



Increasing Comprehension of Fees

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November 29, 2019



A BIT about BIT








- **2010:** Founded in UK Cabinet Office as world's first government institution dedicated to the application of behavioural insights (BI).
- **2019:** Social purpose company with offices in London, NYC, Sydney, Wellington, Singapore, Manchester, and **Toronto**. Have now designed and tested over 500 applications of BI.



THE
**BEHAVIOURAL
INSIGHTS
TEAM**



Our project methodology: TESTS

- Target**  Define the *behavioural* goal
- Explore**  Understand the barriers to that goal
- Solution**  Design the “intervention(s)”
- Trial**  Develop and implement a rigorous, appropriate evaluation method
- Scale**  Inform policy and practice with evaluation results



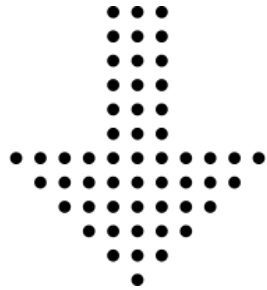
Case Study:

**Increasing Investor Fee
Comprehension**



Target: Defining a behavioural goal

Policy goal: Increase value investors derive from the fees they directly or indirectly pay investment firms.



Behavioural goal: Improve investor comprehension of fee statements to enable better decisions on dealers, products and services.



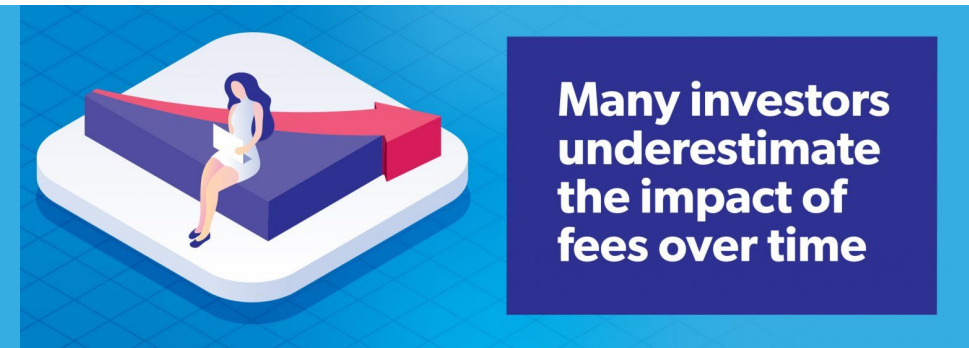
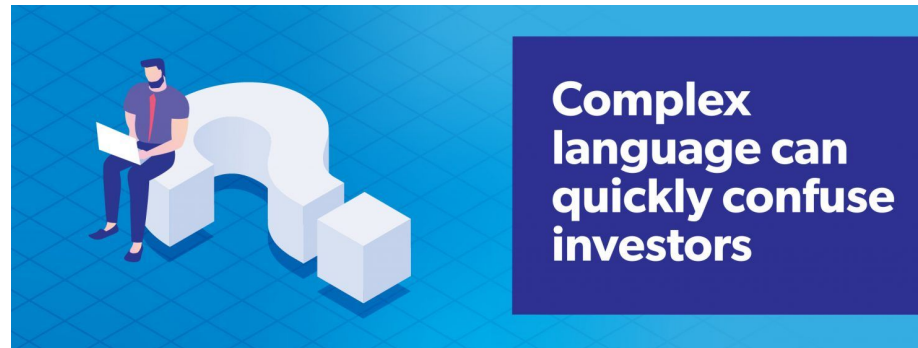
Explore: Identifying the key barriers



