



**Submission to the Department of  
Finance Retail Banking Review  
Public Consultation**

8<sup>th</sup> July 2022

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## 1. About You

1. What is your name?

*Name (Required)*  
Marion Kelly, CEO, Irish Banking Culture Board (IBCB)

2. What is your email address?

*Email (Required)*  
info@ibcb.ie

3. I am responding as:

<input type="checkbox"/>	An individual contributing in a personal capacity
<input type="checkbox"/>	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)

## 2. Introduction

The purpose of the Irish Banking Culture Board (IBCB) is to work with our five member banks<sup>1</sup> and wider stakeholders to build trustworthiness, in order to assist the Irish retail banking industry in regaining the public trust so badly damaged in recent times. 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.

The sector is currently facing a number of fundamental structural and strategic challenges which will result in far-reaching changes impacting the Irish economy and wider society. Effective stakeholder engagement, as outlined in the Central Bank's Strategic Plan 2022 – 2024, will enable all providers to listen, and engage productively with their customers, staff and wider stakeholder base on a consistent basis.<sup>2</sup> The IBCB strongly supports dialogue and stakeholder engagement as key elements in rebuilding trust in the banking industry.

In this context, we strongly support the review of retail banking being conducted by the Department of Finance and welcome the opportunity to participate in this consultation process.

Our submission focuses only on those aspects of the consultation which are core to the purpose and activities of the IBCB and focussed on promoting positive behaviour and culture in banking for the benefit of bank customers, staff and wider society. We have therefore not commented on any issues with a competition, pricing, interest rate, operational cost, or market composition aspect. Our focus in the six questions we have responded to (Questions 1, 2, 4, 12, 15, and 18) is primarily on issues associated with Financial Awareness, Financial Inclusion, Ethics & Accountability and Social Purpose.

Notwithstanding the above, the IBCB recognises that an efficient, competitive, profitable Irish retail banking sector is essential. New entrants to the 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. Despite changing market composition, customer choice and access to financial services are essential elements to be maintained.

Throughout our submission we make reference to the most recent findings of the IBCB's regular independent research with bank customers and bank staff – Éist, which provide useful and timely insight into many of the concerns of those stakeholders that are impacting trust levels in, and the reputation of, the banking sector in Ireland.

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<sup>1</sup> Allied Irish Banks, Bank of Ireland, KBC Bank Ireland, Permanent TSB, Ulster Bank

<sup>2</sup> Central Bank Strategy September 2021, [https://www.centralbank.ie/docs/default-source/publications/corporate-reports/strategic-plan/our-strategy/central-bank-of-ireland-our-strategy.pdf?sfvrsn=3a55921d\\_4](https://www.centralbank.ie/docs/default-source/publications/corporate-reports/strategic-plan/our-strategy/central-bank-of-ireland-our-strategy.pdf?sfvrsn=3a55921d_4), page 9.

### 3. Questions

#### 3.1. Retail Banking Services Sector

**Question 1:**

Banks and other stakeholders are expecting the retail banking sector to go through a period of significant and rapid change, including greater use of fintech, over the next 10 years.

a) Is the retail banking sector currently meeting the needs of consumers and SMEs? Yes/No

Please explain the reasons for your answer.

b) What changes do you expect to see in the retail banking sector in the coming 10 years?

c) Please compare the type of sector resulting from the changes you foresee in Question 1(b) to the type of sector you believe needs to exist so that it is fit-for-purpose, treats consumers and SMEs fairly, and that it serves the needs of society and the economy.

1. a) The retail banking sector currently provides extensive banking products and services to consumers and SMEs, with a range of options to access services: face to face (either through branches or other face to face services), through digital banking (online and mobile), and through telephony services. The products and services meet the needs of most consumers and SMEs. However, based on feedback we have received it is apparent that some consumers and SMEs, particularly those in a vulnerable position and those in rural locations, consider that some of their needs are not being met, or are not being met in an optimal manner for them. The IBCB's Éist Public Trust in Banking Surveys of 2021 and 2022 indicate that trust levels in banks from the general public and SMEs remain low.<sup>3</sup> Whilst our survey data indicates that respondents' trust in the competence and ability of banks has improved, there are a number of areas where there appears to be a greater gap in perceptions regarding the needs of consumers and SMEs and how these needs are met by retail banks. Our surveys show that there are demographic variances in trust levels, with older generations indicating less trust towards banks. Digitalisation has created feelings of alienation for older customers and those in rural locations, particularly as a result of reduced bank branches and a move towards cashless payments. Conversely, digital banking is deemed to work well for many, in particular younger customers. Alongside this move to digital banking, many consumers and SMEs are experiencing an increase in fraud and scam activities. This has been particularly problematic in the past two years.<sup>4</sup> In our engagement with customers and advocacy groups, fear of fraud is cited as a source of concern for customers in their online banking and prevents some customers from embracing digital tools.

