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Central Bank of Ireland

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Retail Intermediaries Roadshows 2016

Patrick Sage

Head of Function - Consumer Protection: Supervision, Central Bank of Ireland

26/27 October 2016



Welcome!





Welcome cont.

1. Introduction
2. Purpose of today's session
3. CPD accreditation
4. How today will work
5. Running order - agenda





Agenda for the Day

	Name & Division	Topic	Times
1	Deirdre Norris Consumer Protection: Policy & Authorisations	Recent and Upcoming Policy Developments	10:10 – 10:35
2	Anne Gill Consumer Protection: Supervision	Review of Firms Not Meeting Minimum Standards of Compliance	10:35 – 11:00
3	Ruairi De Burca Consumer Protection: Supervision	Overview of the Supervisory Process for Retail Intermediaries	11:00 – 11:25
4	Karen O’Leary / Brendan Sheridan Financial Control and Procurement Division	Developments in Relation to Industry Funding Levy	11:25 – 11:50
5	Brendan Lawlor Anti-Money Laundering Division	Anti-Money Laundering/Countering the Financing of Terrorism (AML/CTF)	11:50– 12:20
6	Patricia Dunne / Vivienne Nolan Risk Division	Cross Industry Guidance in respect of IT & Cybersecurity	12:20– 12:45
7	Wrap Up		12:45 – 13:00



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Recent and Upcoming Policy Developments

Deirdre Norris

Consumer Protection: Policy & Authorisations, Central Bank of Ireland

26/27 October 2016



Agenda

1. EU developments
 - 1) Insurance Distribution Directive
 - 2) Markets in Financial Instruments Directive (MiFID II) Article 3 exemption
 - 3) Product Oversight and Governance
 2. Consumer Protection Framework
 3. Minimum Competency Code 2011
-



1.1 Insurance Distribution Directive

- Transposition by 23 February 2018
 - Main changes:
 - Scope
 - Standard insurance product information document
 - Remuneration requirements
 - Knowledge and competence requirements
 - Product governance
 - Additional requirements for insurance-based investment products
-



1.2 Markets in Financial Instruments II (MiFID II)

- Article 3 exemption
 - Analogous to MiFID II requirements
 - Authorisation
 - Product governance
 - Record keeping
 - Conduct of business requirements
-



1.3 Product Oversight and Governance

- EIOPA Preparatory Guidelines
 - Obligations on manufacturers and distributors
 - Distributors should
 - Obtain information on product and target market
 - Ensure distribution strategy consistent with target market
 - Regularly review distribution arrangements
 - Inform manufacturer if product not aligned with target market
 - EBA Guidelines
 - MiFID II Delegated Directive and Consultation Paper on Product Governance Guidelines
-



2. Consumer Protection Framework

- Review
 - Discussion Paper
 - Future direction
 - Impact of EU legislation
 - New rule-making powers
 - Digitalisation and innovation
-



3. Minimum Competency Code 2011

- Review
 - Mortgage Credit Directive
 - specified competencies
 - qualification by 21 March 2019
 - MiFID II and ESMA Guidelines
 - qualification and 6 months' experience
 - Insurance Distribution Directive
 - specified competencies
 - Consultation Paper in November 2016
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Review of Firms Not Meeting Minimum Standards of Compliance

Anne Gill

Consumer Protection: Supervision, Central Bank of Ireland

26/27 October 2016



Agenda

1. Engagement
 2. Review of 421 Firms failing to submit Annual Returns
 3. Combined Results
 4. Outstanding Annual Returns- End of Quarter 3 2016
 5. Number of On-Site Visits 2016
 6. Reasons for Not Submitting
 7. Let's Work Together
-



1. Engagement

Intermediary Times – February 2016

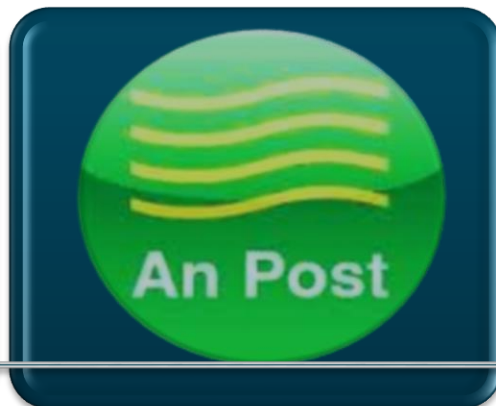
“Targeting firms which are not engaging appropriately with the Central Bank, including firms which fail to submit basic information necessary for us to be able to supervise them...”

