Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Consumer Protection

Outlook 2022

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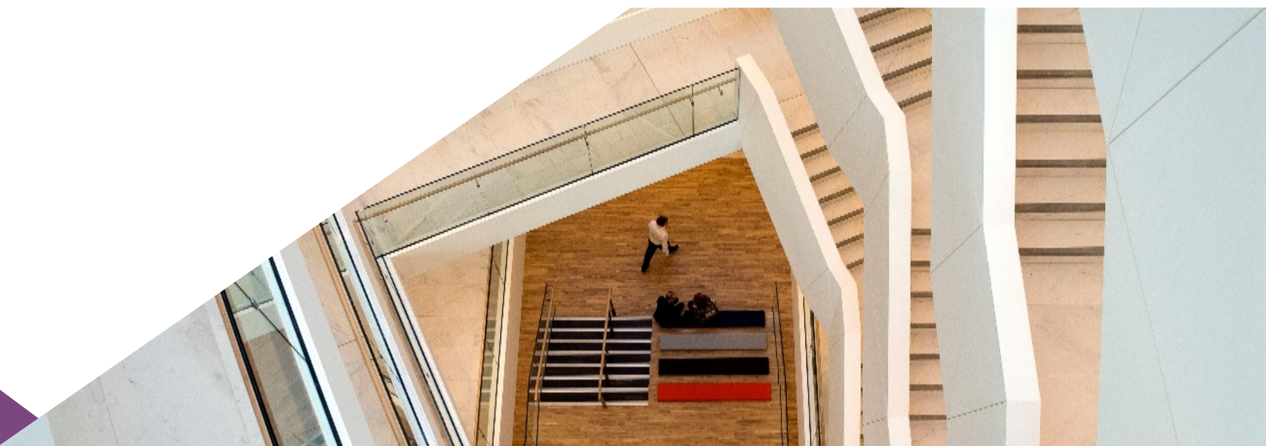

Foreword

The Central Bank of Ireland works to ensure that the financial system operates in the best interests of consumers and the wider economy. This requires that consumers are treated fairly and that the financial system is safe and resilient for the future, recognising that we rely on financial services in our daily lives and to provide for our future needs.

In September of last year, the Central Bank launched its Strategy for the years ahead. In that Strategy, we set out how the Central Bank will deliver on its Mission in the context of a rapidly changing financial services landscape. We have developed our strategic response to this changing landscape under four connected themes – Future-Focused, Open & Engaged, Transforming and Safeguarding. We developed these themes to ensure that our direction and ambition over the next five years is responsive and forward-looking.

It is against this backdrop of change that we issue this year's Consumer Protection Outlook Report. Consistent with our strategic intent to be more Open & Engaged and Future-Focused, this year we are seeking your views on our risk outlook. To facilitate this discussion, we have distilled over 145 risks identified in a cross-industry risk assessment exercise into five Key Cross Sectoral Risks:

- Poor business practices and weak business processes.
- Ineffective disclosures to consumers.
- The changing operational landscape.
- Technology-driven risks to consumer protection.
- The impact of shifting business models.

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These are the things we see as the primary drivers of risk for consumers of financial services in Ireland today, looking across all the types of financial service we use in our daily lives, and all the types of firms that can provide those services. In other words, these are the fundamental themes we see running through the consumer protection issues we encounter as supervisors of regulated financial service providers.

In the course of this year and the years to come, we will continue to set high expectations of the firms we regulate. In this report, we have set out a number of these expectations with respect to each Key Cross Sectoral Risk. We expect firms to take concrete action to deliver on these expectations, and we also want to hear your views on them.

Finally in the report, we describe key bodies of work we will do to deliver on our Strategy with respect to these Key Cross Sectoral Risks. This work ranges from enhancing our effectiveness as supervisors to following through on existing work to secure outcomes that serve the best interests of consumers. It also involves working ourselves and with others to enhance the wider framework for protecting consumers and informing public debate on the issues affecting our lives and the economy of our country.

