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Joint Committee of Inquiry into the Banking Crisis

Witness Statement of

Deirdre Purcell

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INTRODUCTION

My name is Deirdre Purcell.

I spent seven years as a non-executive Board member of both the Irish Financial Services Regulatory Authority and the Central Bank, with an additional year from 2002-2003 on the interim Board of the IFSRA (FR) during its setup phase. This new body was instituted in the wake of financial scandals involving mistreating consumers of financial products in Ireland.

I was surprised when I got the phone call from the appointing Minister asking me to join the new Board and I responded by telling him I had no academic or professional qualifications in banking. His response was that he had chosen me because he had heard – from whom I don't know - that I had a reputation as a strong and independent woman. He explained the consumer protection function of the Financial Regulator and said he envisaged my role on its Board to be that of the “ordinary” citizen who would aim to represent the “ordinary” customer of financial institutions.

I certainly had such experience. Throughout my life, starting from the age of 17, I had been a customer of banks, a credit union, insurance companies, building societies, hire purchase firms, agents, brokers and mortgage providers in their many forms - and like many people nowadays, had suffered from the exigencies of variable mortgage interest rates, at one point having been charged interest in excess of 20 percent.

The Minister also told me that he was aware of my 13-year tenure on the Council for the Credit Institutions Ombudsman, so that I already knew how consumers of financial products were sometimes (mis)treated.

From memory I cannot quote verbatim much else of what he said to me. However, more than thirteen years later when I look back to that phone call, I believe that the Minister also mentioned my journalism (where I had been told many times that one of my abilities was to make clear what was complicated), saying that this background, too, would be helpful.

In May 2003, I was confirmed as a Board member of the Financial Regulator and was in addition appointed to the Board of the Central Bank. I was reappointed to both Boards in 2008 and retired in 2010, as a result of a board-refreshment lottery system, some months before the responsibility for financial regulation was re-absorbed into the Central Bank under the aegis of the new Central Bank Commission.

During those years, I served as a member of the Financial Regulator's internal Audit and Risk committee, the CBFSAI's Internal Audit Committee, and latterly, for a short time, the CBFSAI's Budget and Remuneration Committee.

In this statement, I don't speak for others but will try to illuminate the role I played during my tenure and at this stage, I wish to point out that unlike now, appointments to State Boards were always made by Ministers and Governments of the day. While I can vouch only for myself, I don't believe that my appointment could have been influenced by political considerations; no-one, including the appointing Minister whom personally I did not know, could have known what, if any, political affiliations I held, since I had none whatever.

I would like to acknowledge that like many others, I did not foresee the depth and *speed* of the financial tidal wave that engulfed this country and much of the international financial system. I acknowledge my part in the collegial failure of the CBFSAI as a whole, since the FR was an independent component of the Central Bank.

THE REGIME.

For the new regulatory regime, the FR took on the existing "principles-based regulatory system" (PBR) that had previously been operated by the Central Bank. This approach fitted well with the 'better regulation' agenda promoted by the Government, following the OECD report *Regulatory Reform in Ireland*, (OECD, Paris (2001.)) In response to that report the Government had emphasised the importance of making Ireland an easier place to conduct business and to minimise regulatory barriers to doing so. PBR fitted with that approach.

In line with that 'better regulation' agenda, for the Financial Regulator, in my experience, PBR could best be described as placing primary stewardship of a regulated institution's prudential safety and soundness on its Board, along with its risk committees, compliance teams and auditors. It was also based on requiring banks and other regulated entities to work transparently and ethically.

In that context, each Board member of such a company was required to be, not just suitably qualified and experienced, but personally of high moral standards and focused on ethical business practices. In other words, they should be persons of integrity who could be trusted to run banks and to care for their customers. (And after the FR's adoption of its new Consumer Code of Conduct, regulated entities were also required to adhere to that Code in its conduct of business.)

At the time, this type of regulation was widely in use internationally but after the financial crash, was and is almost universally derided, particularly in Ireland where it is now seen as "Light Touch Regulation" and not fit for purpose.

