In conversation with Brian Hayes

CEO of Banking and Payments Federation Ireland.
In May 2019, the former Fine Gael MEP took the helm of Banking & Payments Federation Ireland. Here, he outlines his vision for the role and ambitions for the Irish financial services sector.

**What made you decide to leave politics to take up the position of CEO at BPFI?**

Three reasons: firstly I turned 50 in August and I said I’d be out of politics by the age of 50. Secondly, I’ve been involved in financial services at a public policy level for the past ten years. I spent four years in the department of finance as minister of state and spent a lot of that period in ECOFIN Eurogroup council meetings and I got quite interested in the whole EU decision making process around financial services post-crash. And when I went on the ECON committee, that’s really what I did in parliament for the last eight years.

The bank came to me a year and a half ago and asked would I be interested in this role. Why am I doing it? It’s a big challenge. Everyone knows the legacy of the banks and the way that they are inextricably connected with Ireland’s collapse at the time. They needed a strong personality to be a front of house spokesperson for the industry and try to get their side of the story across in a difficult environment in terms of media and PR.

And the third reason was personal reasons: my family lived with me for five years in Brussels and then went home, and I didn’t want to be living out of a suitcase three nights a week with adolescent kids. So really it was age, the challenge, and then personal reasons with the kids.

**Give an overview of the BPFI, its membership and remit?**

It’s the industry body for the banks, it’s made up of over 100 members, some of them small, some of them big, from the retail Irish domestic banks to the international banks, to the fintechs that are emerging, to the payments providers and service companies who are associates to our members as well. It’s very much a strong ecosystem of the voice of banking and payments in Ireland. It has morphed into kind of a new organisation in recent years because of the inclusion of payments, fintechs and the inclusion of the
international banks. Traditionally it would have just been the domestic banks and while they have a very prominent position understandably in the organisation, it’s a much broader canvas.

We believe Ireland needs to become a good place to run a competitive and sustainable, economically profitable banking model. Ireland can’t become an outlier in that regard. We need to be aware of the challenges that the industry faces in the negative interest rate environment that is certainly there at the moment, and also the challenge of getting NPL rates down to more European normal rates. We do lots of things for our members in terms of advocating for them, speaking for them, making sure that stakeholders – be it the Department of Finance, the Central Bank of Ireland, the SSM – are aware of our position.

**What are your ambitions for the new role and what key achievements are you working towards?**

We’ve just gone through a very rigorous three-year plan process where we’ve had to internally look with our board members and all stakeholders at the future of the organisation, the role it plays for the domestic banks and the international banks and payment services companies to make sure we’ve the right offering.

My vision, really, is that our predominant position as the voice of banking, payments and fintech in Ireland will be recognised. We will have played a key role in helping to restore credibility to the industry. And also that the BPFI will be an engine for the future of the industry; working hard with our members, with stakeholders in seeing a really strong strategic development of the business within the industry. I think we’re recognised as a very strong voice within the financial services sector at home and abroad, but I think the area we need to be much clearer on, is what we can do to help and drive collaboration within the industry into the future. I believe passionately in that. I think Ireland’s too small and the sector is too small. We have to work together as banks and payment provider companies in a totally transformed digital world. That is a big part of my business plan for the BPFI into the future.

**What do you see as the biggest issue confronting Ireland’s financial services industry right now?**

I think the biggest issue for the sector is one of credibility. We have a very strong offering; we’re not a Frankfurt or Paris or London, but we certainly are at the level of an Amsterdam or a Luxembourg, and we’ve got to continue to advocate strongly for our position within the European Union as a sector. And that means we’ve got to regulate in a proportionate and risk-free way. We’ve got to mark ourselves against other similarly sized countries in terms of how we are doing on a regulatory and supervisory level.

One of the biggest inherent problems for the banking sector in Ireland is the huge amount of trapped capital that exists within Irish banks. It’s really absurd, when you consider that for every €1,000 we lend in Ireland, we’ve got to keep €50 in reserve for capital. Across similar pillar banks in the EU, it’s €15, so that trapped capital, as a consequence of the model that the SSM has, makes it difficult for Irish banks to really compete with other banks.

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And I think we need to get, over a period of time, to a level playing field with other similarly sized peers, across other similarly sized EU countries. I think that would help the position of the banks; it would help credit formation in Ireland which is still quite dull as a consequence of the crash. People are holding on to cash, they're not seeing new credit formation taking out new debt. Despite the improvement, it's nowhere near where one would expect given the scale of upturn in the economy in the last number of years. I think some of that is around the amount of capital the banks have to hold in Ireland.

How optimistic are you of achieving that goal?
Over time I think we can. Ireland is a risky place to do banking; we know that. If you have a house on your balance sheet and it takes you twice the length of time to get that asset back through a repossession as it would in other countries, that's a risky offering for a country. We also need to ask ourselves the question: why are more banks not coming into Ireland to open up shop? I think they look at the environment here and they see a risky place to do banking. So we've got to be aware of all these issues feeding into our narrative on Irish banking, and over a period of time, try to correct them with public policy makers and regulators.

