



Consumer Protection from a risk perspective

EY on Asset Management
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Agenda

- ▶ Consumer protection, background

- ▶ Issues & challenges financial organisations
 - ▶ Regulatory from an international perspective
 - ▶ Regulatory from a Dutch perspective
 - ▶ Role of the regulator
 - ▶ Impact on risk management

- ▶ Required response to the issues & challenges

- ▶ The customer journey
 - ▶ A holistic view of the customer journey on the firms processes
 - ▶ Benefits of a holistic view
 - ▶ The consumer lifecycle
 - ▶ Different approaches to support the customer journey

- ▶ Conclusion

Recent articles in the Dutch Financial Newspaper (Het Financieele Dagblad)

AFM beboet DVHBB na niet-passend advies

Banken moeten opener over advies zijn

Omstreden nepklant moet foute praktijken blootleggen

Financieel klachtenloket wimpelt veel klagers af

Frijters met Aegon in nieuwe retailbank

Brussel scherpt markttoezicht aan

Consumer protection

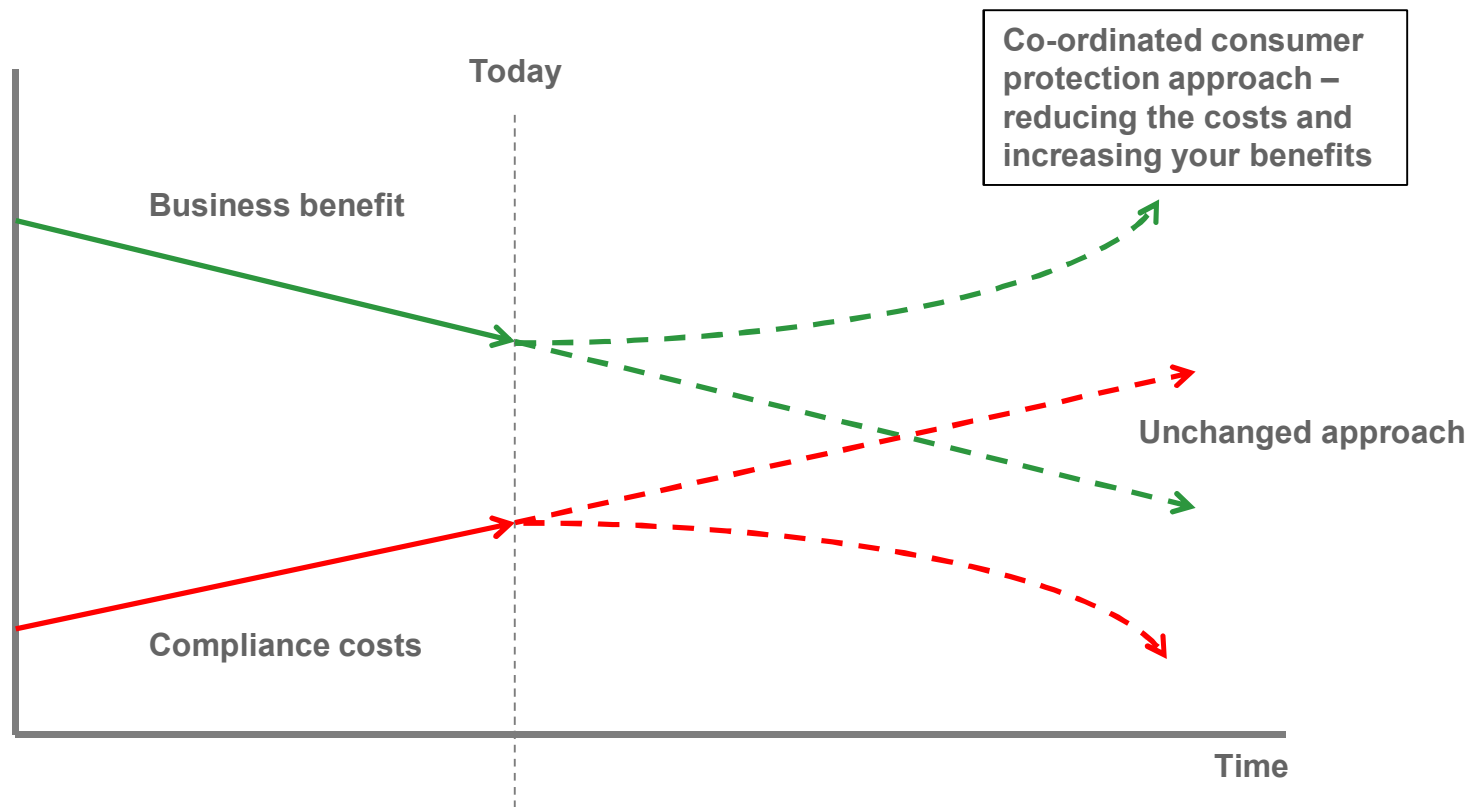
– Background (1)

