Banking & Payments Federation Ireland

BPFI Response to the Department of Finance Retail Banking Review

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www.bpfi.ie

Banking & Payments Federation Ireland (BPFI) is the voice of banking and payments in Ireland. Representing over 70 domestic and international member institutions, we mobilise the sector's collective resources and insights to deliver value and benefit to members, enabling them to build competitive sustainable businesses, which support customers, the economy and society.

BPFI welcomes the opportunity to respond to the Retail Banking Review public consultation launched by the Department of Finance.

Questions

Q1- Banks and other stakeholders are expecting the retail banking sector to go through a period of significant and rapid change, including greater use of fintech, over the next 10 years.

a) Is the retail banking sector currently meeting the needs of consumers and SMEs? Yes/No

Please explain the reasons for your answer.

b) What changes do you expect to see in the retail banking sector in the coming 10 years?

The retail banking sector is actively meeting the needs of consumers and SMEs. Indeed, much of the day-to-day activities and transactions of consumers and businesses would simply grind to a halt without the services provided by retail banks. Businesses couldn't operate without credit and payments services, employees couldn't get paid or deposit salaries in a guaranteed safe place, consumers couldn't spend, and people would face great difficulty buying homes without the full range of services provided by the retail banking sector.

The primary challenge currently and in the future for Ireland's retail banking system is to run its core functions effectively and efficiently whilst meeting a diverse set of competing stakeholder needs. For example, financial regulators place a strong emphasis on strength and stability while shareholders will need to focus on sustainable profitability if they are to remain viable and continue to serve their customers and society. These demands and expectations are not necessarily mutually exclusive however there is a need to acknowledge and seek a means to achieve balance between stakeholder demands. A stable and viable retail banking sector is a fundamental prerequisite to a well-functioning modern economy and society.

Looking ahead, the sector is operating in an evolving ecosystem with rapid technological advances, swiftly changing customer preferences, increasing competition from new technology-based market entrants, a necessity to reduce high fixed costs, extensive regulatory and compliance obligations, high capital requirements, the growing importance of funding the transition to the green economy, and a historically low interest rate environment all continue to contribute to a highly complex sector and the disruption of the traditional retail banking model. Much change was already underway in the sector prior to the global pandemic; however, Covid-19 has accelerated the pace of change.

c) Please compare the type of sector resulting from the changes you foresee in Question 1(b) to the type of sector you believe needs to exist so that it is fit-for-purpose, treats consumers and SMEs fairly, and that it serves the needs of society and the economy.

Question 2:

Given the extent to which banks are implementing material changes to their business models and service delivery, in your opinion, have these changes been implemented with a satisfactory customer-focus? Yes/No. Please explain the reasons for your answer.

If you have answered "no", please outline the measures that could be taken by the firms in the retail banking sector, Government, regulators or other relevant stakeholders to address the issues you identified.

All BPFI member retail banks are actively putting the consumer first and one excellent example of that is the Payment Break initiative launched in 2020.

Irish retail banks have also been reorienting their business models and strategically investing to transform, diversify and grow their businesses in order to continually better serve consumers while managing their costs. They have pursued strategic partnerships with non-banking players and fintech companies as an avenue for growth, while investing significantly in digitalisation and innovation to meet changing customer needs. BPFI research has shown that Irish retail banks have collectively spent over €3 billion in the last five years on technology and innovation projects to deliver a range of new digital services for customers and transform their businesses in response to a rapidly changing market environment and increasing regulatory demands.

Reflecting the many positive steps taken by banks to drive cultural change to achieve better and fairer outcomes for bank customers, the Irish Banking Culture Board's (IBCB) 'éist' 2021 Survey of Bank Culture among bank staff shows progress is being made on cultural change across all IBCB member banks in the period since 2018.

Moreover, the annual Edelman Trust Barometer survey into public trust in financial services and banking has shown an increase of 27% in trust in the period from 2012 to 2020.

In addition, Individual banks' research shows customers have a much higher perception of banks on an individual basis as opposed to their view of the sector, as a whole, with the average customer satisfaction rate across the industry at over 50%, and more importantly, customer complaints trending significantly downwards.

