Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Consumer Protection Outlook 2021

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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Foreword

The Central Bank works to ensure that the financial system operates in the best interests of consumers and the wider economy. Protecting consumers is central to all aspects of our work. It means consumers and investors are treated with fairness and transparency, deposits are safe, mortgage lending is prudent and insurance reserves are strong. It is core to what we do and who we are.

At some point in our lives, we will use or buy a financial service, whether it is taking out car insurance, opening a bank account or getting a mortgage. When choosing, buying and using financial products and services, either in person or online, consumers and investors rightfully expect to engage with trusted, responsible firms who adhere to high standards and will act in their best interests.

Our Consumer Protection Outlook Report outlines the priority areas we will be focusing on in 2021 to ensure firms are meeting these standards. Our priorities are informed by our sectoral risk assessments, our supervisory work and experience, and information obtained from our ongoing engagement with others working in the national consumer protection framework.

The Outlook Report also outlines the main risks across all financial sectors that we believe pose the greatest potential for consumer and investor harm. We publish these risks every year so firms are clear on the issues we expect them to address and mitigate in order to avoid negative effects on consumers and investors. However, it is important that firms do not treat either the priorities or risks as exhaustive lists. We will remain responsive to other issues that may arise and most importantly, we expect firms to look beyond the risks outlined to ensure that other concerns relevant to their customers or business area are properly managed.

The Outlook Report is published against a backdrop of continued uncertainty due to the ongoing impact of COVID-19. The last year has shown us all that our systems and approaches must be flexible and responsive to unexpected risks. The COVID-19 pandemic has shown that the work completed in recent years to build a strong and flexible consumer protection framework has been beneficial for all consumers and that our framework is responsive and effective in a crisis of this nature, particularly in dealing with the initial disruptions and impact on consumers. In response to this crisis we took action immediately to facilitate payment breaks; we challenged firms to ensure that their systems were robust enough to expedite payment breaks supporting the flow of credit to SMEs and consumers; and we engaged with insurance providers to manage and process claims efficiently and fairly.

However, there are still challenges ahead of us and to ensure the continued protection of consumers, firms need to remain proactive and vigilant in their planning and mindful of the risks to consumers that arise in these uncertain times. For example, the pandemic has meant we are using digital services more in our daily lives. It is important that these changes do not mean groups of customers are left behind or unable to access financial services. We will continue to focus our efforts on ensuring that the consumer protection framework is responsive, relevant and appropriate and can react to the issues and challenges ahead.

We expect firms to act on this information detailed in the Outlook Report. Consumer protection begins with the financial services firms. We expect all firms to consider each risk we have identified, in the context of their own risk assessments, and to take all appropriate actions to protect their customers. We will continue to supervise firms to ensure they are fully compliant with their obligations and treat their customers, existing and new, in a fair and transparent way.

Gráinne McEvoy,
Director of Consumer Protection

Protecting Consumers

Consumer protection begins with the financial services firms. Firms are responsible for selling products and services to consumers that meet their needs both now and into the future.

We have identified risks relevant to many firms across multiple sectors. We expect all firms to examine each risk and to take all appropriate actions to protect their customers.

Key Cross Sectoral Risks

We have identified the following six risks to consumers of financial services.

- Absence of consumer-focused culture
- Consumer protection during the COVID-19 pandemic
- Ineffective disclosure
- Unfair practices and behavioural vulnerability
- Risks from technology
- Mis-selling & inadequate suitability assessment

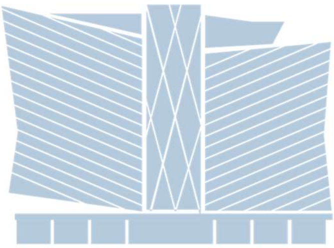
Consumer Protection Priorities

We are focusing on the following six priorities to protect consumers of financial services in 2021.

- Deliver intrusive risk-based supervision
- Enhance the consumer protection framework
- Drive firms to embed effective consumer-focused cultures
- Influence, shape & deliver key policies for regulation
- Ensure fair treatment of borrowers in financial distress
- Enhance our gatekeeping process

2021

Our approach to protecting consumers and investors



Protecting consumers is at the heart of the Central Bank's work. Our mission is to serve the public interest by safeguarding monetary and financial stability and working to ensure the financial system operates in the best interests of consumers and investors, and the wider economy.

As the regulator of financial service providers and markets in Ireland, the role of the Central Bank is to ensure that the best interests of consumers and investors are protected while enhancing confidence and trust in the financial system through effective regulation.

We fulfil our consumer protection responsibilities across our entire mandate, using our collective, broad policy and technical expertise in working to protect consumers and investors.

We work to:

- Ensure that the financial system is stable and that the firms that operate within it are financially sound, have sustainable business models and have effective risk management and controls in place.
- Regulate firms to ensure that the best interests of consumers and investors are protected.
- Influence and shape European and domestic policy initiatives including setting statutory codes of conduct for firms, with which they must comply. These include codes on how products should be sold, the information that should be provided to consumers and investors, and how complaints should be dealt with.
- Take enforcement action to hold firms and individuals to account where there are serious regulatory breaches.

We take an assertive, risk-based, analytical, and outcome focused approach to consumer and investor protection, focusing on regulated firms and products according to the level of risk they pose to consumers. We are clear in our expectations of firms and how they treat their customers.

We also listen to the experiences and views of consumers and investors. We undertake high quality consumer research and risk evaluation which we use to inform our work, ensuring the consumer's voice is at the heart of how we identify risk. Our aim is to ensure that firms treat their consumers and investors in a fair and transparent way and fully comply with both regulations and expectations.

When we take action

We intervene, in line with our mandate, to ensure the interests of consumers and investors are protected by focusing on the issues which pose the greatest potential or actual risk of harm.

