

A UK Dormant Accounts Scheme: summary of responses to consultation on secondary legislation

June 2009



HM TREASURY

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Introduction

1.1 The Dormant Bank and Building Society Accounts Act 2008 received Royal Assent on 26 November 2008. Following this, the Government opened consultation on statutory instruments to: extend the scope of FSA regulation to include reclaim funds; place a requirement on building societies participating in the scheme for smaller institutions, publicly to disclose information in line with the requirements placed on smaller banks by the Act; and extend the notice requirement applicable to banks to cover a proposed business transfer of a reclaim fund.

1.2 These proposals were set out in the consultation document *A UK Dormant Accounts Scheme: a consultation on secondary legislation*, which was published on 17 February 2009. The consultation lasted 12 weeks, in accordance with the Government's Code of Practice for written consultations, and closed on 11 May 2009.¹

1.3 The Government received responses to this consultation from a wide range of institutions and individuals including trade associations, thirds sector organisations and banks. This document summarises these responses and the Government's response in turn, and is structured as follows:

- Chapter 2 sets out the background to the consultation document;
- Chapter 3 summarises the responses to the consultation document, and sets out the Government's response to these;
- Chapter 4 outlines the next steps;
- Annex A lists the respondents to the consultation document; and
- Annex B presents the impact assessment for the statutory instruments.

1.4 The Government is grateful to everyone who responded to the consultation document.

¹ <http://www.hm-treasury.gov.uk>

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Background

A UK Dormant Accounts Scheme

2.1 Many people forget about, or lose track of, small deposits of money in bank and building society accounts. Despite the efforts of banks and building societies to reunite these funds with their owners, some remain as dormant accounts in the banking system.

2.2 The aim of a UK dormant accounts scheme is to allow banks and building societies to make funds available for distribution to the benefit of the community, while ensuring that the right of account holders to reclaim their money is protected. There is an optional scheme available to small and locally based institutions allowing them to transfer money in dormant accounts to either local charities or charities with which they have a special connection.

2.3 The key principles underlying this scheme are:

- consumer protection: to ensure an ongoing legal right for account holders to reclaim their money at any time;
- reuniting: wherever possible, account holders should be reunited with the assets that are rightfully theirs; and
- better regulation: the Government has adopted a proportionate regulatory approach to ensure a fair, transparent and effective dormant accounts scheme.

2.4 Following preparatory work with the industry, the Government issued two consultation documents on a proposed scheme in 2007. The first, *A UK Unclaimed Asset Scheme: a consultation* was published in March 2007 and set out proposals for the operation of the scheme. A second consultation, *Unclaimed Assets Distribution Mechanism: a consultation* was published in May 2007 and set out the Government's proposed principles for the distribution of available money in England, Scotland, Wales and Northern Ireland.

2.5 A summary of the replies to these consultation documents, as well as the Government's response, was published alongside the Dormant Bank and Building Society Accounts Bill.¹ The Bill was introduced in the House of Lords on 7 November 2007. The Bill received its first reading in the House of Commons on 27 February 2008 and received Royal Assent on 26 November 2008.²

2.6 The industry is committed to delivering the scheme, including reuniting initiatives. In January 2008, the British Bankers' Association (BBA), the Building Societies Association (BSA) and National Savings & Investments (NS&I) launched an online gateway for customers to trace dormant accounts at www.mylostaccount.org.uk.

2.7 According to industry data, the website www.mylostaccounts.org.uk has received almost a quarter of a million trace requests since its launch, which averages at 680 requests per day. This

¹ This is available at http://www.hm-treasury.gov.uk/fin_unclaimed_assets.htm.

² Further details on the progress of the Bill into law are available at www.parliament.uk. The full text of the Act is available online at www.opsi.gov.uk/acts.htm and full explanatory notes on the Act are available at <http://services.parliament.uk/bills/2007-08/dormantbankandbuildingsocietyaccountshl.html>.

compares to an average of 120 requests per day in 2007 via the BBA, BSA and NS&I's own tracing services prior to the reuniting initiative.

