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Retail Intermediary Roadshow 2018

Dublin & Cork, 24 & 25 October 2018

Welcome!



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Welcome Cont.

1. Welcome
2. Purpose of Today's Session
3. CPD Accreditation
4. How today will work
5. Running order- Agenda



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Agenda for the Day

	Name & Division	Topic
1	Deirdre Norris Consumer Protection: Policy & Authorisations	Insurance Distribution Directive
2	Niall Cronin Consumer Protection: Policy & Authorisations	Application Form for Authorisation as a Retail Intermediary
3	Pat Sage Consumer Protection: Supervision Division	Retail Intermediary Supervision
4	David O'Brien Protected Disclosures	Protected Disclosures
Break		
5	Joanne Doherty Enforcement Division	Enforcement
6	Helen O'Neill & Terry Lowen Anti-Money Laundering Division	Anti-Money Laundering & Countering the Financing of Terrorism (AML/CFT)
7	Yvonne Harrington & Zita Martin ICCL	The ICCL
8	Brendan Sheridan Financial Control Division	Industry Funding Levy
Wrap Up		



THANK YOU



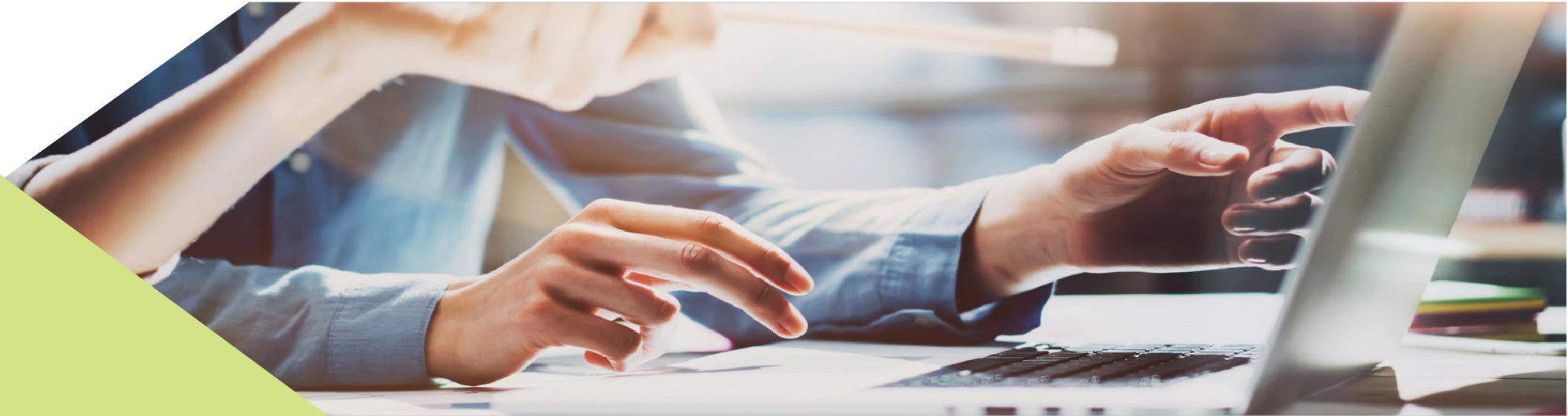
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Insurance Distribution Directive

Deirdre Norris – Consumer Protection: Policy & Authorisations Division

Structure of Legislation

- **Level 1:** IDD, transposed into Irish law by means of the IDR.
- **Level 2:**
 - Commission Implementing Regulation laying down a standardised presentation format for the insurance product information document (IPID)
 - Commission Delegated Regulation on product oversight and governance.
 - Commission Delegated Regulation on information requirements and conduct of business rules applicable to insurance-based investment products.
 - Commission Delegated Regulation on professional indemnity insurance (expected to be adopted before end 2018).
- **Level 3:**
 - EIOPA Guidelines on insurance-based investment products that incorporate a structure which makes it difficult for the customer to understand the risks involved
 - EIOPA Q&As to provide clarification on the Delegated Acts.



Changes from IMR

- Scope
- Knowledge and competence
- Information and conduct of business requirements
- Insurance product information document
- Cross-selling
- Product oversight and governance
- Additional requirements for insurance-based investment products



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Scope

■ Includes:

- insurance and reinsurance intermediaries
- direct sales by insurance and reinsurance undertakings
- aggregator or price comparison websites
- ancillary insurance intermediaries



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Knowledge and Competence

- Expanded requirements around knowledge and competence, including:
 - Specified competencies
 - At least 15 hours of professional training or development per year.
- Implemented through the revised MCC.



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Information and conduct of business

- All insurance distributors must act honestly, fairly and professionally and in accordance with the best interests of the customer.
- All communications addressed to customers must be clear, fair and not misleading.
- Any insurance contract proposed must be consistent with the customer's demands and needs.
- Remuneration requirements:
 - Insurance distributors may not incentivise or remunerate their employees in a manner that would conflict with their duty to act in the customers' best interests.
 - Insurance intermediaries are required to disclose to the customer the nature of any remuneration received in relation to an insurance contract.



Insurance product information document (IPID)

- Short, stand-alone, clear and easy to read
- IPID must contain the following information:
 - type of insurance;
 - summary of insurance cover, including main risks insured, insured sum, summary of excluded risks;
 - means of payment of premiums, frequency of payments, duration and number of payments;
 - main exclusions specifying where claims cannot be made;
 - obligations at commencement and during contract, and in the event that a claim is made;
 - term of the contract including start and end dates;
 - means of terminating the contract.
- Standardised presentation format for the IPID set out in the Level 2 Commission Implementing Regulation



Xxxxx Insurance

Insurance Product Information Document

Company: <Name> Insurance Company

Product: <Name> Policy

[Statement that complete pre-contractual and contractual information on the product is provided in other documents]

What is this type of insurance?

[Description of Insurance]



What is insured?

- ✓ Xxxxx
- ✓ Xxxxx
- ✓ Xxxxx
- ✓ Xxxxx
- ✓ Xxxxx
- ✓ Xxxxx
- ✓ Xxxxx
- ✓ Xxxxx
- ✓ Xxxxx
- ✓ Xxxxx
- ✓ Xxxxx
- ✓ Xxxxx
- ✓ Xxxxx



What is not insured?

- ✗ Xxxxx
- ✗ Xxxxx
- ✗ Xxxxx
- ✗ Xxxxx
- ✗ Xxxxx



Are there any restrictions on cover?

- ! Xxxxx
- ! Xxxxx
- ! Xxxxx
- ! Xxxxx
- ! Xxxxx



Where am I covered?

- ✓ Xxxxx



What are my obligations?

- Xxxxx
- Xxxxx
- Xxxxx
- Xxxxx



When and how do I pay?

Xxxxx



When does the cover start and end?

Xxxxx



How do I cancel the contract?

Xxxxx



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Cross-selling

- Where an insurance product is offered together with an ancillary non-insurance product or service:
 - Insurance distributor must inform the customer whether it is possible to buy the components separately
 - If so, must provide:
 - a description of the different components
 - the costs and charges of each component.
- Where an insurance product is ancillary to a non-insurance good or service, the distributor must offer the possibility of buying the good or service separately



Product Oversight and Governance

■ Manufacturers:

- Product approval process
- Identify target market
- Product testing
- Product monitoring and review
- Selection of distribution channels

■ Distributors:

- Measures and procedures to obtain information from manufacturers
- Distribution strategy in line with distribution strategy and target market of manufacturer
- Regularly review distribution arrangements
- Provide information to manufacturer

■ Requirements in IDR and Level 2 Commission Delegated Regulation; guidance in EIOPA Q&As



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Insurance-based Investment Products

- Additional requirements for insurance-based investment products: enhanced information and conduct of business requirements to ensure cross-sectoral consistency taking account of the MiFID II regime, including stricter remuneration disclosure, detailed conflict of interest requirements, requirements relating to inducements and the assessment of suitability or appropriateness, and information on risks, costs and charges.
- Further detail in the Level 2 Commission Delegated Regulation, EIOPA Guidelines on complex products and EIOPA Q&As.



Impact on Consumer Protection Code 2012

- Addendum
- Some overlapping provisions – to be disapplied



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THANK YOU



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Application Form for Authorisation as a Retail Intermediary

Linda Murphy & Niall Cronin – Consumer Protection: Policy & Authorisation Division

Purpose of Review

- Review of existing “Application Form for Authorisation as a Retail Intermediary”
- To further enhance the effectiveness and efficiency of the authorisation process
- Ensuring we maintain a robust gatekeeper function
- Delivers on our commitment to continuous improvement in how we deliver on our statutory mandate



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Approach to Conduct of Review

- Analysis of feedback received from a number of sources, including:
 - ❖ Industry Representative Bodies
 - ❖ Staff members in the Retail Intermediary Authorisation Team who assess applications; and
 - ❖ Other relevant Divisions within the Central Bank
- Review of Application Forms used by the Central Bank for other sectors
- Review of Application Forms used by competent authorities in a number of other relevant jurisdictions
- Considered the requirements of the European Union (Insurance Distribution) Regulations 2018 (IDR)



Outcome of Review

- Revised “Application Form for Authorisation as a Retail Intermediary” issued September 2018
- Now shorter, more facilitative and easier for the applicant to navigate and complete
- Questions included in form revised to increase clarity and conciseness
- Sections segregated and ‘sign posted’ more clearly – applicant need only fill out relevant sections
- Separate Business Plan and Programme of Operations documents no longer required – now set out within the revised form
- Less supplementary documentation required - move to ‘confirmation’ basis placing a greater onus on the applicant to confirm it is satisfied it is in a position to meet certain requirements
- Reflects the requirements of the IDR



New Structure

- Applicant Information: General, Name, Address etc.
- Applicant Legal Status: Only required to fill out relevant section
- Authorisation Type: Only required to fill out relevant section(s)
- Business Plan (simply submit information directly into the form)
- Programme of Operations (as above)
- Documents Checklist (serves as a quick checklist for the applicant)
- Declaration
- Certificate of Solvency (if applicable)



Questions?



