favour) and rejected (decided in the firm's favour), as well as a mixture of complaints where redress was and was not paid.⁷ We primarily reviewed these files to assess whether customers received fair outcomes. However, we also considered whether complaint handlers adhered to the policies and procedures in place at that time for handling packaged bank account complaints. This allowed us to determine whether the guidance in place for complaint handlers supported good customer outcomes.
- 2.17** Secondly, we undertook a desk-based review of information that firms submitted in response to our information request. We reviewed a number of documents, including updated complaint handling policies and procedures, complaints data, and management information. We requested this information in August 2015.
- 2.18** Thirdly, we visited the firms' complaint centres between September and October 2015. In these visits we interviewed several layers of staff from complaint handlers to the site manager, listened to calls (real-time and recorded), and undertook floor walks. This gave us the opportunity to look at how complaints were managed in practice. We assessed a range of areas including: staff understanding of complaint handling policies and procedures; how staff were managed, including what training and support they receive; and firms' approaches to root cause analysis and external parties, such as claims management companies (CMCs) and the Financial Ombudsman Service. Our visits also gave us an insight into firms' cultures.
- 2.19** Finally, we interviewed senior staff during our head office visits between March and April 2016 to understand more about firms' packaged bank account strategies and oversight of complaint handling. This provided us with the opportunity to clarify, validate and challenge what we found in our desk-based review and complaint centre visits.

⁶ We asked for complaints across different categories: upheld/partially upheld, rejected, internal overturns (where firms changed their decision before communicating the final outcome to the customer), and overturns by the Financial Ombudsman Service (in these cases, we reviewed firms' initial decision rather than the final outcome after the Financial Ombudsman Service had investigated the complaint). Because we asked for specific complaint types, our sample was not random or fully representative.

⁷ In some cases, a customer could have their complaint rejected but still receive some kind of redress.

3. Findings: ICOBS rules

Sales process: eligibility

- 3.1** This section sets out our findings on the sales process as they relate to eligibility. We set out to establish how firms have implemented the ICOBS rules introduced in March 2013. The ICOBS rules outline firms' obligations for: checking customers' eligibility for each of the insurance policies included in the packaged bank account, informing the customer about their eligibility and recording the eligibility assessment. Overall, we found that our rules had improved standards. However, in the mystery shops performed, firms were not fully complying with our requirements.

Rules: establishing eligibility

ICOBS 5.1.3A R

A firm arranging policies as part of a packaged bank account must:

(1) take reasonable steps to establish whether the customer is eligible to claim each of the benefits under each policy included in the packaged bank account, which must include checking that the customer meets any qualifying requirements to claim each of the benefits under each policy; and

(2) inform the customer whether or not he would be eligible to claim each of the benefits under each policy included in the packaged bank account so that the customer can take an informed decision about the arrangements proposed.

Checking eligibility

While firms have made improvements, in the mystery shopping exercise they did not establish eligibility for each insurance policy within the packaged bank account.

- 3.2** For customers to be able to rely on the insurances within the packaged bank account, they must be eligible to make a claim. Although customers do not need to be eligible for every insurance policy in the package, it is important that firms take reasonable steps to establish whether the customer is eligible and inform them accordingly.⁸ Once the customer understands if they are eligible, they can make an informed decision about whether the product as a whole is right for them.
- 3.3** In our mystery shopping exercise, we found – in most cases – that firms adequately established whether the mystery shopper had pre-existing medical conditions when checking eligibility

⁸ ICOBS 5.1.3A R.

for travel insurance policies. However, we identified weaknesses with how firms established eligibility for other insurance policies. Most commonly, firms failed to check eligibility for motor breakdown cover, mobile phone and gadget insurance. Some firms also did not disclose the key features, exclusions and limitations of the insurance policies in sufficient detail.⁹ As a result, there was a risk that the mystery shoppers were unaware of their eligibility to claim on specific policies within the package, and were therefore not able to make an informed choice about the product as a whole. The mystery shoppers may have believed that they were eligible to claim and subsequently found they were not.

Examples: checking pre-existing medical conditions

Some firms asked a series of specific questions to ascertain whether the mystery shopper had particular pre-existing medical conditions that would impact the cover provided, such as: 'Have you ever been diagnosed or treated for a heart or circulatory condition (including high blood pressure, stroke or mini-stroke), or cancerous condition or lung or breathing problem?' This approach made the sale easier for the mystery shopper to understand by giving them examples of pre-existing medical conditions that may affect their ability to claim on the travel insurance.

Key points:

- We found that asking broad questions, such as, 'Do you have any pre-existing medical conditions?' was often not sufficiently clear to adequately assess a customer's eligibility.
- 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. We found that this did not always happen.

Interactivity

Firms must take reasonable steps to establish eligibility. We found that some firms use an interactive sales process and some do not. Those who used an interactive sales process were better at establishing eligibility than those who did not.

Consultation CP12/17: Interaction

We set out in CP12/17: *'The new eligibility rule requires a firm to take steps to establish the customer's eligibility, which includes checking they meet the qualifying criteria, and informing them accordingly. This suggests the need for interaction between the firm and the customer, rather than the passive giving of information.'*

- 3.4** It is a firm's responsibility to establish a customer's eligibility and to inform the customer so that they can make an informed decision. We found instances where the firm appeared to put the onus on the mystery shopper to check their eligibility. For example, we found that one firm listed the exclusions and limitations and asked the mystery shopper 'Are you eligible?' This

⁹ As required by ICOBS 6.1.5 R.

passive approach may affect a customer's understanding of the product and prevent them from making an informed decision.

