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Central Bank of Ireland

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# *Strategic theme:* *Strengthening consumer protection*

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## A Bank-wide priority:



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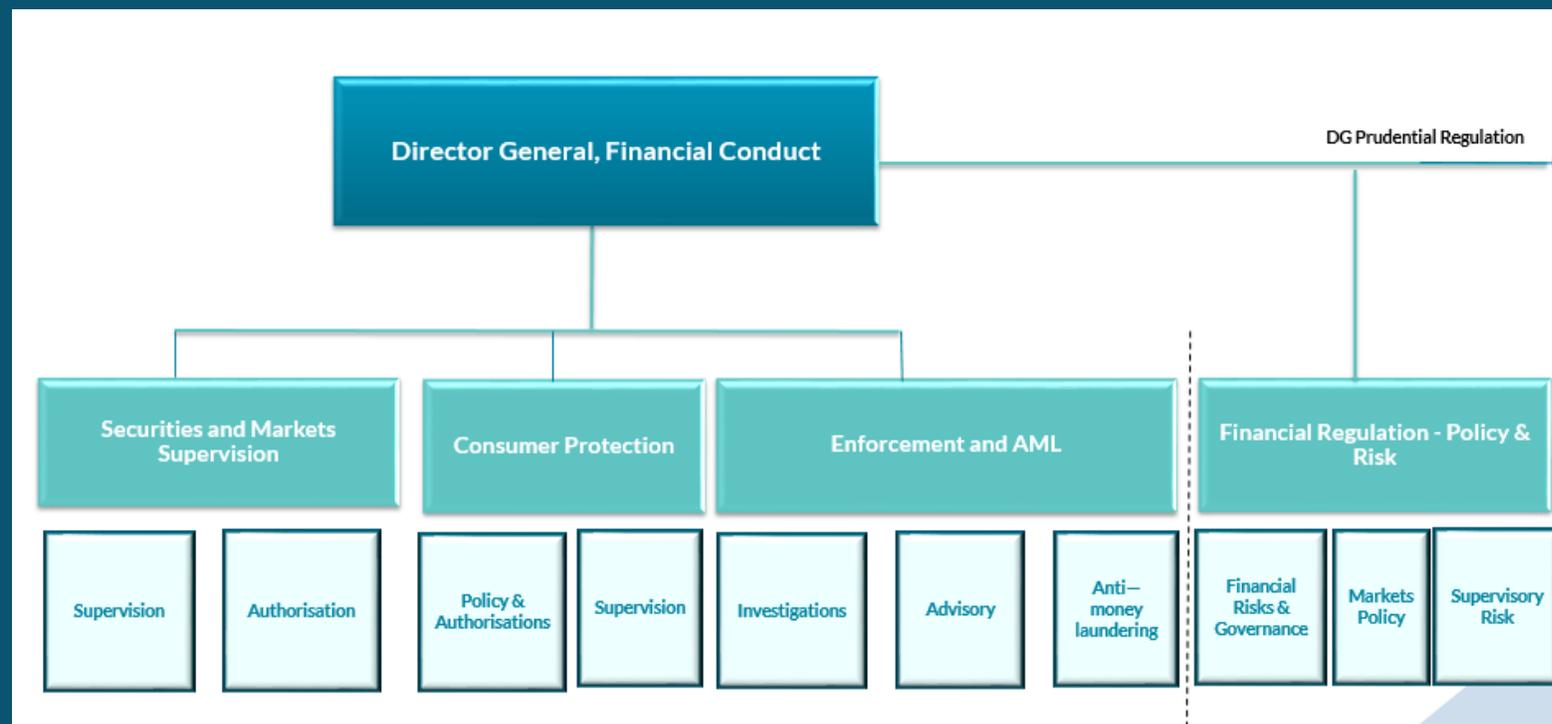
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# Financial Conduct pillar

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 infographic features the Central Bank of Ireland logo and the 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, a yellow ribbon graphic connects two boxes: 'Across all customers' and 'Across all lenders'. The background includes icons of a building, a magnifying glass, and a house.



# 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](http://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](http://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](http://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](http://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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