House of Commons
Northern Ireland Affairs Committee

Northern Ireland: banking on recovery?

First Report of Session 2014–15

Report, together with formal minutes relating to the report

Ordered by the House of Commons to be printed 9 March 2015

HC 178
Published on 16 March 2015
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

The Northern Ireland Affairs Committee

The Northern Ireland Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Northern Ireland Office (but excluding individual cases and advice given by the Crown Solicitor); and other matters within the responsibilities of the Secretary of State for Northern Ireland (but excluding the expenditure, administration and policy of the Office of the Director of Public Prosecutions, Northern Ireland and the drafting of legislation by the Office of the Legislative Counsel).

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Evidence relating to this report is published on the inquiry page of the Committee's website.

Committee staff

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Summary

A robust banking system is crucial in any economy. As the Republic of Ireland's banks were left highly exposed to bad debts during the 2007–08 financial crisis, so the economy across the island was left to deal with the consequences. However, banks have an equally central role in securing an economic recovery. This Report examines how well equipped banks in Northern Ireland are to play this role and makes a number of recommendations to ensure they do so.

Customer Service—some of Northern Ireland's banks have shown relatively little concern for their customers by pursuing plans to close local branches. Some of these closures have been brought about by reduced customer activity at branch level, and a greater use of internet banking. This has, however, not always been appropriate for more rural areas. Whilst we would welcome any new entrants to the market, we consider the way forward is for existing banks to improve their services to their customers, without, however, a return to previous aggressive lending practices. It is also clear that many banks' IT systems are not fit for purpose, with some customers left unable to access their accounts on two occasions since 2012, and we recommend that banks use their increasing profits to make greater investment in their IT systems.

Access to Finance—we agree that banks have appeared to be reluctant to lend other than to the most financially robust customers. From the reckless high-risk attitude of many banks pre-financial crisis, the pendulum appears to have swung too far back in the opposite direction. Recent statistics show a slight improvement in borrowing by SMEs during 2014, but we believe that the more conservative lending criteria has dissuaded many businesses from pursuing opportunities that would require bank financing. Northern Ireland's Banks have, however, assured us that they are very much "open for business", so we regret that some banks, such as FTB and Danske, have chosen not to participate in HM Government's Funding for Lending Scheme, thereby potentially denying Northern Ireland a further capacity for growth.

Regional Lending Data—transparency in the banking sector is key to ensuring an economic recovery and it is important that banks provide lending data to public officials so that growth can be effectively monitored. Significant progress has been made in this area over recent years, but note that Santander has not provided data to the BBA and there continue to be differences between banks on the definition of key terms, such as what qualifies as "new" lending.

Recovery—although the situation in the property market, and the recent sale of NAMA and Ulster Bank property loan books, gives the Committee some cause for concern, we welcome the fact that, over the past year, the Northern Ireland economy has shown clear signs of recovery, with many new jobs recently being announced and the banks themselves showing a return to profitability.

1 Introduction

1. The Northern Ireland Affairs Committee announced its inquiry into *The Banking Structure in Northern Ireland* on 15 July 2013, stating that the Committee would be looking in particular at:

i) the structure and governance of banks in Northern Ireland;

ii) the possible breakup of RBS/Ulster Bank;

iii) the position of the staff of the former Irish Bank Resolution Corporation;

iv) access to finance, particularly for Small and Medium sized Enterprises;

v) effectiveness of national initiatives to help aid economic recovery;

vi) availability of detailed regional lending data; and

vii) access to banking in rural communities

2. In order to ensure the subject was addressed fully, the Committee took evidence from a wide group of witnesses, including all the major players in the Northern Ireland banking sector, including HM Government, the Northern Ireland Executive, the four main Northern Ireland banks, and representatives of consumers, business and bank employees. We heard oral evidence from 17 sets of witnesses, either at Westminster or at Parliament Buildings, Stormont.[1]

3. We are grateful to all those who gave oral evidence and provided informal briefings, to those who submitted written evidence, to the then Speaker of the Northern Ireland Assembly, William Hay MLA,[2] for allowing us to hold our evidence session at Stormont, and for the Assembly staff who facilitated our meeting there. We are also grateful to Tom Reid, a former Director of Ulster Bank, who acted as our specialist adviser for the inquiry.

1 See pp. 39-40 for a list of those who gave public evidence

2 Now Lord Hay of Ballyore

2 Northern Ireland's banks: a block to recovery?

Background

4. When the economy of the Republic of Ireland grew spectacularly from the mid-1980s onwards, much of the extra wealth generated within the banking system was diverted into property. The resulting boom affected both commercial and residential property prices so, when the property bubble burst in the wake of the 2007–08 financial crisis, it left Irish banks highly exposed to bad debts. The Irish Government, seeking to avoid banks failing, made generous guarantees to bank creditors, resulting in a banking problem which exacerbated significantly Ireland's financial crisis of late 2010.

5. Banking sector problems were specifically severe across the island of Ireland due to aggressive property lending and too many short-term, over-ambitious acquisitions of property. Traditional lending values were lost sight of in the light of over-ambitious lending targets and poor housekeeping, and were swept away in the scramble for growth, resulting in many of the banking sector failures.

6. There are close economic ties between the UK and the Republic of Ireland, with the relationship between Northern Ireland and the Republic being especially close; in its document *Rebalancing the Northern Ireland Economy*, published in March 2011, HM Treasury estimated that 28 per cent of exports from Northern Ireland went to the Republic.[3] These ties led to the UK Government lending the Republic of Ireland £3.2 billion at the beginning of the crisis. As Sajid Javid MP, the then Financial Secretary to HM Treasury, told us in evidence:

> … one of the key drivers for the UK making that loan available was the integration of the economy of the Republic with the rest of the UK, but in particular with Northern Ireland. Part of our motivation was that it was in our own economic interests that the Republic has a speedy recovery from its economic problems.[4]

The banks' current positions

7. None of the four major retail banks in Northern Ireland (Bank of Ireland, Danske Bank, First Trust Bank and Ulster Bank) are headquartered in Northern Ireland. First Trust Bank and Bank of Ireland are subsidiaries of Dublin-based banking groups, Danske Bank's[5] parent is based in Copenhagen, while Ulster Bank's Head Office in Belfast reports to Royal Bank of Scotland's Headquarters in Edinburgh. In its memorandum, IBOA The Finance Union,[6]

3 HM Treasury, Rebalancing the Northern Ireland economy, March 2011

4 Q841

5 Before November 2012, Northern Bank.

6 Formerly known as the Irish Bank Officials' Association.

which represents financial services sector staff in both the UK and the Republic of Ireland, stated:

> The distance between the board rooms where key decisions about credit and risk are made and the areas in Northern Ireland affected by them is a further concern–especially as many banks with international interests have retrenched to their home markets since the crisis began. Without the intervention of local public representatives, this trend may have been more pronounced in Northern Ireland.[7]

8. Although being part of a larger group has advantages in matters such as access to capital, etc, a parent company will always be able to influence a subsidiary's decision, usually in view of the PLC status of the parent, and the banks in Northern Ireland are no different in this regard; local management may be set targets or policy parameters by the parent, and they do have responsibility for the delivery of growth and profit aspirations. The most important aspect at local level is that they are the interface with the customer.

9. Since Danske Bank completed its takeover of Northern Bank in April 2006, it has closed branches in some rural towns, reducing the total from 72 branches across Northern Ireland in April 2012 (under Northern Bank) to 53 branches under Danske Bank. The Bank appeared to have more of an emphasis on online banking, hence the branch closures, but there had been considerable concerns that elderly, and rural based, former Northern Bank customers now would have to travel long distances to access an alternative branch.[8]

10. The banks in Northern Ireland are re-examining their position in the market and the need for extensive branch networks. In order to facilitate branch closures, Northern Ireland's banks have entered into specific arrangements with the Post Office to meet the needs of those customers who were previously dependent on their local bank branch.[9] In its memorandum, the Post Office also states that it has 484 branches in NI, around 330 of which are in rural locations.[10]

11. The situation concerning branch closures would have been exacerbated if reports from July 2013 that Ulster Bank was planning to close up to 40 branches across the island of Ireland by the end of 2014 were accurate,[11] although the then Finance Minister, Sammy Wilson MP MLA, said that he had been assured that the number of Northern Ireland branches closing would be in single figures, and over a longer period of time.[12]

12. Under the plans, Ulster Bank would close many mainly rural branches and reduce staffing levels. It would keep open 175–185 branches, down from the current 214 (and the 238 branches in 2012) number. The remaining branches would be focused on urban centres,

7 IBOA The Finance Union (BNI0015) para 3.2

8 Q39

9 The Post Office Limited (BNI0013)

10 The Post Office Limited (BNI0013) para 3.1

11 BBC News, 'Ulster Bank to close 39 branches as hundreds of jobs cut', 3 July 2013

12 BBC News, 'Ulster Bank to close 39 branches as hundreds of jobs cut', 3 July 2013

with the Bank investing in its internet banking service to increase online usage. Of Ulster Bank's, approximately, 5800 employees, some 1800 were expected to leave, which the bank hoped would be through natural wastage.

