

Discussion Paper

DP15/5

Smarter consumer communications



June 2015

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Responses should be sent to us by 25 September 2015

Email: dp15-05@fca.org.uk

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Foreword by Christopher Woolard, director of strategy and competition

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A well-functioning market needs informed and engaged consumers. It requires consumers to have access to high quality, appropriate information to help them understand the product or service they have or plan to buy. This is especially true in the financial services sector, where it is important that the information helps empower consumers to make informed decisions about their finances.

Like many other regulators, we have relied heavily on information to help ensure greater consumer protection and make competition work. In some cases we specify the type of information firms should disclose to customers and the format it should take. We will continue to do this where we feel it is necessary to improve outcomes for consumers.

We recognise, however, that information itself does not necessarily empower the consumer. Our work on behavioural economics has clearly shown it can overwhelm, confuse, distract or even deter people from making effective choices if presented in a way people struggle to engage with. We can begin to understand why consumers often fail to make good decisions about financial products and services, when we take into account that:

- behavioural biases, low levels of financial literacy and the complexity of some financial services and products can limit people's ability to take appropriate action
- firms tend to use financial and legal jargon, which can make the materials they produce lengthy and impenetrable for the consumer
- in some firms, marketing material is much more consumer focused than other consumer communications

Communications play a fundamental role in helping consumers to make informed decisions. Effective, engaging information can be a key tool in promoting effective competition to supply products and services that consumers want. Greater transparency in firms' communications with consumers can also lead to greater efficiency for the industry, with less time spent handling complaints.

Effective, engaging information is also already integral to our regulatory approach: we require firms to have due regard to the information needs of their customers, and to communicate information in a way that is clear, fair and not misleading. While some firms may feel they

already do this, from what we have seen in our research, thematic reviews and market studies, it is evident most firms need to do more to communicate with consumers in a way that truly empowers them to make effective decisions.

We expect all firms to embed an organisation-wide culture where the importance of communicating effectively with consumers is recognised and prioritised. The information needs of potential customers need to be fully considered when developing a product or service and throughout the lifecycle of that product or service.

We are committed to driving improvements in the effectiveness of the information consumers receive about the financial products and services they have or want to buy. This discussion paper (DP) is intended to kick start a debate around how the FCA, industry, consumer groups and other stakeholders can work together to deliver information to consumers in smarter and more effective ways, including adopting innovative techniques as we move away from the paper-based mindset.

Christopher Woolard

1.

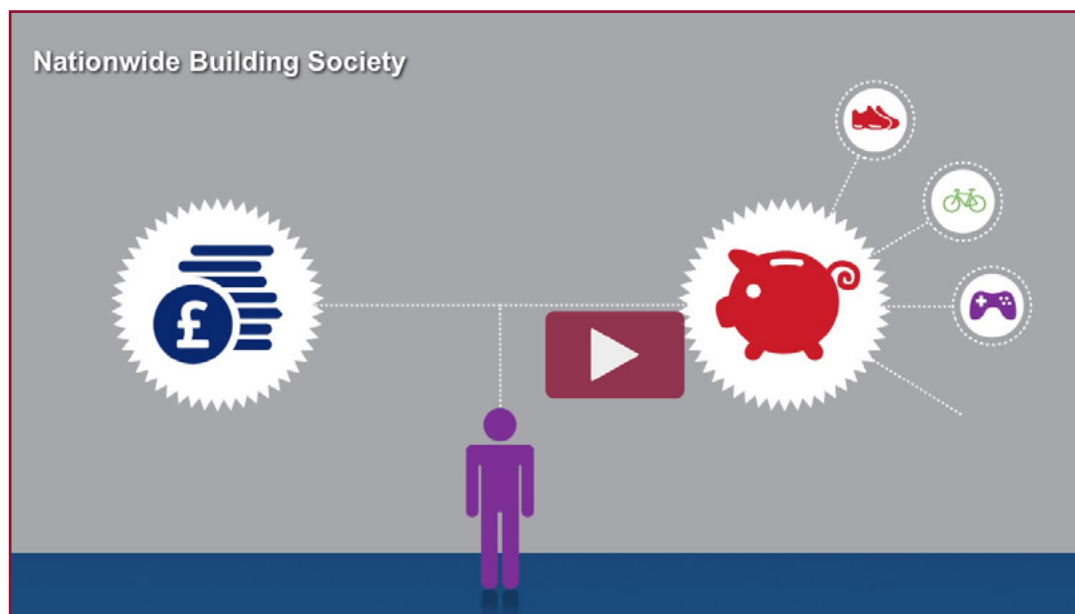
Making communications smarter

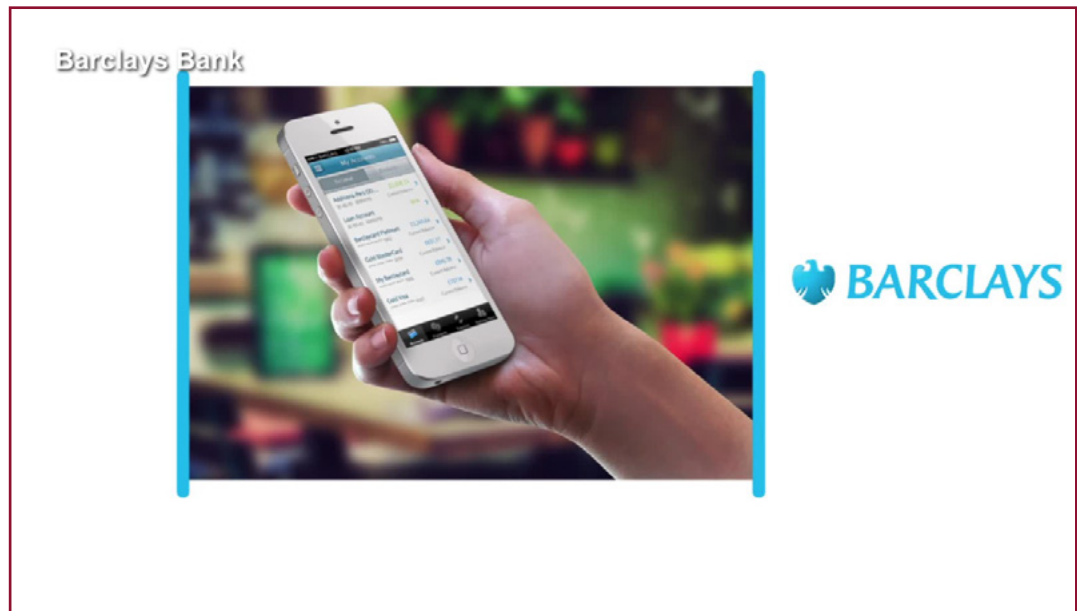
Regulatory context and approach

- 1.1** We are committed to being a transparent regulator - to be clear in how we communicate and in the way we work. When outlining how we would advance our objectives, we signalled that we would place considerable emphasis on greater industry transparency, in the form of clear pricing and clear information helping consumers make informed decisions.
- 1.2** We have investigated the difference between our expectations of firms and firms' understanding of what is required of them. As part of this work, some firms acknowledged that consumers' ability to make informed decisions is often impeded by:
- regulatory disclosure material that does not provide consumers with the information they need in an accessible and understandable format
 - information overload and excessive use of financial and legal language that stops consumers from engaging with information
- 1.3** Some firms indicated that these problems are symptoms of a 'tick-box' approach to communication that is driven by uncertainty about our expectations and fear of action being taken against them.
- 1.4** In this DP, we reiterate our expectations that firms:
- understand and recognise the importance of communicating effectively with consumers
 - create product and service information for consumers with at least as much behaviourally informed creativity as is applied to business development, marketing and financial promotions
 - create communications as an integral part of the product or service design process
- 1.5** We acknowledge that many firms are doing this and in this DP we also signal our support and encouragement for firms that are:
- writing for the consumer first and then ensuring communications are compliant, rather than the other way round
 - moving away from a box-ticking approach to communication design, or the perception that communications driven by regulation are the responsibility of compliance and legal staff
 - building a wider understanding of their customers' information needs and objectively considering not only what consumers actively demand to know, but also:

- what the consumer needs to know
- how much they need to know
- when they need to know it
- prioritising efforts to ensure that information is effective for the intended audience and testing communications among real consumers
- adopting innovative techniques to improve how key information about products is conveyed and delivered to consumers. Nationwide Building Society, for example, has developed a series of videos to help prospective customers of its 11 to 17 years old account understand key banking concepts. The video, shown below, helps people understand the difference between a savings and current account. Barclays Bank also provides a series of online videos designed to help its customers use its mobile banking app.

