DÁIL ÉIREANN

AN COMHCHOISTE UM AIRGEADAS, CAITEACHAS POIBLÍ AGUS ATHCHÓIRIÚ, AGUS AN TAOISEACH

JOINT COMMITTEE ON FINANCE, PUBLIC EXPENDITURE AND REFORM, AND TAOISEACH

Dé Céadaoin, 21 Deireadh Fómhair 2020

Wednesday, 21 October 2020

Tháinig an Comhchoiste le chéile ag 2 p.m.

The Joint Committee met at 2 p.m.

Comhaltaí a bhí i láthair / Members present:

Teachtaí Dála / Deputies	Seanadóirí / Senators
Mick Barry,	Pat Casey,
Pearse Doherty,	Aidan Davitt,
Bernard J. Durkan,	Alice-Mary Higgins,
Mairéad Farrell,	Marie Sherlock.
Steven Matthews,	
Jim O'Callaghan,	
Neale Richmond,	
Peadar Tóibín.	

Teachta / Deputy John McGuinness sa Chathaoir / in the Chair.

Engagement with Governor of the Central Bank

Chairman: I welcome the Governor of the Central Bank, Mr. Gabriel Makhlouf, and his officials, Ed Sibley and Derville Rowland. I invite Mr. Makhlouf to give a brief opening statement.

Mr. Gabriel Makhlouf: As the Chairman has just said, I am joined by Ed Sibley, deputy governor, prudential regulation, and Derville Rowland, director general, financial conduct. We welcome the opportunity to appear before the committee today. We are in three separate locations, so we hope we will be as co-ordinated as possible.

The effects of the Covid-19 pandemic have been deep and distressing for our community. The actions taken to contain the health emergency have affected the economy and all of our lives. The Central Bank's job is to ensure the financial system operates in the best interests of households, businesses and consumers. In particular, since the start of the pandemic, our aim has been for the financial system to minimise and not amplify the effects of this economic shock.

In light of the committee's request, I will give a brief overview of the economic outlook, payment breaks, issues in the insurance sector, the tracker mortgage examination and the credit union sector. We are happy to expand on these or any other matters in the subsequent discussion.

In terms of the economic outlook, we published our latest analysis in our quarterly bulletin earlier this month. Since the trough reached in the April-May period, Irish economic activity rebounded with the reopening of the economy. However, the recovery has been partial and uneven and the outlook remains uncertain, a pattern reflected in the wider euro area and elsewhere in the world, as the IMF indicated in its forecasts last week.

The unevenness in Ireland is clear from the divergence in performance between the strength of exports and the weakness of domestic demand. The overall resilience of export growth has mitigated the fall in GDP, which only fell by 3% in the year to the second quarter, in contrast to underlying domestic demand, which fell by 16% over the same period. We projected GDP to decline by 0.4% in 2020 but for domestic activity to fall by around 7%, and unemployment to rise to 5.3% from its pre-crisis level of 4.9%. Looking towards 2021, we see a modest recovery for overall domestic demand and GDP of the order of 1.6% and 3.4%, respectively. These figures could be higher by about 2 percentage points if a trade deal is agreed between the EU and the UK before the end of the transition period. We see unemployment increasing to 8% in 2021 before declining slightly to 7.5% in 2022.

The latest restrictions announced by the Government on Monday evening clearly have negative implications for individuals, households and businesses, and for their incomes, consumption patterns and investment plans. Ultimately, solving the economic crisis will be dependent on our ability to manage the health crisis because a healthy economy needs a healthy workforce, healthy consumers and a healthy community. From what we know so far, under the latest level 5 measures, more sectors will remain open compared with the April-May period since when consumers and businesses have adapted to operating with restrictions. The decline in domestic demand that we forecast for 2020 is likely to be larger than what we published in our quarterly bulletin two weeks ago, but on the assumption that the latest measures will be time limited and that consumers and businesses continue to adapt, our forecast is for activity also to continue to recover gradually during next year, although domestically focused economic activity remains unlikely to return to its pre-pandemic levels before 2022.

The economic shock has left many business and personal borrowers facing difficulties in meeting their repayment obligations. We recognise that this is a worrying time as we move to level 5 and it is important to explain what is being done to support borrowers affected by the pandemic. At the onset of the crisis, lenders across Europe offered loan repayment breaks to all borrowers whose incomes had been affected by the pandemic. This system-wide response, undertaken without individual credit assessments, provided relief regardless of whether the income shock was short-term or potentially more permanent. By early October, there were just under 54,000 active payment breaks associated with Irish household and business borrowers. Some 40% of active payment breaks for Irish borrowers relate to mortgages, representing 3.4% of outstanding Irish mortgages. Active payment breaks for Irish borrowers have reduced by 65% since the end of June, a reduction of more than 98,000, as borrowers start to return to repayment arrangements.

Unfortunately, there will be borrowers who will not be able to return to full repayments and they will require individually tailored support to address the issues they are experiencing. Lessons from the global financial crisis have shown that temporary forbearance can assist borrowers to return to full repayment if their income has reduced temporarily but that it is not effective in addressing more permanent income shocks. In the past we have also seen that lenders may be incentivised to rely excessively on temporary forbearance measures which may not be in the borrowers' best interests over the longer term. One important lesson from the previous crisis is the importance of early engagement between borrower and lender to prevent the build-up of arrears.

In response to the move to level 5 restrictions, we note the statement made by the BPFI that lenders are prepared to offer appropriate support to those borrowers who need it. For our part, we continue to engage with the BPFI and with lenders. Our clear expectation is that lenders engage effectively and sympathetically with distressed borrowers, in line with the code of conduct on mortgage arrears, the consumer protection code and regulations for firms lending to SMEs, so as to deliver appropriate and sustainable solutions and facilitate as many borrowers as possible to return to repaying their debt. In the current environment in particular we expect lenders to adopt interim measures to support borrowers experiencing temporary income shocks when the financial position of the borrower is not yet assessed or where more permanent solutions are being determined.

Turning to insurance, last month we concluded the first phase of our review of differential pricing in the private car and home insurance markets. The aim of the review is to establish the extent to which differential pricing is in use within these markets and to determine how firms are utilising the practice and whether it is in line with the consumer protection code. The first phase of the review identified a number of weaknesses, which we have communicated to insurance firms. We plan to release the interim results of our work by the end of this year, but it will be necessary to complete all phases before setting out firm conclusions from the review. I anticipate this to happen by the middle of next year.

We published our supervisory framework on business interruption insurance in August. Our aim is to seek the early identification and resolution of issues which have the potential to cause customer harm and to establish clarity for affected businesses as quickly as possible. Some business interruption insurance policies provide cover for the circumstances of interruption related to the outbreak of Covid-19; others clearly do not. In some cases the position is unclear, although a strong or reasonable argument can be made that they do provide cover. The framework is designed to identify and monitor insurers' approaches to these types of policies, to set out our expectations in respect of them and to indicate that matters will be escalated where those expectations are not met.

As a result of our work on the tracker mortgage examination, lenders have been required to pay €708 million in redress and compensation to 41,700 affected customers. We are now well into our related enforcement investigations. As the committee will probably be aware, last month we fined KBC more than €18.3 million for its tracker-related failings, which followed the €21 million fine imposed on PTSB last year. Investigations continue into the other main lenders. Although we have concluded the supervisory phase of the examination, we continue to monitor the outcome of all complaints, all decisions by the Financial Services and Pensions Ombudsman and court cases to identify any systemic or other issues with wider customer impact.

Finally, the committee has requested information on the Central Bank's regulation of the credit union sector. Credit unions are an important part of the Irish financial system, given their community presence across the country, their role in financial inclusion and the €16.2 billion worth of savings they hold on behalf of their 3.4 million members. Our role in regulating the credit union sector is to ensure it operates in a transparent and fair manner and safeguards its members' funds. Our tailored and proportionate regulatory framework and supervisory approach recognises the nature and scale of credit unions and continues to evolve, as can be seen from the recent changes to their investment framework, which enables increases in longer-term lending, including home mortgage and business lending. Last month we published our latest report on the nature and type of risks identified during our supervisory work with credit unions. Our analysis covers risks across governance, credit, operational risk, business model risk and investment, liquidity and capital risk. Weaknesses were evident in a number of credit unions in each of the risk categories, including governance and credit underwriting. The report is intended to be a practical reference tool for all credit union boards and management teams. We expect them to consider and act on the findings.

