

REGULATORY IMPACT ASSESSMENT

Electronic communication for building societies

Introduction and summary

1. This assessment estimates the costs and benefits of making an order under the Electronic Communications Act 2000 (the 2000 Act) that would facilitate the use of electronic communications by building societies when discharging requirements under the Building Societies Act 1986, by clarifying the conditions which apply when they communicate electronically with their members.
2. The building society sector through its trade association, the Building Societies Association (BSA) has asked the Government to use the power under the 2000 Act to make provision to this effect, particularly since an equivalent order was made amending the Companies Act 1985 to facilitate the use of electronic communications by companies, including banks.
3. Building societies have a number of statutory obligations to communicate in writing with their members, for example to notify them of Annual General Meetings or member ballots. The cost of sending written communication to members is significant, especially for larger societies – Nationwide, the largest building society, has over 9 million members.
4. The facility to use electronic communications in order to discharge such statutory obligations could enable building societies to reduce these costs.

Purpose and intended effects of the measure

5. Once in force, this order would enable building societies to fulfil by electronic means the statutory obligations to communicate in writing with their members which are dealt with in the Order, by

making clear the conditions which must be satisfied if electronic communications are used to meet those obligations. At present, while societies are free to communicate with customers by, for example, email on any matter, where there is a statutory obligation to inform a member in writing, there is some uncertainty whether that obligation is properly discharged if the society informs the member using electronic communications. As a general practice, therefore, the society will also send the information by post, at considerable cost, particularly when the statutory obligation requires the society to write to every one of its members.

6. Electronic communications may only be used by societies to discharge such statutory obligations if the individual member receiving the communication agrees, either by notifying the society of an electronic address for that purpose, or by agreeing that information which must be sent to him will instead be accessed by him on a web site. Members or societies that wanted to maintain traditional methods of communication could do so.

7. The intended effect is to reduce operating costs for building societies. It is a modest liberalising measure that would help put building societies on an equal footing with banks in this respect, since, as companies, banks are already able to use electronic communications when complying with obligations under the Companies Act 1985 to send information to their shareholders. We do not anticipate that the Order will significantly impact on the competitive environment of the market for products provided by building societies.

Benefits

8. This measure would enable building societies to reduce costs by giving them the flexibility to choose cheaper means of communication with their members.

9. The statutory obligation that building societies are under to keep their members informed on key issues relevant to them would be maintained, so this order would not have a detrimental impact on members' rights.

10. It is difficult to quantify how much building societies will save as a result of this bill. Many variable factors will have an influence

on this amount – the relative cost of sending electronic and conventional communication; the number of members who take up this option; the number of extra occasional communication requirements. Benefits will also depend on the number of building societies that choose to take advantage of the Order's provisions. Consultation revealed that several building societies were interested in taking forward the measure.

Compliance cost estimates

11. There is no compliance cost associated with this measure as it is permissive for both building societies and members. Possible costs in setting up electronic communication include securing agreement with members, training staff and upgrading technology. However, any society that chose to invest in order to facilitate electronic communication would be doing so in order to make future savings.

Declaration

I have read the Regulatory Impact Assessment and I am satisfied that the balance between cost and benefit is the right one in the circumstances.

Signed by the responsible minister

Ruth Kelly

Financial Secretary to the Treasury