QUESTIONS.

I have been asked by the Inquiry to respond to 23 questions and I hope to do so to the best of my ability.

One caveat: since leaving the CBFSAI, I have lived and worked within an array of different spheres, all requiring intense concentration. My memory is not infinitely elastic and I do find that elements of the new work do push out the old. So in general if I can answer a question only partially or not at all, I won't speculate. In some cases, this would be because I was not party to the discussion on which the Inquiry's question is focused. In others, where I cannot be specific, an opinion of mine would be nothing other than surmise and therefore would be neither accurate nor helpful in advancing the Inquiry's knowledge.

To take Question 17 (R3c) asking if the CB Governor's letters or any other reports from the Central Bank should always be taken at face value and not subject to challenge from the Department of Finance - and what processes the Department of Finance has to challenge the information provided to it by the Bank.

My answer to the first part of that question is that, of course Central Bank statements and documents should be challenged if this is thought necessary, especially, but not limited to, financial, stability or fiscal reasons.

While I was present at almost all Board meetings of the CB (but not every single one) during my tenure, I do not recall facts or information in any documents under discussion being *challenged* by any of the three Secretaries General who represented the Department of Finance during my seven years. There were, I believe, a small number of comments (not challenges) on certain phrasing or tone. These seemed to err on the side of caution generally prevalent in the CB about "spooking" the markets or damaging confidence in the Irish financial system. The Governor did accept these comments (and those of other Board members) for reflection, but the final iteration of significant documents such as the Financial Stability Report was his.

Secondly, except via the presence of a Department of Finance Secretary General at CB Board meetings (before which, he received all the specialist papers provided by senior executives and staff) I was not privy to processes within the Department by which challenges could be made to CB documents or actions. I did believe that, informally, the Minister and his officials from the Department were permanently available to the Governor, with his officials (and vice versa) should either side wish to speak to the other outside Board meetings.

So Part One of Question 17 is a question I can answer from my own observation and experience, Part Two is a combination of what I cannot answer firsthand, and hearsay/anecdote.

Question 22 is an example of one I cannot answer in any way that might prove helpful to the Inquiry. This asks about the effectiveness of the Domestic Standing Group (DSG) and what deficiencies of the DSG were addressed by the Financial Sector Stability Group established much later.

The Domestic Standing Group, membership of which consisted of high-level officials from the Department of Finance, the CB and the FR, was formed in 2007 at the behest of the EU for the purpose of crisis scenario planning and to watch for signs of distress in the banking arena.

As I say, I cannot usefully comment on its effectiveness or its plans because when the crisis hit, I was not privy to whether or not these scenarios were actually activated. At the time, both Boards were meeting almost on a daily (or nightly) basis; many times there had not even been enough time to formulate and print Board papers and I simply cannot recall what was discussed about the actions of the DSG, except that around the time of the bank guarantee, I remember that CB and FR members of the DSG were as involved as very many others in the organisation in attending overall crisis meetings.

As I was no longer a Board member when it was instituted, I know very little about the FSSG – the Financial Sector Stability Group – that replaced the DSG. I believe it involved members of even higher seniority than the DSG, including the present Governor, and that it too was discussing and commissioning research concerning contingency plans in the event of crisis. Commonsense reasoning might suggest that given its membership in general enjoyed higher seniority than that of the DSG, it had enhanced power to decide on action rather than having to refer upwards; and when required to refer, was more likely to get approval for action but I have no evidence to support that hypothesis.

