financial services union

STRONGER TOGETHER

Submission from the Financial Services Union (FSU) *to the Public Consultation on the Banking Levy*

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I am responding on behalf of the Financial Services Union. The Financial Services Union is the leading Trade Union representing staff in the Financial Services, Fintech and Tech sectors. We have membership in over one hundred companies and are organised in the Republic of Ireland, Northern Ireland, and Great Britain with headquarters in Dublin and a presence in Belfast.

We support thousands of members building their career in the financial services sector – in banks, fintech companies, the life assurance sector, game and animation and specialists support firms. We are the collective voice of staff in some of the leading financial institutions across Ireland and beyond. Built on a network of locally elected representatives, we pride ourselves on being our members voice in negotiations with employers on critical workplace issues such as pay, the right to disconnect, leave entitlements, and health and safety. We are a representative and campaigning union based on shared common values of decency, fairness, equality and respect in the workplace.

Submission from the Financial Services Union (FSU) to the Public Consultation on the Banking Levy

May 5th, 2023

Introduction

The Financial Services Union (FSU) welcomes the opportunity to input to the public consultation on the Future of the Bank Levy. The banking sector remains a key component of Irish society and economy, and the consultation comes at an important moment in the evolution of banking in Ireland.

Technological advances leading to increasing digitalisation and automation of banking, the closure of branches and ATMs, low levels of public trust in banks, the growth of fintech and other non-traditional banking entities, will alter the face of banking in Ireland into the future. Many of these changes have been accelerated by the impacts of Covid-19. The FSU has previously initiated a process of stakeholder consultation[1] to determine how the banking sector can respond to these challenges, while also positively redefining its place within society.

It is the FSU's position that retaining the banking levy, expanding its scope to include new entrants to the banking sector, and ring-fencing its resources for specific community and social initiatives, can play an important role in responding to these changes. A reformed banking levy can also help to re-establish crucial trust between banks and customers and to help 'fulfil the critical function it [banking sector] plays in our lives and our economy fairly, equitably and effectively.' [2]

Retaining the Banking Levy

The consultation on the bank levy comes as banks in Ireland are recording significant profits. This is helped by the fact that they are not paying corporation tax, and are unlikely to do so for some years. It also comes at a time when an increasing number of EU member states are introducing levies or already have levies in place[3]. To abolish the levy at this moment would send a negative message not just to customers, but to the population at large, for whom the damage wrought by the financial crisis has not been forgotten. For many small businesses and individuals struggling with a cost of living crisis, removing the bank levy from highly profitable operations would seem insensitive and untimely.

Corporation Tax

The massive losses Irish banks incurred during the financial crisis, have given them the ability to shield annual and future profits from paying corporation tax. While this facility is not unique to Irish banks, the Comptroller and Auditor General (C&AG), have previously estimated that the cost in future of foregone tax revenue from carrying over historic losses could be as much as €29 billion, with as much as €12 billion related to the financial and insurance sector in which Irish banks are the main player.[4] An Oireachtas Finance Committee was previously advised that AIB is unlikely to be liable for corporation tax until 2037, while PTSB is unlikely to be liable for corporation tax until 2038, although that depends on future levels of profitability at the banks.

Profitability

All three retail banks are operating very profitably. Each bank recorded strong financial performances in 2022. Bank of Ireland reported an underlying profit of €1.2bn,[5] AIB recorded a net profit of €765 million,[6] while PTSB recorded pre-tax profits of €267 million.[7] They were all helped by the acquisition of the loan books from exiting rival banks Ulster Bank, and KBC. The banks are also benefitting from seven ECB interest rate hikes since July 2022, that help boost their income and potentially banking profits. It is estimated that the combined net profits of the three Irish banks will soar by more than 50 per cent next year to €2.22 billion.[8]

European Bank Levy

It is important to also note that Ireland is not alone in Europe in its application of a banking levy. A large number of countries across Europe[9] already apply a form of bank levy. With the exception of Greece, all of the countries introduced their levies in response to the financial crash, with the bank levy being directly linked to the objective of recouping the costs of past bail-outs, or financing a rescue fund.[10] The rationale behind introducing the banking levy then, continues to be valid today. The Minister should work with Member State counterparts to ensure a level playing field across the EU with the objective of seeing a banking levy introduced in all EU member states.

With banks currently in such robust financial health, and with little prospect of paying corporation tax in the coming years, it would be ill advised to consider abolishing the bank levy now. On the contrary, retaining the levy would be an timely message from government that the banks still have an important financial contribution to make to address their role in the financial crash and to Ireland's recovery from Covid-19.

Expansion of levy

Budget 2023 extended the levy on the same basis as it had been applied in 2022 i.e. it exempted the exiting banks (Ulster Bank and KBC) from the levy, and adjusted the amount the remaining banks were expected to pay down to €87 million, down from €150 million when Ulster Bank and KBC were included. The levy is now being paid by the three remaining retail banks only.

At the same time, technological advances have seen a steady growth in the presence of fintech companies globally, including in Ireland, all of whom are currently exempt from the banking levy. In our view, fintech companies, which are increasingly profitable,[11] but have no branch network to support, are at an unfair advantage over domestic retail banks.

This is a view also reflected in the Banking Review, which points out, 'any new entrant to the Irish market would be exempt from it [banking levy], placing the traditional banks, in particular, at a disadvantage to those new retail banking providers'.[12] Revolut for example, now have over 2 million Irish accounts,[13] are increasingly profitable, but are currently exempt from the levy.

To create a level playing field, the scope of the levy should therefore be expanded to apply across all players in the wider banking sector including digital providers.

