CPD Annual Update Manual IOB, 2023

IOB accreditation code: 2023-1920

Hi there,

Welcome to your CPD Annual Update Manual for 2023. We know that this is a valuable document for you, our members. This year, the manual counts for CPD hours for the following designations:

- **QFA / APA (all categories) – 4 CPD hours relevant to all categories except Ethics**
- **AFP – 1 Hour**
- **Certified Bank Director – 1 hour**
- **Certified Investment Fund Director – 1 hour**
- **Chartered Banker – 1 Hour**
- **FCI Compliance – 4 Hours**
- **MCI Board Member or Equivalent – 2 Hours**
- **Personal Insolvency Practitioner – 1 Hour**
- **Professional Banker – 1 Hour**
- **Retirement Planning Professional – 2 Hours**
- **Regulatory Reporting Professional – 1 hour**
- **Registered Stockbroker – 4 Hours**
- **Wealth Management Professional – 2 Hours**
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Thank you for being part of our CPD community and we look forward to continuing to support you on your lifelong learning journey.

Laura Brouder
Director of Membership Engagement and Development, IOB

CPD Annual Update Manual2023

Introduction

Welcome to the **CPD Annual Update Manual for 2023**, which covers issues and developments relevant to the provision of advice to consumers on retail financial products and to the exercise of specified functions by accredited persons under the Central Bank's Minimum Competency Code, as well Credit Union designation holders and Pension Trustee Practitioners.

The **CPD Annual Update Manual** includes:

> Significant additions and amendments to the relevant September 2023 edition of QFA and other MCC course manuals, Current relevant fiscal, economic and market developments, for example relevant budget taxation changes

The CPD Annual Update Manual for 2023 is divided into the following sections:

Section One - Irish Economic and Financial Update (July 2023). This content is relevant to *all* categories of retail financial products.

Section Two - Regulation. This content is relevant to all categories of retail financial products.

Section Three - Life Assurance. This content is relevant to life assurance.

Section Four - Pensions. This content is relevant to pensions.

Section Five - Investments. This content is relevant to savings and investments.

Part One - Section Six - General Insurance. This content is relevant to personal general insurance and commercial general insurance.

Part Two - Section Seven - Private Medical Insurance. This content is relevant to private medical insurance and associated insurances.

Section Eight - Housing Loans and Associated Insurances. This content is relevant to housing loans, home reversion agreements and associated insurances and mortgage credit intermediaries.

Section Nine - Consumer Credit. This content is relevant to consumer credit agreements and associated insurances.

Section Ten - Debt Management Services. This content is relevant to those providing debt management services.

Section Eleven - Credit Union. This content is relevant to Credit Unions.

Disclaimer

This Annual Update Manual has been prepared and provided solely as an educational aid for IOB, LIA and II members and provides up to four hours of CPD for readers. The objective of the Annual Update Manual is to outline the key changes in our course content from one year to another, and it also includes some additional educational content, for example the economic update. The Annual Update Manual is not intended as an industry reference guide and should not be used as such. Every effort has been made to ensure that the material contained in this Annual Update Manual is as accurate as possible at the date of completion. Any changes (legislative, regulatory, taxation, etc.) thereafter are not included in this Annual Update Manual. IOB, the author(s), verifiers, consultants, or other contributors accept no responsibility for loss or damage incurred, or alleged to have been incurred, directly or indirectly, by any person or entity as a result of the information contained in this Annual Update Manual. Professional advice should always be sought before acting on any interpretation of the legislation described in this Annual Update manual.

To obtain the CPD hours for reading this manual, you should record the relevant accreditation code in your CPD log on IOB Learn.

The accreditation code is:

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Section One - Irish Economic and Financial Update

Global Economic Context

2022 was a challenging year for the global economy. The Russian invasion of Ukraine on 24 February had a significant impact and happened just as the world was emerging from the pandemic. This resulted in significant disruption to global supply chains of energy, food and industrial metals. These disruptions came on top of the pre-existing pandemic-related disruptions, resulting in supply uncertainties and a surge in inflation to the highest levels seen in four decades in many countries by October 2022. Also, after a decade of very low interest rates and significant growth in money supply due to quantitative easing (QE), the foundations had been laid for a spike in inflation at some stage.

At the beginning of 2022, central bankers initially believed that inflation would prove transitory and that, as the post-Covid-19 surge in repressed demand normalised and as supply chains improved, inflation would quickly moderate, but such hopes were destroyed by the Russian invasion of Ukraine.

Central bankers reacted belatedly, but aggressively. The ECB increased interest rates by 0.25% at its June 2023 meeting, taking the interest rate on the main refinancing operations to 4%, the interest rates on the marginal lending facility to 4.25% and the deposit facility to 3.5%, with effect from 21 June 2023. The ECB has tightened rates by 4% since the end of July 2022. The ECB rate tightening cycle has not yet peaked as the ECB is still concerned about tight labour markets and service sector inflation. It is likely that the ECB will add at least another 0.5% to its interest rates. Rates are likely to remain at these elevated levels until well into 2024 at least unless inflation falls dramatically and the eurozone economy goes into deep recession.

Between December 2021 and June 2023, the Bank of England increased rates from 0.1% to 5% in June 2023. It seems likely that the Bank of England will increase rates by around 1% from here.

Between March 2023 and June 2023, the US Federal Reserve increased interest rates from zero to a range of 5 to 5.25% in June 2023. The US central bank may also increase interest rates further.

The economic effects of rising rates are being felt everywhere, with economic growth under pressure. This is what central bankers are trying to engineer as unemployment is too low almost everywhere (from a wage and inflation perspective), non-energy goods prices are still rising, and service sector inflation is a key feature of most economies. This suggests that central bankers in most jurisdictions will tighten monetary policy further, but there is now a very difficult balancing act to be achieved between achieving a 2% inflation rate and pushing economies into recession.

In the euro area, for example, there are clear and growing signs of economic pain. The eurozone economy declined by 0.1% in the final quarter of 2022 and the first quarter of 2023, which technically is defined as recession (two successive quarters of negative growth). German GDP declined by 0.5% in Q4 2022 and by 0.3% in Q1 2023. France, Spain and Italy are still avoiding technical recession.

The Composite Purchasing Managers Index (PMI) for the eurozone fell from 52.8 in May to 50.3 in June. A reading above 50 signifies more businesses are expanding than contracting, and vice-versa for a reading below 50. Within the composite number, the manufacturing index declined from 44.8 to 43.6 (very weak), while the services index declined from 55.1 to 52.4. The continued growth in the services sector feeds into the central bank fears about service sector inflation.

Bank lending to households in the eurozone expanded by 2.1% in the year to May, which is the lowest growth rate since December 2016. Bank lending to companies increased by 4%, which is the lowest growth rate since December 2021. Higher interest rates are clearly having an impact.

In the UK, GDP expanded by 0.1% in Q4 2022 and Q1 2023, so the UK has to date also avoided technical recession. However, activity levels are weak and getting weaker. The UK Composite Purchasing Managers Index (PMI) fell from 54 in May to 52.8 in June. Within the composite number, the manufacturing index declined from 47.1 to 46.2, while the services index declined from 55.2 to 53.7.

In the US, GDP expanded at an annualised rate of 1.3% in the first quarter. This does represent a weak level of economic growth, but the economy is still growing. The PMI for manufacturing fell to 46.3 in June, while the non-manufacturing PMI is still above 50 at 50.3%.

On the inflation front, headline inflation rates have peaked and are now in decline.

- The headline inflation rate in the euro area peaked at 10.6% in October 2022 and declined to 6.1% by May 2023.

- The headline inflation rate in the US peaked at 9.1% in June 2022 and declined to 4% by May 2023.
- The headline inflation rate in the UK peaked at 11.1% in October 2022 and declined to 8.7% by May 2023.

These declines in the headline rate of inflation are largely due to lower energy prices. For example, the price of Brent Crude Oil declined by 32.5% in the year to the end of June 2023.

Tight labour markets are a concern for central bankers, with the UK unemployment rate at 3.8%, the US rate at 3.7%, and the eurozone rate at an all-time low of 6.5%.

The outlook for the global economy remains very uncertain due to elevated inflation, significant tightening of interest rates, the ongoing Ukraine war, and intense and dangerous global geopolitical uncertainty.

The Irish economic context

Despite the global economic difficulties, elevated inflationary pressures and an aggressive upturn in the global interest rate cycle, the Irish economy had a solid year in 2022. It was supported by a strong multinational performance, exceptionally strong export growth, buoyant tax revenues that facilitated a very expansionary budget in September, and a strong labour market.

Not surprisingly against a background of intense global uncertainty, rising interest rates and intense cost-of-living pressures, consumer confidence declined during the year, and consumer spending weakened somewhat. Business confidence also declined and there was anecdotal evidence of a more cautious approach to business investment as the year progressed. However, in overall terms the Irish economy proved very resilient and delivered another impressive performance.

In any examination of the Irish economic performance, it is important to understand the complexities and distortions in measuring Irish economic activity. Gross Domestic Product (GDP) is the widely accepted international metric for measuring the size of an economy. It is the total value of goods and services produced in an economy in a given time period.

Globalisation presents significant challenges in terms of measuring economic activity. While this is the case in most advanced economies, the issues are particularly acute in an Irish context, given the large multinational footprint.

GDP is the total value of goods and services produced in the domestic economy, irrespective of whether domestic or foreign firms produce them.

Gross National Product (GNP) is a slightly different way to measure economic activity. GNP is calculated the same way as GDP; however, it excludes net factor income. Net factor income takes into account money coming into the country from abroad (such as money earned by Irish companies based overseas) and excludes money that leaves Ireland (such as profits of multinationals being repatriated abroad). In 2022, there were net factor outflows of €131.9 billion.

In the past, GNP was considered a better measure for the Irish economy than GDP as the large number of multinationals in Ireland meant that significant profits were repatriated abroad. However, in recent years many issues have arisen that meant that both GDP and GNP were not reflective of the underlying economic activity.

In response to these challenges, the CSO developed new metrics to capture growth in the economy and present a more realistic measure of what is really happening on the ground in the economy. These include Modified Domestic Demand (MDD) and Modified Gross National Income (GNI*).

Modified Domestic Demand seeks to exclude the large transactions of foreign corporations that do not have a big impact on the domestic economy. MDD is a smaller number than GDP and it more truly reflects how households, government and domestic corporations in Ireland are doing.

By adjusting GDP for subsidies received by Ireland from the European Union and the taxes paid to the European Union, we arrive at a measure called Gross National Income (GNI). However, in 2015 there were significant imports of intellectual property assets into Ireland. The way these assets are treated in the national accounts caused GDP to increase by more than 25%. Modified GNI (GNI*) was created in response to this to help capture underlying growth in the economy by excluding distorting effects, such as the depreciation on Intellectual Property (IP) and on leased aircraft. GNI* also excludes the net factor income of redomiciled Publicly Limited Companies (PLCs).

Table 1 shows the evolution of these economic metrics in 2022. The important point is that GDP exaggerates the real level of economic activity on the ground in the domestic economy.