This was reflected in research undertaken during the pandemic which saw the banks further build on customer satisfaction as a result of high levels of support for their personal and business customers. Consumer research carried out by BPFI during the first lockdown in May 2020 showed that a significant 57% of bank customers who said they had made contact with their bank in the early stages of the pandemic said they were satisfied with the response from their bank.

Competition

Question 3:

Since the GFC the retail banking sector has become more concentrated, however new competitors have entered the market providing various products and services including mortgages, SME credit and payments.
Following the departure of Ulster Bank and KBC, do you consider that the level of competition in the retail banking sector will be appropriate and sustainable, bearing in mind population and market size in Ireland? Please provide reasons for your answer.

In your opinion, are there actual or potential barriers to entry that are resulting in less competition both in terms of product availability and product price? Yes / No.

The traditional model where customers used one bank for all their needs has changed – today, major disruption is underway. Consumers are shopping across the financial services landscape in Ireland using a variety of different providers for different products and services such as mortgages, personal loans, overdrafts, and payments services. The advent of open banking, coupled with new technologies and heightened customer expectations, has led to products being unbundled from one another.

This has created opportunities for specialist niche players to enter the market and compete by choosing to serve only certain segments of the retail banking market. This contrasts with the breadth of services that the traditional banks deliver, and the associated costs. Please see below a selection of traditional and non-traditional competitors across the Irish banking sector.

Figure: Selection of traditional and non-traditional competitors across the Irish market

In addition, the ECB's policy to have a safe and well capitalised banking system, operating to high regulatory standards, is one of the key drivers of consolidation in banking across the EU. Economies associated with scale can help generate the sustainable profits required to improve capital levels and financial stability. Recent ECB research 'What will the banking sector look like in 2030?' states that if recent trends continue, the EU banking sector in 2030 will likely look different than it does today in that 'it could be smaller, employ fewer people, and operate less via branch networks.'

Please provide reasons for your answer.

In answering both these questions, you should consider the growth in the provision of retail banking services by digital and non-banks in relation to (a) mortgages (b) SME lending and (c) current and payment accounts.

Branch services

Question 4:

The significant shift from physical banking to the use of technology has seen the closure of a material number of bank branches. In your opinion, have the actions taken by the banks to mitigate the impact of branch closures on delivery of services to consumers and SMEs been satisfactory? Yes/No.
Please provide reasons for your answer.

If your answer is “No”, please outline the measures that could be taken by the firms in the retail banking sector, Government, regulators or other relevant stakeholders to address the issues you identified. Where appropriate, please distinguish between consumers and SMEs in your response.

As outlined in the consultation paper, between 2014 and 2019, the number of branches reduced by 11%, however the European average during the same period was just under 20%. Between 2019 and 2020, the number of bank branches in the EU declined by 8%, or about 12,000 branches.

Andrea Enria, chair of the Single Supervisory Mechanism, stated in a recent interview (link https://www.bankingsupervision.europa.eu/press/interviews/date/2022/html/ssm.in220608~b03c1bd9a6.en.html?utm_source=ecb_Twitter&utm_campaign=220608_speech_AE:)

“I don't see any contradictions between improving cost efficiency by closing branches and enhancing digitalization while also continuing to provide good services to customers with lower digital literacy levels. During the pandemic we saw that a significant portion of the banks' customer base easily switched to digital banking. This frees up the resources for banks to help those customers who are less tech-savvy. Branches still play a key role in meeting customers’ needs and will continue to do so for a long time.”

In the same speech, Enria also states that in Europe, there is an average of 20.9 branches for every 100,000 people, while in Ireland there were 40 financial institutions per 100,000 people in Ireland when credit unions and post offices are included as most of these now provide banking services (according to the CSO link at https://www.cso.ie/en/releasesandpublications/ep/p-sdg8/irelandsunsdgs-goal8decentworkandeconomicgrowth2021/infrastructure/)

The total number of branches in the Irish retail banking sector should also take account of existing banking relationships between retail banks and An Post which allows withdrawal and lodgment services at over 900 post offices.

