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Central Bank of Ireland

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BLIAIN AG FREASTAL AR AN BPOBAL
YEARS OF PUBLIC SERVICE

Visit of Members of the Oireachtas Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach

14 February 2018

Sharon Donnery, Deputy Governor, Central Banking
Derville Rowland, Director General, Financial Conduct
Michael Hodson, Director Asset Management Supervision
Grainne McEvoy, Director of Consumer Protection
Patrick Casey, Registrar of Credit Unions

Section 1: Central Bank role, structure and perspectives

Sharon Donnery, Deputy Governor, Central Banking



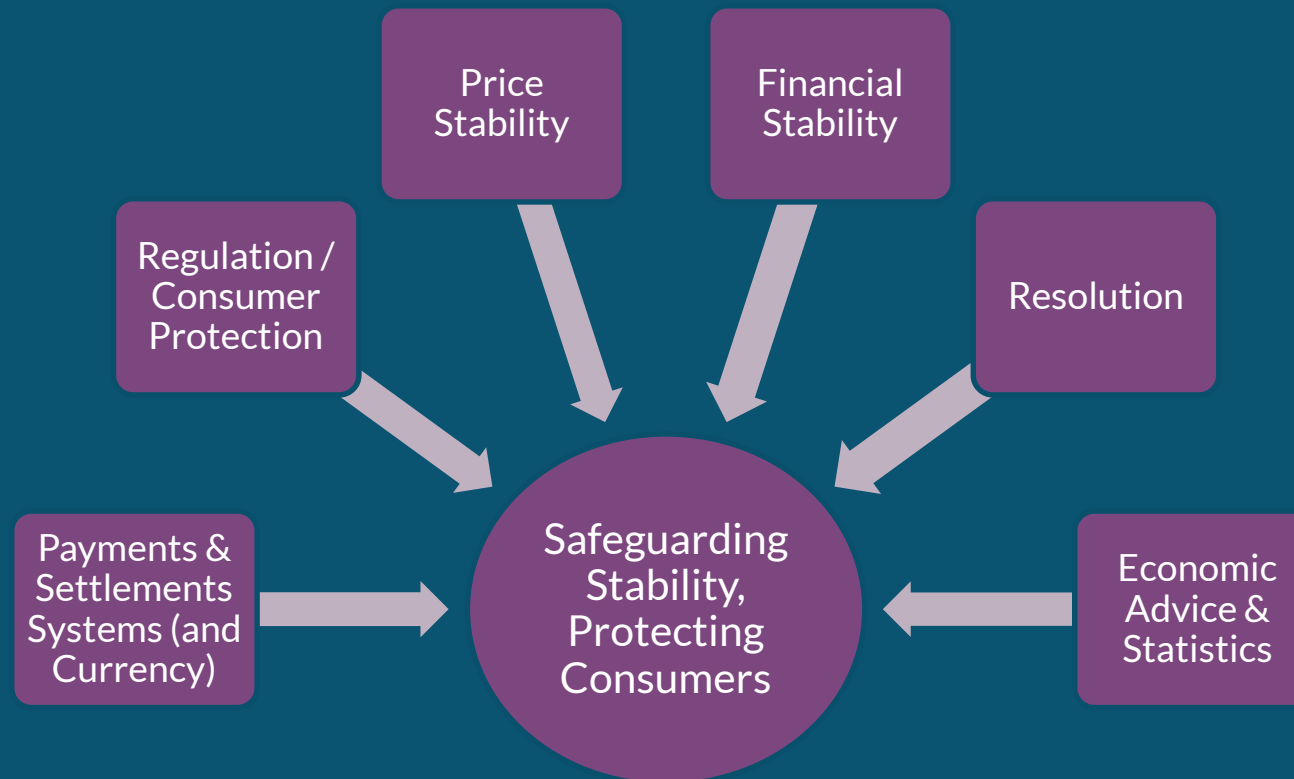
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The role of the Central Bank of Ireland



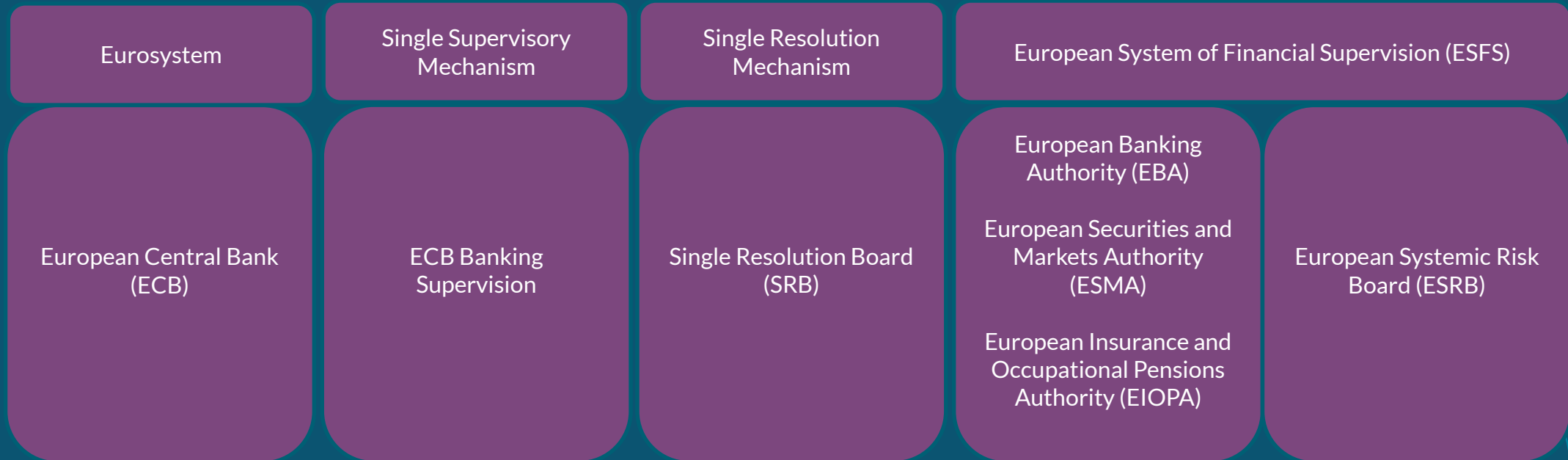
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The Bank in a European context



