



## Opening Statement

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Joint Oireachtas Committee on Finance, Public Expenditure and Reform, and Taoiseach

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### **1. Introduction**

Good afternoon Chairman, Committee Members. My colleague Ed Sibley and I welcome the opportunity to meet with you. In our opening statement, we will touch on the range of issues highlighted as of concern to the Committee, including the effects of COVID-19 on borrowers and in insurance; and wider developments in the banking sector in Ireland. We also understand that the outcome of the Central Bank's enforcement investigation into the Davy Group is of serious concern to Committee members.

Engagement with this Committee is important in informing how we deliver our mandate and demonstrating accountability for the work we do in the public interest. We are cognisant that there are many important matters that warrant discussion. We also recognise that there are constraints on the time we can spend with you today due to pandemic-related restrictions.

We remain open to exploring how we can enhance our engagement with the Committee, perhaps through additional briefings, so that we can provide you with the information that you need to support you in meeting your objectives.

### **2. COVID-19**

The COVID-19 pandemic is, first and foremost, a cause of human tragedy which has had a devastating effect on many families and individuals. The necessary measures to address the health emergency have had a negative effect on many businesses and household incomes, due to the associated economic disruption.

The economic policy response has had two strands. The first, and most important, has been the fiscal policy response with actions to contain, cushion, and counteract the impact on households and firms. The second strand has seen other policymakers respond with a range of monetary, macro and micro prudential actions to prevent amplification of the shock by the financial system. At national and European level, as part of the Eurosystem and Single Supervisory Mechanism, the Central Bank has taken action seeking to ensure that the financial system absorbs the shock and is better placed to support households and businesses through the crisis.

The work over the last decade to ensure banks and other firms are financially and operationally resilient has also been important, allowing those firms to extend financial support and continue to lend when the shock hit.

*a) Borrower Distress*

During 2020, COVID-19 payment breaks supported a significant number of borrowers. Lenders granted payment breaks to more than 172,000 Irish accounts, representing more than €23bn of lending. The vast majority of these payment breaks have ended, with approximately 90% of borrowers returning to full repayment on either existing or extended terms. The remaining 10% of borrowers have indicated they require further financial support. Support to borrowers continues now on a case-by-case basis and through more regular forbearance measures.

Despite the reduction in distressed debt over the past decade, a sizeable number of borrowers were in distress before the onset of the pandemic. Therefore, distressed debt remains a key priority for us. Our focus is to ensure lenders have suitable supports in place to help borrowers. We are supervising lenders to ensure they have appropriate strategies, the necessary financial and operational resources, and a suite of appropriate and sustainable solutions to resolve distressed debt, whether it arose before or as a result of the pandemic.

Effective engagement between lenders and distressed borrowers is critical to preventing the build-up of arrears and successful restructuring of loans where debt-servicing capability has been reduced. In this context, it is important to apply the lessons of the last crisis<sup>1</sup>, including:

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<sup>1</sup> See “Resolving mortgage distress after COVID-19: some lessons from the last crisis” : [https://www.centralbank.ie/docs/default-source/publications/financial-stability-notes/no-7-resolving-mortgage-distress-after-covid-19-some-lessons-from-the-last-crisis-\(mccann-and-o'malley\).pdf?sfvrsn=4](https://www.centralbank.ie/docs/default-source/publications/financial-stability-notes/no-7-resolving-mortgage-distress-after-covid-19-some-lessons-from-the-last-crisis-(mccann-and-o'malley).pdf?sfvrsn=4)

- effective early engagement between borrower and lender is key to preventing the build-up of arrears and successful restructures;
- short-term forbearance can assist borrowers return to full repayment if their income has temporarily reduced, but is not effective in addressing more permanent distress;
- individual lenders may be incentivised to excessively rely on short-term forbearance measures, which are not in the borrowers' best interests over the longer term;
- excessive short-term forbearance and non-recognition of distress let problems build up such that it became more and more difficult for borrowers to get to a sustainable forbearance rearrangement;
- no single measure will be successful in resolving distressed debt for all borrowers – the appropriate solution will depend on the depth of arrears, repayment capacity, age of borrower, housing equity and other factors;
- there will be cases where the income shock is so severe or where engagement is not effective that forbearance will not be successful and other measures will be necessary; and
- not all long term mortgage arrears can be solved within the financial system – other interventions and better safety nets are required.

