

Central Bank of Ireland Dear CEO Letters of 2022

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One of the tools that the Central Bank of Ireland ('Central Bank') uses to ensure their expectations against regulatory obligations are clearly communicated. During 2022, the Central Bank used this tool several times across various financial services sectors and relating to different regulations.

December 2021: Supervisory Expectations for Payment and E-Money Firms

This letter was issued in the context of clearly setting out the Central Bank's expectations for all payments and e-money firms and the actions expected of Boards and senior management to ensure the firm is complying, on an ongoing basis, with its regulatory requirements and any conditions imposed relating to the firm's authorisation.

The letter outlines that firms should be well-governed, with appropriate cultures, extensive risk management and control arrangements, sustainable business models and sufficient financial resources, including under stress scenarios. The Central Bank outlines that they have no tolerance for widespread consumer or investor harm and that firms must ensure their business has a consumer-focused culture. CBI priority items are:

Governance & Risk Management

Firms are required to maintain governance arrangements, control mechanisms and procedures that are proportionate and appropriate in accordance with their governing legislation. They must have a functioning Board responsible for effective and prudent oversight of the firm, with full responsibility for setting and overseeing the strategy of the firm. Attention is drawn to the Dear CEO letters relating to the previously issued Fitness & Probity regime¹, particularly the obligations relating to the appointment of, and associated due diligence related to, pre-approved control functions and control functions.

Conduct & Culture

Firms must embed a consumer-focused culture, with robust internal systems and controls, including risk management frameworks. Products must be designed and sold that are suitable to their customers' needs and can deliver the benefits promised, with risks clearly disclosed. Firms must embed standards to ensure an effective culture and take appropriate actions, against the risks identified in the Consumer Protection Risk outlook, to protect their consumers.

Safeguarding

Firms must ensure that have Board approved, safeguarding risk frameworks in place to ensure that client funds are appropriately identified, managed, and protected. This must be subject to ongoing review and update with independent oversight from Risk & Compliance and Internal Audit.

Business Model, Financial and Operational Resilience, Resolution & Wind-Up

The Central Bank expects business models are viable, sustainable and appropriate escalation where the firm becomes aware of breaches of legal or prudential requirements, or where there is an expectation of a material change to the firm's business model. Firms should be able to respond to, recover and learn from operational disruptions and, for those firms who are part of a larger Group, to operate sufficiently on a stand-alone basis to ensure the primacy of the legal entity authorised in the State. Firms must demonstrate that they are in control of their own activities and material risks

Firms are expected to have an appropriate exit/wind-up strategy which is linked to their business and operational model, with return of customer funds as a priority.

Firms in scope of the letter were expected to complete a comprehensive assessment of the firm's compliance with specified regulatory requirements and the conditions of their authorisation and submit a Board approved attestation to the Central Bank by 31 March 2022.

April 2022: Targeted Review of Structured Retail Products

The CBI undertook a series of targeted reviews of Structured Retail Products (SRPs) manufactured and distributed by a sample of investment firms in the MiFID investment sector in Ireland.

The Central Bank letter dated 22 April 2022 letter set out the findings of the SRP reviews and details the Central Bank's expectations of regulated entities when implementing in practice the relevant MiFID II requirements. The letter highlights the importance of identifying a sufficiently granular target market for these complex products and to drive improvements in the quality and transparency of disclosures to investors of the risks relating to SRPs.

"The Central Bank requires all firms who manufacture, distribute or otherwise offer SRPs to conduct a thorough review of SRP arrangements and controls, including:

- *Presenting this letter as a formal agenda item for discussion at the firm's next Board meeting, and for the discussion to be recorded in the meeting minutes.*
- *Undertaking a full review of current SRP arrangements and controls against the findings and expectations outlined in this letter, to include SRP design, manufacture and distribution, processes, procedures, training materials, templates and disclosures.*
- *Documenting the review including inter alia details of actions taken or planned to address matters raised in this letter. This review should be completed and an action plan discussed and approved by the firm's Board by the end of Q3 2022. The action plan must include clear and reasonable timelines for implementation of mitigating actions with appropriate governance and sign-off."*²

April and July 2022: Withdrawal of Retail Banks from the Irish Market

The first letter issued to firms was focussed on ensuring that all parties involved or impacted by the withdrawal of the banks played their part in ensuring the withdrawal is executed successfully. The letter was issued to the top 20 Direct Debit Originators (DDOs) in the State reiterating that regulated financial services providers have a duty to take action to ensure the account switching exercise is completed smoothly. The Central Bank requested firms to submit details of their



plans to support customers in the switching process, including any activities that are already underway, including how DDOs planned to engage with banks, and other parties as relevant, to ensure a coordinated and effective approach is taken. This information was requested by Wednesday 11 May.

The second letter was issued to firms to reinforce the Central Bank's expectations that all customers of withdrawing banks are protected and treated fairly, including that regulated firms who are also DDOs play their part in ensuring this happens successfully. The letter highlights that firms should adopt a customer-centric approach to all issues to ensure that customers' best interests are protected, and customer needs and outcomes are prioritised, along with ensuring continuity of access to basic financial services. An appendix outlined specific expectations based on good practices identified as well as general expectations.

September 2022: Expectations Relating to the Risk posed to Consumers of not having Sufficient Home Insurance Cover

The Central Bank wrote to insurers to highlight the risk of under-insurance in the home insurance market, in the context of the inflationary impact on construction costs. There were shortcomings in two areas:

- Clarity, consistency, and timeliness of communications with consumers regarding the risk of not having sufficient home insurance cover, and
- The effectiveness of firms' consumer risk management tools and frameworks in identifying and assessing risks to consumers.

The findings of the review provide an opportunity for all firms to inform consumers of the issues identified and build understanding through accessible and transparent communications. Firms are expected to assess their approach to consumer communications and implement a comprehensive communications plan to appropriately address any shortcomings, including:

- Writing to all policyholders (direct and intermediated) explaining the consequences of being under-insured, the reasons why this is a heightened risk and how policyholders can better estimate the adequate sums insured value.
- Act honestly, fairly and professionally in the best interests of its customers and the integrity of the market.

- Consider the risks and expectations set out in the letter and accompanying Appendix and implement a clear plan to address the points raised, including reasonable timelines for implementation and mitigating actions, with appropriate governance and sign off.
- Appropriate escalation to the Board and ensuring that the Board has appropriate oversight of the firm's plan to address the gaps and any required actions.

November 2022: Protecting Consumers in a Changing Economic Landscape

The purpose of the letter was to draw attention to the key risks identified in the March 2022 Central Bank Consumer Protection Outlook Report and to emphasise the importance to firms of meeting its expectations in light of the more challenging economic outlook. The Central Bank emphasised themes raised should be incorporated into work programmes for senior management and Board discussion, and advising firms that evidence of consideration of the letter may be considered during the exercise of its supervisory and enforcement powers. The Central Bank highlighted the following:

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

REFERENCES

- 1 Dear CEO letters on Fitness and Probity issued in April 2019 & November 2020
- 2 Dear CEO letter on Structured Retail Products - April 2022