

Financial Services
Consultative Industry Panel

Annual Report

2009



FINANCIAL REGULATOR
Rialtóir Airgeadais

Contents

Chairman's Statement	2
Section 1 – Panel Activity in 2009	3
Section 2 – The Panels Work Programme for 2010	5
Section 3 – Functions of the Panel	6
Section 4 – Panel Members	7
Section 5 – Cost of the Panel	8
Section 6 – History of the Panel	8



Chairman's Statement

The Central Bank Reform Bill 2010 proposes the abolition of the Financial Services Consultative Industry Panel and so the 2009 Annual Report will be the last to be prepared by the Panel.

In 2009 the main focus of the Panel was to ensure a meaningful participation in the debate around the reform of the regulatory structure in Ireland. To that end, we published in July a detailed paper entitled "Structural Reform of Financial Regulation in Ireland". The paper was acknowledged as a significant contribution to the important debate that has now culminated in the Central Bank Reform Bill 2010 which will provide the statutory framework for the reform of Irish financial services regulation.

Our paper stressed that the single most important ingredient required for successful reform was the quality of the people appointed to carry out the task. It is fair to say that an excellent beginning was made in the appointment of Central Bank Governor Patrick Honohan and Financial Regulator Matthew Elderfield. The quality of the follow on appointments will be critical to the successful implementation of the far reaching reform proposals.

The Financial Regulator presented his proposed strategy to the Panel prior to its public announcement and we were pleased to note that its broad thrust was very much in line with the previously expressed views of the Panel, in particular recognising the critical importance of an appropriate skills mix within the Regulator, an understanding that the regime should be risk based and not "one size fits all", and the importance of a strategic policy unit which would, among other matters, enable Ireland to play a full part in the emerging international developments both at EU level and beyond, which will increasingly determine regulatory direction here in Ireland.

The industry is absolutely committed to playing its part in the rebuilding of international and local public confidence in Irish financial regulation and we believe that a good start has been made, but much remains to be done.

While the structural reform of the Regulator attracted the most attention at Panel meetings, we also had the opportunity to consider the Mazars review of business processes within the former structure of the Financial Regulator. This review highlighted a number of unsatisfactory aspects within the operation of the Financial Regulator and remedial action was begun. However, the review did not cover the processes of the Central Bank (whence shared services are provided to the Financial Regulator) and this was a missed opportunity. In general, while welcoming the Mazars review, the Panel concluded that it underlined the scale of the task required to reintegrate the Central Bank and the Financial Regulator and that a Chief Operating Officer might be a worthwhile additional appointment in the overall management structure of the new Central Bank Commission.

At this stage, I would like to thank my fellow Panel members for their hard work last year – mentioning in particular Rachel Panagiodis who retired in December of last year.

The Panel believes that its work, as set out in its annual reports and other interactions with the Regulator, Central Bank or Department of Finance, underlines the value of a broadly based consultative forum for both the industry and Regulator. While this is clearly a matter for Government, it is therefore a matter of regret that the Central Bank Reform Bill abolishes the Industry Panel without providing for its replacement.



David Went

Chairman

Section 1 – Panel Activity in 2009

During 2009, we considered a number of regulatory concerns at length, both at Panel meetings and through dedicated sub-groups. Major issues considered included:

Future Direction of Regulation

- **Review of Regulatory Structure/Future direction and shape of financial regulation in Ireland in the light of the financial crisis**

Panel representatives have met with the Minister for Finance and his senior colleagues to discuss changes in the nature and structure of the Irish regulatory system.

- **Financial supervision and regulation following G20 and the de Larosière report**

This report of the High Level Group on Financial Supervision in the EU (the de Larosière report) focused on improvements to financial services supervision. At its June meeting, the Panel considered a “Roadmap” which had been prepared by the Financial Regulator.

Development of Financial Services Industry

- **International financial services inward investment opportunities**

The Panel wrote to the Minister for Finance stating the industry would be anxious to contribute to systemic risk discussions in respect of possible international financial services inward investment opportunities.

- **Future potential of the financial services sector in Ireland**

A number of panel members met with the Tánaiste, IDA and Minister for Enterprise Trade and Employment in November to discuss the potential opportunities for job creation in the IFSC.

EU Issues and developments

- **Preparations for the introduction of Solvency II**

The Panel considered the scope for a formal secondment process in order to assist the Regulator. However this did not prove feasible. The Panel suggested the establishment of joint industry/regulator working groups to assist in the process.

