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Re: Themed Inspection – Promotional Interest Rates

Dear «Greeting»

I refer to the recently completed Themed Inspection on Promotional Interest Rates, which focussed on a total of 11 promotional rate homeloan and deposit products in 6 credit institutions (banks). The main aim of the theme was to assess whether or not promotional rate products complied with their terms and conditions, if the advertising and promotion of such products was clear and not misleading and to examine the controls around the development of such products.

In the case of 6 of the 11 products examined, the advertising material was clear and not misleading and the products complied with their terms and conditions. However, in the case of 2 banks, the findings were unsatisfactory in relation to 5 products examined (1 deposit, 4 homeloan) and will result in refunds to customers.

Generally it was found that promotional rate products work on the idea that the customer is getting a high rate in the case of savings or a lower rate in the case of homeloans in an initial period. The promotional rates are used to attract customers in the hope that the bank will retain their business at the end of the promotional period. In the case of deposits where the customer is saving a regular amount every month, by the time the customer has saved a significant amount the promotional rate has passed.

Arising from the theme, there were a number of issues identified which have given the Central Bank cause for concern. The Central Bank requests that each bank consider issues detailed below to ensure that similar issues have not arisen and will not arise in the future.

1. Advertising Material

In general it was found that the advertising material for promotional rate products complied with the advertising requirements of the Consumer Protection Code (Code). However, banks are reminded that key information must always be brought to the attention of consumers. When determining whether advertising material is misleading or not, the Central Bank will always look at the advertising material from the perspective of the consumer. The following case study is an example of an issue identified during this theme, which has resulted in customer refunds:

Case Study 1

In the case of 1 deposit product, 2 brochures were examined and were considered to be unfair and misleading to customers. The brochures advertised an attractive equivalent annual rate but information relating to the minimum rate payable was not clearly presented to the customer and should have been highlighted for the customer, in accordance with Provision 12 of Chapter 2 of the Consumer Protection Code. Within 9 months of issuing the brochure, the rate payable on the account was the minimum rate. Therefore, we considered that customers were misled with regard to the actual rate that could be achieved. The bank concerned is now in the process of recalculating the interest for each customer as if they had received the advertised rate for the entire year. Furthermore, the bank will inform customers that the refund is being processed on foot of this themed inspection.

2. Interest Rate Errors

Part of the rationale for choosing the area of promotional rates as a topic for a themed inspection was based on our experience of dealing with a number of charging errors in banks. It was our experience that a high number of charging errors were caused by bank IT systems not delivering particular features of products, or where simply the IT system has not kept pace with product development. Banks must ensure before launching a product that its IT system can deliver the terms and conditions of the product, and this should be an integral part of the sign-off procedure within the Compliance Function.

Banks should now consider if there are other products where the systems and controls, including IT system-testing, were not robust enough to ensure that the product complied with its terms and conditions. Where charging or pricing errors are identified they should be advised to the Central Bank in accordance with the relevant requirements of the Code. Banks are reminded that errors must be corrected speedily, efficiently and fairly.

The following case study illustrates 2 charging errors that were identified on foot of this themed inspection:

Case Study 2

In the case of 4 homeloan products examined, 2 charging errors were identified where the customers did not receive the full 365 days at the promotional or discounted rate as set out in the terms and conditions. In both cases, the error could have been avoided if the product development process had included a thorough end-to-end check of the IT system. It was discovered on further investigation by the banks concerned that both errors also affected fixed rate customers, although fixed rate products were not within the scope of this inspection. In the case of 1 bank, refunds will shortly be processed. In the case of the other bank, the investigation process is ongoing. Each bank will inform customers that the refund is being processed on foot of this themed inspection.

3. Application Forms

Out of 6 banks inspected, 2 banks encountered difficulty locating signed application forms submitted by customers in respect of homeloan products. Under the Code, banks are required to retain any applications completed or signed by the customer, and while the records do not have to be maintained in a single location, they must be readily accessible.

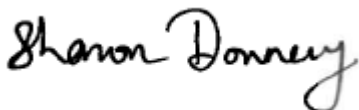
Banks are requested to:

- Ensure that their retention policy complies with the Code;
- Make each business unit aware of the retention policy; and
- Have a schedule in place for reviewing compliance with the retention policy.

While some promotional rate products can be beneficial for the consumer, particularly at the initial stages of the product, banks must ensure that the IT systems can deliver all of the terms and conditions of the products. Controls around marketing and advertising of such products must be robust and banks should consider the advertising material from the perspective of the consumer. The points raised in this letter are relevant in the development of all products. Issues raised in this industry letter may be considered during the conduct of other inspections.

If you have any queries regarding the above, please contact Ms Mary McEvoy on (01) 224 4512 or Ms Lara Lenehan on (01) 224 4513.

Yours sincerely



Sharon Donnery
Head of Consumer Protection Codes Division