Joint Committee of Inquiry into the Banking Crisis

Witness Statement of

Larry Broderick

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[1] *See s.37 of the Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013*

Joint Committee of Inquiry into the Banking Crisis

Witness Statement by Larry Broderick
General Secretary of IBOA The Finance Union

Executive Summary

- Since the financial scandals in the 1990s, IBOA The Finance Union has highlighted many of the shortcomings of Irish banking in the areas of corporate governance, incentivisation of pay, the culture of fear, the impact of short-termism on customers and staff and the need for radical change in the sector. The Union has issued public statements as well as making submissions to parliamentary committees in the Oireachtas, the Northern Ireland Assembly and the British Parliament. Unfortunately, many of these warnings were either misunderstood or ignored. Even though they may not have addressed all of the problems faced by the sector in 2008 and the years following, these warnings, if acted upon, could have gone a long way to reduce the impact of the crash for the major financial institutions, their employees and customers and for the public at large.

- Despite the significant growth and apparent profitability enjoyed by Irish banking in the 2000s, ordinary bank employees did not benefit excessively in the "Celtic Tiger" period. Their pay increased in line with nationally negotiated norms, in sharp contrast to the very substantial incentives and reward packages available to some senior executives who were incentivised to pursue short-term and short-sighted policies aimed at maximising profit and shareholder value.

- Where bank employees did receive additional benefits, over nationally negotiated increases, they came in the form of profit-sharing or gain-sharing payments arising from substantial restructuring – involving significant job reductions, with many staff opting to take these increases in the form of shares to plan for long-term requirements, only to find these shares rendered effectively worthless by subsequent events.

- Since 2008, thousands of ordinary workers have borne the brunt of job losses within the financial services – along with a major dilution of their pension entitlements, the removal of all discretionary staff benefits, a freeze on pay increases, the removal of contractual entitlements, longer working hours, major changes in job roles and restructuring. Customers have also suffered a deterioration in the level of service being offered to them, as banks seek to rebuild capital in order to return to profit as soon as possible.

- As Irish banking recovers, IBOA does not see much evidence of any major initiatives to change the culture of banking which will be vital to avoid a repetition of recent mistakes. In this submission, I set out a number of initiatives for the future that should be considered by the Inquiry, including:
  - the appointment of representatives of regulators, consumers and employees to the boards of banks to influence future decision-making;
  - the reorientation of remuneration policies to reward service to customers rather than achievement of sales targets – in order to ensure that the banks' wider economic and social responsibilities are taken into account;
  - the need for strategic discussions on the future of banking in Ireland before decisions are made to sell off more of the State-owned banks.

- As an important stakeholder in Irish banking and as the largest representative organisation of bank employees in Ireland, IBOA values the opportunity to share our experiences of both the lead-up to the crisis and the fall-out since 2008. This submission includes a range of contemporary documentation to support our commentary. We welcome the opportunity to develop some of our thoughts to assist the Inquiry in its efforts to produce constructive recommendations for the future of banking in Ireland aimed at improving standards and safeguards for all stakeholders.

Introduction

IBOA The Finance Union represents employees working in the financial services industry, predominantly in banking. IBOA presently has over 15,000 members – falling from a peak membership of just under 23,000 in 2009. The Union engages in collective bargaining in the associated banks for all grades up to and including assistant manager in the Republic of Ireland, Northern Ireland and Great Britain. While the Union also has a number of middle managers in membership, it does not have collective bargaining rights for them in all cases. Nevertheless, IBOA is able to draw on considerable experience from our intensive engagement in all three jurisdictions. On the basis of this engagement the Union has not only taken positions on industrial relations issues but also on the broader strategic direction of the banking sector.

In the Republic of Ireland, the Union represents staff in the remaining institutions covered by State guarantee: Allied Irish Bank (incorporating the Educational Building Society), Bank of Ireland, Permanent TSB and the Irish Bank Resolution Corporation. In addition IBOA also organises workers in the two largest foreign-owned banks operating in Ireland – Royal Bank of Scotland (Ulster Bank) and Danske Bank (National Irish Bank and Northern Bank). The Union also represents employees in a number of smaller companies in the financial services sector (including some which provide specialist services to the major banking institutions).

In addition to its role in representing employees within their own employments on the normal industrial relations agenda of pay, pensions, severance terms and other conditions of employment, the Union endeavours to contribute to public debate on issues affecting the financial services sector in general such as emerging trends within the industry including the impact of technology and branch closures on services to customers, as well as banking policies and practices generally. This contribution takes the form of media commentary as well as engagement with Government institutions, political representatives and Regulatory Bodies in the jurisdictions in which the Union operates. IBOA has also been active on common concerns around staff safety – especially in the context of bank raids and related hostage-taking. IBOA regularly consults with the security authorities in the Republic of Ireland and Northern Ireland at both the political and operational levels on these issues.

As the representative body for an important – but often overlooked – stake-holder interest, IBOA and its members are distressed not only at the devastation wrought on Irish banking – but also at its unprecedented impact on families and on economic and social development. Employees in the financial services sector have been profoundly affected by the consequences – many thousands of jobs have already been lost in Irish banking since the autumn of 2008 – with the potential for further losses in future arising from the likely consequences of further restructuring of the financnial services sector.

While the rate of job losses in banking has slowed in the last eighteen months, many bank employees remain shocked by the traumatic events since 2008. Shaken by the wholesale reduction in employment in the order of 25% to 30%. Scarred by the impact on their earnings and career prospects as well as the severe adverse impact on ordinary bank customers and their families as well as SMAs. And deeply distressed, too, by the benign treatment of senior executive who have received substantial pay-offs and lucrative pensions on top of the excessively generous remuneration they enjoyed during the boom. This sense of grievance is perhaps most keenly felt by the frontline staff who have borne the brunt of customer reactions which have ranged from anger and outrage to dejection and despair over the position that some of these unfortunate customers find themselves in– while those responsible for directing operations and driving policies remain insulated from the raw consequences of their decisions.

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Some of the decisions which resulted in reckless lending pushed this country to the brink of economic meltdown were taken at the highest levels of these institutions – including, as your inquiry has revealed, board rooms in foreign capitals. Many of the decisions involving major development projects were taken in blatant disregard for the principles of prudential lending – which had been gradually abandoned in the decade before 2008 by all of the major financial institutions to varying degrees. The lack of prudential oversight by the banks coupled with a culture of fear contributed to the situation in which we found ourselves in 2008.