- 3.5** Firms sell packaged bank accounts across different sales channels. Firms' strategies are increasingly focusing on digital sales. While there are risks that sales through digital channels are less interactive than other channels, there are also opportunities for firms to increase the interactivity of sales through innovative use of digital platforms and ensure that accurate records are kept. Firms should ensure that eligibility checks and records are appropriately designed across all sales channels to ensure they comply with our rules.

Case study: interactivity across sales channels

To check eligibility across all sales channels, one firm had developed a system using a list of specific questions for each insurance policy. For example, when checking eligibility for mobile phone insurance, the system asks questions, including: 'Do you own a mobile phone with a value of less than £1,000 (incl. VAT)?' and 'In the event of a claim, are you able to provide proof of purchase or proof of ownership for your mobile phone, which must identify the IMEI number of the phone?' The system requires answers to be provided to each question before moving on to the next section of the eligibility check.

Another firm had developed its digital packaged bank account sales channel by asking customers the eligibility questions and, at the end, stating what the customer is/is not eligible for based on their answers. The customer is not able to go ahead with the sale if they select that they have pre-existing medical conditions. In this situation, they are prompted to call a specific team.

Recording eligibility

We found that the examples of records firms provided to us lacked enough detail to demonstrate that eligibility was established for all insurances. If these documents are used in the manner suggested, firms would need to do more to assure themselves that eligibility was established properly.

Rules: recording the eligibility assessment

ICOBS 5.1.3B R

A firm must make a record of the eligibility assessment and, if the customer proceeds with the arrangements proposed, retain it for a minimum period of three years from the date on which the assessment was undertaken.

- 3.6** We found that, with one exception, the documentation firms provided to us did not appear to record comprehensive eligibility information for all insurances. This reflects our finding that firms did not always establish eligibility in the first instance. Without proper records of eligibility assessments, there is a risk that firms will not be clear about customers' eligibility. The absence of a detailed record may result in challenges for firms who need to investigate complaints about eligibility.

Examples: recording eligibility

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.

Key points:

- All information obtained from a customer to establish their eligibility for each policy should be recorded, including any pre-existing medical conditions for travel insurance policies, even if medical screening is conducted separately.
- Some firms relied on what the sales person should have done at the point of sale of the packaged bank account as a record of eligibility. Rather, they should record what was actually done.
- Some firms relied on the fact that a customer has received terms and conditions, which include key exclusions and limitations of the insurances, rather than setting out clearly the assessment of eligibility for each policy.

Sales process: other observations

- 3.7** Although our focus was on eligibility, during the course of our mystery shopping we gained a broader insight into the approach taken by firms when selling packaged bank accounts and other current accounts to customers.

Specifying customers' demands and needs

We identified weaknesses in how firms specified customers' demands and needs, as well as potential confusion between need and eligibility.

- 3.8** We expect firms to specify the customer's demands and needs for the insurance policies in the packaged bank account.¹⁰ While our rules do not stipulate that a customer should need every insurance policy in the package, it is important that a customer is able to make an informed choice as to whether the product is appropriate for them. Identifying and specifying the customer's demands and needs is key to the customer being properly informed.
- 3.9** We observed differences in how firms approached this area. In some of our mystery shops, we found firms asked mystery shoppers a series of questions to establish their demands and needs (for example, asking whether they owned a mobile phone as a way of understanding their need for mobile phone insurance). In other mystery shops, we observed that firms did not discuss the mystery shopper's needs at all, although a statement of demands and needs was provided to the mystery shopper as required.

¹⁰ ICOBS 5.2.

Examples: need versus eligibility

In this box, we have provided some example questions that we observed to identify and specify need and assess eligibility, in order to clarify the difference between the two concepts.

Examples of identifying and specifying need:

- Do you take holidays abroad and in the UK?
- If you own or have responsibility for a mobile phone, would you benefit from mobile phone insurance that would cover you against loss, theft and accidental damage?

Examples of establishing eligibility:

- Do you reside in the UK or Channel Islands for at least six months per calendar year?
- Are the gadgets that you wish to cover less than five years old?

Other findings**We identified good practice across various aspects of the sales process.**

- 3.10** Packaged bank accounts are typically, but not exclusively, sold on a non-advised basis. There are additional requirements for advised sales. However, since only a small proportion of packaged bank account sales occur on an advised basis, we have focused this review on the requirements for non-advised sales.¹¹ In the vast majority of non-advised sales, we did not see any evidence of firms inadvertently giving regulated advice.
- 3.11** We did not find evidence of mystery shoppers being pressurised into buying a packaged bank account or any other current account. The speed and tone used by staff was mostly appropriate, allowing mystery shoppers a chance to absorb the information provided.
- 3.12** We found that, in most mystery shops, the member of staff provided an overview of the range of current accounts available in sufficient detail, helping mystery shoppers make an informed choice about which account was appropriate for their needs.
- 3.13** We found that mystery shoppers were usually told about charges, fees and interest payable for current accounts. However, there were some instances where mystery shoppers were not given the full details or they were only informed in the post-sale documentation.