- ▶ Consumer protection - i.e. how firms approach the sale of financial products and services - is at the core of customer confidence in financial markets and central to the G20 initiatives.
- ▶ As firms seek to return to growth following the financial crisis they will need to rebuild customer trust. It will be no small feat to achieve this, particularly in a still-fragile market environment. Regulators, who in many cases are now also shareholders, are taking a tough and politically popular line and a raft of changes to consumer compliance laws and regulations have been introduced.
- ▶ In order to meet the demands of the changing regulatory requirements in the area of consumer protection, financial institutions will need to holistically evaluate and modify business strategies, product offerings, pricing structures and compliance governance and oversight; all with a focus on improving both transparency and the customer experience.

Consumer protection

– Background (2)

- ▶ A customer focused and efficient firm is key to increasing customer loyalty and trust and remaining profitable. Increasing regulatory pressures and continuing consumer distrust are challenging firms ability to deliver.



Issues & challenges financial organisations

– *Regulatory from an international perspective*

- ▶ The increased regulatory focus on the Consumer Agenda within EMEIA, UK and US is driving financial organisations to proactively assess their systems and controls

- ▶ Forthcoming European wide consumer protection regulations will add to the pressure. For instance:
 - ▶ **Markets in Financial Instruments Directive 2 (MiFID 2)**; harmonised regulation to increase competition and consumer protection in investment services

 - ▶ **Packaged Retail Investment Products (PRIIPS)**; legislative changes to address investor protection and level playing field issues in the retail investment market

 - ▶ **Insurance Mediation Directive (IMD)**; aims to guarantee a high level of consumer protection and a legal framework, aiming at a high level of professionalism and competence among insurance intermediaries

Issues & challenges financial organisations

– *Regulatory from a Dutch perspective*

- ▶ AFM announced for 2011 **ten priorities**, most of them highly related to **consumer protection**:

- ▶ Customer's interests first;
- ▶ Quality of financial services is better;
- ▶ Enhancement of products and advisory of asset accumulation;
- ▶ Amount and risk of pensions more transparent;
- ▶ Faster and more focused approach to serious violations of integrity;
- ▶ Quality of information about capital markets is improved;
- ▶ International trade platforms are fairer and more efficient
- ▶ Supervision of market abuse is more visible;
- ▶ Promoting international quality supervision; and
- ▶ Better governance.

Two important articles from the Banking Code highlighted:

- ▶ Art 3.2.2.: “Keeping the client’s interest at heart is a necessary precondition for the continuity of the bank. The executive board shall ensure that the bank always treat its clients with due care. The executive board shall see to it that the duty of care for the client is embedded in the bank’s culture”;
- ▶ Art 4.5: “Every bank shall have a Product Approval process.” “Products that go through the product approval process at the bank shall not be launched on the market or distributed without careful consideration of the risks by the bank’s risk manager and a careful assessment of any other relevant factors, including the duty of care towards the client”.