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Retail Intermediary Supervision

Pat Sage – Head of Function, Consumer Protection: Supervision Division

Contents

- ❖ Introduction
- ❖ PART I - Overview of the Central Bank's role in protecting consumers
- ❖ PART II - Conduct and Consumer Risk
- ❖ PART III - Retail Intermediaries Supervision
- ❖ PART IV - Consumer Protection Risk Assessment (CPRA) Model
- ❖ PART V - 2018 Consumer Protection Risk Outlook
- ❖ Conclusion



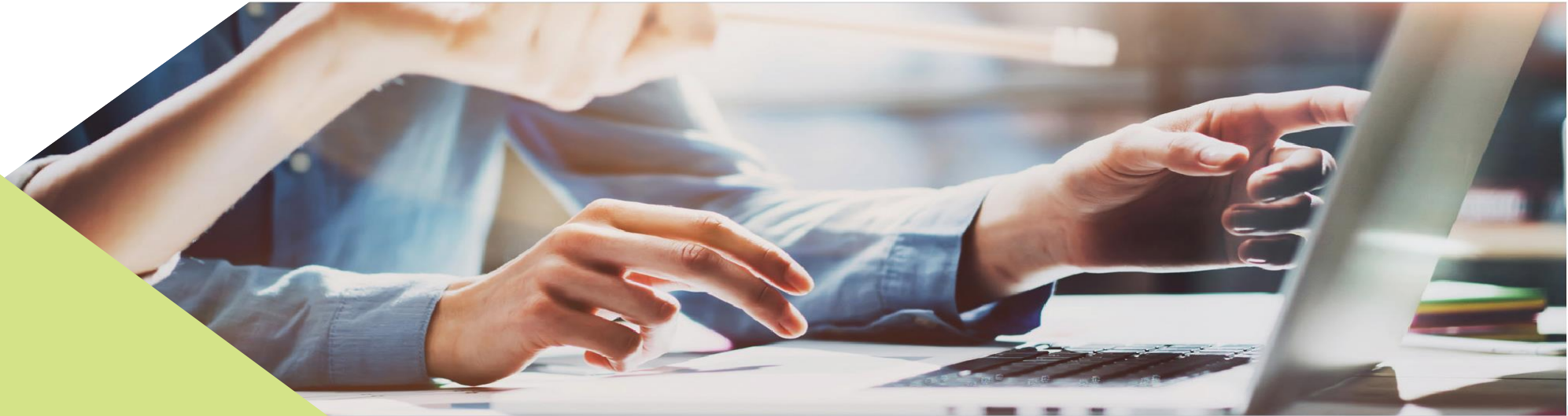
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Overview of the Central Bank's role in protecting consumers

Overview of the Central Bank's role in protecting consumers

Statutory Objective

"...the proper and effective regulation of financial service providers and markets, while ensuring that the best interests of consumers of financial services are protected"

S6A (2)(b) Central Bank Act, 1942
(as amended)

Statutory Function

"... function of monitoring the provision of financial services to consumers of those services to the extent that the Bank considers appropriate, for the purposes of protecting the public interest and the interests of consumers."

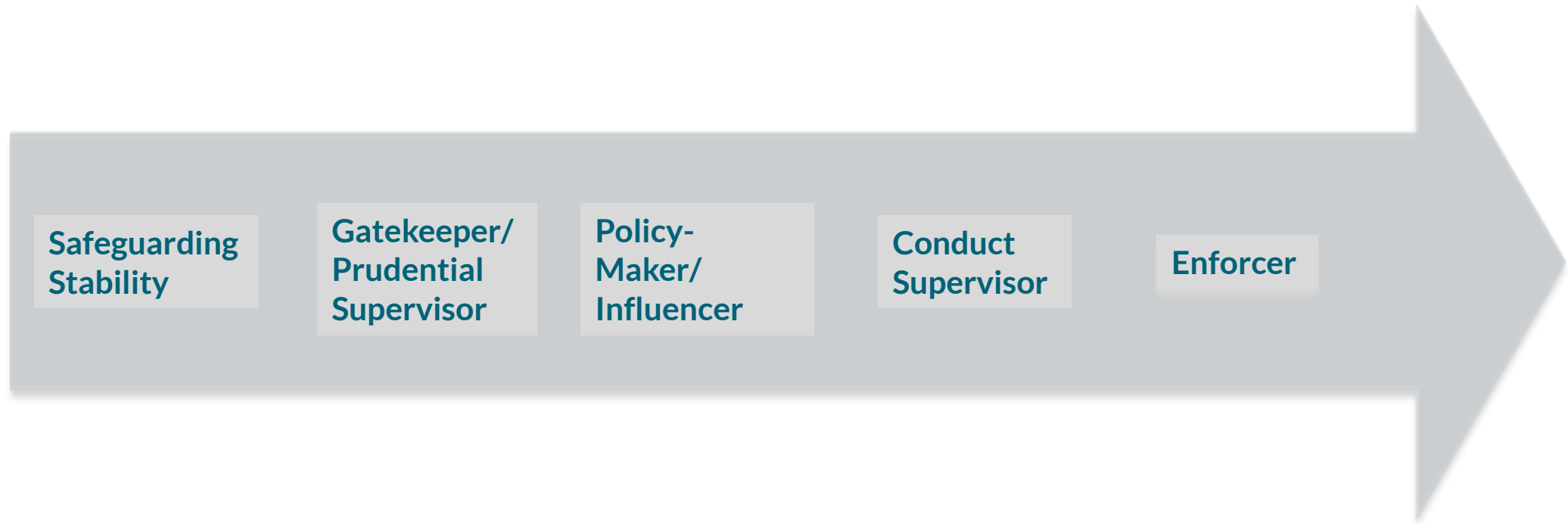
S5A (1)(f) Central Bank Act, 1942
(as amended)



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How we discharge our consumer protection mandate



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Why do consumers need protection?

“The fast pace of financial innovation has created a complex world for consumers, where the range of available financial products is broad, and the consequences of financial choices are significant.

Coupled with this, the typical household tends to have a limited personal track record in making financial decisions, since the purchase of financial products happens only infrequently.

This is problematic, since the demands for financial sophistication and knowledge are sizeable if a consumer is to navigate safely through the options put forward by providers of financial services.

Financial decisions often require consumers to assess risk and uncertainty, for example, and to consider trade-offs between the near term and the long term.

A growing body of academic literature shows that, among the general population, the level of financial knowledge, skills and ability to consider such complexities is low.”

Extract from a speech by Governor Philip R. Lane entitled “The Role of Financial Regulation in Protecting Consumers”, University College Cork, 23 February 2017



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Why do consumers need protection?

■ Three key points –

- ❖ Financial products and services can be complex and are quickly becoming even more complex
- ❖ Financial decisions require an assessment of risk and uncertainty
- ❖ Many consumers are not experienced in making these assessments, yet the consequences of their decisions can be significant

■ So ...

- ❖ Consumers therefore need help and protection when making financial decisions
- ❖ They must be able to trust that you, as the professionals who are designing and selling these products, will have their best interests at the centre of all that you do



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Who is responsible for protecting consumers?



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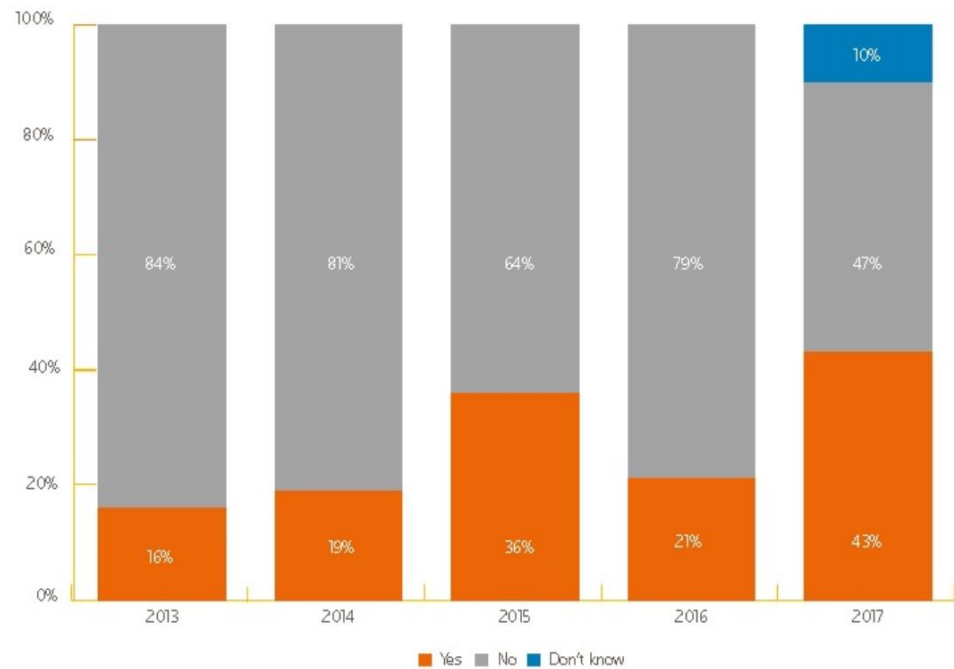
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Conduct and Consumer Risk

What is Conduct Risk?

Figure 5: Year-on-year analysis:
Does your firm have a separate working definition of conduct risk



Source: Thomson Reuters Regulatory Intelligence - Culture and Conduct Risk 2018 survey

Fifth Annual Survey by Thomson Reuters

Some key points:

- ❖ 600 firms from around the world participated
- ❖ 54% (UK & Europe) reported having a separate working definition of conduct risk
- ❖ Last year's survey pointed to practical difficulties in defining conduct risk
- ❖ Failure to define may result in failure to recognise emerging risks in the business



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If you don't define it, how can you manage it?

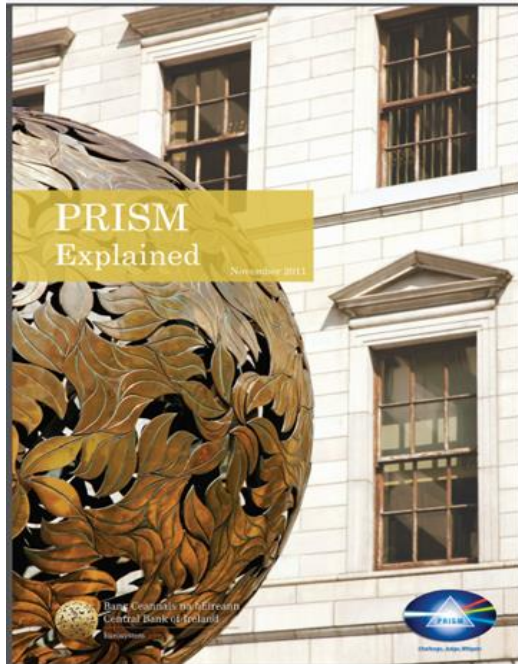


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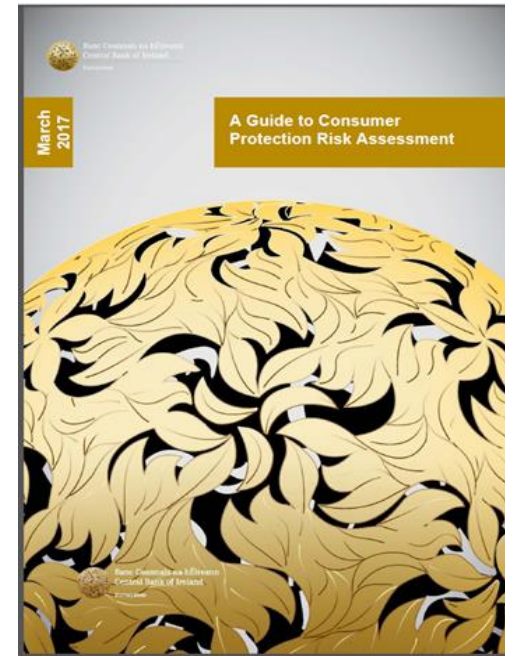
Central Bank Definitions