13. In its memorandum, the Consumer Council for Northern Ireland (CCNI) said that:

> With 53 bank branch closures ... during the past two years and further closures on the horizon, the Consumer Council is concerned about the level of access that consumers will have in order to carry out daily banking activities in Northern Ireland. The number of branches of big 4 banks have reduced from 252 to 199 (21%) in the last 2 years. This matter affects all consumers, regardless of the bank they use. Rural areas appear to be particularly affected.[13]

14. The Ulster Farmers' Union echoed the CCNI and considered that the farming community would be particularly hard hit by the closure of rural branches for two reasons:

> First, there is a loss of understanding of the business ... For a bank to understand a business, it needs to understand the dynamics of agriculture, so it needs to be in that area. One of our biggest problems is the ability of people in a head office in Belfast to understand the dynamics and the long-term investment that farmers make ... The other thing is that the average age of farmers is probably higher than that in many other sectors. Therefore, farmers rely on their local branch as the main point of contact for doing business. We are concerned that the loss of local branches could have the opposite of its intended effect. There could be more reliance on cash transactions, which would expose elderly people who were holding more cash to criminality.[14]

15. In the written submission from IBOA, it was stated that:

> ... Bank of Ireland has committed to close the fewest locations of the four major banking groups. Since the onset of the crisis, it has closed nine offices and sub-offices in Northern Ireland. However, although it may maintain a presence on most of its existing sites, the Bank's "new branch model" is built on customers accessing services through a battery of electronic devices (monitors, ATMs and dedicated phone lines linked to a call centre) rather than by face-to-face interaction with bank workers.[15]

16. In July 2014, Ulster Bank announced the closure of five branches in Northern Ireland, two within Belfast itself and a further three within a 10 mile radius of Belfast. They also announced the closure of six branches and three sub-branches in the Republic of Ireland.[16]

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13 Consumer Council Northern Ireland (BNI0019) para 24

14 Q443

15 IBOA The Finance Union (BNI0015) para 2.10

16 BBC News, 'Ulster Bank to close five branches in NI', 1 July 2014

17. Maintaining a branch network at the current level will always be a challenge for the banking sector in Northern Ireland, and the viability, or otherwise, of each individual branch or sub-branch has received much closer attention in recent years as a result of the unsatisfactory trading performance of each of the banks.

18. As in Great Britain, advancement in the area of IT has also meant a greater use of Internet banking and a reduction in the footfall at branch level. This will continue to be an issue and whether, or not, other providers, for example, the Post Office,[17] will fill the gap left in the market will be watched with interest over the coming years.

19. **Branch closure is not, of course, unique to Northern Ireland, but it is a matter of particular concern to us. We regret that Northern Ireland's Banks have shown such little thought towards its customers by seeking to either concentrate its branches in the major centres of population, or to close branches in favour of online banking, although the Post Office, for example, may be able to fill in some of the gaps in the market.**

Banks as an aid to economic recovery

20. When considering the banking structure in Northern Ireland, a fundamental question that has to be asked is whether the economic recovery in Northern Ireland is being encouraged, and suitably served, by the banking structure currently available to the Northern Ireland customer base. When the CBI NI appeared before the Committee on 20 November 2013, its Chairman appeared to have little doubt that the banks were not playing their part, stating;

> ... when I became Chairman nearly two years ago, the biggest risk factor and the key blocker to the Northern Irish economy was to my mind our banking situation. I do not think that has changed; it remains the biggest single risk factor and the single biggest blocker to growth in Northern Ireland today.[18]

21. When the Committee took evidence from the four main Northern Ireland banks, we offered them the opportunity to respond to the critical view that had been expressed by the CBI. Bank of Ireland said that:

> It is our view … that we have sufficient capital and liquidity to support lending into the Northern Ireland region … Our view is … that the biggest issue facing the economy is a lack of demand for credit, rather than supply.[19]

17 The Post Office Limited (BNI0013)

18 Q264 [Mr Coulter]

19 Q516

22. Danske Bank's response was that their understanding was that:

> the risk factor for future growth is the fact we have legacy debt problems … which may constrain the ability of a large part of our SME sector to borrow and grow in a healthy way.[20]

Danske agreed with the Committee's suggestion that the CBI's criticism was not so much aimed at individual banks, but reflected the realisation that the banking problems, particularly those that were property-related, would have an impact on business confidence.[21]

23. Ulster Bank said that it had been supporting sectors such as agriculture, food, services and natural energy, which had been doing well. However, "we still have the property issue to deal with, but in terms of the fundamental economy, we have been supporting those areas that are the backbone of Northern Ireland."[22]

24. First Trust Bank stated that its approach was about engaging with customers when they get into difficulty as they wanted "to protect jobs and we want to put businesses on a firm, commercial, but, most importantly, sustainable path for the future."[23]

The Tomlinson report

25. In November 2013 Lawrence Tomlinson, the Entrepreneur in Residence at the Department for Business, Innovation and Skills, published his report on banks' lending practices.[24] The report focussed on the evidence he received about the Royal Bank of Scotland's (RBS') turnaround division, the Global Restructuring Group (GRG). He was concerned by what he saw as patterns of behaviour leading to the "destruction" of good and viable UK businesses, and called for further investigation into this behaviour by the appropriate authorities and immediate action to stop such treatment of businesses.

26. The report suggested that there were occasions when RBS engineered a business into default in order to move the business out of local management and into GRG. This then generated revenue for the bank through fees, increased margins and the purchase of devalued assets by their property division. Once in GRG, according to the report, the business was then trapped with no ability to move or opportunity to trade out of the position.

27. As Ulster Bank is part of RBS we were, naturally, very interested to hear whether any of the accusations made against RBS were also being levelled against Ulster Bank. Simon Hamilton MLA, who had replaced Sammy Wilson MP as the Minister of Finance and

20 Q559

21 Q560

22 Q669

23 Q749

24 Lawrence Tomlinson, 'Banks' Lending Practices: Treatment of Businesses in Distress', November 2013

Personnel, told us that there was no hard evidence that Ulster Bank was behaving in a similar way; if there were any accusations, then:

> … it would be anecdotal evidence. My Department and, indeed, the Enterprise Minister's Department would regularly be contacted by businesses who would be reporting what, on the face of it, would appear to be sharp practice on the part of not just Ulster Bank but all banks. Indeed, we would have some anecdotal evidence of some of the issues that were revealed in Lawrence Tomlinson's report happening in Northern Ireland as well … Nothing has come across my desk in the last couple of days, but my colleagues in DETI have had a few more companies come forward as a result of the news to say, "This, or something similar, has happened to me as well." The answer is we do not have any hard evidence of it …[25]

28. When we took evidence at Stormont from the Chairpersons of the Northern Ireland Assembly's Committees for Finance and Personnel and for Enterprise, Trade and Investment, reference was made to the Tomlinson report and we were told by Daithí McKay MLA, Chairperson of the Committee for Finance and Personnel, that two case studies in particular:

> … highlighted viable businesses and individuals with assets that were not having existing loans renewed but instead were getting increased interest rates and increased fees–so, banks were, effectively, engineering a default, as Tomlinson stated, and acquiring readily available assets.[26]

29. Responding to the points raised in the Tomlinson report, Ulster Bank stated that when his report came out "to the best of our knowledge there were no cases, or he {Mr Tomlinson] had not engaged with Ulster Bank at all in terms of the process".[27]

30. In January 2014, RBS appointed Clifford Chance LLP to undertake an independent review of the central allegation made in the Tomlinson report that the bank was guilty of systematically setting out to defraud its small business customers. Clifford Chance, however, concluded that there was no evidence to support the allegations.[28] In May 2014, Ulster Bank responded to allegations made in a BBC television programme, *Spotlight*, that it had forced viable businesses into bankruptcy, by saying the Bank found "the airing of these allegations troubling given the independent report by Clifford Chance, which found no evidence to support the most serious allegations made by Tomlinson or any other evidence of misconduct."[29]