Consumer Protection Outlook Report - February 2016

“We will continue to focus our supervisory work on firms that are not meeting the minimum standards in terms of complying with reporting and other obligations to the Central Bank”

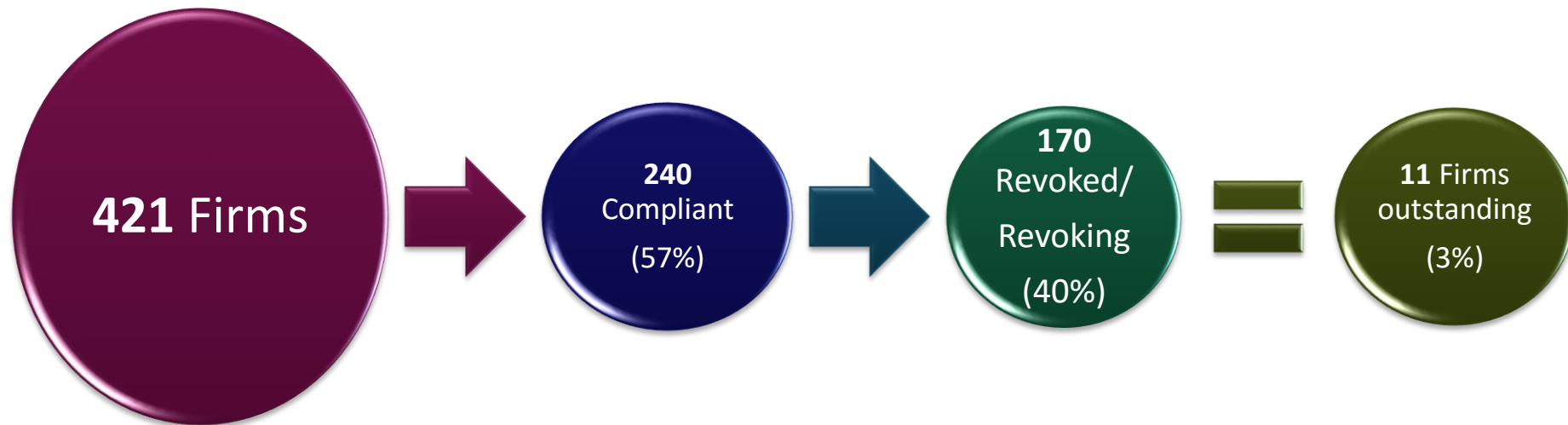


2. Review of 421 Firms failing to submit Annual Returns





3. Combined Results



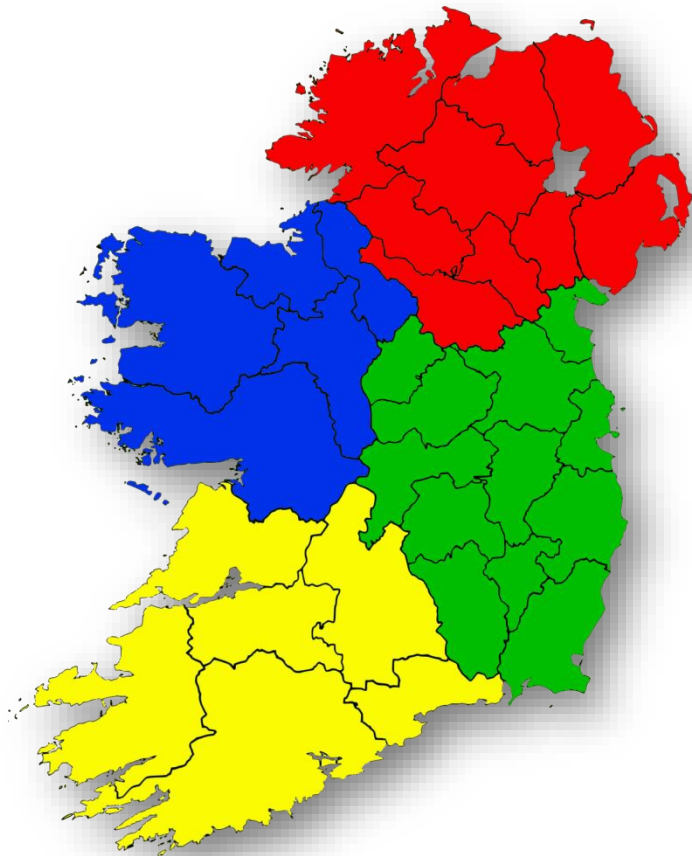


4. Outstanding ARs - End of Quarter 3 2016

Detail	Total	
No of Firms due to submit (Due end of prev. month)	1,920	
No. of Firms failing to submit on time	269 (14%)	
Firms contacted by FEI YTD	269 – 96 Submitted	
Firms challenged by CPSU YTD Desk based and on-site supervision	104 Submitted/ 11 Revoked	
Outstanding (YTD)	58 (3%)	



5. Number of On-Site Visits 2016



Leinster – 24



Munster – 8



Connaught – 9

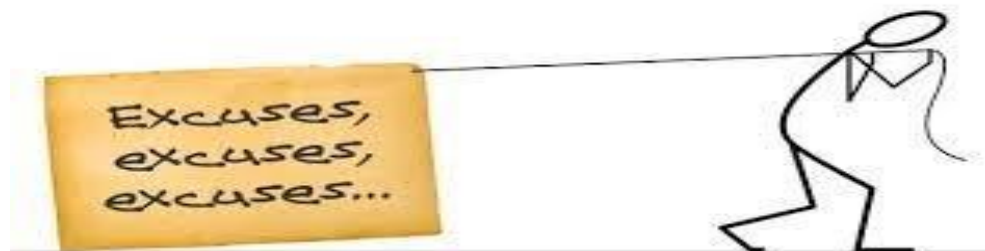


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6. Reasons For Not Submitting

- “Technical Difficulties”
- “Accountant failed to submit Returns”
- “Accountant has not finished my accounts”
- “No longer conducting new business”





7. Let's Work Together

- Central Bank will work towards building a process where, following reminders before and after due dates for Annual Returns, a robust challenge will be triggered