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From the beginning, I did agree wholeheartedly with the thrust of the proposed Financial Regulatory legislation's focus on the protection of consumers. As a professional communicator, I also saw a clear role for myself in the awareness and education side of our remit, whereby "ordinary" people would be properly informed and educated about the intricacies and suitability of the products they bought - and about their rights to fair treatment by the financial institutions who sold them.

| As a long-standing member of a Credit Union, I also concentrated on issues around the governance of that sector which was familiar to me. With 2.7 million members, the Credit Union "movement" run largely by volunteers, did occupy a very large field in the financial services provider

landscape. They were responsible to the Registrar of Credit Unions, who appeared regularly before the FR Board to make presentations, but reported directly to the Minister for Enterprise, Trade and Employment. As a result of the enactment of the 2003 CBFSAI legislation, the regulation of credit unions was to be assumed into its fold, albeit with a recognition that these institutions were unique. That was the theory,

The Credit unions objected strenuously and publicly to this plan and I determined, at Board level, to assist the Registrar in his efforts to bring them under the umbrella of the new regulations. I also tried to prevent CU issues from slipping down, or off, agendas for Board meetings, mentioning them under AOB if necessary.

As for the Prudential side of the FR's remit, while taking part in discussions to the best of my (growing) knowledge, in most cases I was happy to be guided by, and to listen to, those with superior experience such as senior executives and the Prudential Director.

Under the relevant legislation, the Consumer Director became a statutory executive member of the IFSRA Board but the Prudential Director did not, which did seem to indicate that the responsibilities of the new Board should lean more towards the consumer side of its mandate rather than the prudential. The Board recognised this imbalance; the Chairman wrote to the Minister and it was agreed that the Prudential Director would attend all Board meetings, would be given all Board papers in advance and would participate fully in all Board discussions .

While Prudential issues were not neglected or ignored during Board discussions of the FR, the truth is, that these issues did seem to take a back seat on the drive towards better consumer protection as articulated and emphasised by Government and enthusiastically embraced by the FR.

In light of subsequent events, this imbalance proved to be a mistake.

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The FR Board did have concerns that the number of specialist staff in the prudential area, particularly in the supervision Department, was far from sufficient. It shared Human Resources services with the CB and when articulating these concerns, was constantly advised that budgets were strained. The recruitment process, based on the civil service model was slow and unwieldy in a financial environment where speed was of the essence, and despite our efforts to have more people recruited, these were less than successful.

This turned out ultimately to be another very big mistake, as it related to the prudential responsibilities of the FR and the CBFSAI as a whole - and not just for this organisation, as events later that decade so dramatically illustrated.

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Much public criticism has been levied on the membership, including my own, of both Boards, because members brought with them insufficient or, in almost all cases, no banking or regulatory expertise. In my view, speculation as to how much this affected the crash, while through the wrong end of the hindsight telescope, is legitimate and the Inquiry has asked for my view on our ability as a Board to draw our own conclusions about Financial Stability.

The facts are that thirteen years ago, with its major consumer focus, the FR Board, six of whom also took seats on the CB Board, was set up by its appointing Minister as a generalist body with individual members bringing with them their diverse but serious reputations from within the real worlds of business, insurance, public service, public life, law, Revenue, economics, journalism in my own case and banking in the case of one other. We were given no formal training in banking matters, as such, but when we took up our posts on the Interim Board, there were many specialist presentations organised for us and this practice continued from the establishment of the Board in May 2003, throughout our tenure.

Meanwhile, in the course of the CB Board meetings, there were also in-depth presentations from various in-house departments.

I accept, in retrospect, that these initiatives were not enough.

As for the “political composition of the Central Bank Board” (posited by Question 16) I have already stated my own non-allegiance to any political entity, but am politically aware as a result of my journalistic work and my lifelong interest in current affairs. When taking office, I immediately recognised the political allegiance of one member of the CB board and the professional affiliation of another to a trade union. But in truth, matters having been discussed around the table, I did not detect political bias in any decision of the Board.

In general, as I stated above, I remember the Governor’s state of constant caution about how the Bank’s public statements would be received, and how they might affect the economy, the markets and financial happenings within and outside the Irish and financial systems, not least because of parsing by hyper-alert financial and general media. I never saw this concern as “deference” to any outside source, including Government. I understood it to be intrinsic.

In fact I do not believe that there was “deference” to the Government by the boards of either the Bank or the Regulator.