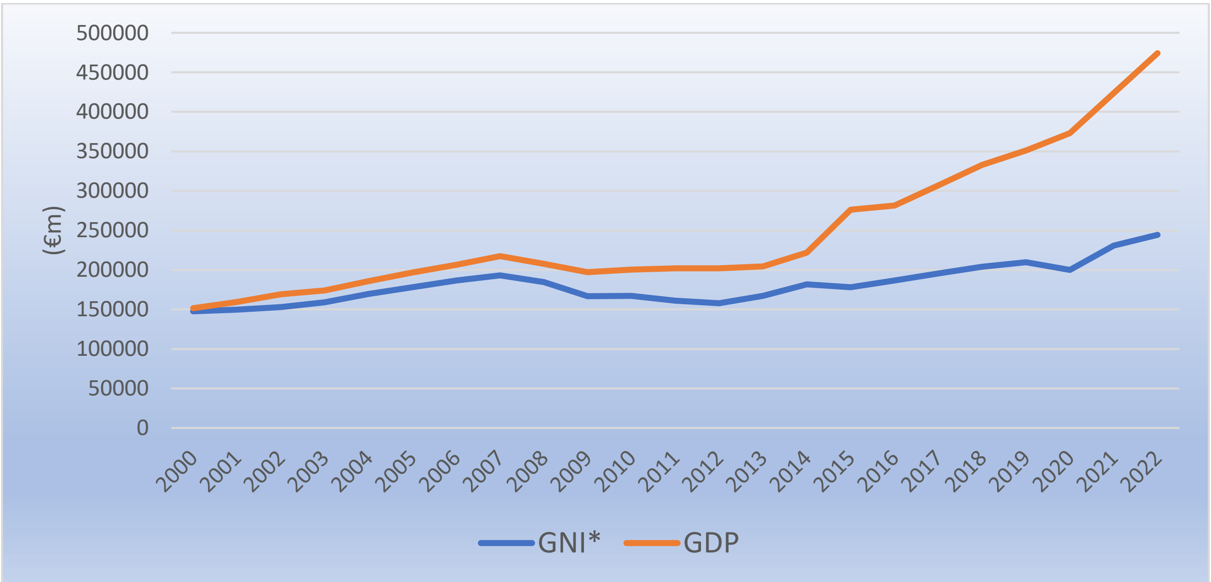
Table 1: The Irish economy in 2022

Component of expenditure	% change in constant market prices
Personal consumption of goods and services	+6.6%
Net expenditure by central and local government on goods and services	+0.7%
Gross domestic fixed capital formation	+25.9%
Exports of goods and services	+15.0%
Imports of goods and services	+19.0%
Gross Domestic Product (GDP)	+12.0%
Net factor income from rest of world (€bn)	-€131.9
Gross National Product (GNP)	+6.7%
Modified Gross National Income (GNI*)	+5.9%
Modified Final Domestic Demand	+8.4%

Source: CSO

Figure 1 shows the sharp divergence between GDP and GNI* in recent years.

Figure 1: GDP & GNI*



Source: CSO

The Irish economy continued to perform strongly in the first half of 2023. However, official Gross Domestic Product data suggest that the economy went into technical recession in the first quarter of the year. A technical recession is defined as two consecutive quarters of negative growth.

GDP contracted by 0.1% in the final quarter of 2022 and it contracted by 4.6% in the first quarter of 2023. Consequently, this satisfies the technical definition of a recession. However, the reality is that GDP is a distorted measure of activity in the Irish economy due to the activities of the very important multinational sector.

Modified Domestic Demand (MDD) is an important and more representative measure of underlying demand and excludes Intellectual Property (IP) transactions and aircraft-leasing-related globalisation effects. MDD is a broad measure of underlying domestic activity that covers personal, government and domestic investment spending. It increased by 2.7% in Q1 2023. Within this, personal spending on goods and services, which is a key measure of domestic economic activity, increased by 1.7% in the quarter, having expanded by 1.6% in the previous quarter.

The reality is that output and exports from the chemical and pharma sector have weakened significantly this year, largely due to a post-Covid-19 adjustment after very strong growth during the pandemic. This is being reflected in the weaker export performance so far this year. Output from the multinational-dominated sectors declined by 15.7% in the first quarter of 2023, which is the largest decline since Q1 2017. These sectors account for 53% of total value added in the economy, compared with a 47% share for all other sectors.

Table 2: Quarterly growth profile (Q1 2023)

(Quarter-on-quarter)	Q4 2022	Q1 2023
GDP	-0.1%	-4.6%
GNP	+5.6%	-8.0%
Consumption	+1.6%	+1.7%
Investment	-46.4%	-12.7%
- **Investment in intangible assets**	-61.6%	-35.7%
- **Investment in building and construction**	-5.4%	+8.7%
Exports	0.0%	-2.1%
Modified Final Domestic Demand	-0.9%	+2.7%

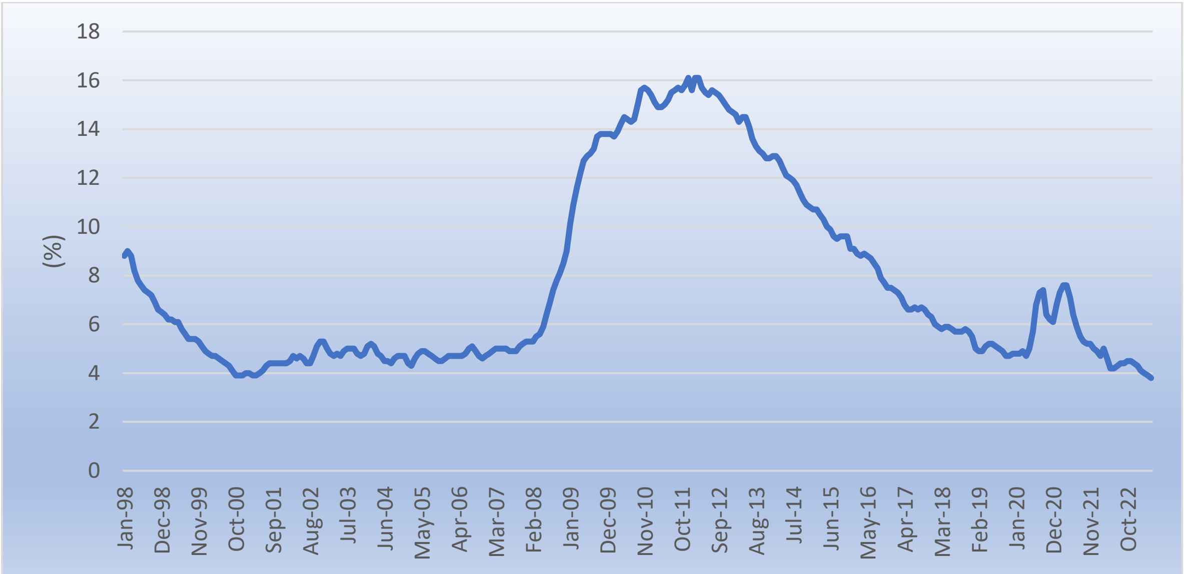
Source: CSO

The overall picture is confusing and needs careful interpretation, but the bottom line is that indicators such as the labour market, consumer spending, the Exchequer finances and domestic business investment all suggest an ongoing reasonably strong level of economic activity.

The labour market

The labour market is performing very strongly. In May, the unemployment rate fell to 3.8% of the labour force, with 103,300 people officially registered as unemployed. This is the lowest rate of employment on record and effectively represents an economy at full employment. Recruitment and retention are major challenges for most businesses and wage pressures are intensifying.

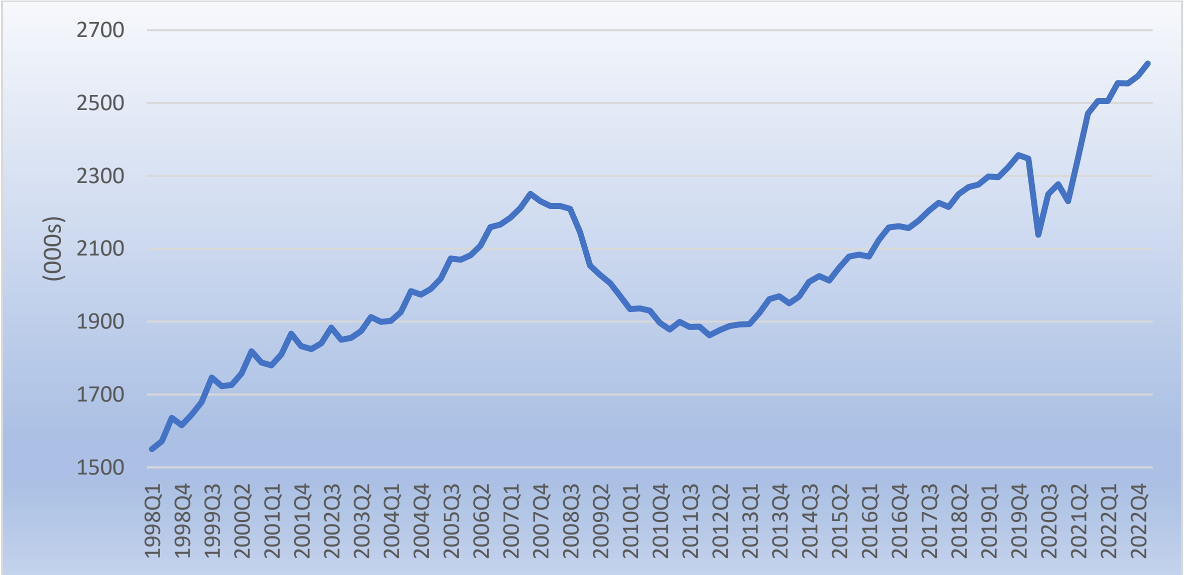
Figure 2: Unemployment rate



Source: CSO

In the first quarter of 2023, employment reached a record high of 2,608,500.

Figure 3: Employment



Source: CSO

Table 3 shows the sectoral evolution of employment in the 12-month period to the end of the first quarter of 2023.

Table 3: Change in employment by sector (Year to Q1 2023)

	Q1 2023	Q1 2022	Change
All NACE economic sectors	2608.5	2505.8	102.7
Agriculture, forestry and fishing	99.1	103.5	-4.4
Construction	160.8	159.3	1.5
Wholesale and retail trade, repair of motor vehicles and motorcycles	331.3	301.9	29.4
Transportation and storage	110.7	113.2	-2.5
Accommodation and food service activities	171.4	162.6	8.8
Information and communication	168.6	163.6	5
Professional, scientific and technical activities	166.6	162.3	4.3
Administrative and support service activities	113	102.3	10.7
Public administration and defence, compulsory social security	139.2	133.7	5.5
Education	210.1	211	-0.9
Human health and social work activities	347.8	325.2	22.6
Industry	330.2	315.2	15
Financial, insurance and real estate activities	132.5	135.3	-2.8
Other NACE activities	119.9	109.3	10.6
Not stated	7.2	7.5	-0.3

Source: CSO

The Consumer

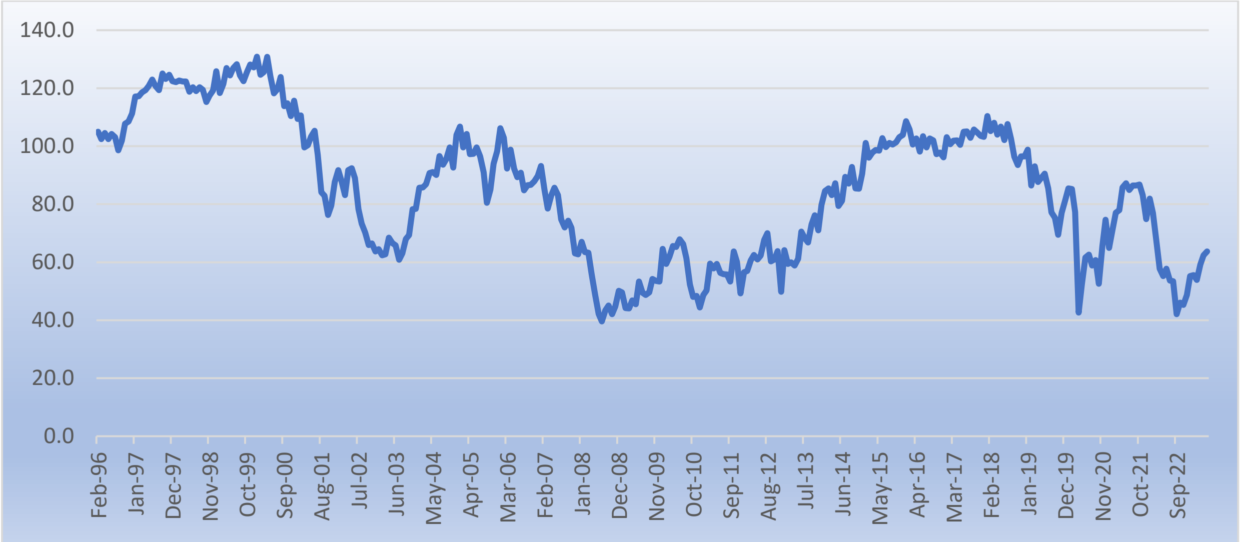
Consumer confidence weakened significantly during 2022 to reach the lowest levels since the global crash in 2009 and March 2020 when the global pandemic was declared. Confidence weakened due to a combination of the escalation in the cost of living, the sharp increase in interest rates, the war in Ukraine and general nervousness about the economic outlook.