1. b) It is likely that there will be further digitalisation and automation, with further non-bank entrants into the market offering certain banking services via products like payment accounts and

<sup>3</sup> IBCB 2021 Éist Public Trust in Banking Survey (2021), <https://www.irishbankingcultureboard.ie/wp-content/uploads/2021/05/IBCB-2021-eist-Public-Trust-in-Banking-Survey-ONLINE-v2.pdf>

<sup>4</sup> Fraudsmart, 'Payment card fraud hits €24 million in 2020 with majority of debit and credit card fraud taking place online' (2021), <https://www.fraudsmart.ie/2021/11/23/payment-card-fraud-hits-e24-million-in-2020-with-majority-of-debit-and-credit-card-fraud-taking-place-online/>

loan products. It is also likely that there will be a further reduction in the use of cash, with the use of digital and mobile banking and contactless payments continuing to rise.<sup>5</sup>

1. c) As the banking sector evolves with more non-bank entrants and through the further use of digital services for customers, it is essential that the gap between those who do not, or cannot, use digital options and those who are comfortable with digital banking is not widened. Retail banks need to find ways to promote the human, more trusted side of the sector, whilst continuing to deliver innovation. This is vitally important to ensure that some customers are not financially excluded or placed in a vulnerable position because of these changes. This includes a concerted effort across sectors (e.g., banking, telecommunications, law enforcement etc.) to deal with the ongoing fraud and scam issues, which have been so detrimental to customers.

The IBCB's Éist surveys in 2021 found lower trust levels in banking from those in rural locations, when compared to those living in urban locations.<sup>6</sup> This is further evidenced in our 2022 survey, with farmers expressing significantly lower trust levels in banks than the general population or SMEs and 44% of farmers saying that banks do not understand farming, or the challenges faced by the farming industry.<sup>7</sup> It is clear that the retail banking sector needs to consider and address this feedback and the specific needs from those in rural locations and the farming sector. The IBCB intends to hold a round-table session in Autumn 2022 to explore these issues in more detail and identify specific actions to be taken by our member banks.

As an overall comment on the future of the retail banking sector in Ireland, particularly due to the significant number of new entrants providing specific services and products, it will be important to ensure there is a level playing field for all providers, including non-bank providers, with equivalent protections in place for consumers and SMEs, regardless of provider.

**Question 2:**

Given the extent to which banks are implementing material changes to their business models and service delivery, in your opinion, have these changes been implemented with a satisfactory customer-focus? Yes/No.

Please explain the reasons for your answer.

If you have answered "no", please outline the measures that could be taken by the firms in the retail banking sector, Government, regulators or other relevant stakeholders to address the issues you identified.

The IBCB's Éist surveys focus on quantifying trust levels in the banking industry as a whole and in the IBCB's member banks. These surveys assess trust across four dimensions (ability, integrity, dependability and purpose). Whilst banks are seen to be competent in delivering products and services (ability and dependability), many respondents believe that they need to show more integrity and compassion and demonstrate their support for societal good (integrity and purpose). In both our

<sup>5</sup> BPI Payments Monitor – Q1 2022 (2022), <https://bpfi.ie/publications/bpfi-payments-monitor-q1-2022/>

<sup>6</sup> IBCB 2021 Éist Public Trust in Banking Survey (2021), <https://www.irishbankingcultureboard.ie/wp-content/uploads/2021/05/IBCB-2021-eist-Public-Trust-in-Banking-Survey-ONLINE-v2.pdf>, p.28

<sup>7</sup> IBCB 2021 Éist Public Trust in Banking Survey (2022), [www.ibcb.ie](http://www.ibcb.ie)

2021 and 2022 surveys, only one in five respondents believed that banks put customer needs first when making decisions.