Video: Nationwide example



Video: Barclays Bank example

- 1.6** Throughout this DP, we have included specific examples of firms' approach to communicating with consumers. We are grateful for firms allowing us to include these examples in this paper, which are provided to demonstrate possible approaches to developing smarter consumer communications. The FCA does not endorse or promote the specific communication provided by these firms nor have we assessed whether the communication, or the circumstances surrounding them, are consistent with our requirements. These examples therefore do not represent a template we expect other firms to replicate, but we hope these inspire firms to think differently about how they communicate with consumers.

Research on smarter communications

- 1.7** To inform our work, we commissioned Oxera Consulting to undertake a literature review to identify good disclosure practice and practical examples of where behavioural insights have been used to improve disclosure. The [research](#) is published alongside this DP.
- 1.8** We also held a series of roundtable discussions with key stakeholders that revealed:
- all industry sectors have some awareness and common agreement around what good practice might look like
 - a real willingness to find new ideas and solutions
 - common agreement that consumers and firms could benefit from making communications as effective as possible
- 1.9** We looked at research undertaken by, and opened conversations with, other financial services regulators, for example in Australia, the US, Sweden, Denmark and Norway, as well as UK regulators of other markets - for example Ofcom, Ofgem and Ofwat - to understand the innovative practices and developments in these sectors.

1.10 The Australian Securities and Investment Commission (ASIC), for example, has developed a series of comics to educate consumers. In one example a comic seeks to communicate information about credit, mobile phones, loans and owning a car to younger people. While this comic is aimed at consumer education, it demonstrates an approach to communicating effectively with a specific demographic.

1.11 We also took into account the findings of wider occasional papers published by the FCA, the results of randomised controlled trials, other research, thematic reviews and market studies we have undertaken.

1.12 Through this work, we identified a number of common behaviours among firms or perceived barriers that were limiting the development of effective communications. These included:

- firms adopting a 'risk-averse' approach to communication design, by using consumer disclosures as a risk-management tool to mitigate potential action against the firm – although little evidence was provided to suggest this had any effect
- a view that the prescriptive nature of EU and domestic legislation leads firms to produce jargon-filled and lengthy disclosures that firms can do little to improve – again no examples were given of requirements that prevented firms from considering how else or additionally to convey important information in a consumer-friendly way
- the view that the costs and operational challenges of changing existing communications outweighed the benefits
- firms treating communications about products and services as of secondary importance compared to the design of the product or service

1.13 We do not consider these perceived barriers sufficient reason that firms should not give greater priority to developing effective consumer communications and believe firms should both challenge these behaviours in their organisations and that, we as a regulator, should support this.

1.14 However, we are pleased with the good practices and innovative approaches to communicating effectively with consumers we saw emerging in some firms. This included firms that:

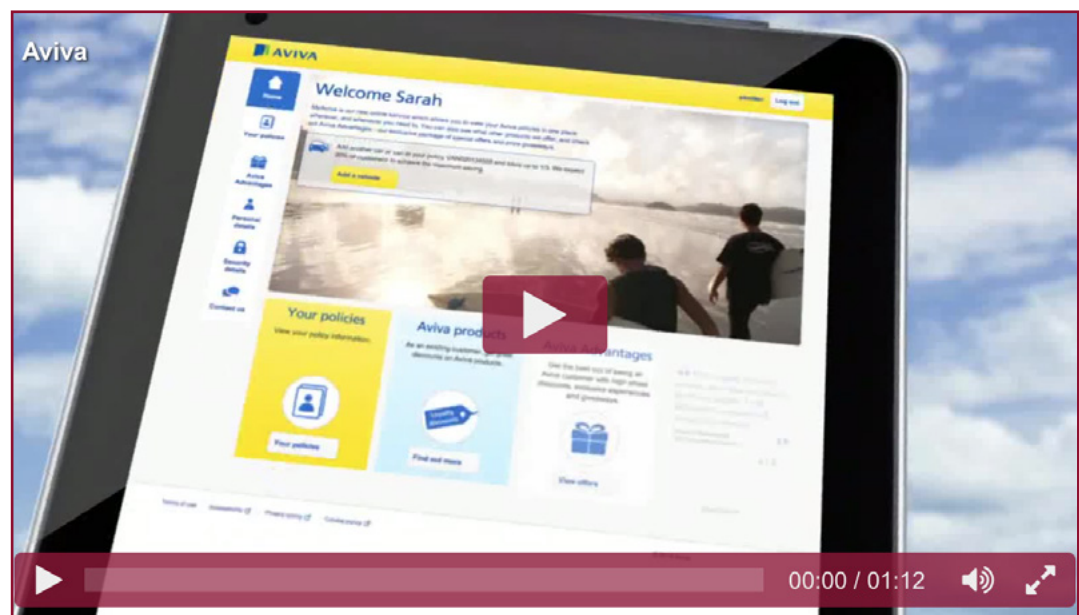
- designed communications to meet the needs of the product or service's target market
- ensured their communications effectively delivered the key information to consumers by, for example, using plain language, a clear and short format, bullet points and clear graphics
- provided information at a time consumers need it and in an engaging format



Source: To The Max – Australian Securities and Investment Commission (ASIC)

- developed interactive communications, harnessing technology such as mobile devices, tablets, apps, social media, YouTube and online tools to ensure key information was more accessible to consumers. Aviva, for example, has developed an online portal which allows its customers to view their insurance documents and check the value of their investments at any time.

Video: Aviva example



Working with you

- 1.15** Through this work, we identified a number of areas where both we and the industry can do more to improve the quality of consumer communications.
- 1.16** This DP presents an opportunity to see just how far we can work together to ensure that consumer communications better engage and empower consumers. We are particularly keen to:
- address information provision requirements, contained in our Handbook, which prevent or inhibit firms from effectively communicating key information to consumers
 - explore specific areas where industry and other stakeholders should work collaboratively to address issues with the information provided to consumers
 - Action for firms, consumer groups and other stakeholders

Action for firms, consumer groups and other stakeholders

Your views

We would welcome:

- Q1:** Examples of proven and effective approaches to consumer communications in other financial and non-financial markets (UK and international).
- Q2:** Evidence of effective approaches to customer communications that you have already developed and tested.
- Q3:** Evidence that any information provision requirements contained in the FCA Handbook prevent or inhibit firms from effectively communicating important information to consumers. If so, which rules and how?
- Q4:** Suggestions for making information more effective and engaging specifically for consumers of the asset management industry.
- Q5:** Examples of any other approaches to customer communications that you are currently developing and/or testing.

In relation to the specific industry issues discussed in the 'Areas for industry to drive change' section:

- Q6:** Do you agree there is a role for industry and other stakeholders (collectively as a market or at an individual firm level) in addressing the issues identified?
- Q7:** Do you have any views on the ideas we set out in this discussion paper and can you suggest other approaches that would achieve similar outcomes or objectives?
- Q8:** Do you have any evidence that other areas in the financial services market require specific improvements in consumer communications?

Responses should be sent to us by 25 September 2015 using the online response form or emailing dp15-05@fca.org.uk

Controlled testing

We are keen to start engaging immediately with regulated firms, new innovator businesses or other interested parties to find ways to make consumer communications as effective as possible. We strongly encourage firms with ideas for smarter ways to communicate with consumers, to volunteer to involve us in testing their proposals and to share the results with us.

We will look to work with a selection of firms that submit particularly innovative customer-focused ideas with a strong potential for improved consumer outcomes. Where an idea has strong potential for consumer outcomes to be improved, we may consider waiving or modifying certain disclosure rules, if appropriate, to facilitate this testing. If the tests are successful, we may

also look at how we can use the results more broadly; such as providing a strong evidence base to inform and influence our negotiating strategy when certain EU directives are (re)negotiated or lead to changes in our rules.

Interested firms should complete a short online form to signal their interest.

Other input

If you have research or ideas about improving consumer communications, or are aware of alternative approaches that have been effective in other sectors, in the UK or abroad, we encourage you to share this with us.

Send us your feedback

Next steps

- 1.17** We will carefully consider all comments and publish feedback on the responses received later this year.
- 1.18** We will also use the responses to this paper, where relevant, to inform our ongoing interactions with the EU and domestic regulators on disclosure issues.
- 1.19** We will work with firms to test new ideas. The results of this testing, if effective, could inform our regulatory approach, lead to consultation on rulebook changes and could also influence our negotiating strategy when European directives are (re)negotiated.
- 1.20** We will also consult later in the year, on proposed changes to some of the Handbook disclosure provisions we discuss in this paper.

2. FCA Handbook review

2.1 Mandated disclosure is one of the regulatory solutions that regulators use to address market failures. A key element of our work on smarter consumer communications has therefore been to consider:

- the extent to which our disclosure requirements have been effective at empowering consumers to make informed decisions about their finances
- whether changes can be made to certain Handbook disclosure requirements to improve their effectiveness

2.2 Our Handbook contains product disclosure requirements for investment products, mortgages, general insurance, banking and consumer credit products, among other specific areas. The information required to be disclosed differs depending on the complexity of the product and risk to consumer outcomes.

