Civic Society Roundtable

30 November 2018

Summary of Meeting

The Central Bank held a roundtable on Friday 30th of November. The meeting was chaired by Governor Philip R. Lane, and attended by Deputy Governor Sharon Donnery, Deputy Governor Ed Sibley, Director General Derville Rowland and other members of the senior management team. Attendees from a range of not-for-profit civil society and societal groups participated. The discussion covered a wide range of topics and was divided into three sessions. The first covered the Irish economy, the second covered the prudential regulation of financial firms in Ireland, and the final session covered consumer protection issues.

Session 1. The Irish Economy

Presentations were given by Terry Quinn – Deputy Head, Irish Economic Analysis; Thomas Conefrey – Senior Economist, Irish Economic Analysis.

Discussions amongst attendees and the Central Bank

Fiscal Policy

The discussion started with a participant raising the Irish Fiscal Advisory Council's (IFAC) criticism of the 2019 Budget, and the government's future government spending plans more generally.

The Central Bank stated that it views IFAC's existence and role in reviewing budgetary policy to be positive. The Central Bank's concern is not about the composition or level of public spending, but rather that public spending is matched by sustainable tax revenues. In the context of the current strong growth in the economy and the risk environment, the Bank's preference – as stated in the Governor's pre-budget Letter to the Minister for Finance – would be for larger budget surpluses.

It was also expressed that the fiscal rules should be viewed as a minimum standard and that more ambitious budgetary targets can be pursued in any budget.

Brexit

On Brexit, participants noted that a great deal of uncertainty exists over the eventual outcome. Interest was expressed in determining what impact various Brexit scenarios may have on our banking sector. It was noted that banks might be less likely to support exporters, especially smaller exporters outside of the MNE (Multinational Enterprise) sector, in light of Brexit shocks.

The Central Bank replied by stating that it is already focused on making sure that banks are resilient to Brexit. Engagement on this issue began before the referendum to ensure that banks were prepared for downside risks. The Central Bank has continued to ensure that Irish banks are prepared for Brexit, and is in regular contact with the institutions to understand how they are thinking about Brexit.

The Bank also noted that many of the macroprudential measures that have been introduced should ensure that banks are prepared for risks, whether they be related to Brexit or some other matter. The counter-cyclical capital buffer (CCyB) was given as an example. The decision to increase the CCyB for banks this year was driven by concerns related to preparing banks for general systemic risk facing the Irish financial sector, one component of which could be a hard Brexit scenario. It was also noted that if a downturn was to materialise, the CCyB could be reduced to encourage banks to continue lending.

The Bank acknowledged that some exporters might face difficulties in receiving continued funding from banks. Under certain forms of Brexit, some firms would face high tariffs that could cause their sales to reduce drastically. The appropriate response of banks in these circumstances will depend on whether firms are assessed as facing temporary adjustment problems or a permanent shock to their business models. In all cases, it will be important to ensure that labour market policy supports workers in the most negatively affected sectors. The regional and sectoral dimension of the impact of Brexit on employment was also raised, both in the Bank's presentation and by participants themselves. It was noted by participants that Brexit could lead to significant job displacement for workers in the agricultural sector, especially those located in border regions. They noted that while Brexit may also create employment, it is likely to do so in regions where such displaced workers do not live and in sectors in to which they cannot easily transfer.

The Bank acknowledged that the possibility of negative shocks to the Irish labour market was real, but also noted that there is still a large amount of uncertainty as to what the final negotiated trade agreement between the EU and the UK will look like. A participant stated that labour policy to deal with such issues is being discussed between civic society and government.

Housing

Participants raised the issue of housing, although they acknowledged that various aspects of the issue are outside the Central Bank's policy remit. Firstly, it was noted that it did not feature prominently as part of the presentation given. The participant then went on to raise a number of issues in the housing market. These included the fact that even if projected housing supply targets are met, demand for housing will not be fully satisfied due to the existing pent up demand for home ownership; that housing is an underlying issue for many economic and social problems across the broader economy (i.e. homelessness, difficulty in employing workers due to steep rents).

The Bank acknowledged that housing continues to be an important policy issue for the Irish economy. Housing costs have already impacted the Bank's ability to recruit staff, as potential recruits can be reluctant to move to Dublin. However, the Bank made the point that market forces should respond to increased costs of living in Dublin by relocating jobs outside of it. This is already happening in the Irish financial sector to some degree, with middle and back office jobs being shifted to locations outside of Dublin.

The participant raised the possibility that even in the absence of Brexit, there could still be a downturn in the housing market within the next few years due to the cyclical nature of the Irish economy. The concern was raised that such an event would damage the housebuilding capacity of the Irish economy even further, leading to a repeat of previous mistakes.

