

8 December 2015

**Re: Feedback on Desk Based Review on Governance of Errors' Processes within Banks and Insurers**

Dear

In the Consumer Protection Outlook Report, published on 6 February 2015, the Central Bank advised under its priority themes that it would continue to monitor errors to ensure that firms are delivering on their obligations to consumers. It also advised of the Central Bank's intention to monitor and challenge firms on how they are developing their internal consumer protection risk frameworks, including their governance arrangements, and specifically how firms are monitoring performance metrics based on their customers' experiences.

The Central Bank of Ireland (the 'Central Bank') selected this as a priority theme as customers have a legitimate expectation of a high quality service from firms, with consumer protection and customer service at the forefront of the firms' practices. In light of the potential for significant consumer detriment and also the reputational risk for firms, individually and collectively, the Central Bank expects firms to regularly monitor and test their internal control frameworks to minimise the potential for errors to occur in the first instance and to ensure that, where errors do occur, they are promptly identified and remediated with customers' interests considered first and foremost at all times.

As part of our supervisory work in this area in 2015, the Central Bank undertook a desk-based review of the errors resolution processes across 22 firms in the banking and insurance sectors (the 'Review'). In-scope firms were requested to explain in detail, to the Central Bank, their governance processes for dealing with errors and to demonstrate how they are delivering fair outcomes for consumers in compliance with the Consumer Protection Code (the 'Code') in terms of how errors are handled.

The Code contains a number of important requirements to ensure that errors are dealt with speedily, efficiently and fairly for consumers, including timely resolution, remediation and contact with customers when errors are detected. Errors must be remediated and resolved within 6 months after the date the error was first discovered and errors that have not been fully resolved within 40 business days must be reported to the Central Bank. The Code also sets out requirements with regard to the maintenance and content of errors logs. Firms are required to have systems and controls in place to ensure Code compliance.

While responsibility for ensuring compliance with the Code rests with the firm, the purpose of this letter is to provide feedback based on both the Central Bank's expectations of firms and good practices identified during the Review. Your firm should consider the feedback outlined in this letter and confirm consideration within your firm, as appropriate, to the Central Bank by 30 April 2016.

## **1. ERRORS GOVERNANCE FRAMEWORK**

Boards and senior management are key to setting the tone and driving the culture in an organisation. Boards are also responsible for setting and overseeing an adequate and effective internal control framework, that includes well-functioning risk management, including systems and controls. Therefore, the Central Bank believes that Boards should have a defined oversight role in relation to the types of errors being experienced by the firm, in setting the governance processes around handling errors and especially around assuring itself that root-cause analysis is continuously conducted and that appropriate follow-up and action occurs.

The Review found that all firms have governance processes in place, supported by various governance framework documents for the purpose of the resolution of errors. However, potential areas of weakness were noted, including a lack of clarity around the level at which the governance framework is approved, when it was last approved, by whom/what party it was approved and/or what area was ultimately responsible for oversight of the governance framework.

There was variance in the processes for escalation of errors across firms and which were found to be dependent on a number of factors including materiality levels, the significance of the error, the relative financial impact of the error and whether the error occurred in isolation or on a wider scale.

The Review identified that most of the in-scope firms have a process in place for escalation to senior management and to the Central Bank. However, a number of firms have no set criteria for determining escalation levels, with each business area responsible for adhering to the policy and investigating each error and resolving it.

***Central Bank expectations include:***

- A Governance Framework for errors handling, which should be reviewed at least every 2 years. The following information should be detailed clearly in the Framework document:
  - a. the level at which the document has been approved, when it was last approved and by whom;
  - b. the party/parties who is/are responsible and accountable for the Governance Framework;
  - c. where and at what level responsibility for oversight/reporting on errors lies; and
  - d. sources for identification of errors.
- With regard to the escalation of errors:
  - a. Set criteria should be in place for determining escalation levels for errors and to whom escalation should be to. Firms should ensure that they make all relevant staff aware of these escalation levels through appropriate communications/training etc. It should also be clear for all relevant staff within a firm how the escalation process operates.
  - b. While firms reported that they do perform root-cause analysis of errors, all firms should critically re-assess their processes for doing so, as the Central Bank continues to see patterns of similar type errors in some firms, which suggests that when errors occur, the read across the firm is not being carried out comprehensively. Firms should seek to

implement and utilise the escalation process to ensure that root-cause analysis is carried out on all errors, to indicate wider systemic issues.