2.3 Some of our Handbook disclosure requirements stem from European Directives or Regulations. Where the EU has legislated on product disclosure, our ability to make or amend our Handbook will be constrained by that legislation. However, there are still opportunities to improve disclosure particularly during legislative reviews.

2.4 We have considered whether we can change any of our non-European Handbook disclosure provisions to improve their effectiveness. We have also reviewed our Handbook rules to ensure they do not inhibit effective competition. Through this work and our discussions with firms and other regulators, we have identified sections that have not been as effective as we first envisaged in terms of informing consumers, and therefore we intend to consult on their potential deletion.

2.5 These sections include:

Name	Description	Issue
The 'Consumer-Friendly Principles and Practices of Financial Management' (CFPPFM)	Customer disclosure document setting out the firm's approach to managing and operating its with-profits business, including its approach to setting bonus rates and smoothing and market value reductions.	Anecdotal evidence and previous reviews suggest that most consumers do not read the CFPPFM and, if they do, complex wording or superficial explanations inhibit understanding making the communication not as effective as first envisaged.

Name	Description	Issue Issue
The Initial Disclosure Document (IDD)/ Combined Initial Disclosure Document (CIDD)	Guidance in COBS, MCOB and ICOBS suggests that firms can, if they wish, use a template to disclose their services and how much these cost.	The template duplicates information to consumers and firms adopt a 'tick-box' approach to these disclosures.
Short report	Half-yearly, post-sale disclosure produced for investors in retail authorised funds.	May not meet original aim of providing clear and focused information about the fund.

- 2.7** We will consult later this year to remove the rules and guidance relating to these documents. We will also take steps to prevent new obligations under COBS 14.4.1 – 14.4.3, relating to the delivery of the short report to intermediated investors, from coming into effect until after the conclusion of the consultation.

Action for firms and other interested parties

Although we intend to consult to remove requirements for firms to produce the short report, we believe that more innovative approaches could be explored to meet consumers' information needs. Where a communication aims to inform consumers about important changes to a product, or about how to exercise their rights, it is more likely to succeed where the information is clear and consumers have straightforward channels to engage through.

What can be done to ensure that this kind of information engages, informs and empowers consumers? For example, can firms find other ways to give investors in funds and other investment products useful information in a convenient format? We would like to hear from you with ideas and suggestions for delivering important information to consumers in ways that respond effectively and engagingly to their needs. This could be information provided in written form or by using technology such as videos, recorded messages or interactive media.

We are particularly interested in your views on whether consumers can be empowered by making it clearer to them what rights they have and making it easier for them to interact with firms to exercise those rights. This refers both to consumers accessing a product or a service directly from the relevant provider, and those using a third party such as a platform service provider. Should these two groups be given the same information and rights to maintain a level playing-field – as the rules and guidance in COBS 14.4 aim to do for investors who hold funds through an intermediary – or is there a need to differentiate them? Are there specific issues we need to address when investors use a platform or a provider firm's nominee structure?

Other areas of change and work in progress

- 2.8** There are a number of other steps we will take to help firms improve the quality and effectiveness of the information they provide to consumers:
- We will focus on improving consumer outcomes when considering potential new disclosure requirements or discussing improvements with firms. If a firm considers we are requiring unnecessary information to be provided to consumers, it should challenge any such request, explaining why its alternative approach improves outcomes for consumers.

- We will continue to explore behavioural impacts of communications by trialling different approaches with firms. We have already undertaken significant work to date, which is summarised in Annex 2.
- We will continue to push in EU legislative negotiations for any proposed information provision requirements to be informed by consumer research and to be tested among consumers in realistic scenarios. We welcome evidence from stakeholders that consider a particular EU provision prevents firms from producing smarter consumer communications. Annex 3 provides details of the EU directives (existing or under negotiation) that include information disclosure requirements.
- Wherever possible and appropriate, we will publish the findings we gather from our continuing behavioural insights work.
- Where available, the results of consumer testing will be used to inform Handbook rules and guidance.

3.

Opportunities for change: specific industry issues

3.1 While a number of industry-led initiatives have delivered improvements in the quality of information provided to consumers, there remain a number of areas across the UK financial services market where improvements are needed to enable the consumer to:

- understand the products and services they already have
- make informed financial decisions (not just at the point of sale) that are appropriate to their needs
- exercise choice in the market

Action for firms, consumer groups and other stakeholders

We welcome input, suggestions and action to address the specific issues we identified in relation to:

- presentation of terms and conditions
- disclosure of fees and charges
- helping consumers direct queries to the relevant part of a firm quickly and easily
- raising consumer awareness of the [Financial Ombudsman Service](#) and the cover offered by the [Financial Services Compensation Scheme](#) for specific products or services
- common terminology in the general insurance sector
- complexity of information provided to consumers at retirement
- transparency around the scope and cost of an investment advice service

4. Terms and conditions

Terms and conditions (T&Cs) typify consumers' concerns about information complexity and overload. We encourage the industry, working with relevant stakeholders, to focus on bringing about improvements in T&Cs.

- 4.1 Of all the communications provided by participants across the industry, T&Cs typify the most common concerns about information complexity and overload.
- 4.2 In practice complexity and overload can cause customers to misunderstand or simply not read the T&Cs.

Current perceptions of T&Cs

- 4.3 The FCA Practitioner Panel's research on consumer responsibility found that almost no one claimed to read the T&Cs and the few that did were left none the wiser. This finding reflects our own work, such as the general insurance add-ons market study, which concluded that 'even "highly motivated" or more knowledgeable consumers rarely read all the small print'.
- 4.4 Where the presentation of the T&Cs inhibits the consumer's ability to engage with the contents in any meaningful way, this discourages them from even trying. Low engagement levels could have a direct impact on consumers' financial wellbeing by:
 - causing consumers to ignore information or fail to understand which information is important
 - leading consumers to enter into financial services agreements without understanding even the most essential features, exclusions and charging regimes for the product

Current practice

- 4.5 Our industry roundtables revealed a widespread belief that there is little scope to improve the accessibility of T&Cs because lengthy complex information is required by regulation.
- 4.6 We accept that T&Cs constitute (part of) the legal contract between the firm and the consumer. The content of the document governs the relationship between the parties and determines the basis on which the financial service is provided.
- 4.7 Nevertheless, in many cases we believe T&Cs, as they are currently written, provide evidence of an over-disclosure approach that some firms have adopted as a mechanism that they believe mitigates risk of action: contractual disputes, court proceedings, regulatory action or complaints

escalated to the ombudsman service. Not only does this approach have implications for firms' printing and distribution costs, but participants in our roundtables provided no compelling evidence that this was a successful risk-mitigation strategy. This approach all adds to consumer misunderstanding and consequently a lack of trust.

4.8 Furthermore, some firms continue to take the view that where an investor clicks to open the T&Cs, the firm's obligations have been met. It is questionable how a firm can satisfy itself that it provides information to consumers in a way which is clear, fair and not misleading when, for example:

- the box confirming the T&Cs have been read can be selected by the consumer before the time it takes a person of average cognitive ability to read the document
- the consumer is given less time to enter into a binding agreement than is required to read the T&Cs

4.9 A study by the European Consumer Organisation, BEUC, observed that many provisions are clearly not written for consumers, but rather are intended for 'third parties, such as the consumer's lawyer... relevant primarily in case of conflict'. We share the concern that some provisions might be more relevant for underwriters, indemnity insurers or other third parties who may be engaged during the operation of the product or service, rather than the end consumer.

How might industry bring about improvements?

4.10 Where our rules are considered to be the greatest barrier to clearer T&Cs, we invite firms to raise this with us so that we can explore whether there is more that we can do to help them.

Content

4.11 Unenforceable contracts would harm both firms and consumers. It is critical that firms' T&Cs provide as much legal certainty as possible. However, this should not prevent firms from improving the quality of their T&Cs. We support:

4.12 The inclusion of the core minimum information that legally must be communicated to the consumer in the contractual 'terms & conditions'.

4.13 Only including information about legislation and regulation where actually necessary or relevant, rather than as a 'just in case' compliance measure. In one example we have seen, a firm reviewed their T&Cs to ensure it included only the essential information and presented this in a way their target audience could understand and engage. This resulted in a four-fold reduction in the length of a particular product's T&Cs so it was just six pages in length.

Design and delivery

4.14 Firms could explore additional or alternative mechanisms for highlighting the most critical information for the consumer that might better:

- alert them to their rights and responsibilities
- enable them to take into account materially important information
- improve their ability to avoid or minimise poor outcomes

4.15 Some firms have begun revising their T&C design process, simplifying the substance by distilling the consumer's rights and obligations into a set of questions and answers (Q&As). This can be a particularly effective mechanism for improving T&Cs, as Q&As often contain the answers to questions that consumers may not know to ask.