This culture of fear, which was facilitated by the absence of adequate protection for whistleblowers, was a constant refrain for IBOA throughout the decade before the crash in its submissions to public representatives as well as in public statements, as illustrated by an extract from a presentation to an Oireachtas Committee in June 2004 *(See Appendix 1):*

"There is a fear culture among staff throughout banking. Staff are genuinely frightened of speaking out openly on virtually any issue because there is a perception that they will be seen as disloyal to the bank and their career progression will be hindered if they raise certain issues. We believe it would be healthy and helpful for the banks to actively encourage staff to speak their minds in a meaningful and constructive manner. Internal criticism should not be feared or seen as a threat by the banks. Rather it should be regarded as a positive development illustrating concern and loyalty for the organisation by staff."

IBOA Presentation to Oireachtas Committee on Finance and the Public Service, 2004

The general climate of fear within the workplace – which remains a significant issue today – means that IBOA has effectively become the only vehicle through which staff concerns can be expressed. It is our hope that, in addition to seeking answers about the past, this inquiry will make recommendations for the future. The culture of fear remains deeply embedded in Irish banking: it needs greater encouragement to change.

Accordingly this submission seeks to address the issues raised by the inquiry concerning remuneration, treatment of customers, culture, regulation, qualifications and training under two major headings: the period under consideration by this Committee; and the period since 2008 to date. Finally, the submission seeks to draw some lessons for the future in an attempt to ensure that there is no recurrence of the unprecedented and catastrophic events that have unfolded since 2008. The main body of the submission takes the form of a commentary built on a number of source documents contained in the attached appendices.

Before the Crisis

Even before the crisis Irish banking had become the focus of increasing public concern over the previous twenty-five years since the collapse of the Insurance Corporation of Ireland (which was part of the AIB Group). It had been followed by a series of major financial scandals, including:

- the evasion of Deposit Interest Relief Tax (DIRT);
- the Faldor/AIB Investment Managers Ltd scandal;
- the Ansbacher affair;
- the All-First (Ruznak) affair;
- the overcharging for financial products at National Irish Bank and the sale of offshore CMI products; and
- some complaints of widescale overcharging.

As each of these scandals was brought to light, the response from the authorities could best be described as mild censure. In some cases, like the ICI scandal, public funds were used to meet the resulting substantial deficits.

IBOA, acting independently or along with other affiliates of the Irish Congress of Trade Unions, was to the fore in expressing concern about various developments in the financial services sector during this period.

For example in its joint submission with MSF to the Strategic Review on Banking in March 2000, the Unions highlighted the need to strengthen the role of the Regulator "to cover a much wider area of interests than bank stability and solvency." In particular the IBOA expressed concern at "the failure of the Central Bank to address its function of bank supervision adequately and its failure to deal with tax evasion by banks." *(See Appendix 2)*

In further submissions in 2002 to the Minister for Finance, the Minister for Enterprise and Employment and to the Opposition spokespersons, IBOA, welcomed calls for the creation of a new regulatory authority for the financial services sector – but warned that any new body "must have appropriate statutory powers to ensure its effectiveness." These submissions also highlighted the issue of branch closures – urging full consultation with representatives of customers and local communities as well as employees. *(See Appendix 3)*

Concerns over ethics and governance continued to preoccupy IBOA during this period: the Union's Annual Delegate Conference in 2004 featured an important presentation on the topic by Professor Ray Kinsella *(See Appendix 4)* and in its submission on Financial Services Legislation to the Department of Finance in 2004 *(See Appendix 5)*, the Union called for the creation of a statutory code of ethics – with effective monitoring – as well as protection for whistle-blowers.

The Union's presentation to the Oireachtas Committee on Finance and the Public Service in 2004 also highlighted the need to embed ethical standards within the culture of banking in Ireland: *"Business strategies must be subservient to ethical standards and not the other way round. Proper support and systems need to be put in place to achieve this. We would propose the regular training and development of all staff up to and especially senior executives in the best ethical practices and standards*."

The creation of the Irish Financial Services Regulatory Authority (IFSRA) in 2003, therefore, reflected increasing public disquiet over the lack of accountability within the Irish financial services sector under the previous regime operated through the Central Bank. However, in retrospect it can be seen that the overall effectiveness of the new agency was seriously compromised by a combination of inadequate enforcement powers and insufficient resources. Further information has come to light before the Committee regarding the effectiveness of these Regulatory Bodies.

With regulatory practice – as opposed to theory – proving to lack rigour, it is hardly surprising that the leadership of financial institutions became rather complacent or even cavalier about the prudential principles that had once characterised Irish banking. Perhaps in light of the earlier ICI scandal, there seemed to be a belief in some quarters that the State would provide a funding back-stop for any financial difficulties regardless of the circumstances. This belief, coupled with a new drive for accelerating profit-taking/profit-making, led them to engage in considerable speculation and high risk lending – which ultimately proved to be catastrophic.

On the basis of our members' experience over the last two decades in particular, IBOA contends that one of the major contributory factors in the virtual collapse of the banking sector was the transformation of its prevailing culture from one focused on customer service and prudential behavior to one dictated by sales targets driven by the demand at Board level for shareholder value to be maximised. These targets were pursued ruthlessly and relentlessly through a policy of short-term profit-taking directed by senior executives who stood, at the time, to be rewarded by remuneration packages which were, as the inquiry has heard, extremely generous even by international standards.

"The deterioration in confidence in Irish banking and subsequent problems are a direct result of the prevailing culture which has led to an alarming decline in ethics with banking. This has resulted in a dominant culture emanating from the top down of profit before everything. Profit comes before service and the customer, before ethics and the highest standards and profit comes before the welfare of staff."

IBOA Presentation to Oireachtas Committee on Finance and the Public Service, 2004

Pay, Profit and Banking Behaviour

This new era in banking, which began to emerge towards the end of the 1990s, was reflected in a rebalancing of remuneration at all levels within the sector with an increasing emphasis on performance-related pay calculated on the basis of targets imposed by senior management and approved by the Board. Although performance-related remuneration was introduced initially for managerial grades, in time it became widely applied throughout all grades within the sector – replacing the traditional incremental model of remuneration. Instead of a system of salary progression based primarily on length of service, experience and proven track record, the new model of remuneration provided for annual performance ratings to become integral to determining the level of reward payable to individual employees within their salary bands.

While IBOA recognises that employers are entitled to include performance as a factor within the overall level of remuneration, mechanisms to achieve this can take many forms. In terms of Irish banking we have expressed major concerns about its particular application of performance-related pay since it did, from the outset, encourage a management style which has not only had a negative impact on the working environment for staff but has also reinforced a culture which is unhealthy, undemocratic and ultimately detrimental to the interests of the customer – and, indeed, to the long-term interests of the institution, itself.

This change in approach also permeated the lending policies and practices adopted by the major financial institutions. The new emphasis on measureable performance targets was reflected in the standardisation of many banking procedures. The discretion and judgment of branch managers – which had been crucial to the traditional prudential approach to lending – was largely devalued and remains so.