¹¹ By 'advice', we mean the regulated activity of advising a client on the merits of entering into a particular contract (in this context, a packaged bank account). A sale is treated as 'advised' if the customer received advice from the bank before buying the product. If no advice is given (the customer may have been given details on various accounts and has to consider the merits of each and then choose for themselves), then the sale is termed 'non-advised'.

Ongoing review: annual eligibility statements

- 3.14** We set out to establish how firms have implemented the aspects of the ICOBS rules that require firms to send an annual eligibility statement and specify what this should include and how it should be provided. We found that most firms are complying with these requirements.

Rules: annual eligibility statements

ICOBS 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 5.1.3C R (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.

Content of annual eligibility statements

We found that most firms are sending their packaged bank account customers an annual eligibility statement that contains the information required by the ICOBS rules.

- 3.15** The ICOBS rules require firms to provide packaged bank account customers with an annual eligibility statement, with specific information included. We found that all firms had processes to send annual eligibility statements to their customers, either in bulk or at a specified time for each customer (for example, the account anniversary or the customer's birthday). They generally contained all the information required under the rules, including setting out key qualifying requirements under each policy and notifying customers approaching the age limit for travel cover. Some firms went beyond what is required in the rules. For example, after sending the annual eligibility statement, one firm called customers who are over the age limit to check whether they still wanted the packaged bank account.

- 3.16** However, we found a few instances where firms need to make changes to ensure they provide all the specific information required. One firm did not include the key qualifying requirements for all insurances provided in the packaged bank account, instead directing customers to the policy documents.

- 3.17** The ICOBS rules require firms not to include any information other than that outlined in the rules. Some firms are including information that is not directly required by the rules. We consider that there is a fine balance to strike between including additional information and distracting from the core purpose of the requirement. Most firms are striking the right balance, but should avoid straying into providing additional information that is not related to eligibility (for example, information about the non-insurance benefits within the packaged bank account).

Case study: personalisation

Some firms have begun to personalise annual eligibility statements, which may improve customer engagement. For example, one firm tailored its annual eligibility statements to particular groups of customers. This included amending the eligibility statement if the customer has a partner covered by the policy or if there is a power of attorney in place. Others have started thinking about using data to create bespoke letters for customers – for example, by listing the mobile phones the customer has registered. If firms wish to personalise their annual eligibility statements, they must ensure that they comply with ICOBS 5.1.3C(3)(a) R and not include more information than required.

Design of annual eligibility statements

We found that most annual eligibility statements are designed clearly.

Our expectations: design

Our Policy Statement (PS 12/22) set out: *'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. In doing this firms might wish to consider using plain and clear language in a suitable format and font size for the customer.'*

- 3.18** We expect firms to provide information in the annual eligibility statement in a way that is clear and prompts customer action, in line with the spirit of the rules. Most firms did this, and some firms undertook work to make their annual eligibility statements more impactful. This work has included testing the communications with consumers and commissioning behavioural economics work to ensure that the annual eligibility statement is as effective as possible. We also found examples of firms making changes to their annual eligibility statements in response to feedback from customers. However, we found that other firms had not tested their annual eligibility statements since implementation and that the statements could be designed more helpfully to improve customer engagement.

Examples: engaging annual eligibility statements

We found that some firms had used a number of techniques to make their annual eligibility statements clearer and more engaging for customers. For example, some firms:

- made their annual eligibility statement concise, used plain language and avoided jargon
- used bold text and/or boxes to direct customers to specific calls to action, such as: 'Check you are still eligible for cover'
- asked the customer questions to grab their attention, such as, 'Will you meet the key requirements in the event of a claim?'
- clearly signposted additional information and support, under headings, such as: 'Any questions?'
- summarised key exclusions and limitations in tabular form

ICOBs rules: implementation and oversight

Three lines of defence¹²

- 3.19** We expect the first line of defence to take ownership for managing conduct risks for packaged bank accounts, and for the second and third lines to provide robust challenge. While we found that most firms had carried out work on packaged bank accounts across all three lines of defence, in some cases we identified concerns with the effectiveness of the second and third lines.
- 3.20** Some firms were able to articulate previous and planned work by Compliance and Internal Audit on annual eligibility statements and packaged bank account complaints. One firm had carried out compliance work around the design of eligibility checks and sale scripts. Another firm had made significant changes to its packaged bank account strategy as a result of compliance work it had undertaken.

¹² Three Lines of Defence is a model used by many firms in the management of risk and control of their businesses. Management and Control is the first line of defence (these being the operational functions that own the risks). The second line of defence is the various risk, control and compliance functions. The third line of defence is independent assurance; this is provided by internal audit functions.

Overall finding: three lines of defence

Some firms were unable to provide tangible examples of challenges raised by Compliance and Internal Audit – through governance structures or otherwise. In addition, the amount of work undertaken by some firms appeared disproportionately low compared to their strategy for packaged bank accounts and/or the risk rating that they had given the product. We also observed some lack of clarity around responsibilities of the first and second lines.

Implementation

- 3.21** We found that, with one exception, firms took appropriate steps to implement measures to comply with the 2013 ICOBS rules – for example, by putting in place specific people, processes and systems. The process involved gaining input from different areas (for example, the product area, complaints area and Compliance). Some firms tested their sales process and annual eligibility statement to ensure that they were both compliant and appropriate for customers. Others invested in technology to make sure that their eligibility checks were consistent and recorded across all sales channels.