4.16 Oxera's research found that layering information so that the consumer receives a summary disclosure of the most important information upfront, with clear signposts to other additional information, was particularly effective at enhancing consumer engagement. Where not prohibited by legislation, a layered approach could make engagement with the T&Cs less onerous for all consumers. Where this is currently prohibited, we would like to hear from you so we can assess what action can be taken.

4.17 We have spoken to some firms that are exploring new ideas for communicating key features in a more digestible and engaging manner, for example, through online pop-ups at specific points. We are also aware that the British Bankers' Association and its consumer panel are considering the layering of T&Cs for personal current accounts (condensing key terms to ten or so bullet points with sign posting to additional terms). We welcome this initiative.

Other ideas

4.18 Presenting T&Cs as Q&As, layering information or using pop-ups are just some ways firms could improve their T&Cs. We are keen to explore whether there are other ways, such as:

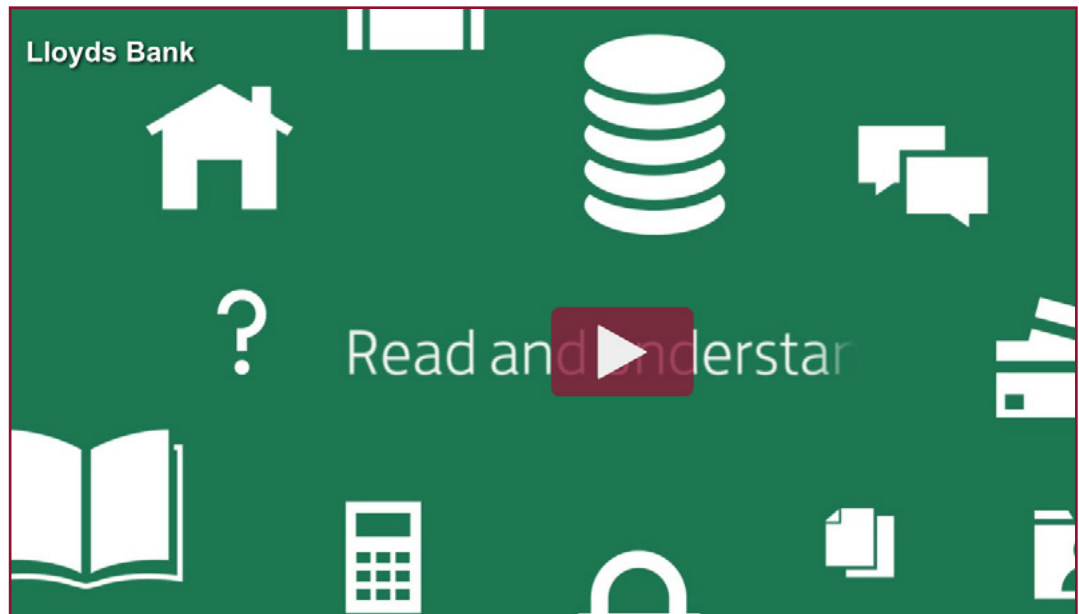
- using simple pictorial diagrams and tables
- using audio clips - though care should be taken to frame them appropriately, as research by the Radio Advertising Bureau, for example, identified that consumers 'tuned out' of the wealth warning sections of radio commercials (often content that is repeated verbatim or similarly in T&Cs)
- supplementing T&Cs with core messages distilled in video clips or animations, built into an application process where applications can only be progressed after playing the 'must know' clips. Lloyds Banking Group, for example, has launched an animated infographic to explain its online banking terms and conditions, to help customers understand the key aspects of the service.

Other ideas

4.19 Presenting T&Cs as Q&As, layering information or using pop-ups are just some ways firms could improve their T&Cs. We are keen to explore whether there are other ways, such as:

- using simple pictorial diagrams and tables
- using audio clips - though care should be taken to frame them appropriately, as research by the Radio Advertising Bureau, for example, identified that consumers 'tuned out' of the wealth warning sections of radio commercials (often content that is repeated verbatim or similarly in T&Cs)
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Video: Lloyds Banking Group example



5. Fees and charges

Providing clear information about all costs and charges associated with a product or service can encourage better consumer outcomes. We welcome ideas and views on how this can be achieved.

- 5.1** Consumers are best able to assess the quality of a product or service and whether it meets their needs when they are fully informed about its key benefits and features. Oxera's review found that, usually, the most important information for consumers to be aware of is the price or charges associated with the product or service.
- 5.2** We remain concerned that financial services consumers may:
- pay more than they expect because of the opaque nature of some costs
 - not appreciate the full suite of costs that a product or service can attract over its lifetime
 - be unable to identify how costs described as 'fees' and 'charges' differ from each other in terms of operation and effect, if at all
 - find it difficult to compare total costs

Current practice

- 5.3** It therefore seems some firms could do more to volunteer more explicit information about the cost of their services. Some market research indicates that requiring firms to disclose information about prices at the point of sale would help inattentive consumers. It could minimise the effect of 'present bias', by bringing distant costs into the present.
- 5.4** Of course, simply disclosing cost information does not necessarily empower consumers to make effective decisions. This information should be presented clearly, disclosed at an appropriate time and provided through a suitable medium. For example, in the general insurance sector, it is not clear whether the existing approach to providing total fee information (including additional costs to make mid-term administrative changes) effectively:
- addresses other bias such as 'overconfidence'
 - empowers consumers to fully consider the impact that the costs could have on the total cost of their insurance
- 5.5** This may mean that there is little pressure on the level of fees insurers charge to make mid-term administrative changes to a policy.

- 5.6** In the mortgage market, Which? has also highlighted concerns that a consumer's ability to compare products and to understand all associated costs is made particularly difficult by:
- the significant number of additional fees that a consumer can incur
 - a lack of consistency in terms of fee terminology and the purposes for which charges are raised
 - insufficient clarity as to which costs are avoidable
- 5.7** These are just two examples to illustrate a cross-industry issue.

How might industry bring about improvements?

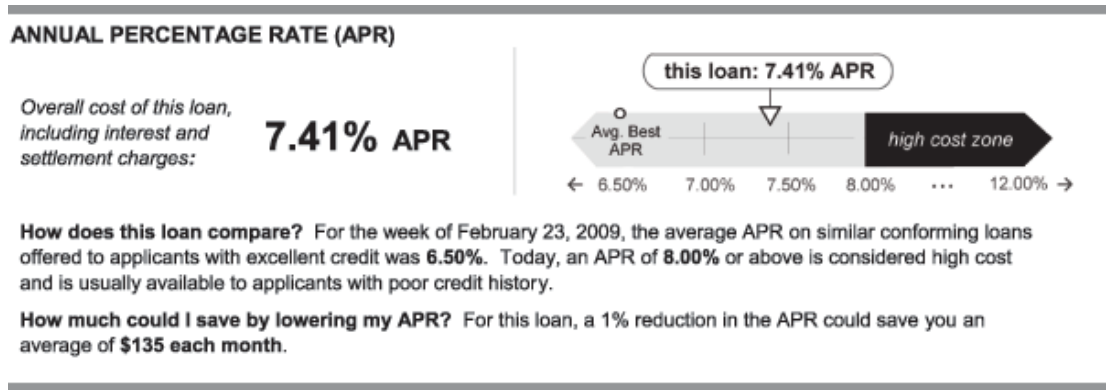
- 5.8** A number of EU initiatives have addressed, or are seeking to address, cost transparency. This includes initiatives in the investment, consumer credit and mortgage markets.
- 5.9** However, we feel there is more that the industry can do to help ensure consumers:
- appreciate the total costs they could incur
 - do not ignore potential additional charges that could apply to a financial product
 - consider all the relevant factors when shopping around
- 5.10** Depending on the nature of the market and the costs, there are a number of potential ways to help present clearly the full costs associated with a product or service in the information given to consumers:
- (Re)inform the consumer clearly at the point at which it becomes apparent that an additional charge may be incurred, and not exclusively at the point of sale. This strategy will only benefit the consumer, however, if it is a cost that the consumer can, at that point, act to avoid.
 - Quantify or express in monetary terms where limits or caps apply, giving consumers a better understanding of the effect of costs at the time of sale.
 - Where a product life cycle or service relationship is typically long term, and costs can be incurred throughout (such as in the investment sector), a generic timeline with payment points noted against the various stages might be a simple and easy way to present the costs consumers are expected to pay and at what point.

- Again in the investment sector, the cumulative effect of charges can have a significant impact on the value of the consumer’s investment in the longer-term. While this can be a difficult concept for some consumers to understand, presenting this graphically with a clear explanation could help. Nutmeg, for example, seeks to do this when explaining its fees and charges.



- Require firms to illustrate how the fees and charges compare with other products available on the market. For example, the Federal Reserve Board used a graphic in its own study into ways to improve disclosures related to financial products and services, shown in the example below.