Ringfencing the Funds

The FSU believes that a reformed banking levy offers the possibility of re-packaging the levy as a source of funding for societal good. At present, the levy is absorbed into the general exchequer, and customers enjoy no discernible benefit from the levy. On the contrary, many customers are seeing the quality of their banking experience reduced, as banks move to mainly digital services.

We believe the that the revenue generated by the levy should be ringfenced and used strategically to enhance the unique role of retail banking within society, to improve digital literacy, and to support vulnerable groups and communities by ensuring access to branch services and ATMs.

With the move to greater digitalisation, accelerated by Covid-19, more than 200 bank branches have been closed since 2021. The Joint Finance, Public Expenditure and Reform Oireachtas Committee's (JFPERC) report on banking,[14] the Banking Review,[15] and the Irish Banking Culture' report on Public Trust in Banking,[16] all make clear that the closures will have a detrimental effect on communities, including some of the most vulnerable people in society. Older people, those who struggle with literacy and by extension digital media literacy, farmers, all rely principally on cash, and are vulnerable to being left behind as digitalisation becomes the norm. It is a development that could be 'detrimental to the economic and societal wellbeing of such communities" [17]

Literacy is a major barrier to full participation in online banking with as many as 17.9%[18] of adults having problems sufficient to exclude them from online banking. In addressing this challenge, the JFPERC on finance, noted that accessibility audits of banking services in the State should be carried out and that, in particular, accessibility issues for those with low levels of digital skills are identified, monitored and mitigated against. [19]

The Banking Review echoes this call, noting that the onus is on key stakeholders, principally the banks, the regulator and the State to collectively bridge the emerging digital divide and ensure consumers are not left behind during the banks' digital transformation process. [20]

While this is an important statement from the Banking Review team, we do not believe responsibility for addressing these gaps should be left to the banks. The banks overall operating model is driven by cost imperatives, and are insufficiently constrained by public service obligations or minimum standards. [21]

However, ringfencing the banking levy for use in ensuring a network of branches remains accessible to those who need them most, and for improving literacy rates including digital literacy, would provide real benefits to communities and vulnerable groups. A ringfenced fund with social good at its core would also go some way to demonstrating a tangible dividend from the bank levy to customers, and citizens more broadly.

Finally, a reformed more expansive levy would also contribute to the restoration of trust between banks and customers.[22] Being able to demonstrate the benefits of the banking levy at a community level would be an important step in rebuilding trust and confidence between banks and customers. In this context, consideration should also be given to changing the name from a banking levy to something more inclusive and community focussed, such as the Financial Inclusion Fund.

As noted in the consultation paper the FSU will only be responding to those questions which we have an opinion.

QUESTION 1:

Should the Levy be: a) allowed to expire, with the final payments due in October 2023? b) phased out? c) further extended?

ANSWER:

As outlined in the submission the FSU feel the Levy should be extended.

QUESTION 2:

What impact, if any, do you think the Levy has on the Irish retail financial services marketplace? For example, do you think it reduces the appetite for credit institutions to offer attractive interest-bearing deposit accounts, or do you think the cost of the Levy is passed on to the customers of the retail banks?

N/A

QUESTION 3:

Dependent on your answer to Question 1, what form should the levy take from 2024 (inclusive) onwards? Some examples of other systems are listed in section 4 of this consultation paper, but you are welcome to outline an alternative option.

N/A

QUESTION 4:

Should Ireland adopt a levy based on a measure of assets or liabilities (as out outlined in section 5, Option 3, above?

ANSWER:

The methodology to be used to raise the funds for the banking levy is clearly complex. The Department of Finance is best placed to apply its resources and expertise to ensure the principles of fairness and transparency are central to creating a level playing field for all.

QUESTION 5:

The current Bank Levy only applies to credit institutions. Should it be extended to other types of deposit taking financial institutions?

ANSWER:

Yes. The levy is now being paid by the three remaining retail banks only. At the same time, technological advances have seen a steady growth in the presence of fintech companies globally, including in Ireland, all of whom are currently exempt from the banking levy. In our view, fintech companies, which are increasingly profitable, but have no branch network to support, are at an unfair advantage over domestic retail banks. To create a level playing field, the scope of the levy should therefore be expanded to apply across all players in the wider banking sector including digital providers.

QUESTION 6:

What should be the annual revenue target, if any, of a levy operating in your preferred form, from 2024 onwards?

N/A

QUESTION 7:

If Ireland were to continue to apply a levy beyond 2023 (in your preferred form), for how many years should it apply or should it be a permanent feature for credit institutions doing business in Ireland?

ANSWER:

The Levy should apply for an initial five-year period. A detailed examination should then be carried out with a view to identifying any possible issues the levy may have unintentionally created.

[1] https://www.fsunion.org/assets/files/pdf/fsu_the_future_of_banking_a5_booklet_.pdf
[2] https://www.gov.ie/ https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/bank-windfall-taxes-could-spread-further-in-europe-amid-fight-against-inflation-71823515-release/57678-minister-donohoe-publishes-the-retail-banking-review/
[3] https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/bank-windfall-taxes-could-spread-further-in-europe-amid-fight-against-inflation-71823515
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[9] Spain, Sweden, France, the United Kingdom, Greece, Portugal, Poland, Hungary, Slovenia, Iceland Belgium and Austria all levy some form of bank levy.
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[21] https://www.ageaction.ie/sites/default/files/age_action_submission_to_the_retail_banking_review.pdf
[22] The 2022 Public Trust in Banking Survey demonstrates that there remains extremely low trust in the sector.
[23] https://www.rte.ie/news/business/2023/0301/1359599-fintech-revoluts-results/

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