The importance of 'local knowledge' based on long-standing relationships with customers has ceased to be regarded as crucial. Indeed for all but minor loans, the authority to grant approval has been withdrawn from the local branch and transferred to a regional – or more commonly – national level.

The key objective in the financial services sector became the selling of 'products'. This has also been reflected in the appointment to key positions of staff with no previous experience in banking but primarily with experience in retail sales.

Many commentators have referred to the impact of aggressive Oireachtas competitors like Anglo Irish Bank in the commercial banking area in forcing traditional institutions like AIB and Bank of Ireland into adopting similar methodology in order to "stay in the game." While this was undoubtedly true to some degree, it should also be acknowledged that some of the foreign-owned banks operating in Ireland at that time – such as Ulster Bank/First Active (owned by RBS), National Irish Bank (owned by Danske Bank) and the newly arrived (and now departed) Halifax (Bank of Scotland) – were also underwritten by their multinational parents to offer highly (some would say unfairly) competitive rates in order to acquire market share rapidly from the "big two" – especially, but not exclusively, in the area of personal banking.

For example, First Active was the first Irish-based institution to offer 100% mortgages. Following its acquisition by Danske Bank, National Irish Bank's new management team focused on growing its lending book in a manner which can now be seen to have been badly misjudged.

A traditionally prudent lender like Ulster Bank also changed direction during this period with the adoption of a very aggressive lending policy following its acquisition by Royal Bank of Scotland and the installation of a new management team headed by senior executives from First Active, which had also been acquired by RBS. Under the added pressure of fighting off competitors as well as maximising profits in the short term, larger lenders like AIB and Bank of Ireland also compromised their prudential principles by engaging in ever riskier lending – primarily based on property.

This transformation was allowed to happen by the existence of an extremely limited regulatory framework – based on the so-called "light touch" approach – which was applied without appropriate rigour and diligence because, as we have subsequently learned, IFSRA had neither the quantity nor the quality of staff to provide effective regulation for the sector. The role of prudential oversight was given a lower priority within its own internal structures. It also lacked the necessary leadership to establish an appropriate relationship with the institutions it was supposed to regulate.

The combined effect of all of these factors has been the dilution of traditional prudential values of the banking sector. But at the root has been the pursuit of the short-term maximisation of share-holder value and profits which became the primary objective across virtually every institution on this island – to the extent that it overrode major considerations about the long-term health of the individual institution, of the sector as a whole and tragically now of the entire economy,

During the period of the so-called "Celtic Tiger" in which Irish banks engaged in unprecedented levels of profit-taking, their employees did not receive the exceptional and indeed excessively generous reward packages on offer to senior executives. Pay movement for the vast majority of staff was in line with the norms laid down in successive National Wage Agreements negotiated under the terms of Ireland's social partnership arrangements. For middle managers, the rise in their basic pay was generally less than the level of the National Wage Agreement increases during this period. However, we believe that many also received bonuses calculated and agreed privately on individual basis without reference to IBOA.

A further feature of this period was the "poaching" of some key employees by institutions from their competitors with offers of additional payments over and above the 'going' rate. On the other side of the coins, some institutions also began to offer retention payments to staff regarded as key in order to pre-empt the possibility of them being poached. The net effect of this "thrust and parry" was to exacerbate potential divisions between employees within these institutions.

While the approaches to pay outlined above were typical of the mainstream banks, there were, of course, two prominent outliers in this and many other respects, namely Anglo-Irish Bank and Irish Nationwide Building Society (INBS). As both employments were non-union, IBOA did not secure collective representation for the staff of these two institutions until after the change in ownership and management at the beginning of 2009.

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Nevertheless, following the installation of new 'regimes' in each entity, we discovered that in the case of Anglo-Irish Bank, many employees received substantial bonus payments which ensured that their total earnings were significantly higher than their mainstream counterparts.

As for INBS, we found that there had been no discernable pay structure or formally documented policies or scales. The majority of clerical grades seemed to be paid 'spot' salaries determined on an individual basis by the Chief Executive – and some way short of their comparators in unionised employments. Reporting lines within Irish Nationwide Building Society also appeared to be "atypical" – with each of the Society's fifty or so branch managers reporting directly to the Chief Executive.

The payment of bonuses to INBS managers – including the size and criteria of any awards – also appears to have been at the sole discretion of the Chief Executive. Unfortunately, it was in the nature of this "informal" approach to remuneration in INBS that no documentation – either paper or electronic – can be produced to support these impressions. However, even though the evidence is anecdotal, we have no reason to doubt that this is an accurate representation of the situation.

Rationalisation Programmes

Even before the crash in 2008, banking employees had faced demands for major restructuring – involving significant levels of redundancies as well as some outsourcing – on the grounds that this would secure the viability of the institution by improving competitiveness – when, of course, it is clear that the real purpose of these measures was to maximise profits in already highly profitable entities in order to enhance shareholder value.

For example, in 2005, Bank of Ireland Group launched its Cost and Capability programme to reduce its staff complement by 2,100 through a combination of voluntary redundancy and early retirement over a four-year period. This development had followed Ulster Bank's Horizon programme in 2001 aimed at cutting its workforce by 400 together with a further 200 redundancies after RBS's acquisition of First Active Building Society in 2004. While AIB did not engage in a major programme of job losses during the 2000s, it had already undergone a substantial restructuring involving 1,100 voluntary redundancies in the late 1990s.

One of the effects of these actions was to change the overall age and skill profiles of staff within the sector as older more experienced employees were encouraged to leave – to be replaced by younger less experienced and less qualified staff. This gradual loss of expertise at the local level was part of a deliberate shift in the banks' operating model to centralise decisions on lending. Increasingly local staff were restricted to identifying leads and promoting additional facilities such as credit/debit cards, etc., while more significant interactions with customers became the responsibility of more specialist staff based at a regional or national level.

Despite the risks associated with such a significant loss of institutional or corporate knowledge, our concerns were brushed aside by reference to the bottom line. At the same time, the severance packages on offer to incentivise departures were extremely attractive. The 'carrot' of the lump sum – allied to the 'stick' implicit in the culture of fear meant that these schemes were frequently over-subscribed.

For their part, despite representations from IBOA on this issue, the regulatory authorities did not express any reservations about these developments in terms of their impact on service delivery, compliance, etc – presumably because they were viewed as operational issues to be determined within each institution.

Gainsharing

Aside from securing voluntary severance schemes for staff exiting as a result of the banks' restructuring initiatives, IBOA also sought appropriate recognition for the staff who remained on the basis of the higher productivity resulting from reduced staffing levels.