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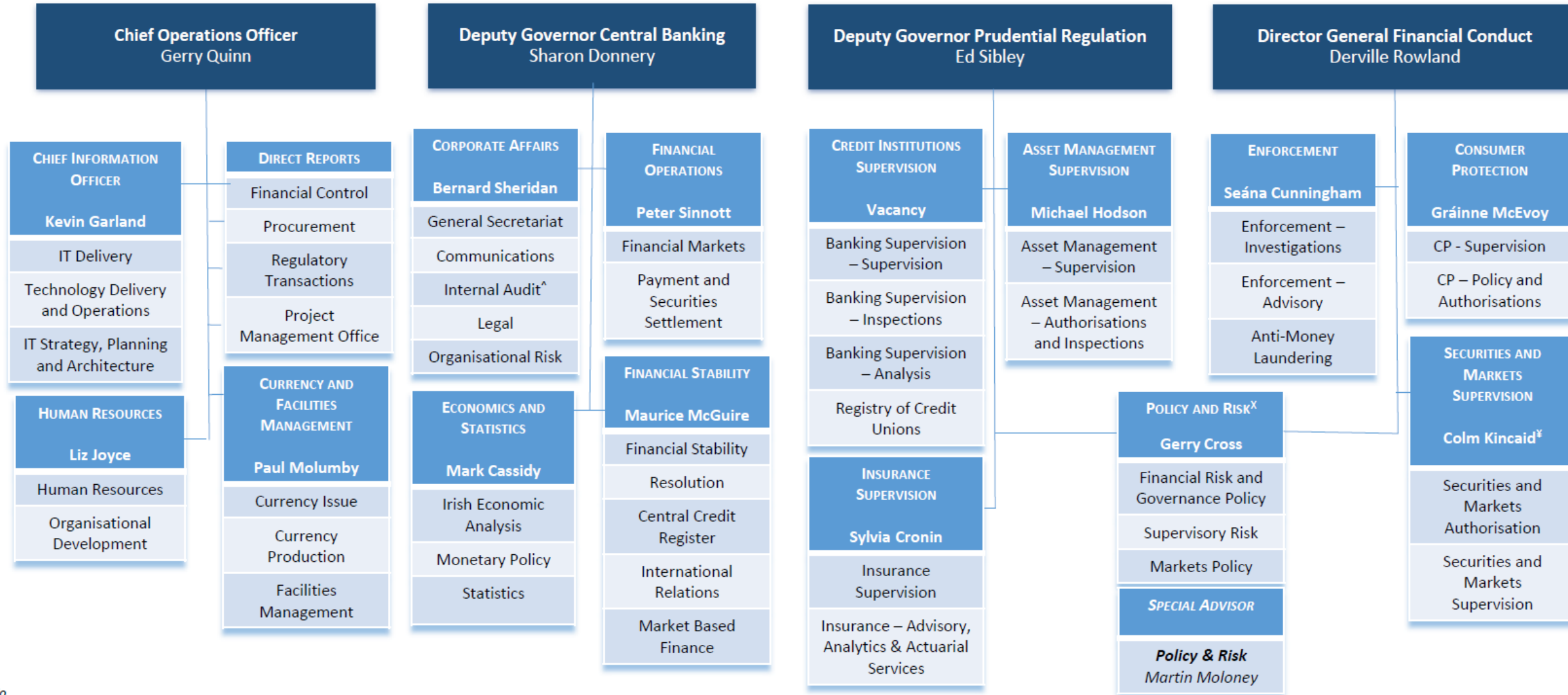
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Central Bank Commission
 Philip R. Lane* (Chairman), Alan Ahearne, Patricia Byron, Blanaid Clarke, Sharon Donnery *, John FitzGerald,
 Des Geraghty, Derek Moran*, Ed Sibley*, Michael Soden, Neil Whoriskey (Secretary)

Governor
 Philip R. Lane



* Ex-officio
[^] Internal Audit Division reports directly to the Governor and only reports to the Director of Corporate Affairs for matters of an administrative or budgetary nature.
^x The Policy and Risk Directorate supports the work of both pillars but is part of the Financial Conduct pillar for administrative purposes.
[‡] Colm Kincaid will be supported in his role by the former Director of Securities and Markets Supervision, Mary O’Dea, until she leaves the Central Bank in March.

Irish economic outlook and macrofinancial risks

- The Irish economy continues to grow at a strong pace
- The strength of domestic activity has been underpinned by strong and broad-based growth in employment
- This has boosted incomes and supported the growth of consumer spending, while some key domestic components of investment, such as building and construction, have also grown strongly.
- Key risks include:
 - The risk of overheating as the economy gets closer to full employment
 - Greater uncertainty in relation to global taxation and trading arrangements
 - While deleveraging has been occurring since the late 2000s, the household sector remains highly indebted
- The financial vulnerability of the Irish SME sector has decreased substantially between 2013 and 2017
- Improved fiscal performance, a search for yield in international financial markets, and the ECB's monetary policy stance are contributing to low yields and stress levels in euro area sovereign bond markets.



