



Dear CEO Letter: Protecting Consumers in a Changing Economic Landscape

January 2023





On 17 November 2022, the Central Bank of Ireland (“CBI”) issued a [Dear CEO Letter](#) to all regulated financial service providers (“Firms”). The purpose of the Dear CEO letter was to draw attention to the key risks previously identified in the CBI Consumer Protection Outlook Report of March 2022 and to emphasise the importance to Firms of meeting its expectations in light of the more challenging economic outlook.

The CBI emphasised that these themes should be incorporated into Firms’ work programmes and for senior management / Board’s active consideration, and advised Firms that consideration given to the Dear CEO letter may be taken into account during the exercise of its supervisory and enforcement powers.

The CBI highlighted the need for RFSPs to pay attention to the following four key areas in particular:

1. Affordability and suitability;
2. Provision of relevant, clear and timely information;
3. Effective operational capacity; and
4. Sales and product governance.

1. Affordability and suitability

- Where Firms provide or advise on credit, they need to ensure that the **credit obligations are affordable for consumers in light of the economic outlook**. For example, regarding mortgages, Firms are obliged to assess the affordability of a 2% interest rate increase above the interest rate offered to consumers.
- Before selling a financial product or during the lifecycle of a financial product, Firms need to **consider the impact of the current economic outlook on a consumer’s individual circumstances**. Firms must also identify and offer additional support to vulnerable consumers, which can include those experiencing financial difficulty.
- Firms are expected to **consider consumers’ long and short-term needs with respect to providing advice on savings and investments**. Firms should also have a procedure in place to assess a consumer’s ability to absorb any potential losses they may incur and to ensure they invest within their financial capacity.
- Firms must **explain clearly the impact of inflation on the performance, value and nominal returns of an investment**.

2. Provision of relevant, clear and timely information

- Firms were reminded that **details on their websites, business premises, and other publicly available material should contain sufficient detail** in order to allow consumers to make **informed decisions** on changing their financial products for more affordable options and shopping around for better value. Firms should also provide consumers with information on what supports are available to consumers who are experiencing financial difficulty.
- Changes to the **terms and conditions of a financial service** which impact on cost should be **explained clearly** to the consumer and to intermediaries who sell or advise on their products.
- For Firms who produce financial products, the CBI reiterated the need for **clear, accurate, up to date and non-misleading information** on the backdrop of the current economic outlook.
- Firms should **use their existing consumer data to identify groups of consumers** that may benefit from early engagement and then carry out early and appropriate engagement campaigns with these consumers.

Key Considerations for Firms

- **Vulnerable Customers**
Firms must ensure that impacts on vulnerable customers are considered in all decision-making processes.
Can you demonstrate how you identify and manage 'vulnerable' customers when deciding on products and services?
- **Customer Centric**
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 thrives at your firm?

- **Culture**
Firms must ensure employees have all knowledge of products they sell to ensure best outcome is attained for the customer.
Do you have training facilities available to employees who require further training on services / products?
- **Reporting**
Firms must provide clear information promptly 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.
Are details of your products accurate, up to date and of sufficient detail to allow informed decision making, including after the point of sale?

3. Effective operational capacity

- Firms should **ensure appropriate resources are in place to react to an increase in consumer engagement** e.g. when consumers are in arrears. They should also provide staff with the required training to deal empathetically with consumers who are facing financial difficulties.
- Firms should ensure staff are aware and have **knowledge of the protection and supports available to borrowers** under the various Codes and have sufficient resources to be able to assess and offer appropriate solutions to clients facing financial difficulties.
- Firms need to ensure **that they are operationally resilient** and that an uninterrupted payment system service for consumers is in place.

4. Sales and product governance

- Firms should **ensure appropriate product governance and oversight arrangements** are in place to assess the risks and consumer impacts their commercial decisions may have on new and existing consumers.
- Firms selling insurance products should consider the **impact of rising costs on consumers**. Firms are also expected to support consumers in understanding how any reduced insurance coverage may impact them.
- In the instance where a consumer wishes to cancel or reduce their insurance coverage, Firms are **expected to engage with the consumer to explain the implications and avoid cancellation** of their cover where Firms believe that cover is necessary.
- Firms should assess how the risk profile of the financial products they sell may be impacted by volatile economic conditions and seek to mitigate risks to clients. **Products that may have been, at one time, deemed suitable for retail clients may now not be**. Firms should also consider how factors such as risk-return profile, liquidity, costs and charges, and any 'kick-out' or 'trigger' features may adjust the investment product on offer.