25 Q327

26 Q415 [Mr McKay]

27 Q694

28 Clifford Chance LLP, Independent Review Of The Central Allegation Made By Dr Lawrence Tomlinson In *Banks' Lending Practices: Treatment Of Businesses In Distress*, 11 April 2014

29 Belfast Telegraph, 'Ulster Bank: We never preyed on struggling businesses', 15 May 2014

31. **Whilst the Tomlinson report may have uncovered some disturbing facts about banking in the UK, it was most unsatisfactory that Ulster Bank were not given the opportunity to comment. However, Ulster Bank *were* given the opportunity to put its side of the story by responding to the *Spotlight* allegations, but refused to do so, stating their concern over the possible legal implications on commenting publicly on one particular case which was the subject of court action.**

32. **Whilst we accept that customer confidentiality is uppermost in any bank's decision whether, or not, to respond to media articles or items, we believe that the Bank could have responded without going into specifics. The fact that Ulster Bank refused to take part in the *Spotlight* programme and, instead, simply rehearse its own commissioned report, could not fail to give the impression that the Bank may have had something to hide.**

3 A need for more competition in the banking sector?

Competition and Markets Authority findings

33. When considering whether extra competition in the banking sector might be beneficial to Northern Ireland, it could, perhaps, be argued that additional competition would merely just divide up the market place in a different manner. Any new player would have to have the capability of establishing a branch network similar to Northern Ireland's current "big four" or major GB banks with a presence in Northern Ireland, such as Santander, HSBC or Barclays. Indeed, more banks could lead to Northern Ireland becoming "over banked", with an ever increasing number of banks scrambling for a slice of a finite market, ultimately leading to some banks simply not being viable in Northern Ireland.

34. However, the argument for greater competition was put strongly in two reports released by the Competition and Markets Authority (CMA) in July 2014, following a joint project between the CMA and the Financial Conduct Authority (FCA) which concluded, *inter alia*, that "barriers to entry and expansion for newer and smaller banks remain significant and the markets remain concentrated, particularly in Scotland and Northern Ireland".[30]

35. In its report *Banking services to small and medium-sized businesses*,[31] the CMA states that in Northern Ireland, there are two large and two mid-sized market participants. In 2012, Danske Bank and Ulster Bank together accounted for 63 per cent of the liquidity management services (i.e. business current accounts (BCAs) and overdrafts) market, whilst First Trust and Bank of Ireland had market shares of 14 per cent and 13 per cent, respectively.

36. The Herfindahl-Hirschman Index (HHI) is a measure of market concentration taking account of the differences in the sizes of market participants, as well as their number. The CMA regards any market with an HHI exceeding 1,000 as concentrated, whilst those exceeding 2,000 are regarded as highly concentrated. The HHI for the Northern Ireland market in 2012 was 2,454, which was a slight decrease in the market concentration level from 2,646 in 1999, but was still indicative of a highly concentrated market. CMA's evidence showed that the market shares of the major banks in Northern Ireland, despite some limited fluctuations, have remained relatively stable over the past eight years.

37. For business loans, the four largest providers had a market share of some 90 per cent with Danske, Ulster Bank and First Trust each having a market share of over 23 per cent.

38. The CMA also drew attention to the Business Banking Insight website which showed sole trader BCA satisfaction scores for the four largest banks in Northern Ireland as: Danske

30 "Personal current accounts and small business banking not working well for customers", Competition and Markets Authority press release, 18 July 2014

31 Competition and Markets Authority, 'Banking services to small and medium-sized businesses', July 2014

Bank 70 per cent; Bank of Ireland 60 per cent; Ulster Bank 56 per cent; and First Trust 41 per cent. This compared with a score of 77 per cent for Santander.

39. Despite the relatively low customer satisfaction scores, the CMA noted that the banks with the highest market shares had barely lost market share over time. This was not what might be expected in a competitive market, and supported the CMA findings about the "stickiness" of customers, whereby they did not change banks for various reasons, the most common of which was a perception that "all banks are the same". In its report *Personal current accounts Market study update*,[32] the CMA also found that personal account customers were similarly "sticky" when it came to changing banks.

Equity finance

40. There may, however, be opportunities for specialist finance operators to provide support through their current GB structure. Equity finance, such as raising capital through the sale of shares in an enterprise, might be one area where a more specialist approach would be helpful in aiding economic growth although, as Kate Barker, the Chair of the Economic Advisory Group, told us:

> … of course, banking is not the only source of finance; there is very clear evidence that equity finance is more difficult to get hold of in Northern Ireland, but also that firms are sometimes more reluctant to draw it down.[33]

The Government's view

41. In its memorandum, HM Government stated that:

> The Government wants to see greater competition in the banking sector, with more banks challenging the large incumbents. If communities or entrepreneurs want to set up a bank, either to serve their local community or to compete nationally, and can do this responsibly, Government or regulators should not be an obstacle to this.[34]

42. When the Financial Secretary gave evidence, he referred to Northern Ireland's top five banks (the "big four" plus Santander) and said that "it looks like a bank sector that has a good degree of competition", but thought it could benefit from more.[35]

43. **We are concerned about an over-concentration in the NI banking market; whilst we would welcome any new entrants to the market, we consider the way forward is for existing banks to improve their services to their customers without, however, a return to previous aggressive lending practices.**

32 Competition and Markets Authority, 'Personal current accounts: Market study update', 18 July 2014

33 Q362

34 HM Government (BNI0027)

35 Q858

4 Open for business?

44. On 13 June 2013, prior to a meeting with the Irish Finance Minister, the then Finance Minister, Sammy Wilson MP MLA, was quoted as saying that "Access to finance, particularly for our SMEs, is an ongoing issue for all of us and I want to discuss with Minister Noonan how we might work together to keep the pressure on the banks to ensure that businesses can access the finance they need". [36]

45. On 3 July 2013, Mr Wilson was reported as saying that RBS-owned Ulster Bank needed to do more to help troubled businesses, adding that whilst RBS had discovered £20bn that could be lent to small firms, he was receiving, on a daily basis, "reports of businesses that are trying to work through the debts that they have with Ulster Bank and are not being given the time to work through those because Ulster Bank want to get the cash from them as quickly as possible".[37]

46. In March 2013, the Economic Advisory Group (EAG), established by the Minister for Enterprise, Trade and Investment, Arlene Foster MLA, in May 2010 to create a group of experts from business, skills and economics to provide independent economic advice to DETI on the Northern Ireland economy, published its *Review of access to finance for NI businesses*;[38] EAG found that:

> There is clearly a significant degree of frustration within the local business community over what is perceived by many businesses to be the unwillingness of banks to lend at reasonable rates. This is attributed to various reasons including a lack of understanding of business needs and a desire by banks to build up their capital to meet the requirements of the financial regulators. On the other hand banks have told us that they are open for business and willing to lend to viable trading businesses, although the cost of credit has had to increase since the crisis. In their view the problem is a lack of demand due to low levels of confidence...

EAG also said that:

> The evidence indicates that the supply of bank credit is also constrained. Banks say they are open for business but admit to strict capital requirements being in place. The reasons for restricted supply include the need to strengthen bank balance sheets, the 'overhang' of bad debt accumulated prior to the crisis, funding challenges, and current and impending higher capital requirements including for SME loans and overdrafts.

47. In its written memorandum, the British Bankers' Association (BBA) stated that "SMEs in Northern Ireland are very similar demographically to SMEs overall" and that "half of all

36 "Finance Ministers meet to discuss banking issues – Wilson", Northern Ireland Executive press release, 13 June 2013

37 BBC News, 'Sammy Wilson says Ulster Bank needs to do more for troubled firms', 3 July 2013

38 Economic Advisory Group (EAG), 'Review of access to finance for NI businesses', March 2013

SMEs in NI currently use external finance and 72% of SMEs in NI have 0 employees, compared to 74% in UK," setting out the information in the table below:

Risk profile	All UK SMEs	NI SMEs
Minimal	6%	7%
Low	11%	12%
Average	33%	31%
Above Av	50%	50%

Profitability	All UK SMEs	NI SMEs
Profit	65%	63%
Broke even	12%	14%
loss	16%	18%
DK	7%	5%

External Finance	All UK SMEs	NI SMEs
Current use	46%	51%
in past but not now	2%	2%
not in last 5 years	51%	47%

48. The BBA's memorandum also listed the main reasons why UK businesses did not apply for finance:

> effect of economic climate: felt it was not the right time to borrow in the current economic climate;
>
> principle: prefer not to lose control, or can get funds elsewhere;
>
> process: think it's too expensive, too much hassle, needs security; and
>
> discouraged: assumed without asking that would be turned down, or had asked and were put off.

