

Ref Retail Banking Review

16th January 2022

We would like to thank you for giving us the opportunity, on behalf of our members, to deliver feedback on the Retail Banking Review - see below

The Minister for Finance is already strengthening the regulatory and consumer protection framework through the following legislative initiatives:

1. The drafting of the Central Bank (Amendment) Bill to implement an Individuality Accountability Framework (including Senior Executive Accountability Regime).

NSF Considerations: The NSF supports this initiative, and accepts that it is necessary for the broader Financial Services Sector. The NSF would make the point, that due to the voluntary nature of Credit Union Directors, it will be necessary to make reference to this in the legislation – not to reduce their obligations under the Framework, but to acknowledge the limited nature of their involvement.

2. The passage and enactment by year-end of the Consumer Protection (Regulation of Retail Credit and Credit Servicing Firms) Bill 2021 to require that any firm which offers indirect credit, hire purchase, Personal Contract Plans (PCPs) or consumer hire agreements to consumers and other relevant persons to be authorised as a retail credit firm by the Central Bank.

NSF Considerations: The NSF supports this, and believes that it is necessary to update legislation in this area, to reflect developments.

3. The drafting of the Credit Review Service Bill, to put the current Credit Review Office on a statutory basis and extend its scope to cover more lenders to SMEs.

NSF Considerations: Agreed – this is an important step to formalise and mitigate against potential legal challenge.

4. The drafting of the Consumer Credit (Amendment) Bill to implement the first major reform of the licensed moneylending sector since 1995.

NSF Considerations: This is a very necessary Amendment, and will be welcomed by the Credit Union sector.

Against the backdrop of a changing landscape for banking in Ireland, and in light of the commitments in the Programme for Government, the Minister for Finance has tasked the Department of Finance with preparing a Report:

1. Reviewing the current landscape for the provision of retail banking services in Ireland, including assessing how the banking system can best support economic activity.

NSF Considerations: Given the significant technological developments in Fintech, and the withdrawal and reduction of services in communities by Banks generally, it will be necessary to give full and open consideration to an expanded role for Credit Unions specifically, and Post Offices to a lesser extent, to ensure continuity and sustainability of communities reliant on an ongoing Financial Services sector presence with access to full services – potentially across a number of delivery channels.

2. Assessing how the retail banking sector has evolved over the last two decades and exploring what these market trends might mean for the evolution of the retail banking market over the next 5-10 years.

NSF Considerations: The retail banking sector has systematically shrunk over the past two years, with a greater emphasis on centralisation of services, and migration online. This trend is likely to continue, and accelerate, particularly post Covid, as temporary practices introduced, may become embedded. This may have the unintended consequence, of socially and financially isolating or excluding swathes of individuals within communities without a defined Banking presence, and this will create opportunities for Credit Unions. It is important that the legislation compels a “social responsibility” on the retail banking sector, in terms of ensuring realistic and meaningful engagement across a number of platforms, and not permitting them to cherry pick or exclude individuals who may not be perceived as being financially lucrative to the Banks. This approach will help mitigate against the social and financial denigration of communities and locations – particularly where Wi-Fi connectivity is not to the standard required.

3. Considering the size and structure of the retail banking sector and best/recent practices in similar sized open economies in the EU/OECD to see what lessons Ireland can learn from such countries.

NSF Considerations: The NSF supports the initiative to compare and contrast the retail banking sector across similar sized economies, and would make the point that the unique nature of Ireland, as an Island, with two geopolitical elements both within and without the EU, i.e. Northern Ireland and the Republic of Ireland, that trade directly with each other daily, needs to be fully considered as part of this research.

4. Considering the business model for retail banking in Ireland including among other issues, viability of the sector, size of market, regulatory requirements, capital requirements, cost of doing business and operational issues arising from difficulties with staff recruitment and retention; and in this context, consideration should be given to wider EU and international banking developments.

NSF Considerations: There are significant challenges facing the retail Banking sector in Ireland, and have been for some number of years – particularly so, since the Financial crisis of 2008. Banking, and Financial Services generally, have seen significant and expensive levels of necessary regulatory and

other requirements imposed. Banking has amended its business models, and placed more reliance on technology and outsourcing, primarily to reduce costs. Appropriate Technology has the capability of reducing the need for highly skilled individuals, and the use of Business Analytics and similar technologies, should be encouraged, in the context of assessing the viability and potential developments generally, within the sector. Capital requirements as constituted, are potentially too crude a measure, for future dynamic development, and operational and other costs are becoming more and more prohibitive, when compared with a true on-line model. The question for the Review Group, is how much retail Banking they want by comparison with a true on-line model, and to find a happy and reasonable hybrid model.

5. Considering the forces for change in retail banking including structural changes stemming from the developments in fintech or digital finance (innovations in technology) (including as a disruptor of traditional models) and regulatory changes (e.g. Open banking).

NSF Considerations: This will be key to any findings, and the NSF would fully support a detailed examination of both existing and developing innovations and technology. In practical terms, technology is the disruptor of traditional banking, and the macro question must be, if this is in the best interests of the sector generally and the community specifically.