However, the sharp decline in consumer confidence did not translate to a commensurate slowdown in consumer spending, although there was some easing as the year progressed. Overall, consumer spending on goods and services expanded by 6.6% in 2022. Retail sales, which measures consumer spending on physical goods, expanded by 7.6% in value terms and declined by 0.6% in volume terms in 2022.

Consumer confidence improved markedly in the first half of 2023 and in June it reached the highest level in 15 months. Consumers are more confident about employment and personal finances and believe that the cost-of-living crisis is easing.

In the first five months of the year, the value of retail sales expanded by 11.6% and the volume of sales expanded by 5.6%. Car sales are included in retail sales, and in the year to May, new car registrations were 18.2% ahead of the first five months of 2022. When car sales are excluded, the spending picture is weaker. The value of retail sales expanded by 6.2%, and the volume of sales increased by 1.1%. Rising interest rates and the escalation in the cost of living are engendering more cautious consumer behaviour.

Figure 4: Consumer confidence

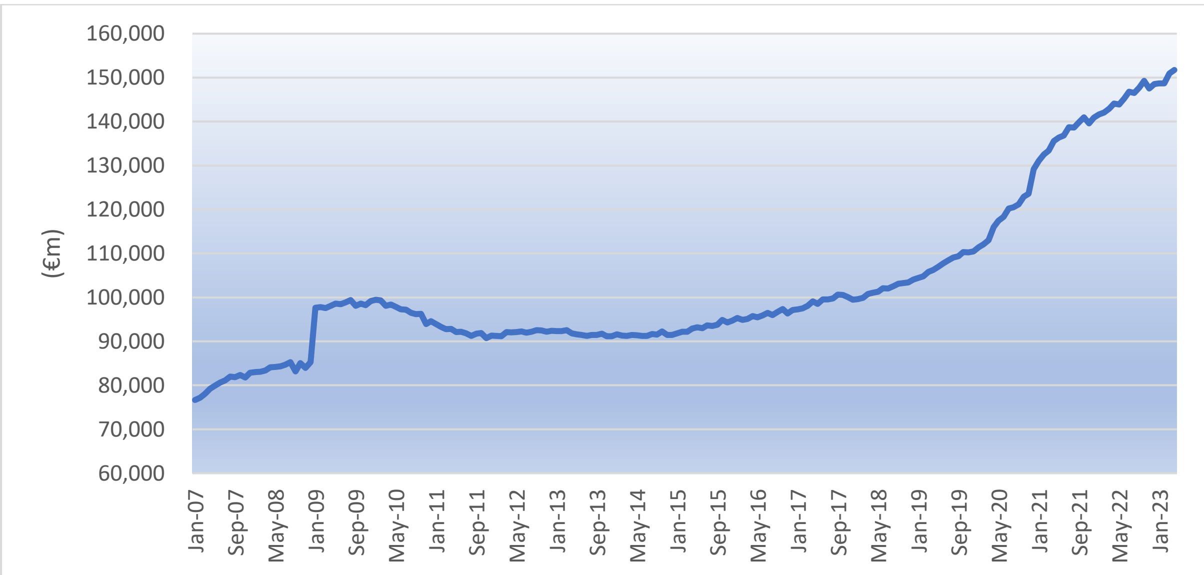


Source: Irish League of Credit Unions

Household finances

Central bank data show that household savings reached €151.7 billion in April, up €7.9 billion from April 2022. Ninety-four per cent of these deposits are in overnight deposit accounts rather than longer-term savings accounts. During April alone, household savings increased by €831 million.

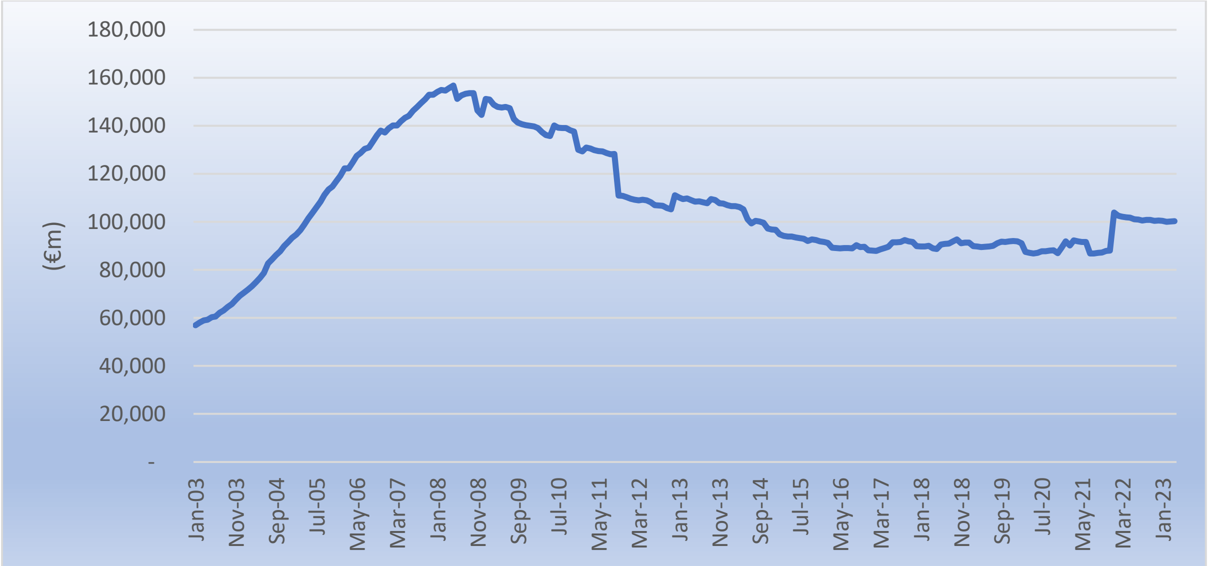
Figure 5: Household deposits



Source: Central Bank of Ireland

There has been a significant deleveraging of the household sector since 2008. Outstanding credit has fallen sharply over the past decade.

Figure 6: Household loans outstanding



Source: Central Bank of Ireland

In overall terms, the aggregated household sector balance sheet looks strong, with record deposits and much lower levels of credit outstanding.

The Exchequer finances

The buoyancy of tax revenues was the key feature of the public finances in 2022. In Budget 2023, the government allocated €11.3 billion in once-off budgetary measures and in core budgetary measures. The absolute size of the package was significant but did not have any impact on Irish bond yields. This is in marked contrast to the financial market meltdown that followed the UK mini budget, which culminated in the Prime Minister losing her job. The main reason for the two different responses was the fact that the UK would have to borrow to finance its fiscal largesse, whereas Ireland is able to fund the fiscal package from a budget surplus on the back of buoyant tax revenues.

An Exchequer surplus of €5 billion was delivered in 2022, compared to a deficit of €7.4 billion in 2021. This turn-around of €12.4 billion is due to buoyant tax revenues and the decline in Covid-19-related public expenditure.

For the full year:

- Overall tax revenues totalled €83.1 billion, which is 21.5% or €14.7 billion higher than 2021. This is the highest level of tax revenues ever collected.
- Corporation tax receipts totalled €22.6 billion, which is €7.3 billion or 47.8% higher than 2021. This buoyancy reflects the strong profitability of many of the multinationals operating in Ireland. Corporation taxes accounted for 27.2% of total tax revenues in 2022 and it has overtaken VAT as the second-largest tax generator, behind income tax.
- Income tax came in at €30.7 billion, which is 15.2% or €4.1 billion ahead of 2021. The strength of income tax receipts reflects the very progressive nature of the Irish income tax system and the high quality of employment in the economy. It is indicative of a very buoyant labour market, where retention, recruitment and increased labour costs are still significant challenges for some employers, despite the international headwinds that are building steadily and the tentative signs of slower activity that we are seeing in the Irish economy. Income tax accounted for 37% of total tax revenues in 2022.

VAT receipts totalled €18.6 billion, which is up 20.5% or €3.2 billion on 2021. This reflects the improvement in consumer spending. VAT accounted for 22.4% of total tax revenues in 2022.

Table 4: Tax revenues (2022)

Tax category	€m	Year-on-year change (%)	Year-on-year change (€m)
Income tax	30,728	+15.2%	+€4,061
VAT	18,601	+20.5%	+€3,160
Corporation tax	22,643	+47.8%	+€7,318
Excise	5,441	-6.8%	-€398
Stamps	1,824	+23.0%	+€341
Capital gains tax	1,747	+6.4%	+€106
Capital acquisitions tax	605	+4.1%	+€24
Customs	636	+21.0%	+€110
Motor tax	904	-0.3%	-€3
Total	83,130	+21.5%	+€14,720

Source: Department of Finance Fiscal Monitor, 4 January 2023

The Exchequer finances continue to be characterised by tax revenue buoyancy in 2023. In the first five months of the year, the Exchequer ran a deficit of €0.6 billion. This compares to a surplus of €1.4 billion in the same period last year, with the difference driven by the transfer of €4 billion to the National Reserve Fund (NRF) in February this year.

Tax receipts of €33.1 billion were collected to end-May, ahead of the same period last year by €3.1 billion, or 10.2%, driven primarily by growth in income tax, VAT and corporation tax.

The income tax take was up by €1.1 billion, or 9.4%; the corporation tax take was up by €1.1 billion, or 20.7%; and the VAT take was up by €1 billion, or 11.7%.

The income tax take reflects the growing level of high-quality employment being created, the corporation tax take reflects the strength of the multinational sector, and the strong VAT take reflects the strength of consumer spending.

Table 5: Tax revenues (January–May 2023)

Tax category	€m	Year-on-year change (%)	Year-on-year change (€m)
Income tax	13,016	+9.4%	+€1,116
VAT	10,019	+11.7%	+€1,046
Corporation tax	6,277	+20.7%	+€1,077
Excise	2,151	+0.2%	+€5
Stamps	547	-16.4%	-€108
Capital gains tax	324	-12.1%	-€45
Capital acquisitions tax	95	-8.8%	-€9
Customs	223	-11.9%	-€30
Motor tax	405	+2.3%	+€9
Unallocated tax receipts	75	+14.2%	+€9
Total	33,131	+21.5%	+€3,071

Source: Department of Finance Fiscal Monitor, June 2023

Exports

In the first four months of 2023, total merchandise or goods exports were 5.2% lower than the first four months of 2022. Exports to the US were 22.7% down on last year, but all other markets experienced growth.

The key reason for the decline in exports was that exports of chemicals and related products declined by 6.4%. Within this category, exports of medical and pharmaceutical products declined by 17%. Sales of chemicals and related products to the US were down by 27.1%. It is believed that the main reason for the decline in exports to the US is a post-Covid-19 adjustment after a period of extreme buoyancy during the pandemic.