We look forward to hearing your views. They will inform our work in the years to come, and I look forward to working with regulated firms, consumer groups, other State agencies and stakeholders on the important matters described in this report. In this work, our constant and predominant aim shall be the welfare of the people as a whole.

Colm Kincaid

Director of Consumer Protection

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We're **listening...**

We know that experience and insight from other organisations, consumer representative bodies, civil society groups, regulated firms, small businesses and individual consumers brings new perspectives. We want to hear these perspectives to help us deliver better outcomes for consumers of financial services in Ireland. Understanding a range of views will help us build better insights to inform how we frame our work to deliver on our Strategy in the years to come.

So, we want to hear from you on what we have set out in this report. Do you agree with our articulation of the Key Cross Sectoral Risks facing consumers of financial services? Is there something missing? Should all risks be treated with the same priority, or are some more important than others? You can send us your views at our dedicated contact point outlookreport@centralbank.ie.

We will also take part in a series of engagements to hear views on what are the risks and challenges for consumers in a changing financial landscape. If you would like to be involved, please let us know.

We will also discuss this report with consumer representative groups, other State agencies, the Consumer Advisory Group, the financial industry, our government and EU partners and regulators in other countries. We will continue our close engagement with the other bodies that make up the State's consumer protection framework - the Financial Services and Pensions Ombudsman, the Competition and Consumer Protection Commission, the Pensions Authority and the Health Insurance Authority - to deliver our shared public service goals.

Key Cross Sectoral Risks facing financial services consumers

- **Poor business practices & weak business processes**
- **Ineffective disclosures to consumers**
- **The changing operational landscape**
- **Technology-driven risks to consumer protection**
- **The impact of shifting business models**

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Who we are, **what** we do, & **how** we do it.

We are Ireland's central bank, responsible for maintaining monetary and financial stability and ensuring the financial system works in the interests of the community.

We are part of Europe's monetary and banking unions, and of the world's network of financial regulators.

Protecting people is at the heart of everything we do. We provide economic analysis, statistics and commentary to inform decisions about what the country needs. We set standards to protect consumers, and regulate and supervise financial service providers and markets, taking enforcement action when we need to. We are responsible for Ireland's payment systems and for the provision of its currency.

Our vision is to be a central bank that is trusted by the public, respected by its peers and a fulfilling place to work for its people. We work with people across Ireland and with colleagues across Europe, and elsewhere in the world, on the delivery of our mission.

We are passionate and ambitious for the Bank's performance and for the Bank's people. We act sustainably. We embrace diversity and inclusion as they strengthen us, as individuals and as an organisation. We apply rigorous analysis to the best available data. We believe in engagement and in communicating openly, clearly and regularly.

Our values underpin how we interact with each other and reflect our aspirations, for ourselves and for our community:

Integrity and care, so that we do what is right, our actions match our words and we care about people;

Courage and humility, so that we act with conviction, are prepared to innovate and adapt and are always looking to listen and learn;

Teamwork and excellence, so that we achieve quality outcomes by harnessing our collective strengths, seeking diverse perspectives and driving for disciplined execution.

We believe in the importance of an independent central bank that is transparent, accountable and connected across all public policy domains, in Ireland, in Europe and across the world.

Our constant and predominant aim is **the welfare of the Irish people as a whole.**

We are the **Central Bank of Ireland.**

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Our Mission

We serve the public interest by maintaining monetary and financial stability while ensuring that the financial system operates in the best interests of consumers and the wider economy.

Our Vision

One Bank: Trusted by the Public, Respected by our Peers, and a Fulfilling Workplace for our People.

Our Statutory Functions

Financial Stability

The stability of the financial system overall.

Financial Regulation

The proper and effective regulation of financial service providers and markets, while ensuring that the best interests of consumers of financial services are protected.

