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, 30 Márta 2022

Wednesday, 30 March 2022

Tháinig an Comhchoiste le chéile ag 1.30 p.m.

The Joint Committee met at 1.30 p.m.

Comhaltaí a bhí i láthair / Members present:

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

I láthair / In attendance: Deputy Ged Nash.

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

Engagement with the Central Bank of Ireland

Chairman: I remind members to turn off their mobile and to observe the note on privilege and not to mention anyone during the meeting that would in any way make him or her identifiable.

The minutes of the joint committee meetings on 16 and 23 February, 2, 9 and 23 March were agreed in private session prior to this meeting.

Today's engagement is with the Central Bank. I welcome the Governor and his colleagues to the committee and invite the Governor to give his opening statement. We will engage after that.

Mr. Gabriel Makhlouf: I am joined today by deputy governor Ms Sharon Donnery. My other deputy, Ms Derville Rowland, sends apologies as she is indisposed. We welcome the opportunity to appear before the committee. I will begin by giving a brief overview of the economic outlook before discussing the changing financial system in Ireland and our new strategy, as well as outlining our regulatory priorities for the year.

A key component of the outlook we are all focused on is the economic consequences of the war in Ukraine. I should start by saying that the economic consequences are very much a secondary consideration compared with the human consequences, the human suffering and the destruction and horrors we are witnessing in Ukraine. It is a reminder that peace in Europe and being united in our diversity and our shared values is what the European Union is ultimately about. Being part of the European system of central banks and the spirit and values it represents is something the Central Bank of Ireland is extremely proud of and very committed to.

On the outlook, the economy overall has proven resilient through Covid-19 and, prior to the war in Ukraine, robust growth was expected over the coming years. A major factor behind the resilience of the economy in Ireland and across Europe and further afield has been the support provided by governments and policymakers to mitigate the effects of the pandemic. Central banks across Europe and globally responded forcefully to ensure price and financial stability were maintained.

The strength of the recovery in the labour market in Ireland from the Covid-19 shock has been encouraging, as the standard International Labour Organization, ILO, rate of unemployment is now approximately 5%, with the Covid-adjusted rate at approximately 7%.

Regarding inflation, according to the latest available data, consumer price inflation in Ireland as measured by the harmonised index of consumer prices, HICP, rose to 5.7 % in February. This is the highest rate of inflation since late 2000, and is in stark contrast to the experience over the decade preceding the onset of the pandemic, when inflation averaged 0.5%. We know many people are feeling these very real price increases, in particular across their energy and fuel bills. The current rates of inflation are driven by higher global energy prices and supply bottlenecks, with some knock-on implications of the energy price rise for the prices of other consumer goods and services. It should be noted these increases in official consumer prices for energy and fuel are yet to reflect in full the developments of recent weeks and the implications of the conflict in Ukraine. Neither do we understand yet the full impact of the latest increases in Covid case numbers across the world. We are concerned at the impact of inflation. From a euro area perspective, as a member of the governing council of the European Central Bank, the experience in Ireland is similar to that across member states and indeed across the globe.

As for the economic consequences of the war in Ukraine, it is too early to give a definitive view. It clearly represents a significant challenge to the outlook for inflation and growth and adds new uncertainty to what had started to become a less uncertain picture. The war is likely to have a material impact on economic activity and inflation in the euro area. In some countries, including Ireland, the effects will be more indirect than for others, although that does not mean they will be insignificant. Of course, as far as inflation is concerned, the governing council will take whatever action is needed to fulfil the ECB's mandate to pursue price stability.

The financial landscape in Ireland has undergone significant change in recent years. Ireland is seen as an attractive location for financial service providers to operate in, partly because we are part of the European Single Market but also because we are an open and globalised economy, have a skilled workforce, operate within the rule of law and have a supportive regulatory and policy environment. The financial sector has seen significant change since the global financial crisis, with a reduction in the size of what might be described as the traditional sector and expansion elsewhere. Since 2018, the growth of the financial sector has continued apace, coinciding with the UK's departure from the EU. For example, since the second quarter of 2018, there has been 72% growth in assets under management in investment firms, 138% growth in the number of payment and e-money firms authorised by the Central Bank, 72% growth in fund service providers and 66% growth in the insurance sector. More broadly, since 2016, the Irish market-based finance sector is increasingly outward looking, with greater exposures to the rest of the EU, the US and around the world, including the UK.

Technological change is disrupting the landscape of financial services, with new entrants, new business models, a race by incumbents to invest in developing the necessary capabilities, and in many cases the potential for a fundamental disruption in the value chain of traditional financial services firms and sectors. This has impacted different sectors such as the retail banking sector, payment and e-money firms as well as new emerging areas such as crypto.

New payment methods and platforms bring challenges for the traditional role and dominance of banks in this area, while digital payment channels have lowered the barrier to entry for alternative providers. We are also seeing increased new lending from non-bank lenders and retail credit firms, which offers customers increased choice.

Technology has meant the provision of many financial services can occur from non-traditional banks and this must be borne in mind when we consider competition in the market. The new ways of accessing finance and the entry of new participants presents a challenge and an opportunity to incumbents to continue to innovate and meet the needs of consumers and businesses. In regard to the retail banking sector we are inputting into the Department of Finance's review that addresses some of these issues. As an open, engaged and future-focused regulator we seek to anticipate and support innovation in financial services and understand and adapt to the far-reaching changes taking place within the industry. Our objective is to ensure the regulatory context enables the potential benefits of innovation for consumers, businesses and society to be realised, while the risks are effectively managed.

Innovation in financial services has the capacity to bring benefits for consumers, the economy and society in general. However, while innovation is good, not all innovations are good, and not all good innovations are done well. It is our responsibility to get the balance right that sees and supports the benefits of innovation in financial services for the economy and consumers, while also ensuring the stability of the system and that the interests of our own and other EU citizens are protected.

The rapidly-changing world of financial services sets the context for the Central Bank's new strategy. The speed and scale of technological change, in particular, has brought significant opportunities that are matched by similar risks. I believe the next decade will continue to be characterised by rapid change in our economies and in the financial system, driven by technology, by the need to respond to climate change, by an ageing society, and, perhaps most immediately by the move to different ways of working. At the Central Bank we will need to accelerate our own pace of change to meet the challenges and the public's expectations of us. We are facing a future of complexity and uncertainty but also of opportunity. We will need to continue to evolve if we are to be front-footed in our response to these challenges. Our strategy recognises the emerging context and the need to change the way we work and what we work on. It also recognises that we are building from strong foundations. The strategy's four connected themes represent a renewal and repositioning to ensure that our direction and ambitions over the next five years are responsive and forward looking. The world in which we operate is changing rapidly. The economy, the financial system and financial services and products are changing and will continue to change over the coming years. We want to be future-focused and ready to deliver our mission through these changes and that will require a shift in our focus, our analysis and our frameworks. It will also require a step-change in our engagement. The rapid pace of change and the expectations of our stakeholders mean that we need to be well-connected with them. It will require us to be open and engaged, explaining what we are doing and what we are not doing. It will also require us to listen to individuals and businesses throughout the country so that we can understand the issues they are facing and help them to understand the actions we are taking in response.

In a rapidly changing world we have to transform the way we operate if we are to succeed. We will need to invest in new skills and capabilities, becoming more agile and looking for continuous improvement in the way we work to meet the challenges of an evolving financial system. Our ability to turn data into information and to provide our people with the tools to use it effectively will be an important platform for our transformation.

In regard to safeguarding, we will remain steadfast, working with our European colleagues, in particular, to maintain price stability and the stability of the financial system overall, as well as the effective regulation of financial services and markets. The Central Bank is ultimately about its people and their skills, capabilities and commitment to work in the public interest. I look forward to working with all of them as we meet the challenges ahead and deliver on our new strategy.

Our regulatory priorities for the coming year support our new strategy and the need to respond to the dynamic and growing financial services system in Ireland. Particular milestones in our work programme this year include: completing our framework review of the macroprudential mortgage measures; contributing to the European review of capital buffers for banks, including ensuring their usability in times of crisis, and concluding our own review of the bank capital framework; starting a comprehensive review of the consumer protection code by publishing a discussion paper and engaging widely with stakeholders on it; introducing new measures to address risks in Irish property; and putting in place a structured framework for engagement which will include an industry stakeholder forum, a financial system conference and a climate risk and sustainable finance forum. We will continue to prioritise our authorisation work across multiple sectors, recognising the benefits of innovation, disruption and competition, but also the importance of protecting consumers of financial services and the importance of applying clear and consistent standards.

We will act across a number of initiatives to enhance the payments environment, including participating in the work on a digital euro, promoting low-cost instant payments domestically and across Europe and contributing to the review of the payment services directive, PSD2, and the functioning of open banking. On the microprudential side, we will maintain our focus on the financial and operational resilience of the financial sector. Key priorities here will include our work on stress testing and other financial resilience-related work across multiple sectors. The supervision of business model and technology-related change will also be a priority as firms implement new technologies and respond to changing customer preferences. We will maintain a continued focus on operational resilience, covering cyber-resilience, critical infrastructure and outsourcing.

In line with our mandate for conduct and consumer protection, we will continue to drive for fair outcomes and for consumer and investor interests to be at the centre of financial services. Our priorities include business interruption insurance, long-term mortgage arrears and oversight of the withdrawal of Ulster Bank and KBC from the Irish market. We will also continue to enhance the reports from the national claims information database to support the wider policy agenda towards a better functioning non-life insurance sector. We will also continue to step up our work on climate change to both ensure the financial system can support the transition to a carbon-neutral economy and is suitably resilient to the risks. This will include continuing to ensure that financial firms are adapting business models and building resilience in the face of growing climate and transition risks. We will also focus on the development and marketing of "green" financial services products and services such that they are meeting high standards of quality and disclosure. We will learn from and apply international best practices, including through our participation in the network for the greening of the financial system, NGFS. More broadly, we will continue to evolve our regulatory frameworks and supervisory approaches to ensure the interests of citizens and the economy are well served by innovation in the financial sector. This includes a review of our innovation hub that was set up four years ago to support engagement between the bank and innovators and has provided a valued and successful service. In light of the changing landscape it is timely to review its functioning and consider any enhancements that could be made. As we in the Central Bank look ahead to the challenges we face in the coming months and years, a determination to be future-focused, to be open to change and to different ways of thinking and doing, however uncomfortable it can sometimes feel, will enable us to achieve the goals of our new strategy and to deliver our mandate.

In conclusion I will leave members with three points. First, while there is significant uncertainty around the war in Ukraine, the path of the pandemic, and the persistence of inflation, the outlook for the economy remains broadly positive, notwithstanding the obvious headwinds. Second, our regulatory approach aims to get the balance right between supporting innovation and change while safeguarding stability and protecting consumers. Finally, our strategy represents a renewal and repositioning of the Central Bank to face the challenges of the future. Ms Donnery and I will be happy to take your questions.

Deputy Jim O'Callaghan: I welcome the Governor and his colleagues before the committee. Since the departure of KBC Bank and Ulster Bank, many members of this committee have been concerned about the reduction in competition within the Irish banking sector. Is that a concern the Governor shares?

Mr. Gabriel Makhlouf: Those banks have not left the market yet. I agree that competition in the banking sector is important for consumers. What we are seeing, as I said in my opening statement, is that a change is emerging in the way services are being provided to consumers.

We are yet to see how that change is going to play out but it would be wrong of me to say I am not concerned that two large institutions are leaving the market. However, new entrants are arriving, as I said. The banks that are already in the market are starting to address the changes they need to make to keep pace with the competition. The Department is conducting the review I mentioned which we hope will help all of us to understand what the future looks like.

Deputy Jim O'Callaghan: The Governor is obviously aware that the Central Bank does not have a statutory role in trying to increase or encourage competition. Does he think it should? In his previous roles in different jurisdictions, did the Governor have any responsibility for increasing or improving competition?

Mr. Gabriel Makhlouf: There are two questions there and I will answer the Deputy's second question first. In my previous roles, I did not have a direct role in competition. A part of my previous role was to make ensure the economy functioned well but other authorities were responsible for competition. I do not think there is a strong case for the Central Bank to take a role in promoting competition. We could do that If the Oireachtas wanted us to but I do not think there is a strong case for it. In fact, I think, on balance, that the more important thing is to make sure there is a strong competition authority in the State that can promote competition and allow the Central Bank to focus on making sure that the financial system is stable and works well.

Deputy Jim O'Callaghan: The Governor will be aware that we have a strong and established credit union sector in this country, which the Central Bank also regulates. Does he believe the credit unions could play a greater role in facilitating competition with the pillar banks?

Mr. Gabriel Makhlouf: I certainly think that the credit unions have an important role to play in providing services to consumers. They are obviously in a different type of market to the banks but I agree that they have a role and they have potential. They also have a number of issues they need to address to meet their potential to provide services but they absolutely have a place.

Deputy Jim O'Callaghan: Credit union representatives say they have been disadvantaged by the regulatory framework. They refer to the fact that the regulatory capital requirements for credit unions are significantly higher than for the banks. They also refer to the lending limits that have been set in respect of credit unions. Is there anything the Central Bank can do to make it a more level playing field for them?

Mr. Gabriel Makhlouf: I recognise those comments. We have a very strong working relationship with the credit union movement. We understand where they are coming from. We have in recent years increased their capacity to compete and participate in the market in the way the Deputy has described. We have not seen evidence to suggest that potential has already been used up. I do not think the evidence is there yet to say that our rules and regulations are preventing their participation. We certainly keep all these matters under review.

Deputy Jim O'Callaghan: The credit union representatives say they are limited in terms of the maximum amounts they can lend. They are also constrained by the regulatory limits on capital requirements. Do they have a point in that respect? Is the Governor saying the credit unions have not fulfilled the opportunities they have at present?

Mr. Gabriel Makhlouf: I am not going to talk about any individual credit union. I am saying, in an overall sense, that we allowed credit unions to do a lot more and that capacity to do a lot more has not been used up.