Exports of food and live animals were up by 11.9% in the first four months, and exports of machinery and transport equipment increased by 14.2%.

While there are some technical reasons for the overall decline in exports, the export sector looks set to make a smaller contribution to growth this year than has been the case in recent years. This will take from GDP growth.

Table 6: Ireland's merchandise export partners (January–April 2023)

Region	€m (Jan–April)	% of total	% change 2023/2022
EU-27	27,986	42.5%	+7.5%
US	17,753	27.0%	-22.7%
Great Britain	5,583	8.5%	+3.3%
Northern Ireland	1,542	2.3%	+2.5%
Rest of world	12,952	19.7%	-4.1%
Total	65,816	100.0%	-5.2%

Source: CSO

Inflation

A strong and steady escalation in the cost of living dominated economic and political discourse during 2022 and in the first half of 2023. The rate of inflation averaged 7.8% in 2022. The annual rate peaked at 9.2% in October, but it eased to 6.6% in May 2023. Supply chain difficulties due to Covid-19 created considerable price pressures initially, but the war in Ukraine exacerbated the pressures, particularly in energy-related and food-related components of inflation.

Figure 7: Annual rate of consumer price inflation

Source: CSO

The reduction in global energy prices in recent months, particularly oil and gas, are driving the headline rate of inflation down, but food and service sector inflation are still problematical.

The flash release of the EU measure of inflation (Harmonised Index of Consumer Prices) suggests that Irish inflation on this measure declined to 4.8% in June.

Table 7: Irish Inflation by component

Component	Year-year change (May 2023)
Overall consumer price inflation	+6.6%
Food	+12.6%
Clothing & footwear	+2.2%
Private rents	+7.8%
Electricity	+34.7%
Natural gas	+50.2%
Home heating oil	-34.0%
Petrol	-14.6%
Diesel	-22.9%
Restaurants	+6.8%
Accommodation	+14.7%
Motor insurance	-3.7%
Communications	+0.5%
Health	+3.4%

Motor cars	+5.5%
Mortgage costs	+44.1%

Source: CSO

New car registrations

In the first five months of 2023, new car registrations were 18.2% higher than the first quarter of 2022. However, new car registrations are still well below what would be regarded as a "normal market", which is estimated to be more than 140,000 new registrations. Prolonged low levels of new car registrations since 2008 have resulted in an ageing of the fleet, with the average age of the fleet at 9.3 years in 2022.

- In the first five months of 2023, 74,542 new cars were registered. This was 18.2% higher than the first five months of 2022.
- 24,123 new petrol cars were registered, which is 36.5% higher than the first five months of 2022. Petrol cars accounted for 32.4% of the total market.
- 16,527 new diesel cars were registered, which is 0.8% lower than the first five months of 2022. Diesel cars accounted for 22.2% of the total market.
- 12,875 new electric cars were registered, which is 55.9% higher than the first five months of 2022. Electric cars accounted for 17.3% of the total market.
- 13,051 new petrol–electric hybrid cars were registered, which is 9.4% lower than the first five months of 2022. Petrol–electric cars accounted for 17.5% of the total market.
- 5,936 new petrol plug-in electric hybrid cars were registered, which is 31.2% higher than in the first five months of 2022. Petrol plug-in electric hybrid cars accounted for 8% of the total market.
- 20,797 used cars were imported in the first five months of 2023, which is 5.2% higher than the first five months of 2022.

Table 8: New car registrations by engine type (January–May 2023)

Engine type	Number	% year-on-year	% market Jan–May 2023
Petrol	24,123	+36.5%	32.4%
Diesel	16,527	-0.8%	22.2%
Petrol–electric (hybrid)	13,051	-9.4%	17.5%
Electric	12,875	+55.9%	17.3%
Petrol plug-in electric hybrid	5,936	+31.2%	8.0%
Diesel–electric (hybrid)	1,828	+237.9%	2.4%
Diesel/plug-in electric hybrid	202	-44.8%	0.2%
Total	74,542	+18.2%	100.0%

Source: SIMI Motorstat

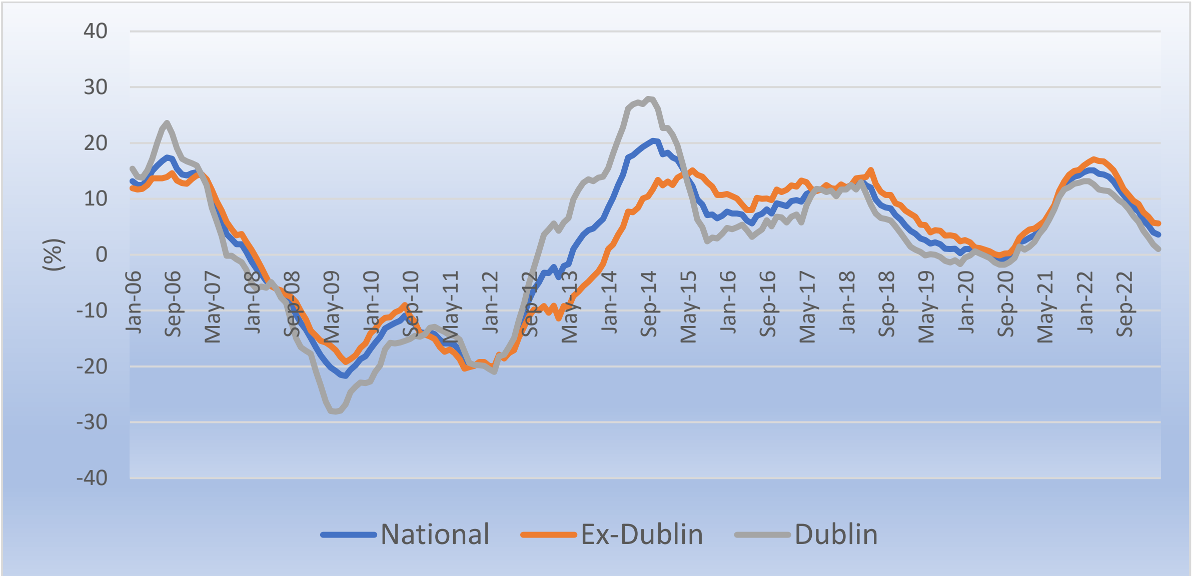
The housing market

Against a background of rising interest rates and considerable economic uncertainty, there have been clear indications that house price inflation is decelerating. In the year to April 2023, national average residential property prices increased by 3.6%, with prices in Dublin rising by 1% and prices outside Dublin rising by 5.6%. This is down from a peak growth rate of 15.1% in national average prices in March 2022, a peak growth rate of 13.2% in Dublin in February 2022, and a peak growth rate of 17.1% in the rest of Ireland in March 2022.

Between December 2022 and April 2023, national average residential property prices fell by 1.5% and by 0.2% outside Dublin. Dublin residential property prices declined by 3.6% between September 2022 and April 2023.

In April 2023, the national Residential Property Price Index (RPPI) showed that national average residential property prices were 1.7% above the highest level recorded at the peak of the economic boom in April 2007. Dublin residential property prices are 9.1% lower than their February 2007 peak, while residential property prices in the rest of Ireland are 2.5% higher than their May 2007 peak.

Figure 8: Residential property inflation (year-on-year)



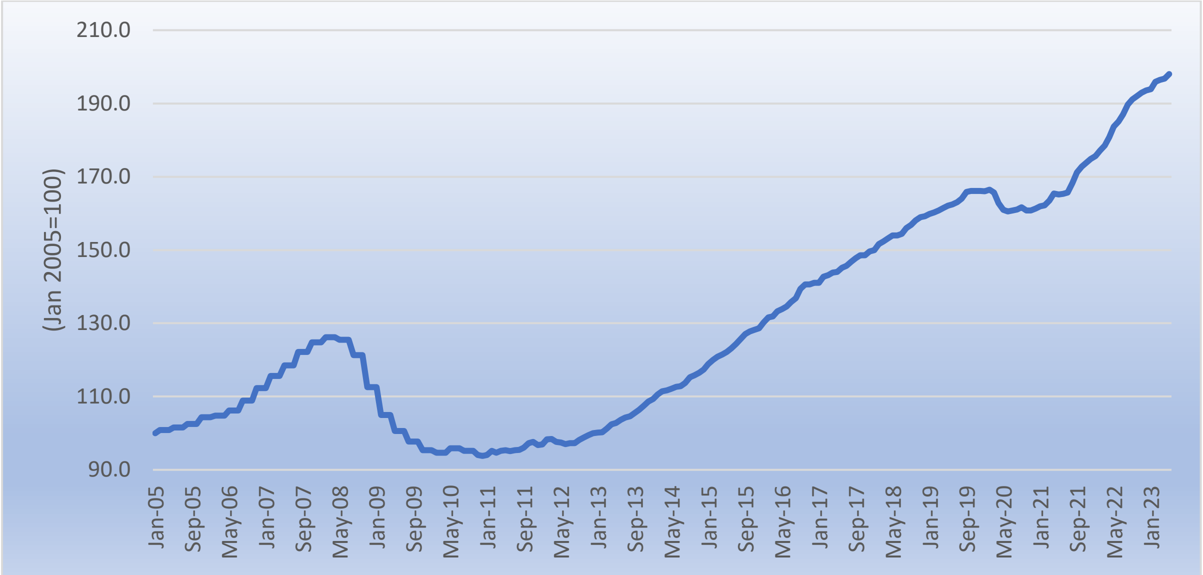
Source: CSO

The rental market

Pressure on the cost of private rents continues to intensify. CSO data show that rents increased by 7.8% in the year to May 2023. Between August 2012 and May 2023, average private rents increased by 103.5%.

Inadequate supply and strong demand are increasing pressure on the rental market. Increased demand stems not least from those who are unable to borrow enough to purchase a residential property but also from a growing labour force and overall population growth.

Figure 9: CSO private rents



Source: CSO

The housing market represents the most significant economic, social and political challenge facing Ireland. Rents and residential property prices are dangerously high and are damaging national competitiveness. The basic problem is a lack of supply in the face of a growing population, both from domestic and overseas sources. This lack of supply can only be addressed through initiatives that include changes to planning, tackling extreme "nimbyism", improving building viability and costs, increasing construction capacity, addressing land availability, and addressing the vacant and derelict property issue. There is no "silver bullet solution"; rather, many areas need to be addressed simultaneously.

Population

Census 2022 shows that the population of Ireland stood at 5.12 million in April 2022. This is up by 7.6% from Census 2016. Every county in the country experienced growth in population. In the six-year period between Census 2016 and Census 2022, there was net inward migration of 190,000. This is the highest population recorded in a census since 1841.

Agriculture

Although farmers endured a strong increase in input costs during 2022 due to energy and fertiliser, farming had a good year. The CSO estimates that the operating surplus for farmers increased by 25.4%, following an increase of 17.6% in 2021. The value of farm output increased by 25.2% in 2022.

Foreign direct investment

Despite the global economic headwinds and forthcoming changes to the global corporation tax regime, the IDA had another successful year in 2022. Employment in IDA-supported companies increased by 32,426 gross new jobs, 8,407 jobs were lost, and 24,019 net new jobs were created. In 2022, 242 new investments were delivered, with 167 coming from North America, 54 from Europe and 21 from "growth markets". Total employment reached 301,475.

In October 2022, the sectoral breakdown of IDA-supported jobs was as follows:

Table 9: Sectoral breakdown of IDA-supported jobs

Sector	Employment Oct. 2022	% total	% change on 2021
ICT	116,192	38.5%	+6.0%
Modern manufacturing	105,199	34.9%	+8.0%
Traditional manufacturing	23,658	7.8%	+5.6%
Business, financial and other services	56,426	18.7%	+9.0%
Total	301,475	100.0%	+9.0%

Source: IDA, 12 December 2022

IDA-supported companies have a strong footprint across the regions. IDA-supported companies had expenditure of €30.7 billion in 2022, with payroll accounting for €19.6 billion. The strong FDI footprint has provided an important anchor for the Irish economy since the beginning of 2020.