- **Tight timescale for engagement by industry on the implementation of EU Directives**

The Panel wrote to the Financial Regulator to express its concern regarding the very tight timeframes which have prevailed with respect to implementation of the Payment Services Directives. If comparable timeframes were to prevail in the process of transposing other Directives, the industry may not be able to achieve implementation by the transposition dates. However, the Financial Regulator advised that the ultimate timing of transposition of Directives is a matter for the relevant government department, the Minister and/or the Oireachtas.

Prudential Supervision

- **Supervision of institutions established under Chapter VII of the Central Bank Act, 1989**

The Financial Regulator sought the views of the Panel on the continuing relevance of Chapter VII of the Central Bank Act, 1989. Chapter VII applied to institutions establishing in the International Financial Services Centre (IFSC) other than those institutions which were subject to supervision under other legislative provisions. It allowed the Central Bank of Ireland to impose supervisory requirements on those institutions for the purpose of orderly development of the IFSC. The Panel agreed in general with the proposal.

- **Requirements for disclosure by credit institutions of directors’ loans**

The Panel discussed this issue and suggested some amendments to the proposal.

- **European Commission’s recommendation on remuneration policies in the financial services sector**

It was agreed at the December meeting that industry bodies, rather than the Panel, should comment on this issue.

Credit Union Regulation

- **The proposed introduction of a Fitness and Probity regime for credit union directors, supervisors and managers and for a limitation of the term of office for credit union directors and supervisors**

The Financial Regulator consulted the Panel on a proposal to introduce the above regulations. The Panel discussed this issue at the April meeting, however, the consultation was put on hold pending further discussions with the Dept of Finance. It was felt that this was primarily a matter for the Credit Unions.

- **Draft Regulatory Reserve Ratio Requirement for Credit Unions**

This requires all Credit Unions to maintain a Regulatory Reserve Ratio of not less than 10 per cent on an on-going basis. The Panel broadly welcomed this initiative as it will increase the overall level of reserves within Credit Unions and strengthen Credit Unions' ability to deal with future adverse situations. However, it was again seen as primarily a matter for the Credit Unions.

Consumer Protection

- **Minimum Competency Requirements for Private Medical Insurance**

A consultation paper was published requesting the views of those involved in the private medical insurance sector. It was agreed that the Panel would not make any submission to this consultation.

- **Amendment to Code of Conduct on Mortgage Arrears**

The Panel noted an amendment to the Code of Conduct on Mortgage Arrears increasing the time period from 6 months to 12 months before a lender can commence enforcement of legal action.

Public Accountability

- **Government Statement on Economic Regulation**

This statement was released by the Department of An Taoiseach on 1 October 2009 and was discussed by the Panel at its October meeting. The Consumer and Industry advisory panels of the Financial Regulator received favourable mention as positive examples of stakeholder consultation leading to improved accountability.

- **Appropriate treatment of monetary penalties received by Financial Regulator**

The Central Bank of Ireland proposed that income from Monetary Penalties be transferred to a Monetary Penalties Special Reserve Account, subject to a maximum ceiling of €8million. This account would be used for future significant costs which might arise from legal action or special investigations. The Panel had no objection to this proposal. We have been advised, however, that following a review of this issue a decision has been made not to proceed with the establishment of a Monetary Penalties Special Reserve at this time.

- **Provide observations to the Financial Regulator on its proposed levies and fees**

The Panel again had constructive engagement with the Financial Regulator on the imposition of industry levies and fees.

- **Consideration of the Financial Regulator's Strategic Plan and Budget for 2010**

A key statutory function of the Panel is to comment to the Minister for Finance on the Financial Regulator's budget and strategic plan. In light, however, of the fundamental organisational changes being implemented within the Financial Regulator, work on the above tasks was deferred.

Meetings

- The Panel was appointed by the Minister for Finance on 23 January 2009. The Panel met 10 times in 2009 (no meetings in January or August) and the average attendance was 15 members (out of 20 members).

Section 2 – The Panel’s Work Programme for 2010

Not applicable as the statutory advisory panels are to be discontinued under the Central Bank Reform Bill 2010

Section 3 – Functions of the Panel

Section 57DB of the Central Bank Act 1942 (as inserted by the Central Bank and Financial Services Authority of Ireland Act 2004) sets out the functions of the Consultative Industry Panel as follows:

- when the Regulatory Authority so requests, to comment on a policy document or regulatory document, or a proposed policy document or proposed regulatory document, prepared by that Authority;
- to provide that Regulatory Authority with comments on levies and fees that that Authority proposes to prescribe under section 33J or 33K;
- to provide the Regulatory Authority with comments on that Authority's draft estimate of income and expenditure for each financial year;
- to provide the Regulatory Authority with comments on the impact that the conditions and restrictions imposed by that Authority on financial service providers have on the competitiveness of those providers;
- to provide the Regulatory Authority with comments with respect to changing trends within the financial services industry that have implications for the functions and responsibilities of that Authority.