PRISM 2011: Conduct Risk Assessment



“The risk a firm poses to its customers from its direct interaction with them”

CPRA 2017: Enhanced Conduct/ Consumer Protection Risk Assessment



“Risks to consumers from a firm’s strategy, business model, culture, governance and other internal structures, its systems and processes or the behaviours of individuals at any level within the firm”



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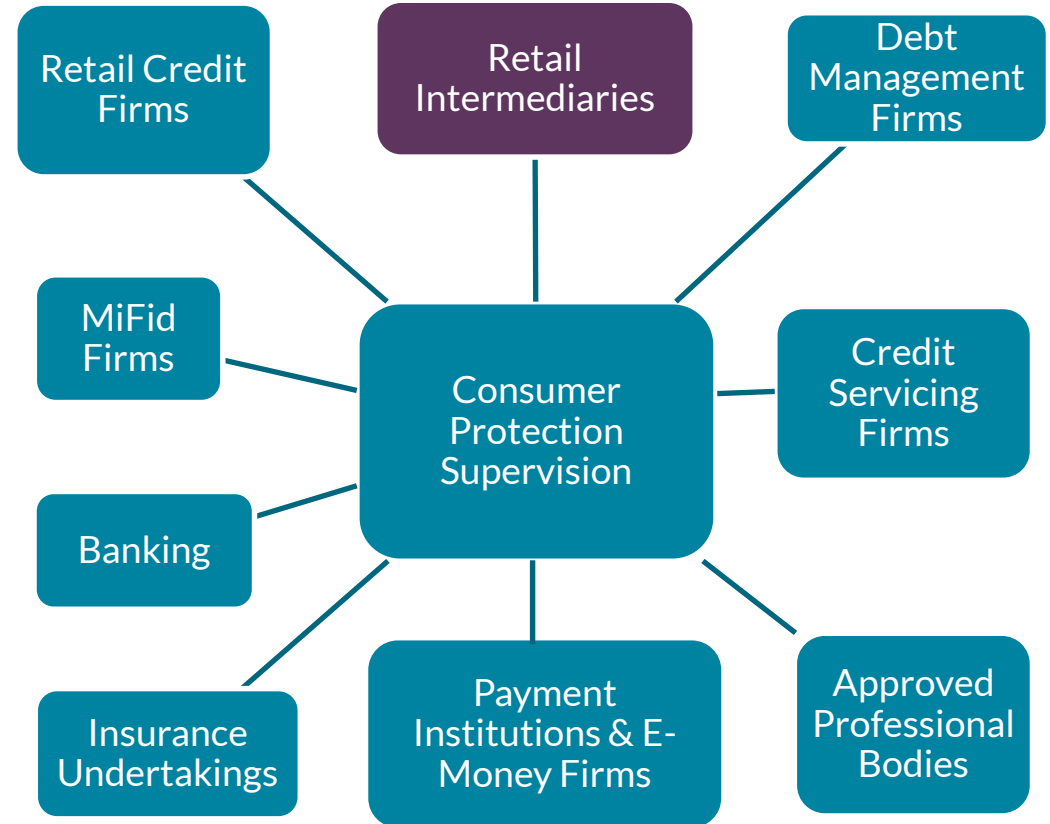
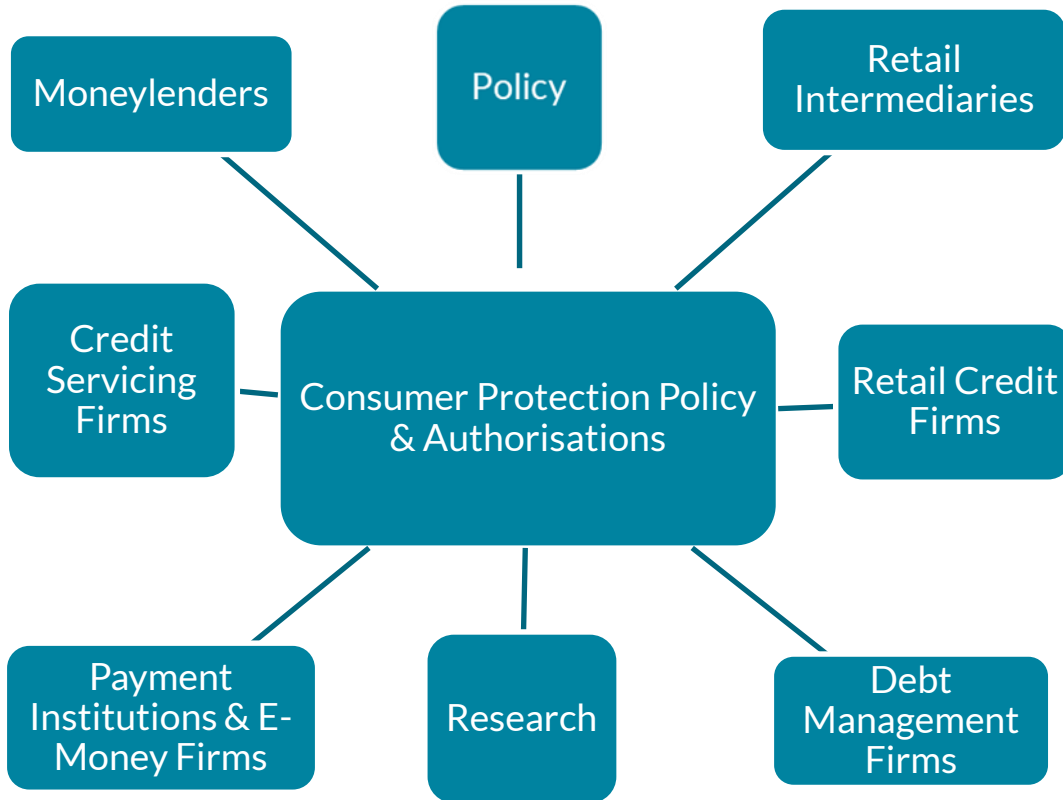
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Retail Intermediaries Supervision

Where does Retail Intermediaries Supervision fit in?



How we Supervise?



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CPRA Model

Module 1: Governance & Controls

M1.1 – Organisation Structure	M1.4 – Strategy and Risk Appetite
M1.2 – Board & Board Committees and Management & Management Committees	M1.5 – Consumer Protection Risk Management
M1.3 – Control Functions / Consumer Monitoring	M1.6 – Consumer Reporting

Product Life Cycle

Module 3: Product Development

- M3.1 – Product Governance Arrangements
- M3.2 – New Product Development
- M3.3 – Product Monitoring / Existing Product Reviews
- M3.4 – Distribution Arrangements
- M3.5 – Product Management Information
- M3.6 – Marketing and Advertisement

Module 4: Sales / Transaction Process

- M4.1 – Sales / Transactions Governance Arrangements
- M4.2 – Operation of The Sales / Transactions Processes
- M4.3 – Quality Assurance
- M4.4 – Management Information

Module 5: Post Sales Handling

- M5.1 – Post Sales Governance Arrangements
- M5.2 – Operation of the Post Sales Process
- M5.3 – Quality Assurance
- M5.4 – Management Information

Module 2: People & Culture

M2.1 – Firm’s Values & Behaviours	M2.5 – People Practices
M2.2 – Leadership & Tone from the Top	M2.6 – Training
M2.3 – Internal Communication	M2.7 – Performance Management, Reward & Incentives
M2.4 – Speak Up, Challenge & Escalation	M2.8 – External Environment & Communication



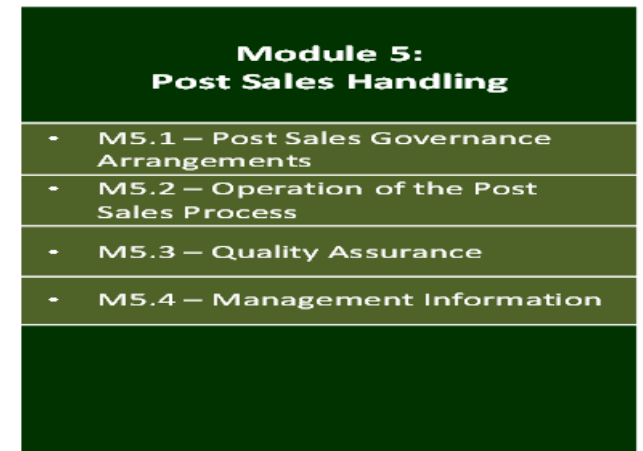
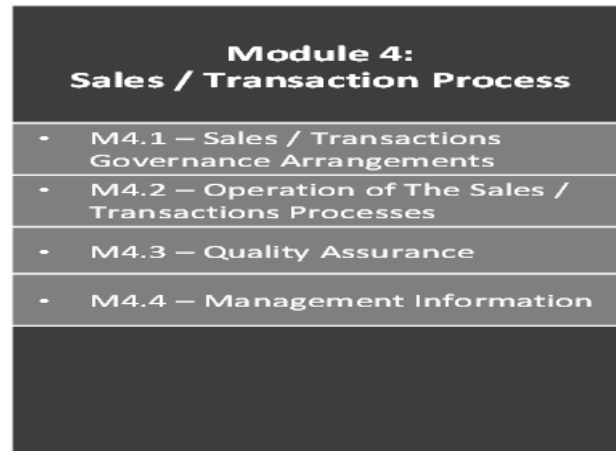
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Targeted CPRAs



Product Life Cycle



What does this mean for you?



- ❖ CPRAs will be intrusive in nature
- ❖ Once we assess the design of a control, we will then seek concrete evidence of how effective the control actually is
 - *We will review policies and procedures (including HR policies, such as recruitment, induction, performance management and reward);*
 - *We will observe at board and key committee meetings; ‘walk-through’ systems and conduct substantive testing on the consistency of application of the controls;*
 - *We will interview a selection of staff from various levels in the firm - board level, compliance and risk functions, HR, product development, marketing and sales staff – potentially including any of you sitting here today.*



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Central Bank Review of Behaviour and Culture of Retail Banks



- ❖ The Central Bank has recently published a Report on the *Behaviour and Culture of the Irish Retail Banks*
- ❖ Review was underpinned by the CPRA and supported by the Dutch Central Bank
- ❖ The Review identified, inter alia, that two important prerequisites for successful cultural transformation were not met in all instances:
 - **Collective understanding of what consumer focus actually means and what it requires in terms of behaviours:** and
 - **Embedding consumer focus in structures, processes and systems.**
- ❖ Findings will inform our future supervisory strategy (not exclusive to banks)



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Does your firm have a collective understanding of what 'consumer focus' actually means and requires?