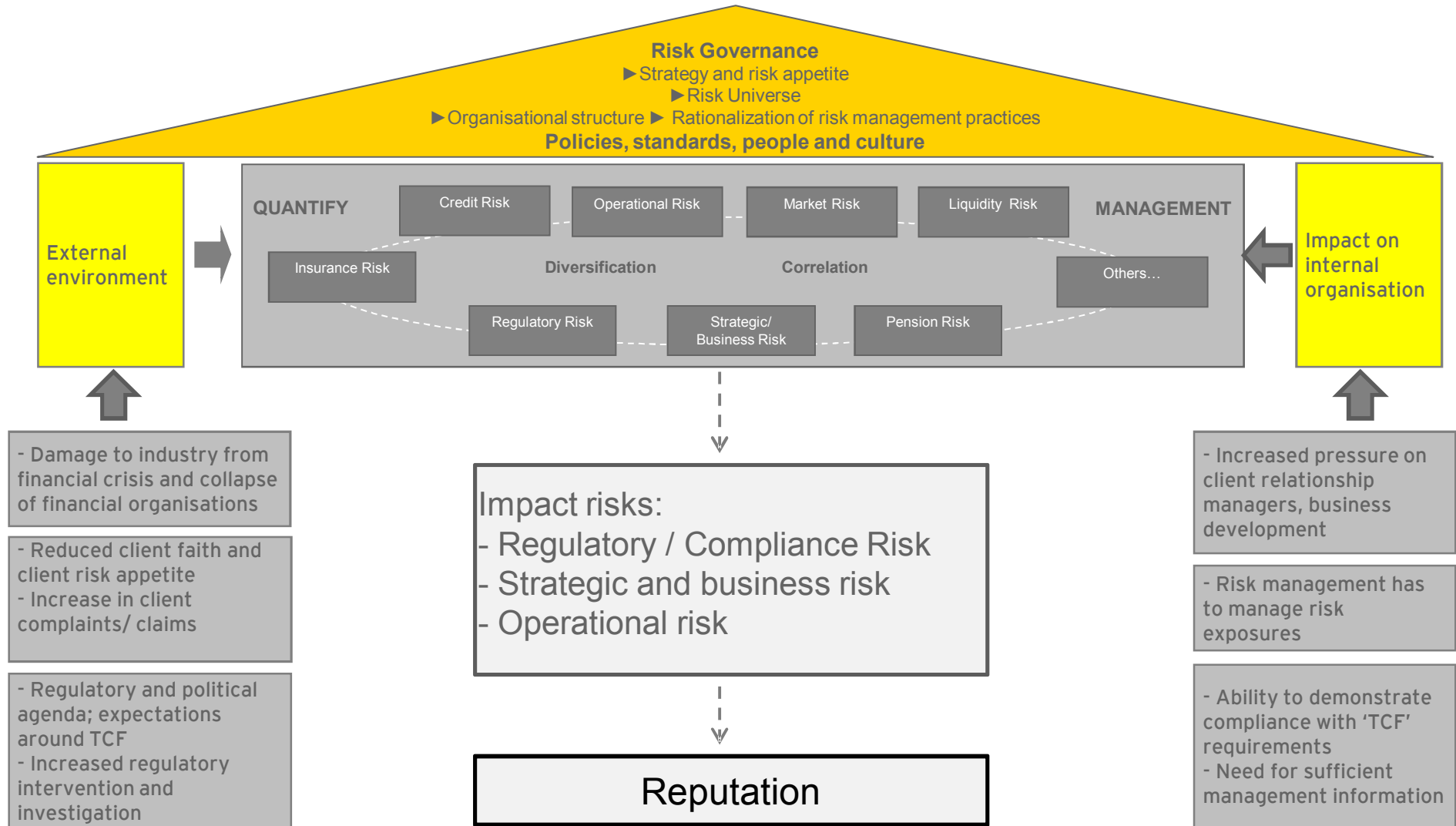
Issues & challenges financial organisations

– Role of the regulator

- ▶ The format and intensity of regulatory visits has evolved and frequently involves interviews with business managers and testing. Detailed preparation is required for these visits.
- ▶ In the UK the level of enforcement activity has been increasing, with regulatory authorities issuing significant fines for non compliance. We expect The Netherlands will follow.
- ▶ Inconsistent approaches to processes and controls across business units and jurisdictions is resulting in regulatory breaches.