To summarise my own Board membership: the segments of “expertise” I brought to the Boardroom of the CBFSAI – and the areas in which I took a specific interest - were those traditionally considered to be in the area of “soft skills”, which personally I do not consider to be all that soft. **In my case, they**

involved common sense, a strong work ethic, professional curiosity, a propensity to learn, personal independence, a high degree of “Emotional IQ” and long experience in communications; a genuine interest in consumers’ rights, in credit unions’ governance, Board ethics and corporate responsibility. The Chairman of the FR conducted annual “360-degree” performance reviews with individual Board members. Mine was favourable on each occasion and I was also given very useful feedback.

My appointment to the Board of the Central Bank was alongside that of three of my non-executive FR colleagues, its chairman, and its chief executive who both took seats ex-officio. Such cross-membership was, I knew, to facilitate a sustained flow of co-operation, information and decision-making in the interests of consumers, prudential regulation and ultimately, the stability of the financial system.

Many of the members we joined were already of long standing on the CB Board. And as I have said above, across both Boards I believe that, even if most new members came initially to the FR with limited knowledge of the more arcane aspects of banking and its products, we understood the concept of stability, what endangered it and how it was to be ensured. We were all capable of applying the specialist knowledge offered in the presentations given by senior staff and executives and were also open to consulting outside experts. There was certainly no dearth of “drawing our own conclusions” or hesitation in offering them.

Although I cannot be detail-specific, my memory of my tenure is that in relation to both Boards, and the CB Board in particular, is:

- a) the stability of the Irish financial system was permanently on the agenda, directly or implicitly;
- b) similarly, around the FR Board table, any action envisaged was discussed with a view to its possible effects on financial stability, up to and including the scoping of consequences unforeseen.
- c) in his convening remarks to the monthly meetings of the CB Board, the Governor’s habit was always to give a comprehensive overview of both the Irish and International financial and economic scenarios, with Power Point presentations and papers to support his remarks;
- d) around that table, everyone understood the implications of what the Governor was saying and its seriousness – but:

In hindsight, none of this was sufficiently prescient.

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The cross-membership of the CB and FR Boards was designed to sustain a flow of co-operation, information and decision-making in the interests of consumers, prudential regulation and ultimately, stability. The two bodies were formally confirmed statutorily in May 2003 and subsequently, a Memorandum of Understanding between the FR and the CB was signed, to

give formal effect to how the two boards would work together to support the CB's financial stability role.

In my view, the MOU was clear in delineating responsibilities, while also making it evident that both organisations would operate under a single banner of watchfulness and oversight in ensuring financial stability.

To summarise: the CB was to take care of macro financial matters, including currency movements and stability issues, while the mandate of the FR, through remits of consumer protection and prudential supervision, was to deal with individual financial entities mentioned in the MOU – and others - including Irish banks, building societies, insurance companies, stockbrokers, exchanges, investment firms, retail intermediaries (both investment and insurance) re-insurance bodies, bureaux de change, credit unions, licensed moneylenders and collective investment schemes such as managed funds, more than 8,000, firms in all. This led to a general view that the Regulator's remit was micro. Rather than scanning for system-wide threats on the national or international financial horizons, its task was to ensure that banks, for instance, were well capitalised, safe, solvent and acting ethically.

Very quickly, the FR deployed the commonsense axiom that not all consumer products suited all consumers. For instance, selling an investment product not due to mature for 25 years to an 85-year old was entirely inappropriate. .

We embarked on what was an ambitious - and to me a very significant - public campaign, directing financial providers to “know your customer” while in parallel, instituting a nationwide information drive for the customers themselves. The latter included, among other initiatives, a dedicated drop-in centre, a roadshow, call centre, website and advertising campaign designed to inform consumers how to handle and protect their money - and how to complain formally if any of their providers, or the products sold to them, proved inappropriate for their personal circumstances. Despite the wider issues of what happened in Ireland pre and post crash, in the context of consumer information and education, I firmly believe that in this area at least, our efforts bore fruit. In my opinion, consumers of financial products are far more savvy than they were before we set out on this campaign to educate and inform them. And in general, they certainly know now how to assert and defend their rights.