Federal Reserve Board’s home-secured credit disclosure graphic



Federal Reserve Board (2011), 'Designing Disclosures to Inform Consumer Financial Decision making: Lessons Learned from Consumer Testing', Federal Reserve Bulletin, 21 October.

5.11 The point at which information is provided affects its relevance. For instance, while firms could include such information in marketing material, doing so may be counterproductive if it contributes to 'information overload'. However, we consider that providing clearer information about the costs of a product can encourage better consumer outcomes. We would welcome views on how this could be achieved, including comments on the ideas set out above.

6.

The Financial Ombudsman Service and the Financial Services Compensation Scheme

There is more the industry can do to help consumers to identify:

- who is the most appropriate person to speak to when they have a comment or query about a product or service that is not operating in line with their expectations
- where a product or service is potentially covered by the Financial Services Compensation Scheme

We welcome ideas and views around how this can be achieved.

- 6.1** The FCA, the Prudential Regulation Authority (PRA), the Financial Ombudsman Service (the ombudsman service) and the Financial Services Compensation Scheme (FSCS) are separate organisations that all play an important part in the relationship between firms that provide financial services and their customers. One of the benefits to consumers of transacting with an authorised firm in respect of a regulated product or service is the corresponding access to the services and protections these organisations offer.

Queries and complaints

The ombudsman service

- 6.2** The ombudsman service settles individual disputes between consumers and businesses providing financial services. However, it currently receives enquiries from consumers who are not looking to have a complaint investigated, but are trying to identify what to do when they have a comment or query about a product or service that is not operating in line with their expectations.
- 6.3** Typically, what matters to the consumer is the quick and effective resolution of an issue. In many cases, the most appropriate and efficient resolution could be delivered early by direct contact with the firm itself, often by frontline staff. Many 'complaints' are caused by misunderstandings that the business could quickly put right if the matter was brought to their attention.

How might industry bring about improvements?

- 6.4** We consider that some firms could do more to help consumers identify where they should be directed, irrespective of whether the issue the customer wants to raise constitutes a complaint.

- 6.5** Encouragement to contact the firm directly at any time they wish to comment, or ask a question about a firm's product or service might appear easier, less daunting and less adversarial to the consumer than trying to articulate the issue as a complaint.
- 6.6** In CP14/30, we proposed limiting the cost of post-contractual calls to financial services firms. We expect to publish a policy statement in summer 2015, which will set out timescales for implementation. Firms might also want to consider reassessing whether product or service specific material helps consumers easily understand when, why and how they can contact the firm about the performance or operation of a product or service. This may lead to greater consumer satisfaction and business efficiencies for firms if it helps ensure consumers reach the appropriate department on the first attempt at contacting the firm.
- 6.7** We accept that a number of firms already offer consumers comprehensive 'contact us' details. However, some consumers are deterred or frustrated by being unable to identify the appropriate route from extensive menus of options. Where it is not already provided, the example below offers a basic illustration of how labels could be used to convey crucial information in an identifiable and understandable manner.

Can we help?

If, at any time, you wish to tell us something or ask a question about this [product/service], please contact ABC Financial Services PLC:

Tel: 0000 0000 0000
Email: 000000@abc-fs.abc
Website: www.abc-fs.abc

If you do have a complaint, we'll do our best to resolve it. However, if you're not happy with our response, the Financial Ombudsman Service may be able to help. We'll explain how at that point.

If you require further information you can contact the service directly:

Tel: 0800 0234 567
Website: www.financial-ombudsman.org.uk

Financial Services Compensation Scheme

- 6.8** The FSCS is the UK's statutory compensation fund for customers of authorised financial services firms. It can pay compensation to eligible customers of a financial services firm that is unable, or likely to be unable, to pay claims against it.
- 6.9** The FSCS is a compensation safety net intended to protect consumers. Its existence should, therefore, lead to a greater confidence in consumers' dealings with financial firms, from which the entire industry benefits.
- 6.10** However, the banking financial failures in 2008/9 revealed that, at the time, most consumers were unaware of the existence of the FSCS and of deposit protection. As a result, the Tripartite authorities and FSCS sought to address this via:

- detailed disclosure rules
- an FSCS consumer communication campaign
- PRA rules requiring the use of stickers and posters in branches, and the provision of key information and signposts on websites

6.11 A third of current consumer awareness of FSCS is generated by the industry (through deposit-takers), and the FSCS's research found that knowledge of a compensation scheme can influence a consumer's decision to buy a financial product.

Next steps

6.12 The FSCS is continuing to work with the PRA, the FCA and deposit-takers to shape the next three years' awareness-raising efforts. This includes applying the FSCS badge to relevant consumer communications. While FSCS research shows awareness of protection for deposits has improved, the FSCS believes there is still insufficient consumer awareness and understanding about how deposit protection operates. The FSCS considers that further work is required to embed and extend awareness and understanding of certain key information that:

- empowers consumers to act to ensure that their money is fully protected
- reassures and informs consumer behaviour before a failure and in the event of a firm failure

6.13 Understanding how FSCS protection applies may be relevant to the initial decision to buy an investment, long-term insurance or general product and service. However, determining the availability of protection is not always straightforward, as it depends on a number of variables, including the transaction and the consumer. Different limits apply depending on the type of firm that has failed and the nature of the product or service.

How might industry bring about improvements?

6.14 Many firms include high-level statements in their financial promotions and disclosure documents that the consumer may be entitled to compensation, depending on the type of business and the circumstances of the claim. But we consider that the industry could do more to help consumers identify, before they enter into a binding contract, those circumstances in which the FSCS can provide compensation.

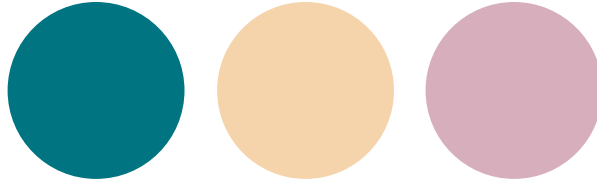
6.15 One approach could be to require firms to use the FSCS badge on their product literature to increase awareness of the scheme. FSCS research shows that consumers find this reassuring. Another suggestion is the use of simple labels based on the widely understood traffic light system. The aim would be to inform and reassure rather than alarm.

6.16 We accept that it would rarely be possible to give the consumer all the information that would be needed in a quick visual representation. But a short visual summary of FSCS protection may help highlight an issue that is potentially important for the consumer considering a product or service. Any such label would not replace more detailed information, but would direct the consumer to find that information (via the firm which should determine and communicate

the protection available). We would want to test the effectiveness of any such labels but, to stimulate a debate about the traffic light suggestion, we provide some basic examples:

Figure 1: Green light - a non-compulsory general insurance policy

What if ABC insurance cannot meet its obligations?

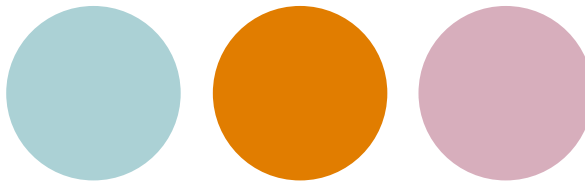


If your claim meets the conditions for compensation, the Financial Services Compensation Scheme can pay up to 90% of your claim if we (your insurer) are unable to pay.

To find out more visit [provider's website].

Figure 2: Amber – an investment contract

What if ABC investment cannot meet its obligations?



If your claim meets conditions for compensation, the Financial Services Compensation Scheme may be able to provide compensation, up to a maximum £50k, if we, your investment provider, become unable to pay.

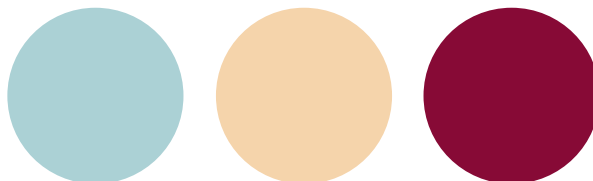
The FSCS does not compensate for investment risk.

Find out when you will be covered on [provider's website]

If you are not sure whether this investment is right for you, speak to a financial adviser.

Figure 3: Red – E-money provider

What if ABC e-money provider cannot meet its obligations?



You will not be entitled to compensation from the Financial Services Compensation Scheme if we, the provider, fail.

7. General insurance – common terminology

We have identified a number of issues in the general insurance market that can potentially be addressed through effective consumer information. We welcome ideas and views around how this can be achieved.