Deputy Jim O'Callaghan: I will move on to address inflation. The Governor will obviously be aware of the significant impact that the rise in inflation is having on the cost of living for ordinary Irish people. What is the Governor's advice to the committee as to what political steps should be taken in order to respond to that rise in inflation?

Mr. Gabriel Makhlouf: As I said in my statement, we are concerned at the rate of inflation. It is important to understand the drivers of that inflation because that helps us to understand what we can do about it. From a political perspective, if a decision is made to address the impact of inflation on the cost of living, it is important that measures are targeted. I also suggest that measures should be temporary and I would be cautious about how far to go before potentially becoming part of the problem. We published a paper on the impact of inflation a few weeks ago. It hits people on lower incomes, older people and rural households more than others, principally because those groups tend to spend more on energy and food than other households. Support, if the State considers it necessary, should be targeted in those areas rather than taking a broad-brush approach.

Deputy Jim O'Callaghan: A significant part of people's disposable income goes on mortgage repayments. Does the Governor believe it is likely that there is going to be an increase in interest rates by the European Central Bank, ECB, in order to counteract rising inflation? If so, how high does he think those rates may go?

Mr. Gabriel Makhlouf: We have, for the past decade or so, lived in an extraordinary time of accommodative monetary policy. Interest rates have been very low. It has not been a normal time. One of the risks is that people feel that this is a normal world to be living in when in the history of our economies, it is a very unusual period. When the governing council of the ECB met in December and announced it was going to cease its pandemic emergency purchase programme at the end of this month, that was a signal that we were starting to normalise monetary policy. In my view, and that of the governing council, that process will be gradual rather than rapid. When we met a few weeks ago, we took some further steps that reinforced the proposition that we would move gradually and look carefully at the data, the evidence of what was happening in the economy. We reconfirmed that our asset purchase programme would end before interest rates went up. We said that interest rates would go up but we are not giving an indication of a timescale for that, nor are we saying where interest rates may end up. Since we last met, events in Ukraine have clouded the picture significantly. One thing we can be sure of is that the European Central Bank, ECB, is absolutely focused on its mandate of price stability, which we define as maintaining inflation at 2% over the medium-term. We will take whatever action is necessary, but actually predicting today exactly what action we will take and when is too difficult. We will be very data dependent and we are going to try to maintain as much optionality in our decision-making as we can.

Deputy Jim O'Callaghan: Does the Governor believe cryptocurrencies should be banned?

Mr. Gabriel Makhlouf: That is a very broad statement. First, one of the things the Deputy will notice from me personally is that I do not add the word "currency" to crypto. I think it sometimes can mislead people that a cryptocurreny is just like the euro, and it is not. I tend to find it easier to just talk about crypto, of which there are different types. Certainly, some crypto, frankly, is just like a gamble. It is like walking into a pub and putting money into a fruit machine. A person could be lucky and get a return on that so-called investment but actually, quite often, he or she does not win. I do not think there is a need to ban that type of crypto.

Deputy Jim O'Callaghan: Should it be regulated?

Mr. Gabriel Makhlouf: There is probably a case for it. The most important thing of all for that type of crypto is to make sure the public are aware of it and understand the risks inherent with it. Then, however, there are other types of crypto that are backed. The first type tends not to be backed by anything. There are other types of crypto that are backed, or alleged to be backed, by other assets and currencies. They tend to be called stablecoins. Again, I think we are still trying to understand exactly where we are going with that but Europe is introducing a new regulatory system to manage that.

Underpinning all of this is technology. It is actually the use of what is known as blockchain technology, which has potentially got commercial advantages that will deliver advantages to consumers. For me, the most important thing on this whole canvas is to move cautiously because one could actually take decisions that, ultimately, are not to the benefit to consumers. Certainly, we need to go into all this with our eyes wide open. There are no financial stability risks right now, but there could be. It is a very big area of focus for the Central Bank of Ireland but also for regulators across the world.

Deputy Jim O'Callaghan: I thank the Governor.

Deputy Pearse Doherty: I welcome the Governor and deputy governor to the committee. Picking up on the point on cryptocurrencies or crypto, the president of the ECB made an address recently in which she said cryptocurrencies "are certainly being used, as we speak, as a way to circumvent the sanctions that have been decided by many countries around the world against Russia". Is it Mr. Makhlouf's view that crypto is being used here to evade Russian sanctions?

Mr. Gabriel Makhlouf: We have seen no evidence of that being the case here in Ireland. I cannot rule out the possibility of it but we have seen no evidence of it.

Deputy Pearse Doherty: Where does Mr. Makhlouf believe it is happening at a European level?

Mr. Gabriel Makhlouf: I myself have not seen evidence of it happening. I do not know whether Ms Donnery has anything to say to that. As we know, in this whole crypto world, there are things that are pretty evident to us and then there are things that are just happening somewhere on the Internet that are not evident to us. It would not be a surprise, therefore, in view of the players involved in committing the aggression in Ukraine, that many attempts are probably being made to circumvent the sanctions using technology, whether it is actually using crypto or using other tools. Ms Donnery might have something more to say.

Ms Sharon Donnery: Like the Governor, I do not have any specific instances we have seen, but I think the general level of concern is around exchanging currencies because, obviously, it has become extremely difficult to trade in rouble. Firms or players will find opportunities to transfer rouble into crypto and then into other currencies, for example. That is what the concern is. I would say more generally in relation to the sanctions that there are obviously significant efforts in the bank and at European level to make sure the sanctions are fully implemented in the way that would be expected.

Deputy Pearse Doherty: I appreciate that. The Central Bank of Ireland came out with its quarter 1 bulletin, obviously, and because of everything that is happening, as Mr. Makhlouf outlined in his opening statement, some of it became very outdated very quickly. Will the Governor outline to the committee where he sees peak inflation? At what point or when will it reach that this year?

Mr. Gabriel Makhlouf: I would hesitate. Next week, we will be publishing our second quarterly bulletin of the year. We are in the process of finalising that. I hesitate to say when we will reach peak inflation. I expect it to be in the first half of this year rather than the second half. The judgment around that is clouded by enormous uncertainty largely driven by the war in Ukraine.

The reality is there are many supply bottlenecks on energy. The pressures we have seen on energy prices predated the war. Certainly, trying to predict when we are going to reach the peak is difficult. We are going to make a stab next week. We will be publishing our view of inflation for this year. Even then, I would just say that whatever judgment we come up with will be clouded by more uncertainty than usual.

Deputy Pearse Doherty: We know, for example, before the war that inflation had risen to 5.6%. Obviously, the war has turbocharged that to a certain degree. Where does Mr. Makhlouf think it can possibly reach before it starts to fall off?

Mr. Gabriel Makhlouf: The Deputy is asking me to speculate and I am not going to get into that.

Deputy Pearse Doherty: I am asking Mr. Makhlouf for his judgment.

Mr. Gabriel Makhlouf: My judgment at the moment-----

Deputy Pearse Doherty: I will put it like this. Mr. Makhlouf's colleagues appeared before another committee and said they believed it would be in the region of 8%. Is that a view the Governor shares or was that a personal view?

Mr. Gabriel Makhlouf: That was their view. My own view is that, at the moment, as I said, in Ireland, we are at 5.7%. In the euro area, we are at 5.8%. There are some countries in the euro area where inflation is already in double digits. I definitely can see prices higher than where they are right now, absolutely. I am going to resist the temptation of trying to predict a number.

Deputy Pearse Doherty: Okay. It is only to be helpful, obviously. Today is the day where the largest energy company has followed what others have done and increased the cost of electricity by 23% and gas by 25%. These news stories are breaking on television and radio and sending shock waves through the financial stability of many households.

Mr. Makhlouf talked about inflation obviously impacting lower- and middle-income households hardest. Will he talk about the particular composition of this inflation in terms of its components, which are very much about the necessities? I refer to energy, the heat in one's home, putting fuel in one's car, food inflation, which we are not really seeing but we will see over the next number of months, and then the war in Ukraine inflation that is pushing up gas prices, which we are not seeing yet but will see in the third to fourth quarter of the year. Will Mr. Makhlouf talk about the studies the Central Bank of Ireland has done in terms of how the average price of inflation impacts harder on rural and lower income households? How did the bank come to that finding?

Mr. Gabriel Makhlouf: Around half of current inflation comes from energy, and we know people on lower incomes, older people and rural households tend to spend a greater proportion of their income on fuel energy. That is the simple fact that means if those costs increase in the way they are increasing, it is those household groups that will be impacted the most by the inflation we see.

Deputy Pearse Doherty: I have been engaging with the Central Statistics Office, CSO, looking at the impact of inflation on different household categories. The CSO will shortly prepare a note that will build on the work the Central Bank has done. That was quite helpful, but in the future we will have information on those different categories. We had social welfare increases of 2.5% in the most recent budget. Inflation is running at double that and will increase further before the end of the year. Real inflation for people on social welfare is probably 1% higher than for those on the highest incomes in the State. It is a technical debate but a very important one because policies flow from it.

I will move on to the issue of tracker mortgages. In July 2019, the Central Bank issued its final report on the matter. There are still people going through the Financial Services and Pensions Ombudsman and finding that their cases are upheld. I had a call this week with an individual whom I dealt with five years ago. This committee has heard these points. The current Chairperson was Chair of the committee then too. The Central Bank came before us and said it had done its scrutiny and was leaving it at that. We have had Padraic Kissane before us talking about people who were on discounted tracker rates and saying there is an issue there. We have had the individuals affected themselves before the committee. The individual with whom I had a call has had his mortgage sold on, and the Financial Services and Pensions Ombudsman has upheld the decision. It is likely there are hundreds of others, if not more, who fall into that cohort, and they are not the only cohort. We always talk about the 6,000 AIB customers whose cases were not captured by the Central Bank but were captured by the Financial Services and Pensions Ombudsman. There are other individual cases.

The Central Bank has an agreement with the banks that when the Financial Services and Pensions Ombudsman, FSPO, makes a ruling, the entire cohort affected will be looked at and the benefits of the ruling will flow to them. I have two questions for the witnesses in that regard. Has the Central Bank done any work on cases of discounted tracker mortgages, and does it need to take a second look at this? It has missed cases that have resulted in serious financial hardship for individuals. In some cases they are still losing their homes or their mortgages are being sold to vulture funds. While the Central Bank washed its hands of this back in 2019, these individuals were left to paddle their own canoes and to take their cases to the Financial Services and Pensions Ombudsman. I would like a response to that.

Mr. Gabriel Makhlouf: We have not washed our hands of this. What we ended in 2019 was our supervisory work in this area. We have always said we would keep a very close eye on what the FSPO was continuing to do and we have kept a very close eye on the FSPO. Our enforcement work continues. Since 2019, we have had announcements of cases concluding, and those are not over yet. The FSPO is still the right place to deal with individual cases. I cannot comment directly on such cases, unless Ms Donnery has something to say. If Deputy Doherty wishes to pick up this point in this session, we will be here after hours. We remain pretty focused on the impact of tracker mortgages and that whole issue, but we think the types of cases we have seen recently are more appropriate to the FSPO. That does not mean we are abandoning or, to use the Deputy's words, washing our hands of cases. They are still important, and I think the banks themselves recognise that. Can Ms Donnery add anything on this point?

Ms Sharon Donnery: We have been before the committee extensively to discuss this. I emphasise again that what happened was absolutely unacceptable. The tracker mortgage investigation remains one of the largest investigative and supervisory pieces of work the Central Bank has ever done. I am not familiar with the specifics of the case the Deputy mentioned but, as the Governor said, I think a number of individual cases are still going through the Financial Services and Pensions Ombudsman and we have a very good working relationship with the ombudsman in understanding what those issues are. One of the things we found during the investigation was that while there were groups of borrowers in the way the Deputy has described, it was also the case that many different contracts were in place, with many different files, many different adaptations of contracts and so on. There are therefore cases in which there are very specific circumstances or in which the dates on which particular contracts were put in place, for example, differ quite a bit. I think that in a number of the cases that have gone to the ombudsman there are bespoke and individual circumstances. It absolutely remains the case, however, that firms are expected, if systematic or broader issues are identified, to resolve those issues.

Deputy Pearse Doherty: Permanent TSB, a State-owned bank, threw the kitchen sink at this case. It teamed up with lawyers and fought this individual tooth and nail over five years. Then, when the individual wrote to the Central Bank, it handed back a letter saying it cannot comment on individual cases, even though it has a consumer protection role. This fella took on a State-owned bank, in respect of which the Central Bank was supposed to do a supervisory audit to make sure cohorts such as his were not screwed over to the tune of tens of thousands of euro. The Central Bank missed the case and left him on his own to fight it. If he had not done so, many others potentially in the same boat would not have benefited and the bank would have got away with it.

There are two aspects to this. First, there is a wider issue with the role of the Central Bank in being able to step in and take cases against the banks if need be. We have seen that with insurance companies as well. That mandate needs to change. Second, this type of standard letter stating the Central Bank cannot comment on individual cases is not appropriate. The letter should at least state the Central Bank will look at the person's case and make sure the bank, Permanent TSB in this case, has not done the same to hundreds if not thousands of other individuals. The Central Bank did not even give that assurance, and that is not fair. That supervision, that audit, was to identify the cohorts affected.

This issue has been raised with the committee by Padraic Kissane, witnesses themselves and members of the committee over and over again. It has been raised with the Central Bank that there was an issue with discounted tracker rates in that, when the discount was over, the tracker rate was not there and the customer had to go onto a variable rate. Despite the fact that banks got rid of tracker rates, they should have had that option to go back on the tracker. That is what the Financial Services and Pensions Ombudsman found. It is very annoying, and I get emotional about this, because I know the impact this has had on some of these individuals. There are 250 complaints. They may all be individuals. Some of them may involve bigger cohorts. Two hundred and fifty cases were made to the Financial Services and Pensions Ombudsman on the tracker scandal last year, 12 years after this first emerged. The Central Bank's role has to be different in this regard.

