



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Strategic theme: *Strengthening consumer protection*

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Civic Society Roundtable
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A Bank-wide priority:



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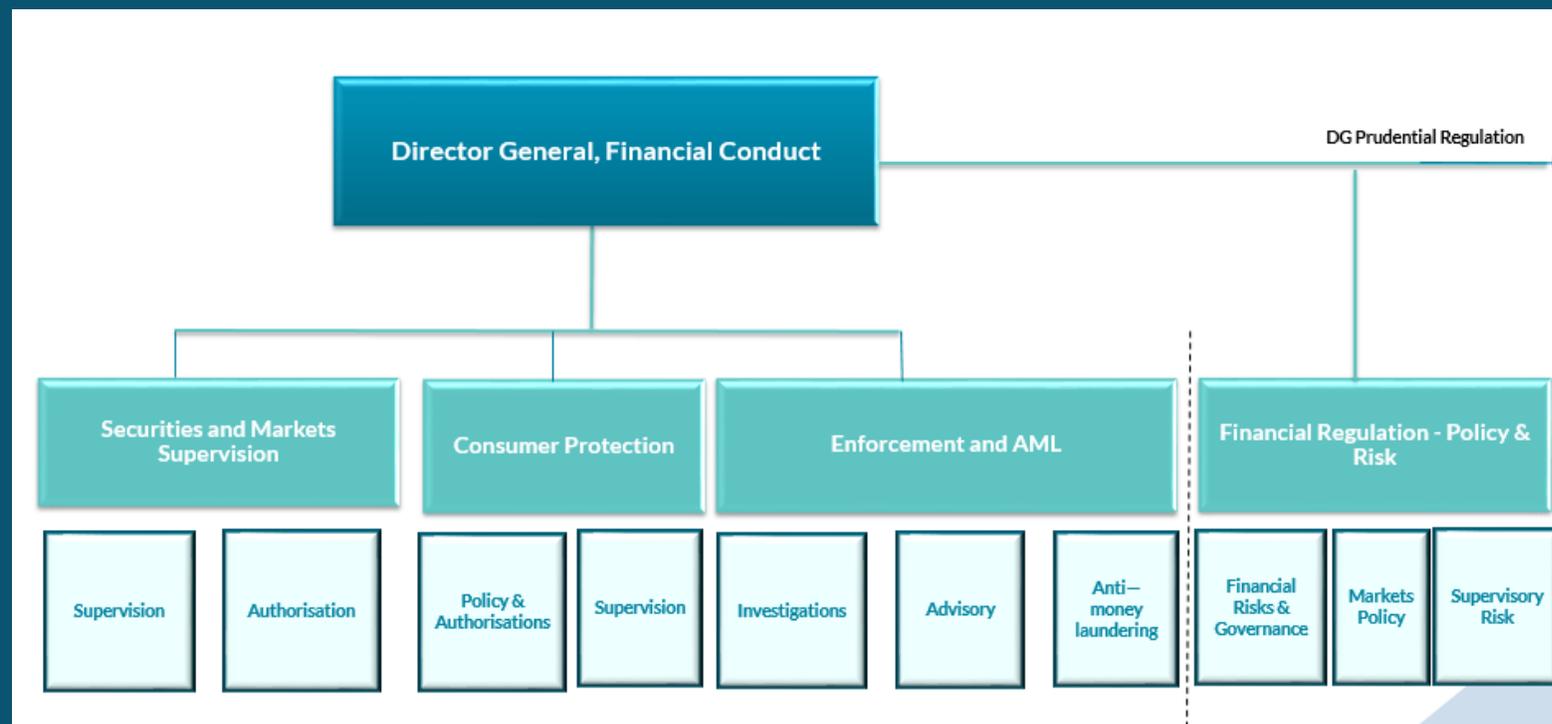
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Financial Conduct pillar

Established in 2017 to further enhance protections for consumers and investors

Objectives

- Orderly financial services system and markets
- Strong culture of compliance
- Firms acting in best interests of customers
- Comprehensive, enforceable legislation
- Rigorous supervision
- Credible threat of enforcement
- Powers of redress