- If firms are leaving the business they must submit a revocation form
- Resource intensive for the supervision team
- Cost of resources will be borne by increased levies
- Aim is to have a professional compliant sector





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Overview of Retail Intermediary Supervision Process

Ruairí de Burca

Consumer Protection: Supervision, Central Bank of Ireland

26/27 October 2016



Agenda

1. What are the 'triggers' used in supervising the sector?
 2. Desk based engagements
 3. Inspection Process
 - Pre-Inspection
 - Inspection
 - Post-Inspection
 4. Common issues arising from triggers in 2016
-



1. What are the 'triggers' used in supervising the sector?





1. How are triggers assessed?

- “**Triage**” – An assessment of the issue and the Firm (ONR, previous interactions with the CBI, public records)

Outcome

- No further action
- Desk based engagement
- Inspection



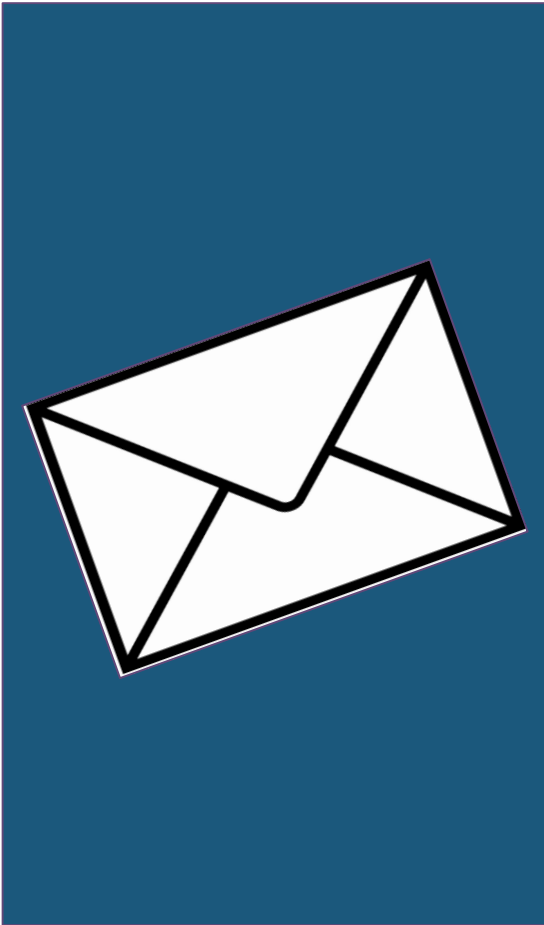


2. Desk Based Engagements

- Examine documentation/processes to establish whether concerns are grounded
- Timed requests for information from Firm
- Request the Firm to with changes to conduct/policies/procedures