Issues & challenges financial organisations

– *Impact on risk management*



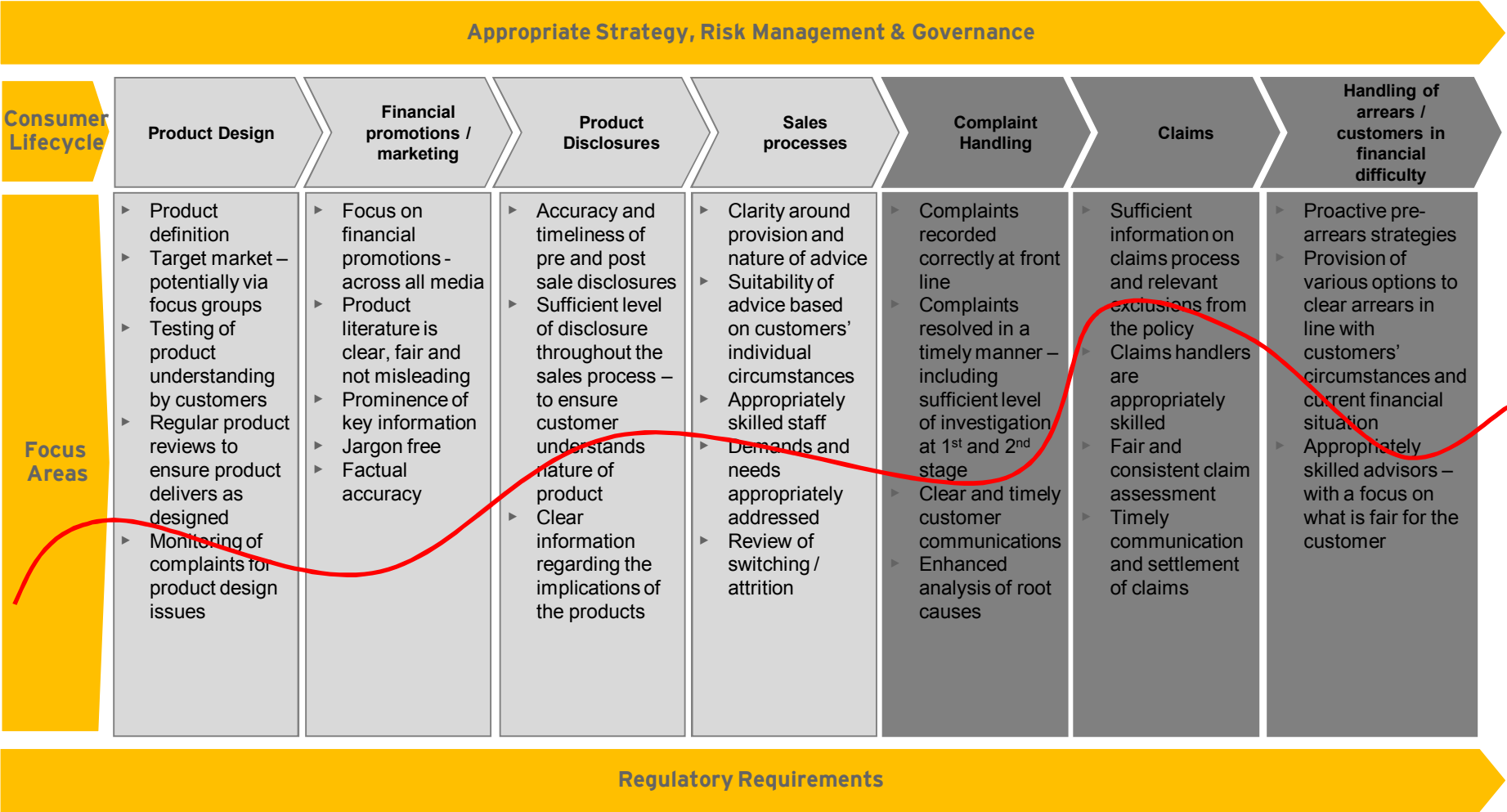
Required response to the issues & challenges

– *From a risk perspective*

- ▶ A need to review the delivery to customers throughout the customer lifecycle stage.
- ▶ Ability to demonstrate customer impacts are considered at the design stage, and not only at the “back-office” stage (e.g. when a customer has complained).
- ▶ Treating customers fairly and embed this within the culture of your firm.
- ▶ Management information that will meet increased requirements regarding transparency and reporting - both within the organisation and for the local regulator.

