White Paper

FINDING AND RETURNING ASSETS TO LOST CUSTOMERS IN UK FINANCIAL SERVICES

This paper summarises the issue the Financial Services Industry (FSI) faces with locating their lost customers due to incorrect or obsolete personal data being maintained by the FSI.

Summary

- Between £20 and £50 billion of financial assets in the UK are dormant, lost, unclaimed or have missing owners; the actual figure may well exceed £100 billion.
- GDPR is effective from 25 May 2018. It is also highly likely that non-communication would fall foul of the FCA principle of treating customers fairly ('TCF') where the consumer has products that should be regularly reviewed for appropriateness.
- Tracing solutions are typically seen as incomplete or expensive.
- £1.3bn has been deposited in Reclaimed Funds Limited ('RFL') following the Bank Act.
- The FSI needs to rebuild trust with the consumer post the Financial Services Crisis of 2008.

The paper explains how customers become lost, the defining terms are to what is a lost customer is, estimations of scale of the problem, why it matters, the current solutions on offer and why Inheritance Data is now involved as a provider of financial asset searching.

How customers become lost and remain lost

The FSI can lose contact with their customers for a variety of reasons. Sometimes customers move to a new house or change their name and forget to pass on their new details; sometimes they buy new financial products and forget about those they already have; and sometimes, unfortunately, they die without leaving a will or beneficiaries or die with the FSI having only an old address.

While firms can try to reunite such assets with their customers, the efforts vary greatly in their extent and effectiveness.

Many in the FSI do not trace very often. Tracing has a reputation of being ineffective or expensive if forensic manual work is involved. The FSI have another related issue around poor re-engagement rate. This is where they have a correct address, they write, and the customer does not bother to reply. The Dormant Asset Commission (DAC) report notes a recipient saying that for their business these rates were are as low as 50%. Our understanding is across the FSI they may be as low as 30%.

Records are generally not updated until customer contact is re-established and certain Know Your Clients ('KYC') and Anti Money laundering ('AML') procedures are enacted.

Where Tracing agencies are used the FSI usually pays for a digital matching process which is both cheap and quick but often ineffective. The Digital providers usually rely on postcode matching to public data bases to which they have access. This is where they are given a name and address with a postcode of a customer and they match this against public data bases such as the Declared Death Record Index. If the customer has moved area to live near a relative, into a nursing home for example, it is unlikely that the tracing agency can make the connection. Customers who venture overseas are beyond the reach of the FSI and any current tracing agencies.

The beneficiaries may well not know that they have an entitlement. Lawyers sign off probate without enquiring about assets beyond asking the nearest relative. They simply may not know.

What is a lost customer?

When this subject is raised three terms are often applied. These are Dormant Assets, Unclaimed Assets and Gone Away Customers.

Dormant Assets are defined in the Dormant Bank and Building Societies Act 2008 ('the Bank Act'). They are defined as 15 years without contact. The Bank Act enables the distribution of so-called Dormant Assets to charity. There is a stipulation for Banks and Building Societies to 'screen' before handing over to Reclaimed Funds Limited ('RFL') for release to charity. It appears little tracing is done however with contact being largely customer transaction led. The Government released its report in February 2021 on extending the Act to cover other asset classes notably Life and Pensions ('L&P') and Asset Management ('AM') and Securities. It is important to note that the DAS was endeavouring to determine what might eventually become available to charities AFTER an increased effort in tracing lost customers. We have no reason to dispute the DAC that a further £2bn might become available. We do not believe that the Dormant Assets definition covers where a customer's data is known or unknown to be inaccurate.

Unclaimed Assets is the definition preferred by the L&P and AM and Securities sectors to the above. It covers asset classes where assets are due but unpaid (such as policies that have matured, or Life policies where the L&P company knows that the holder has died. It does not cover where inaccurate data is held on a customer (known or unknown) but that customer does not yet have a right to that money.

For the purpose of the FCA Thematic review on the Treatment of Long Standing Customers March 2016 (the FCA Report) **Gone Away customers** were defined as 'all customers firms have lost contact with or are unable to contact' (The FCA had excluded Industrial business from this definition for the purpose of its review). This definition seems to us to be the most relevant and for the rest of this paper '**Gone Aways'** will be referred to and this definition applied.

There is no standard definition across the FSI or indeed across any industry asset class of what constitutes as a Gone Away. The definition of a Gone Away implies that the FSI has attempted to contact the customer and been notified that their attempt was unsuccessful. Many in the FSI do not attempt to contact their customer bases very often. The L&P industry devotes much of its energies to new business once the consumer is contracted. Banks may feel similar once the bank account is set up and initial KYC procedures are completed. This short-term approach to customers inevitably leads to missed opportunities for the FSI to market to its existing customer base, but also falls foul of the new General Data Protection Regulations ('GDPR') principle regarding the need to 'maintain accurate data'. GDPR is effective from 25th May 2018. It is also highly likely that non-communication would fall foul of the FCA principle of treating customers fairly ('TCF') where the consumer has products that should be regularly reviewed for appropriateness. It stands to reason that where the FSI is not communicating to its customer base its Gone Away levels will be 'Unknown'.