Price Stability

As part of the European System of Central Banks, the primary objective of the Central Bank is to maintain price stability.

Payments, Settlements & Currency

The efficient and effective operation of payment and settlement systems.

Resolution

The resolution of financial difficulties in credit institutions, certain investment firms and credit unions.

Economic Analysis & Statistics

The provision of analysis and comment to support national economic policy development.

The discharge of such other functions and powers conferred on the Central Bank by law including: The operation of the Central Credit Register, the Deposit Guarantee Scheme, the Insurance Compensation Fund and the National Claims Information Database.

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Delivering for consumers in 2021

Proposal to
ban the practice of 'price walking'
in motor and home insurance covering 3.5 million policies. We will follow through on these measures in 2022.

Introduced a **simpler, shorter Standard Financial Statement** to support thousands of borrowers managing early stage arrears.

Number of **borrowers in arrears continued to decline** with ongoing challenge of lenders to have sustainable strategies and solutions to support borrowers in, or facing, financial distress.

€15m returned to customers across the banking, insurance, retail credit, credit servicing, stockbroking and investment, retail intermediaries and moneylending sectors in line with Consumer Protection Code requirements.

€150 million + (to-date) paid in insurance claims related to business interruption.

90 warnings notices published about unregulated activity, unauthorised firms and financial scams.

Ongoing monitoring of the use of complex investment products, with **requirements of firms to improve their suitability assessments** for retail consumers.

Public consultation on how the **mortgage measures** are working to protect borrowers and the stability of the financial system.

Over **200 interventions with individual firms** to avoid or deal with specific cases of consumer harm.

Intervention on application of legal process costs and charging interest on those costs to mortgage accounts in arrears resulted in **€79m in costs and €15m in interest unwound for over 32000 borrowers.**

Clear expectations set of how banks must deal with their customers in the context of the significant changes in the banking market.

Key Cross Sectoral Risks

This section provides more detail on the Key Cross Sectoral Risks, as well as what the Central Bank expects firms to do to address these risks.

Poor business practices & weak business processes

The fundamental responsibility of a financial service provider is to provide a good quality service in a manner that places the best interests of the consumer at the centre of how that service is designed and delivered. Poor business practices and weak business processes disrupt this, and can lead to consumer harm.

In particular, poor business practices can result in the sale of products with features, charges and risks that do not suit the needs of the consumers who purchase them. Certain business practices may even seek to take advantage of consumers' limited understanding of how a financial product works in practice, or how much it costs the consumer over time.

Other poor practices may seek to exploit consumers' behavioural vulnerabilities and we have seen the widespread use of differential pricing in the motor and home insurance markets leading consumers to be charged for their loyalty. The use of incentives to persuade consumers to purchase products or switch firms may not lead to the best long-term value for the consumer, when compared to another product that does not offer these up-front incentives but costs the consumer less in the longer term.

Weak business processes can result in errors on customer accounts such as over-charging, incorrect application of interest rates and incorrect migration of consumers from one product or provider to another. It can also result in the consumer not getting a proper level of service. This includes when a consumer has to wait too long for their query or complaint to be dealt with, where the process they have to go through is unclear or unnecessarily difficult to navigate or

> Where firms do not have adequate processes and procedures to control and mitigate operational risks, this can have a severe impact on the quality and availability of the service provided to consumers.

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where the individual they deal with is not properly trained or equipped to deal with the issue at hand.

Where firms do not have adequate processes and procedures to control and mitigate operational risks, this can have a severe impact on the quality and availability of the service provided to consumers. In the context of providing services electronically, this can include outages, errors and other forms of disruption to the service the consumer receives. This risk can also manifest where a firm changes the way it provides a service and fails to migrate properly from one way of doing things to another, or fails to fully take into account the needs of the consumer with respect to the service in question.

