Shane Kavanagh – Introduction:

Good afternoon Deputies firstly I want to thank you for the opportunity to speak to you today. I represent 15 former EBS Agents many of them have given up to 25 years committed serviced to EBS Limited formally EBS Building Society. All have suffered financial and personal stress as a result of difficulties experienced by EBS. Our reputations were also impaired even though we were committed to an honest service and recognised the importance of the duty of care we owed members.

The EBS 'Tied Agency' business model of EBS agency is unique to EBS in the Irish market. The Tied Agent is an independent business entity exclusively tied to EBS, they sell the full suite of EBS products and operates on a licence agreement with EBS Limited and are regulated by the Central Bank of Ireland. The Customer experience is the same as that from the EBS branch outlet -The Branding, look and feel and back office operations are all the same as with the branch with the business being run by local agent and staff. Beginning in 1935 the Society built up a very positive reputation amongst its members. Agents like myself were paid commission for the mortgages and investment products sold though we had no control over whether mortgages were approved or not. From this commission we covered the costs of running the agency including office rental, staff electricity etc..

In January the management, surprised the agents by introducing an incentive scheme which focused on maximising sales. There is potential for incentive schemes to encourage mis-selling. Potential investors may buy unsuitable products without fully realising the risks. Under the new structure the survival of agents depended heavily on the commission they generated instead of focusing on ensuring that the needs of the member were actually met. In our view the incentive scheme was too short term in focus at the expense of the long term reputation of EBS and their agents. After expressing our concerns one non-executive director offered to support us. An independent investigation was proposed. Sadly both the report and the terms of reference was not made available to us and so this initiative was of limited use.

A second underlying but equally important problem was the inability of EBS to provide mortgages that agents could sell. This resulted in a considerable loss of commission and put the agents under pressure to make up the shortfall by selling investment products, which is a very unsatisfactory situation to be in as the desperate desire to earn commission from investment products may weaken the fiduciary duty that agents owe to their members. As Cormac Butler will explain, there were a few policy decisions taken by EBS which, with hindsight contributed significantly to the avoidable problems that EBS and their agents faced.

We spoke to the Irish Central Bank and note the comments from a member of the Irish Bank Officials Association. The problem is quite widespread. The Central Bank is now attempting to examine and change the culture of Irish banking, but there are considerable hurdles in their approach. We have attempted to engage with EBS on this matter but, after seven years trying, a solution seems unlikely.

Cormac Butler – Introduction

The failure of EBS to originate new mortgages has put considerable pressure on the tied agents. Many were not able to meet the commission targets from investment products and risked compromising their reputation through aggressive sales in order to make up for the commission lost on mortgages.

There were a number of weak policy decisions taken by EBS which might have contributed to this problem.   EBS faced closure from the capital markets when it came to raising funds and in the end had to receive government bailouts as well as cut back considerably on the amount of mortgages it offered, a factor that caused considerable distress to the tied agents.

One matter that contributed to the banking crisis that is not yet corrected is the obligation to reveal the financial position of the society to existing and potential investors and depositors. According to some, building societies are not allowed to reveal their solvency position with the result that it will be very difficult for them to attract investors and fund mortgages. The cost of capital for Irish banks is unusually high and this is because investors do not find banks a safe and attractive proposition. The result is that tied agents cannot sell mortgages as they once did.

EBS received a state bailout of about 2.3 billion and suffered a 57% discount on assets sold to NAMA. Its failure to attract funds forced it into a firesale of assets which in turn led to further losses. Tied agents were naturally unready for this change in circumstance and in my view would have benefitted considerably if the correct financial position was disclosed.

Consequences

I am convinced that the difficulties of the tied agents could have been avoided if the directors were permitted to reveal the financial position of the society at a much earlier stage. There is a lot of misleading information on this matter which I believe your committee should look into. IN the UK there are the same concerns Thames Valley Police Commissioner Anthony Stansfeld has suggested examining how banks measure their solvency and believes that many financial transactions may be overturned unless the matter is corrected.