These are exceptional times and they require exceptional responses to address the pandemic, sustain the economy and support the ensuing recovery when it comes. Over the past seven months we have taken action to ensure monetary and financial stability and ensure the financial system operates in the best interests of the community. We will continue to do so. Ms Rowland, Mr. Sibley and I would be happy to take the committee's questions.

Deputy Jim O'Callaghan: I thank Governor Makhlouf and the rest of the staff who are with him for appearing before us. He will be aware that we are due to commence six weeks of level 5 restrictions tomorrow because of the pandemic. It has been suggested we may also have to go through further level 5 restrictions in, for example, February and later, in the middle of next year. What impact does Mr. Makhlouf believe such consistent closing down of the Irish economy will have on our domestic economy if it is the case that we will have repeated restrictions imposed next year?

Mr. Gabriel Makhlouf: That is one of the most unknown unknowns in the current circumstances, which are full of uncertainty. The future of the Irish economy, the euro-area economy and the world economy depends on the path of the virus, the speed at which a vaccine arrives and issues that we do not know about right now. As I said in my opening statement, the next six weeks will clearly impact underlying demand in Ireland and the forecast we published two weeks ago as far as 2020 is concerned, but we still anticipate a gradual recovery over the next two years. If there are repeated lockdowns, the projections and forecasts we have made will be limited. One of the many big unknowns, apart from the actions the Government decides to take here to contain the virus, will be what happens in other parts of the world, to which we are connected and which play an important part in at least keeping GDP numbers up, although they do not necessarily affect underlying domestic demand. These are unknowns. Clearly, we live in very uncertain times that are potentially changing the structure and shape of our economy. The best we can do, in my view, is to manage the health of the population, but in this I do not personally see a choice between the economy and health. As I said in my statement, a healthy economy requires a healthy workforce, healthy consumers and a healthy community. We should focus on getting the pandemic under as much control as we can in order that we can reopen the economy. However, once we see our way through the pandemic, we should be prepared for the fact that structural change could be needed because consumers may have changed their spending patterns. They may decide to continue shopping online much more than they used to do. They may start to make very different choices. It is a very challenging time for everybody. That is for sure.

Chairman: Each member has six to eight minutes so they are anxious to get through as many questions as possible. If the Governor could be more precise when answering it would be helpful.

Deputy Jim O'Callaghan: I appreciate that answer. I ask about youth unemployment, which can destroy an economy and a society. Currently, we have very high rates of youth unemployment. What measures does the Governor believe would be available to the Irish Government to try to tackle the scourge of youth unemployment that appears to be a consequence of the pandemic and the restrictions?

Mr. Gabriel Makhlouf: I cannot speak for the whole range of measures that might be available from which the Government can choose. I agree with the Deputy that we need to make sure we avoid what economists call the scarring effect of the crisis, in particular that we avoid long-term unemployment. Training schemes for young people are part of the menu of options. In my view, and this is not necessarily a strict view on youth unemployment, one of the economic risks we are currently facing is the mental well-being of the population, whether they are in the workforce, consumers or just part of the community. Focusing on that is probably as important as specific measures such as training schemes.

Deputy Jim O'Callaghan: Can I ask the Governor some brief questions about the tracker mortgage examination in respect of which the bank has been very effective? Fines were imposed recently on KBC for breaches of the 2006 code and the other code. Did the Central Bank seek any legal advice as to whether KBC and-or other banks had engaged in criminal activity as opposed to merely breaches of codes?

Mr. Gabriel Makhlouf: I invite Ms Derville Rowland, who has led this work, to address the Deputy's questions.

Ms Derville Rowland: I thank the Deputy. The Central Bank has many legally qualified staff who work on these actions. They analyse the facts and combine them with the evidence. As part of our regulatory obligations we are under duties to report reasonable suspicions of criminal offences to An Garda Síochána and in that regard I can confirm to the Deputy that we have liaised extensively with An Garda Síochána throughout the tracker mortgage investigation with respect to issues and evidence that arose.

Deputy Jim O'Callaghan: Do I take it from that that there is the possibility that there may be criminal prosecutions subsequently arising from the behaviour of some of the banks in the tracker mortgages scandal?

Ms Derville Rowland: I could not comment, with respect, on any actions that any agency could or would take outside of our own. I confine myself to telling the Deputy that with respect to the tracker mortgage examination we liaised extensively and closely with An Garda Síochána.

Deputy Jim O'Callaghan: In fairness to the Central Bank, is it in a position to impose sanctions on individuals who are determined to have responsibility for wrongdoing or is it limited in terms of imposing financial sanctions on institutions?

Ms Derville Rowland: We have a number of regulatory powers that are effective with respect to addressing wrongdoing. One of those procedures is a statutory procedure, the administrative sanctions procedure, which I believe was brought into force in 2004. It is a civil scheme and it requires the Central Bank to prove that a prescribed contravention, which is a list of breaches of regulatory matters that are enumerated at the back of that piece of legislation, have been committed by the regulated entity. That is a prerequisite for proving any matter. As a second step, one would then go on to prove, under the legal construct, that individuals have participated in the breach that has been committed by the regulated entity. The legal construct that has to be followed, therefore, is that the matter must be proved first against the regulated entity and then one goes on to demonstrate the participation of an individual in that. The Central Bank has taken action previously to disqualify individuals pursuant to the administrative sanctions scheme and has referred a number of individuals to inquiry in those regards.

Separately, we have fitness and probity powers that are very important and effective where we challenge individuals in senior roles as they make applications for roles of responsibility in the Central Bank. We have used those powers to large effect. Having refused individuals we often see that individuals withdraw because they prefer to do that rather than be subject to the Central Bank challenge. Pursuant to that scheme, people who are in senior roles in offices in the regulated community have been disqualified and prohibited; it is a prohibition scheme under the fitness and probity powers. We have those powers also and, as I have said, we have statutory obligations under section 33AK of the Central Bank Act of 1942 to make regulatory reports of suspicions of criminal offences to other agencies, An Garda Síochána and others, where we have suspicion of criminal offences. It is for those agencies then to determine their own courses of action.

Deputy Jim O'Callaghan: I thank Ms Rowland for that very thorough answer.

Deputy Pearse Doherty: I want to pick up on that point. Ms Rowland said the Central Bank has liaised with the Garda Síochána but under section 33 AK of the Central Bank Act has it made a report to the Garda Síochána of suspected criminal activity in respect of the tracker mortgage investigation?

Ms Derville Rowland: Yes, we have.

Deputy Pearse Doherty: Has there been more than one? Can Ms Rowland furnish more information to the committee? Has there been a single report or a number of reports?

Ms Derville Rowland: I am not in a position to furnish further information to the committee but I can confirm we have made those statutory reports. In addition, we have liaised very closely with An Garda Síochána throughout the enforcement tracker investigations.

Deputy Pearse Doherty: The Governor will be aware that there is huge anxiety in respect of Ulster Bank and the decision by NatWest to look at selling its entire Irish loan book here in the Twenty-six Counties, which is a €21 billion loan book, given that it has been reported that Cerberus is likely to look to purchase that loan book. Cerberus is an aggressive vulture fund. We have seen how Cerberus has acted in the past. With regard to the Central Bank's consumer protection, what role will it take in respect of this sale? Does the Governor believe it is good for competition? Does he believe that Ulster Bank mortgages in the hands of Cerberus are as protected as they were with Ulster Bank?

Mr. Gabriel Makhlouf: I thank the Deputy. I am not going to comment on either Ulster Bank or Cerberus, not least because at the moment it is speculation. What I can say is that the protections that consumers have are not dependent on the nature of the entity. Irrespective of who holds a particular consumer's borrowing what matters are that the rules apply equally. That is all I am prepared to comment on at this particular point.

Deputy Pearse Doherty: Surely the Governor understands the difference between a retail bank which has a long-term interest in new activity in the Irish market and a vulture fund like Cerberus, which is looking at breaking up loans, disposing of assets and exiting the market as quickly as possible. Bank of Ireland or AIB could do exactly what Cerberus would plan to do but their interest is long-term as opposed to short-term. That is why there are different behaviours. Does the Governor accept that?

Mr. Gabriel Makhlouf: I will invite Ms Rowland to come in as she is responsible for this area but I repeat that the protections available to consumers are available irrespective of who is the lender.