I will invite the witnesses to comment on that if they wish but I am conscious of the time so I will ask my final question. It is about the issue of KBC and Ulster Bank withdrawing from the market. As we know, Ulster Bank will write to its customers in the coming days. We are talking about 916,000 accounts and 700,000 customers. KBC will follow suit with 300,000 accounts. That is more than a million customers impacted and the biggest shift in accounts in banks in the history of the State. There is serious concern about that. I am concerned, but I also heard from

Mr. Colm Kincaid, director of consumer protection at the Central Bank, that banks are not yet where they need to be in preparing for the closure and migration of these customers' accounts. I agree with that. Are the withdrawing banks, Ulster Bank and KBC, where they need to be at present to support their customers? If not, what will the Central Bank do about it? Are the receiving banks, the likes of Bank of Ireland, AIB and Permanent TSB, where they need to be to receive more than a million accounts over the coming months? If not, what will the Central Bank do about it? What is the Central Bank's assessment of the process at present? Is there a dedicated unit within the Central Bank to oversee this process? Has the Governor met with the CEOs of these banks to discuss this? This is massive. We could have major issues with mortgage payments being defaulted on, direct debits and so on. Would the Central Bank consider establishing a special task force to manage this process in the coming months?

Mr. Gabriel Makhlouf: We have dedicated resources working on this already. We have had discussions with senior people at the exporting and receiving banks. Everybody in the Central Bank and the other institutions are fully aware of the importance of getting this right and of the sorts of risks the Deputy mentioned. I would not say that everybody is ready by any stretch of the imagination, so I confirm what Mr. Kincaid said to the Deputy. What I can also say is that we are fully engaged with the institutions on this. To be fair, they are fully aware of the scale of the challenge they have and they know their obligations. We have dedicated resources on what is a very significant moment for financial services in Ireland, that is for sure.

Deputy Pearse Doherty: What does the Central Bank use in regard to the switching code? We have a switching code, which is on a statutory footing under the Central Bank Acts, that allows people to switch their bank accounts from one bank account to another and their direct debits will switch with it. There are a few arrangements that will not switch but many of them will. It is my view the banks are actually encouraging the closure of accounts and the establishment of new accounts, which means people have to switch every single direct debit themselves.

Has the Central Bank had a conversation with the CEO of the closing banks and asked to see the letters they are sending their customers? How much emphasis is being put on the statutory provision, the right that is enshrined in law, that people can switch their accounts from KBC or Ulster Bank to whichever bank they want, and that there is a process in place that both banks have to comply with legally? It should not be on the individual to close his or her account, to go across the road, wait for an appointment to open a new account, which we have heard can be three, four or five weeks away in some cases, and when the account is open, that individual has to go through every single direct debit and make sure he or she has switched it.

This involves 1 million accounts. I have not heard anything about a task force. I do not know if there is a dedicated team. I do not know if the Central Bank has met with the CEOs of the banks. I have met with the CEOs. What is the Central Bank's approach in terms of the switching code? Mr. Kincaid said that both receiving banks and giving banks are not there yet, and yet these letters will be issued in the coming days.

Chairman: Will the Deputy conclude?

Deputy Pearse Doherty: The consumer protection role is with the Central Bank of Ireland. I want to know what the Central Bank will do about it more than just commentary, because the banks are not at it. We are not ready for this move at this time.

Ms Sharon Donnery: To confirm on the resources, we have a number of teams working on these issues across the organisation, including colleagues in consumer protection and more broadly in our supervisory areas. As the Governor said, there has been extensive engagement at the highest level. I am talking about the most senior management and board level of the banks that are departing and the banks that will receive the various customers.

On the actual practicalities of switching and so on, we have been clear in telling the banks that we expect them to be consumer focused and customer focused, which I think were the exact words, in handling cases and that people would be supported and assisted through the process. When my colleague Mr. Kincaid wrote to the committee, we had recently published our work on call handling times, which clearly showed the banks were not ready on that aspect and they had further work to do. Again, we have engaged extensively with the banks in terms of making sure those concerns are addressed.

On the case the Deputy raised, if there are specific concerns about customers being told to close bank accounts instead of using the switching process, then we would be happy to look into that. I know my other colleagues will be here later today-----

Deputy Pearse Doherty: To clarify, it is not that. It is the priority. The Central Bank should be encouraging banks to make sure the priority is that customers can switch rather than closing their accounts.

Ms Sharon Donnery: The absolute priority is that customers are helped, supported and facilitated to make the process as simple and easy as possible.

Chairman: I call Deputy Richmond.

Mr. Gabriel Makhlouf: Sorry, may I add one thing? If the Deputy has evidence of the opposite happening, he should please let us know.

Deputy Pearse Doherty: The Central Bank has to approve the process. I have not seen the letters.

Mr. Gabriel Makhlouf: No. All I am saying is if-----

Chairman: Sorry, Governor. I ask you to stop. I call Deputy Richmond to put his questions and we can come back to it later.

Deputy Neale Richmond: I would like to stay on this issue and ask a couple of supplementary questions because many references were made in that exchange to engagement with the banks. On the duty of care, what engagement has the Governor or his colleagues at the Central Bank, to whom I am very grateful for coming before us, had with the utility companies? This is moving beyond the direct role of the banks. One of the key issues, which Deputy Doherty alluded to, is the whole issue of direct debits and the fact that so many utility companies will only take instruction from the customer rather than the bank. We are talking about 1 million accounts that contain multiple direct debits set up to pay not just mortgages but gas and electricity bills and Lord knows what else. What level of engagement has there been? Again, I have to come back to this point. Is the account switching code fit for purpose and up to scratch?

Mr. Gabriel Makhlouf: I have not had any engagement with the electricity companies. I do not know whether or not people in the Central Bank have. We think the switching code is clear. If there is a need to change it because it is not clear, we will look at it. Just a few days ago, we heard via the Banking and Payments Federation Ireland, BPFI, that it had experience that the occurrence of switching in mortgages was increasing, so there seems to be some awareness. The team who will attend later this afternoon will probably be better placed than me to tell the committee. The switching code is important and it has a place. I am afraid, when it comes to talking to the utility companies, I have not done that and I do not know if anyone in the Central Bank has either.

Deputy Neale Richmond: I would hope someone has because surely it would be prudent to engage with the utility companies. As Deputy Doherty said, this will involve 1 million accounts in total with multiple direct debits going out covering a range of payments. If people have their electricity cut off because of a default on a payment, that is a huge worry. Surely the whole point of regulating the efficient departure, in due course, of two major banks from the Irish market is that this is a duty of care that must be adhered to. I am very concerned about consumers, particularly the large number coming from Ulster Bank, who, through no fault of their own, will be constrained by the code in place. They are trying to cover everything, and all of a sudden they find their lights turned off or they get arrears notices. There is a need for a level of proactivity in this case when two banks of such a scale are departing the market. Will the Central Bank engage with the utility companies? If the Governor has not done so, perhaps, following this meeting, he might find out exactly who would do so in the Central Bank.

Mr. Gabriel Makhlouf: As I said to Deputy Doherty earlier, we are focused on making sure the exit of these two banks works and that it is consumer focused and customer focused. We are absolutely engaged on this. If there are things we think the banks should be doing that are not happening, we will make sure they get done.

Ms Sharon Donnery: To clarify, the switching code applies to payment accounts. Where customers have a payment account that is being used to pay direct debits, for example, and they switch to another provider, they should get help and assistance in transferring those direct debits. Of course, I can understand that in some cases there may be a challenge but, in general, it should be the case the direct debits and so on are taken care of. As the Governor said, we are happy to check that in more detail, but for people who have current or payment accounts, that is the process that should take place.

Deputy Neale Richmond: As part of that, has the account switching code been updated since the introduction of the single euro payments area, SEPA?

Ms Sharon Donnery: I am not sure exactly when that happened, but it was updated to take account of the fact there is a wider array of payment service providers and so on in place now.

Deputy Neale Richmond: I have two final questions, with the discretion of the Chair. The Governor discussed the area of credit unions with Deputy O'Callaghan. I would make the point there is an argument that credit unions are being underutilised because the headroom is so small in the first place. Perhaps there is a need to look at that more widely.

Mr. Gabriel Makhlouf: As I said, we see credit unions as having a very important role to play. We are very closely engaged with them. If there is a small case for changing the regulatory framework, then we will look at it extremely carefully. We made some changes a couple of years ago. At the moment, the evidence we have seen so far does not point us in the direction of making significant other changes, but certainly, if there is a case for it, we will look at it. Our engagement with credit unions is very close. I am sure we will be talking to them about these issues over the coming months.

Deputy Neale Richmond: Okay. This is the final part. The ongoing war in Ukraine, Russia's invasion and the impact of the sanctions were alluded to already. Will Mr. Makhlouf elaborate? In fairness, he did go into an element of detail in the first session of questions. Will he elaborate on the extent of the role of the Central Bank in this regard to ensure sanctions are being adhered to and implemented? Where is there any impact assessment of those sanctions, either on the Irish financial services sector or previously on the Russian financial services sector? How is this being co-ordinated in that regard at a European level?

Mr. Gabriel Makhlouf: The Central Bank has essentially got four roles in the world of sanctions. To be very clear, sanctions are imposed at European Council level. The Central Bank is one of the three competent authorities in the State, the others being two Government Departments. As I said, the Central Bank's role is fourfold. We inform the firms that are regulated of the sanctions' existence. We maintain a register of assets that have been frozen, because there is a requirement to notify us. We consider applications for derogation, because that facility exists. Finally, where we believe or suspect there has been a breach of sanctions, we inform the law enforcement agencies such as An Garda Síochána. That, essentially, is the role of the Central Bank.

Within the European system, as I said, the actual sanctions are agreed at European Council level. The Central Bank has no role at all in the decisions made by EU leaders to impose sanctions. We work within the euro system broadly in line with what I have just described. The different jurisdictions have slightly different rules. A breach of the sanctions is a criminal offence. The framework within which the Central Bank operates is different from the framework applied to financial sanctions. It is a different world for us. I am not sure how much more I can say at this stage.

Deputy Bernard J. Durkan: I welcome our guests to the meeting and thank them for the information they have provided. I want to deal with a couple of things very quickly, the first of which is with regard to inflation. Inflation rates are running somewhat ahead of predictions at this stage and are accelerating. Has the Central Bank a role in determining what causes the inflation? For instance, it can readily be recognise what might cause inflation in respect of gas or oil prices or something. In some cases, however, it is not possible to determine what the cause or causes may be. Can the Central Bank unravel that particular problem?

Mr. Gabriel Makhlouf: Yes. We have a fairly good understanding at the moment of what is driving current inflation in Ireland. It is similar to what is driving much of the inflation across the euro area as a whole. The main reasons are the supply bottlenecks that have essentially come out as a result of the pandemic. What we have had over the past two years is an extraordinary period where economies were voluntarily closed down by governments. We have now seen those restrictions lifted. As a result, the accumulated savings households have made have been able to be spent and a lot of big demand for goods in particular appeared towards the back end of last year. The demand for those goods could not easily be met as a result of what I described as supply bottlenecks. To some extent, some of these were closer to blockages than bottlenecks. It has taken a bit of time for supply in Asia, for example, to meet the demands in Europe. Some of it is quite basic in the sense that shipping containers and ships were just unavailable or in the wrong places to transport the goods. The lack of supply has been a very big driver in inflation.

Energy prices, again for similar reasons, largely as a result of supply bottlenecks, and this was before the war in Ukraine, were pushing up the price of inflation. That is why the Deputy would have heard me and others at the ECB say we could see inflation coming down because we could see those bottlenecks over time getting addressed. That has been the main driver of the current inflation we have seen.

Deputy Bernard J. Durkan: It is not going down; it is going up.

Mr. Gabriel Makhlouf: It is going up because those bottlenecks are taking time to reopen and the war in Ukraine, if I can come to that now, has exacerbated it and made it worse. That is one reason, as I said earlier, I am not ready to predict what the peak will be. We still believe over that time, however, inflation is going to come down. I think it is going to start coming down in the second half of this year. It is, however, going to remain much higher than the forecasts we made back in December, for example. That is certainly the case.

Economists tend to talk about inflation being driven by either demand-side or supply-side factors. A characteristic of the inflation we are seeing now is that it is very much driven by supply-side shocks where monetary policy, in which we raise interest rates, has less potential to work compared to addressing a demand-type shock.

Deputy Bernard J. Durkan: Has the Central Bank been able to identify any particular issues that are not related to those Mr. Makhlouf talked about in respect of supply and demand but where inflation exists and the response is it is a fact of life, everybody is doing it, so it is current and it is going to happen? Is the bank challenging the cause or causes where it can?

Mr. Gabriel Makhlouf: Inflation is a statistical phenomenon in the end; it is what is measured. The reality is, of course, that it will be different for individual households. Depending on their spending patterns, people will have a different experience of inflation. In some economies, for example in Ireland, compared with others in the euro area, as we know rents are a particular feature of price rises that may not exist in other parts of the euro area, so there are different reasons there may be different levels and different experiences. At the end of the day it is a statistical phenomenon. We understand what the data tell us and we try and work out what it is that we can do as the European Central Bank to make sure that we get inflation back to our target, which is 2% over the medium term. Right now, there are limits to what we can do because of the nature of the shock.

Deputy Bernard J. Durkan: It is partly a statistical phenomenon, but that phenomenon is supposed to be explained to people. For example, it is not sufficient to say that there is general inflation and that we will be hit by it the same as everyone else. That does not always apply. There is inflation that is attributable to a particular issue and there is inflation which is not. The inflation which is not attributable is what I am talking about.

I will move on if I can to something else. The Governor referred to the shift in focus in his opening statement. I welcome that. It may not be in this session, but in the next session we may need to look more at the disappearing banks all over the country. Obviously, it will make a difference to the profit of the banks. The commercial banks will say they could not afford the same level of staffing as they had previously with the same number of branches open, but there is a problem and a downside. The banking system is becoming less personal and for many customers throughout the country there is a reliance on the ability to talk to their bank manager about their business and to seek his or her advice. That is diminishing and disappearing.

Mr. Gabriel Makhlouf: I am sorry, but is that a question or a statement?

Deputy Bernard J. Durkan: It is whatever Mr. Makhlouf wants to make of it. I contend that banks are disappearing and I am looking for his response to that and whether he thinks it is a good thing.