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Summary of key points so far.....

- ❖ Each firm must understand all of the risks it poses to consumers -
 - ❖ *Strategy*
 - ❖ *Business model*
 - ❖ *Culture*
 - ❖ *Internal structures and processes*
 - ❖ *Employees' behaviour*

- ❖ Many well-publicised systemic conduct failings
 - ❖ *Significant financial and reputational cost to firms*
 - ❖ *More importantly, significant detriment to those people who keep firms in business*

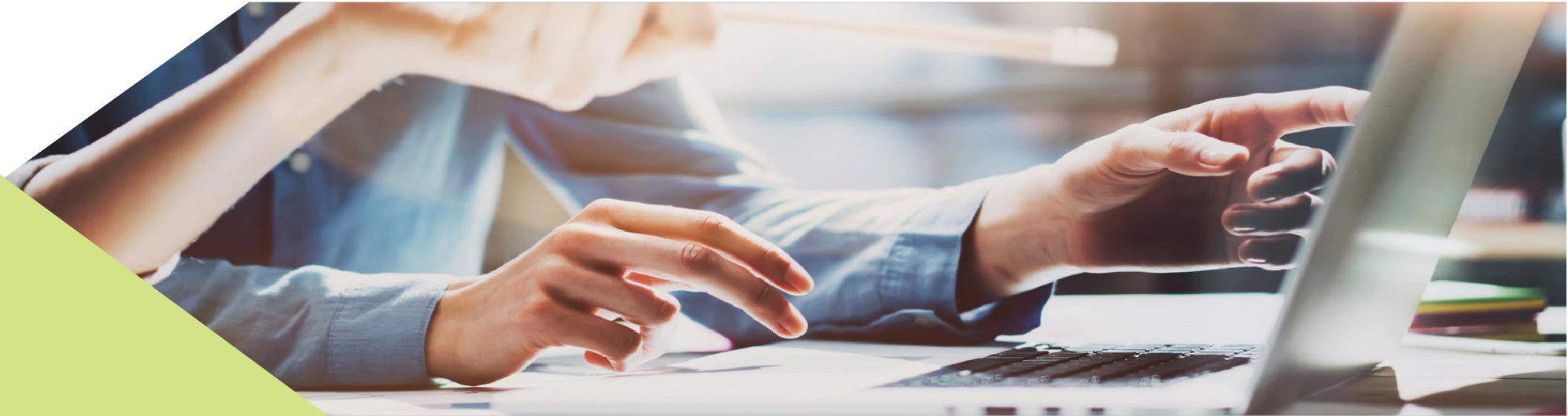
- ❖ Genuine errors will occur and risks will crystallise, but you can and must do more to protect consumers
 - ❖ *Proactive and pre-emptive risk identification and mitigation is a must*
 - ❖ *Risk management frameworks that aim for minimum compliance with the letter of the law are no longer tolerable*





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2018 Consumer Protection Risk Outlook

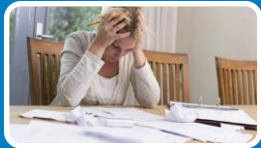
Consumer Risk Themes – 2018



1. Impact of a Lack of Consumer Focused Culture in Firms



2. Risks to Consumer Protection from Digitalisation of Financial Services



3. Financial Vulnerability Caused by Indebtedness & Loan Arrears



4. Implications for Consumer Protection Arising from Brexit



5. Impact of IT Risk on Consumer Protection



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Consumer Risk Themes – 2018



6. Risks to Consumer Protection by the use of Consumer Data



7. Cyber Risk – Implications for Consumer Protection



8. Risks from Ineffective Disclosure & Product Complexity



9. Risk of Firm's Regulatory Capacity Impacting Consumer Protection Efforts



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Brexit

❖ Brexit – What needs to be considered...

❖ *Passporting into the UK and / or Gibraltar?*

❖ *Intermediating policies underwritten by UK and / or Gibraltar-based firms (passporting into Ireland)?*

❖ Brexit – What actions need to be taken...

❖ *Contingency planning for a 'no deal Brexit'.*

❖ *Inform customers (potential and existing) of what this means for them.*



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Why is product oversight so important?



"It's our rebuttal to 'Buyer Beware'."

- ❖ Very strong relationship between product governance and consumer risk
- ❖ Financial products and services are intangible
 - ❖ *Unlike other 'consumer goods'*
- ❖ Many examples of poor product governance in public domain
 - ❖ *Payment Protection Insurance*
 - ❖ *Tracker Mortgages*
 - ❖ *Health Insurance*
- ❖ Regulators respond again!



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Lack of transparency can lead to poor customer outcomes

NEWS VIDEOS VIDEO DETAILS LIVE CHAT WIKIPEDIA

Pension sales inspection reveals significant variations in annuity rates (Central Bank of Ireland)



(Source: Central Bank of Ireland)

20 January 2016 Firms could be more transparent in explaining the Open Market Option to consumers. In some cases, firms were unable to evidence that all post retirement options were fully explored.

Public Technologies 2016-01-20

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THE IRISH TIMES

Sat, Apr 9, 2016

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Central Bank to force health insurers to do more for switchers

Move comes on the back of research showing that switching rates are very low in the Republic

© Fri, Mar 11, 2016, 16:53

Conor Pope



Post-crisis regulatory response to poor product oversight

- ❖ Joint Position on Manufacturers' Product Oversight and Governance Processes
 - ❖ *Published by the European Supervisory Authorities in 2013*
- ❖ EIOPA Preparatory Guidelines published April 2016
 - ❖ *Essential element of new regulatory requirements under IDD*
- ❖ Insurance Distribution Directive effective October 2018



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"These Guidelines further minimise the risks of consumer detriment and mis-selling of insurance products.

We need to ensure that products are designed with clear customer needs in mind but also that these products are being sold to the right customers.

Insurers and intermediaries need to place consumers at the heart of their business strategies.

The tone of this change has to come from the top."

Gabriel Bernardino, Chair of EIOPA



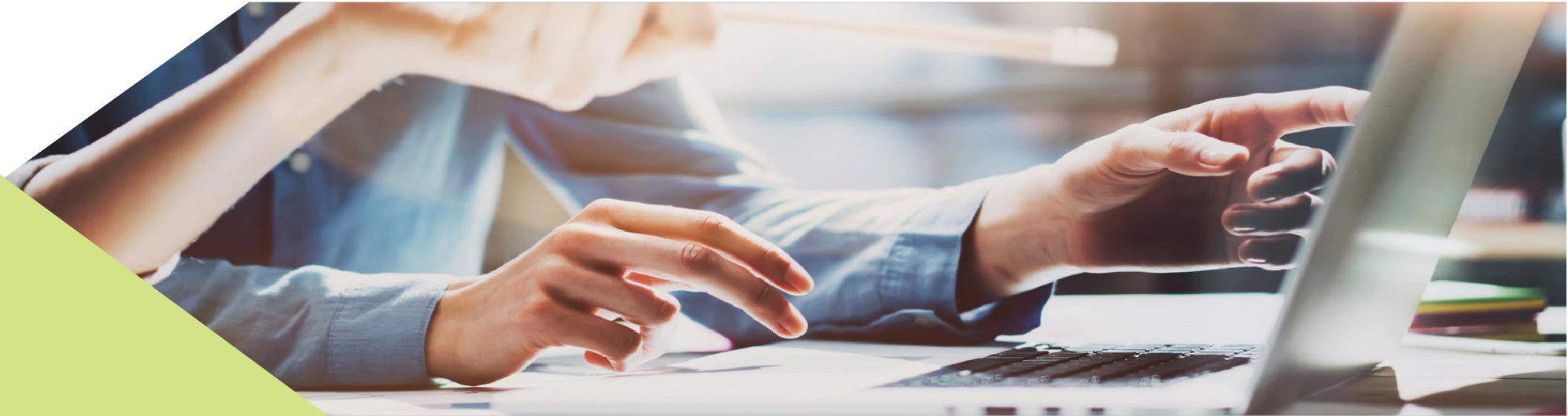
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Conclusion

Conclusion

- ❖ Poor business practices can and do impact on the lives of thousands of consumers
- ❖ Persistent poor outcomes for consumers have other adverse consequences
- ❖ Consumer risk management has wider social and economic benefits
 - ❖ *beyond the regulatory framework*
- ❖ Good culture and conduct is in everybody's interests
 - ❖ *Consumers, firms, shareholders, wider public, regulators*
- ❖ **So then..... let's make sure we *get it right for consumers***



#77366419



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'A defining cultural test is how a firm deals with adverse situations: does it make sure that the best interests of customers are protected, even if this damages short-term profitability?'

Philip R. Lane Governor, Central Bank of Ireland

Thank you



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Related Links

Central Bank of Ireland, [Guidelines for Variable Remuneration Arrangements for Sales Staff](#) (July 2014)

Central Bank of Ireland, [PRISM Explained](#) (November 2011)

Central Bank of Ireland, [Discussion Paper on the Consumer Protection Code and the Digitalisation of Financial Services](#) (29 June 2017)

Central Bank of Ireland, [Guide to Consumer Protection Risk Assessment](#) (March 2017)

Philip R. Lane, Governor of the Central Bank of Ireland, [The Role of Financial Regulation in Protecting Consumers](#), (February 2017)

Thomson Reuters, [Culture and Conduct Risk 2018: Benchmarking 5 years of implementation](#) (May 2018)

[Behaviour and Culture of the Irish Retail Banks](#) (July 2018)



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Protected Disclosures

David O'Brien – Enforcement Division

Protected Disclosures

“Whistleblower protection is integral to fostering transparency, promoting integrity, and detecting misconduct.”