3. Inspection Process – Pre-inspection



- Pre-inspection notification
- Will broadly set out the focus of the inspection
- Location and proposed dates
- Documentation to be available to Authorised Officers
- Individuals to be available for interview



3. Inspection Process – Inspection

- Opening Meeting
- Documentation Review
- Interviews
- Ad-hoc meetings/queries
- Closing Meeting – Preliminary findings presented to Firm
- May uplift additional documentation





3. Inspection Process – Post-inspection



- Close out letter
- Risk Mitigation Programme (“RMP”)
- RMP may be placed on a statutory footing (“direction”)
- Enforcement Action



4. Common issues arising from triggers in 2016

Fitness and Probity

Relevant Legislation / Codes

- Central Bank (Reform) Act 2010
- Fitness and Probity Standards 2014
- Minimum Competency Code 2011
- Consumer Protection Code 2012

Scope of Inspection

- Recruitment Process & associated files (Due diligence, references etc.)
- On boarding & ongoing training and monitoring (“New Entrants” under MCC)
- Interviews
- Sales and Post Sales Processes
- Contracts



4. Common issues arising from triggers in 2016

Client Premium Accounts

Relevant Legislation / Codes

- Regulation 16, European Communities Insurance Mediation Regulations 2005
- Consumer Protection Code 2012 Provisions 3.46 – 3.51

Scope of Inspection

- Bank Statements (Proper designation, permitted debits & credits)
- Reconciliations as per Provision 3.51 (certainty of ownership)
- Controls on Payments
- Interviews



4. Common issues arising from triggers in 2016

Unauthorised Self Employed Agents

Relevant Legislation / Codes

- Requirement to register as an insurance intermediary under Regulation 5 of the IMR if conducting insurance mediation
- Breach of Provision 3.25 of the Consumer Protection Code 2012 which sets out to whom a regulated entity may remunerate for regulated activities

Scope of Inspection

- Collaboration with Unauthorised Providers Unit in Enforcement Directorate
- Contracts
- Bank Statements
- Client files
- Product Producer Records



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Developments in Relation to Industry Funding Levy

Karen O'Leary / Brendan Sheridan

Financial Control and Procurement Division, Central Bank of Ireland

26 / 27 October 2016



Agenda

1. Overview of the Funding Levy
 2. Amount to be raised from Retail Intermediaries & Debt Management Companies in 2016
 3. Basis for Calculation of 2016 Levies payable
 4. Other Levy Related Matters
-



1. Overview

The purpose of the Industry Funding Levy is to recover appropriate costs related to the Bank's costs of financial regulation.

Main Developments in 2016

- Amount to be raised from Retail Intermediaries & Debt Management Companies in 2016
 - Change in basis for calculation of these levies
 - Other levy related matters
-



2. Amount to be raised from Retail Intermediaries & Debt Management Companies in 2016

- Amount to be raised from this sector in 2016 will increase from €2.7m in 2015 to €3.1m in 2016 (+14%)
 - This compares with an increase in the amount to be raised from all sectors in 2016 from €66.2m to €79.1m (+19%)
 - The increase in the amount to be raised from Industry is mainly driven by an increase in the number of staff required to carry out the Bank's mandate
-



3. Basis for Calculation of 2016 Levies payable by Retail Intermediaries & Debt Management Companies

- CP 102 published April 2016
- Proposed alternative basis for calculating levy which was intended to address industry concerns re transparency and predictability
- Minimum Levy: €700 *plus* Variable Levy calculated as follows:

$$(A - B) \times C$$

- Where:
- **A** = total of firm's 'Income from Fees' and 'Income from Commissions' as reported in the firm's most recent On-Line Regulatory Return to the Bank;
- **B** = threshold level of total 'Income from fees' and 'Income from Commissions' of €300,000;
- **C** = variable levy rate of 0.15%.



