

**Opening Statement by Gabriel Makhlouf, Governor of the Central Bank of Ireland at the Public  
Accounts Committee**

**20 April 2023**

Good morning Chairman, Committee members.

I am joined today by Deputy Governor Sharon Donnery and Director of Financial Operations Will Molloy. We welcome the opportunity to assist in the Committee's examination of the Comptroller and Auditor General's (C&AG) separate reports on the Insurance Compensation Fund and the Central Fund of the Exchequer, as well as the ICF's 2021 accounts.

The Committee heard Will Molloy's opening statement on 23 February in respect of the same issues and, as that statement (annex attached) also reflects my views, I will not repeat it.

I would just like to make three points.

First, on the issue of **grants of credit**, and together with the additional controls the Department of Finance has introduced, I am satisfied that the end to end process is significantly stronger and robust enough to avoid a re-occurrence of the incident set out in the C&AG's report. The agreed changes are reflected in a revised service level agreement between the Department of Finance and the Central Bank of Ireland.

Second, on the **Insurance Compensation Fund** (ICF), the Central Bank's role is to administer and determine the contributions of insurers to the ICF but does not include policy decisions regarding the use of the funds. The role of Revenue is the collection of the contributions from insurers and the transfer of these contributions to the ICF. All the recommendations made by the C&AG have been accepted and implemented by both Revenue and the Central Bank.

Third, the draft 2022 accounts of the ICF prepared on the accruals basis, are in an advanced state of preparedness and should be with the C&AG by the agreed date of 30 June.

We are happy to take Members' questions.

**ANNEX****Opening Statement by Will Molloy, Director of Financial Operations at the Dáil Committee of Public Accounts, 23 February 2023**

Good morning Chairman, Committee members.

My name is William Molloy and I am the Director of Financial Operations in the Central Bank. I am joined today by my colleague, Adrian Varley, the Central Bank's Director of Prudential Analytics and Inspections.

We welcome the opportunity to discuss with you the Comptroller and Auditor General's (C&AG) separate and distinct reports on the Insurance Compensation Fund and the Central Fund of the Exchequer.

As you will be aware, both the Revenue Commissioners and the Central Bank are the two State bodies referred to in the report on the Insurance Compensation Fund, so we are appearing with Eugene Creighton and Angela O'Gorman from the Revenue Commissioners.

Similarly, the report relating to the Central Fund of the Exchequer refers to the Department of Finance and the Central Bank, so we are joined by Colm O'Reardon and Paul Cotter from the Department.

We look forward to discussing these reports and the progress that we have made working together on addressing the issues identified in them. Given their separate and distinct nature, and in consideration of the respective roles of the Department of Finance and Revenue, our opening remarks will deal with the two reports separately.

Having said that, what the two reports have in common is that they highlight the challenges and operational complexity of end-to-end processes where several agencies are involved and the need for these agencies to collaborate effectively on those processes, as well as having clarity on their individual roles and responsibilities within them.

For our part, the Central Bank takes an open, proactive and collaborative approach to identifying and resolving issues. If and when operational incidents do occur, we review our processes to learn lessons and provide assurances as to the mitigation of any re-occurrence. While we seek to have robust control processes in place, and review these on a regular basis, we are aware that mistakes can happen – in busy teams with competing demands and a human factor. However, we are

committed to transparency and continuous improvement, whether that is for internal processes or those that involve other parties.

### **The Insurance Compensation Fund**

As the Committee will be aware, the Insurance Compensation Fund, or ICF, is designed to facilitate payments to insurance policyholders where an insurer cannot pay certain policyholders claims. In order to facilitate timely payments, the ICF obtains advances from the Exchequer, with such advances repaid by means of a levy on relevant insurance policies. Such a levy has been in place since 2012 to repay exchequer loans totalling just over €1 billion. The balance outstanding on the loans at 31 December 2022 was just over €380 million.

The responsibilities for activities related to the ICF are spread across a number of state institutions. The role of Revenue is the collection of the contributions from insurers and the transfer of these contributions to the ICF. The Central Bank holds three key roles at present. Since 2012 the Central Bank has held the role of assessor of the financial position of the fund and enforcement of payment of the levy where it is advised that an insurer has not paid the correct amount. In 2018 the role of administration of the ICF transferred from the Accountants of the High Court to the Central Bank.

As part of the due diligence undertaken by the Central Bank following its appointment as administrator of the fund, it uncovered a potential discrepancy between amounts collected by Revenue and amounts transferred to the ICF. In November 2019, the Central Bank brought this to the attention of Revenue, who confirmed that ICF contributions totalling approximately €33 million relating to the period 2016 – 2018 were initially misclassified as stamp duty and incorrectly transferred to the Exchequer account.