Brexit

- Brexit represents a significant external risk to the Irish economy and will have substantial consequences for Irish financial service firms
 - The UK is Ireland's largest trading partner
 - Irish financial institutions are exposed to the UK economy through both business activities and investments
 - Large range of potential regulatory / supervisory implications for cross-border activities
- Extensive work has been carried out by the Central Bank
 - Brexit Task Force was established in July 2015. Quarterly reports to Financial Stability Committee and Commission
 - Supervisory engagement with firms
 - On-going engagement with Dept of Finance, ECB/SSM and other domestic and international bodies



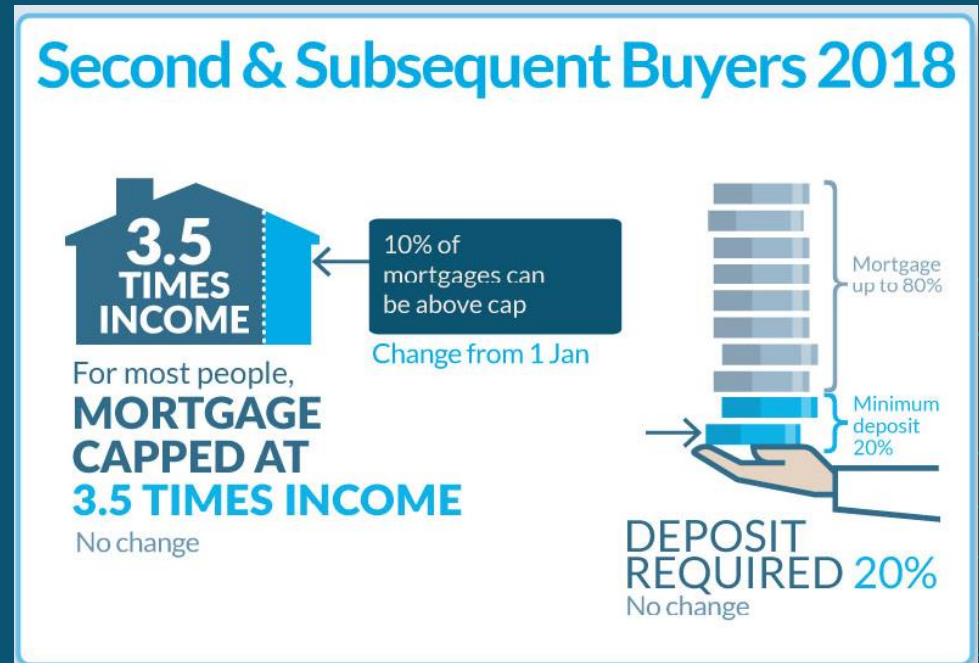
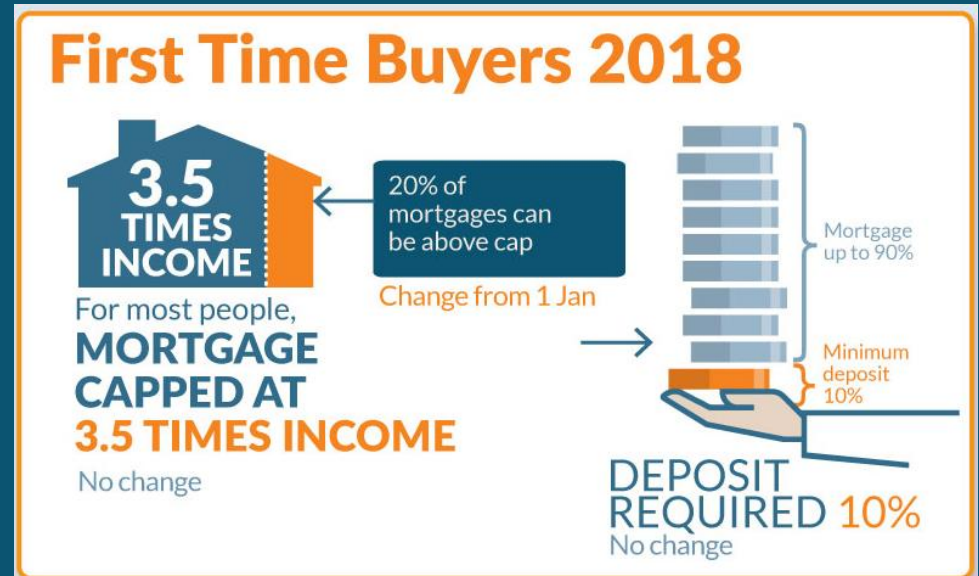
Mortgage measures

- First introduced in February 2015, the mortgage measures are aimed at enhancing the resilience of both borrowers and the banking sector.
- The measures set limits on size of mortgages that consumers can borrow through the use of loan to value (LTV) and loan to income (LTI) limits.
- The measures are reviewed annually by the Central Bank.