Our targeted interventions are aimed at addressing widespread issues that affect many consumers and investors. These include:

- **Gatekeeping:** allowing only those firms and individuals who meet high regulatory standards access to the market.
- **Supervising:** deploying our resources and tools to ensure firms are well governed, financially sound with robust compliance and risk management processes in place to anticipate, manage and avoid risks to consumers and investors.
- **Directing:** requiring firms to put things right where they have made errors or caused consumer and investor harm, overseeing the provisions of redress and compensating consumers and investors, where appropriate, for losses and harm caused due to misconduct.
- **Enforcing**: Taking robust enforcement action where firms or individuals fall short of required standards.

In the most serious cases, we revoke firms' licences and prohibit senior individuals from working in the financial services industry.

In July 2020, the Central Bank fined one of the largest retail banks €1,660,000 and reprimanded it for regulatory breaches causing loss to a client due to cyber fraud.

Working in partnership

We actively engage and collaborate with our many partners to deliver for consumers and investors. This includes consumer representative groups, other State agencies, the financial industry, our government and EU partners including international regulators. We believe we are at our best when working in partnership with others.

We work closely with the other bodies responsible for financial services consumer protection in Ireland, the Financial Services and Pensions Ombudsman and the Competition and Consumer Protection Commission, to deliver our shared purpose of strong protections and trustworthy outcomes for consumers and investors.

We regularly seek views and input from outside the organisation. This includes engagement with consumer and investor representatives and seeking insight from industry representative groups and regulated firms on sector or issue specific matters. We particularly value the expertise and support of the Consumer Advisory Group, which provides expert advice in relation to the Central Bank's consumer protection activities. This ongoing exchange of information and ideas helps us to build knowledge and insight.

Through our engagements with civil society roundtables and the Consumer Advisory Group we are continually enhancing our understanding of issues faced by consumers across sectors

It is important that we understand and learn from the experience outside Ireland through ongoing engagement in the wider European framework and international authorities and agencies. We are actively involved in shaping and influencing the policy agenda in Europe and internationally, to support the delivery of our mandate, including contributing strongly to positive outcomes in Europe.

In everything we do, we aim to be an open and transparent organisation which is accountable for our actions. This helps the public and other stakeholders to understand what we do, why we do it and to have confidence in how we are delivering in the public interest at all times.

Case study

Listening to consumers

In 2020 we conducted one of the largest ad-hoc standalone consumer surveys in Ireland as part of the Differential Pricing Review. This research surveyed 5,500 private home and car insurance customers to understand their engagement with and experience of insurance. This research was conducted in tandem with a large qualitative research programme of nearly 100 insurance customers to get an in-depth understanding of their needs and behaviours in relation to insurance buying, renewal and switching behaviours. The research to date shows that:

- Consumers frequently considered insurance in negative terms. This results in both a lack of trust and lack of interest in insurance.
- The complexity of insurance means most consumers have a limited knowledge of how the specifics of insurance operates. This can discourage more active involvement at renewal, with many consumers feeling it is better and easier to stay with their provider rather than switch.
- Consumers tend to involve themselves more in private car insurance than home insurance. With home insurance, there is a much higher level of inertia.
- Many consumers report that they compare prices with other insurance providers largely because it helps to negotiate a better price with their current provider, rather than switch provider.

Findings from both these research projects will inform the Differential Pricing Review which will be published in 2021.

In 2021 we will also publish research on pension behaviours and decisions, how consumers engage with digital financial products and services and first time buyer experience of the mortgage application process.

Identifying risks and priorities

Every year the Central Bank carries out a comprehensive consumer risk assessment where we examine each of the retail sectors to identify and assess current and emerging risks to consumers and investors. We then assess the risks across all sectors to identify which ones pose the greatest potential of harm. We call this our sectoral risk assessment.

We are responsible for issues affecting groups of consumers of financial services firms and this is reflected in the risks that we identify and the priorities we establish. Our annual sectoral risk assessment allows us to pinpoint risks with the potential for large negative impact to consumers in each financial sector, if the risk event occurred. This approach allows us to focus our energies on firms and products with the greatest level of risk to consumers while leaving flexibility to deal with emerging issues that may surface during the course of each year.

In addition, the Central Bank's unique position allows us to also identify risks that are common to many different financial sectors. These risks in particular - because they are so widespread - have the potential to cause negative effects for very large numbers of consumers across many financial sectors, and it is these 'Key Cross-Sectoral Risks' that we specifically set out for firms to address.

We draw on a wealth of information to inform our analysis including:

- Our supervisory work and experience.
- Regulatory data submitted by firms.
- Developments and emerging trends at domestic, European and international level.
- Advice from the Consumer Advisory Group.
- Engagement with stakeholders including policy-makers, statutory consumer bodies, civil society, etc.
- Listening directly to consumers.

Consumer protection begins with good business practices within financial services firms that meet the legitimate needs of consumers and investors now and in the future. Firms must have robust compliance and risk management processes in place to anticipate, avoid and manage all risks to consumers and investors. We expect all firms to consider each risk we have identified, in the context of their own risk assessments, and to take all appropriate actions to protect their customers.

Our 2021 priorities

Our work priorities are informed by our sectoral risk assessment along with analysis of where our interventions have the greatest potential to minimise risks for consumers and investors.

