

Ed Sibley: Building financial resilience

Address by Mr Ed Sibley, Deputy Governor (Prudential Regulation) of the Central Bank of Ireland, at the MABS (Money Advice and Budgeting Service) National Conference, Dublin, 5 November 2019.

Introduction

Good morning ladies and gentlemen.

I am delighted to be here today at the MABS (Money Advice and Budgeting Service¹) National Conference². I am grateful for the opportunity to talk to you all, listen to other speakers, and discuss the issues that matter most to attendees.

MABS plays a vital role in providing help and advice to people faced with problem debt, working on the practical challenges faced by people who are struggling financially – helping them to rebuild their financial resilience. As well as providing practical help, MABS also gains deep insights into the workings of the financial system in Ireland.

While MABS and the Central Bank of Ireland's responsibilities are different, our underlying commitment to public service and missions of serving the Irish public good are comparable. Both organisations are also focused on financial resilience and the protection of consumers.

Today, I am going to discuss the Central Bank's role in building financial resilience and how this protects consumers, covering at high level:

1. the functioning of the financial system
2. the interaction between MABS and the Central Bank
3. the role of the Central Bank

And then spending some time on some specific issues relevant to you today:

4. mortgage arrears; and
5. financial innovation

In my comments, I will:

- highlight that there is more work to be done to improve the functioning of the financial services system, including in the behaviour, culture and accountability of management and boards in financial services firms;

- encourage individuals to come forward to our dedicated Protected Disclosures team where they have concerns or information relating to suspected regulatory wrongdoing in financial services;
- connect the different responsibilities of the Central Bank and how they come together to build financial resilience at a system and individual level and deliver strong consumer protection; and
- note the progress that has been made in addressing mortgage arrears, but recognise that more work is required, emphasising that engagement, forbearance, restructuring and insolvency are tools that can be used to continue to reduce mortgage arrears.

1. A functioning financial system

Financial services play a critical role in all of our lives.

Modern societies are dependent on financial services. Understandably, people assume that payments will be made, savings are safe, loans are available, insurance policies will be honoured and so on.

While some financial services activity may be considered 'socially useless'³, our economies are dependent on the effective functioning of the financial system, allowing:

- the exchange of value for labour, goods and services, commodities, and so on through reliable and trustworthy payments mechanisms;
- savers and investors to confidently move money from the present to the future;
- borrowers and entrepreneurs to access funding and capital;
- the spreading and pooling of risk (e.g. through insurance); and
- cross border trade.

Because of this importance, financial services firms are subject to regulation and supervision. The Central Bank's mission is to serve the public good by safeguarding monetary and financial stability and by working to ensure that the financial system operates in the best interests of consumers and the wider economy.

The Central Bank's aspiration is for a functioning financial services system that sustainably serves the needs of the economy and its consumers. This requires functioning and trustworthy financial markets and firms.

Further, the overall functioning of the system is linked to the:

- decisions, behaviours and operations of financial services firms;
- effectiveness of regulation and supervision of markets and firms;
- interaction between relevant arms of the state;
- financial literacy of users and the decisions they make; and
- safety nets that are in place to deal with failures – be they firm or market failures, or where financial services consumers experience difficulties.

In Ireland, we have much that is operating well. In fact, much more works well than does not – certainly by the measures I have just outlined. But, we sure do notice where and when

things do not work as well as they should. Globally and in Ireland these range from the catastrophic failures that led to the global financial crisis and the collapse of the Irish banking system, to the conduct scandals that have beset so many countries.

And we can also see issues in the functioning of key financial services sectors. I have spoken previously about the functioning of the mortgage market⁴ and the insurance markets⁵ so will not go into specific details here, but recognise that they are not operating optimally for a variety of reasons. Clearly there is also more work to be done, including in the behaviour, culture and accountability of management and boards in financial services firms⁶.

The Central Bank is committed to continuing to drive improvements in the functioning of the system, such that it is appropriately resilient, and that it is serving the needs of its consumers and the wider economy.

