Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Consumer Protection Outlook 2020

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Introduction

The Central Bank’s mission is to serve the public interest by safeguarding monetary and financial stability and by working to ensure the financial system operates in the best interests of consumers and the wider economy.

As part of our consumer protection work, we are today publishing the *2020 Consumer Protection Outlook*. The purpose of the report is two-fold.

Firstly, it seeks to inform regulated financial services providers of the key risks we see to consumers of financial services in the year ahead and to set out our expectations of what firms should do to mitigate those risks.

Secondly, it communicates the Central Bank’s own consumer protection priorities including the key policy and supervisory work we are undertaking this year. Our priorities are informed both by our sectoral risk analysis and our assessment of where our interventions have the greatest potential to minimise risks for consumers.

I look forward to working constructively with the financial services industry to deliver on our vision of a trustworthy financial system supporting the wider economy where firms and individuals adhere to a culture of fairness and high standards. This is a vision which we expect the industry must share and deliver on.

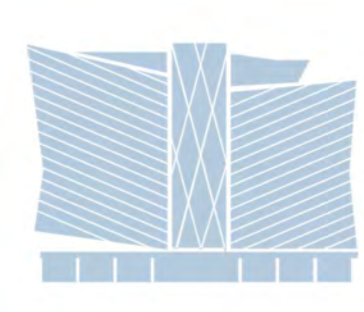
Gráinne McEvoy, Director of Consumer Protection

Protecting Consumers

Consumer protection begins with the financial services firms. Firms are responsible for selling their customers products that meet their needs both now and into the future.

We expect all firms to consider each risk we have identified and to take all appropriate actions to protect their customers.

Our role



Protecting consumers is at the heart of the Central Bank's work. Our mission is to serve the public interest by safeguarding monetary and financial stability and by working to ensure the financial system operates in the best interests of consumers and the wider economy.

The breadth of our mandate enables us to harness our collective, wide-ranging and deep policy and technical expertise in working to protect consumers. We have a range of powers that help us to supervise many thousands of financial services providers in Ireland and overseas. We are clear in our expectations of firms and how they treat their customers.

Our prudential, supervision and consumer protection roles include:

- Ensuring that the financial system is stable and that the firms that operate within it are financially sound, have sustainable business models and have effective risk management and controls in place.
- Regulating firms to ensure that the best interests of consumers are protected.
- Influencing and shaping European and domestic policy initiatives including setting statutory codes of conduct for firms, with which they must comply. These include codes on how products should be sold, the information that should be provided to consumers and how complaints should be dealt with.
- Taking enforcement action to hold firms and individuals to account where there are serious regulatory breaches.

We take a risk-based approach to supervision, focusing our energies on firms and products according to the level of risk they pose to consumers, while leaving some flexibility to deal with emerging issues that may surface during the course of each year.

We adopt a multidisciplinary approach to our work, bringing together the full suite of policy, supervisory and enforcement expertise when tackling complex issues.

We also work with other parts of the State's consumer protection framework – such as the Financial Services and Pensions Ombudsman (FSPO) and the Competition and Consumer Protection Commission (CCPC) – to fulfil our role.

We are responsible for issues affecting groups of consumers of regulated financial services firms. By contrast, the FSPO assesses the complaints of individual consumers against their financial services providers. The role of the CCPC is to uphold general competition and consumer law, and to provide personal finance information and education.

We work closely with these agencies and a number of other State agencies to deliver on our respective mandates in protecting consumers.

What consumers are saying about the Central Bank of Ireland

In 2019, we asked **Red C Research** to tell us what consumers are saying about the Central Bank of Ireland.

"I just want to know they are keeping me safe".

Our vision

Our vision is of a trustworthy financial system where firms and individuals observe a culture of fairness and high standards of honesty, integrity and reliability.

Through high quality regulation, purposeful engagement, effective gatekeeping, assertive supervision and robust enforcement, we aim to achieve three important objectives:

- A positive consumer-focused culture that is embedded and demonstrated in all financial services providers.
- A consumer protection framework that is comprehensive and ensures that consumers' best interests are protected.
- Financial services providers and staff who are fully compliant with their obligations and are treating their customers, existing and new, in a fair and transparent way.

"It's like the Central Bank is no longer hiding behind its walls but is out in the public protecting us".

Source: Red C Research

When we take action

We intervene, within the scope of our regulatory mandate, to ensure the interests of consumers are protected by focusing on the issues which pose the greatest potential or actual risk of consumer harm.

Our targeted interventions are aimed at addressing widespread issues that affect many customers. We act by:

- Ensuring firms and individuals seeking to access the market meet high regulatory standards.
- Requiring firms to have robust risk management processes in place to address all risks to consumers.
- Directing firms to put things right where they have made errors or caused consumer harm, making sure firms compensate consumers for losses due to misconduct.
- Taking robust enforcement action where firms or individuals fall short of required standards.

In the most serious cases, we revoke firms' licences and prohibit senior individuals from working in the financial services industry.