- c. Management Information ('MI') on errors should be reported on a periodic basis to an appropriate person/committee who/which is in a position to overview errors to make decisions on how to manage or mitigate. In addition, MI on errors should be produced for the Board of a firm on a regular basis, to ensure that the Board has strategic oversight of errors and processes for remediation.

## **2. REVIEW OF ERRORS LOGS**

The majority of in-scope firms confirmed that reviews are carried out on the errors logs and that there are escalation processes in place, although the frequency of such reviews varied across firms.

### ***Central Bank expectations include:***

- Regular reviews of the errors logs carried out to assess compliance with the Code.
- Clarity within a firm as to where the review function of the errors logs lies and who is responsible and accountable for carrying out such reviews.
- In order to ensure the accuracy and integrity of the errors log, firms should ensure that they have controls and processes in place around access to, and maintenance of, the errors log. Firms should review on a regular basis how access to the errors log is controlled.

## **3. REVIEWS OF ERRORS PROCESSES**

Each firm demonstrated an awareness of the requirement to report errors affecting consumers, which had not been fully resolved within 40 business days, to the Central Bank. However, there was a variance in firms' application of the commencement of the 40 business days. Firms are reminded that Section 10.3 of the Code provides that the 40 business days requirement commences on the date on which the error was first discovered by the firm. However, it is important to note that the primary focus on resolving an error should not be solely on this 40-day timeframe, but rather on ensuring that the error is properly investigated and remediated, with customers' interests first and foremost, ensuring controls for prevention are in place going forward and wider implications have been considered and mitigated/managed.

It was noted from the information submitted that a number of firms are carrying out reviews of their errors processes. The scope of these reviews and the rationale for undertaking them varied across the firms.

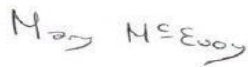
***Central Bank expectations include:***

- Regular review of error processes to ensure that the correct errors resolution processes are in place with good governance around such processes.
- Firms should carry out a formal performance evaluation as to how errors are resolved.
- It should be clear how independent challenge on the approach to dealing with errors is exercised and how this is evidenced.
- Firms should ensure that staff training is implemented and developed around sources of errors, how to identify an error, errors handling, errors processes, how to record errors, when to escalate errors, when the 40 day timeframe commences and the interpretation of when an error was first discovered. This should ensure that all errors are dealt with appropriately, delivering fair outcomes for customers as per the requirements of the Code.
- It was noted that the errors' resolution process within the majority of firms was reviewed and enhanced for the most part on an annual basis. It should be reviewed and enhanced, where required, on at least an annual basis.
- The Code requires that an analysis is carried out of the pattern of errors to ensure that all issues are identified that may indicate potential errors of a wider systemic nature that require further review. Such analysis should also include errors that are resolved within 40 days.

The Central Bank's March 2013 industry letter provided feedback on an overview of errors reported to the Central Bank. The purpose of the 2013 letter was to facilitate firms in their on-going reviews and monitoring and in their development of systems and products and staff training programs. This feedback in the 2013 letter remains valid, based on errors continuing to be reported. A copy of the relevant letter is attached.

If you have any queries on the content of this letter, please contact Eileen Bray ([eileen.bray@centralbank.ie](mailto:eileen.bray@centralbank.ie)) on 01 224 4514 for all banking related queries or Grace McDonnell ([grace.mcdonnell@centralbank.ie](mailto:grace.mcdonnell@centralbank.ie)) on 01 224 4548 for all insurance related queries.

Yours sincerely

A handwritten signature in black ink that reads "Mary McEvoy". The signature is written in a cursive style with a small flourish at the end.

**Mary McEvoy**  
**Deputy Head**  
**Consumer Protection - Supervision Division**