

financial services union

STRONGER TOGETHER

THE FUTURE OF BANKING IN IRELAND AND NORTHERN IRELAND

Is the banking system fit to serve the needs of society
and the economy, now and into the future?

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The future of banking in Ireland and Northern Ireland – *discussion document*

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The future of banking in Ireland and Northern Ireland



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Foreword: The future of banking in Ireland and Northern Ireland

The provision of, and access to, banking and financial services are core to the future prosperity and well-being of people across Ireland, north and south. Providing these services well is crucial. Getting them wrong, as we know from experience, can be disastrous. In-depth debate about the sector is therefore essential. This paper calls for such a debate, while setting out some of the issues in the sector that already face us, or which are on the near horizon.

There have been too many reactive responses to banking issues in Ireland over the years. The experiences of the past, the pace of change in the sector, and the need to ensure the provision of services that facilitate access, opportunity, and security for people, as well as investment in the economy, make it essential that these issues are discussed in a structured and considered way. As Ireland recovers from the impact of the pandemic, with finance and banking issues so crucial to our recovery, there has never been a more appropriate time to engage in a future-orientated dialogue about this crucial sector, and which considers social and economic impacts.

The Financial Services Union is therefore calling on both the Government of Ireland to convene, in a structured forum, an open and transparent public debate on the future of domestic banking and financial services in Ireland, and it is equally calling on the Northern Ireland Executive to convene such a forum in Northern Ireland. This debate on the future of banking should include all stakeholders, including the banks, customers, staff, management, trade unions, business and employers' groups, and community interests.

The Financial Services Union is publishing this discussion paper as our initial contribution to the debate on the future of banking and as an invitation for all stakeholders to get involved in the discussion. The issues we outline in this paper are ones we feel would benefit from ongoing dialogue, both in informing business practice, government policy, legislative and regulatory approaches as well as raising education and awareness levels about changes in the sector among people, businesses, and communities.

The objective would be to provide a platform for a structured engagement on these key issues between stakeholders in the sector, allowing for ongoing discussion and dialogue on these key issues in a constructive and collaborative manner.

Why we need to design an effective 21st century banking system

“Ultimately, the banking industry’s relationship with society – its wider purpose – must evolve. The banks must become purpose-led organisations, taking a key role in promoting the recovery from COVID-19, responding to further pandemics and other global risks, and driving the growth of a sustainable economy. The challenge will be for the banks to balance these wider ambitions with commercial expectations: to do well by doing good.”¹

The above ambitious and challenging vision for banks comes from a recent report published by Deloitte Ireland. According to the report, a number of major issues arise for the future of banking, including that “a tension will exist with shareholders as the banks seek to balance profits and doing the ‘right thing’ by supporting their communities as the recovery gets underway”.²

Ireland and Northern Ireland need effective banking systems to underpin economic development and prosperity in the years ahead. As our economies have grown and changed, society needs more sophisticated credit and financial service products; to fund enterprises and infrastructure, to assist people to save for retirement, and to provide new credit options. At the same time households and businesses still need traditional banking services as much as ever. The next few years will bring many challenges, including economic recovery post-COVID-19, the dislocation caused by Brexit and new barriers to trade with the UK, the need to rapidly reduce our greenhouse gas emissions, an increase in robotisation and AI in the economy, and the need to strengthen household finances to look after an aging and longer-lived population.

Other countries have had more substantive public debate on banking, but Ireland lags behind. For example, think-tanks Compass and NEF in the UK co-operated to host a Good Banking Summit and have called for major public debate on what would represent a good banking system for the future.³ The Bank of England has developed a range of initiatives to consult with the wider public about banking, including citizens’ panels, community forums, flagship seminars, its future forum and its youth forum. The Bank of England also engages with a wide range of community partners.⁴ The Bank of England’s future forum culminated with a roundtable discussion between senior officials and members of the public in 2019.⁵

Ireland lacks this kind of interaction between the public and the policymakers who are shaping the future of banking. Citizens Assemblies and other models of interaction with citizens and stakeholders have proven that more inclusive debate is helpful to policymakers. In terms of banking, there is one central question that needs to be answered: Is the banking system fit to serve the needs of society and the economy, now and into the future? No one can answer this question without

engagement with all stakeholders. Customers, staff, management, trade unions, business and employers’ groups, and other community interests should all have their voices heard.