Section 57DB above should be read in conjunction with Section 57DF of the Central Bank Act 1942 (as inserted by the Central Bank and Financial Services Authority of Ireland Act 2004), which is set out below.

Section 57DF

- (1) Before making or issuing a policy document or a regulatory document, the Regulatory Authority shall consult each Consultative Panel, unless that Authority believes that the document must be made or issued without delay. In that case, the Regulatory Authority shall consult each of the Panels as soon as possible after the document is made or issued.
- (2) In making or issuing a policy document or regulatory document, the Regulatory Authority shall take into account the advice (if any) provided by a Consultative Panel on any aspect of the document. If the Regulatory Authority declines to give effect to any particular advice provided by the Panel, it shall provide the Panel with a written statement setting out its reasons for declining to give effect to the advice and shall, if the Panel so requires, publish the statement.
- (3) The Minister shall consult each Consultative Panel before approving the Regulatory Authority's draft estimate of income and expenditure for a financial year.
- (4) If the Regulatory Authority makes or issues a policy document or a regulatory document, a failure of that Authority to comply with subsection (1) in relation to the document does not of itself invalidate the document.

It is important to point out that the Panel neither duplicates nor replaces existing industry/representative body relationships with the Financial Regulator, but may be seen to stand alone as a "lender of last resort" in a regulatory context for the financial services industry in its dealings with the Financial Regulator.

Section 4 – Panel Members

Panel Members of the Industry Panel to end-December 2009

1. **David Went, Chairman**, former Chief Executive Irish Life and Permanent, currently Chairman of the Board of the Irish Times Ltd.
2. **Philip Brennan**, Group General Manager, Regulatory and Operational Risk, AIB Group.
3. **Sean Casey**, Finance Director and Appointed Actuary of New Ireland Assurance Company plc, representing the Irish Insurance Federation.
4. **Fiona Cullen**, Irish League of Credit Unions.
5. **Tony Culley**, Associate Director, Allianz Insurance.
6. **Colm Fagan**, Former CEO, Life Strategies.
7. **Pat Farrell**, Chief Executive, Irish Banking Federation.
8. **Sarah Goddard**, Chief Executive, Dublin International Insurance & Management Association.
9. **Kevin Johnson**, Chief Executive, Credit Union Development Association.
10. **Brendan Kelly**, Director of Financial Services Ireland.
11. **Pat McArdle**, Economist.
12. **Brian McNelis**, Director–General Insurance Services, Irish Brokers Association.
13. **Paul O'Connor**, Head of Wholesale Banking and Risk, Irish Banking Federation, and Secretary of the Federation of International Banks in Ireland
14. **Carmel O'Connor**, Partner, PricewaterhouseCoopers.
15. **Aileen O'Donoghue**, Director, Strategy Policy and Communications, Irish Stock Exchange.
16. **Eimer O'Rourke**, Head of Retail Banking, Irish Banking Federation, and Secretary of the Irish Mortgage Council.
17. **Gary Palmer**, Chief Executive, Irish Funds Industry Association.
18. **Sean Quirke**, Qualified financial adviser with New Ireland Assurance Company and an independent Mortgage Intermediary.
19. **Robert Richardson**, Chairman of the Irish Association of Investment Managers, and Chief Executive Officer, Pioneer Investment Management Ltd
20. **Rachel Panagiodis**, Managing Director, Hansard Europe Limited and Member of the Board of the Irish Insurance Federation. (Resigned 15 December 2009)

Section 5 – Cost of the Panel

Panel members attend meetings and sub-groups on a voluntary basis, and are not paid to participate in Panel work. Limited travel and subsistence allowances are paid in certain cases, and secretarial functions are provided by the Financial Regulator. The direct cost of the Industry Panel for 2009 was €7,166.67. The breakdown is as follows:

Expense Item	Actual Amount for 2009	€
Travel and Subsistence	2,028.18	
Publishing	5,138.49	
Total	7,166.67	

Section 6 – History of the Panel

The Financial Services Consultative Industry Panel ("Industry Panel") was formally established by the Financial Regulator under the CBFSAI Act, 2004 with effect from 1 November 2004. The Minister for Finance appointed 20 members to the Industry Panel, consisting of individuals that represent the interests of financial services providers and representatives from across the financial services industry.

On 23 January 2009, the Minister for Finance appointed 20 members to the Industry Panel, which included a new Chairman, Mr. David Went and seven new members along with the reappointment by the Minister of 12 existing Panel members.