Typically this recognition took the form of an annual gainsharing payment – through which an amount equivalent to a percentage of annual salary (somewhere in the range 3%-6%) was to be awarded if the institution's profits reached a previously agreed level. In some cases, this payment was structured to encourage bank employees to acquire shares in their own institutions, in line with the employee share incentives permitted by the Revenue Commissioners and promoted by the Department of Finance. This facility was taken up by many thousands of bank employees. However, following the crash, of course, these shares would be worthless. *(See Appendix 6)*

In Ulster Bank the gainsharing payment which was originally a discretionary award worth up to a maximum of 5% of annual salary, became a general payment equivalent to 10% of annual salary following the bank's acquisition by Royal Bank of Scotland in 2000. Although this figure was higher than its competitors in Bank of Ireland and AIB, Ulster Bank's basic pay rates were generally lower than its competitors. So the gainsharing payment helped to reduce the earnings gap for Ulster Bank staff. However, in the longer term, of course, the arrangement was of comparatively less value since the payment was not pensionable.

Qualifications and Training

Although the mainstream banks adopted a performance-based model for pay determination, they failed to follow this through with a structured approach to improving performance through the provision of appropriate training. Only recently in 2014 has one bank – Bank of Ireland – finally begun to implement a more comprehensive approach to this issue. But for most of the period before the crash, training for the purpose of securing professional qualifications in banking was undertaken by staff primarily on a voluntary basis through the Institute of Bankers (now Institute of Banking).

In January 2007 IFSRA began to implement a new system of Minimum Competency Requirements (MCR) on foot of Directive 2002/92/EC (the Insurance Mediation Directive) which had been transposed into law in the Republic by Statutory Instrument No. 13/2005 in 2005. *(See Appendix 7)*

In summary the new regime was intended to ensure that financial services staff operating in specific roles would be accredited on the basis of a recognised qualification secured through an appropriate training programme – which would be delivered by an authorised provider. As well as the initial qualification, staff would have to maintain their level of proficiency through an ongoing programme of Continued Professional Development (CPD) in the disciplines related to their qualifications.

Up to this point each bank had operated its own approach to the qualifications it required for various roles within the institution. The application of MCR was intended to establish a common threshold of service quality right across the sector. While IBOA broadly welcomed this attempt to provide for consistency in customer service by ensuring that staff were trained to a recognised standard, our members had major concerns about its implementation as each institution began to adopt a different approach to the application of the new requirements.

Apart from creating an unsatisfactory situation for customers in trying to compare one institution's level of service with another, employees were also fearful that managements might set the competency requirement for a particular role higher than necessary in order to create a pretext for managing staff out of the institution without the need to pay redundancy compensation.

Aside from significant variations between institutions over whether some or all employees would have to qualify in some or all of the disciplines covered by the MCR provisions, further differences were also evident between institutions in the level of support given to staff to enable them to undertake study and participate in assessments – in terms of study leave and payment of tuition and/or examination fees. In some cases our members received no study leave – which meant that they were undertaking onerous and demanding coursework in their own time and at weekends – involving frequent travel to study centres for lectures.

Consumer Protection
The principal motivation for the introduction of MCR was to improve consumer protection. IFSRA had been established with a strong emphasis on the consumer interest (perhaps at the expense of its prudential role as evidenced by the internal management structures within the regulatory body).

The introduction of MCR followed closely after the promulgation by IFSRA of the Consumer Protection Code. However, once again, the implementation of the new measure (and especially the provision of appropriate training for staff) lacked consistency, in the view of IBOA. *(See Appendix 8)*

If the fine sentiments expressed in the Consumer Protection Code are to have any real effect, IBOA would suggest that the following be initiated:

- *Staff must be comprehensively trained on the code and their obligations to consumers*
- *Resources have to be allocated to training*
- *Training has to be ongoing*
- *Mechanism should be introduced to monitor and evaluate progress*
- *Management at local and corporate level have to communicate to staff that the fully support the code*
- *Staff must be equipped with the tools to fulfil their obligations*
- *The Financial Regulator must be to the forefront in promoting and explaining the code and we would suggest localised road shows and workshops that would bring all the stakeholders; staff, management and customers together*
- *Complaints procedure must be understood by staff and customers.*

IBOA Submission on the Consumer Protection Code, 2005

In the context of these two important developments, IBOA also highlighted its concerns about the pressure on staff to engage in cold calling of customers.

Staff are given targets by management to call/contact a certain amount of customers each week with the stated aim of selling the bank's products. Staff who fail to reach their targets are effectively penalised while staff that exceed their targets are rewarded. It is a crude system of carrot and stick whose singular aim is to sell products and therefore maximise profit.

Excerpt from article in IBOA News, Spring 2007

Performance-related Pay
By the year 2000, a strong preference emerged within all banks for the introduction of performance related pay down to the most junior staff. While the precise mechanisms may have varied from institution to institution, the broad principle was the same – as employees were encouraged to relinquish salary structures based on periodic incremental increases and opt for a new form of remuneration based on salary bands which included graduated payments based on performance assessments as to the extent to which previously determined targets were met.

For the majority of staff in mainstream banking, pay calculated in this way was the only main source of remuneration – unless they happened to be entitled to a gainsharing payment. Our members' situation was in stark contrast to that of many senior executives in Irish banking at that time – who, we understand, could achieve substantial bonuses, calculated on the basis of a high percentage of what many considered to be an already generous salary.

From 2001 onwards, in spite of claims that performance was measured on the basis of a "balanced scorecard" taking account of a variety of factors, in reality the pivotal measure used for the calculation of performance-related pay for individual employees was the achievement of sales-related targets – rather than other attributes such as the acquisition of relevant professional qualifications or compliance with agreed standards of customer service.

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The need to strike an overall balance in wage determination between guaranteed basic pay and the more discretionary performance-related pay was a concern for IBOA and remains so today – since the inclusion of targets based on the most easily quantified measure of performance, namely sales, was likely to change the role of bank staff – especially in branches – from providing objective advice based on the best interests of the customer to selling financial products based on the commercial interests of the bank. This point was made forcibly in an IBOA presentation to the Oireachtas Committee on Finance and the Public Service in 2004:

"Performance-related pay has, in recent years, become the favoured method of remuneration for bank employees at all levels. While rewarding employees who achieve or exceed particular targets is standard practice across the private sector, it is particularly prevalent in the financial services industry. We have serious misgivings borne out of international experiences (Barings, Rusnak, etc) that where performance-related pay becomes the principal form of pay, it leads to a culture of greed at the expense of good practice, highest ethical standards and quality service to the customer.

"As long as the banks continue to pursue a system of remuneration that is based principally on performance-related pay, we will witness more and more damaging disclosures and financial scandals. IBOA believes the causes and effects of performance-related pay are central to the current problems facing the industry and that the various investigations should examine this issue as a central part of their deliberations."

