financial services union

STRONGER TOGETHER

Retail Banking Review Public Consultation

Questions & Answers

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.

ANSWER 1

a)

The retail Banking sector is currently failing its customers, the SME sector, and the staff employed in the sector.

This is evidenced by surveys undertaken by the Department of Finance, the Financial Services Union (FSU) and Irish Banking Culture Board (IBCB). It is also evidenced by a recent review of the call centre waiting times by the Central Bank which found that customers could be waiting up to two hours for a call to be answered and that there was up to 50% fall off rates.

A similar outcome of service levels in branches would be apparent if this was part of the Central Bank review. This is solely down to a lack of staffing and a sector wide strategy to force customers online.

The selling of hundreds of ATMs to private operators coupled with the removal of ATMs when branches close shows the lack of priority the Banks put on a service that customers utilise and rely upon. It is difficult to find an ATM on a weekend evening that has not got the words " not in service " scrolled across the screen.

The survey by polling company "Independent Thinks" done for the FSU reported among other things that 78% of staff polled feel their department or branch is not adequality staffed and 88% feel that staffing difficulties has at some point lead to bad customer service. The Department of Finance survey conducted by Behaviour and Attitudes (BA) found that 58% of respondents either thought that banking culture had gotten worse or had not improved at all since the crash.

The IBCB's Éist surveys in 2021 found that 43% of respondents say their perspective around Banks has got worse since the crash in 2008. The one thing that all these reports have in common is they are all independently produced reports highlighting key deficiencies in failing to engage properly with customers and stakeholders.

The standout reason for visiting a branch reported in the B&A survey was to lodge or withdraw cash and the second most mentioned reason was to speak to someone for product/service advice.

In response to this, in the last eighteen months Bank of Ireland and AIB have closed over 100 Branches, sold off hundreds of ATMs to private operators and removed key banking and lending skills and local knowledge from communities. In addition, over 3,300 staff have left the sector in the last eighteen months. Staff are providing a professional service in incredibly challenging circumstances with 88% reporting that they feel stressed at work either on a regular basis or a very regular basis. This is a corporate sector that is not trusted by the public and continues as one of its main aims to campaign for the removal of the pay cap of €500,000 imposed by the Government after the crash. The FSU wants to see a thriving retail banking sector that is customer orientated and offers a great career opportunity for its staff. The sector needs to fundamentally change its direction if it wants to achieve both their aims.

b)

If the regulator and the Government continue their laissez faire approach and the retail Banks maintain their current position we will see a decimation of the branch network, resulting in reduced customer service over the next decade. There will be fewer people working in the sector and more jobs going offshore. The employment of agency and contract workers will become the norm and the sector will forever be seen as a stop gap instead a career choice for workers. Competition in the sector will focus on the online market to the exclusion of personal service and local banking knowledge will be replaced by phone lines and chat functions. The societal role that the main retail Banks have played in communities will be lost and trust levels in the sector will diminish further.

c)

The FSU favours a fundamental shift in the Irish retail banking landscape in favour of the kind of stakeholder banking that is much more common across European members states. A report by the Banking and Payments Federation (BPFI) and EY on the future of Banking system identifies that “the primary challenge for Ireland Retail Banking system is to run its core functions effectively whilst meeting a diverse set of competing stakeholders needs”. The FSU would agree that meeting the needs of its stakeholders would shift the emphasis of decision making and make it inclusive and transparent. This would help address the flaws that existed pre-crash and still exist today.

The Central Bank, in their strategic plan 2022-2024 have highlighted the need for a new engagement model within the sector. This is a change of emphasis from the Regulator which should be applauded and supported. Research conducted by Harvard Business Review Analytic Services in association with EY has found that organisations that operate with a clear and driving sense of purpose, beyond the singular goal of generating profits, outperformed the S&P 500 by a factor of ten over a ten-year time frame as a result of increased customer loyalty, employee retention and investor confidence.

A new form of Governance for the Banks is required.

Giving greater representation to employees has been supported by the EU for many years, in particular through employee financial participation. Ireland increasingly looks like a laggard when it comes to this more representative form of corporate governance. There are some straightforward steps the Government can take to advance this, including implementing the UK Code of Governance recommendations on Worker Directors which apply to Irish Boards, by legislating for board-level representation for employees and consumers and broadening collective employee participation in share ownership schemes.