Ms Derville Rowland: To reinforce the Governor's remarks that the regulatory framework applies, the consumer protection code, the code of conduct on mortgage arrears and all of our regulatory frameworks apply in equal measure in terms of protection of consumers, whether their loans are owned by banks or non-banks. That remains the case and it remains a focus for us, as risk-based supervisors, to ensure that we scrutinise all firms according to our risk assessments and, where we see issues arising, that we demand that firms live up to their obligations to their customers and remediate them.

Deputy Pearse Doherty: I am familiar with the regulatory environment. The question that was not answered concerned the approach from a bank that is going to remain here compared to a vulture fund that has a short-term interest.

I refer to mortgage payment breaks. The Governor will be familiar with the fact the banks could have extended mortgage payment breaks if they took a decision before the end of September. That would have benefitted consumers who lost their incomes or jobs during the pandemic and who do not have a negative credit rating. That would also have benefitted the banks because such loans would not have been seen as non-performing. The banks decided not to do that. The Government did not lean on them to do that.

We are now in a situation where, unfortunately, many hundreds of thousands of people are likely to lose their jobs in the coming days as a result of level 5 restrictions. The Governor mentioned that he expected the banks to engage effectively and sympathetically. The deputy governor talked about tailored solutions from banks. Does he accept that is not happening and the reality on the ground is very different? Did the Governor hear what the regional manager of MABS said on "Drivetime" on RTÉ two days ago? Michelle O'Hara went on national radio and said that those working on the front line have a very different experience. They said that borrowers who had come off payment breaks and are not in a position to sustain payments are being advised that they are not being offered an alternative repayment arrangement. One of the reasons is that they are in receipt of the pandemic unemployment payment. The Governor and I know that if people are not given an alternative repayment arrangement, then repossession proceedings can begin within three months.

I was contacted a by a mortgage holder who is with AIB. He is a front line worker and works for the HSE. He is one of the people we applauded for ensuring additional Covid wards were put in place in our hospitals. His partner works for an airline and his partner's income has decreased by more than 70%. Their household income has been reduced by 50%. They had a six-month payment break and asked for an alternative arrangement in August. They were told two days ago, before they had to make their full and increased repayments on the full mortgage, that they would not be given an alternative payment break. They were told to pay up in full. They had to borrow €300 to make sure that they did not default on their loans. Does the Governor accept that there is a different reality and expecting banks to do the right thing for the customers is simply naïve?

Mr. Gabriel Makhlouf: I thank the Deputy. As he mentioned, Mr. Sibley has led our work on payment breaks, mortgage arrears and distressed debt generally. I will ask him to comment on the Deputy's points, including credit ratings. I expect banks and lenders to treat their customers sympathetically, in line with the consumer protection code, the Central Bank's very clear expectation and the commitments the banks have made publicly. If there are cases where these things are not happening we want to know about them. I do not think there is a naïveté. The expectations are clear. The community as a whole expects that from lenders. I will ask Mr. Sibley-----

Deputy Pearse Doherty: Before the Governor asks Mr. Sibley to comment, I would say that maybe it is important for the Central Bank to engage with those on the front line and reach out to MABS because it has the letters.

Mr. Gabriel Makhlouf: No I-----

Deputy Pearse Doherty: I also have letters about this. Another mortgage holder told me, "We have made contact with our bank and basically they do not want to know. Just pay up. What is different this time around, and it is not as though the break was interest free, our repayments have gone up because of the breaks. It is a win-win for the banks and we are not all in this together in the second lockdown". That is the reality on the ground. People are really stressed.

Mr. Gabriel Makhlouf: We engage with MABS. Mr. Sibley and Ms Rowland did so only recently. I agree with the Deputy that it is important we engage and understand exactly what is happening on the front line. I have made it quite an important part of my time here that the Central Bank connects with the whole community in Ireland. We will do that. Mr. Sibley can come in.

Mr. Ed Sibley: I thank the Governor and Deputy Doherty. On the MABS point, Ms Rowland and I met it last week and had a very useful meeting around the table with representatives of civil society who are close to borrowers specifically to discuss the issues around the pandemic earlier in the summer. We will continue to engage with lenders and those who are closer to borrowers.

We are now dealing with a transition from the system-wide support that was introduced at pace earlier in the year as the pandemic first struck to trying to provide individually tailored support for those borrowers who need it. They include those who are now back in full-time employment but are now suffering or will suffer as a result of increased restrictions. They also include those who are, to use the Deputy's example, working in the airline industry and will have a longer term impact on their situation. It is important that their financial position is understood and that the support is provided to them is done in a way that is tailored to their needs.

We have engaged heavily with lenders since the start of the pandemic, not only in terms of how the payment breaks operate but also in preparing for what is happening now and to make sure that during this transition borrowers are supported in a way that is in their best interests. We want to ensure we do not have an extended period of non-payment while interest continues to accrue.

What we have seen to date is, broadly speaking, that lenders have used that time to prepare. Clearly, there may be situations where things are not operating as we would like. We are heavily engaged with lenders in real time to make sure they are delivering as we expect and as the Deputy outlined. We are always interested in hearing of specific cases where there are problems and we will follow those up in terms of making sure the system is working.

On the Central Credit Register, there is a fair amount of misunderstanding as to what it is. It simply records what is happening factually in regard to a loan. It is not a rating or score. It simply records outstanding loans and what is happening in terms of repayments or whether a loan is being restructured.

Deputy Pearse Doherty: The ICB-----

Mr. Ed Sibley: There is no difference between a payment break-----

Deputy Pearse Doherty: The ICB is a score.

Deputy Mick Barry: In nine hours and 23 minutes' time the country will go into national lockdown for the second time. There will be tough times for many people, especially ordinary working people. The Tánaiste said he expects that more than 150,000 people will lose their jobs. Many others think that is a conservative estimate. We are talking about working people who are the backbone of this country and bailed out the banks ten or 12 years ago. It is important that they are fully supported.

When the first lockdown was introduced, a range of supports were introduced. If I stopped someone on the street and asked him or her about the key supports people got, I would wager that a majority of people would tend to come back with three or four examples. The examples they would quote would be the €350 pandemic unemployment payment, the ban on evictions and rent increases and the mortgage moratorium. The €350 pandemic unemployment payment is back. The ban on evictions and rent increases is back. The mortgage moratorium is not back. It is at the discretion of the banks, if they so decide, to give people payment breaks that are individually tailored to them. It is not something that has to be done. That is a mistake and it will cause a great deal of grief and heartache for ordinary working people over the next weeks and months. It is a policy that needs to be changed. People who have been given a bad break by the pandemic rightly feel they should be given a decent break by the banks. Anything less than a fresh mortgage moratorium would be a betrayal. I agree with that opinion.

My first question is for Mr. Sibley because he is fielding questions on the payment break issue. How can the best approach be an individually tailored one, given that we are not talking about a few dozen or a few hundred people who come knocking at the door? We are talking about tens of thousands of people who really need that payment break over the next weeks and months.

Mr. Ed Sibley: I fully agree with the Deputy's observation of the supports required during this difficult time for people, businesses and the country as a whole. We might take as an example someone who works in the retail sector, who will not only potentially lose employment over this period but may also do so again in the future if there are further lockdowns, which were mentioned as a possibility. What is probably best for that borrower is not to go in and out of a series of payment breaks but rather to work out what he or she can afford in that circumstance over a vulnerable period. Understanding that borrower's financial position is critical to ensuring his or her interests will be best served.

Having said that, in the immediacy of now where this issue has come on us quickly, it may well be that a short, interim additional payment break is the best solution for that borrower while the lender, whether a bank or a non-bank, works through the borrower's circumstances and what he or she can afford over the next six to 12 months, given the circumstances the borrower will be operating under. It is certainly our aim to ensure that borrowers, whether businesses or mortgage holders, get the necessary support through this period. If debts continue to grow during this period, it will not necessarily be in the lender's interest. In certain circumstances, an extension of a payment break may well be, but it is better that the creditor understands what is possible and recognises the difficult circumstances and uncertainty.

Deputy Mick Barry: Mr. Sibley used the example of a retail worker. I will concede there might be retail workers and their families for whom the best solution is not a payment break, but there are many other workers who will be badly affected in the course of the next weeks and months for whom a payment break is precisely what they need. The point, however, is they do not have a right to that. It is not something they can ask for as their right. It is a case they can put to their bank manager, but the bank manager has the power to make the decision and to say "No". There is no point in saying there is a blanket ban if, in some cases, bank managers will say "No".

