Opening statement – Simon Carswell.

Good afternoon.

Let me start by providing some background on my work as a journalist. I am Washington Correspondent with The Irish Times, a role I took up just over two years ago, in January 2013. Prior to that, I was Finance Correspondent with the newspaper reporting on the banking sector and before that I worked for The Sunday Business Post for seven years, first as a Business Reporter from 1999 to 2004 and then as News Editor from 2004 to 2007. I started as Finance Correspondent at The Irish Times in September 2007 as queues of depositors started forming at Northern Rock in the first run on a British bank in more than a century. This was the first story I worked on at The Irish Times so you could say that my arrival at the newspaper coincided with the start of the global financial crisis hitting the UK and Ireland.

In 2004, I began researching and writing a book on the history of scandals in the Irish financial sector. That book, Something Rotten: Irish Banking Scandals, was published by Gill & Macmillan in 2006 and covered scandals at the Irish banks dating back to the early 1970s up to the 2004 overcharging scandal at AIB, examining the culture within Irish banking over that period. While covering the deepening banking crisis - internationally from 2007 and domestically from 2008 - for The Irish Times, I began working on another book in mid-2010 that became Anglo Republic: Inside The Bank That Broke Ireland. That book, published by Penguin Ireland in September 2011, was my own inquiry into what happened in the run-up to the 2008 Irish banking crisis and the 2010 international bailout. Both books were written while I was on short periods of paid leave from The Sunday Business Post and The Irish Times.

I continued reporting on the banking sector until December 2012 when I was appointed to my current role, based in the United States.

In a letter dated February 13, 2015 I received from your committee requesting my attendance, you asked me to appear before you here to talk specifically about the area of relationships between State authorities, political parties, elected representatives, supervisory authorities, banking institutions and the property sector. Specifically, you have asked me to speak about how the property sector (investment and/or development) and the banking sector interacted with government, elected representatives and the State during the period prior to the banking crisis in Ireland, and the nature of the relationships between those groups. You have also asked me to talk about controls or structures, if any, exist to regulate these relations and whether being a small country is a factor, or not, in terms of any such relationships. I will try my best to address those topics in this discussion here today.

At the outset, I must point out that it has been over two years since I wrote regularly and in depth about Irish banking and since then I have immersed myself in a broad range of very different subjects. Also, I live in the United States and I have not been able to access many of my notes from my time reporting on banks while with The Irish Times, so I may not able to shed light on some of your queries but I am happy to help where I can and I will try my best to answer any questions that you want to ask me. I must also stress that I am bound by journalistic privilege that prevents me from disclosing sources of information in any work I have done where those sources have asked me to maintain their anonymity.

On the subjects of today's discussion, I would characterise the relationship between the major players in the property sector and construction industry and government, certain elected representatives and the banks – as well as the relationship between the government, the banks and the financial supervisory authorities - as extremely cosy in the period leading up to the 2008 banking crash.

To take a phrase from former Finnish civil servant Peter Nyberg's thorough report on the causes of the banking crisis, the various players, including politicians, builders, bankers and regulators, displayed "behaviour exhibiting bandwagon effects both between institutions ('herding') and within them ('groupthink')." Nothing I came across in my research would contradict that statement. On the wild frontier of the 'Celtic Tiger' era, Anglo Irish Bank was the one-trick pony in a frenetic land grab, leading a poorly regulated and highly competitive race for market share and profit.

These relationships appear to have been too cosy to allow any one of these collective groups – be it the banks, the government, the builders or the regulators - to shout stop and offer the kind of critical dissent that might change the behaviour of all and the direction the country was heading in. If one of those groups had the courage to put their head above the parapet, then I believe there may not have been the crisis we had or at least it may not have been as severe as it was. For these parties, it was too comfortable - and indeed self-serving for some - to stay in the crowd and stick with the consensus, particularly when so many people were making so much money. The result of this was that contrarians were ridiculed, silenced or ignored to ensure the credit-fuelled boom continued for years as their past warnings did not come true.

These cosy relationships would prove extremely costly. While the cost of the banking bailout to the Irish people stands at €64 billion, excluding any recoveries coming from the sale of shares in the banks or better-than-expected returns from the National Asset Management Agency, it is worth stressing that the overall losses and capital wiped out by the crash amounts to far in excess of this sum. The losses on loans, mostly to the property sector, across all of the banks in Ireland came to well in excess of €100 billion, including tens of billions of euro covered by the UK treasury. This is sometimes forgotten.

For the record, I do not accept the proposition put forward by many of the key players involved in policy-making, banking, building or regulating that there were so many people responsible for the crisis that it is difficult to pin individual blame on a few. Moral responsibility for the excesses of this period can be cast widely but legal responsibility for what happened - and what was permitted to happen - far less so. There were a limited number of people involved in key decisions, and in particular those decisions taken in response to the crisis, that had major consequences.