From the start, the practice of the FR was to brief the Governor and the CBFSAI Board on its activities formally and comprehensively at meetings of this Board but also, more informally, outside Board meetings. The doors of the FR Chairman and Chief Executive – and of the Governor and Director General - were open to each other. Senior executives of both CB and FR were also briefing and briefed as was deemed necessary.

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It is true that certainly in its initial years, the FR was slow in finding its feet on sanctioning banks and other financial entities for wrongdoing.

What has probably not been taken sufficiently into account when criticisms are made of tardiness and even unwillingness to impose sanctions are:

(a) the appeals processes set up through legislation and open to those whom it was proposed to sanction;

(b) when it was granted direct sanctioning powers such as the imposition of punitive fines, there was caution within the FR before acting in order to make sure that initially at least, every legal “I” was dotted and “T” crossed in order to cut off recourse to the courts;

(c) it was late in 2005 by the time the legislation and statutory instruments on sanctioning were complete and staff had been trained - 2006 when the provisions of Basel II, the new European legislative framework for banking supervision, came into operation. By then, the impression had possibly taken hold that the FR was timid. In Ireland these reputations, once imposed, are difficult to reverse.

When sanctioning powers were finally granted and became effective, the FR acted in a measured and fair way in my opinion, with the rate of sanctioning increasing each year from then on.

What hobbled it in its first few years was not *only* the late according of powers but the original choice of PBR; within a stringent rules-based regime, I believe it can be easier to detect infringements and sanction them.

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One of the remits of the Financial Regulatory Authority was the promotion of the financial services industry in general – this was taken primarily to mean the IFSC. The question has been asked if this created a conflict of interest.

The short answer to this, is, yes it did.

But without being disrespectful, I don't think I can add much to what has already been said to the Inquiry. In my opinion, the FR was very aware of this conflict, while also being mindful of competition and commercial confidentiality, along with the importance of existing job levels in the IFSC, and its potential for good job creation in Ireland. And so the FR tried overall to impose orderly regulation, by being transparent where possible, always keeping the best interests of the country at heart.

Consultation with regulated entities has been at the heart of PBR regulatory principles, not only in Ireland, but in every jurisdiction where it operated. Certainly in this country, it happened as a matter of course, prior to changing a regulation or imposing a new one on a regulated entity. My

understanding was that in a wider context, consultations were also conducted keeping in mind transparency, basic democracy – and fairness, whereby the FR genuinely listened to objections, but acted on them only if they seemed to be legitimate or made good sense.

This stance did not always work and is relevant to the Inquiry's question about the "fit and proper" requirements it decided to impose on directors of banks, which proved to be a protracted process, fiercely opposed by the industry.

One of the main planks of this process was the issuing of a long personal questionnaire to be completed by board members of regulated institutions. However, they deemed this unnecessarily and personally intrusive. Their objections resulted in frank and lengthy meetings between their representatives and the FR – with the FR then taking legal advice, which was that, under the Irish Constitution, no person already installed on a board could legally be reassessed this way because it would open the possibility of removal, should the answers prove unsatisfactory. (This relies on the constitutional "right to make a living" tenet.) The questionnaire was, I believe, employed subsequently, but only for potential new board members.

While the Inquiry's use of the word "chose" in asking why *the Regulator chose not to implement the original proposals of these initiatives* is technically correct, for me the choice was Hobson's - over a range of situations:

- As above, legal advice was that constitutionally, we could not administer this questionnaire to those already in office.
- Recent memory of an episode when, using this constitutional basis to support the argument, a disqualified person challenged the decision in a court case. My memory is that the proceedings cost the CBFSAI 750,000 Euro.
- A very long agenda of other tasks undertaken daily by FR staff and executives who were already under considerable strain.
- the strength of industry opposition was such, that to get the type of acceptance that was necessary, would devour time and sparse resources, thus placing more stress on staff and on the organization as a whole.

In any event, I felt that eventually, new Board members would, through retirements and replacements, replace the old.