IBOA Presentation to the Oireachtas Committee on Finance and the Public Service, 2004

During this period, IBOA expressed concern at these developments in a variety of public fora. The Union made submissions to the Department of Finance on a number of legislative proposals. The Union also made a presentation on recent developments in Irish banking to the Joint Oireachtas Committee on Finance and the Public Service, in 2004, highlighting a range of concerns about the potential impact on the banking industry in the three jurisdictions of the new culture developing within the sector which was characterised by short-termism and falling standards resulting from inadequate regulation. The Union's presentation to the Committee also highlighted the absence of protection for staff who question the prevailing orthodoxy and the need for a forum of banking industry stake-holders.

"The emphasis and obsession with selling more and more (financial) products to make even more profits, creates a very pressurised and stressful workplace. As a trade union, we have had to deal with a twenty-fold increase in stress-related problems in the last five years alone."

IBOA Presentation to Oireachtas Committee on Finance and the Public Service, 2004

A wide-ranging survey of IBOA members – undertaken by Red C in 2007 – provided further evidence of the key concerns of bank employees about the prevailing culture within the sector at this time. *(See Appendix 9)*

While the Union consistently articulated its concerns on these occasions, no-one in authority felt moved to action. At a time of unprecedented (but in hindsight largely illusory) profitability within the financial services sector – which matched the best in Europe at that time – the concerns raised by IBOA were politely ignored.

We contend that the failure to recognise the need for remedial intervention was a further factor behind the unprecedented crisis in the Irish banking system which had such disastrous consequences for the Irish economy.

Responses to the Crisis

New Wine in Old Bottles
The broad thrust of the response to the crisis has tended to focus on rebuilding balance sheets by a combination of unprecedented State investment and large-scale restructuring in those institutions deemed to be salvageable. This restructuring has included the sale of business units to private buyers and the disposal of impaired assets at a substantial discount to the National Asset Management Agency for re-sale to private buyers. Meanwhile non-viable institutions have, after a period in public ownership, begun to be wound down.

While this response has been justified as the emergency action necessary to deal with the immediate priority of stabilising a highly dangerous situation, the Union has argued that these measures should be accompanied by a reform of the regulatory framework and the broader cultural environment in banking to avoid any repeat of the crisis in the future.

In IBOA's submission to the Oireachtas Finance Committee in 2011, we made the following observation *(See Appendix 10)*:

In the early days of the banking crisis, there was much comment about the need to reassert traditional values and to reconnect with customers – not least because in future Irish banks will again be heavily dependent on customers – rather than international markets – for rebuilding their deposit base.

However, little if any of the change anticipated in these comments has taken place so far. Indeed, in what has become a familiar pattern in the unfolding crisis, the leadership of the financial services sector has been largely in denial. Rather than confronting the challenge of developing a new operational paradigm, most appear to believe that, after a period of some discomfort and disturbance, they will eventually be able to return to business as usual. Rather than answering the fundamental questions being posed by the recent crisis, many appear to be ignoring them – either because they are unwilling or, more likely unable, to think beyond the orthodoxy of the recent past.

IBOA Submission to the Joint Oireachtas Committee on Finance, Public Expenditure and Reform in October, 2011

Our impression at that time – which appears to have been confirmed in the statements of many witnesses to this inquiry – that, although senior executives may have been in charge, they believed and still believe that they were not really responsible because they were faced with circumstances beyond their control. According to this narrative, it was bad luck rather than incompetence or recklessness that caused their institution to crash while they were at the wheel. In their relatively infrequent public statements since 2008, some senior figures even seem to believe they were victims rather than perpetrators.

While we may argue about the historical accuracy of such a view, the real danger in allowing this "bad luck" justification to go unchallenged is that it absolves the latest crop of senior banking executives of any responsibility to modify their behaviour as individuals or to change the wider culture within their institutions. It heightens the moral hazard: suggesting to some that there will be no adverse consequences for any future actions – especially when substantial compensation packages, generous pensions and even well-rewarded employment in public bodies remain available – while others resort to the same old behaviour – like maximising the financial return from customers while at the same time minimising overheads by reducing services or cutting the wage bill.

As far as our members have been concerned, the general culture within banking has remained as stressful as ever: they have continued to be pressured into meeting sales and performance targets – even in recent times when there has been a greatly reduced consumer appetite for new products.

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This pursuit of targets has often had little to do with genuine customer service: indeed, in many cases the rigid enforcement of processes designed around the target objectives wastes staff time and inconveniences customers. Some institutions have continued to require staff to go through a checklist of offers and "product" promotions with every customer. So customers with a simple enquiry or transaction to complete have been subjected to an unsolicited and perhaps time-consuming interview to little or no avail. Even when both the employee and the customer have been aware from the outset that the entire procedure is a complete waste of time and effort, the employee has been required to complete the checklist or risk disciplinary action for failing to do so.

Remuneration

The vast majority of employees in the associated banks received no increases in basic pay from the onset of the banking crisis until the end of 2014. Our members in Bank of Ireland received a pay increase due under the National Wage Agreement at the end of 2008. Their pay remained frozen until December 2014, when the first increase was paid under the new remuneration and regrading arrangements agreed following the bank's return to profitability. Since 2008 our members in Bank of Ireland have also accepted two major reconfigurations of their pension arrangements which, in each case, has resulted in a dilution of the value of their retirement benefits.

In AIB Group, our members received an increase due under the Career Framework agreement in 2009 – deferred by six months from March to September. They have yet to receive an increase in basic pay: the issue is currently with the Labour Relations Commission. In 2013 AIB employees – below manager rank and earning less than €65,135 per annum – received a once-off payment equivalent to 4% of salary in recognition of contractual pay forgone over the previous five year period as well as their acceptance of significant changes to staff pension arrangements and their co-operation with a planned two-hour extension to the standard working week (which was completed in 2014).

In Ulster Bank, basic pay scales remained frozen from February 2008 until December 2012 – while in National Irish Bank/Danske Bank our members also endured a pay freeze accompanied by a substantial change to their pension entitlements before suffering the ultimate fate of the closure of the branch network and the virtual elimination of Danske's presence within the Republic of Ireland.

It should be noted that when we speak of pay freezes in this context: we are actually talking about a loss of earnings for our members. Firstly unlike some workers in other employments, the vast majority of our members do not receive increments – so the freeze has meant no improvement in pay at all. Opportunities to secure higher performance ratings based on meeting sales targets disappeared when these targets became impossible to achieve during this period.