49. When the BBA gave public evidence, they stated that there had been a change in the banking sector and, since the crisis, the banks had tightened up their conditions, and were not engaging in high risk lending.[39] It seems to us, however, that the pendulum has swung too far in the opposite direction, and that there now seems to be almost a complacent attitude that banks will not risk lending other than to the most financially solid customers.

50. A Quarterly Sectoral Forecast report from Danske Bank, published in June 2014, indicated that Northern Ireland's economic growth should reach 2.4 per cent in 2014 and in 2015. Professional and scientific services, which include legal services, accountancy, advertising, architects and engineering firms, were forecast to grow by 4.3 per cent in 2014 and by 4 per cent in 2015. Other signs that Northern Ireland was in recovery were a steady improvement in the labour market, rising confidence levels and a high number of foreign direct investments during the second quarter of 2014.[40]

51. A more recent survey of businesses indicated that the Northern Ireland economy had been in recovery for a full year. The Purchasing Managers Index, whose data is produced by

39 Q106

40 Danske Bank, 'Danske Bank Oxford Economics Quarterly Sectoral Forecasts Quarter 2 2014', June 2014

Ulster Bank, a monthly survey that tracks indicators such as new orders, employment and exports, indicated a return to growth in June 2013, a trend that continued over the succeeding 18 months.[41]

52. The banks themselves have also been showing that they are recovering from the crisis. In April 2014 it was reported that First Trust Bank would be back in profit in 2014,[42] and Bank of Ireland announced that it was back in profit for the first time since 2008.[43] In July 2014 it was announced that Danske Bank, which had made a loss of £1 million in the first six months of 2013, had made a pre-tax profit of £45 million in the first six months of 2014,[44] and Ulster Bank made a profit of £55 million in the first six months of 2014, compared to a loss of £381 million in the first six months of 2013.[45]

53. This encouraging news was reinforced in February 2015, when it was announced that Danske Bank in Northern Ireland had made pre-tax profits of £117.5million in 2014, which was a more than tenfold improvement on its profits in 2013.[46]

54. After what has been an extremely difficult economic period, and the resultant overhang of the property collapse, it does appear that there has been some progress in the economic recovery in Northern Ireland over the last 12 to 18 months, although it has been slow in comparison to the recovery in Great Britain.

55. For example, a number of new jobs were announced during 2014, including the creation of 628 jobs by the food company Moy Park,[47] 484 jobs were created by the First Derivatives Group Newry, global providers of trading and risk management software systems,[48] and 250 new jobs were announced for Belfast by Alexander Mann Solutions, a leading provider of talent acquisition and management services.[49] It was also announced in January 2015, that the global diagnostics firm, Randox, was creating 540 quality jobs in NI over the next four years[50]and it was then announced on 19 February that Ulster Bank was itself creating 350 jobs at its Belfast call centre, which would deal with calls from customers of RBS and Nat West, as well as its own customers across the island of Ireland.[51]

56. This good news has, however, been offset by the loss, or the impending loss, of a significant number of well-paid jobs, including 300, mainly in Coleraine, by the transfer to

41 Ulster Bank, 'Ulster Bank Northern Ireland PMI', 15 July 2014

42 Belfast Telegraph, 'First Trust Bank 'will be back in black this year'', 1 April 2014

43 Bloomberg, 'Bank of Ireland Returns to Profit as Defaulted Loans Drop', 25 April 2014

44 BBC News, 'Danske Bank makes pre-tax profit of £45m in first six months of 2014', 24 July 2014

45 BBC News, 'Ulster Bank announces stronger results than expected', 25 July 2014

46 BBC News, 'Danske Bank's Northern Ireland profits 10 times better', 3 February 2015

47 BBC News, 'Moy Park creates 628 jobs in Northern Ireland', 7 July 2014

48 Belfast Telegraph, 'IT firm First Derivatives creates 484 jobs in Newry', 30 June 2014

49 BBC News, 'Recruitment firm, Alexander Mann Solutions, creates 250 jobs', 1 July 2014

50 Invest Northern Ireland, '540 New Jobs Announced in Randox Expansion', 14 January 2015

51 BBC News, 'Ulster Bank creating 350 jobs at Belfast call centre', 19 February 2015

Swansea of the office of the Driver and Vehicle Agency[52] and over 800, by 2017, in Ballymena due to the closure of the JTI Gallaher plant.[53] Although neither of these could be directly attributed to a downturn in the economy, the losses will have a devastating economic effect not just locally, but across Northern Ireland.

57. Comparisons could be made between what happened in Northern Ireland and what happened in Great Britain; for example, toxic loans, bad debts, lack of capital and profitability and a seeming reluctance to enter into some markets are issues which arose throughout the UK.

58. From the submissions by the Northern Ireland banks, not least their responses to the apparent criticism from the CBI, the banks would claim that they are willing to lend. This claim would appear to be supported by BBA statistics on banking activity in NI for the third quarter of 2014, where it is stated that "New approved borrowing by SMEs, of £407million in Q3, was marginally higher than in previous quarters and the highest quarterly amount seen since this series started in 2010, some 15% more than in the same period a year earlier."[54]

59. However, a belief to the contrary would seem to be the reason why businesses have been dissuaded from developing plans which involve a high degree of finance, and we would agree with them that the banks have appeared reluctant to lend. We welcome the bank's apparent willingness to now lend, and believe they should do much more to convince their customers that they are indeed "open for business".

52 BBC News, 'DVA jobs: 300 go in NI as service moves to Wales', 13 March 2014

53 BBC News, 'Ballymena cigarette factory JTI Gallaher to close', 7 October 2014

54 BBA, 'Banking activity in Northern Ireland – Q3 2014', 28 November 2014

5 HM Government's lending schemes and other initiatives

The Funding for Lending Scheme

60. The Bank of England and HM Treasury launched the Funding for Lending Scheme (FLS) in July 2012; the scheme is designed to encourage banks and building societies to boost their lending to the UK real economy, which it does by providing funding to banks and building societies for an extended period, with both the price and quantity of funding provided linked to their lending performance.

61. In April 2013 the scheme was extended to allow participants to borrow from the FLS until January 2015, since further extended until January 2016, with incentives to boost lending favouring small and medium sized enterprises (SMEs). The FLS will also be expanded to count lending by banking groups involving certain non-bank providers of credit to the UK real economy. The Bank of England and HM Treasury announced changes to the terms of the FLS Extension in December 2014 to focus it on business lending, by removing the direct incentives to expand household lending in 2016.

62. The then Financial Secretary to the Treasury told us that, whereas Ulster Bank and the Bank of Ireland (and the Progressive Building Society) had signed up for the FLS, First Trust Bank and Danske Bank had not. Although he could not tell us why specifically the FTB and Danske had refused to sign up, he did point out that:

> … it is a voluntary scheme, so each bank needs to decide whether it fits its own requirements … It is not a costless scheme; it provides … low-cost funding from the Bank of England in return for collateral. There are certain requirements that need to be met …[55]

63. **Clearly, it would be much more beneficial if all the Northern Ireland Banks were involved in the Finance for Lending Scheme, as this would make a wider level of funding available to what might be considered borderline borrowing requests. We find it regrettable that banks such as FTB and Danske have "opted out" of the FLS, thereby potentially denying Northern Ireland a further capacity for growth.**

Enterprise Finance Guarantee Scheme

64. The Enterprise Finance Guarantee (EFG) is a loan guarantee scheme to facilitate lending to viable small and medium-sized businesses that have been turned down for a normal commercial loan due to a lack of security or a proven track record. In instances such as this, EFG may be an option, but will only be considered when the lender is satisfied the business

55 Q839.

in question could afford the loan repayments. This will have been determined by the lender during the original loan application.