Question 5:

One of the principal factors impacting the level of interest rate that a bank charges on its loans, including mortgages, is the level of operational costs that a bank incurs to run its business. Two of the more significant operational costs that a bank has are costs relating to staffing and premises.
Do you consider that it would be an acceptable trade-off to see more cost reductions at banks if these cost reductions increased the capacity of banks to lower the interest rate they currently charge to consumers and SMEs? Yes / No.
Please explain the reasons for your answer.

Cash services

Question 6:

Noting the concerns being raised that access to cash and cash services are generally reducing, should Government or other relevant stakeholders introduce policy or other measures to protect access to cash? Yes / No.
Please explain the reasons for your answer.

If you have answered "yes", please outline the measures that could be taken by the firms in the retail banking sector, Government, regulators or other relevant stakeholders to address the issues you identified.

Even before the pandemic, the future of cash was being discussed as the use of digital payments accelerated. But the pandemic has raised the volume of that debate significantly. It has sped up the digitalisation of our economy – by seven years, according to recent estimates – and led to new consumer behaviours. This in turn has led to renewed questions about whether cash has a future in the digital economy.

The use of cash by European consumers has been diminishing rapidly over the past decade with EBA research showing cash used for purchases falling from as high as 38% in 2010 to just 13% in 2020. Furthermore, the European Banking Federation (EBF) research shows that over-the-counter cash transactions in bank branches fell from 18.4 million in 2018 to 10.4 million in 2020, a decrease of over 43% in just two years.

A recent report by the BPFI shows that online and mobile banking payments continued strong growth in Q1 2022 as cheques volumes hit record lows. The report shows that as consumers continued to reduce their reliance on cash and cheques, online and mobile banking (digital banking) payment volumes grew by 13.2% year on year to 34.3 million payments in Q1 2022. This was the second highest level recorded since BPFI began collecting this data in 2016, after Q4 2021. In fact, digital banking now looks set to overtake direct debits during 2022, even though direct debit volumes increased by 4.4% year on year to 35.5 million. Cheque payments meanwhile hit a new quarterly low at only 4.5 million, which was about half the volume seen in Q1 2018.

Quarterly contactless payment volumes rose by 53.6% year on year to 228.4 million or 2.5 million payments per day in Q1 2022. The value of contactless payments rose by 59% to more than €3.7 billion or €41.6 million per day. This was the second highest daily contactless spend in any quarter, after Q4 2021.

When evaluating access to cash, the review should take into account exiting relationship between some retail banks and An Post which provides cash services in over 900 locations across the country, in addition to the credit union network which also provides these services. In other words, the combined comprehensive network of retail banks, An Post and credit unions should be taken into account when analysing access to cash in Ireland. Any new policy to protect access to cash could have negative impacts on competition in the market and possible entry of new firms in the Irish market if it is seen as costly/restrictive.

Question 7:

Given the extent to which the ATM network is now primarily owned by unregulated entities, should Government legislate for the regulation of these providers? Yes / No.
Please explain the reasons for your answer.

If you have answered "yes", please outline the areas or activities that should now be regulated to address the issues you identified.

All ATM providers should be regulated to the same standards to ensure fairness and consistency in quality of services for customers, including quality standards for fitness of cash notes and fraud note detection as set by the European Central Bank.

Mortgages

Question 8:

In your opinion, is there an acceptable level of consumer choice in the Irish market in relation to:

- **Number and type of mortgage provider? Yes/No**
- **The mortgage product range? Yes/No Please explain the reasons for your answer.**

If you have answered "no", please outline the measures that could be taken by the firms in the retail banking sector, Government, regulators or other relevant stakeholders to address the issues you identified.

Question 9:

There are indications that certain mortgage borrowers in Ireland would benefit from a lower interest rate by switching their mortgage to an alternative provider, however levels of switching have been low.135
In your opinion, are there measures that could be taken by the firms in the retail banking sector, Government, regulators or other relevant stakeholders to increase the level of switching? Yes/No.
Please explain the reasons for your answer.