The FR ran into similar problems when it attempted to require compliance statements from Directors of the regulated entities; this too was resisted and in this case, the Department of Finance finally wrote to the organisation, requesting that the process not be continued without consultation with it. The interpretation of this by the FR was that the Government would not back it.

I believe, however, that sometimes, the consultative process did work. For instance, the imposition of specific capital requirements was accepted by the banks, after consultation with the FR.

As for the question you asked in general about the influence of the Department of Finance on FR initiatives, I have explained about the Compliance issue. I do not have direct knowledge of whether it was specifically the Department or Government that was principally lobbied by Credit Unions when attempts were being made by the Registrar to bring them into line with FR regulation. I do know they campaigned publicly against this, stalling the process, and that they used every avenue open to them.

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Since the 2010 Act came into being, the Fit and Proper issue is, I understand, now satisfactorily entrained. But given the forces marshalled against the FR's initiatives at the time, I am not sure that either this or the Compliance issue could have been fully resolved to the organisation's satisfaction, even if it had been better resourced.

In light of the extraordinary range of the FR's activities, throughout my tenure, I did believe that the organisation was under-resourced in human terms, I am aware that others disagree.

As a member of the Internal Audit Committees of both the FR and CB – and in addition, subsequently, of the CB's Budget and Remuneration Committee (BRC) – this was one of the critical areas on which I focused. The other was Information Technology.

At the FR Internal Audit Committee, executives told me repeatedly that, while there were vacancies in many Departments (including, for some time, in Internal Audit itself) staff were coping, although under strain. Pressing further, I was told that there was little that could be done until financial resources increased.

Time may have dimmed or even obliterated memory, but while I recall executives making representations to the BRC for more staff resources I don't remember these presentations as being particularly demanding. Nor do I remember staff shortages being presented as seriously urgent at the Board of the CB.

At that time, in the areas of salary and recruitment, the CBFSAI's administrative processes around recruitment and remuneration were bound by public service terms and strictures. As for issues surrounding IT services, I felt deep frustration about what seemed to be the organisation's inability to bring its systems up to modern standards, or at least standards that would have mitigated some of the strain on staff, and helped with regulatory issues and inspections.

Other members of the audit committee - even external auditors - will remember that I constantly harped on about this. Again, I'm afraid, I had little success with it until near the end of my tenure. And I cannot take any credit for its eventual modernisation. During my time, it was merely a victim of the slow grind of CBFSAI wheels.

I am happy that today there appears to be a different scenario and to answer its own question about sufficient resources at the FR, the Inquiry has only to look at what happened post-crash, when staff numbers increased by 170 percent.

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In my recollection, penultimate versions of Financial Stability Reports, and to a lesser extent, CB bulletins and certain portions of annual reports, were always discussed at length during CB Board meetings. I remember little in the way of dissension about the substance of their contents.

This does not mean that during discussions, “contrarian” views were not expressed. They were, were heard and discussed, but with little outcome on the consensus view as far as I could tell.

The practice of both the CB Governor, and the FR Chairman, was to discuss all issues openly but then to seek consensus. Members were free to call for a vote or to ask that contrary views be minuted, but to my recollection, this did not happen in my presence so obviously these contrary views were not persuasive enough. I saw this as democracy. I cannot answer, of course, for what happened in side meetings after the Board members dispersed – as I said earlier, the office doors of both the FR Chairman and the Governor were open.

Personally, I sometimes felt that while Executive Summaries were factually accurate, they did not always fully reflect the detail or nuance of what was in the body of the reports. From time to time, I made suggestions seeking to harden the tone, at least of the summary, because I knew that many in the media – not all, to be fair, deadlines are becoming ever more pressing - relied on these summaries, on accompanying press releases and on pie charts for their information, rather than having to delve through long, dense text within the body of the report, which gave substance to what was a sentence or paragraph at the front.

As a counter to this, I am aware that, particularly in 2006 and 2007, there was growing worry in the CBFSAI about sector concentration and major exposures by banks to developers; in this case, caution about divulging the true extent of this worry in formal documents is understandable, since too strong a public warning could cause panic.