The inclusion of worker directors and consumer representatives to the Boards of retail Banks would provide a wider perspective on issues of acute public concern such as branch closure, the loss of ATM facilities and the relentless push for customers to go online. Worker directors and customer representatives on the Board would help ensure that financial institutions hold themselves to high standards of customer care and issues like that which were highlighted recently by the Central Bank about the call centres may be avoided.

Regulation needs to be updated to keep pace with the change occurring in the sector. We have a consumer code which is so outdated that it has no reference to online platforms and predates Neo Banks like Revolut, N26 and Bunq. The code needs to be updated to cover a longer lead time for branch closures, ensure more interaction with the local community on the consequences of closure and importantly to prohibit the last branch in town from closing.

There needs to be regulation around ATM's including service level agreements for operators that guarantees consumers service and a regulated charging system. Access to cash is steadily becoming an increasing issue, especially among older people. The UK Government are looking to legislate to protect access to cash and this is something that should be considered by our government.

There is no disagreement that the Irish retail banking sector is evolving, and the next decade will see enormous change. How that change is managed is the core issue for discussion by stakeholders, regulatory bodies and policy makers.

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.

ANSWER 2

When we state material change to their business models it seems to suggest that this change has no direct effect on customer or staff. The opposite is the real position, with the material change implemented by the Banks in most cases without the knowledge of staff, customers, and local communities.

The retail Banks have managed over the last eighteen months to close over one hundred branches, sell off hundreds of ATM's and unbelievably manage to force customers who travel to branches, to use machines instead of counter services. They have made it difficult for customers to access cash and for SMEs to lodge cash. This is all done as part of a strategic approach by the retail Banks to force customers to use online services even if the customer preference is for face-to-face access.

There are few sectors that required the establishment of an independent industry board chaired by a High Court judge to monitor and require participating banks to "improve culture, customers outcomes and competence" Recent surveys show how challenging it is to alter the embedded poor culture in the Banks.

New measures are required from the Banks, the Regulator, and the Government to address the many issues facing the industry.

The retail Banks need to change their Governance structures to include worker participation and consumer participation on their boards.

Irelands experience of employee – elected directors was researched by TASC, using interviews and focus groups and found that:

- Worker Directors was felt to be loyal to the company, trustworthy and diligent in their duties
- Their contribution was viewed as positive and unique by over three – quarters of respondent.
- Over half the interviewees mentioned the importance of having a contrary voice on the board
- Interviewees felt that the contribution made by worker directors in industrial relations was extremely positive.

The appointment of workers and consumers to the Boards of the retail Banks should be seen as a positive development by the Banks and not one to be feared. Inclusivity and transparency will help improve rebuild trust that is sadly lacking at present.

The Government need to legislate to protect access to cash and adopt and give more powers to the regulator. The Government could also look at how An Post is regulated.

An Post as a universal service provider is by law required to provide certain services to the public. There is nothing to stop the Government from imposing a societal obligation on any retail Bank that looks for a banking licence in this Country.

The regulator needs to update the ten year old consumer code of practice to keep pace with the changing landscape and to protect customer and communities from erosion of services, branch closures and further removal of banking services in communities. Protection and supports need to be provided to those people who are not financially literate and who have no access to online banking. The rush to force customers to avail of online banking is discriminatory against older and more vulnerable people. More work is required to ensure that vulnerable people are not adversely affected by changes made and decisions taken.

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.

ANSWER 3

Throughout the EU there has been a consolidation of retail Banks back into their home Country. Ireland is no different in that regard with AIB and Bank of Ireland both retrenching from Northern Ireland and the UK back into the Republic of Ireland. The exit of KBC and Ulster Bank is a blow for the sector and reduces competition in the marketplace. It remains to be seen if there will be long term consequences for consumers with higher interest rates and charges. It is the role of the Competition and Consumer Protection Commission (CCPC) to monitor this and ensure it does not occur. If the CCPC require further powers or resources that is something that the Government should consider.

Scamming is a real barrier blocking consumers from utilising online platforms for mortgages or other products. There needs to be real and concrete investment in the upgrade of IT services and in providing security for people that their money is safe. A clear redress system for customers who are impacted by cypher crime is also required. The sector requires proper functioning regulation and needs to address issues like consumer mobility and provide adequate powers and resources to the CCPC so they can hold to account any Banks that are taking advantage of a lack of competition in the marketplace.

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.

ANSWER 4

The prelude to question four refers to the consumer code of practice and states, "The Central Bank expects that the Banks will provide affected customers with all the assistance that is necessary."