We expect firms to:

- Put in place robust product governance and oversight arrangements covering the design, sale and delivery of the product.
- Design and bring products to market in a responsible way with features, charges and risks that meet the needs of the individual consumers identified for the product.
- Comply with the legislative requirements to assess the suitability of their products and services to each individual consumer.
- Be clear on the reasons why a product or service is being offered to a consumer and why it is suitable for that consumer.
- Monitor products over time to ensure the product is performing as intended and remains suitable for the target market.
- When errors or operational incidents occur, ensure that consumers are treated fairly and put back in the position they would have been in had the error or incident not occurred.
- Ensure proper resources are deployed to deliver a high quality service.
- Place the best interests of consumers at the heart of their commercial decisions and how they provide services to consumers.

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Ineffective disclosures to consumers

Where firms fail to give clear information to consumers at any point in the life of a product or service, this will affect the consumer's ability to make informed decisions and could result in harm.

Financial services are complex and most consumers will have to make a decision about a financial service only a handful of times over the course of their life. When they do so, consumers are faced with large amounts of information that they may not be familiar with, based on which they have to make important decisions. Where a financial service provider presents this information poorly or does not explain it properly, it can be difficult for consumers to assess the benefits, costs and risks of the options available. This is particularly the case where the product is complex, or when there are many similar types of product on the market. In such a case, consumers run the risk of choosing a product that is not suitable for their needs. This can result in consumers failing to provide properly for their future needs, paying more for a service than they need to or paying for a financial service that they do not need.

> Where a financial service provider presents information poorly or does not explain it properly, it can be difficult for consumers to assess the benefits, costs and risks of the options available.

The digital delivery of financial products and services brings clear benefits to consumers, including new facilities to shop around and compare products and enabling consumers to get new services or products more swiftly. However, the speed at which transactions can be completed online and the scale of information now available to consumers can also bring risks and challenges for consumers in terms of comprehending this information and making properly informed decisions. New market features such as the gamification of online investment services (i.e. where these services are given the look and feel of a game) can contain risks that have not been sufficiently highlighted. We also see the rapid rise in marketing of new types of financial product, including crypto currencies that are unregulated and bring novel risks that may not be fully understood or properly explained by those marketing them.

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It is also key to effective disclosure that firms explain what a product does not do. Where a firm fails to properly communicate exclusions, products may not meet the consumer's reasonable expectations, leading the consumer to believe that they have made provision for some aspect of their future needs when in fact they have not. This is of particular relevance to insurance. It is also important in other types of financial product, not least in the case of investment products where clarity is needed on when and how a given product will (or will not) provide a return on the consumers' investment.

Finally, special care is needed in the emerging field of sustainable finance. As we work to migrate to a greener financial system, firms must explain properly the environmental impacts of the products they are selling and avoid the risk of 'greenwashing' (i.e. presenting products as more environmentally sustainable than they actually are, in order to appeal to environmentally conscious consumers).

We expect firms to:

- Provide clear information in a timely manner to consumers, disclosing the key information upfront (i.e. risks and benefits, fees and costs).
- Support consumers in making fully informed decisions by ensuring that information is provided in a way that it can be easily understood.
- Ensure that statements of suitability and other disclosures provided to consumers are fully compliant with legislative requirements.
- Disclose exclusions to financial products in an effective manner at the outset to support consumers in making good decisions.
- Ensure disclosure is as clear on digital media as with more traditional communications channels.
- Avoid greenwashing by producing disclosure documents that are clear, not misleading and fully compliant with the most recent legislative disclosure requirements.

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The changing operational landscape

The financial landscape is undergoing a number of significant changes. Firms must navigate this rapid change in a manner that places the best interests of consumers at the heart of their commercial decision-making and avoid creating risks to consumers.

New business models and products, globalisation and digitalisation are among some of the many changes shaping the landscape in which regulated financial service providers operate. Regulated firms must also play their part in supporting the move to a greener financial system in order to combat climate change. Taking all this together, it presents an increasingly complex and potentially volatile environment for financial service providers and consumers alike. There is a risk that firms do not keep pace with these developments in a manner that places the best interests of consumers at the heart of their commercial decision-making. There is also a risk that regulated firms do not meet their responsibility to help their consumers to navigate this landscape.

