Sharon Donnery: Best interests - delivering for consumers in a complex world

Remarks by Ms Sharon Donnery, Deputy Governor of the Central Bank of Ireland, at the Health Insurance Authority Conference, Dublin, 25 September 2024.

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I am delighted to be here. Many thanks to Brian for inviting me, and Pete for that interesting presentation. I look forward to the panel discussion, but before I will just say a few words about the growing complexity of the financial sector landscape – and what this means for consumers – as well as how the Central Bank of Ireland (CBI) is evolving to continue to protect consumers in this increasingly challenging risk environment.

But first a word on our two institutions. While the Central Bank and Health Insurance Authority (HIA) have distinct mandates as it relates to health insurance, there are many areas where our roles and goals intersect. We both work to ensure the market is well regulated; and we have a common responsibility for consumer protection in its broadest sense.

The HIA's responsibility for the provision of information to health insurance consumers is an increasingly important one – as I will come to – and the HIA sectoral engagements, including the Health Insurance Comparison tool is an important conduit in this regard.

For our part, the Central Bank regulates the insurance sector and expects all regulated entities, including health insurers, to act honestly, fairly and professionally in the best interests of its customers and the integrity of the market. This includes informing customers in a clear and transparent manner and considering their best interest in product design, development and distribution.

Given this intersection of roles, historically the CBI and the HIA have a track record of good cooperation. More recently, both organisations have taken steps to deepen cooperation and have committed to sharing insights where appropriate, while also respecting our individual mandates. This will allow us to harness our respective areas of expertise and be better placed to deliver better outcomes for the public.

Complexity and change in the financial sector landscape

I have spoken before of the increasingly complex and rapidly changing financial sector landscape.[1] How the size, scale and shape of our financial sector has changed in recent years – including through a whole host of new entities, new channels and new products for consumers to engage with.

This has brought, and has the potential to further bring, real benefits – including through innovation, ease of access and competition, all of which can be beneficial for consumers and the wider economy.

This changing and more complex landscape, however, has also presented risks – posing challenges for regulators, industry and consumers alike.

This is particularly true when complexity leads to opacity-

Or when novel innovations neglect to account for basic risks – either to the entity or their customers-

It is also true when information and "choice" grows in such abundance to be neither informative nor an enabler of decision making.

Such risks are ones we have been considering in a consumer context for some time now, and featured in our Regulatory and Supervisory Outlook[2] earlier this year – including: risks from unclear information being provided at various points in the customer journey; risks to consumers from evolving business models; and technology-driven risks from cyber security as well as frauds and scams – the latter one of the reasons combatting financial crime is the theme of our inaugural Innovation Sandbox to launch later this year.

And these are just some examples of how the financial sector and financial risks are changing for consumers –mirroring the wider complexity and change in our daily lives.

The paradox of choice

"Too many choices, too many decisions, too little time-"[3]

No I am not talking about trying to keep up with my Streaming habits, rather this is a quote from 'The Paradox of Choice' – a book about how decision making had become too complex due to an abundance of choices. The point is while choice is obviously a good thing – too much choice can be counterproductive.

Published 20 years ago, I would suggest that the situation has significantly worsened in the intervening years. And while this issue extends to all parts of our lives, and is most often merely an annoyance, in a financial services context it increases the risks of consumer detriment and financial loss, and can run counter to empowering consumers to make decisions in their own best interests.

In the Health Insurance context, in terms of in-patient plans, it does appear there is an abundance of choice. For example, at the end of 2023, there were 350 active in-patient plans. Notwithstanding this proliferation of plans, around 50% of people with health insurance are on one of only 30 plans.

Again, while consumer choice is obviously a good thing – there is a concern that too much choice is impacting how much engagement consumers are having with the options available to them, resulting in consumers not considering, or not being offered, the best and most suitable product available.

This is something from a supervisory point of view that we are actively considering, in terms of whether choices are being well explained, or well understood, or are really adding value.

Empowering Consumers to make informed choice

So, what is required to ensure consumers are empowered to make informed choices in a world of increasing choice and complexity?

At the Central Bank we would see three complementary aspects necessary to ensure consumers are well equipped to make decisions in their own best interest.

To be informed you need information of course – but that is not enough:

- That information needs to be presented in a way that seeks to ***effectively*** **inform consumers –** meaning it needs to be clear and easy to understand;
- Consumers on the other hand need to be equipped with **sufficient financial literacy** to be able to use that information effectively;
- And consumers themselves must also take on the **responsibility to inform themselves** – including reasonable time and care to read and understand information, to ensure they are making decisions in their own best interests.