Protected Disclosures⁷

Individuals working within the system at all levels have vital roles in the functioning of the system. This includes what individuals do when they see issues in how firms and their management are behaving.

We frequently hear negative stories about what happens to whistleblowers, whether they are in the political, security, or financial sectors. Indeed there are some well publicised cases where the vested interests focused more on the identity and actions of the whistleblower than the issues that were being highlighted.

The Central Bank takes the opposite approach. The Protected Disclosures regime allows members of the public or staff of regulated firms to provide information on suspected regulatory wrongdoing in a confidential form to the Central Bank. Senior individuals are under an obligation to report wrongdoing to us.

The numbers of protected disclosures are increasing year on year. 165 protected disclosures were received in the twelve months to June 2019, compared to 117 in the year before that. The reports are taken very seriously, as is our commitment to protect the identity of the individual making the report. We listen carefully and take action, including: undertaking additional supervisory work such as on-site inspections; requiring a firm to fix issues; putting firms under higher supervisory focus; and taking enforcement action.

We encourage individuals to come forward to our dedicated Protected Disclosures team where they have concerns or information relating to suspected regulatory wrongdoing in financial services. We understand that this can be a difficult and indeed stressful step to take. We have a team of people answering your call or receiving your email, listening carefully to you and dealing with your information professionally and sensitively.

2. Interaction between the Central Bank and MABS

MABS's work in helping the thousands⁸ of people in Ireland that are struggling financially is hugely important.

The Central Bank also values the insights MABS gains from its work. MABS is represented on the Central Bank's Consumer Advisory Group⁹, which advises the Central Bank on its work on the protection of consumers of financial services. The Central Bank has consulted with MABS in relation to mortgage arrears issues, including in relation to the development of the Code of Conduct on Mortgage Arrears (CCMA).

MABS also regularly responds to the Central Bank's consultation papers, particularly those dealing with lending matters and any issues relating to borrowers in financial difficulty. Any such responses received are always well articulated, evidence based and considered carefully as we finalise our policy positions. The Central Bank values this constructive engagement.

MABS also produces a number of publications¹⁰ and a budgeting tool. This information assists consumers in making decisions in relation to their financial affairs and plays an important role in developing knowledge and awareness of financial products. The role of education is very important and is recognised internationally¹¹ to enable consumers to make more informed choices with financial products.

3. The Role of the Central Bank

Turning now to the work of the Central Bank.

Describing the mandate and role of the Central Bank can sound a little dry. I can distil it down to our mission to serve the public good. We do this by:

- seeking to reduce the risks to the people of Ireland arising from the volatility and vulnerabilities of the Irish economy;
- leaning against the wind and seeking to ensure that the financial system is resilient to shocks, so we avoid the catastrophic hard stops of yesteryear;
- working to ensure that the consumers of financial services products can, among other things, have confidence in savings, investments, payments, and the prudence of lending; and
- setting statutory codes of conduct for financial services firms, and regulating and supervising the conduct of individual firms.

Financial resilience is critical to the delivery of this mission. It can be considered through a number of lenses – the resilience of the economy, the resilience of the financial system and the resilience of borrowers. The Central Bank works in many different ways to protect the resilience of the system, individual firms and consumers, including through the following:

Price stability & economic analysis

The Central Bank is part of the Eurosystem, and actively contributes to the delivery of the European Central Bank's price stability mandate. The Central Bank provides forward-looking, independent economic advice and commentary. The provision of high quality analysis is essential in informing evidence based policy decisions both at domestic and international levels and in explaining financial market developments (e.g. through our quarterly bulletins¹²).

Macro prudential rules

The Central Bank's macro-prudential role includes evidence-based policy strategy, design and implementation, including through the capital buffers and mortgage measures. Because of the importance of these measures and our commitment to transparency, we publish significant levels of research and analysis on the execution of our macro prudential role, including publishing a record of our decision-making at the Macro-prudential Measures Committee¹³.