Context for secondary legislation

2.8 This section briefly sets out aspects of the scheme that are relevant to the secondary legislation that the Government has consulted on. Further details of the scheme are available in the consultation document *A UK Dormant Accounts Scheme: a consultation on secondary legislation* and accompanying documents.³

Reclaim fund

2.9 Banks and building societies are committed to reuniting account holders with their dormant accounts. In cases where it is not possible to reunite account holders with their funds, primary legislation allows a reclaim fund to accept a transfer of funds in dormant accounts from banks or building societies. Once these funds are transferred to the reclaim fund, the account holder acquires a legally enforceable right to repayment from the reclaim fund.

2.10 As set out in primary legislation, a reclaim fund is responsible for meeting repayment claims, managing dormant funds in order to meet whatever repayment claims it is prudent to anticipate and transferring money to bodies charged with distribution.

2.11 The Government intends to enable the FSA to regulate two of the reclaim fund's activities. This requires the amendment of secondary legislation (the Regulated Activities Order (RAO) to the Financial Services and Markets Act 2000).

2.12 The FSA has consulted separately on its detailed proposals for regulating reclaim funds, including: the authorisation process, related fees and charges, regulatory and reporting requirements; supervisory arrangements; managing reclaims; and, arrangements for complaints and compensation. The FSA's consultation paper 09/8, entitled *Regulating Reclaim Funds*, was published in February 2009 and the consultation period closed on 30 April 2009.⁴

2.13 The Government also intends to make a technical change to regulations that impose certain notice requirements on those applying to transfer insurance and banking businesses. This would mean that, in the unlikely event that the reclaim fund needed to transfer business to a successor, public notice of the transfer of the reclaim fund's business would be given in the usual way.

Option for small and locally based institutions

2.14 There is an optional scheme for small and locally based institutions allowing them to focus on the needs of their local communities, in which they often play an important role. These institutions have the option of transferring money to either local charities or charities with which they have a special connection, rather than have surplus monies transferred for distribution under the main scheme.

2.15 The Government aims to implement a scheme that is transparent to consumers and the wider public. Primary legislation included reporting requirements for banks making transfers to the reclaim fund under this optional scheme. The Government intends to place equivalent requirements on building societies, to ensure transparency of transactions undertaken in the scheme for small and locally based institutions.

³ Available at <http://www.hm-treasury.gov.uk>.

⁴ Available at http://www.fsa.gov.uk/pages/Library/Policy/CP/2009/09_08.shtml

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Summary of responses

3.1 The consultation document included specific questions on the Government’s proposals for secondary legislation for a UK dormant accounts scheme. These are listed in the box below.

List of questions for consultation

Question 1: Do you agree with the Government’s proposals for secondary legislation to enable the FSA to authorise and regulate specific activities of reclaim funds?

Question 2: Do you agree with the Government’s proposal for secondary legislation to extend the notice requirement applicable to banks to cover a proposed business transfer of a reclaim fund?

Question 3: Do you agree with the Government’s transparency proposals relating to smaller building societies participating in the small and locally based option?

3.2 The Government received ten responses, including two responses from trade associations, five responses from third sector organisations, one response from a bank and two responses from individuals.

3.3 All respondents strongly supported the Government’s proposed legislation. One third sector organisation, for example, believed the Government’s proposals would ‘increase consumer protection and bring greater transparency’.

Analysis of responses

Question 1: Do you agree with the Government’s proposals for secondary legislation to enable the FSA to authorise and regulate specific activities of reclaim funds?

3.4 When dormant funds are transferred to a reclaim fund, the account holder acquires a legally enforceable right to repayment from the reclaim fund. The reclaim fund is responsible for managing dormant account funds in order that consumers whose money is transferred to the reclaim fund can be repaid. FSA regulation will help to ensure that the reclaim fund manages dormant account funds prudently and can meet repayment risk, and that consumers are properly protected.

