STANDING GUARD

IN CONVERSATION WITH DERVILLE ROWLAND

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Ireland's financial services regulator's wide remit must constantly adapt to new developments. This interview touches on consumers, change, culture, competition and crypto, along with the imperative to balance innovation and risk.

WE UNDERSTAND THAT A NUMBER OF MATERIAL CHANGES ARE PLANNED FOR THE CPC OVER 2022. COULD YOU SHARE ANY OF THE KEY CHANGES THAT ARE PROPOSED?

One of the legacies of the pandemic is likely to be the acceleration of changes that were already underway in financial services. Our recently published strategy was developed against this background of change and our Consumer Protection Code review proposals will also be framed with this in mind. We are conscious that change at an accelerated pace can lead to new trends and risks emerging, which means it is right that we review and update the existing code now to ensure that it continues to deliver strong protections for consumers and investors into the future. Our objective is to create the regulatory context in which the potential benefits of innovation for consumers, businesses and society can be realised, while the risks are effectively managed.

The review will consider the evolution of the code since it was introduced in 2006. We will reflect on the significant impact of developments in EU consumer protection legislation in this period. Our proposals will take account of the changes we are seeing through the impact of technology and digitalisation on financial services. It will also have a strong focus on other areas where we continue to see issues arising, or where more could potentially be done to better protect consumers. This includes how information is provided to consumers, and considerations about making it as clear and useful as possible, both in terms of content and delivery. We will also set further requirements on how firms can better address vulnerability among consumers and investors.

We are planning extensive engagement around our proposals, which will likely begin with a discussion paper to start a broad discussion on the issues affecting consumers towards mid-year. This will also be a central topic at our first Financial Services Conference which we will hold in the second half of the year.

STICKING TO THE THEME OF CONSUMER CENTRICITY AND FOCUSING ON THE INSURANCE SECTOR, THE IMPACT OF THE FINDINGS FROM THE FINAL REPORT ON THE DIFFERENTIAL PRICING REVIEW ARE SURE TO BE TOP OF MIND FOR MANY INSURANCE COMPANY EXECUTIVES. IN ADDITION TO THE CHANGES PROPOSED IN THE CONSULTATION PAPER, HOW IS THE SUPERVISION OF CUSTOMER OUTCOMES, VALUE FOR MONEY, CULTURE AND PRICING STRATEGIES GOING TO CHANGE IN INSURANCE GOING FORWARD?

The insurance sector has been a key focus of our conduct work in recent years, particularly around the issues of business interruption insurance and differential pricing. Our differential pricing review detailed the widespread practices which took advantage of consumer loyalty and resulted in some consumers being charged more for their policies on renewal. We consulted on a series of new measures to ban this practice, as we believe that these practices are unfair to consumers.

> It is clear from our work that cultural weaknesses [in the insurance sector] continue to persist and more work is needed by firms to address the challenges and reputational issues identified.

We will be introducing new requirements for insurance providers from July this year, which will end these practices. We expect firms to take the necessary measures to adjust their pricing models by the July deadline. The measures will apply to personal consumers of home and private motor insurance because the harm that we have identified is most evident in these areas. It will include insurance cover for personal vehicles such as motorbikes, and campervans; motor products sold to a sole trader, such as a plumber or florist, where they use a van or 'light commercial vehicle'; and home insurance that relates to a holiday home, a buy to let property or a mobile home – as distinct from commercial property.

Given many of the issues we identified through our work on business interruption insurance and differential pricing were grounded in culture and customer outcomes, our work this year will have a particular focus on culture in the insurance sector. It is clear from our work that cultural weaknesses persits and more work is needed to address the challenges and reputational issues identified.

COMPETITION IS A HEALTHY FEATURE OF A CUSTOMER-FRIENDLY FINANCIAL SERVICES ECONOMY – HOW WILL THE CBI MONITOR THE CONSUMER ISSUES POTENTIALLY EMANATING FROM THE LOSS OF TWO LARGE RETAIL BANKS FROM THE IRISH ECOSYSTEM?

The changes and consolidation underway in the banking environment are challenging for consumers. We are particularly conscious that an increasingly concentrated traditional banking sector reduces choice for consumers. However we are also seeing an evolution in how banking and financial services are being delivered and we expect to see new services and providers emerge over the coming years.