In 2019, the Central Bank oversaw the return of €74m to consumers arising from errors notified under the Consumer Protection Code

Identifying risks and priorities

Every year the Central Bank carries out a comprehensive consumer risk assessment where we examine each of the retail sectors to identify and assess current and emerging risks to consumers. We then assess the risks across all sectors to identify which ones pose the greatest potential of consumer harm. We call this our sectoral risk analysis.

This sectoral risk analysis allows us to pinpoint risks that may have widespread impact. We draw on a wealth of information to inform our analysis including:

- Our supervisory work and experience.
- Consumer data submitted by firms.
- Developments and emerging trends at European and international level.
- Advice from the Consumer Advisory Group.
- Engagement with stakeholders including policy-makers, statutory consumer bodies, civic society, etc.
- Listening directly to consumers.

Consumer protection begins with the financial services firms. Firms are responsible for selling their customers products that meet their needs both now and into the future. We expect all firms to consider each risk we have identified and to take all appropriate actions to protect their customers.

The Consumer Advisory Group, which comprises consumer, industry and regulatory experts, advises the Central Bank on the performance of its functions and the exercise of its powers in relation to consumers of financial services

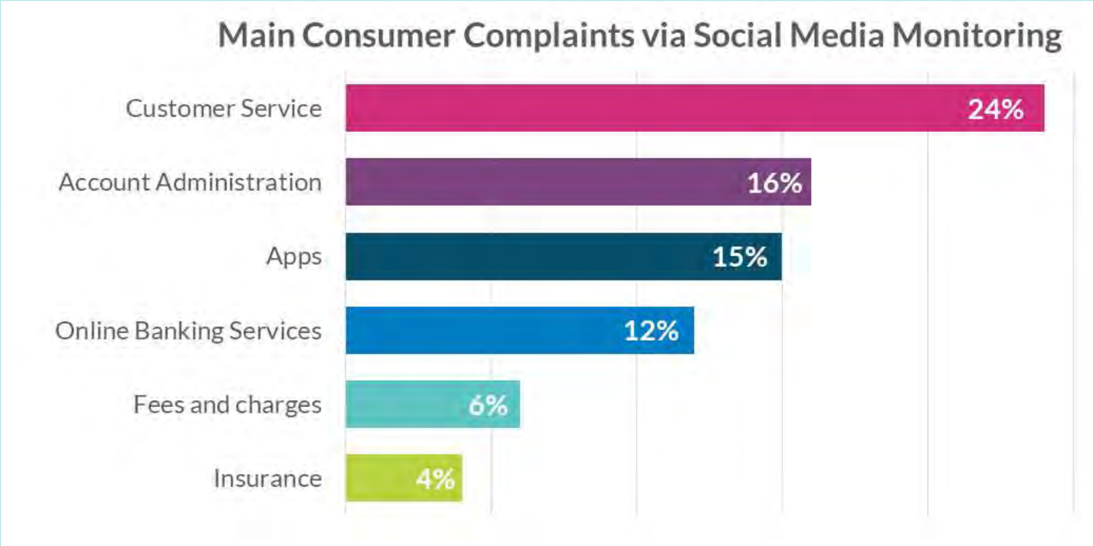
Case study

Using social media to identify consumer risk and harm

We have been conducting social and online media monitoring since 2013 as an additional tool to help us understand consumer experiences and concerns in real-time. It helps us gain knowledge of new products and services, and how firms are treating customers. It also identifies trends and emerging risks at firm, sectoral and cross-sectoral level.

In a given week, there can be hundreds of consumer mentions of regulated firms. The majority of these mentions are via Twitter. Comments are also sourced from discussion boards and blogs.

We review these individual consumer mentions with a focus on complaints and expressions of dissatisfaction. Since July 2019, the main areas where consumers expressed dissatisfaction included customer service, account administration, mobile banking apps, online banking services, fees and charges, and insurance issues.



The following recurring issues have been reported by consumers on social media:

- Issues around the updating of online banking transactions and errors in account balance.
- Dissatisfaction with customer service levels, particularly call waiting times on helplines and in-branch queues and a perception that new customers received preferential treatment.
- IT outages and the inability to access online services.
- Scam and 'phishing' text messages advising that accounts had been suspended.

Our 2020 priorities

Our work priorities are informed by our sectoral risk analysis along with our assessment, in any given year, of where our interventions have the greatest potential to minimise risks for consumers.

Our 2020 priorities are to:

- Advance the review of the Consumer Protection Code in order to strengthen the consumer protection framework.
- Drive firms to embed effective consumer-focused cultures, with a strong focus on the banking and insurance sectors.
- Work to ensure fair treatment of borrowers in mortgage arrears, including by challenging firms to demonstrate how they are putting in place long-term sustainable and appropriate arrangements for those borrowers.
- Deploy assertive risk-based supervision of firms' management of conduct risk in order to protect consumers from those risks caused by the firms' behaviour.
- Further enhance our gatekeeping process to ensure a robust and effective authorisation regime exists for all firms and that the individuals who run them are fit and proper.
- Influence and shape the regulatory framework for protecting consumers, domestically, in Europe, and internationally.

"The Central Bank sets the rules to control financial institutions and this protects consumers without them even knowing it".