Mr. Gabriel Makhlouf: I will ask Ms Donnery to come in at the minute. We are seeing change being driven by a number of things. One of them is certainly a change in what consumers want from their financial service providers.

Deputy Bernard J. Durkan: The public do not get consulted. The banks decide that for themselves.

Mr. Gabriel Makhlouf: I am not entirely sure I agree with Deputy Durkan. Certainly, there is a bit of an iterative process here. I will try to generalise it. By and large, what we are seeing is a generation of people coming through who are very comfortable transacting electronically, digitally, with their finance service provider and with the business they want to buy some goods from. Then there is another generation of people who, as Deputy Durkan says, want to go and talk to their bank manager about their future financial needs. The system is in a state of transition and it is trying to work out what is the best equilibrium. We are seeing the exit of big financial institutions, but we are also seeing the entry of new players. They are different, and time will tell whether they are commercially as successful or not. We are seeing change. From the Central Bank's perspective, and going back to our strategy, the important thing is that we are ready to supervise and regulate whatever it is that the financial system ultimately develops into. The one thing we can probably be very confident on is that the status quo is not going to continue; change is absolutely coming. We have been seeing it and we can be relatively confident that we are going to continue to see it. Our job, which is what our new strategy is about, is to make sure that we are ready to meet the change.

Deputy Bernard J. Durkan: I want to make two last comments, Chairman, if that is possible and I will be quick. One relates to the financial crash. The banks were in a position to be able to do something about it. The Central Bank allowed the banks to continue to lend incessantly, against fresh air, for want of a better description, as someone commented recently. In other words, there was insufficient collateral to underwrite the level of lending, which was unwise lending, and the Central Bank allowed it to go ahead. As a result, the customer was punished. I, like other members of the committee, have dealt with individuals who found themselves in serious financial difficulty and being told by the banks in the context of a resolution that they were very sorry but they could not accept it and that the loan was unsustainable. The loan was unsustainable on the day it was granted because no provision was made for inflation, rising costs in general, or stability. The customer got hammered.

The most recent examples I see relate to housing. Housing prices are now accelerating at an appalling rate. Vulture funds have got involved between the consumer and the provider. The lending banks can borrow money at a very low interest rate on the European markets. A means can and should be found to ensure that the intervention of various funds does not increase the price of houses. I will finish on this point. There is a responsibility on the Central Bank in this area. There is no doubt in my mind about that, because the outcome is staring us in the face. It is at the point now where the consumer, the customers, are being asked to pay through the nose for something where the actual cost and value initially was a small sum until investors got involved. I know that there was a necessity for investors. There was nothing happening in the country before that, but we must approach everything on the basis of the most recent experiences and what we have to do now in order to reassure those unfortunate customers.

Chairman: Before I call Deputy Mairéad Farrell, I have five Deputies offering and we are due to end this session of the meeting at 3 p.m. and to have a short break before the next session. Members should bear in mind that we will have to suspend around 3 p.m., at which point we will have a break.

Deputy Mairéad Farrell: I have two particular questions that I very much want to ask, so I will get them out of the way and then I will let in the other members who are offering. I might just give the two questions in full and then come back as that will probably be the quickest way.

I thank the witnesses for coming before the committee. My first question relates to the Russian entities and the financial sanctions. The Central Bank's recent analysis of direct financial links to Russia by the financial sector here showed that the IFSC-based special purpose vehicles, SPVs, held approximately €37 billion in assets relating to Russian companies. We know that a prominent Russian state-owned company raised funds in the IFSC a number of years ago during an earlier round of sanctions. How will we be able to prevent this from happening again? What we do not want is that we function as some sort of a conduit jurisdiction for these firms. They have connected vehicles registered in the IFSC that are serviced by professional services based here. Their transactions are recorded here and often their bonds are issued here, but generally the servicing banks will be located in the City of London. That is a separate banking system to our own. As the European Banking Authority noted in January of last year, EU law ceased to apply to the British banking system. How has the Central Bank dealt with that? Has Mr. Makhlouf spoken to his counterpart in the Bank of England regarding this and what measures are being taken to ensure that transactions recorded here, and bonds issued here but using the British banking system do not slip through the cracks?

My second question relates to shadow banking. These Russian-connected firms operate within Ireland's shadow banking sector. At the end of 2020, that sector was worth around €3.5 trillion. That is almost nine times our GDP. Considering how inflated our GDP already is, it is an incomprehensible sum. It has tripled in size over the last decade without much comment being passed on it. The Financial Crisis Inquiry Commission was fairly categorical in its assessment of the contributory causes of the global financial crisis over a decade ago, and shadow banking played a key role in that regard. The presence of section 110 organisations has played a key role in Ireland becoming one of the top five jurisdictions in the world for shadow banking assets. I raised this recently with the Taoiseach, who said he had no issue with a cost-benefit analysis of the section 110 regime. In light of the risks shadow banking poses to financial stability, the reputational damage we incur from things like Russian-connected firms and section 110 organisations being used by vulture funds, which is completely inappropriate, and considering that those availing of section 110 make almost no contribution to the Exchequer, would Mr. Makhlouf also accept the need for a cost-benefit analysis of section 110?

Chairman: I ask Mr. Makhlouf to be as brief as possible.

Mr. Gabriel Makhlouf: Would the Chair like to take all the questions and I will try to answer them all together?

Chairman: If that is agreeable to members.

Deputy Mairéad Farrell: That could make it more difficult to get the answers.

Senator Alice-Mary Higgins: I am conscious Deputy Farrell asked very specific questions and it is important they get answered. I am happy to withdraw my questions if Deputy Farrell can get immediate answers to hers and I will put my questions in the next round.

Chairman: I will come to the Senator first in the next session.

Deputy Ged Nash: I have a similar question, so it may be useful to-----

Chairman: Okay.

Mr. Gabriel Makhlouf: Let me answer it-----

Chairman: Does Deputy Nash want to come in now?

Deputy Ged Nash: Very briefly, if I can. Deputy Farrell outlined the value attached to the special purpose entities, SPEs, which have holdings of €37.1 billion worth of Russian-issued assets under management here. Responses I received to parliamentary questions identified 33 Russian-sponsored SPEs. Is Mr. Makhlouf aware of who the beneficial owners of those funds are? Who benefits from them? Are any of the beneficiaries on the sanctions list? It is a matter of public record who is on that list. Is there any connection between those on the sanctions list and those who own and operate those assets, which are based and managed out of Ireland?

Mr. Gabriel Makhlouf: One of the most important points to bear in mind, which Deputy Nash just made, is that sanctions apply to named entities. As of today, the whole of the Russian state has not been sanctioned. Every Russian individual in existence has not been sanctioned. There is nothing in sanctions land stopping transactions with Russians. Sanctions are very specific and apply to named individuals.

Deputy Mairéad Farrell: On that point, a number of years ago one company was able to pass through such sanctions. That is why this is of concern.

Mr. Gabriel Makhlouf: The latest information I have, and this is a live situation, is that around 15 to 16 of those entities have some connection to the named individuals.

Deputy Ged Nash: That is half of the entities.

Mr. Gabriel Makhlouf: That is right. Around half have some connection.

Deputy Ged Nash: That is very significant.

Mr. Gabriel Makhlouf: I have no evidence that would lead me to believe the UK is somehow being used to avoid the EU sanctions regime. That is principally because there is a lot of co-ordination between all the authorities that are imposing sanctions here. Obviously, that is today's view based on today's evidence.

Deputy Farrell probably conflated shadow banking and SPEs a bit too much. Shadow banking is really the market-based finance sector generally, and Ireland is one of the biggest in the world. These are not all section 110 companies. I have been talking publicly for some time now about the fact that market-based finance needs the sort of oversight the banking industry has had since the financial crisis. In particular, the macroprudential framework we imposed in the banking world should also apply in the non-bank world. That is something that now has the attention of the Financial Stability Board of regulators across the world. That is an area that is getting attention.

Section 110 companies exist for a particular purpose. I have no view as to whether there should be a cost-benefit analysis of that provision. It is not Central Bank legislation. If somebody wants to do a cost-benefit analysis, they can go ahead and do it.

Deputy Ged Nash: I have one small point. I do not believe it had been put on the public record to date that 15 or 16 connected Russians are attached to some of the SPEs that are managed out of Ireland.

Mr. Gabriel Makhlouf: There is some connection. I am being very careful of my language.

Deputy Ged Nash: I understand. What is the practical impact on the operation of these SPEs? What function does the Central Bank have in managing the sanctions regime? What is the real impact on those individuals and on the SPEs?

Mr. Gabriel Makhlouf: To be clear, we do not regulate section 110 companies. The sanctions that have been imposed have automatic application on everybody in the country. That is important. The professional firms that set up these entities have obligations in this regard. First, they need to be aware, if they are managing these assets, that they need to freeze them and report that to the Central Bank. They must take appropriate action. As I said earlier, our job is to inform. We have been engaging with the firms we regulate but we have also written to the firms we do not regulate to make sure they understand the rules and are taking the necessary action. We have done that. We maintain a register of what assets have been frozen to communicate that to the European Commission, which is ultimately in the lead on this, and we consider applications for derogations. That is our role. Most important, we report suspicions of breaches of sanctions to An Garda Síochána.

Deputy Ged Nash: As far as Mr. Makhlouf is aware, have any assets been frozen to date?

Mr. Gabriel Makhlouf: Yes.

Deputy Ged Nash: They have been frozen to date in Ireland.

Mr. Gabriel Makhlouf: Some-----

Chairman: I am sorry but I must call Deputy Tóibín.

Deputy Peadar Tóibín: I have a broad range of questions but I am conscious that there is only a minute left so I will stay specific to the current thread. It is my understanding each state has a responsibility to enforce sanctions in its own state. People will find it very significant that up to 15 of these entities have some relationship with sanctioned entities within Russia. Most people in Ireland would be quite shocked to hear that is the case currently. What level of research is being done by the Central Bank to ensure these sanctions are being enforced? Mr. Makhlouf said suspicions can be reported but is there not a responsibility on the Central Bank proactively to make sure financial institutions in the IFSC are not being used to circumvent sanctions against Russian entities? Different news reports have shown that billions of euro could be circulating and sloshing around the IFSC in terms of sanction circumvention.

Mr. Gabriel Makhlouf: As I said earlier, our role in the sanctions world is different from our role in the financial regulation and supervision world. The law operates in a different way. It is ultimately led by the European Commission. We have to do the tasks I described earlier. Those are the tasks we do do. We have probably been a bit more proactive than what is set out in the law as a requirement. I should add we are not the only player in this. An Garda Síochána also has a role to play, as well as, if we are very focused on the section 110 SPEs, the self-regulated professions that set these things up and run them. There are a number of players. The law itself is very clear. A breach of sanctions is a criminal offence - end of story. It applies to every national person in the State.

Deputy Peadar Tóibín: I have asked the Government questions before about who is carrying out the research. My worry is, from all the questions I have asked, I do not know yet that there is one particular authority within the State that is actively investigating at this stage the potential for sanctions to be circumvented through the IFSC. It seems to me, from what Mr. Makhlouf has said, that there are partial responsibilities but no overarching responsibility. It seems to me it is potentially reactive rather than proactive.

Chairman: Is that a question?

Deputy Peadar Tóibín: Yes.

Chairman: Does Mr. Makhlouf wish to comment on that?

Mr. Gabriel Makhlouf: All these things are relative. The role required of us, one could say, is largely administrative. We have gone beyond that. I cannot comment on what An Garda Síochána may or may not have done because that is another organisation. The Deputy referred to one agency that has complete responsibility for everything. That is clearly not the case in the way the framework has been set up. A number of different organisations have a role to play. In particular, we must not forget the European Council is where all this starts.

Deputy Peadar Tóibín: I appreciate that. I thank Mr. Makhlouf for his answer. I am aware the Chairman wanted to take a break at 3 p.m. Will we hold the rest of the questions until later?

Chairman: To those who have been cut short at the end of this session, if they wish to come in first in the next session, I can accommodate that, because I am now going to abuse my position as Chairman and ask a few questions. Perhaps the witnesses can respond in writing. I do not want to delay the meeting.

In response to Deputy O'Callaghan, it was mentioned that credit unions are not anything like [*interruptions*] that they can give right now. However, credit unions would say that under the current lending limits sent by the Central Bank, they can only hope to offer just 3% of the mortgage loans and less than 10% of the SME loans in the market. There will be further commentary on the regulatory reserve ratio. The credit unions would assert the 10% is out of step with the risk profile of credit unions. In the briefing note we received from the credit union sector, it is apparent it wants to play a greater role in business loans, mortgages and so on. Quite frankly, I believe the credit union movement is the answer to our community banking question. The Central Bank should review the current position regarding credit unions. I say that to the witnesses, because customers can walk into a credit union anywhere, meet a person and get an answer. The person in the credit union will understand the customer because he or she is part of the parish the credit union represents. I think the Central Bank is missing that point.

My next question concerns the tracker mortgage investigation. A lot has been done in the investigation by the Central Bank, this committee and, indeed, others. There are issues emerging in banks that are part of the tracker mortgage question. Those who have the loans from the bank are being bullied and intimidated by the banks that granted them the loan. If that loan has been sold on in the meantime to a vulture fund, the bullying and intimidation starts then. The tracker mortgage status of these customers is not being recognised, even though they believe they should be part of the tracker mortgage issue. Even though they have gone through the Financial Services and Pensions Ombudsman and so on, there is evidence the banks are ignoring all of this in the final run to the finish line. They are trampling all over commercial loans, individual loans and mortgages, and they are using receivers to punch the daylights out of those who hold those loans. I have seen some reports about the activities of receivers. It would put a shiver up your spine to think they can get away with what they are getting away with.