Committing to Effective Whistleblower Protection, OECD, 2016

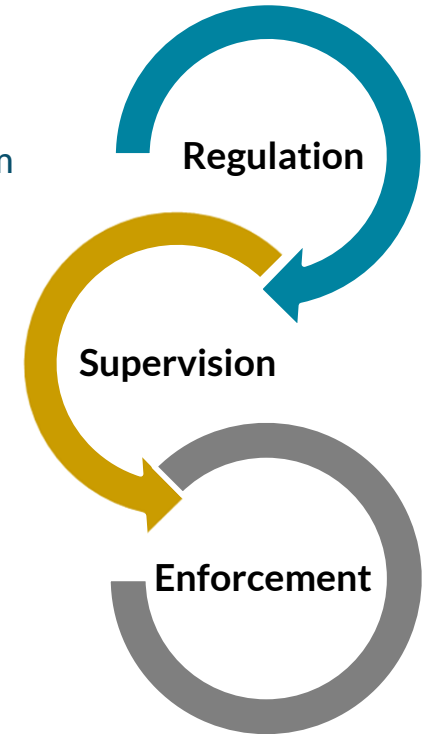


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Protected Disclosures and the Central Bank

- Protected Disclosure reports are an important supervisory tool to assist the Central Bank in discharging its supervision and enforcement mandate. The reports provide information that might otherwise not be available to us.
- The Central Bank welcomes and encourages individuals to come forward to our dedicated Protected Disclosures team where they have concerns or information relating to suspected regulatory wrongdoing in financial services.
- Central Bank has an obligation to protect the identity of a person making a protected disclosure.
- The numbers of protected disclosures is growing year on year: 113 in the twelve months to June 2018 and 79 in the previous twelve months.
- Protected disclosures have triggered a number of supervisory and enforcement actions including:
 - ❖ On-site inspections
 - ❖ Risk Mitigation Plans Issued
 - ❖ Enforcement action



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The Protected Disclosures Desk

Dedicated channel for the receipt of protected disclosures

The Protected Disclosures Desk is available at:

- **Email:** confidential@centralbank.ie / protecteddisclosures@centralbank.ie
- **Phone:** 1890 130 014 / 1890 130 015
- **Post:** Protected Disclosures Desk, Central Bank of Ireland, PO Box 11517, Spencer Dock, Dublin 1, D01 W920

More Information:

- [www. www.centralbank.ie/regulation/protected-disclosures-whistleblowing](http://www.centralbank.ie/regulation/protected-disclosures-whistleblowing)
- or search 'protected disclosures' on the Central Bank website – www.centralbank.ie



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BREAK



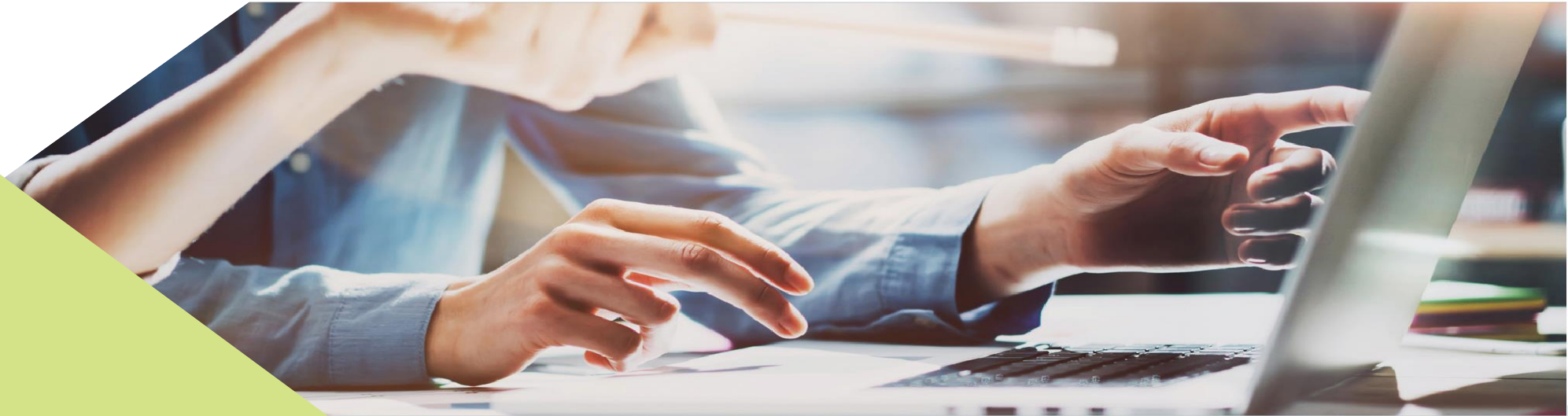
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Enforcement

Joanne Doherty, Senior Lawyer, Enforcement Investigations Division

Enforcement Mission statement

We take enforcement action that holds firms and individuals accountable and serves to deter misconduct and promote compliance and high standards in financial services



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Enforcement – Where does it fit in?

- Supervisory tools e.g. increased supervisory engagement, RMPs, Skilled Person Reports etc

- Enforcement Actions e.g. Supervisory Warnings, ASP, Revocations, F&P outcomes

Outline of the Administrative Sanctions Procedure, and guidance on the F&P Standards and frequently asked questions are available on our website: www.centralbank.ie



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Enforcement Actions

- 123 Enforcement actions under the Administrative Sanctions Procedure since 2006, imposing fines of approximately €65m
- 47 Enforcement actions against Retail Intermediaries since 2007, with breaches ranging from:
 - Overcharging;
 - Failure to hold PII;
 - Failure to comply with suitability requirements;
 - Failure to comply with requirements regarding rebates
 - Failure to communicate key information to consumers



Enforcement Actions – 2017/2018

- The Central Bank entered into four settlement agreements with Retail Intermediaries in November/December 2017 for breaches relating to the obligation to hold Professional Indemnity Insurance.
- Four applicants for PCF positions in retail intermediaries have withdrawn their applications following enforcement involvement in 2018 to date.
- While not related to retail intermediaries, the Central Bank prohibited two individuals previously working for a credit union for indefinite periods as a result of financial irregularities



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Current Issues

- PII - continues to be a key risk indicator for the Central Bank
- Retail Intermediaries paying fees/commissions to unauthorised third party agents.
- “Section 23” breaches – obligation on a firm to ensure that any individual working in a Pre-Approval Control Function (“PCF”) holds prior approval of the Central Bank.
- Commencement of the European Union (Insurance Distribution) Regulations 2018 – e.g. obligation on a Firm to ensure that its remuneration policies do not conflict with its obligation to act in the best interests of its customers.



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Conclusion

- Central Bank has a range of tools available to it to encourage compliance and change industry behaviour
- Importance of ensuring that your culture is one that does not conflict with your conduct requirements
- Enforcement has achieving substantial outcomes against firms by means of our settlement procedure and has referred significant cases against individuals to Inquiry. Pursuing investigations against senior individuals is key to deterrence.



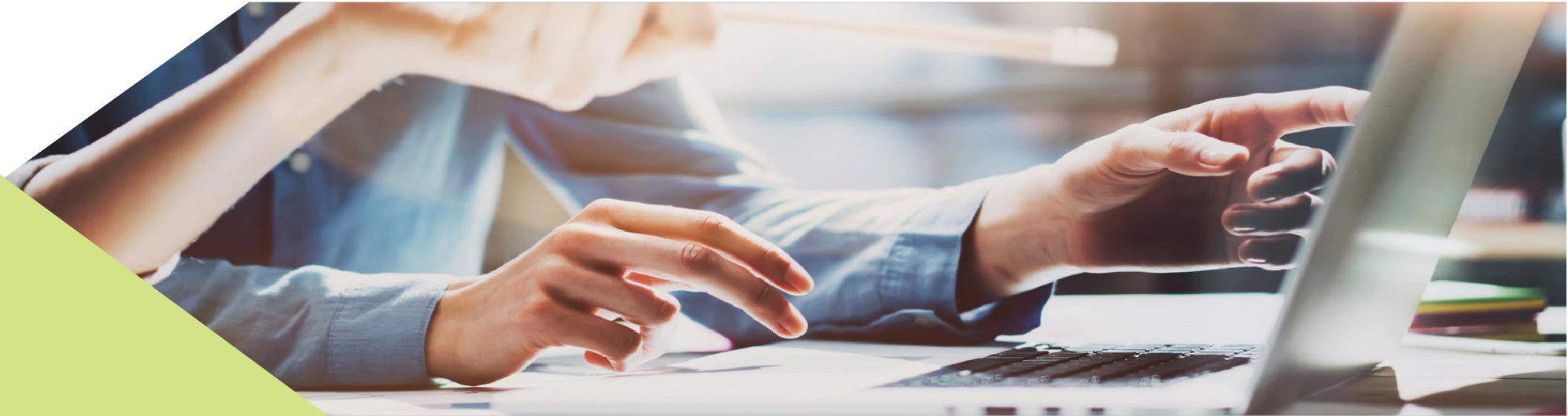
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Anti-Money Laundering & Countering the Financing of Terrorism (AML/CFT)

Helen O'Neill & Terry Lowen – Anti-Money Laundering Division (AML/D)

Topics to cover

- Background and Context
- Role of the Central Bank
- Supervisory Strategy
- 2018 AML/CFT Inspections
- Main Findings & Expectations



Background and Context

❑ Money Laundering

- ❖ Disguise illegal origins

❑ Terrorist Financing

- ❖ Intended use
- ❖ Origins – legal or illegal Funds used



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Costs of terrorist attacks are often small.

Funds used for obtaining weapons to carry out attacks on the *Charlie Hebdo* in Paris in January 2015 were relatively small and were obtained through the following sources:

- a €6,000 consumer loan, obtained with forged documents;
- an overseas used car sale;
- cash transfers linked to the sale of counterfeit goods.

It is estimated that the London bombings in July 2005 cost no more than **£8,000** to carry out.

The funds primarily came from Mohammad Sidique Khan who had been in full time employment as a teaching assistant prior to the attack.

Background and Context

- ❑ **Irish Times 9 August 2018 – Louth man faces charges of money laundering and terrorist financing.**

He was charged with three offences under the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 which involve sums totaling €279,000.

- ❑ **Irish Times 28 April 2017 – Waterford man charged with funding Islamic terrorism.**

A 25 year old man was charged in Waterford with attempting to collect funds for the benefit of international terrorist groups. The trained electrician was born in the UK, but is an Irish passport-holder having lived for over 10 years in Waterford.