Oversight

- 3.22** We looked at firms' ongoing oversight of their point of sale eligibility checks and annual eligibility statements, and we identified some weaknesses.

Eligibility checks

While we found good examples of oversight processes in place across firms in relation to eligibility, most firms could make improvements.

- 3.23** One firm had good oversight processes in place and was able to demonstrate clear accountabilities for the ongoing management of sales processes and eligibility checks. A few firms' product areas conducted regular outcome testing, mystery shopping and telephone sales listening to check that packaged bank accounts were sold correctly. Most firms had a culture of open dialogue between their complaints and products areas, sharing management information. One firm undertook root cause analysis of complaints relating to eligibility, with resultant actions allocated to an executive owner to implement.
- 3.24** We found that some firms' second and third lines of defence had carried out some work on eligibility checks. There were examples of firms carrying out annual compliance reviews, which involved looking at how the product was sold across all sales channels and reviewing sales scripts. Firms had also carried out specific audits, testing how sales staff were carrying out eligibility checks and making sure that systems were fit for purpose.
- 3.25** However, in all but one firm, we identified weaknesses in the way they oversaw eligibility checks. Some firms' management could not clearly articulate how the firm ensures their eligibility processes are adequate and were unable to provide detail of the governance in place. One firm had not reviewed eligibility checks since the rules were implemented and had no particular compliance work planned.

Annual eligibility statements

We found that some firms had processes in place to review and improve their annual eligibility statements. However, we found limited evidence of firms carrying out analysis on their impact.

- 3.26** We found that some firms regularly reviewed the effectiveness of their annual eligibility statements – and made changes where necessary. Reviews often involved input from Compliance to ensure the annual eligibility statements were compliant with the rules. One firm has made improvements to its annual eligibility statements each year, and management could provide examples of particular changes made.
- 3.27** However, we found limited evidence of firms undertaking analysis to test how effective the mailing was or consider how the annual eligibility statement could signal potential issues with the establishment of eligibility at the point of sale. For example, if a customer who had received their annual eligibility statement subsequently complained that they had not understood the key exclusions and limitations for each policy, this could indicate weaknesses with how the account was originally sold.
- 3.28** Despite some firms reviewing or auditing their annual eligibility statements, we found that others had not changed or tested the statements since implementation and had no process in place to do this. Firms did not appear to collect management information on the effectiveness of annual eligibility statements on customer outcomes. 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.

4. Findings: Complaint handling

- 4.1** This section sets out our findings of how firms handled packaged bank account complaints. We reviewed a sample of complaint files to test outcomes, covering mis-sale and non mis-sale complaints. We also assessed firms' policies and procedures, management and oversight.
- 4.2** In our complaint file reviews, we looked at complaints that firms received at the end of 2014. We looked at firms' policies and procedures as they stood in August 2015, as well as how they were applied in practice through our subsequent complaints centre visits. This has given us an insight into how the handling of packaged bank account complaints has evolved since 2014.

Complaint file reviews

- 4.3** Our review of complaint files set out to assess whether firms reached fair outcomes when a customer complained about their packaged bank account. We reviewed a sample of complaints that firms received between October and December 2014. In this period, firms were dealing with high levels of packaged bank account complaints, providing us with an insight into how firms handle peaks in complaint volumes.

Mis-sale complaints

Where customers complained that their packaged bank account was mis-sold, firms only achieved fair outcomes in 44% of cases. We identified detriment, or a likelihood of detriment, in 38% of mis-sale complaints.¹³

- 4.4** Common complaint points for mis-sale complaints included: the customer being told they needed to open the account in order to take out another product (such as a loan or mortgage), the customer's needs not being discussed and documented, or the customer not being made aware of the product features. Mis-sale complaints were typically more complicated than non-mis-sale complaints and they often included a number of complaint points, particularly for those complaints submitted by CMCs on behalf of customers.
- 4.5** In the files we reviewed for this thematic review, customer outcomes on mis-selling complaints were often inadequate, particularly where complaint handlers had not fully adhered to the policies and procedures in place at the time. We found that firms only followed policies and procedures in 22% of mis-selling cases; however, where they did so, they achieved good outcomes in 99% of cases. This indicates that firms' approaches at the end of 2014 were supportive of fair customer outcomes, but firms were not delivering this in practice.¹⁴ It is

¹³ For those cases where we found the outcome was unfair but there was no evidence of actual or likely detriment, the failings related to how the firm communicated its decision to the customer in the final response letter.

¹⁴ We reviewed policies and procedures from August 2015 in detail. We did not conduct an in-depth review of the appropriateness of the policies and procedures in place during the period covered by our complaint file review, although we did assess whether firms were adhering to these policies and procedures when handling complaints.

likely that this poor performance on complaint handling during Q4 2014 contributed to high Financial Ombudsman Service referral and uphold rates in that period.

- 4.6** Firms have been committed to making improvements since 2014 and some firms have informed us of changes to their processes that may, if implemented appropriately, address some of the weaknesses that we identified in our review. The Financial Ombudsman Service indicated that, from its perspective, firms' handling of packaged bank account complaints has improved and firms had worked constructively with it to learn from its approach. To test whether the necessary improvements have been made, we will review an additional sample of mis-sale complaint files from March to May 2016. Please see the 'Next steps' section of the report for more details.

