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Society of Actuaries - ERM Forum, 10 May 2016

“A regulatory perspective on consumer risk”

Helena Mitchell – Head of Consumer Protection: *Supervision Division*



Contents

- ❖ What is 'conduct risk' and 'consumer risk'?
- ❖ Central Bank's Consumer Risk Outlook 2016
- ❖ What do firms need to do about it?
 - *Implement/ enhance Consumer Risk Management Frameworks*
 - *Expect increasing supervisory oversight and challenge from the Central Bank*
- ❖ How does this fit with Sol II requirements?
- ❖ Conclusion



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What is conduct risk and consumer risk?



Central Bank's Mission

"Safeguarding Stability, Protecting Consumers"

"Getting It Right for Consumers"

"We will work together and with others to strengthen and maintain protection for consumers so that financial services work in the best interests of all consumers, now and in the future."

'Conduct Risk'

is "the risk the firm poses to its customers through its direct interaction with them"

– *PRISM Explained 2011*

'Consumer Risk'

- anything that would threaten our objective that firms treat consumers fairly and with dignity and respect

– *Consumer Protection Outlook Report 2015*



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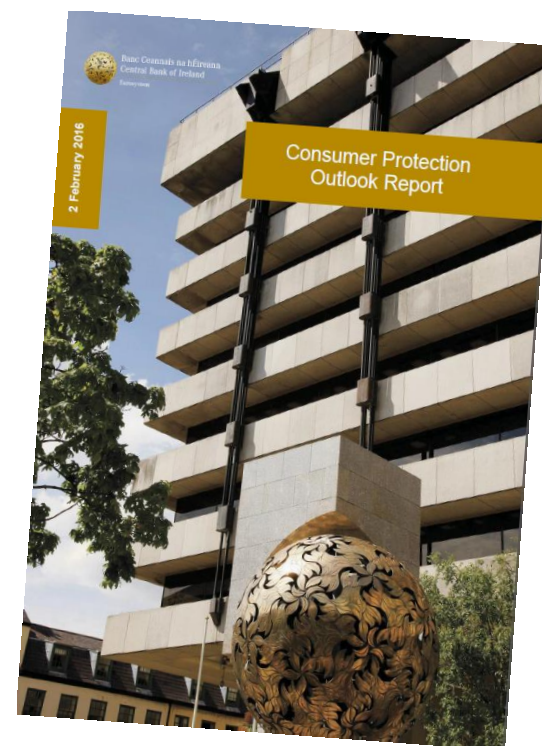
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Central Bank's Consumer Risk Outlook 2016



Consumer Protection Outlook Report 2016

- ❖ Our assessment of the current and emerging consumer environment and risks to our objectives
 - *for full consideration by the firms we regulate*
 - *in the context of our desired consumer protection outcomes*
- ❖ Key existing and emerging risks include:
 - *Absence of a deeply rooted and sustained consumer-focused culture*
 - *Poor product oversight and governance*
 - *IT resilience and data security*
 - *Risks that may be driven by the current operating environment*





Claims handling and settlement

- ❖ Challenging operating environment
- ❖ Planning changes to your business model?
 - *Where firms are considering cost-cutting measures, they must consider the consumer impact prior to implementation*
 - *Proposed cost-cutting measures must not negatively impact on basic customer service e.g. claims handling processes*





New methods of service delivery: risks and benefits



- ❖ Business models and methods of service provision are changing
 - *e.g. automated advice / 'robo-advisors'*
- ❖ Mobile and emerging technologies can provide benefits and opportunities
- ❖ Firms must identify associated consumer risks and threats - and manage them accordingly
 - *Transparent?*
 - *Reliable?*
 - *Safe?*
 - *Secure?*



IT resilience and data security



- ❖ Increasing dependence on information technology among financial services firms
- ❖ When IT and data systems fail, the business and reputation of the firm and the broader financial services sector is damaged
- ❖ Consumers and businesses also suffer detriment when services are interrupted and when personal data is accessed or stolen
- ❖ Cyber risk is a permanent feature of the business and regulatory landscape
- ❖ Firms should improve their knowledge and understanding of the sources of this risk to be in a position to identify, monitor and mitigate any real or perceived threat this risk poses to consumers



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Product Oversight and Governance: *Getting it right from the outset*



Product oversight and governance: one of our key priorities

- ❖ Very strong relationship between product governance and consumer risk
- ❖ Financial products and services are intangible
 - *Unlike other 'consumer goods'*
- ❖ Many examples of poor product governance in public domain
 - *Payment Protection Insurance*
 - *Card Protection Plan*
- ❖ Regulators respond again!



