



17 November 2022

Re: Protecting consumers in a Changing Economic Landscape

Dear CEO

On 14 March this year the Central Bank published the [Consumer Protection Outlook Report](#) detailing [five key cross sectoral risks](#) on which financial service firms should take action to avoid consumer harm. These risks were framed against the backdrop of a rapidly changing financial services landscape and the responsibility of firms to navigate this change in a manner that places the best interests of consumers at the heart of their commercial decision-making.

Since the publication of that Report, we have seen the materialisation of a [more challenging economic outlook](#) characterised by energy-driven inflation and uncertainty. The purpose of this letter is to emphasise the importance of firms meeting the expectations set out in the Outlook Report in this rapidly evolving context and to highlight a number of areas for particular attention.

In particular, firms are reminded of the specific actions the Outlook Report required of firms to address potential risks arising from the Changing Operational Landscape, namely:

- 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.
- 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.

In order to further guide firms on the above expectations in the context of this more challenging economic outlook, the Central Bank wishes to highlight a number of items for particular attention at this time. These items are set out in the Appendix to this letter and should be incorporated into your firm's work programme and your senior management and board considerations as applicable to the financial services your firm provides.

In circumstances of non-compliance by a firm with any regulatory requirements relevant to the matters raised in this letter, the Central Bank may, in the course of future supervisory engagement, or when exercising its supervisory and/or enforcement powers in respect of such non-compliance, have regard to the consideration given by a firm to this letter.

I thank you for your attention to this matter and the role your firm can play in supporting consumers of financial services at this time.

Yours sincerely,

A handwritten signature in blue ink that reads "Colm Kincaid." The signature is written in a cursive style.

Colm Kincaid
Director of Consumer Protection



Consumer Protection Outlook

Protecting Consumers in a Changing Economic Landscape

The Central Bank highlights the following items in particular in the context of the expectations outlined in the Consumer Protection Outlook 2022 on the Changing Operational Landscape for consumers at this time.

Affordability and suitability

- Firms providing or advising on credit should pay particular attention to their obligations to ensure that credit is affordable in the context of this more challenging economic outlook and how it may affect borrowers' expenses. This includes, in the case of mortgages, firms' specific obligations under Provision 5.9 of the Consumer Protection Code to assess affordability on the basis of a 2% interest rate increase, at a minimum, above the interest rate offered to the personal consumer.
- When gathering information and considering a consumer's individual circumstances, prior to the sale of a financial product or during the course of a financial product (including in the case of a consumer in or facing arrears), firms should pay particular attention to assessing not just the current circumstances of the consumer but how those circumstances could be impacted by the current economic outlook. In particular, firms should be able to identify consumers in vulnerable circumstances, including financial difficulty, and provide them with appropriate supports.
- Advice on savings and investments needs to consider both the short and long term needs of the consumer. This should factor in an anticipated increase in the day-to-day costs consumers may face as well as costs they may not anticipate (or may be overly optimistic about), including in particular the access a consumer may need to funds at short notice. Firms must ensure they have clear procedures for calculating consumers' capacity for loss, to ensure they do not invest in products that are outside their financial capacity.
- The impact that inflation may have on the performance/value of an investment, as well as the impact on nominal returns, should also be clearly explained. For products that include a guarantee or capital protection, it should be clearly outlined that this would not protect against the effect of inflation over time.

Provision of relevant, clear and timely information

- Information should be provided to consumers in a manner that allows them to make informed decisions on changing their financial products for more affordable options, shopping around for better value, and what supports are available for those facing difficulties in meeting their payment obligations under existing financial products. This information should be prominent on firms' websites, business premises and other publicly available material.
- Changes to terms or conditions which may impact on the cost of a financial service need to be explained to consumers especially clearly, in a context where consumers may be considering their budgets closely. Firms producing financial products are reminded of their responsibilities to provide information (including to intermediaries who sell or advise on



their products) that is clear, accurate, up-to-date and not misleading in the context of the current economic circumstances and outlook. Information provided should help consumers make informed decisions.

- Firms should use their data to identify potential groups of consumers that may benefit from early engagement with the firm, and carry out early and appropriate engagement campaigns with these consumers.

Effective operational capacity

- Firms should monitor and manage their resources in a manner that is appropriately reactive to those services which, in this context, consumers may need to a greater extent (e.g. requiring credit or facing arrears) or which may be especially important (e.g. swift processing of insurance claims and timely processing of credit applications). This should include appropriate planning, resourcing and training to ensure there is capacity to deal with consumers' needs in a timely and appropriate manner. Training should have particular regard to the need for staff to be equipped to have complex conversations in an empathetic manner with consumers facing financial difficulties.
- Staff should have sufficient knowledge of the protections and supports for borrowers under the various Codes. Firms should ensure they have the required, and sufficiently expert, resources to assess individual circumstances, and to offer appropriate and sustainable solutions to consumers.
- It may be especially important for consumers during this period to have access to effective payment mechanisms, so firms should pay particular attention to operational resilience and their capacity to provide an uninterrupted payment service to consumers.

Sales and product governance

- Firms should ensure they have robust product governance and oversight arrangements in place to proactively assess the risks and consumer impacts commercial decisions may pose to new and existing customers, and develop action plans to mitigate these risks.
- Sales and advice on insurance products should consider the impact of increasing costs on consumers' budgets (both to meet premium payments and in the event of the occurrence of an insurable event). Consumers should be supported to understand the implications of any reduction in cover by providing information in a clear and understandable way, as noted in the [recent work by the Central Bank on under-insurance in the home insurance market](#).
- Where customers choose to cancel or reduce insurance cover due to affordability concerns, firms should engage with consumers to ensure they understand any implications and avoid the cancellation of necessary cover.
- It is important that firms monitor and evaluate the investment products they sell and consider how their risk profile may change in this period of volatility, and seek to mitigate risks to clients accordingly. Products that may have been considered suitable for sale to retail clients previously, may no longer be suitable in the current climate. Firms must ensure their due diligence on products takes account of all relevant factors, including risk-return profile, liquidity, costs and charges, and any 'kick-out' or 'trigger' features that may alter the nature of an investment product under certain conditions.