Non mis-sale complaints

Firms achieved fair outcomes in 88% of cases where customers made a complaint that did not relate to mis-selling. We identified detriment, or a likelihood of detriment, in only 9% of non-mis-sale complaints.

- 4.7** Non-mis-sale complaints usually relate to the servicing of the packaged bank account. We were particularly interested in complaints about the insurance and non-insurance benefits that are specific to packaged bank accounts (for example, a complaint about a delayed mobile phone repair), but were not testing complaints about generic current account features (for example, a complaint about fraud or overdraft charges).
- 4.8** In the files we reviewed for this thematic review, firms achieved fair outcomes in the majority of non-mis-sale cases, and followed their policies and procedures in 72% of cases. These types of complaints are typically less complex than mis-sale complaints and attract a smaller amount of redress. Policies and procedures tend to be less detailed as a result.
- 4.9** Overall, we did not identify material weaknesses with how non-mis-sale complaints were handled, although firms should ensure that they consistently adhere to the policies and procedures in place for handling all types of complaint.

Common weaknesses on mis-sale complaints

Record keeping

In around a third of files, there were weaknesses with how firms recorded their complaint investigation.

- 4.10** Across our sample, there were gaps in the audit trails in the files we reviewed. This meant it was sometimes difficult to understand how firms had reached their decision. It is important that firms keep a detailed record of their assessment of each complaint, including clear links between the evidence they have gathered and the outcome they have reached.

Evidence gathering

In around a third of files, firms did not gather all the relevant evidence that they needed to investigate the complaint.

- 4.11** We identified a theme of firms not fully gathering the right information to investigate each complaint point. For example, in one case a customer said they had registered their mobile phone but the firm appeared not to have validated this. For most firms, there were a number of complaints where they failed to gather customer testimony despite the likelihood that it would have helped their investigation.

Case study: customer testimony

Gathering customer testimony is an important part of the complaint investigation process, as it allows the complaint handler to fully understand why the customer is complaining about their packaged bank account.

In one firm, management engaged in open dialogue with complaint handlers through regular, informal meetings to give them an opportunity to raise any difficulties they were experiencing in handling complaints. At these meetings, complaint handlers often voiced concerns about their ability to collect customer testimony due to customers being unavailable during business hours. This dialogue resulted in management setting up a specific team to collect customer testimony outside business hours.

Final response letters

In around one in five cases, firms did not address every complaint point in the final response letter.

- 4.12** Across our sample, we found weaknesses in how firms addressed every complaint point raised by a customer (where these points were material to the overall complaint). Without a full understanding of how a firm has considered each aspect of the complaint, customers may not have clarity about whether their concerns have been addressed. This may affect whether they refer their complaint to the Financial Ombudsman Service. However, in all cases, a final response letter was issued and the customer's right to take their complaint to the Financial Ombudsman Service was set out.

Vulnerability

In around one in eight cases, firms did not adequately handle vulnerability.

- 4.13** In a number of firms there were weaknesses with identifying vulnerability. There were a number of instances where customers were regularly overdrawn or their main source of income was state benefits, but this did not seem to have been factored into the firm's assessment of the complaint.

Overall finding: vulnerability

In February 2015, the FCA published an occasional paper on customer vulnerability¹⁵, which focused on how firms can take action and deliver good customer outcomes. During the course of our packaged bank account review, we made observations on how firms have implemented their vulnerable customer strategies in relation to packaged bank accounts.

Firms spoke credibly about vulnerability at all levels and have put policies and procedures in place with particular focus on customers in vulnerable circumstances. However, we saw limited evidence of how staff are applying them in practice; firms appear to be in the early stages of implementing these policies and procedures. Firms' vulnerability policies for packaged bank account complaints appeared to focus mainly on financial vulnerability, rather than a wider range of vulnerabilities.

Giving the benefit of doubt

In around one in ten cases, firms did not give customers the benefit of doubt.

- 4.14** Firms' complaint policies often refer to giving the customer the benefit of the doubt in finely balanced complaints, but we found weaknesses in how firms were doing this in practice. For example, complaint handlers in some cases assumed that the salesperson had followed the procedures in place at the time of the sale, without proper evidence of whether this actually happened. Where there is a lack of evidence, or the evidence is evenly weighted in favour of the customer and firm, we would expect firms to err on the side of the customer.

Policies and procedures

- 4.15** While our review of complaint files applied to firms' practices at the end of 2014, our work on complaint handling policies and procedures looked at what was in place at the end of 2015. This included a desk-based review of documentation, as well as our complaint centre visits.

Design and content

We found that more recent policies and procedures for packaged bank accounts are generally customer-centric and should deliver fair outcomes, if followed.

- 4.16** We found that firms' policies and procedures are generally clear, easy to follow and written in plain language. The policies clearly set out timescales, roles and responsibilities of complaint handlers and the quality assurance (QA) process. Overall, the policies and procedures appeared to focus on delivering good customer outcomes and allowed complaints to be looked at holistically. We found that the policies at most firms encouraged complaint handlers to apply a judgment-based approach.
- 4.17** However, we found some areas where policies and procedures could be improved. In some firms, aspects of policies appeared to place emphasis on defending complaints, rather than fair customer outcomes. For example, one firm provided guidance to complaint handlers to defend all complaints made on the basis of alternative accounts not being offered, where the customer held a fee-free account before the upgrade. This would not appear to take into account circumstances where, for example, the customer may have been told that a fee-free account was no longer available.
- 4.18** We also found that many firms had a large number of policies, which were not always consistent; for example, specific packaged bank account mis-sale policies were inconsistent with the general complaint policies. Having such a large number of policies may lead to inconsistent outcomes.
- 4.19** Firms' policy and procedure documentation was not always labelled clearly and appropriate version control was not always apparent. This raises broader questions about the robustness of firms' record keeping and oversight.

