Opening Statement by Brian Hayes, Chief Executive, Banking & Payments Federation Ireland at the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach

Wednesday 27th September 2023

Good afternoon Chairman and Committee members. I am joined today by Ali Ugur, BPFI's Chief Economist & Head of Prudential Regulation. At the outset can I recognise the work of the Committee before the Summer Break in investigating what we, as a banking and payments sector are doing, alongside Public Authorities, to keep customers safe from financial crime and fraud.

In the last 14 months the ECB has increased core interest rates across the Eurozone from 0% to 4.50%. This has resulted in a sudden departure from the "lower for longer interest rate environment" that was such a feature of monetary policy over the past decade. This changed interest rate environment has had a significant impact across the economy placing many households under greater financial pressure. At the same time, notwithstanding the wider market slowdown in mortgage approval activity, First-time buyer (FTB) activity remained strong. In the twelve months ending July 2023, there were nearly 30,000 FTB mortgages approved valued at nearly €8.4 billion, the highest annualised levels since the data series began in 2011.

Balanced approach to pass through of interest rate rises

BPFI and its members are acutely aware of the cost of living and interest rate pressures which households are currently having to contend with. This is clear from the balanced approach which lenders have sought to take over the last 14 months in the pass through of rising rates.

And while much has been made of the rate at which banks have passed on deposit rates for savers, this must be looked at side by side with the fact that banks in Ireland have also been considerably slower than their European peers in passing on interest rates to mortgage holders. In fact, when comparing the pass through of rates across the 20 eurozone member states, banks here have passed through the second lowest increase in mortgage interest rates between May 2022 and July 2023. While the ECB has raised interest rates by 4.5%, the average rate on new mortgages in Ireland has only risen by 1.24%, or less than a third of the full ECB increase. At end-June 2023, the weighted average interest rate on all outstanding mortgage loans was 3.4% for banks, 2.8% for "lending non-banks" and 4.9% for the "non-lending non-banks". It should also be noted that around 60% of all mortgage loans are currently insulated from rate rises as they are on fixed rates.

The importance of a performing, profitable banking sector

Banks' profitability is a key driver of capital strength, financial stability and resilient financial intermediation. Organic profits are the first line of defence against shocks to the economy. In addition, banks' ability to raise capital when needed depends on their profitability. In the post EU Banking Union reforms, capital stacks, encompassing core EU wide and local capital add ons has fundamentally altered the traditional banking model in Europe. Without capital there is no new lending. Without lending there is no investment for households and businesses.

It is true that banks' profits will be higher this year than they were in the past, but banking, as is the case for the economy, is cyclical, and of course profitability is also linked to economic activity and the demand for new lending, which is also impacted by monetary policy. The real test of profitability is the return on capital, something that has been a real challenge for the sector over the past decade.

Supporting customers in the current economic environment

Recent data from the Central Bank of Ireland shows that the number of PDH mortgage accounts in arrears over 90 days fell by 8.2% to June 2023, driven by a decline in long term arrears. At the end of June 2023 around 30,000 accounts (4.1% of total) were in arrears of more than 90 days. This figure is largely unchanged since Q1 2023. There has been a slight yearly increase, around 3,000 accounts, in the number of mortgages in arrears up to 90 days or pre-arrears. Notwithstanding the new interest rate and cost of living environment – these figures highlight the critical role of the marcoprudential rules in establishing better lending and better borrowing across the Irish Mortgage Book.

In the last six months BPFI, on behalf of the industry, has announced a series of new customer support measures. These include the recent agreement by lenders of a minimum initial eligibility criteria to provide clear guidelines for home mortgage customers of Credit Servicing Firms who are seeking to switch their mortgage. In support of this, the three retail banks have put in place dedicated phone lines for these customers who wish to better understand and discuss their options for switching. And while it is important to acknowledge that not all customers will be eligible to switch due to their individual circumstances, this development provides a pathway for customers by providing clarity on the initial criteria required to switch. We have also recently put in place an industry agreement between Credit Servicing Firms and MABS on how to help customers in financial difficulty.

These measures have formed part of the industry's *Dealing With Debt* campaign and online resource developed to highlight and inform customers of the broad range of supports available. Solutions can and will be found – but it is critical that anyone who find themselves in difficulty engages with their lender as early as possible.

Irish banks and non-banks have the widest set of solutions available to mortgage customers in difficulty across Europe and have been involved in restructuring over 100,000 mortgages in the past ten years. They have highly experienced teams who work closely with customers who may be in difficulty to find sustainable solutions. The latest Central Bank of Ireland figures show that as of June 2023 more nearly 62,000 home mortgages were in a restructuring arrangement by the end of last year (December 2022) and more than 85% of these are meeting the terms of their current agreements.

Defective Block Redress Scheme

You have also asked us to address today the matter of the Defective Block Redress Scheme. To date, members have worked very closely with all impacted customers who have made contact with them but we recognise that most customers have waited to see the detail of the latest Government Scheme launched two months ago.

We, along and our members have met on several occasions with representatives of the Redress Focus Group – Banking and Insurance to discuss what the sector, and members individually, can do to assist homeowners. We have also worked closely with relevant stakeholders to actively progress this agenda. Over the summer months we submitted a request to the Minister for Housing to establish an Oversight Committee, tasked with overseeing the implementation and roll-out of the Defective Block Scheme which we are pleased to confirm has been agreed to. Last week in our office two members of your committee attended a briefing for Oireachtas Members on the issue.