Will the Central Bank not approach each of these banking entities and demand the accounts profile in terms of the loans that are outstanding so the bank can see for itself the issues that are being raised because of these loans by the banking entity? For example, there are allegations of fraud. In one particular case, there has been an adjustment of documents that should not have happened. I sent details of one case to the Central Bank. I followed the money from the bank to an individual associated with the bank, but not the borrower, and it ended up in the Central Bank. If the issues we raise here are not investigated, it is going to give licence to the banks to do pretty much what they want and get away with it. I am raising that as a general point. I will send details of the specific cases to Mr. Makhlouf. I honestly feel the Central Bank should take up with the banks the issues contained in the cases that are highlighted here.

On another subject, Deputy Doherty raised the issue of the banks that are closing and what is happening with all of the accounts. Are the remaining banks able to cater for those accounts? My personal experience, and the experiences that have been shared with me by others, is the banks concerned could not give a damn. Customers are left to take all of their own actions where the bank is supposed to assist and help. It is not happening. It certainly did not happen in my own case. There are many others, such as Deputy Doherty, who have come to me and complained about the fact they have had no assistance whatsoever, despite the fact this rule is in place in terms of giving assistance to the customers.

My next question concerns politically exposed persons. Will the witnesses share with the committee what written guidelines the Central Bank has provided to the banks relating to politically exposed persons? Will they provide a definition of what the Central Bank considers to be an associate of a politically exposed person? Again, the experience of parliamentarians and others is we are being treated like criminals. The way banks are behaving is shocking. It is not just affecting individuals but it is also affecting staff members, associates and family members. I do not think it was ever intended to do that. I am all for regulation, transparency and accountability, but crucifixion does not come into it and that is what they are into. I mention receivers and the switching code, which were referred to earlier. Does the Central Bank have any role with the Irish Bank Resolution Corporation, IBRC? Does it come under the Central Bank's banking resolutions?

Mr. Gabriel Makhlouf: We have. It depends on what particular bit of it the Chair is talking about.

Chairman: The Central Bank might provide us with a note on its role in that, whatever bit that is. I am trying to cut the debate short because I am abusing my position and I am sure I will be chastised by members later on. The Master of the High Court, Mr. Honohan, was in the news and he said he was referring certain papers to the Central Bank for consideration because he could not believe the grab that was being made by the banks. That is a further example of the banks acting in a particularly aggressive way towards clients because they believe they are in the last few yards of the dash. I am shocked at what I am seeing and what I am being told. I will try to get it all into some correspondence to Mr. Makhlouf and I would hope to get a response on the issues in so much as he can respond.

Mr. Gabriel Makhlouf: I will help the Chair keep to his schedule, which he already-----

Chairman: Mr. Makhlouf might come back and defend me in the next session.

Mr. Gabriel Makhlouf: We will answer some of those questions. The Chair says he will send us some material and we will respond to that. We will write to the Chair on the credit union point. On politically exposed persons, the Chair is not alone. Some of the issues the

Chair described also apply to senior Central Bank officials, so I will leave it at that. We will come back to the other points the Chair has made.

Chairman: That will not exclude Mr. Makhlouf from giving me a detailed response.

Mr. Gabriel Makhlouf: We will give the Chair a response.

Chairman: That is grand. We will suspend for ten minutes and come back. I thank Mr. Makhlouf and his officials for attending. May I acknowledge the Kilkenny constituent in the Gallery, Mr. O'Reilly. He is welcome and I hope he enjoys the proceedings.

Sitting suspended at 3.13 p.m. and resumed at 3.25 p.m.

Chairman: I welcome the officials from the Central Bank, Mr. Cross, Ms McMunn and Mr. Kincaid. The procedure is that there will be an opening statement and the members will then ask questions. In our previous session, some members were cut short, so I will ask Deputy Ged Nash to begin the questioning. I call Mr. Cross to make his opening statement.

Mr. Gerry Cross: It is a pleasure to appear before the committee today. I am joined by Ms Mary Elizabeth McMunn, director of credit institutions supervision, and Mr. Colm Kincaid, director of consumer protection. Following on from the committee's exchange of views with the Central Bank Governor, Mr. Makhlouf, and the deputy governor, Mr. Donnery, including in regard to the Central Bank's recently published multi-year strategy and regulatory priorities, we are pleased to have the opportunity to discuss with the committee a number of issues in the area of financial regulation, particularly in the context of the rapidly changing financial services landscape in Ireland and the EU.

At the Central Bank, as members know, we seek to safeguard financial stability and protect consumers through our ambition for a resilient and trustworthy financial system which sustainably serves the needs of the economy and citizens of Ireland and the EU. In achieving this objective, we recognise the context of deep and rapid change and innovation in which we operate and we seek to deploy our regulatory powers so the benefits of this change are realised for the consumers and users of financial services and the risks mitigated. Our strategy strongly reflects this context where the theme of safeguarding stability and the interests of citizens is positioned at the centre of an approach that is future-focused, transforming, open and engaged.

Among the important areas of change that we currently observe are, first, a rapid evolution in the way in which banking, payment and other financial services are provided to customers; second, technology-driven development of whole new product areas and activities, with the dramatic growth of crypto assets being the most notable to date; third, the ever-increasing role of data and data analytics in financial services provision; and, fourth, the pivot to a net zero carbon economy and the imperative for the financial sector to be at the heart of that transition. There is also, of course, Brexit, Covid-19 and now the invasion of Ukraine by Russia and its still unfolding consequences, which teach us that not only does the financial system and its oversight have to deal with continuing change, it also has to be able to cope with periods of fundamental uncertainty. The pandemic, in particular, has shown us the benefits of building resilience in the financial sector to continue to serve the needs of consumers and investors through periods of stress.

In Ireland, as across Europe, some of the biggest changes in financial services have been seen in the area of retail banking and payments. For example, in the area of payments and e-money firms, we have seen the number of authorised firms grow by an order of magnitude in four years, from low single digits to more than 40, with a significant further number currently in the approvals process. Technological advances have also provided opportunities for existing banks and firms. Many have adapted their business models, focusing on digitalisation strategies as customer behaviours turn more and more to online services. Reducing their cost base to be more in line with EU norms and remain competitive in such an environment continues to be an important aspect of banks' strategies.

Beyond banking and payments, we also see significant interest in authorisation among tech-driven investment firms and virtual asset service providers, so-called VASPs. It is clear the range and nature of financial services and the manner in which they are provided to consumers and users is undergoing significant change. Provided new entrants have suitably consumer-focused cultures, this is to be welcomed. Innovation and new entrants that are well and proportionately regulated are key to a well-functioning financial system. It is also consistent with Ireland's reputation as a tech-oriented jurisdiction.

Through our innovation hub as well as through our informal and formal authorisation engagements, we seek to ensure that new and innovative firms can engage easily, straightforwardly and transparently with the Central Bank. At the same time, of course, we expect prospective and existing regulated firms to be well run, with sufficient finance and good risk management, to be resolvable and to have a consumer-oriented culture so that consumers are neither misled nor mistreated.

The retail banking sector in Ireland is seeing considerable change right now with the withdrawal of Ulster Bank and KBC. We are closely engaging with all relevant banks to ensure that the challenges this poses are being matched by plans, preparations and resources. We expect all concerned to prioritise the interests of customers and prospective customers and we are prepared to intervene further if necessary, should this transition not proceed in line with our

expectations.

One aspect of the retail banking sector that is not changing as quickly as we would like to see is the level of distressed debt in the system. About 47,000 principal dwelling households, PDHs, are still in mortgage arrears, of which approximately 32,500 have missed at least three payments and are 90 days or more past due. This is a source of deep stress for the families and individuals concerned. Successfully resolving distressed debt is important to the fair treatment of borrowers as well as to the effective support of the domestic economy. As well as dealing with existing arrears, we have been clear with lenders on the need to be vigilant to identify and deal with new arrears cases. We expect lenders to have in place a range of restructuring options capable of delivering sustainable solutions. When a borrower is offered an alternative repayment arrangement, it must have realistic potential to resolve the borrower's arrears position on an appropriate and sustainable basis. Lenders should also review and enhance their approach to dealing with personal insolvency practitioners.

As part of the financial services landscape, credit unions continue to fulfil a central role. While that landscape is changing, we want to see a sustainable sector serving local communities across Ireland. How the sector competes with others is a critical factor in their future sustainability.

The rapidly evolving use of data and data analytics is another factor changing the way financial services are provided. Done well, this can bring material benefits to financial services users and the economy. However, firms must be vigilant to ensure that the manner in which they use data serves customers' best interests.

Ensuring the fair treatment of customers was the guiding principle behind the publication earlier this month of our new insurance regulations. Price walking in the motor and home insurance markets, that is, the practice by which premiums charged are increased the longer the customer is with the firm, will be banned from 1 July 2022. This ban will benefit consumers by removing any loyalty penalty for consumers of long tenure. In order to support switching and competition in the market, new customer discounts will continue to be allowed.

Finally, a word on climate risk and the transition to a net zero carbon economy. This forms an important aspect of our multi-year strategy. The financial sector, which will be key to successful transition, has three key responsibilities: to assess and manage their exposure to climate and transition risk; to achieve high quality, accurate and reliable standards of disclosure so that customers and investors can have full confidence about a product or service that is labelled

"green"; and to evolve their business models and offerings to align with and support the move during the current and immediately coming period to a carbon neutral economy. At the Central Bank, we are engaging with firms across our supervisory mandate to ensure these responsibilities are being fulfilled.

I will stop here. Hopefully, I have given members a good sense of the some of the challenges coming from this period of significant change and innovation and how we see these and are approaching them. My colleagues and I look forward to members' questions.

Deputy Ged Nash: I welcome the witnesses to the meeting. To a degree, the issue I want to raise was addressed somewhat by the Governor and his colleague, Ms Donnery, earlier on, but it is probably more appropriate to tease this question out a little further with the other witnesses, given that they have direct responsibility for the issue of consumer protection within the Central Bank of Ireland. I want to focus my contribution, observations and questions on the issue of the exit of KBC and Ulster Bank from the Irish market. We know that those exits are imminent and this has the potential to create real problems in terms of switching and moving bank accounts from one entity to another.

As the individuals responsible for consumer protection in the Central Bank of Ireland, are the witnesses satisfied that both the exiting and receiving banks have the capacity to deal with the additional workload caused by the exit of Ulster Bank and KBC?

Mr. Gerry Cross: I will turn to Ms McMunn first and then to Mr. Kincaid.

Ms Mary-Elizabeth McMunn: In response to Deputy Nash's specific question, there is an acknowledgement for us that this is a seismic shift in terms of the retail banking sector. I want to assure the committee that it is an absolute priority issue for us, in terms of our engagement with the institutions across our collective teams. It has been a priority issue for us since the announcements by both of the banks last year. We have cross-divisional teams that are dedicated to working on these issues with the specific banks. There has been much engagement and it is multifaceted in relation to the issue. I appreciate and will come to the Deputy's question in a moment, which is specifically on the liabilities. However, there are asset and liability transfers happening. It is a multifaceted issue. There will be much work that needs to be done to ensure this is done safely.

At a very headline level, we expect the firms to do it well. It needs to be led by the executives of these institutions and overseen and challenged by their boards. They need to have a customer-focused lens in their approach, which includes in terms of the plans they put in place. We have made many supervisory interventions since last year. On the specific issue, it is not just around the liability side, but it is about ensuring the banks have the capacity to take on both assets and liabilities.

I will pass to Mr. Kincaid in a moment but from our perspective, a supervisor's job is not to just form a view of how the institution is right now, but of how it will cope with the challenges ahead. That is our role, in terms of pointing that out. I have spoken to each of the CEOs of the retail banks and impressed upon them the importance of the months ahead in relation to the phased migration of customers from both the asset and liability sides. In addition, I impressed upon the leadership of the retail banking system that the system must ensure it has done all it can for customers in relation to this migration activity.

I will pass to Mr. Kincaid now.

Mr. Colm Kincaid: Since it is my first time to speak, I thank members for the opportunity to talk about these issues with them. As Ms McMunn said, there are many aspects to this, both loans and bank accounts. Looking specifically at the bank accounts for a moment, the customers who have bank accounts at Ulster Bank and KBC are customers of Ulster Bank and KBC. Ulster Bank and KBC have duties to those customers and will continue to have them until those customers are onboarded to a new destination, which is a huge exercise to complete. It requires a significant effort on the part of both the departing banks and remaining banks. We have been very clear with the institutions and in the public domain that the institutions are not yet where they need to be on this specific aspect of their migration plans, which is the onboarding and migration of customers with current accounts and deposit accounts. There is also work under way in those institutions. It can be done, provided those resources and plans are put in place and are executed well. We will be scrutinising that.

Turning to the banks to which consumers choose to move their accounts, our consumer protection code is very clear in applying not just to consumers, but also to prospective consumers. Institutions have a duty to consumers who come in through whatever channel to them to open an account. For example, one of the reasons we put so much emphasis on the issue of call waiting times recently was exactly because, as Ms McMunn said, we saw a pinch point emerging in this and we intervened to require additional resourcing. In answer to the Deputy's net question, it is a significant challenge but, provided the resources are put in place and it is done properly and done well, it can be done. We will be focusing on it to make sure that happens.

Deputy Ged Nash: I have a couple of follow-up questions around the practicalities of how all of this is going to work. I had a message earlier from a constituent. Under normal circumstances, I do not believe he would be moving from Ulster Bank or KBC necessarily. It is just that, in the normal way, he has decided to take the advice that is often proffered to switch his bank accounts. It has taken four months to do that in normal times, and we are no longer in normal times. This has the potential to be catastrophic for individuals and for small businesses. I hope the Central Bank is aware of that and is prepared to take whatever action it can to try to ensure this unprecedented transfer of accounts is as seamless as possible.

Mr. Kincaid made the point that the banks are not where they need to be at this stage. The Central Bank Governor put it more bluntly earlier when he said the banks are simply not ready. We are expecting that over the next few days Ulster Bank will issue letters to several hundred thousand customers to alert them to what is expected of them and what is required over the next few months as it exits the market. We are in a difficult situation. The Governor said they are not ready. Mr. Kincaid said they are not where they ought to be. Is the six-month deadline that has been imposed by Ulster Bank for customers to close or switch their accounts appropriate or realistic, or should it change? If Mr. Kincaid and the Governor do not believe that the banks are ready, and given the fact we could potentially face a very serious interruption in our economy and in the personal lives of ordinary bank customers across the country, does Mr. Kincaid think that Ulster Bank should not send out those letters and that it should postpone that and extend the six-month period for switching and closing accounts?