The Central Bank of Ireland's macroprudential mortgage measures¹⁴ were introduced on 9 February 2015. The measures aim to increase both bank and borrower resilience and reduce the risks of credit-house price spirals emerging, by limiting the Loan to Value (LTV) and Loan to Income (LTI) ratios applying to new residential mortgage lending. The macro-prudential mortgage measures form an integral part of the Central Bank of Ireland's macro-prudential policy framework.

These limits are subject to an annual review and intensive scrutiny internally and externally.

These rules are in place to ensure that the financial system and individuals are protected in the long term from excessive debt. Those of you working in MABS will have seen many cases where individuals have very large amounts of debt that can become unsustainable and have very negative impacts on those people.

Supervision

The Central Bank is also responsible for the prudential and conduct regulation and supervision of regulated firms. Operating within an extensive regulatory framework, we deliver an intrusive, analytical and outcomes-focused approach to supervision. Our approach is risk-based and anchored by our PRISM¹⁵ supervisory methodology, and underpinned by the credible threat of enforcement.

Our prudential supervision seeks to ensure that regulated firms:

- have sufficient financial resources (capital and liquidity), including under a plausible but severe stress;
- have sustainable business models that allow them to operate through the economic cycle;
- are well run, appropriately governed, have effective risk management and control functions and effective cultures; and
- can recover if they get into difficulty, and we can resolve them without significant externalities or taxpayer support if they cannot.

By achieving these outcomes we can increase the financial resilience of the system and individual firms, a fundamental aspect of protecting consumers.

The Central Bank does not have a zero risk appetite for failure. In fact, we expect some firms to fail, as they are all in the business of taking risk. We take a proportionate approach to

seeking to reduce the risk and impact of failure, such that the risks to financial stability and the impacts on firm's customers are reduced, and that failure can be managed.

The Central Bank is the national resolution authority for Ireland. In its capacity as resolution authority, the Central Bank is responsible for the orderly resolution of failing credit institutions, certain investment firms and credit unions¹⁶. The Central Bank manages resolution funds and prepares resolution plans for these entities. These plans can then be activated in the event of a failing or likely to fail determination¹⁷.

Our consumer protection role includes the setting of statutory codes of conduct for financial services firms, such as codes on how products should be sold, the information that should be provided and how complaints should be dealt with¹⁸. The Consumer protection code puts requirement on how loans are made and the Code of Conduct on Mortgage Arrears (CCMA), was put in place to ensure the fair and transparent treatment of financially-distressed borrowers and governs how lenders interact with these borrowers.

Enforcement

The Central Bank also takes robust enforcement action that holds firms and individuals accountable, deters misconduct and promotes compliance and high standards in financial services. The Central Bank uses the full suite of its powers in doing so, and publish details of enforcement actions where we are legally permitted to do so, together with public statements outlining the standards that are required of regulated firms and individuals.

As at 1 October 2019, the Central Bank has concluded 131 enforcement actions since 2006, resulting in monetary penalties of almost €100 million.

We also protect consumers through our work in respect of unauthorised providers of financial services. Here we aim to guard the perimeter, seeking to ensure that only those authorised to do so (either by the Central Bank of Ireland or elsewhere in the European Union) can provide financial services in Ireland. We have a range of enforcement tools available to us to respond to unauthorised providers and we work closely with law enforcement agencies, such as An Garda Síochána.

We are seeing a sharp increase in reports of suspected unauthorised activity. Unauthorised firms frequently target the most vulnerable members of society. Technological advancements make it easier for these firms to reach a wide population and to disappear quickly to avoid detection. Our message to consumers is to be vigilant. Check the regulatory status of the firms you deal with on [our website](#). Report any concerns, complaints or scams to the relevant authorities, including the Central Bank of Ireland. Consult the information available on our website, which includes [Registers of authorised firms](#), [Warning Notices in respect of unauthorised firms](#) and [information on the risks of dealing with such firms](#). In performing this important function, the Central Bank seeks to protect consumers from the significant risks that dealing with unauthorised providers can pose.