In relation to the Defective Block Scheme itself, during the course of our engagement with the Redress Group, it has been made clear that there is a need for finance for some homeowners to commence remediation works on their properties, prior to accessing the funding available under the Redress Scheme. As a result, BPFI and members have submitted a proposal to the Department of Housing and we are engaging with the Department to find a solution that can work for affected homeowners.

Customer Account Migration

The decision of Ulster Bank and KBC to withdraw from the Irish retail market clearly provided a real challenge to the sector in terms of account opening and closing. In the 18 months to the end of June 2023, Central Bank of Ireland figures show the three remaining banks opened 1.3 million current and deposit accounts, including almost 800,000 household current accounts and 105,000 business current accounts. Those on the front line of Irish retail banking, be they in call centres, branches or online can take pride in having delivered for the customer in what was a mammoth undertaking. Two weeks ago the Department of Finance Consumer Sentiment Banking Survey showed that 82% of consumers are overall satisfied with their financial provider, a figure which BPFI members strive to improve on as they build competitive sustainable businesses which support customers, the economy and society.

Thank you.

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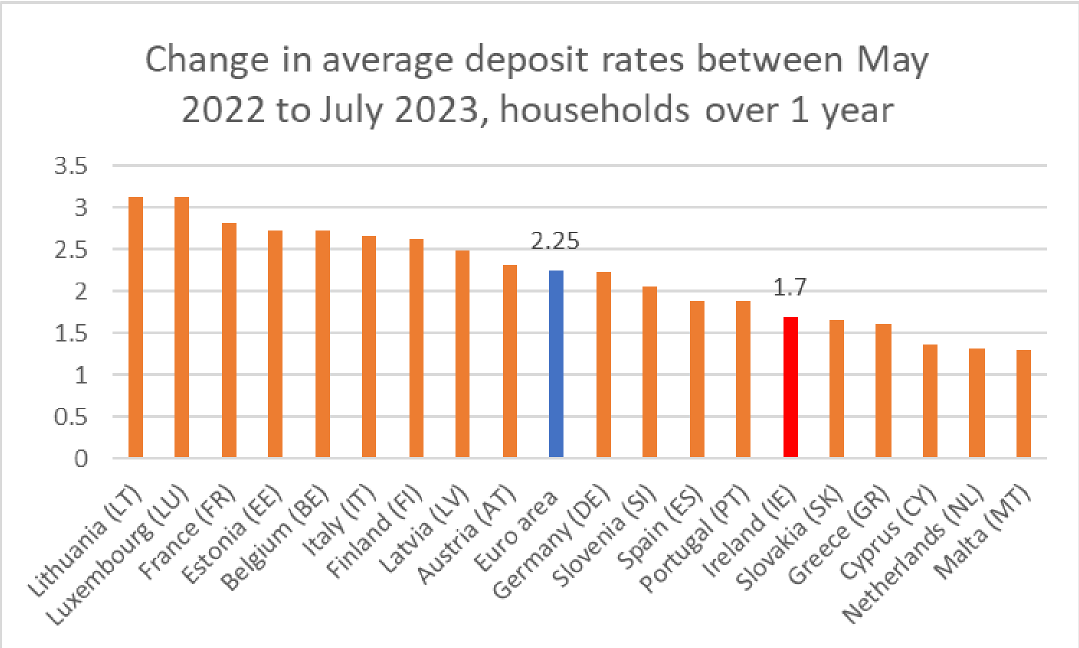
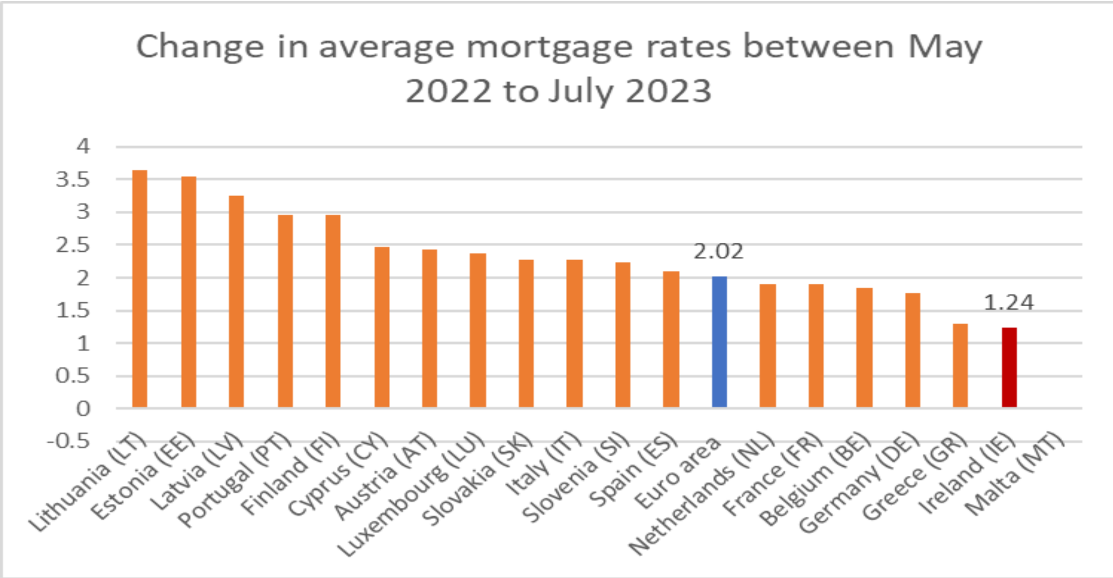


Source: The European Central Bank



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