- 7.1** We have carried out work in a number of general insurance (GI) markets in recent years. This work highlighted a number of disclosure-related challenges, including a concern that information provided to consumers often did not help them make an informed decision. A number of shortcomings were identified where information could be insufficient, incomplete, provided at the wrong time or presented in a potentially misleading way.
- 7.2** Our thematic work and market studies also provided crucial insights into consumers' understanding of the products they were buying and the drivers for their behaviour in general insurance markets. For example:
- Consumers often had poor understanding of products: they made significant mistakes when asked questions about cover. Although many participants indicated they were happy with the information given, these were participants who had never had to make a claim; on review, they were surprised by their policies.
 - Household and travel insurance customers who had their claims rejected were less likely to have understood or read their policy documents compared to those who had their claims paid out.
 - Consumers find it difficult to compare products and the different elements of cover.
 - Consumers were very driven by price, but often did not understand that different prices might reflect different levels of cover, instead assuming higher prices meant a firm was just charging more and making more profit.
 - Consumers found language confusing, though the general insurance add-ons market study qualitative consumer research also highlighted that language that appeared clear could give rise to a false sense of security, if accepted at face-value without close scrutiny of 'clauses in documentation that might, should occasion arise, cause problems subsequently'.

How might industry bring about improvements?

Consumers are often heavily focused on price

- 7.3** Core personal lines general insurance, such as motor or home insurance, is heavily price-focused with firms keen to appear at the top of comparison tables. However, we are concerned that this form of competition in the general insurance market does not necessarily work in the best interests of consumers if it is not supported by information that facilitates consideration of

cover and quality. Our discussion paper DP15/4 explores options for introducing a market wide transparency measure to encourage competition on aspects other than price, such as product value.

- 7.4** From the consumer perspective, research accompanying the Price Comparison Website Thematic Review, demonstrated that consumers do not see policies as different, either when comparing policies or different insurers.
- 7.5** Even where consumers do want to 'do the right thing', they find it difficult. Comparisons are difficult, in part because language is complex and confusing, and because policies themselves are difficult to compare. Ultimately, this can lead to mis-buying and further erosion of trust.
- 7.6** The table below takes a specific example, a courtesy car, to illustrate the problem that consumers encounter when trying to understand terminology and draw clear comparisons. The different policies included in this example potentially offer courtesy car cover, but the type of car and circumstances under which it will be provided differ. Despite the availability of clear definitions, a consumer could make assumptions about what the terminology means without making the distinctions they should on closer reading. These problems also exist for other product features.

Firm A – part of policy – courtesy car – standard

If you select the courtesy car option, a replacement car is provided by one of our approved repairers and is available for the duration of any repairs. If your car is stolen or written off, we provide a hire car until an offer is made to settle the claim (up to a maximum of 14 days).

Designed to keep you mobile during the period of your claim, this option should satisfy the needs of most customers. A standard courtesy car is typically a small, three-door, one-litre hatchback model.

Firm A - add-on – courtesy car – enhanced

Only available with comprehensive cover, you have the option to select an enhanced courtesy car if your vehicle is involved in a claim. We recognise that not all people's needs are the same, and as a result we're offering the option of a larger courtesy car.

This option is best suited to customers who already have a larger car and use it for situations like the school run, have small children and need room for a pram, or use their car for business which may involve a lot of motorway driving. An enhanced courtesy car is typically a five-door car with a 1.6 litre engine and room to seat five-people.

If you select the courtesy car option, a replacement car is provided by one of our approved repairers and is available for the duration of any repairs. If your car is stolen or written off, we provide a hire car until an offer is made to settle the claim (up to a maximum of 14 days).

Firm B – part of policy – courtesy car

Provides a hire car while your car is being repaired following damage covered by this policy. The car provided will be of a similar body type and size to your car. It will have the same number of doors and seats, and the same transmission as your car.

Firm C – part of policy – hire car – A class

A hire car (for example a small three-door hatchback) will be supplied by us for the duration of the period during which your car is repaired while at one of our recommended repairers.

Firm D – part of policy

A courtesy car after an accident if you use our approved repairers.

Firm D – optional cover – hire car cover

If your car is written off or stolen and not recovered, this cover will provide you with a car to use anywhere in the UK for up to 21 days. All named drivers on your policy between 18-79 (with a full UK license) will be able to use this car and you will be covered for up to two claims per policy.

[NB all accessed on 15 January 2015]

- 7.7** For a consumer who assumes there is no difference in cover, or does not engage fully with the product sales information, the risk of purchasing something not appropriate for their needs, and therefore opening the expectations gap is significant.

Improving explanations at decision-making points

- 7.8** We are interested in ideas for how firms could provide better explanations of key features, benefits and exclusions, which are accessible to consumers when they are making decisions.
- 7.9** There are different ways of achieving this aim. One is to define single, consistent meanings for features such as courtesy car, meaning that consumers can have a clear idea that when a policy states it has such a feature, that it will mean the same thing. Alternatively, or in addition, firms could demonstrate clearly to consumers where their cover differs from the agreed definition, perhaps by using a table like the example below:

Key features	Cover provided
Windscreen cover means your windscreen will be repaired or replaced following a loss or damage claim.	Yes – you are covered. Your sunroof is not covered. You must pay the first £50 of any claim.
Loan car if yours is damaged if you are involved in an accident and your vehicle needs to be repaired, then we will give an alternative car for up to XX days.	You will be able to get a car which is of the same specification to your own. We will deliver this to your home within 48 hours.

- 7.11** We note that the ABI, in its evidence to the CMA's private motor insurance inquiry, suggested that more work could be done in this area: we would be interested in understanding whether

firms believe this would work in the general insurance sector. For example, whether and how a common set of terminology and format for display could be devised and maintained.

Quality ratings

- 7.12** An assessment of features other than price could improve a consumer's ability to navigate purchasing decisions. Getting consumers to take into account alternative considerations, such as product features, or elements of customer experience such as claims handling, and allowing them to rate and rank on these features as well, has the potential to encourage a wider assessment of what they need from a general insurance policy.
- 7.13** We have seen a growth in different mechanisms to engage the consumer in a wider assessment of general insurance products, bringing in features other than price. We are interested to understand whether research indicates that consumers are using these methods, and how it is influencing their decision-making process.

8. Complexity at retirement

We are looking to improve the information consumers receive as they approach retirement. There is more that can be done to address the complexity of terminology and language used in this market. We encourage industry and other stakeholders to work together to address this issue.

- 8.1 Consumer inertia and lack of engagement are particularly prevalent when it comes to retirement planning and saving. Until recent changes in the pensions landscape, choices made at retirement were typically irreversible. Yet numerous research studies have found that many consumers fail to think about important retirement decisions until it is almost time to retire.
- 8.2 The need for consumers to engage has never been more acute. The pension reforms place more responsibility on individuals to make decisions about their pensions savings at retirement. They also introduce a host of new terminology in a market where complexity already deters some consumers from engaging.

Research

- 8.3 Research indicates that many consumer biases are due to the amount and quality of information that is made available to consumers and the way in which it is provided. For example numerous studies, such as work undertaken by Ignition House on our behalf that looked at consumer decision making at retirement, have found that many communications include standard industry terms that are rarely understood by consumers.
- 8.4 A lack of financial understanding amongst consumers is a potential barrier to good consumer outcomes in the pensions and at-retirement market, inhibiting awareness and making it difficult for consumers to make informed decisions.

Current FCA work on pension communications

Government reforms

- 8.5 Since April 2015, consumers have much greater freedom about how they access their pension savings. The Government announced a guidance guarantee to support consumers now facing increased choice: the guidance service, known as Pension Wise, offers access to free, impartial guidance about options at retirement to everyone with a defined contribution pension pot.

Transparency of transaction costs in workplace pensions

- 8.6 In March 2015 we published a call for evidence jointly with the Department for Work and Pensions (DWP) which looked at the disclosure of transaction costs in workplace pensions. The call for evidence was part of the Government's reforms of workplace pensions, where there

will be greater transparency around the costs associated with pension schemes to help ensure these deliver value for money for scheme members. Through the paper we sought input in a number of areas including what transaction costs should be reported, how these should be captured and how these should be presented to members and Independent Governance Committees (IGCs) and trustees. We are currently analysing responses and planning next steps with DWP.

At-retirement communications: our FCA rules

8.7 Our rules seek to ensure that consumers are empowered to engage with the market, by ensuring they are given information about:

- their pension savings
- the ability to shop around (the open market option) and the choices available
- the availability of support to help them make decisions regarding their pension

8.8 We are currently reviewing our pension and retirement rules in light of the pension reforms. We plan to publish a consultation paper on proposed changes in September 2015. Part of this review will consider how we incorporate the Association of British Insurers' Code of Conduct on Retirement Choices (the Code) into our rules. The Code covers, amongst other things, wider communications with consumers in the lead up to retirement and during the sales process.

8.9 We also remain concerned that, despite the changes introduced, consumers do not fully appreciate the potential benefits of shopping around. Our recent retirement income market study highlighted the potential benefits of shopping around for an annuity. For instance, our analysis for selected profiles of customers demonstrated that retirees could achieve a five to six percent higher income by effectively shopping around and selecting the best quote in the market. Yet our research showed that only 45% of retirees recall receiving information from their existing pension provider about their option to shop around.