As we have noted in our response to Question 1, the move towards digital banking is generally seen as a positive step for many customers, in particular younger customers, but has created a gap for some customers, particularly some older customers, those with disabilities, marginalised groups, and those in rural locations. Retail banks have put measures in place to address these gaps, however it is essential that responses are based on a continuous process of seeking feedback and improving services. A continued focus on accessibility and good product and service design - which works for people with diverse preferences and abilities, will ensure that customers who cannot, or do not, use digital banking are not left behind. A continued focus on the social purpose of banking will also support customers who may otherwise experience challenges in banking. Good examples of this is the work of IBCB member banks in promoting access to the basic payment account and in financial literacy training for victims of domestic abuse.

The area of financial literacy (including digital literacy) is one which is frequently identified as a barrier for customers in managing their finances. 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<sup>8</sup>, 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.<sup>9</sup>

### 3.2. Branch Services

**Question 4:**

The significant shift from physical banking to the use of technology has seen the closure of a material number of bank branches. In your opinion, have the actions taken by the banks to mitigate the impact of branch closures on delivery of services to consumers and SMEs been satisfactory? Yes/No.

Please provide reasons for your answer.

If your answer is "No", please outline the measures that could be taken by the firms in the retail banking sector, Government, regulators or other relevant stakeholders to address the issues you identified. Where appropriate, please distinguish between consumers and SMEs in your response.

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<sup>8</sup> Accenture Bridging the Gap. Ireland's Digital Divide (2020), [https://www.accenture.com/\\_acnmedia/PDF-128/Accenture-RO-Bridging-The-Gap.pdf](https://www.accenture.com/_acnmedia/PDF-128/Accenture-RO-Bridging-The-Gap.pdf), p.39, 41.

<sup>9</sup> 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>

Feedback received by the IBCB in our Éist surveys highlights that consumers and SMEs have higher levels of trust in their own bank, and even more so in their local bank branch, than they have in the overall banking industry<sup>10</sup>. It is clear that consumers and SMEs value local, personal relationships. Whilst the banks have put in place measures to mitigate the impact of branch closures on delivery of services to consumers and SMEs, it is evident more support is required for some customers.

Research undertaken by the IBCB, in our Éist surveys and stakeholder engagement, indicates that branch closures have impacted those in rural locations to a greater extent than those in urban locations. Feedback we have received from stakeholders notes the challenge of poor broadband facilities in some rural areas which impacts on customers' (both consumers and SMEs) ability to conduct their banking through digital channels. Our 2022 Éist survey highlights that farmers feel poorly served by their local branch and it is clear that the banking sector needs to consider how best to address the unmet service needs highlighted by farmers.

Our Éist surveys also highlight that older customers have a lower level of trust in banking than younger people and often view the closing of branches and digitalisation as replacing valued person-to-person contact. We have also heard from other stakeholder engagement that many older customers tend to dislike the move to automated machines in branch as they often find it impersonal. Furthermore, some older adults acknowledge that they were less technologically aware and expressed a concern that they might make a mistake when conducting a transaction by machine.

IBCB member banks have provided additional supports for customers who are disproportionately impacted by the increasing digitalisation of banking, by providing supports such as tutorial videos on use of digital banking tools, by providing priority hours in branches for customers in a vulnerable position during the Covid-19 pandemic, by providing in person training on use of digital or automated banking tools etc. Some banks also provide additional services through An Post for day-to-day banking transactions. Despite this, our research suggests that more support is required to address the digital divide for some customers and to provide alternative methods of banking where needed or desired by customers.

Our latest research indicates that 49% of SME respondents still visit a branch at least once a week.<sup>11</sup> This indicates that there is still a need for this customer group to access physical services or there is a need to address a gap in financial literacy by accessing services in person.

### 3.3. Consumer Credit

**Question 12:**

Credit can play a pivotal role in the lives of consumers. It is therefore important that consumers have good access to credit, appropriate levels of consumer choice, whilst also being protected from over-indebtedness.

In your opinion:

<sup>10</sup> The IBCB's Éist 2021 survey showed the general population's trust levels in the banking industry was -28, but was there were significantly greater levels of trust in the local branch, which scored a trust level of -5. In 2022, the score was -25 for the industry and -2 for local branches. For SMEs this was -13 for the industry and +8 for local branches in 2021 and has improved to -7 for the industry and +10 for local branches in 2022.

<sup>11</sup> IBCB 2022 Éist Public Trust in Banking Survey (2022), [www.ibcb.ie](http://www.ibcb.ie)



a) Is there adequate access to and availability of credit from the retail banking sector (including appropriate product choice) to meet the needs of consumers? Yes/No.

b) What are the main risks to consumers in the area of consumer credit?