> There is a risk that firms do not keep pace with developments in a manner that places the best interests of consumers at the heart of their commercial decision-making.

It is all the more important for firms to take action to mitigate these risks as we see financial innovation continue to accelerate. Coupled with the low interest rate environment, this can result, for example, in increasingly complex products being offered to consumers. This complexity is added to by the increasing variety of providers and products beyond the traditional financial services model, while recognising of course the competition and innovation benefits such new providers can bring.

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Product complexity and online provision can also make it more difficult for consumers to identify what services and products are, and are not, regulated and who is ultimately providing the financial service in question. Consumers may also receive different components of a service from different providers, making it unclear what provider is responsible for a given aspect and what terms and conditions (or governing laws) apply when a given difficulty or complaint arises.

It is of particular concern that consumers may unknowingly move between regulatory regimes and beyond the regulatory perimeter and the protections it affords. For example, some financial service providers now offer platforms that include unregulated virtual assets such as crypto currencies. The growth in the trade of unregulated virtual assets remains an area of special concern given the extreme volatility of these assets and the absence of investor protections.

We expect firms to:

- Actively identify and address risks to consumers that may potentially emerge from changes in the landscape within which the firm and/or its consumers are operating.
- Have sufficient operational resilience to manage change without creating risks to consumers.
- Engage with financial innovation from the perspective of consumers' needs and best interests.
- Clearly delineate for the consumer between regulated and unregulated products, especially where they are offered within the same digital environment. This is especially important in the case of unregulated products carrying special risks such as virtual assets.

Technology-driven risks to consumer protection

Technology provides great opportunities to improve access to and choice of financial services and it is increasingly central to all aspects of our lives. As firms develop and deploy new technologies, they must ensure that they pay sufficient care to also mitigating the risks of harm to consumers that can arise from the use of those technologies.

Regulated financial service providers have become progressively more digitally interconnected. They have also become ever more reliant on technology and, with that, has come an increased reliance on third party / outsourced providers to deliver services to consumers. As this dependency increases, so too does the importance that firms take action to avoid system weaknesses, outages and cyber vulnerabilities.

Where systems outages do occur they can lead to widespread consumer harm due to the inability of consumers to access necessary services in their day-to-day lives. In addition to this, poor management and oversight of data, and issues with data integrity can create the risk that incorrect or incomplete data is held on consumers. This includes where data is exchanged between firms, or between firms and their service providers.

Firms are also increasingly exposed to cyberattacks. These attacks have become more sophisticated, more frequent, more targeted and progressively more difficult to detect, with the financial sector one of the most frequently targeted. Cyberattacks can lead to the compromise or loss of consumers' personal data, including sensitive information relating to the individual.

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Digital financial products bring many benefits, particularly convenience and ease of use. However, the increased range of self-service options available to consumers has increased the opportunity for fraud and scams, which are becoming increasingly sophisticated. In certain cases, the convenience provided by digital lending products can exacerbate situations of personal over-indebtedness.

Where consumers lack digital literacy or access to digital tools this can give rise to inclusion and accessibility challenges. This is a particular concern given the increasing prevalence and pace of developments in digital delivery.

We expect firms to:

- Have well-defined and comprehensive information technology and cybersecurity risk management frameworks, supported by sufficient resources to achieve resilience and protect the interests of consumers.
- When designing and providing financial products digitally, ensure consumers' needs and interests are central to the firm's considerations and that the product will only be provided to consumers for whom it is suitable.
- Have effective measures to mitigate the risk of fraud and scams, and be proactive in identifying and dealing with cases of fraud or scams including engaging effectively with consumers affected.
- Demonstrate that they have appropriate oversight of any delegated or outsourced arrangements and can provide evidence that the risks associated with outsourcing and delegation have been appropriately considered and are being managed effectively.