Through this period of change, we have set clear expectations of the retail banks, in how they are preparing, engaging and ensuring that their customers are being treated fairly, in compliance with both the letter and spirit of regulatory requirements.

In June 2021, the Central Bank wrote to the main retail banks in Ireland to set out our expectations and the importance of considering consumers' interests in decision-making during this period. We will be closely monitoring banks' compliance with our expectations through ongoing supervisory engagement and review, as demonstrated in our recent review of the **retail banks' customer support phone lines**.

ARE THERE LONG-TERM CONDUCT RISK ISSUES LIKELY TO EMERGE OVER THE COMING YEAR FROM FINANCIAL SERVICES FIRMS' TREATMENT OF THE CUSTOMER DURING THE COVID-19 PANDEMIC? DO YOU BELIEVE NEW CATEGORIES OF VULNERABLE CUSTOMERS WILL REMAIN, IN THE POST-PANDEMIC WORLD?

In recent years we have acted on a number of emerging risks notably in the banking and insurance sectors, to address specific vulnerabilities which arose for consumers. The rapidly changing financial environment means that new threats are emerging. We have seen evidence of this in the increased risk of exposure to scams and fraud, with evidence that certain crimes are specifically targeting vulnerable people. In our work on differential pricing, we saw the potential for advances in data analysis, digital technology and modelling techniques to take advantage of behavioural vulnerability, increasing the risk of unfair outcomes for some consumers.

Our annual assessments of the key cross-sectoral risks for consumers consistently highlight issues around unfair practices and behavioural vulnerability. It will be a central issue for consideration in our review of the Consumer Protection Code, which will consider further requirements on how firms can better address vulnerability among consumers. We expect firms to take action to prevent unfair practices that knowingly take advantage of consumers' behaviours and habits. They must avoid behaviour and practices that unfairly take advantage of consumers' behavioural biases, and operate in a fair and transparent manner. This includes having an effective and consumer-focused culture in relation to pricing decisions and practices; supporting consumers and investors in making good financial decisions and providing choice; and having strong internal governance arrangements focused on ensuring transparency, accuracy, and robustness.

HOW IS THE CBI PREPARING ITSELF FOR THE UPCOMING REGULATION OF CRYPTO-ASSET PROVIDERS IN 2024?

The Markets in Crypto Assets (MiCA) proposal from the European Commission is intended to address the risks to consumer protection and market integrity from crypto assets along with specific risks to financial stability and monetary policy. We are continuing to build our engagement and knowledge of this sector, in particular through the authorisation process for Virtual Asset Service Providers (VASPs). We have seen significant interest from VASPs in seeking authorisation from the Central Bank, in line with AML requirements, which suggests that interest from Crypto Asset Service Providers (CASPs) under MiCA will be high.

MiCA will introduce a range of additional regulatory and supervisory roles and responsibilities for the Central Bank including authorising and supervising CASPs, issuers of Asset Referenced Tokens (ARTs, previously known as multi-currency stablecoins) and E-Money Tokens (EMTs, previously known as single currency stablecoins).