What does a more competitive banking environment mean from the BPFI's perspective?
As the industry voice, BPFI is passionate about more competition, more innovation, and new entrants. With competition comes a better offering and that keeps everyone on their toes in terms of what they're offering consumers – once that competition is done in a fair way with other banks. But we're not going to get there if the rules in Ireland are seen to be a substantial outlier from other Eurozone countries.

You took part in the judging panel for the Deloitte Financial Services Innovation Awards. How was that experience through the lens of your role at the BPFI?
It showcased very strong talent across all sectors of financial services in Ireland, from big players to medium-sized and really small players. I think it shows there's a strong appetite for innovation right across financial services. What you're beginning to see more and more of from the banking world, and it was there in the submissions before us, was a much closer connectivity between fintechs and banks, working on solutions in house or outsourced. And I think that is a super model for the future. I was really inspired by all of the innovative nominations that we saw, and I think we're going to see more of them.

What more can Irish banks do to continue innovating, and what do you think it could lead to?
If I'm on the board of a bank, these are the questions I should be posing anyway in terms of upstream or downstream threats. If you look at the Minister's plans, Finance for Ireland 2025, a third of the 100 or so actions relate to the BPFI and the role we play as payments service companies and banks - the work that we have to do in terms of the Fintech Foresight Group, the Fintech Foundry, and the work that we're doing with the Institute of Management on new courses which take a whole-of-bank approach in terms of digitalisation and innovation.

And it's going to depend on the trade bodies: BPFI, Insurance Ireland, Funds Ireland, and IBEC, to work more together in delivering that plan and I'm
well up to that over the next four or five years. We have a chance to make Ireland a fintech hub if we get the conditions right.

What needs to happen to make that goal a reality?
There are five things that need to happen: one is better regulation around sandboxing and how we stress-test new ideas as they emerge in the market. That requires a regulatory leap of faith which can be difficult but there are examples of where that’s worked in the UK and Amsterdam, particularly on the sandboxing side.

Secondly, we need a better approach to tax, risk taking and how we treat entrepreneurs. There were some good things in the recent budget; more to do there.

Education is the third item. I spoke to a very senior banker recently who runs a large international bank here in Dublin, who said to me: ‘within eight years, 50 per cent of the people working in our bank worldwide will come from a tech background and not a banking background’. So education is crucial in making sure that we have a pipeline of graduates with an engineering, computing, tech background which can migrate into a bank and work through the financial services industry.

Fourth, we need to retain talent and make sure that we can attract talent which is always a challenge. People can move anywhere in the world, and there are a lot of issues like housing that we’ve got to get right.

And the fifth issue is collaboration. If the big techs and social media companies and the big banks are working together in a more collaborative way, the landscape for innovation is so much better.

BPFI’s recent conference, ‘Banking on Sustainability’, considered the impact of climate change for the financial services sector in Ireland. What were some of the insights from the event?
How we transition to a carbon-free or carbon-neutral society is predicated on the availability of capital. That transition can’t happen without the banks. They are the intermediaries for businesses, for communities, for countries, for individuals, in how we go forward.
You’re beginning to see a lot of interesting things in the Irish market; green bonds, interesting savings and investment products which are exclusively under ESG factors and sustainable finance mandates doing very well in terms of annual returns. You’re beginning to see the ultimate ‘green’ mortgage product coming on the market. That means two things: one, you’re less risky to the bank for lending because you’ll have less money to spend on fossil fuel over the life of the mortgage. Secondly it means that the asset underlying the balance sheet of the bank for the purpose of provisioning is less risky because it is a green product.

One of the big drivers in the banking industry is our own staff. Six out of ten people working in the Irish banks weren’t there ten years ago. The demographic is much younger, more diverse, and they’re pushing hard for the Csuites and executive committees to be aware of our collective responsibilities on sustainable finance. Not just the whole regulatory mountain that’s coming from the European Union, but actually, physically arguing for, advocating for, a much greater variety of products in this area. A lot of those issues were front and centre in the debate. It was a fascinating conference.

Finally, how does leading a financial services representative body compare to your previous life as a politician?

They’re similar enough in some respects in that a politician and the head of a trade body is a bit like being in the security council of the United Nations: everyone has the power of veto at the same time! You’re conscious of the diplomacy that goes on. But they’re very different. I’m doing this because I believe in it. I believe it’s really important that we get the banks to a better place.

I’ll put it this way: the Irish banks don’t have a right to be heard but the distinction I would make is: the Irish people have a right to hear the arguments that the banks make. There’s a difference. Much of the commentary on banks has been uber-populist in recent years. The tracker mortgage scandal was a real low point and something we apologise for again and again. But the basic rules of banking don’t change much across the Eurozone system. There has to be an understanding of why things are happening: why our mortgage rates are higher; why it’s difficult to get possession of secured assets or repossession vis-à-vis other countries, all of these things. We have to find a way of explaining that to people.

When you strip aside some of the noisier voices, there’s an opportunity for the middle ground of people to hear your argument. I’m very conscious that I have a big responsibility on behalf of the industry to tell their side of the story in an environment that’s difficult for banking in Ireland. I’m not here to defend banks, I’m here to argue for an industry and its place in modern Ireland – and I make the distinction between one and the other.

An interview conducted with Brian Hayes, CEO Banking and Payments Federation Ireland, November 2019