

Subject: EMA response to Irish Department of Finance Retail Banking Review

Date: 05.07.2022

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?

No comment.

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

Our comments are focused on the retail payments sector in Ireland.

In line with recent trends, observed not only in Ireland but in other jurisdictions, we would expect to see a growth in diversity of payment method, functionality, and/or service offering that consumers will seek to make use of, particularly amongst the younger population. There will likely be a greater expectation around speed and convenience in relation to payments, along with a high level of security and consumer protection. These services may increasingly be provided by the non-bank sector, as we have seen in recent years, but the role of traditional banks remains important, and will likely continue to play a significant part in the future Irish economy.

We also expect to see more use of alternate payment methods, and greater use of the tokenisation of mobile devices. Along with these changes we would expect to also observe increased provision of digital services by the traditional banking sector in order to meet consumer demand. Coupled with the new entrants to the Irish market, should ensure the needs of users can be met.

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.

We consider that a regulatory environment that encourages innovation and growth, that removes barriers to entry for smaller firms, and that addresses competition issues in the market, will produce a sector that is fit-for-purpose, treats consumers and SMEs fairly, and serves the needs of society and the economy.

Although outside of the scope of this review, we note that the market for corporate banking services seems to be limited, and an exploration of solutions available in this space would be welcome as well as supporting the Irish corporate sector.

Question 3: Since the GFC the retail banking sector has become more concentrated, however new competitors have entered the market providing various products and services including mortgages, SME credit and payments.

- **Following the departure of Ulster Bank and KBC, do you consider that the level of competition in the retail banking sector will be appropriate and sustainable, bearing in mind population and market size in Ireland?**

Although outside of the scope of this review, we note that the market for corporate banking services seems to be limited, and an exploration of solutions available in this space would be welcome.

In your opinion, are there actual or potential barriers to entry that are resulting in less competition both in terms of product availability and product price? Yes / No. In answering both these questions, you should consider the growth in the provision of retail banking services by digital and non-banks in relation to (a) mortgages (b) SME lending and (c) current and payment accounts.

The process to obtain authorisation as a regulated PSP in Ireland can be overly burdensome, lengthy, and in many cases act as a barrier for firms seeking to enter the market.

As long as the regulatory framework for ensuring a competitive domestic financial services market is robust and has a clear route to raise and address issues around competition, barriers to entry for smaller players should be minimised.

Rather than focus on barriers to entry, the Department of Finance may wish to review practices and systems in other jurisdictions that support the payments industry in providing the necessary banking/payment services. These could include eID systems, fraud databases, income databases, national guarantee schemes and their impact on mortgage/loan rates.

Question 11: The Central Bank is not currently required to license or regulate certain non-bank providers of credit to the SME sector. Would it be advantageous if all providers of credit to the SME sector were regulated by the Central Bank?

No, we do not consider it to be advantageous to regulate providers of credit to the SME sector. The EU legislative framework ensures that the offering of credit to consumers is regulated but not the offering of credit to all types of SMEs. We suggest that the Irish regulatory framework should remain aligned with that in the EU with respect to the provision of credit to SMEs. Recent legislative developments in Ireland (such as the enactment of the Consumer Protection (Regulation of Retail Credit and Credit Servicing Firms) Act 2022) have given consumers comprehensive protections; such heightened protections are not required for customers who are businesses.

We note that the SME sector has raised concerns about the high cost of credit in Ireland; we consider that widening the scope of regulated credit services is likely to increase, rather than decrease, that cost, so less likely to support the needs of the SME sector in Ireland.

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?

If you consider that the [Central Bank's Code of Conduct on the switching of payment and current accounts](#) should be amended, please outline the changes you would propose.

We suggest that the Code of Conduct should be more widely publicised so that both consumers and PSPs are made aware of the Code and can ensure adherence.

Question 19: A key principle of good regulation is that it is proportionate to the risks it seeks to mitigate. Since the GFC an enhanced regulatory framework has been developed and implemented collaboratively at international level. Given the systemic importance of the banking system at a global, regional and national level, banks are subject to a broader suite of regulatory requirements, compared to other service providers, which includes both regulated and unregulated entities.

In the context of Ireland, in your opinion, do you consider that the regulation of the retail banking sector is applied in a proportionate manner?

We do not have comments on whether the enhanced regulatory framework is applied in a proportionate manner. However we would continue to support a proportionate approach in relation to the non-bank sector, where generally speaking the risk to the consumer is much lower than any credit or investment product. The majority of products provided by EMIs and PIs post much lower risk of loss to the consumer than most banking, credit or investment/savings products, where consumers may place more funds, and which may be subject to significant financial loss.