The CBI's Consumer Protection Code introduced new amendments in June 2018 to enhance transparency and make it easier to switch mortgages for consumers. Since January 2019, mortgage lenders are required to:

- Tell the borrower about cheaper options 60 days before s/he comes out of a fixed rate mortgage
- Tell the borrower if s/he can switch to a cheaper mortgage based on how much equity is in the home
- Clearly explain the pros and cons of any mortgage incentives such as cashback offers
- Give the borrower a comparison of how much the existing mortgage costs versus other options offered by the lender if s/he asks for one
- Give switchers all the information they need to switch, including how long it will take
- Give the borrower a decision within ten business days of receiving a completed application.

All BPFI members are required to adhere to this addendum to the Consumer Protection Code. In the past three years, more than 18,831 customers switched their mortgage valued at €4.6 billion. Re-mortgage/switching was the fastest growing segment during the first quarter of 2022, with volumes up 27% year on year compared to 10% increase in general. Taking BPFI data for the number of re-mortgages (switches) as a percentage of all new mortgages drawn down, switching activity grew in the early 2000s. It peaked in 2008 at 17.5%, fell during the subsequent years to as low as 2.0% only to start recovering again from 2014 to stand at around 15% as of 2021.

The most recent data from the CBI shows that as of April 2022, standard variable loans accounted for around 20% of the outstanding mortgage values. Fixed rate mortgages are increasingly becoming more popular with around 80% of new mortgage agreements are on a fixed rate basis. Mortgages with a fixed term of between 1 to 5 years account for 51% of the outstanding stock. Tracker mortgages still account for around 26% of the total outstanding mortgages.

SME credit

Question 10:

In your opinion, is there adequate access to and availability of credit from the retail banking sector (including appropriate product choice) to meet the funding needs of the SME sector? Yes/No.
Please explain the reasons for your answer.

If you have answered “No”, please outline whether this relates to particular types of products or services that SMEs need e.g. working capital; investment in fixed assets/expansion; investment in R&D and innovation.

If you have answered “No”, please outline whether this relates to particular types of products or services that SMEs need e.g. working capital; investment in fixed assets/expansion; investment in R&D and innovation.

The outstanding stock of SME credit on the balance sheets of Irish banks stood at €18.3 billion at the end of Q1 2022. Gross new lending to SMEs was €4 billion over the year to end March 2022, nearly 75% of this lending to core SMEs which excludes lending related to property. According to the latest data from the Central Bank of Ireland, in the first quarter of 2022 new loans to SMEs were down 6 per cent compared to the same period in 2021. However, new lending trends differ substantially across SME economic sectors. For example, lending to hotels was particularly strong in Q1 2022 with the highest new lending volumes since the onset of the COVID-19 pandemic.

The latest Credit Demand Survey published by the Department of Finance shows that SME credit demand remained relatively unchanged in the six months to September 2021 where 17% of the survey participants indicated that they applied for bank finance compared with 18% in October 2020 and 20% in September 2019. Same report also shows that expected future demand for credit (next six months) is just 7%, down from 12% in October 2020 and 18% in September 2019.

The main reasons stated by the SMEs participating in the survey for not seeking credit in the past six months were: no need for credit (63%) and sufficient internal funds already in place (40%).

Question 11:

The Central Bank is not currently required to license or regulate certain non-bank providers of credit to the SME sector. Would it be advantageous if all providers of credit to the SME sector were regulated by the Central Bank? Yes/No.
Please explain the reasons for your answer.

All credit providers should be regulated to the same standards, at least from a code of conduct perspective, to ensure fairness, security and consistency in quality of services for consumers and a level playing field for all firms participating in the sector.

Consumer credit

Question 12:

Credit can play a pivotal role in the lives of consumers. It is therefore important that consumers have good access to credit, appropriate levels of consumer choice, whilst also being protected from over- indebtedness.
In your opinion:

c) Is there adequate access to and availability of credit from the retail banking sector (including appropriate product choice) to meet the needs of consumers? Yes/No.
d) What are the main risks to consumers in the area of consumer credit?

For both (a) and (b) above, please explain the reasons for your answer.

Where you have identified issues, please outline the measures that could be taken by the firms in the retail banking sector, Government, regulators or other relevant stakeholders to address the issues you identified.