¹⁵ FCA, 'Consumer Vulnerability', Occasional Paper No.8, February 2015
www.fca.org.uk/publication/occasional-papers/occasional-paper-8.pdf

Case study: packaged bank account complaint handling policies

We found that most firms' dedicated policies for handling packaged bank account complaints from the end of 2015 were clear, concise and customer-centric. We saw examples of firms that include case studies and scenarios within their complaint-handling policies in order to assist complaint handlers.

One firm provided 22 potential complaint scenarios within its guidance to help complaint handlers come to an appropriate decision. For each, there were suggestions of key points and questions for the complaint handler to consider, suggestions of evidence to gather and examples of complaints that may be upheld or rejected. Example case studies included: fee-free alternatives or benefits not being discussed at the point of sale, multiple packaged bank accounts being held and how time barring might be applied.

Understanding of policies and procedures

We found that the complaint centre staff at most firms demonstrated understanding of the packaged bank account complaint policies. However, we found some inconsistencies in the way the policies were followed.

- 4.20** When we visited firms' complaint centres, we observed that staff (complaint handlers through to site managers) generally demonstrated understanding of the policies and procedures and a desire to achieve fair outcomes for customers. Staff were mostly confident in explaining the end-to-end process and could clearly explain how to escalate issues. They were also able to explain their responsibilities for packaged bank account complaint handling and provide insight into the types of complaints received. Staff demonstrated knowledge and understanding of the packaged bank account product, its features, and how these should be dealt with in line with the firm's policies.
- 4.21** Despite staff generally understanding the policies and procedures, we observed some inconsistencies during our complaints centre visits in how complaint handlers adhered to policies. For example, in some firms, we observed limited referral to policies by complaint handlers, which could lead to inconsistent customer outcomes if complaint handlers do not have an in-depth understanding of the policies. We also observed that some firms had difficulties with version control, with policies not dated. Therefore, there was a risk that complaint handlers were not following the most up-to-date policies.
- 4.22** We recognise that over-reliance on policies and procedures could, in some instances, result in a tick-box approach and limit the ability of staff to exercise good judgment in the interests of customers. Complaint handlers should have a balanced approach to following policies, but also feel able to apply their judgment and challenge processes to achieve fair outcomes for customers. Firms' complaint policies were mostly supportive of a judgment-led approach.

Overall finding: Claims management companies

A significant number of packaged bank account complaints are made through a CMC.¹⁶ We found that most firms were improving the way they communicated with CMCs. For example, some firms had established relationship management teams to engage with CMCs and actively tried to learn from them. This has improved the quality of complaints received from CMCs. Some firms engaged directly with CMCs where there were complaints with insufficient detail or generic complaint points.

Firms recognised the importance of CMCs as a platform for customers to make a complaint and described a similar approach to handling CMC-led and customer-led complaints.

Staff management

- 4.23** Our findings in this section apply to our complaint centre and head office visits at the end of 2015 and beginning of 2016.

Training

We found that complaint handlers generally received training and support from management in carrying out their roles.

- 4.24** Complaint handlers should be adequately trained and supported to carry out their role. During our complaint centre visits, complaint handlers told us that they mostly felt they received enough training and were supported by more senior staff. We observed that complaint handlers were kept informed of changes to policies through regular training, team meetings, coaching and newsletters. Management largely demonstrated understanding of staff training needs and regularly assessed those needs. Management had embedded escalation routes and processes for collecting and disseminating lessons learned, including examples of good and bad practice. In our complaint centre visits, we observed that many firms had information displayed on the walls setting out learnings from the Financial Ombudsman Service and changes to policy; this appeared to support complaint handlers in carrying out their roles.

Quality assurance

While staff could articulate their roles and responsibilities for quality assurance, we identified some weaknesses with the robustness of activity undertaken.

- 4.25** All firms had a QA process in place for packaged bank account complaints. During our complaint centre visits, staff at all levels could explain the nature and frequency of checks. It also appeared that most firms had processes in place to feed back learnings from QA activities.

¹⁶ In our review, we found that, in 2014, around 40% of packaged bank account complaints originated from CMCs.

- 4.26** However, we have some concerns about the robustness of firms' QA functions. For example, in some firms there was little evidence of identifying and fixing root causes of issues. It also appeared that, in some cases, QA checks were focused only on whether complaint handlers followed the correct policies and procedures, rather than looking at the complaint independently to ensure the correct outcomes were achieved. In one firm, we found the QA function did not listen to customer calls as they assumed that complaint handlers' notes of the calls were accurate.

Case study: checking the quality of complaint handling

In one firm, we found that Compliance was carrying out testing on specific issues involving packaged bank account complaint handling, in addition to its normal QA work. In these reviews, any issues picked up would be fed back to the business, leading to changes in the complaint handling policy. Compliance then checked and rechecked until it was satisfied that improvements had been embedded. Internal Audit reviewed how Compliance carried out testing on complaints.