Mr. Colm Kincaid: We are starting into this process now. As the Deputy said, it will be done through a period of phasing, so the migration of accounts will be phased over time and we will be observing that very closely and scrutinising it. The reason I started my earlier remarks by referring to the responsibilities the departing banks and the remaining banks have to their customers is to deal precisely with that concern the Deputy is talking about. It is important that we get started. The phasing approach is to be welcomed. As the requirements that we have placed on the institutions come online, and as we see the behaviour of consumers and the choices that consumers make as they get these letters, and they are being given several months to act on them, we will see the progress that is made. It is important that we get started and that we work our way through this.

As I said, we are very clear in our engagements that the departing banks have obligations to the customers that are with them and will continue to have those obligations until those customers are properly migrated to new locations.

Deputy Ged Nash: I have a couple of final questions, with the indulgence of the Chair. Some Ulster Bank customers have already made the decision to switch their bank accounts. Has the Central Bank been monitoring that on a monthly basis? Would the witnesses happen to have the figures with them today that would indicate how many Ulster Bank customers have migrated already? That is the first question of my final round. I am assuming the Central Bank has a process in place to do that.

I have two related supplementary questions. There is an obligation on the banks to comply with the switching code, and this has been mentioned by other colleagues. In response to a letter I wrote to the Central Bank on 7 March, Mr. Kincaid responded on 28 March and I am grateful for his response. He said that the Central Bank is prepared to intervene further if it is not satisfied with progress. What does "intervene further" mean in practice? What tools has the Central Bank available to it? How long will it wait? Is the Central Bank going to wait until the fifth or sixth month of this before an intervention is made if it is not satisfied with progress? What kind of interventions is it prepared to make? What weapons does it have in its armoury to force the banks to comply with the code and to do what is necessary and do the right thing by customers?

Mr. Colm Kincaid: We have extensive powers to intervene on a matter like this. We are not waiting, which is the point Ms McMunn was making in her earlier remarks. We have been heavily engaged with the institutions since their announcements on a range of the aspects of this transaction, including the transfer of mortgages and other aspects, which we can speak to more fully if the Deputy wishes. On this particular issue, neither are we waiting. We have already been engaged with the institutions to require them to get their plans and their processes in place. We have seen areas where we need those plans to be enhanced and improved, and that is a live discussion with them. People have seen one element of that in what we came out with in terms of the findings in regard to call waiting times. In terms of getting in at the sort of information the Deputy is talking about, such as exactly where customers are migrating from and to, while aggregate switching numbers are available, that is something that we really want to ramp up on and have been ramping up on with the individual institutions precisely to understand that migration behaviour and where those pinch points are coming. Consumers will make their own choices as well, of course, as to which institution they want to go to, so it is not simply that every institution will face a certain fraction, and some may face more than others.

There is no question of us waiting. This is a live engagement that we have with the institutions. However, it is also important to say that we need to see the process get up and running and get started, and to start to see and be agile in our reaction. That is why we have set up the teams and the resources Ms McMunn referred to on this. She may wish to supplement that.

Ms Mary-Elizabeth McMunn: When we look at what is important about the phasing, first, it is not a big bang, which I think is right. Also, at each phase, we will be observing what has happened, how it went, what did not go so well, what that means for the overall plan, what actions need to be taken and whether we are sufficiently happy with the actions that have been taken. That will give us information in terms of what actually happens and what may need to change from the perspective of the institutions themselves.

Deputy Ged Nash: I am sure Ulster Bank has engaged with the Central Bank to inform it as to what its plans are to support customers in that process. It has set down what appears to me at least - it may not be - an arbitrary deadline of six months, and it may have done that in agreement with the Central Bank. If the Central Bank believes that is not sufficient, will it leave it open to revision or review and demand that Ulster Bank would, for example, extend that by another period of weeks or months to allow the needs of customers to be properly addressed and to ensure Ulster Bank complies with what is a statutory code?

Ms Mary-Elizabeth McMunn: It is fair to say that all options are on the table for us in terms of what we observe around the success or otherwise of those plans as they are now and then what happens.

Deputy Ged Nash: The Central Bank would leave it open to a request that Ulster Bank extends that period.

Ms Mary-Elizabeth McMunn: Indeed.

Chairman: Thank you. I call Deputy Tóibín.

Deputy Peadar Tóibín: I greatly appreciate the opportunity to come back in. My first question relates to the credit unions. It has always frustrated me that there are two significant financial dots that have never been joined in this country and that concerns the money the credit unions have that they want to put into funds to be invested in the housing market. It is estimated that about €12 billion or €13 billion of funds are with the credit unions at the moment, and they seek to make that funding available to approved housing bodies so those approved housing bodies have the ability to build houses. God knows, we have a real need of houses in this country at the moment.

I met with the regulator of the credit unions a number of years ago and I got a very strong sense that the regulator felt that the capacity to manage that was not in the credit unions. My instinct was that if the capacity was not there, then the Government should help to buttress or build that capacity to facilitate this. I know that a number of funds have been created in recent months, small funds which can be used with the approved housing bodies. I do not see the Government, or at least the State, providing the requisite energy concerning these funds. Equally, if the law was changed, the amount of money that could be made available to the AHBs would increase greatly. The credit unions have different rules and regulations around regulatory reserves, lending limits, etc. There is a great need in the State for housing but a great absence of the required funding. In that context, and given the funds the credit union sector has and its wish to use those funds to finance housing, would it not be logical for us to change the law and build capacity to allow those funds to be increased?

Ms Mary-Elizabeth McMunn: I am happy to take that question. To start with the part of the Deputy's question concerning the restrictions on lending limits, it is important from our perspective to say that we introduced tiered lending limits in house and business lending in 2020. I am sure the Deputy is aware of it. Another aspect concerns the lending we see taking place versus the capacity of the system to undertake lending. In house lending, the value of house loans outstanding is now €260 million. That is 10% of the capacity for house lending, which means that 90% of the lending capacity remains. Regarding outstanding business loans, those amounted to €128 million, or 5% of allowable capacity in that context, which means that 95% of the lending capacity remains.

Deputy Peadar Tóibín: Why is that the case? Does the lending by credit unions represent funding provided directly to people who want to buy houses or does it include lending to AHBs as well?

Ms Mary-Elizabeth McMunn: It is lending to individuals as opposed to AHBs. A couple of factors are at play here. Our registrar recently gave a speech on this topic before representatives of the Credit Union Development Association, CUDA, and we would be happy to send a copy to the committee members if they have not already seen it. First and foremost, we must recognise that market share cannot be built overnight in house lending. Established lenders are in the market already and have scale, which means they have a natural competitive advantage. Additionally, those lenders have the competence and capability to undertake such lending, and these aspects must also be built up to allow this type of lending to be done. This is equally the case on the business side. Often, additional lending capability may be needed in niche areas and it also takes time to build capacity in this regard. Therefore, it is important to distinguish between the reason the limits exist and the capacity utilised in the system *vis-à-vis* those limits.

Deputy Peadar Tóibín: Regarding the AHBs, they are in great need of funding and the credit unions have funds. Yet there is a mismatch between the supply of those funds and the demand for them. How do we match these aspects up?

Ms Mary-Elizabeth McMunn: As the Deputy rightly said, we have recently seen some initial additional investment come on board for AHBs in respect of funds in this regard. Ultimately, what is being referred to here are investments. We reviewed the investment framework and, from our perspective, we concluded that there are appropriate choices and diversification opportunities for credit unions. I cannot directly answer the Deputy's question regarding why more is not happening in respect of what is available for credit unions.

Deputy Peadar Tóibín: It just seems to me that this is a real missed opportunity. I understand this is likely to be a policy area for the Government rather than a responsibility of the Central Bank of Ireland, but as a country in the grip of such a vicious housing crisis, it is a mistake to be missing this opportunity to match these funds to the organisations that wish to build housing.

Turning to another element of this context, the banking market here is phenomenally concentrated. Indeed, it is further concentrating almost yearly. Our banking structure is an oligopoly. This gives enormous power to the existing banks in respect to all the aspects of their engagements with customers. I refer to interest rates, where they do business and all the attendant terms and conditions. This is bad for consumers and for citizens. There is a crisis in this regard and it has several aspects. The first concerns why this concentration is happening. The capital reserves held under the macroprudential rules, etc., have an effect on the profitability levels banks can achieve in this State.

The Governor said earlier that some companies are leaving the market but that new ones are entering it. I have no sense, however, that the institutions coming into the market have the capacity that would allow us to say they are truly replacing those entities leaving. There is no evidence to show that the companies entering the market, in slightly different financial forms, have the capacity to take on the business that Ulster Bank and KBC are leaving. We must ensure that we increase competition in this market to make it a healthier one. There are several ways to do that. One involves the credit union sector and the second is a public banking system. At least one political party in government, however, seems to have a fear of public banking, but it has proved to be a successful sector in many other strong economies, including Germany's, for example. Would a public banking system make for a healthy component of a more competitive banking system overall?

Mr. Gerry Cross: I will lead off on this topic. My colleagues may contribute as well. This question raises some important issues. Deputy Tóibín will have heard Governor Makhlouf say earlier that the reduction in the number of retail banks from five to three was a matter of concern from a competition perspective. That is the case. In my opening comments, however, I tried to briefly set out how much we are currently in a state of flux in respect of the evolution of our financial system. It is important to say those are not just words; this is truly what we see happening. During the last five years, we have seen significant evolution in the financial system. As I mentioned in my opening comments, we have moved from there having been four authorised payments firms four years ago, to there now being more than 40, with 30 more in the approval pipeline. Real change is happening in the sector.

It is also worth saying, because it is striking, that approximately 10% of new mortgage lending is offered by non-bank lenders. Regarding the point made by the Deputy, that does not take up all the capacity that was serviced by Ulster Bank and KBC by any means, but it is a material amount of participation by these non-traditional lenders. On the SME lending side, the equivalent figure is about 20%. These are not exact numbers, but they are broadly correct. This is without mentioning all we are seeing in respect of the technological change in this area. The Deputy was correct in saying we cannot talk about some of these innovative newcomers as being the same as the retail banks in respect of their embeddedness. That is true. It is important to recognise as well, however, how rapidly the whole ecosystem is changing. Ultimately, this is about the provision of services to customers, users and the economy.

From our perspective, Governor Makhlouf mentioned we do not have a competition promotion role and that it was for others to undertake that aspect. It is important for us, as we do our regulatory activities and engage with firms, to understand how what we are doing relates to and impacts on competition. This includes how we engage with innovative firms and technology companies and how we are available to that cohort, so that we fully understand the changes that are taking place.

Deputy Peadar Tóibín: The volume of those exiting the market is not being matched by the entries and those left behind, which is key for consumers. In many cases, they are not like for like services. This is not a criticism of the witnesses. That logic is nearly a white flag being raised with regard to the future of the banking market. At the end of this, there will be hundreds of towns and villages with no bank or banking services and hundreds of thousands of people, including farmers, small businesspeople and families, having many of the banking services that were available to them disappear. That has a significant effect on the functioning of the economy and society.

Is there any light at the end of the tunnel with the macroprudential rules? The witnesses mentioned the massive numbers who are collateral damage of the mortgage distress from the last crash. It is incredible that we still have people suffering from mortgage distress at the same time as we have a new housing crisis due to prices. These people are left over from the last crash, even though we are at a new peak already. Is there a light at the end of the tunnel with a reduction in interest rates here compared with other European countries and a healthier operating environment for banks in the State?

Mr. Gerry Cross: The Deputy raised many important issues that we are engaged in. I will address two or three, then Ms McMunn will speak. This is not a one-for-one matter, where a bank leaves and is automatically replaced. Are we seeing forces of competition in play? Is the context in which this is taking place one where innovation and change are happening? That is important, not to take away from the Deputy's point. How are traditional banking services made available to all who need and want them across the country? The Department of Finance's view on banking considers such matters, including the availability of cash, which contributes to the banking review.

It is important to address why the capital requirements are the way they are. We recently published a paper on so-called risk-weighted assets, about the calculation of capital for mortgage lending. We set out clearly what is driving those risk weights. There are two components. One is the probability of something going wrong in a loan. The other is what happens if a loan goes wrong and what the losses will be. One can see from the paper that we are very consistent and completely in line with the European requirements in this regard. The fact that we had the crisis is relevant in Ireland, but it is becoming less impactful as we move further from it and our processes are improved.

On public banks, we will authorise, assess and supervise anything that comes our way that is within the remit of financial regulation. We do not have a negative view on that. It has simply not come to us.

Ms Mary-Elizabeth McMunn: There were a couple of points linked to credit unions before I touch on interest rates. I will be brief. The Deputy will be aware that the Department is leading work on credit unions from a policy framework perspective. We are providing feedback to that process. That is the first point on policy.

The Deputy referred to the *Sparkassen* model for public banking. We note that the 2018 and 2019 report both concluded that there was not a case for the establishment of a public banking in Ireland. As Mr. Cross said, our disposition regarding new entrants is linked to our disposition regarding authorisation. We are very open to new entrants coming here.

One final point on credit unions, which is linked to the like-for-like services, is that we permitted credit unions to provide additional services, including member, personal and current account services, MPCAS. That allows credit unions to offer current accounts with debit cards, overdrafts and other payment services. Some 68 credit unions currently provide that. Those additional services have been permitted under legislation since 2016. That relates to balancing assets and liability.

The Deputy asked when we will see benefits of better lending as a result of the macroprudential measures feeding into reduced capital requirements, if I understand him correctly. That is a complex question. It will take time, as Mr. Cross said. We have had higher defaults here than in other EU countries. We have a higher stock of non-performing loans on the books of the banks than in other EU countries. It takes longer to work out collateral here than in other EU countries. Comparison between countries is often tricky, because other things happen to risk-weighted assets in European jurisdictions that elevate the capital requirements in those jurisdictions. Our recently published paper provides a good handle on where there are additions to risk weights in other jurisdictions, so they can be compared with us.