3. Basis for Calculation of 2016 Levies payable by Retail Intermediaries & Debt Management Companies

Worked Examples

	Firm 1	Firm 2
Income from Fees and Commissions (A)	€200,000	€500,000
Threshold Amount (B)	€300,000	€300,000
Income in excess of threshold	N/A	€200,000
Variable Levy rate (C)	0.15%	0.15%
Calculation of Levy		
Minimum Levy	€700	€700
Variable levy ((A-B) multiplied by (C))	0	€300
Total Levy	€700	€1,000



3. Basis for Calculation of 2016 Levies payable by Retail Intermediaries & Debt Management Companies

Sources of Information

- Income from Commissions : Line 17 of Section 2: Financial Information of ONR
 - Income from Fees : Line 18 of Section 2: Financial Information of ONR
 - To check these details simply log on to Online Reporting System and view your details
 - Can check the calculation of your 2016 Levy calculation by entering these details in the Calculator on our website
 - Further information can be found in the 2016 Guide to the Industry Funding Levy or by emailing funding@centralbank.ie
-



4. Other Levy Related Matters

- Over the last 12 months we have carried out two pilot projects in which we referred a sample of outstanding levies to external debt collection specialists
 - Demand letters have issued to relevant entities and judgements have recently been secured against 3 regulated entities
 - The process has proved successful from our point of view and has resulted in an increase of €158,000 in levy receipts and a reduction in the year on year number and value of levies outstanding
 - We intend to continue and intensify this process
-



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Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT)

Brendan Lawlor

Anti-Money Laundering Division, Central Bank of Ireland

26/27 October 2016



Agenda

1. Role of the Central Bank
 2. Key Legislative Requirements
 3. AML/CFT Supervisory Strategy
 4. AML/CFT Inspection Findings
 5. Central Bank of Ireland Expectations
 6. Financial Action Task Force Mutual Evaluation Review
-



1. Role of the Central Bank



....effectively monitorand take measures that are reasonably necessary for the purpose of securing compliance...



2. Key provisions include: Know Your Customer

...to identify and verify customers and beneficial owners.....

....monitor dealings with a customer....

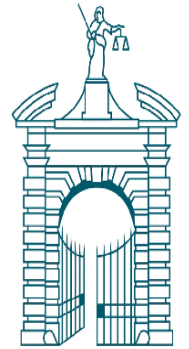




2. Key provisions include: Report Suspicious Transactions



Revenue





2. Key provisions include:

- Adopt policies & procedures
- Record Keeping
- Training





3. AML/CFT Supervisory Strategy

Communications

- Sectoral Reports
- Thematic Reports
- Website
- Industry events



with the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 ("CJA 2010")

Central Bank of Ireland ("Central Bank") is the supervisory authority for credit and financial institutions in Ireland. It was introduced to transpose into Irish law the requirements of the EU Directive on Terrorist Financing ("TFD") which in turn embodied the requirements of the FATF ("FATF").

Central Bank conducted a program of inspections of credit institutions to monitor firms' compliance with the requirements of the CJA 2010. The inspections have revealed a significant number of firms with control weaknesses in relation to their AML/CFT measures.

Central Bank provides firms with guidance on how to comply with the requirements of the CJA 2010. The guidance is available on the Central Bank's website. The guidance is intended to help firms take where they identify weaknesses in their AML/CFT measures. Firms are reminded that they are responsible for ensuring that their AML/CFT measures are effective.

Central Bank is committed to working with firms to ensure that they are able to comply with the requirements of the CJA 2010. The Central Bank will continue to provide guidance and support to firms in this regard.