Performance management

We did not identify significant risks with complaint handlers' targets and incentives.

- 4.27** There are requirements on firms to resolve complaints within a specified time limit.¹⁷ However, if firms do not properly manage the risks around productivity targets, a culture could develop where complaint handlers prioritise speed over delivering fair customer outcomes. We did not identify material concerns here, although in our complaint centre visits some complaint handlers told us that they found weekly targets for closing complaints challenging.
- 4.28** There is a particular risk with linking targets to staff's remuneration. In one firm, complaint handlers' pay could be reduced if they did not meet their target. In this case, we were not assured that the oversight and controls around this were sufficiently robust. We understand that this approach has ceased since our visit.
- 4.29** We observed that most firms had contracted additional staff from third parties to help deal with increased complaint volumes. We generally found that measures used for the performance of third-party staff are supportive of fair customer outcomes and that training and policies were consistent with those for their own staff. We observed during our complaints centre visits that third-party complaint handlers had a good understanding of the firms' policies and procedures. However, we noted that third-party staff often had higher productivity targets than the firms' own staff, which could present risks.

¹⁷ DISP 1.6.2 R.

Overall finding: culture

In addition to our findings on targets and incentives, we made broader observations on culture throughout our review. We found that the tone set by senior management was good and that frontline staff were focused on achieving fair customer outcomes. However, we observed examples that suggested firms have yet to fully embed customer-centric cultures at all levels. For example, in our file reviews, we identified that complaint handlers were not always following the firms' customer-centric policies and procedures. In some firms, we identified slightly defensive stances towards aspects of complaint handling during our complaint centre visits. For example, in one firm, complaint handlers had to go through additional levels of sign-off for cases they wanted to uphold. Increasing the burden for upheld cases may impact the quality of the outcome.

Oversight

- 4.30** Our findings in this section cover our complaint centre and head office visits at the end of 2015 and beginning of 2016.

Management information

We found that operational and senior level management are engaged with complaints, but their oversight may be affected by the quality of the data and information they rely on.

- 4.31** Senior management at most firms were able to talk in detail about complaints, demonstrating the importance they place on delivering fair outcomes. We found that all firms collected management information covering operational measures in relation to complaints, such as volumes and outcomes.
- 4.32** However, firms' management information was often more focused on quantitative targets than qualitative measures, which suggests that firms were focused on reducing complaint volumes. Qualitative indicators might include: root cause analysis; complaint file quality information; the impact of targets on customer outcomes; and differences between the firm's complaint staff and outsourced staff, and different complaint handling sites. Firms should do more to ensure that they are collecting and sharing adequate information internally to analyse the root causes of complaints and potential conduct risks.

Overall finding: data quality and record keeping

In addition to our findings on firms' management information, we have some concerns about the robustness of firms' broader data on packaged bank accounts. Most firms in our sample found it difficult to interrogate their data to provide us with the information we needed for our review. While we recognise firms' systems are complex and designed differently, some firms found it difficult to differentiate a packaged bank account complaint from complaints about other products (such as credit cards). This raises questions about the reliability of the data firms use to undertake tasks, such as root cause analysis (see below). When considered alongside our findings on eligibility records and our review of complaint files, we have identified a general theme regarding the quality of firms' data and record keeping.

Root cause analysis

We identified that a limited number of firms had taken a proactive approach to root cause analysis to make improvements to complaint handling, the packaged bank account product and sales process.

- 4.33** Some firms have developed root cause analysis frameworks. We saw an example of a firm actively identifying themes and assigning them to an accountable executive with responsibility for embedding these learning points. One firm had implemented trackers for complaint handlers, where they could log suggested improvements to processes. However, other firms need to do more to ensure complaint handlers collect sufficient data to allow for effective root cause analysis. We observed one example of a complaint handler not fully categorising a complaint; if this was a common practice, it would impact the accuracy of root cause analysis. We also saw examples of firms having a good root cause analysis process in theory, but not properly embedding it with complaint centre staff and senior management, who were unable to provide specific examples of root causes analysis being carried out. As noted above, we have broader questions about the reliability of data used to inform root cause analysis.

Case study: firms' use of resources in response to rising complaint numbers

Complaints about packaged bank accounts rose significantly during 2014 and 2015, but have so far reduced in 2016 (up to the end of June 2016). Firms have been responsive to rising complaint numbers, adapting their operational strategies accordingly. For example, many firms outsourced some complaint handling to third parties or recruited agency staff to deal with higher complaint volumes. Once complaint numbers had begun to decrease, one firm told us that they were using the additional resource to conduct back-book reviews of packaged bank account complaints, with the purpose of checking consistency with current complaint handling approaches.

Financial Ombudsman Service

We found that most firms put emphasis on their relationship with the Financial Ombudsman Service and meet with it regularly.

- 4.34** We saw some good examples of the Financial Ombudsman Service's lessons being embedded into complaint handling processes and regular sharing of best practice. Some firms included the Financial Ombudsman Service lessons in staff newsletters or displayed them in complaint centres. At a senior level, all firms in our sample have regular meetings with the Financial Ombudsman Service to help inform their complaints strategy.
- 4.35** The Financial Ombudsman Service statistics – such as how many of the firm's decisions they overturn – are good indicators of performance. However, we found that some firms appear to be overly reliant on the Financial Ombudsman Service's statistics as a measure of how they are managing their conduct risks in this area and to drive policy changes. This measure should be used as part of a broader range of indicators to test performance.