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The Bank's financial position

- The Bank earns its income from monetary policy activities, the management of our investment portfolio and the levy on the financial sector
- In 2016 the Bank reported a profit of €2.3bn
- After retained earnings, surplus income averaging €1.5bn per annum was paid over to the Exchequer over the last five years. In 2016, this amounted to €1.8bn
- The Bank's profits continue to reflect the legacies of the financial crisis
- Over the medium term the banks profits will normalise



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Section 2: Regulation of financial services firms in Ireland

Derville Rowland, Director General, Financial Conduct

Michael Hodson, Director Asset Management Supervision

Patrick Casey, Registrar of Credit Unions



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Financial regulation covers five broad categories

Conduct (wholesale and retail)

Regulated firms
act in the best
interest of
consumers

Markets are fair,
efficient &
transparent

AML/CTF

Anti-money
laundering and the
countering of the
financing of
terrorism

Infrastructure

Oversight of
payment,
settlement and
currency systems
to ensure they are
safe, resilient and
efficient

Macro-Prudential

Stability of the
financial system

Micro-Prudential

Regulated firms
are financially
sound and safely
managed



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We regulate and supervise approx. 10,000 financial service providers and funds

- 6,470 Investment Funds
- 2,457 Retail Intermediaries
- 290 Credit Unions
- 207 Insurance Firms
- 56 Banks
- 1 Regulated Market
- 245 Funds Service Providers
- 141 Asset Management Firms



- Prudential Regulation
- Financial Conduct



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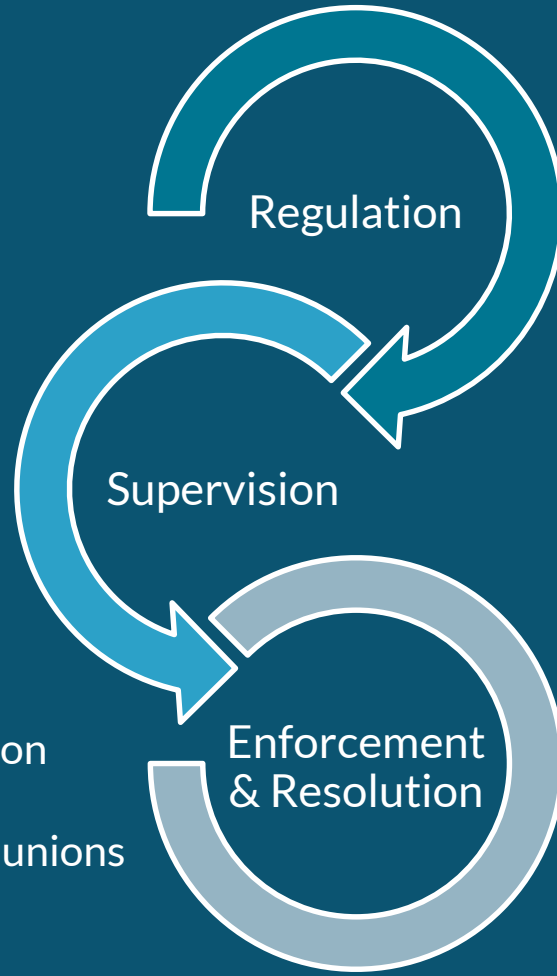


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Comprehensive Regulatory & Supervision Framework

Effective and assertive supervision of regulated entities' compliance with Irish/EU rules is the core function of supervisors

Responsible for the orderly resolution of failing credit institutions, certain investment firms and credit unions



Regulation concerns the framework of rules and legal standards that govern the way in which firms operate

Enforcement is an important tool to effect deterrence, achieve compliance and promote the behaviours we expect



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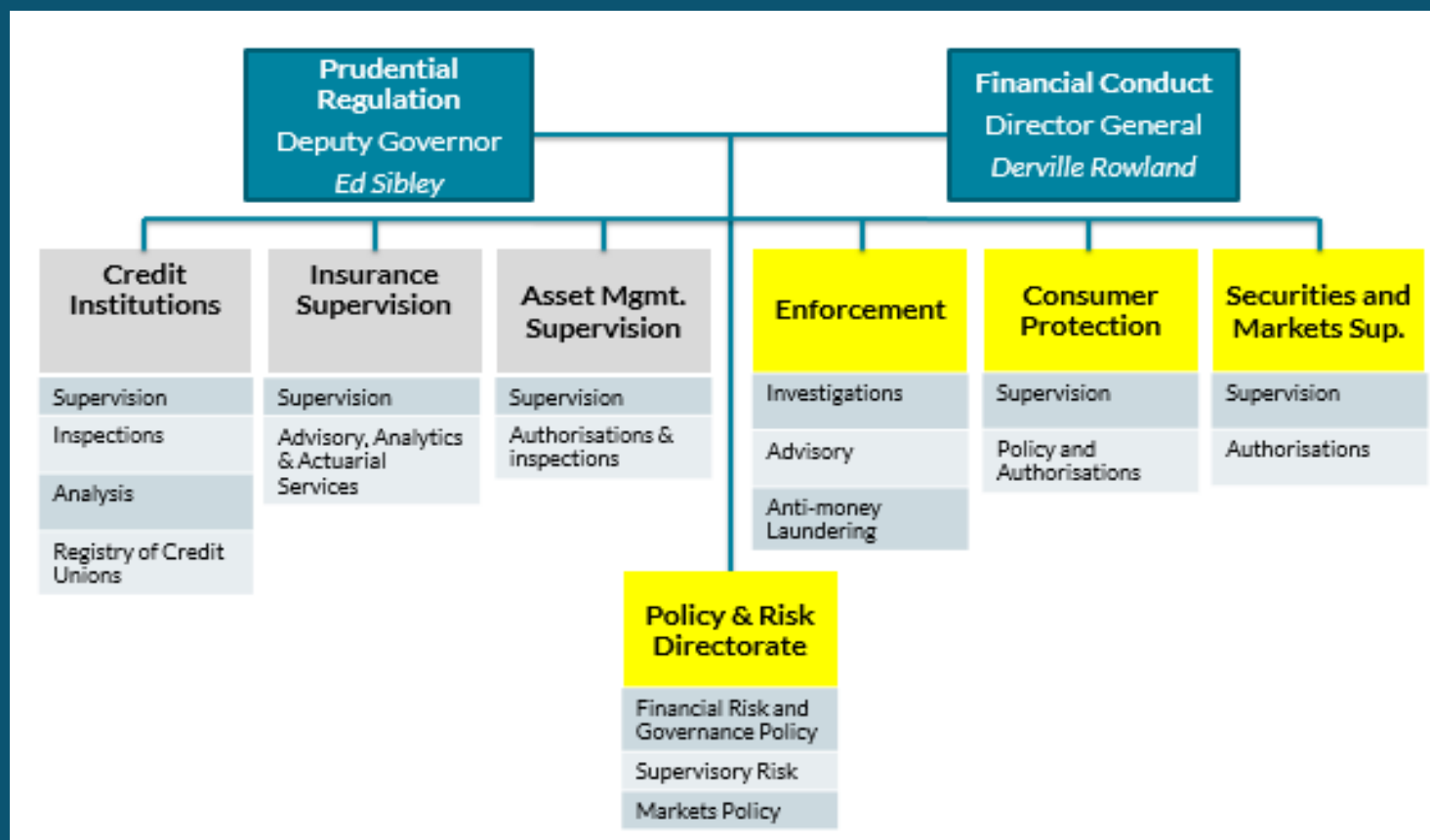


