

<b>Title:</b> <b>Electronic Communications in the Mutual Sector</b>  <b>Lead department or agency:</b> HM Treasury <b>Other departments or agencies:</b>	<b>Impact Assessment (IA)</b>
	<b>IA No:</b>
	<b>Date:</b> 20/10/2010
	<b>Stage:</b> Development/Options
	<b>Source of intervention:</b> Domestic
	<b>Type of measure:</b> Secondary legislation
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## Summary: Intervention and Options

**What is the problem under consideration? Why is government intervention necessary?**

The Government is committed to foster diversity in financial services, promote mutuals and create a more competitive banking industry. An up-to-date legislative framework is a pre-requisite to a successful mutual sector (that is building societies, friendly societies, industrial and provident societies (cooperative and community benefit societies) and credit unions) given much of the legislation predates the widespread use of electronic communications. Mutual societies are under statutory obligations to communicate with their members or the public in the conduct of their business. The cost to societies of sending paper copies of documents can be considerable.

**What are the policy objectives and the intended effects?**

The proposed legislative changes are aimed at facilitating the use of electronic communications (such as email and website) by mutual societies in discharging some of their statutory obligations which would allow the sector to reduce its administrative costs.

**What policy options have been considered? Please justify preferred option (further details in Evidence Base)**

The policy options considered are either:

Option 1 - to amend existing legislation to modernise the way mutuals can communicate to their members, the regulator - Financial Services Authority - and the wider public,

Option 2 - to do nothing.

Amending existing legislation (option 1) is the preferred option and would allow mutual societies to reduce the sector's administrative costs by enabling them to communicate by email and website when having to send statutory information to their members, the regulator and to the wider public.

<b>When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?</b>	It will be reviewed in 5 years
<b>Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?</b>	Yes

**Ministerial Sign-off** For consultation stage Impact Assessments:

***I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.***

Signed by the responsible Minister: ..... Date: .....

# Summary: Analysis and Evidence

# Policy Option 1

## Description:

Amending existing legislation to enable the mutual sector to use electronic communications (emails and websites) to send certain statutory information to members

Price Base Year 2010	PV Base Year 2010	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: £9.39mn	High: £93.98mn	Best Estimate: £78.18mn

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	£0	£0	£0

### Description and scale of key monetised costs by 'main affected groups'

We are seeking more information on these via the consultation process.

### Other key non-monetised costs by 'main affected groups'

We are seeking more information on these via the consultation process.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	£0	£1.45mn	£9.39mn
High	£0	£14.5mn	£93.98mn
Best Estimate	£0	£11.6mn	£78.18mn

### Description and scale of key monetised benefits by 'main affected groups'

Primary benefit is that the mutual sector will make administrative costs savings by having the option should they choose to exercise it, subject to a member's request, to send certain statutory information to members and to the FSA by email and a website. These cost savings will be on postage; paper; printing and photocopying; and manpower in having to put documents into envelopes. We are seeking more information on these via the consultation process.

### Other key non-monetised benefits by 'main affected groups'

We are seeking more information on these via the consultation process.

### Key assumptions/sensitivities/risks

Discount rate (%) 3.5

In calculating the costs and benefits we assumed that at the minimum we would expect to see a 10% take up and at the maximum a 100% take up of sending/receiving information through electronic means; our best estimate is set at 80% take up and we assume this takes place in year 1 as opposed to gradual take up over time. This is a consultation impact assessment and we are using the consultation exercise to derive from industry stakeholders detailed opinion on the costs and benefits of introducing electronic communication including the likely take up of sending/receiving information electronically.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB:	AB savings:	Net:	Policy cost savings:	No

## Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	United Kingdom (*)				
From what date will the policy be implemented?	01/04/2011				
Which organisation(s) will enforce the policy?	FSA / UK Courts				
What is the annual change in enforcement cost (£m)?	£negligible				
Does enforcement comply with Hampton principles?	Yes				
Does implementation go beyond minimum EU requirements?	N/A				
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)	Traded: N/A		Non-traded: N/A		
Does the proposal have an impact on competition?	No				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	Costs:		Benefits:		
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro	< 20	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	No	No

## Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
<b>Statutory equality duties</b> <sup>1</sup> <a href="#">Statutory Equality Duties Impact Test guidance</a>	No	-
<b>Economic impacts</b>		
Competition <a href="#">Competition Assessment Impact Test guidance</a>	Yes	7
Small firms <a href="#">Small Firms Impact Test guidance</a>	Yes	7
<b>Environmental impacts</b>		
Greenhouse gas assessment <a href="#">Greenhouse Gas Assessment Impact Test guidance</a>	No	-
Wider environmental issues <a href="#">Wider Environmental Issues Impact Test guidance</a>	Yes	7
<b>Social impacts</b>		
Health and well-being <a href="#">Health and Well-being Impact Test guidance</a>	No	-
Human rights <a href="#">Human Rights Impact Test guidance</a>	No	-
Justice system <a href="#">Justice Impact Test guidance</a>	Yes	7
Rural proofing <a href="#">Rural Proofing Impact Test guidance</a>	No	-
<b>Sustainable development</b> <a href="#">Sustainable Development Impact Test guidance</a>	No	-

<sup>1</sup> Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

## Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

### References

Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment).