Our 2021 priorities are to:

- Deliver intrusive risk-based supervision and intensify our targeted assessment of those firms and sectors that pose the greatest potential harm to consumers and investors
- Enhance and strengthen the consumer protection framework to reflect best practice and be responsive to innovation and change in the financial services sector and digital environment
- Drive firms to take responsibility for embedding consumer-focused cultures based on the highest standards of professionalism, honesty, integrity and accountability to deliver fair outcomes that have the interest of consumers and investors at heart
- Influence and shape key policies for regulation of the financial system to secure the best standards of consumer and investor protection at home and internationally
- Ensure borrowers in financial distress are treated fairly, sympathetically and positively by firms and that firms are acting in a way that protects the best interests of borrowers, in line with relevant codes and regulations
- Enhance our gatekeeping process to ensure that all firms and individuals seeking to operate in the Irish financial system meet all authorisation standards upon entry, and continue to meet them for as long as they remain authorised

Consumer Protection Priorities 2021

Deliver intrusive risk-based supervision

- Implement enhanced firm-specific supervisory approach for firms that have the greatest potential impact on consumers.
- Continue risk-based sectoral supervision of retail intermediaries.
- Continue our review of the practice of differential pricing in the Irish private car and home insurance markets.
- Commence thematic reviews on the use of telematics by insurers and assess how the suitability of long-term insurance products is monitored.
- Progress resolution of business interruption insurance issues.
- Monitor the use of complex products by retail investor clients.

Enhance the consumer protection framework

- Continue our substantial review of the Consumer Protection Code to evolve and strengthen protections for consumers and investors.
- Complete a targeted review of the Standard Financial Statement (SFS) under the CCMA, seeking to make it more user friendly for borrowers.
- Develop proposals to extend minimum competency rules to credit unions.

Drive firms to embed effective consumer-focused cultures

- Challenge boards and leadership teams to continue the transformation towards a consumer-focused culture.
- Increase our supervisory focus on the behaviour and culture of firms and those individuals who run them.
- Continue to monitor and challenge the levels of diversity of senior appointments in the Irish financial services sector.
- Enhance our existing supervisory framework and processes for assessing behaviour and culture in all regulated sectors.

Influence, shape & deliver key policies for regulation

- Influence and shape domestic policy initiatives on system wide improvements supporting consumers and investors.
- Provide technical advice on planned legislation to introduce a regulatory regime for Hire Purchase/Personal Contract Plan (PCP) and other forms of credit in the Irish market.
- Progress the introduction of an Individual Accountability Framework.
- Influence and contribute to reviews of EU Directives related to consumers of financial services.
- Support the development of policy initiatives on climate risk and the financing of a sustainable economy.

Ensure the fair treatment of borrowers in financial distress

- Challenge firms to have sustainable strategies and a range of appropriate solutions to support borrowers in or facing financial distress.
- Work with entities within the national consumer protection framework to ensure the wider system facilitates as many borrowers as possible can return to meeting their commitments.
- Continue to challenge regulated firms to work with borrowers to sustainably resolve longer-term financial distress.

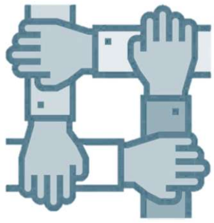
Enhance our gatekeeping process

- Continue to act as a robust gatekeeper by rigorously assessing applications from firms and individuals who manage them.
- Develop new authorisation processes as legal frameworks develop for sectors such as crowdfunding.
- Upon enactment of legislation - evolve authorisation processes for firms engaged in hire purchase / PCP finance.
- Continue to evolve our approach to gatekeeping to further enhance and streamline processes for applicant firms

Key Cross-Sectoral Risks 2021

This section sets out what the Central Bank requires firms to do to address the key risks identified in our sectoral risk analysis.

Absence of consumer-focused culture



The absence of consumer-focused culture remains a fundamental risk to a well-functioning financial sector.

The Central Bank's vision is that of a financial system that sustainably serves the needs of the economy and consumers. The culture of firms is of key importance in delivering this vision. Effective culture builds on shared purpose and standards such as professionalism, honesty, integrity, and accountability to deliver fair outcomes that have the interests of consumers and investors at heart.

Culture is particularly important during times of crisis such as the COVID-19 pandemic. How firms treat their consumers during this time has brought their culture and behaviour into sharp focus.

The absence of a strong, consumer-focused culture in a firm greatly increases the risk of, and is more likely to, result in poor outcomes for consumers and investors. Therefore, an effective consumer-focused culture can act as an important safeguard against many of the risks that we present in this report.

There is a risk that regulated entities make significant decisions that affect their customers without sufficient consideration of how the firm will ensure fair outcomes for consumers and investors. While decisions relating to a firm's business model and strategy are matters for the board of that firm, it is important that a consumer-focused approach is taken where any decision affects customers. One example of this is the trend towards digitalisation. While digitalisation can provide many benefits to consumers and investors such as availability, it also poses risks. For example, while digitalisation is a factor in the decision to close bank branches, this may result in some consumers at risk of having difficulty in accessing even the most basic of financial services. Firms should ensure that the impact of decisions is considered carefully and with a consumer-focused approach.

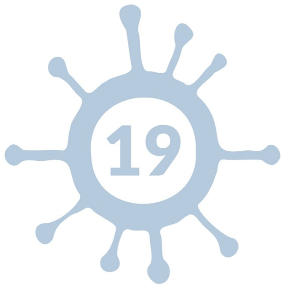
A firm shows its culture in how it makes its decisions, how it assesses risks and how it treats its consumers.