Source: Red C Research

Consumer Protection Priorities 2020

Strengthen the consumer protection framework

- Advance a substantial review of our Consumer Protection Code work that will continue into 2021.
- Simplify and modernise the protections that are in place for consumers.
- Address emerging trends and risks to ensure that it reflects the changing financial services landscape.
- Undertake wide consultation with stakeholders in early 2021.
- Plan to transfer the Code into Central Bank Regulations.

Drive firms to embed effective consumer- focused cultures

- Challenge boards and senior management of the banks to implement and embed structure, controls and behaviours supporting their cultural change, including greater focus on consumers.
- Examine the practice of price differentiation in the Irish motor and home insurance markets to understand how widespread it is, how insurers are using it and whether it leads to the unfair treatment of consumers.
- Assess product oversight and governance arrangements in a number of banks.

Ensure the fair treatment of borrowers in mortgage arrears

- Challenge banks, retail credit and credit servicing firms with supporting data and evidence, to demonstrate how they are putting in place long-term sustainable and appropriate arrangements for borrowers in arrears.
- Scrutinise and challenge firms applying for full authorisation under the Credit Servicing Act 2018, with particular focus on their strategy to ensure the fair treatment of borrowers in arrears.

Deploy assertive risk-based supervision

- Review the insurance sector's compliance with (i) disclosure requirements for motor insurance, (ii) product oversight and governance requirements for life assurance and (iii) disclosure obligations on performance measures and remuneration.
- Review the intermediaries sector's compliance with disclosure requirements in relation to fees and commissions.
- Assess how the asset management sector applies appropriateness and suitability requirements when selling products to investors.
- Assess the payment sector's compliance with safeguarding requirements.

Enhance our gatekeeping process

- Enhance our authorisation process to ensure a robust and effective authorisation regime exists for all firms.
- Challenge all applicant firms to ensure that they are entities of substance, capable of being supervised, and that the individuals who run them are fit and proper.
- Challenge firms seeking to relocate from the UK on the credibility of the substance of their proposal in areas such as staffing and decision-making.

Influence & shape the regulatory framework

- Influence and shape the following European and domestic policy initiatives:
  - Packaged Retail and Insurance-based Investment Products (PRIIPs).
  - Costs/charges, inducement rules and product intervention rules under the Markets in Financial Instruments Directive (MiFID).
  - Artificial intelligence/machine learning.
  - Sustainable finance disclosures for consumers.
- Regulating the providers of hire purchase and Personal Contract Plans (PCPs).

Key Cross-Sectoral Risks 2020

This section sets out what the Central Bank requires firms to do to address the key risks identified in our sectoral risk analysis.

Lack of consumer-focused culture

A fundamental risk to a well-functioning financial sector is the continuing lack of a consumer-focused culture in firms.

Our 2018 review of the behaviour and culture in Irish retail banks found that two important requirements for a successful cultural transformation were not met. In particular:

- There wasn't always a collective understanding of what "consumer focus" actually meant.
- Consumer focus was not always embedded in the banks' structures, processes and systems.

We have required banks to implement and embed detailed action plans to address the findings from this review. Consumer-focused culture is not just for the banking sector. We expect the boards and leadership teams of all the firms we regulate to drive effective cultures that put consumers at the heart of their business.

Organisations with an effective culture share a commitment to high standards and values

What we expect firms to do

We expect regulated firms to achieve a sustained improvement in culture by focusing on values and conduct that are the building blocks of culture. We expect the 'desired' values of firms and their conduct to be reflected in the daily habits and practices of their employees and management.

These standards must be reflected in every business area, from corporate governance structures to individual accountability; from strategy-setting to product development; from risk management to people management; and from internal challenge to how whistle-blowers are treated. We want to see the expected behaviours reinforced at every stage of the employee lifecycle – recruitment, induction, training and development and promotion. For example:

- Promotion and remuneration policies and practices should be designed to encourage employees to behave in a consumer-focused way.
- Employees should not be assessed on short-term performance and financial metrics only.
- Disciplinary processes should promote behaviour that is consistent with the firm's values and expected behaviours.

Irresponsible unsecured lending

Unsecured lending plays a valuable role in any functioning lending market by allowing consumers to fund many of their ambitions including car purchases, education, holidays and special occasions.

However, irresponsible unsecured lending can leave some consumers in danger of taking on too much debt or over-relying on short-term credit. For example, while credit cards and online borrowing can be convenient for consumers in this digital era, the speed of access to credit can result in consumers drawing down additional funds without taking sufficient time to consider the risks.

What we expect firms to do

We expect regulated firms to design and market credit products that suit the reasonable needs and expectations of pre-defined target markets.

We expect firms to sell credit products in a responsible way, ensuring that consumers' individual needs and ability to repay are central to credit decisions.

Prior to sale, firms must outline all possible risks to consumers of taking on credit, such as the risk that:

- Variable interest rates may increase, resulting in the need for the borrower to pay off more or for longer.
- Failure to meet payments could result in the borrower going into arrears, with a potential for charges to be incurred.
- Access to future credit could be curtailed where a borrower has failed to meet commitments resulting in a damaged credit history.