The customer journey

– A holistic view of the customer journey on the firms processes



Red line is CULTURE

The customer journey

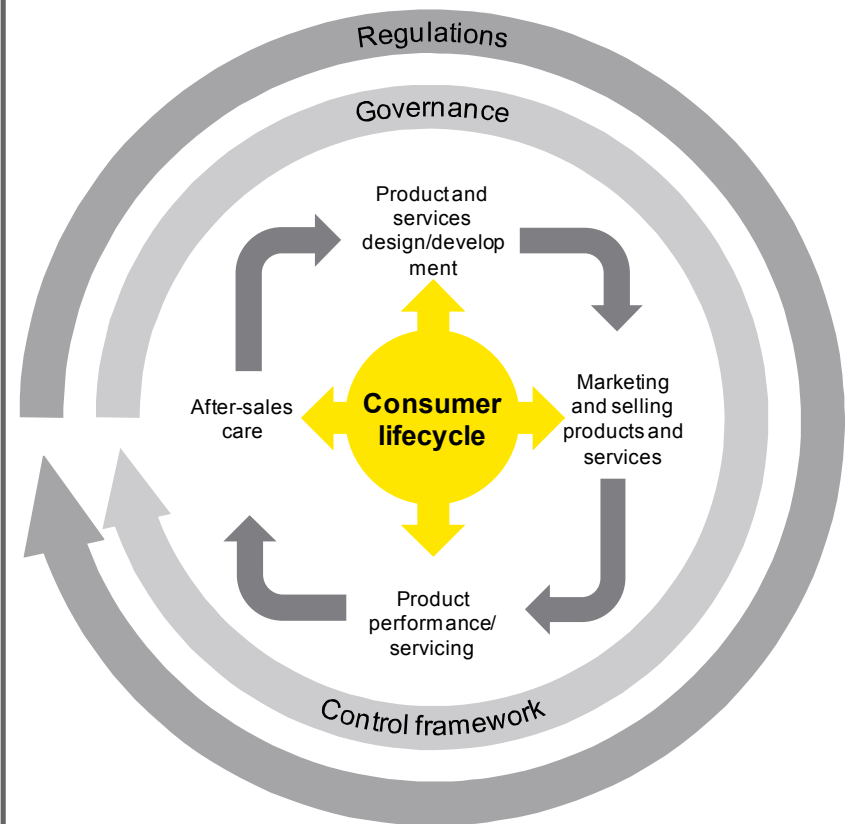
– *Benefits of a holistic view*

- ▶ Re-building customer trust and preventing / mitigating future risks requires a holistic perspective. The benefits of doing so are:
 - ▶ A consistent view of the customer lifecycle
 - ▶ Informed perspective on current risks, prioritised across the lifecycle
 - ▶ Emerging risks identified
 - ▶ Improve and streamline customer experience
 - ▶ Reduce complaints through addressing root causes occurring earlier in the lifecycle
 - ▶ Provide senior management with connected MI and reporting across the customer journey

