

## Regulator Assessment: Qualifying Regulatory Provisions

**Title of proposal:** Smarter Communications: Removing ineffective disclosure requirements in our Handbook

**Lead regulator:** FCA

**Date of assessment:** 19 July 2016

**Commencement date:** Feb 2017

**Origin:** Domestic

**Does this include implementation of a Cutting Red Tape review?** No

**Which areas of the UK will be affected?** All of the UK – see details of industry sectors impacted below.

- Insurance companies operating with profits business, their customers, potential customers and firms providing advice on this business (Consumer-Friendly Principles and Practices of Financial Management (CFPPFM))
- Authorised fund managers of Undertakings for Collective Investment in Transferable Securities (UCITS) schemes and non-UCITS retail schemes, and services providers such as platforms or third party administrators (short report)
- Home finance and investment firms and general insurance firms (Initial Disclosure Document (IDD) & Combined Initial Disclosure Document (CIDD))
- All firms that offer advice to retail clients or arrange transactions for them in relation to packaged products (Services and Costs Disclosure Document (SCDD))

### Brief outline of proposed new or amended regulatory activity

In 11 October 2016, as part of the Smarter Consumer Communications initiative, we published a Policy Statement amending the FCA handbook to remove the following ineffective disclosure requirements:

1. The Consumer-Friendly Principles and Practices of Financial Management (CFPPFM) document for firms operating with profit business
2. A short report for Authorised Fund Managers (AFM) of UCITS schemes and non-UCITS retail schemes
3. The IDD, CIDD and SCDD templates for insurance, home finance and investment firms.

## Which type of business will be affected? How many are estimated to be affected?

### CFPPFM

- Insurance companies operating with profits business, their customers, potential customers and firms providing advice on this business
- there are currently 52 firms either writing new with-profit business or with in force with-profit business

### Short Report

- Authorised fund managers of UCITS schemes and non-UCITS retail schemes, and services providers such as platforms or third party administrators
- we estimate that firms produce and distribute between 6.7m and 8.1m short reports a year

### IDD & CIDD

- Home finance and investment firms and general insurance firms

### SCDD

- All firms that offer advice to retail clients or arrange transactions for them in relation to packaged products

Price base year	Implementation date	Duration of policy (years)	Business Net Present Value	Net cost to business (EANDCB)	BIT score
2015	1 June 2015	4	133.8	-13.9	-69.5

## Please set out the impact to business clearly with a breakdown of costs and benefits

Full detail of the cost benefit analysis can be found in PS 16/23 (<https://www.fca.org.uk/publication/policy/ps16-23.pdf>) and CP 15/32 (<https://www.fca.org.uk/publication/consultation/cp15-32.pdf>) and a summary is below.

### Removal of the requirement to produce the 'Consumer-Friendly Principles and Practices of Financial Management' (CFPPFM) pre-sale document.

The CFPPFM was introduced in 2005 and was designed to provide potential and existing with-profits policyholders with clear and understandable information about with profits policies. It presented the key information in the full Principles and Practices of Financial Management appropriate to their contract. However, we have received feedback that very few customers read the document and those that do, find it difficult to understand. Therefore, we have removed the requirement to produce the CFPPFM.

As this policy removed an obligation for the firms to produce a document, we do not foresee any ongoing costs arising as a result of its implementation. We expect there will be ongoing savings and one-off adjustment costs for firms due to Principle 7<sup>1</sup> which is described below.

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<sup>1</sup> 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.

To estimate the ongoing savings to business from removing the requirement to produce the CFPPFM, we have estimated the current annual cost of producing the document (and present it as a cost saving). From previous FCA work (See CP04/14: [http://www.fsa.gov.uk/pubs/cp/cp04\\_14.pdf](http://www.fsa.gov.uk/pubs/cp/cp04_14.pdf) and PS05/1 and [http://www.fsa.gov.uk/pubs/policy/ps05\\_01.pdf](http://www.fsa.gov.uk/pubs/policy/ps05_01.pdf)) (2004), and based on data from the Association of British Insurers, we estimated the annual cost of producing the CFPPFM varied between £5,000 and £110,000 per firm. However, given this estimate is over ten years old, we consider today's figure is likely to be closer to the lower end of this scale (primarily due to process efficiencies and a reduction in the amount of new with-profit business) and estimate £10,000 per firm per year. As a sense check, it seems reasonable given firms need to review the contents of their CFPPFM annually, make updated versions available on the web and give them to existing policyholders.