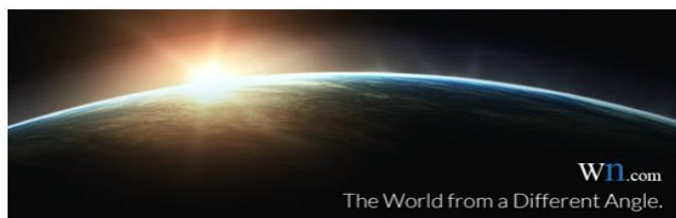
"It's our rebuttal to 'Buyer Beware'."



On-going focus on transparency: lack of meaningful disclosure can lead to poor outcomes for consumers

NEWS VIDEOS VIDEO DETAILS LIVE CHAT WIKIPEDIA

Pension sales inspection reveals significant variations in annuity rates (Central Bank of Ireland)



(Source: Central Bank of Ireland)

20 January 2016 Firms could be more transparent in explaining the Open Market Option to consumers. In some cases, firms were unable to evidence that all post retirement options were fully explored.

Public Technologies 2016-01-20

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THE IRISH TIMES

Sat, Apr 9, 2016

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Central Bank to force health insurers to do more for switchers

Move comes on the back of research showing that switching rates are very low in the Republic

© Fri, Mar 11, 2016, 16:53

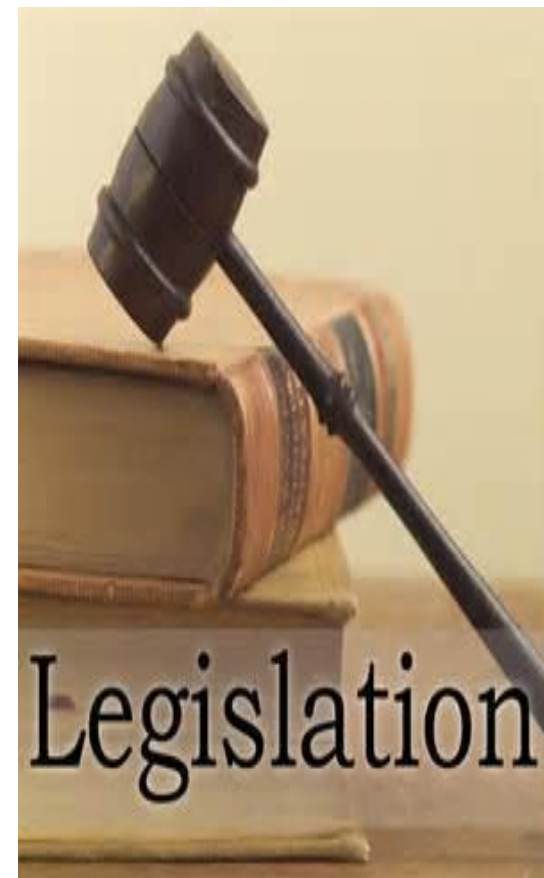
Conor Pope





Post-crisis regulatory response to poor product governance

- ❖ Joint Position on Manufacturers' Product and Governance Processes
 - *Published by the European Supervisory Authorities in 2013*
 - *Provides a framework for robust and responsible product design*
 - *Extends to manufacturers and distributors*
 - *Ensures products meet the interests of the target market for which they were originally designed*
- ❖ EIOPA Preparatory Guidelines published April 2016
 - *Essential element of new regulatory requirements under IDD*





"These Guidelines further minimise the risks of consumer detriment and mis-selling of insurance products.

We need to ensure that products are designed with clear customer needs in mind but also that these products are being sold to the right customers.

Insurers and intermediaries need to place consumers at the heart of their business strategies.

The tone of this change has to come from the top."



Gabriel Bernardino, Chair of EIOPA



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Absence of a consumer-focused culture:
No.1 threat to our consumer protection objectives



What does good culture look like?



- ✓ A culture which inherently recognises the best interests of consumers in the long-term
 - *Embedded within governance, risk management and business processes*
 - *Deeply rooted and sustained throughout the entire firm*
- x Culture is not a 'tick box' exercise
- x Regulators cannot change culture simply by introducing new rules
- ✓ Firms and individuals have an obligation to self-regulate



**Mail online: 'city trader, 35,
dubbed 'Rainman' is jailed for 14
years for fixing Libor rate'**

**Credit Suisse advises
investors:
VW scandal 'could cost
\$86 billion'**

**"Culture eats
strategy for
breakfast."
- Peter
Drucker**



The Guardian: Misconduct 'has cost UK's banks £53bn over 15 years'



ENRON's Mission Statement

Remember ENRON?