Central Bank





3. AML/CFT Supervisory Strategy

Onsite Inspections - Process

- Request for Information
- Onsite Review
- Issue of findings / Follow Up





3. AML/CFT Supervisory Strategy

Onsite inspections key areas tested:

- Corporate Governance
- Customer Due Diligence
- Ongoing Monitoring
- Suspicious Transaction Reporting
- Training





4. AML/CFT Inspection Findings

- Training
- Policies and Procedures





4. AML/CFT Inspection Findings

- AML/CFT Risk Assessment
- Customer Due Diligence





5. Central Bank of Ireland Expectations

- Training
- Policies and procedures





5. Central Bank of Ireland Expectations

- AML/CFT Risk Assessment
- Customer Due Diligence





6. Financial Action Task Force Mutual Evaluation Review





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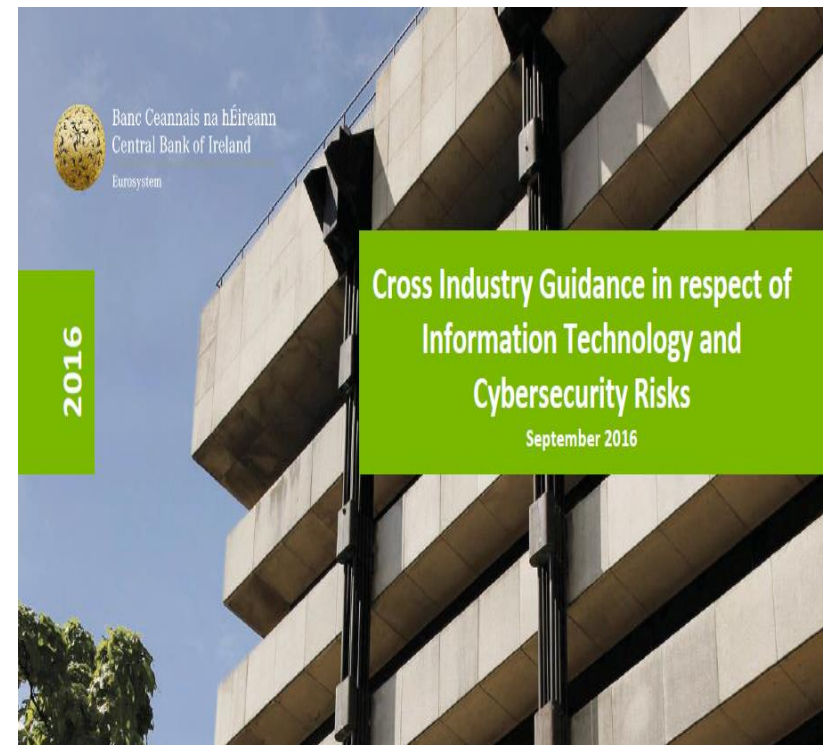
Cross Industry Guidance in respect of IT & Cybersecurity Risks

Patricia Dunne / Vivienne Nolan
Risk Division, Central Bank of Ireland
26 / 27 October 2016



Agenda

1. Background & Overview
2. Cybersecurity
3. IT Governance
4. IT Risk Management
5. IT Outsourcing
6. Concluding Remarks





1. Background & Overview of the Guidance

What

- Key supervisory findings
- Generally accepted sound practices (“**good practices**”)