3.5 Consumers will also have access to the Financial Services Compensation Scheme in the unlikely event that the reclaim fund became insolvent. In the event of any disputes, consumers would, subject to the usual qualifying conditions, have recourse to the Financial Ombudsman Service and could resort ultimately to the courts to enforce their legal rights.

3.6 All comments were supportive of the proposed legislation.

Question 2: Do you agree with the Government's proposal for secondary legislation to extend the notice requirement applicable to banks to cover a proposed business transfer of a reclaim fund?

3.7 The Government proposed a technical change to regulations that impose certain notice requirements for those applying to transfer insurance and banking businesses. This would mean that, in the unlikely event that the reclaim fund needed to transfer business to a successor, public notice of the transfer of the reclaim fund's business would be given in the usual way.

3.8 All comments were supportive of the proposed legislation.

Question 3: Do you agree with the Government's transparency proposals relating to smaller building societies participating in the small and locally based option?

3.9 As outlined in Chapter 2, there is an optional scheme for small and locally based institutions to transfer money in dormant accounts to local charities or charities with which they have special connection. Primary legislation requires banks making transfers to the reclaim fund under this scheme to identify in their directors' reports each of the charities in receipt of dormant account funds and the amount transferred to each in the financial year covered by the report. This is to ensure that banks' transactions under the scheme are fully transparent.

3.10 The Government proposed secondary legislation to place equivalent reporting requirements on building societies to ensure a level playing field for small and locally based banks and building societies taking advantage of this option. This will further improve the scheme's transparency.

3.11 All comments were supportive of the proposed legislation.

Other issues raised in consultation

3.12 In addition to comments on specific questions in the consultation document, some respondents raised other issues, including:

- the management of dormant account funds transferred to the BIG Lottery Fund but not yet distributed by it;
- banks' and building societies' efforts to re-unite account holders with their dormant accounts prior to transferring funds to the reclaim fund;
- the use of dormant account funds; and,
- the FSA's consultation on a regulatory framework for reclaim funds.

Management of dormant account funds

3.13 One respondent asked whether the management of dormant account funds by the reclaim fund would include the management of funds transferred to the BIG Lottery Fund but not yet distributed by it.

3.14 The Act states that a reclaim fund will be restricted to three activities by its articles of association: the meeting of repayment claims; the management of dormant account funds in

order to meet whatever repayment claims it is prudent to anticipate; and the transfer of money to bodies charged with the distribution of dormant account funds for reinvestment in society or for environmental purposes.

3.15 Section 25(1) of the Act provides for the Big Lottery Fund to enter into arrangements for money that may be or has been paid to the Big Lottery Fund, to be held or invested on its behalf. The Big Lottery Fund may enter into such arrangements with a reclaim fund.

Reuniting

3.16 One respondent questioned whether legislation would ensure that banks and building societies do their utmost to reunite consumers with their dormant accounts prior to transferring such funds to the reclaim fund.

3.17 The industry is committed to reuniting customers with their accounts and has conducted a reuniting exercise in advance of the launch of the scheme. The BBA, BSA and National Savings & Investments (NS&I) launched an online gateway for customers to trace dormant accounts at www.mylostaccount.org.uk in January 2008. This allows anyone with a lost account with a bank, building society or NS&I to initiate a search simply by visiting this website and completing a single application form. The Government welcomes this initiative.

3.18 The Government has committed to undertake a post-implementation review of the UK dormant accounts scheme, including the transfer of balances to the reclaim fund, within three years of the date when a reclaim fund is first authorised.

Use of dormant account funds

3.19 Two third sector organisations strongly welcomed the Government's design of legislation in enabling dormant account funds to be invested in communities for social and environmental purposes. The Devolved Administrations are responsible for setting spending objectives in their jurisdictions.

3.20 In England, as set out in the Act, the spending areas are youth provision, financial inclusion and capability, and, if resources permit, a social investment wholesale bank. The Government is drawing up spending directions setting out its plans for the relative allocation of dormant account funds in England to issue to the BIG Lottery Fund, in time for the scheme's launch.