Table 10: Regional breakdown of IDA-supported employment (October 2022)

Region	Employment	% of total
Dublin	137,822	45.7%
South-west	52,228	17.3%
West	31,490	10.5%
Mid-west	26,004	8.6%
Mid-east	21,861	7.3%
South-east	15,520	5.2%
Border	8,885	2.9%
Midlands	7,665	2.5%
Total	301,475	100.0%

Source: IDA, 12 December 2022

In mid-December 2022, the European Union had a significant breakthrough in relation to the OECD/G20 global tax deal agreed in October 2021. Hungary dropped its veto on Pillar 2 of the tax deal. Pillar 2 allows for the introduction of a minimum corporation tax rate of 15% for multinationals and domestic groups or companies with a combined annual turnover of at least €750 million. The 27 EU member states have now agreed to transpose the directive into the national law of member states by the end of 2023. The EU is determined to be a front-runner in applying the global tax deal.

The impact of the global tax changes is not likely to be significant as Ireland will still offer an extremely competitive tax rate in a global context. However, it should serve to focus more attention on the imperative to concentrate on other aspects of national competitiveness other than corporate tax structure. This national competitiveness agenda should include housing, public services such as health and education, physical and remote connectivity, the personal tax burden and the quality of the labour force. Ireland has a distinct FDI advantage given that it is now the only native-English-speaking country in the EU (excluding Malta). However, it will be important to maintain an environment that is as competitive and pro-business as possible.

Conclusions

The Irish economy continues to perform strongly, with the labour market, tax revenues and consumer spending all suggesting reasonable levels of economic activity. The export performance of the multinational sector is undergoing an adjustment after a prolonged period of extreme buoyancy. This will take from the GDP performance, and the latest economic outlook from the ESRI (29 June 2023) is projecting GDP growth of just 0.1% this year and 3.5% in 2024. However, it expects that the economy as measured by modified domestic demand (MDD) will increase by 3.5% this year and 4.0% in 2024. The greater pace of economic activity next year is mainly attributable to the expected lower rate of inflation.

There is still considerable uncertainty prevailing, with a slower global economy, rising interest rates and the elevated level of consumer prices all posing challenges.

The key positives for the economy include:

- Strong economic momentum
- Record levels of employment
- Very low unemployment
- Strong FDI performance
- Stable banking system
- Buoyant public finances

- Record household deposits, lower levels of household debt and, in general, a strong personal balance sheet

The key threats and challenges to the wellbeing of the economy include:

- The uncertain and risky external economic environment
- Rising interest rates
- Cost-of-living pressures
- Cost-of-doing-business pressures
- The housing market
- Global geopolitical developments
- Domestic political change
- Global technology pressures – although many technology workers losing their jobs in Ireland are being hired by other sectors that have struggled to hire IT workers in recent years
- Global banking uncertainty

On balance, at the mid-point of the year, the Irish economy is in a reasonably good position and should be able to withstand the global headwinds.

THIS PUBLICATION IS BASED ON DATA AVAILABLE UP TO AND INCLUDING 29 JUNE 2023.

Section Two – Regulations

Professional indemnity insurance

Mortgage credit intermediaries, acting as vital intermediaries in the mortgage market, play a crucial role in facilitating the borrowing process for individuals and businesses. To ensure their professionalism and accountability, these intermediaries are subject to certain regulatory requirements, including the obligation to maintain adequate insurance coverage.

Under the Mortgage Credit Regulations, which govern the activities of mortgage credit intermediaries, it is mandated that these professionals hold professional indemnity cover. This cover serves as a safeguard against potential errors, omissions or negligence in their services, ensuring that both the intermediaries and their clients are protected from financial risks.

The required minimum coverage for Professional Indemnity is set at €460,000 per claim. This means that, in the event of a claim arising from a mistake or failure on the part of the intermediary, they are financially capable of addressing the consequences up to the specified amount. Additionally, intermediaries are also required to hold an aggregate cover of €750,000, which provides coverage for multiple claims within a specified period.

It is important to note that the obligations extend further for mortgage credit intermediaries who are also engaged in other financial activities. In cases where an intermediary is involved in investment intermediary activities, such as advising on or arranging investments, they are required to obtain separate ring-fenced professional indemnity insurance specifically for their investment-related activities.

Similarly, if the intermediary is involved in insurance intermediary activities, such as providing advice or arranging insurance policies, they must also secure ring-fenced separate cover tailored to their insurance-related activities. These additional measures ensure that each aspect of their multifaceted business is adequately protected, minimising any potential cross-contamination of liabilities between different areas of operation.

By implementing these stringent insurance requirements, the regulatory authorities aim to maintain the integrity of the mortgage market and enhance consumer confidence in the services provided by mortgage credit intermediaries. These measures not only protect the interests of clients but also contribute to the overall stability and transparency of the financial industry as a whole.

In summary, mortgage credit intermediaries authorised under the Mortgage Credit Regulations are obliged to maintain a minimum professional indemnity cover to protect themselves and their clients. The prescribed coverage limits of €460,000 per claim and €750,000 aggregate cover ensure that intermediaries can handle potential claims adequately. Furthermore, intermediaries who engage in investment intermediary and insurance intermediary activities must obtain separate ring-fenced insurance coverage for each of these areas, guaranteeing the necessary protection for their diverse range of services. These comprehensive insurance requirements serve to safeguard the interests of all stakeholders involved and promote a responsible and trustworthy mortgage credit market.

Individual Accountability Framework

The Central Bank (Individual Accountability Framework) Act 2023, enacted on 9 March 2023, marks a significant development in the regulatory landscape governing firms and individuals in the financial sector. This Act is designed as a comprehensive framework that grants the Central Bank of Ireland extensive powers to implement regulations and guidelines, thereby establishing a set of requirements to be imposed on firms and individuals under its purview.

To ensure transparency and effective implementation, the Central Bank of Ireland will publish detailed information regarding the new regime, including specific dates for implementation. This will be done following a thorough consultation process, which involves seeking input from stakeholders and interested parties. As part of this process, the Central Bank will release draft regulations and guidelines, providing an opportunity for feedback and discussion. It is important to note that the main requirements of the Act will only come into force once this consultation process concludes and the final regulations and guidelines become effective.

The Individual Accountability Framework encompasses several key elements that aim to strengthen accountability and responsibility within the financial industry. One such element is the Senior Executive Accountability Regime (SEAR). Under SEAR, firms within the scope of the framework will be required to clearly and comprehensively define the areas of responsibility and decision-making authority within their senior management structure.

Additionally, the framework introduces Conduct Standards, which serve as fundamental ethical principles to be upheld by individuals working in regulated firms. These standards include acting honestly, with integrity, and with due skill, care and diligence, always prioritising the best interests of customers. Senior executives will also be subject to Additional Conduct Standards that specifically relate to their roles in overseeing and managing specific aspects of the business.

Furthermore, the existing Fitness and Probity (F&P) Regime will be enhanced under the Act. This enhancement involves clarifying firms' obligations to proactively certify that individuals occupying certain specified functions are fit and proper to carry out their roles effectively and responsibly.

Another noteworthy change brought about by the Act is the amendment to the Administrative Sanctions Procedure (ASP). This amendment grants the Central Bank the authority to take enforcement action directly against individuals for breaches of their obligations. Previously, enforcement action could only be taken against individuals for their involvement in breaches committed by a firm. This shift in enforcement capability emphasises individual accountability and promotes a greater level of responsibility among industry professionals.

Overall, the Central Bank (Individual Accountability Framework) Act 2023 introduces a comprehensive and robust regulatory framework designed to enhance accountability, transparency and ethical conduct within the financial sector. By providing the Central Bank with the necessary powers to implement regulations and guidelines, this Act reinforces the commitment to maintaining a trustworthy and responsible financial industry in Ireland.

The Central Register of Beneficial Ownership of Companies and Industrial and Provident Societies (RBO)

The European Union's Fourth Anti-Money Laundering Directive, a vital regulatory measure aimed at combating money laundering and terrorist financing, mandates all EU member states to enact national legislation requiring corporate and legal entities to establish and maintain an internal beneficial ownership register. This register is designed to ensure that these entities possess accurate, up-to-date information regarding their beneficial owner(s). Furthermore, the Directive stipulates that this information must also be included in a central register within each member state.

To fulfil these requirements, the Central Register of Beneficial Ownership of Companies and Industrial and Provident Societies (RBO) was established in April 2019 under the auspices of the Minister for Finance. The RBO serves as the central repository for the statutory information that relevant entities, including corporate or legal entities incorporated within the state, are obligated to maintain. It specifically focuses on capturing details about the natural persons who serve as beneficial owners or controllers of these entities, as well as the specific beneficial interests they hold.

By implementing the EU's Fourth Anti-Money Laundering Directive, member states, including Ireland, are demonstrating their commitment to combating illicit financial activities and enhancing transparency in corporate structures. The directive acknowledges the significance of understanding the ownership and control structures of entities, as this information plays a crucial role in preventing money laundering, terrorist financing and other illicit financial practices.

The establishment of internal beneficial ownership registers empowers entities to collect, verify and maintain accurate information about their beneficial owners. By doing so, they contribute to a robust framework that promotes accountability and safeguards against the misuse of corporate structures for illicit purposes. The central register, such as the RBO in Ireland, consolidates this information, creating a comprehensive repository accessible to relevant authorities and entities with legitimate interests.

The RBO, as the designated central register in Ireland, plays a pivotal role in ensuring compliance with the EU directive. It acts as a trusted source of information, consolidating the statutory details of beneficial owners and controllers in a centralised database. This repository allows authorities, such as law enforcement agencies, regulators and financial institutions, to access and verify the information, strengthening their ability to detect and prevent financial crimes.

The creation of a comprehensive beneficial ownership framework, which includes internal registers and a central repository, aligns with global efforts to combat money laundering and enhance transparency in financial systems. It fosters a more accountable business environment by requiring entities to obtain and maintain accurate beneficial ownership information. Through the diligent implementation and maintenance of these registers, EU member states aim to strengthen the integrity of their financial systems and contribute to the global fight against financial crime.

In summary, the EU's Fourth Anti-Money Laundering Directive mandates EU member states to establish national legislation requiring corporate and legal entities to maintain internal beneficial ownership registers. These registers aim to capture accurate and current information about beneficial owners. Additionally, the directive necessitates the creation of central registers in each member state. In Ireland, the Central Register of Beneficial Ownership of Companies and Industrial and Provident Societies (RBO) was established to fulfil this function. The RBO serves as a centralised repository for statutory information on beneficial owners and controllers, providing crucial resources to combat money laundering and promote transparency in the corporate sector. By adhering to these requirements, member states bolster their anti-money laundering efforts and contribute to a more secure and accountable financial ecosystem.

Sustainability disclosure requirements- Sustainable Finance Disclosure Regulation

The EU Sustainable Finance Disclosure Regulation (SFDR) came into force on 10 March 2021. As an EU Regulation, the SFDR does not require transposition into Irish law. EU Regulations have "direct effect".