Advocacy for banking reform in Ireland has recently been focused on a specific proposal to mimic the German community-level public banking system (Sparkassen),⁶ but has not dealt with many of the other issues raised in this paper.

While banks should play an important role in supporting sustainability and economic development, the tension between shareholders and other stakeholders can only be resolved if there is appropriate regulation that is properly enforced.

To realise such a vision of banking serving the wider needs of society and the economy, it is crucial that there is comprehensive and inclusive public debate on the future of banking.

In Ireland, the final net cost of the bank bailout, less the residual value of the banks, has been estimated as €42.9 billion.⁷ As banking is a licenced activity, it is normal for governments to impose public service obligations as part of the conditionality for having a banking licence. While the banking sector will never repay the full monetary cost of that bailout, it can and should be regulated to provide the kind of banking system that people and businesses actually want.

The final net cost of the bank bailout in Ireland has been estimated at €42.9 billion

There is a risk that Ireland’s Central Bank and Financial Regulator may be distracted by the need to regulate international financial services based in Ireland, to the detriment of ensuring that the domestic banking system is optimally regulated. For example, according to a report commissioned by the Asia Matters think-tank, “80% of the world’s top 25 financial services companies now have operations in Ireland” and “Over 40% of global hedge funds are serviced in Ireland accounting for €2 trillion in assets.” The latter makes Ireland “the largest hedge fund administration centre in the world and Europe’s leading hedge fund domicile”.⁸ While foreign direct investment is extremely important to the Irish economy, it is equally important that we ensure that domestic banking is appropriately regulated. That is one more reason to hold an inclusive banking forum focused on domestic banking.

Key issues in the future of banking

There are a wide range of issues that merit discussion so that policymakers can regulate banks and financial institutions to maximise the benefits to society and the economy. The evolution of EU and Eurozone policies provide an important context. The following broad trends in banking all deserve to be part of the public debate on the future of banking. Other representative groups and stakeholders will have views about other issues that should be discussed and these can be reflected following consultation.

- Lack of public trust in banks
- The speed of change
- International and EU trends in banking
- Artificial Intelligence (AI) and banking
- Closure or downgrading of branches and ATMs
- SME lending
- Digital risks
- Financial exclusion, illiteracy and digital exclusion
- Banking culture, ethics and whistleblower protection

Each topic is described in more detail in the following sections.

Lack of public trust in banking

Across the world, financial services remain the least trusted sector of the economy and are “not trusted” in 15 out of 26 countries surveyed in 2019 (Edelman Trust Barometer).⁹ Irish people’s trust in financial institutions, at 42%, is fifth lowest among 26 countries surveyed.

Across all countries, the general population lacks trust in cryptocurrency (only 35% trust this), robo-advisory (42%), peer-to-peer transactions (44%) and mobile wallets (50%). On average, women trust these innovations less than men, and the mass population trusts them less than college-educated individuals with higher incomes.

In Ireland, trust in financial advisory and asset management services is the second lowest out of 26 countries at 38%. Trust in insurance is third lowest (42%) and trust in banks is also third lowest (40%). Ireland reports the lowest level of trust in mobile wallets (30%) and sixth lowest trust in cryptocurrency (24%).

Figures for Northern Ireland are not provided by Edelman, but the whole UK population reports

somewhat higher levels of trust than Ireland but still significant levels of distrust. For example, 47% in the UK trust financial advisory/asset management, 51% trust insurance, 55% trust banks, 39% trust mobile wallets and 31% trust cryptocurrency.¹⁰

It seems likely that a race to adopt new technologies and to change the nature of banking is likely to result in lower trust levels unless people are given good reason to trust innovations. According to Edelman, which has been measuring trust for over 20 years, the two drivers of public trust are competence and ethical behaviour. For banks and financial institutions, there is a clear indication that increasing the public’s trust in them requires deep consideration of the root causes of the public’s distrust and concrete actions to address existing reasons for distrust. The first step would be to listen to public concerns.