> Lenders must ensure that credit products are suitable for the individual customer they are selling to

Fact box

Unsecured lending: moneylending

Conscious that about 300,000 consumers avail of unsecured lending services provided by moneylenders, the Central Bank will this year publish enhanced rules governing moneylending. These regulations will take account of the views received from relevant stakeholders, including consumer bodies who recommended that:

- Advertisements for moneylending services must include an enhanced warning that prompts consumers to consider alternative credit options.
- Advertising and unsolicited contacts are restricted in specified circumstances.
- Moneylenders adopt and implement a responsible lending culture.

Ineffective disclosure

The failure to give clear information to consumers about the benefits, risks and costs of financial products affects a consumer’s ability to make informed decisions.

The risk increases when the product is complex or when there are many similar types of product on the market, such as in the case of health insurance.

What we expect firms to do

We expect firms to consider how they can improve communications, sales and marketing material to enable consumers to buy the products and services that they need. For example, firms must:

- Ensure that terms and conditions are clear and understandable.
- Be careful not to mislead consumers about real or perceived advantages or disadvantages of any product or service.
- Demonstrate they have implemented and embedded an appropriate product oversight and governance process.
- Make sure the benefits and cover of any health insurance products are clear and understandable, particularly at renewal time.

A consumer cannot make an informed financial decision if he or she is not fully aware of the associated risks and costs

Case study

Driving effective disclosure for consumers of insurance products

The Central Bank is driving firms to address the risks of ineffective disclosure following the introduction of new rules for the non-life insurance sector. Under these rules insurers must:

- Extend the renewal notification period from 15 to 20 working days for motor, health, damage to property and general liability insurance to give policyholders more time to get comparison quotes.
- Give details of the previous year's motor insurance premium to policyholders. This information must feature prominently on the same page as the renewal premium.
- Quote for each motor policy option, such as comprehensive, third-party fire and theft cover, or third-party only.

These measures give greater transparency to customers and will help them to make more informed decisions. They also allow policyholders more time to seek comparison quotes.

Poor governance and oversight of outsourcing arrangements

Outsourcing can help firms to offer an enhanced customer experience by allowing them to provide round-the-clock service across different time zones.   It can also give firms access to key skills and technology that may not be available in-house.

Banks, asset management firms, insurers and payment/electronic money institutions have thousands of outsourcing arrangements in place - many of which affect consumers. As such, effective management of outsourcing risk is essential.

Inadequate oversight of outsourcing can result in failures that cause significant, prolonged and unacceptable disruption. This can affect consumers trying to carry out their everyday financial transactions such as withdrawing cash, receiving funds and making payments. There is also potential harm to consumers when firms fail to oversee outsourced customer services properly.

What we expect firms to do

We expect firms to have oversight of outsourcing arrangements and to manage the associated risks. In particular, we expect firms to:

- Ensure effective oversight of outsourcing arrangements by clearly assigning responsibility for the task to relevant individuals, functions and/or committees.
- Ensure their governance and management of outsourcing arrangements meet all legal and regulatory requirements.
- Ensure they have the appropriate skills and knowledge to effectively oversee and understand arrangements, and their associated risks, from inception to conclusion.

You can delegate the task, but you cannot delegate the responsibility for that task

Case study

Governance: keeping track of the black box

This year, we are carrying out a review of the controls that motor insurers have in place to ensure that consumers are protected when using black box technology.

A number of insurance companies in Ireland use third party firms to supply customers with tracking devices or black boxes that gather information such as speed, distance travelled and acceleration. Firms use the data on their customers' driving habits to determine the insurance premium.

We want to ensure that insurance companies have sufficient oversight of how third parties that are responsible for the black boxes operate so that consumers are protected.

For example, if the data collected by the black box is incorrect, consumers could face premium increases, quote refusals or cancelled policies. We want to ensure that telematic data is used in a way that ensures consumers are being treated fairly.

Information technology and cyber risks

The rapid increase in technological innovation has fundamentally changed how consumers interact with financial services firms.

These advances have undoubtedly benefited firms and their customers but we are increasingly concerned about the firms' ability to manage these risks. Cybersecurity and technology-related risks can have serious implications for consumers.

Poor information technology (IT) risk management poses a number of serious risks to customer services including:

- Interrupted access to vital financial services.
- Errors in customer fees and charges.
- Unintended release, theft, corruption, or loss of consumers' personal and financial information.

> Poor IT risk management poses a number of serious risks to customer services

The lack of investment in IT infrastructure, systems or security significantly increases these risks.

What we expect firms to do

We expect boards and senior management to take responsibility for cyber-resilience. In the context of the risks that ineffective cybersecurity poses to consumers, we expect firms to:

- Implement best practice in managing the security of consumers' personal and financial data.
- Effectively manage consumers' access to their funds.
- Effectively manage situations, such as outages and failures, and tell their customers what is happening.
- Put things right where IT and cyber issues have caused consumer harm.

Risks from Brexit

The United Kingdom left the European Union on 31 January 2020 after reaching a withdrawal agreement that includes a transition period until the end of the year.