Where communication has been attempted a level of Gone Aways will ensue ('Known Gone Aways'). Even then there will always be Unknown Gone Aways as customers move location and become deceased on a daily basis. The level of unknown Gone Aways and Known Gone Aways will be related to the frequency of attempted contact.

No agreement on Definition and many of the FSI not in regular contact with their client base makes for much difficulty in estimating the scale of the problem.

The scale of the issue

The FCA Report section 3.123 to 3.138 attempted to determine the scale of the issue for the L&P sector. The 11 L&P companies sampled (unnamed) had a wide range of Gone Aways ('known' only by definition) with results ranging from 3% to 22% of customers. A Simple average comes to 10% which if expanded to the £2tn L&P industry would be £200bn. This would be horrific but even taking the view that more effort would be spent by all parties including the customers themselves where large sums are involved and taking 10%-25% of the above, **this equates to £20bn-£50bn**. This is still a frighteningly large number. It is striking that we don't know. It is also striking that personal data on say 1 in 10 of customers is wrong even if the financial quantum is smaller. **This would equate to multitudes of small amounts owed to multitudes of ordinary people.**

Adding in the Banks, Building Societies, Asset Managers, Securities industries to the above L&P numbers might double the figures to **£40bn to £100bn** but we don't know.

Benefits of resolving the problem

For the Consumer/ Country

- £1bn has been deposited in Reclaimed Funds Limited ('RFL') following the Bank Act. Only £300m has been spent on charities. It is possible RFL is aware that not enough has been done to trace the true owners in the first place. The consumer has a right to perpetuity to its money. Counter-intuitively more money could be released to charity more quickly if it came after more effort to trace people. An insurance policy would be possible after certain agreed efforts in tracing had been delivered.
- Tracing and returning a portion of the Gone Away £20bn-£100bn into the economy would be significant to GDP particularly as there may well be multitudes of small amounts owed to

the non-rich. Even where amounts are not due, yet the resultant consumer mood shift might have a positive effect on the economy.

- If it is highly likely that this issue is about multitudes of small amounts to non-rich consumers
- Charities shortfall: those bequeathed 'everything' in wills may not have received 'everything'.
- Where Inheritance Tax thresholds are breached these assets are taxable now.
- Can we really say with all our current technology 'we wrote to the last known address twice, received a 'not known at this address' reply both times then gave up?

For the FSI

- The FSI needs to rebuild trust with the consumer post the Financial Services Crisis of 2008.
- A significant re-engagement opportunity.
- For the Pension Annuity industry, reserves held against death can be released to Profit, reducing the Capital requirements.
- Complying with GDPR and the FCA's Principles of TCF and rules around KYC and AML.

Current Partial Solutions

Despite advances in technology and legal measures, the current solutions on offer are piecemeal or misplaced. **My Lost Accounts (UK Finance)** is a Post Box which passes on to the banks consumer queries around the consumer trying to locate lost accounts. It only deals with +15 years Dormant accounts. The **Unclaimed Asset Register (Experian)** charges consumers £25 per search and has limited take up from the FSI in any event. **The Pensions Regulator** - The Regulator has set targets for the standards expected to be achieved for record keeping. Certain data fields of member data should be fully populated to a target of 100% for data post June 2010 and 95% for earlier data. How this is achieved is over to the individual Trustees to determine.

Cass 6 of the FCA Handbook sets out how the FSI's need to try to communicate to gone away customers firstly by letter and secondly by another form of communication telephone etc. Assets held for longer than 12 years can then be liquidated and paid over to charity. **GDPR:**
On the 25th May 2018 the General Data Protection regulation comes into effect which includes the following sections: Article 5 requires that personal data shall be: d) accurate and, where necessary, kept up to date; every reasonable step must be taken to ensure that personal data that are inaccurate, having regard to the purposes for which they are processed, are erased or rectified without delay; Article 15 states that: The data subject shall have the right to obtain from the controller confirmation as to whether or not personal data concerning him or her is being processed, and, where that is the case, access to the personal data: (This is a 'Subject Access Request' therefore cannot be charged for).

Inheritance Data Ltd. Works with executors conducting a search of 200+ FI's, creating a financial picture of the deceased. The service is completely online and access to the report is available 24/7 from the time the search is submitted. If an asset is found by an FI up to six years after the search has been conducted an insurance backed warranty is invoked to cover costs incurred by the executor opening the file, locating beneficiaries, and dealing with IHT issues, to a value of £10k.