The speed of change

17.5% of bank branches in the Euro area closed in the five years 2015-19

The public face of banking is changing very rapidly, and we do not know what long-term effect that will have on households, farmers and SMEs. As an example of the pace of change, across the Euro area the number of local bank branches fell by 17.5% in just a five-year period (2015-2019). In Ireland, 153 branches (14.9%) closed in the same period. In the UK (including Northern Ireland) 54,530 jobs (13.7%) were lost in domestic credit institutions between 2015 and 2019.¹¹

There are looming changes that may suddenly occur. Ulster Bank may pull out of Ireland (with the loss of 146 branches and thousands of jobs) and/or the Government of Ireland may sell some or all of its 13.95% stake in Bank of Ireland (BOI) and 71.12% share in Allied Irish Bank (AIB).¹² Either of these events would reshape the banking market and stakeholders deserve a chance to help shape rather than simply react to these scenarios.

International and EU trends in banking

Banking is very much a live topic of debate around the world. Following the global economic crisis of 2008, many countries re-examined the role of banks in their economies to ensure they were acting prudently and fulfilling the basic roles of banks everywhere to protect savers’ deposits and to enable funds to move around the economy efficiently.

There are also live discussions in many countries about how well banks are providing SME lending and mortgage lending as well as a debate on how deposits and savings are affected by years of ultra-low or negative interest rates. A number of societies are currently debating whether money could be wholly replaced by digital forms of payment in a “cashless” society, as well as the growth of new forms of cryptocurrency (e.g. Bitcoin).

Only 40% of people in Ireland trust banks, the third lowest score out of 26 countries

The expansion of Internet-based financial services is challenging to bank regulators, as is the growth of non-traditional financial institutions, not all of which are as tightly regulated as banks. The IMF highlights that “Regulators are reviewing the growing importance of institutions that provide bank-like functions but that are not regulated in the same fashion as banks—so-called shadow banks—and looking at options for regulating them. The recent financial crisis exposed the systemic importance of these institutions, which include finance companies, investment banks, and money market mutual funds” (IMF).¹³

In the European Union, there is continued movement towards greater mobility of banking and financial services in the single market. Simultaneously, the EU-UK trade deal excludes financial services, which could have a major impact on Ireland. It remains to be seen to what extent other EU countries may seek to operate in Ireland in the near future.

All of these trends raise the question of how well the existing banking system can cope with this level of change, and whether it is capable of meeting the needs of society and the economy.

At EU level, European Commission President, Ursula Von der Leyen, committed to strong engagement with stakeholders and a “partnership principle” as part of her hearing as Commissioner-designate before the European Parliament.

“I think partnership is absolutely essential. Involving local stakeholders is absolutely essential. I will investigate the situation, I will see what is happening. In my experience the involvement of local stakeholders is the prerequisite for allowing the projects that are implemented to be good for all concerned and to ensure that there is full participation of local communities in every project. [...] The principle is an accepted principle, it is an established principle within the Commission and the services.”¹⁴

In her mission letter to Mairead McGuinness, as Commissioner-delegate for Financial Services, Financial Stability and the Capital Markets Union, President Von der Leyen reinforced this point by stating that “The Commission should also lead by example when it comes to ensuring better representation and a diversity of voices in our public life.”¹⁵

“Involving local stakeholders is absolutely essential” – EC President Von der Leyen

While there has been some move to include customers in the debate about banking alongside industry and policymakers, for example in the European Retail Financial Forum, this approach to date lacks engagement with the wider public or with other stakeholders.

Questions that could be discussed under this heading include:

- What is the public value of a well-functioning banking and financial system, including the role of public banks and regulators?
- What is the future of mortgage lending, including the possible role of long-term fixed-rate mortgages that are more common in other EU jurisdictions?
- What is likely to be the long-term impact of low and negative interest rates on savers and investors?
- What is the likely future of the EU’s single market for financial services and banking, and what will that mean for competition in retail banking in Ireland and Northern Ireland?
- How is Brexit likely to affect banking and financial services from 2021 onwards?