In the decade leading up to the crash, long-standing relations had developed between the political classes and the property/banking nexus. The investigations by the Mahon tribunal of inquiry illustrate the corrupt connections between politicians and landowners/builders - and, it is worth stressing, that this tribunal only covered elected representatives and property deals in Dublin.

In times more recent than the property deals that were examined by that tribunal, senior government figures and politicians, notably from Fianna Fail, were seen on quasi-social occasions, such as high-profile horseracing meetings, rubbing shoulders with prominent builders. Even if some politicians and public representatives mixing in these circles did not directly encourage the property boom - and there were certainly a number of very prominent cases where senior politicians did, both in terms of their public remarks and policy decisions - these associations at least created the perception that the most powerful people in the country supported and championed the property industry.

Politics and business regularly overlapped. There are examples of politicians and public representatives getting involved in land speculation deals, building projects and property investments – in one notable case, in partnership with a major figure from banking – while continuing to serve as public representatives, right up to and during the economic crisis.

Builders and property developers were also active in politics. Of the donations received by the political parties in Ireland in the four years between 2002 and 2005, building, property development companies and construction-related companies – along with builders and developers themselves personally – donated tens of thousands of euro to Fianna Fail, which was in government during those years. That party accounted for almost the entirety of the political donations made by the property sector to political parties in those years.

Individuals who worked in the political arena afterwards took up highly paid roles representing and lobbying on behalf of construction and financial industry groups, interacting with people they had previously worked closely with in politics.

Easy and ready access to politicians brought easy and ready access to policy and decision-making that drove the growth of the property and financial sectors.

There are a number of well-documented examples of these sectors bearing strong influence on the policy-making process in the years running up to the crisis that helped inflate the credit bubble and the frenzied property buying and that weakened potential policy or regulatory actions that might have dampened activity, both in the property market and the banking sector. There were certainly no effective controls in place to regulate these relationships.

Government tax policies and incentives for the commercial property market have been widely attributed as a factor in inflating the property bubble. These subsidies were left in place or were only starting to be phased out during the frothiest years of the property bubble as a result of the relations between the property sector and government/elected representatives and aggressive lobbying by commercial interests.

Despite an outside expert urging the Fianna Fáil-led government in high-profile reports in 2000 to remove tax incentives for property investors, the party was lobbied intensively by the construction industry and incentives were left in place in the 2001 budget. Mortgage interest relief was reintroduced for investors, helping them to offset the cost of their property speculation against their taxes. Such measures only added to increased activity in the property market. Had the incentives been removed it might have made some think twice about investing more in property and cooled the market somewhat.

That government and the next Fianna Fáil-led government said they would end the tax incentives for a multitude of property development types - from multi-storey car parks to student accommodation to nursing homes to over-the-shop apartments - but they were ultimately extended from 2004 until 2006 and some instances right up to the start of the financial crisis in 2008 - the years covering the most frenetic period of the property/banking bubble. These decisions were taken after heavy lobbying by the construction industry. The government of the day said in 2004 that it would review these tax-based property incentives. In the 2006 Finance Bill some tax reliefs were eliminated by government while the decision was taken to phase out other reliefs up to 2008.

The financial sector was equally robust in pushing its own interests with government and government officials through established relationships between their representative groups when it came to legislative changes it wanted or was unhappy about measures that might rein in the activities of their industry.

In 2006, the banks wanted a change in the rules on what collateral could be used to borrow in the international money markets. They heavily lobbied Department of Finance officials and Government right to the highest levels in a well-coordinated campaign that included representations made at a private dinner in one of the country's biggest banks for a senior member of Government. This is illustrative of relations between the banks and the pro-bank government of the time. At one point the Department of Finance was described by one of its own officials as being "under seige [sic]" in the lobbying campaign by the financial industry. The aim was to get legislation passed to allow the banks to issue bonds backed by commercial mortgages. The financial sector won out. The legislation was passed in early 2007, right at the peak of the property boom, making it easier for banks to borrow more money to provide more loans to more customers.

The Financial Regulator was shown to be equally malleable by outside interests when it came to moves that might have taken some of the heat out of bank lending.

In 2006 the Financial Regulator started to consider the introduction of compliance statements for the directors of banks. These would allow the regulator to force the management and the boards of the banks to stick by assurances they gave - for example, agreeing to reduce their lending into one particular area - and would have given the regulator an important tool to exert greater control over the activities of the banks. After intensive lobbying by the financial services industry, the Department of Finance asked the Financial Regulator to drop the process of consultation with the industry on the measure. It was shelved in favour of the measure being considered in a wider overhaul of financial services legislation at some later unspecified date. One of the reasons cited for dropping it was that it would damage the country's international competitive edge in financial services.