Who

- All Central Bank regulated firms

Why

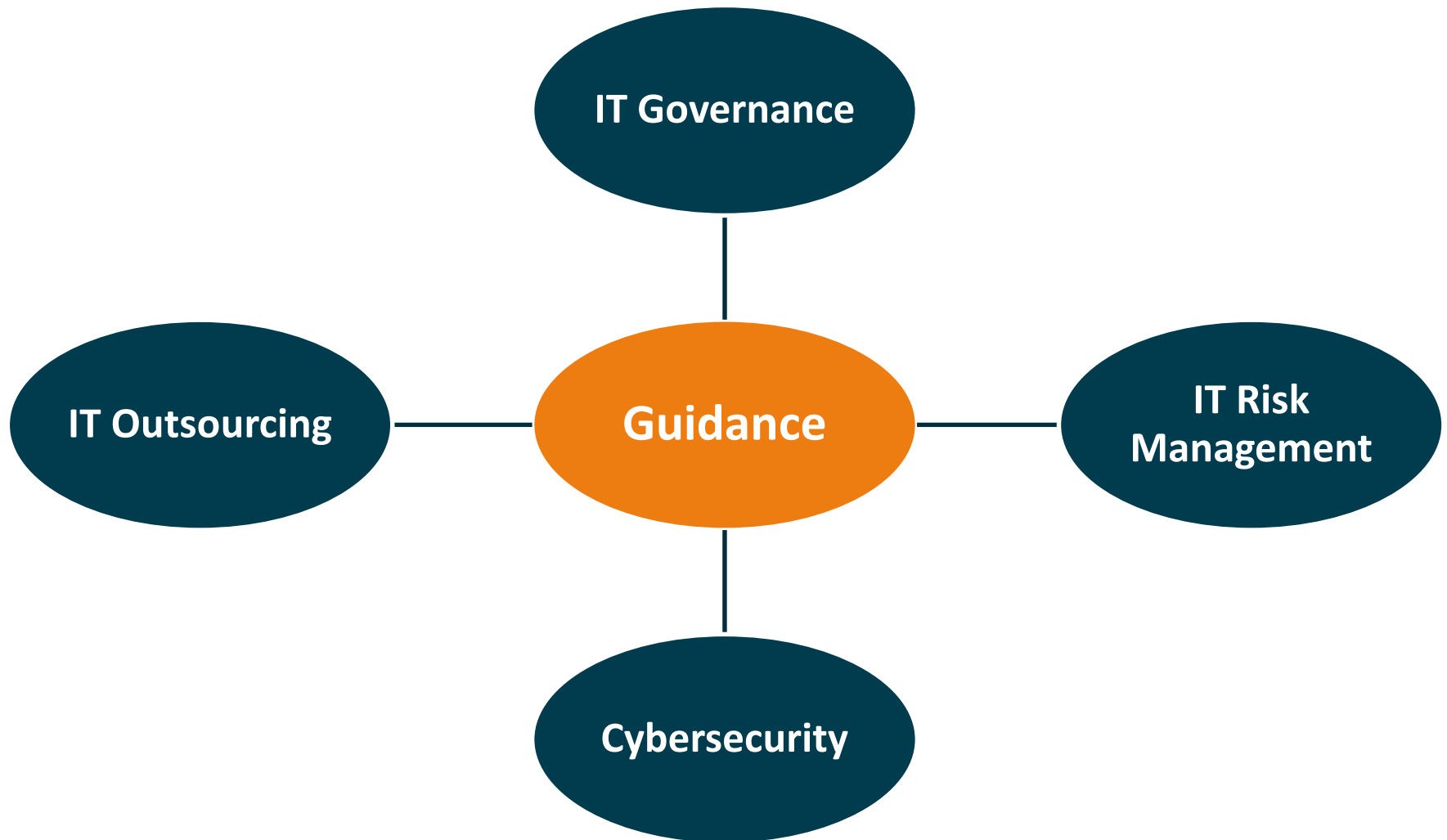
- IT related risks are a **key concern** for the Central Bank given their potential to have serious implications for prudential soundness, consumer protection and financial stability

How

- Firms should use the guidance to inform the development of **effective** IT & cybersecurity governance and risk management frameworks
- Firms should adopt the guidance in a manner **proportionate** to the nature, scale and complexity of the business



Key Areas of Consideration





2. Cybersecurity – Small and Medium Sized Firms

It is the data that makes a business attractive, not the size – especially if it is delicious data, such as lots of customer contact info, credit card data, health data, or valuable intellectual property.

Jody Westby, CEO of Global Cyber Risk

Larger enterprises have become better defended so cybercriminals are moving down the business food chain.

Kaspersky lab





2. Cybersecurity

Key expectations include:

- Security awareness and education
- Understand and manage your risk
 - Identify & protect your 'crown jewels'
- Plan for handling and recovering from a security incident





3. IT Governance



Key expectations include:

- Role/importance of IT to the business is well understood
- Documented IT strategy that supports the business needs
- Appropriate IT processes and resources



4. IT Risk Management

Key expectations include:

- Know your IT assets
- Implement an IT risk register
- Know in advance how you plan to handle IT incidents





5. IT Outsourcing

Key expectations include:

- Documented outsourcing agreement
- Monitoring of service delivery performance
- Due diligence on prospective service providers
- Plan in place to reduce risk of business disruption in the event of service being withdrawn unexpectedly





6. Concluding Remarks



On IT resilience and data security

“All firms need to improve their knowledge and understanding of the sources of this risk, to be in a position to identify, monitor and mitigate any real or perceived threat this risk poses to consumers”

Central Bank of Ireland Consumer Protection Outlook Report, February 2016



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