What we expect firms to do

We expect firms to:

- Go beyond consumer protection obligations under law and be proactive and meticulous in ensuring that they do business in a way that protects consumers and investors.
- Ensure that consumer-focused cultures are evident and demonstrable throughout the entire structure. Firms must show evidence of robust oversight and challenge led by the board (in particular over the product/service lifecycle), execute comprehensive training for staff and measure key indicators of the firm's culture.
- Regularly track and monitor the behaviour and culture in their organisations, and reflect on any shortfalls in the collective understanding of what 'consumer focus' actually means for their firm. Firms must ensure they have the right structures, processes and systems embedded to support consumer-focused behaviours.
- Actively pursue diversity and inclusion at all levels to improve decision-making, and increase effectiveness of internal challenge.
- Demonstrate their trustworthiness and focus on making sure that their people are clear about the standards expected of them in relation to individual accountability and are held to account for failing to live up to those standards.
- Engage immediately with the Central Bank in relation to any decisions or plans on branch closures. Firms should assess the impact of any such decision or plan across the full consumer base, to ensure that any changes to branches are done in an orderly manner and carefully consider the impact of these decisions across the entire customer base, including vulnerable customers. Firms must communicate clearly with consumers in relation to any branch closures informing them of how continuity of service will be provided.
- Provide affected vulnerable customers with the assistance necessary to ensure that they can retain full access to basic financial services, in many cases at another branch location. Take a customer-focused approach in all aspects of the firm's business throughout any period of change and ensure that customers understand what any changes mean for them.
- Ensure robust internal systems and controls, including well-developed risk management frameworks, are in place to drive effective behaviour and culture, taking particular account of how staff engage with consumers and investors when they are operating in a remote working environment.

Consumer protection during the COVID-19 pandemic



The COVID-19 pandemic has brought fundamental and immediate changes to how we live.

It has created significant economic disruption and upheaval and has placed a lot of personal financial stress on many consumers. In addition, the continuity and quality of some financial services being provided to consumers and investors is at risk of being negatively impacted as a consequence of the pandemic.

The increased use of technology and remote communication during the pandemic has also led to an increased number of scams and cyber-attacks and the potential for consumers and investors to be treated unfairly.

The Central Bank worked to protect consumers and investors impacted by the COVID-19 pandemic by communicating our expectations to firms across all sectors on their operational and financial resilience and on their management of COVID-19 related risks for their consumers and investors.

Our key areas of focus included engaging with firms to ensure they proactively communicated with their customers and investors, and were sensitive to changes in consumers' circumstances due to the public health measures taken to counter the spread of COVID-19. We also challenged firms to ensure that consumer-focused solutions were developed with regard to the treatment of borrowers in or facing financial distress, and that insurance firms adopted a consumer-first approach to their handling of claims effectively and properly taking all relevant factors into account.

> *"Because of Covid, call centres and support are really under pressure. You have to do it this way (remotely) but it is really hard to get help you need."*
>
> Source: Central Bank Consumer Research - Digitalisation

What we expect firms to do

We expect firms to:

- Act in the best interests of consumers and investors and engage in a fair, efficient, and sympathetic manner during this period of continued distress.
- Ensure that any new or changed terms and conditions for products and services are fair to all consumers and investors - including those who may potentially be the victims of fraud or scams.
- Engage with borrowers experiencing financial distress on a case-by-case basis and in line with the Consumer Protection Code, the Code of Conduct on Mortgage Arrears, and Regulations for Firms Lending to Small and Medium Enterprises to deliver appropriate and sustainable solutions.
- Adopt interim measures to support borrowers experiencing temporary income shocks when the financial position of the borrower has not yet been assessed or where more permanent solutions are being determined, and facilitate borrowers who are in a position to return to meeting their repayments.
- Be clear in terms of what cover is provided by insurance policies and what cover is excluded. Ensure that claims are appropriately assessed and, where there is valid insurance cover in place, ensure that claims are accepted and paid promptly.
- Where there is a doubt about the meaning of a term in an insurance policy, interpret the policy in a way that is most favourable to the customer.
- Where a legal action relating to wider insurance cover has concluded and the final outcome has a wider beneficial impact for other similarly impacted customers, to take urgent remedial action to ensure that those customers obtain the benefit of the final outcome.

Consumer protection during this time of uncertainty and stress is paramount.

Ineffective disclosure

Transparency and effective disclosure is key to enabling consumers and investors to make informed decisions that best suit their needs now and in the future.

Poorly presented information can greatly impact the ability of consumers and investors to assess the benefits, costs and risks of financial products and services. This is particularly the case where the product or service is complex or when there are many similar types of product on the market. Examples of risks that can arise from ineffective disclosure include consumers investing in a product that is too risky for them, having insufficient or unsuitable insurance cover for their needs, or paying too much in fees and charges.

> A consumer cannot make an informed financial decision if they are not fully aware of the risks and costs

In the case of mortgage products for example, Central Bank research has shown that the main reason that consumers give for not switching mortgages is that they do not realise how much money they could save. In addition, consumers report that they find it difficult to compare mortgages, and they believe that the process is too long and complicated.

While improved financial literacy can help better decision-making, it cannot fully address the imbalance in experience and knowledge between most consumers and investors on the one hand and financial firms and professionals on the other. However, greater transparency will help fill this gap and enable consumers and investors to make informed decisions that best suit their needs.

What we expect firms to do

We expect firms to:

- Provide clear information in a timely manner to consumers and investors across all engagement channels (e.g. in person, advisory, digital, etc.)
- Ensure that the information is provided in a way that is not too complex and does not overload the consumer.
- Disclose the key information upfront (e.g. benefits and risks, fees and costs, right to withdraw, etc.) of the products and services offered in order to support consumers and investors to make informed decisions.
- Design communications with consumers and investors in mind - effectively drawing their attention to the risks and costs of financial products – and ensuring that advertising has consumers' best interests in mind.
- Recommend the most suitable product from their suite of products where consumers and investors ask for advice.
- Take care to design and provide financial products and services that are suitable for the consumers and investors buying them.
- Facilitate customers to switch products and services through clear and simple processes

Unfair practices and behaviourial vulnerability

Firms must take action to prevent unfair practices that knowingly take advantage of consumers' behaviours and habits.