Other retail banking services

Question 13:

With respect to deposit/savings accounts, in your opinion, is there an acceptable level of choice for consumers and SMEs in the Irish market in relation to the:

- **Number and type of providers? Yes/No**
- **Product range? Yes/No**

Please provide reasons for your answer

If you have answered "no", please outline the measures that could be taken by the firms in the retail banking sector, Government, regulators or other relevant stakeholders to address the issues you identified.

Question 14:

With respect to current/payment accounts, in your opinion, is there and acceptable level of choice for consumers and SMEs in the Irish market in relation to:

- **Number and type of providers? Yes/No**
- **Product range and features? Yes/No Please provide reasons for your answers.**

If you have answered "no", please outline the measures that could be taken by the firms in the retail banking sector, Government, regulators or other relevant stakeholders to address the issues you identified.

Question 15:

As different providers in the retail banking sector have different fee structures and charges, it may be possible to make savings by switching current/payment accounts. Research previously found that switching rates in Ireland were very low .
In your opinion, are there measures that could be taken by the firms in the retail banking sector, Government, regulators or other relevant stakeholders to increase the level of switching? Yes/No.
Please explain the reasons for your answer.

If you consider that the Central Bank's Code of Conduct136 on the switching of payment and current accounts should be amended, please outline the changes you would propose.

Capital, operational and other challenges for the retail banks

Question 16:

There are various financial and other costs to the provision of retail banking services in Ireland.

In your opinion, are there cost challenges that are specific to Ireland that impact on the provision of retail banking services to Irish consumers and SMEs? Yes/No.
Please explain the reasons for your answer.

If you have answered "yes", please outline the measures that could be taken by the firms in the retail banking sector, Government, regulators or other relevant stakeholders to address the issues you identified.

Capital

Question 17:

Banks are required to hold capital for all key risks including the risk of credit losses arising on their loan portfolios. A key measure of the riskiness of a bank is how effectively it manages all aspects of credit risk– from loan origination to distressed debt.

In the context of the capital levels banks are required to hold for mortgage lending there has been discourse over a number of years on the impact on capital levels of the requirements of the Central Bank's Code of Conduct on Mortgage Arrears137 (CCMA) and the time it can take to recover collateral through the judicial process, which in turn can contribute to higher levels of interest paid by Irish mortgage holders relative to European counterparts.
Regarding the repossession of security for PDH mortgage debt, do you consider there is an appropriate balance between the rights of a borrower who is in financial difficulty, compared to the rights of a lender, when a borrower has been afforded due process in line with the CCMA, and where it has been established that the borrower cannot repay their mortgage? Yes/No.
Please explain the reasons for your answer.

If you have answered "no", please outline the measures that could be taken by the firms in the retail banking sector, Government, regulators or other relevant stakeholders to address the issues you identified.

Banks need to anticipate and manage risks to ensure a safe and financially secure banking environment for their customers, shareholders, the economy, and society at large. Capital is a key ingredient underpinning effective risk management across the banking sector. Capital acts as a cushion against losses in the event of an economic shock. It enables banks to use their own resources to absorb the losses, continue to operate and serve their customers.

Irish banks have made significant progress in terms of capital reserves and asset quality in recent years. The Common Equity Tier 1 (CET 1) ratio for Irish banks, a measure of banks' ability to remain solvent during a financial crisis, stood around 19% as of fourth quarter 2021 according to ECB data. This is above the European average of 15.48% and is fifth highest of the EU countries surveyed.

However, while capital plays a critical role in the stability of the banking system, particularly at a time of economic crisis, excessively high capital requirements can and do impact the costs of providing credit to customers. This is seen clearly in the case of the mortgage loan book of the Irish retail banks, where banks in Ireland have a much higher risk weighted asset base which further increases the amount of capital required to be held against these products. As outlined by the Central Bank of Ireland (CBI) in a recent study1 on RWAs of Irish Retail Banks, it has calculated that for every €100k lent by an Irish retail bank for a mortgage, the minimum Pillar 1 capital requirement is approximately €2,320, compared to €1,072 for an average EU bank. All else being equal, this significantly larger capital requirement has a direct corelation on the pricing of products to consumers and return on equity (ROE) for the bank.