The impact of shifting business models

The developments outlined in this report are leading many firms to re-evaluate their services and how they provide them, such as the use of innovation and re-designed business models. As they do so, it is imperative that changes made have, at their heart, the provision of a better service to consumers and that they manage the transition for consumers in a manner that is responsible, transparent and fair.

In the current changing landscape, there is a risk that firms may implement strategies and make decisions that result in a net reduction in the benefit that financial services provide to consumers. An absence of consumer-focused culture aggravates this risk, making it imperative that regulated financial service providers adopt a consumer-centric approach to how they develop their businesses over time. This is important both for their design of new products and services and for their decision to withdraw a particular service or transfer a customer relationship to another provider.

An absence of consumer-focused culture aggravates this risk, making it imperative that regulated financial service providers adopt a consumer-centric approach to how they develop their businesses over time.

Particular risks arise if a firm fails to take sufficient account of the impact of a change or withdrawal of a service on affected consumers and in particular vulnerable consumers. This can include failure to weigh properly the costs and benefits from the perspective of an affected consumer, failure to communicate with affected consumers in a timely and transparent manner and failure to provide sufficient time and support to an affected consumer to make the transition the change involves. Correspondingly, where firms do this well, a change in how a service is provided can bring concrete net benefits to a consumer and increase the quality and choice of service options available to them.

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Of particular concern is ensuring that changes to business models also consider the need to cater for situations where things go wrong or when a consumer needs to engage with the provider on a given matter. The delivery of financial services digitally and the reduction of in-person customer service and support can result in financial savings for firms as well as providing benefits to consumers in terms of speed and convenience. However, it remains important that consumers can access timely and customer-focused service, including where a consumer needs, or is best served, by an in-person engagement with the firm. This is pertinent to cases where people struggle around the lack of in-person customer services or face particular challenges to accessing financial services in a given manner. However, it is also relevant to consumers more broadly. Many customers may, for example, be generally happy to receive a financial service digitally but may still require an in-person engagement (be that face-to-face or virtual) to deal with a specific problem, query or failure on the part of the financial service provider.

We expect firms to:

- Proactively assess the risks and consumer impact a commercial decision may pose to new and existing customers, and develop comprehensive action plans to mitigate these risks whilst ensuring that customers understand what changes mean for them.
- Have the customer service capacity and structures in place to meet expected service levels to provide a timely and customer-focused service through all channels.
- Consider the impact of their decisions on vulnerable customers and provide the assistance necessary. This should include specific and effective processes and communication plans to support vulnerable customers.
- Only design and bring to market products with features, charges, and risks that meet the needs of consumers identified for the product.

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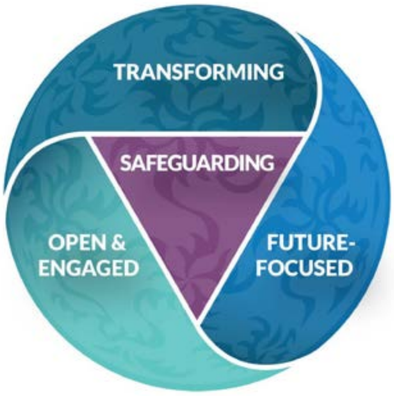
Our work

In this section, we detail some of our priority work areas with respect to these Key Cross Sectoral Risks

Our work in respect of these Key Cross Sectoral Risks



Our new five-year Strategy is based on four connected themes: Future-Focused, Open & Engaged, Transforming and Safeguarding.

We will implement this Strategy in the context of the Key Cross Sectoral Risks we have outlined in this report. This will require us to remain steadfast in our work to maintain price stability and the stability of the financial system overall, as well as the regulation of financial services and markets, while ensuring that the best interests of consumers in financial services are protected. This requires a robust macro-prudential framework, including in the mortgage market, and a resilient financial system underpinned by strong protections for consumers in the event of firm failure.