The FSA's regulatory framework

3.21 One respondent referred to the FSA's consultation on proposals for regulating reclaim funds. As stated above, the FSA has consulted separately on its detailed proposals for regulating reclaim funds, including: the authorisation process, related fees and charges, regulatory and reporting requirements; supervisory arrangements; managing reclaims; and, arrangements for complaints and compensation.

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Next steps

4.1 Further steps to implement a UK dormant accounts scheme are set out below.

- The Government will lay secondary legislation in Parliament to allow this legislation to take effect, subject to Parliamentary approval;
- The Government is drawing up spending directions setting out its plans for the relative allocation of dormant account funds in England to issue to the BIG Lottery Fund, in time for the scheme's launch;
- The FSA intends to publish its final rules and regulations shortly, subject to secondary legislation taking effect;
- The FSA is currently available to engage with candidate reclaim funds on a pre-application basis in order to expedite the process of setting up a UK dormant accounts scheme once the legislative process is concluded;
- The BBA and BSA are committed to leading on selecting or setting up a reclaim fund; and
- The Government intends that a UK dormant accounts scheme should be operational as soon as possible, following Parliamentary approval for secondary legislation and the establishment of a reclaim fund.

A

List of consultation respondents

Big Lottery Fund

Community Matters

Mr. Fritz Thomas Klein

National Council for Voluntary Youth Services

Professor Alan C. Page

The British Bankers' Association

The Building Societies Association

The Consumer Council

The Prince's Trust

Unity Trust Bank plc

B

Impact Assessment

Summary: Intervention & Options

Department /Agency: HM Treasury	Title: Impact Assessment of secondary legislation relating to a dormant accounts scheme in the UK	
Stage: Legislation	Version: Final	Date: 3 June 2009
Related Publications: A UK Unclaimed Assets Scheme: final impact assessment, <i>HM Treasury</i> , November 2007		

Available to view or download at: www.hm-treasury.gov.uk

Contact for enquiries: harry.lee@hm-treasury.gsi.gov.uk

What is the problem under consideration? Why is government intervention necessary?

In 2007, the Government introduced primary legislation to establish a dormant accounts scheme in the UK allowing funds in dormant accounts to be reinvested in society, while protecting the rights of consumers.

In cases where it is not possible to reunite account holders with their funds, a reclaim fund may accept a transfer of funds in dormant accounts from banks or building societies. A reclaim fund must be authorised by the Financial Services Authority (FSA). The Government will lay secondary legislation to extend the scope of FSA regulation to include reclaim fund activity.

There is an optional scheme available to small and locally based institutions allowing them to focus on the needs of their local communities, in which they often play an important role. Secondary legislation is necessary to extend to small building societies the disclosure requirements for banks taking advantage of this option, ensuring that the scheme is transparent, and that building societies disclose information on an equal basis.

What are the policy objectives and the intended effects?

The Government aims to implement an UK dormant accounts scheme that protects consumers, and is transparent and fair. Extending the scope of FSA regulation to include reclaim funds will help to ensure that a reclaim fund operates under appropriate prudential regulation, so that consumers' repayment claims can be met. Introducing reporting requirements for building societies taking advantage of the option for small and locally based institutions, on the same basis as the requirements in primary legislation relating to smaller banks, will ensure that the scheme operates in a transparent and fair way.

What policy options have been considered? Please justify any preferred option.

Policy Option 1: Do nothing.

Policy Option 2: Bring forward a voluntary scheme with effective FSA oversight of the reclaim fund and equivalent reporting requirements for small and locally based banks and building societies.

Policy Option 2 is the Government's preferred option because it is integral to setting up a dormant accounts scheme that is effective, transparent and fair. First, the Government cannot proceed to establish a scheme without enabling the FSA to regulate a reclaim fund, since this is a requirement of primary legislation. Second, unless there are equivalent reporting requirements for building societies and banks, the scheme would not be fully transparent or fair.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The Government will undertake a post-implementation review of the UK dormant accounts scheme within three years of the date when a reclaim fund is first authorised.