> *It is the view of the FSU that the Central Bank should be enforcing standards and issuing sanctions if standards are not met instead of just expecting the Banks to do the right thing by customers.*

The question then asks if the Banks have done enough to mitigate the effects of branch closures on customers and SMEs.

The FSU does not believe that the Banks have attempted to mitigate the impact of branch closures.

The lack of trust from staff and customers towards our main retail Banks, shown up in numerous independent surveys including the EIST survey by the IBCB demonstrates unmistakable evidence that staff, customers, and businesses hold the view that the retail Banks have not met their societal role and have failed in their duty to support customers, SMEs, and their own staff.

In Northern Ireland the environmental impact studies which the Banks are obliged to conduct and publish when they propose to close a Bank branch found that the potential closure of a Bank branch affects vulnerable people and those without access to broadband the most. In the Republic of Ireland this has not stopped BOI and AIB from closing hundreds of branches in the last two years and has prompted no action from the regulator or Government.

The impact studies are written and then published after the Bank announces the closure of the branch. No real dialogue occurs within the local community prior to closure and the Bank often refuse to engage with communities after the decision of closure is announced. Banks have consistently relied on reduced footfall figures to show there is no appetite from customers to access their local bank Branch. The Banks have never published the footfall numbers to back up this claim. The recent survey by B&A for the Department of Finance found the main contact for people aged over fifty-five with their bank is through their local branch. We know that some of the branches which were closed in the last year were busy branches with large footfall numbers. Rebuilding trust with customers requires transparency and an explanation of actions. If Banks are going to rely on data to close branches, they should be required to publish the data.

The Central Bank should have followed the lead of the Financial Conduct Authority (FCA) in the UK and called on Banks to resist closing any branches at least until the effects of Covid had diminished.

The Central Bank, as the regulator needs to intervene at an early stage and should have the legal power to prevent a closure if they are not satisfied that proper consultation has taken place. They should assure themselves that the local community is still adequality serviced by other providers and vulnerable groups are protected. This can only be done by direct outreach to those communities by the regulator. The closure of the last bank in town should be prohibited.

Even when bank branches remain open, the range of services they provide has diminished. For example, many bank branches are now cashless and do not provide over-the-counter services. The movement towards a cashless branch system needs monitoring and intervention by the regulator.

The consumer code which has not been updated in a decade, was written pre-Revolut and other online platforms is at this stage obsolete and requiring urgent attention. The existing Code requires banks to inform the Central Bank of any planned closure of branches and it requires a two-month notification period to consumers alongside notice to the wider community. The new Code should have stronger provisions to protect consumers from branch closures, including longer notice periods and a defined notice period of not less than six months for informing the wider community.

In addition, the revised Code should very clearly limit the ability of banks and other high street financial service providers to reduce access to in-person, over the counter services, including providing the Central Bank with the option of refusing to allow regulated entities to close branches as a condition of retaining their banking licences.

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.

ANSWER 5

AIB made a profit after tax of €645 million in 2021. Bank of Ireland made an underlying profit before tax of €1.4 billion in 2021. Between them they paid out over €200 million euro in dividends to their shareholders. The question as worded is flawed and insulting to staff. Cost income ratios in Irish Banks compare favourably with international standards. Staff in all the main retail Banks worked through Covid providing a professional service to customers and communities in very challenging circumstances. *They are the part of the Bank that is trusted by the people.* Unlike capital retention rules they are not a factor that is impacting the level of interest rate that a Bank charges on its loans.

It would therefore not be an acceptable trade off to see more staff leave the retail Banking sector. Over 3,000 staff have left the sector in the last two years. This has had a direct effect on staff morale and on customer service.

The FSU recently published the results of an independent survey conducted by the polling company "Ireland Thinks "into staffing issues in the Banks.

The survey results indicate:

- 88% of respondents feel stressed at work either on a regular or very regular basis.
- 73% feel their workload has increased due to the exits of UB and KBC.
- 87% of respondents feel their department /branch is not adequately staffed. This rises to over 90% in both AIB and BOI.
- When asked what arrangements are in place when you are short staffed the predominant answer in an open-ended question was NONE.
- 87% of respondents feel staffing difficulties has led at some point to bad customer service.
- When asked are staff shortages impacting your personal life 80% of respondents replied that staff shortages are either greatly or somewhat impacting their personal lives

There is a staffing crisis in the sector that Banks need to urgently address. More staff are required at all levels in the sector if a reasonable level of customer service is to be achieved.