Capital is just one element of interest rates. There are five aspects, including operational expenses, cost of funding, cost of risk, capital, which we have mentioned, and the competitive environment for banks. We have higher levels for the first four in Ireland. I will address operational expenses. The cost-to-income ratios for banks in Ireland are approximately 20% to 30% higher than for European peers. Irish banks generate their income much more from net interest income rather than the more diversified income of other European banks, which might include fees and commissions or more diverse business models. One can see through the transactional activity here that some banks are trying to improve the diversification of income, which would improve their cost-income ratios.

Regarding expenses, banks seek to be cost efficient. That may mean changing the number of branches or staff that they have. It also includes being more efficient through digitalisation. Banks are seeking to gain traction on both income and expenses to address interest rates.

Deputy Peadar Tóibín: I appreciate that. My final question relates to the economy as a whole. Inflation radically affects families across the country. Electric Ireland increased the price of electricity by 25% today, which is an incredible increase. This will cause pressure to provide wage increases. The Government warned that salary increases could have a spiralling effect on inflation. This committee often talks about wage increases for people who are very wealthy and there does not seem to be a problem about it at all. When it comes to wage increases for people on low and middle incomes there is a warning given that it could lead to spiralling prices in the future. There are highly profitable businesses, and I am thinking of the ESB itself which made a profit of €650 million this year. It is incredible that one of its arms is increasing the cost of electricity at the same time. There are many businesses in this country that are extremely profitable and it would be possible for them to offer pay rises to workers and still not put an upward spiralling pressure on wage inflation if that were the case. Is that not right?

Mr. Gerry Cross: I cannot give an answer to the Deputy. Mark Cassidy from our economics side was here last week and Governor Makhlouf and Ms Donnery are here this afternoon but our focus is on the regulatory side. I note the Deputy's point, however.

Deputy Peadar Tóibín: Táim buíoch as na freagraí sin.

Senator Alice-Mary Higgins: I thank the witnesses. I have two sets of questions. The first is on risk. In the opening statement, there was talk-----

(Interruptions).

Senator Alice-Mary Higgins: -----in relation to particular loans. The two areas of risk that are interlinked, which I am hoping the witnesses can shed more light on, are cryptocurrencies and crypto assets, and climate. I want to get a sense of what the strategies are, what assessments are being made and what actions are being taken in these areas. The Central Bank has produced a useful briefing on crypto assets and acknowledged that there is a financial risk involved with them. We know there is a lot of debate on whether or not crypto assets should be allowed to be included within investment portfolios and that there is a financial risk component to that. I am of the opinion that we should not be allowing that but I would like the witnesses' views on that.

On a wider level, in the briefing the Central Bank mentioned and acknowledged the fact that there is a huge sustainability risk in how energy intensive cryptocurrency and crypto assets are. They are creating extreme pressure in energy usage in some cases. The Central Bank used the example of the Cambridge Bitcoin electricity consumption index, which highlighted that Bitcoin uses more energy in a year than entire countries like Norway. Kazakhstan is another pertinent example, which last year was the second largest cryptocurrency mining country in the world with some mines running 50,000 computers. That has led to and contributed to an energy crisis and political instability in Kazakhstan.

I am on the Joint Committee on Environment and Climate Action as well as this committee so this is an area of real concern to us. In the Joint Committee on Environment and Climate Action we are hearing potential predictions, which are worrying, that data centres in Ireland could be using up to 33% of our national electricity by 2030. A frank discussion we have had is that this is an energy crunch. I slightly disagree with Mr. Makhlouf as he seemed to suggest that it is a temporary supply bottleneck but we know the energy transition is substantial. It is not simply a matter that the oil and gas will start flowing again. We are in an energy crunch, in terms of having sufficient renewable energy for the next five to ten years and of how we manage our energy. We need to look at demand reduction. In that context, is mining cryptocurrency or processing crypto assets a responsible use of electricity and energy over the next period of time? What is the Central Bank looking at in that area? I know the digital financial package and distributed ledger technology are being looked at as a pilot but besides that pilot at the EU level, what are the national regulation options or moratoriums we could be looking at for crypto assets and cryptocurrency? Has a risk assessment been conducted or will a risk assessment be conducted by the Central Bank as part of its multi-year strategy on the implications of crypto assets for our climate targets and the net zero carbon economy goal it outlined in its presentation?

Mr. Gerry Cross: These are hugely important and very difficult questions. I will start by talking about our approach to crypto in the round and then I will focus on energy. We published a warning last week, building on the work of the European supervisory authorities, on the real risks in crypto investment by retail. Mr. Makhlouf spoke to this because in many cases cryptocurrencies are unbacked and broadly speculative and that is matched with a remarkable level of promotional activity by influencers and celebrities, etc. It is truly a new phenomenon and there are real concerns about how that dynamic is playing out. On the other hand, when one looks at the underlying technology and functioning of something like Bitcoin, it is quite remarkable. There are potential advances and things might evolve in the next three, five or ten years to the good of the economy, the consumer and the user in smart contracts, for example. There is a significant potential benefit there. Our job is to try to manage the risks and at the same time try to allow the potential to develop. The Senator will have heard Mr. Makhlouf say that there are different type of crypto assets and different ways in which they operate. While they can be problematic, they are also opening up the financial services sector and market to a range of young consumers who previously would not have had that engagement or access. That raises questions around financial literacy and education and there is also a potential material positive in that space. Funds focused on the retail investors should not have crypto assets in them but we are more open to funds targeted at professional investors.

The Senator's point on energy use is fundamentally important. It is really good to see that debate so live in the European Parliament in the context of the markets in crypto assets legislation which is currently under way and I am sure that debate will remain live as it goes through the trilogue discussion between the European Parliament and the European Council. Wherever that comes out, the deal that will likely be done there means this will be firmly on the agenda. Until now it has been right to say that the energy consumption issue has not been properly on the agenda and it needs to be. I could not agree with the Senator more on that. I talked about the underlying technology and it is interesting that already we see these products move from proof of work, which is highly energy intensive, to proof of stake, which is another type of verification mechanism. We are already seeing the evolution of these products to respond to those challenges. I am not sure I am giving the Senator the clarity she might like but we see the risks in this space. We are also conscious of the potential benefits. We are also very conscious that Ireland is seen as a jurisdiction where those interested in providing services for crypto assets will be interested in locating themselves. We are seeing that come through, for example, with some of the registration processes around virtual assets service providers. There is a lot going on in this space and it is right to say that we need to focus on the risks while at the same time trying to put in place the things that will allow the benefits to be realised.

Senator Alice-Mary Higgins: Okay. I am a little bit concerned to be honest because, as Mr. Cross said, this is fundamentally speculative. This is not necessarily real economy work. I am extremely concerned that some such businesses, services and financial services may be considering relocating in Ireland. I do not want us to become a poor regulator and a poor actor in this area. Ireland has a disproportionate number of data processing centres compared to other European countries. It would be a worry if we are also seen in any way as being a place where we end up championing or allowing what is fundamentally an unsustainable activity. Apart from any cost benefit, I have not heard a robust or serious risk analysis.

On the emissions piece, we talked about net zero and the obligation to ensure that we have accuracy around what products or services are labelled as green. With the European taxonomy, for example, the witnesses will be aware that there is a lot of concern and debate at the moment about the attempt to include gas in the taxonomy, and that there is a danger that many international investors will not engage when things are not green. Would Mr. Cross not agree that currently cryptocurrencies and crypto assets cannot be labelled as sustainable or green? We are talking about a new area of financial service expansion that is fundamentally unsustainable and not in line with this taxonomy or with prioritising green investment. I am concerned about that. When Mr. Cross answers that, I will ask my two final questions. They are on unrelated issues but are important.

With regard to distressed debt and so on, there is an issue that has been touched on but I would like to touch on it further, which is the concern where the banks are exiting the Irish market to such a degree and people's mortgages and other loans are sold on. This is a concern especially around distressed assets being sold on. We know that mortgage holders often seek an opportunity to settle their existing debt with a financial institution rather than having that debt passed on. There are those who are solvent and want to sort the debt with the financial institution before it is sold on to another actor, and there are those who wish to settle their debt with an institution that has purchased a mortgage book.

In that regard, what work is happening at a time when a lot of debt is, effectively, changing hands, be that distressed debt or non-distressed debt, to ensure that ultimately the mortgage holders have that opportunity for negotiating around their own exit so they do not see their mortgage being sold for less than they would be willing to pay themselves?

On credit unions, there is a programme for Government commitment on community banking. With absolute respect, the 2018 and 2019 reviews predate the programme for Government, and the commitment to community banking in that, and they also predate the exit of many of the commercial and retail banks that we have seen over the past year and a half. It is certainly time for a review. The opening statement referred to the credit unions being able to compete with others, but the fact is that the credit unions are not being allowed to compete in these areas because they are being constrained in accessing the market and fulfilling that public banking role. Perhaps Mr. Cross will comment on those three issues.

Mr. Gerry Cross: I will say something very briefly on the crypto piece and I will pass over to Mr. Kincaid and then to Ms McMunn on the credit unions.

I very much share the risk concerns about the crypto markets the Senator has identified. I would like to reassure her that there is no question that we would become a regulator or a low quality regulator-----

Senator Alice-Mary Higgins: A soft touch regulator of any kind.

Mr. Gerry Cross: For us, the absolute requirement is that whatever activities are taking place in this jurisdiction, they are well regulated and the activities are effectively overseen. The Senator said that crypto is only speculation, but it is important to say that certain types of crypto are only speculation. As the Central Bank Governor, Mr. Makhlouf, mentioned earlier, there is a range of some crypto that are backed one-to-one by currencies, and they are used for payment purposes and are used within the virtual worlds, for example, for gaming and so on. There is such a range. The issue around the energy consumption is now a very heightened concern and one sees that evolution to a proof of stake and other ways of getting around some of those energy problems. It is important, however, to go back to that point about there being a differentiated context, without taking away from the importance of the risks that the Senator has identified.

Senator Alice-Mary Higgins: If Mr. Cross wanted to give any written comment around the taxonomy, that would be great as well.

Mr. Colm Kincaid: I will speak on the question about distressed debt, the sale of mortgages and the position for consumers, in particular and SMEs and others in that situation. As the Governor and Mr. Cross said, it is a priority area for us and has been for some time. This is because we recognise that for any person to find themselves in a position of arrears on a loan that is secured on the roof over their head is an incredibly distressful situation. Going right back to the financial crisis, we have been very proactive in putting in place a framework dedicated to dealing with those situations and requiring the institutions that we supervise to have arrears support units in place to deal with those, and to do so professionally.

We have also been very diligent in making sure that this framework applies not just to banks but also to non-bank lenders and to entities that service those loans. We have done that in our own frameworks and we have advocated at a legislative level for that. The very important message for consumers to have is that if a person or an SME has a mortgage, a loan, or an unsecured consumer loan that is covered by the rules of the Central Bank of Ireland, it will remain covered by the rules of the Central Bank of Ireland, regardless of who the loan is sold to. That loan can only be sold to somebody who is subject to the supervision of the Central Bank of Ireland. That is a very important point for people to understand.

As Mr. Cross said in his opening remarks, one of the areas we really want to see progress on this year is in long-term mortgage arrears. We still have a significant proportion of long-term mortgage arrears. These are cases where loans are in arrears of more than one year, where it is argued that considerable progress can be made by the lenders. We have taken those loan books, broken them down and compartmentalised them into groupings of customers. We say to the institutions that these customers seem to us to be in a position where they should be able to reach an agreement with those consumers, and particularly given the narrative that we hear from lenders of how difficult it can be to repossess or enforce property in Ireland. Our narrative back to that is that if that is the case, and given how we have broken down these books, there is considerable scope for improvement.

Members will see in the figures we published this morning that there continues to be reduction in mortgage arrears. We would also say that we have always been struck by the extent to which that reduction tends to come about because of specific interventions by the teams in my area and in Ms McMunn's area in dealing with those lenders. That will remain an area of focus for us, but with regard to the banks that are departing and the transfer of loans, the key message is that it does not change the protections that are there for borrowers. The purview of the Central Bank and the work we will be doing will be on those loan books regardless of where they move to. The Central Bank would be very engaged across that.

Ms Mary-Elizabeth McMunn: The Deputy is absolutely right in respect of the timing of the previous reports to which I referred on the public banking model. They did take place before the exits that were announced. Whether the position in that regard is revisited is a matter for the Government. As the Deputy stated, the policy framework review is ongoing and we are providing input into that process.

Deputy Pearse Doherty: I thank our guests for their attendance. Mr. Makhlouf and our other guests referred to the changes that are taking place at a financial level. There has been significant focus at this meeting, perhaps more so than most, on cryptocurrencies and all the rest, but the ECB itself is developing its e-euro or digital euro. I know there are suggestions the deposits could be limited to €3,000 per person, but what is the potential impact of the shift when a digital currency such as that one is released? I refer to customers' accounts being with the ECB and the security that brings. What disruption could that cause to domestic banks? Would people move away from dealing with domestic banks in terms of lodging euros, in favour of using the digital euro for swifter and cheaper payments? Is the Central Bank monitoring that?

Mr. Gerry Cross: In the context of the ongoing work involved in the consideration of the development of a digital euro, in a way it seems like a relatively simple question. Everything is electronic these days and most of our money is electronic, so why is it such a big deal to move to a digital euro? As the Deputy intimated, it is a really big question because there are all sorts of implications to be considered. The Deputy referred to one such precise implication, which is whether it would involve moving to a situation where consumers and anyone else using money have their account directly with the ECB. That could be the case. It could also be the case that there may be a level of potential intrusiveness by the State and the authorities in respect of information. There is a whole issue in respect data and privacy that is really important and difficult to get to grips with. There is a question in respect of what it means for the banking system and the payment system and how should we think about that. One way to think about it is as a natural evolution. Banks were developed to solve a particular issue at a particular time. Things have now moved on and the way we can do money has moved on and banks, therefore, may need to evolve to reflect that.