Special offers and incentives can prove tempting to consumers who tend to place more value on money received now than money saved in the future. For a variety of reasons, consumers and investors do not always take the time to shop around and tend to make assumptions when purchasing financial products and services – even when making some of the biggest financial decisions of their lifetime.

The ability to shop around and negotiate over price can be more difficult for consumers and investors that are vulnerable in terms of age, income, or financial capability.

In the context of the insurance sector, for example, our research indicates that the longer a consumer remains with their current insurer, the higher the amount they will pay over and above the expected cost of the policy. In this way, the consumer is effectively charged a penalty for their loyalty which increases the longer they remain with that firm.

The Central Bank is concerned that the practices of certain firms may knowingly take advantage of consumers' behaviours and habits in an unfair manner. Advances in computing power, data analysis, and modelling techniques within firms further increase the risk that these practices may deliver unfair outcomes for some consumers.

The Central Bank is investigating the practice of differential pricing in the private car and home insurance markets.

"The algorithms online are there to get the most out of you. You're putting it in and they are going to get what they can off you"

Source: Central Bank Consumer Research - Differential Pricing Review

What we expect firms to do

We expect firms to:

- Avoid behaviour and practices that unfairly take advantage of consumers' behavioural biases, and operate in a fair and transparent manner.
- Implement and strengthen consumer-focused culture in relation to pricing decisions and practices and ensure that consumers and investors are at the heart of all decisions.
- Support consumers and investors in making good financial decisions and facilitate consumers shopping around in the fullest manner.
- Have strong internal governance arrangements and oversight of algorithms - ensuring transparency, accuracy, and robustness.

Risks from technology

Technology has changed how consumers and investors interact with financial services firms - especially during the COVID-19 pandemic.

Although the switch to non-cash payments started some time ago, the COVID-19 pandemic has accelerated this trend as new methods of contactless payment continue to emerge. Innovation and new digital financial products offer many benefits, making access to financial services easier and more efficient for many consumers. However, it can also create risks of consumer and investor harm, for example, through privacy breaches, algorithmic bias in how consumer and investor information is used, or through financial exclusion of vulnerable groups. Cybercrime threats and inadequate information technology systems can lead to errors in fees and charges, put the personal data of consumers and investors at risk, and also threaten the reliability of essential financial services.

It is increasingly important that firms have the ability to oversee and manage the risks associated with technology. While some firms have made good progress in certain areas we continue to be concerned by the arrangements that firms have in place to adequately oversee information technology and cybersecurity risks. It is the responsibility of the boards and leadership teams to ensure that information technology and cybersecurity is embedded correctly in their firm.

Firms have failed to keep pace with the investment in technology. The impact on consumers ranges from inconvenience and increased vulnerability to outages and fraud.

"I think online banking is actually more secure than holding on to cash...if someone takes your wallet it's gone but there are so many passwords and security levels to get at your money online or on your phone"

Source: Central Bank Consumer Research-Digitalisation

What we expect firms to do

We expect firms to:

- Have a comprehensive, documented, information technology and cybersecurity strategy that is approved by the board, aligned with the overall business strategy, and supported by sufficient resources to enable firms to achieve sufficient resilience and protection.
- Ensure that there is a well-defined and comprehensive information technology and cybersecurity risk management framework in place to identify and manage the different threats that firms are exposed to, recognising that these IT risks are continuously increasing and that cybersecurity models are the subject of increasing maturity and continuous improvement.
- Prioritise the development of a strong organisational culture of cybersecurity at board and senior leadership level to support the effective identification, monitoring, reporting and mitigation of cyber risks.
- Have a documented cybersecurity incident response and recovery plans in-place that provide a roadmap for the actions the firm will take during and after a security incident including communication with relevant external stakeholders such as consumers and the Central Bank.
- Have adequate safety nets in place to protect consumer and investor information, ensure that information is used to get the best outcome for all stakeholders, and not to use any advantage provided by the information to the detriment of consumers and investors.
- When incidents occur that impact on consumers and investors, firms must ensure that consumers are treated fairly and put back in the position they would have been in had the incident not occurred.

Mis-selling & inadequate suitability assessment

Firms must design and sell products that are suitable to customers' needs.

Financial products and services are a necessary part of all of our daily lives and can bring significant benefits. But where the right product is not sold to the right consumer or investor in the right way, serious risks and harm can result.

Firms must therefore ensure that they design, market, and sell products in a responsible way, ensuring the customers' individual needs are central to decisions. Firms must also ensure they are capable of delivering the products that they promise.

> Products that were previously considered suitable for sale to consumers and investors may no longer be suitable in the current climate.

The Central Bank remains concerned by the continuing practice of cross-selling. Cross-selling includes where a financial product is sold together with another product. The consumers who use these products might be doing so out of necessity, and so may not have a choice to turn down the add-on products.

While convenient, the selling of add-on insurance at a point-of-sale prevents consumers from engaging in thoughtful decision-making and causes emotional and situational factors to play a greater role in consumer choices. Previous Central Bank research has found that consumers often agree to add-on insurance at the point of sale due to emotional and situational factors and examples of this include car hire excess insurance.

We are also concerned in relation to the potential for mis-selling of products incorrectly labelled as "green" or "sustainable". As the demand for sustainable products increase, so too does the potential for "greenwashing" or the mis-selling of financial products that do not meet basic environmental standards but are described as having an environmental focus.

Given there may be a heightened risk of poor consumer and investor outcomes during the COVID-19 pandemic we also remind firms that they must ensure sales staff are not inappropriately incentivised to meet targets that may result in unsuitable sales to consumers.