4. Mortgage Arrears

MABS works with people who have a wide spectrum of financial difficulties. The Central Bank and MABS engage on these topics too, including, for example our work on moneylending. I will turn now to one of these critically important topics, on which the Central Bank and MABS has been very active in for the last 10 years – mortgage arrears.

At the end of June 2019¹⁹, c.43,000 private dwelling home (PDH) loans (6%) were more than three months in arrears on their repayments, down from a peak of c.99,000 (13%) in September 2013. Within these figures, c.27,000 PDH loans (4%) are greater than two years past due. And, of the overall number, just over half (55%) of loans greater than three months in arrears are held by the banks, with the remainder split across retail credit firms and credit servicing firms.

There has been considerable progress in resolving mortgage arrears and non-performing loans more broadly (see, for example, the Central Bank's paper on Resolving Non-Performing Loans in Ireland: 2010-2018²⁰). However, more than 10 years since the first waves of the financial crisis started buffeting Ireland, and six years since the peak of non-performing loans in Ireland we still have serious problems with mortgage arrears in Ireland.

First and foremost this matters because behind each account in arrears there is distress and, in the case of PDH loans, the vulnerability of borrowers at risk of losing their home. This is why there are a significant number of protections and supports for consumers facing mortgage arrears.

The Central Bank's approach to mortgage arrears resolution is focused on ensuring the fair treatment of borrowers through a strong consumer protection framework while ensuring banks are sufficiently capitalised, hold appropriately conservative provisions, and all lenders have appropriate arrears resolution strategies and operations in place.

This includes, regulatory requirements such as the Code of Conduct on Mortgage Arrears (CCMA), which was put in place to ensure the fair and transparent treatment of financially-distressed borrowers and governs how lenders interact with these borrowers. The CCMA includes requirements that arrangements be sustainable and based on a full assessment of the individual circumstances of the borrower and that repossession be used only as a last resort.

Firms must also follow the Mortgage Arrears Resolution Process (MARP) when dealing with borrowers facing arrears. The MARP process also requires alternative options if a restructure could not be agreed or was not appropriate.

Within the broader Irish consumer protection framework, there is a range of advice and support for those in arrears, including the Money Advice and Budgeting Service (MABS), the national mortgage Arrears Resolution Service (Abhaile) and a Court Mentor service to assist debtors faced with court proceedings. The Government also introduced the Personal Insolvency Act 2012. The Insolvency Service was established in March 2013 as an independent statutory body. The Government also introduced a national mortgage-to-rent scheme. There are also a number of other non-statutory organisations providing assistance to those in mortgage arrears.

And, as is evident from the significant reduction in mortgage arrears, much of this has worked, primarily through the engagement between lender and borrower, such that there are now c.94,000 restructured PDH mortgage accounts, 86% of which are meeting the terms of the restructure arrangement²¹.

But as is also evident, serious problems still exist. In this room, through dealing with the varied causes and consequences of arrears and indebtedness, we know that affordability and sustainability of lending at origination and the financial consequences of job loss, illness, or relationship breakdown all contributed to arrears formation. As part of public sector bodies working every day to help borrowers and make the system less risky, we know that this requires continued diligence and determination, regardless of what type of lender holds the loan.

The Central Bank / Single Supervisory Mechanism²² (SSM) do not have a preference for loan sales. We have a preference for sustainably reducing non-performing loans. There are multiple tools available, including: re-engaging with borrowers, restructures, accounting write downs, mortgage to rent, engaging through the Insolvency Service, sales and securitisations and the legal process.

A sustainable restructure is good for the borrower and for the lender. These long term benefits are not always being given sufficient prominence relative to shorter term capital relief.