No.	Legislation or publication
1	Friendly Societies Act 1992
2	Friendly Societies Act 1974 – section 63A
3	Building Societies Act 1986 – paragraph 24 of Schedule 2
4	Industrial and Provident Societies Act 1965 – sections 72 and 74
5	Friendly and Industrial and Provident Societies Act 1968 – sections 6 and 11
6	Credit Unions Act 1979 – section 31

+ Add another row

### Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

#### Annual profile of monetised costs and benefits\* - (£m) constant prices

	Y <sub>0</sub>	Y <sub>1</sub>	Y <sub>2</sub>	Y <sub>3</sub>	Y <sub>4</sub>	Y <sub>5</sub>	Y <sub>6</sub>	Y <sub>7</sub>	Y <sub>8</sub>	Y <sub>9</sub>
<b>Transition costs</b>	0	0	0	0	0	0	0	0	0	0
<b>Annual recurring cost</b>	0	0	0	0	0	0	0	0	0	0
<b>Total annual costs</b>	0	0	0	0	0	0	0	0	0	0
<b>Transition benefits</b>	0	0	0	0	0	0	0	0	0	0
<b>Annual recurring benefits</b>	11.6mn	10.8mn	10.1mn	9.4mn	8.8mn	8.2mn	7.7mn	7.2mn	6.7mn	6.2mn
<b>Total annual benefits</b>	11.6mn	10.8mn	10.1mn	9.4mn	8.8mn	8.2mn	7.7mn	7.2mn	6.7mn	6.2mn

\* For non-monetised benefits please see summary pages and main evidence base section

# Evidence Base (for summary sheets)

## A. Background

Mutuals operating in the UK include building societies, Industrial and Provident Societies (IPS), cooperative societies, credit unions and friendly societies. These mutuals employ over 70,000 people, hold around 20% of UK retail deposits; and provide financing for approximately 17% of outstanding UK mortgage balances.

As member-owned organisations mutuals do not need to maximise profits to satisfy the demands of external shareholders for dividends. Mutuals tend to engage in lower risk activities than the large plc banks – driven in part by legislation, and in part by the absence of owners seeking to extract profits by increasing leverage and returns. As a result mutuals are able to take a longer term outlook than their plc peers.

In the Coalition Agreement the Government said it would ‘bring forward detailed proposals to foster diversity in financial services, promote mutuals and create a more competitive banking industry’. An up-to-date legislative framework is a pre-requisite to a successful mutual sector given much of the legislation applying to mutuals has existed for a long time and predates emails and websites.

The draft Order (The Mutual Societies (Electronic Communications) Order 2010) and draft Regulations (The Friendly Societies (Proxy Voting) Regulations 2010)) propose to update existing legislation by removing restrictions on the ability of mutuals and societies to use electronic communications.

There are two policy options:

- Option 1 – To amend the legislation to enable the mutual sector to use electronic communications (such as email and website) to send certain statutory information to their members and the wider public; or
- Option 2 – To do nothing.

The Treasury carried out informal consultation with the mutual sector to examine the pros and cons of making such a legislative change. Broadly the sector was in favour and highlighted potential lower administrative costs savings if members choose to receive the information electronically.

## B. Key Changes Proposed and the Costs and Benefits

The section below provides a summary of the costs and benefits of each of the key proposals under option 2 as provided from the outcome of the Government’s informal consultation with the mutual sector over the summer. We are seeking more information on the costs and benefits via the consultation process.

### Key Proposal 1 – Building Societies

- *Building societies will be able to publish proxy forms on a website for members to access to facilitate voting by proxy;*

The main benefit is the savings the building society sector will make in terms of paper, printing and postage costs of not having to send out proxy forms in hard copy format if members choose. Using information provided by the Building Societies Association (BSA) which used the example of seven unidentified building societies, this showed annual costs savings of about £2mn per year if there was a 100% take up by members of using electronic communications to receive proxy forms – **a 80% take up will result we estimate in a £1.6mn cost savings.**

### Key Proposal 2 – Friendly Societies

- *Friendly societies will be able to:-*
  - *send annual returns to members by email or by providing website access;*
  - *send other statutory information to members by email or website;*
  - *send notices of meetings by providing website access*
  - *send their rules to members of the public by email;*
  - *use electronic communications in the conduct of postal ballots;*
  - *conduct electronic ballots (or a mixture of postal and electronic);*

- *use electronic communications to submit some information to the FSA.*
- *Friendly societies will be required to include a member's email address on the society register with their postal address and include their registered name in their electronic communications, and on their websites.*