Given that tens of thousands of cases are coming down the line, that means there will be a high volume of people for whom the best choice for them and their family, not for the bank, is a payment break, but they will be denied it. They will be because, let us be blunt, the Central Bank is not supporting it, the banks are not supporting it and the Government is not pushing for it. That is a betrayal of those working families. Is it not the case that people who need it will be refused? Mr. Sibley cannot deny that is the case.

Mr. Ed Sibley: We have been very clear about our expectations and are intensively engaged with all the lenders and the Banking & Payments Federation Ireland to reinforce those expectations. We have expected that the lenders were preparing and have the necessary resource and operational capability to engage with borrowers at this time and that they are doing so to put in place appropriate solutions that suit those borrowers' needs over the short to medium term. That is what we expect to happen and we will supervise to ensure that it does. Where it does not happen and there is evidence that is the case, we will follow that up, which is why we have engaged with MABS, and I would be happy to engage with members of the committee.

Deputy Steven Matthews: I thank our guests for their attendance and their submission. I turn to economic forecasting, which, as they admitted, is very difficult because of a number of factors, such as Brexit, Covid-19 in Ireland and how other economies will perform in respect of Covid. Personal savings have accrued throughout the economy over the past six to seven months. I do not know what the exact figures are but I have seen references of €8 billion to €10 billion. Will measures such as those in the recent budget to invest heavily in capital expenditure, infrastructure and job-creating areas that will stimulate the economy, as well as being de-carbonising, instil confidence in the economy and encourage people to spend those accrued savings? Do our guests have views on how we could create that confidence in the economy?

Mr. Gabriel Makhlouf: Clearly, instilling confidence in the economy is important but very challenging as we are about to enter into level 5 restrictions for six weeks. The role of savings will be very important in the recovery throughout the eurozone. The nature of savings at the moment is that they have been forced savings, that is, people have not had the opportunity to spend so they have been saving. The budget has played an important role in bolstering and supporting the economy. I suspect that the need for confidence and greater certainty was hit by Monday evening's announcement about level 5, but those sorts of measures, such as plans for capital spending and, more important, plans for the future, outlined not only by the Government but also by businesses and organisations such as the Central Bank, are certainly important inputs in building confidence.

I welcome, therefore, the sorts of measures in the budget. I look forward to the European Union setting out greater detail on its recovery fund because it has an important role to play throughout the EU and the eurozone, which will also have beneficial implications for Ireland. At the moment, perhaps what all of us living in Ireland would like is a greater degree of certainty as to when the pandemic will end, when a vaccine will be available and how ready we will be for the recovery when it comes, because it will come. Building that sort of narrative is quite important and the budget has helped in that regard.

Deputy Steven Matthews: Mr. Makhlouf is quite correct that the recovery will come. That brings me to my next subject, mortgages, which has been covered by a number of other members. In supports we have applied to business and enterprise in this country, we have applied a standard of vulnerable but viable and have sought to support, assist and get people through until we reach that recovery stage, which will come.

Like, I am sure, every other member here, many people have contacted me saying they were just about to sign a mortgage or close on the purchase of a house when the rug was pulled from under them because they were in receipt of a support or payment or the company that they worked for received support. It seems terribly unfair, at a stage where somebody is about to enter into a 20 or 25-year contract with his or her bank to purchase a house and pay it back, and just at the start when they are vulnerable but viable, which we will support them through, that the banks would pull the rug from under them. That is heartbreaking for many people, whether it is a new purchase or a family trying to trade up. People will know how difficult it is to get through the house purchase scheme in the best of times. What can the Central Bank do in that regard? These mortgages are mainly with the pillar banks. Can the Central Bank request the banks to apply a more lenient and long-term view and adopt an approach of accepting that while the person may vulnerable at the moment, over the next 25 or 30 years of his or her working life, our economy will grow that person will be viable?

Mr. Gabriel Makhlouf: Certainly, when this particular point came up a few months ago, I made it clear I was not comfortable with the idea that someone in receipt of a temporary payment should immediately be considered to be an unreliable borrower. That was too much of a broad brush approach by the banks and I was not comfortable with it.

In the same way we have just heard from Mr. Sibley, I think banks should take a tailored approach, should look at an individual's circumstances, and should think about what exactly is happening to that individual, and both the lender and the borrower should take a long-term view. Purchasing a house and taking out a mortgage is potentially the largest and most important financial transaction and decision that people make, so both the lender and the borrower need to go into it very carefully. It is in the interests of everybody in the community that borrowers and lenders think about their long-term prospects when making those sorts of decisions.

Deputy Steven Matthews: I agree that they should and it would be really nice if they did. Is there any mechanism that is stronger than just suggesting or requesting that they should do so? In terms of the overall long-term prospect for the economy and young families starting off, they have their whole lifetime of working through this economy, so it is wrong to put in a stumbling block that could last for 18 months or two years. Is there anything more that we can do, either through the Government or Central Bank, other than ask the banks to be more lenient?

Mr. Gabriel Makhlouf: I will bring in Ms Rowland or Mr. Sibley to talk more about our experience so far and what more we can do.

Mr. Ed Sibley: There is a limit on what we can do in terms of requiring lenders and banks to make certain lending decisions to lend money. We have outlined our expectations, as the Governor has talked through. We expect them to look at these issues in a sensitive and prudent way. It is also in the borrowers' interests that they look at it in a prudent way so that they do not get overindebted.

For many reasons, we are operating in a very difficult circumstance, both for those who have existing mortgages or other forms of debt and those who want to take it on. We expect those issues to be looked at in a sensitive way on a case-by-case basis. We cannot make banks lend money in circumstances where they are not comfortable doing so.

Senator Marie Sherlock: I thank the Governor, Ms Rowland and Mr. Sibley. I was struck by the reference to the expectations of the banks and their treatment of distressed borrowers. It very much suggests a hands-off approach on the part of the Central Bank as to how banks should respond. I am not sure whether the witnesses will agree with that assertion.

I want to ask a question on the code of conduct for mortgage arrears and whether the witnesses believe the code is sufficient and appropriate to the current circumstances. Do they think it is acceptable that the banks have the full power to pick and choose which alternative payment options to offer? The code was produced in 2013 for a very different time and a very different banking system. Do the witnesses believe that the code needs to be updated?

Mr. Gabriel Makhlouf: Would Ms Rowland like to reply?

Ms Derville Rowland: I thank the Senator for her questions. I am sure my colleague, Mr. Sibley, might like to add something, so I will try to be succinct and on point.

I can absolutely confirm to the Senator that there is nothing soft or hands-off about expectations by the Central Bank of Ireland. We practise assertive risk-based supervision in this extremely important and high priority area, because we understand the devastating impact that problems with paying a mortgage are wreaking on people's lives, finances, mental health and families. It is a core priority for us and has been. Precisely because it has been a priority for us, we produced a statutory code governing the framework and engagement that lenders must have with borrowers when they are in arrears or at risk of arrears. That produced a very detailed framework of steps that must be gone through. We went to the limit of our powers in respect of that and have revised it on a number of occasions since because that is absolutely the right thing to do.

I can also confirm that we are very focused on how the framework can support borrowers in these new and different circumstances in which we find ourselves. Mr. Sibley has spoken about a high expectation that lenders are responsive at pace for borrowers who find themselves in these unforeseen Covid circumstances, and I am sure he would wish to add to this. I can tell the Senator that we keep the supervisory framework under review because that is also the correct option. We are scrutinising very carefully the operational capability responsiveness of all of the lenders and the appropriateness of the code, as framed.

My final remark is with respect to the menu of options that the Senator has been framed. We have taken the code to the limit of what the Central Bank can do within its regulatory framework. In that code is a prescription, a set of options. These are commercial decisions that lenders are entitled to make and must make with respect to their decision-making. We have been clear, however, that we expect them to offer sustainable solutions both from a borrower and a lender perspective. We are closely scrutinising the application of those options. We strengthened our approach to the code where borrowers are being told what options they are being offered. They can understand then why they are not being offered options too, which is of great benefit to them. That is an example of where we understood, listened and improved the code. It is something we are committed to, but I am sure Mr. Sibley may wish to add to that.

Mr. Ed Sibley: In terms of the experience since the previous crisis, it has been estimated that 200,000 mortgages had some form of restructuring due to the degree of distress coming out of the previous crisis. There are still some legacy issues, unfortunately, and some borrowers are still in deep distress. The vast majority of borrowers who engaged with their lender were able to achieve suitable restructuring solutions to support them at the time. We expect that to happen again and at pace, although there are real challenges with the uncertain environment that we are faced with. What is key is that there is strong and effective engagement between the borrower and the lender. We will continue to push the lenders very hard to make sure that they are able to engage, that they are engaging effectively, and that they offer solutions that are appropriate to the borrowers' circumstances, but borrowers also need to engage with lenders.