The transition period allows further time for financial service providers and consumers to prepare for Brexit. While the full implications remain unclear, Brexit remains a key risk to firms and their customers.

The main risk for Irish consumers relates to the likely loss of UK financial service providers' right to provide services cross-border into Ireland. These risks include:

- Consumers inadvertently engaging with unauthorised service providers.
- Consumers having limited or no access to the protections afforded through the wider national consumer protection framework.
- Lack of continuity of services for products other than insurance. A temporary run-off regime exists covering insurance contracts entered into prior to the withdrawal date.
- Reduced availability/competition for niche insurance lines.

Brexit remains a key risk to firms and their customers

Another source of Brexit-related risk for consumers applies to financial service providers who outsource certain activities including their IT systems, call-centres, fund administration etc.

What we expect firms to do

We expect firms to:

- Implement plans to reduce Brexit risks and to prepare for the potential impact of Brexit on their business and their customers.
- Ensure there is as little disruption to consumers as possible. The onus is on every firm to ensure it has appropriate contingency plans in place to minimise disruption to consumers.
- Act in the best interests of consumers, including keeping customers updated on any potential disruptions so that they can make their own plans.

Consumer Protection Priorities 2020

Our work priorities are informed by our sectoral risk analysis along with our assessment, in any given year, of where our interventions have the greatest potential to minimise risks for consumers.

Strengthen the consumer protection framework

If consumers are to trust financial services, they need to have confidence that the rules governing those services address emerging issues. The rulebook must adapt to the changing times.

As a key priority for 2020, the Central Bank will advance work to refresh the Consumer Protection Code to ensure it continues to deliver strong protections for consumers. The aim is to ensure the Code is enhanced to address emerging trends and risks across a rapidly changing financial services landscape.

This is a complex, multiannual project and will require extensive stakeholder consultation and deliberation of policy and legislative issues.

In 2020, we will:

- Advance a substantial review of the Consumer Protection Code.
- Simplify and modernise the protections that are in place for consumers.
- Address emerging trends and risks to ensure that it reflects the changing financial services landscape.
- Plan to transfer the Code into Central Bank Regulations.

"These rules make things better without you really knowing about it. It's only when things go wrong that you realise you have some rights".

Source: Red C Research

Case study

The Consumer Protection Code: meeting the challenges of digitalisation

The digitalisation of financial services will form a key part of our review of the Consumer Protection Code. Like many other sectors of the economy, new and emerging digital technologies are transforming the retail financial services market.

We recognise that advances in technology can have significant benefits for consumers and industry. From a consumer protection perspective, we welcome innovations that promote consumers' best interests and create better experiences and results for them.

However, financial innovation may also pose risks. In particular, while digitalisation has increased financial inclusion to a significant degree, there is a risk of the financial exclusion of some people, in particular where there are barriers to accessing digital services.

Our review of the Consumer Protection Code will take account of both the benefits and risks of digitalisation, and we will try to ensure that products and services delivered through digital channels are designed in a way that supports informed decision-making and delivers good outcomes for consumers.

Drive firms to embed effective consumer-focused cultures

In 2020, our supervisory focus will be on driving boards and senior management to embed effective consumer-focused cultures at the firms they lead.

We believe that an effective culture builds on standards such as professionalism, honesty and accountability so that the consumer is always at the heart of the way a firm runs its business. While it is up to each organisation to define and embed an effective culture, we, as the regulator, work to monitor, assess and influence culture in all regulated firms in order to guard against conduct risk and drive better outcomes for consumers.

In particular this year, we are focusing on how the banking sector puts in place appropriate risk management frameworks including structures and controls to support consumer-focused cultural change.

Over the medium- to long-term, we expect to see evidence that these structures and controls are leading to effective behaviour and culture in firms.

The Consumer Protection Risk Assessment (CPRA) model allows the Central Bank to assess how firms manage the risks they pose to consumers and if fairness to consumers is central to the way they run their business.

It is important that firms design and sell products that suit their customers' needs

It is important that firms design and sell products that suit their customers' needs. This year, we will complete targeted CPRAs on product oversight and governance at a number of the main retail banks.

For example, we will be assessing whether banks' marketing and advertising describes the product or service in a clear and fair way that seeks to ensure consumer understanding and informed purchasing decisions. We will also assess whether management information to monitor and track sales performance is sufficient to achieve fair consumer outcomes. Our findings will be made clear to the banks and we will insist they take action to address any high-risk practices we identify.

We will also focus on differential pricing in the insurance sector in 2020. This practice differentiates between customers on considerations other than the expected cost of claims and expenses. It describes a range of techniques that combines information about expected claims experience and customer behaviour, for example, the tendency to renew or shop around. Differential pricing techniques are widely used across many industries, for example airlines, hotels, telecoms and on-line retail sites.

Differential pricing is an area of focus for us in 2020

While differential pricing has been used in the insurance industry for some time, in more recent years, the tools available for differential pricing have become increasingly sophisticated with greater access to big data (see box overleaf), more granular assessment and more accurate modelling techniques brought about by new technology. The environment is increasingly complex and the Central Bank, in common with other national competent authorities, is adjusting its supervision of insurance firms to oversee changes in pricing practices from a conduct perspective.