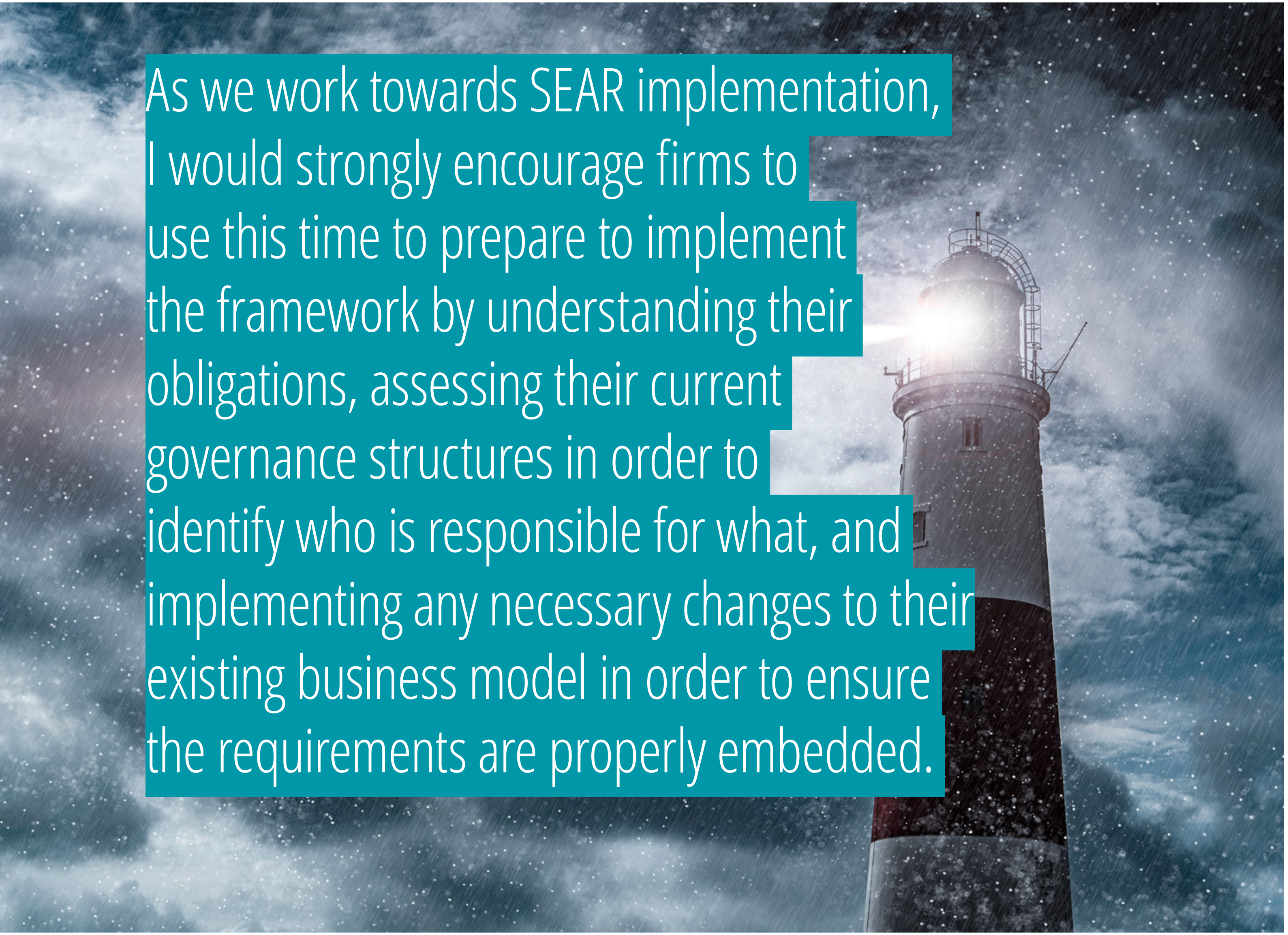
To support this transition, we are currently focused on supporting the conclusion of the MiCA negotiations. We are also undertaking active market monitoring and intelligence building and we have begun to plan for the operationalisation of MiCA within the Bank.

IT IS FAIR TO SAY THE WHOLESALE BANKING AND INVESTMENT FIRMS HAVE COME UNDER MUCH SCRUTINY BY REGULATORS OF LATE THROUGH CHANGES AND REVIEWS RELATING TO WHOLESALE CONDUCT RISK, LIBOR AND MARKET ABUSE. IS THIS LEVEL OF ENGAGEMENT WITH THE WHOLESALE SECTOR LIKELY TO CONTINUE INTO THE FUTURE AND IS THE CBI GENERALLY SATISFIED WITH THE LEVELS OF RESPONSIVENESS TO DEAR CEO LETTERS ISSUED ON THESE TOPICS?

At this point, it is too soon to assess the industry wide impact of the specific messages in the 'Dear CEO' letters. One reason for that is many firms are in the process of mitigating risks identified as part of the Market Abuse thematic reviews. However, we remain concerned that some investment firms have a low 'or almost non-existent' level of reporting of suspected market abuse that is inconsistent with the size of their activity and footprint in European securities markets.

Specifically, much more can be done at trading venues, asset managers and proprietary trading firms to identify and report activity that is suspicious and possibly indicative of market abuse.

It is likely that the recent trend to a more intrusive level of supervision of conduct, market abuse and activity-based risks at investment firms and wholesale banks will persist, at the very least to a point where we are satisfied that the governance,



systems and controls of those firms who interact with securities markets and end-clients pose much lower levels of risk to those markets. In our recently published Securities Markets Risk Outlook Report, we have set out the key conduct risks to securities markets that we see in the year ahead and a programme of intrusive supervisory activity will be undertaken to mitigate these risks.