Key Considerations for Firms

- **Operational Resilience**

Firms must ensure that they have the operational capacity and resilience to reduce vulnerabilities in their operations and to mitigate any risk to consumer engagements.

Do you have processes in place to ensure any increase in consumer activity can be operationally absorbed?

- **Suitability**

Firms should ensure suitability throughout the product lifecycle, including at the product design stage, with particular care taken to identify and manage relationships when engaging with a vulnerable customer.

Can you demonstrate how you ensure customers are assessed for suitability, at all stages, including after the point of sale?

- **Product/Customer consideration**

Firms must ensure risks faced by customers are considered throughout the product lifecycle including regular ongoing reviews of the product to ensure it is still fit for the target market.

Do you have processes in place to ensure that the customer is considered throughout the product lifecycle?

As mentioned above, the CEO letter should be read in conjunction with the CBI Consumer Protection Outlook Report of March 2022. The CBI also specifically highlighted and reminded Firms to take specific action for risks that may develop from a changing operational landscape, as follows:

- Firms to **actively identify and address consumer risks** that may potentially emerge from changes in the landscape.
- Firms to ensure **sufficient operational resilience** to manage change to avoid creating change for consumers.
- Firms to **proactively assess the risks and impacts consumer decisions have on new and existing consumers**, develop mitigation action plans for these risks, and ensure customers understand what changes mean for them.
- Firms to ensure **sufficient customer service capacity and structures** to meet anticipated service levels.
- Firms to consider the **consumer impacts of business decisions on vulnerable customers**, provide additional assistance where necessary, and ensure effective processes and communication plans are in place to support vulnerable customers.
- Where designing and marketing products, Firms to ensure **consumer needs are aligned with the features, charges and risks of the product**.

How can KPMG help?

KPMG aims to provide firms with a comprehensive understanding of how to meet the ever-evolving expectations of regulators when it comes to consumer protection. We provide regulatory advice, proposition design and programme support services across the financial services sector and have worked with multiple firms to develop their consumer protection approach throughout different stages of the product lifecycle. Our knowledge and understanding are based on first-hand experience working with industry peers and regulators on their assurance programmes.

Our conduct, regulatory and financial services experts have unparalleled experience in assisting financial services institutions with conduct risk reviews and regulatory implementations.

Examples of how our team of experts can assist include:

1. Conduct Risk

- We have extensive experience of carrying out conduct risk assessments and regulatory implementations in order to ensure that firms are meeting regulatory expectations.
- We can help you in designing, assessing, and embedding the impact of climate change on your risk profile.
- We can help you to implement internal control mechanisms to ensure product suitability at each step of the product lifecycle ensuring that the Board has adequate MI and risk reporting to inform discussion and decision-making.

For further information on KPMG's Conduct Risk services please visit [this link](#).

2. Culture Risk

- In the financial services sector, weak culture has been associated with notable regulatory breaches and incidents of fraud. We have designed a Behaviour and Culture Toolkit, a scientifically validated model to assess culture and behaviours within firms (including peer benchmarking), which can be used to align culture with desired outcomes.

- We can help using our scientific culture model (which has been adopted by the Dutch National Bank), assess the culture and behaviours of an organisation (including benchmarking to peers).
- We can help design a behaviours and culture framework for organisations to allow them to conduct regular reviews and assessments.

3. Product Assurance

- We 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 use our specially designed data-led risk assessment framework to assist in managing consumer protection risk, using quantitative data overlaid with qualitative key performance indicators.
- We can help you in designing and implementing a bespoke product assurance approach to control your product set and align with the evolving and expanding product governance and consumer protection expectations.

For further information on KPMG's Product Services please visit [this link](#).

4. Vulnerable Customers

- We can help ensure that you have an appropriate Vulnerable Customers Framework in place to ensure that you are both identifying vulnerable customers and ensuring good customer outcomes once identified.
- We can help design reporting framework with quantitative and qualitative MI to demonstrate trends as well as characteristics of vulnerability and potential vulnerability.

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Produced by: KPMG’s Creative Services. **Publication Date:** January 2023. (8927)