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Financial Conduct Pillar

Established in 2017 to reflect the depth & breadth of both our financial stability and financial conduct mandates

- Orderly financial services system and markets
- Strong culture of compliance
- Firms acting in best interests of customers
- Comprehensive, enforceable legislation
- Rigorous supervision
- Credible threat of enforcement
- Powers of redress



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Protecting Consumers of Financial Products

Mortgages



Most Investment Advice



Insurance Policies



Most Investment Products



Savings and Loans



Fees and Charges



Our approach to consumer protection



Role of the Central Bank



Securities & Markets Supervision

Outcome

- Investors/Consumers are protected
- Markets are fair, efficient & transparent
- Avoidance or reduction in systemic risk

Actions

- Supervise and monitor securities markets
- Grant, deny or withdraw permissions related to market functions
- Respond quickly & decisively in the event of market disruption event

234 million
MIFID
Transaction
Reports

829
Investment
Funds
Authorised

125
Suspicious
transaction
and order
reports

1,099
securities
prospectuses
approved

2,282,062
Live EMIR
Trade
Reports

1,827
Transparency
Directive
Regulated
information
filings



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Enforcement & Anti-Money Laundering

Enforcement

Working together and with others to deliver credible enforcement outcomes. Holding firms and individuals to account to promote high standards in the financial services industry

AML

Key role in protecting the integrity of the financial system through the effective risk based supervision of AML/CFT, Unauthorised Providers, Financial Sanctions and influencing regulatory policy development

117
administrative
sanctions
concluded

€61.6 million
in fines
imposed
overall

12
disqualifications
and 4
prohibitions

Gatekeeper:
4 refusals /
40
withdrawals

AML
supervision
"substantially
effective" -
2017
international
peer review

77 AML
inspections in
2017

Over €6.5
million in fines
imposed for
AML breaches
in 2017



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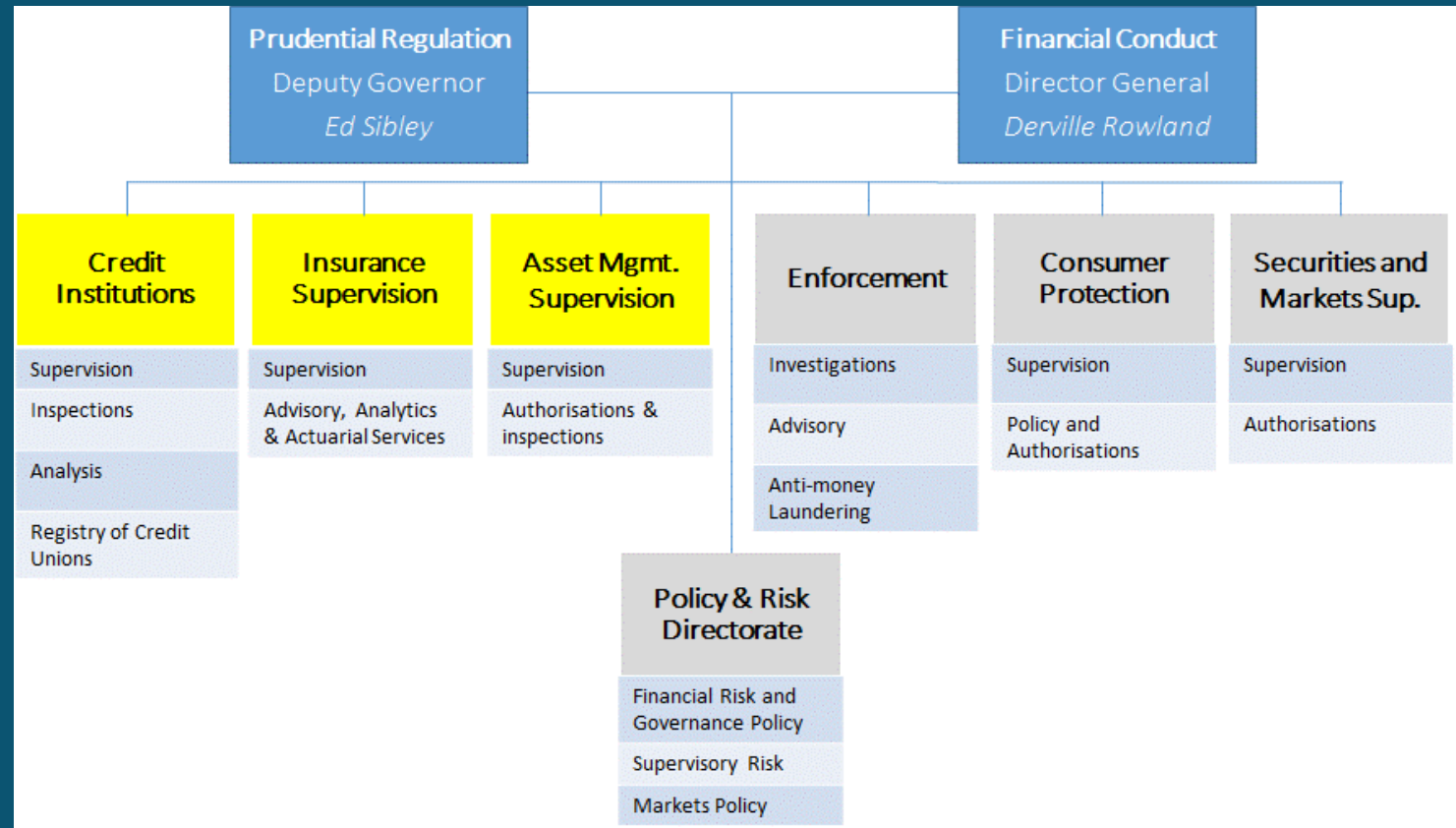
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Prudential Regulation Pillar