Ministerial Sign-off For Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options

Signed by the responsible Minister:

Date: 3 June 2009



Summary: Analysis & Evidence

Policy Option: Do nothing	Description: Do not proceed to introduce secondary legislation to: enable the FSA to authorise a reclaim fund, and; equalise reporting requirements on participants in the scheme for smaller institutions
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COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' None.
	One-off (Transition)	Yrs	
	£ Nil		
	Average Annual Cost (excluding one-off)		
	£ Nil		
Total Cost (PV)			Nil
Other key non-monetised costs by 'main affected groups'			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' None.
	One-off	Yrs	
	£ Nil		
	Average Annual Benefit (excluding one-off)		
	£ Nil		
Total Benefit (PV)			£ Nil
Other key non-monetised benefits by 'main affected groups'			

Key Assumptions/Sensitivities/Risks

Price Base Year N/A	Time Period Years N/A	Net Benefit Range (NPV) £ Nil	NET BENEFIT (NPV Best estimate) £ Nil
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What is the geographic coverage of the policy/option?	N/A			
On what date will the policy be implemented?	N/A			
Which organisation(s) will enforce the policy?	N/A			
What is the total annual cost of enforcement for these organisations?	N/A			
Does enforcement comply with Hampton principles?	N/A			
Will implementation go beyond minimum EU requirements?	No			
What is the value of the proposed offsetting measure per year?	N/A			
What is the value of changes in greenhouse gas emissions?	N/A			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro N/A	Small N/A	Medium N/A	Large N/A
Are any of these organisations exempt?	N/A	N/A	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)
Increase of £ N/A	Decrease of £ N/A	Net Impact £ N/A

Key: Annual (Net) Present Value

Summary: Analysis & Evidence

Policy Option: Implement a voluntary scheme	Description: Proceed to introduce secondary legislation to: enable the FSA to authorise a reclaim fund, and; equalise reporting requirements on participants in the scheme for smaller institutions
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COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' None. Please see evidence base for costs not directly generated by legislation.
	One-off (Transition)	Yrs	
	£ Nil	0	
	Average Annual Cost (excluding one-off)		
	£ Nil		
Total Cost (PV)			£ Nil
Other key non-monetised costs by 'main affected groups'			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' None. Please see evidence base for benefits not directly generated by legislation.
	One-off	Yrs	
	£ Nil	0	
	Average Annual Benefit (excluding one-off)		
	£ Nil		
Total Benefit (PV)			£ Nil
Other key non-monetised benefits by 'main affected groups'			

Key Assumptions/Sensitivities/Risks This legislation is enabling and generates no direct costs or benefits to industry or consumers. However, a successful scheme will generate costs and benefits and secondary legislation is necessary to the operation of the scheme.

Price Base Year N/A	Time Period Years N/A	Net Benefit Range (NPV) £ Nil	NET BENEFIT (NPV Best estimate) £ Nil
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What is the geographic coverage of the policy/option?	N/A				
On what date will the policy be implemented?	May 2009				
Which organisation(s) will enforce the policy?	N/A				
What is the total annual cost of enforcement for these organisations?	Unknown				
Does enforcement comply with Hampton principles?	N/A				
Will implementation go beyond minimum EU requirements?	N/A				
What is the value of the proposed offsetting measure per year?	N/A				
What is the value of changes in greenhouse gas emissions?	N/A				
Will the proposal have a significant impact on competition?	No				
Annual cost (£-£) per organisation (excluding one-off)	<table style="width: 100%; border: none;"> <tr> <td style="width: 25%; border: none;">Micro Unknown</td> <td style="width: 25%; border: none;">Small Unknown</td> <td style="width: 25%; border: none;">Medium Unknown</td> <td style="width: 25%; border: none;">Large Unknown</td> </tr> </table>	Micro Unknown	Small Unknown	Medium Unknown	Large Unknown
Micro Unknown	Small Unknown	Medium Unknown	Large Unknown		
Are any of these organisations exempt?	<table style="width: 100%; border: none;"> <tr> <td style="width: 25%; border: none;">N/A</td> <td style="width: 25%; border: none;">N/A</td> <td style="width: 25%; border: none;">N/A</td> <td style="width: 25%; border: none;">N/A</td> </tr> </table>	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A		