Senator Marie Sherlock: With the move to level 5 restrictions in recent days, there has been an admission of sorts by the Government and others that we are likely to be in and out of a significant restrictions scenario over the next 12 months. That has very significant implications for the type of response from banks to borrowers who find themselves in a distressed situation. In regard to the data of distressed borrowers, what precisely did the Central Bank see that warranted an umbrella mortgage break in the first lockdown period but does not warrant one now?

Mr. Ed Sibley: As the pandemic was hitting in February and March and coming upon us at pace, there were very high levels of uncertainty about the effects it would have, how long the initial lockdown would be, what sectors would be affected and whether lenders were operationally ready to deal with the large numbers. The Governor has referred to 90,000 mortgagors and 100,000 Irish borrowers at that time. We insisted that lenders prepared by using the breathing space that the payment breaks, which were generally available, provided to borrowers and lenders to build the operational capability to engage better and in a more tailored way with those borrowers who were unfortunately experiencing difficulties because of the pandemic. We are looking at that very much in real time in the context of what is happening today. We can see who is coming off payment breaks and how payment breaks have matured. The majority are going back to being able to repay their loans fully. Unfortunately, a significant enough minority of those borrowers will require a further tailored support. We can see the unevenness of the effects of the pandemic on particular sectors like hospitality and accommodation. We need to consider what they will require and whether we should tie it to support to other sectors. Clearly there are further restrictions now, but our experience of the previous restrictions has given us an understanding of what sectors are likely to be most affected by them. This will enable lenders to engage with borrowers to find the right solutions for them. We recognise that we might be in and out of these types of restrictions over the next six to 12 months, depending on how the health emergency evolves.

Senator Marie Sherlock: Can I-----

Chairman: I am sorry but the Senator's time is up. We will have no time for the other members if we do not move on.

Deputy Mairéad Farrell: Gabhaim buíochas leis an gCathaoirleach agus leis na haíonna as a bheith ag labhairt linn inniu. I have been contacted by a woman who is a front-line worker. She has worked throughout the pandemic and has a six-month payment break which finishes at the end of this month. Her husband is out of work because he cannot get work under the public health restrictions. The cost of their mortgage has increased in full by €2,000 and their household income has decreased by €2,000 a month. They have engaged with their mortgage provider and have asked for an interest-only option. That has been refused. They are only looking at the income of the husband which has decreased to the PUP level. He has an income of €300 a week. This is the reality of the impact that this is having.

Section 39 of the code of conduct on mortgage arrears, CCMA, which applies in normal times and these are particularly extraordinary times, provides "that a lender must explore all of the options for alternative repayment arrangements offered by that lender". Section 40 of the CCMA states:

> A lender must document its considerations of each option examined under Provision 39 including the reasons why the option(s) offered to the borrower is/are appropriate and sustainable for his/her individual circumstances and why the option(s) considered and not offered to the borrower is/are not appropriate and not sustainable for the borrower's individual circumstances.

I have heard the witnesses say that they are pushing hard for banks to engage. In the particular case I have mentioned, the engagement is not bringing about a fruitful outcome for the front-line worker and her family. The Central Bank has the power to administer sanctions for contravention of the CCMA under Part IIIC of the Central Bank Act 1942. I am interested to hear what the Central Bank will do to sanction the banks. We are hearing at the moment of potential fines for breaches when people move between counties. Is the Central Bank considering fines or other sanctions if banks refuse to offer alternative payment arrangements at a time when their customers simply cannot go to work because of public health guidelines?

Mr. Ed Sibley: I will start to respond to that question and Ms Rowland might want to supplement my answer. On the specific experiences of the Deputy's constituents, we are always happy to hear more information and examples from Deputies because it gives us something that we will follow up. Our expectation is that in circumstances similar to those described by the Deputy, there is effective engagement from the lender - it does not matter if it is a bank or a non-bank - to identify what is needed to support the borrower in the circumstances he or she is in. That may require an interim step while the financial position of the borrower is being assessed. He or she is then supported to the best degree possible. The aim is for as many borrowers as possible to be put on a sustainable path to repaying their debt. Does Ms Rowland wish to add to that?

Ms Derville Rowland: I want to reinforce Mr. Sibley's point that information and detail is always welcome. We use it to inform our risk assessments and to focus our efforts on areas where our expectations and the requirements are not being met. I heard the Deputy outline the borrower's circumstances. She spoke about a front-line worker, a working family with pressure and people who are doing a very important job. We recognise the need for the system to serve such people to the best effect. I think the Deputy said that at the end of the payment break, their repayment went up by €2,000 even though their income had gone down by €2,000. Our clear expectation is that at the end of a payment break, the options offered should include an extension over a longer period of time or the retention of the current repayment term but with higher options. That is something that should have been applied appropriately and properly. I am sure that if we get information on this case, we will look at it. We have been very clear about that.

The Deputy cited the provisions of the CCMA. The greatest requirement here is for the CCMA to be properly applied to support people who need it at the time. I reinforce what Mr. Sibley has said in this context.

The Deputy also asked us to comment on enforcement. The most effective thing is that the system is working for people to deliver the outcomes they need. That is a key area on which we are focused.

I think we have demonstrated a track record for using all of our powers, including administrative sanctions and fitness and probity directions, to support proper compliance by firms to serve the community we live in. That is something we will always be committed to doing. The best outcome for borrowers is for banks and non-banks to perform well in this regard. This is the key area of supervisory focus for us. We keep all of our options under consideration, as appropriate.

Deputy Mairéad Farrell: We will deal with the Central Bank directly on the issues raised by constituents. Approximately 200,000 people are facing the prospect of losing their jobs overnight. They will not be able to avail of this. It is an extremely worrying time for such people.

I will also mention the issue of business interruption insurance. As the witnesses are well aware, there is a significant number of businesses fighting to have their insurers pay out on their business interruption insurance. There is even a test case before the courts which, of course, is up to the courts to decide. We do know that in Britain, the Financial Conduct Authority, FCA, which acts as the regulator, took a case on behalf of numerous businesses against the insurance industry. The concern is that the issue of business interruption insurance will be another tracker mortgage scandal in waiting. Should the case before the court be successful, what steps will the Central Bank take to protect customers in this regard? It is another scandal in waiting.

Ms Derville Rowland: I will reply because I am dealing with this area of business. I want to confirm we have been proactively engaged from an early juncture, since we saw the breaking impact of Covid-19 on the business community, the devastating effect on hard-pressed people and their families who have been working hard on their businesses, and the economic and health impacts. Because of this, we were out front and centre from an early stage, and we were clear with the insurance industry about our expectations. Mr. Sibley and I wrote to the industry to be clear about this. When the Minister indicated that he wished for businesses to close, we were very specific that this should be taken as a binding direction.

We are very clear that valid policies should be paid out. We have worked proactively to identify all businesses in the jurisdiction, whether authorised by us or passporting into the jurisdiction from abroad, to identify all of the firms and relevant business interruption policies, and then to go through them to make sure our expectations are being met. We are supervising to make sure the decisions where the policies do not cover the business interruption are appropriately identified. It is a fact that a lot of these policies do not cover these particular circumstances. We are also supervising to make sure that where valid claims are being made and can be claimed under Covid-19, they are being met. This is happening and we continue to scrutinise them. We have identified the areas where there is debate about these policies and we are proactively engaging.

I want to make a point about the UK system, which is entirely different from ours. It has a specific provision in its rules of court to provide for actions of that type to be taken by the FCA, which does not have a parallel in this jurisdiction. We are engaged with entities. I will not comment on cases before the court but we published our supervisory framework detailing our approach and we are proactively engaged. We are certainly holding the firms to account through a wide range of supervisory powers. This is our firm intent.

Deputy Neale Richmond: I apologise for my slight delay earlier as I was caught in the Chamber but I appreciate the Chairman letting me in at this stage. I have a number of quick questions. I want to speak about the economic outlook and the general forecast. In its analysis, the Central Bank allows for a certain amount of a modest recovery. Does this factor in the restrictions that will come into place in the State from this evening or future possible restrictions, as Senator Sherlock referred to? Mention was also made that these growth rates could increase by 2% with a Brexit deal. The concept of the Brexit deal is very vast. We could have a very narrow deal or a more expansive deal. With only a matter of weeks left, it is probably going to be a very narrow deal. What type of deal is the 2% figure based on?