What we expect firms to do

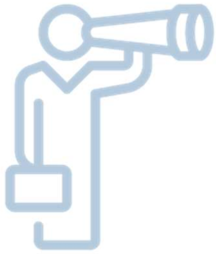
We expect firms to:

- Design, market, and sell products in a responsible way, ensuring that consumers' individual needs are central to decisions.
- Ensure that they only design and bring to market products with features, charges, and risks that meet the needs of the individual consumers and investors identified for the product.
- Ensure that they have sufficient information on the needs and objectives of the consumer and investor, their personal circumstances, financial situation and their attitude to risk.
- Comply with the Consumer Protection Code requirements to assess the suitability of their products and services to each individual consumer and investor.
- Be clear on the reasons why a product or service is being offered to a consumer and why it is suitable to that consumer or investor.
- Ensure that consumer information is used appropriately in any sales context, in particular where products or services are cross-sold to consumers and investors. Monitor and review on an on-going basis the products brought to market to ensure that the needs of consumers and investors continue to be taken into account.

Consumer Protection Priorities 2021

Our work priorities are informed by our sectoral risk analysis along with our assessment, in any given year, of where our interventions have the greatest potential to minimise risks and ensure better outcomes for consumers and investors.

Deliver intrusive risk-based supervision



Our focus is to ensure that financial firms and markets operate and are run in a way that achieves resilience that the system and firms within it are trustworthy and operate fairly, to high standards and in the interests of consumers and investors.

Using intrusive, risk-based supervision based on our supervisory strategies, the Central Bank seeks to ensure that legacy issues such as distressed debt are addressed, that emerging risks and issues are identified and mitigated, that resilience is maintained and enhanced in the financial system and ultimately that fair outcomes for consumers and investors are achieved.

We will continue to focus on ensuring that there is appropriate support for borrowers in or facing financial distress and that lenders treat them fairly through consistent processes and in line with relevant codes and regulations.

The issues of resilience and culture are significant features in our ongoing supervisory strategy. The Central Bank continues to look at how firms are responding to significant technological change including being resilient to information technology and cyber risks. The culture and organisational health of firms underpins these issues and is key to firms achieving a move towards having consumers' best interest as a focus.

We will work to ensure that firms and markets continue to support households and businesses through the economic disruption caused by COVID-19 and operate in the best interests of the wider economy. We will continue our work to increase the financial and operational resilience of the Irish financial system, along with progressing the resolution of business interruption insurance issues.

Resilience and customer fairness arising out of COVID-19 are significant features in our ongoing supervisory strategy

In 2021, we will:

- Implement firm-specific supervision for those regulated firms that have the greatest potential impact on consumers and investors and structurally and systematically assess how these firms manage and mitigate the risks they pose to consumers and investors.
- Complete our review of differential pricing practices in the Irish private car and home insurance markets.
- Undertake a thematic review on the use of telematics in the insurance industry and commence a review of how the ongoing suitability of long term life-assurance products is monitored.
- Progress resolution of business interruption insurance issues arising from COVID-19 by ensuring firms adopt a customer-focused approach and taking into account relevant court judgments.
- Continue market monitoring of complex products offered to retail clients and complete a review of safeguarding of user funds arrangements across the payment services and electronic money institution sectors.
- Implement an enhanced risk-based sectoral supervisory strategy for the retail intermediaries sector with a focus on reporting obligations, key risk indicators and known conduct issues.

Fact Box

What is the Differential Pricing Review?

Differential pricing is the practice of charging consumers with a similar risk and cost of service, different premiums for reasons other than risk and cost of service. Due to the potential risk to consumers arising from this practice, the Central Bank launched a review of differential pricing in the private car and home insurance markets in 2020.

This review aims to:

- Establish the impact of differential pricing on consumers.
- Assess the extent to which these pricing practices lead to outcomes consistent with the Consumer Protection Code.
- Identify the drivers of consumer behaviours including how consumers engage with the insurance industry.
- Assess the governance and oversight of differential pricing.

The Review is being conducted in three phases:

- Phase 1: Market Analysis.
- Phase 2: Quantitative Analysis and Consumer Insights.
- Phase 3: Conclusions and Recommendations.

Following the market analysis work, the Central Bank issued a Dear CEO letter to the insurance sector in September 2020. The Dear CEO letter set out initial observations, next steps and requirements in relation to identified weaknesses regarding governance, culture, conduct and consideration of consumer impact.

The Central Bank published an interim report in December 2020, which outlined further observations from the market analysis, including detailed data analysis and consumer led research. These observations, along with those outlined in the Dear CEO letter, will inform the Central Bank's remaining work. Once concluded, the Central Bank will publish a report and/or a consultation on proposals for reform, as appropriate, in 2021.

Case study

Case study: retail investors at risk when trading in volatile markets

The COVID-19 outbreak has resulted in greater market ‘volatility’ or uncertainty – this can mean significant losses for retail clients. Typically, investments are long term products, and short term investments can perform poorly—in good times and bad—even in relatively stable, less volatile market conditions.

To understand developments during the pandemic, the Central Bank collected a sample of data from MiFID investment firms relating to retail client activity during the period December 2019 to April 2020. Firms included in the analysis accounted for 81% of the total retail clients in the sector as of 31 December 2019. The analysis showed that during the period of significant market volatility in the early weeks of the pandemic:

- The average number of retail accounts opened increased by 116% compared to January 2020.
- The average number of daily trades increased significantly by 171%

All firms reported an increase in the percentage of retail clients losing money in the period, compared to both January 2020 and December 2019.

With increased participation of retail investors in stock markets, retail investors are cautioned to be careful when taking investment decisions particularly during periods of increased volatility.

