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Deputy John McGuinness TD
Cathaoirleach
Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach
Leinster House
Dublin 2

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By email: financecommittee@oireachtas.ie

Ref: JCFPERT-I-0494

Dear Deputy McGuinness

I refer to your letter of 4 April 2022 in relation to the withdrawal of KBC Bank Ireland (KBCI) and Ulster Bank Ireland (UBI) from the Irish market and the position of the receiving banks in the process, and your request for a briefing outlining the views of the Central Bank on the process. I note that you have also sought specific information from the withdrawing and receiving banks and the Department of Finance.

As you are aware from our recent engagement with the Committee, this has been a priority issue for the Central Bank since the withdrawals by UBI and KBCI were announced in 2021. Our in-depth regulatory and supervisory work has been conducted in phases, throughout which we have engaged intensively with the five retail banks to assess and manage the implications of the transactions on their customers and the retail banking sector in Ireland.

We first set out our expectations of how consumers must be treated throughout this period of change and consolidation in June 2021. Core to our expectation is that the banks demonstrate that they have sufficient plans, preparations and resources in place to deliver a customer focused approach, which prioritises the interests of customers and prospective customers, and provides them with the services they require.

Enclosed in Appendix 1 is an overview of the work undertaken by the Central Bank over the last year to ensure that these issues are managed effectively, with consumers' best interests protected.

The scale and impact of these changes in the retail banking landscape requires a collaborative and comprehensive approach and the appropriate intervention of all relevant parties, including the banks, State agencies, industry bodies, payment initiators and customers of the withdrawing banks.

We have regular engagement with the Banking and Payments Federation of Ireland (BPFI) to focus on the steps being taken from a broader market perspective by the industry to manage this issue proactively (including for example their engagement with Direct Debit Originators (DDOs)). We are in regular contact with the Department of Finance and we are also engaging with the Competition and Consumer Protection Commission (CCPC) and the Irish Banking Culture Board (IBCB) to keep informed of their work and to ensure alignment with the Central Bank's expectations and supervisory engagements. We also value the insight and perspectives provided by the Consumer Advisory Group (CAG) through our regular engagement. The CAG advises the Central Bank on the performance of our functions and the exercise of our powers in relation to consumers of financial services.

We have convened a roundtable session with the CEOs of the five main retail banks in the State and the BPFI, scheduled for 17 May. At that roundtable, we expect to hear how they are further building out their plans, operations and capacity to protect consumer interests through this process. In all of these endeavours, our aim is ensure that the overall response is effective in ensuring customers are protected throughout the migration process and that the integrity of the financial system is protected.

As noted at our recent appearance before the Committee, the Central Bank remains focused on this as a priority issue. In particular, as we now move into the period during which significant numbers of customers will be looking to move bank accounts, we will scrutinise compliance with the expectations we have set and we are prepared to intervene further, if necessary, should this transition not proceed in line with those expectations.

I hope this information is of benefit to the Committee. In the same way that this is a core priority for the Central Bank, we recognise it is also a core priority for the Committee. In that respect, we will be in contact to invite Members to a dedicated briefing on these matters in the Central Bank in May.

Yours sincerely

Derville Rowland

Derville Rowland
Director General, Financial Conduct

Appendix 1 – Briefing on bank withdrawals and the Central Bank's supervisory approach to date

Since last year, we have a dedicated programme of work and engagement on all issues arising from the planned withdrawals, spanning the asset sales involved in the transaction, the planned closure of bank accounts and the wide range of matters that arise from a licensed bank winding down its regulated activity in the State. As such, the work has involved complex business model, capital, liquidity, operational and regulatory considerations and has been coordinated across the variety of functions within the Central Bank on which this matter touches, including our work within the Single Supervisory Mechanism. Central to all of this work has been the requirement to ensure consumers are protected throughout this unprecedented structural change in the retail banking landscape.

For the consumer and the taxpayer, safeguarding financial stability is one of the most important ways in which the Central Bank works to protect their interests, including seeking to ensure that the banking system operates in a safe, sound and sustainable way. Banks need to be in a position to absorb shocks and have the ability to build buffers to withstand future shocks in order that they can serve the economy and consumers over the long-term.

The exit programmes of UBI and KBCI include both a number of complex asset and liability sale transactions, together with the closure of customer current and deposit accounts.

For the exiting banks, it is imperative that their wind-downs are effectively managed and overseen by their executive management and boards. They must be informed by appropriately granular board-approved exit plans that also provide for contingency scenarios that may arise as the wind-downs are executed.

Our focus in this respect has been, and will continue to be, that exiting banks must continue to have adequate financial and operational resources, be well governed and effectively managed, recoverable should they get into difficulty and ultimately adopt a customer-focused approach at all stages throughout their wind-downs.