This was a regular refrain from the banks - and repeated by the Government and government officials - when it came to opposing stronger regulatory tools to curb the activities of the banks. As Governor Patrick Honohan stated in his report on the causes of the banking crisis, more aggressive action was not taken to stop the practice of lending 100 per cent mortgages to homebuyers because excessive weight was given to the damaging effect of competition from foreign banks on domestic lenders if curbs were introduced "probably in light of lobbying objections from institutions." This shows how the Financial Regulator was - as well as trying to regulate the banks - on the bandwagon with the industry and government in trying to promote Ireland as an attractive destination for international banks to conduct business in.

The lobbying by the banking industry extended to one notable case involving Irish Nationwide Building Society. For years the senior management at the building society had been lobbying for a change in legislation that would have allowed the building society to demutualise and be sold immediately in a private trade sale in one fell swoop, instead of waiting a period of five years after demutualization for a trade sale. That legislation came under the Fianna Fail-led government in the summer of 2006 and the lender was almost immediately put up for sale. At that time Irish Nationwide was dressing itself up for a trade sale by showing itself to be as profitable as possible. This coincided with a period when the building society pushed itself very heavily away from its traditional roots as a mortgage lender that helped people buy homes into a more lucrative guise as a boutique lender to builders - and even a partner with some of its developer customers on speculative projects. Some of the heaviest losses incurred by the building society were on loans provided in the period leading up to and after the passing of this demutualisation legislation.

Irish Nationwide's senior management was perceived as having strong political connections. That, I believe, coupled with the fact that the building society had operated unchecked by any kind of effective regulatory action on corporate governance issues for many years, gave the lender a sense of invincibility and misplaced confidence in terms of financial risks it took on, to carry on its business as it saw fit. Despite repeated problems of corporate governance at the building society, the regulator adopted a stand-off approach with the lender, preferring to wait until the institution was sold in a trade sale as a means to resolving these problems rather than tackling them head on. This wait-and-see game proved to be extremely costly given the kind of loans that were advanced during this period. Irish Nationwide has cost the Irish public €5.4 billion, an extraordinary loss rate on a lender that had €12 billion in loans.

As for the interactions between the regulator and Anglo, their cosy relationship meant that the bank's massive exposure to the property market was allowed to balloon out of control with devastating consequences for the country. Remarkably, regulators knew that the bank was aware that it was in breach of its own internal limits on property lending. It is even more remarkable that regulators were comforted by the fact that the bankers knew that they were in breach of their own limits. This is the kind of strange logic that existed in the country's poor regulatory regime that showed the weaknesses of light-touch regulation and how bankers could skirt around the rules.

In 2008, Anglo Irish Bank had a strong link between its boardroom and Government Buildings, though it is still unclear just how useful this connection was to the bank at the time of its greatest need, in the days leading up to September 29, 2008, the night of the guarantee. It raises a question, which I cannot answer: did these connections play a factor in the thinking of those in charge on that fateful night behind the decision not to take the bank - the only Irish financial institution that had gone over the cliff-edge at that stage - into public ownership by way of nationalisation legislation or to consider some other stop-gap measure rather than a costly blanket guarantee?

Given Anglo's frantic, last-gasp efforts to raise concerns and press influence in political and regulatory circles about its deteriorating funding position, it would appear that the bank's connections were not so well developed to be effective.

While Anglo Irish Bank was very close to the country's most active builders and property developers and so too was Fianna Fail, it might be too far a leap to conclude that Anglo and Fianna Fail were equally close. The bank and the party certainly had a number of deep contacts at the highest levels. My research found that these contacts bore little fruit for the bank, although it is unclear what influence Anglo's developer customers might have had with their friends in politics. For the most part, in the run-up to the crisis, the bank was too busy lending money to builders and making vast profits from the booming property market to be distracted by developing and working political contacts. In the post-guarantee period, prior to the bank's nationalisation, there were more pronounced efforts made by the bank to curry favour in political circles.

As for the future, the recent publication of the Registration of Lobbying Bill to regulate lobbying of government members and state officials by corporate and other concerned interests is a step in the right direction. This will force groups, companies and organisations involved in lobbying Government to file the details of their contacts with the Standards in Public Office Commission.

Further steps could be taken such as the compulsory logging of all contacts, even informal ones, that the Taoiseach and government ministers have with outside parties concerning representations on policy and/or legislation and for these contacts to be disclosed publicly and regularly. Often it is only through Freedom of Information requests by the media that these contacts emerge. Some contacts, however, may never appear in officials records because government departmental officials know not to commit to paper certain things that might be "FOI-able."

You have also asked me to discuss whether Ireland being a small country is a factor in terms of the relationships mentioned above. I cannot answer that because who knows what would have happened if Ireland was three times the size. However, I think that the fact that this is a small country should serve as another reason why it is so important to document all contacts that policy-makers and their advisers have with outside interests on policy representations, as onerous as that record keeping might be. Any concerns about unintended consequences of forcing those connections and contacts out into the open are, in my view, over-played.

Sunlight is good medicine. This country needs to let in far more light and be far more transparent - along with being more open to listening to and accepting of countervailing views - if it is to recover fully from the recent dark past.

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