6. Taking account of the longer-term implications of the COVID-19 pandemic and the post Brexit financial landscape, including any new banking entrants, which will also be important considerations.

NSF Considerations: There is no doubt that some practices introduced to mitigate against Covid, will continue, as they have proven to be effective. The NSF notes that the use of cash and coin has significantly reduced, and the use of debit and credit cards, through the use of wearable financial devices and phones, will accelerate. Should this facility be widely available, it can be an acceptable alternative within communities, ensuring inclusivity and mitigating against exclusion and isolation, while being cost-effective for Banks and Customers.

7. Considering potential consequences for consumer protection (including for existing and future customers and for vulnerable customers), competition and financial stability objectives.

NSF Considerations: The NSF fully supports the need to examine and extrapolate any consequences regarding Consumer Protection, and to future proof such examinations, for any amendments or updates to Consumer Protection legislation going forward.

8. Assessing competition and consumer choice in the Irish market for banking services across the range of suppliers, products and channel of provision; and considering if there are barriers to entry, expansion, or the introduction of new products.

NSF Considerations: The suite of Banking products in Ireland, especially mortgages, are not as sophisticated or attractive as seen in other jurisdictions. In addition, the interest charged on products and services in Ireland, are also not as attractive as other jurisdictions. The level of choice in terms of products and services, should certainly be looked at – and the Review should not blankly accept that profitable products and services only are delivered by the Banking sector – community social

obligations should also be factored into the outputs, and minimum Service obligations placed on the sector.

9. Reflecting on the findings of the IMF Financial Sector Stability Assessment (FSAP) of Ireland (due in June 2022) and examining what changes, if any, are required to the policy and regulatory landscape on foot of the FSAP recommendations.

NSF Considerations: The NSF considers this to be a crucial enabler of all outputs and aspirations contained within the Review. Operational resilience and financial capability must be solid and robust, and regulations should reflect this strong desire – albeit creative and lateral thinking, to the same objectives by a different approach, should be encouraged.

10. In recognition that a key role of the banking sector is in the provision of sustainable credit to the economy, assessing the availability of credit to SMEs from both banks and non-banks as well as considering the impact of State measures in this area and if policy changes are merited.

NSF Considerations: It is opportune to examine the State's need and desire for a Banking and Financial Services sector, and why it supports them. The obvious key requirements, are to facilitate day to day financial transactions, a provision for savings, and the provision of credit, in all its guises. The State should consider, document and outline, as part of the States own Strategic and Developmental long-term agenda, how they see the financial sector supporting and enabling this strategic delivery over the medium to longer term.

11. Consider options to develop the mortgage market by –

- a) Reviewing the range of bank and non-bank providers currently involved in the provision of mortgages in Ireland and assessing their impact on competition, consumer choice and protection, market/regional coverage and any financial stability concerns; and, in this context, the need to make the Irish market more attractive to new entrants.

NSF Considerations: It will be very difficult to attract new providers to the Mortgage market in Ireland, as the marketplace is small, costs are high – especially if there is a physical presence, and margins are not likely to be as attractive given the lesser volume. There are also considerations on a macro level, of the State's benevolent attitude to house repossessions, which is admirable, but will mitigate against new entrants. There will have to be significant financial incentives in terms of taxes etc., to encourage them, but the question should be asked, if such competition at such cost, is necessary or desirable?

- b) Assessing the unique characteristics of the Irish mortgage market, including in terms of competition and consumer protection and surveying the views of stakeholders and potential new entrants on barriers to entry into the Irish mortgage market.

NSF Considerations: This will be an essential starting point, to ascertain the viability of this approach, and indeed, if it is a desirable one from the States perspective.

- c) Identifying how mortgage interest rates are determined in the Irish market, the role that competition between lenders plays in that process along with Irish capital requirements and comparisons with other jurisdictions.

NSF Considerations: By comparison with other jurisdictions, rates are high. A suitable initial exercise, would be to understand how such margins are believed by the Banking sector to be necessary – e.g. what element of the margin is appropriated to Gross and Nett profit, cost, reserve, bad debt provision etc., to better understand how this may be changed.

- d) Setting out a range of options to improve consumer choice in the range of products available such as longer-term fixed rate products and green mortgages.

NSF Considerations: The Green Mortgage agenda, and longer-term fixed rate products, even over extended periods such as in other EU countries, particularly in an environment of perpetually rising house prices, are absolutely crucial to get right, for economies, citizens and communities. This requires fresh and creative thinking, and can be seen as the compelling question of our time. The decisions taken around longer-term planning in these areas, will define the prosperity of generations to come.

- e) Considering options to make the switching of mortgages easier to underpin competition in the mortgage market.

NSF Considerations: The switching of mortgages is not a huge factor within Ireland, for the reasons you outline, but making it easier to switch mortgages alone, will not make it much more competitive, as there are too few lenders in this space.

Joe Tobin

Chairperson