



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

PO BOX 559
Dame Street
Dublin 2

T +353 1 224 4000
F +353 1 671 6561

Settlement Agreement between the Central Bank of Ireland and Allied Irish Banks plc

The Central Bank of Ireland ("the Central Bank") has entered into a Settlement Agreement with effect from 17 December 2010 with Allied Irish Banks plc ("the firm"), a regulated financial services provider, in relation to breaches of regulatory requirements contained in the Consumer Protection Code ("the Code") and the European Communities (Licensing and Supervision of Credit Institutions) Regulations, 1992 ("the Regulations").

Three breaches of the Code were identified, comprising of the firm failing for a number of years to:

- 1) Act with due skill, care and diligence in the best interest of its clients in that there was unacceptable delay in notifying customers of overcharging and in restituting those customers.
- 2) Have in place adequate systems and controls to ensure compliance with the Code in relation to 1 above.
- 3) Ensure that the firm did not charge customers a fee for any optional extra(s) offered in conjunction with a product or service where the customers changed their minds in relation to the purchase of optional extra(s), in this instance the sale of payment protection insurance in conjunction with credit cards.

These failures to prioritise and direct adequate resources to the rectification of the issues identified has resulted in undue delays in restitution to affected customers.

The breach of the Regulations comprised of the firm failing, for a number of years, to have in place robust governance arrangements specifically by failing to have adequate internal control mechanisms to prevent and rectify frequent and many instances of overcharging.

The Central Bank reprimanded the firm and required it to pay a monetary penalty of €2,000,000.

The majority of these overcharging instances are historic in nature. Most affected customers have been refunded with appropriate interest. The firm has undertaken to repay, with appropriate interest, all those outstanding amounts that have not already been repaid.

The penalties imposed in this case reflect the numbers of errors involved, the amount of money involved and the number of consumers affected by the errors over an extended period of time. The Central Bank has taken into account:

- that the firm reported these failures to the Central Bank;
- the progress being made in putting structures and systems in place to address these failures;
- the co-operation of the firm during the course of the resolution of the matter and in settling at an early stage in the administrative sanctions procedure.

The Central Bank confirms that the matter is now closed.

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The Central Bank remains concerned that financial institutions continue to experience control failures that result in customers being overcharged and that the timeframe for the resolution of these errors and making restitution to customers can be unduly drawn out at times. When errors occur, in addition to rectifying the error, firms should give relevant consideration to whether the error(s) is an indication that problems may exist within the firm's systems and controls. Firms should monitor and test their internal control systems on a regular basis so that the potential for errors is reduced and that any errors are readily identified. The prevention and handling of errors should be dealt

with as a priority with the necessary resources being devoted to ensure customers are protected.

The Central Bank is currently consulting on a number of new measures in relation to dealing with errors to strengthen the protection for consumers including requirements to resolve errors within six months from the date of discovery and the carrying out of regular reviews designed to prevent errors arising.