The SFDR requires financial market participants and financial advisers to make pre-contractual and ongoing disclosures to end investors in relation to financial products. The information required to be provided by a financial market participant or financial adviser relates to:

- The integration of sustainability risks
- The consideration of adverse sustainability impacts in its processes
- The promotion of environmental or social characteristics, and
- The provision of sustainability-related information with respect to financial products

Financial products include:

- Insurance-based investment products
- UCITS funds
- Pension products
- Pension schemes
- Investment portfolios managed on a discretionary basis
- Alternative investment funds (AIFs)

Financial market participants include:

- Insurance-based investment product providers
- Pension providers
- Investment firms
- Credit institutions

- Fund managers

Financial advisers include:

- Insurance intermediaries which provide advice in relation to insurance-based investment products
- Insurance undertakings which provide advice in relation to insurance-based investment products
- Credit institutions which provide investment advice
- Investment firms which provide investment advice (including investment intermediaries registered under Investment Intermediaries Act 1995)
- Alternative Investment Fund Managers (AIFMs) which provide investment advice
- UCITS management companies which provide investment advice

The SFDR requirements include:

- Website disclosures for financial market participants. A financial market participant must disclose on its website:
    - Information about its policies on the integration of sustainability risks in its investment decision-making process
    - A statement on its due diligence policies about the adverse impacts of investment decisions on sustainability factors
    - Information on how its remuneration policies are consistent with the integration of sustainability risks

- Website disclosures for financial advisers. A financial adviser must disclose on its website:
    - Information about its policies on the integration of sustainability risks in the advice it provides
    - Information as to whether it considers, in providing advice, the principal adverse impacts on sustainability factors
    - Information on how its remuneration policies are consistent with the integration of sustainability risks

- Pre-contractual disclosures for financial market participants: A financial market participant is required to disclose in pre-contractual disclosures:
    - The manner in which sustainability risks are integrated into its investment decisions
    - The results of the assessment of the likely impacts of sustainability risks on the returns of the financial products it makes available

- Pre-contractual disclosures for financial advisers: A financial adviser is required to disclose in pre-contractual disclosures:
    - The manner in which sustainability risks are integrated into advice it provides
    - The result of the assessment of the likely impacts of sustainability risks on the returns of the financial products it advises on

European Insurance and Occupational Pensions Authority (EIOPA) guidance on suitability assessment under the Insurance Distribution Directive

In July 2022, the European Insurance and Occupational Pensions Authority (EIOPA) issued guidance concerning the integration of the customer's sustainability preferences into the suitability assessment under the Insurance Distribution Directive (IDD). This guidance aims to provide clarity and direction to insurance distributors and intermediaries in aligning customer preferences with sustainable investment choices.

EIOPA's guidance covers several key areas to facilitate a better understanding of sustainability preferences and the investment options available to customers. It outlines methods to enhance customer comprehension of sustainability preferences and how these preferences can be integrated into their investment decisions. The guidance also offers insights into collecting relevant information on sustainability preferences from customers, enabling distributors to tailor their product offerings accordingly.

Additionally, EIOPA provides guidance on aligning customer preferences with suitable products based on the disclosures mandated by the Sustainable Finance Disclosure Regulation (SFDR). These disclosures, which encompass sustainability-related information, assist distributors in ensuring that the products they recommend are in line with the sustainability preferences of their customers.
To ensure the suitability of insurance-based investment products, EIOPA outlines the necessary arrangements that should be in place. This includes assessing the compatibility between customer preferences and the features of the product, ensuring that the customer's investment objectives and risk tolerance are adequately considered.

Moreover, the guidance emphasises the importance of sustainable finance-related training and competence for insurance intermediaries and undertakings providing advice on insurance-based investment products. It highlights the need for these professionals to possess the requisite knowledge and expertise to effectively assess and communicate sustainable investment options to customers.

By providing this guidance, EIOPA aims to foster a more informed and customer-centric approach to sustainability within the insurance sector. The integration of sustainability preferences in the suitability assessment process enhances customer protection and empowers them to make investment choices aligned with their values and sustainability goals.

In summary, EIOPA's guidance, published in July 2022, focuses on incorporating the customer's sustainability preferences into the suitability assessment under the Insurance Distribution Directive. It provides guidance on facilitating customer understanding of sustainability preferences, collecting relevant information, matching preferences with suitable products based on SFDR disclosures, ensuring the suitability of insurance-based investment products, and promoting sustainable finance-related training and competence among insurance intermediaries and undertakings. This guidance promotes transparency, customer protection and responsible investment practices within the insurance industry.

European Securities and Markets Authority (ESMA) guidelines on certain aspects of the MiFID II Suitability Requirements

In September 2022, the European Securities and Markets Authority (ESMA) issued its guidelines on certain aspects of the MiFID II Suitability Requirements. These guidelines provide clarity and direction on the assessment of suitability within the MiFID II framework, which applies to the provision of investment advice and portfolio management.

Regarding the topic of sustainability, the guidelines highlight several key aspects that firms need to consider when assessing the suitability of investment advice or portfolio management services:

- Information on sustainability preferences: Firms are required to help clients understand the concept of sustainability preferences in a clear and understandable manner. This includes explaining the difference between products with sustainability features and those without, using language that avoids technical jargon.
- Collection of information on sustainability preferences: Firms must collect information from clients regarding their preferences related to different types of sustainable investment products. This involves understanding the

extent to which clients wish to invest in these products and their specific preferences in this regard.

- Assessment of sustainability preferences: Once a firm has identified a range of suitable products for a client based on their knowledge, experience, financial situation and investment objectives, the firm must then identify the product(s) that align with the client's sustainability preferences. This ensures that the products recommended to clients are in line with their desired level of sustainability.
- Organisational requirements: Firms are required to provide appropriate training to their staff on sustainability topics. This ensures that employees possess the necessary knowledge and understanding to address clients' sustainability preferences effectively. Additionally, firms are expected to maintain records of clients' sustainability preferences, if any, as well as any updates or changes to these preferences.

By providing these guidelines, ESMA aims to promote a more informed and client-centric approach to sustainability within the MiFID II framework. The guidelines seek to enhance transparency and ensure that clients receive suitable investment advice or portfolio management services that align with their sustainability preferences and objectives.

In summary, ESMA's guidelines on certain aspects of the MiFID II Suitability Requirements, published in September 2022, address the incorporation of sustainability preferences within the suitability assessment process. Firms are expected to provide clear information to clients, collect relevant data on sustainability preferences, assess the suitability of products based on these preferences and meet organisational requirements such as staff training and record-keeping. These guidelines promote transparency, client protection and responsible investment practices within the MiFID II framework.

Section Three – Life Assurance

Mortgage Protection

Mortgage Protection is a form of Term Assurance which pays out a lump sum on death within the policy term, estimated to be sufficient to pay off the balance of a mortgage. The cover reduces each year in line with the anticipated reduction in the outstanding mortgage. Therefore, it is Decreasing Term Assurance, unlike normal Term Assurance where the cover remains level or increases but does not fall over the policy term.

Because decreasing cover is normally effected to clear a debt, the product is normally sold as individual cover or joint life first death cover. However, some life companies now offer dual life cover for a small increase in premium or even for the same price as a joint life policy.

Borrowers taking out a capital and interest mortgage (also known as a repayment or annuity mortgage) in respect of their principal private residence (referred to as housing loans or home loans) will usually be required by their lender to take out Mortgage Protection cover to clear off their outstanding mortgage should the borrower die during the mortgage term before the mortgage has been fully paid off.

In this way, the borrower's dependants will own the residence in full, without any outstanding mortgage.

The cover is set at the start equal to or in excess of the initial mortgage amount. The policy term will be the same as the anticipated mortgage term, i.e. typically 25 or 30 years.

Mortgage Protection is a form of **Decreasing Term Assurance**. The cover provided reduces each year.

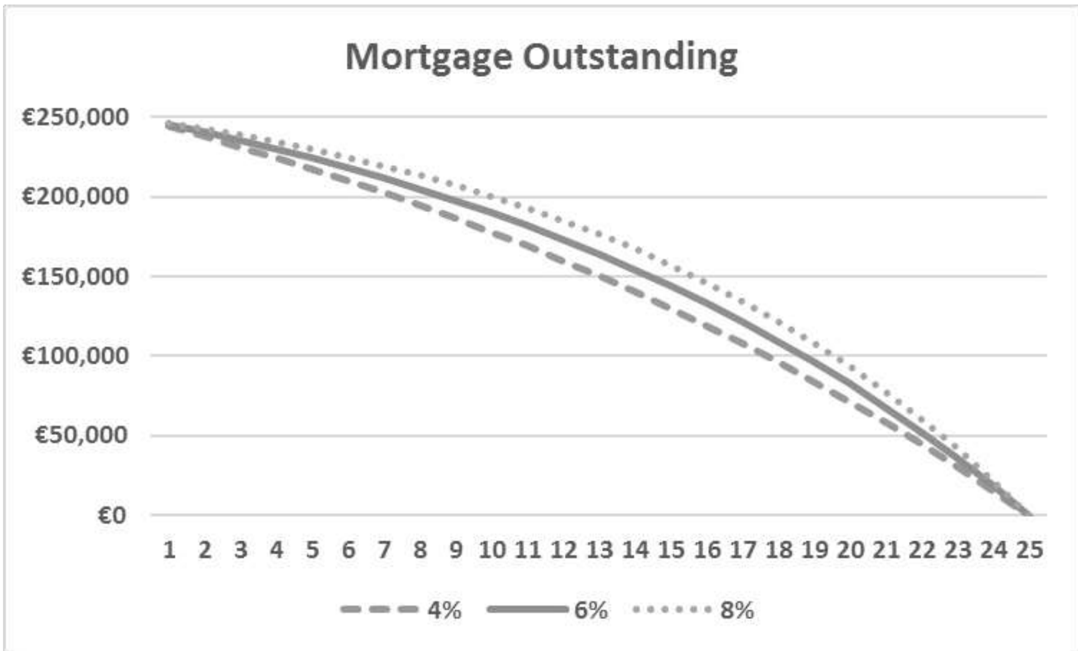
By the end of the mortgage term, the cover will have reduced to zero as the mortgage is assumed to be then fully repaid to the lender, assuming all mortgage repayments have been made on time.

With a variable rate mortgage, no one can predict in advance what the mortgage interest rate will be from year to year, and hence what the capital outstanding will be at any time during the mortgage term.

To err on the safe side, some Mortgage Protection policies anticipate a high mortgage interest rate, say 6% pa, and, so, if mortgage interest rates do not increase above this level, the level of Mortgage Protection life cover will always be at least sufficient to pay off the mortgage at death; indeed, there may be some funds left over after repaying the mortgage.

Other policies may allow the individual to choose the level of mortgage interest rate, and the Mortgage Protection life cover from year to year will be based on the assumed mortgage interest rate chosen.

For example, this chart shows the estimated mortgage balance outstanding on a 25-year capital and interest mortgage of €250,000, based on three different assumed mortgage interest rates applying over the mortgage term:



You can see from the above that, while all three policies begin with the same cover of €250,000 and end after 25 years with no cover, the 8% mortgage interest rate has a higher mortgage outstanding and hence more life cover is required during the mortgage term than the 6% rate, which in turn is higher than the 4% rate.

The higher the mortgage interest rate assumed at the outset, the higher the Mortgage Protection premium becomes as more cover is provided over the policy term.

Example

Take a couple aged 35 (both non-smokers) who borrow €250,000 from a bank over 25 years on a capital and interest mortgage. These are the premiums currently charged by one insurer for Mortgage Protection cover over 25 years:

Assuming mortgage interest rate of	Mortgage Protection premium
6% pa	€25.63 pm
8% pa	€27.56 pm

In this example, the minimum mortgage interest rate that the insurer normally assumes is 6% pa, but the borrower can opt to choose a higher rate of 8% if they are happy to pay a slightly higher premium in return for slightly higher cover during the mortgage term.

If the mortgage interest rate actually charged over the mortgage term transpires to be lower than assumed by the Mortgage Protection policy, there may be a surplus for next of kin on death after repaying the mortgage in full, because the outstanding mortgage on death will be slightly lower than the lump sum paid out by the policy on death.

If the mortgage interest rate charged over the period transpires to be higher than assumed by the Mortgage Protection policy, there will be a shortfall to be made up by next of kin to fully pay off the mortgage on death as the Mortgage Protection policy will not fully pay off the mortgage.