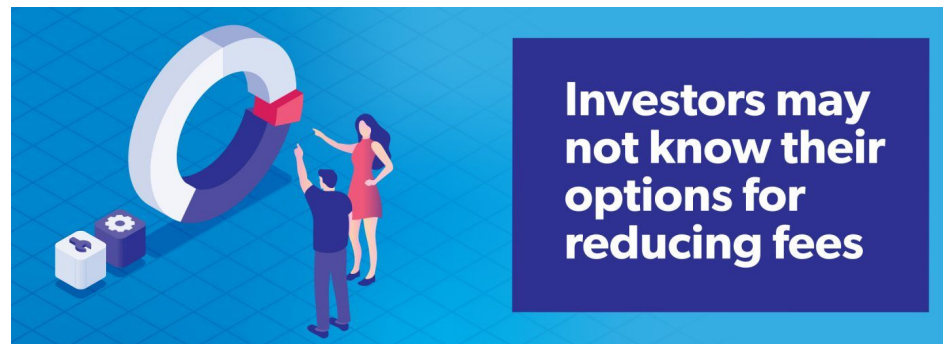
Barriers to engagement



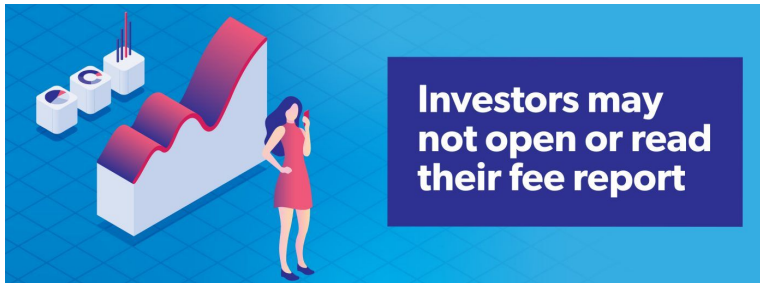
Barriers to comprehension



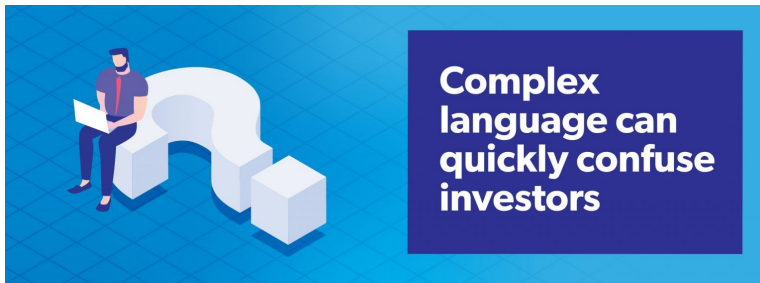
Barriers to action



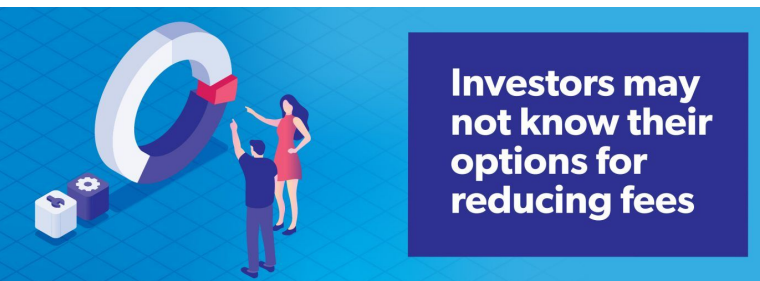
Solution: Generating tactics to tackle barriers



- Provide the fee report as a standalone document
- Digitally monitor whether recipients have opened the report; send a reminder if they have not