Furthermore in responding to the justifiable anger that greeted revelations about the payment of extravagant bonuses to senior executives – such as the €66m paid by Bank of Ireland during 2010 (despite assurances to the then Finance Minister, Brian Lenihan, that no such payments had been made) - a scattergun approach was taken to any additional payments made to any staff, regardless of grade or earnings. So, the fall-out from this aversion to bonuses was that many low paid staff in AIB – earning less than €25,000 a year – lost the modest contractual awards they were due to receive for meeting performance targets even after they had been assured that these payments would be unaffected.

It should be noted that the ban on bonuses – when it was applied – only affected payments to direct employees of the covered institutions. Once an entity previously covered by the guarantee ceased to be so – such as Irish Life which was acquired by Canada Life – then the ban was no longer in effect. Likewise, the remuneration of the plethora of consultants who have been hired to support various financial institutions – most notably, AIB – were exempt from bonus bans or, indeed, salary caps.

Other elements of remuneration based on the institution's annual profitability, such as share issues or gainsharing awards, for example, have also ceased to be paid, except in the case of Ulster Bank where the payment of this award was made conditional on employees accepting a new inferior contract.

Meanwhile the bank shares held by many employees as a result of earlier gainsharing schemes were also effectively liquidated by the changes in ownership. In most cases, other staff benefits have also been withdrawn.

Substantial changes have been made in staff pension schemes in the Irish banking sector – including the transfer of most of the employees who were previously members of Defined Benefit schemes onto Defined Contribution schemes. Further adjustments were also made to previously existing Defined Contribution schemes – which can best be summarised as requiring increased levels of contributions for reduced levels of benefits.

The thousands of employees who left these institutions under the severance programmes implemented by the associated banks since 2008 have departed on significantly inferior redundancy terms than those who left in the period before 2008.

At the same time, alongside this unprecedented reduction in staffing levels in Irish banking, a significant programme of enhancing roles and responsibilities has been undertaken throughout Irish banking in line with the new regulatory standards. Only in the new remuneration terms negotiated last year in Bank of Ireland, has this upskilling been finally recognised in the form of salary uplifts for certain professional qualifications. However, the issue has yet to be addressed in AIB Group. *(See Appendix 11)*

Although the Mercer Report – on pay in the domestic banking sector (AIB, Bank of Ireland, Irish Bank Resolution Corporation and Permanent TSB) which was commissioned by the Government found in 2013 that average earnings in Irish banking was less than €40,000 a year, the consultants also suggested that average earnings in banking had risen in the order of 10% since 2008. As such a finding did not tally with the experience of our members, as outlined above, we could only conclude that the report indicated a significant improvement in the overall remuneration of senior executives, notwithstanding the Government-imposed salary cap for Chief Executives.

Restructuring

The changes in operating structures have had a dramatic effect on employment in banking – with estimates of around 10,000 banking jobs being lost between 2008 and 2013. All of the banks which have continued to operate in Ireland since 2008 have undergone significant – and in some case unprecedented – levels of structural change. The most obvious manifestation of this change has been the disappearance of foreign-owned branch networks like National Irish (Danske) Bank and Halifax (Bank of Scotland-Ireland) and the significant reduction in the branch networks of AIB and Ulster Bank, especially in the Midlands and along the western seaboard.

The thinning out of the overall distribution of bank branches around the country has been accompanied by the introduction of a new branch operating model involving significantly fewer employees than before in each location. Customers are directed to various kinds of ATMs which accept lodgments as well as facilitating withdrawals. If customers wish to engage with a human being, they may either avail of the dedicated telephone connection to a bank call centre or join the queue to see a member of the branch's much reduced complement of staff.

Alongside the changes to the banks' "front-of-house" operations, there has been a tendency among all of the associated banks to accelerate the outsourcing or offshoring of various "back office" activities – typically related to Information and Communications Technology – which had already begun before 2008 but only to a limited extent. In the case of Ulster Bank and National Irish Bank, most of the activities earmarked for transfer have been relocated within their respective parent groups – RBS and Danske Bank. Where Bank of Ireland and AIB have outsourced work, it has generally been transferred to specialist service providers – in many cases the Irish-based subsidiaries of major multinational parents, like IBM, HP, BancTec and Wipro.

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Although the major banks have continued to reduce their headcounts since 2013, most of these later reductions have resulted from outsourcing initiatives – which, the employers would argue involve a transfer of work with few job losses. While the Transfer of Undertakings (TUPE) regulations provide some protection for employees in some circumstances, the Union has sought to complement with agreements aimed at providing further security for transferring employees in areas not covered by the TUPE regulations, such as pensions. However, in terms of the potential impact of outsourcing on employment figures, the ultimate outcome is more difficult to quantify. While the Union's efforts to buttress the provisions of the TUPE regulations undoubtedly has a positive effect in the short term, the longer term consequences for staff is less certain – especially in the case of multi-national companies with the capacity to transfer work offshore eventually.

The Union's response to the restructuring of the banking sector following the crisis has been motivated primarily by the desire to protect employment as far as possible. Where this has not been possible, IBOA has endeavoured to ensure that all severance has been voluntary and with the best possible compensation for staff leaving the employment. In the event, for the majority of employees who have left the associated banks since 2008, the severance terms have been broadly similar to – though in some cases inferior to – the public service severance terms imposed by the Department of Public Expenditure and Reform. The Department of Finance instructed all the banks in receipt of State support to apply these terms – even though on other occasions, the Government has maintained that it cannot and does not interfere in the direct management of these institutions.

In the case of IBRC, the previously agreed severance arrangements were subsequently set aside following the "special liquidation" of the company in 2013 by the Oireachtas in order to facilitate the rescheduling of the promissory note re-payments. There followed intensive negotiations with the special liquidator backed up by support from a number of public representatives who had learned of the unintended consequence of the special liquidation for the IBRC workers' redundancy payments. Finally with the assistance of the Chair of the LRC, the Union eventually secured graduated compensation for staff – designed to minimise the shortfall from the previously agreed amounts for the lowest paid employees.

Aside from its principal duty of seeking to protect its members' interests, the Union has also outlined concerns about various aspects of the restructuring of Irish banking from the broader perspective of the public interest.

On the rationalisation of branch networks, the Union has highlighted questions about access to banking facilities in rural communities. In its submission to the House of Commons Northern Ireland Affairs Committee's inquiry into the banking structure in Northern Ireland in 2013, the Union noted:

While Danske Bank has implemented the most dramatic reduction programme, the other banks are developing similar strategies involving a concentration of face-to-face banking operations in fewer locations while seeking to increase the use of electronic banking services. Some institutions may be tempted to accelerate the closure of branches to push the adoption of electronic banking by customers rather than allow customers to move at their own pace or even retain the option of face-to-face interaction.

