Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

T +353 (0)1 224 6000

Bosca PO 559
Baile Átha Cliath 1

PO Box 559
Dublin 1

www.centralbank.ie

29 August 2024

Re: Targeted Consumer Protection Risk Assessment: Consumer Protection Risk Management Frameworks in Insurance Firms

Dear CEO

The Central Bank of Ireland (Central Bank) recently completed a targeted Consumer Protection Risk Assessment (CPRA) of insurance firm's consumer protection risk management frameworks (the Assessment), which assessed the appropriateness of insurance firms' risk management frameworks and in particular, how they identify, manage and mitigate the risks posed to consumers.

A strong focus on culture and effective management of consumer risk is a hugely important feature of a stable, well-governed and trusted insurance sector. We expect firms to be guided in all their activities by a commitment to a culture of high standards. This includes our expectation that insurance firms understand the risks faced by their consumers, not only from the products and services they buy but also from the behaviour of the firms themselves and that of the wider market.

An effective consumer-focussed culture must be underpinned by an effective consumer protection risk management framework. Firms must have robust compliance and risk management processes in place to anticipate, avoid and manage all risks to consumers. For that reason, in 2017, the Central Bank introduced the CPRA Model, which established a new and more intrusive approach for supervisory assessments of regulated firms in relation to conduct and consumer protection risk management.

Following a cross-sectoral pilot-testing exercise in a number of banks, insurance and investment firms at that time, the Central Bank identified that firms were only in the early stages of developing the required frameworks. As such, in 2017, the Central Bank published the CPRA Guide. The purpose of this Guide was to set out the Central Bank's approach to carrying out targeted CPRAs and describes our expectations of regulated financial services firms in implementing or enhancing their frameworks for managing risks to consumers. These frameworks must support senior management in fostering positive conduct and behaviour, which ultimately culminates in a culture that has the best interests of consumers and the wider insurance market at heart.

From the elements reviewed as part of the Assessment, the Central Bank found that overall, while the insurers assessed were at differing levels of maturity, there was clear evidence that the more intrusive oversight of the insurance sector by the Central Bank and the developments initiated by the insurers since the introduction of the CPRA Guide have had a positive effect on the industry, including how they identify and manage consumer risks. Well-designed processes and framework improvements were evident, however, it was also clear that some firms are less mature in the *design* of their frameworks and the *effectiveness* of some frameworks was not as evident as others in terms of clear consumer outcomes. As such, while clear progress has been made, some firms have more work to do than others to reach the maturity levels required to avoid and/or manage all risks to consumers and drive a culture of high standards.[1]

Follow-up Actions

All firms are required to review and consider the expectations, findings and notable practices as set out in this letter (and in the 2017 Guide), in the context of their own consumer protection risk management frameworks. Firms should complete a gap analysis, identifying the gaps and weaknesses that exist in the design and/or effectiveness of their consumer protection risk management framework in respect of all Elements set out in Module 1: Governance and Controls of the 2017 Guide and put a plan in place to mature

[1] Appendix 1 sets out the scope and findings of the Assessment.

their frameworks, where applicable. These plans must be presented to the Board[2] for approval. Following approval from the Board, firms are required to implement the changes in line with the approved plan.

The plan should be presented to the Board no later than the 30 November 2024, with timelines for implementing the required changes to be no later than 30 June 2025.

Firms should consider the firms' Management Responsibility Map and the prescribed responsibilities of individuals in PCF roles and provide the Central Bank with the name of an individual in a PCF role with accountability for delivery of the expectations set out in this letter, to **cpinsuranceinspections@centralbank.ie** by 30 September 2024. In addition, firms should consider including assessment against the 2017 Guide for Modules 2, 3, 4 and 5, as a matter of good practice, in their future audit and compliance plans.