As shown by the CBI in its study on mortgage RWAs, Irish banks have higher than average PDs and LGDs compared to EU averages, suggesting the riskier nature of lending in Ireland and the challenges with realising collateral. For example, the average IRB PD in Ireland can range from 2.3% pre-2010 to 0.9% 2016-2021, whereas the average PD in Sweden or the Netherlands is closer to 0.5% for the same time periods.

When it comes to LGDs, Irish banks have the highest weighted averages across the EU ranging from 20%-26% depending on if the exposures were originated pre-2010 or between 2016-2021. In our view, this has the greatest impact in terms of driving higher capital requirements within the retail banking sector compared to EU averages.

This is largely a result of two factors:

1) The inability of Irish banks to realize collateral (e.g., According to an EBA study on national loan enforcement frameworks2 an Irish bank can recover approx. 11% of the value of an exposure Vs 46% EU average or 90% in the Netherlands, while the time to recover is significantly greater in Ireland e.g. 3.7 years in Ireland Vs 3.1 years EU average).
2) The current regulatory requirements relating to "discounting" artificial cashflow received from restructuring arrangements.

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[1] Central Bank of Ireland, Risk Weights on Irish Mortgages, Financial Stability Note 2022: https://www.centralbank.ie/docs/default-source/publications/financial-stability-notes/risk-weights-on-irish-mortgages.pdf

[2] EBA report on the benchmarking of national loan enforcement frameworks, 2020. https://www.eba.europa.eu/sites/default/documents/files/document_library/About%20Us/Missions%20and%20tasks/Call%20for%20Advice/2020/Report%20on%20the%20benchmarking%20of%20national%20loan%20enforcement%20frameworks/962022/Report%20on%20the%20benchmarking%20of%20national%20loan%20enforcement%20frameworks.pdf

We believe that there is an argument to attaching a greater weight to significant improvements in underwriting quality, the macroprudential robustness of the mortgage system, and the success of forbearance measures, when calculating capital requirements for bank mortgage books across Europe.

In our view, the regulatory and supervisory system must strike the right balance in assessing the optimal amount of capital banks must hold to mitigate against potential losses, whilst maintaining the availability of credit in normal times. Another way this could be achieved is through supervisory adjustments to banks Pillar 2 capital add-ons.

Staffing and remuneration

Question 18

Restrictions on pay were introduced as a condition of the State's recapitalisation of the Irish banks. In 2014, European legislation also introduced remuneration requirements on all European banks, including the domestic Irish banks. It is contended that continuation of the Irish restrictions inhibits recruitment and retention of staff in the recapitalised banks, with adverse consequences for their ability to compete. This may negatively impact the products and services provided by these banks to consumers and SMEs.
In your opinion, should the Government retain, amend or remove the Irish restrictions that currently only apply to the three banks that were recapitalised by the State following the GFC?
Please explain the reasons for your answer.

If you consider that the Irish restrictions should be amended, please outline the changes you would propose.

Over the past decade the regulatory oversight of the sector has dramatically changed from the time the remuneration restrictions were put in place. New regulatory standards on remuneration are now in place for banks and investment firms under the EU Capital Requirements Directive (CRD V).

The Directive imposes a strengthened remuneration framework to deter excessive risk taking. Informed by CRD, the European Banking Authority (EBA) has set new guidelines on how performance related pay should operate within banks to encourage prudent risk-taking. These are much stricter than the guidelines that operated in the past, with a far greater emphasis on good risk management and financial sustainability. The new rules include variable pay caps, deferrals and claw-back arrangements.

However, Irish retail bank employees and potential recruits are subject, under both Irish legislation and administrative orders, to the most restrictive remuneration conditions in the EU and are clear outliers when compared with graduates and employees not only in financial services but in a range of other sectors. This places Ireland's retail banks at a considerable and growing disadvantage compared to other banks, IT companies, and corporates.

The continued focus on investing in a progressive banking sector will be central to Ireland's economic future. Such a focus will ensure that Irish retail banks will increase long term value to customers, the Irish economy and society by investing in talent, technology, analytics, and other critical forms of innovation.