In some rural areas the e-banking alternative may not be as effective due to major infrastructural problems relating to internet connectivity. So customers in those areas may lose immediate access – both physical and online. Furthermore, our members' direct experience suggests that many customers – especially in the older age groups – would prefer to bank with humans rather than electronic devices.

The hollowing of the physical banking infrastructure may also have adverse consequences for social welfare recipients in both urban and rural areas who were previously encouraged to open bank accounts to receive State benefits after earlier payment channels were discontinued. Any reduction in face-to-face banking may bear disproportionately on customers on low fixed incomes and unable to afford the electronic alternatives.

IBOA Submission to the Inquiry into the Banking Structure in Northern Ireland, by the Northern Ireland Affairs Committee of the House of Commons, 2013-2015

The Union has raised similar concerns with the authorities in the Republic suggesting that although each banking group has taken decisions based on its own specific interests, the cumulative effect on a sectoral basis may be to leave many rural areas with reduced facilities. Noting that in some parts of Britain, banks had come to an understanding that the last branch of any banking group remaining in an agreed catchment area would commit to stay, the Union has suggested that a similar "last branch standing" approach should be considered in both the Republic and Northern Ireland to guarantee a minimum threshold of physical as well as online service. Unfortunately, as of this date, this has not been agreed.

In terms of outsourcing, the Union has adopted a sceptical approach both in terms of the business case and the risk. Where the employer has indicated its intention to proceed – and in the absence of any intervention by either the owner or the regulator – IBOA's approach has been to ensure that the interests of its members are protected as far as possible.

Since many of the recent outsourcing initiatives have involved IT operations, the Union has raised concerns with both the shareholders and the regulator about the potential risks to such infrastructure which has become core to so many of the institution's most fundamental functions. The Union has warned that measures to weaken the ownership and control of these crucial operations should be considered to be strategically dangerous – heightening the possibility of major disruptions to customers and to the wider economy, along the lines of the Ulster Bank/RBS IT catastrophe of 2012.

The Union has also outlined concerns with Government about the impact on employment in Ireland of such a trend at a time of high unemployment crisis in this country – and in light of the current Government's own strategy for jobs based on the digital economy. IBOA has argued that Ireland can ill afford to contrive to export jobs, especially those of a highly technical nature, in such a vital economic sector.

Property

Bank employees who encounter financial difficulties as a result of purchasing property receive no preferential treatment from the lender. Indeed, as a result of Central Bank regulations governing the conduct of finance staff – which do not take into account the circumstances that applied when the lending was approved – bank employees experiencing serious financial difficulties face the additional possibility of losing their jobs.

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The Future of Banking

After seven very difficult years, it appears that the recovery of the banking system is now firmly under way – at least if profitability is the yardstick by which progress is measured. However, while we do not understate the need for banks to operate profitably, we fear that if profit becomes the only measure of the performance of an institution, we will return once again to the path that led to the collapse in 2008. IBOA has sought to convey these views to those in authority – including the regulator, Government and public representatives as well as in comments through the media.

Furthermore, as a number of broader challenges now face the banking sector as a whole, we believe that a long-awaited sectoral strategy is needed before we can have confidence that the recovery of Irish banking is finally on a sound footing.

Governance

As we have indicated throughout this submission, many of the factors which we believe exacerbated the crisis in 2008 still feature on the banking landscape. IBOA has also argued consistently that in view of the rather narrow economic and social backgrounds from which directors have been drawn in the past, it is in both the public interest and the long-term interest of the institutions themselves, to secure much greater diversity in board membership.

While the appointment of public interest directors to the institutions covered by the State guarantee may have been considered as a modest step in this direction, their role has been a matter of concern since it is hard to determine how the public interest was served by their appointment. In the absence of an agreed reporting mechanism – either to the Minister for Finance or to the Oireachtas – it appears that, rather than fulfilling the role of "tribune of the people," the public interest directors were not, as far as we can ascertain, obliged to act as anything other than passive observers at board meetings.

If the first duty of any director is to act in the best interests of the shareholders – and the principal shareholder is the State, then all directors – but especially the public interest directors – should be far more proactive in seeking to uphold public policy in terms of the principles by which these institutions operate. However, if current company law prevents public interest directors from fulfilling this public mandate, then perhaps it is time to consider a change in company law.

In addition to public interest directors, IBOA also believes that, in extending diversity in the board room, representatives of both customers and employees should also be included along with those of other stake-holders so as to ensure that the board is made aware not only of the practical implications of its strategies – but also of their day-to-day impact on customers.

The role of the regulatory authorities also needs to be embedded in the governance of the financial services sector – either through the inclusion of a suitably qualified nominee of the Central Bank on each board; or through the development of more rigorous reporting arrangements by the auditors of each institution to the Central Bank in order to create an early warning (and response) mechanism aimed at averting a repeat of some of the more dangerous developments of the recent past; or both.

Although it did not subsequently come to fruition, we see merit in the suggestion advanced by the former Financial Services Authority in the UK in 2011 to include a representative of the Authority on the boards of British financial institutions.

We also believe that the introduction of rigorous reporting arrangements between auditors and the Central Bank could also provide an extra level of comfort to shareholders who may be suspicious on the basis of recent revelations that some auditors' reports – as agreed with the board – have not always provided reliable indicators of the actual status of the institution.

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Culture and Reward

As long as the culture of banking continues to be built around sales and performance targets rather than on service to customers, then the risk of a repetition of the recent collapse will remain, especially if this culture is embedded in the system of employee remuneration.

IBOA favours a thorough root-and-branch review of remuneration policies within the industry from top to bottom which should also include consideration of the emoluments and honoraria paid to Board members. This review should focus on the role of performance-related pay systems in an era when an intensive target-driven culture is not only inappropriate but may also be positively harmful.

Pay progression should reward employees for achieving agreed standards of customer service, acquiring relevant professional qualifications and undertaking other appropriate skills development rather than meeting sales-driven targets which may ultimately be affected by circumstances beyond the control of the individual employee.

In order to close the ever-widening gulf in the financial services sector between remuneration levels for its senior executives and for its lowest paid employees, we believe that range limits should be applied throughout the sector to ensure that the ratio between the total remuneration paid to the highest earner and the total remuneration paid to the lowest earner within an institution cannot exceed a fixed percentage.

While we believe that remuneration should be focused primarily on basic pay, we recognise that in exceptional circumstances, financial institutions may occasionally have to offer additional rewards to senior executives for the successful completion of well-defined activities. In such exceptional circumstances, we believe that a sector-wide limit should be applied so that any additional payment cannot exceed an agreed percentage of basic pay. Likewise, any such awards should include an additional provision making their payment conditional on the measurement of the achievement for its long-term impact (over a minimum period of five or preferably ten years) rather than to short-term measures such as rises in annual profits or share prices. Aside from removing one of the factors contributing to short-termism within the financial services sector, such a provision would also help to mitigate against any potential manipulation of profit figures through either accelerating or delaying transactions that occur close to the end of the financial year.