The systematic failure of the Banks and the regulator pre the 2008 banking crash has given rise to the Central Bank to require Banks to retain a significant amount of capital.

The level of non-performing loans (NPL) is a direct consequence of previous Bank failures and the lack of a structured approach to deal with NPLs is having a direct consequence on interest rates.

The capacity of the Banks would be diminished with less staff and the importance of keeping a physical presence in local communities should not be ignored.

In summary there is no further scope for staff reductions in the sector without significant input on customer 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.

ANSWER 6

The rapid changes happening in the Banking sector coupled with the rush by Banks to push and coerce consumers to online platforms will leave some people behind and impact on the economy.

Not everyone has a credit or debit card or access to broadband. There are many people who feel more comfortable dealing in cash instead of using card. If someone wants to pay for their morning coffee in cash, then that option should be available to them. There are football stadiums and other large venues in Ireland with signs behind their bars or in their shops saying "cardonly "At a recent concert in the Aviva the bar had to stop serving because the internet went down, and they did not accept cash.

The recent crash of the Bank of Ireland App caused thousands of Bruce Springsteen fans to lose the opportunity to buy concert tickets.

Like most things a balanced approach to this problem will better serve the consumer. This issue cannot be left to the Banks or Business alone to resolve. They need leadership from the regulator and from the Government.

We saw the devasting impact on citizens when the entire health system was subject to a cypher attack. Other Countries have seen cypher attacks on their banking systems and the corresponding economic and social unrest is extremely damaging. A headlong rush to eliminate cash from society without proper consideration, which is what appears to be occurring is not a responsible or thought-out strategy. Bank branches and access to cash are fundamental to a functioning society and should be part of any blended plan that intends to further digitise the financial sector.

The UK Government have introduced legislation to protect access to cash, which could include powers for Treasury to designate firms on whom legislative and regulatory cash access requirements can be imposed. This legislation follows a public consultation on the issues that was undertaken by the Bank of England. This is a position and approach that the Irish Regulator should copy. It would be appropriate for the Central Bank to immediately open a consultation process on access to cash as it is becoming an ever-increasing issue.

QUESTION 7

Given the extent to which the ATM network is now primarily owned by unregulated entities, shouldGovernment 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.

ANSWER 7

Yes. The Government should as a matter of urgency legislate for the regulation of ATM operators.

In February 2020, AIB agreed to sell over 500 ATMs to Brinks, and, in December 2020, Bank of Ireland sold 700 ATMs to US firm Euronet which could in time lead to charges being imposed for their use once a three-year service agreement lapses.

There has been little mention of this in the media or in the Oireachtas but ever so slowly access to cash is becoming more difficult for citizens.

In Northern Ireland it is exceedingly difficult to find an ATM which is free of charges to use. This phenomenon is beginning to occur in the Republic of Ireland and will certainly gather pace over the coming years.

The Government need to be proactive and look to empower the regulator to set pricing and service standards on any private operator of ATMs.

In most towns and cities on any given weekend you will find it hard to access an ATM that is not offline or out of order.

Service level agreements guaranteeing a level of service should be in place with any operator and monitored closely by the Central Bank and the regulator should have the ability to sanction operators who fall below the standard set.

QUESTION 8

Given the extent to which the ATM network is now primarily owned by unregulated entities, shouldGovernment 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.

ANSWER 8

The exit of Ulster Bank and KBC from the Irish retail Banking market has certainly decreased the amount of competition in the marketplace and the level of choice for consumers.

The Competition and Consumer Protection Commission (CCPC) is required by legislation to promote competition and consumer welfare. Since its inception in 2014 enormous change has occurred in the sector. Those changes, the advent of online banking platforms and a decrease in the number of providers in the retail banking market should lead to a review of the powers available to the CCPC with the introduction by legislation of any additional powers identified in the review.

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.

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.

ANSWER 9

A recent report compiled by the BPFI indicates that consumers are switching their mortgage provider at a higher rate than ever before recorded. This is likely due to rising house prices and the rising cost of living and not any actions taken by the Banks.

Switching mortgage provider needs to be easy and quick and the language used in selling a product needs to be user friendly. It is widely accepted that the switching code is out of date and not fit for purpose. A review of the code is required to ensure that it is consumer friendly and provides the service that was intended on its conception to provide. The updating of the code should include a legal requirement for direct debit transfer to be digitally possible and a guarantee of no financial loss for customers who switch providers. The review should be about making it more user friendly for customers and not about passing the workload from the Banks to the customer.