Established to reflect the ongoing evolution and increasing complexity of Ireland as a financial services centre

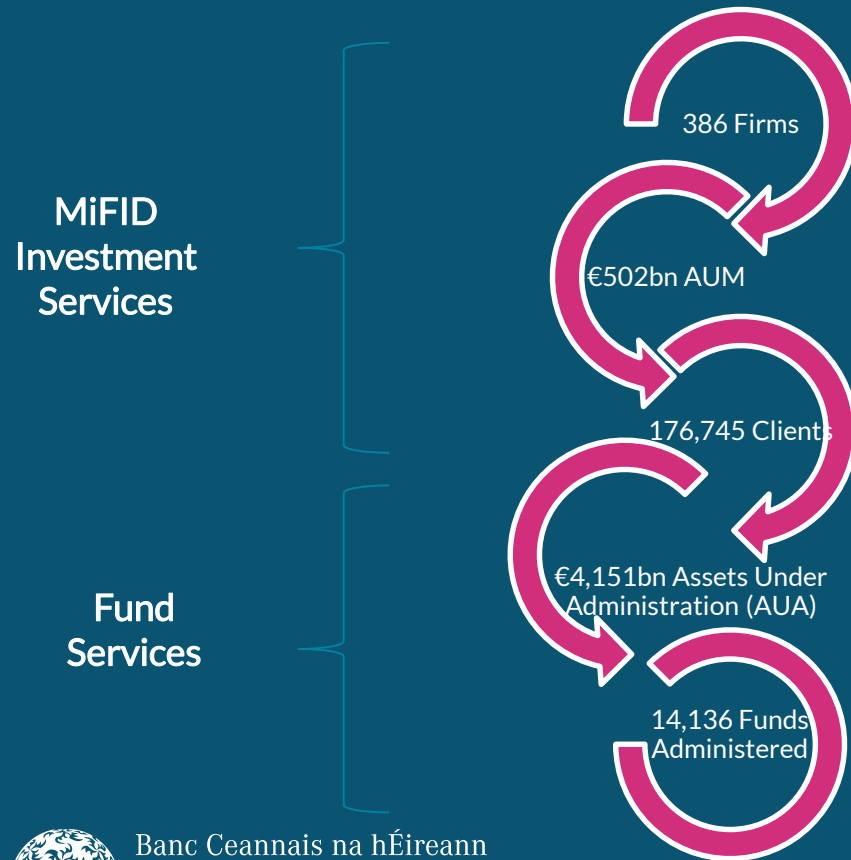
Ensuring regulated firms

- have sufficient financial resources;
- are well governed, with effective risk management and control frameworks and appropriate cultures;
- have capitally accretive business models over the long-term; and
- can recover if they get into difficulties and can be resolved without significant externalities or recourse to the taxpayer if they cannot.



Overview of the Irish Asset Management Sector (AMS)

AMS – Key Stats



AMS – Supervisory Landscape

The Central Bank is responsible for the supervision of a diverse range of asset management firms with a significant role in the broader financial services industry.

Firms are assessed under three main sectors:

1. Fund Service Providers (including Administrators, Depositaries and Management Companies);
2. Market Infrastructure Firms; and
3. Stockbrokers / Asset Managers / Pension Providers / Wealth Managers