Individual Mortgage Protection policies are therefore said to be interest rate sensitive, i.e. the cover varies by the mortgage interest rate assumed and is therefore not necessarily guaranteed to pay off the mortgage in full as the cover is sensitive to, or based on, an assumed average mortgage interest rate applying over the mortgage term. The actual mortgage interest rate charged could turn out to be higher or lower than the rate assumed for the Mortgage Protection policy.

A Mortgage Protection policy is assigned to the lender as security for the mortgage. This means legal ownership of the policy is transferred at the outset to the lender, who is then entitled on death to claim the sum assured from the life company and use the funds to pay off the outstanding mortgage. Any surplus from the Mortgage Protection policy left over after repaying the mortgage is then payable by the lender to the deceased's next of kin.

Unit-linked policies

A unit-linked Life Assurance policy is a policy whose encashment value is linked to the value of **units** in a life company's unit fund, which is an investment fund operated by the life company.

The unit price goes up and down in line with the value of the fund's investments. Premiums paid to a unit-linked policy are used to buy units in a unit fund at the unit price ruling on the day the premium is received by the life company:

Month	Premium paid	Unit price (assumed)	Units secured by the policy
May	€50	€1.00	50/1 = 50.00
June	€50	€1.03	50/1.03 = 48.54
July	€50	€1.01	50/1.01 = 49.50

The encashment value of a unit-linked policy at any time is usually:

[number of units held by the policy x unit price at that time]

Example

A unit-linked policy has 987 units today, and the unit price today is €1.34.

The encashment value of this policy today is usually calculated as:

[987 x €1.34] = €1,322.58

Unit-linked policies fall into one of three categories, depending on the primary purpose of the policy:

Unit-linked savings

- A regular contribution is paid to the policy to build up a capital sum over time.
- The policy usually provides little or no Life Assurance cover other than a return of the encashment value of the policy on death.

Unit-linked investment

- One lump sum (called a "single premium") is paid to the policy to secure units in a unit fund.
- The policy usually provides little or no Life Assurance cover other than a return of the encashment value of the policy on death.

Unit-linked Whole of Life

- A regular contribution is paid.
- The policy provides a certain level of Life Assurance cover, provided a sufficient premium is paid from time to time.
- The policy does not guarantee to provide cover throughout life. The premium and cover are subject to regular reviews.

Unit-linked Whole of Life policy

It is important to note that a unit-linked Whole of Life policy does **not** guarantee to provide a fixed level of cover throughout life in return for a fixed premium. This is a very important difference between unit-linked Whole of Life and guaranteed Whole of Life policies.

The premium and cover under a unit-linked Whole of Life policy are subject to regular review. In particular, a unit-linked Whole of Life policy may require a substantial increase in premium at some stage in the future to maintain the same cover as before. If an increase in premium is sought by the life company at some stage and the policyholder refuses to increase the premium, the life company can reduce the sum assured or terminate the policy entirely in some circumstances. Currently, unit-linked Whole of Life policies are not offered by any life companies in Ireland, but older existing policies need to be reviewed by financial advisors.

Update to State Widow's, Widower's or Surviving Civil Partner's Contributory Pension

The State Widow's, Widower's or Surviving Civil Partner's Contributory Pension is a valuable core protection benefit that may become payable to an individual after the death of their spouse or civil partner. This pension is payable to people who:

- Have become widowed or become a surviving civil partner[1] of a registered civil partnership
- Have not remarried or entered into a registered civil partnership
- Are not cohabiting with someone else
- Satisfy the necessary payment of number and type of PRSI conditions. Classes A, S, B and D contributions all qualify for this pension.

An individual who was divorced from their spouse or a civil partner, or whose civil partnership has been dissolved before the spouse's/civil partner's death and has not remarried or entered into a registered civil partnership since then can qualify for this state pension on the death of their former spouse/civil partner, provided they meet all other requirements.

The PRSI conditions can be satisfied by either:

- The deceased's PRSI record, or
- The surviving spouse or civil partner's PRSI record

Entitlement to the State Widow's, Widower's Contributory Pension is not affected by any other income the survivor may have, for example a spouse's pension from an employer pension scheme, but the state pension is liable to income tax.

[1] A "civil partner" is one of a couple of the same sex who are not married, are over age 18, not related to each other, and have registered their civil partnership under the Civil Partnership and Certain Rights and Obligations of Cohabitants Act 2010, and the civil partnership has not been dissolved or annulled.

The maximum current personal rate of the pension is €225.50 pw for claimants aged under 66. A lower rate of pension is payable for those with a lower average of weekly PRSI contributions.

The increase for each qualified child is currently €42 pw for children under 12 and €50 pw for children over 12. A qualified child is a child up to age 18 who is normally resident in the state and living with the claimant. A child aged between 18 and 22 who is normally resident in the state continues to be a qualified child if they are in full-time education up to the end of the academic year in which the child reaches age 22.

Entitlement to this State Widow's, Widower's Contributory Pension is **not** affected by any other income the survivor may have: it is not means tested.

The pension is payable for as long as the individual remains a widow/widower or a surviving civil partner. The pension stops, however, if the individual marries or remarries, enters a new registered civil partnership or begins to cohabit with someone else.

Example

Tom and Mary are married to each other and have two young children, aged 5 and 7. Both work and pay Class A PRSI. Tom dies. Mary, in addition to her own income, now qualifies for a spouse's pension from Tom's pension scheme.

She can also qualify for a State Widow's (Contributory) Pension based on either:

- Her own PRSI contribution record, or
- Tom's PRSI contribution record

If she meets the necessary PRSI contribution conditions, Mary may qualify for a pension of:

Personal rate: €225.50 pw (Mary assumed to be under age 66)

Child dependants: €42.00 x 2 (both children under age 12)

Total benefit: €16,150 pa (using 52.18 x €307.50)

Mary can continue to receive this pension whether she continues to work or not. The pension would only cease if she remarried, entered into a registered civil partnership or began to cohabit with someone else.

The child supplement would, of course, cease when the children cease to be dependants, which is age 18 or until age 22 if in full-time third-level education.

The pension is liable to income tax but not to USC or PRSI. PAYE is not deducted at source, but, if the survivor has other income, their income tax allowances and credits are adjusted to collect the income tax due on the state pension.

The recipient of the pension is entitled to the employee tax credit of up to €1,775 in respect of income tax arising on the state pension if they do not otherwise qualify for the credit, for example if their other income is not subject to PAYE.

State benefits

- The **State Illness Benefit** is payable to those who have paid the required number and type of PRSI contributions when they become unable to work due to illness. No payment is made for the first six days of illness, which are known as *waiting days*. Sunday is not counted as a *waiting day*.

  The current maximum personal rate of benefit is €220.00 pw, with an additional €146 pw for an adult dependant, and €42 pw for each dependent child under 12 or €50 pw if the child is over age 12. The State Illness Benefit is payable for a maximum period of two years, after which it ceases.

  The State Illness Benefit is **not** payable to:

  - Public servants who first entered the public service before 6 April 1995, or
  - The self-employed who pay Class S PRSI

- The **State Invalidity Pension** is payable to those who have paid the required number and type of PRSI contributions when they become **permanently** unable to work again due to sickness or disability.

  The current maximum personal rate of Invalidity Pension is €225.50 pw, with an additional €161.10 pw for an adult dependant, and €42 pw for each dependent child under 12 or €50 pw if the child is over age 12.

The State Invalidity Pension is **not** payable to public servants who entered the public service before 6 April 1995, but is payable to the self-employed who pay Class S PRSI.

Both the State Illness Benefit and the State Invalidity Pension are liable to income tax, but not to USC or PRSI.

Section Four - Pensions

Removal of the benefit-in-kind treatment of employer contributions to PRSAs

The Finance Act 2022 brought about a significant change regarding the treatment of employer contributions to Personal Retirement Savings Accounts (PRSA). As of 1 January 2023, the benefit-in-kind (BIK) treatment of such contributions was eliminated.

Before the implementation of this Act, any employer contribution made to a PRSA on behalf of an employee was considered a BIK for income tax purposes. Consequently, it was subject to income tax but not to PRSI (pay-related social insurance) or USC (universal social charge).

However, with the new legislation in effect from 1 January 2023, the employer contribution is no longer classified as a BIK for tax purposes. This means that it does not attract income tax liability and does not impact the maximum tax-relievable contributions the employee can claim for income tax relief.

Furthermore, it is worth noting that an employer contribution to a PRSA remains fully deductible for the employer. This deduction can be claimed against their trading income for income tax or corporation tax purposes as it is considered an expense of the business.

To reflect this change, Chapter 24.3 of the *Revenue Manual* was updated in 2023. The updated chapter now clarifies that there is no limit on employer contributions to an employee's PRSA. However, it is important to be aware that the overall standard fund threshold for an individual, which stands at €2 million, still applies.

Amendment of the tax treatment of foreign pension lump sums

The Finance Act 2022 brought about significant changes to the tax treatment of foreign lump sums received by Irish residents. This new legislation, implemented on or after 1 January 2023, aims to align the tax treatment of these foreign lump sums with that of Irish pension lump sums.

Before the enactment of the Finance Act 2022, lump sum payments originating from foreign arrangements were not subject to the same tax treatment as domestic pension lump sums in Ireland. However, with the new legislation in effect from 1 January 2023, Irish residents receiving a lump sum from a foreign pension arrangement will be treated in a manner consistent with domestic pensions.

Under the revised tax treatment, the first €200,000 of such lump sums received by an individual throughout their lifetime will be exempt from taxation. The subsequent €300,000 will be taxed at the standard rate, which is currently set at 20%. Any amount exceeding €500,000 will be subject to the higher rate of tax, currently at 40%, and will also be chargeable to the universal social charge (USC).

This change in tax treatment aims to ensure that foreign lump sums received by Irish residents are treated similarly to domestic pension lump sums, bringing about greater consistency and fairness in the tax system. These provisions were introduced as part of the Finance Act 2022 to address any disparities in the tax treatment of pension-related lump sums between domestic and foreign arrangements.

Introduction of taxation and reliefs for the pan-European Pension Product

The introduction of the pan-European Pension Product (PEPP) in 2022, in accordance with EU regulations, revolutionised the landscape of personal pension products within the European Union. Similar to Personal Retirement Savings Accounts (PRSAs), PEPP offers EU citizens a versatile and widely recognised pension product that enables them to save for retirement across all EU member states.

PEPPs offer a host of benefits that are comparable to other personal pension products. However, their distinguishing feature lies in their mobility-friendly nature, allowing individuals who frequently move or seek employment in different EU member states to maintain and continue their pension savings seamlessly.

The Finance Act 2022 incorporated several amendments to the existing legislation, providing a robust framework for the implementation of PEPPs in Ireland. These amendments were crucial to ensure that PEPPs are subjected to the same taxation, relief and administrative provisions as those set out for PRSAs. The intention behind these changes was to create a harmonised approach, ensuring that PEPPs are taxed in a manner consistent with other Irish pension products.

By aligning the taxation and administrative aspects of PEPPs with PRSAs and other Irish pension products, the Finance Act 2022 aimed to foster a level playing field for all retirement savings options available to individuals in Ireland. This would facilitate the smooth integration of PEPPs into the Irish pension landscape, ensuring that EU citizens residing in Ireland can fully benefit from this new pan-European means of saving for their retirement. The amendments introduced by the Finance Act 2022 were a testament to the Irish government's commitment to embracing EU regulations and promoting cross-border pension provisions that cater to the needs of a mobile workforce within the European Union.

Actuarial Standard of Practice updates

A Statement of Reasonable Projection (SORP) plays a vital role in providing individuals with an estimation of the potential retirement fund and equivalent pension they can expect to receive at their normal retirement age within a defined contribution (DC) employer pension scheme.

