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How will Irish banks respond to the new economic crisis?

Updated / Wednesday, 22 Apr 2020 12:37



"Will banks emerge as white knights, treating struggling customers with fairness and dignity, or as enforcers, applying "business as usual" rules to a population on its knees?"

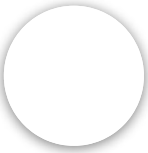
Opinion: with very little public trust in financial institutions, banks need to demonstrate reliability, honesty and competence in the months ahead

We are currently in the midst of a public health crisis. Although it is difficult to know when and how this crisis will end, it will almost certainly be outlived by an economic crisis. Ireland understands an economic crisis and our history is one of poverty and emigration. The last crisis we experienced was a banking crisis which led to, among other things, a massive loss of trust in our banks. During this crisis, banks might take centre stage again. The question is will they emerge as white knights, treating struggling customers with fairness and dignity, or as enforcers, applying "business as usual" rules to a population on its knees.

The rise of distrust of banks is an almost global phenomenon. The latest world values survey shows that most people responded to the question "how much confidence do you have in banks?" with "not very much" or "none at all". A recent Ipsos report on trust found that banking is the one sector consumers are most likely to believe would try and take advantage of them. The 2020 Edelman trust barometer showed that financial services remains the least-trusted sector measured by the survey.

Yet our distrust of banks feels specific to our context. It is easy to understand the resentment of a people who suffered real loss to bail out the banks only to be further affronted by the

tracker mortgage scandal.



01:14

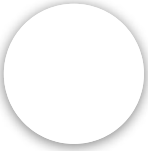
From RTÉ News in 2017, Taoiseach Leo Varadkar says public trust in banks eroded after tracker scandal

Though recent history may have taught us otherwise, we need not view the financial system as inherently in conflict with the needs of society. There is a real threat that communities jaded by scandal and controversy forget the important role banks can play. Individuals need affordable accounts to safeguard their assets and they need mortgages to put roofs over heads. Business needs finance to fund jobs and growth and farmers need working capital to cover the ebb and flow of the seasons. The list goes on. These needs will become all the more pressing over the next years, as we try collectively to recover from our experience of Covid-19.

Ideally, the financial system should be understood as serving communities as well as shareholders. The cooperative movement and the trustee savings banks show there is historic precedent for this. For example, Friedrich Wilhelm Raiffeisen started the first German cooperative bank in the mid 1800s with the aim of serving his impoverished local farming community. In Scotland, Ruthwell Savings Bank (1810), the brainchild of Rev Henry Duncan, inspired the idea of the trustee savings bank. These banks were founded to meet the needs of the industrious poor, providing banking services to working-class people for the first time. Savings banks spread rapidly throughout the UK and Ireland's first savings bank was established in Stillorgan in Dublin in 1815.

While it may seem like we are worlds away from the ideals that inspired the cooperative movement and the trustee savings banks, it might just be that communities and banks have reached a Covid-19 inspired tipping-point. Banks may yet cross the Rubicon and find a way of

doing business that achieves shareholder value while meeting the needs of their customers and communities.



02:07

From RTÉ News, the governor of the Central Bank Gabriel Makhlouf says the economy can sustain the level of borrowing needed to tackle the virus

It would seem there is growing international interest in recasting the purpose of banks (and other corporations), from a focus on shareholder primacy, to a broader commitment to all stakeholders. In August 2019, the US Business Roundtable, an association of CEOs of America's leading companies, released a new Statement on the Purpose of a Corporation. Signed by 181 CEOs, including most of the major US banks, they committed to lead their companies for the benefit of all stakeholders, namelt customers, employees, suppliers, communities and shareholders.

In Ireland, the establishment of an independent Irish Banking Culture Board (IBCB) purportedly signals the intent from within the financial sector to foster a sustainable banking culture that adheres to the highest levels of professionalism. This movement may gather further momentum in the months ahead. Covid-19 is making us ask questions of big business and even society as a whole. There is a sense that if Covid-19 dismantles society as we know it, society can be rebuilt in a way that is more equitable.

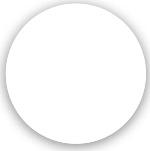
If we can pull ourselves from the loss, suffering and pain of Covid-19 towards a more equitable society, what role might Irish banks have in this process? More to the point, how can they show they have learned enough from the last crisis to be worthy of the trust customers place in them during the next economic crisis?

From RTÉ Radio 1's News At One, Gavin Kelly from Bank of Ireland explains why the bank has temporarily closed 101 branches around the country

Here the work of the philosopher Onora O'Neill is pertinent. Inspired by the idea of a loss of trust, following the banking crisis, O'Neill has written and spoken extensively on the topic of trust. She says that promoting "trust" in society should not be a focus for policy makers and increasing "trustworthiness" is a much more appropriate aim. It is not the banks' customers that need to change, it is the banks that need to become more trustworthy. As customers, we would be naïve indeed to increase our trust in banks in the absence of a measurable shift in their trustworthiness.

When it comes to trustworthiness, O'Neill also believes that the attributes of reliability, honesty and competence are requisite. Trust is well placed in banks, she believes, that are reliable, honest and competent with respect to the task that they are being trusted to perform.

Competence and reliability must come to the fore in the current context. For banks to fulfil their social mission to support customers with credit, they must quickly identify their most at risk customers and attempt to support them. The supportive measures Irish banks announced last month are welcome, yet it is likely that a more pro-active short-term approach as well as a sustainable long-term approach is needed. This might mean, for example, that banks use their expertise to help customers in distress, with financial advice and a personalised approach at the local level (as opposed to invisible people in head offices dictating policy); or that banks look ahead to the almost inevitable outcome of the expected economic turmoil and question whether innovative solutions (such as a moratorium tool) might be a better answer to their balance sheet concerns than the sale of distressed mortgages to vulture funds and private equity.



05:29

From RTÉ One's Six One News, Minister for Finance Paschal Donohoe on the new emergency measures that have been put in place by banks in Ireland

Banks are not a panacea and will always have to make decisions that produce pain. As the ensuing economic crisis unfolds, we can surmise that there will be those that will never be able to repay loans and hat repossessions will increase. Yet we ought to be able to expect banks' decisions to be fair. These decisions should be representative of a trustworthy bank, they should exhibit reliability, honesty and competence.

We should be able to rely on a bank to ensure that they apply appropriate decision-making procedures to all relevant customers, and not just to customers who have used legal mechanisms to enforce their rights (reliability). Customers should be made aware of information that affects them promptly and in a way that respects their potential vulnerability (honesty). We should be able to count on banks' employees to provide us with good quality financial advice tailored to our situation (competence).

Irish people need their banks now more than ever and probably even more than now in the foreseeable future. The last economic crisis was largely of banks' making and the next economic crisis might depend on trustworthy banks to support their communities through financial hardship. There has been much public debate over the last 12 years about whether banks are trustworthy. In a way, the next few years will show if our banks deserve our trust.

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