Artificial Intelligence (AI) and banking

A range of studies have found that the use of Artificial Intelligence (AI) runs the risk of embedding bias and discrimination into decision-making, including in banks, with the potential to adversely affect already marginalised or disadvantaged groups.¹⁶ Deloitte notes that “The use of AI in financial services is introducing new ethical pitfalls”. Such bias can manifest in AI in input data, in software development, and through machine learning.¹⁷

Another concern is the increasing use of AI and extensive data gathering on employees to make key human resources decisions like promotion, redundancy, pay increases, disciplinary action and more. Such HR digitalisation represents a significant threat to common sense decent human interaction and management. The use of AI risks dehumanising worker-employer relations and it could also compound the pressure banking staff feel to ignore or to comply with unethical behaviour to protect their careers.

Regulators need to be aware of these risks and to introduce ethical safeguards to prevent discrimination being built into the algorithms used by financial institutions to make decisions. Likewise, where regulators rely on AI as part of their supervision of financial institutions, there needs to be human oversight of the entire process to ensure that bias or unethical decision-making are not being introduced at any stage, including through machine learning and augmentation of existing societal biases.¹⁸ A major challenge for regulators is to ensure ethical AI is implemented and that there are humans providing control and constant oversight of its use in sensitive areas affecting workers and customers.

Questions that could be discussed under this heading include:

- To what extent might AI embed bias or discrimination, including discrimination based on any of the grounds named in equality legislation, such as ethnicity, religion, age, etc.?
- Do senior banking officials have the requisite skills to provide effective oversight to ensure ethical AI?
- What countries provide best practice in the development of ethical AI and ethical safeguards over decision-making algorithms?
- To what extent are banks and financial institutions using AI in human resource management and staff supervision, and what safeguards are in place?

Closure or downgrading of branches and ATMs

EY calculated that the number of bank branches and credit unions in Ireland's main urban areas declined by 12% between 2010 and 2019.¹⁹

Over 900,000 people in Ireland live more than 10km from a bank branch

The CSO has found that the average distance to a bank is now 11.1km in rural areas and 2km in urban areas, with over 900,000 people living more than 10km away from a bank.²⁰ Even when bank branches remain open, the range of services they provide has diminished. For example, many bank branches are now cashless and do not provide over-the-counter services. Instead, they provide advice and self-service through ATMs.²¹

According to a UK survey, 3% of British people don't intend to go back to a bank branch post-COVID-19. However, people in Northern Ireland report the highest attachment to bank branches of all regions in the UK, with 85% of people saying that they have or will return to bank branches and just 1.7% saying they will never return.²²

A House of Commons report expresses concern with the decline of bank branches in the UK: "The number of bank branches in the UK roughly halved from 1986 to 2014" ... "Around 10% of the rural population now lives at least 10 miles away from their bank's nearest branch. This creates significant challenges for the disabled and elderly who are less able to move to online banking. The Financial Conduct Authority raised concerns that this may be contributing to these groups' financial exclusion. This also has an impact on the 20% of small businesses with a turnover below £2 million that use branches as their primary means of banking. Concerns have also been raised about the impact of branch closures on ensuring the long-term viability of the cash system".²³ All of the concerns raised in the UK context are equally relevant in Ireland.

Questions that could be discussed under this heading include:

- Is the pace of change to local banking services too fast, given the lack of broadband or high-speed smartphone networks?
- What is the likely impact on regional employment from changes to bank branch networks?
- What should be done with the public stake in AIB and Bank of Ireland, and should that public ownership be coupled with more public service obligations?
- What will be the consequences from a loss of local knowledge and discretion in bank branches replaced by centralised computer systems and lending decisions based on algorithms?

SME lending

Findings from the CSO indicate that a third (31%) of enterprises value the local connection when choosing where to bank. In addition, while some loan applications may be rightly rejected, there may also be a loss of new investment in regional economies because SMEs will forego funds rather than seek alternative banking.

31% of SMEs value the local connection when choosing where to bank

CSO research into access to finance by small and medium enterprises (SMEs) found that 21.5% of enterprise choose a particular bank because it has a local branch and an additional 9.5% chose a bank because the bank branch was known for good client relationships. When refused a loan, 41.7% of SMEs will forego the funds rather than apply to another bank and only 9.4% will make a new application at a new bank.²⁴

In the UK, research by small business finance provider Liberis shows that over half (55%) of small businesses are unable to access the funding they need to grow. The main blocks are a lack of education or understanding of funding options.²⁵ While business development and support services are part of the solution, it also seems likely that a relationship with a local lender is an important part of the solution to ensuring SMEs get the funds they need.

Questions that could be discussed under this heading include:

- How many SMEs rely on a single local lender to meet their needs?
- To what extent is there unmet demand for loans that in turn is inhibiting regional economic development?
- What is the likely impact on lending to SMEs of the current trends in banking?

Digital risks

In addition to the purported benefits of digital banking, there are also substantial downsides. Following a major IT crash in 2012 that affected 6.5 million customers, the Royal Bank of Scotland group was fined over £56 million by UK financial regulators, on top of £70 million in redress payments to customers, including those in its NatWest and Ulster Bank divisions. This disruption lasted weeks in some cases and left customers unable to use online banking facilities or obtain accurate account balances from ATMs. Mortgage payments were delayed and customers left without cash in foreign countries. “The Bank of England’s Prudential Regulation Authority, which issued a fine of £14 million, said the failures had the potential to impact on the stability of the financial system by disrupting the clearing system, which is used to settle payments among banks and is fundamental to financial markets.” Ulster Bank received a record fine of almost £2.75 million [€3.5 million] from the Central Bank of Ireland for the effects of this incident on Irish customers.²⁶

Another major concern is the ongoing threat of cyber-attacks to banks and the entire financial system. While the UK ranks highly in terms of cybersecurity, a senior Bank of England official has told the House of Commons’ Treasury Committee that British financial institutions would struggle to prevent a “state-backed cyber-attack”.²⁷

Ireland is estimated to hold up to 30 per cent of all EU data due to the presence of tech companies, and the capacity of the Defence Forces to ensure cybersecurity is relatively weak.²⁸ Unlike the UK, which is ranked first, Ireland is ranked 23rd in Europe and 38th globally in the Global Cybersecurity Index compiled by the International Telecommunication Union (ITU), which is the UN’s specialised agency for ICT.²⁹

At present, major IT problems have been compensated for by a return to in-person services in bank branches, but there is a real risk that this will not be possible if banks continue to reduce the number and capacity of branches to provide a failsafe.

Questions that could be discussed under this heading include:

- To what extent are alternative financial institutions operating solely digital offerings and how vulnerable are they to cybersecurity threats?
- How resilient are the banks technical security to counteract cybersecurity threats?
- What resources are needed to bring the Defence Forces cybersecurity capacity up to par?
- What are the banks contingency plans to cope with interruptions to online banking services?

Financial exclusion, illiteracy and digital exclusion

While detailed data is relatively scarce,³⁰ a proportion of the population is still “unbanked” or “financially excluded”, meaning that they do not have access to basic bank accounts. One recent estimate, based on World Bank figures, is that at least 5% of the population of Ireland do not have a bank account. Notably, “only 3.9% of people with a secondary education did not own a bank account compared to 15.8% of primary educated people”.

In addition, 7% of the poorest 40% of households don’t own a bank account. This implies that those who are already likely to be older and poorer are most at risk of being excluded from access to banking facilities.

However, young people also were less likely to own a bank account and “young adults bank account ownership declined by over 7% from 2014 to 2017”.³¹

The National Adult Literacy Agency (NALA) reports that “17.9% or about 1 in 6, Irish adults are at or below level 1 on a five-level literacy scale. At this level a person may be unable to understand basic written information.” In addition, “1 in 4 Irish adults score at or below level 1 for numeracy. At this level, a person may have problems doing simple math calculations. 42% of Irish adults score at or below level 1 on using technology to solve problems and accomplish tasks.”

17.9% of adults have literacy problems sufficient to exclude them from online banking

Again, this is not just something affecting older generations. “Research has shown that up to 30% of primary school children from disadvantaged areas have literacy difficulties.”³² A significant proportion of the Irish population risk being excluded from online banking due to literacy and numeracy issues, even if they have theoretical access to the internet or a smartphone.

7% of the poorest 40% of households don’t have a bank account

One in nine (11%) people have never used the internet. Of those without internet at home, 42% say a “lack of skills” is part of the reason they do not have a connection (CSO).³³

Those who have literacy and numeracy issues, including a lack of digital media literacy, are likely to be most vulnerable to online fraud such as “phishing”. To avoid deepening economic inequality, it is essential for a public debate on what banking facilities must be made available to those who are socially excluded.

Much of the industry-led debate on the future of banking is currently focused on the uptake of new technologies and the challenges for the banking sector, but there is little mention of what the public wants from banks. There is a risk that the banking sector is acting in its own interests, rather than responding to the needs of the economy and society. Industry analysis tends to focus on broad trends, such as the decline of cash versus card or mobile phone payments, but does not take note of financial exclusion or those who cannot or will not access new technology. For example, Deloitte has published a series of webinars under the heading of ‘The Future of Banking’.³⁴

In a recent report published by Deloitte, banks in Ireland are identified as “digital latecomers”, which have been slower to digitise their products.³⁵ While this may accurately describe the different pace of digitisation by banks across Europe and the Middle East, it cannot be divorced from the local context. Ireland has a relative lack of infrastructure to facilitate online banking and, more crucially, a lack of digital literacy. It is not realistic to suggest that Irish banks can operate as if Ireland was a highly digitised society. The same report identifies that a “New wave of vulnerable customers will emerge that need to be supported”. Moreover, as a recent Deloitte global survey demonstrates “Bank branches are still valuable to customers, even those who mostly use digital channels.”³⁶

In Ireland, the St Vincent de Paul charity highlighted to the Central Bank seven groups of people who would find the transition from cash to electronic forms of payment either difficult or impossible: the unbanked; people in debt; people with low levels of financial awareness; people living in peripheral areas; older people; people with literacy and numeracy problems; and people with limited computer literacy or access.³⁷

According to the CSO’s Information Society Statistics, 91% of all households in Ireland have internet access.³⁸ However, not all internet connections are broadband and the speed of internet connections varies considerably. National Broadband Ireland aims to provide up to 544,000 homes, farms and businesses with broadband and to increase coverage to 96% of Ireland’s land area.³⁹ However, this will not be achieved for several years, while bank branch services are being withdrawn now and customers are being unrealistically pushed to access online services. The Commission for Communications Regulation (ComReg) in Ireland has

published an outdoor mobile coverage map, which demonstrates that many people are in “fringe” or “no coverage” zones in Ireland when it comes to 3G or 4G mobile phone coverage.⁴⁰ Reports commissioned by ComReg indicate that €1.9 billion of investment would be needed to achieve 99.5% geographic coverage with data.⁴¹

The CSO also reports that many people have concerns about online security. Some 13% of people do not use internet banking because of these concerns and 15% have experienced receiving fraudulent messages (“phishing”) and 9% have been redirected to fake websites asking for personal information (“pharming”). One in 50 people (2%) have experienced online identity theft, while 6% have experienced financial loss as a result of phishing, pharming or online identity theft.

13% of people in Irish do not use internet banking due to fears about security

In the UK, there has been a major decline in the availability of ATMs, with an 8% decrease in ATMs there in just 16 months between July 2018 and November 2019.⁴² Banks have announced plans to sell off hundreds of ATMs to private companies whose prices are not regulated by the Central Bank.⁴³ In February 2020, AIB agreed to sell over 500 ATMs to Brinks and, in December 2020, Bank of Ireland sold 700 ATMs to US firm Euronet which “could in time lead to charges being imposed for their use” once a three-year service agreement lapses.⁴⁴

There is enough digital exclusion and lack of access to the internet to warrant public debate on what basic, in-person and ATM services banks should be obliged to provide as a public service obligation, at least for some years to come.

Questions that could be discussed under this heading include:

- What is a realistic timeframe to overcome the barriers to universal access to online banking, including the delivery of broadband and improvements in people’s digital/financial illiteracy?
- To what extent are banks offering “basic bank account” facilities?
- What is the future of paper money, which has particular resonance in Northern Ireland due to the historical tradition that its main banks print and distribute their own banknotes?

Banking culture, ethics and whistleblower protection

A 2004 presentation to the Oireachtas by the Irish Bank Officials’ Association (IBOA) was prophetic in relation to the loss of a moral compass to guide Irish banking. The €42.9 billion net cost of the bank bailout is a concrete reason for the continued distrust of banks in Ireland. Unfortunately, scandals in Irish banking did not end in 2008.

At least 40,100 customers have been affected by the post-2010 tracker mortgage scandal

A tracker mortgage scandal came to light post-2010 and the Central Bank of Ireland investigated in 2015. As of May 2019, at least 40,100 customers have been affected and lenders have paid out at least €683 million in redress and compensation.⁴⁵ In 2020, AIB put aside a further €300 million to help compensate a further 5,900 customers, and some estimates put the full cost across all main banks in excess of €1.5 billion.⁴⁶

In 2017, Ed Sibley, the Deputy Governor of the Central Bank, said that “cultural change is as urgent as technology, business model and regulatory changes”. His remarks were prompted by the scandal in tracker mortgages, which was “the latest in an unacceptable long list of cultural failings in financial services firms”. Deputy Governor Sibley noted the tracker mortgage scandal as an example of an *‘is it legal?’* attitude, which still pervades in too many institutions. He said the Central Bank is under no illusion that “continued and concerted pressure is required to ensure all affected customers receive redress and compensation and banks comply with our findings.” He said he expects all the main banks will be subject to Central Bank enforcement investigations.⁴⁷

15% of bank staff have seen unethical behaviour rewarded

A 2018 survey of over 6,000 banking employees conducted by the Irish Banking Culture Board found that 15% of employees agreed or strongly agreed that “In my organisation I see instances where unethical behaviour is rewarded” and 20% agreed or strongly agreed that “It is difficult to make career progression in my organisation without flexing my ethical standards.” A total of 37% agreed or strongly agreed that “If I raised concerns about the way we work, I would be worried about the negative consequences for me”.⁴⁸

As recently as 2020, the Central Bank still warned of the continued “lack of a consumer-focused culture” within banks and financial firms.⁴⁹

In the UK, a 2018 YouGov poll found that 66% of adults in Britain do not trust banks to work in the best interests of society.⁵⁰ A report by Accenture found that only a fifth of Irish consumers trust banks “a lot” to look after their long-term financial wellbeing, compared to nearly a third globally.⁵¹

The Central Bank continues to warn of the lack of a consumer-focused culture in Irish banks

Before the banking collapse in 2008, banks were accused of focusing solely on short-term profit and putting all other considerations aside. There is sufficient evidence that ethical standards do not prevail in all cases and stronger regulation may be needed to ensure that senior managers have the right incentives to provide stable, sustainable and socially useful banking.

It is also unclear whether the whistleblower protections are working adequately. Prior to a review in 2017, “the Irish Independent exposed the fact that a confidential phone line operated by the Central Bank was unmanned, had no facility for leaving a message and that emails were not answered.” While the number of protected disclosures received by the Central Bank has tripled since the review, “the regulator declined to say whether prosecution or infringement proceedings have ever been taken against a financial institution on foot of a whistleblower complaint.”⁵²

It is also likely that the 200 whistleblower complaints (of all types) received in 2019 represents just the tip of the iceberg in an industry that employs more than 120,000 people and where 15% of staff have seen unethical behaviour rewarded. More research is needed to determine whether staff in banks and financial industries have confidence in the protected disclosures process. Professor Kate Kenny of NUI Galway has researched bank whistleblowers. Writing in 2020, she concluded that “a wide network of forces works against encouraging disclosures and these things seem unlikely to change. As long as they remain, the Irish Banking Culture Board will struggle to encourage a culture of critique within organisations.”⁵³

In November 2020, the Central Bank of Ireland sent a letter to the management of all financial services providers setting out its expectations for their compliance with their legal requirements for fitness and probity. The letter outlines how inspections in 2019 have highlighted several issues and shortcomings across financial institutions, including “poor” awareness of their probity obligations by Board members, “consistently weak” conduct of due diligence, lack of correct documentation when outsourcing these functions, inadequate processes for engaging with the Central Bank, and a failure to undertake robust compliance testing.⁵⁴

Questions that could be discussed under this heading include:

- What is needed to reduce the continued high levels of public distrust in banking?
- How can we prevent the recurrence of recent scandals involving banks?
- How can we ensure privacy and data ownership in relation to online finance?
- What are models of best practice to ensure that remuneration in banking provides the right incentives for ethical and sustainable banking?
- Is the composition of banks' boards adequate to represent all stakeholders, including customers and employees?
- Do we need a Charter of Rights for banking customers?
- What are the successes or limitations of existing codes of conduct?
 - Are existing "whistleblower" protections working?

FSU's contribution to the debate

The Financial Services Union believes that the time is right for public debate on the future of banking. Such a debate should include all stakeholders, including outreach to the general public. Each stakeholder will naturally bring their own perspectives and concerns to the debate.

The FSU will bring to the table the concerns of banking staff who have seen unprecedented job losses in the sector and who are deeply concerned about their jobs as well as about the future conditions of their employment. Banking staff are on the frontline, working to meet the needs of households and business customers. The FSU will bring this experience to the debate to help shape what we believe is a model of banking that will best meet the needs of society and the economy.

The number of people employed in banks in Ireland fell by 12% in eight years, from 41,600 in 2011 to 36,600 in 2018. Banks provide more jobs for women (57%) than men (43%), however average pay for women is just 69% of men's average pay in banks.⁵⁵ While there has been a rise in employment in other financial institutions, this is likely to be concentrated in Dublin and other urban areas, whereas traditional banking jobs are spread across the country.

**12% of jobs
in banking
were lost
between 2011
and 2018**

In 2019, Korn Ferry provided a report to the Minister for Finance on remuneration in banks and the government reiterated its position on capping top pay and bonuses.⁵⁶ One consideration for the future is how remuneration could create incentives to ensure that banks and financial institutions model the behaviours that are required for sustainable, ethical banking rather than maximising short-term profit.

Banking is so important to the economy and society that it is a licenced activity. The lessons of de-regulation and "light touch" regulation before 2008 should not be forgotten. Ultimately, public policy should determine the model of banking that is best suited to meet the needs of society and business, rather than allowing banks and financial institutions to decide. And to formulate that public policy, Ireland and Northern Ireland urgently need public debate on the future of banking.

A proposed model to engage all stakeholders in the future of banking.

In calling on the Government of Ireland to convene a forum for an open and transparent public debate on the future of banking and financial services in Ireland, as well as on the Northern Ireland Executive to convene such a forum in Northern Ireland, the FSU is open to discussion and consultation with all stakeholders on how it would be structured.

To begin the discussion on structure, we would propose the following principles and approaches to that debate for further discussion:

- That it would take the form of a structured consultative forum, organised under the auspices of the government in ROI and the executive in NI.
- The debate should include all stakeholders, including the banks themselves, customers, staff, management, trade unions, business and employers' groups, and community interests. The precise membership of each consultative forum can be determined by agreement.
- This paper is a contribution to the determination of the range of issues which could be discussed by the forum. Other stakeholders will have views on the list, and we welcome their engagement. Following debate and engagement, the full range of issues can be agreed.
- Both the membership and the range of issues could be developed over time, and expert practitioners, academics and others providing international perspective could be asked to address the forum from time to time.
- The Chair could be a senior government or executive official, at Assistant Secretary level or above, or an agreed external expert.
- As a suggestion, the forum could meet four times each year, but could convene more frequently by agreement.
- There would be a review mechanism about the operation of the forum after a period of time.
- Membership of the Forum would be on a voluntary basis.

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