A rebalancing of remuneration, especially for senior executives within the financial services sector, would also facilitate behavioural change by incentivising activities which contribute to the long-term viability of the institution (rather than rewarding short-term gains – which may, on the evidence of our recent history, turn out to be exaggerated or illusory).

Culture of Fear

Staff are fearful that, in speaking out, they could find themselves faced with disciplinary action as a result of banks extending the traditional notion of confidentiality to a more overarching code of "omerta" based on a perception of damage to the reputation of the institution.

The perception remains that whistleblowing is somehow an act of disloyalty to the institution. Many of our members believe that making a disclosure is most likely to be ignored – but where it is taken seriously, it may be just as likely to result in disciplinary action against the whistleblower as it is to affect the perpetrator of the alleged misdeed.

Our members are also wary of speaking out for fear that they may suffer other forms of detriment – such as transfer to an unappealing location or even being targeted for possible involuntary redundancy. The increasing uncertainty in Irish banking since 2008 has served to exacerbate these fears.

While it has been suggested that the recent legislation should provide greater confidence for bank employees to make protected disclosures, there may also be a concern for some of our members that, even though they may be entitled to compensation under the legislation if they are penalised by their employer (indeed the employer may offer compensation far in excess of the legal minimum in order to expedite their departure), it is unlikely that they would secure employment elsewhere in Irish banking. Whether this would be true is moot – since perception is crucial here. The perception of such a threat is likely to be sufficient to discourage employees from coming forward.

The legislative protection afforded to staff at all levels in Irish banking should be further strengthened in order to provide an additional deterrent against breaches of regulatory guidelines involving practices such as cold calling or the possible mis-selling of insurance or other products. It should also ensure that, where such breaches do take place, they are brought into the light of public scrutiny more promptly

The previous convention within banking that any mistakes - either deliberate or accidental – were rarely admitted publicly in order to avoid possible reputational damage to the institution is clearly inappropriate. The reputation of Irish banking has suffered in recent years to the point where only an approach based on greater openness and transparency can hope to restore public confidence in these institutions, in our view.

It is time for a climate of openness and transparency to replace secrecy and fear.

Changing the Culture

Employees, who have been demoralised in recent years by the actions of senior executives, may have difficulty in summoning up the confidence to contribute fully to the sector's rapid recovery – which remains a key aim of public policy on banking.

Measures designed to improve the morale of bank employees should, therefore, be part of the agenda for transforming the culture of banking. The events of the last seven years have had a traumatic effect on the confidence of bank staff both in themselves and in their employers.

Once the pillars of local communities, many bank staff believe they are now regarded as the pariahs of local communities. Even though the perception of public hostility may be beginning to ease somewhat, employees remain deeply anxious about their future.

However, their concerns are more than simply a matter of narrow self-interest. These are men and women who generally have a strong commitment to the long-term future of Irish banking. In spite of everything that has happened in recent years, the majority of bank staff have retained a surprising degree of loyalty to their institutions and to their profession.

Though changing bank culture from within may be difficult, it could be given a major external impetus if Government had the will to do so. At the present time the State – both in Ireland and Britain – has considerable influence, both as regulator and as a major shareholder, in a number of financial institutions.

This offers a major opportunity to change the culture of banking – with the overwhelming support of the general public. However, the Irish Government has claimed that it does not interfere in the day-to-day running of banks (although employees in both AIB and Bank of Ireland would have found that hard to believe at different times in recent years). But even it was true, the Government's opposition to micromanaging individual banks should not preclude it establishing ground-rules for the sector as a whole.

The Charter for Fair Banking, adopted recently by the Irish Congress of Trade Unions, provides a starting point for the creation of these ground-rules – based on the principle of respect for customers, employees and communities. *(see Appendix 12)*

Reading the Runes
As well as the challenge of putting its own house in order, the Irish banking sector also faces a number of external threats. The most obvious potential threat is from overseas competitors. Even though some senior figures in the sector suggest that foreign ownership of either AIB or Bank of Ireland or both is a desirable objective, we would have concerns not only in terms of the potential impact on future employment within the sector – but also in terms of its impact on effective decision-making in an area of major strategic importance to the economy.

However, in addition to the challenges from within what may called the traditional banking sector, new trends are emerging which could create further difficulties for the sector. First up are the new branchless banks which are beginning to appear in Britain – which are launching as essentially online offerings with a minimal physical footprint. Secondly, we have witnessed a proliferation of major retailers – like Tesco, Marks and Spencer offering an ever-growing range of financial services to customers. Finally technology companies are also beginning to dip their collective toes in the financial services market – with the most recent being Apple with its Apple Pay facility and PayPal with its recent indication that it intends to develop lending alongside its payment facilities.

For the present most of these new developments are being pioneered in partnership with traditional banks and credit agencies. However, given the unforeseen consequences of new technologies in the recent past, it cannot be assumed that they will not have further disruptive effects on the retail banking sector in the future.

Meeting the Challenge
The challenge of ensuring that Ireland has a financial services sector that is sufficient to meet the economic and social needs of its citizens requires wide-ranging engagement in order to deliver the best possible outcome.

IBOA's proposal for a Forum on Banking – which was originally put to the Joint Oireachtas Committee on Finance and the Public Service in 2004 and again to the Joint Oireachtas Committee on Finance and Public Expenditure and Reform in 2011 – is still relevant.

The aim of the Forum should be to facilitate discussions between all of the key stake-holders in Irish banking – including representatives of both domestic and foreign-owned institutions as well as customers and employees – in order to make recommendations on the future strategic direction of the financial services sector.

In light of the additional challenges emerging in the Irish banking sector, a consultative framework along the lines of the Forum could fulfil a valuable and essential function in developing a comprehensive strategy for the future of banking in Ireland.

It should be clear from this submission that IBOA has taken a responsible and constructive approach to the recovery of Irish banking at a time of unprecedented difficulties for the sector and for the economy as a whole. The Union has endeavoured to manage expectations in order to negotiate a path towards viable and sustainable solutions not only in the long-term interests of our members but also in the broader national interest.

In its approach to collective bargaining and to our wider engagement with all of the stake-holders in Irish banking , the Union has sought to see the bigger picture, as far as possible, even though many others in the sector were adopting short-sighted or short-term approaches.

We thank the members of the inquiry for affording us the opportunity to make this submission. We hope that you will share our sense of the wide-ranging scope of the challenge facing Irish banking and use your good offices to promote appropriate measures to address it so that we can hasten the full recovery of Irish banking in the interests of all the citizens of this country.