65. In response to a Written Parliamentary Question (WPQ), the Secretary of State for Northern Ireland, Rt Hon Theresa Villiers MP, said that the EFG “delivered increased funding of £5.1 million in 2013–14, bringing the total Northern Ireland Funding from the scheme to £36.1 million.”[56]

The British Business Bank

66. In Belfast on 9 July 2014, the Secretary of State for Northern Ireland met with the British Business Bank (BBB) (which aims to make finance markets for smaller businesses work better, enabling the sector to grow), Invest NI and local investors, to encourage greater participation by Northern Ireland’s private sector in BBB’s £300 million Investment Programme. Following the meeting, the Secretary of State, whilst recognising that there was still a long way to go, said that:

> This is an important time for the Northern Ireland economy, with a range of signs pointing to recovery. Access to finance for local businesses has increased 46 per cent while the number of employee jobs is up by 16,000. And forecasters expect the economy will grow by 2.8 per cent this year, more than many major economies.[57]

67. The Joint Ministerial Task Force on banking and access to finance in Northern Ireland, whose terms of reference are set out in the Appendix, most recently reviewed the Business Bank’s interventions and the impact they were having in NI, at its meeting on 2 February 2015, and the Secretary of State stated that:

> The work of the Task Force has helped to drive access to finance through greater British Business Bank engagement than ever before. The programmes now managed by the British Business bank have facilitated more than £40 million of lending and investment to businesses in Northern Ireland—and the rate of lending is increasing.[58]

68. Arlene Foster MLA, the Minister for Enterprise, Trade and Investment added “I very much welcome the ongoing engagement we have had with the British Business Bank on a number of key issues, including the scope for a fund to address property overhang for NI businesses.”[59]

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56 HC Deb, 7 July 2014, col 10-11W

57 “Villiers: NI must project reality of a forward-looking society”, Northern Ireland Office press release, 9 July 2014

58 “Villiers: Northern Ireland economy heading in right direction”, Northern Ireland Office press release, 2 February 2015

59 *Ibid*

6 Northern Ireland’s regional lending data

Transparency in the banking sector

69. The Northern Ireland Executive was not able to force banks to supply regional lending data, as the Executive did not have the devolved power to do so. Moreover, a lack of available regional lending data was identified by the then Finance Minister, Sammy Wilson MP MLA, as contributing to a lack of transparency in the banking sector in Northern Ireland, a view also taken in a June 2013 report from Davy Ireland[60].

70. The written submission from the Department of Finance and Personnel stated that “The lack of transparency around bank lending data has been a problem for a number of years now … DFP has been calling for a more comprehensive breakdown of lending data by banks operating in Northern Ireland”.

71. **From the outset of its inquiry, the Committee had been very conscious of the need to have transparency in relation to the provision of financial data to monitor lending growth, and the appropriateness of this growth, in aiding the economic recovery within Northern Ireland. The Committee therefore welcomed the British Bankers’ Association (BBA) releasing, on 2 July 2014, in response to the Committee’s pressing for the release of such information, detailed figures on how much Northern Ireland banks were lending to households and businesses.**[61]

72. The Finance Minister, Simon Hamilton MLA, was pleased that the data indicated that the lending environment in Northern Ireland was improving, and considered that publication of the data represented “a positive step forward in increasing transparency in this important area”.[62]

73. **The Committee endorses the comments by the Finance Minister and by the Chief Executive of the BBA, who stated that transparency “will give everyone a clearer understanding of how the province’s economy is performing”, and congratulates the BBA and the Northern Ireland banks on their initiative.**

74. Following the release of the lending data, we approached one of Northern Ireland’s main banks to ask its opinion, and we understand that the banks believe there is now a much more level playing field, as each of the main four banks is now providing data on a consistent, like for like, basis, although there may still be some differences around the edges; for example,

60 Ulster Business, ‘Debt crippling NI economic prospects’, 25 June 2013

61 BBA, ‘Bank support for customers in Northern Ireland Q3/Q4 2013’, 2 July 2014

62 “Finance Minister welcomes publication of Northern Ireland bank lending data”, Northern Ireland Executive press release, 3 July 2014

one bank's definition of what is an SME customer (level of turnover, debt etc.) may not tally exactly with another's.

75. We also understand that there may be some gaps in the personal account data, mainly because Santander did not participate, and they hold a sizable share of the personal accounts market. This is disappointing, given that Santander states in its written evidence that it is its "ambition to be the bank of choice for UK companies", and it has approximately 700,000[63] retail customers in Northern Ireland,[64] although this seems a remarkably high number of customers for a population of some 1.8 million. **We feel compelled to urge the BBA to strongly impress upon Santander the need for the bank to provide future lending data for Northern Ireland**.

How "new" is "new lending"?

76. The Committee was also interested in establishing whether a standard definition existed as to how "new" lending and "rollover" lending were defined, ie, if an existing loan was increased, was the total for the entire loan then classed as new lending, or was just the increase in the loan so classified?

77. When Ulster Bank gave evidence, it was pressed on this matter, but seemed unclear as to how such extensions and increases were defined:

> .... we would have to take it away and have a look at it.[65]

The witnesses then stated that:

> It does raise another interesting issue ... that is an issue around having standard definitions in terms of reporting on what activity really is new lending versus rollovers. There is not a standard definition across the industry, and we would support that if it could be created.[66]

78. The Committee also asked the witnesses from HM Treasury about the definition of "new" and "rollover" lending and Alison Cottrell, the Treasury's Director of Financial Services, conceded:

> It would make life a lot easier if we did have some consistency of definitions. One thing that may be useful to add into the mix here is thinking always, "What is the information that we are trying to extract?" in each case. For example, where you get differences, as you mentioned, at times is between some statistics on lending in the economy and then the statistics we use in various government schemes and things like that.[67]

63 Santander subsequently clarified that it had a total of 696,487 customers, of which 443,739 were active

64 Santander UK (BNI0017) para A.e

65 Q720

66 Q721 [Mr Brown]

67 Q863 [Ms Cottrell]

79. **Until a standard definition for "new" and "rollover" lending exists it will not, we believe, be possible to identify exactly how much new money banks are lending. The BBA and most of the banks in Northern Ireland have been positive and constructive over the publication of regional data. If, however, the Association is unable to persuade its members to voluntarily adopt a standard definition of new and rollover lending, we recommend that either HM Treasury instruct the banks in Northern Ireland to introduce a standard definition, or the Treasury itself should draw up a standard, and that this information should be made available with effect from the second quarter of 2015.**

7 Northern Ireland property issues

National Asset Management Agency

80. The National Asset Management Agency (NAMA) was established in December 2009 as one of a number of initiatives taken by the Government of the Republic of Ireland to address the serious problems which arose in Ireland's banking sector as the result of excessive property lending. NAMA was to function as a so-called "bad bank", acquiring property development loans from Irish banks in return for Irish government bonds, with a view to improving the availability of credit.

81. Five institutions (and their subsidiaries) were designated as participating institutions in February 2010: Allied Irish Banks; Bank of Ireland; Anglo Irish Bank; Irish Nationwide Building Society; and EBS Building Society.

82. NAMA's Northern Ireland customer base was considerable, with approximately 50 per cent of the collateral value underlying the loans lying in Northern Ireland, 40 per cent in Great Britain and 10 per cent in the Republic of Ireland. Despite some concerns about the possibility of NAMA offloading some of its portfolio cheaply, we were pleased to hear from the Finance Minister on 4 December 2013 that he was "quite content with what NAMA has done to date."[68]

83. On 1 April 2014, the Secretary of State for Northern Ireland was reported as saying that the sale of that portfolio, believed to have a value of between €3.5 and €4 billion, should be spread over time to ensure a better return.[69] However, on 4 April, it was reported that the entire Northern Ireland customer portfolio had been sold to Cerberus Capital Management, a US-based international investment firm, for £1 billion which, the First Minister, Rt Hon Peter Robinson MLA, said, was "excellent news for the Northern Ireland economy".[70] On 20 June, it was formally announced that Cerberus had paid "around £1.3bn" for the portfolio.[71] We consider, however, that it is still too early to say whether this was indeed excellent news for the NI economy.

84. On 23 July 2014 it was, however, reported that NAMA still held about £40 million worth of assets in Northern Ireland. Although Cerberus had bought the loans made to Northern Ireland based borrowers, it transpires that it had not taken control of the loans taken out by people outside Northern Ireland on properties within Northern Ireland.[72]

85. Unfortunately, it did not prove possible for the Committee to meet with representatives of NAMA. The Committee did, however, receive a briefing from Cerberus European Capital Advisors LLP following the announcement of NAMA's Northern Ireland customer portfolio

68 Q326

69 Irish Independent, 'NAMA told not to rush sale of its NI portfolio', 1 April 2014

70 BBC News, 'Nama Northern Ireland property loan portfolio 'sold for £1bn'', 4 April 2014

71 BBC News, 'Nama completes sale of £1bn Northern Ireland property loan portfolio', 20 June 2014

72 BBC News, '£40m of Northern Ireland assets still owned by Nama', 23 July 2014

being sold to that company. As that briefing was in private, and commercially confidential information was disclosed, we are unable to make that information publicly available, although we were advised that Cerberus would be acting in the best interests of Northern Ireland and, like NAMA before them, would not embark upon a "fire sale" by going for quick fixes and flooding the property market, thereby driving down property values in Northern Ireland.