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)
Increase of £ N/A	Decrease of £ N/A	Net Impact £ N/A

Introduction

This impact assessment draws on the impact assessment published alongside the Government's response to previous consultations on dormant accounts in November 2007¹. This earlier impact assessment provided a detailed analysis of the overall costs and benefits of seeking to establish a dormant accounts scheme in the UK. The introduction of statutory instruments, following primary legislation enacted last year, is a further step towards this goal.

The FSA has consulted separately on detailed proposals for regulating reclaim funds, including: the authorisation process, related fees and charges, regulatory and reporting requirements; supervisory arrangements; managing reclaims; and, arrangements for complaints and compensation. The FSA's consultation paper 09/8, entitled *Regulating Reclaim Funds*, was published in February 2009 and the consultation period closed on 30 April 2009.²

Government intervention and options

Background

The Government's overarching objectives are to: ensure an on-going legal right for account holders to reclaim their money at any time; wherever possible, see that account holders are reunited with the assets that are rightfully theirs; and adopt a proportionate regulatory approach to establish a fair, transparent and effective dormant accounts scheme. These key principles – reuniting, consumer protection and better regulation – are integral to the scheme.

Secondary legislation

The Dormant Bank and Building Societies Act 2008 received Royal Assent on 26 November 2008. The Government intends to introduce secondary legislation to: enable the FSA to regulate a reclaim fund; establish reporting requirements for building societies taking advantage of the option available to small and locally-based institutions, identical to the requirements for small banks; and extend the notice requirement applicable to banks to cover a proposed business transfer of a reclaim fund.

The Act amends Schedule 2 of the Financial Services and Markets Act 2000 (FSMA) in order to include the activities of a reclaim fund in the list of activities that may be specified as 'regulated activities' for the purposes of FSA regulation. The Treasury will accordingly specify activities of a reclaim fund by amending the Regulated Activities Order ('the RAO') to FSMA. In particular, the Government will amend the RAO to include the reclaim fund's activities of meeting repayment claims and managing dormant account funds. This legislation is necessary to enable the FSA to authorise and regulate these activities.

The Act does not include reporting requirements for building societies taking advantage of the option available to small and locally based institutions. The Government will introduce identical reporting requirements for small and locally based building societies taking advantage of this option by amending the Building Societies (Accounts and Related Provisions) Regulations 1998 to require a building society that transfers funds to the reclaim fund to identify in its directors' reports those charities to which a transfer has been made and the amounts of transfers to such charities.

Finally, the Government also intends to make a technical change to regulations that impose certain notice requirements on those applying to transfer insurance and banking businesses. This will mean that, in the unlikely event that the reclaim fund needs to transfer business to a successor, public notice of the transfer of the reclaim fund's business is given in the usual way.

Intended effects

¹ This document is available at www.parliament.uk/deposits/depositedpapers/2007/DEP2007-0067.pdf.

² Available at http://www.fsa.gov.uk/pages/Library/Policy/CP/2009/09_08.shtml

The Government aims to implement an effective UK dormant accounts scheme that protects consumers, and is transparent and fair. Extending the scope of FSA authorisation to include reclaim funds will ensure that a reclaim fund operates under appropriate prudential regulation, so that consumers' repayment claims can be met. Extending the reporting requirements for small banks to building societies will ensure that the scheme is transparent and fair, as will the extension of notification requirements for business transfers to include reclaim funds.