*b) Business interruption insurance*

The Central Bank has prioritised the issue of business interruption insurance since the onset of the pandemic. We are conducting a system-wide examination<sup>2</sup>. From the outset, we have been clear on expectations of firms for the fair treatment of customers, including:

- that they honour valid claims and pay them promptly;
- where there is doubt about the meaning of a term, the interpretation most favourable to the customer should prevail;
- where legal action results in an outcome that has a beneficial impact for similar customers, firms are required to take urgent action to ensure those customers benefit from the final outcome; and
- firms make interim payments to policyholders who make or have made claims pending the final determination of the sums due; the Central Bank is actively monitoring firms' progress in the resolution of such claims.

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<sup>2</sup> See the [COVID-19 and Business Interruption Insurance Supervisory Framework](#), published in August 2020, which sets out how we have and will continue to respond to the potentially systemic issues arising from BI insurance related issues affecting customers.

Through the examination, we have focused on identifying all groups of impacted policies where, in our view, the relevant contractual provisions provide cover for COVID-19 related interruption or interference to businesses. Our aim is to ensure system-wide issues affecting groups of customers are identified and addressed. The work has included a comprehensive analysis of more than 250 different policy types across more than 30 insurers, to determine whether the cover provided under each policy should operate in the specific circumstances of COVID-19.

We have made it clear to firms where our view that 'cover' or 'causation' existed did not coincide with theirs. Our review of policies, and our engagement with firms on same, has been sustained and system-wide. As a result of our supervisory interventions, a number of insurers have already accepted and commenced settling claims. This occurred and was ongoing prior to the recent High Court judgment.

The judgment is welcome and significant, and reinforces our system-wide supervisory action. I can confirm to you that all firms in scope have accepted the outcome of the judgment and we therefore expect that all valid claims will be handled and paid by the firms in accordance with their claims handling processes and in compliance with their legal and regulatory obligations. Where there is a wider beneficial impact of a court judgement, the Central Bank has instructed firms to re-review previously declined claims, and also to identify customers who have insurance policies with cover and who may have a valid claim but who have not yet made one.

We have instructed insurers to communicate with these customers, to inform them of the insurer's updated position in relation to claims for COVID-19 related business interruption and to invite the customers to submit a claim notification if they have suffered losses due to COVID-19 related business interruptions.

### **3. *Developments in the Irish retail banking sector***

#### *(a) Ulster Bank withdrawal and Bank of Ireland branch closures*

We understand the concerns of customers, staff, Committee members and others have regarding the Natwest Group's decision to close Ulster Bank in the Republic of Ireland. There are also clearly implications for the competitiveness of the Irish banking market, particularly for business lending. We also understand the concerns regarding Bank of Ireland's decision to close bank branches across Ireland, including societal concerns about the effects on rural communities.

These decisions have been made in an environment of significant changes in retail banking across Europe and beyond. The emergence of new, technology-driven firms is providing significant competition in some of the services traditionally provided by retail banks. This in turn has driven banks to invest in technology and provide faster, more efficient services. Much of these developments are to be welcomed, but they do increase the risk of financial exclusion for some customers.

Banks will continue to have an important role to play in the functioning of the economy and the supply of credit and other services to businesses and consumers for the foreseeable future. But this role is changing. It is important that the discussion on the future of banking starts from the basis of the current and future financial services needs of businesses, households and individuals. This will allow the role of other financial services providers (from payment institutions to credit unions) in meeting these needs to be considered too.