Testing at-retirement communications

8.10 Our market study concluded that:

- it was essential that we change at-retirement communications to ensure clarity and simplicity for consumers, allowing them to exercise choice effectively
- there was a need to trial a new 'wake-up pack' for consumers

8.11 We would like to see communications that raise consumers' awareness of the right to, and the benefits of, shopping around. Many consumers have multiple pots of pension saving and understanding choices at retirement requires an appreciation of their total pension savings and how this relates to the tax and benefits systems and the state pension. We believe that this comparison would be substantially easier if communications and terminology were standardised.

8.12 We are currently discussing with providers how they can work with us to behaviourally test new at-retirement communications. They will then be able to trial the information with customers and measure the impacts on our objectives. We hope that, by working in partnership with the FCA, providers can develop communications that substantially reduce the quantity of unnecessary information provided while focusing on the key information needed by consumers. We intend to learn from this testing to consult on a further strengthening of our rules on at-retirement communications in late 2016.

How might industry bring about improvements?

- 8.13** While the FCA and the Government are taking forward initiatives to improve communications in the pension and at retirement sector, there remains an important role for the industry to play.
- 8.14** In particular, further progress could be made by improving the language used by the industry when it communicates with consumers. In our industry roundtables, some firms representing the life, pensions and insurance sectors acknowledged there was a lack of consistency in terminology that made it difficult for consumers to understand and compare products and their features.
- 8.15** We welcome and support industry efforts to reduce jargon and to communicate with customers in a language they can understand. But inconsistencies between firms can create further confusion or misunderstanding, and reduce consumers' ability both to understand important issues when considering saving for retirement and to compare the products, services and features between pension types, plans and investments.
- 8.16** We are keen to encourage providers, advisers and trade bodies to come together to agree and improve descriptions of key pension concepts and terms in a clear, non-technical and simple manner for use throughout customer literature. Drawing on the combined experience of their distinct customer bases, these organisations could for example:
- establish the most common features and technical terms directly linked to the pension and the performance of the investment that consumers need to understand and, just as importantly, those that are most commonly misunderstood
 - agree a single consistent explanation for each that is a more fitting and relevant description of what it is, what it does, what it means for the consumer
- 8.17** Subject to the results of pilot tests and trials with consumers, industry could provide this common code or glossary of terms to consumers and use the agreed terminology in all communications with consumers. Work undertaken by the National Employment Savings Trust (NEST) in this area, which developed eight 'Golden Rules' for talking about pensions in the context of the workplace pension reforms and automatic enrolment, could provide a starting point.

The National Employment Savings Trust's Golden Rules for communication

- **Keep it real:** Use examples people can relate to and avoid abstract concepts.
- **Rights not responsibility:** Tell people what they're entitled to not what they should be doing.
- **Out with the old:** Make pensions relevant to their lives now and don't focus on the details of retirement.
- **One for all:** Make it clear automatic enrolment is happening to most workers, not just them.
- **Tell it like it is:** Present the facts and avoid 'spin'- people want to make up their own minds.
- **Give people control (even if they don't use it):** Tell people about their choices and not that everything's done for them.
- **Take people as you find them:** Give people access to information that matches their knowledge and interest.
- **Be constructive:** Tell people about solutions, not problems or scare-stories.

9. Investment advice

There is an opportunity to improve the information consumers receive about the scope and cost of investment advice services to enable them to choose an advice service which best meets their needs and budget. We welcome ideas and views around how this can be achieved.

- 9.1 The Retail Distribution Review (RDR), which was implemented on 31 December 2012, was a once-in-a-generation change to make retail investment markets work better for consumers.
- 9.2 Since implementing the RDR, we have assessed whether the reforms are delivering the intended outcomes. The findings from our early supervisory work were very concerning, with a large number of firms failing to provide their customers with the appropriate information about the scope of advice offered and the cost of that advice. To help firms, we provided access to a number of tools, such as examples of good and poor practice, to assist them in meeting these disclosure requirements.
- 9.3 In December 2014, we published the findings of our third cycle of thematic supervisory work and our post-implementation review. This reported that firms had materially improved their disclosures, although it noted that there remained areas for further improvement.
- 9.4 This is echoed by our consumer research, which suggests that consumers' understanding of both adviser charges and the nature of advice is limited – although the level of consumer understanding may have increased since firms' disclosures have improved. Despite this, any weakness in consumer understanding could mean people do not appreciate the differences between independent and restricted advice and fail to choose an advice service which best meets their needs and budget.
- 9.5 While we continue to encourage firms to do more to clearly explain the scope and cost of the investment advice provided, we recognise that there may be more we can do to help.

Scope for innovation

- 9.6 The Oxera literature review highlighted a number of innovative disclosure solutions used internationally and outside the financial services sector to help consumers compare different products and services. One solution identified was the use of labels, such as the US Environment Protection Agency's fuel efficiency label.
- 9.7 We consider that a variation of this label could be used by investment advisers to help consumers understand:
 - whether the investment advice a firm offers is independent or restricted and what this means in practice (MiFID II, due to take effect from January 2017, will require firms to

inform the client whether investment advice is provided on an independent basis or not, and whether this advice is based on a broad or more restricted analysis of different types of financial instruments)

- the cost of the investment advice offered by a firm, broken down by costs for one-off and ongoing advice

9.8 As outlined in our RDR post-implementation review, the FCA’s Smaller Business Practitioner Panel is currently looking at developing proposals for a simple label such as this. We welcome the Panel’s work in this area and are keen to engage with proposals developed by other stakeholders.

9.9 To encourage a debate among stakeholders, we have included two possible labels below. These use a variety of the most common adviser charging structures used by investment advice firms but could be tailored to reflect other charging structures firms may operate.

ABC Investment Advisers

ABC Logo

At ABC Investment Advisers we offer:

Independent Advice
We will advise, make a recommendation and arrange any suitable products for you after we have assessed your needs. Our recommendation will be based on a comprehensive and fair analysis of the market.

Restricted Advice
Restricted advisers make a recommendation for you having assessed your needs but adviser will consider recommending suitable investments from a limited range of products and/or providers.

What are the upfront costs of our service?

Initial meeting to discuss our services, your objectives and assess your financial circumstances **At our cost**

Financial planning report and recommendations where we:
 • fully assess your financial position
 • provide a strategic report and recommendations covering your investment and retirement planning needs **£X fixed fee**

Implementing recommendations to set up or make changes to your investments **A%** on the first £100,000 of your investment, and **B%** on any amount over that

Example of our costs: To set up a £200,000 investment would cost: £X (A% of first £100,000 = £X PLUS B% of the remaining £100,000 = £X).

More details about our services are available in our XX document available on our website: [www.XX.XX.X\XX](#)

What are the costs of our optional ongoing services?

ABC’s Gold ongoing service provides:
 • an annual review of the performance of your investments and whether they continue to be suitable **Y%** per annum
 • access to our online portal providing up-to-date valuations
 • our quarterly newsletter

Example: One year of Gold on-going service on a £200,000 investment would cost: £X

ABC’s Platinum on going service is the same as our gold ongoing service but also provides:
 • an annual meeting with an adviser to assess your financial position and recommend any changes to your investment portfolio - if necessary make any changes to your investments. **Z%** per annum

Example: One year of Platinum on going service on a £200,000 investment would cost: £X

More details about our services are available in our XX document available on our website: [www.XX.XX.X\XX](#)

ABC Investment Advisers is authorised and regulated by the Financial Conduct Authority. Further details about ABC Investment Advisers is available on our website: [www.XXXXXXX\aboutus](#)

ABC Investment Advisers

ABC Logo

At ABC Investment Advisers we offer:

Independent Advice
We will advise, make a recommendation and arrange any suitable products for you after we have assessed your needs. Our recommendation will be based on a comprehensive and fair analysis of the market.

Restricted Advice
Restricted advisers make a recommendation for you having assessed your needs but adviser will consider recommending suitable investments from a limited range of products and/or providers.

How much will our service cost?

1. Initial charges to make recommendations and arrange any suitable products:
X% on the first £100,000 of your investment, and then **Y%** on any amount over that

This is only payable if you proceed with the recommended product.

2. Ongoing charges

Gold service to monitor recommendations and products: **A%** per annum

Platinum service to monitor recommendations and products plus an annual review: **B%** per annum.

Example Costs

To set up a £50,000 investment would cost: £X,XXX (X% of £50,000).
 To set up a £200,000 investment would cost: £X,XXX (X% of first £100,000 PLUS Y% of the remaining £100,000 = £X,XXX).
 One year of Gold on going service on the £200,000 would cost: £X,XXX
 The amount of the annual ongoing charge may increase as the fund grows

More details about our services are available in our XX document available on our website: [www.XX.XX.X\XX](#)

ABC Investment Advisers is authorised and regulated by the Financial Conduct Authority. Further details about ABC Investment Advisers is available on our website: [www.XXXXXXX\aboutus](#)

- 9.10** The use of this type of label is just one possible approach to help consumers understand the scope and cost of an investment advice service. We are interested to understand stakeholders' views on this proposal but equally keen to hear further suggested approaches.