Recognising the changes underway in financial services, we will undertake a review of the effectiveness of our supervisory approaches to ensure they are more data-driven, agile and scalable.

Behavioural and cultural risk is always on the Central Bank's radar and our approach to this has been refined over the years to build a comprehensive and cohesive methodology that will be formally integrated into our supervisory activities from this year. This will provide us with a valuable new component in our supervisory toolkit.

We have also commenced implementation of an enhanced approach to retail conduct supervision, including firm-specific supervision of the retail firms with the highest consumer impact. Over the course of the next two years and beyond, we will systematically supervise and assess the appropriateness of these firms' risk management frameworks and in particular how they manage and mitigate the risks they pose to consumers. Through this work, we will hold boards and executives of firms to account to demonstrate a proactive and appropriate understanding, ownership and oversight of business performance, business model evolution and key risks. We will engage

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with firms where we identify weaknesses in consumer-focused culture with a view to firms taking concrete action to remedy the situation.

We will also review our Consumer Protection Code, starting with a Discussion Paper to seek views on how that Code should evolve in the context of this changing financial services landscape.

As well as building for the future, we will follow through on steps to provide fairer outcomes for consumers, including:

- Introducing a ban on ‘price walking’ in the motor and home insurance markets, so that consumers are not penalised for their loyalty.
- Ensuring that borrowers in long-term mortgage arrears are dealt with fairly, by reference to their individual circumstances, with a view to resolving arrears cases.
- Continued oversight of how insurance firms deal with business interruption claims to make sure those claims are handled properly.
- Scrutinising the consolidation and structural transactions in the retail banking sector. Our aim here is that firms exiting the Irish market and the acquiring firms protect consumers’ interests, prioritise consumer needs and outcomes and ensure continuity of access to basic financial services. We will also contribute to the Retail Banking Review being led by the Department of Finance.
- Monitoring and challenging retail banks, retail credit firms and credit servicing firms on mortgage loan transactions to ensure consumers’ best interests are protected in line with legislative requirements and supervisory expectations.
- Undertaking thematic reviews and further supervisory engagement on the suitability of long-term life assurance products, product governance and costs & charges in the investment sector.
- Continuing our work at European level on the consideration of value for money in unit-linked products.

We will also work to strengthen the resilience of the financial system in relation to climate-related risks (including implementation of the Sustainable Finance Disclosure Regulation) and maintain the resilience of the financial system, through the implementation of our Cross Industry Guidance on Operational Resilience[1]. Recognising the changes underway in payment services, we will scrutinise change of business model requests for banks, payment institutions and e-money institutions to ensure that the firms' control environment matches their business ambitions.

It will also be important that, in the years to come, we create the right regulatory context to serve the interests of citizens and the economy. We will continue to support the work of national and EU legislators and policy makers through our policy, economic and statistical analysis and research, in order to inform public debate on the key economic and financial services developments affecting our lives. We will also implement new statutory mandates reflecting the changing nature of financial services. In the near term, this includes the regulation of crowdfunding and the planned legislation to regulate hire purchase, personal contract plans (PCP) and buy now pay later (BNPL) providers.

We will support innovation in central banking and financial services and assess digitalisation strategies and approaches to digital transformation in certain regulated firms.

The accountability of individuals in the firms that provide services to consumers is also key to ensuring a financial service industry that is fit for purpose for the future, and we will develop proposals for an Enhanced Framework for Individual Accountability.

Finally, our approach to assessing applications for authorisation will also need to keep pace with the changing legislative landscape and business models we encounter. Through this work, we look to see that firms demonstrate to us that they have met the requirements of the legislation under which they are seeking to be authorised. In doing so, we provide a pathway for new entrants to the market, so that consumers have choice and the standard of financial service available to consumers in Ireland is raised over time.

[1] This report was updated on 17 May 2022 to amend the title of the linked paper.

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