Submission to the Department of Finance Consultation on the future of the Bank Levy

4th May 2023

1. About You

1. What is your name?

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3. I am responding as:

x	A representative of an organisation

4. If you are responding on behalf of an organisation, please enter your organisation name here:

Organisation Irish Banking Culture Board (IBCB)

1. Irish Banking Culture Board (IBCB)

The purpose of the Irish Banking Culture Board (IBCB) is to work with our member banks[1] and wider stakeholders to rebuild trustworthiness with the public. We proceed from the proposition that a robust and trusted banking sector is essential to the future prosperity of Ireland. The Irish people deserve nothing less.

Our response to this consultation on the future of the banking levy is of a high-level and principle basis, focussed on where we consider there is an alignment with the aim of the IBCB to promote positive behaviour and culture in banking for the benefit of bank customers, staff and wider society. We have therefore not commented on the calculation methodology for the levy or any issues with a competition, pricing, interest rate, operational cost, or market composition aspect.

The levy was designed and imposed at a time of unprecedented economic and financial turmoil and was directed at those domestic entities which, as a result of their own actions and wider impacts, required material State support in order to be able to survive. In the intervening years, there have been a number of significant changes and developments in the sector. Substantial progress has been made on repaying the State support to individual institutions, with one institution having completely repaid the amount it received. Through our own activities in the IBCB, in particular our independent éist surveys, we can see the progress that has been made in the domestic retail banks on behaviour and culture, albeit there clearly remains more to be done in particular in relation to delivering consistently improved customer outcomes. However, arguably the biggest change in the sector since the original imposition of the levy is the composition of the market.

As noted in our submission to the Department of Finance consultation on the Banking Review, the IBCB recognises that an efficient, competitive, profitable Irish retail banking sector is essential. New entrants to the banking sector, be they digital or more traditional, are to be welcomed, with the proviso that they are appropriately regulated to facilitate a level playing field and consumers are effectively protected. It is also essential that the role of non-bank providers is considered in this context. It is our strong view that, the objective of achieving a level playing field across the multitude of players now operating within the banking sector be given due consideration in any changes to the current levy.

Despite changing market composition, customer choice and access to financial services are essential elements to be maintained.

Financial access must be protected, in particular for those in rural areas who do not feel comfortable, or prefer not, to access banking services digitally. The delivery of banking services via shared community hubs has worked well in other jurisdictions and we would strongly encourage exploration of how this approach could best be used in Ireland, in particular in areas impacted by branch closures.

While the move towards digital banking is generally seen as a positive step for many customers, in particular younger customers, it has created a gap for some customers, particularly some older customers, those with disabilities, marginalised groups, and those in rural locations.

Financial literacy is one key means of bridging this gap. It is concerning that the levels of financial literacy (including digital literacy) in Ireland are low in comparison with our peer jurisdictions internationally and it is often cited as a barrier for customers in managing their finances. Recent Red C/Bank of Ireland research found that Irish people have less understanding of how their personal

[1] Allied Irish Banks, Bank of Ireland, KBC Bank Ireland, Permanent TSB

finances work than peers in the UK, Australia and Germany[2]. A recent Accenture report found that 42% of the population rated their digital skills as average or below, with only 25% rating their skills as excellent. More than one in five of the Irish population do not use online banking[3], thus placing consumers at risk of digital and financial exclusion.

While there is a range of financial literacy training available to consumers, through the Solas Adult Literacy for Life strategy, through the work of the Competition and Consumer Protection Commission, the work of NALA, Money Advice and Budgeting Service (MABS), IBCB member banks and others, we believe it would be helpful if an overarching national financial and digital literacy strategy was put in place. The EU 'Financial competence framework for adults in the European Union' provides a comprehensive framework for assessing financial competence and a national plan to implement this framework would provide a coordinated response to addressing the issue of financial literacy in Ireland.[4]

We consider that there would be real merit in considering how the funding generated by any levy on the wider banking sector could be directed towards both improving levels of financial literacy in Ireland and protecting financial access, thereby delivering a real societal contribution to current and future generations of the Irish public. Protecting financial access and promoting the raising of levels of financial literacy in Ireland are core strategic objectives for the IBCB for the period 2023-2026 and we would be happy to participate in a discussion with the Department, or with wider stakeholders, on how these can be best achieved.

Responses to specific questions:

As noted in the Department's Consultation document itself and in the above introductory section, we have only responded to those questions of core relevance to the IBCB:

Question 1: Should the Levy be: a) allowed to expire, with the final payments due in October 2023? B) phased out? C) further extended?

We consider there is merit in further extending the Levy, on the proviso that it is applied to a wider cohort of institutions to reflect the changed market composition of banking in Ireland, and in accordance with the objective of achieving a level playing field within the sector. Any widening of those subject to the levy should clearly be the subject of an appropriate impact analysis.

Question 2: What impact, if any, do you think the Levy has on the Irish retail financial services marketplace? For example do you think it reduces the appetite for credit institutions to offer attractive interest bearing deposit accounts, or do you think the cost of the Levy is passed on to the customers of the retail banks?

N/A

[2] Bank of Ireland/Red C Research published in March 2023 found on average Irish people's financial literacy score was 54% compared with 64% for Australians, 66% for Germans and 67% for the UK.

[3] Accenture Bridging the Gap. Ireland's Digital Divide (2020), https://www.accenture.com/_acnmedia/PDF-128/Accenture-RO-Bridging-The-Gap.pdf, p.39, 41.

[4] Financial competence framework for adults in the European Union – OECD (2022), https://www.oecd.org/finance/financial-competence-framework-for-adults-in-the-European-Union.htm

Question 3: Dependent on your answer to Question 1, what form should the levy take from 2024 (inclusive) onwards? Some examples of other systems are listed in section 4 of this consultation paper, but you are welcome to outline an alternative option.

N/A

Question 4: Should Ireland adopt a levy based on a measure of assets or liabilities (as out outlined in section 5, Option 3, above?

N/A

Question 5: The current Bank Levy only applies to credit institutions. Should it be extended to other types of deposit taking financial institutions?

Yes, we consider that the levy should apply to a wider cohort of institutions to reflect the changed market composition of banking in Ireland, and in accordance with the objective of achieving a level playing field within the sector.

Question 6: What should be the annual revenue target, if any, of a levy operating in your preferred form, from 2024 onwards?

N/A

Question 7: If Ireland were to continue to apply a levy beyond 2023 (in your preferred form), for how many years should it apply or should it be a permanent feature for credit institutions doing business in Ireland?

It is instructive to note that the majority of EU jurisdictions impose a form of levy or targeted tax on their respective banking industries. Regardless of the format in which this is imposed, we consider that there is merit in seeking to direct the revenue generated from the sector to fund activities which will deliver a social benefit, and in this context we would suggest the protection of financial access and the promotion of financial literacy as core objectives.

Regardless of the format of the levy, in accordance with good practice we consider that any revised approach should be reviewed at regular intervals to ensure its operating effectiveness and impact.