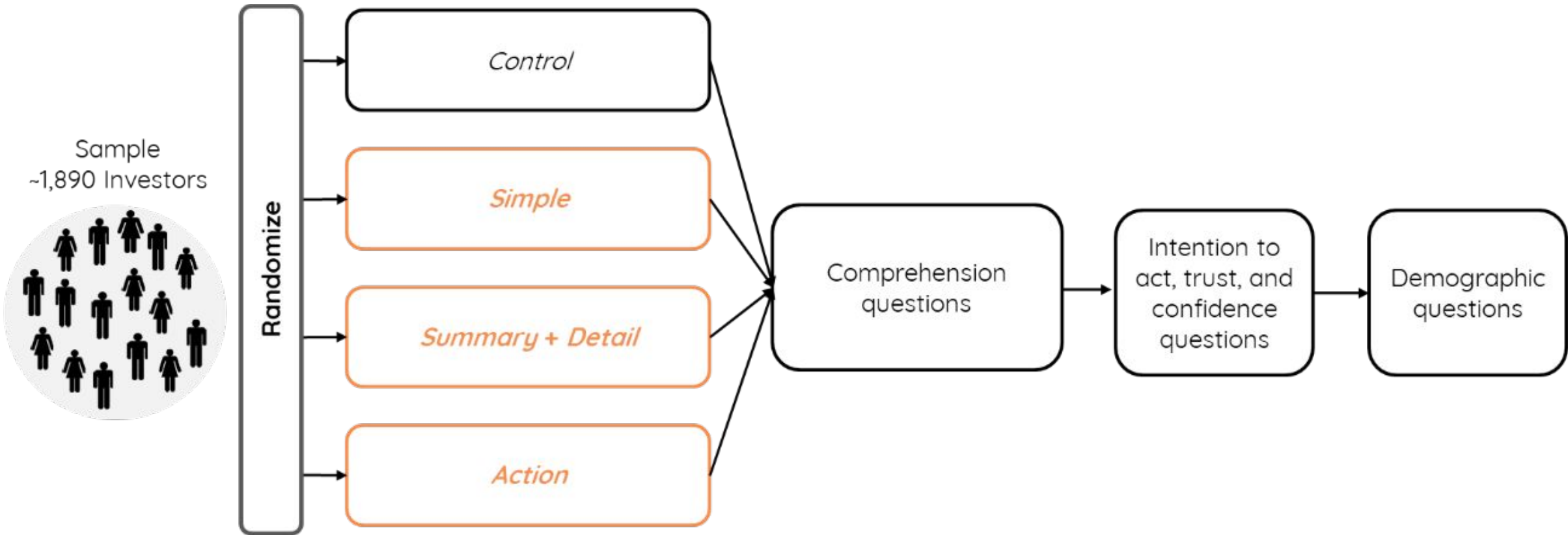


- Eliminate non-essential or redundant information
- Present the essential information up front
- Highlight the most critical information



- List actions that investors can take to reduce their investment firm fees or increase the level of service for those fees
- Link fees to the actions that triggered them

Trial: Testing some of our ideas





Investment Dealer ABC Inc.

Annual Charges and Compensation Report

Sam Doe
123 Pleasant St.
Your Account Number: 123-4567

Dear Sam,

This report summarizes the compensation that we received directly and indirectly in 2017. Our compensation comes from two sources:

1. What we **charge you directly**. Some of these charges are associated with the operation of your account. Other charges are associated with purchases, sales and other transactions you make in the account.
2. What we **receive from third parties**.

Charges are important because they reduce your profit or increase your loss from investing.

Charges you paid directly to us	Totals
RRSP Administration Fee	\$100
RRSP Withdrawal Fees	\$50
Total charges associated with the operation of your account	\$150
Commissions on purchases of mutual funds with a sales charge	\$204
Trading fees	\$29
Total charges associated with transactions we executed for you	\$233
Total charges you paid directly to us	\$383
Compensation we received through third parties	
Commissions from mutual fund managers on purchases of mutual funds ¹	\$407
Trailing commissions from mutual fund managers ²	\$111
Total compensation we received through third parties	\$518
Total charges and compensation we received in 2017	\$901

Notes:

1. **Commission from deferred sales charge investments:** When you purchase units of mutual funds on a deferred sales charge basis, we receive a commission from the investment fund manager.
2. **Trailing Commission:** Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission depends on the sales charge option you chose when you purchased the fund. You are not directly charged the trailing commission or the management fee. But, these fees affect you because they reduce

Investment Dealer ABC Inc.

IMPORTANT: ANNUAL REPORT ON OUR FEES

Sam Doe
123 Pleasant St.
Your Account Number: 123-4567

Dear Sam,

This report describes the fees we received in 2017 for the services we provide to you. These fees come from two sources:

1. What we **charge you directly**. Some of these charges are for the operation of your account (e.g. account administration fees). Other charges are associated with purchases, sales, and other transactions you made.
2. What you are **indirectly charged**. Investment dealers like us can receive payments from third-parties, such as fund managers, when our clients have investments in their funds.