Revenue have made a catch-up payment where the monies identified as having been misallocated as stamp duty were transferred to the ICF.

A small number of historic payments (totalling circa €49,000) remain unmatched or unidentified in the Revenue account and there are ongoing efforts by Revenue to match and allocate these.

Following the identification of this misclassification error, the Central Bank informed the C&AG, who then performed an examination of the Fund and made four recommendations to Revenue and the Central Bank. The recommendations have been accepted and implemented by both parties.

To mitigate the risk of a similar error reoccurring, Revenue have introduced a mandatory electronic pay and file system for both the stamp duty insurance levies and the ICF which will ensure the

automated identification and allocation of stamp duty and ICF receipts and the timely transfer of ICF contributions to the Central Bank.

### **On the matter of the Grants of Credit and Exchequer payments**

The Central Bank is the Banker to the Government, the Exchequer account is held with the Bank and its responsibility relating to the Central Fund of the Exchequer derives from this role. The Bank adopts a customer focused approach in terms of the services it provides with a focus on the efficient and timely transmission of critical payments from the Department of Finance (Department) each year. In 2022 the Central Bank processed over 1,500 payments to a value of €117 billion.

The process referred to in the C&AG report involves three parties – the C&AG, the Department and the Central Bank. This process is designed to ensure that the State's funds are only released to the Minister for Finance, or to his/her agent, where Dáil Éireann has approved such expenditure as part of the annual appropriations process, or where there is a specific legal basis for the expenditure.

Under this process, the C&AG controls the release of money from the Central Fund by the granting of a credit and the amount of the credit is the maximum amount that may be drawn by the Minister for the declared purposes in the time period specified.

On 22 December 2021, the C&AG issued the first supply services credit for 2022, for a total of €53.2 billion. The Central Bank released funding from the Central Fund between January and October 2022 under this credit, in response to requests from the Department.

On Thursday 27 October, at end of day, the remaining unspent amount of the supply services credit was €1,858,945,400. This figure was agreed by the Department and the Central Bank on the morning of Friday 28 October, as part of the standard reconciliation process.

On Friday 28 October, the Department submitted two payment orders to the Central Bank in the amounts of €1,948,976,000 and €648,089,000. The Department did not identify that the total amount, €2,597,065,000 exceeded the remaining credit by €738,119,600.

The Central Bank executed both payment orders and did not identify, prior to issue of the funds, that the total amount requested by the Department exceeded the remaining credit. This was identified by the Central Bank in the end of day reconciliation on 28 October and the Department was notified immediately.

At no time was the actual Exchequer Account overdrawn and there was no financial loss.

The Central Bank takes its responsibilities with regard to the operation of the Exchequer account very seriously. In this regard, it is clear that the end to end process between the Department and

the Central Bank did not prevent a breach in the grants of credit limits in October 2022 and this is a matter of sincere regret.

In terms of root cause, the Department has identified two factors on its side. Firstly, there was an oversight whereby the Department did not seek a credit from the C&AG earlier in the year, after Dáil Éireann had approved all of the revised estimates for 2022 and; at the time the payment orders were submitted to the Central Bank, no check was made of the existing credit to ensure that sufficient credit was available to cover the request.

From the perspective of the Central Bank, we recognise that our payments process (i.e. the execution of payment orders from the Department) and our reconciliation process (where we update the grant of credit against executed payments at the end of the day) were not sufficiently integrated to prevent this breach from occurring.

Both the Department and the Central Bank have worked individually and collectively to address the issue and introduce additional controls to prevent reoccurrence.

The Department has introduced changes and enhancements in relation to the monitoring and tracking of grants of credit together with internal systems improvements.

From the Central Bank's perspective we are now updating the grants of credit balance intraday (in real time), and performing real time checks before payment orders are executed, reconciled against both the grants of credit balance figures provided from the Department of Finance and our own independently-calculated figures (the 'four eyes' check).

This effectively integrates two previously separate processes (the 'reconciliation' process and the 'payment' process), strengthening controls in advance of executing time critical payments.

Both the Central Bank and the Department will revise the Service Level Agreement in the coming weeks once we are satisfied that the new process is working effectively.

## **Conclusion**

As you can see, we take the matters raised in the two separate reports by the C&AG very seriously.

In respect of the Insurance Compensation Fund, the Central Bank and the Revenue Commissioners have examined each of the issues raised by the C&AG and responded to them appropriately. We are confident that the measures taken are sufficient to ensure that the issues identified will not reoccur and that the fund will function more effectively in future.

Similarly, in respect of the Central Fund of the Exchequer, the Central Bank and the Department of Finance have quickly addressed the problems identified in the C&AG report. We are confident that the changes introduced ensure that the process is significantly stronger and robust enough to avoid a re-occurrence of the October incident.

Thank you for your time, we are happy to take members' questions.