The Bank replied by saying that with the introduction of macroprudential tools, such as the mortgage lending limits, the Bank aims to steer the economy away from a similar boom and bust scenario as the one Ireland experienced in the recent past.

It was also noted by the Bank that its ability to make macroprudential policy decisions was independent from the government, which is not the case in all countries.

A participant also noted that there wasn't enough discussion around the distribution of housing being built. The recent growth in housing supply is concentrated at the higher end of the market. They were encouraged by the increased discussion of providing cost rental housing and other models of housing provision.

The Bank said that the composition of the housing stock being built was beyond its policy remit. However, the Bank recognises that the housing market is not monolithic, and has conducted distributional analysis on house price dynamics. What the Bank has found is that the dynamics differ significantly across segments. House prices are growing faster at the lower end of the house price distribution. The lower end of the market is also seeing houses purchased mainly through cash or other non-mortgage funding, whereas such actions are not present in the higher end of the market. This suggests a split in housing market dynamics across the distribution of prices.

The cost of property rental was also an issue that was raised by participants. It was mentioned that mortgage repayments can be significantly cheaper than paying rent on a property. This in turn will likely incentivise further demand for housing ownership.

The Bank acknowledged that rents are currently above costs. However, the Bank looks at this issue from a longer-term perspective. In the Bank's view, as more houses are built, rents and prices will begin to fall or level off. Even if the property being constructed is not of the type that participants would hope for, it should at least draw people from other parts of the private rented sector into it. The Bank acknowledges that the housing market would benefit from an increased supply of apartment buildings but advocating for changes in the composition of housing being built is beyond the Bank's policy remit. Such discussions should be between civic society and the government.

Session 2. Prudential Regulation of financial firms in Ireland

Introduction by Ed Sibley – Deputy Governor, Prudential Regulation

Presentations were given by Mary-Elizabeth McMunn – Director of Credit Institutions Supervision ; Sylvia Cronin – Director of Insurance Supervision

Discussions amongst attendees and the Central Bank

Mortgages

Many participants discussed issues relating to mortgages. The discussion started with a participant raising the issue of non-performing loans (NPLs). The participant was supportive of the Central Bank's introduction of mortgage limits and the pressure the Central Bank has placed on Irish banks to sell on NPLs.

However, the participant expressed criticism of the Central Bank's definition of an NPL, and blamed this definition for PTSB's decision to sell off mortgages to vulture funds that were, in the participant's view, performing. Specifically, the participant was critical of the fact that restructured mortgages that are meeting their new payment schedule are classified as NPLs.

In the participant's view, it was unjust that such borrowers would have their loans sold on to vulture funds. These borrowers would be stuck with an inactive lender, with whom they would not be able to refinance and or switch to a better mortgage product, as compared to borrowers who remained with banks. The participant also noted that the Central Bank has strongly objected to mortgage interest rate caps. Because of this, there is no obstacle to vulture funds raising interest rates to 10%.

The Central Bank responded by first noting that they do not discuss individual cases, but that on the broader point of the classification of mortgages which are meeting a renegotiated payment schedule being classified as NPLs, the participant was wrong to attribute blame to the Central Bank. All Irish banks have the ability to 'cure' renegotiated mortgages, which would change their status from non-performing to performing. Whether banks choose to do so or not is a commercial decision. The Bank also made the point that they put pressure on banks to resolve NPLs, not to sell them. This too is a commercial decision.

The Bank also acknowledged that borrowers who are trapped with lenders do face increased risks of their rates being raised, and that the Bank would be receptive to protections around that.

The Bank also discussed its opposition to mortgage interest caps. Starting by noting that the Bank's reservations on such regulation have been clearly stated in the past, and that the Bank would be quite concerned about what kind of role they would have if they were to receive such powers.

However, the Bank did acknowledge that high rates are a significant issue for borrowers, but in its opinion, the best way to reduce rates is to encourage mortgage switching. The most powerful thing consumers can do is to look at other products that lenders may provide. Many people can save money from switching between lenders or even within products provided by a lender. To this end, the Bank has put in place requirement for lenders to inform borrowers about how they could move to cheaper products. However, the Bank does acknowledge that opportunities to switch to a better mortgage product with the same lender are not available to all borrowers.

Participants wondered whether the Bank considers the social context of NPLs. For example, whether the Bank considers the borrower behind the NPL, and whether the Bank thinks about the balance between regulation and supervision across the economy and across people. They proceeded to ask whether the Bank feels an obligation to protect borrowers' rights, highlighting that many mortgage contracts are unfair in terms. Furthermore, they asked what the Bank's position is on mortgage terms being referred to courts.