Starting in the summer of 2007, a relatively small number of economists, academics such as Morgan Kelly, and journalists such as David McWilliams and George Lee, were issuing public warnings about the overheating of the Irish economy and an unsustainable housing bubble.

In his paper: *On the Likely extent of Falls in Irish House Prices* published that summer, Morgan Kelly warned that house prices in Ireland would fall by

up to 50%. By contrast, the OECD was forecasting that the figure would be in the region of 20%. The OECD forecasts were widely respected, quoted by the media and used by State Agencies here.

In the event, Mr. Kelly was spot on as to the scale of the price falls, (although not about how long it would take.) I have no knowledge of discussions, serious or otherwise about this article at “senior management level in Central Bank/Department of Finance”, as asked by the Inquiry in Question 19, but I can recall that his piece was a trigger for discussion at the CB Board.

I was personally aware of the wider difficulties that a fall in house prices, of the order predicted by Mr. Kelly, would engender. I knew anecdotally that many of the houses under construction were being occupied by construction workers. Many of these had come to Ireland from other countries, were contributing their taxes to the Irish Exchequer, and their labour to the fall in unemployment figures. But I feared that they would stay just for the duration of a building and economic boom that no sensible person believed could last forever.

I had heard of farmers speculating in already-zoned land, selling it, “subject to planning” at enormous prices to developers, thereby giving them recourse, should planning not materialise. (I stress to the Inquiry the anecdotal and hearsay nature of this point. I mention it simply to illustrate what was said in general conversation in shops and on buses.)

When in addition, also anecdotally, I began to hear of widespread property-flipping, I began to see the whole house-building/property-dealing carousel rotating at far too great a speed. To me, it would reach unsustainable velocity and would cast off all parties on board, including a number of financial institutions, also sitting on it, having invited developers and “ordinary people” to get on.

I did bring this up (perhaps not so colourfully) at CB Board level as, trenchantly, did others. One very knowledgeable Board member had first-hand information about property bubbles in other nations and his was the deepest worry about what was similarly developing on the Irish scene.

Nevertheless, while everyone around the table, including the Governor, admitted to harbouring serious concern about the overheating property market and its effects on the general economy, the overriding belief, it seemed to me, was that we would experience that proverbial “soft landing”, because the number of credible sources predicting this greatly outnumbered those with a pessimistic outlook.

Clearly, we were wrong .

As for what person, economist, analyst or organisation initiated and/or disseminated the majority-held “soft landing” scenario for Ireland, I’m afraid I don’t know with any precision. Outside the CBFSAI, I heard and read many

times about this soft landing from commentators and economists (with the well-known exceptions) and on my own behalf, chose, wrongly, to hope it would come to pass because experts whose lives were spent predicting these things, said it would.

The soft landing prospect did seem to me to gain general currency very quickly. I cannot answer for the Department of Finance, of course, but all I can remember, truthfully, is that around the CBFSAI Board table, concern having been articulated that the landing might be rock hard, the conclusion did seem, nevertheless, to be uplifted by the knowledge that many of the official indicators quoted by commentators, both national and international, predicted otherwise.

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I do not feel qualified to offer a useful perspective on the solvency of banks in the context of capital injections that followed, and hope I have sufficiently explained how I saw my role.

In the context of what the Inquiry asks, however, I did rely on external auditor reports, on documentary and verbal CEO reports, on detailed “stress tests” by which banks were tested on their soundness and safety against a variety of negative scenarios (and through which they came through positively according to auditors.) To give me comfort, I also relied on what I heard from senior staff at Board meetings, and on the opinions of people more qualified in banking matters than I. However, if I did hear something that alarmed me from a commonsense perspective, I did speak up or seek clarification. The situation, as presented, did appear to be under control.

As for the relationship between the CB and the Department of Finance, as far as I could tell from my limited personal exposure to it, it was subject to oscillating levels of good natured dialogue and healthy tension. I was never in any doubt, however, that it was fundamentally cooperative, with both organisations working for the benefit, prosperity and stability of the country.