New technologies and data solutions such as cloud computing, microservices, and advanced analytics are creating numerous opportunities to transform banking solutions and processes. Central to banks' ability to meet customer needs and adapt and excel in the fast-changing environment in which they operate are the human skills and resources which are absolutely vital to their future success, innovation and growth.

The Irish retail banking sector will undoubtedly face challenges in sourcing that talent. At least 20% of recruitment in Ireland's retail banks over the past three years involved roles in technology and digitalisation. Retail banks expect that at least 20% of recruitment in the next three years will also be in these areas.

Data analysts, AI specialists, digital engineers and technologists will become critical roles within a changing and more digitalised banking sector. Banks must be able to attract the necessary people and skills, already in high demand by other sectors and competitors not only in Ireland, but globally, if they are to deliver the change in banking services being demanded by customers and the demand regarding regulatory compliance and data requests. Talent is also central to the banks' future growth and viability.

An analysis of the recent recruitment trends in the Irish retail banking show that there has been an upward trend in attrition rates, with significant pressure on areas where future talent demands are increasing. For example, attrition rates range from 8%-10% in data sciences, 10% to 15% for data analytics and between 15% and 20% for cybersecurity roles.

Exit surveys by retail banks indicate that around 25%-30% of staff leaving indicate the attraction of reward with a new employer as a key reason for leaving. For example, amongst senior staff that leave retail banks, indicative survey results show that between 40% and 45% receive variable pay as part of their renumeration package with their new employer.

In addition to challenges faced by retail banks in terms of staff leaving, it is increasingly becoming more difficult to recruit new staff. For example, indicative data from executive search firms show that talent pool is sometimes reduced by up to 50% mainly due to lack of a normal renumeration environment. This smaller talent pool in turn leads to extended recruitment timelines.

Reported job offer refusal rates are around 15% to 20%. Interestingly, latest trends show that job offer refusals are increasing at entry level positions. Some of the cited reasons are lack of variable pay and lack of benefits such as subsidised healthcare. At senior level, one of the main reasons for refusing a job offer seems to be the intrusive nature and the extended timelines attached to the Fitness and Probity assessment process.

A normalisation of pay and employment conditions at Ireland's retail banks – to allow the banks compete for people on a level playing field with other corporates – is needed if they are to attract the skills and employees that are necessary for their future and for the provision of services expected by Irish consumers.

Regulation

Question 19:

A key principle of good regulation is that it is proportionate to the risks it seeks to mitigate. Since the GFC an enhanced regulatory framework has been developed and implemented collaboratively at international level. Given the systemic importance of the banking system at a global, regional and national level, banks are subject to a broader suite of regulatory requirements, compared to other service providers, which includes both regulated and unregulated entities.
In the context of Ireland, in your opinion, do you consider that the regulation of the retail banking sector is applied in a proportionate manner? Yes/No.
Please explain the reasons for your answer.

If you have answered "no", please outline the measures that could be taken by Government, regulators or other relevant stakeholders to address the issues you identified.
In answering this question, you should consider that it may not be within the remit or capacity of any individual stakeholder to change existing regulations.

COVID-19 proved to be the most unprecedented test of decade-long regulatory reforms. Financial and operational resilience of retail banks were tested to the core. Thankfully, for the most part, the banking sector found that a decade-long effort, of implementing new business, regulatory and accounting rules and requirements, have allowed retail banks to build a far superior level of higher-quality capital and liquidity, which in turn enabled banks to contribute materially to supporting communities, economies and financial markets, while remaining financially safe and sound. In addition, other regulatory change over the last 10 years, has had a very positive impact in aligning the requirements of customers, regulators and banks, including PSD2 and GDPR amongst others.

Irish banks have also made significant investments in meeting increasing and indeed expanding regulatory obligations. These obligations are vast, ranging across conduct, customer interaction, GDPR, sustainability, payments modernisation, open banking, credit risk, financial crime and anti-money laundering legislation, safeguarding of customers and preparing for the full implementation of the assisted decision-making legislation amongst many others.