There is clearly a high level of personal distress for borrowers when they are in arrears, particularly as they go through legal proceedings. However, a functioning secured lending market has to have meaning to that security. There are costs to all other borrowers through the impact on secured lending pricing together with financial stability risks where this security is undermined. This is reflected in the Irish banks holding considerably more capital for mortgage lending than some European peers. It is also why the higher interest rates and net interest margins in the Eurozone are typically, albeit not exclusively, found in the countries with higher levels of NPLs.

A small minority of all arrears cases end up with a loss of the property. The number of properties repossessed is relatively small compared to the number of accounts that have been in arrears and those that have been restructured. However, I recognise that each case represents a huge amount of distress for the borrower. I would again urge anyone in arrears to engage with their lenders and / or the supports that are available.

Over time, the available court-order data suggests that the number of repossessions through a court order accounts for approximately one third, the other two thirds are by way of voluntary sale or surrender of the property. The most recent data shows that in Quarter 2, 2019, 86% of the 221 properties taken into possession by lenders were voluntarily surrendered or abandoned. The total number of properties repossessed through a court order since the onset of the crisis is 3,048²³ and similar to the total number of personal insolvency arrangements that have been approved²⁴.

For late stage arrears, loss of ownership is one outcome, but it is not the only one. Forbearance, restructuring and personal insolvency arrangements which retain the family

home remain as possibilities in many cases. However, the number of PIA applications per year fell in 2018 from the peak of 2017, albeit that the gap between applications and approved arrangements has closed considerably. Where a borrower does not avail of a PIA, and loss of ownership is a potential outcome they face, the safety nets of mortgage to rent and affordable public housing are currently insufficient to deal with the remaining long term arrears.

This will continue to be one of the most important issues in Ireland that public policymakers and relevant stakeholders need to face collectively.

5. Financial Innovation

Turning now to the future, we have entered a new era in the world of financial services. Technology change, sometimes described as a fourth industrial revolution is a revolution that is completely transforming the playing field for financial services firms. The Central Bank and MABS will have to continue to evolve our approaches to meet the demands of these changes.

Technology can be an enabler for conducting business in a faster, smarter, or cheaper way, for better managing costs, or for gaining better analytical insights. Technological innovation is changing the way financial services products are designed, distributed and sold. As the financial services become more digitalised this will bring significant benefits and risks for financial stability, the regulation of firms and consumer protection models.

All this brings more complexity into the system, and complexity brings risk. Financial services firms and whole sectors face the challenges of: needing a clear vision for the future in a radically changing world; having a sufficiently flexible strategy and building the necessary capabilities for thriving in it; and be able to manage the significant transition risks along the way. And throughout, financial services firms will need to ensure that they are sufficiently focused on their customers, and serving them in a sustainable way.

To ensure the Central Bank continues to meet our mandate we will continue to monitor and shape how the financial system evolves. We will continue to incorporate technology into how we supervise firms and evolve our supervisory practices and models to ensure they remain relevant for the financial environment. We will maintain a strong governance focus in our supervision of firms as technology evolves their approach. We will continue to enhance consumer protection in a digitalised world.

It is important to point out, as outlined by my colleague Grainne McEvoy²⁵, the greatest risk to consumers comes not from technological developments, but from the culture of the firms in charge of the technology. If you put new technology in the hands of people and firms who are committed to protecting and delivering value for their customers, it is far more likely to result in positive consumer outcomes.

The Central Bank will continue to seek to make sure that consumers and investors are protected irrespective of the technology they are using. This means that the same principles of regulation, including the rules of the Consumer Protection Code, apply equally to both digital and traditional delivery channels.

Conclusion

I will conclude here. I hope I have given some insights into the work of the Central Bank that is most relevant to MABS's mission, and the value we place on your work. MABS has played a vital role in helping people deal with financial problems for many years. You have an important role to play in continuing to address the problems of the past, and those that will arise in the future.

I look forward to MABS and the Central Bank continuing to work together and separately to deliver a resilient financial system that serves the needs of the people of Ireland.

Thank you for your attention.