Closing

The Central Bank is in the process of updating the Consumer Protection Code to ensure firms are securing customers' interests and delivering positive consumer outcomes. Firms' consumer protection risk management frameworks are a key tool in ensuring that firms are doing so. It was clear from the targeted CPRA that while firms have made significant improvements, the consumer protection risk management frameworks reviewed were at varying levels of maturity. As such, insurance firms must now prioritise the development, implementation and embedding of enhancements as appropriate and proportionate for the firm. Firms' frameworks must be capable of identifying and managing the specific risks that the firm's external operating environment, strategy, business model, behaviour and culture, internal processes and procedures pose to consumer protection.

[2] Board of Directors and/or executive management as appropriate.

Through our structured engagement with firms over the coming months, the Central Bank will continue to focus on firms' consumer protection risk management frameworks to ensure that action and progress is being taken following this letter, particularly with those firms that have less mature frameworks.

Yours sincerely

Helena Mitchell
Head of Consumer Protection: Strategy and Insurance Division
Consumer Protection Directorate

Appendix 1: Scope and Findings

The focus of the Assessment was on Module 1: Governance and Controls, with a specific focus on the following elements:

- **Element 5: Consumer Protection Risk Management;**
- **Element 3: Control Functions/Consumer Monitoring; and**
- **Element 6: Consumer Reporting.**

Element 5: Consumer Protection Risk Management

Risk identified for assessment: Risk that there is no clear ownership for the identification, assessment, mitigation and monitoring of consumer protection risks.

By failing to fully embed a consumer protection risk management framework in their business, firms face the risk of not being able to identify and mitigate consumer protection risks and demonstrate how they are delivering good customer outcomes.

Expectation: Firms should have an approved consumer protection risk management framework and policy in place supporting the framework. The framework should form part of the firm's overall risk management framework and be linked to its risk appetite statement and supported by appropriate policies, procedures and controls. Firms should define consumer/conduct risk. Roles, responsibilities and accountabilities for consumer/conduct risk should be clear and training rolled out to ensure all relevant staff are aware of their remit in this regard. Senior management should lead by example in ensuring a positive consumer-focused culture within their firm and be active in promoting consumer protection matters. The firm should have processes in place to identify, monitor, report and mitigate consumer protection risks including, emerging risk scanning, regulatory horizon scanning and consumer research and feedback. Firms should be able to demonstrate that the framework is effectively ensuring and delivering fair customer outcomes.

Example: We saw how valuable effective consumer protection risk management frameworks can be at the outset of COVID-19 where firms were proactive in terms of identifying and mitigating consumer risks. Certain firms used their frameworks, including risk identification and escalation processes to great effect to ensure processes were in place for those customers experiencing financial difficulty, rebates were proactively made where appropriate and business interruption insurance claims were paid without delay. Other firms, with less effective frameworks, including identification and decision-making processes fell short of our expectation that firms secure customers interests and did not appropriately balance their shareholders' interests with the interests of their customers.

Findings:

- **Framework:** While the majority of firms have both a consumer protection framework and policy in place, some firms have only a framework or a policy. The frameworks and policies reviewed form part of the firms' overall risk management frameworks and are linked to their risk appetite statements. Firms have defined consumer/conduct risk. While most risk appetite statements called out consumer protection risk, it was disappointing to find that some statements did not. Firms' frameworks are typically structured by pillars (sales and post-sales, for example) and underpinned by key drivers and linked to consumer outcomes, however, not all firms were able to evidence the link to consumer outcomes. While all firms were able to provide examples of actions taken to deliver better consumer outcomes, some firms were significantly stronger in this area.

  Notable Practices

  - A number of firms have recently or are in the process of actively seeking to enhance their vulnerable customer processes, with a view to adopting a more customer outcome focussed approach to same. As part of this process, some firms have engaged with external support groups/charities with a view to assisting them in understanding the needs of certain cohorts of vulnerable customers.