The customer journey

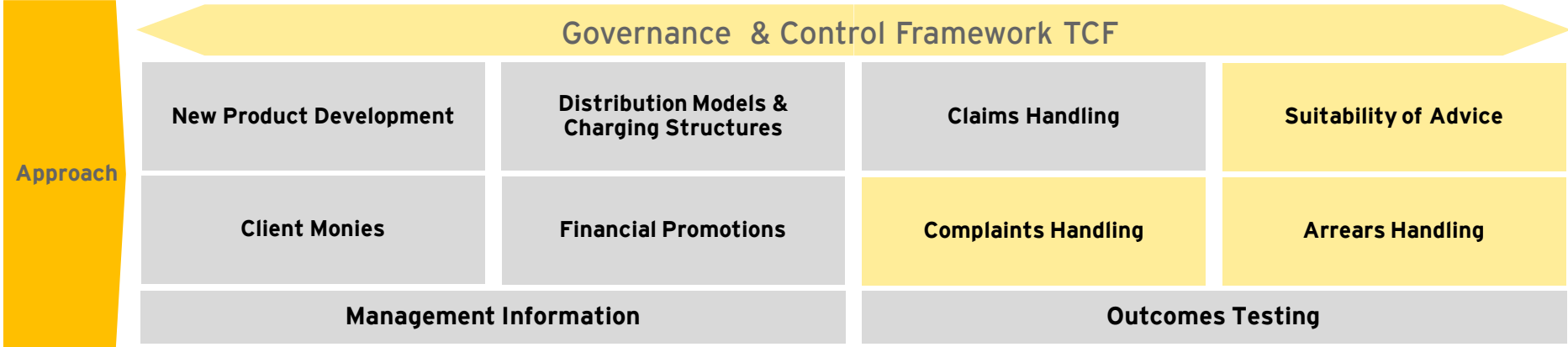
– The consumer lifecycle

- ▶ Within EY we consider the customer journey to be a continuing cycle rather than a linear process – the impact of decisions flows through not only to the end of the journey for a particular product but into future products / services
- ▶ Having the ability to see how it interacts together is key to ensuring an effective customer proposition including:
 - ▶ the impact of product design on the ability to manage expectations post-sale
 - ▶ the impact of the sales process on the required after-sales care
- ▶ Our alternate view positions these key elements against each other to focus attention on this inter-connectivity
- ▶ It also recognises there is interaction from step to step as you move through the customer journey.
- ▶ Of equal importance is the governance and control framework that supports your customer lifecycle including
 - ▶ Senior management attention / governance forum
 - ▶ Reporting lines
 - ▶ Controls and management information
 - ▶ Feedback loops
- ▶ Viewing the customer journey as a inter-connected continuing cycle requires an ability to evaluate the customer journey in a similar way



Different approaches to support the customer journey

- ▶ Once key areas that need to be addressed are identified, there are different approaches that can support you in addressing these.



Treating Your customer Fair (TCF) - Culture

Formulating the right culture within the firm is essential but also the hardest facets of developing and embedding a robust TCF process

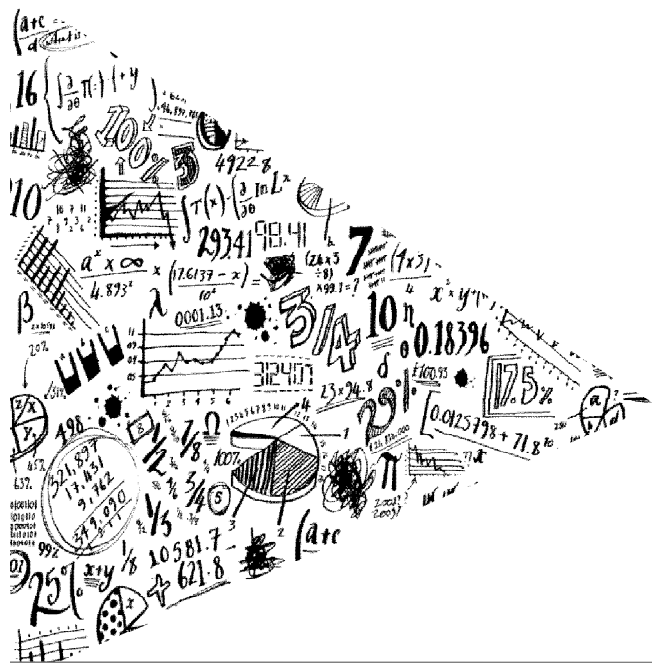
It requires:

- ▶ Senior Management involvement; Tone at the Top
- ▶ Cooperation between
 - ▶ compliance and marketing/sales
 - ▶ Risk management en compliance for managing integrity risk
- ▶ HR involvement in training and reward framework
- ▶ Lessons learned

Conclusie

- ▶ Verwachtingskloof nog niet (helemaal) gedicht
 - ▶ *Financiële instellingen Consumenten ?*

- ▶ Cultuurverandering:
 - ▶ Start bij de top van de organisatie en heeft tijd nodig om ook op de werkvloer helemaal ingebed te worden
 - ▶ maar is cruciaal !



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Thank you for your attention