Mr. Gabriel Makhlouf: As I said in my introductory statement, the Monday evening announcements about level 5 will have an impact on underlying demand in 2020. As I also said in my opening statement, assuming the restrictions are time limited we see growth continuing next year and in 2022. We have made no provision for ongoing lockdowns because it is too difficult and too uncertain to make. One of the characteristics of the forecasts we made two weeks ago, in July and in April is that the path of the economy depends very much on the path of the virus, which is a very big unknown.

With regard to Brexit and the 2% assumption, it does assume essentially an agreement that there would be no tariffs and no quotas. It assumes an agreement on trade and goods that achieves no tariffs and no quotas. This is our underlying assumption. As the Deputy has said, it is not impossible that a deal is negotiated that is much broader than this. It is extremely unlikely but it is not impossible.

Senator Neale Richmond: Mr. Makhlouf mentioned a deal based on goods but not necessarily one on services.

Mr. Gabriel Makhlouf: No.

Senator Neale Richmond: Throughout the Brexit debate, many people have looked at financial services as a challenge and an opportunity for Ireland with regard to the post-Brexit surrounds. Will the witnesses brief us on the number of relocations from the UK to the State? A series of parliamentary questions I tabled to the Minister for Finance show that a relatively small number of new banking licences have been authorised by the Central Bank. Will the witnesses brief us on the level of movement in terms of capital and assets? What is the movement of jobs and people? Will the witnesses quantify this? How do they see the Central Bank's role when it comes to competing with other EU member states to attract talent to the EU from the UK? I know the Central Bank has a very specific role, which changed following 2008. When we see the activities of the central bank in Luxembourg it raises a concern that this potential opportunity in financial services cannot be realised.

Mr. Gabriel Makhlouf: I do not know whether Mr. Sibley or Ms Rowland have details on the numbers of new authorisations, assets, capital or jobs that have been mentioned and that may have come to Ireland. The Central Bank's role will not change after Brexit. Our job remains, and will remain, what it has been, which is to ensure monetary and financial stability and make sure the financial system operates in the best interests of consumers and the community as a whole. Our constant and predominant aim is ultimately the welfare of the community as a whole.

We do not have a role, and certainly as far as I am concerned we will not have a role, in promoting the services industry in Ireland. We do have a role to make sure it is extremely well regulated and extremely well supervised. I hope the standards of regulation and supervision that we exercise will attract business to come to Dublin because it will continue to be a respected jurisdiction for financial services. This would be as a result of us doing the job well and not as a result of us promoting the industry itself, which is not our job. I do not intend it to be our role either.

Mr. Ed Sibley: We have had well over 100 new authorisations and they vary from very small e-money payment institutions and investment firms through to larger insurance companies. Probably the biggest movements we have had in terms of capital, assets and employment have actually been in the extension of business rather than new authorisations. There have been expansions in a couple of the international banks, which are well documented at this stage.

To reinforce the Governor's point, what has served Ireland well in terms of being a location of choice, and it clearly has been a location of choice for those firms leaving the UK to provide services into the EU, has been the strength, stability and reputation of the regulatory and supervisory approach within Ireland. Certainly, as a country that exports a large amount of financial services into the EU, that is absolutely critical. We will continue to see, and we will continue to strive, as with our European engagement, for more convergence and continued strengthening of the regulatory framework and how it applies in a consistent way across Europe. I do not see that the competition aspect is a fundamental basis for having confidence in the services provided out front.

Deputy Bernard J. Durkan: My apologies for being missing earlier. I was at another committee meeting and, unfortunately, the two overlapped.

Chairman: The Deputy can use his time as he wishes.

Deputy Bernard J. Durkan: I thank the Chairman. I want to raise a number of questions as one who, like the Chairman, has been involved in discussions with lending institutions for at least ten years, during which time I have seen the whole face of business, small businesses and home mortgage holders change completely, and not to their advantage. I have been in and out of courts at all levels during that period and I have seen people who were solid business people or solid homeowners borrow on the advice given to them by their lenders at the time, and I have seen grown men and women cry their eyes out when faced with the prospect of losing their homes for which they worked extremely hard. How closely has the Central Bank monitored the activity of the pillar banks and the funds to which mortgages were sold? I know what the answer will be but I may not necessary concur with it.

I want to ask a question about the funds that bought the distressed loans from commercial banks at an undisclosed sum, which then may have had an impact on the extent to which an agreement was possible thereafter. In other words, it became a self-fulfilling prophecy that there was only one outcome, which was they would lose everything. It should be borne in mind that in most of these cases, I, like the Chairman, have had the experience over many years of helping to process local authority loans, and we would know fairly accurately whether a borrower was capable of repaying a particular loan. It would not take any more than ten minutes to work that one out. In the course of the past ten years, I have seen the most appalling examples of lending to people who had no chance whatsoever under the criteria prevailing at the time of making the repayments other than they were based on continuing inflation and a belief that everything would be all right eventually. They were simply based on there being no ability on their part ever, but when they went to remonstrate with their lenders, they found that the original staff had gone and had been moved on. They are still looking for them everywhere and have failed to find anybody with whom they had discussions in the first place. I have dealt with countless cases, as has the Chairman, where the banks, subsequent to determining that a loan was unsustainable, decided to enter into an arrangement with one of the borrowers to the detriment of the other, and without necessarily informing the other of the intention, leaving the remaining borrower with the full responsibility for repaying the loan and no attempt being made whatsoever to recover anything from the erring and errant borrower.

We have the continuing situation where the variable interest rates charged on loans and mortgages at present, where there is negative equity or the loan has been sold to equity funds by one of the lending banks or one of the existing funds, have never been reduced, incredibly, and the variable interest rate ranges from 4.3% to 4.5%. There is no facility to reduce the interest rates at all.

Over a ten-year period I have dealt, as has the Chairman, with arrears of mortgages, where if there had been even the slightest willingness on the part of lending institutions to enter into an arrangement over a longer period, it would have been possible to salvage the properties. That never happened and there was never any intention to do so. I am not a negative person but I have always advised borrowers to make the payments that they could afford. The Taoiseach advised the borrowers to make the payments that they could afford. Now, in hindsight, I would hazard to say that I may have given the wrong advice and maybe, if they had not paid anything at all, they might have been better off, in which case I am disappointed.

To what extent has the Central Bank descended down to the courts, for example, to gain first-hand experience of the way that people are treated? I do not blame the courts for this. It is the way that the lending institutions have treated the people, dragged them into court and forced them to liquidate their properties, thus leaving them homeless.

The code of conduct means nothing to the borrower but everything to the lender because it is drawn up by the lender and the lender tells the borrower that he or she does not meet the terms required under the code of conduct. Who created the code of conduct? The bank.

The last issue concerns raiders from outside of the country. I do not necessarily agree with the point made by my colleague here. We did have a problem in that insurance companies and banks came into this country and freely offered cut-price rates to Irish consumers. However, when the bubble burst, these entities ran from this jurisdiction and left the public hanging by their fingernails. There was never any attempt made to compensate or recognise what was done. The public in this country had to bail out the banks and the erring banks went away and left the damage behind them.

I will accept written answers to my questions, as the Chairman sees fit - I do not mind - but I need answers.

Chairman: The witnesses have two minutes to respond to the Deputy and they may reply to him in writing in response on the other issues. Please stick to two minutes.

Deputy Bernard J. Durkan: I thank the Chairman.

Mr. Gabriel Makhlouf: Perhaps Mr. Sibley would like to respond.

Mr. Ed Sibley: Yes. First and foremost, as we have said earlier, where there are specific examples that cause members concern, please send them to us, with the accompanying examples referred to, and we will look at them. It would be helpful maybe to engage in that way on the list of concerns and issues raised.

We have worked intensively on the issue of distressed debt for the past decade or so. I agree with Deputies that some of the practices and lending that was done pre-crisis, that is, pre-2008, were not prudent or well done and left a legacy of debt after the bubble burst. Post crisis, those lessons have been learned and have been enforced effectively through the macroprudential measures that we put in place in 2015 to make sure that lending was much more prudent.