HOW IS THE CBI PREPARING ITSELF FOR SEAR GO-LIVE AND WHAT IS ITS ANTICIPATED TIMELINE FOR FULL IMPLEMENTATION?

We continue to engage with the Department of Finance as the Bill moves through the legislative process, and are liaising with industry representative bodies. Subject to the legislative process, we expect that the Bill will be enacted into law in the months ahead. We have been working in parallel on the regulations and guidance which will complete the new framework. It is our intention to publish the proposed Central Bank regulations for consultation shortly after the finalisation of the legislation.

We will consult on the operationalisation of the IAF Framework, particularly in the context of the SEAR providing a regulation-making power, which allows us to impose obligations on regulated financial service providers (RFSPs), or designated classes of RFSPs, with respect to the establishment, management, monitoring and reporting of governance and management arrangements of RFSPs. This will include provisions allowing the Central Bank to provide for inherent, prescribed and other responsibilities for persons in senior executive functions (SEFs), statements of responsibilities for SEFs, and management responsibility maps for in-scope RFSPs.

The framework is fundamentally about underpinning good conduct and high-quality governance and culture within firms. It is about being clear who is responsible for what and ensuring that reasonable steps are taken to fulfil those responsibilities. It is aligned with what will already be sound practices at well-governed and organised firms. The framework is, and our approach to implementation of it will be, firmly founded in proportionality and what is reasonable.

As we work towards implementation, I would strongly encourage firms to use this time to prepare to implement the framework by understanding their obligations, assessing their current governance structures in order to identify who is responsible for what, and implementing any necessary changes to their existing business model in order to ensure the requirements are properly embedded.

Firms should review their current fitness and probity processes to assess any enhancements required to meet the annual certification requirements and consider what training and monitoring will be required to embed the conduct standards as expected standards of behaviour. These steps, inclusive of observing the lessons learned in implementing similar frameworks in other jurisdictions, will help firms to assess gaps and identify the key changes needed.

WHAT ARE THE CBI'S REGULATORY PRIORITIES FOR 2022?

Our financial regulation priorities for this year support our new strategy and the need to respond to the dynamic and growing financial services system in Ireland. As we have outlined in our recently published Consumer Protection Outlook Report and Securities Markets Outlook Report, these changes in the financial system present both economic and consumer benefits, but also increases complexity in the financial system and creates risks.

I've already touched on a number of our key priorities for this year, including the review of the Consumer Protection Code, progressing the Individual Accountability Framework, and implementing the new Differential Pricing regulations.

Alongside this work, other regulatory priorities for the year ahead include:

- Continuing to drive for fair outcomes and for consumer and investor interests to be at the centre of financial services. Our priorities include business interruption insurance, long-term mortgage arrears and oversight of the withdrawal of Ulster Bank and KBC from the Irish market. We will also continue to enhance the reports from the National Claims Information Database to support the wider policy agenda towards a better functioning non-life insurance sector.
- Contributing to the European review of capital buffers for banks, including ensuring their usability in times of crisis, and concluding our own macroprudential capital framework review.
- Continuing to prioritise our authorisation work across multiple sectors, recognising the benefits of innovation, disruption and competition, but also the importance of protecting consumers of financial services and the importance of applying clear and consistent standards.
- In the area of payments, we will act across a number of initiatives to enhance the payments environment, including participating in the work on a digital euro, promoting low-cost instant payments domestically and across Europe and contributing to the review of the Payment Services Directive (PSD2) and the functioning of open banking.
- We will maintain our focus on the financial and operational resilience of the financial sector. Key priorities here will include our work on stress testing and other financial resilience related work across multiple sectors. The supervision of business model and technology-related change will also be a priority as firms implement new technologies and respond to changing customer preferences. We will maintain a continued focus on operational resilience, covering cyber resilience, critical infrastructure and outsourcing.
- We will also continue to step up our work on climate change to both ensure the financial system can support the transition to a carbon-neutral economy and is suitably resilient to the risks. This will include continuing to ensure that financial firms are adapting business models and building resilience in the face of growing climate and transition risks. We will also focus on the development and marketing of 'green' financial services products and services such that they are meeting high standards of quality and disclosure.

This interview took place on 03 March 2022.