As for the wider and more complicated relationships between the CBFSAI and the banking institutions – and my view of the role played in this by “constructive ambiguity” - I cannot answer whether or not this obscured the “hard realities of the liquidity and solvency issues of the banks” as the Inquiry has asked. I was not party to any discussions between the Bank, the Department of Finance and the banking institutions and I do not remember if there were presentations to the Board on the use of constructive ambiguity in such discussions, I doubt if there were but I could be wrong.

In general, I do believe that the phrase, sometimes seen as derogatory these days, means what it says on the tin and should not be seen as obfuscatory, dishonest or as an avoiding tactic. When one is involved in sensitive negotiations even with might or right on one’s side, to keep the conversation

going, the tactic can sometimes be helpful, even essential, by giving the other side some wiggle room and not to frighten it bluntly into withdrawal or to make a defensive, irretrievable or unintended blunder.

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I have read IMF country reports and OECD reports in the course of my Board memberships, also read and heard about them in the media, in which extracts of the more “newsworthy” items gain traction. In my view, these reports are serious and important but like all research documents, are only as good as the people who compile them, as the quality of the research materials, and (when the research is survey-based) on the questions asked of respondents.

The only thing I feel I can say on the question of whether they are “important information aids in banking regulation and supervision, or in financial stability issues,” is that every informed opinion, especially one that has traditionally been experienced as trustworthy, is worthy of attention. As tools, these were of value, but not to be taken in isolation or as definitive.

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My understanding of “performance management reviews or reporting with regard to the use of the Government guarantee by the banks”, is that after the guarantee, reporting from the banks to the CBFSAI was required to be seriously enhanced, and that with the expansion of staff numbers in the CB, particularly in the Inspections and Prudential areas, banks’ performance and activities were placed under much closer and more sceptical scrutiny.

CONCLUSION

Life has taught me that to aim high in all endeavours is the right thing to do.

I have also learned, sadly, that to work hard is not in itself sufficient to fulfil the aim.

In a situation such as faced the CBFSAI during the latter years of my time there, it is clear that no number of reports, digestion of statistics, or employment of expert opinion can overcome what is worldwide and on its way. Laudable diligence in fulfilling core values and high-level goals could not prevent our being caught up in the disaster of the banking crash.

To me, now, it is clear that these goals can be achieved only on the basis of having hard facts and, crucially, timely and trustworthy information. Even then such tools should be examined through a prism of hard-nosed scepticism, even cynicism. These attributes are, I think, what was corporately missing in the FR because of our genuine enthusiasm to progress the mandate we were given. As for the organisation as a whole, my feeling now – and again I emphasise that this is in hindsight, is that many staff, executives and some Board members had been through financial crises before – or had been on the brink of one – and Ireland had survived. In my opinion, this may have gone a long way in encouraging the triumph of hope.

I wish to state that despite the now-obvious failings in our stewardship of the financial spectrum, I continue to admire the work ethic, dedication and loyalty of executives and staff with whom I came in contact.

I also found that my fellow Board members, both Executive and Non-Executive, were steadfastly engaged in the work we did and yet, as the Inquiry has heard from many witnesses, we were all caught out by the tsunami-like collapse. This is certainly a source of deep sadness and regret to me.

And finally, I would like to quote the view stated in the Commission of Investigation into the Banking Sector in Ireland (The Nyberg Report) post-collapse in March 2011 (5.4.3)

It is the belief of the commission that ... irrational forces were present. The widespread consensus as well as the confidence, until the very last moment in late 2008, that everything would end relatively well points to the existence of a national speculative mania in Ireland during the period, centred on the sale and acquisition of property. Warning signs were ignored as continuing economic stability was confidently assumed. When the mania ended, participants had difficulty in accepting blame for their own part in it since everything had seemed so normal and acceptable at the time.

I agree. And I freely accept responsibility for my part, in “it”; I was a component in a huge, rolling machine that had been creaking for some time but shuddered to a halt after September 2008 and led to the Troika coming to Ireland. I accept my part in not paying enough heed to the creaking.

Deirdre Purcell. 30 July 2015.