- **Roles and Responsibilities:** Generally, firms have set out clear roles and responsibilities in their frameworks and/or policies in respect of consumer protection risk. While firms run annual training programmes, which include consumer specific topics, it was not evident that firms have rolled out training on their actual consumer protection risk management frameworks. While some CEOs and senior management are active in promoting and communicating with staff in respect of consumer protection risks via townhalls and newsletters, for example, others are less active in this area. Senior Management must take responsibility for embedding consumer-focused cultures throughout their firms, underpinned by an effective consumer protection risk management framework, to ensure the delivery of fair outcomes for consumers is at the heart of what the firm and its staff do on a day-to-day basis.

  Notable Practices:
    - Some firms have dedicated resources assigned to consumer protection risk at both Board and business unit level. A number of firms have also established dedicated consumer protection Committees/Forums in addition to consumer focussed agendas at other Committees/Forums.

- **Risk Identification:** While all firms undertake risk identification and were able to evidence where they identify and mitigate risks, the process was not always documented. In addition, not all firms undertake all key aspects, which the Central Bank expects to see in the process. The key aspects we expect firms to consider are emerging risk scanning, regulatory horizon scanning and consumer research. While firms typically maintained a register for emerging risks and a separate register for when risks crystallise, not all firms were able to clearly evidence how and when risks moved between the registers.

Notable Practices:

- While all firms are utilising a variety of sources to identify risks, a number of firms also liaise with their parent company, where applicable, in order to obtain a wider lens of risks in other markets that may impact on the Irish market and its consumers.
- A number of firms have dedicated resources assigned to conducting consumer research and feedback, to ensure they are addressing the needs of their consumers, with a view to improving customer outcomes.

Element 3: Control Functions/Consumer Monitoring

Risk identified for assessment: Risk that the control functions do not support the identification, monitoring and management of consumer protection risk and therefore are not effective in influencing the firm's behaviour to ensure fair customer outcomes.

By failing to ensure control functions are adequately resourced and effective, firms face the risk of the consumer not being considered as part of day-to-day activities and the decision-making process in their business.

Expectations: Control Function strategies should be well defined and aligned with the firm's strategy and take into account consumer protection risks. The roles and responsibilities of the control functions should be clear and documented with clear linkages between functions to support collaboration and engagement. Control functions should have processes in place for the setting and approval of monitoring plans, with the consumer being a central consideration in the planning process. These plans should be subject to challenge by an appropriate Committee or Forum. The control functions should be clearly able to evidence how they have identified and addressed unfair customer outcomes and have prevented the firm from taking action or substantially changed the action as a result of concerns about consumer impact. Control functions should be subject to regular review to ensure their effectiveness including ensuring they are adequately resourced and have the required experience and skills to deliver on their mandate and provide effective challenge on consumer matters.

Example: In respect of monitoring undertaken by control functions, on review of a selection of the firms' audits and reviews, we identified that only some firms were able to demonstrate how they considered the consumer as part of their reviews and the actions taken to address the risks identified. The outcomes noted included implementing process changes, issuing consumer rebates, enhanced quality assurance and updating of key customer documents, to ensure positive consumer outcomes are being achieved. Other firms were not able to demonstrate how they considered the consumer as part of same and therefore were unable to evidence how the reviews assisted in delivering good customer outcomes.

Findings:

- **Strategy:** Firms' control function plans and frameworks are generally well defined and aligned with each firm's strategy and took consumer protection risks into account.

- **Roles and Responsibilities:** The roles and responsibilities of the control functions are generally clear and documented.

- **Plans:** Control functions were able to demonstrate that they undertake setting and approval of monitoring plans. While firms could evidence that their monitoring plans are subject to challenge by an appropriate Committee/the Board, examples of challenge provided were limited in nature, which raises concerns in respect of the effectiveness of the challenge being provided. However, firms were able to demonstrate examples of changes made to plans during the course of the year, owing to changes in the firm's business or in the regulatory framework including those impacting consumers. The vast majority of control functions were able to demonstrate that they consider consumer interests as part of their planning process and undertake consumer focussed reviews on various risks.