All of these questions are at the heart of the debate that is going on right now in the ECB and the European system of central banks. We are totally involved in that discussion. We take part in the various standing committees, working groups and projects that are under way precisely to work out how it should work and what the choices are. Of course, there is the whole issue of how it works technologically. We need to consider what the choices are in respect of these types of issues. For example, if banks will no longer play their previous role in the context of payments because that can be done directly through the ECB, will that bring banks back more towards their credit intermediation role? To be clear, I do not have answers to these questions. They are precisely the questions that are being considered now. We are very involved in that and the ECB is looking at it with quite a degree of momentum.

Deputy Pearse Doherty: I understand. I think the timeframe was to have legislation next year and be operational two years after that. Obviously, the ECB is trying to keep up with what is happening with other currencies and what Facebook is doing, as well as trying to be relevant to where people are at.

The issue of those in arrears was referenced in the context of retail banking. I will not focus on that. Other members have touched on it.

What concern, if any, do our guests have in respect of what is happening in the construction sector currently? I refer to companies being locked-in to prices they now believe are unaffordable. We have seen the impact of that in terms of Roadbridge. It has been suggested that other companies may follow. Is the Central Bank monitoring this issue? Is it bigger than just one company or is there nothing to be concerned about in that regard?

Mr. Gerry Cross: If the Deputy will forgive me, I will not hazard an answer to that question. I am not sure if either of my colleagues wishes to address it. It is not really directly within our regulatory bailiwick. It is not that it is an unimportant question, but we do not have the wherewithal to respond on it.

Deputy Pearse Doherty: That is fine. As regards differential or dual pricing, I welcome the work that was done by the Central Bank and, in fairness, the engagement we have had in the past two yeas since I submitted a complaint. I also welcome the fact that the analysis is now being carried out, although I do have concerns in respect of how it is being implemented. I made a submission in that regard to the consultation that closed earlier in the year. I note that our guests made the point that the Central Bank wants to encourage discounts for switching purposes. In the context of car insurance and home insurance, 70% or 80% of customers stay with their provider. Unfortunately, they continue to renew instead of moving to another company. There are deposits, however. In the North and in Britain that is not allowed. I am sure our guests have read my submission. As all present are aware, the danger is that the premium gets loaded in the first year of renewal, so it is just basically truncated into 24 months. The company lures the customer in and then loads up the premium in the first year because it cannot do so thereafter. The problem is that people do not leave, as is also the case in the context of banking and financial products. I refer to what happened with Ulster Bank. It is now leaving the country. People could not access their money for several weeks but they did not leave and go to another bank. That is a problem. I have concerns in that regard.

I know the Central Bank is putting forward an argument that Ireland is different. To me, it is clear that in terms of motor insurance Ireland is a sub-market to Britain, in reality. The major insurance companies here are the same ones that are operating in Britain. I know the market is smaller here - it is smaller than the market in Manchester, for example - but I still believe we could have operated the same type of proposal that pertains there. Discounts still happen there. I am looking at a website offering insurance in the North. A driver living in Newry can get a 20% discount on a new policy if he or she goes online to get it or knows somebody with the same policy. Discounts are allowed for new customers but renewing customers, even if they are in their fourth year or fifth year, also have to get the same discount for that period. Insurance companies would still be allowed to offer that kind of market attraction but all customers who renew that month would also have to be able to avail of it. I put that on the record because I am concerned about this issue and it needs to be monitored very carefully.

Insurance companies are already changing the way they calculate insurance premiums. For example, Liberty Insurance has changed the way it calculates quotes. It now gives customers a quote that may be less than the premium for the previous year but it excludes windscreen cover, which has to be selected as an add-on, whereas previously it was included automatically. The companies have pared it down to the basics and everything else is an add-on. That can confuse people as to whether they are getting better value. We have to keep one step ahead in the context of the insurance industry.

I am bringing forward legislation and will be asking the Central Bank for its opinion on that Bill in a formal session. I want to take this opportunity, however, to make the point that the Personal Injuries Assessment Board, PIAB, has referred to a 40% reduction in claims. We know that a similar reduction has happened in the courts yet no reduction of that level is being passed on in any way to consumers. We were told that we had to let this wash through and would have to wait for a while. It is not happening. My concern relates to the fact that there has been a reduction in motor insurance. There is no doubt about that. We can see the statistics. This is what my legislation will address. Not everybody is getting reductions. I saw an insurance quote the other day that had doubled from €500 to €1,000. On average, however, the cost of insurance has reduced. There are several factors influencing that. One thing we do not know, and the Central Bank cannot tell us, is whether the reduction in awards is being passed on in full to consumers. In Britain, all the major insurance companies that operate will have to provide a report to outline what premiums they would be charging if the reductions in whiplash awards had not come into effect, and the premiums they have been charging over the past three years, and that will have to be audited before they give it to the UK Financial Conduct Authority, FCA. Why can we not capture those types of data in the national claims information database in order that we can genuinely say the reason premiums have fallen relates to less traffic, better safety standards or whatever other measures have been taken into account, or whether it relates to the awards. Our guests might comment on that.

On the issue of switching between the banks, I welcome Mr. Kincaid's comments, which were an important intervention, suggesting the banks are not ready or up to the job at this point. We have concerns. Switching banks, for some people, will be very easy. They will be able to do so on their mobile phone if they do not have an overdraft. God help those people who have overdrafts because they cannot do that. They cannot even use the code but will have to agree it beforehand, or they will have to clear the overdraft, which many people will not have the resources to do. Many people will be caught out here. I am concerned the Central Bank, in its consumer protection role, is not stepping up to the level it should. The Governor should have met the CEOs of the banks. I can only assume from his response that has not happened. Two banks are withdrawing from the country and the Governor, I understand, has not met the CEOs. Three banks are going to receive about 1 million additional accounts over the coming years and that meeting has not happened. There is a problem there, in my view. That is no disrespect to our guests who have met the CEOs, or to Ms McMunn in particular, but this has to be dealt with at the highest level.

My understanding differs from something Mr. McKincaid said. He stated the obligations to their customers will remain on the withdrawing until they have been onboarded to new destinations or, as he went on to say, until they have been properly migrated to new accounts. My understanding is that is not what is going to happen. The banks will have that obligation for six months and, thereafter, they will be able to close the account and send a cheque in the post, and every direct debit will fail after that point. That is my understanding of the obligation KBC and Ulster Bank will have. If I am wrong, Mr. Kincaid might correct me. This is the problem. The Central Bank has done good work on the issue of phone waiting times, but there are people who, we are told, cannot get an appointment to talk about the overdraft they will need for five or six weeks. There will then be requirements relating to documentation, identification, the need for the bank to know its customer and everything else that takes place. Furthermore, we understand some of the banks are giving people two options, namely, to close their account and set up a new one or to use the code. People should be told not to close their account. We need a public awareness campaign to tell them not to close their account until everything is in order. I am concerned that people will be caught out and direct debits will fail.

Finally, in respect of the Irish Credit Bureau, no work has been done on the credit scores that apply when direct debits or mortgage payments fail as a result of customers not having the ability to meet them and the process that is not allowed. Ms McMunn stated the six-month period can be extended but, while I am glad if that is the case, I understand this is a statutory notice sent to customers to say the clock has started ticking and that six months later, the account will be closed. I was under the impression this is an official, legal obligation on the banks' part. Does the Central Bank have the ability to instruct the banks to extend the period beyond that?

Chairman: I understand Deputy Durkan has a short question.

(Interruptions).

Chairman: Unfortunately, the sound quality of Deputy Durkan's remote connection is very poor and we could not hear the question, but we have to move on.

I have a question relating to the Educational Building Society, EBS, tied agent issue, which was the subject of a court case. Has the Central Bank examined the outcome? It is a closed deal, with just one individual. What role will the Central Bank play in facilitating those parties that have not been to court but are pursuing the EBS and AIB in respect of their case? Can it expedite some form of mediation to bring the matter to a conclusion? If I were to report an alleged fraud to the Central Bank, what action would it take? Would it investigate that allegation or refer it to the Garda?

I reiterate that credit unions are not being allowed to perform as they could because of the regulation being imposed on them. They are not being given a fair chance. They offer a service that is exceptional and beyond what can be got in a bank. The Central Bank has to give some leeway in respect of the regulation and how it pursues that.

Mr. Kincaid indicated he had information on various cohorts in the banks regarding how many mortgages are bad and cannot be reconciled and how many could be sorted out. Will he provide us with detailed figures on that matter?

The issue of customer protection brings me back to my question regarding alleged fraud. Where a customer brings to the Central Bank's attention something significant that has happened in a bank, before the Central Bank tells the customer it is a once-off case and it cannot investigate the matter, does it take the substance of the allegation and determine whether it is possibly widespread or happening in other banks?

Finally, I asked the Governor whether he would consider examining the tracker mortgage issue and the cases that have yet to be worked out, and whether he would take the profile of those cases and investigate whether they have not been worked out because the customer was wrong or, perhaps, because the banks were just dragging their heels on sorting them out because that may create a precedent and a significant number of other cases may be impacted in the context of the tracker issue.

I want to get comprehensive responses to all these questions and I will make a submission to the Governor in respect of them. I bring them all to our guests' attention also because they are significant and the banks think they have got away with the tracker issue, given the balances of accounts left in the banks and still unresolved. I hope the consumer protection section of the Central Bank will take an interest in what has been said here. I ask Mr. Kincaid to please respond to the questions he can respond to. I ask him to take note of the questions that he believes deserve a more comprehensive answer and to respond to the committee in due course.

Mr. Colm Kincaid: I will do my best as there is a lot there. I will group some of the questions if the Chair wants me to be brief and succinct.

Chairman: I do because we are caught for time.

Mr. Colm Kincaid: In regard to the tracker issue, to be clear, more than 99% of the cases identified in our review have concluded and compensation has been paid. There are no unresolved tracker cases in that sense. There are a number of cases remaining where I believe customers cannot be contacted or the accounts are dormant. In regard to the cases that are before the Ombudsman, we made very specific provision to make sure that people could get the compensation through the Central Bank scheme and still have the capacity to go to the Ombudsman if they wished to take a case because they believed that in their personal circumstances they had an additional claim to make or they were in any way dissatisfied with the outcome that was yielded from that. Those are the cases that are referred to in the Ombudsman's report from Monday.

Chairman: Mr. Kincaid said that most of the tracker mortgages that were considered as part of that investigation are concluded. That is not so from my perspective. I have come across a great many tracker mortgage issues where the bank has simply dragged its heels and has not resolved the issues. That is why they are still in dispute. That is why I bring it up here. The tracker mortgage scandal, in my opinion, is not concluded. I said earlier to the Governor that what is happening here is that some of these loans are being sold to pass on the distressed mortgage, even though it is still a tracker issue. Some of them are being forced into court if there is a receiver involved. The cases I have inform me to the extent that I believe the Central Bank has an obligation to go through the remains of that investigation and ensure the banks are not hiding any more tracker mortgage issues. If the Central Bank does that, it will then be informed of those that are outstanding and those that are being put into question by the bank in an unreasonable way.

I looked at some of the paperwork and I have to say that the alleged fraud jumps out at me in terms of a number of these cases. I ask Mr. Kincaid to take that on board as being a relevant piece of information and to investigate the banks further on these issues. I am not happy at all with the outcome. I am happy in general but not in regard to specific cases that remain. As long as they remain, this committee and Parliament have an obligation to ensure that the banks are pursued until such time as the Central Bank is happy that everything has been concluded. If there are individual cases – I know individual cases are not investigated – the Central Bank has to take from the cases a direction of some kind because they are telling us something.

Mr. Colm Kincaid: In saying that, that is not to say there is any sort of closed book or conclusion. We reach a conclusion on an exercise, but the Chair is right to say there are still cases going through those processes he outlined.

In regard to the Ombudsman, which is where the original question came from, we are very engaged with the Ombudsman on all of those cases. It is one of the areas where we get sight of all of the cases that he identifies. It is absolutely our practice to consider them and to see if there is further action to take. One of the things I wanted to get across was that where we see a need or where something is brought to our attention and there is a need for further action, whether it relates to the tracker or any other review we have done, we will, of course, take that action. I was trying to sort of parcel it out between the review we did, the cases with the Ombudsman, and any further items that are brought to our attention. We have a strong track record in practice of dealing with Ombudsman cases, High Court cases or issues that are brought to our attention and not just dealing with an individual case, as the Chair said, but of looking beyond that to see if there is a more systemic issue in that firm or beyond that. We will continue to do that whether it is in the area of tracker or business interruption or any of the other areas where we have done that.

On the tied agents issue, I do not have much to add beyond what we said in this forum before. We will take any information in regard to that and assess it by reference to our functions. To date, on the information we have received, we have not concluded that there was a basis for action. However, we will look at any information we receive.

On the question of fraud, we report concerns we have in regard to fraud to An Garda Síochána but if there is any information that anyone would like to bring to the Central Bank, we will look at it. There is an avenue there.

On Deputy Doherty's point on my earlier remarks on the obligation of the bank, that was said in a context of being asked what it means for the Central Bank to be scrutinising this and how might we intervene. The notification period in our code, which is about two months or so, is a notification to customers on a proposal to close an account. As Ms McMunn said, the scale of this is such that everything is on the table in terms of the Central Bank reaching a conclusion that we need to intervene in a particular way. I would not feel constrained in any way in regard to that. However, I would reiterate the message that it is important that we get started in the process and start to make as much movement through that portfolio of accounts as we can.

Chairman: I am sorry but we have to conclude the meeting because of the arrangements in the House. On the EBS question, it was not good enough that a bank would settle with one agent and not with the others and would use the court case to close down everything else. I understand there may be a mediation process but I would say to the Central Bank that I believe it has a role here and I will continue to raise it. I ask Mr. Kincaid to get an update on that court case and see whether we can insist on the mediation process. I am sorry to have to cut this short but the witnesses can respond to us in writing.

The joint committee adjourned at 4.58 p.m. until 3.45 p.m. on Wednesday, 6 April 2022.