Information provided by the Association of Financial Mutuals (AFM), estimated the impact of the consultation proposals on one medium size friendly society to be about £250,000 a year. This cost savings would arise from the paper, printing and postage costs of not having to send information to members and the FSA by hard copy format. The AFM reported as part of the informal consultation that if the £250,000 figure were representative across the sector then this would result in between £3mn to £5mn annual cost savings - £4mn taking a mid-point. If you take our best estimate **of a 80% take up of sending/receiving information electronically we estimate the annual cost savings to be £3.2mn.**

### **Key Proposal 3 – Financial Services Authority (FSA)**

- *The FSA will be relieved of its obligation to maintain and store hard copies of public documents and public files of friendly societies where the FSA maintains that information electronically by making it available on its website.*

This should result in costs savings for the FSA from not having to store these documents in hard copy format and by making it available to the public in electronic format. There will be a one off costs for the FSA to develop the IT system to be able to store these documents. We are seeking information as part of the consultation to establish the financial costs and benefit to the FSA.

### **Key Proposal 4 – Industrial and Provident Societies (IPS) and Credit Unions**

- *Industrial and Provident societies and Credit unions will be able to:-*
  - *send annual returns and group accounts to members by providing website access;*
  - *send other statutory information to members by website;*
  - *use electronic communications to submit information to the FSA .*
- *IPSs and credit unions will be required to include a member's email address on the register with their postal address and include their registered name in their electronic communications, and on their websites.*

Cooperatives UK, the industry representative body for IPS and credit unions, estimates that the impact on the sector from above proposals will be cost savings of about £8.4mn a year; this cost is solely related to postage savings.

The industry representative body has informed us that there are about 7,720 active societies which has listed members of about 13.1mn resulting in an average of 1,694 members per society. Given there are about two mailings done each year to members and the cost of a second class stamp is currently 32 pence the postage cost savings from not having to post to members would be about £8.4mn per year. **Taking our best estimate of 80% take up to send/receive information electronically the annual cost savings estimated to be £6.72mn.**

#### C. Preferred Option

Given the outcome of the informal consultation, the Government is committed to, subject to the outcome of the formal consultation, introducing legislation enabling the mutual sector to use electronic communications in sending out certain statutory information to members and others.

#### D. Implementation

The proposed legislation will be made and laid in Parliament early in 2011 so that it can come into force on 1 April 2011.

#### E. Risks and Assumptions

None

## F. Impact Tests

The Government's preferred option would have a small impact on the environment and also on competition. Having the option to use electronic communications to send members and others certain statutory information (as opposed to sending it by hard copy) if taken up by members will save on paper.

These measures will also place the mutual sector on the same footing as other companies, notably banks and building societies, who under the Companies Act 2006 and Building Societies Act 1986 (updated in 2003) can send out statutory information to their shareholders using electronic communications.

Many of the companies operating in the mutual sector are small firms, and any cost savings will enhance their competitiveness while putting them on a more level playing field with other financial services providers.

The use of electronic communications will enable disabled persons, individuals in rural communities and stay at home parents and carers to engage more with their mutual provider, whereas in the past access to the postal system may have been difficult or prohibitive. There is no perceived bias on the grounds of race, gender, human rights or religious beliefs.

***(\* All measures have a geographical coverage of the United Kingdom save the measures applying to cooperatives and credit unions as these only apply to Great Britain. Matters relating to cooperatives and credit unions in Northern Ireland are a devolved matter for the Northern Ireland Executive.***

## Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added where the Specific Impact Tests yield information relevant to an overall understanding of policy options.

### Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

<p><b>Basis of the review:</b> [The basis of the review could be statutory (forming part of the legislation), it could be to review existing policy or there could be a political commitment to review];</p> <p>Within 5 years of the statutory instruments coming into force the Treasury will review the implementing regulations</p>
<p><b>Review objective:</b> [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]</p> <p>To ensure that the legislation continues to provide a cost effective means for the mutual sector to send certain statutory information to its members and to the wider public</p>
<p><b>Review approach and rationale:</b> [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]</p> <p>Treasury officials will seek views from the mutual sector</p>
<p><b>Baseline:</b> [The current (baseline) position against which the change introduced by the legislation can be measured]</p>
<p><b>Success criteria:</b> [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]</p> <p>The Treasury and the mutual sector consider that the implementing legislation can satisfactorily deliver cost efficiency savings for the mutual sector</p>
<p><b>Monitoring information arrangements:</b> [Provide further details of the planned/existing arrangements in place that will allow a systematic collection systematic collection of monitoring information for future policy review]</p> <p>Treasury officials are in regular contact with affected stakeholders i.e. the mutual sector and the use of electronic communications will be one of the items as part of this dialogue</p>
<p><b>Reasons for not planning a PIR:</b> [If there is no plan to do a PIR please provide reasons here]</p> <p>N/A</p>

Add annexes here.