This year the Central Bank will carry out a review into differential pricing which will focus on motor and home insurance, as the most widely held insurance products in Ireland. It will be carried out in three phases - market analysis; quantitative analysis and consumer insight; and findings and recommendations.

The review will seek to establish the impact of differential pricing on consumers while at the same time establishing the drivers of consumer behaviours, including how consumers engage with the insurance industry. It will also assess the extent to which these pricing practices lead to outcomes that are consistent with the Consumer Protection Code.

In 2020, we will:

- Challenge boards and senior management to put in place appropriate risk management frameworks including structures and controls to support consumer-focused cultural change.
- Carry out targeted Consumer Protection Risk Assessments in retail banks on product oversight and governance, and the mortgage application process to identify practices that may not be in consumer's best interests.
- Examine the practice of price differentiation in the Irish motor and home insurance markets.

Case study

Big data in insurance: a risk to consumer-focused culture?

Greater access to big data has made it much easier for insurance companies to charge different prices to different consumers for the same product. To find out how differential-pricing affects consumers, we began a review in January 2020 into the private motor and household market. The review sets out to examine:

- The extent of such pricing practices in the motor and home insurance markets and the groups of consumers that may be affected.
- The pricing strategies, models employed, and data used by firms that give rise to price differences for the same risk with the same cost of service.
- How firms take account of the Consumer Protection Code when implementing differential pricing strategies, including in relation to acting honestly, fairly and professionally in the best interests of their customers.
- The extent to which boards oversee such practices, including oversight of delegated authority given to third parties.
- Consumer behaviour, in particular how consumers engage with their insurance providers and what interventions are likely to change it.

Fair treatment of mortgage borrowers in arrears

Protecting the rights of borrowers in mortgage arrears is a key priority for the Central Bank. This year, we will focus particularly on the credit servicing sector to scrutinise how firms are treating their customers.

Our regulatory framework provides significant protection for borrowers in arrears including when their loan is transferred through a sale or securitisation. Significant progress has been made in terms of restructuring mortgage arrears – in a way that has minimised repossessions – and critical to this has been the implementation of alternative repayment arrangements (ARAs). Across the bank, retail credit and credit servicing sectors, engagement between firms and borrowers is critical if sustainable ARAs are to be put in place. However, some loans have not been restructured, and of those that have, not all are long-term sustainable solutions. Any alternative repayment arrangements should be appropriate to and sustainable for the borrower.

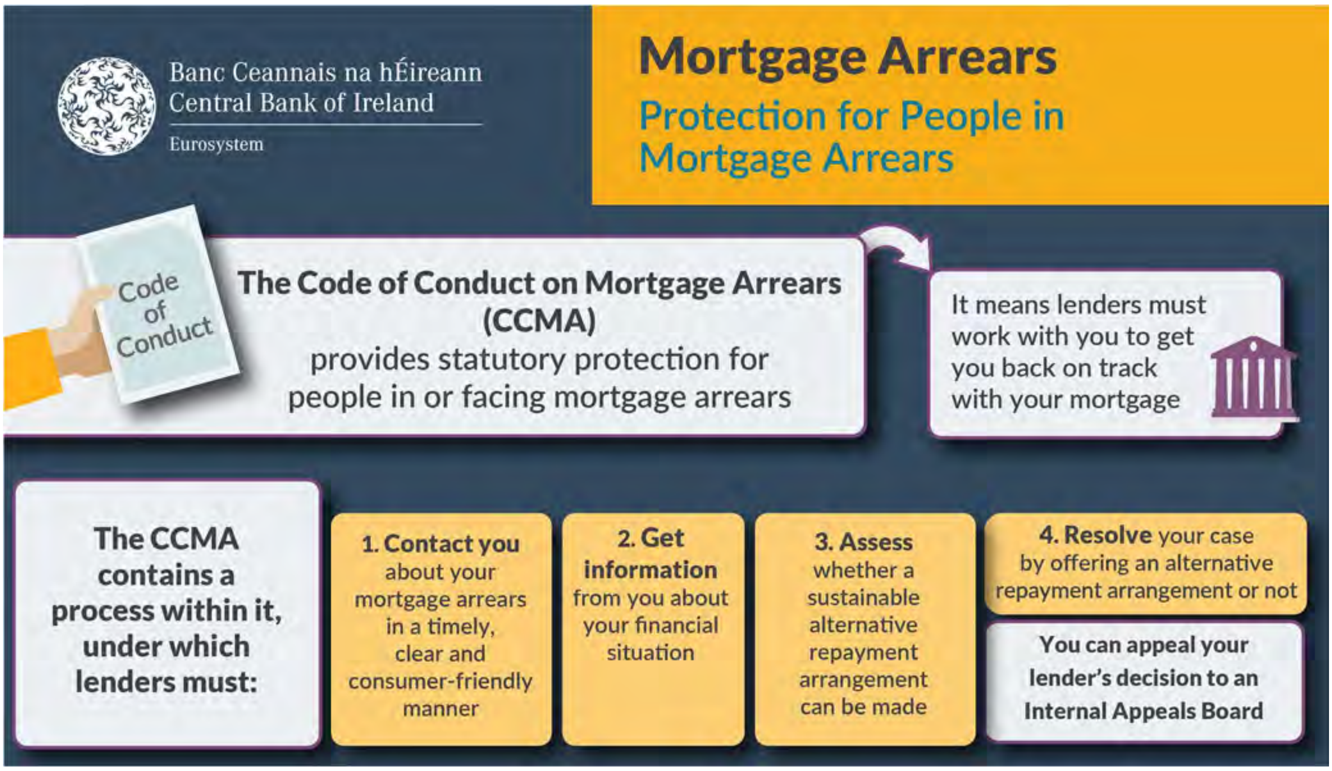
A number of firms have applied for authorisation under the Credit Servicing Act 2018. We will challenge them on their plans for the treatment of borrowers in arrears. We will also continue to subject the existing and newly authorised credit servicing firms to robust supervision.