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.

ANSWER 10

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

CSO research into access to finance by small and medium enterprises (SMEs) found that 21.5% of enterprise choose a particular bank because it has a local branch and an additional 9.5% chose a bank because the bank branch was known for good client relationships.

When refused a loan, 41.7% of SMEs will forego the funds rather than apply to another bank and only 9.4% will make a new application at a new bank.

This is clear evidence of the importance of a retail banking branch network to SME's and local economies. It also shows that when a local branch closes, the loss of skillsets and local knowledge of the Bank staff can result in small business failing to access loans to cover seasonal costs or to access finance to expand their business. Evidence from a UK study showed a drop in lending to SME's of over 60% where a branch closure occurs. This is greatly exceeded where the branch being closed is the last branch in town. Proper regulation governing Branch closures could easily prevent this from happening.

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.

ANSWER 11

All providers of credit to the SME sector should be regulated by the Central Bank to ensure a level playing field and fair competition.

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.

ANSWER 16

There are a number of costs challenges specific to Ireland that impact on the provision of retail Banking services. These challenges arise directly from the behaviour of senior management of the Banks at the time of the Banking collapse. To restore trust in the sector the Central Bank required the bailed-out Banks to retain a certain amount of additional capital. It is the view of the FSU that it is the role of the Central Bank in the first instance to indicate if regulation introduced since the crash and the Banks actions in the aftermath indicate that the capital retention requirements could be changed. It may well require the introduction of the SEARS legislation, together with the publication of the final report on the tracker mortgage scandal before any change occurs.

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.

ANSWER 18

FSU believes that it is now appropriate to review the pay restrictions that were introduced as a condition of the State's bailout of the Irish banks. It is worth summarising current restrictions:

- The "excess bank remuneration charge": the 89% tax on annual incentives of more than €20,000 paid to employees in the Irish banks
- The salary cap, which prohibits any employee from receiving annual aggregate remuneration of more than €500,000
- A prohibition on variable pay including bonuses and any other benefits including health insurance and childcare.

Overall, we believe that the excess bank remuneration charge and the salary cap have served the public interest well. They were a proportionate and necessary condition for the unprecedented taxpayer support received by the Irish banks. They have preserved social cohesion by ensuring that the pay of senior executives working in institutions dependent for their survival on public funding is not decoupled from what the public deems acceptable. Furthermore, they have been instrumental in preventing the return of overly risky and speculative activity in the Irish banks.

We do not believe that there is any compelling evidence that the pay cap inhibits recruitment and retention of senior staff. Executive turnover in the Irish banks at levels of seniority at which the pay cap applies has been broadly consistent with that at other public companies and financial institutions to which the cap does not apply. We agree with the position outlined by the Minister for Finance when he stated in October 2021 that the issue of senior executive bank remuneration was inextricably linked to further restoring public confidence in the culture and accountability of the banks. It is clear from recent events regarding the tracker mortgage investigation and other regulatory findings that the project of improving the culture of the Irish banks remains a work in progress. We therefore believe, (1) that in order to preserve public confidence in the banking system, (2) because there is no demonstrable impact on the ability of the Irish banks to compete, and (3) due to continuing deficiencies in the culture and accountability of the banks it would be appropriate to retain both the excess bank remuneration charge and the salary cap at this time.

The aspect of the pay restrictions that has garnered considerably less public attention has been the prohibition on variable pay. These restrictions dictate that performance-based remuneration, bonuses and any other workplace benefits including health insurance and childcare cannot be paid to any staff members. They affect around 23,000 workers within the Irish banks.

In concrete terms, the restrictions on variable pay and benefits place ordinary bank workers at a material disadvantage to all other employees in the state. Staff in the Irish banks have participated in an ongoing process of change management and workplace reform over the past decade. They have been at the frontline as major shifts to work practices, customer requirements and technological changes have unfolded. Throughout this, they have continued to meet the needs of customers and work in partnership with the management of the banks as the sector has transformed.

Furthermore, due to the absence of standard benefits as part of their remuneration package, ordinary bank workers are even more challenged by the cost of living crisis than other workers throughout the state.

This is an even more compelling argument given that dividends have been restored to shareholders and the recent decision to restore pay of senior civil servants and judges on salaries of over €200,000 when bank workers earn as little as €26,000 have their pay restricted.