Role of the Central Bank

- ❑ Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 as amended in 2013 (“CJA 2010”)
- ❑ Central Bank as the State’s competent authority must
 - ❖ effectively monitor
 - ❖ take measures that are reasonably necessary for the purpose of securing compliance



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Legal & Policy Developments

☐ 4th Money Laundering Directive

☐ Central Bank Guidelines

☐ ESA's Risk Factor Guidelines – Firms to comply since 26 June 2018



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AML/ CFT Supervisory Strategy

- ❑ Risk based approach
- ❑ 2018 Themed inspections – Governance and Training
- ❑ AML/CFT Articles in Retail Intermediary Times
- ❑ AML/CFT Workshop with Brokers Ireland – November 2018



AML/ CFT Supervisory Strategy–Onsite Inspection Process

- ❑ Request for Information
- ❑ Desktop Review
- ❑ On-site Inspection
- ❑ Issue Preliminary Observations + Final Findings
- ❑ Ongoing communication



2018 AML/CFT Inspections - Main Findings & Expectations

□ Governance

- ❖ Board/Senior Management
- ❖ Risk based approach
- ❖ Policies & Procedures
- ❖ MLRO

□ Training



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Governance – Findings

- ❑ Issues identified with regard to the role of the **Board/senior management** include:
 - ❖ Failure to demonstrate appropriate oversight of the AML/CFT function.
- ❑ Issues identified in regard to **Risk Assessment** include:
 - ❖ ML/TF risk assessments not reviewed on an on-going basis.
 - ❖ Consideration/Approval by the board/senior management could not be evidenced
- ❑ Issues in regard to **Policies and Procedures** include:
 - ❖ Current practices and processes in place are insufficiently documented or absent from the policy and procedure;
 - ❖ Consideration/Approval by the board/senior management could not be evidenced



Governance – Central Bank Expectations

□ Board/Senior Management

❖ Ability to **demonstrate** that AML/CFT **discussion** and **challenge** takes place regularly at board/senior management meetings and is appropriately documented. Discussions should include:

- Existing, new and emerging AML/CFT risks;
- Review and approval of policy and procedures;
- Review of qualitative and quantitative information contained within the MI reports;
- Regulatory and legislative updates and the impact on the existing AML/CFT framework.



Governance – Central Bank Expectations

□ Risk Based Approach

- ❖ Supporting documented methodology determining the relevant risk ratings.
- ❖ Documented evidence of review of the risk assessment at least annually to identify any new and emerging risk factors.
- ❖ The risk assessment should outline controls and mitigating factors in place.



Governance – Central Bank Expectations

□ Policies & Procedures

- ❖ Should be documented and relevant to the existing business/operations of the firm.
- ❖ Should include the roles and responsibilities of key personnel in each function, including the MLRO.
- ❖ Subject to regular review and updated as required.
- ❖ Be able to demonstrate review and approval.



Governance – Central Bank Expectations

❑ Money Laundering Reporting Officer

- ❖ Role in the review and reporting of suspicious transaction/activity reports;
- ❖ Necessary skills and expertise and autonomy to carry out the role effectively;
- ❖ Sufficient time to dedicate to the role;
- ❖ Involved in the development and ongoing review of the policy and procedures;
- ❖ Produce an annual MLRO Report;
- ❖ Act as point of escalation for AML/CFT issues;
- ❖ Facilitate AML/CFT training for management and staff.



Training - Findings

- ❑ Failure to demonstrate that an effective monitoring plan is in place to ensure that all board members, senior management and staff have successfully completed the required AML/CFT training; and
- ❑ Failure to demonstrate that the AML/CFT training provided is appropriate to the firm's business activities.



Training

Section 54(6) of the CJA 2010 requires designated persons to ensure that members of the board, senior management are:

- instructed on the law relating to ML/TF; and
- provided with ongoing training.



Training – Central Bank Expectations

- ❑ Ensure that the firm has a process in place to **effectively monitor** that board members, senior management and all staff have successfully completed the required AML/CFT training;
- ❑ Content is **appropriate** to the firm's business activities;
- ❑ Training content should be **regularly reviewed** and updated;
- ❑ Copies of all such training materials must be **retained** and readily available;
- ❑ **Enhanced** training is provided to staff in key AML roles to ensure their knowledge remains adequate and up-to date;
- ❑ **Induction** training should include training on AML/CFT policy and procedures and legislative and regulatory requirements; and
- ❑ Training completed on an **annual basis** or more frequently when required



Useful Website Links

- ❑ Pages covering AML/CFT/FS publications and industry legislative updates.

[Central Bank of Ireland AML/CFT/FS Correspondence to Industry](#) (Right click to access)

- ❑ European Supervisory Authorities (ESAs) Joint Guidelines – The Risk Factor Guidelines

[The Risk Factor Guidelines](#) (Right click to access)





Thank you



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Delivering an effective Investor Compensation Scheme for Retail Clients

Agenda

Who are the
ICCL?

Strategy 2016-
2020

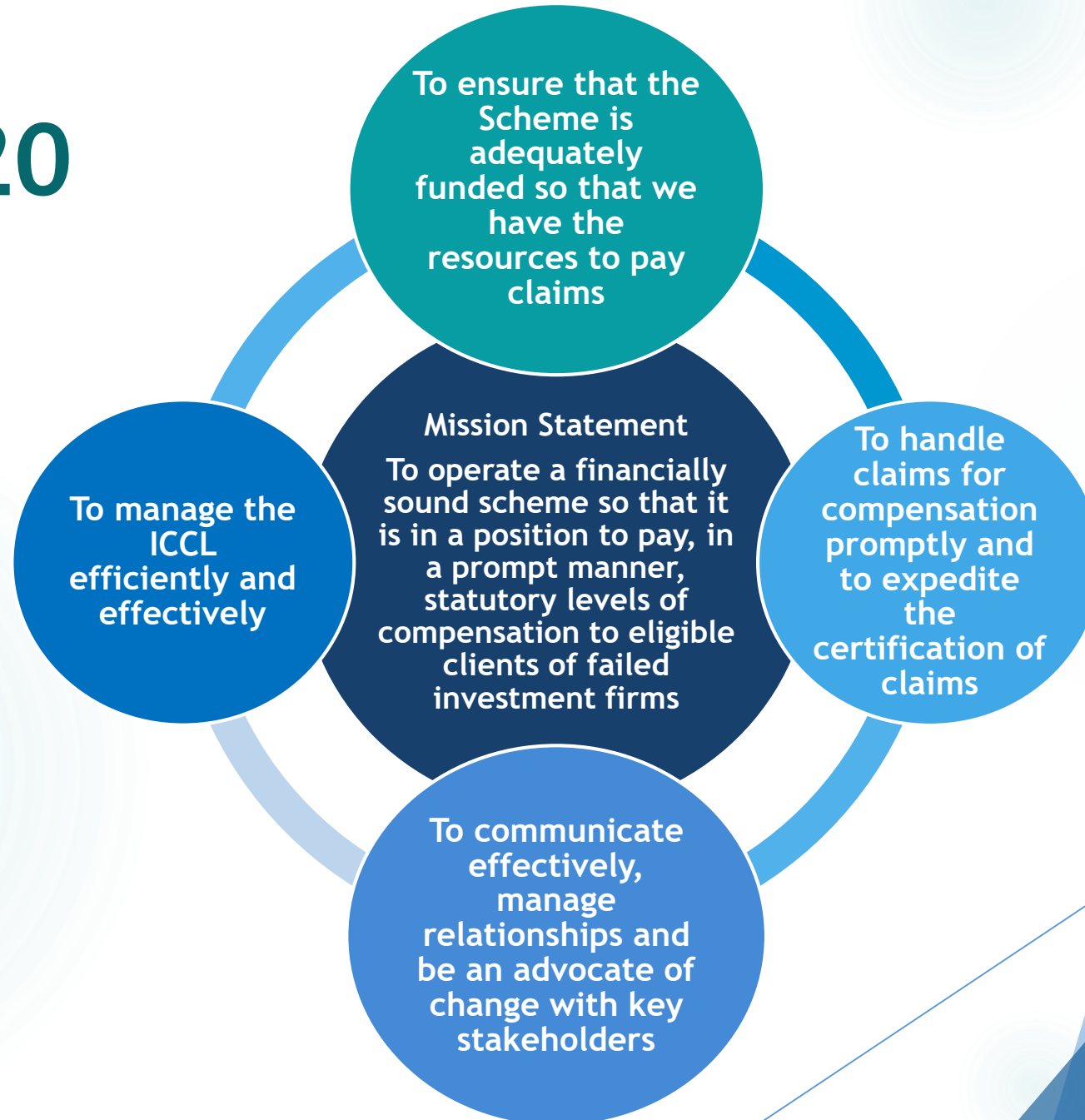
Payment
of Compensation

Funding &
related matters

Who are the ICCL?

- Independent body
- EU Directive 97/9/EC - Investor Compensation Directive (Fund A firms)
- Operate the Irish Investor Compensation Scheme - scope of Irish Scheme extended by the Dáil
- Funded by levies from authorised or registered investment firms that are members of the investor compensation scheme
- Maintain a fund to pay compensation to eligible clients of a failed investment firm

Strategy 2016 - 2020



Payment of Compensation

- Compensation arises if an authorised firm / insurance intermediary fails with a liability to a client it cannot discharge
- Bad advice, market movements or dealings with an unregulated firm are not covered
- ‘Eligible investors’ compensation limit of 90% of net loss, up to a maximum of €20,000
- The investment instruments which are covered are listed in European Union (Markets in Financial Instruments) Regulations 2017 & Investment Intermediaries Act, 1995

Funding the Scheme



- Two distinct funds approved by the Central Bank - Fund A and Fund B
- **Fund A (139 participants):**
 - Investment firms (MiFID / IIA / AIFM / UCITS Mgr.) [106];
 - Stockbrokers [9];
 - Credit Institutions [24]
- **Fund B (3,254 participants):**
 - Retail firms (Investment & Insurance intermediaries incl. Tied Agents) [2,414];
 - Accountants [676];
 - Credit Unions (in relation to their insurance activities) [164]
- 3-year Funding targets, Levies collected annually (c.€5 million)
- ICCL has an established practice of consulting with industry on a triennial basis

Fund A Levy Rates (1 August 2016 to 31 July 2019)

Band	Number of eligible clients	August 2016 to July 2019 Not subject to CAR	August 2016 to July 2019 Subject to CAR
Zero	Zero	€5,400	€5,400
A	1 - 9	€18,670	€20,540
B	10 - 499	€29,840	€32,820
C	500 - 2,499	€60,890	€66,980
D	2,500 - 4,999	€127,820	€140,600
E	5,000 - 24,999	€203,680	€224,050
F	25,000 - 49,999	€213,410	€234,750
G	Over 50,000	€341,190	€375,310