The Bank responded by saying that its staff are keenly aware that NPLs are difficult issues for individuals. At the start of the crisis, the Bank designed policy so that people in arrears could stay in their homes as much as possible for as long as possible. This is evident in the rules set out in the Code of Conduct for Mortgage Arrears (CCMA). The Bank also contributed to the creation of novel solutions to mortgage arrears, such as split mortgages, which it encouraged banks to use to help resolve NPLs.

The Bank acknowledges the distress caused by home repossessions for borrowers. However, it should also be acknowledged that repossession rates in Ireland are quite low as compared to other countries that faced similar levels of NPLs.

The Bank noted that the fairness of mortgage contracts is something that it is concerned about at a systemic level. The Bank engaged in frequent debate about this during the tracker investigation. Central Bank staff have been working to the maximum of our mandate to strengthen the framework for protecting borrowers, and this framework has been applied to all institutions (i.e. banks, retail credit firms, unregulated loan owners). It is a key concern that terms of mortgages are honoured, with this being enshrined within the consumer protection framework.

Finally, they asked whether the Bank considers any rights in the fundamental charter of human rights when considering how the problem of NPLs should be resolved.

On the issue of human rights, the Bank noted since they were raised in the last civic roundtable the Bank has reviewed them and included them in the strategic plan for 2019-2021.

The Bank finished discussion by noting that we are now in a new financial world where non-banks are growing in importance.

Public Banking

One participant intends to put forward a policy proposal to create a public banking sector. The participant acknowledged that the government has been helpful and cooperative in hearing their proposal. The participant asked does the Bank have a philosophical objection to the existence of such a system.

They then noted that many banks prefer dealing with one large client, than many smaller clients. The participant then opined that banking system is still not fixed, with the general perception being that banks will protect themselves first and business will be second.

The Bank expressed that it sympathises with a proposal for creating a public banking model, and has no objection to such a system being created. However, it does acknowledge that there will be significant challenges in the creation of such a system. They key challenge for these institutions is whether they will meet bank capital requirements.

Pensions and Insurance

A participant expressed concerns around rising costs in insurance markets. They stated that employers' liability insurance and public liability insurance have seen dramatic increases in premiums, with some organisations seeing raises of up to 100% percentage points. This is leading organisations to be priced out of insurance markets. The participant expressed frustration with the complexity of the issue, saying that everyone and no one is responsible.

The participant then asked what balance should be struck between the economic role that insurers have and the requirement to protect premium payers, whether the Central Bank understands the urgency of this problem for business and community groups, and whether there will be sufficient analysis on the insurance claims database that is being constructed by the Central Bank?

The Central Bank started to respond by noting that there are limits to what the Bank can do on this issue. The Bank's focus has been on making sure that the underlying causes of rising premiums are understood so that they can be addressed. Once the Bank has finished creating the National Claims Database, it should have a much clearer idea of the causes. The Bank understands the gravity of the issue and this is why it is playing an active role in the Cost of Insurance Working Group

One individual raised the proposed introduction of auto-enrolment for pensions as an issue saying that concerns that such a system would lead to the privatisation of risk, which could negatively affect certain individuals.

The Bank started by stating that auto-enrolment, and the demographics leading it to be introduced both were slow moving issues observable to policy makers. It is important that these issues are dealt with in advance of them becoming problems. The Bank acknowledged that setting the right level of income to be taken by an auto-enrolled pension will be challenging. If it is too low, then this will likely create problems in the future (i.e. poverty amongst the elderly). Equally, setting it at too high a level could also cause problems .l. The Bank's view is that the financial system should be better able to deal with long term challenges, given the financial incentives for doing so. The Bank finished its discussion of this point by noting that this issue will involve some balance between private and public solutions.

Financial Inclusion

A participant said banks and financial institutions should be more available to lower income people. Individuals with bank accounts can use direct debit payments, and receive reduced costs on utilities as a result. Those who pay in cash were more likely to be in fuel poverty. They acknowledged that ignorance of the potential benefits of having a bank account might be part of the reason why people do not have them, but that bank charges also play a role. Given this, the Bank should consider the impact of bank charges for low-income households.

The Central Bank stated that financial inclusion is an issue that it considers important, but is not within its prudential policy remit. The Bank recognise the proportionally larger impact that fees and extra charges have on people with low incomes. Noting the problems faced by those who are unbanked and cannot get on the internet he Bank is supportive of social policy that helps promote financial inclusion.

Other Topics

A participant noted that regulation is implemented to the letter of law when the entity being regulated is not equal to the regulator. The participant then went on to ask how the Bank comes to make technical decisions for regulation.

The Bank replied by saying that it is always guided by its mission statement. The only master that it has is public interest, and that it is clear about how it makes decisions. The Bank's ultimate purpose is to safeguard the stability of the financial system for the benefit of the public. Decisions are made according to the Bank's mission statement. When doing so it makes decisions not only based on what makes sense today, but on the basis of balancing risks now and in the future.