In terms of informing effectively, new Standard for Business in the revised Consumer Protection Code should make firms' obligations clearer in this regard.

These will place a duty on financial services firms to consider their overall approach to communicating consumer information, to make sure it supports consumers to make effective, timely and informed decisions. A firm's overall approach should not be about simply 'providing information' to meet their regulatory disclosure obligations, but should also be about ensuring practical understanding by the consumer, so that they can take decisions that are in their best interests.

In terms of financial literacy, we very much welcome and will support the Government's National Financial Literacy Strategy. Along with the Government, the HIA, the Competition and Consumer Protection Commission and other stakeholders, we are keen to play our role in developing and implementing initiatives that seek to improve the overall level of financial literacy of Irish citizens, and to provide valuable information for consumers to understand and to compare financial products.

While this will take time to produce results, it is a key means of empowering consumers to make the right choices.

Once equipped by firms with the right information, in the right way, and once equipped with the financial literacy to understand and assess that information, then it is up to consumers themselves to sufficiently inform themselves and to make their own decisions.

How the Central Bank is strengthening its approach Consumer Protection

I spoke earlier of the increasingly complex and interconnected financial sector, the growing pace of digitalisation and the development of new, innovative business models.

All of this is reshaping the risk context of the sectors we supervise and the consumers we protect.

In our strategic plan we recognised this. And we recognised that in order to keep pace with this changing world and to continue to deliver on our mandate, now and into the future, the way we regulate and supervise the financial sector must change too – to ensure consumers of financial services are protected in all respects in this changing and increasingly complex and interconnected financial sector.

This is why the Central Bank is making changes to how we regulate and supervise – to ensure we continue to protect consumers and the public in this new and challenging environment.

We have already started to make these changes.

This includes the step change in our external engagement over the last two years – recognising that the rapid pace of change means that we need to be well-connected to all of our stakeholders, including authorities such as the HIA, and the public.

It also includes two landmark pieces of legislation, in the form of the revision of the Consumer Protection Code and introduction of the Individual Accountability Framework, both of which seek to ensure firms are taking greater responsibility for securing consumer interests.

In terms of the Consumer Protection Code Review, this is building on the strong foundations of the Code – which is a cornerstone of the Central Bank's consumer protection regulatory framework.[4] Our review is very much about modernising the code, reflecting the provision of financial services in a changing and more digital world. Our consultation on the changes to the Code closed during the summer; and we will publish a revised Code and Feedback Statement in 2025.

In addition to these we are transforming our supervisory approach – with a new supervisory model to be implemented from January next year.

Our new model is also building on strong foundations. It will of course remain risk based, but is evolving to deliver a more integrated approach to supervision, drawing on all elements of our mandate – consumer and investor protection, safety and soundness, financial stability and integrity of the system.

This new approach will see integrated teams supervise with respect to all elements of this mandate, working in partnership with specific areas of supervisory expertise (e.g. conduct, financial resilience, governance etc.)

It will position us better as an organisation to meet our objectives and ensure a changing, increasingly complex and interconnected financial system continues to operate in the best interests of consumers and the wider economy.

It will ensure we are more efficient and effective in our supervisory work. It will make it easier to direct our supervisory resources to the areas of most risk to consumers or the system. And, importantly, it will place consumer protection at the heart of day to day supervision.

I firmly believe that these changes are not just important; they are necessary – so that in a changing world we continue to deliver on our mandate in the public interest and in the interest of consumers.

Conclusion

To conclude, the Central Bank and the HIA are working hard to ensure that consumers get the best possible outcome.

The insurance sector has an important role to play in ensuring that the products offered are clear, transparent and can be well understood. And consumers also have their own responsibilities in this regard – with increasing the level of financial literary in Ireland an important objective to ensure they are equipped to act in their own best interest.

And finally the financial sector is rapidly changing and becoming increasingly complex. In that regard, the Central Bank is changing too – so that we can continue to deliver for consumers in a more complex world.

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[1] See Donnery "Maintaining stability in the face of volatility – financial regulation in a rapidly changing world" November 2023

[2] See Central Bank of Ireland Regulatory & Supervisory Outlook 2024 (PDF 2.08MB) Feb 2024

[3] Barry Schwarz: The Paradox of Choice: Why More Is Less 2004

[4] See Derville Rowland https://www.centralbank.ie/news/article/speech-deputy-governor-derville-rowland-opening-remarks-for-launch-of-consultation-paper-on-review-of-the-consumer-protection-code-07-mar-2024