86. However, since our meeting with Cerberus, we have heard disquieting stories from some businesses in NI that they were being treated by Cerberus in a less than sympathetic manner. ***We find it strange that no Memorandum of Understanding was agreed between the NI Executive and Cerberus, and therefore recommend that the NI Executive keeps a close eye on this situation.***

Ulster Bank

87. There was another significant development on 23 July 2014, as it was announced that Ulster Bank was preparing to sell some £1 billion of its portfolio of commercial property loans in the UK and Ireland.[73] On a value basis, this amounts to just over 25 per cent of the Bank's loan book relating to property in Northern Ireland, and would mean the Bank getting rid of toxic loans, allowing them to return to more conventional banking. This would have been a particularly opportune moment for such a move as, on 2 May 2014, it was announced that the Chief Executive of RBS was hoping to make a decision on the future of Ulster Bank "by the end of the summer".[74] In October 2014, it was subsequently announced that Ulster Bank had made a profit of £394 million for the third quarter of 2014, and that RBS would retain Ulster Bank, so ending the uncertainty over its future.[75] **In the ongoing review of Northern Ireland's banking sector, we consider that the Prudential Regulation Authority should keep a watch on the situation concerning Ulster Bank.**

Continuing concerns

88. As stated in paragraphs 69 to 75 above, the provision of the regional lending statistics will be of great benefit to the monitoring of the ongoing economic growth in Northern Ireland; however, information released by the BBA for Q4 2014 does give us some concern, as 15 per cent of lending is to the construction industry and 35 per cent to real estate, professional services and support activities.

89. On the face of it, therefore, potentially up to 50 per cent of borrowing is still-property related. In view of the past difficulties associated with property across the island of Ireland, the ongoing monitoring of this share is something that the Prudential Regulatory Authority would need to be conscious of so as to ensure that property prices do not overheat, as in 2007.

73 Belfast Telegraph, 'Ulster Bank poised to sell £1bn property loan portfolio', 23 July 2014

74 BBC News, 'RBS chief hopes to make Ulster Bank decision by end of summer', 2 May 2014

75 Belfast Telegraph, 'Ulster Bank to remain part of RBS: Bank reveals operating profit of almost £400 million', 31 October 2014

90. Property prices do remain a cause for concern. A taskforce appointed by the Minister for Social Development, Nelson McCausland MLA, to examine the impact of negative equity and repossessions, recently concluded that the Northern Ireland housing market remained "dysfunctional" and that, despite a gradual recovery in the Northern Ireland economy and the housing market, Northern Ireland's economy some "some distance from reaching escape velocity."[76]

91. Also making sobering reading was PricewaterhouseCoopers' *UK Economic Outlook July 2014*,[77] which stated that property prices in Northern Ireland could take another 10 years to return to the stage they were at before the collapse, and that Northern Ireland's depressed property market, high levels of negative equity and lower levels of disposable income mean a slower economic recovery compared to the rest of the UK.

92. In January 2015 it was reported that NI house prices had risen to their highest since 2007, increasing by 11.7 per cent year on year until November 2014, although they did "have some way to recover to reach their previous peak levels, recorded in August 2007."[78] A return, however, to the over-inflated prices of 2007 would not be in the best interests of the Northern Ireland economy.

76 Repossessions Taskforce (Department for Social Development NI), 'Initial Evidence Paper: Negative Equity, Arrears And Possessions In Northern Ireland', July 2014

77 PWC, UK Economic Outlook July 2014, accessed on 9 March 2015

78 Belfast Telegraph, 'Northern Ireland house price rises at highest level since 2007', 13 January 2015

8 Staff of the Irish Bank Resolution Corporation

93. The Irish Bank Resolution Corporation (IBRC) was formed in 2011 by the Irish court-mandated merger of the Anglo Irish Bank and the Irish Nationwide Building Society. The Irish Government liquidated the company overnight in February 2013. Due to the legislation introduced in the Republic of Ireland (without prior consultation with HM Government), those people formerly employed in Dublin by IBRC, the successor to the Anglo-Irish Bank, were able to transfer to Capita, whereas those employed in Belfast had no such rights, and had been made redundant.

94. In its memorandum, commenting on the position of the staff of the former IBRC, HM Government stated that:

> We fully acknowledge the concerns of those UK based employees who face redundancy as a result of this process. As a result of the representations received, the Foreign and Commonwealth Office has discussed this issue with the Irish Government. However, whilst the Government is able to pursue requests for clarification, it is important to note that the decision to liquidate the IBRC and the effect this had on employment contracts is a matter for the Irish Government. The Government does not have any jurisdiction in relation to the role currently being played by the Special Liquidators.[79]

95. In its written submission, IBOA stated that:

> The "special liquidation" of the Irish Bank Resolution Corporation (IBRC) by the Irish Parliament … has created considerable difficulty for IBRC's employees in Northern Ireland and the Republic—not least because the consequences for the IBRC workers were not considered by [the UK] Parliament ... [80]

96. Although, when he gave evidence on 4 December 2013, Simon Hamilton MLA, the Finance Minister, seemed more positive:

> It was an issue that the Department was very much engaged with our Irish counterparts on ... It was whenever NAMA took over these assets that the problem developed. Instead of getting the staff who were in IBRC to administer the operations of the bank, they got the firm Capita to do that for them. Capita had a presence in Belfast and there were IBRC staff in Belfast,

79 HM Government (BNI0027)

80 IBOA The Finance Union (BNI0015) para 5.1

> and our argument was that the work that they were doing … could continue to be carried out in Belfast.
>
> Since all of those discussions earlier on in the year, it has been confirmed that that operational model, where staff in Belfast were carrying out the work on behalf of NAMA in respect of the IBRC assets, was actually taking place, and they were doing that in Capita's offices in Belfast.[81]

IBOA's memorandum stated that:

> This legislation may be subject to litigation–not least because, it has been argued, the company was solvent at the time, albeit with the support of the Irish Central Bank.[82]

IBOA had also raised concerns -

> ...with the EU as to whether the implementation of the Oireachtas' decision has frustrated the European directive on the protection of employment during the transfer of undertakings–in the case of IBRC staff transferring to other entities–such as Capita and NAMA ...[83]

97. In April 2014 it was announced that a deal had been agreed between IBRC and the Republic of Ireland's Labour Relations Commission that those IBRC staff with 10 years or more service would receive redundancy payments of €18,000, those staff with between two and ten years of service would receive payments of €15,000, while those with less than 2 years' service would receive a payment of €2,000.[84] It was not, however, immediately apparent whether these payments would extend to IBRC staff formerly based in Belfast.

81 Q335

82 IBOA The Finance Union (BNI0015) para 5.2

83 *Ibid.*

84 Yahoo! News, 'IBRC staff set for redundancy payments of up to €18,000', 25 April 2014

9 Bank IT failures

98. Since 2012, Ulster Bank has suffered two major IT failures; in June 2012 a system failure prevented Nat West, RBS and Ulster Bank customers from being able to access their accounts into late July, with ongoing issues stretching into August. Then, in December 2013, Ulster Bank customers experienced more payment and account problems just days after many customers were unable to access online systems or use bank cards for payments.

99. In the memorandum submitted by IBOA, it was stated that:

> Northern Ireland may also suffer in terms of the quality of investment in its economic, commercial and social infrastructure. Northern Ireland may not rate highly in either strategic or operational priorities–as Ulster Bank's customers will readily testify when a temporary IT glitch for RBS and NatWest customers became an IT meltdown for Ulster Bank–lasting weeks.[85]

100. Commenting on the IT failures, Sam Woods, from the Bank of England Prudential Regulation Authority, said, in January 2014, that:

> ... this is a very difficult area, not least because the IT systems are so antiquated. Although I feel we are making progress—for instance, the breakdown that RBS had shortly before Christmas did not escalate to the same level of issue partly because of the remediation that has been done following the June 2012 incident—I feel we are, I am afraid, a very long way from being able to sit here with confidence and say, "UK, including Northern Ireland, banks' IT systems are robust."[86]

101. The 2012 and 2013 incidents were not the end of the matter, as there were further problems in April 2014, when some Ulster Bank customers reported that ATM withdrawals had been debited from their accounts twice.