Annex 1

List of questions

- Q1:** Examples of proven and effective approaches to consumer communications in other financial and non-financial markets (UK and international).
- Q2:** Evidence of effective approaches to customer communications that you have already developed and tested.
- Q3:** Evidence that any information provision requirements contained in the FCA Handbook prevent or inhibit firms from effectively communicating important information to consumers. If so, which rules and how?
- Q4:** Suggestions for making information more effective and engaging specifically for consumers of the asset management industry.
- Q5:** Examples of any other approaches to customer communications that you are currently developing and/or testing.

In relation to the specific industry issues discussed in the 'Areas for industry to drive change' section:

- Q6:** Do you agree there is a role for industry and other stakeholders (collectively as a market or at an individual firm level) in addressing the issues identified?
- Q7:** Do you have any views on the ideas we set out in this discussion paper and can you suggest other approaches that would achieve similar outcomes or objectives?
- Q8:** Do you have any evidence that other areas in the financial services market require specific improvements in consumer communications?

Responses should be sent to us by 25 September 2015

Annex 2

The FCA's work on behavioural insights

The table below summarises the main disclosure related European Legislation but is not an exhaustive list. The list includes directives that are in force and those in which we are actively engaged in the (re)negotiation process.

Name	Description
Designing redress communications	<p>A field trial designed to understand how we can improve consumer response rates to letters regarding potential redress.</p> <p>Our analysis revealed that applying the right mix of treatments could increase response rates by seven times and that 5 out of 7 treatments had a positive and significant impact on response rates. The use of bullet points proved the most effective treatment, in this particular trial.</p> <p>www.fca.org.uk/static/documents/occasional-papers/occasional-paper-2.pdf</p>
Trialling smarter disclosure at the end of savings account introductory bonus rates	<p>A randomised controlled trial that tested whether behaviourally informed changes to reminder letters could influence their effectiveness in prompting switching behaviour among over 20,000 savings account customers.</p> <p>Our analysis revealed the fact of getting a reminder was more important than its precise phrasing and the timing of the reminder had an effect on the type of switching.</p> <p>www.fca.org.uk/static/documents/occasional-papers/occasional-paper-7.pdf</p>
Evaluating sales of annuities	<p>Our research confirmed that pension savers display well-known biases and that the choices savers make are highly sensitive to how the options are presented (framing effects). This means that consumers may make different decisions, even when the underlying choice remains the same, depending on the way the information is provided.</p> <p>The interim report sets out a number of proposed remedies with a particular focus on stopping things getting in the way of consumer choice, and improving the clarity and simplicity of communication between firms and their consumers.</p> <p>www.fca.org.uk/news/market-studies/retirement-income-market-study</p>
Assessing consumer understanding of structured deposits	<p>Although we identified that disclosure of various types could be explored as a way to mitigate the expectations of high returns on structured complex products (in particular disclosure of likely product returns), our findings also suggested that there are limits to how much can be solved just by providing information.</p> <p>www.fca.org.uk/static/documents/occasional-papers/occasional-paper-9.pdf</p>
The impact of annual summaries, text alerts and mobile banking apps on personal current account holders	<p>Using statistical analysis of data from two banks, including data on 500,000 customers from one bank, we show that annual summaries have no effect on consumers in terms of incurring overdraft charges or switching accounts. In contrast, signing up to text alerts or mobile banking apps help consumers reduce the amount of unarranged overdraft charges they incur, and signing up to both has a much larger effect.</p> <p>www.fca.org.uk/news/occasional-paper-no-10</p>

Annex 3

Main disclosure related European legislation

The table below summarises the main disclosure related European Legislation but is not an exhaustive list . The list includes directives that are in force and those in which we are actively engaged in the (re)negotiation process.

Name	Description
Credit	The Consumer Credit Directive (CCD) prescribes the format and content of point of sale information to consumers in the form of the Standard European Consumer Credit Information (SECCI).
Banking and Payments	<p>The Payments Services Directive (PSD), which is currently under review, prescribes the information given to consumers regarding payment services on their payment account, including current account and some savings accounts.</p> <p>The forthcoming <u>Payment Accounts Directive (PAD)</u> will require standard form documents and terminology relating to fees as well as standardised annual statements.</p>
Mortgages	The Mortgage Credit Directive (MCD) prescribes detailed information to be given to consumers pre-sale through the European Standardised Information Sheet (ESIS).
Insurance Mediation	<p>The Insurance Mediation Directive (IMD) is currently being revised and is likely to contain new disclosure requirements.</p> <p>The new Directive will bring into scope both intermediaries and direct sellers of investment based insurance products.</p> <p>The Commission's 2012 proposals could, if implemented, require the disclosure of information that is fair, clear and not misleading about services, insurance products and proposed investment strategies as well as costs and associated charges. Where advice is given, this would include information about whether the advice is on an independent basis and whether there will be ongoing assessment of the suitability of the product recommended to the customer. These proposals remain subject to negotiation.</p> <p>The Commission's 2012 proposals could, if implemented, require the disclosure of information that is fair, clear and not misleading about services, insurance products and proposed investment strategies as well as costs and associated charges. Where advice is given, this would include information about whether the advice is on an independent basis and whether there will be ongoing assessment of the suitability of the product recommended to the customer. These proposals remain subject to negotiation.</p>
Insurance contracts	<p>Solvency II (2009/138/EC) requires pre-contractual disclosure of information about insurance contracts which varies depending on whether the contract is a life or non-life contract. For example:</p> <ul style="list-style-type: none"> • For life insurance products, information about the firm, its solvency and financial condition, details of the commitment, information to provide a proper understanding of the risks underlying the contract • For non-life insurance products, details of the law applicable to the contract and the arrangements for handling complaints must be disclosed.
Retail Investment Funds	For Undertakings for Collective Investments in Transferable Securities (UCITS) schemes , firms must provide customers with a Key Investor Information document (KIID) before they make an investment decision. It is a short document, the format and content of which are prescribed by the UCITS Directive, describing the essential characteristics of the fund in non-technical language. EU rules also require a detailed prospectus and annual and half-yearly reports to be provided to investors on request.

Name	Description
Alternative Investment Funds	<p>The Alternative Investment Fund Managers Directive (AIFMD) 2011/61/EU covers the management of alternative investment funds (AIFs) and their marketing to professional investors.</p> <p>It requires the fund manager to make available detailed information before consumers invest in an AIF, including the investment strategy and objectives, the types of assets, the maximum amounts of all fees, charges and expenses, and all associated risks.</p> <p>The fund managers shall also provide, on request, annual reports for each AIF.</p>
Investment and Insurance Products	<p>PRIIPS</p> <p>A European Regulation was agreed earlier this year which will introduce a point-of-sale Key Information Document (KID) for all packaged retail and insurance based investment products (PRIIPs).</p> <p>The products in scope include any investment product sold to retail investors where the amount repayable to the investor is subject to fluctuations and where the investor is exposed to one or more assets not directly purchased by the investor. All pension (workplace trust based schemes and personal pensions) are excluded from scope although the Regulation requires the Commission to review this stance in four years' time.</p> <p>The KID will be maximum three A4 pages in length and all KIDs will have a common format and headings. The KID will include sections covering:</p> <ul style="list-style-type: none"> • Product name, identity of the firm and its competent authority; • A description of the nature and main features of the product including its objectives and means of achieving them; • A description of the target market and whether the product targets specific environmental, social or governance criteria; • If applicable, what the insurance benefits are and what would trigger them; • A description of risk including a risk-reward profile comprising a summary risk indicator supplemented by a narrative; • The cost of the product presented by means of a summary indicator, showing total aggregated costs, in monetary and percentage terms as well as showing the cumulative effect of costs on the investment. • For certain products, a comprehension alert where products meet a certain criteria that may make the product more complex for a retail investor to understand; • A description of the holding period and when the investor can take the money early; • Information regarding how the investor can complain; and • A section covering 'other relevant information' – this cannot be marketing material.
Investments	<p>The Markets in Financial Instruments Directive (MiFID)</p> <p>MiFID includes a number of disclosure requirements and broad principles which require firms to ensure their communications are fair, clear and not misleading.</p> <p>A recast directive (MiFID II) has been agreed and will take effect from 3 January 2017. This maintains many of the existing disclosure requirements included in MiFID I and introduces a number of new requirements. This includes a requirement for firms to disclose all costs and charges associated with a financial instrument and investment service, including costs that are not typically included in existing disclosures such as transaction costs. Firms will be required to provide this information at the point-of-sale and, where appropriate, on an annual basis.</p>
Sales by distance communication	<p>The Distance Marketing of Financial Services Directive requires firms to provide certain information to the consumer before they are bound by the contract, including specific information about the supplier's identity, product details and contract particulars.</p>

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