¹ [Money Advice & Budgeting Service](#) (MABS) is the Irish State's money advice service, and has been guiding people through dealing with problem debt for more than twenty years. See <https://www.mabs.ie/en/> for more details.

² With thanks to Tim O'Hanrahan, Padraig Browne, Trevor Fitzpatrick, David Duignan, Kathleen Barrington, Bernie Mooney, Caroline Mehigan and Paul Reddan for their help in drafting these remarks.

³ The Telegraph: [City is too big and socially useless - says Lord Turner](#) (26 August 2009).

⁴ Sibley, Ed: [The Irish Mortgage Market – 2018 and beyond](#) (6 June 2018).

⁵ Sibley Ed: [Address to the Insurance Ireland Annual Lunch](#) (8 May 2019).

⁶ Rowland, Derville: [The Senior Executive Accountability Regime: Our Expectations of Firms](#) (31 October 2019).

⁷ The [Central Bank \(Supervision and Enforcement\) Act 2013](#) introduced provisions in relation to the making of reports to the Central Bank regarding alleged breaches of financial services legislation, referred to as 'protected disclosures'.

⁸ In the last year, [MABS](#) has taken on over 18,000 new clients and dealt with just under 26,000 queries.

⁹ The role of the [Consumer Advisory Group](#) is to advise the Central Bank on the performance of its functions and the exercise of its powers in relation to consumers of financial services including: (i) the effects of the Central Bank's Strategic Plans on consumers of financial services; (ii) initiatives aimed at further enhancing the protection of consumers of financial services; and (iii) if the Central Bank so requests, documents, consultation papers or other materials prepared by the Central Bank.

¹⁰ MABS: [Publications](#).

¹¹ G20: [High Level Principles on Financial Consumer Protection](#) (October 2011).

¹² Central Bank of Ireland: [Quarterly Bulletin 4](#) (October 2019).

¹³ Central Bank of Ireland: [Macprudential Measures Committee, account of meeting no 4 of 2019 held on 10 June](#) (2019).

¹⁴ Central Bank of Ireland: [Review of residential mortgage lending requirements](#) (2018).

¹⁵ Central Bank of Ireland: [PRISM](#).

¹⁶ The [Single Resolution Mechanism](#) (SRM) is made up of a network of national resolution authorities and a central decision making body, the [Single Resolution Board](#) (SRB). The Central Bank works closely with the SRB, which is directly responsible for significant institutions and cross border groups while the Central Bank remains directly responsible for less significant institutions, investment firms and credit unions.

¹⁷ Central Bank of Ireland: [Resolution Industry Briefing](#) (30 May 2019).

¹⁸ For further information see:

Lane, Philip R: [The Role of Financial Regulation in Protecting Consumers](#) (23 February 2017).

Rowland, Derville: [Safeguarding the best interests of investors in a changing landscape](#) (15 November 2018).

McEvoy, Grainne: [Culture and consumer protection: The role of compliance](#) (8 November 2018).

Rowland, Derville: [Bad barrels or bad apples: How effective culture mitigates conduct risk](#) (25 October 2018).

¹⁹ Central Bank of Ireland. [Household Credit Market Report](#) (2019).

²⁰ Central Bank of Ireland: [Resolving Non-Performing Loans in Ireland](#) (April 2018).

²¹ Central Bank of Ireland: [Residential Mortgage Arrears & Repossessions Statistics: Q2 2019](#) (12 September 2019).

²² The [Single Supervisory Mechanism](#) (SSM) refers to the system of banking supervision in Europe. It comprises the ECB and the national supervisory authorities of the participating countries.

²³ Central Bank of Ireland: [Residential Mortgage Arrears, Repossessions & Restructures Statistics](#) (2019). 3,048 homes were repossessed on foot of an order and 6,213 were voluntarily surrendered or abandoned giving a total of 9,261 homes.

²⁴ Central Bank of Ireland. [Household Credit Market Report](#) (2019).

²⁵ McEvoy, Grainne: [Culture and consumer protection: The role of compliance](#) (8 November 2018).