102. **It is clear that banks' IT systems are not fit for purpose, and this has led to the totally unacceptable situation of some customers being unable to access their accounts, or experiencing other problems, since 2012. With a turnaround in the situations of all Northern Ireland's banks, whereby they have now returned to profit, we believe that some of those profits should be used to update their IT systems, thereby benefitting their customers.**

103. On 10 April 2014 the Assembly's Committee for Enterprise, Trade and Investment held a meeting with the Ulster Bank during which the report on the "IT glitch" was discussed. During this session Jim Brown, Ulster Bank's Chief Executive, said that the FCA and the Bank itself had completed investigations into the IT failures and would publish their findings

85 IBOA The Finance Union (BNI0015) para 2.3

86 Q482

once “the regulatory negotiations had been completed”.[87] We understand, however, that, since then, there has been no further correspondence to indicate that the report has been published, or may be published in the future. **The public were badly let down by Ulster Bank, and we believe, therefore, that either Ulster Bank, or the FCA, should publish its report into the Bank’s “IT glitch” without any further delay.**

87 Northern Ireland Assembly: Official Report (Hansard), Committee for Enterprise, Trade and Investment, ‘The Future of Ulster Bank: Ulster Bank’, 10 April 2014

10 Credit unions

104. Credit unions on the island of Ireland have a much greater presence than they do in Great Britain. As the Irish League of Credit Unions (ILCU) states in its written submission, credit unions were first established in Northern Ireland in the 1960s, and

> there are now 168 credit unions serving members in cities, towns and villages throughout Northern Ireland. Membership has doubled in the past ten years and today 34 per cent of the NI population save with a credit union, compared with just 2 per cent in Great Britain. They range in size and capacity from organisations with tens of thousands of members and millions of pounds of assets to those that serve just a few hundred members.[88]

105. It is difficult to assess the degree with which credit unions actively compete with banks. In one sense, the sheer size of the network and the number of people that use it must have an impact. The financial crisis may have also helped the credit unions in the same way that building societies gained customers after the financial crash–they were both not banks.

106. In response to a consultation paper issued by HM Treasury and the Department of Enterprise, Trade and Investment (DETI) in March 2010, *Proposals for regulatory reform of credit unions in Northern Ireland*,[89] there was some criticism noted in the summary of consultation responses, published in October 2011.[90] These criticisms focused upon the fact that "Credit unions are not banks"; "We believe it is imperative that credit unions in Northern Ireland don't begin to replicate mainstream lenders and that a balance must be maintained"; and "The purpose of credit unions was never intended to be expansive to elevate them to the level of banks". Although it is not recorded who levelled such complaints, it would be wrong to assume that the criticisms were made by Northern Ireland's banks, as none were listed as having responded to the consultation exercise. Consequently, credit unions still appear not to be regarded as a realistic alternative to traditional banks or building societies.

107. Other factors however, suggest that the competition between banks and credit unions is limited, for example:

- Credit unions do not offer a full range of banking services, such as money transmission services and debt payments;
- many of the people who run credit unions are volunteers, and only about one-third of those providing a service are actual employees of credit unions, mainly involved in credit assessment and loan management;

88 Irish League of Credit Unions (BNI0031) para 2.2

89 HM Treasury and the Department of Enterprise, Trade and Investment (DETI), 'Proposals for regulatory reform of credit unions in Northern Ireland', March 2010

90 Treasury and the Department of Enterprise, Trade and Investment (DETI), 'The regulatory reform of credit unions in Northern Ireland: October 2011: a summary of consultation responses', October 2011

- access to credit unions is limited; whilst some approach normal working hours, others may open for only a few hours a day, or a few days a week; and
- credit unions can only lend that money which they take as deposits, and then only a portion of that. They do not have access to capital markets to borrow wholesale; loans are linked to personal loans and do not include mortgage lending.

108. In addition, credit unions do not have the advertising and marketing budgets of the big financial firms, and hence have a much lower profile. In its submission, the Ulster Federation of Credit Unions stated its belief that, with additional support, smaller credit unions who would not be in a position to provide current accounts could begin to expand their reach and serve a greater number of people in their area. The Federation also pointed out that Northern Ireland is the only area of the UK where no dedicated financial support is provided for credit unions.[91]

109. Patsy McGlone MLA, Chairperson of the NI Assembly's Committee for Enterprise, Trade and Investment, told us that, for people living in some of the more rural areas of Northern Ireland credit unions were "a solid base. They are community-founded and locally based, and they are particularly relevant now as some of the bigger banks close their local branches."[92]

110. We note the ILCU's contention that credit unions fill the void left by bank closures and fight the "scourge" of high-rate lenders and also the recommendation of the Northern Ireland Assembly's Committee for Enterprise, Trade and Investment from March 2010 that Northern Ireland credit unions should be permitted to expand their range of services to include, at the very least, those services, which credit unions in Great Britain can currently offer.[93] We are not, however, convinced that credit unions have the capacity to take the place of banks by being able to provide all the services that banks currently provide.

111. We were, nevertheless, pleased to note that legislation has now been put in place which sees Northern Ireland's credit unions being regulated by the FCA, and NI primary legislation is currently in the pipeline, in the form of the Credit Unions and Co-operative and Community Benefit Societies Bill, to permit NI's credit unions to broaden their range of services. The Committee for Enterprise, Trade and Investment made some recommendations to the Department during its pre-legislative scrutiny of the Bill and, we understand, that these seem to have been mostly accepted. It is envisaged that the substantive Bill will come before the Assembly sometime during 2015. In addition, the credit union movement is seeking funding from the NI Executive to help credit unions to expand their banking related services.

91 Ulster Federation of Credit Unions (BNI0032)

92 Q432 [Ms McGlone]

93 Irish League of Credit Unions (BNI0031)

112. On 3 March, it was announced that the Assembly's Committee for Enterprise, Trade and Investment had written to the Secretary of State, stating that credit unions and mutual societies contributed to their communities, and seeking assurances that they would benefit from lower, devolved, corporation tax.[94]

94 "Credit unions should benefit from reductions in corporation tax, says Committee", Committee for Enterprise, Trade and Investment (Northern Ireland Assembly) press release CETI 03/14/15, 3 March 2015

11 Conclusion

113. **Although the situation in the property market does still give some cause for concern, and whilst it has taken time for the banking sector to re-establish confidence and to be considered again as "open for business", we welcome the fact that, over the past year, the Northern Ireland economy has shown definite signs of recovery, with many new jobs recently being announced; added to this good news, the banks themselves are showing a return to profitability.**

Appendix

Joint Ministerial Task Force on banking and access to finance–Terms of reference

i) ensure that Northern Ireland is taken into account as the Government considers the way forward on banking issues more generally;

ii) redouble efforts to promote lending to businesses by banks and other finance providers;

iii) examine whether tailored support is required for Northern Ireland's banks and how we can maximise support for businesses in Northern Ireland;

iv) examine how best to engage with the Irish Government to make sure that their support for the Irish banking system takes full account of the operation of Irish-owned banks in Northern Ireland;

v) introduce new mechanisms to ensure that UK-wide banking and access to finance measures implemented by the Government have the maximum possible impact in Northern Ireland, including by monitoring progress against the commitments relating to specific banking/finance schemes highlighted in the Building a Prosperous and United Community package; and

vi) consider how the Government and Executive can best respond to the issues highlighted in the Access to Finance report recently published by the Executive's independent Economic Advisory Group, and any relevant recommendations following from the Northern Ireland Affairs Committee's inquiry into the structure of banking in NI.

Conclusions and recommendations

The banks' current positions

1. Branch closure is not, of course, unique to Northern Ireland, but it is a matter of particular concern to us. We regret that Northern Ireland's Banks have shown such little thought towards its customers by seeking to either concentrate its branches in the major centres of population, or to close branches in favour of online banking, although the Post Office, for example, may be able to fill in some of the gaps in the market. (Paragraph 19)

The Tomlinson report

2. Whilst the Tomlinson report may have uncovered some disturbing facts about banking in the UK, it was most unsatisfactory that Ulster Bank were not given the opportunity to comment. However, Ulster Bank were given the opportunity to put its side of the story by responding to the Spotlight allegations, but refused to do so, stating their concern over the possible legal implications on commenting publicly on one particular case which was the subject of court action. (Paragraph 31)

3. Whilst we accept that customer confidentiality is uppermost in any bank's decision whether, or not, to respond to media articles or items, we believe that the Bank could have responded without going into specifics. The fact that Ulster Bank refused to take part in the Spotlight programme and, instead, simply rehearse its own commissioned report, could not fail to give the impression that the Bank may have had something to hide. (Paragraph 32)

The Government's view

4. We are concerned about an over-concentration in the NI banking market; whilst we would welcome any new entrants to the market, we consider the way forward is for existing banks to improve their services to their customers without, however, a return to previous aggressive lending practices. (Paragraph 43)

The Funding for Lending Scheme

5. Clearly, it would be much more beneficial if all the Northern Ireland Banks were involved in the Finance for Lending Scheme, as this would make a wider level of funding available to what might be considered borderline borrowing requests. We find it regrettable that banks such as FTB and Danske have "opted out" of the FLS, thereby potentially denying Northern Ireland a further capacity for growth. (Paragraph 63)

Transparency in the banking sector

6. From the outset of its inquiry, the Committee had been very conscious of the need to have transparency in relation to the provision of financial data to monitor lending growth, and the appropriateness of this growth, in aiding the economic recovery within Northern Ireland. The Committee therefore welcomed the British Bankers'

Association (BBA) releasing, on 2 July 2014, in response to the Committee's pressing for the release of such information, detailed figures on how much Northern Ireland banks were lending to households and businesses. (Paragraph 71)

7. The Committee endorses the comments by the Finance Minister and by the Chief Executive of the BBA, who stated that transparency "will give everyone a clearer understanding of how the province's economy is performing", and congratulates the BBA and the Northern Ireland banks on their initiative. (Paragraph 73)

8. We feel compelled to urge the BBA to strongly impress upon Santander the need for the bank to provide future lending data for Northern Ireland (Paragraph 75)

How "new" is "new lending"?

