



Consumer Protection in Financial Services Products



Introduction

In recent years, consumer protection has been at the forefront of both the media and regulatory agenda. The growing dependence on digital products and services has resulted in customers being offered a wider range of solutions, which increases competition and drives prices down, however this new environment has proven riskier and more complex. It is more important than ever to proactively embed consumer protection into all aspects of a firm's activities, although customers demand a new way of conducting business. Poor consumer outcomes may arise when product oversight and governance requirements are not captured as part of the product design and review, due to the rush to innovate. KPMG reflects here on the crucial need for firms to strategically align consumer protection to their product offering.

The Central Bank of Ireland works to ensure that the financial system operates in the best interests of consumers and the wider economy. This requires that consumers are treated fairly and that the financial system is safe and resilient for the future, recognising that we rely on financial services in our daily lives and to provide for our future needs."

- Colm Kincaid,
Director of Consumer Protection, CBI.



Consumer Protection – Key Themes

The following are five key themes in consumer protection which firms must consider:

1. Suitability

Products designed for consumers should have terms and conditions and features that meet their requirements and be priced fairly. Firms must not only explain what a product does but also why it meets the needs of a specific consumer. In doing so, firms must ensure that consumer disclosures and statements of suitability are compliant with legislation. If suitability is not adequately addressed by firms, poor consumer outcomes may occur. Firms should support consumers in making good financial decisions and to benefit from innovations in technology and sustainable financial services products.

Key considerations for firms:

- Do you have effective controls in place to ensure that suitability requirements are considered for each customer?
- Does your suitability statement meet regulatory requirements?
- How have you adapted the customer journey when assessing suitability in digital channels?
- Does your assessment of suitability consider a consumer's sustainability requirements?
- Do you have management information ("MI") to report on your firm's adherence to suitability requirements?

2. Transparency

Firms must ensure consumers can make fully informed decisions by providing details regarding products in a clear, timely manner. Furthermore, it is critical that consumers are supported where products are sold and serviced online. This ranges from ensuring that information is displayed appropriately depending on the medium, for example that font size on smart phones

is legible, to ensuring that the risks associated with a financial services product are sufficiently highlighted to consumers online. The growing worldwide focus on sustainability must also be considered when ensuring transparent disclosures are provided to consumers. Firms must not present products as more environmentally friendly than they are, a practice known as “greenwashing”.

Key considerations for firms:

- Do you provide clear information in a timely manner to your consumers?
- Have you adapted your processes to ensure that the information requirements of vulnerable customers are met?
- Do you clearly outline the exclusions of your products to consumers, as well as the features and benefits?

3. Product Complexity

Financial innovation, a growing variety of providers and access to “non-traditional” online financial services often results in cost saving benefits for firms and increased convenience for consumers and firms. Conversely, progressively complex products which may be unsuitable to a consumer’s needs and are difficult to understand are becoming increasingly common. Firms can reduce the operational costs of servicing their products, meet changing customer demands and help drive sustainable growth by engaging in Product Simplification. A simplified product suite is easier to control and allows customers to more easily compare products to find one best suited to their needs. The process will allow firms to position and launch innovative products which are aligned with consumer interests, emerging trends and regulatory priorities.

Key considerations for firms:

- Do you have a clearly defined target market for each of your products?
- Do you have multiple products with the same / similar features which overlap and result in high servicing costs?
- Do you regularly review your product suite to ensure it is fit for purpose and serving the target market?

4. Accessibility

As firms continue to innovate in their product offering, vulnerable consumers must not be overlooked. Firms should consider how vulnerable customers will interact with new products / services, identifying and mitigating potential pain points throughout the customer journey. This comes into sharp focus with the trend towards digitalisation and fewer branches / offices, where digitally disadvantaged customers may lag behind. While the increased use of technology during the sales process provides cost savings to firms and greater efficiency to some customers, those who require in-person engagement with firms must be considered and appropriate processes put in place.

Key considerations for firms:

- Do you consider vulnerable customers in product and process design?
- Do you consider the impact that changes to your business model may have on your entire customer base?
- Do you provide the necessary assistance to vulnerable customers to ensure that they are not excluded from financial services?

5. Oversight

Ongoing monitoring and assessment of your product suite and the end-to-end customer journeys is essential in ensuring that good customer outcomes are achieved. Firms must proactively identify risks to consumers, including vulnerable segments, and rectify any errors identified in a timely and transparent manner. Firms should continuously monitor the ongoing functionality and suitability of their products and equip themselves with robust governance and oversight to support this. This includes the use of strong MI, which is critical in evidencing the monitoring of activities and identifying areas for improvement. Finally, delegation and outsourcing arrangements are accompanied by a number of risks which firms must take into account and manage effectively. Firms must be able to prove they have an effective third-party management process to proactively identify and manage these risks.

Key considerations for firms:

- Have you established an approach for monitoring products to mitigate risks and proactively identify errors?
- Do you have defined Key Performance Indicators to identify if your products are operating as intended?
- Does your Senior Management Team and Board receive regular updates on consumer protection priorities?



How can KPMG help?

KPMG aims to provide firms with a comprehensive understanding of the challenges surrounding products and their underlying control environment, introducing automation and preventative controls during the product lifecycle. We will help your firm by establishing a clear plan that will ensure that the right decisions are made regarding your products, that consumer protection is central in your decision making and that the appropriate product oversight and governance requirements are maintained.

1. We understand how consumer-centric firms will look in the future, informed by our extensive experience of leading remediations and unique, in-depth financial products experience.
2. KPMG has worked with multiple firms to develop their consumer protection approach throughout different stages of the product lifecycle. Our knowledge and understanding are based on a first-hand experience of working with industry peers and Regulators on their assurance programmes.
3. KPMG have designed a bespoke product assurance methodology to arm firms with tools and techniques to control its product set and align with the evolving and

expanding Product Governance and client protection expectations. We will use our specially designed data-led risk assessment framework to assist in managing consumer protection risk, using quantitative data which is overlaid with qualitative key performance indicators.

4. We understand how consumer-centric firms will look in the future. This is reflected in our Compliance by Design key considerations and benefits, which incorporate the role of assurance with a consumer-first approach.
5. KPMG can provide you with a step-by-step Product Simplification process that identifies, measures and realises benefits with a consumer, regulatory and operational lens.
6. We will provide a core team that you can trust, with a track record of delivery and extensive experience of consumer focussed operating models. Our team has the right skills to mobilise quickly and efficiently, to ensure smooth and effective delivery of the project. We bring a distinctive variety of skills from product subject matter expert knowledge, conduct and risk expertise to data analytics and applied intelligence.

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