Firms are required to monitor and evaluate the products they sell and to take into account changes to their investor’s risk profile as a result of COVID-19. Products that may have been considered suitable for sale to investors previously, may no longer be suitable in the current climate.

Enhance the consumer protection framework

The Central Bank actively works to improve consumers' trust in financial services by strengthening the rules governing those services.

We will continue our work in 2021 to substantially update the Consumer Protection Code to address emerging trends and risks across the rapidly changing financial services landscape and to ensure that it continues to deliver strong protections for consumers and investors into the future. We will consider the impacts of technology and digitalisation on financial services, and how consumer protections should evolve in this regard. Our proposals will seek to ensure information made available to consumers and investors is as clear and useful as possible, both in terms of content and delivery. We will develop further requirements on how firms can better ensure vulnerability among consumers and investors is recognised and catered for. We expect to consult publicly on our proposals in 2021.

In 2021 we will consult with the public on our substantial review of the Consumer Protection Code

Given the impact of the COVID-19 pandemic and the associated risk of increased levels of financial difficulties, the Central Bank commenced a targeted review of the standard financial statement ('SFS') in late 2020. The aim of this review is to identify enhancements to the SFS document, and the supports in place for borrowers in completing the SFS, while still ensuring that the SFS continues to fulfil its primary purpose of providing a comprehensive basis for a regulated entity to undertake an assessment of the borrower's individual circumstances. The proposed enhancements to the SFS and associated supports will benefit not only borrowers who have been directly impacted by the COVID-19 pandemic, but also borrowers who may experience financial difficulties into the future.

Minimum Competency standards are a key component of our consumer protection framework and apply to those providing advice on or arranging or offering to arrange retail financial products for consumers and investors. While credit unions are already required to comply with these minimum competency standards when they act as an intermediary, it is now proposed to extend these competency standards to core credit union activities, such as lending and term deposits, in order to ensure the same level of protection is in place for consumers regardless of the type of entity they are dealing with.

In 2021, we will:

- Continue our substantial review of the Consumer Protection Code. We will publish a public consultation in 2021 seeking views and evidence to inform this review.
- Complete a targeted review of the Standard Financial Statement under the Code of Conduct on Mortgage Arrears, working to introduce changes to make it more user friendly for borrowers.
- Develop proposals to extend minimum competency rules to the core business of credit unions.

Drive firms to embed effective consumer-focused cultures

The COVID-19 pandemic presents a practical test of the steps taken by firms to embed a consumer-focused culture. It is also an opportunity for firms to identify what actions taken so far have been effective and where changes are required.

The Central Bank continues to supervise and challenge firms on how their behavioural and cultural change programmes are positively impacting the delivery of products and services to customers. We continue to require boards and the leadership teams of firms to take responsibility and accountability for embedding effective behaviour and culture in their businesses and their practices.

It has never been more important for firms to demonstrate and embed a consumer-focused culture.

The Central Bank is working with the Department of Finance on the development of the proposed Individual Accountability Framework, the objective of which is to achieve better outcomes for consumers and investors, and to improve the sustainability of the financial system. These additional powers will allow the Central Bank to take enforcement cases where individuals and firms are not meeting expected standards. The proposed Senior Executive Accountability Regime will require firms to set out clearly where responsibility and decision-making lie.

In 2021, we will:

- Retain our focus on behaviour and culture in regulated firms as absence of consumer-focused culture has led to misconduct in the past.
- Challenge boards and leadership teams to demonstrate that their behaviour and culture action plans are delivering the transformation towards a consumer-focused culture.
- Enhance our existing supervisory framework and processes for assessing behaviour and culture in all regulated sectors. Integrating behaviour and culture assessments into our day-to-day supervision will assist in the early identification of poor behavioural indicators and support supervisors in driving firms to take corrective action.
- Build on the recent thematic review of diversity & inclusion in insurance firms. We will continue to place a spotlight on the need for improvement in diversity and inclusion within firms as part our approach to the supervision of culture.

Influence,shape and deliver key policies for regulation

The Central Bank continues to work at domestic, European and international level to strengthen regulatory and supervisory systems.

A key element of our role is ensuring that the consumer protection regulatory framework is fit for purpose and working for consumers and investors and this will continue to remain a priority in 2021.

At a domestic level, we will continue to provide advice and technical support to domestic policy makers on proposed changes to the legislative framework, in particular, in relation to introducing an authorisation and regulatory regime for hire purchase/PCP providers. We will continue to advocate for and support system wide improvement and initiatives designed to enhance the broader regulatory framework protecting consumers and investors (e.g. distressed debt, financial education and awareness).

In addition, we are working with the Department of Finance to introduce an Individual Accountability Framework which aims to make firms and senior people working within them accountable for living up to certain standards. These proposals aim to make the responsibilities of individuals clear, demonstrate transparency regarding decision-making and to set out the expected standards for their conduct.

The influence of EU legislation on the shaping of the regulatory framework continues, with work now commencing on the review of a number of key European Directives[1] as well as the development of a new EU Directive on Credit Servicing. We will continue to support the review and development of policy initiatives within the European Supervisory Authority committees and related sub-groups with a particular focus on:

[1] For example, MiFID II, Mortgage Credit Directive, Consumer Credit Directive and Insurance Distribution Directive.

- Packaged retail investment and insurance products Regulation (PRIIPs) and inputting into the upcoming review of that Regulation;
- Disclosure requirements for consumers under the Sustainable Finance Disclosure Regulation and the Taxonomy Regulation;
- Impact of the EU Digital Finance Strategy, the Market in Crypto Assets (MICA) Regulation and the Digital Operational Resilience Act (DORA) on consumers; and
- Other elements of the Capital Markets Union agenda, particularly proposals seeking to enhance and promote financial education.