There was a change as a result of actions taken by the Central Bank, say from 2010 and after 2013. We were able to ensure that those borrowers who were in distress were able to get restructures and support that addressed the vast majority of borrowers in distress. As I said earlier, there were more than 200,000 restructures in the system out of a total number of more than 700,000 mortgages, so that was a huge number of restructures. Unfortunately, there are still too many borrowers who are still in distress a long time after the financial crisis. We are still committed to working to make sure that as many as possible of those borrowers are put on a more sustainable path.

I completely agree with the advice given by the Deputy in terms of the importance of engagement and people paying what they can. That is the best basis for resolving the distress and keeping borrowers in their homes and that is what has happened for the majority. I recognise that there have been circumstances where the outcomes have not been as positive as that but for the vast majority-----

Chairman: I ask Mr. Sibley to reply to the other issues raised by Deputy Durkan in writing.

Mr. Ed Sibley: Sure.

Deputy Peadar Tóibín: I welcome the witnesses. I apologise to the committee. I had

Taoiseach's Questions so I missed the first presentation but I have read some of the documents that have been submitted.

With regard to the mortgage break, the key issue for many people is that workers are banned from working as of tonight, yet the response of the banks to them is that the mortgage break is discretionary, not mandatory. A second element to this in many people's minds is that the economic situation facing borrowers right now is worse than it was back in March and April when the mortgage break was brought. People are, therefore, in a worse circumstance with less protection. However, that has been discussed at length by other members at this stage and, therefore, I will direct my questions elsewhere. We might have a back and forth and I guarantee it will be succinct from my side.

What is the cost of the funds available to the banks through the ECB at the moment?

Mr. Gabriel Makhlouf: There are different types of funds available but the bottom line is that they are extremely low cost. I will be succinct-----

Deputy Peadar Tóibín: Is it possible for us to get a document outlining the rates that are being achieved by banks in Ireland from the ECB because there is a significant differential between the rates that they are receiving from the ECB and those they are charging to customers? One also needs to take into consideration that there has been a fair hike in bank charges in recent times as well. I understand that their business model was radically altered by the pandemic and they are going to have to deal with impaired loans and a decline in non-interest income but if we could at least get a document with those figures, I would appreciate it.

The mandate of the Central Bank states it works "in the best interests of consumers" and goes on to say there is a need for "a positive consumer focused culture" within financial firms. Their home is the biggest asset that most consumers have. The Central Bank has observed mortgage distress and the sale of those distressed mortgages to foreign vulture funds over the past number of years. Reflecting on that approach, should the State in hindsight have adopted a more consumer-focused approach? Has the Bank examined alternative approaches to that process?

Mr. Gabriel Makhlouf: Does the Deputy mean the sale of loans in particular?

Deputy Peadar Tóibín: Yes.

Mr. Gabriel Makhlouf: It is up to the State to decide what it wants to do. It is important that banks, in particular in Ireland, reduce their exposure to non-performing loans to make them more resilient because that is in the interests of the community as a whole. As far as consumers are concerned, and this point came up earlier, it is immaterial who the lender is because the consumer's rights are the same irrespective of whether the lender is a bank or a non-bank.

Deputy Peadar Tóibín: As was said earlier, the ambition and focus of a long-term investor in a bank operating in a market in this State would have a different profile from international vulture funds that have other objectives in their engagement with the State. On the pressure being put on domestic firms at the moment, impaired loan provisions for businesses, especially domestic businesses, are currently worryingly high in the State. What arrangements has the Central Bank in place to support domestic firms whose loans are considered to be distressed and is there any way we can assure these firms their loans will not be passed on to vulture funds in the future?

Mr. Gabriel Makhlouf: It will be up to the banks to decide what they want to do with their loan books. As I said, the interests of the borrowers are protected irrespective of who owns the loan.

In terms of support for those who are in distress, the most important thing they should do is enter into early discussions with their lenders. The Government has put in place a number of different measures since the start of the pandemic, which are available. If those do not work, however, my advice is that they should engage was early as possible with their lender and arrive at suitable arrangements for them.

Mr. Ed Sibley: If I could supplement briefly, we are very focused on the issue of both SME and mortgage distress. We recognise the importance of SMEs in their own right but also in terms of the wider economy and employment. We have similar expectations about what is happening with the lenders in terms of engaging with their borrowers. Typically, certainly historically, there was more flexibility with potential restructuring and more imaginative solutions perhaps being put in place for SMEs. There is also a high degree of judgment around the future path of income for SMEs but we are expecting, and continue to engage on, both mortgage and SME distress arising from the pandemic.

Deputy Peadar Tóibín: I thank Mr. Makhlouf and Mr. Sibley for that.

Moving in a different direction, what will be the impact of the ECB move towards negative interest rates? What will it mean for savers, institutional investors such as pensions and consumers?

Mr. Gabriel Makhlouf: The ECB has had negative interest rates for some time so if this had any impact on saver, consumers, etc., those impacts are being felt right now on the rates they are receiving or the rates they are paying.

Deputy Peadar Tóibín: What does Mr. Makhlouf think will be the long-term impact on institutional investors such as pension funds?

Mr. Gabriel Makhlouf: I am afraid that the answer to that is potentially quite long. It depends in part on understanding why interest rates are at the levels they are, what has happened to the transmission mechanism of monetary policy, factors such as demography, and where there has been structural change that has pushed down the natural rate of interest are at play. Potentially it has significant implications for long-term investors such as pension funds. The decisions the ECB may take are not at the heart of it; at the heart of it is what is happening to the structure of our economies and what implications that has for the nature of long-term investment.

Deputy Peadar Tóibín: Would it be possible to get a longer view?

Chairman: I was just about to ask the Governor if he would reply in more detail in writing to the committee on that and we can take it from there.

Mr. Gabriel Makhlouf: Certainly.

Chairman: Our time is very much restricted at the moment.

Senator Alice-Mary Higgins: With your permission, Chairman, I might group my questions into two sets so please let me know when I am half way.

Chairman: The clock is there.

Senator Alice-Mary Higgins: I will focus first on the macroeconomic context. One of the roles of the Central Bank is engaging on the macroprudential policy tools and frameworks that are in place and examining the risks and how those tools and policy frameworks respond to risks. Covid is the current great risk we are dealing with but it is inside a wider context of the risks and changes represented by the climate and by emission reduction as a core goal.

I am conscious that our guests have limited time to respond, so an additional written reply would be useful. Will they nonetheless comment now on the position that Ireland has been taking in respect of a number of the macroprudential policy tools that are currently in play? I refer specifically to the large system of bond purchasing that the ECB has outlined. Ms Lagarde has indicated she will seek to have those bonds intersect with the goals for emission reduction and the green bonds, which are another new focus for the ECB.

Our guests might also comment on the loans at low or zero-interest rates that are currently available. Is Ireland availing sufficiently of them to engage in the kind of structural transformation that has been indicated by both the International Monetary Fund, IMF, and the ECB as being required? It was stated that the post-pandemic world may not be the same world. What structural transformation will be needed and how will a K-shaped recovery be avoided? Our guests pointed out a stark differential in regard to the reduction in domestic demand. What role can the State play as an economic stimulator, not simply through business but directly as an economic actor? The fiscal rules at European level have, effectively, been suspended for the next two years. There is a combination of very low-interest loans and a suspension of some of the other fiscal constraints over the next two years. How can Ireland make the most of that window of opportunity? I ask our guests to give an initial response and to follow up with a more comprehensive written response.

Is there a timeline for when the international governance framework review will be taken up? What role does the Central Bank plan to play in the recovery and resilience strategy that Ireland will have to put in place to access the recovery and resilience framework funding?

Mr. Gabriel Makhlouf: The Senator asked a range of questions and I will return to some of them in more detail. To be clear, there is a difference between the macroprudential toolkit, which is fairly extensive but not complete, and the monetary policy measures the Senator also mentioned, which are about low interest rates. I will say a little about the macroprudential framework because it is important. One of the first decisions we made in March, when the pandemic started, was to release the counter-cyclical buffer to ensure that banks had as much liquidity as they needed to maintain lending in the economy. The better-known part of our macroprudential toolkit is the borrower-based mortgage measures, which we review every year. We are in the process of reviewing them now and will announce the outcome of our review towards the end of the year.

As for monetary policy and the low rates that exist, low rates are now flowing from every major central bank in the world. Governments throughout the world, including in Ireland, are using the availability of low-cost finance to respond to the pandemic. Those monetary policy decisions we took in March and expanded in June are having a direct effect on Ireland's access to liquidity and enabling the State to respond to the economic shock we are experiencing.

