

Consumer Protection Risk Assessment (CPRA) Model

An overview of the Central Bank of Ireland's new consumer and conduct risk approach

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The Central Bank of Ireland's latest conduct and consumer protection risk approach brings with it new challenges for domestic and cross-border insurance companies.

In March 2017, the Central Bank of Ireland (CBI) published its [Consumer Protection Risk Assessment \(CPRA\) model](#). This new approach provides the CBI with a framework to assist in planning and carrying out assessments of how consumer risk is identified and managed within regulated firms.

The CPRA model has been introduced to enhance the current protection offered to consumers of financial services provided by firms regulated in Ireland for conduct of business. The model will stand alongside existing consumer protection legislation and regulatory requirements, and will be used from 2017 onwards to carry out assessments of regulated firms across various retail financial services sectors, including the insurance industry. The approach is designed to ensure that consumer protection risk is appropriately measured, managed and mitigated within regulated firms, and aims to ensure that boards and senior management are aware of their responsibilities in respect of consumer protection risks.

The CBI requires all regulated firms to implement consumer protection risk management frameworks that take into account the nature, scale and complexity of the firm, as well as encompassing the risks the framework is intended to manage.

The CPRA model is an appraisal-based framework for reviewing how an individual company identifies and manages risks associated with its conduct of business. The assessments will take place on-site, with supervisors reviewing policies and procedures relevant to consumer protection and conduct risk, attending board and key committee meetings, and conducting interviews with a selection of staff across all levels of the firm. Once an assessment has been completed, formal feedback will be issued.

If the CBI identifies risks which it deems to be unacceptable, a risk mitigation programme could be imposed on the firm in question. In other cases, the CBI will have the power to use other supervisory tools, such as instructing a firm to cease a practice or modify a process if it is deemed inappropriate or non-compliant. The CBI will also have the ability to impose

directions or corrective actions on firms, where it identifies gaps in firms' risk management frameworks.

The CPRA model in more detail

The CPRA model is comprised of five modules reflecting, in turn, the CBI's expectations of an appropriately structured consumer protection risk management framework. Each module contains a number of distinct submodules, called elements, each of which relates to a specific aspect of consumer protection risk which the CBI will assess:

- **Module 1 "Governance & Controls"**: The aim of this module is to evaluate the appropriateness of roles and responsibilities within the firm from the point of view of consumer protection. This unit will also consider the effectiveness of firms' risk management frameworks in respect of managing consumer protection risks.
- **Module 2 "People & Culture"**: The CBI will evaluate the degree to which firms have a consumer-focused culture. The focus here will be on aspects such as firms' behaviours, recruitment, training and remuneration.
- **Module 3 "Product Development"**: This module considers the product development phase of the product life cycle. This includes an assessment of marketing collateral, distribution arrangements and product monitoring processes.
- **Module 4 "Sales / Transaction Process"**: The focus here will be on how firms distribute and sell their products and services. The aim of this module is to assess the fair treatment of consumers during the sales process.
- **Module 5 "Post Sales Handling"**: Undertakings will be assessed on the appropriateness of their post sales governance arrangements and processes.

For insurers, the CPRA model will complement the upcoming conduct of business requirements set out in the Insurance Distribution Directive, or IDD, which comes into effect in early 2018 as well as the specific Product Oversight and Governance, or POG, requirements contained in the IDD.

The expected assessment process

There will be two interrelated aspects to the CPRA:

- **A design review** which will evaluate the overall design of the control mechanisms in place, and

- **An effectiveness review** which will evaluate the operational effectiveness of such control mechanisms.

The CBI will seek evidence to confirm that appropriate governance and management processes are in place in relation to consumer protection risks. The CBI has stated that the assessments will be intrusive in nature, meaning that firms should expect the CBI to take a 'hands on' and active approach when it comes to collecting this evidence.

The reviews will be firm-specific, with the supervisor selecting specific modules and elements relevant to the key conduct risks faced by the firm being reviewed. The depth and duration of assessments will be commensurate with the nature, scale and complexity of the firm being reviewed. The CBI will select firms and formally notify them of the planned CPRA. The CBI has stated that on-site assessments will typically take less than a week in duration, but may take longer, depending on the depth of review required.

Firms will be provided with an outline of the proposed activities and timelines prior to commencement of the on-site review. This will include details of the board and committee meetings they wish to observe, as well as planned interviews with key personnel, who are instructed to be available at the time of on-site inspection. This will include first, second and third line functions, as well as product development, and marketing and sales personnel.

Once the assessment is complete, the CBI will rate each element assessed in the CPRA model and will meet with firms to communicate the findings and outcomes of the assessment. It is envisaged that the CPRA will be a cornerstone of the CBI's overall **PRISM assessment** of firms.

Minimum risk management standards for firms

The CBI has stated that there is no specific requirement for firms to design and develop a separate framework for consumer protection risk management. Instead, it is requesting firms to enhance existing risk management and internal control frameworks to incorporate and comply with the new standards.

The CBI has outlined a number of minimum practices which firms should consider in respect of developing and embedding their consumer protection risk management frameworks. In particular, firms should carry out the following activities:

- **Identify consumer protection risks** specific to the individual firm;

- Articulate the firm's **consumer protection risk appetite**;
- Document the **governance, systems and controls** in place to manage and mitigate consumer protection risks;
- Ensure consumer protection risk awareness is **embedded** throughout the firm;
- Assign clear **ownership and accountability** for consumer protection risks; and
- Use appropriate methodologies, metrics and management information to **monitor and track** consumer protection risks.

Specifically, the CBI will seek evidence that undertakings have in place a suitable policy in respect of consumer protection, an active consumer protection committee, and have identified the person(s) responsible for consumer protection and conduct risk within the organisation. Undertakings will also need to demonstrate that board and management committees are aware of key consumer protection risks, that these are monitored effectively on an ongoing basis, and are central to the decision making process of company.

How Milliman can help

Milliman is a global thought leader on issues associated with future financial, insurance and operational risk and has valuable insights into both domestic and international best practice

Our consultants have a wealth of expertise in consumer protection and conduct risk. We can assist undertakings with the following areas:

- Development and review of firms' consumer protection risk management frameworks
- Assisting firms in preparing for onsite CPRA inspections
- Drawing up a suitable consumer risk governance structure with assigned roles and responsibilities across the three 'lines of defence' as well as preparation of consumer protection policies and operational procedures
- Advising on the extraction and analysis of suitable management information related to consumer protection issues
- Assessment of the performance of risk management systems and procedures

For more information contact your usual Milliman contact or one of the contacts listed below.



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