Furthermore, the Central Bank is actively involved in work with European Insurance and Occupational Pensions Authority, the Sustainable Insurance Forum, and the Network for Greening the Financial system to address issues relating to climate change and the shift to a more sustainable, low carbon economy. We are in the process of establishing a centralised climate change unit to coordinate this important work across the organisation – something which reflects the importance the Central Bank is placing on its role in relation to climate risk and the financing of a sustainable economy.

This new climate change unit further reflects the importance the Central Bank is placing on its role in relation to climate risk and the financing of a sustainable economy.

We see the implementation of financial regulation adapting to reflect climate change issues and the move to a sustainable economy and financial sector as a key part of our mandate to ensure that the financial system operates in the best interests of consumers and investors and the wider economy.

Ensure the fair treatment of borrowers in financial distress

A key priority for us is to ensure that firms put in place suitable supports to help borrowers affected by income shocks. We will also seek to ensure that firms treat borrowers in financial distress fairly and sympathetically both during and after the COVID-19 pandemic.

As a result of the COVID-19 pandemic, many borrowers fell into financial difficulty and could not afford to keep their loan payments up to date. We worked extensively with the financial services industry across the banking, credit union, retail credit, and credit servicing sectors to facilitate their introduction of three-month COVID-19 payment breaks in March 2020, which were extended to six months in April 2020.

> The protection of borrowers in arrears will remain a key priority for the Central Bank in 2021.

These COVID-19 payment breaks applied to all sectors and provided substantial and immediate support in the first stages of the pandemic. At the peak in June 2020, financial services firms had approved almost 159,000 payment breaks for Irish borrowers.

While the majority of borrowers who availed of the payment break have since returned to full repayment, a minority of borrowers still require further support – and we have worked to ensure that regulated firms are prepared to transition from system-wide payment breaks to case-by-case assessments to support those borrowers who could not return to full repayment.

We have made clear that we expect lenders to engage constructively and sympathetically with borrowers in financial distress to ensure that appropriate and tailored solutions to borrower’s circumstances are put in place. We expect all lenders to have suitable strategies, the necessary financial and operational resources, and a range of appropriate sustainable solutions to support borrowers in financial difficulties whether the difficulties arose before, or as a result of, the COVID-19 pandemic.

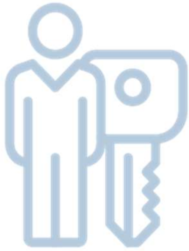
> At the peak in June 2020 there were 159,000 payment breaks for Irish borrowers.

Distressed debt will remain a key priority for the Central Bank in 2021 and we will continue to work with a wide range of organisations involved in supporting households and business borrowers. We are listening closely to borrower representatives to ensure that our supervisory and policy responses to distressed debt continues to evolve.

In 2021, we will:

- Continue to treat distressed debt as a key priority with a focus on the protection of borrowers in arrears.
- Rigorously challenge remaining credit servicing firms seeking authorisation and the individuals holding senior positions in these firms to demonstrate that they meet the required standards. In particular, we will focus on the robustness of their strategies to support the fair treatment of borrowers in arrears.
- Complete a targeted review of the Standard Financial Statement (SFS) under the Code of Conduct on Mortgage Arrears, seeking to introduce changes to make it more user friendly for borrowers.
- Work with the wider State consumer protection framework in seeking to ensure the wider system facilitates as many borrowers as possible to return to repaying their debt.

Enhance our gatekeeping process



Authorisation remains an important part of how we regulate financial services providers and work to protect consumers and investors. Through this process we ensure that only firms that meet the standards required by European and domestic legislation, and our own Central Bank's rules, can provide financial products and services to consumers and investors.

The granting of any new authorisation is a key element of the Central Bank's gatekeeper function to permit or refuse an applicant to provide financial services to the public. We will continue to act as a robust gatekeeper in 2021 by rigorously assessing applications from firms that wish to provide financial services in Ireland. We will operate a clear, straightforward and robust process for applicants seeking authorisation. We will also continue to be fully transparent in our reporting of performance against authorisation service standards.

> Only people who are fit and proper may occupy senior roles at the financial firms we regulate and supervise.

Our Fitness & Probity (F&P) regime is a key part of our gatekeeping process and protects consumers and investors by requiring that persons in senior functions within regulated firms meet the Central Bank standards. Under the F&P Standards, people in senior positions are required to be competent and capable, to be honest, ethical and act with integrity, and to be financially sound.

In July 2020, we introduced an enhanced risk-based approach to the retail intermediaries' authorisation process with targeted pre-approval controlled function interviews performed as part of that new approach. We will continue to evolve our approaches in 2021 to further enhance and streamline processes supporting applicant firms.

We stress that it is a criminal offence for a firm to sell financial products or services without the necessary authorisation and we will take the appropriate action against such firms if they continue to conduct business in Ireland.

We take a tough line on unauthorised providers because consumers and investors who deal with a firm that has failed to secure the required authorisation may not be able to avail of valuable statutory protections, such as the Irish deposit protection, insurance compensation and investor compensation schemes, or have access to the Financial Services and Pensions Ombudsman.

It is a criminal offence for a firm to sell financial products or services without the necessary authorisation.

In 2021, we will:

- Continue to act as a robust gatekeeper by rigorously assessing applications from firms seeking to provide financial services in Ireland.
- Continue to act as gatekeeper to certain senior roles called pre-approval controlled functions and robustly assessing the fitness and probity of the individuals proposed for these roles.
- Introduce new frameworks to allow the authorisation of crowdfunding service providers and subject to legislation, the authorisation of retail credit firms that wish to engage in hire purchase and personal contract plan (PCP) finance activity.
- Evolve our approach to gatekeeping to further enhance and streamline the process for applicant firms.

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