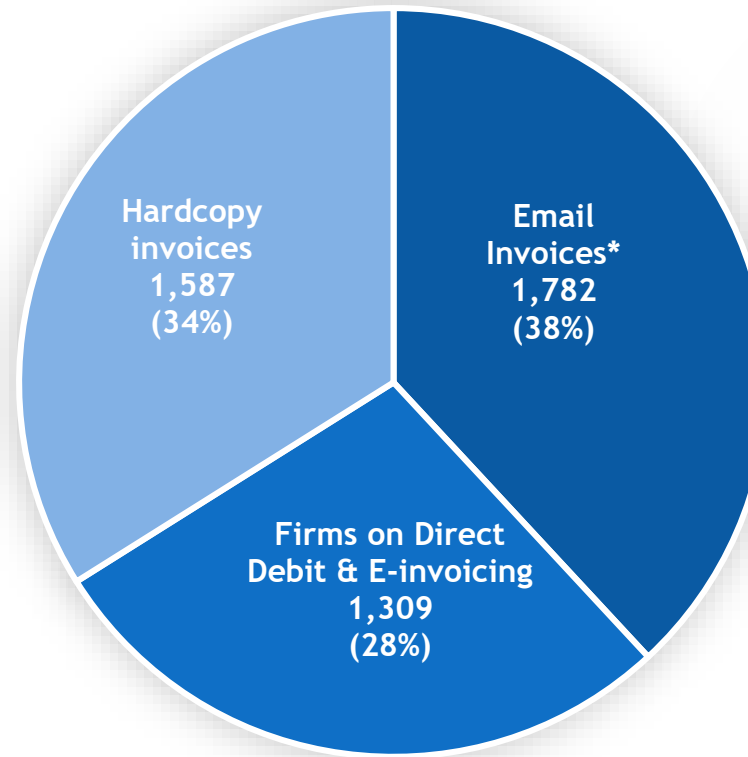
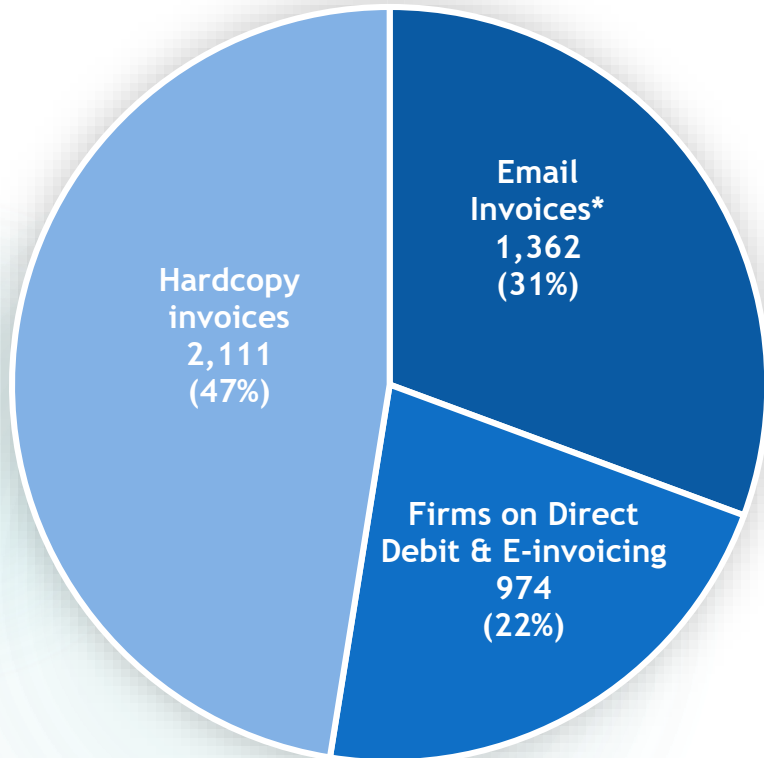
Fund B Levy Rates (1 August 2016 to 31 July 2019)

Level	Income from Investment and Insurance Business	Funding Year 1 August 2016 to 31 July 2017	Funding Year 1 August 2017 to 31 July 2018	Funding Year 1 August 2018 to 31 July 2019
01	< €150,000	€210	€210	€100
02	€150,001 - €400,000	€400	€400	€200
03	€400,001 - €700,000	€550	€550	€270
04	€700,001 - €1.5m	€1,040	€1,040	€500
05	€1,500,001 - €3m	€1,800	€1,800	€900
06	€3,000,001 - €6m	€3,280	€3,280	€1,600
07	€6,000,001 - €15m	€13,000	€13,000	€6,500
08	€15m - €25m	€21,500	€21,500	€10,500
09	> €25m	€26,000	€26,000	€13,000

E-Invoicing and Direct Debit sign up

1 August 2017 to 31 July 2018

1 August 2018 to 31 July 2019



* Email invoices include participant firm on Direct Debit & E-invoicing

Benefits of Direct Debit and E-invoicing

- Discount of up to 10% on annual levy
- Your firm will be compliant with its obligations under the Investor Compensation Act, 1998 (as amended)
- Reduction in administration costs and time
- Your ICCL levy is paid on time and you will avoid penalty interest arising from late payment
- Help reduce the overall costs of administering Fund B of ICCL

www.investorcompensation.ie

Funding Consultation 2019-2022



- The Funding Consultation process will commence in October 2018
- Issue Consultation document to industry on 30 October 2018:-
 - proposals on target fund capacity,
 - mix of each funding layer and type,
 - basis of assessment for annual levies, and
 - proposed levy rates for the new 3 year funding cycle
- All participant firms are invited to consider the contents and to respond to issues and proposals set out by 14 December 2018
- Submissions received will be considered by the ICCL Board
- New 3 year funding cycle will take effect on 1 August 2019

Any Questions?

Thank you for your time

Contact Details:-

info@investorcompensation.ie

01 224 4955

www.investorcompensation.ie

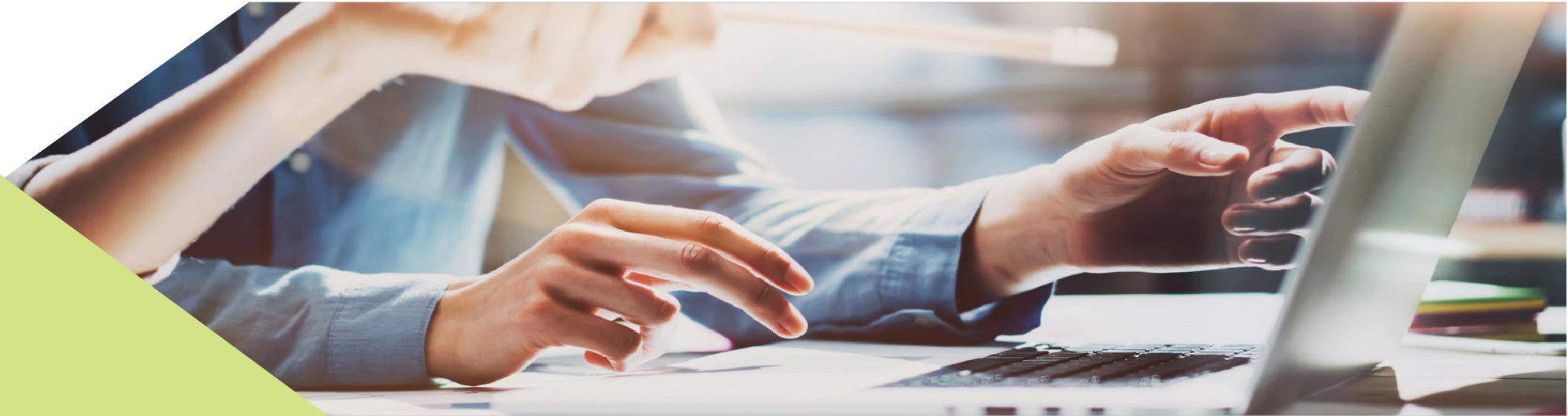
Summary

- Independent body set up under the Investor Compensation Act, 1998
- Funded by levies from participant firms of the Scheme
- Investment instruments covered listed in European Union (Markets in Financial Instruments) Regulations 2017 & Investment Intermediaries Act, 1995
- Compensation limit 90% of net loss, up to a maximum of €20,000
- 3-year Funding targets - consult with industry on a triennial basis
- Discount initiatives - 10% off annual levy (up to maximum of €50)
- Sign up for discounts - www.investorcompensation.ie
- Consultation document issued on 30 October 2018
- Deadline for submissions on Funding Consultation - 14 December 2018



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Industry Funding Levy

Brendan Sheridan

Agenda

1. Headlines
2. Funding the cost of Financial Regulation
3. Regulatory costs for the Retail Intermediary sector
4. Refresher – levy calculation basis
5. A number of income scenarios
6. Guidance – online regulatory returns
7. AOB – an update on civil debt collection processes

1. Headlines

Why? To recover a proportion of the cost of financial regulation

How? Minimum levy + variable element

When? Invoices expected to issue in November

Cost? €1,020 minimum levy plus variable levy of 0.32% of turnover >€200k

Levy rates for 2018 reflect engagement with Brokers Ireland in relation to the parameters (minimum levy, threshold, variable fee)

60% of Retail Intermediaries will continue to pay the minimum levy

2. Funding Strategy



2015: Public Consultation – Funding the cost of Financial Regulation (CP95)

2016: New levy methodology for Retail Intermediaries (CP102)

2017: While most categories moved to 65%, R.I.'s remained at 50%

2018: R.I. recovery rate increases to 65%

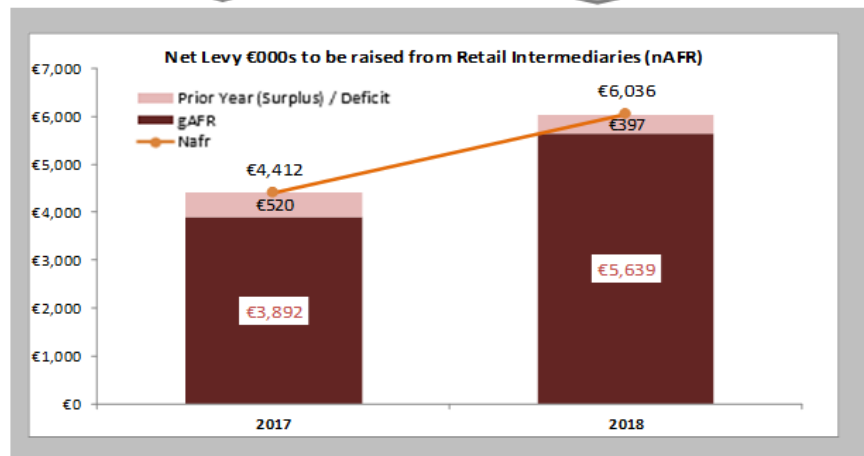
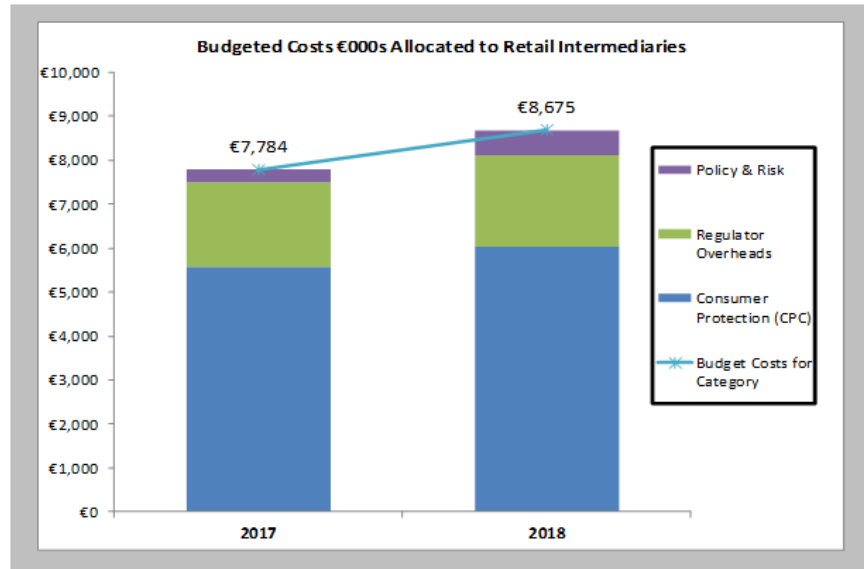
2019: *Recovery rate likely to increase in next levy cycle*