5. Next steps

- 5.1** We are grateful for the contributions made by all the participant firms in this thematic review. We have identified some areas of good practice, but firms have more to do in a number of areas to ensure they deliver fair outcomes for packaged bank account customers. We set out below the actions arising from our work.

Actions for the FCA

- 5.2** During our work, we identified that firms had some significant weaknesses in terms of complaint handling at the end of 2014. We recognise firms have been committed to making improvements since then and that the Financial Ombudsman Service has, over time, disagreed with fewer judgements reached by firms. In order to test whether firms have raised standards since our file review, we will undertake a review of a more recent sample of complaint files received by firms between March and May 2016. This additional review will focus on mis-sale complaints.
- 5.3** In light of our findings on eligibility, where we found weaknesses with both point of sale checks and how these are recorded, we plan to hold a roundtable with firms across the market to confirm our expectations. Our observation is that firms are committed to making improvements but, if our review sample is typical of practices at that time, they are still falling short of our requirements. As part of our broader work on behavioural economics, we will also consider how any behavioural research on customer communications may be relevant to the design and use of annual eligibility statements.

Actions for firms in our review

- 5.4** We have provided feedback to each of the firms in our sample, setting out the good and poor practice we observed in their compliance with the ICOBS rules, some broader observations we made through our mystery shopping and their packaged bank account complaint handling. We have provided firms with mitigation actions to target the specific poor practice we found in these areas. We expect these actions to lead to improvements if they are implemented properly.

Actions for all firms

- 5.5** All firms offering packaged bank accounts should consider how they can apply our findings to the way they have implemented the specific packaged bank account ICOBS rules on eligibility checks and annual eligibility statements. In particular, firms should consider whether:

- sales staff adequately specify customers' demands and needs, and assess eligibility for *all* insurance policies to ensure the customer can make an informed choice
- their eligibility checks are sufficiently interactive to ensure eligibility is adequately assessed and customers have sufficient understanding
- eligibility checks and records are appropriately designed across all sales channels
- they keep comprehensive records of the eligibility checks carried out at point of sale, ensuring they provide clarity on whether the customer is eligible for each insurance policy
- their annual eligibility statements are designed as effectively as possible, in compliance with the ICOBS rules, to encourage customer engagement, and
- they have appropriate oversight in place to ensure the ongoing effectiveness of eligibility checks and annual eligibility statements

5.6 For packaged bank account complaint handling, all firms should consider whether:

- packaged bank account complaint policies and procedures are appropriately customer-centric and allow complaint handlers to apply judgment to ensure fair customer outcomes
- they have adequate training and oversight in place to ensure complaint handlers are adhering to policies and procedures
- they have adequate training and oversight in place to ensure that complaint handlers are applying policies and procedures on vulnerability in the complaint handling process
- the QA undertaken provides a robust, independent, challenge on the customer outcome
- data on packaged bank accounts is robust, helping to inform root cause analysis and allowing senior management to have adequate oversight
- management information used by local and senior management covers both quantitative and qualitative measures, enabling conduct risks to be identified, and
- the three lines of defence carry out appropriate work to address the risks associated with packaged bank accounts, providing effective challenge to the business

Annex 1

Relevant provisions: ICOBS

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

ICOBS 5.1.3A R

A firm arranging policies as part of a packaged bank account must:

1. take reasonable steps to establish whether the customer is eligible to claim each of the benefits under each policy included in the packaged bank account which must include checking that the customer meets any qualifying requirements to claim each of the benefits under each policy; and
2. inform the customer whether or not he would be eligible to claim each of the benefits under each policy included in the packaged bank account so that the customer can take an informed decision about the arrangements proposed

ICOBS 5.1.3B R

A firm must make a record of the eligibility assessment and, if the customer proceeds with the arrangements proposed, retain it for a minimum period of three years from the date on which the assessment was undertaken.

ICOBS 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 5.1.3C R (1)) must not:
 - a. include any information other than that required under this rule
 - 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

Statement of demands and needs

ICOB5 5.2.2 R

1. Prior to the conclusion of a contract, a firm must specify, in particular on the basis of information provided by the customer, the demands and the needs of that customer as well as the underlying reasons for any advice given to the customer on that policy.

Statement of demands and needs: non-advised sales

ICOB5 5.2.4 G

The format of a statement of demands and needs is flexible. Examples of approaches that may be appropriate where a personal recommendation has not been given include:

1. providing a demands and needs statement as part of an application form, so that the demands and needs statement is made dependent upon the customer providing personal information on the application form. For instance, the application form might include a statement along the lines of: "If you answer 'yes' to questions a, b and c your demands and needs are those of a pet owner who wishes and needs to ensure that the veterinary needs of your pet are met now and in the future";
2. producing a demands and needs statement in product documentation that will be appropriate for anyone wishing to buy the product. For example, "This product meets the demands and needs of those who wish to ensure that the veterinary needs of their pet are met now and in the future";
3. giving a customer a record of all his demands and needs that have been discussed; and
4. providing a key features document.

Financial Conduct Authority



PUB REF: 005317

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