

## **FCA Response to ASIC Consultation Paper 224**

### **Facilitating electronic financial services disclosures**

There is a rapid global move toward a paperless world and so there is an element of inevitability embedded in this consultation paper. Therefore it is even more important to stop and consider

- the consequences of moving toward electronic financial services disclosures
- who needs to be protected during the period of change
- how protections can be implemented.

There are two main concerns:

1. Ensuring that people have the information that they need to make an informed choice before entering into contractual arrangements.
2. Ensuring consumer choice on preferred method of disclosure.

Note: There is a distinction between information consumers need and want and what financial services companies may want them to know.

Ensuring that people have the information that they need to make informed choices

- Primary concern of FCA that people have the information that they need to make an informed choice in a format that they can understand.
- Beneficial for business to be certain that customers understand products and services due to potential challenges of maladministration if it can be proven that the customer have no understanding of what they were signing up for.
- Currently the length and language of FSDs mean that many people do not read them.
- People with low literacy are even less likely to have read and understood the information.
- ASIC is exploring innovative use of web-based disclosures

Pros & cons of innovative web-based FSDs:

- There will always be some consumers for whom electronic disclosure will not work and any changes will need to cater for them
- High risk of vulnerable consumers losing access to their telco provider due to lack of credit on pay-as-you-go plans or disconnections and so loss of direct electronic communication
- Web-based disclosures may increase ability to read and comprehend if FSDs are chunked down to simple messages supported by graphics wherein a customer would need to click through the pages of disclosure to confirm that they have read the information
- People can click through the pages without reading or understanding content
- Vulnerable consumers often do not have direct access to internet
- People on low incomes may only have internet access on their phone and will find reading disclosure documents very difficult.
- Approximately 40% of people are functionally illiterate and this may not work for them.
- If there are too many links to get to the information required people will drop out

Ensuring consumer choice on preferred method of disclosure

- Best practice would include asking consumers what their preferred mode of contact is.
- Importantly, there needs to be a clear option for the customer to select their preferred mode of disclosure.
  - (FCA is) concerned that email will become the default method of disclosure wherever both mailing and email addresses are supplied.

- Choice around what sort of information is sent via email vs post is necessary
- Literacy issues mean some consumers may not understand that they have a choice

Providers can monitor whether consumers have opened emails or viewed webpages but it does not indicate that the disclosures have been read or understood.

#### Barriers to email disclosure

- People change emails frequently and there is no ability to forward emails from an old address
- As stated above, high risk of vulnerable consumers losing connection to their telco provider and so inability to directly receive email
- Many people (especially older people) are reluctant to provide email addresses because of fear of scams
- There is so much email traffic these days that consumers tend to ignore or delete emails if they are not immediately relevant
- There is an issue of confidentiality/security of the information. Many people have shared email accounts and may not want personal financial information provided via email where there is no guarantee of security.
- Email addresses that have been provided to FSPs in the past were for different contexts and therefore it cannot be assumed that FSPs can use the email addresses for new purposes without first gaining permission.

#### Other considerations

- People who opt for hard copy documents to be mailed should not be penalised through a fee as this would prejudice many vulnerable consumers, especially aged.
- It would be useful to understand whether consumers do actually prefer electronic disclosure and if they are more likely to read documents electronically.
- The type of information to be included needs to be considered, eg Product Disclosure Statements, Financial Services Guide and Key Feature Statements versus statements with personal information.
  - Default notices proportionately most affects vulnerable consumers with time critical consequences. It is important that these types of communications are sent via modes that consumers are most likely to receive and read. Options include regular mail, email and SMS. Client preferences and permissions must be established to cover privacy and choice.
- Information was currently provided in a range of formats, some more accessible than others eg statements accessed via PDF from the email versus behind a firewall, emails with the key statement information in the body of the email rather than behind a firewall.
- Consumers should be able to opt-in to different types of disclosure and make granular choices.

More research is needed to understand consumer preferences, likelihood of reading FSP's via different modes and most importantly likelihood of comprehension. Meanwhile individual consumer choice must be clearly established regarding options of access to hard copy or electronic documents.