Matthew Elderfield: Recent regulatory developments in Ireland

Opening remarks by Mr Matthew Elderfield, Deputy Governor of the Central Bank of Ireland, at the Central Bank of Ireland Stakeholder Conference, Dublin, 27 April 2012.

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Good morning, Minister, ladies and gentlemen. I would like to welcome you to our first stakeholder conference and to warmly welcome our visitors to Ireland. In a few minutes I will invite Mr Michael Noonan, Minister for Finance to open the conference, but first I would like to make some introductory remarks.

Our purpose here today is to give Irish stakeholders an overview of current and future EU and international regulatory developments and to provide them with an opportunity to share their views. We have here with us representatives of consumers, the financial services industry and broader stakeholder groups, as well as colleagues from the European Supervisory Authorities, other national regulatory authorities and members of the press. I want to welcome our speakers and panellists and thank them for their engagement and commitment. We are privileged indeed to have such eminent representatives with us today.

Our discussions will be far reaching but we should try to organise them around two broad long-term themes – stability and consumer protection. A fundamental objective of the Central Bank of Ireland is to ensure "the stability of the financial system overall". This is complemented by our participation in the European Systemic Risk Board and the Central Bank is now organised to fulfil these mandates. As regards consumers, it is more important than ever that consumers make well-informed decisions and feel confident they are adequately protected if something goes wrong. The consumer mandate has been a priority for the Central Bank and is an increasing focus of all the European Supervisory Authorities and their Joint Committee. The Central Bank aims to be an active advocate for consumer issues in these fora.

Before the discussions to open up the debate to the wider European and international agendas, let me say a little about how we in the Central Bank have been dealing with some of the challenges faced in Ireland.

It is vital that we do whatever is necessary to protect and improve the reputation of Ireland as a financial centre. The Irish authorities have taken decisive steps to strengthen the banking system through rigorous, conservative and independent assessments of loan losses, involving recapitalisation actions and targeted reduction of non-core assets.

Efforts have also been made to improve regulation. In the Central Bank we see improved standards of governance and fitness and probity across financial services in Ireland as a priority. The statutory Code of Corporate Governance sets out clear requirements for the directors and boards of both banks and insurance companies. While these may be more demanding than those in place in other jurisdictions, we believe they set an appropriate benchmark. The statutory Fitness and Probity Standards strengthens the Central Bank's "gatekeeper role" and allow us, where appropriate, to suspend or remove an individual from a senior position in a regulated firm.

In December 2011 we formally launched our PRISM framework for supervision and applied it to banks and insurers. We will extend it to investment firms and credit unions next month and later in the year we will use it in support of focused thematic inspection work across a significant number of firms. PRISM is at the centre of our new assertive risk-based approach to supervision. Put simply, PRISM involves the targeting of our supervisory resources between firms on the basis of empirically driven quantitative metrics showing the potential of each firm, were it to experience problems, to adversely affect consumers, the economy or public finances. We have significantly upgraded the skills of our supervisors both by recruitment and training programmes. They will ask difficult questions, they will be sceptical and ready to engage in sometimes unpalatable but necessary conversations and analysis.

Enforcement also helps to deliver a regulatory regime which is credible and effective. We have stepped up our work in this area. Last year we entered into enforcement settlements with 10 financial providers, resulting in a range of sanctions including the disqualification of 2 directors and fines totalling €5 million. Areas prioritised in 2012 include mortgage arrears, retail intermediaries, payment protection insurance and client asset requirements.

We are looking forward to adoption of the Central Bank (Supervision and Enforcement) Bill which should reinforce the powers of the Bank in the context of regulation setting, proactive supervision and enforcement. The Bill includes a single wide ranging power of direction, wider powers for authorised officers, the ability to require "skilled persons' reports" and increased administrative sanctions penalties. More broadly, it proposes protections for whistle-blowers and will strengthen the Central Bank's ability to provide assistance to overseas supervisors.

This is a flavour of recent regulatory developments in Ireland. The process of rethinking our philosophy, changing our culture and reengineering our processes continues. Our regulatory resources have kept pace with the new challenges and responsibilities having grown from 385 in 2009 to a target for this year of 714. In 2012 we expect to consolidate and drive for greater efficiency and effectiveness with the resources now at our disposal. Throughout this period we have tried always to learn from best practice internationally and to take advantage of our membership of the European Supervisory Authorities. During the panel on banking later this morning I will say something about our expanding engagement with the European institutions and the lead-in to the Irish Presidency of the Council of Ministers, which gets under way in January 2013.

Let me now invite Minister Noonan to open our conference.