Notable Practices:

- As part of their planning process, a number of firms have formal engagement processes across the control functions, to ensure plans are considered across the second and third lines of defence, in order to avoid duplication of reviews and leverage off plans where possible. Some firms have also introduced a singular monitoring plan, with a view to reviewing the monitoring and testing coverage across the control functions collectively.

- **Reviews:** The majority of control functions carry out consumer-focused work including reviews and testing. On review of a selection of audits and reviews, while most firms could demonstrate that they are successfully identifying and mitigating consumer risks, some firm's reviews lacked depth on the particular topics and only considered the risk at a high level. In other cases the actions assigned to mitigate the consumer risks identified were high level and non-descript in nature, raising concerns about how effective the action would be in addressing the underlying risk.

  Notable Practices:

  - Some firms have included a checkbox on their audit and review papers for reviewers to confirm that they have considered consumer interests as part of the review and set out any potential impacts for consumers as part of their final report.

- **Interaction and Challenge:** While some firms were able to evidence examples of effective challenge and influence across the business, others provided limited examples in this regard, which raised concerns in respect of the effectiveness of the control functions in challenging and influencing the business units. The Central Bank expects control functions to have a demonstrable influence on the business to ensure expected standards are met and risks are identified and mitigated, where appropriate.

- **Engagement:** Firms were able to demonstrate regular engagement and knowledge sharing across their control functions. Compliance functions were also able to provide examples where they have been proactively consulted with, and been proactively invited to sit on, various working groups with a view to ensuring consumer protection risks are voiced and addressed and not just utilised as a function to check for minimum levels of compliance at the end of a process.

  This is an important evolution of the compliance function to ensuring the consumer lens is evident from the start and throughout relevant projects, groups etc. and positively influences key decision making.

  Notable Practices:
  - Some firms have sought to formalise the control function engagement process by establishing a control function committee, with scheduled meetings on a regular basis, in order to further facilitate collaboration and communication.

- **Staff and Effectiveness:** While control functions are subject to regular reviews, the nature and frequency of these reviews vary; with reviews, being a mix of self-reviews, internal and external.

In terms of resourcing for both control functions and more generally, firms advised that they have experienced a number of challenges in recent years owing to the level of competitiveness within the employment market. While firms have rightly sought and utilised their access to group or external consultants in order to bridge any short-term gaps, this is not a sustainable long-term solution. It was good to see that firms are monitoring their control function resourcing levels on a regular basis and taking action as required, where gaps arise.

The level of knowledge and awareness of consumer protection matters varied across the control functions. While some firms and functions were very strong in this regard, others were less consumer aware and focussed. In some instances, firms had a greater reliance on the compliance function to have full knowledge and awareness of consumer protection risks, however, it is expected that all control functions are fully aware and cognisant of consumer protection requirements and risks to effectively carry out their role, as we have seen in other firms. Some of the knowledge gaps can be attributed to individuals being new to their roles and requiring additional training and experience, however, in a number of instances, it raised concerns about the consumer-focussed culture and awareness in respect of consumer protection risks.

Notable Practices:

- A number of firms have introduced incentives and initiatives with a view to attracting and retaining staff across the firm, including increased packages, conditions and training.
- Some firms have also introduced key risk indicators (KRIs)/consumer metrics in order to track and report on resourcing levels.

Element 6: Consumer Reporting

Risk identified for assessment: Risk that the Management Information (MI) to monitor and track consumer outcomes is limited, insufficient or not focussed enough and/or not used to drive effective consumer protection risk management.

By failing to gather and monitor the correct MI, firms face the risk of not being able to identify current and future consumer protection risks facing their business.