Both direct charges and indirect charges are important because they reduce the value of your investments.

Summary of Direct and Indirect Charges

Total Direct Charges	\$383
Operating Charges	\$150
Transaction Charges	\$233
Total Indirect Charges	\$518
Total Charges	\$901

If you need an explanation of the charges described in this report, your representative can help you.

“Detailed” treatment (page 2 of 3; the “Simple” treatment would be page 1)



Suggested steps from “Action” treatment (bottom of page 1 of 1; the rest would be identical to the “Simple” treatment)

Investment Dealer ABC Inc.

Detailed Breakdown of Direct and Indirect Charges

Account #: 123-4567




Direct Charges	Amount	Description
Operating Charges	\$150	
RRSP Administration Fee	\$100	Charged on 12/31/2017 for maintaining your RRSP Account.
RRSP Withdrawal Fees	\$50	Charged for two withdrawals of funds from your RRSP account.
Transaction Charges	\$233	
Trading Fees	\$29	Charged for three mutual fund transactions.
Sales Charges	\$204	Charged for purchasing ABC Mutual Fund, which has a front-load sales charge.
Total Direct Charges	\$383	

Indirect Charges	Amount	Description
DSC Fund Purchase Commissions	\$407	When you purchased units of XYZ Mutual Fund on 04/12/17 on a deferred sales charge basis, we received a commission from the investment fund manager, XYZ Inc.
Trailer Fees (1)	\$111	Commission we receive because you hold ABC Mutual Fund and XYZ Mutual Fund. We receive 1.20% of the amount you hold in each of these funds each year as a trailer fee in return for the service and advice that we provide you.
Total Indirect Charges	\$518	

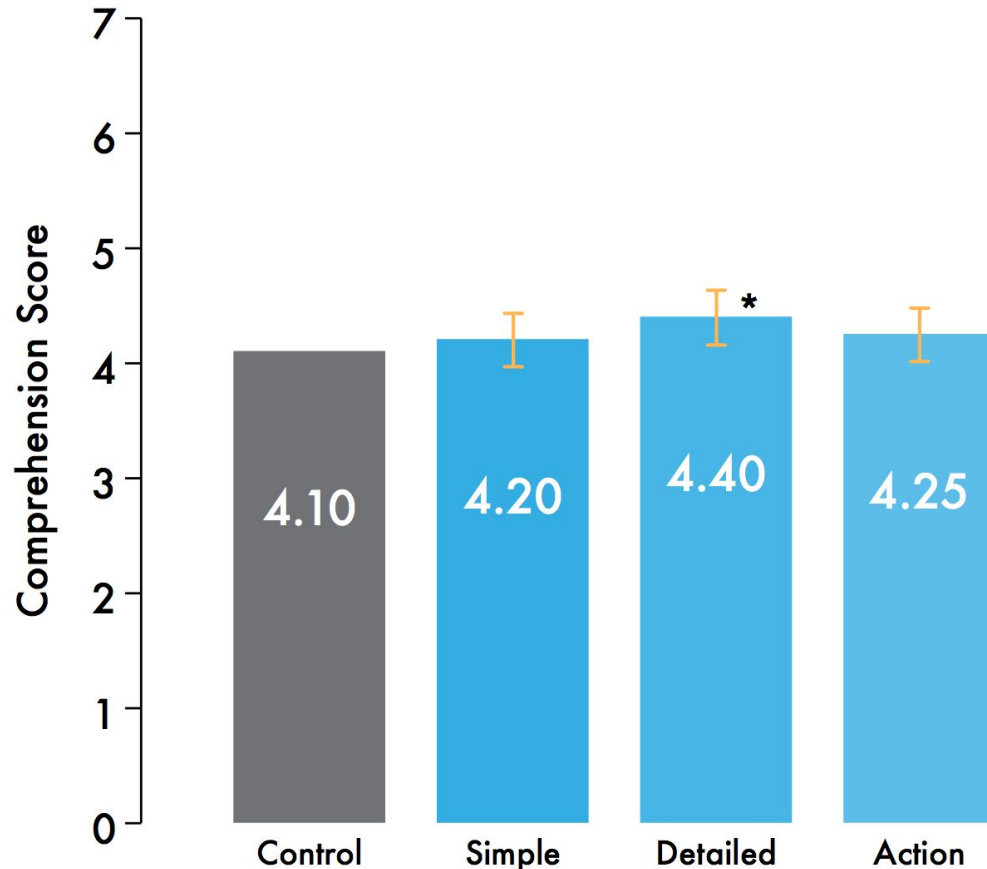
Notes:

(1) Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing

Here are some of the **steps you might take to reduce your fees:**

-  **Talk to us** about whether lower-fee investment options might be right for you. Call us at (555) 123-4567, or reach us by email at advisor@investmentdealerabc.com
-  **Go to our website** to learn more. For example, learn what questions you might want to ask us to start a conversation about our charges.
-  If you think it might be right for you, **ask your advisor about investment strategies that include passive as well as active investments.**

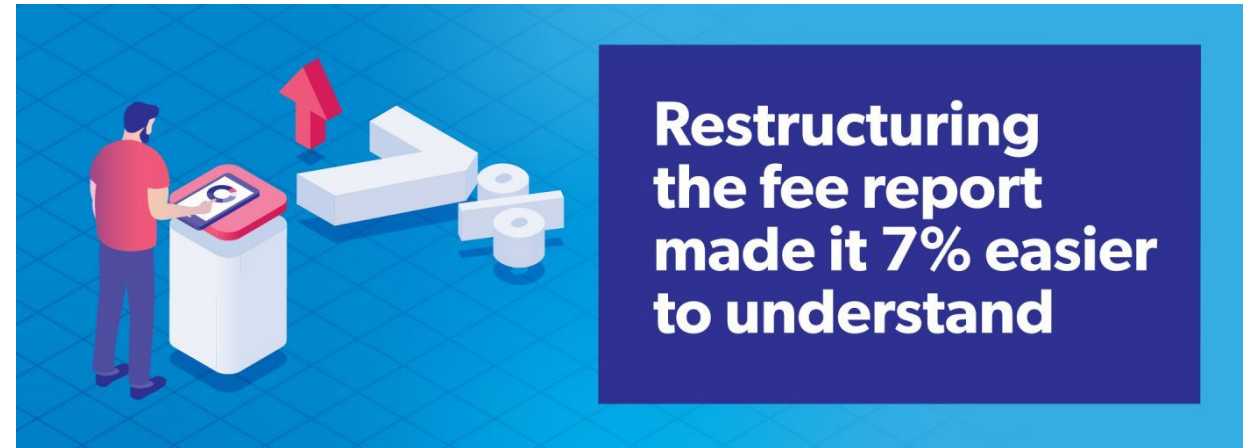
Trial: Simple cover page with amended detail is most effective



**p<0.01, *p<0.05, +p<0.1

N = 1,890

Primary analysis



Scale: Changing practice



OSC Staff Notice 11-787

*Improving Fee Disclosure Through
Behavioural Insights*

The Ontario Securities Commission used their relationship with Investment Dealers advisors to promote our findings in a “Staff Notice”

August 19, 2019

Introduction

The Ontario Securities Commission (the **OSC**) is committed to improving the investor experience. Reflecting this commitment, the OSC Investor Office partnered with the Behavioural Insights Team (**BIT**)¹ on a project to identify tactics for improving fee disclosure.

The report arising from this project (the **Report**) examines how investment fees are communicated to investors, with a focus on annual reports on charges and other compensation (**annual fee reports**) required to be delivered to investors by registered dealers and advisers (together with their respective registered representatives, **registrants**). The Report is appended to this staff notice (this **Notice**).

Purpose

The goal of this project was to further our work identifying practical applications of behavioural insights that will lead to better investor experiences and market participant outcomes. The OSC is also exploring further ways to improve the investor experience,² including in collaboration with its Canadian Securities Administrators (**CSA**) counterparts.³

Q&A

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<https://www.behaviouralinsights.co.uk/>