

# Dealing with Consumer Protection in 2021

*Your Partner For What's Next*

Renewed regulatory, government and media scrutiny of the conduct of financial services firms is bringing consumer protection issues and challenges to the forefront. The consumer protection landscape is evolving rapidly. Changes are being driven by the COVID-19 pandemic and increased digitalisation, coupled with specific focus on some areas such as differential pricing and vulnerable customers. Firms need to demonstrate their readiness to respond with efficiency and agility to existing and emerging risks.

*"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."*

– Gráinne McEvoy, Consumer Protection Outlook 2021.

## Background to the Consumer Protection Outlook Report

The Central Bank of Ireland (hereinafter "CBI") released its 2021 Consumer Protection Outlook Report in March. The report details the main risks facing firms across all financial sectors, with the CBI setting expectations that firms examine **each risk** and take all the appropriate actions to **protect against potential consumer and investor harm**. The report identifies the following cross-sectoral risks:

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

The CBI establishes six key priorities to ensure that firms mitigate risks faced by consumers and investors, however the report also highlights the importance of flexibility and responsiveness to unknown risks such as those that emerged as part of the COVID-19 pandemic. The six areas the CBI prioritised are to:

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

## Key Considerations for Firms

Based on our analysis, we have identified six key considerations that firms should take into account when carrying out assessments against each cross-sectoral risk. However, firms should note that the CBI expects them to exceed consumer protection obligations under law and be proactive and meticulous in protecting consumers and investors.

- **Culture:** It is important to embed a **consumer-centric culture** at all levels of the firm, with consumer interests considered when designing, marketing and pricing products. Firms should be proactive in ensuring that consumers are treated fairly, with procedures in place to regularly track and monitor how the firms' decisions impact consumers. This will become increasingly important with the introduction of the of the Individual Accountability Framework, the progression of which is a priority for the CBI in 2021.
- **Robust oversight:** Firms must put robust compliance and risk management measures in place. They should have **strong internal governance arrangements** over their control environment and **oversight of algorithms**, ensuring transparency, accuracy and robustness. Measures should be in place to protect consumer and investor information and not to unfairly use any information to the detriment of consumers and investors.



- **Transparency:** Firms must provide **clear information in a timely manner** to consumers and investors across all engagement channels. The key information must be disclosed up front, with emphasis on the reasons why a product or service is being offered to a consumer or investor and what costs will be borne by them. Firms must provide information that is not overly complex and have processes in place to allow consumers or investors to easily switch products or services.
- **Assistance and suitability:** Firms should provide consumers and investors with the assistance necessary to make well-informed decisions. Firms should ensure **suitability** throughout the consumer lifecycle, including at the product design stage, with particular care taken to identify and manage relationships when engaging with a **vulnerable customer**. Firms should support consumers and investors in making good financial decisions and to benefit from innovations in technology and green products.
- **Digitalisation:** Increasingly consumers and investors are completing their **end-to-end journey online**, this trend has been heightened by the COVID-19 pandemic where online shopping has increased. While ease and efficiency has been a benefit to some, risks arising from IT system inadequacies and cyber threats can span across all service offerings resulting in consumer and investor harm.
- **Vulnerability:** Related to the assistance, suitability and digitalisation points above, **firms must ensure that vulnerable customers are not excluded** from financial services and that all decision-making processes consider the impact on this group. Trends towards fewer branches / offices, reductions in cash services and a focus on smartphone apps disproportionately impact vulnerable and digitally disadvantaged segments and, in turn, increase the risk of these customers being excluded from basic financial services.

## Consumer Protection Priorities – Are You Ready?

The CBI identified its key priorities for the coming year, intervening in areas where it will have the greatest impact to ensure better outcomes for consumers and investors.

Firms need to consider whether they are in a position to appropriately **respond** should potential or actual consumer or investor harm occur and how their approach would fare if presented with regulator, governmental or media scrutiny. In light of these priorities, firms should consider some of the following questions to assess their readiness:

### ■ Deliver intrusive risk-based supervision:

- The differential pricing review in the car and home insurance industry is ongoing and is a long-standing industry issue. **Are you confident that your treatment strategy for new and existing business delivers retail customers value for money?**
- The conclusion of legal action in the insurance space is expected to lead to wider benefit for a number of customer segments, with the regulator expecting urgent remedial action where necessary. **How long would it take your firm to assess and pay a large volume of claims?**

### ■ Enhance the consumer protection framework:

- The CBI will continue to enhance the consumer protection framework by continuing to review the Consumer Protection Code and contributing to the review of European Union Directives. Do you have a process in place for implementing regulatory changes e.g. changes to the Consumer Credit Directive and Distance Marketing of Financial Services Directive? **Can you demonstrate how you ensure customers are assessed for suitability after the point of sale?**
- With the impact of COVID-19-related supports continuing to unfold and eventual phasing out of such supports to deliver longer term solutions, how does your standard financial statement and the associated process provide a basis for **comprehensively assessing a borrower's financial situation?** Is this process sufficiently flexible to allow for timely implementation of updates?



■ **Drive firms to embed effective consumer-focused cultures:**

- A customer-centric approach is required in all phases of the product lifecycle to ensure good customer outcomes. Can you demonstrate that a customer-focused culture pervades your firm structure? **Do you have processes in place to ensure that the customer is considered in designing, marketing and pricing products?**
- Diversity and inclusion are of increasing focus as important indicators of positive behavioural and cultural change. **How would your firm perform if a diversity and inclusion assessment was performed at board level?**

■ **Influence, shape and deliver key policies for regulation:**

- The introduction of the Individual Accountability Framework will progress in 2021. This will achieve better customer outcomes and improve the sustainability of the financial system. **Can you demonstrate where responsibility and decision-making lie?** Can you highlight how customer impacts were considered as part of all significant decisions?
- The financial services sector has a key role to play in supporting a sustainable economy into the future. **How do you consider climate risk in your products, services and policies?**

■ **Ensure the fair treatment of borrowers in financial distress:**

- The CBI will continue to focus on consumers in financial distress and their treatment in line with relevant codes and regulations. **How does your approach to borrowers in financial distress demonstrate a fair consumer outcomes?**
- Regulated firms will be challenged on their approach to longer-term financial difficulty cases. Can you demonstrate sustainable, **good outcomes for borrowers who have been in arrears for a number of years?**












■ **Enhance our gatekeeping process:**

- Hire Purchase / Personal Contract Plan finance activities are soon to be subject to regulation. **Would those responsible for management of these products in your firm be reasonably expected to meet competency requirements?**



## How can KPMG help?

KPMG's Consulting experts in the conduct, regulatory and financial services sectors have unparalleled experience assisting financial institutions with conduct risk reviews and regulatory implementations. KPMG provide regulatory advice, proposition design and programme support services across the financial services sector. We have competencies across a number of areas that will assist you in preparing to address the priorities and demonstrating your readiness. A full list of our competency areas is contained on our website, <https://home.kpmg/ie/en/home/services/consulting/risk-consulting.html>. Examples of where our team of experts within each competency can assist with each CBI Priority are as follows:

CBI Priority	KPMG Competency Areas						
	Product Assurance	Diversity, Inclusion and Culture	Regulatory Authorisation	Regulatory Change	Financial and Business Modelling	Remediation Centre of Excellence	Enforcement Strategy and Management
Deliver intrusive risk-based supervision							
Enhance the consumer protection framework							
Drive firms to embed effective consumer-focused cultures							
Influence, shape and deliver key policies for regulation							
Ensure the fair treatment of borrowers in financial distress							
Enhance our gatekeeping process							

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