Oireachtas Committee on Finance, Public Expenditure and Reform and Taoiseach

Opening remarks by Eamonn Crowley, Chief Executive, Permanent TSB

Wednesday 27th September 2023

Chair, members of the Committee,

Thank you for your invitation. I am joined by my colleague **Patrick Farrell,** our Director of Retail Banking.

In my last appearance before this Committee last year, I set out the Bank's five main priorities:

- Safely integrating over €7.6 billion of mortgage home loans, business loans and credit facilities into our business following our acquisition of these assets from Ulster Bank
- Supporting a very substantial number of customers in transferring their banking relationship to Permanent TSB in as smooth and straightforward a manner as possible
- Preserving jobs and welcoming 330 new Ulster Bank colleagues to Permanent TSB
- Maintaining our support for local communities by enhancing our branch presence in 25 communities throughout the country, increasing our presence to close to 100 locations nationwide; and
- Continuing to serve and support hundreds of thousands of our existing customers and the provision of home loan mortgages and small business finance into the Irish economy.

I'm pleased to say that, following our completion of the final elements of the Ulster Bank acquisition earlier this year, we have been successful in achieving all these objectives. This leaves us in a very strong position to build on the platform for growth that we have created, as a bigger bank, with many more customers, many more branches and an even stronger competitive proposition.

Irish retail banking needs competition more than ever and we plan to play a big role in driving that competition – for personal customers and small business.

Your invitation set out three specific topics that the Committee wishes to discuss – namely interest rates, inflation and the Defective Block Redress Scheme – and I will make some brief comments on each of these.

Interest rates

On interest rates, it's clear we are in a new, higher rate environment and that the era of record low rates has come to an end. This has consequences for borrowers and savers.

For borrowers, we never lose sight of the fact that higher rates can cause challenges and stresses. We are extremely mindful of the duty we have to our customers to support them when they need it.

We showed this during the Covid pandemic, when the industry as a whole worked closely and quickly to put in place effective, workable and sustainable solutions for customers who were suffering as a result of the pandemic.

And we will continue to support customers who find themselves in difficulty in today's environment.

I'm conscious that higher rates have resulted in higher borrowing costs for customers on variable or tracker rates; for those who may be at the end of a fixed rate term; and for those taking out a mortgage for the first time.

I think all banks have shown over the past 12 months that, contrary to what some commentators expected, ECB rate increases haven't resulted in automatic mortgage rate increases across the board.

You won't need me to tell you the ECB rate has increased 10 times with a cumulative increase of 4.5 per cent since the middle of last year.

Our fixed rates for new business have increased by a weighted average of approximately 2.2 per cent over the same period; our Standard Variable Rate has increased by 0.35 per cent and our Managed Variable Rates have increased by between 0.05 and 0.4 per cent.

Prior to the cycle of rate increases, many of our existing customers took advantage of the low interest rate environment to lock in low fixed rates for extended periods of up to 7 years. This has given them significant certainty and a valuable cushion against the impact of rising rates.

Over 95% of our new mortgage business was written at fixed rates over the past three years.

Now that rates have increased, we are seeing a trend towards fixed and variable rates converging. From past experience this tends to influence customer behaviour, as many customers re-evaluate the relative attractiveness of fixed rates compared to variable, and vice versa.

Some will decide, for example, that opting for a variable rate, even if it is higher than a fixed rate, gives them the possibility of benefiting from a fall in rates in the future.

By contrast, others will favour the certainty that a fixed rate can offer. They may choose to forego the possibility of gaining from future falls in interest rates, as being protected from the risk of rates going up is more important to them.

We see our job as offering customers the choice so that they can decide what is best suited to their circumstances and needs, backed up by independent financial and legal advice. That's why we need to be competitive on fixed rates and competitive on variable rates, and to keep our pricing under constant review.

Turning to our deposit customers, I have said it before and I will say it again - deposit customers have always been and will continue to be very important to our business.

Permanent TSB has roots going back over 200 years as the Trustee Savings Banks; and we have a heritage that's firmly rooted in earning the trust of customers who want a safe, stable institution where they can invest their money and earn a reward that's attractive and competitive.

That's why we did not charge negative deposit rates for savers when the ECB was offering banks negative interest to hold deposits.

And that's why we've made 5 separate announcements since last November in which we've introduced new, better rates for our deposit customers.

They need to be rewarded and they need to see some benefit from the higher rate environment.

The changes we've announced mean it's now possible for our deposit customers to earn up to 3% on their lump sum fixed term deposits and 2.5% from our regular savings products.

Given that we have fixed term mortgage customers who locked in low borrowing rates for long terms, we now have a situation where some of our mortgage borrowers are borrowing at lower rates than we are paying some of our savers for their money.

As always, we'll keep our deposit rates under review.

Inflation

I'll turn now to the topic of inflation and there are primarily two ways we think about inflation in terms of how we run our business – how it affects our **customers** and how it affects our **colleagues**.

For our **customers**, we don't distinguish between people who are experiencing financial difficulty as a result of higher interest rates and people for whom the cost of living increases of the past 18 months have been the main driver of the pressure on their finances.

That's to say, we approach each customer in a spirit of working constructively and sympathetically, to ensure we can put in place a sustainable arrangement, that gives them the breathing space they need until their circumstances improve.

It's important, however, that we also acknowledge the range of support measures that the Government has introduced to help alleviate the pressures that have arisen over 2022 and 2023. These have been generally very effective in cushioning households from the most extreme effects of higher energy and fuel bills, and in helping to protect people's disposable income.

For our **colleagues,** we have recognised the difficulties they have faced as a result of the higher cost of living with selective interventions. In doing so, we make every effort to get the balance right between supporting our colleagues, and managing our cost base in a manner that is aligned with our business requirements - and our duty to deploy the capital that belongs to the State and our other shareholders in the right way.

The Defective Blocks Redress Scheme

I'll conclude with some comments on the difficulties being faced by the people in certain parts of the country, whose homes have been compromised by defective building materials. These people are experiencing what can only be described as a nightmare.

We are aware of a small number of Permanent TSB customers who have informed us that they are in this position and I want to state at the outset that we want to treat these people sympathetically and sensitively.

They are in an awful situation through no fault of their own. I want to assure the Committee that we are fully committed to working with the Government and the BPFI on addressing the difficulties they face.

I can think of few things that would erode someone's peace of mind and sense of security in such a devastating manner.

Our job is first and foremost to make sure we do nothing that would add to the considerable levels of distress that these people have experienced. Our intention after that is to be part of an industry-wide solution, taking account of the wider mechanisms that the Government is putting in place to achieve a resolution that will be satisfactory to all stakeholders.

Conclusion

With that, Chair, I'm conscious that I'm just one of a number of people who have been invited to address the Committee here today. You will want sufficient time for questions and answers and a wider discussion, so I will conclude my remarks at that.

Thank you for listening to me.

ENDS