

# Response to ASIC consultation paper 224 - facilitating electronic financial services disclosures



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This submission is made by Independent Fund Administrators & Advisers Pty Ltd (IFAA), an administrator of industry superannuation funds and managed investment schemes.

## **Background**

ASIC released consultation paper 224 in November 2014 which outlined proposals to facilitate electronic financial services disclosure. This submission addresses the issues raised in sections A and B of the paper.

## **Making electronic delivery the default method of communication**

CP 224 recognises that although financial services disclosures can be delivered electronically in most cases, the current regulatory environment generally requires printed delivery of documents. The proposal to allow (but not mandate) electronic communication to become the default method of communication recognises the societal trend away from paper based communications and toward greater internet based transactions. The proposal would also provide additional flexibility for the industry to cater for the preferences of members.

However, if the proposals are to be pursued, there are several issues which we consider will require further consideration, and these are set out below.

## **Issues to be considered**

### 'Lost member' definition

Currently in the superannuation industry, a member is considered lost if they are uncontactable, inactive or transferred in as lost. This has consequences in terms of reporting to the ATO, and if the amounts are under \$2,000 or it is an insoluble lost member account, the balance must be paid to the ATO.

Clear guidelines will be required as to what circumstances would cause a member to be considered lost in an environment of electronic communication, triggering reporting and payment obligations to the ATO. An email bounce-back may not actually represent an invalid email address, as it may be due to a temporary problem with an internet provider or a server. Consideration may need to be given to the distinction between email 'hard bounces' (or permanent delivery failures) and 'soft bounces' (temporary delivery failures) and whether there is an expectation for multiple delivery attempts upon occurrence of a soft bounce.

In the event that email delivery fails, clear guidelines will be required as to whether that would constitute a member becoming lost. Alternatively, would Funds be expected to revert to delivery of printed communication, and only if the existing lost member definition is met, would a member become lost?

### Data quality of email address / mobile phone numbers

The incidence of members updating email / mobile phone number details with their superannuation fund will only occur sometimes, despite the best efforts of Funds to request updated details be provided. This raises potential issues around the quality of data held by Funds, again raising possible non-notification and lost member considerations.

### Which should be the default method of electronic communication?

In an environment of electronic communication, clarity will also be required around whether email or SMS communication will be the default form of electronic communication, or whether either will be an acceptable default, for each Fund to choose.

### Obtaining and maintaining email / SMS details

Funds already hold email / SMS details for a proportion of members. However, there will be time and cost associated with obtaining a higher proportion of email / SMS details. Further, there will be a higher expectation that the currency of this information is maintained by Funds. This will also come at additional time and cost.

### Potential impact on member engagement

Some members would undoubtedly prefer electronic communication as the default. However, there is the potential for a negative impact on member engagement if Funds introduce electronic communication as the default, amongst some members. Electronic communication requires greater effort on the part of the member in downloading the relevant statement(s) and printing it (for those that prefer to retain a hard copy).

Some members may resent having to opt-in to continue receiving hard copy communication and may perceive this as a reduction in service. Based on the likelihood of relatively low opt-in rates, there exists the potential for a proportion of members to become disgruntled and perhaps even complain if this change in communication method was imposed upon them. Due to the demography and preferences of the membership of particular Funds, some Trustees may elect not to take up the option of making electronic communication as the default (at least initially), and may instead continue with existing arrangements, allowing members to opt-in to electronic communication.

Some Funds may also decide that to maximise effectiveness, communications are delivered both electronically and in hard copy form, though it is acknowledged this would not result in cost savings.

### Method of delivering electronic statements

There exists a number of potential means of having members' access statements electronically. These include:

- 1) **Statement accessible via hyperlink in email.** This would provide a secure option for members to access statements, but the practice of encouraging members to click on hyperlinks from the Fund could potentially be subject to exploitation.
- 2) **Notification via email / SMS that statement is available online.** This is the preferred method for allowing members to access statements electronically. Funds can control the security arrangements of their member online sites, and there is greatly reduced potential for inappropriate access to statements by other parties.
- 3) **Direct email attachment.** In addition to security and privacy concerns around the attachment of a statement to an email, this option is unlikely to be practical given the volume and data size of required emails.

Under each of the above options, it should be noted that due to email / SMS address changes, there exists the potential for the email / SMS to fall into the wrong hands, or simply not be delivered to the member. If the email address / mobile phone number remains valid, the Fund may never know that the member didn't receive the notification, meaning the statement may never be received / accessed by the member. This raises compliance considerations around non-delivery of mandated communications.

### **What are the perceived benefits of the proposals?**

Clearly there is the potential for cost savings to superannuation funds if electronic communication was to become the default form of communication. These savings would eventuate as a result of savings in reduced printing and postage costs. It is acknowledged

that under the proposals, members would be permitted to request hard copy communications at any time.

As outlined above, the proposal also provides additional flexibility to cater for the preferences of members, and is in line with a general trend in society to more paperless transactions and communications. Therefore, the proposal for Funds to have an additional option to choose whether to make electronic communication the default arrangement, is supported.

### **What are the perceived costs of the proposals?**

There are likely to be extra costs associated with additional data storage (ie. loading statements for all members), as well as likely additional website development costs. There may also be extra costs associated with additional website traffic (accessing documents). It is difficult to accurately estimate what the quantum of these costs may be at this stage.

For those members who elect hard copy communication, Fund costs will be relatively higher than under existing arrangements, as for a much smaller group, economies of scale will be greatly reduced, raising per unit costs. Depending on the extent of hard copy opt-outs, Funds may need to consider whether to continue utilising mailhouses, or whether hard copy communications can be handled in house.

As above, in an environment of electronic communication, there are also likely to be additional costs associated with Funds needing to maintain the currency and accuracy of email / SMS details to a higher quality.

### **More innovative Product Disclosure Statements**

In theory, different formats of PDS' in different mediums could be expected to lead to greater engagement with members, allowing for different member preferences, and so is supported in principle.

However, development of innovative PDS' in one or more new mediums (mobile application, webpage, video) will undoubtedly come at considerable cost, which would at least partially offset any cost savings that may eventuate from the separate proposal to allow electronic communication to become the default arrangement. It is understood that Trustees will be able to choose if and when to introduce more innovative PDS'.

In the context of the proposal, which contemplates PDS' in multiple mediums, it makes sense to allow more than one PDS to exist. However, the effort and cost in ensuring multiple versions of PDS' are always up to date and fully compliant should not be underestimated.

CP 224 also contemplates gamification. While this concept may have some merits, it would need to be carefully structured so as not to distract from member focus and comprehension of key PDS disclosures.

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