



Retail Banking in Ireland

An overview

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Index of reference papers



- Top 10 Trends for 2022 – [Accenture Banking](#)
- The Future of Retail Banking in Ireland 2021 – [BPFI](#)
- Evaluation of Concept of Community Banking in Ireland 2019 – [Indecon](#)
- A vision for the future of US retail banking – [Deloitte](#)
- The Future of Banking in Ireland and Northern Ireland – [Financial Services Union](#)
- Future of Banking in the UK – a customer insight report – [Thoughtworks](#)
- Future of Retail Banking 2020 – [KPMG](#)
- How can banks transform for a new generation of customers? 2021 – [EY](#)
- How banks can build their future workforce – [today 2021 – McKinsey](#)
- Irish Banking CEO Outlook 2022 – [KPMG](#)
- Rewriting the rules: Succeeding in the new retail banking landscape 2019 – [McKinsey](#)
- Strategic Review of Retail Banking Business Models 2022 – [Financial Conduct Authority](#)
- The Copernican Revolution in Banking – [Frank Rotman, QED Investors](#)
- Future of Banking in Ireland – [Seanad Eireann debate 10 May 2021](#)
- Capital Requirements and Macroprudential Policy 2019 – [Department of Finance](#)
- Changing individual behaviour and culture in financial services March 2022 – [Director General, Financial Conduct, Central Bank of Ireland](#)
- Summary Banking Industry Dialogue 30 June 2021 – [European Central Bank](#)
- Financial Stability Review November 2021 – [Central Bank of Ireland](#)
- Annual Report 2020-2021 – [Irish Banking Culture Board](#)

Outline today's presentation



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Why do we need banking services? Why is it a public policy matter?

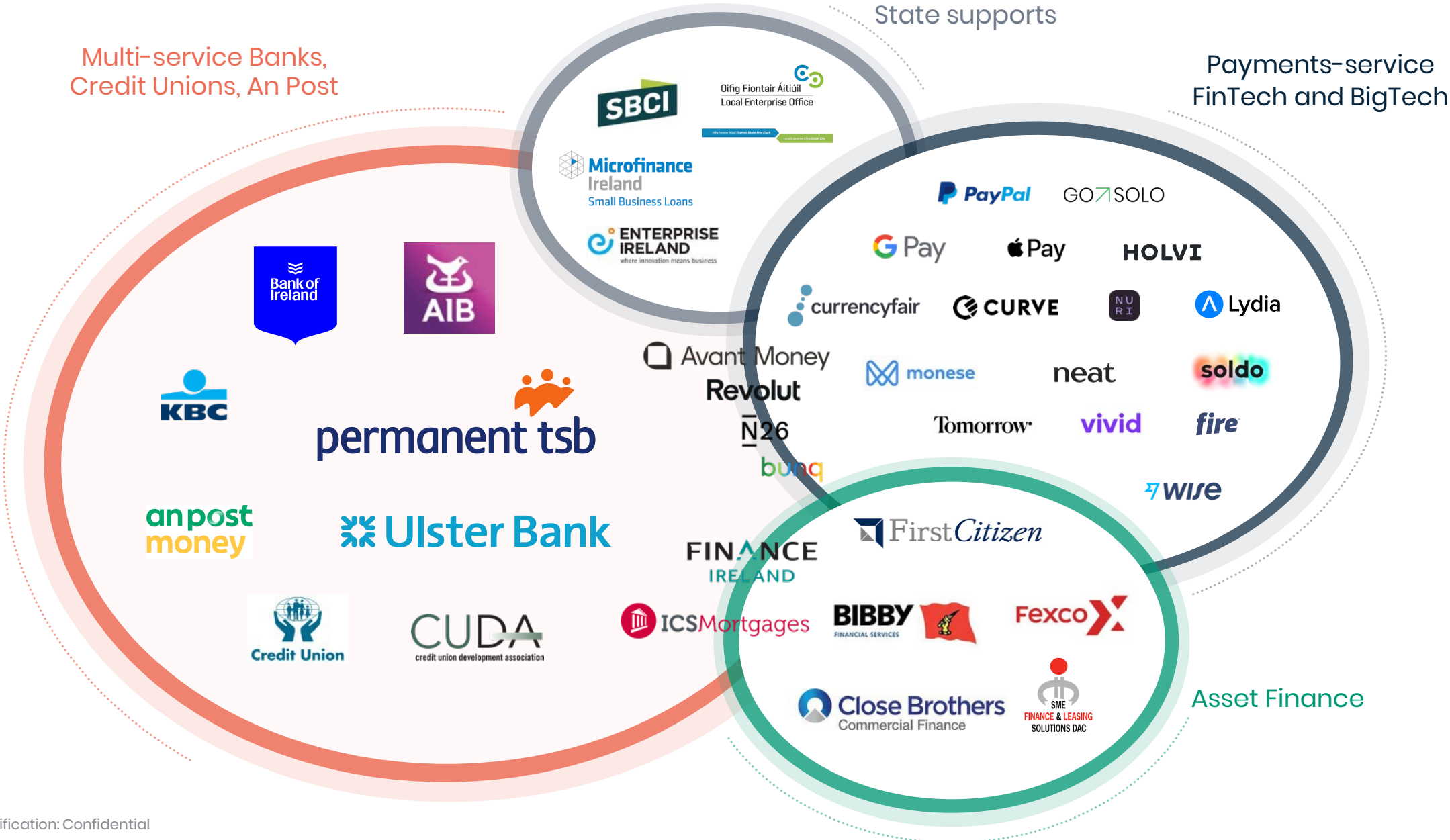


“Important we view the banking system as a means to help households and firms achieve their financial, economic and social needs”

Minister for Finance 10 May 2021



Retail Banking Services Ecosystem



Banking services ecosystem



Key stakeholders

Customers	Regulators	Employees	Shareholders	Society
Expecting value, security, trust	Expecting customers' best interests protected, firms that are financially sound, safely managed, high standards	Expecting employment, competitive remuneration and reward, job opportunities, satisfying work environment, right culture	Expecting regular and strong return on investment, delivery of sustainable commitments	Expecting purpose driven banking sector that plays essential role in a sustainable, thriving economy

Irish retail banking* – in numbers



Customer (FY2021)**

Total Deposits	€225bn
Total Loans	€150bn (€365bn in 2008)
Mortgages (PDH)	€85bn (c 600,00 mortgages)
Consumer loans	€8bn
Business loans	€24bn
Transactions	5 million daily to value of €3.7bn***

Contribution***

Employment	22,000
Direct contribution to Exchequer	€1.6bn (annually)
Contribution to the economy	€11.6bn (annually)

* AIB, BOI, KBC, ptsb, Ulster Bank

** Source: Kevin McConnell Gem Strategic 2022

*** Source: BPF Future of Retail Banking in Ireland 2021

State Investment



- Arising from 2008 crisis, State support critical to ensure survival of sector
- Government strategy to return AIB, Bank of Ireland and ptsb to private ownership over time
- Divestment in Bank of Ireland and AIB taking place



The Forces of Change



The Forces of Change

Overhang from the crisis



- Huge dislocation from the 2008 systemic banking crisis
- Substantial increase in capital requirements
- ECB QE and prolonged low interest rates
- Number of Irish banks reduced from 12 to 5
- State ownership restrictions
- Trust and Culture
 - Loss of trust exacerbated by tracker mortgage
 - High priority for banks
 - Edelman Trust Barometer survey shows 27% increase in public trust from 2012 to 2020
 - IBCB 2021 bank staff survey shows significant progress but not yet reflected in public trust survey
 - COVID payment breaks
 - How will transfers from Ulster Bank and KBC be handled?



Market dislocation and competition



- Ulster Bank Ireland and KBC Bank Ireland to exit the Irish market within two years.
- Systemically important banks – Ulster Bank 185 years and KBC 40 years in Ireland
- More than 1 million customers and 100 branches
- Biggest movement of banking customers in the history of the State
- Estimated €5bn in capital leaving Ireland
- Davy and Goodbody returned to bank ownership



The Forces of Change

Profitability



- Fundamental to sustaining future success and stability
- Need to generate capital that can be reinvested in supporting consumers, businesses and economic activity
- Profitability in Irish retail banking has been amongst the lowest in the EU. Challenges include:
 - Dependency on interest income – 80% of operating income compared to EU average 54%*
 - Holding estimated €2.5bn additional capital for mortgages – capital requirements 3 times EU average*
 - High cost base – cost income ratio 68%**
- All banks have cost reduction programmes
- Developing new product areas (e.g. green mortgages, digital products)



* Source: BPFI Future of Retail Banking in Ireland report 2021

**Source: Kevin McConnell, Gem Strategic 2022

The Forces of Change

Customer needs and preferences



Consumer and SME

- Demanding a more compelling personalised digital experience as leading BigTech has taught them to expect
- Speed in decisions – but AML and KYC can slow things
- For consumers – advice key life financial decisions (home purchase/mortgage, investments, pension)
- For SMEs – industry knowledge expected and relationship banking valued



Questions

Are there customers who could be left behind, become excluded? What about those who prefer cash and branches? What is the role of branches in the future? Credit Unions and An Post had 1,204 or 63% of total branches in 2019*.

*Source: "Evaluation of Concept of Community Banking in Ireland" Indecon December 2019

The Forces of Change

Digital



Digital transformation of financial services organisations and their services continues at pace

- Accelerated by Covid by several years
- Lockdowns significantly changed consumer behaviours in using digital

Current and future forces include

- Cloud computing, AI, machine learning and data analytics enabling banks to reimagine their operating models, reducing costs and powering segmentation
- Open networks and standardised platforms next revolution in payments*
- Potential for a “super-app”, an umbrella app that offers complete range of services shaped around lifestyle needs*

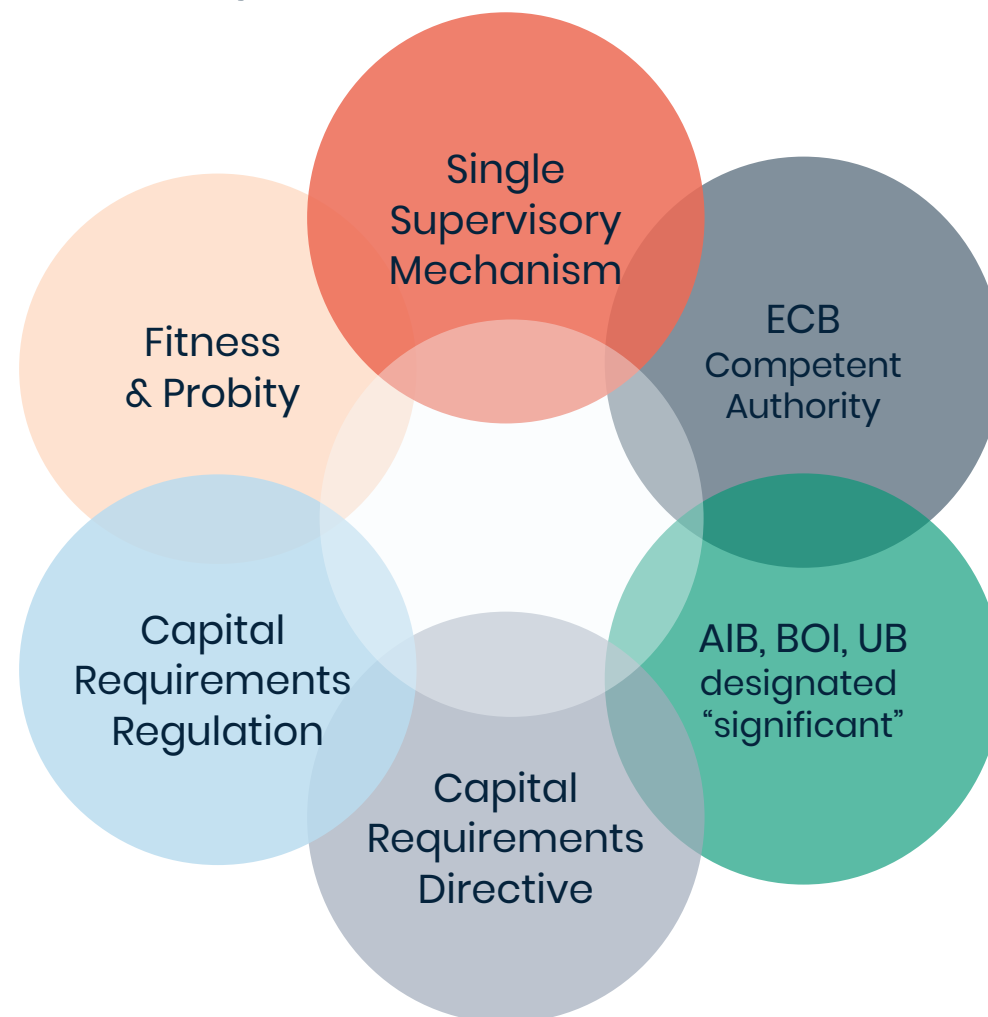
But give rise to certain ethical and regulatory issues

*Source: Accenture report “Banking Top 10 Trends for 2022”





Major changes to the Framework since the crisis



The Forces of Change

People and talent



- Banking needs to attract and retain talented employees
- Skills, proficiency and professionalism are fundamental to this success – includes education, qualifications, professional development, experience at all levels
- Continuous upskilling required, adjusting to new operating models
- Leaders will play a key role executing strategy and creating the right culture
- Key issues and challenges include:
 - Remuneration, variable pay
 - Competition for talent and skills shortages in key areas



The Forces of Change

Climate change



- Banks' critical role:
 - Effectively drive capital to green purposes
 - Facilitate funding
 - Innovate in the design and availability of sustainable finance products
 - Support consumers and business to successfully transition
- In the broader agenda new ESG reporting rules represent very significant regulatory change – banks required to accurately measure progress against their own and customers' ESG goals

Irish banks have started strongly, featuring in the top 10%-15% of banks globally in the transition to ESG.



What banking will look like in 2030 – a European perspective



European Central Bank Banking Industry Dialogue
30 June 2021

What it might look like:

- Continue to be most important sector in providing credit to the real economy
- Technological innovation to change the banking system and market structures, including branches
- More consolidated – but expected mainly within countries
- Most important task related to climate change



*Source: Minute ECB Summary of Banking Industry Dialogue on 30 June 2021

Opportunities



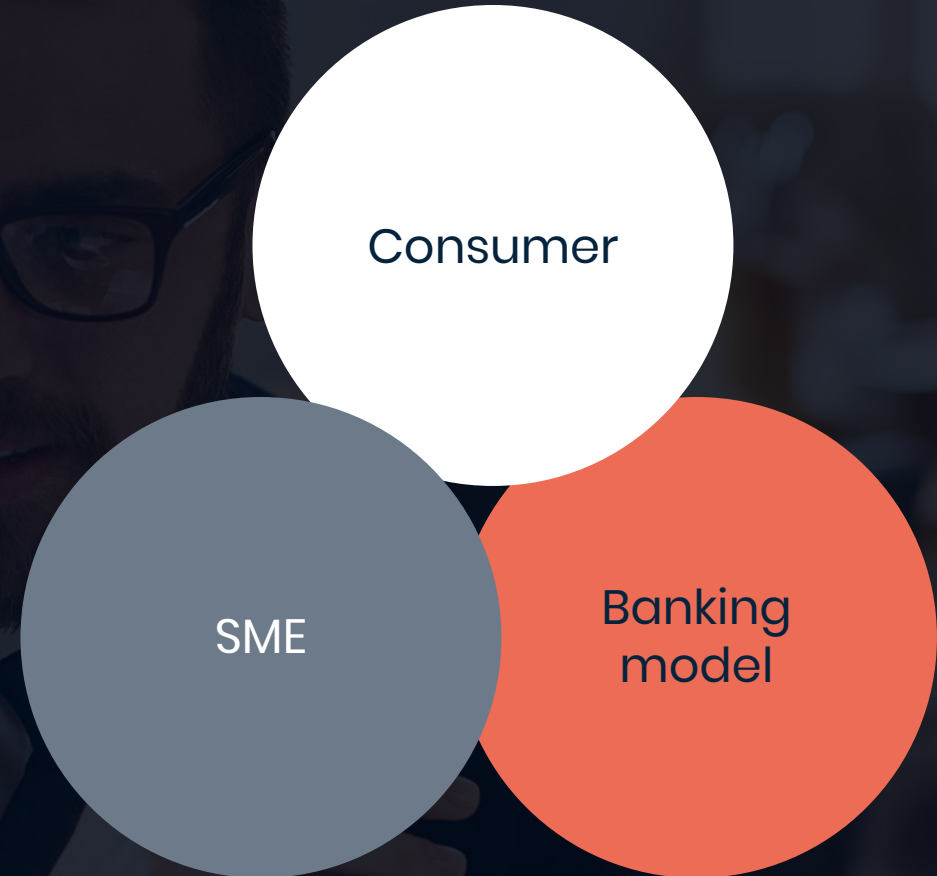
- Leaders in sustainable finance (E,S and G) amongst European peers
- Highly attractive demographics
 - Second largest population growth in Europe in period 2010-2019
 - Lowest average age (37.3)
 - Third highest population in 25-39 age cohort in Europe – 940,000 in key mortgage cohort 2020-2031
 - Significant mass market wealth management opportunities
- Financial literacy initiatives
- In-sector and cross sector collaborations where no competition issues
- Ongoing rebuilding trust and effective culture

Breakout sessions



3 Breakout sessions to consider current and future challenges in respect of:

- Consumer
- SME
- Banking model



Breakout sessions – some questions



Is retail banking currently meeting the needs of consumers and SMEs?

What changes do you expect in retail banking in next 10 years?

Are there barriers to entry to the retail banking market?

Is there acceptable consumer choice for current accounts, savings and for mortgages? What measures could be taken if not?

Should Government or relevant stakeholders introduce policy or other measures to protect access to cash?

Is there adequate access and availability to credit for consumers and SMEs?

Are there cost challenges specific to Ireland that impact on the provision of retail banking services?

Is regulation of the sector applied in a proportionate manner?

Is retail banking providing adequate support to consumers and SMEs to transition to carbon neutral?



Thank you

Introducing Minister Donohoe – Keynote address