The Senator talked about the longer term. In my view, as I wrote in my letter to the Minister for Finance in advance of the presentation of his budget, we need primarily to do three things right now, the first of which is to focus on getting households and businesses through the shock, which we will do, particularly in the case of businesses, by ensuring the productive capacity of the economy are supported as much as possible and that scarring effects such as long-term unemployment are avoided. Second, notwithstanding the fact that the cost of debt is currently very affordable, we need to plan, once we see our way through the pandemic, to bring debt to a more sustainable position. It is currently sustainable but we need to rebuild the buffers in order that we will be ready for any future shock that happens. Finally, and importantly, we need to plan at the same time for the long term and for the fact that structural change may be needed at the end of this pandemic. We need to start planning for some of the longer-term challenges the economy has, including in respect of climate change and the impacts of digitisation and of an aging society. What the ECB decides to do about its investment or otherwise in green bonds will form part of the review of our monetary policy strategy that we are in the middle of.

I will try to send a letter to the Senator with a bit more detail on what I have just said in response to her questions.

Senator Alice-Mary Higgins: Will the Governor comment, in his written response, on the two-year suspension of fiscal rules, specifically relating to structural transformation and the potential that offers for public investment that may not have been possible in the context of the balanced books we had been seeking?

I turn the domestic issues-----

Chairman: I am sorry but the Senator's time is up.

Senator Alice-Mary Higgins: I had asked to have a comment on-----

Chairman: The Senator will have to do that in writing. Another member wishes to contribute and I have been allocated eight minutes. I apologise to the Senator.

Senator Alice-Mary Higgins: That is okay. I might write to our guests about the tools.

Chairman: Yes, the Senator might send any further questions she has to the clerk to the committee. We can then relay them to the Central Bank and ask for a response.

Mr. Gabriel Makhlouf: Yes.

Senator Alice-Mary Higgins: I thank Mr. Makhlouf. My questions relate to the tools he mentioned.

Chairman: For the information of the Governor, earlier during the meeting we agreed that a letter from Deputy Doherty would be sent to the Central Bank on behalf of the committee seeking a review of the material that had been furnished to the Central Bank by Jonathan Sugarman. I met representatives of the Central Bank and Mr. Sugarman some time ago. We now want to revisit that documentation and to hear Mr. Makhlouf's view on the complaints that were made, how they were handled and the general position on the matter. I wished only to alert Mr. Makhlouf to the fact that we will write to him about it.

Another issue discussed during the previous term related to EBS tied agents. I raise this because I have been in constant contact with the EBS agents and Deputy Conway-Walsh asked me to raise it with the Governor during the meeting. Will he confirm whether the Central Bank has had any engagement with EBS on the matter or, arising from that, with the Garda? The dispute itself has been ongoing for ten years. In the meantime, some of the agents have passed away, yet the matter has not been dealt with. Perhaps the Central Bank will review the status of that and let us know where it stands. It will be part of our general work programme to deal with that issue, which has been outstanding since the time of the previous committee. We intend to take it up in a more detailed way with the bank in question and, we hope, the Central Bank.

In the edition of the *Financial Times* of 7 May, an article entitled "Irish eyes are frowning" revealed how the Central Bank relied on a solvency report of Anglo Irish Bank in 2008, produced by PricewaterhouseCoopers, to justify the repayment by that bank of the emergency lending assistance. According to the accounts, there are two different ways of looking at this matter. Does the Governor have any views on that article, which was by Matthew Vincent, and another, related, article by Niall Brady of *The Sunday Times*? The committee had a submission from Mr. Cormac Butler which gave a very detailed account of the liquidity issues in the bank at that time. The PricewaterhouseCoopers accounts are at variance in terms of how they can be interpreted. I would like to know the Governor's views on that.

Another issue I wish to raise relates to whether the Central Bank investigated a branch of Allied Irish Banks on matters concerning credit, loans and so on. Was the bank notified about that issue by AIB? In an article in the *Irish Independent* on 21 October, entitled "Fund managers ignoring investor safeguards, says Central Bank", it is stated that the Central Bank had identified a need for improvement across the fund management sector, "with many firms lacking robust board supervision". Will the Governor outline what he expects to happen and what actions he intends to take in that regard?

Issues concerning receivers used by the banks have been raised time and again at this committee. We are anxious to get to the point where we understand their role and what they can and cannot do. They seem, in effect, to have powers beyond what I understand their powers to be. They also seem to have no accountability to anyone.

I have a number of questions regarding what is happening at specific banks. The High Court appeal involving Danske Bank seems to be resulting in many related cases being put on hold. Does the Governor have a view on that? Will he comment on the substantial number of complaints outstanding against Permanent TSB concerning incorrect margins, how they were applied and so on? In the case of KBC Bank, the flyer issue, as it is now known, is an outstanding matter that affects many more customers of that bank. Given the Central Bank's damning verdict on its behaviour, I would like to hear the Governor's view on that issue.

Finally, I agree with what Deputy Durkan said in regard to the banks. I challenge the Governor on his statement that the protection applying to the banks travels to the vulture fund. As I said to him before, that may be the case on paper but such funds could not give a tuppenny damn about customers. They blackguard them, refuse to meet them and do not reply to emails from them. If one is a third party, as I am, with a number of such customers, the funds will totally disregard what one is doing, particularly in the services sector and others. I want to put that on record in view of what the Governor said. Given that we are due to finish promptly at 4 p.m. and Senator Casey still has to speak, I ask that the Governor reply to me in writing.

Senator Pat Casey: I thank the Chairman for allowing me time to speak. I was listening to the discussion from my office. I must start with the payment breaks, but I am approaching that issue from the business rather than the personal side. Every business that is affected by it has a multiplier effect on mortgages throughout the State. My colleague, Deputy Jim O'Callaghan, mentioned that the Taoiseach has indicated that we could be in this type of stop-start situation when it comes to restrictions into the future. That stop-start scenario is already happening for a number of businesses and sectors in the economy. In fact, some are now heading into their fourth lockdown, especially in the tourism sector, and some businesses have never reopened since the first lockdown was imposed.

The payment breaks were very practical and accessible for the two rounds of three months. However, at the end of the second period, the banks started to ask questions and demand more information. I am aware of a number of instances where a telephone call was made informing the business owner that he or she was no longer in a payment break situation but rather a restructuring and the bank required information on cash flows for the next six months and a lot of other details. The witnesses from the Central Bank have said on several occasions that each case must be dealt with individually. Is that really the case or can another way be found? When the first lockdown was initiated, I understand consideration was given to an across-the-board approach. Is there any way that qualifying criteria could be introduced, which would allow businesses, or even personal mortgage holders, to qualify for a payment break without having to go through an individual assessment process with their bank? It is very hard for some businesses to offer a cash flow projection when they know it could well be zero for the next six months the way things are going. I would like a response on that point from the witnesses.

I am no fan of the pillar banks but I do wonder how they are doing from a viability point of view. While they might be cash-rich, how vulnerable are they operationally and how much has the Covid crisis impacted on them in that regard? Do the witnesses envisage a time in the near future when we might see branches of pillar banks being closed down?

In regard to the July stimulus, does the Central Bank believe it was the right decision to ask businesses that were already struggling to go further into debt when that was clearly not the preferred option of those businesses? They were looking for restructuring at a lower cost that could help them to survive through the crisis.

Finally, on a totally different matter, I have an interest in housing, particularly affordable housing. We know there has been a significant increase in the amount of household savings in recent years and that this has escalated in the past six months because of the Covid-19 crisis. Do the witnesses have a breakdown of the different sectors which might shed some light on the social dynamics of this development? In particular, do they see it having an impact in terms of housing delivery next year and the availability of affordable housing?

Chairman: We must finish at 4 p.m. because of the regulations governing the conduct of our business. As such, I ask the witnesses to come back to us in writing on the questions raised by me, Senator Casey and other members to whom there was not time to give a full response. I thank the Governor and his colleagues for being with us today. The new meeting format is quite different from what it used to be and a two-hour slot does not give enough time to get as much work done as we would like. I ask the witnesses to bear with us as we move through our work programme. Does Mr. Makhlouf wish to make a closing remark?

Mr. Gabriel Makhlouf: All I will say is that we will do our best to respond to all the questions we could not answer today. I look forward to receiving Deputy Doherty's letter and responding to it.

Chairman: I thank Mr. Makhlouf and his colleagues for their attendance.

The joint committee adjourned at 4 p.m. *sine die*.