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The global cost of financial misconduct

*“Global banks’ misconduct costs have now reached **over \$320 billion**”*

- Mark Carney, Governor of the Bank of England

*Tracker Mortgage Examination: Lenders have paid **c€580m** in redress and compensation*

- Central Bank of Ireland

*“Ireland is the **least trusting** of its financial services sector”*

- 2018 Edelman Trust Barometer



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Strategic Theme – Strengthening consumer protection

- Develop our approach to **conduct risk regulation**, set our expectations, and challenge the firms and markets that we supervise by requiring them to have in place a high quality and fully embedded Conduct Risk Framework.
- Conduct **more intrusive and targeted assessments** of firms & products posing greatest potential harm to consumers.
- Focus on the culture of firms, to embed **high standards of conduct** that deliver fair outcomes for consumers.
- **Enhance confidence and trust in the financial system** through high quality regulation, purposeful engagement, effective gatekeeping, assertive supervision and robust enforcement.
- **Support the fight against money laundering**, terrorist financing, market abuse & unauthorised provision of financial services.
- Critical that firms are **well governed** and **financially sound** in order to mitigate the risks posed to consumers.



2018 – in review

■ Tracker Mortgage Examination

- **38,400** affected customers identified
- **€580 million** in redress and compensation paid to date

■ Code of Conduct on Mortgage Arrears

- **117,334** principal dwelling house (PDH) accounts restructured
- **86 per cent** meeting the terms of the arrangement.

■ Gatekeeper role

- Since 2011, **58** applications for senior positions withdrawn where the prospect of refusal was raised
- **14** of these withdrawals since January of this year – several for very senior roles

■ Report into Culture and Behaviour of the Retail Banks

- All five banks have taken steps to improve – but some better than others and **all have a distance to travel**

The graphic features the Central Bank of Ireland logo and text: 'Banc Ceannais na hÉireann Central Bank of Ireland Eurosystem'. The main title is 'Tracker Mortgage Examination April 2018 Update'. A central text box states: 'The Examination is the largest & most complex consumer protection review we have ever undertaken.' Below this, two callouts are connected by a yellow ribbon: 'Across all customers' (with a stack of money icon) and 'Across all lenders' (with a bank building icon). The background shows a stylized cityscape with houses and trees.



Report into Culture and Behaviour of Retail Banks

1. Consumer-focused culture **not fully embedded** and demonstrated in banks
2. Executives continue to operate in **'firefighting'** mode remnant of crisis
3. Occasional reversal to **directive** leadership styles
4. Concerns around **over-optimism**
5. **Lack of empowerment** and decision-making below executive committee level

Next steps:

- **Risk Mitigation Programmes** required from each bank
- **Individual Accountability Framework** to drive effective culture in the sector
- **Enhanced supervision** of conduct and culture risk in the highest-impact firms



A key question going forward - bad apples or bad barrels?

- What makes people behave **unethically** or **unlawfully** in the workplace?
- Is this driven by individual **bad apples**?
- Or by the workplace itself - **bad barrels**?
- Research highlights importance of the latter - though likely **both at play**
- Onus **on firms** to drive effective cultures
- **Challenge of boards** central to supervisory work going forward



Further reading:

- Central Bank Consumer Hub: www.centralbank.ie/consumer-hub
- Behaviour and Culture of the Irish Retail Banks: <http://www.centralbank.ie/publication/behaviour-and-culture-report>
- Tracker Mortgage Examination reports: www.centralbank.ie/consumer-hub/tracker-mortgage-examination
- How we regulate financial services providers: www.centralbank.ie/consumer-hub/explainers/how-does-the-central-bank-supervise-financial-services-providers
- CCMA Report: www.centralbank.ie/docs/default-source/regulation/consumer-protection/other-codes-of-conduct/report-on-the-effectiveness-of-the-ccma-in-the-context-of-the-sale-of-loans-by-regulated-lenders.pdf?sfvrsn=4



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