In 2020, we will:

- Challenge the banks, retail credit firms and credit servicing firms, with supporting data and evidence, to demonstrate how they are putting in place long-term sustainable and appropriate arrangements, where possible, for their borrowers.

- Scrutinise and challenge firms applying for full authorisation under the Credit Servicing Act 2018, with particular focus on their strategy to ensure the fair treatment of borrowers in arrears.

- Continue to work with the wider State consumer protection framework in seeking to ensure long-term sustainable solutions for borrowers in arrears.



Deploy assertive risk-based supervision

All financial services providers must understand the risks faced by their consumers. These risks come not only from the products and services they buy, but also from the behaviour of the firms themselves.

The Central Bank works on behalf of consumers to pinpoint the greatest risks to them and to ensure that firms take action to manage those risks. Because we regulate and supervise several thousand financial services providers, it is essential that we focus our energies on the products and firms that pose the highest risks to consumers.

In 2020, we will continue to develop and enhance our sectoral monitoring and risk-based approach to supervising and regulating firms' conduct and we will use our supervisory and regulatory powers assertively and proportionately.

In 2020, we will:

- Review the insurance sector's compliance with (i) disclosure requirements for motor insurance, (ii) product oversight and governance requirements for life assurance and (iii) disclosure obligations on performance measures and remuneration.
- Review the intermediaries sector's compliance with disclosure requirements in relation to fees and commissions.
- Assess, through thematic engagements, how the asset management sector applies appropriateness and suitability requirements, when selling products to investors.
- Assess the payment sector's compliance with safeguarding requirements.

Fact box

New rules on commission for financial intermediaries

During 2020, we will be assessing compliance with the new rules on commission for financial intermediaries introduced last year.

We introduced these rules to ensure commission payments from product providers to intermediaries do not work against consumer interests. We demanded transparency on all types of commission to reduce the risk of conflicts of interests and to protect consumers. These rules include a ban on free hospitality (such as golf trips and tickets to sporting events) for financial intermediaries, such as brokers and financial advisers.

From 31 March 2020, financial brokers will have to post on their website details of all commissions from product producers. The Central Bank will no longer allow intermediaries to describe themselves and their regulated activities as 'independent' if they accept commission for the advice they have given.

Enhance our gatekeeping process

Authorisation is an important part of how we regulate financial services providers and work to protect consumers. Through this process we ensure that only firms that meet the standards required by European and domestic legislation, and the Central Bank's own rules, can provide financial products and services to consumers.

The demand for new business authorisations has increased in response to Brexit. We have an efficient and effective authorisation process that reviews areas such as the proposed business models of new firms and the ability of firms to meet our requirements on an on-going basis to ensure the fair treatment of their customers.

To date, we have refused a number of applications for authorisation

Our fitness and probity regime aims to ensure that regulated firms and individuals operate to high standards of competence, integrity and honesty. Only people who are fit and proper may occupy senior roles at the financial firms we regulate and supervise.

The onus is on firms to conduct their own due diligence on individuals when making "fit and proper" assessments, and we are focused on ensuring they discharge that responsibility to the full. We expect that every person employed in the financial services sector provides full and truthful information to the Central Bank.

Our gatekeeper role is a critical lever for us. To date, we have refused a number of applications for authorisation, and a number of applications for senior positions have been withdrawn where the Central Bank has challenged the applicant.

We stress that it is a criminal offence for a firm to sell financial products or services without the necessary authorisation and we will take the appropriate action against such firms if they continue to conduct business in Ireland.

We take a tough line on unauthorised providers because consumers who deal with a firm that has failed to secure the required authorisation may not be able to avail of valuable statutory protections, such as the Irish deposit protection, insurance compensation and investor compensation schemes, or have access to the Financial Services and Pensions Ombudsman.

In 2020, we will:

- Further enhance the authorisation process to ensure a robust and effective authorisation regime exists for all firms.
- Challenge all applicant firms to ensure that they are entities of substance and capable of being supervised and that the individuals who run them are fit and proper.
- Challenge firms seeking to relocate from the UK on the credibility of the substance of their proposal in areas such as staffing and decision-making.