***"We treat others as we would like to be treated
ourselves....***

We do not tolerate abusive or disrespectful treatment.

***Ruthlessness, callousness and arrogance don't belong
here."***



Mission Statement or Mission Impossible?



Culture trumps vision every time!



Culture: Get the foundations right



- ❖ Firms must critically assess internal structures and processes, which drive behaviour, including
 - *Incentive schemes (financial and non-financial)*
 - *Performance management processes (for all staff at all levels)*
 - *Escalation processes (must encourage 'unfiltered' escalation)*
 - *Training & development processes*
- ❖ Guidelines on Variable Remuneration for Sales Staff issued in 2014
 - *Must be structured in such a way as to ensure that employees, individually and collectively, are acting in the best interests of customers and that they are providing products that meet their customers' needs*
 - *Continuing supervisory focus in 2016*
- ❖ Examination of risks and benefits of commission payments to intermediaries has commenced



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What do firms need to do about it?



Priority – Consumer Risk Management Frameworks

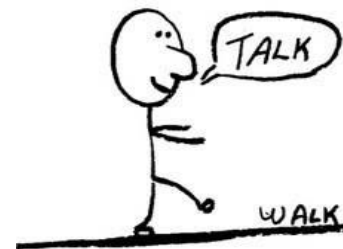
- ❖ Implement / enhance your internal Consumer Risk Management Frameworks
 - ***Identify consumer risks:*** these will be specific to each firm
 - ***Define consumer risk strategy and appetite:*** articulate it and embed it
 - ***Design and implement appropriate risk architecture:*** including adequate support and assurance capability
 - ***Employees must be trained to identify consumer risks:*** and know how to respond appropriately in the context of their daily roles
 - ***Develop appropriate metrics:*** to identify, monitor and manage consumer risk
 - ***Take steps to ensure Risk Appetite Statement is a living document***
 - ✓ ***Remember ENRON! Culture trumps vision every time....***



Central Bank's challenge to regulated firms

- ❖ Not enough to set the 'consumer tone' from the top

- *Own it*
- *Commit to it*
- *Deliver on it*



- ❖ Balance the objective to maximise shareholder return with a full understanding and appreciation of customers' needs and experience
- ❖ The right 'tone from the middle' is a critical factor for success – i.e. what's actually happening on the ground
- ❖ Demonstrate how Consumer Risk Frameworks and employees' behaviours are delivering fair outcomes for consumers
- ❖ Central Bank is enhancing its on-site supervisory model
 - *H2 2016: On-site assessments to test firms' progress in implementing fit-for-purpose consumer risk frameworks and embedding a consumer-centric culture*
 - *In addition to our regular program of thematic inspections in the insurance sector*



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How does this fit with Solvency II requirements?



Question: How does all this fit with requirements under Solvency II?



- ❖ Answer: Hand in glove!
- ❖ Prudential and consumer protection supervision pursue a common goal
 - *To protect the interests of consumers*
- ❖ Solvency II is a *'paradigm shift towards a more consumer-centric culture'*
– Gabriel Bernardino
- ❖ Recent developments in prudential supervision have focused on the need for a sound risk culture
 - *Like all other risk categories, 'consumer risk' must be effectively identified and managed*
 - *Change of mind-set is needed: Consumer risk is not exclusively 'operational' or 'regulatory' – holistic view of consumer risk required*



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Conclusion



Conclusion

- ❖ Poor business practices can and do impact on the lives of thousands of consumers
- ❖ Persistent poor outcomes for consumers have other adverse consequences
 - *significant costs for firms – financial and non-financial*
 - *increased accountability / consequences for individuals within the firms*
 - *loss of trust and confidence*
- ❖ Consumer risk management has wider social and economic benefits
 - *beyond the regulatory framework*
- ❖ Good conduct is in everybody's interests
 - *consumers*
 - *firms*
 - *shareholders*
 - *wider public*
 - *regulators*
- ❖ So then..... let's make sure we *get it right for consumers*





THANK YOU



1. [Consumer Protection Outlook Report 2016](#)
2. [EIOPA Opinion on Sales via the Internet of insurance and pension products](#)
3. [Address by Cyril Roux to SoA Sept 2015 – Cybersecurity and Cyber Risk](#)
4. [Remarks by Sylvia Cronin at European Insurance Forum March 2016](#)
5. [Guidelines for Variable Remuneration Arrangements for Sales Staff – July 2014](#)
6. [Findings from thematic inspection of annuity sales process](#)
7. [Findings from thematic inspection of health insurance renewals](#)
8. [Review programme of retail intermediaries – May 2015](#)
9. [Findings from thematic inspection of non-compliant retail intermediaries – March 2016](#)