9. Until a standard definition for "new" and "rollover" lending exists it will not, we believe, be possible to identify exactly how much new money banks are lending. The BBA and most of the banks in Northern Ireland have been positive and constructive over the publication of regional data. If, however, the Association is unable to persuade its members to voluntarily adopt a standard definition of new and rollover lending, we recommend that either HM Treasury instruct the banks in Northern Ireland to introduce a standard definition, or the Treasury itself should draw up a standard, and that this information should be made available with effect from the second quarter of 2015. (Paragraph 79)

National Asset Management Agency

10. We find it strange that no Memorandum of Understanding was agreed between the NI Executive and Cerberus, and therefore recommend that the NI Executive keeps a close eye on this situation. (Paragraph 86)

Ulster Bank

11. In the ongoing review of Northern Ireland's banking sector, we consider that the Prudential Regulation Authority should keep a watch on the situation concerning Ulster Bank. (Paragraph 87)

Bank IT failures

12. It is clear that banks' IT systems are not fit for purpose, and this has led to the totally unacceptable situation of some customers being unable to access their accounts, or experiencing other problems, since 2012. With a turnaround in the situations of all Northern Ireland's banks, whereby they have now returned to profit, we believe that some of those profits should be used to update their IT systems, thereby benefitting their customers. (Paragraph 102)

13. The public were badly let down by Ulster Bank, and we believe, therefore, that either Ulster Bank, or the FCA, should publish its report into the Bank's "IT glitch" without any further delay. (Paragraph 103)

Conclusion

14. Although the situation in the property market does still give some cause for concern, and whilst it has taken time for the banking sector to re-establish confidence and to be considered again as "open for business", we welcome the fact that, over the past year, the Northern Ireland economy has shown definite signs of recovery, with many new jobs recently being announced; added to this good news, the banks themselves are showing a return to profitability. (Paragraph 113)

Formal Minutes

Monday 9 March 2015

Members present:

Mr Laurence Robertson, in the Chair

Joe Benton
Oliver Colvile
Nigel Mills
David Simpson

Draft Report (*Northern Ireland: banking on recovery?*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 113 read and agreed to.

Summary, as amended, agreed to.

A paper was appended to the Report.

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till 17 March at 9.30 am

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the Committee's inquiry page at www.parliament.uk/niacom.

Wednesday 11 September 2013	*Question number*
Aodhan O'Donnell, Director of Policy and **Julie McCurley,** Head of Policy, Money Affairs, Consumer Council for Northern Ireland	Q1-72
Wednesday 9 October 2013	
Anthony Browne, Chief Executive and **Irene Graham,** Managing Director, Business Finance and Strategy, British Bankers' Association	Q73-170
Wednesday 16 October 2013	
Wilfred Mitchell OBE, Northern Ireland Policy Chairman and **Roger Pollen,** Head of External Affairs Northern Ireland, Federation of Small Businesses	Q171-237
Wednesday 20 November 2013	
Glyn Roberts, Chief Executive, Northern Ireland Independent Retail Trade Association (NIIRTA)	Q238-316
Wednesday 4 December 2013	
Simon Hamilton MLA, Minister of Finance and Personnel, Northern Ireland Executive	Q317-361
Wednesday 11 December 2013	
Kate Barker, Chair, **Gerry Mallon** and **Patricia O'Hagan,** Members, Economic Advisory Group	Q362-414
Tuesday 17 December 2013	
Daithí McKay, Chairperson, Finance and Personal Committee, **Patsy McGlone,** Chairperson, Enterprise, Trade and Investment Committee, and **Dr Robert Barry,** Researcher, Northern Ireland Assembly	Q415-435
Harry Sinclair, President and **Clarke Black, Chief Executive,** Ulster Farmers' Union	Q436-457
Wednesday 8 January 2014	
Sam Woods, Director, Domestic UK Banks, and **Martin Stewart,** Head, UK Banks and Mutuals, Bank of England Prudential Regulation Authority	Q458-511

Wednesday 15 January 2014

Des Crowley, CEO, Bank of Ireland UK, **Ian Sheppard,** Head of Corporate and Business Banking NI, and **Sean Sheehan,** Regional Manager NI, Bank of Ireland Q512-557

Gerry Mallon, CEO and **Kevin Kingston,** Deputy CEO and MD of Business and Corporate Banking, Danske Bank Q538-590

Wednesday 22 January 2014

Larry Broderick, General Secretary and **Séamus Sheils,** Communications Manager, IBOA The Finance Union Q591-631

Paul Terrington, Chairman and **Dr Joanne Stuart,** former Chairman, Institute of Directors Northern Ireland Q632-666

Wednesday 29 January 2014

Jim Brown, Chief Executive, Ulster Bank, and **Ellvena Graham,** Head of Ulster Bank NI Q667-747

Des Moore, Director of Personal and Business Banking and **Brian Gillan,** Head of Business Banking, First Trust Bank Q748-817

Wednesday 12 February 2014

Sajid Javid MP, Financial Secretary and **Alison Cottrell,** Director, Financial Services, HM Treasury Q818-875

Published written evidence

The following written evidence was received and can be viewed on the Committee's inquiry web page at www.parliament.uk/niacom. BNI numbers are generated by the evidence processing system and so may not be complete.

1 Alan Ritchie (BNI0008)
2 Bank Of England Prudential Regulation Authority (BNI0035)
3 Bank Of Ireland (BNI0005)
4 Barclays (BNI0018)
5 British Bankers' Association (BNI0020)
6 CBI Northern Ireland (BNI0023)
7 Charity Bank Limited (BNI0026)
8 Chartered Accountants Ireland Ulster Society (BNI0039)
9 Consumer Council - supplementary evidence (BNI0025)
10 Council Of Mortgage Lenders (BNI0012)
11 Danske Bank (BNI0011)
12 Department Of Finance And Personnel (BNI0014)
13 Farmers For Action UK NI (BNI0009)
14 First Trust Bank (BNI0010)
15 Gabriel Keown (BNI0036)
16 HM Government (BNI0027)
17 HM Treasury (BNI0033)
18 Iboa The Finance Union (BNI0015)
19 Irish League Of Credit Unions (BNI0031)
20 Ivan Preston (BNI0022)
21 Northern Ireland Assembly (BNI0029)
22 Northern Ireland Assembly (BNI0043)
23 Northern Ireland Independent Retail Trade Association (NIIRTA) (BNI0002)
24 Post Office Limited (BNI0013)
25 Santander UK (BNI0017)
26 The Consumer Council (BNI0028)
27 The Consumer Council for Northern Ireland (BNI0019)
28 Ulster Bank Ltd (BNI0016)
29 Ulster Federation Of Credit Unions (BNI0032)
30 University Of Ulster (BNI0004)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the Committee's website at www.parliament.uk/niacom.

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2010–12

First Report	Corporation Tax in Northern Ireland	HC 558 (HC 1767)
Second Report	Air Passenger Duty: Implications for Northern Ireland	HC 1227
Third Report	Fuel laundering and smuggling in Northern Ireland	HC 1504

Session 2012–13

First Special Report	Fuel laundering and smuggling in Northern Ireland: Government Response to the Committee's Third Report of Session 2010–12	HC 272
First Report	An air transport strategy for Northern Ireland	HC 76 (HC 960)
Second Report	Draft Northern Ireland (Miscellaneous Provisions) Bill	HC 1003 (CM 8621)

Session 2013–14

First Report	Implementation of the Armed Forces Covenant in Northern Ireland	HC 51 (HC 721)