Decisions relating to the strategic direction and business model of regulated firms are matters for the boards of those firms. The Central Bank cannot require firms to keep operating in the State if it wishes to stop, nor can it force banks to keep branches open. We can ensure that changes are done in an orderly manner; that the impact of such decisions has been carefully considered across the full customer base and at the appropriate levels; and that firms adhere to regulatory requirements, including the Consumer Protection Code 2012<sup>3</sup>. Our supervision of both banks in respect of these developments will also focus on those customers who are most vulnerable (for example, distressed borrowers).

#### *(b) Capital*

We provided a detailed response to questions from the Committee on bank capital on 5 March. This is a complex topic, with interconnections to other matters of interest to the Committee, such as economic volatility, distressed debt, credit supply and interest rates. We therefore welcome the focus on it.

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<sup>3</sup> Under the Code, when intending to close, merge or move a branch, a credit institution must:

- Provide at least two months' notice to affected consumers to enable them to make alternative arrangements;
- Ensure all business of the branch is properly completed prior to the closure, merger or move, or alternatively inform the consumer of how continuity of service will be provided; and
- Notify the wider community of the closure, merger or move in advance.

Appropriately capitalised banks are fundamental to protecting consumers, maintaining supply of credit to businesses and households and ensuring financial stability. We recognise that there are costs associated with ensuring banks are sufficiently capitalised relative to the risks that they run. But the ex-post economic and societal costs of banks being under-capitalised relative to the risks of their loan books and business models can be catastrophic.

#### **4. Davy**

The reprimand and fine imposed on Davy reflects the serious regulatory breaches and aggravating factors in the investigation, including the firm's lack of candour when first reporting the matter to the Central Bank. As was outlined in the Central Bank's statement<sup>4</sup> on the matter, Davy prioritised facilitating an opportunity for a consortium of 16 employees to make personal financial gain over ensuring that it was complying with its regulatory obligations. The transaction highlighted a weak internal control framework in relation to conflicts of interest management and personal account dealing. All of this served to create an elevated risk of investor detriment.

Robust enforcement action is a critical component of our work to protect consumers and investors. It is a key part of the regulatory and supervisory toolkit. Enforcement action supports and runs alongside other supervisory interventions to help drive the remediation of risks and issues in the governance, risk management and control frameworks of the firms we supervise.

When the Central Bank concludes an enforcement outcome, we publish detailed statements, outlining, among other things, the regulatory breaches we have established, the sanctions imposed, the reasons for those sanctions and, where appropriate, messages from the case which all regulated firms must heed. We do this because we believe sunlight is the best disinfectant. Publicised enforcement outcomes send a wider message to firms and individuals to drive improvements in compliance, behaviour and culture across the financial system.

In terms of cases, the Central Bank has concluded 141 enforcement actions, resulting in monetary penalties of over €128m, and has also issued a number of individual disqualifications and prohibitions.

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<sup>4</sup> See <https://www.centralbank.ie/news/article/press-release-enforcement-action-davy-fined-4-130-000-and-reprimanded-by-central-bank-of-ireland-for-regulatory-breaches-arising-from-personal-account-dealing-02-march-2021>

The enforcement investigations we are currently progressing encompass cases against firms and individuals under both the Administrative Sanctions Procedure and the Fitness and Probity regime – the Central Bank has and will continue to use its full toolkit in appropriate cases.

Notwithstanding our strong suite of existing enforcement powers, we do believe that the regulatory framework requires further strengthening with regard to individual accountability. We regard the Individual Accountability Framework, including the introduction of conduct standards for individuals and the Senior Executive Accountability Regime (SEAR), as necessary enhancements to our supervisory and enforcement toolkit to support effective culture in regulated firms.



Thank you for your attention. We welcome the discussion on all these important issues and any other matters Committee members wish to raise.