Expectations: Firms' resources, systems, processes and controls should allow for greater use of automated consumer MI with manual intervention used to support analysis and commentary. The MI should be effective in identifying both current and future consumer protection risks and be consumer outcome focussed, with a view to driving effective consumer protection risk management. KRIs should be based on the firm's knowledge of the potential risks, threats and vulnerabilities their customers face and/or they pose to their customers if they fall below the standards expected. The ratings spectrum should be based on the firm's risk appetite and must be measurable and challenging in order to push firms to a higher standard of service and consumer protection. Firms must be able to satisfy themselves that the consumer KRIs and metrics ensure full coverage of the risks they face and are outcome focussed, with appropriately set thresholds. The MI should be circulated on a regular and timely basis and to an appropriate Committee/the Board. Firms should adopt a risk-based approach to their reporting, ensuring an appropriate balance between qualitative and qualitative and leading and lagging indicators. The Committees/the Board that receives the MI should discuss and challenge ratings across the ratings spectrum (red, amber and green). Firms should undertake a regular programme of review of their consumer MI and associated KRIs/metrics to ensure the relevance and sufficiency of same. In addition, MI should be subject to specific/standalone audits/reviews.

Example: Recognising that MI across firms was not directly comparable in nature, one KRI all firms tracked was in respect of complaints management. On review of firms' complaints KRIs, it was noted that some firms' KRIs were more established, drilling down into the makeup of the components of the complaints received, for example, volume, nature of the complaints, various thresholds for timelines and categorisation of complaints including those being passed to the Financial Services and Pensions Ombudsman (FSPO). This enabled these firms to generate good trend analysis and identify patterns of complaints, escalate such patterns to the compliance/risk function and senior management to assess and mitigate same, where appropriate. Whereas other firms had only high-level metrics relating to complaints, namely complaints referred to the FSPO. Adequate consideration of consumer outcomes, risks or patterns of complaints was not evident and raises questions about the effectiveness of such firms' use of their own MI to drive effective consumer protection risk management. Also, it was noted that tolerance levels for escalation of risks was much more rigorous in some firms, allowing them to access certain patterns or risks at a much earlier point, for example, the percentage of complaints closed outside of resolution thresholds or call waiting times being longer than internal service-level agreements.

Findings:

- **Systems:** While production and collation of the consumer MI varied from firm to firm, all firms have a level of automation supported by manual intervention. However, the level of manual intervention in a number of firms was significantly higher. A number of firms advised that they have plans in place to further automate their consumer MI, while other firms advised they are considering same. Recognising that while manual intervention is required in order to support analysis and provide commentary, overreliance on manual production of MI can lead to greater incidence of errors and it could limit the level and depth of MI that firms can develop, if they are not leveraging off advances in data analytics.

- **MI - Content:** The maturity level of firms' consumer reporting including their KRIs and metrics varied significantly. While the majority of firms have regular consumer specific/standalone MI reporting in place in addition to including consumer updates in other reporting, some firms' consumer MI is only a small sub-set of the firms' overall MI reporting. Firms' classification of consumer KRIs and metrics vary, with some firms attaching RAG ratings to both KRIs and metrics, while others just RAG rate their KRIs, which in turn can increase/reduce the level of prominence and review as part of MI reporting. Some firms' KRIs are well established focusing not only on the nominal name of the KRI but also drilling down into its makeup of components and rating all items. This contrasted with a number of other firms' consumer KRIs and metrics being minimal and high level in nature. Some firms were clearly able to demonstrate how their consumer reporting led to the identification of current and potential consumer protection risks, others were not. The Assessment found that not all firms had included consumer outcomes in their reporting.

  Notable Practices:
  - A number of firms map their consumer KRIs and metrics back to their consumer framework or use the framework as a starting point when developing and/or reviewing their consumer KRIs and metrics.
  - In addition to the regular consumer MI, some firms also produce an annual consumer specific report for senior management, providing a holistic overview of what the firm is doing in respect of consumer and associated consumer initiatives and providing practical examples of same. This report enables senior management within the firms to satisfy themselves that they are effectively driving consumer protection risk management and in turn delivering fair outcomes for consumers.