In the event that the Minister decides to end the current restrictions on variable pay and benefits, the FSU will seek to have these covered under collective bargaining agreements. Taking stakeholder governance seriously means that senior management of the banks should not have the sole discretion to decide whether such benefits will be paid without input from staff representatives.

We therefore believe, that as a matter of equity, that the Minister for Finance should consider the removal of the restriction on variable pay up to €20,000 per annum and standard workplace benefits.

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.

ANSWER 21

As part of any debate into the retail Banking sector, more attention needs to be paid to the wide range of stakeholders, including customers and workers, who rely on banking services in their daily lives and for their livelihoods. The concept of stakeholder banking is well-established, and empirical studies show the benefit of stakeholder involvement to bank's long-term stability and success. Other jurisdictions have enhanced the role of employees and customers as stakeholders in the banking sector through the election of representatives as non-executive directors on the boards of management of banks, as well as through share-ownership schemes that give employees a greater stake in the long-term success of their place of employment.

Following the 2008 economic crisis, the Irish banking system was rightly criticised heavily and there was a great deal of soul-searching about the need to construct a more socially conscious banking system out of the ashes of the old regime. To date, this has not occurred, despite the range of potential models for banking systems that exist across Europe and further afield. Not only has a more socially conscious banking model not emerged, a series of post-2008 scandals led to the creation of the Irish Banking Culture Board in April 2019, which has the sole mission "To work with our member banks to build trustworthiness in order to assist the industry in regaining public trust".

It is clear the Irish banks have still failed to recover the trust of the public who bailed them out. It may now be time to accept that the Irish public will never believe its commercial banks capable of "changing their stripes" because the current model of commercial banking retains the same fundamental flaws that it manifested during the Celtic Tiger era.

Rather than trying to persuade a jaded public to trust commercial banks, it is time to consider a much more fundamental and far-reaching change to Ireland's banking system, in favour of the kind of stakeholder banking that is much more common across European Union member states.

Four characteristics identified with stakeholder banking are:

1. Greater focus on the needs of customers, including more competitive products, better service, and longer-term lending
2. Explicit aim to provide for customers who are underserved by commercial banks.
3. Positive impact on local economic development through lending to small and medium businesses, preventing
   capital drain from regions, and maintaining branch networks.
4. Positive impact on financial stability through less volatile returns, higher levels of capital, prudent balance sheets, and expansion of credit provision after the financial crash.

Stakeholder engagement remains an important goal for commercial banks, but the lack of evidence for quality engagement to date suggests that more structural inclusion of stakeholders in commercial banks is required to realise the potential benefits of long-term planning and stability from stakeholder involvement. One of the features of traditional stakeholder banks is the recruitment of stakeholders – consumer or employees – as members of their boards. For example, consumers elect non-executive directors to the board of credit unions and have the opportunity to put themselves forward for election. In co-operative banks, workers are directly involved in governance. The inclusion of consumer representatives to the boards of retail banks would provide a wider push for all consumers to go online, despite the continued digital exclusion of hundreds of thousands of citizens.

Consumer representation on boards would also bolster relatively weak regulation of banks with respect to their consumer facing practices.

Ireland's experience of employee-elected directors was researched by TASC, using interviews and focus groups, and they found that:

Five ways that employee directors add value to an enterprise:

1. Making hierarchies work better, for example through employees providing information about business opportunities and threats, and employees being a rich source of ideas and practice knowledge
2. Supporting long-term thinking
3. Helping wider stakeholder engagement
4. Improving board behaviour
5. Enhancing board credibility

Change in the banking sector is happening rapidly, with major implications for the job security of employees and increasing demands on them for flexibility and adaptability. The impact of this change is also felt by consumers who must contend with relentless digitalisation, cyber-crime and reductions in physical bank branches. In this context, it makes sense for banks to increase the incentives available to their employees, to support the sustainable long-term development of the banking and financial sector, to support recruitment and retention, to encourage staff loyalty and productivity, and to compensate employees for the extra effort that they are constantly being demanded to make. It clearly makes sense to develop a stakeholders banking model in an open economy like Ireland and including consumers in the Banking organisation to ensure connectivity with its customer base.

- 1 Stephens Street Upper, Dublin 8, D08 DR9P T: +353 (0)1 475 5908
- Quaygate House, 5th Floor, 15 Scrabo Street, Belfast, BT5 4BD. T: +44 (0)28 90200130.

E: info@fsunion.org www.fsunion.org