For both (a) and (b) above, please explain the reasons for your answer.

Where you have identified issues, please outline the measures that could be taken by the firms in the retail banking sector, Government, regulators or other relevant stakeholders to address the issues you identified.

We consider that there is adequate access to, and availability of, credit from the retail banking sector. However, financial literacy remains a key risk for consumers in their credit decisions. Ensuring that consumers have access to the clear information on credit products, including the cost of credit and any risks associated with the product is vitally important.

As more artificial intelligence (AI) tools are deployed in banks and other non-bank lenders to automate credit decisioning, it is important that any such tools are deployed in an ethical manner, that they are assessed for bias, such that automated decisions do not exclude or negatively impact some customers. Transparency in the type and treatment of consumer data which drives AI tools, (transactional, behavioural and other), would be helpful to increase trust in use of such tools among customers.

### 3.4. Other retail banking services

**Question 15:**

As different providers in the retail banking sector have different fee structures and charges, it may be possible to make savings by switching current/payment accounts. Research previously found that switching rates in Ireland were very low.

In your opinion, are there measures that could be taken by the firms in the retail banking sector, Government, regulators or other relevant stakeholders to increase the level of switching? Yes/No.

Please explain the reasons for your answer.

If you consider that the Central Bank's Code of Conduct<sup>136</sup> on the switching of payment and current accounts should be amended, please outline the changes you would propose.

<sup>136</sup> Code of Conduct on the Switching of Payment Accounts with Payment Service Providers. Available at: <https://www.centralbank.ie/regulation/consumer-protection/consumer-protection-codes-regulations#switching>

Significant resources have been deployed in those banks leaving the market and those remaining to support customers to switch their accounts. This is underpinned by the Guiding Principles for Customer Support for Account Closure, Opening and Moving, which were jointly developed and launched by the IBCB and the BPFi and are supported by our mutual member banks in Ireland.<sup>12</sup> The

<sup>12</sup> IBCB/ BPFi 'Guiding Principles for Customer Support for Account Closure, Opening & Moving', (2022), <https://www.irishbankingcultureboard.ie/guiding-principles-for-customer-support-for-account-closure-opening-moving/>

IBCB believes however there are further measures that could be taken by the banking sector, Government, regulators and other relevant stakeholders to increase the level of switching.

The CBI switching code<sup>13</sup> aims to make switching ‘quick and easy’, however switching rates in Ireland are very low. We believe there are two main causes of this. Firstly, the process behind the code is relatively manual and was not designed or intended to be used for the level of switching anticipated over the next twelve months. The process may also not include all Direct Debit Originator types, (e.g. subscription services), which can reduce the efficacy of the process. It may be beneficial to enhance or automate the switching process to provide the customer with a quick, easy, and more efficient experience. An improved, automated process may reduce risk for consumers, financial institutions and other organisations involved such as Direct Debit Originators and could increase trust in the process.

A 2017 study highlighted that in many countries, customer behaviour, notably inertia to move, appears to reduce switching propensity.<sup>14</sup> This appears to be the case in Ireland also, with a 2019 Central Bank bulletin noting a reduction in switching activities.<sup>15</sup> There are various supports or measures which can improve customers’ willingness to switch their payment accounts. We note from measures taken regarding other banking products that enhanced, clear communication and use of behavioural insights can lead to positive customer responses, leading to better outcomes for consumers. A recent study by the CCPC/ERSI, working with Bank of Ireland, showed that by providing customers with the right level of information and a combination of nudges and boosts it is possible to encourage behavioural change in relation to financial circumstances to the benefit of consumers.<sup>16</sup>

Finally, in our interaction with many stakeholders we have noted that many prospective customers lack a driver’s licence or passport and believe that this may preclude them from opening a bank account. This typically impacts consumers from marginalised groups including members of the Traveller community, prisoners, those who are financially disadvantaged etc. This has also been highlighted as an issue for some Ulster Bank and KBC customers who now need to switch their account (for example, a customer who is now resident in a nursing home and no longer travels or drives). The IBCB is working with our member banks and with a range of advocacy groups to try to improve the use of the basic payment account, noting that banks can, and do, work with prospective customers who do not have standard forms of identification.