For the acquiring banks, we expect their executive management and boards to ensure they have the appropriate financial and operational resources in place to acquire these new businesses, and to execute and integrate these transactions in a safe manner. It is imperative that executive management and boards have demonstrated that such acquisitions do not jeopardise the safety and stability of their business and that their strategic ambitions do not outpace their financial and operational capacity.

Again, our expectations have been clearly set out: we expect acquiring banks to govern and manage these transactions effectively and in a consumer-focused manner, while proactively considering business model sustainability and risks to their liquidity, capital and recoverability.

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Consumer protections
We are supervising the banks to ensure they prioritise the interests of customers and prospective customers throughout this unprecedented volume of account migration.

Customers of UBI and KBCI will – in line with the guidance they receive from their bank – have to take action to move their accounts. But recognising that customers did not choose to be in this position, it is imperative that both the departing banks and firms to whom their customers might choose to migrate have sufficient plans, resources and capacity to assist them through this process.

The departing banks will issue letters in phases with a view to managing the flow of migrations over the period 2022 into 2023.

All duties of the existing provider under the requirements of Irish financial services legislation, including the Central Bank's statutory codes of conduct, remain until the customer has been properly on-boarded to another provider. The legislation also applies to any prospective new provider to whom that customer wishes to switch their account.

Communications with industry and next steps
In addition to our day-to-day supervision at every step of this process, on 25 June 2021, we wrote to the CEO of each of the five main retail banks setting out our consumer protection expectations. These expectations of the retail banks focused on:

(i) **Consumer-focused culture:** demonstrate a consumer-focused culture, ensuring fair treatment of customers and ensuring that customers understand what the changes mean for them.
(ii) **Communications:** communicate clearly, effectively, and in a timely manner ensuring transparency and effective disclosure to enable customers to make informed decisions that best suit their needs now and in the future.
(iii) **Vulnerable consumers:** specifically consider the impact of decisions on vulnerable customers and provide the assistance necessary to reasonably mitigate those impacts and retain access to basic financial services.
(iv) **Errors and complaints:** remediate and rectify without delay, to ensure that customers are treated fairly and are put back in the position they would have been in had it not occurred. The originator of the product/service must take responsibility for any complaints and errors caused by/related to the originator that may arise after the transfer/sale/withdrawal (unless clearly assigned to a purchaser as part of a contractual agreement agreed between the parties).
(v) **Mortgage loan transactions:** undertake a formal consumer impact analysis in the context of decisions regarding sales, securitisations, purchases and transfers of residential mortgage loans. We had already set out our expectations in respect of such mortgage loan transactions in a letter to regulated entities in August 2019.

(vi) **Borrowers in financial distress:** ensure borrowers in financial distress are treated fairly, sympathetically and positively.
(vii) **Monitoring of Management Information:** monitor customer, operational and staff management information against benchmarks, and take timely and appropriate action where any risks are identified.

These expectations were firmly rooted in the regulatory framework within which banks must operate that has been (and continues to be) the foundation of our ongoing engagement with the banks. In the context of the closure of bank accounts specifically, this has included the need for firms to be transparent and clear in communications, communicating effectively and in a timely manner with all affected customers across all channels (e.g. in person, advisory, digital etc.), providing them with sufficient information and avoiding risks around information overload. We have also been clear that firms must provide as much notice as possible on account closures, product/service withdrawals and must consider specifically the impact of their decisions on vulnerable customers and provide the assistance necessary to reasonably mitigate those impacts and retain access to basic financial services. We continue to engage with the retail banks on these matters and to scrutinise their plans and the pace and nature of customer account migration, to ensure our expectations are met. Where we are not satisfied this is the case, we have intervened to require plans and resourcing to be enhanced, including in the field of customer call waiting times.

More recently, on 27 April 2022, we wrote to the CEO of each of the five main retail banks in Ireland to reinforce our requirements with respect to a number of areas of emerging concern, namely:

i) Notice Periods;
ii) Application of the switching process;
iii) New Provider making commercial decisions in a manner that facilitates a customer making and executing a switch;
iv) Direct Debit Originators and/or other Service Providers (where we have also written to those direct debit originators who are regulated financial service providers); and
v) Vulnerable Customers.

We will convene a roundtable session on Tuesday 17 May with the CEOs of the five main retail banks and the BPFI. At that roundtable, we expect to hear how they are further building out their plans, operations and capacity to protect consumer interests through this process.

While acknowledging the continued hard work of staff within the banks to provide customers with the services they require, we are also clear that, in terms of the banks' overall plans, more needs to be done.