2019: *Invoices for 2019 will reflect an arrears basis and issue in Q3 2020*

1. 2018 funding rate for Banks, Insurers and Investment Managers has increased to 80%
2. The R.I. rate of 65% reflects the rate applicable to most other categories since 2017
3. Additional information in the appendix



3. Regulatory costs for R.I. sector



€6m to be raised from c2,300 firms reflecting:

1. Widening of recovery rate from 50% to 65%
2. Increased cost of regulation in 2018
3. Slight reduction in deficit from prior year

2018 rates seek to balance changes to the metrics fairly across the population

4. A refresher – levy calculation basis

CP102 methodology first introduced for 2016 levies

- Minimum Levy: €1,020 plus
- Variable Levy: $(A - B) \times C$

	2018	2017	2016
Recovery Rate	65%	50%	50%
Minimum Levy	€1,020	€932	€700
Variable Levy	0.32%	0.22%	0.15%
Income Threshold	€200k	€300k	€300k

For 2018:

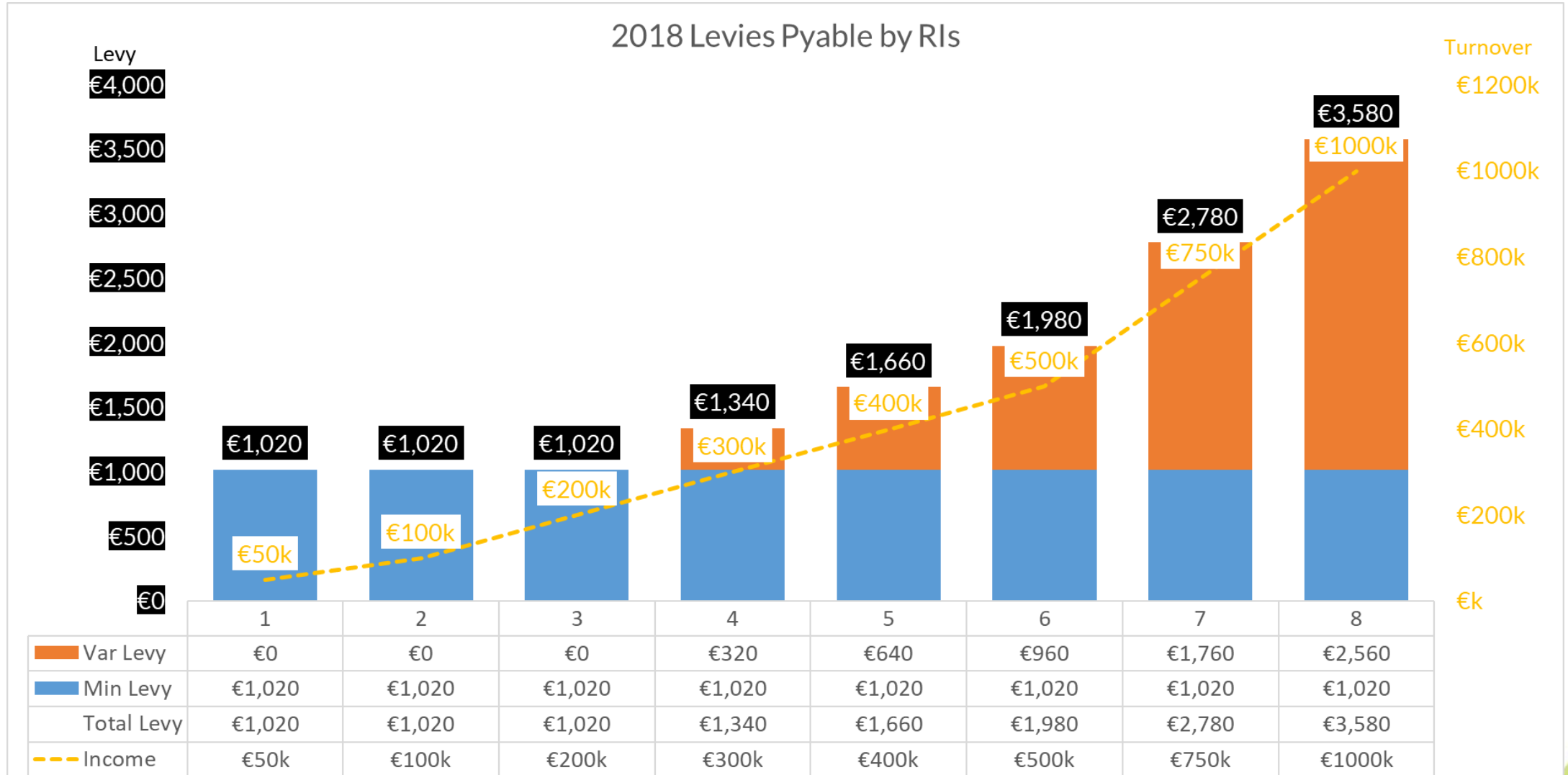
A = total 'Income from Fees' and 'Income from Commissions' (latest On-Line Regulatory Return);

B = threshold 'Income' level of €200,000;

C = 0.32%

This formula is used to illustrate a number of levy scenarios on the next slide

5. A number of income scenarios



6. Guidance: On-line Regulatory Returns

Did you know...

1. You can check your details by logging on to Online Reporting System
 - Income from Commissions: Line 17 of Section 2: Financial Information of ONR
 - Income from Fees: Line 18 of Section 2: Financial Information of ONR
 - **Commissions should be declared gross** (i.e. before deduction of commission payable e.g. M.G.A.'s)
2. There is a calculator on our website* to check your 2018 levy
3. Further information available in the 2018 Guide to the Industry Funding Levy*
4. If you still need support, our colleagues at funding@centralbank.ie will be happy to help you

16	Gross Income/ Turnover	Value entered cannot be zero
17	Commission Income	
18	Fee Income	



* 2018 Guide and calculator available early November on website following approval of the Statutory Instrument

7. AOB An update on civil debt collection

- Industry concerns about non payers
- Remedies now include:
 - District Court Judgements
 - Instructions to Sheriff
 - District Court Examination Order of means
 - Judgement Mortgage

- Several judgements secured
- Process is ongoing



- The Central Bank will consider invoking the involuntary revocation process in the case of those firms who do not engage with / comply with the regulatory obligations (including payment of the levy)

CB10010033 Record No: 4180/2016

AN CHUIRT DUICHE
THE DISTRICT COURT
DECREE (SUMMARY JUDGMENT)
(Excepting proceedings instituted in pursuance of Consumer Credit Act 1995)

District Court Area of Dublin Metropolitan
District No: 0

Central Bank of Ireland
Having its registered office at Dame Street, Dublin 2

Claimant

-AND-

Operating his business from [REDACTED]

in the County of City of Dublin and Court Area and District aforesaid

Respondent

IT APPEARING

- 1) That a Claim Notice for a debt or liquidated money demand was duly served on the Respondent claiming €1,200.00 for unpaid levies due by the Respondent to the Claimant.
- 2) That the Respondent failed to serve and file an Appearance and Defence to the Claim Notice.
- 3) AND IT FURTHER APPEARING by the Affidavit of [REDACTED] on behalf of the Claimant, verifying the said claim, sworn the 11th October 2016 and the Claimant's request for Judgment thereon that the Respondent is justly indebted to the Claimant in the sum of €1,200.00.

IT IS THEREFORE ORDERED AND DECREED that the Claimant recover from the Respondent(s) the said sum of €1,200.00 for debt together with the sum of €246.40, for costs.

And all Sheriffs and County Registrars are hereby commanded to take in execution the goods of the Respondent(s) to satisfy the said debt, costs (and value added tax), and interest from the date hereof (exclusive of the costs and tax) - at the rate of 8% per annum for the time being standing specified in Section 26 of the Debtors (Ireland) Act 1840, from the 11th October 2016 to the 31st day of October 2016 and interest at the rate of 2 per cent per annum from the 1st of January 2017.

Debt	€1,200.00
Costs	€ 246.40
Credit	€ 0.00
Total	€1,446.40

SIGNED: [Signature]
Judge of the District Court.

SIGNED: Hugh J Ward & Co,
Hugh J Ward & Co, Solicitors for the Claimant
9 Seville Place, Dublin 1

• Civil debt collection processes help to avoid the paradox whereby the 'good' are called upon to fund the 'bad'

APP: Levy Strategy – the 3 year vision for 2018 – 2020

	2018 -2020 Funding Strategy	Implications for 2018
1	Increase the overall recovery rate and address funding gaps in specific areas of the Central Bank’s regulatory activities with a view to achieving full industry funding in the medium term.	<ul style="list-style-type: none">• The recovery rate applicable to credit institutions, insurance, investment firms and fund service providers will increase (from 65 per cent) to 80 per cent;• The recovery rate for Retail Intermediaries and Debt Management Companies will be aligned with other categories at 65 per cent (50 per cent rate was retained in 2017 on a transitional basis)
2	Move to levying on an incurred cost basis, rather than based on budgeted costs – to address an aspect of volatility in response to Industry feedback by eliminating subsequent balancing surpluses and deficits in favour of levies based on the Central Bank’s audited financial statements.	<ul style="list-style-type: none">• Subject to detailed planning, the current intention is to levy 2019 actual costs on an arrears basis in Q3 2020.
3	Further refine levy methodologies, where appropriate, in order to eliminate pricing “cliff” effects associated with the PRISM-derived methodology.	<ul style="list-style-type: none">• Methodology for Moneylenders will change to reflect this principle. This follows similar progress in relation to Retail Intermediaries and Debt Management Companies (2016) and Credit Institutions (2017).• Further changes are planned for future years
4	Simplify, de-risk and automate aspects of current work through process re-engineering, in order to further improve efficiency and effectiveness.	

Thank You!



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