Policy options

The following policy options were considered:

Policy Option 1 – Do nothing; and

Policy option 2 – Bring forward a dormant accounts scheme with effective FSA oversight of the reclaim fund and equivalent reporting requirements for small and locally based banks and building societies.

Option 1

The Government would not proceed with the secondary legislation outlined above.

Without bringing forward secondary legislation to extend the scope of FSA regulation to include reclaim funds, it would not be possible to set up a reclaim fund: the Act defines a reclaim fund, in part, as an institution that must be authorised by the FSA. Without secondary legislation to extend the reporting requirements for small and locally based banks to building societies, the scheme would be unfair and lack full transparency, contrary to the scheme's key principles.

Option 2

The Government brings forward a dormant accounts scheme with effective FSA oversight of the reclaim fund and equivalent reporting requirements for small and locally based banks and building societies.

Option 2 is the Government's preferred policy, because the proposed secondary legislation is integral to establishing an effective scheme that is transparent and fair.

Analysis and Evidence

The statutory instruments to be laid before Parliament do not compel banks and building societies to make dormant account funds available for investment in the community, and so no direct costs or benefits for main groups are generated. However, secondary legislation will facilitate a UK dormant accounts scheme and it is expected that this scheme, once established, will generate costs and benefits affecting consumers, banks and building societies taking part in the scheme, and the reclaim fund.

The FSA has assessed the costs and benefits imposed on the reclaim fund in greater detail in its separate consultation document.

Costs

FSA regulation

By bringing some of the reclaim fund's activities into the list of regulated activities that the FSA must regulate, the proposed secondary legislation will directly impose costs on the FSA.

As set out in its separate consultation, the FSA proposes to meet its set up costs through an increase of 0.4% in the annual fees paid by banks and building societies eligible to participate in the scheme.

FSA authorisation will place costs on a reclaim fund. In particular, the FSA expects to charge a £25,000 authorisation fee. The FSA's regulatory framework will also place compliance costs on the reclaim fund. The FSA estimates these incremental compliance costs as being no more than 5% of total costs.

Assuming that the fees charged by the FSA and the compliance costs imposed on the reclaim fund accurately reflect, in aggregate, the value of the regulatory framework, these payments are

effectively transfers with a net cost (net benefit) of zero.

Additionally, the reclaim fund will enter the Financial Services Compensation Scheme (FSCS) and the compulsory jurisdiction of the Financial Ombudsman Service (FOS) and will therefore be subject to levies payable to each. Levies payable to the FSCS and FOS will be a fraction of those payable by a deposit-taking institution of similar size, in order to reflect the dormant nature of the accounts.

Assuming that the levies charged by FSCS and FOS accurately price the value of services offered to customers of the reclaim fund, these payments are effectively transfers with a net cost (net benefit) of zero.

All costs stated are conditional on the regulatory framework introduced by the FSA. The FSA intends to publish its final rules governing the operation of reclaim funds shortly.

Reporting requirements on building societies and business transfers

By making reporting requirements on building societies that participate in the option for small and locally based institutions commensurate with those placed on small and locally based banks by the Act, secondary legislation will place compliance costs on building societies. However, the industry estimates that these costs will be negligible.

Costs relating to the extension of notification requirements for business transfers to reclaim funds are also estimated to be negligible.

Benefits

The benefits of secondary legislation accrue to consumers and third sector organisations.

The key benefits will accrue to third sector organisations and, ultimately, the communities they serve, through the distribution, by the BIG Lottery Fund, of dormant account funds not needed to meet reclaim risk.

The benefit of legislating for the FSA to oversee the reclaim fund's operations will accrue to consumers. This reflects the protection they receive from FSCS and FOS, and that the prudential regulation of the reclaim fund to help to ensure that it can meet any repayment claims.

The scheme could not be taken forward without a reclaim fund authorised by the FSA. All of the benefits of introducing a voluntary scheme outlined in the final assessment also result from the passage of the statutory instruments outlined above.

Specific Impact Tests: Checklist

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	No	No
Small Firms Impact Test	No	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

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