Case study

Gatekeeping: authorisations in the post-Brexit landscape

New businesses seeking authorisation in Ireland as a response to Brexit have resulted in a significant transformation of the Irish financial services landscape, with a material growth in its size and complexity. A broad range of firms across multiple sectors have sought to relocate some of their activities to Ireland in order to continue to access the European Union (EU)/European Economic Area (EEA) market after Brexit. To date more than 100 firms have been authorised or approved to significantly expand their operations in Ireland to allow them to continue to serve EU/EEA customers. For example, the payment institution/electronic money sector has more than doubled in size since December 2018 due to Brexit.

In processing applications for authorisation, we have focused on the need for any new business authorised here as a result of Brexit to meet the high standards that are expected of firms authorised in the EU. The Central Bank has required that firms organise themselves so that when they are up and running their business they can demonstrate that they have appropriate and sufficient substance in the State, are clearly governed, and are set up to meet our supervisory expectations.

Three of the key risks identified with the regulation of such a changing landscape are:

- Firms are increasingly engaging in high levels of outsourcing.
- The Central Bank is now responsible for supervising new complex firms such as broker dealers/organised trading facilities that are new to the Irish market.
- Some firms will very quickly become entities of significant scale, as they will be migrating large volumes of customers and transactions to their Irish entities to enable them to continue to service their EU/EEA customers.

We will continue to challenge all applicant firms to ensure that they are entities of substance and capable of being supervised.

Influence and shape the regulatory framework

The global financial crisis drove consensus on the need for greater international and European convergence and co-operation on how financial institutions are regulated and supervised.

The Central Bank worked extensively at international, European and domestic level to strengthen the regulatory and supervisory systems. We will continue actively to help shape and influence the work designed to enhance the consumer protection framework with European and international bodies.

We work with the European supervisory authorities to shape the consumer protection framework in the banking, insurance and asset management sectors. The introduction of EU directives into national legislation plays an important role in strengthening protection for consumers.

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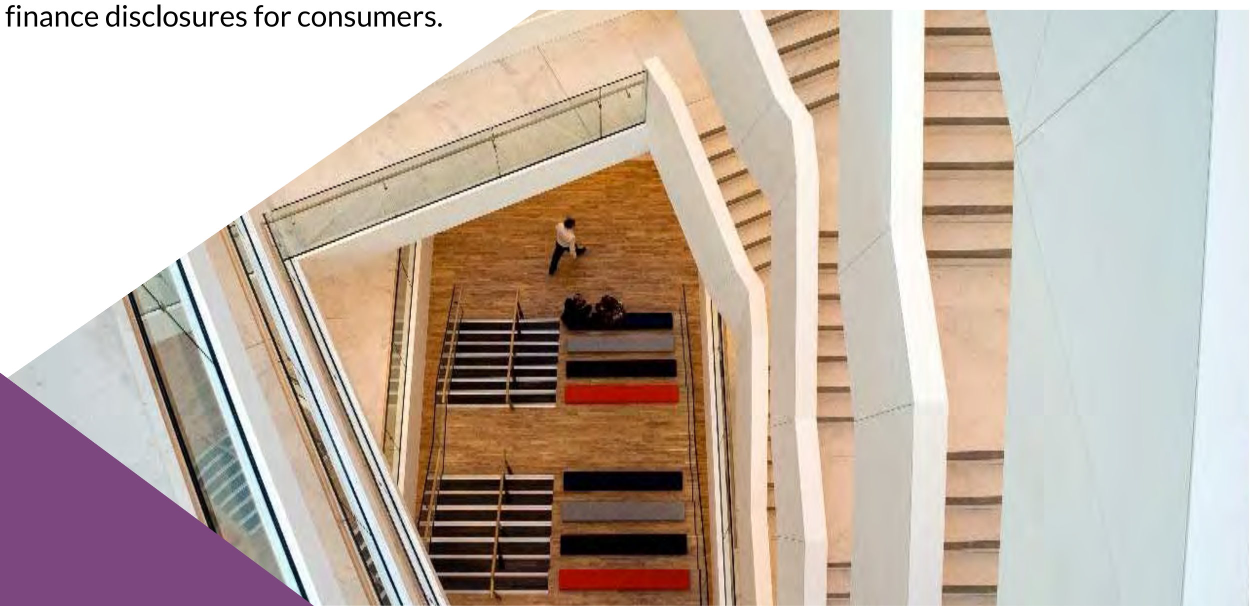
In the international arena, bodies such as the Organisation for Economic Co-operation and Development (OECD) and the International Financial Consumer Protection Organisation (FinCoNet) work to promote the protection of consumers of financial services.

In 2020, we will work to shape European and domestic policy initiatives, in particular:

- Packaged Retail and Insurance-based Investment Products (PRIIPs).
- Costs/charges, inducement rules and product intervention rules under Markets in Financial Instruments Directive (MiFID).
- Regulating the providers of hire purchase and Personal Contract Plans (PCPs).
- Sustainable finance disclosures for consumers.



T: +353 (0)1 224 5800
E: enquiries@centralbank.ie
www.centralbank.ie

Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem