An Roinn Airgeadais
Department of Finance

Retail Banking Review
Public Consultation

Prepared by the Banking Division,
Department of Finance
www.gov.ie/finance

May 2022

Foreword

As a society, and as an economy, we need a functioning banking system that helps households and businesses achieve their financial, economic and social needs.

Our banking sector is going through a period of significant change and the recent announcements, including those relating to the withdrawal of Ulster Bank and KBC, give us cause to reflect on the sector's structure and consider its future. The advances in technology, the proliferation of innovative fintech players and the expansion of non-bank lending mean we are moving to a more diverse banking sector. It is critical, that we are not passive in our reaction to sectoral changes, domestically and globally, but rather give proper consideration to what impact they will have and how public policy should respond.

In this context, it is appropriate that we examine the retail banking sector, review the current landscape, consider how this has evolved over the last two decades and assess how the sector can be best positioned to meet current and future customer needs.

The focus of the Review is on the retail banking services used by Irish consumers and SMEs every day, including current accounts, saving accounts, consumer and SME credit, and mortgages. The Review will consider services provided by the retail banking sector as a whole, including the credit unions and An Post, as well as the disruption to the traditional retail banking model due to advances in fintech and digital finance. The Review will look to the future, and take into account changing consumer behaviours.

This public consultation gives stakeholders the opportunity to engage with and contribute to the work of my Department as it conducts the Retail Banking Review. The consultation seeks the opinion and feedback of stakeholders on the following topics: competition; branch services; cash services; credit products and services, including mortgages and SME credit; current, deposit and savings accounts; and, other operational challenges for banks including capital and climate considerations.

I look forward to hearing your view on the topics outlined within this public consultation, and any other matter that you consider important to the Retail Banking Review.

Paschal Donohoe

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Abbreviations

AIB	Allied Irish Bank
BNPL	Buy Now, Pay Later
BOI	Bank of Ireland
BPFI	Banking and Payments Federation of Ireland
CBDC	Central Bank Digital Currencies
CCPC	Competition and Consumer Protection Commission
CCR	Central Credit Register
CGS	Credit Guarantee Scheme
DGS	Deposit Guarantee Scheme
EBA	European Banking Authority
ECB	European Central Bank
ESG	Environmental, social and governance
EU	European Union
FSPO	Financial Services and Pensions Ombudsman
FTB	First Time Buyer
GFC	Global Financial Crisis
LTI	Loan to Income
LTMA	Long-term mortgage arrears
LTV	Loan to Value
MLF	Microfinance Loan Fund
NPL	Non-Performing Loan
PDH	Private Dwelling Home
RCF	Retail Credit Firm
SBCI	Strategic Banking Corporation of Ireland
SME	Small and Medium-sized Enterprise
SSM	Single Supervisory Mechanism

1. Introduction

The Terms of Reference of the Retail Banking Review ("the Review") were published by the Minister for Finance, Paschal Donohoe TD, on 23 November 2021 and can be found in Annex 2 to this Public Consultation Paper ("the consultation paper").

The focus of the Review, and this public consultation, will be on retail banking services which are defined as the provision of current and saving accounts, consumer and Small and Medium-sized Enterprise (SME) credit, and mortgages. The Review will consider retail banking services provided by the retail banking sector.[1]

The Department of Finance ("the Department") has established a dedicated team to conduct the Review. This team is engaging with Government departments and agencies, as well as other stakeholders to ensure the Review incorporates input from across society.

In addition, the team is obtaining information and perspectives of stakeholders, including the public, through:

- *Consumer survey* – conducted through face-to-face interviews with a sample of 1,500 individuals, the principal purpose of the survey is to ascertain consumers' experience and perception of the retail banking sector in Ireland.
- *Public consultation* – The team conducting the Review want to obtain the considered opinion of stakeholders, including the public, on key aspects of the Review. This is critically important given that the issues being dealt with as part of the Review have significant impact and consequences for consumers, SMEs, the economy and the retail banking sector in Ireland.

The consultation paper is being hosted online at https://consult.finance.gov.ie/ using technology that is user friendly and intuitive.

The Department will conduct the Review and report to the Minister for Finance in November 2022.

[1] For the purposes of the Review, the "retail banking sector" is defined as banks, digital banks and non-banks who provide retail banking services. Non-banks are defined as any provider of retail banking services to consumers and SMEs, and who are not a bank or digital bank. Non-banks include, but are not limited to, credit unions, An Post, retail credit firms, moneylenders and unregulated entities lending to SMEs.

2. Structure of the Public Consultation Paper

The consultation paper is divided into 10 sections. Some of the sections have questions that we ask stakeholders to consider and respond to by the 8h of July 2022. Responses received after this deadline will not be considered. For your convenience, all of the questions included in this consultation paper are also included in Annex 1 of this consultation paper.

Section Number	Section Name	Brief description of section
1	Introduction	Outlines current status of the Review, and how the Department is engaging with stakeholders.
2	Structure of the public consultation paper	Provides an overview of each section that is contained within the public consultation.
3	Retail banking services sector	Outlines brief history and current description of the retail banking sector, and overviews the banks and emerging themes.
4	Competition	Outlines issues regarding competition in the retail banking sector, and potential barriers to entry.
5	Branch services	Outlines overview and outlook for the branch network, including impact of branch closures.
6	Cash services	Outlines current trends on the use of, and access to, cash as well as outlook for cash and cash services.
7	Credit products and services	Provides overview of matters relating to mortgages, SME credit and consumer credit.
8	Other retail banking services	Provides overview of matters relating to deposit and savings accounts, as well as current/payment accounts.
9	Capital, operational and other challenges for retail banks	Provides overview of matters relating to capital, staffing and remuneration, regulation and climate.
10	Providing feedback and next steps	Outlines how stakeholders can respond to this consultation paper, and next steps in the Review process.
	Glossary	Description of key terms used in the consultation paper.
	Annex	Annex 1 – List of Questions in the consultation paper Annex 2 – Retail Banking Review Terms of Reference Annex 3 – About You

Content in this report is correct as at 28 April 2022

The information requested in the About You section (Annex 3) must be completed by all respondents to the public consultation. Save for these questions in Annex 3, you may choose to respond to all or some of the questions in the remaining sections of the public consultation i.e. you may answer as many or as few questions as you wish.

In Section 10 of this consultation paper, you can share any additional opinions, information or feedback that you may have on matters within the Terms of Reference that are not addressed directly in the specific questions within the consultation paper.

Please note that responses to this consultation are subject to the provisions of the Freedom of Information Act 2014 (FOI), Access to Information on the Environment Regulations 2007-2018 (AIE) and the Data Protection Act 2018.

Please also note that we intend to publish the contents of all submissions received to our consultations on our website. We will redact personal data prior to publication. In responding to this consultation, parties should clearly indicate where their responses contain personal information, commercially sensitive information or confidential information which they would not wish to be released under FOI, AIE or otherwise published.

We would like to draw your attention to our Data Privacy Notice[2] which explains how and when we collect personal data, why we do so and how we treat this information. It also explains your rights in relation to the collection of personal information and how you can exercise those rights.

Submissions to the public consultation should be made at https://consult.finance.gov.ie/.

Alternatively, you can respond by post to: Retail Banking Consultation 2022, the Department of Finance, South Block, Government Buildings, Upper Merrion Street, Dublin 2, D02 R583, Ireland. If you are responding by post please complete Annex 3, and submit a printed copy of this Annex along with your response to the consultation.

[2] Available at: https://www.gov.ie/en/organisation-information/19afc4-data-protection/

3. Retail banking services sector

Banks have a key role in helping consumers and businesses achieve their financial, economic and social needs through safeguarding people's savings, providing credit to consumers and businesses, maintaining the flow of cash through society and ensuring good and appropriate access to retail banking services to all in society, including the vulnerable. Traditionally retail banking services in Ireland were provided mainly by banks through extensive branch networks, with additional choice in some products provided by credit unions and the An Post branch network. More recently, digital banks and non-banks are also providing some retail banking services to consumers and businesses. For the purposes of this public consultation, references to non-banks includes credit unions.

3.1. Background

Following the Global Financial Crisis (GFC), several banks in foreign ownership scaled back or exited the Irish retail market. Actions taken by the State following the GFC included amalgamations and closures of banks that resulted in a smaller, but more stable banking system. Internationally, similar actions were taken by governments in recognition of the pivotal role banks play in supporting economic activity. Alongside these measures, there was wide-ranging international and domestic regulatory reform including the establishment of the Single Supervisory Mechanism (SSM),[3] as well as the development of new consumer protection frameworks such as the Consumer Protection Code.[4] The main elements of these reforms have been developed and implemented, however some aspects remain to be completed by legislators and regulators.

A review[5] of behaviour and culture published by the Central Bank of Ireland ("the Central Bank") in 2018 identified cultural failings in the five banks serving retail customers. In addition to requiring institution specific actions to address the findings, the Central Bank's review also proposed the introduction of an Individual Accountability Framework in Ireland that would apply to banks and other regulated entities in the retail banking sector, as well as the staff working in them. Heads of the Bill for this framework were published by the Department in July 2021.[6] It is expected that draft legislation will be published in the immediate future. Following the publication of the Central Bank's report, the banks established the Irish Banking Culture Board.[7]

In 2021, NatWest Group plc, owner of Ulster Bank Ireland DAC, announced that it was undertaking a phased withdrawal from the Irish market, including through the sale of assets.[8] This was followed shortly afterwards by a similar announcement from KBC.[9]

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[3] The Single Supervisory Mechanism refers to the system of banking supervision in Europe. It comprises the ECB and the national supervisory authorities of the participating countries. Available at: https://www.bankingsupervision.europa.eu/about/thessm/html/index.en.html

[4] https://www.centralbank.ie/docs/default-source/regulation/consumer-protection/other-codes-of-conduct/4-gns-4-2-7-cp-code-2012.pdf

[5] Available at: https://www.centralbank.ie/publication/behaviour-and-culture-report

[6] Available at: https://www.gov.ie/en/press-release/4f16e-minister-donohoe-secures-agreement-to-draft-central-bank-individual-accountability-framework-bill/

[7] Available at: https://www.irishbankingcultureboard.ie/

[8] NatWest strategic review. Available at: https://otp.tools.investis.com/clients/uk/rbs3/rns/regulatory-story.aspx?cid=365&newsid=1454197; Ulster Bank announces withdrawal. Available at: https://www.ulsterbank.ie/globals/about-us/media-relations/press-releases.html

[9] Available at: https://www.kbc.ie/w/kbc-bank-ireland-enters-into-a-memorandum-of-understanding-with-bank-of-ireland-group

3.2. Description of current service providers

The provision of retail banking services to Irish consumers and SMEs is not the sole preserve of the banks operating in Ireland. The market is also served by credit unions and An Post who both offer retail banking services through their extensive networks, with An Post also offering services through franchise post offices. In recent years changing regulation and developments in technology have also enabled others to enter the market. These digital and non-bank providers of retail banking services reach their target customers using various channels, including broker channels or directly via digital platforms.

Despite these changes in the retail banking sector, the traditional banks continue to maintain a strong market share in many areas, including deposit taking and lending, though some non-banks are increasing their lending activity, particularly in the mortgage and SME sectors. Digital banks are also expanding their customer bases, with a strong initial focus on the provision of payment accounts.

An overview of the current landscape of non-banks that operate alongside the banks and digital banks is as follows:

- At 31 December 2021, there were 18 authorised retail credit firms (RCFs),[10] ten of whom are actively originating credit. The business models of these 18 firms vary significantly, with some originating mortgages, SME loans, credit cards and car finance.
- There were 63 non-bank lenders to Irish SMEs in 2019 and 2020.[11]
- There has been a marked increase in the number of payment service providers in Ireland particularly since a new Directive[12] was introduced in 2018 and in the aftermath of Brexit. These providers primarily enable digital and card payments.
- There are 210 credit unions, operating from circa 400 branches[13] all providing savings account products and consumer credit, with a growing number developing a capability to provide current account and mortgage lending products.
- An Post has a network of 899 branches[14] providing a range of retail banking services to consumers, including cash/cheque lodgements, cash withdrawals, current accounts and consumer credit, as well as access to State Savings.[15]

While no new retail banks have been authorised in Ireland since the GFC, European Union (EU) authorised banks can notify of their intention to passport cross-border and thereby offer services to consumers and SMEs in other countries within the EU. German headquartered digital bank N26 operates in Ireland on this basis and has c. 0.2m Irish customers.[16] Lithuanian headquartered digital bank Revolut has passported into Ireland and is migrating its c. 1.7m Irish customers[17] to its EU authorised bank, thereby

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[10] There were 18 RCFs authorised as of Feb 28 2022. Available at: http://registers.centralbank.ie/DownloadsPage.aspx
[11] Available at: https://www.centralbank.ie/statistics/statistical-publications/behind-the-data/the-role-of-non-bank-lenders-in-financing-irish-smes
[12] Payment Services Directive (EU 2015/2366 PSD2)
[13] There were 210 credit unions as of December 2021.
[14] There were 899 post offices as of 2021. Available at: http://communityandpostoffice.ie/wp-content/uploads/2020/09/Irish-Post-Office-Network-Review-FINAL.pdf
[15] Some of these services are offered on an agency basis for some providers, including some banks, RCFs and State Savings.
[16] Available at: https://www.bonkers.ie/blog/banking/n26-versus-revolut-how-do-they-compare/
[17] Press release: *"Revolut Bank launches in Ireland"*; 1 February 2022

expanding the product range it can offer to its Irish customers, including taking deposits and providing credit. Since March 2022, Revolut has started to offer credit products to Irish consumers.

There has also been an increase in the number of non-banks operating in the mortgage market since 2014. Five RCF's are now originating mortgages,[18] and have been growing their share of new business. Recent research show these firms increasing their share of new business from c.5% in 2020 to c.14% in 2021.[19] RCFs have ambitions to grow market share in the coming years.

Notwithstanding the growth in new entrants to the market, the continued scale of the banks in the provision of retail banking services gives rise to considerations regarding the extent of competition and consumer choice in Irish retail banking services offerings.

3.3. The banks in the retail banking sector

As the retail banking sector continues to evolve, the retail banks' traditional business models face increasing competition from newer entrants. The banks continue to deal with issues that are impacting profitability, for example, a sustained period of low interest rates and additional regulatory requirements. Since the GFC, regulation is more stringent and includes higher and better quality minimum capital and liquidity requirements, as well as ensuring more robust governance and risk management frameworks, policies and processes are in place.

In recent years, banks have sought to address their profitability challenges by reducing staff numbers and closing branches, whilst they also deployed significant investment to upgrade their IT infrastructure and to transform their business model delivery to respond to technological innovation and challenges from new competitors. Notwithstanding the scale of change implemented by the banks, and the material improvements that have been achieved, financial returns remain below EU averages.

3.3.1. Financial performance and key challenges for the retail banks

Each of the three remaining banks recently announced their full year 2021 financial results. Overall, results improved following the losses recorded in 2020 driven by Covid-19 related impairment charges. Both AIB and BOI returned to profitability and confirmed a resumption of dividends. In addition, all three banks continued to maintain capital positions well above regulatory requirements.

Despite the improved results, the banks face some key challenges. In its November 2021 Financial Stability Review,[20] the Central Bank commented that "profitability has improved from the sharp losses of 2020, but continues to be hampered by long-standing structural challenges relating to a reliance on net interest income, falling interest margins in the context of the low interest rate environment, and a high cost base." Additionally, the residual impacts of Covid-19 have yet to be determined, the final Brexit arrangements vis-

[18] The five RCFs are Dilosk, trading as ICS Mortgages; Finance Ireland; Avant Money, Investec Ireland and Haven. Haven is part of AIB Group.
[19] Available at: https://www.davy.ie/research/public/article.htm?id=ST2_40886_1.xml.htm
[20]Available at: https://www.centralbank.ie/publication/financial-stability-review

a-vis Northern Ireland remain unresolved and Europe is facing far greater geopolitical uncertainty than was envisaged, even at the beginning of 2022.

Analysts suggest the incremental impact of the acquisitions announced by the banks[21] would be beneficial in addressing some of these issues including income diversification and scale. Analysts also predicted, at least prior to more recent events in Europe, that lending volumes should increase in the coming years as mortgage demand and environmental investment, including retrofitting, increases. The combination of rationalisation and market growth could improve the outlook for the continuing retail banks through improving gross income, thereby reducing cost-income ratios.

3.3.2. Key challenges:

Profitability: To remain competitive in the provision of retail financial services, the banks need sustainable business models that generate sufficient profit and capital over the long-term to support loan growth, cover all costs (including investment in technology), as well as delivering appropriate returns to their shareholders. Despite the scale of investment in IT and business transformation undertaken in recent years, to remain competitive the banks need to invest further in developing their digital offerings, decommissioning their legacy IT systems and reducing their operating costs. High operating costs can contribute to higher interest rates for consumers and SMEs.

Capital: Reflecting the pivotal economic role that banks play through their deposit taking and lending activities, banks are required to hold minimum capital levels to cover unforeseen losses that could occur. On average, relative to their European peers, Irish banks are required to hold higher regulatory capital,[22] reflecting higher risk levels associated with their loan portfolios arising from their more extreme loss experiences during and since the GFC. Higher capital requirements can contribute to higher interest rates for consumers and SMEs.

Regulation: As noted earlier, the regulatory regime for banks has undergone material change following the GFC. The purpose of this new regime is to ensure the financial system and the banks within it are resilient and that consumers and SMEs are adequately protected. Whilst accepting that failures will occur, regulation is also intended to ensure that where banks fail, they can be resolved in an orderly fashion. Regulatory compliance is essential, but comes at a cost that banks ultimately pass on to their customers.

Staff: Given the increasing transition to digitalisation, banks are increasingly competing with firms outside the retail banking sector for staff across a range of skill-sets including IT developers, data analytics and cyber security. The banking industry say that recruitment and retention is impacted negatively by the continued application of pay restrictions applied to them as part of the State's recapitalisation arrangements.[23]

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[21] In 2021, Bank of Ireland and AIB announced their intentions to acquire Davy and Goodbody stockbrokers respectively, whilst Bank of Ireland, AIB and Permanent TSB have entered into arrangements with Ulster Bank and KBC to acquire some of their assets.

[22] As determined by EU rules on how regulatory capital should be calculated.

[23] https://bpfi.ie/publications/bpfi-ey-the-future-of-retail-banking-in-ireland-report/

3.4. Emerging themes

In recent years, various stakeholders have been considering and commenting on issues within the retail banking sector, which has given rise to a number of emerging themes:

- The retail banking sector has become more consolidated, due to withdrawals, mergers and acquisitions.
- The banks will likely remain the most significant provider of credit to the real economy in the near future, though the dominance of the banks is likely to reduce over time.
- Changing demographics will have a significant impact on the future for the retail banking sector, with the sector likely to adapt its product offering to the changing age profile and technological capability of consumers and SMEs in Ireland.
- The traditional retail banking model is being disrupted as advances in financial technology ("fintech") and the expansion of non-bank lending mean there is a transition underway to a more diverse and digital banking sector.
- Change is happening at a fast pace. There is an ongoing need for the retail banking sector to adjust the way it operates due to a number of factors, including competition from newer entrants, digitalisation of financial services and the need for the retail banking sector to support the transition to a green economy.
- Digitalisation is essential to guarantee the longer-term sustainability of banks' business models. This may result in a continuing decline in the number of bank branches as technological innovation enables the development of digital products and remote interactions with consumers and SMEs.
- Consumers and SMEs are being impacted by change. Whilst digitalisation and innovation brings opportunities and enhanced benefits for consumers and SMEs, and for the economy overall, there are also risks such as the financial exclusion of those in society who cannot or will not, for whatever reason, access digital services, or where digitalisation is poorly executed resulting in all users being impacted.
- The regulatory framework needs to keep pace with the evolving opportunities and risks arising from change. The pipeline of new regulation includes new or up-dated requirements relating to banking resilience, consumer credit, non-performing loans (NPLs) and payment services.[24]

While outside the scope of this review, a related matter on the subject of digitalisation is the potential for Central Bank Digital Currencies (CBDC). In July 2021, the ECB announced it was launching a digital euro project which would last 24 months. All stakeholders including Government, the Central Bank and the banks will be required to work with other Euro member states to ensure Ireland can implement any changes which could arise from this project. On 5 April 2022, the European Commission launched a public consultation on the digital euro, which is open until 14 June 2022.[25] Given the early stage of this work, it is not possible to identify the possible changes or the impacts it may have on the retail banking sector.

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[24] Respectively: Basel 3 finalisation package, Consumer Credit Directive, NPL Directive and Payment Services Directive Review (PSD2 Review)

[25]Available at: https://ec.europa.eu/info/consultations/finance-2022-digital-euro_en

Question 1:

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?
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.

4. Competition

As outlined in Section 3, the GFC and its continuing after effects, have resulted in a more concentrated retail banking sector. The announcement last year that Ulster Bank and KBC plan to cease operations in Ireland will reduce to three the number of banks who have physical branch networks.

In recent years, changing regulation, enhanced technology and market opportunities have resulted in digital and non-banks entering the market, however these new entrants are not offering a branch based model.

The newer entrants' main area of focus are payment accounts and credit, including mortgages. Those newer entrants offering credit tend to have a limited product range, sometimes specialising in just one product. As a result, this new competition tends to be more fragmented.

Non-banks operate in Ireland under a range of non-bank licences, while some providers of SME credit do not require a licence at all. The key difference between non-banks that have or do not have a full banking licence is that without a full banking licence, a non-bank cannot offer savings products to consumers.

4.1. Competition in retail banking services

There are a range of measures of competition in the retail banking sector, including:

- **Innovation / product choice** – in retail banking, the type of products and services available to consumers tend to be relatively uniform. The focus of innovation in the retail banking sector has therefore tended to be on delivery channels, and in some cases pricing. One notable area where innovation has happened, resulting in wider product choice, is in the mortgage market where some new entrants are offering longer-term fixed rates. Another area that has seen significant new choice emerge is in payment accounts, facilitated by the development of new regulation and technologies.
- **Market concentration** – The Review will assess the extent of market concentration at a product level. Market concentration can be used as one proxy for how competitive a market really is. Other elements such as how actively providers compete with one another and whether there are barriers to entry will also have to be examined when considering how competitive a market is.

4.2. Barriers to entry

Since the GFC, while traditional banks exited the market, in more recent years digital and non-banks have increased their presence and activities in Ireland, and many have outlined their objective to grow their market share. In this same period, banks with branch networks have chosen to exit rather than enter the market. There may be many factors influencing this dynamic, such as:

- **Market scale and size** – Incumbents and potential new entrants will form their own assessment whether a market is of sufficient size, the required scale, and whether there is sufficient opportunity, to enable them achieve an adequate return on their investment. Historical low levels of switching in Ireland may act as a barrier to entry as firms may determine that economies of scale cannot be achieved at a sufficient pace to justify the likely significant up-front cost of entering a new market.

- **Regulation** – Following the GFC, more comprehensive and stringent regulation was introduced to restore stability to banks and the retail banking sector, as well as to ensure that consumers and SMEs were better protected. Within financial services, the highest prudential regulatory standards apply to banks, due to their pivotal role in the system. However, regulatory requirements, or regulation that is considered disproportionate or excessive, can act as a barrier to entry given the fact that meeting regulatory requirements impact directly or indirectly on costs, which in turn impact profitability.
- **Licencing and related processes** – Inefficient processes may act as a barrier to new entrants. As such, it is important that regulators' authorisation processes[26] for new licence applications and senior leadership positions[27] operate efficiently.
- **Legacy issues from the GFC** – Ireland's high level of long-term mortgage arrears (LTMA)[28] suggests there may be an inability within the retail banking sector and/or legal system to efficiently resolve the financial distress of borrowers. For potential new entrants examining the mortgage market in Ireland, the apparent difficulty to repossess security when a borrower cannot repay their mortgage may act as a barrier to entry. The capital implications for banks arising from historical performance on mortgage lending, including an inability to repossess security efficiently is discussed in Section 9.
- **Brexit** – UK banks, who operate in the same language, and with a similar culture and legal system, can no longer simply passport their products and services into the Irish market, reducing the pool of possible new entrants and, potentially, the degree of choice for Irish consumers and SMEs.

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.

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.

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[26] The ECB is the competent authority for the authorisation of banks in the euro area, whereas the Central Bank is the competent authority for other entities requiring a Central Bank authorisation such as RCFs and payment providers.
[27] Pre-approved Control Functions (PCFs)
[28] As at end-December 2021, there were 25,898 PDH accounts in arrears > 1 year, of which 14,367 (55.5%) were in arrears > 5 years. Available at: https://www.centralbank.ie/statistics/data-and-analysis/credit-and-banking-statistics/mortgage-arrears

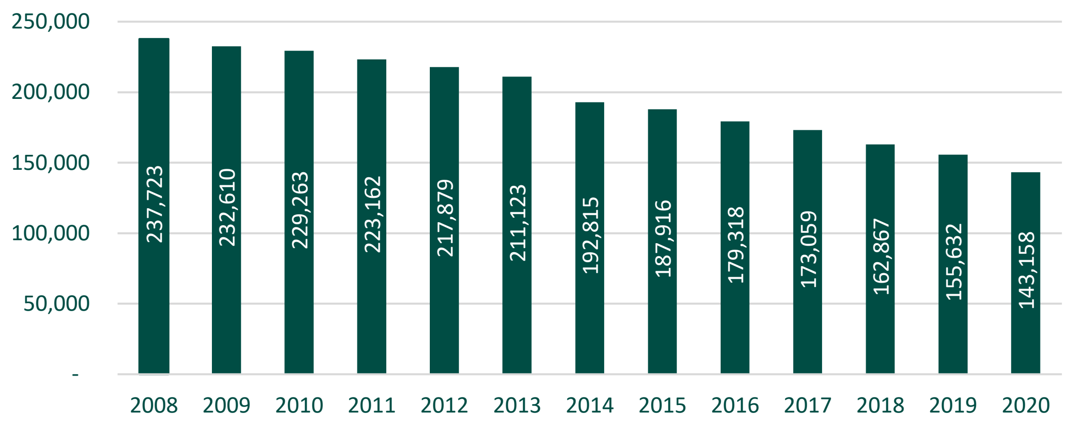
5. Branch services

Year-on-year, since the GFC, banks across Europe have reduced the size of their branch network. In the period 2008 – 2020, the number of branches declined almost 40% (see Figure 1). Banks and analysts suggest that this phenomenon is largely being driven by two factors:

- The implementation of strategies to reduce operating expenses as a means of improving profitability to more sustainable levels. Alongside staff costs, a branch network is one of the main elements of a bank's operating expenses.
- A transition to digitalised services, which has resulted in decreasing footfall in the branch network. This has led to many banks examining the economics of retaining a large branch network in locations with low footfall.

This trend is no different in Ireland. A report published by the Banking & Payments Federation Ireland (BPFI) noted that, in the period 2014-2019, the number of branches reduced by 11% in Ireland.[29] At the end of 2020, the five banks operated 634 branches and there were almost 2,400 ATMs for cash withdrawals.[30] In 2021, Bank of Ireland closed 88 of its 257 branches, and AIB closed 15. Ulster Bank and KBC's decision to leave the market will result in further branch closures. KBC is in the process of closing its 16 branches. Ulster Bank has entered into an agreement with Permanent TSB that will see Permanent TSB acquire 25 of Ulster Bank's 88 branches, although this does mean that there will be a further net loss of 63 branches.

Figure 1 – Number of domestic branches in the EU over the period 2008 - 2020[31]



Source: European Banking Federation Facts and Figures 2021

[29] Available at: https://bpfi.ie/publications/bpfi-ey-the-future-of-retail-banking-in-ireland-report/
[30] Available at: https://www.ebf.eu/ireland/
[31] Available at: https://www.ebf.eu/facts-and-figures/previous-editions/

5.1. Outlook for the branch network

The ECB has stated that the EU banking sector in 2030 "could be smaller, employ fewer people, and operate less via branch networks."[32] With many banks across Europe, including Ireland, under pressure to improve profitability to sustainable levels that cover their costs (including their cost of equity), banks have re-focused on reducing their operating costs. In terms of how they do this, all banks responding to a recent European regulator questionnaire[33] pointed to increasing automation and digitalisation "as an area to reduce operating expenses."

5.2. Impact of branch closures

Full service bank branches provide a wide variety of retail banking services to their customers, including opening bank accounts, lodging and withdrawing cash, obtaining credit and dealing with customer queries. The closure of branches, even those with limited services, can therefore have a significant impact on certain consumers and SMEs, as well as the staff who work in those branches. Collectively branches provide significant levels of employment, as well as contributing more generally in local communities.

The closure of branches can have further impacts on consumers and SMEs, including:

- The withdrawal of ATM services, as it is often the case that an ATM will close as a bank branch closes.
- Financial exclusion, as the customer may not be digitally savvy or may not have good internet access to enable them access digital banking services.
- Inability or inconvenience in travelling to the nearest branch to access services, which may also result in additional costs.
- Safety and security implications, as customers may withdraw and store larger amounts of cash than they normally would.
- A lack of in-person contact and engagement between customers and bank staff reduces the opportunity for trained staff to identify customers who are in difficulty or may be subject to financial abuse.

The transition to digital, and away from branch banking, could also have positive impacts for consumers. The potential trade-offs are:

- The reduced costs that banks accrue from closing branches may be passed on to consumers and SMEs in the form of cheaper products and services, including interest rates.
- The increasing investment in digital services could improve financial inclusion, as products and services become more widely accessible on digital platforms.
- Expanded digital products and services due to greater investment.

[32] Available at: https://www.ecb.europa.eu/pub/financial-stability/financial_stability_contact_groups/html/bid.en.html
[33] Risk assessment of the European banking system; EBA; December 2021. Available at: https://www.eba.europa.eu/eba-risk-assessment-shows-improvements-eu-banks-solvency-profitability-and-liquidity-asset-price

There are mitigating factors that need to be considered when considering the impact of branch closures in Ireland, as there is also a large network of credit unions and An Post branches providing retail banking services. A report commissioned by the Minister for Finance in 2019[34] found that the credit unions and An Post had an extensive branch network in Ireland. The report noted that of the 1,912 branches then operated by banks, credit unions and An Post in Ireland, over 63% of these outlets belonged to credit unions or An Post. As such, it was found that access to retail banking services is not wholly dependent on the existence of a bank branch, as consumers and SMEs can avail of many retail banking services through credit union and An Post branches. Given the further reductions in banks' branch networks since 2019, the Review team will consider the impact of these additional branch closures.

5.3. Regulation applying to branch closures

The Consumer Protection Code ("the Code")[35] requires banks to provide a minimum of two months' notice to affected customers when they intend to close a branch in order to allow consumers make alternative banking arrangements. In practice, entities closing branches or ceasing operations generally give longer notice periods to their customers. The decision to close a branch is a commercial decision for the bank. The role of the Central Bank is limited to ensuring that the bank that is closing a branch complies with the requirements of the Code to complete all the business of the branch prior to its closure and communicate with the consumer about how service will continue to be provided. The Central Bank expects that the bank will provide affected vulnerable customers with all the assistance that is necessary to ensure that they retain full access to basic financial services, albeit at another branch location.

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.

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.

[34] Available at: https://www.gov.ie/en/press-release/3f7624-minister-donohoe-publishes-independent-external-evaluation-on-local-/
[35] Available at: https://www.centralbank.ie/regulation/consumer-protection/consumer-protection-codes-regulations#consumer-protection-code

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.

6. Cash services

Cash is an important mechanism that facilitates the financial inclusion of all groups in society, particularly socially vulnerable citizens such as the elderly or lower-income groups.[36] Cash also has a critical role to play in the event of problems arising with IT systems that underpin electronic payments, or where electricity and internet outages prevent the use of digital services or devices. A 2018 study prepared for the Department concluded that a fully cashless society would not be an appropriate objective.[37]

The ECB and national central banks have a key responsibility, together with the banking sector, to ensure the smooth supply of cash and facilitate the use of cash in payments by consumers and SMEs.[38]

In Ireland, the banks provide consumers with access to cash and cash services (namely lodgements and withdrawals) through their bank branches and some ATMs. Some banks have entered into arrangements with An Post which enables the customers of those banks make cash lodgements and withdrawals (notes and coin) at An Post branches. Consumers can also access cash through cashback services provided by some retailers.

SMEs can access cash and cash services in the same way as consumers, although given the higher volumes of cash that some SMEs deal with, these SMEs will likely have an increased reliance on bank branches for their cash needs. In this regard, not all bank branches offer cash services.

6.1. Current trends on the use, access and acceptance of cash

The ECB has highlighted that "public access to cash is declining around Europe as commercial banks continue to downsize their branch networks and strive for optimising costs regarding their support for ATM networks."[39] The ECB commented that although access to cash is not yet a major issue in most countries, there are concerns that access to cash and banks' cash service levels are generally deteriorating, at least in certain areas of some countries.[40] According to research conducted by the ECB:

- Between the second half of 2016 and the first half of 2019, the number of credit institutions' branches offering cash services in the euro area decreased by 19,830 (-12.0%). Over the same period, the overall number of ATMs/cash dispensers decreased by 13,921 in the euro area (-4.3%).
- In 2019, almost 10% considered that access to an ATM is fairly or very difficult, which shows a doubling of the people that expressed concerns about access to ATMs. In 2016, only 5% of the people in euro area were not satisfied with access to ATMs.
- Retailers and other businesses expressed growing concerns about cash lodgement facilities, especially for coins, and the recent evolution of fees for cash services charged by commercial banks.

[36] Available at: https://www.ecb.europa.eu/euro/cash_strategy/html/index.en.html
[37] Available at: https://www.gov.ie/en/publication/f8bfbe-indecon-report-on-benchmarking-of-irelands-payments-industry
[38] Available at: https://www.ecb.europa.eu/euro/cash_strategy/html/index.en.html
[39] The fourteenth ERPB meeting. Available at: https://www.ecb.europa.eu/paym/groups/erpb/html/index.en.html
[40] Ibid.

In Ireland, there has been a significant reduction in the public's use of cash, and an increase in the use of digital payments. Statistics[41] from the Central Bank show that the number of card payments has increased by 79% between 2016 and 2020, whilst the number of ATM withdrawals by Irish residents fell by 40% in 2020 when compared to 2019, reflecting issues arising from the pandemic.

Statistics from the BPFI[42] also provide important insight on recent trends, specifically:

- Online/mobile banking volumes grew by 10.4% in 2021, increasing by almost 85% in the last five years.
- Value of contactless payments rose by 48.3% to €13.6 billion with contactless accounting for more than half (52%) of all card payments in 2021.
- 36% of in-store spending is now accounted for by contactless payments including mobile wallets.

6.2. Other trends

There has been a trend in Irish banks exiting the market for the provision of out-of-branch ATMs.

In 2018, Euronet acquired c. 400 of ATMs from Ulster Bank while in 2020 Brink's acquired c. 500 ATMs from AIB. In 2021, Bank of Ireland announced the sale of 679 out-of-branch ATMs to Easycash, a subsidiary of Euronet. Independent ATM operators, who are not banks, now control more than 75% of the ATMs in Ireland with the banks operating the remainder.[43]

In Ireland, these independent operators of ATM's are not regulated, and therefore the Central Bank's conduct of business rules do not apply to them. This means there are no regulatory requirements on operators regarding ATM service standards or fees/charges, unlike charges and fees that are applied by regulated entities.

6.3. Outlook for cash and cash services

Given the decline in the use of cash and the increase in the use of electronic payments, both of which accelerated during the pandemic, there has been much stakeholder discussion on the future of cash.[44]

As a response to the various developments impacting access to and acceptance of cash in the EU, the ECB launched its Eurosystem Cash Strategy in November 2020.[45] According to the ECB, the strategy was driven by the vision to "preserve, in the long run, euro cash as a generally available, attractive, reliable and competitive payment instrument and store of value of choice."[46] There are five strategic objectives outlined in the ECB cash strategy including: supporting access to cash services for all euro area citizens and businesses; and, defining acceptance of cash as essential for the freedom of choice how to pay.

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[41] Available at: https://www.centralbank.ie/statistics/data-and-analysis/payments-services-statistics
[42] Available at: https://bpfi.ie/publications/bpfi-payments-monitor-q4-2021/
[43] Available at: https://www.ccpc.ie/business/mergers-acquisitions/merger-notifications/m-21-011-easycash-bank-of-ireland-atms/
[44] Available at: https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210615~05b32c4e55.en.html
[45] The fourteenth ERPB meeting. Available at: https://www.ecb.europa.eu/paym/groups/erpb/html/index.en.html
[46] Ibid.

To ensure a robust cash cycle and efficient supply chain, the ECB stated that "it is crucial that the banking sector fulfils its role in the retail distribution of cash and provides good deposit facilities for businesses with appropriate geographical coverage and fee policies and that the retail sector continues accepting cash."[47]

In some jurisdictions, policy measures are being developed or have been taken to protect access to and acceptance of cash. For example, in January 2021, the Swedish government enacted a law obliging credit institutions to offer, either directly or via agents, reasonable access to cash services with a sufficient regional coverage throughout the country.

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.

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.

[47] Ibid

7. Credit products and services

7.1. Introduction

This section of the consultation paper focuses on credit products and services. In line with the Terms of Reference, the focus will be on mortgages as well as SME and consumer credit.

Credit plays a critical role in facilitating and generating financial activity in an economy. It helps people to purchase items that have a high cost, such as a car or a home; and it helps SMEs to grow their businesses and create employment. Together, these purchases and activities, which are enabled by good and prudent access to credit, generate economic activity for the benefit of the State and its citizens.

Traditionally, the banks in Ireland have been the main providers of credit to consumers and SMEs. That landscape is changing, and consumers can now obtain credit from digital and non-banks, including credit unions, An Post and some RCFs. SMEs have an even wider choice of non-bank providers of credit, who are often niche providers, as well as access to crowdfunding sources.

To date, non-bank providers of credit to consumers may be regulated or unregulated, depending on the product being offered. Legislative changes are being introduced in relation to the regulation of consumer lending which will ensure that regulated providers of credit must meet the requirements applicable to the licence they hold from the Central Bank, including adhering to conduct of business rules. The Central Bank has a range of conduct of business rules in place to protect consumers and SMEs, such as the Consumer Protection Code[48] and the SME Regulations.[49]

In recent years, there has been considerable public discussion on why the cost of credit, namely interest rates, is higher in Ireland compared to our European peers. Most of this discussion has focused on mortgage interest rates. There are many factors influencing interest rates in Ireland, and many of these factors are common to all types of credit, and not just mortgages.

7.2. Mortgages

Over the last decade, the size of the mortgage market in Ireland has declined – the total number of mortgage accounts decreased by 118,640 (12.8%) whilst the outstanding balance on those mortgages decreased by €29.8 billion (21%).[50]

According to Central Bank statistics, as at December 2021 there were 809,859 mortgage accounts in Ireland with an outstanding balance of €112.1 billion.[51] These mortgage accounts represent c. 675,000

[48] Available at: https://www.centralbank.ie/regulation/consumer-protection/consumer-protection-codes-regulations#unofficial-consolidation
[49] Available at: https://www.centralbank.ie/news-media/press-releases/regulations-for-firms-lending-to-smes-from-2016
[50] According to Central Bank statistics, over the period December 2012 to December 2021 the number of mortgage accounts reduced from 928,499 to 809,859, with the balance on those accounts reducing from €141,921,222 to €112,093,160. Available at: https://www.centralbank.ie/statistics/data-and-analysis/credit-and-banking-statistics/mortgage-arrears
[51] This represents the total number and value of mortgages in banks and non-banks. Available at: https://www.centralbank.ie/statistics/data-and-analysis/credit-and-banking-statistics/mortgage-arrears

borrowers,[52] of which c. 601,000 are private dwelling house (PDH) borrowers and the remainder relate to borrowers who have acquired properties for investment purposes (i.e. buy-to-let properties).

With respect to recent mortgage credit activity, figures published by the BPFI,[53] highlight:

- A total of 43,494 mortgages to a value of €10.5 billion were drawn down in 2021. First-time buyers (FTBs) remained the single largest segment by volume (54.4%) and by value (54.2%).
- 53,335 mortgages were approved to a value of €13.4 billion in 2021. This is a decrease of 3.6% in the number of mortgages approved year-on-year.

7.2.1. Mortgage providers in Ireland

The mortgage market continues to be dominated by the banks, who collectively hold c.80% of the total mortgage loan book.[54]

There are five RCFs originating mortgages.[55] Recent research suggests that non-bank lenders have increased their share of new lending from c.5% in 2020 to c.14% in 2021.[56] There is speculation in the market that other non-banks may enter the market, potentially increasing the number of non-bank mortgage providers.[57]

Unlike the banks who provide mortgages directly and through intermediary/broker channels, the RCFs operate primarily through intermediary channels, with none having a branch network in place. It has been estimated that lending through intermediaries now represents a c. 40% share of total new mortgage lending.[58]

The credit union sector is playing an increasing role in the mortgage market, having doubled their mortgage loan book from €128m in 2016 to €260m in 2021, and with circa 50% of all credit unions now offering mortgages to their members.[59] Further growth is expected in 2022 and beyond.

The forthcoming departure of Ulster Bank and KBC from the Irish market will change the competitive landscape. Ulster Bank has announced its intention to sell its performing non-tracker mortgage book to Permanent TSB. KBC has announced its intention to sell the majority of its mortgage book to Bank of Ireland. The proposed Ulster Bank and KBC transactions are currently the subject of reviews by the Competition and Consumer Protection Commission (CCPC).

7.2.2. Mortgage products

The vast majority of mortgages in Ireland are annuity mortgages, also known as repayment or capital and interest mortgages. These mortgages are repaid in full by the end of the mortgage term, with the term

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[52] There is c.1 borrower for every 1.2 accounts that are listed in the Central Bank of Ireland mortgage statistics
[53] Available at: https://bpfi.ie/publications/bpfi-mortgage-drawdowns-q4-2021/
[54] The banks hold mortgages with a total value of c.€89.5bn out of a total (bank and non-bank) mortgage value of €112.3bn per Central Bank statistics. Available at: https://www.centralbank.ie/statistics/data-and-analysis/credit-and-banking-statistics/mortgage-arrears
[55] The five RCFs are Dilosk, trading as ICS Mortgages; Finance Ireland; Avant Money, Investec Ireland and Haven. Haven is part of AIB Group.
[56] https://www.davy.ie/research/public/article.htm?id=ST2_40886_1.xml.htm
[57] Available at: https://www.davy.ie/research/public/article.htm?id=ST2_40886_1.xml.htm
[58] Ibid.
[59] As at March 2022, 114 of the 210 credit unions are providing mortgages to their members.

typically not exceeding 35 years and generally ending in advance of the borrower reaching retirement age. In other jurisdictions, other mortgage product types are available to consumers, such as intergenerational mortgages and interest only mortgages.

In Ireland, lenders typically distinguish their products based on price, including features such as cashback and cash incentives to cover fees (e.g. legal fees). Innovation in mortgage products has tended to focus on broadening the range of fixed rate and loan–to–value products on offer,[60] as well as “green mortgages” where lower interest rates are available for more energy sustainable homes.

Since 2015, there has been a significant shift in consumer preference towards longer-term fixed rate products. In 2015, 59% of all new mortgages drawn down in that year were either standard variable rate mortgages, or with a fixed term of up to one year. By 2020, 83% of all new mortgages were fixed for periods of greater than one year, with 53% being fixed for a period of over three years.[61] It is government policy to work with stakeholders to increase the availability of long-term fixed rate mortgages.[62] In other jurisdictions, such as Germany and France, a higher proportion of borrowers fix their mortgage for greater than 5 years.

7.2.3. Mortgage switching

Research published by the Central Bank found very low levels of mortgage switching in the Irish market, despite the cost savings that can be achieved through switching.[63] It found that a diverse range of factors may inhibit switching, including psychological factors, lack of knowledge on the costs and benefits, breakage fees, and the perceived complexity. The Central Bank also noted that those with lower levels of financial literacy and education are more likely to exhibit a high degree of inhibition to switching.

The Central Bank introduced a number of policy initiatives to improve the switching process.[64] These measures principally placed responsibility on lenders to inform customers of cheaper interest rate options that may be available to customers, and to explain the switching process (including timelines) to customers.

The Department has also been active in this area and it retained the ESRI to conduct research (which is ongoing) on the behavioural aspects of switching. The CCPC maintains an up to date mortgage comparison tool on its website, in addition to providing extensive information and guidance for consumers on its website.[65]

7.2.4. Limitations on mortgage lending

To ensure consumers, the financial system and the economy are protected, and to avoid the mistakes of the past, lenders are restricted in the amount of mortgage credit they can provide to borrowers. Regulations

[60] Most lenders offer both variable and fixed rate mortgages. Most lenders offer borrowers the ability to fix the interest rate on their mortgage for up to ten years, though some RCFs now offer borrowers with the ability to fix their interest rate for a period up to 30 years.
[61] Central Bank Retail Interest Rates (Table B.3.1); Available at: https://www.centralbank.ie/statistics/data-and-analysis/credit-and-banking-statistics/retail-interest-rates
[62] The Programme for Government contains a commitment to: “Work with the Central Bank of Ireland and the Irish banking sector, to increase the availability of long-term fixed rate mortgages.” Available at: https://www.gov.ie/en/publication/7e05d-programme-for-government-our-shared-future/
[63] Economic Letter from 29/10/2020 entitled *“Room to improve: A review of switching activity in the Irish mortgage market”*. Authored by Shane Byrne, Kenneth Devine, and Yvonne McCarthy
[64] Available at: https://www.centralbank.ie/news-media/press-releases/mortgage-switching-20-June-2018
[65] Available at: https://www.ccpc.ie/consumers/money-tools/mortgage-comparisons/

are in place that oblige lenders to complete a thorough assessment of prospective borrowers' ability to repay. In addition, the Central Bank has rules in place[66] that limit the amount of money that can be borrowed using Loan to Value (LTV) and Loan to Income (LTI) limits.

The Central Bank is currently undertaking a formal review of the mortgage measure framework, which is due to conclude in the second half of 2022.

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.[67]

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.

[66] These rules are known as the Central Bank Mortgage Measures.
[67] Economic Letter from 29/10/2020 entitled *"Room to improve: A review of switching activity in the Irish mortgage market"*. Authored by Shane Byrne, Kenneth Devine, and Yvonne McCarthy

7.3. SME

SMEs account for 99.7% of the total number of business enterprises in the private business economy. They employ 1.16 million people, which accounts for 66.4% of total employment in the private business economy. SMEs account for 36.9% of gross valued added in the Irish economy.[68]

7.3.1. The role of the State in supporting SMEs

The Programme for Government contains a range of commitments to help support SMEs. Supports include, but are not limited to:

- Strategic Banking Corporation of Ireland (SBCI) - since the SBCI commenced operations in March 2015 and to the end of 2021, it has enabled the provision of €2.8bn of funding to more than 46,000 SMEs.[69]
- Microfinance Loan Fund (MLF) – to 30th June 2021, the MLF approved loans to a total value of €66.7m for 3,964 micro-enterprises.[70]
- Various schemes, including the Covid-19 Credit Guarantee Scheme, Covid-19 Working Capital Scheme, Future Growth Loan Scheme and the Brexit Impact Loan Scheme offered through the retail banks and a range of non-banks, including credit unions. Collectively, these and other State schemes have provided significant funding to Irish SMEs.

7.3.2. SME credit providers in Ireland

The retail banking sector is the largest provider of finance to the SME sector. According to the Department's *SME Credit Demand Survey*,[71] approximately 53% of all SME outstanding debt is to retail banks. Credit unions accounted for 1%, with the balance provided from other sources, including non-bank sources. With the decision of Ulster Bank and KBC to cease trading in Ireland, the SME credit landscape will change over the coming years. Ulster Bank has announced its intention to sell its performing corporate and commercial loan portfolio to AIB and its micro SME (Business Direct) and Lombard Asset Finance loan portfolios to PTSB.

Research from the Central Bank suggests the non-banks, including RCFs, are playing an increasing role in financing Irish businesses, and are offering an alternative to the traditional banking system.[72] This research found that these lenders provide increased choice for borrowers, competition for banks, financing in market segments underserved by other lenders, and innovations in products and funding models.[73]

According to the Central Bank: [74]

- There were 63 non-bank lenders to Irish SMEs in 2019 and 2020.

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[68] Available at: https://www.cso.ie/en/releasesandpublications/ep/p-bii/businessinireland2019/smallandmediumenterprises/
[69] Available at: https://sbci.gov.ie/uploads/banners/SBCI_Year-end-Statement-2021_A4_Final_Digital.pdf
[70] Available at: https://enterprise.gov.ie/en/What-We-Do/Supports-for-SMEs/Access-to-Finance/Microenterprise-Loan-Fund-Scheme/
[71] Available at: https://www.gov.ie/en/press-release/e068e-credit-demand-survey-shows-significant-recovery-in-overall-sme-performance-compared-to-2020/
[72] Available at: https://www.centralbank.ie/statistics/statistical-publications/behind-the-data/the-role-of-non-bank-lenders-in-financing-irish-smes
[73] Ibid
[74] Ibid

- Irish SMEs borrowed almost €4bn from non-bank lenders in the period 2019-2020, across a wide variety of products. Circa €2 billion was in new loans to a diverse range of SME, with leasing and asset financing playing a large role, whilst real estate accounted for a further €1.7 billion.
- The range and type of lender is diverse, and includes many small lenders. Many of the lenders are owned by non-Irish parents, and are active across a wide range of economic sectors, with property and wholesale/retail businesses particularly dependent on non-bank lenders.

7.3.3. Regulation of SME credit

Under existing legislation,[75] not all lenders to SMEs are required to be regulated by the Central Bank. If the lender is providing credit to people, including sole traders or partnerships, then it must be regulated by the Central Bank. If however, the lender is providing credit to businesses that are incorporated, such as limited companies or limited partnerships, then it does not need to be regulated by the Central Bank.

Where a lender is regulated, this means that the lender must meet the requirements applicable to the licence they hold, including adhering to conduct of business rules, which in the context of businesses are laid out in the SME Regulations. According to the Central Bank, the SME regulations aim to “strengthen protections for SMEs, while also facilitating access to credit, by introducing specific requirements that regulated lenders must comply with”.[76] Non-bank providers of credit, whether they are regulated or un-regulated, do not have to adhere to the same capital or other prudential requirements that the retail banks must adhere to.

Crowdfunding is an alternative means to raise finance to fund start-ups or established businesses, and may increasingly become a source of funding for SMEs. Since January 2022, crowdfunding service providers must be authorised by the Central Bank and are subject to operational requirements and investor protection measures.[77]

7.3.4. SME credit products

Historically, the main banks in Ireland (i.e. Bank of Ireland, AIB and Ulster Bank) have generally acted as a “one stop shop” for the range of credit products that SME customers needed to support the development and growth of their businesses. The credit products typically included business loans, asset finance (such as leasing, hire purchase and real estate) and working capital products (such as overdrafts and invoice discounting).

Non-banks tend to specialise in specific sectors or product lines (e.g. leasing, invoice discounting), which means the importance of non-banks for each economic sector may vary significantly. The emergence of these specialist, niche lenders in the SME market means that SMEs can source credit from various lenders and are therefore not wholly dependent on their bank for all of their credit requirements.

[75] The Central Bank Act 1997; Section 26
[76] Available at: https://www.centralbank.ie/news-media/press-releases/regulations-for-firms-lending-to-smes-from-2016
[77] Available at: https://www.centralbank.ie/news/article/central-bank-announces-new-crowdfunding-regulatory-regime-13-Jan-2022

7.3.5. SME demand for credit

The Department and the Central Bank conduct regular research on credit demand and lending in the SME sector. Some key messages from recent research[78] include:

- 39% of SMEs reported having no debt in September 2021.[79]
- Future demand for credit is decreasing. 17% of SMEs applied for bank credit in the six month period to September 2021, with only 7% expecting to apply for credit in the following six months.[80]
- Of the SMEs that requested bank finance in the previous six months, new loans, and leasing or hire purchase were the most requested finance products, followed by new overdrafts and requests for renewal/restructuring of existing overdrafts and loans.[81]
- Of those SMEs that applied for credit 40% sought it for a new business venture, acquisition of assets or expansion, up from 16% in October 2020.[82]
- Non-banks are the main providers of certain types of credit products. For example, non-banks provide the majority of leasing and hire purchase (58%).[83]

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.

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.

[78] Department of Finance research. Available at: https://www.gov.ie/en/press-release/e068e-credit-demand-survey-shows-significant-recovery-in-overall-sme-performance-compared-to-2020/ ; Central Bank of Ireland research. Available at: https://www.centralbank.ie/publication/sme-market-reports
[79] Available at: https://www.gov.ie/en/press-release/e068e-credit-demand-survey-shows-significant-recovery-in-overall-sme-performance-compared-to-2020/
[80] Available at: https://www.gov.ie/en/press-release/e068e-credit-demand-survey-shows-significant-recovery-in-overall-sme-performance-compared-to-2020/
[81] Available at: https://www.gov.ie/en/press-release/e068e-credit-demand-survey-shows-significant-recovery-in-overall-sme-performance-compared-to-2020/
[82] Ibid.
[83] Available at: https://www.centralbank.ie/publication/sme-market-reports

7.4. Consumer

Ready and safe access to credit is important to enable consumers in Ireland fund higher cost items of expenditure, such as cars, home improvements, household goods (such as appliances and furniture) and once off-higher cost personal expenditure. Consumer credit comes in various forms, and includes loans, overdrafts, personal contract plans (PCP), credit cards and Buy Now, Pay Later (BNPL).

In Ireland, consumers can obtain credit from a range of providers, including the banks, digital banks, and the non-banks, including the credit unions, An Post, moneylenders and RCFs.

7.4.1. Technology and consumer credit

Developments in technology have the potential to both improve and diminish how lenders engage with and treat their customers. This can result in positive and negative shifts in financial inclusion, and can result in new risks to consumers particularly as the sources of credit become more available and diverse, and "increased digitalisation and automation allows for faster credit granting procedures without the physical presence of the clients."[84]

A recent review[85] found that "consumers have greater difficulty assessing and understanding pre-contractual information when using an online sales channel." In addition, the same review found that:

- Increased digitalisation may lead to personalised unsolicited advertising, which "may encourage consumers to borrow beyond their means."
- Poor creditworthiness assessments by credit providers "may lead to mis-selling of credit to consumers," as amongst other things, lenders may only consider income levels and not overall expenditure levels. The European Banking Authority (EBA)[86] has found that poor creditworthiness assessments are one of the main trends in consumer credit across the EU.

Other common issues identified by the European regulator related to "over indebtedness, credit management, debt enforcement, excessive interest rates and fees including early/total repayment fees, shortcomings in regulatory compliance, lack of transparency and mis-selling."[87]

7.4.2. Legislation and regulation of consumer credit

When a consumer enters into an agreement to borrow money, there are a range of laws and regulations in place to protect them.[88] Currently, not all types of consumer credit are regulated by the Central Bank, meaning that consumers of these types of credit cannot avail of the protections under the Consumer Protection Code.[89]

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[84]Available at: https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2021/963816/EBA%20Consumer%20trend%20report.pdf

[85]Available at: https://home.kpmg/ie/en/home/insights/2021/07/consumer-credit-responsible-lending-consumer-reform.html

[86] European Banking Authority; Available at: https://www.eba.europa.eu/eba-assesses-consumer-trends-20202021

[87] Available at: https://www.eba.europa.eu/eba-assesses-consumer-trends-20202021; p. 22

[88] For example, the Consumer Credit Act 1995; European Communities (Consumer Credit Agreements) Regulation 2010; European Communities (Consumer Mortgage Credit Agreements) Regulations 2016; Consumer Protection Code 2012; Consumer Protection Code for Licenced Moneylenders

[89] Available at: https://www.centralbank.ie/regulation/consumer-protection/consumer-protection-codes-regulations#consumer-protection-code

The recently passed Consumer Protection (Regulation of Retail Credit and Credit Servicing Firms) Bill 2021 will ensure that all credit to consumers will be regulated, meaning the various consumer protections will now apply to hire purchase, including PCPs, consumer hire agreements and certain other types of credit such as BNPL. Other legislative changes[90] will see amendments to the regulation of moneylenders, including the introduction of a cap on the interest rate a moneylender can charge on a loan.

In addition, the Central Bank is currently reviewing its Consumer Protection Code with the aim of ensuring its provisions are appropriate in the modern financial services market.

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:

a) 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.
b) 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.

[90] Consumer Credit (Amendment) Bill 2022

8. Other retail banking services

8.1. Deposits and savings accounts

Deposit and savings accounts allow consumers and SMEs to store their savings in an accessible place with the possibility of earning interest on those savings.

When savings are held with a bank, a digital bank or a credit union, they provide those institutions with a source of funding for the provision of credit to consumers and SMEs. In Ireland, in order to offer deposit/savings products, the institution must be a bank, digital bank or a credit union.

There are a number of products available to consumers and SMEs wishing to deposit their savings in the Irish market. Banks and digital banks offer deposit accounts. The credit unions also offer deposit accounts, however a number of credit unions have limits on the total amount that can be deposited with them. In addition, savings products are also available from State Savings, which are fully protected by the State. An Post acts as an agent for State Savings.

In general, interest rates on deposits in Ireland are at historically low levels, reflecting the low interest rate environment across the Eurozone. In response to the ECB charging banks for certain deposits the banks hold with the ECB, and reflecting the increasing level of deposits held at the banks by consumers and SMEs, a number of banks have sought to offset the increased cost on them by applying negative interest rates on deposits over a certain value. The application of negative interest rates on deposits placed at banks has been common across Eurozone banks, though many Eurozone banks have applied negative rates to much lower deposit amounts than are currently applied in Irish banks. According to the Central Bank, deposits from Irish households amounted to €126 billion in September 2021. Since March 2020 deposits from Irish households have increased by 18%.[91]

8.1.1. Deposit Guarantee Scheme (DGS)

Administered by the Central Bank and funded by those entities covered by the scheme, the Irish DGS protects depositors in the event of a bank or credit union that is covered by the DGS being unable to pay deposits. The scheme covers various types of account, including current accounts, payment accounts and deposit accounts to a maximum level of €100,000 per person per institution. The Irish DGS covers the domestic Irish banks[92] and credit unions only, and not entities that are licenced outside of Ireland, such as N26 or Revolut. Customers of N26 and Revolut obtain deposit guarantee protection of up to €100,000 per customer backed by, respectively, the German DGS and the Lithuanian DGS.

The institutions covered by the Irish DGS are listed on registers published by the Central Bank.[93]

[91] Central Bank of Ireland, Credit and Banking Statistics. Available at: https://www.centralbank.ie/statistics/data-and-analysis/credit-and-banking-statistics/private-household-credit-and-deposits
[92] Allied Irish Bank, Bank of Ireland and Permanent TSB
[93] Available at: https://www.depositguarantee.ie/

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 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.

8.2. Current/payment accounts

Consumers and SMEs typically use current/payment accounts to receive or make automated payments such as salary, wages or benefits, as well as pay bills, or pay for goods with a debit card. Current accounts also assist consumers and SMEs access a larger variety of financial products and services, such as overdrafts,[94] and provide a mechanism for consumers and SMEs to manage their finances. The retail banking sector typically applies a range of fees and charges for the operation of current and payment accounts, although some offer free banking to certain customers.

New regulation, in the form of a Directive,[95] has opened up the payment markets to new entrants, with a view to encouraging more competition, greater choice and better prices for consumers.[96] Over the past decade, digital banks have entered the payments market, offering services directly to consumers.[97] In Ireland, new digital providers (such as Revolut and N26) have entered the Irish market, and have developed a significant market presence. These digital banks have online focused business models, meaning they do not have a presence that is physically accessible to consumers, such as branches. In February 2022, Revolut announced[98] that, in the face of the expected Ulster Bank and KBC withdrawal, it will offer “more competition and innovation” to Irish consumers by offering a broader range of products to Irish customers.

Presently in Ireland, consumers and SMEs can get payment accounts from the three retail banks, whilst consumers can also get payment accounts from the digital banks. Current accounts are provided by the three banks, as well as An Post and some credit unions.[99] The principal difference between a payment

[94] Overdrafts are currently only available on current/payment accounts from providers who hold a banking licence.
[95] Payment Services Directive (EU 2015/2366 PSD2)
[96] Available at: https://www.centralbank.ie/regulation/psd2-overview/faq
[97] Available at: https://ec.europa.eu/commission/commissioners/2019-2024/mcguinness/announcements/keynote-speech-european-payment-institutions-federation-annual-conference_en
[98] Press release: *“Revolut Bank launches in Ireland”*; 1 February 2022
[99] Of the 210 credit unions in Ireland, 68 provide current account services to their members. At present, credit unions are only allowed to offer current accounts to consumers, and not SMEs.

and current account is that customers who have a current account can apply for overdraft facilities on that account, whereas customers who have payment accounts cannot.

In terms of product features, the current/payment accounts offered by all the providers operating in Ireland tend to be relatively the same, though the user experience may vary between providers given the different functionality of the technology used by the various providers.

Current/payment accounts are considered important for financial inclusion.[100] Under EU law,[101] any consumer who is legally resident in the EU and who does not already have a current/payment account with a credit institution in the State has the right to open and use a current/payment account with basic features, also known as a basic bank account. This basic bank account is a type of account where you don't pay any fees or charges for everyday banking for the first year.[102]

As outlined previously, all current and payment accounts offered in Ireland are covered by an appropriate DGS.

8.2.1. Current/payment account switching

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.[103] Research previously undertaken by the Central Bank found that switching rates in Ireland were very low, [104] and in certain periods, they were as low as 0.03%.

These low switching rates were despite the introduction of a Code of Conduct[105] on the switching of payment and current accounts in 2016. The Code applies to all institutions that offer current/payment accounts, and aims to make switching quick and easy, as well as ensure consistency of approach to the process by all relevant institutions; and ensure the protection and support for consumers contemplating, undertaking and/or completing the switching process.[106] Under the Switching Code, institutions are also required to provide transparency on fees and charges to their customers.

The departure of Ulster Bank and KBC will necessitate a very significant number of customers having to switch their current/payment accounts to other providers.[107]

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[100] Available at: https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2021/963816/EBA%20Consumer%20trend%20report.pdf

[101] Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0092

[102] Available at: https://www.citizensinformation.ie/en/money_and_tax/personal_finance/banking/opening_and_switching_a_bank_account.html

[103] Available at: https://www.centralbank.ie/news-media/press-releases/press-release-consumer-protection-bulletin-20-june-2019

[104] Consumer Protection Bulletin: Current Accounts, Edition 9, Central Bank of Ireland. Available at: https://www.centralbank.ie/regulation/consumer-protection/compliance-monitoring/reviews

[105] Code of Conduct on the Switching of Payment Accounts with Payment Service Providers. Available at: https://www.centralbank.ie/regulation/consumer-protection/consumer-protection-codes-regulations#switching

[106] Available at: https://www.centralbank.ie/news-media/press-releases/press-release-consumer-protection-bulletin-20-june-2019

[107] Available at: https://www.ulsterbank.ie/globals/about-us/media-relations/press-releases.html

8.2.2. Instant payments

In 2016, the European Payments Council launched a new scheme[108] that facilitates instant electronic payments of up to €100,000 where the money is made available to the beneficiary within ten seconds. Presently, Ireland has only 2% adherence to the scheme.[109] None of the traditional banks in Ireland currently offer instant payments to their customers.

In a speech in November 2021,[110] European Commissioner Mairead McGuinness stated that “safe, instant, frictionless payments should be the norm in Europe,” adding: “Instant payments can increase competition and diversify the payment options offered to consumers.” Commissioner McGuinness has announced[111] her intention to bring forward legislation on instant payments in the second half of 2022.

8.2.3. Relevant issues

Research by the EBA identified a number of issues, including fees and charges, de-risking,[112] a lack of awareness of the right to a basic bank account, insufficient account switching, and the challenge of digitalisation on vulnerable customers.[113] Significant issues have also arisen for consumers related to fraudulent or unauthorised payments (e.g. phishing and smishing), and internet fraud.[114]

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.

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[108] SEPA Instant Credit Transfer. Available at: https://www.europeanpaymentscouncil.eu/what-we-do/sepa-instant-credit-transfer
[109] The Sixteenth ERPB meeting. Available at: https://www.ecb.europa.eu/paym/groups/erpb/html/index.en.html
[110] Available at: https://ec.europa.eu/commission/commissioners/2019-2024/mcguinness/announcements/keynote-speech-european-payment-institutions-federation-annual-conference_en
[111] Available at: https://agenceurope.eu/en/bulletin/article/12888/28
[112] Providers that decide not to service a particular category of customers (e.g. nationals from certain non-UE countries) that are considered to have higher money laundering and terrorist financing (AML/CFT) risks.
[113]Available at: https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2021/963816/EBA%20Consumer%20trend%20report.pdf
[114]Ibid.

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 Conduct[115] on the switching of payment and current accounts should be amended, please outline the changes you would propose.

[115] Code of Conduct on the Switching of Payment Accounts with Payment Service Providers. Available at: https://www.centralbank.ie/regulation/consumer-protection/consumer-protection-codes-regulations#switching

9. Capital, operational and other challenges for retail banks

As outlined in Section 3, the provision of some retail banking services is highly regulated because of the important role that banks play in supporting the real economy, and in recognition of the financial stability risks that arise if systemic issues develop in the banking system.

In recent years, banks in Ireland and across Europe have struggled with low profitability and have tried to adjust their business models accordingly. According to the ECB, "profitable banks have the opportunity to increase their capital ratios by retaining earnings, are more attractive for investors and have the means to invest in new technologies and sound risk management. Put simply, they tend to be in a better position to provide adequate and sustainable funding to the economy."[116]

Various factors, some specific to individual countries, can impact the cost of doing business, thereby impacting the profitability of the banks in the retail banking sector. For example, regulatory compliance for banks is costly, both in terms of the financial requirements that apply, and the costs associated with meeting non-financial requirements such as fitness and probity processes and reporting obligations. Compliance can also present operational challenges. In addition, where levies or charges are applied, these can impact the profitability of those that they apply to. For example, in Budget 2014, the Government decided that a specific contribution to the Exchequer was to be obtained from the financial sector for the period 2014 to 2016.[117] A Levy on Financial Institutions was introduced (known as the "Bank Levy"), and was subsequently extended. This levy is still in place, and is due to expire at the end of 2022.[118]

As banks seek to adapt their business models to deal with new competitive challenges, manage costs and changing consumer preferences, banks need to have the right people in terms of skills, competence and knowledge to prudently manage and grow their business operations, within acceptable risk parameters and in compliance with exacting regulatory standards.

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.

[116] Available at: https://www.bankingsupervision.europa.eu/press/publications/newsletter/2018/html/ssm.nl181114.en.html
[117] https://www.gov.ie/en/collection/28243-budget-2014/#highlights-budget-2014
[118] This levy originally applied to AIB, Bank of Ireland, Permanent TSB, KBC and Ulster Bank. For 2022, the levy does not apply to KBC and Ulster Bank given their decision to withdraw from the Irish market.

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.

9.1. Capital

A key aspect of the measures taken in response to the financial crisis was the establishment of a robust framework for setting minimum capital requirements for banks.

Capital is a key ingredient for safe and sound banks. Banks take on risks and may suffer losses if the risks materialise. To stay safe and protect depositors' funds, banks have to be able to absorb such losses and keep going in good times and bad. That's what bank capital is used for.[119]

Amongst other things, the capital requirements of a bank are determined by the riskiness of its assets, for example, whether the loans that it provides to borrowers are likely or unlikely to be repaid. Various models are used to calculate the risk of a bank incurring losses on the money that it lends. When the risk is high, banks are required to hold more capital so that they can absorb losses should the risks crystallise.

The Central Bank published a detailed Financial Stability Note earlier in 2022 which dealt with the risk weights on Irish mortgages.[120] Risk weights are a key driver of the regulatory capital requirement for banks. In explaining the reasons for the elevated level of risk weights for Irish banks relative to the European average, the Central Bank considered the longer workout periods for resolving distressed debt in Ireland relative to other countries, including the repossession of security, as well as the loss experience from defaults which occurred during the Irish financial crisis, which was particularly severe.

Repossession rates in Ireland are influenced by many factors, including legal, political and reputational risk, regulatory obligations, as well as the fact that repossessing security is generally used as a last resort.

Because of these various factors, which are particularly, but not exclusively, evident in the mortgage market, banks in Ireland are, on average, required to hold more capital for consumer, mortgage and SME lending compared to their European peers. These capital levels are a contributing factor to why the performance of Irish banks is lower than the EU average when measured on the basis of return on equity.

The BPFI has stated that the higher capital requirements negatively impact the pricing of products and services.[121] Research previously undertaken by the Department found that Irish interest rates are a product of many variables, including capital requirements.[122]

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[119] Available at: https://www.bankingsupervision.europa.eu/about/ssmexplained/html/hold_capital.en.html
[120] https://www.centralbank.ie/docs/default-source/publications/financial-stability-notes/risk-weights-on-irish-mortgages.pdf?sfvrsn=7
[121] Available at: https://bpfi.ie/wp-content/uploads/2021/09/BPFI-Future-of-Retail-Banking-in-Ireland-Report.pdf
[122] https://assets.gov.ie/6836/664f5174ebd34f7e938aea654bed6757.pdf

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 Arrears[123] (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.

9.2. Staffing and remuneration

As part of the various agreements between the State and the Irish banks, including those relating to recapitalisation, restrictions ("the Irish restrictions") were imposed on the pay and rewards of employees in the recapitalised banks. These restrictions continue to apply today and include:

- A cap of €500,000 on an individual employee's annual remuneration.
- A ban on variable pay and bonuses.
- A ban on associated benefits, such as healthcare expenses.

In addition, legislation was introduced which had the effect of imposing an effective tax rate of 89% on any bonus amount above €20,000, in the event that a bonus payment was paid to any employee of the recapitalised banks.

In 2013, and subsequent to the introduction of the Irish restrictions on the recapitalised banks, the EBA was mandated to introduce, by way of legislation, remuneration requirements that aim to "ensure remuneration policies are consistent with and promote sound and effective risk management, do not

[123] 2013 Code of Conduct on Mortgage Arrears. Available at: https://www.centralbank.ie/regulation/consumer-protection/consumer-protection-codes-regulations#switching

provide incentives for excessive risk taking, and are aligned with the long-term interests of institutions across the EU." The legislation, in the form of a directive, sets limits in relation to the ratio between variable and fixed remuneration, the minimum percentage of variable pay that must be in the form of equity/equity linked instruments, and the requirement that variable pay is subject to penalty/clawback arrangements. The EBA issued its final report on the matter in July 2021.[124]

Given the changing retail banking landscape, where technological innovation and increasing digitalisation are driving changes to banks' their business models, the skills composition within banks needs to evolve to enable the banks compete effectively with fintech and bigtech challengers and competitors.

The banks have highlighted that given the continued application of the Irish restrictions, they face significant challenges recruiting and retaining staff in a number of key areas, including technology.[125] As the Irish restrictions do not apply to bank staff employed by banks in Ireland outside of AIB, Bank of Ireland and Permanent TSB, the banking industry say these three banks are at a significant competitive disadvantage compared to other banks and non-banks operating in Ireland.[126] The BPFI has called for "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." They say this is needed if they are "to attract the skills and employees that are necessary for their future, and the provision of services expected by Irish consumers."[127]

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.

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[124] EBA July 2021 – Final report on Guidelines on sound remuneration policies under Directive 2013/36/EU. Available at: https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Guidelines/2021/1016720/Draft%20Final%20report%20on%20GL%20on%20remuneration%20policies%20under%20CRD.pdf

[125] AIB Annual Report. Available at: https://aib.ie/investorrelations/financial-information/results-centre/2021-annual-financial-results ; BOI Annual Results. Available at: https://investorrelations.bankofireland.com/app/uploads/Annual-Report-for-the-Year-Ended-31-December-2021.pdf

[126] Available at: https://bpfi.ie/publications/bpfi-ey-the-future-of-retail-banking-in-ireland-report/

[127] Ibid.

9.3. Regulation

Retail banking services in Ireland are provided by a mix of regulated and unregulated service providers. Core retail banking services are provided mainly by the banks, with digital and non-banks (regulated and non-regulated) also providing retail banking services to consumers and SMEs.

There are a range of regulatory requirements that regulated entities must adhere to depending on the nature of their business and licence.

Financial stability requirements: To ensure the safety and soundness of the financial system in Ireland the Central Bank, which is responsible for overseeing financial stability, sets certain requirements on banks. These include requirements regarding capital and mortgage lending rules. The Central Bank's mortgage measures also apply to non-bank providers of mortgage credit.

Financial regulations: These are prudential regulations applied to certain regulated entities to ensure they remain sound and safe. The nature of the regulations are determined by the type of licence the entity holds.

Consumer protection: The CCPC is a statutory body set up to promote competition and consumer welfare and to investigate, enforce and encourage compliance with competition and consumer law in Ireland. The Central Bank also has a consumer protection role. It sets codes of conduct for financial services firms, such as codes on how products should be sold, the information that should be provided and how complaints should be dealt with. Consumers also have access to the Financial Services and Pensions Ombudsman (FSPO).

Money-laundering: To ensure the financial system does not facilitate money-laundering or the financing of terrorism, there are a number of legislative requirements in place (largely European based) that apply to, amongst others, the providers of retail banking services.

With the passage of time, regulation has become more comprehensive, based mainly on experience, global cooperation and market developments. The evolution of regulation since 2008 relies heavily on lessons learned from failures in regulation in preventing or at least mitigating the impact of the GFC.

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.