Irish insurance companies have a global reach

Insurance – key stats

*Total
Premiums:*
€71BN

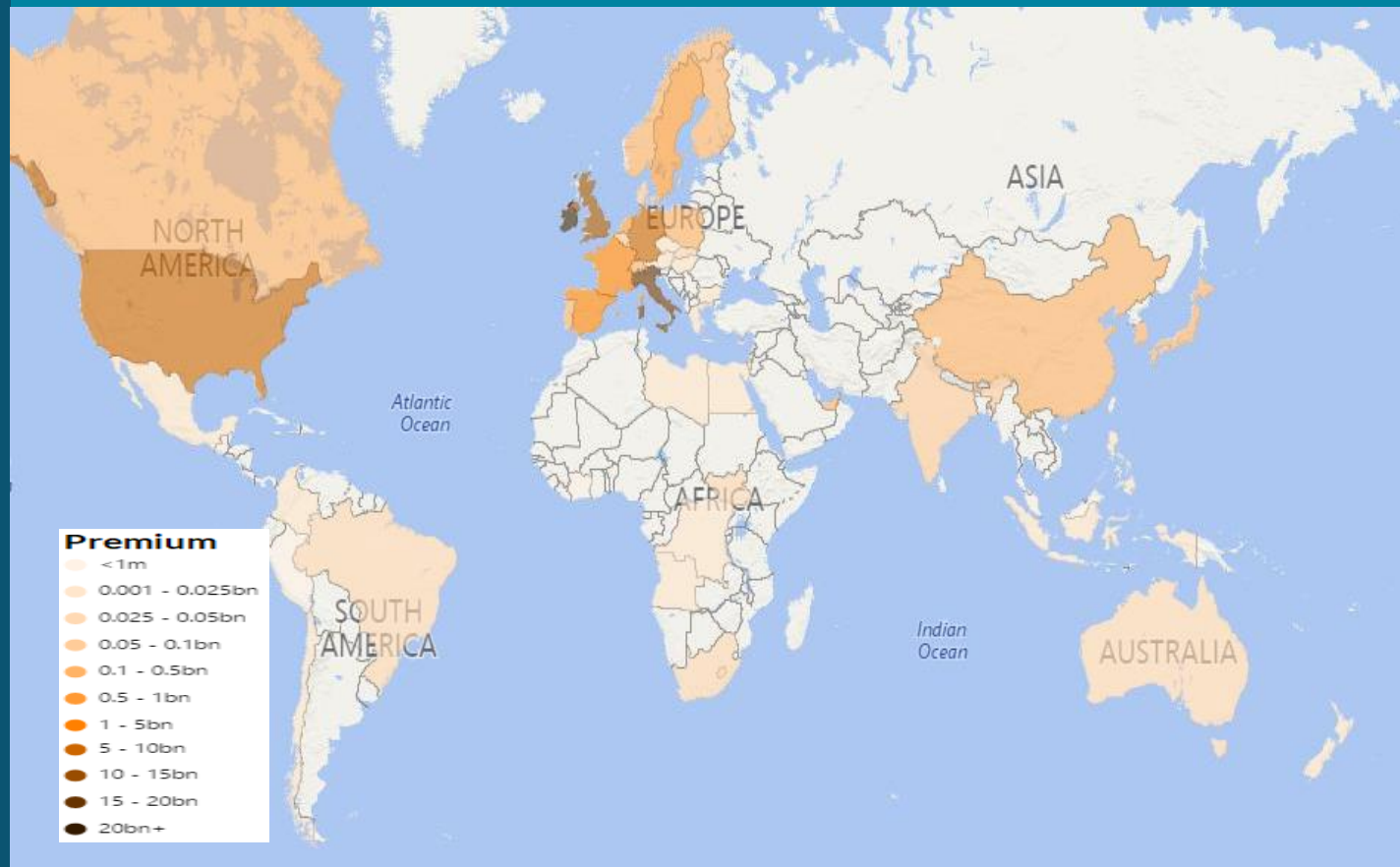
*Total
Assets:*
€351BN

*Insurance
companies:*
207

*Foreign
exposure:*
79%

*Total
Claims:*
€59BN

Central Bank regulated insurers – international footprint






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Banking Union – the key EU policy response to the recent financial crisis

Three Pillars of EU Banking Union

	 EUROPEAN CENTRAL BANK	 Single Resolution Board	 Single Resolution Board
<i>Single rulebook</i>	Capital Requirements Directive & Regulation (CRD IV & CRR) January 2014	Bank Recovery and Resolution Directive (BRRD) July 2015	Deposit Guarantee Scheme Directive (DGS) 2015
<i>Centralised responsibility</i>	Single Supervisory Mechanism (SSM) November 2014	Single Resolution Mechanism (SRM) January 2016	European Deposit Insurance Scheme (EDIS) Not finalised at EU level

Significant banks are supervised directly by the ECB under the Single Supervisory Mechanism (other less significant banks are supervised by the Central Bank)



Section 3: Update on credit union sector

Patrick Casey, Registrar of Credit Unions



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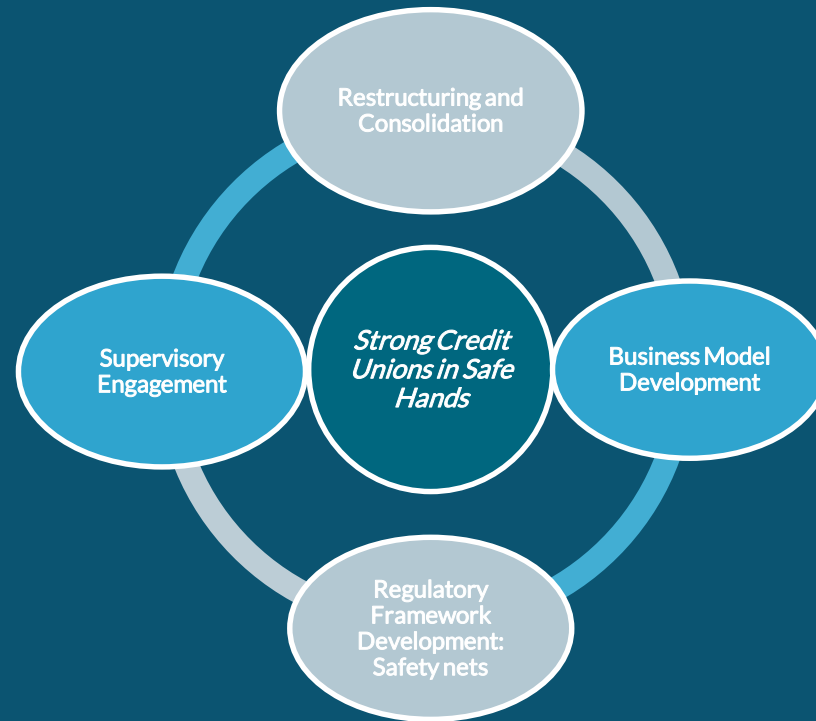
Our vision for the sector is *“Strong credit unions in Safe Hands”*