There are currently 52 firms either writing new with-profit business or with in force with-profit business which suggests industry-wide costs to review and produce the CFPPFM of about £520,000 per year. However, through consultation, we received responses from two firms who indicated they would continue to produce CFPPFM which suggests the actual savings from producing the CFPPFM will be £20,000 less (£500,000). Further, in line with Principle 7, we expect firms to consider whether they should provide with-profit customers with information in other ways (instead of CFPPFM). Finding new ways to present this information will generate one-off costs and, if additional information is provided to customers, ongoing costs. In the absence of information on how large these costs might be (and how many firms will incorporate them) we assume a one off cost of £10,000 per firm and assume 50% of the savings from firms as being used for this purpose on an ongoing basis.

This results in one-off costs of £10,000 per affected firm (£500,000) and annual savings per firm of £250,000 for the industry which is rounded to £300,000. As per the guidelines and in the absence of any evidence to the contrary, we assume duration of 10 years.

#### Removal of the requirement to produce the Short Report post-sale document

Our rules require authorised fund managers to prepare an annual report and a half-yearly short report for each UCITS scheme and non UCITS retail scheme that they manage. The short report includes relevant information about the performance of the authorised fund. Short reports were introduced in 2004 because the FSA considered the annual manager's report was so long and detailed that most retail investors found it difficult to understand. However, we have since received feedback that the short report does not meet the original aim of providing clear and focussed information about funds. Therefore, we removed the requirement to produce a short report.

To estimate the cost savings from removing the requirement to produce a Short Report, we have estimated the current cost of providing such a report (and present it as a cost saving). As we are removing an obligation to produce a report, we do not foresee any one-off adjustment costs or ongoing costs (firms may simply stop producing the report). The cost savings are estimated below. Based on industry data, we estimate that firms produce and distribute between 6.7m and 8.1m short reports per year. Although short reports vary in length, they average 8 to 12 pages.

Based on typical costs, we estimate the cost of printing, packaging and distributing the report is likely to vary between £1.67 and £2.19 per report. We estimate that it will typically take firms around 6-12 hours of a senior person's time per year to prepare the contents of the report, which increases the unit price of each short report to between £1.79 and £2.27. Based on the estimate for the number of short reports produced every year, and the unit cost, we estimate that removing the requirement will save firms around £11.8m to £18.8m per year, with a central estimate of £15.3m.

We therefore consider that removing the requirement to produce the short report will save firms £15.3m per year.

As per the guidelines and in the absence of any evidence to the contrary, we assume duration of 10 years.

#### Removal of the guidance to use IDD/CIDD/SCDD templates

The IDD was introduced to help consumers compare the services offered by insurance, home finance and investment firms. There was an additional, expanded template, the CIDD where a firm covers more than one markets. These were originally mandatory templates but were changed to guidance suggesting one way to meet the relevant disclosure requirements. Following concern that these forms were encouraging a “tick box” approach to disclosure as opposed to firms designing an effective disclosure document to help their target customers understand the scope and cost of their service, we removed the templates from guidance.

The removal of these templates will not result in a material change in costs for firms. On the one hand, the removal of the templates will give firms more freedom in the way they wish to present information which may lead to some minimal cost savings. However, in the short term, firms may have to spend some resource deciding how to present such information which could lead to some minimal costs. Given that both of these effects are opposite and likely to be very small, we are confident it will not cost or save firms any money and the net result will be neutral. Furthermore, action taken by policy makers has helped ensure that one-off impacts will be minimised. For example, some firms may have pre-printed templates with a ‘Key Facts’ logo that can no longer be used. However, to ensure they are not burdened by undue costs, the implementation date of was delayed to enable firms to use old stock.

**Please provide any additional information (if required) that may assist the RPC to validate the BIT Score.**

N/A