- **MI - Structure:** The Assessment found that firms generally circulate their consumer MI to the correct audiences. While some firms have adopted a risk-based approach to their MI reporting, this appears to be an on-going topic of discussion within firms in terms of seeking to get the balance right, with firms striving to enhance their MI on an on-going basis. Firms' consumer MI was generally timely in nature and tailored to some extent for the intended audiences, with most firms including the ask of the Committee/the Board in both the agenda and the papers. The MI was generally clear and concise in nature, with trends visible. Firms' MI was a mix of quantitative and qualitative, however, a number of firms remain heavily quantitative focussed, which can impact on how meaningful/user friendly the MI is for the end user. While firms consider leading indicators in respect of their emerging risk and horizon scanning processes, KRIs and consumer metrics tended to be lagging in nature. While the MI across firms was not directly comparable, it was noticeable that firms have different tolerance for risk acceptance and escalation. In some instances, the rating spectrum/RAG status only changed where there was a clear issue, whereas others took a much more proactive approach and held themselves to a higher standard in terms of KRI reporting and RAG status.

  Notable Practices:
    - Some firms are currently undertaking work with a view to increasing the number of leading indicators they have and they have started highlighting in their reporting if indictors are leading or lagging.
    - Some firms have sought to prioritise the consumer at Committee/the Board meetings by placing them higher up on the agenda to ensure sufficient focus and time for discussion.

- **Challenge and Discussion:** Time afforded to the Committees/the Board to review the MI was generally considered sufficient. In respect of discussions, firms tended to focus on higher rated red and/or amber issues, with some consideration being given to green risks if deemed necessary. Instances of challenge, requests for additional information and root cause analysis requests were evident in all firms, with some firms better able to evidence and demonstrate how the discussions and challenges provided by the Committees/the Board have resulted in good customer outcomes. Issues were generally acted on in a timely manner with actions tracked and ownership assigned.

- **Escalation:** Firms have various escalation processes built into relevant aspects of the business including KRIs, speak up policies and day-to-day operations. While firms set out how to progress an escalation, they did not specifically document how a verbal escalation should be handled or recorded on receipt. Firm's escalation thresholds were not comparable in nature owing to the variance in the number and type of KRIs firms report on. However, in a number of firms there was scope to bypass the escalation levels and escalate a matter directly to senior management where a significant issue arose; however, the approach was not documented in all cases. Firms generally had a good level of training and supports in place for staff members to ensure they are aware of the escalation processes and staff are actively encouraged to escalate issues and voice concerns on identification. Staff members were aware of the different avenues of escalation available to them. While all firms provided examples of issues that had been escalated and demonstrated how the risks had been mitigated, some firms were more active in this space with a larger number of issues being escalated and mitigated.

Notable Practices:

- On identification of a significant issue arising, firms typically establish working groups comprised of experts across the business to deal with the issue and report to senior management.

- **Feedback and Reviews:** Firms were able to evidence and provide examples of where they actively sought feedback from the Committees/the Board in respect of consumer MI and evidence changes implemented on foot of same, with a view to ensuring the MI is sufficient to meet their needs. In addition to making ad-hoc changes to consumer KRIs and metrics, firms also conduct regular reviews, however; the process was not always documented or was documented at a high level. While some firms were able to evidence examples of changes made to consumer KRIs and metrics following these reviews, other firms provided limited or no examples in this regard. This raises concerns in respect of the effectiveness of such reviews and on what basis the reviews are being conducted i.e. based solely on their current consumer KRIs and metrics or if firms are adopting a holistic approach to their reviews. While some firms advised that the control functions/auditors may review aspects of MI as part of other reviews/audits, firms are typically not undertaking consumer MI specific/standalone audits/reviews.