A broader use of the Public Services Card could address this challenge and reduce the risk of financial exclusion for customers in a vulnerable position. We would strongly encourage that this be facilitated. In the *General Scheme of the Social Welfare and Pensions Bill 2017*<sup>17</sup> it was proposed to make two changes to the use of the public services card under “*Head 6: Public services card*” to amend the Social Welfare and Pensions Act 2012 to enable a person to voluntarily produce the card to a non-specified body and to request that their date of birth is added. This bill lapsed after the dissolution of the last

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<sup>13</sup> Code of Conduct on the Switching of Payment Accounts with Payment Service Providers – <https://www.centralbank.ie/docs/default-source/Regulation/consumer-protection/other-codes-of-conduct/45-gns-4-2-7-code-of-conduct-o.pdf>

<sup>14</sup> C van der Cruysen, M Diepstraten, ‘Banking Products: You Can Take Them with You, So Why Don’t You?’, *Journal of Financial Services Research*, 52, (2017), p 123–154

<sup>15</sup> Central Bank of Ireland, ‘Key Trends on Current Account Activity and Switching’ (2019), <https://www.centralbank.ie/news/article/press-release-consumer-protection-bulletin-20-june-2019>

<sup>16</sup> CCPC/ ESRI research <https://www.ccpc.ie/business/ccpc-research-shows-financial-institutions-how-they-can-use-behavioural-insights-to-improve-consumer-saving-habits-and-financial-well-being/>

<sup>17</sup> *General Scheme of the Social Welfare and Pensions Bill 2017* <https://www.oireachtas.ie/en/bills/bill/2017/94/>

Dáil. This legislative change would allow a standard approach for those people who do not have a passport or driver's licence – who are typically those customers who may be in a more vulnerable position but who also tend to have a Public Services Card.

### 3.5. Staffing and remuneration

#### Question 18

Restrictions on pay were introduced as a condition of the State's recapitalisation of the Irish banks. In 2014, European legislation also introduced remuneration requirements on all European banks, including the domestic Irish banks. It is contended that continuation of the Irish restrictions inhibits recruitment and retention of staff in the recapitalised banks, with adverse consequences for their ability to compete. This may negatively impact the products and services provided by these banks to consumers and SMEs.

In your opinion, should the Government retain, amend or remove the Irish restrictions that currently only apply to the three banks that were recapitalised by the State following the GFC?

Please explain the reasons for your answer.

If you consider that the Irish restrictions should be amended, please outline the changes you would propose.

**The IBCB's views in this regard are from the perspective of bank staff only and not in relation to any quantitative restrictions on Executive or CEO salaries.**

The remuneration restrictions imposed in 2014 at European level have since been replaced by the European Banking Authority's ("EBA") guidelines on sound remuneration policies, however the revised approach has not been applied to three of the five Irish retail banks who continue to be subject to remuneration restrictions, meaning that staff in these banks are not operating in a level playing field.

There has been a clear focus on improving culture and behaviour in Irish retail banking over recent years and while there remains much to do from the perspective of customers and staff, the issue remains a strategic priority for all IBCB member banks. To ensure that bank staff are fairly remunerated when compared with peers in the wider industry and enable the attraction and retention of the talent required to best serve customers, it is considered that the current remuneration restrictions in relation to the award of flexible pay, profit sharing and benefits such as childcare/health insurance etc. should be amended. The IBCB's most recent survey of bank staff found that pride levels among staff in the Irish banking sector are lower than the global financial services benchmark, 57% versus 73% respectively. Feeling proud to work for an organisation is impacted by a range of factors and while pride is not directly linked to remuneration, it cannot be overlooked that one of those factors is recognition and being appropriately rewarded for your role.

The IBCB supports the amendment of these remuneration restrictions on condition of the following:

- that all flexible pay be subject to appropriate behavioural performance assessment and the use of clawback provisions (as set out in the EBA guidelines);
- the commencement of the Individual Accountability Framework (IAF) designed to hold individuals to account for their behaviour and setting out the penalties which will be available to the regulator when it is proven that such behaviour has been inappropriate. The introduction of the IAF in Ireland offers the opportunity to promote and underpin the right

behaviours and ethical decision-making in banks via embedding and promoting the regime internally with bank staff. There is real potential for flexible pay to be used to reward and reinforce the right behaviours, and indeed penalise inappropriate behaviours. This approach would address previous challenges with the use of variable pay through real, measured focus on serving customer needs and achieving positive long-term outcomes rather than rewarding short-term outcomes and misaligned sales incentives.