9.4. Climate

In 2021, the Government published its Climate Action Plan,[128] which aims to achieve a 51% reduction in overall greenhouse gas emissions by 2030, and net-zero emissions no later than 2050. This plan lists the actions that are needed to deliver on the Government's climate targets and sets indicative ranges of emissions reductions for each sector of the economy. The plan also includes objectives to retrofit existing residential buildings and incentives to accomplish that which include grants and the introduction of a State guaranteed low cost residential loan scheme to be delivered through bank and non-bank on-lenders.

Banks across Europe have identified climate change as "the most important task for banks in the coming years."[129] The BPFI has stated that banks will play a pivotal role in the country's transition to a low carbon economy, with banks being "a major source of the funding required for all of society to make this journey."[130]

9.4.1. Progress in Ireland

In their presentations of their 2021 financial results, the three banks[131] outlined the measures they are taking to address the climate crisis. The banks outlined the volume of "green" lending that has already been advanced and also outlined future targets. The BPFI has stated that "most banks have set a target of aligning customer lending portfolios across all sectors to net zero emissions by 2040," and noted that "some banks have made significant progress in this regard where close to 20% of all new lending is done using green products."[132] It is reported that rating agencies rate the Irish banks quite well for environmental, social and governance factors.[133]

9.4.2. Addressing climate change as part of the Retail Banking Review

The Terms of Reference of the Banking Review[134] require the Department to review, amongst other things, the key role the banking sector will play in the provision of sustainable credit to the economy and how the banking system can best support economic activity. Whilst an assessment of how the retail banking sector is performing against climate objectives is not within the scope of the Review, the Department will consider climate specifically in relation to the retail banking services that are within the scope of the review,

[128] Available at: https://www.gov.ie/en/publication/6223e-climate-action-plan-2021/
[129] ERPB meeting 30th June 2021. Available at: https://www.ecb.europa.eu/pub/financial-stability/financial_stability_contact_groups/html/bid.en.html
[130] Available at: https://bpfi.ie/publications/bpfi-ey-the-future-of-retail-banking-in-ireland-report/
[131] Allied Irish Bank, Bank of Ireland and Permanent TSB
[132] Available at: https://bpfi.ie/publications/bpfi-ey-the-future-of-retail-banking-in-ireland-report/
[133] Available at: https://www.goodbody.ie/docs/default-source/morning-wrap/morning-wrap-2021-q4/mmw-22-sept-2021.pdf?sfvrsn=22753e19_2
[134] Available at: https://www.gov.ie/en/publication/ea57f-banking-review-terms-of-reference/

principally SME credit and mortgages. An important consideration in this regard is whether the retail banking sector is providing appropriate support and funding to consumers and SMEs to enable them meet the Government's climate objectives.

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.

10. Providing feedback and next steps

The Department appreciates the time that you have taken to read and consider the content and questions that are outlined in this consultation paper.

The Department invites all stakeholders to provide comments on the questions raised in this consultation paper by filling in the response form, available at https://finance.consultation.ie/. The closing date for providing feedback is Friday 8th of July 2022. Responses received after this deadline will not be considered.

The Department requests that you provide reasons and explanations for the responses you provide to the questions in this consultation paper as this will aid consideration of the issues. Where possible, please also provide material, or references to material, that support or evidence the points you make in your responses.

Not all matters relating to Retail Banking Review have been addressed in this public consultation. However, in the course of its work in the coming months, the Department will be addressing all matters outlined in the Terms of Reference. A final question is included below to facilitate you share any additional thoughts, information or feedback that you may have on matters not covered in any of the sections of this consultation paper.

Finally, stakeholders can engage directly with the Review team on any matter related to this consultation paper or any issue relating to the Review by emailing the Department at banking review@finance.gov.ie.

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.

Glossary of terms

Retail banking services – Defined as current/payment and saving accounts, mortgages, SME and consumer, credit.

Bank – Defined as a bank operating in Ireland, who offer retail banking services, and which have a physical branch presence. Currently, there are five banks operating in Ireland (i.e. AIB, Bank of Ireland, Permanent TSB, KBC, Ulster Bank), however it is expected that this will reduce to three following the announcements by KBC and Ulster Bank.

Digital bank – Defined as a bank operating in Ireland, who offer retail banking services, and which do not have a physical branch presence (such as N26 and Revolut).

Non-banks – Defined as any provider of retail banking services to consumers and SMEs, and who are not a bank or digital bank. Non-banks include, but are not limited to, credit unions, An Post, retail credit firms, moneylenders and unregulated entities lending to SMEs.

Retail banking sector – Defined as banks, digital banks and non-banks who provide retail banking services.

Fintech – Defined as the use of technology to deliver retail banking services and products to consumers and SMEs.

Retail credit firms – A retail credit firm is a firm that provides credit to individuals (natural persons).

Access to cash – Defined as public access to services to withdraw and deposit cash (facilitated by banks and other stakeholders).

Acceptance of cash – Defined as ensuring cash is accepted as a means of payment everywhere (facilitated by financial institutions, retailers and others).

Annex 1 – List of Questions

Retail banking services sector

Question 1:

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?

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.

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.

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.

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.

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.

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.

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.

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[135] Economic Letter from 29/10/2020 entitled *"Room to improve: A review of switching activity in the Irish mortgage market"*. Authored by Shane Byrne, Kenneth Devine, and Yvonne McCarthy

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.

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.

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 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 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 Conduct[136] 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.

[136] Code of Conduct on the Switching of Payment Accounts with Payment Service Providers. Available at: https://www.centralbank.ie/regulation/consumer-protection/consumer-protection-codes-regulations#switching

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 Arrears[137] (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.

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.

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[137] 2013 Code of Conduct on Mortgage Arrears. Available at: https://www.centralbank.ie/regulation/consumer-protection/consumer-protection-codes-regulations#switching

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.

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.

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.

Annex 2 – Banking Review Terms of Reference

The Programme for Government contains the following commitment:
We will support the European Central Bank and the Central Bank of Ireland's actions to ensure stability in the banking sector. We will encourage competition within our banking sector and develop the Fintech sector as a source of employment and competition. We do not believe that there is a long-term case for the State to remain as a shareholder in the Irish banking sector. However, we should not sell our current holdings until such a time as we are likely to recoup a significant portion, if not all, of the State's investment.

In support of this objective, the Department of Finance's Statement of Strategy has a strategic goal of a ensuring a "well regulated, sustainable banking and financial sector".

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

- The drafting of the Central Bank (Amendment) Bill to implement an Individuality Accountability Framework (including Senior Executive Accountability Regime)
- The passage and enactment by year-end of the Consumer Protection (Regulation of Retail Credit and Credit Servicing Firms) Bill 2021 to require that any firm which offers indirect credit, hire purchase, Personal Contract Plans (PCPs) or consumer hire agreements to consumers and other relevant persons to be authorised as a retail credit firm by the Central Bank;
- The drafting of the Credit Review Service Bill, to put the current Credit Review Office on a statutory basis and extend its scope to cover more lenders to SMEs; and
- The drafting of the Consumer Credit (Amendment) Bill to implement the first major reform of the licensed moneylending sector since 1995.

Other significant changes in the regulatory landscape flow from EU Directives and Regulations. These include the recent transposition of the Risk Reduction Package, the ongoing transposition of the Covered Bond Directive, the Crowdfunding Regulation and the forthcoming NPL Directive. In addition, further EU legislative initiatives are underway, including the Basel 3 finalisation package and a draft Consumer Credit Directive, which include several significant amendment to the current regime. The role of the Eurogroup and its ongoing work on matters such as Banking Union also needs to be taken account of.

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

- Reviewing the current landscape for the provision of retail banking services in Ireland, including assessing how the banking system can best support economic activity;
- Assessing how the retail banking sector has evolved over the last two decades and exploring what these market trends might mean for the evolution of the retail banking market over the next 5-10 years
- Considering the size and structure of the retail banking sector and best/recent practices in similar sized open economies in the EU/OECD to see what lessons Ireland can learn from such countries:
- Considering the business model for retail banking in Ireland including among other issues, viability of the sector, size of market, regulatory requirements, capital requirements, cost of doing business and operational issues arising from difficulties with staff recruitment and retention; and in this context, consideration should be given to wider EU and international banking developments;

- Considering the forces for change in retail banking including structural changes stemming from the developments in fintech or digital finance (innovations in technology) (including as a disruptor of traditional models) and regulatory changes (e.g. open banking);
- Taking account of the longer term implications of the COVID-19 pandemic and the post-Brexit financial landscape, including any new banking entrants, which will also be important considerations;
- Considering potential consequences for consumer protection (including for existing and future customers and for vulnerable customers), competition and financial stability objectives;
- Assessing competition and consumer choice in the Irish market for banking services across the range of suppliers, products and channel of provision; and considering if there are barriers to entry, expansion, or the introduction of new products;
- Reflecting on the findings of the IMF Financial Sector Stability Assessment (FSAP) of Ireland (due in June 2022) and examining what changes, if any, are required to the policy and regulatory landscape on foot of the FSAP recommendations;
- In recognition that a key role of the banking sector is in the provision of sustainable credit to the economy, assessing the availability of credit to SMEs from both banks and non-banks as well as considering the impact of State measures in this area and if policy changes are merited; and
- Consider options to develop the mortgage market by -
    - Reviewing the range of bank and non-bank providers currently involved in the provision of mortgages in Ireland and assessing their impact on competition, consumer choice and protection, market/regional coverage and any financial stability concerns; and, in this context, the need to make the Irish market more attractive to new entrants;
    - Assessing the unique characteristics of the Irish mortgage market, including in terms of competition and consumer protection and surveying the views of stakeholders and potential new entrants on barriers to entry into the Irish mortgage market;
    - Identifying how mortgage interest rates are determined in the Irish market, the role that competition between lenders plays in that process along with Irish capital requirements and comparisons with other jurisdictions;
    - Setting out a range of options to improve consumer choice in the range of products available such as longer-term fixed rate products and green mortgages; and
    - Considering options to make the switching of mortgages easier to underpin competition in the mortgage market.

The Department of Finance will conduct this review by means of a specifically dedicated Review Team. In preparing its report into the retail banking sector, the Review Team will extensively engage with stakeholders and as part of this process will seek the views of the public by means of a public consultation.

The Review Team will present its draft report to the Minister in November 2022.

16 November 2021

Annex 3 - About You

1. What is your name?

Name (Required)

2. What is your email address?

Email (Required)

3. I am responding as:

	An individual contributing in a personal capacity
	A representative of an organisation

4. If you are responding on behalf of an organisation, please enter your organisation name here:

Organisation

Notes

An Roinn Airgeadais
Department of Finance

Tithe an Rialtas. Sráid Mhuirfean Uacht,
Baile Átha Cliath 2, D02 R583, Éire
Government Buildings, Upper Merrion Street,
Dublin 2, D02 R583, Ireland

T:+353 1 676 7571
@IRLDeptFinance
www.gov.ie/finance