Our Statutory Mandate

We are statutorily responsible for regulating and supervising credit unions, with a view to ensuring:

- The **protection by each credit union of the funds of its members**; and
- The **maintenance of the financial stability and well-being** of credit unions generally.

Our Four Strategic Priorities



Defining our Vision

We see ‘strong credit unions’ as being:

- financially strong and resilient
- enabled by sustainable, member-focussed business models
- underpinned by effective governance, risk management and operational foundations

We see credit unions ‘in safe hands’ when they:

- are effectively governed
- professionally managed and staffed by people prudently managing risks
- serve members’ product and service needs
- provide choice, competition and access to members



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What are the key challenges facing the sector?

Challenge	Key points
Governance, risk and operational weaknesses	<ul style="list-style-type: none">• Enhanced governance framework is not yet fully embedded across sector• Each credit union needs to define its own risk appetite and operate effectively within it• Operational capability is fundamental to executing the business model of the future
Business model Viability	<ul style="list-style-type: none">• Business model challenged by member demographics and competitive dynamics• Banks and others transforming retail financial services through IT innovation• Historic low interest rates and a loans vs investments imbalance, are limiting income & return on assets
“Trifurcation” within sector <i>-large, medium & small CUs</i> <i>-stronger, stable and weak CUs</i>	<ul style="list-style-type: none">• The largest 53 CUs hold 55% of sector assets and 50% of members following restructuring• Viability is a real issue in credit unions of all sizes, with over 100 entities facing sustainability challenges• For viable credit unions of all sizes, the strategic outlook requires a transformational change agenda
Business model transformation	<ul style="list-style-type: none">• Strategic coherence around solutions is needed to avoid fragmentation and suboptimal outcomes• Scale is a limiting factor on product development and delivery• Collaboration required for investment and business model development (including via shared services)
<ul style="list-style-type: none">• Leadership is needed both from the sector collectively and from credit unions to set down a coherent vision and strategy for the future• Strong foundations of governance, risk and operational capability are fundamental to support future business model development	



What can be done to address sector sustainability?

What can we do to support sustainability?

“Earned Flexibility” Approach

- Regulatory flexibility and support for the most capable credit unions who have demonstrated strong foundations
- Evolve regulatory framework to facilitate new product and service provision to members
- Earned flexibility and shared services have been key to successful business model transformation internationally

Proportionate Supervisory Strategy

- Through more intensive engagement, strengthen large & medium credit unions so they can lead business model initiatives and undertake transfers
- Explore strategic options with non-viable credit unions (including transfers to stronger neighbours who can serve members’ needs)
- Absent transfers, resolve non-viable credit unions

What can credit unions do to address sustainability?

Strategic Coherence & Co-operation

- Take ownership of credit union business model of the future
- Articulate strategy to implement proposed future vision
- Collaborate through shared services

Strengthen Foundations

- Ensure pervasive culture of good governance & compliance
- Address risk findings (or RMPs) from supervisory engagement by implementing underlying changes

Diversify Income and Manage Costs

- Drive loan interest income from a balanced loan portfolio across 0-5 year, 5-10 year and >10 year loans
- Drive non-interest income (including fee income)
- Manage operating costs – to ensure they are in the interests of all members



Proactive and transparent stakeholder engagement

Annual Information Seminars

- November 2017: 5 seminars in Dublin, Cork and Athlone
- 188 credit unions represented
- 441 attendees – including board volunteers and management

Regular Formal Engagement with Sector Representative Bodies

- Annual meetings with Deputy Governor Prudential Regulation
- Quarterly meetings with the Registry of Credit Unions
- Monthly meetings at CUAC Implementation Group
- Participation in Representative Body Annual Conferences

Clear Supervisory Guidance and Expectations

- Credit Union Handbook
- Guidance Papers
- Thematic Reviews



- We are committed to transparent and constructive engagement with the sector including consultation on proposed regulatory changes
- Given their unique position in the Irish financial system, the level of support and engagement we have with credit unions far exceeds our interaction with other regulated sectors



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Resources

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[QUARTERLY BULLETINS](#)

[MACRO FINANCIAL REVIEWS](#)

[ECONOMIC LETTERS](#)

[RESEARCH TECHNICAL PAPERS](#)

[STATISTICS](#)

[HOUSEHOLD CREDIT MARKET REPORT](#)

[MORTGAGE MEASURES](#)

[CONSUMER PROTECTION OUTLOOK REPORT](#)

[ANNUAL PERFORMANCE STATEMENTS: FINANCIAL REGULATION](#)

[HOW WE REGULATE](#)

[REGISTRY OF CREDIT UNIONS](#)

[ECB BANKING SUPERVISION](#)

[ANNUAL REPORTS](#)



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