It is likely that the regulatory agenda will be sustained, across an increasingly diverse range of priorities including the green agenda, financial crime, operational resilience, as well as traditional focus areas of governance, credit, capital, liquidity and broader prudential reforms through Basel IV. Juggling these competing priorities while striving to achieve committed cost reductions and operating model enhancements will require a fine balancing act as well as further proportionality. The size of the retail banking market in Ireland, versus the scale of what is required in resources from a regulatory perspective brings a sharp focus to the environment in which the retail banks operate and the challenges that are presented.

Beyond 2022, the banking supervisors and policy makers will also be implementing new regulatory rules and requirements. These include the forthcoming finalisation of Basel 3 reforms, which needs to be implemented by 2028, and a raft of new and increasingly complex regulations relating to risk management of climate change including ESG reporting. As a result of these new Basel reforms we can expect further changes to rules relating to capital requirements, conduct risk, digitalisation, operational risk and resilience, data protection, cybersecurity, and financial crime.

Such regulatory obligations and requirements continue to be part of the EU central banks' overall ambition to have a highly safe and solid banking sector, albeit at a high operational cost to European banks.

This ambition is therefore likely to lead to increased consolidation in banking across the EU, as scale can generate sustainable profits for banks, which in turn can improve capital levels and financial stability. Recent ECB research 'What will the banking sector look like in 2030?' states that if recent trends continue, the banking sector in 2030 will likely look different than it does today in that "it could be smaller, employ fewer people and operate less via branch networks".

Climate

Question 20:

The Government has set targets to reach net-zero emissions no later than 2050. As part of the Government's plan to reach this target, there are indicative ranges of emissions reductions for each sector of the economy, as well as objectives to retrofit residential buildings. It is expected that the retail banking sector will assist consumers and SMEs to fund the work that is needed to assist them transition to a low carbon future.
In your opinion, is the retail banking sector providing consumers and SMEs with appropriate support and funding to transition to carbon neutral? Yes / No.
Please explain the reasons for your answer. If you have answered "no", please outline the measures that could be taken by the firms in the retail banking sector, Government, regulators or other relevant stakeholders to address the issues you identified.

BPFI Members are leading the way and are pro-actively driving the transition to a carbon-neutral economy. The sector has a critical role to play in financing the transition towards a low-carbon economy through its allocation of resources, including corporate and retail lending, financial markets intermediation, and asset management.

However, member banks' integration of sustainability and commitment to supporting customers to transition to a more sustainable economy occurs in a challenging context:

- Interest among consumers and market participants of products and services that reward sustainability behaviours is undetermined.
- There is a lack of standardised definitions of what constitutes 'green', including differing reporting criteria for the many different reporting agencies. International standardisation of reporting standards is essential to ensure a level-playing field.
- Implementation of EU's complex and interrelated legislation such as Green Taxonomy and Disclosure and from EBA, Pillar 3 climate-related risk.
- Recent severe, unexpected shocks: the Covid-19 pandemic, supply-chain disruptions affecting global prices for goods and services, and war in Ukraine cannot distract from the PCA commitments and the Climate Action Plan.

Banks' path to net zero is twofold:

1. Investing and underwriting "green" assets and businesses to support those households and companies whose lifestyles and business activities support the government's plan to decarbonise the economy

2. Playing their part in this economic transition by financing those "browner", more carbon intensive assets and companies so they can become "greener".

Members are also engaged in significant adaptations to their business:

- Undertaking significant internal changes to repurpose their business model to support sustainability, facilitated in part by their commitments under the TCFD, United Nations Principles for Responsible Banking and the Science-Based Targets Initiative (SBTI),
- Working extensively to mobilise customers by providing products and services that support sustainability, by rewarding customers engaging in "green" activities, such as retrofitting a house or business or reducing emissions of a factory, for example.
- Appointments of Chief Sustainability Officers, charged with driving sustainability in their financial institutions and leading out on engagement with customers and stakeholders

Providing feedback and next steps

Question 21:

In addition to the matters covered in this public consultation, are there other issues relevant to the Terms of Reference, which you wish to bring to the attention of the Department? Yes / No
If you have answered "yes", please provide a brief summary of those issues, providing any information or references to material that you consider relevant to the Terms of Reference and the Department's work.

Contacting Us:

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