Session 3. Strengthening Consumer Protection

Introduction by Derville Rowland – Director General, Financial Conduct

Presentations were given by Gráinne McEvoy – Director of Consumer Protection; Sylvia Cronin – Director of Insurance Supervision

Discussions amongst attendees and the Central Bank

Inclusion and Access

Participants raised the issue of inclusion and access for financial services. One participant noted the difficulties elderly persons can sometimes face in accessing public and private services. He pointed out that the Central Bank does not accept Public Services Cards as a form of identity card.

The Bank replied by acknowledging that this can be an issue for the elderly. It also noted this gap in its treatment of different kinds of identity documents, and resolved that Bank policy would be amended so that Public Services Cards would be considered as a valid form of identification at the Central Bank.

Tenancies

Tenancy was an issue raised by a number of participants. One participant was increasingly contacted by many tenants who face pressure from their landlords to vacate their property. The participant wondered whether this is something to do with the landlords' liquidity (i.e. are they unable to make payments on their buy to let loans), and whether this was something of which the Central Bank was aware.

The Bank said that it was interested in being informed about such matters and grateful that the participant had raised this issue. The Bank offered two potential reasons why this could be occurring. Firstly, the economics of being a small landlord may be becoming tougher, and potentially landlords may now want to cash out as a result. Secondly, one category of non-performing loans are buy-to-let mortgages, and with markets recovering, banks may be putting pressure on BTL borrowers to sell. The Bank also noted that tenancy policy was outside its remit.

Another participant raised an amendment to tenancy protection legislation. Its aim was to ensure that renters who are paying their rent in good faith have the right to stay in buy-to-let property once it has been sold. The participant requested the Bank's opinion on this piece of legislation.

Speaking on the topic of BTLs and repossessions, a participant expressed that it is important for the Bank to note that tenants are part of the group that is affected by repossessions. Tenants have no interaction with the entity that usually repossesses or purchases former BTL properties. It can be the case that tenants are stuck between two people demanding rent.

Culture Review

A participant praised the Central Bank review of working culture in Irish banks. They said that working culture is very important, as demonstrated by the impact of norms in the financial sector on the economy. In their opinion, culture and norms drive the ways people act across all sectors of the economy, and not just finance.

Retirement

A participant noted that part of the current model of how Irish people fund their retirement is that they invest in their home while working, and leverage their own home to provide for themselves once they retire. If home ownership continues to decline, Irish policymakers need to be planning on how this issue can be dealt with.

Household Finances and Borrowing

One participant raised the issue of over-indebtedness for households, such as households facing arrears on utilities. The participant noted that in the presentation on the Irish economy, the Bank looked at income on aggregate, but in their opinion, income needs to be considered by decile. Those in the lowest decile have not seen a recovery in wages since the crash.

The participant also noted that the high cost of living is also an issue for households, and singled out rising rental and energy costs as factors that were causing individuals to go into debt.

The participant also stated that financial inclusion is also still a big issue for those who are over-indebted, with this being reflected in the common use of moneylenders amongst those in the lower income deciles.

The participant applauded the introduction of the 'It Makes Sense Loan' program, but noted that the take up of the program had stalled at around 50%. This leaves some households having to take out high cost loans from moneylenders.

The participant then asked what progress had been made on the review of the moneylender code. They also asked how the Bank will monitor compliance.

The Bank responded by saying that the review of the Moneylender Code closed earlier this year. The updating of code is scheduled to be commenced early next year. Once it is updated this could require further consultations. As this process progresses, the Bank will continue to engage with stakeholders.

The Bank noted that it receives substantial amounts of data from moneylenders. There is now proactive engagement between the Bank and moneylenders around customer treatment and the cost of credit. This is and will continue to be an area of focus for the Bank.

The Bank also stated that it has the regular responsibility of authorising and monitoring moneylenders. The Bank does this because it wants the sector to be out in the open, as opposed to being underground. The Bank indicated that it has learned from stakeholder engagement that some people prefer to use moneylenders and expressed recognised that it would be better if people could source cheaper loans from a regulated entity. The Bank finished by noting that it has not authorised any payday lenders.

Regarding credit unions, the Bank responded that it is generally supportive of the sector and its role in providing credit. The Bank stated that the 50% take-up figure for the 'It Make Sense Loan' scheme was not accurate. Some credit unions have multiple branches so true uptake was likely higher. The Bank noted that it was a matter for credit unions as to whether they want to use the scheme, and that it could not compel them to do so.

The session finished with the Bank encouraging engagement from the representatives of civic society, and thanking them for their contribution to the event.