To determine the projected retirement fund, calculations are based on an assumed future investment return. These projections adhere to the guidance set forth by the Society of Actuaries in Ireland (SOAI). The SOAI mandates that trustees of schemes or trust Retirement Annuity Contracts (RACs) must prepare projections using an assumed investment return, before accounting for charges. The maximum value of this assumed return is determined by the anticipated asset split or mix of the fund or funds in which contributions will be invested.

Recognising the importance of accurate projections and staying abreast of evolving market dynamics, the SOAI issued updated guidance in May 2023. This revised guidance seeks to provide trustees and scheme administrators with a more comprehensive framework for preparing SORPs. By incorporating the latest industry insights and considering the changing investment landscape, the updated guidance aims to enhance the accuracy and reliability of projected retirement fund calculations.

The SOAI's updated guidance takes into account factors such as prevailing market conditions, expected rates of return on various asset classes, and the risk profiles associated with different investment strategies. By considering these elements, trustees and administrators can provide individuals with more realistic projections that align with the potential performance of the underlying investments.

By issuing this updated guidance, the SOAI demonstrates its commitment to ensuring that SORPs reflect the most accurate and up-to-date information available. These projections serve as valuable tools for individuals to assess their retirement readiness and make informed decisions regarding their pension contributions and overall financial planning.

It is important for trustees, administrators and members of DC employer pension schemes to familiarise themselves with the updated guidance to ensure that the SORPs provided offer a reliable projection of future retirement benefits. This will enable individuals to have a clearer understanding of their pension prospects and make appropriate adjustments to their savings and investment strategies if necessary.

The SOAI issued updated guidance as follows:

		Old rate	New rate
Investment growth	Maximum investment growth – overall	4.50%	**5.75%**
	Maximum investment growth – equity and property	4.50%	**5.75%**
	Maximum investment growth – fixed interest	1.00%	**2.50%**
	Maximum investment growth – cash	0.00%	**0.25%**
	Maximum investment growth – other assets with insufficient information	0.00%	**0.25%**
Inflation	Salary inflation rate or benefit deflation rate	1.50%	**3.00%**
	Premium increases linked to general earnings	1.50%	**3.00%**
	Premium increases linked to consumer prices	1.00%	**2.00%**
Annuity discount	Maximum interest rate for annuities	0.50%	**2.00%**
Annuity escalation	Rate of escalation for annuities	1.00%	**2.00%**

Pension Benefit Statement assumptions

The European Union (Occupational Pension Schemes) Regulations 2021, commonly known as IORPS II, impose specific obligations on trustees of schemes or trust Retirement Annuity Contracts (RACs) to provide comprehensive information to members through their Pension Benefit Statements (PBSs). These statements include crucial details such as pension projections to help individuals understand their anticipated retirement benefits.

To ensure consistency and accuracy in projecting pension benefits, the Pensions Authority assumes the responsibility of establishing the rules governing the determination of assumptions for these projections. Trustees are then required to apply these rules when preparing members' PBSs, thereby ensuring compliance with regulatory requirements.

In March 2023, the Pensions Authority issued updated guidance concerning the determination of assumptions used in PBSs. This guidance reflects the evolving landscape of pension schemes and incorporates the latest industry insights, ensuring that trustees have access to the most relevant information when calculating pension projections. By considering factors such as market conditions, investment performance and demographic trends, trustees can provide members with more reliable and realistic projections of their future pension benefits.

Furthermore, in response to the changes introduced by the Society of Actuaries in Ireland (SOAI) regarding the Statement of Reasonable Projection (SORP), the Pensions Authority updated their guidance once again in May 2023. This revision ensures that the assumptions applied in PBSs align with the updated SORP guidelines issued by the SOAI. By harmonising the guidelines provided by both regulatory bodies, trustees can ensure consistency between the projected retirement fund calculations in PBSs and the SORPs.

These continuous updates to the guidance from the Pensions Authority demonstrate their commitment to enhancing transparency and accuracy in pension projections. By providing trustees with clear and comprehensive guidelines, the Authority enables them to fulfil their fiduciary duty of providing members with reliable information about their future pension benefits.

It is essential for trustees to stay informed about the latest guidance from the Pensions Authority, ensuring that their PBSs comply with the regulations set forth by IORPS II and reflect the most accurate assumptions available. This will enable members to make well-informed decisions regarding their retirement planning and better understand the potential benefits they can expect from their pension schemes or trust RACs.

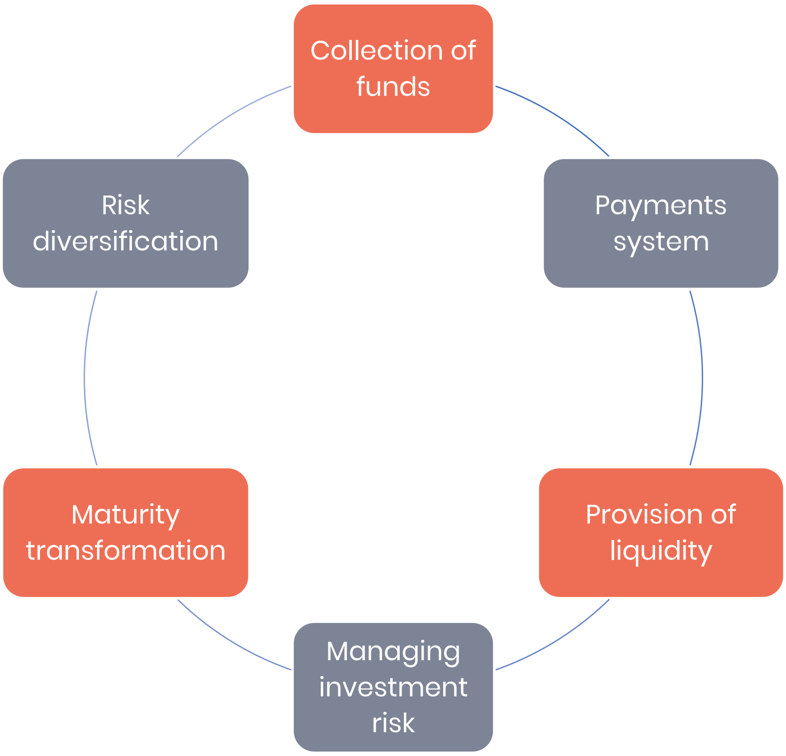
Section Five – Investments

Functions of the financial services markets

The financial markets fulfil several different functions:

Collection and channeling of funds

By offering to pay individuals and businesses a return for their surplus funds through a wide variety of financial products, from current accounts to short-term and long-term savings and investment products, financial services providers collect savings which they then invest or lend at a margin to the government, individuals and businesses that need extra funds.



Provision of payment systems

Payment systems is something we are all familiar with as we use our local bank/building society/post office/credit union to pay bills, such as telephone/electricity and gas, either online or by standing order, direct debit, card, cheque or draft.

Consumer behaviours have changed and continue to do so. Data published by the Banking and Payments Federation supports this: in Q4 2022, €53 million per day was spent using contactless payments.
The volume of online and mobile banking payments doubled to €143 million between 2016 and 2022.[2]

[2] Banking and Payments Federation of Ireland, March 2023.

Provision of liquidity

Both depositors and borrowers need to be able to access funds when required. While some borrowers require short-term money, others require long-term money to fund fixed assets and investments.

Depositors may require immediate access or can forego this for a possibly higher return by committing the deposit for a specified period. The financial system tries to match differing needs.

Managing investment risk

Various types of financial services can be used by consumers and businesses alike to manage investment risks.

For example:

- Businesses can manage or minimise the risk inherent in trading with countries in a currency other than the euro by agreeing to buy or sell that foreign currency at a fixed rate relative to the euro, thereby eliminating their exchange rate risk.

  This means that a business which has to make a US dollar payment to a supplier in, say, six months can agree today a fixed euro exchange rate with a bank against the US dollar, thereby eliminating exchange rate risk, i.e. the risk that the US dollar could rise in value against the euro over the next six months and hence increase the euro price of the payment to the Irish business.
- Home loan borrowers can eliminate the interest rate risk on a loan for a period, i.e. the risk that interest rates could increase and hence their repayments. This can be achieved by borrowing at a fixed rate for that period rather than at a variable rate.

Of course, currency and interest rate risks could go the other way as well, for example:

- The euro could increase in value against the dollar, thereby reducing the euro cost of a future dollar denominated payment liability.
- Variable interest rates could fall and reduce to a level whereby loan repayments are below the fixed rate they might have agreed.

Maturity transformation
Many borrowers want to borrow for a long period of time, whereas many savers and investors do not want to tie up their money for such a long period of time.

Let's say a borrower wants to borrow funds for 10 years. Most depositors do not have to or want to deposit for 10 years. There is, therefore, a potential mismatch.

However, because of the daily business of accepting deposit funds the bank has a rolling over of new deposits so that it has sufficient funds to enable savers and investors to withdraw their funds as they wish and yet lend to the borrower for 10 years.

Maturity transformation is the ability to turn short-term deposits into longer-term loans, and is one of the main services provided by financial intermediation entities such as banks and building societies.

Risk diversification
Where an individual saver or investor may be unwilling to lend their money directly to one particular individual or entity for fear of default, a financial institution can spread such risk. For example, an investment fund spreads the investment risk inherent in investing in shares by investing in a large number of companies, thereby reducing the potential impact to investors of the failure of one company.

Fiscal policy

Fiscal policy is defined as any conscious action by the government to influence the magnitude, structure or timing of government revenue and expenditure.

It is manifested in the annual budget which the government introduces. The main source of government revenue is obtained through taxation, and if this revenue is greater than government expenditure there is said to be a budget surplus.

On the other hand, if government expenditure is greater than government revenue there is said to be a budget deficit, which has to be met (in the absence of increasing revenues through increasing taxation or reducing expenditure by cut backs on public services, etc.) by government borrowing, principally through the issue of bonds. This borrowing adds to the magnitude of the country's national debt.

Tax harmonisation

Interestingly, from Ireland's standpoint the OECD (October 2021) finalised an agreement bringing major reform to the international tax system that will ensure that those multinational enterprises (MNEs) with revenues in excess of €750 million will be subject to a minimum 15% tax rate (increasing from 12.5% in Ireland). Delays in implementation and disagreement on the policy details have pushed the timeline for a full agreement on the first phase to mid-2023, and implementation of phase two to 2024 at the earliest.

The landmark deal, agreed by 130 countries (including Ireland) representing more than 90% of global GDP, will also reallocate more than USD 125 billion of profits from around 100 of the world's largest and most profitable MNEs to countries worldwide, ensuring that these firms pay a fair share of tax wherever they operate and generate profits.

Economic and Monetary Union

The Treaty of Rome established the European Economic Community (EEC). Commencing with a 10% tariff reduction on intra-community trade in 1959. The policy of tariff reduction continued for 10 years, until a common market between the member countries was established.

In January 1973, the EEC grouping of six countries was enlarged to nine with the accession of the UK, Denmark and Ireland.

The Ecomonic and Monetary Union currently comprises 27 EU countries. The UK withdrew from the European Union on 31 January 2020.

It is noted that, over time, European economic co-operation was deepened as agreements were entered into to proceed through the following stages of deeper economic integration:

- ***Free trade area*** = free movement of goods within an area.
- ***Customs union*** = a free trade area plus a common system of tariffs and taxes on goods being imported from outside the customs union.
- ***Common market*** = a customs union plus free movement of capital and labour within the common market area.

Brexit highlighted the importance and complexity of the above arrangements. The UK left the EU on 31 January 2020 under an agreement that defines the future relationship.

The deal has demonstrated that leaving the EU is not easy. The process has laid bare the real trade-offs between regaining sovereignty ("taking back control") on the one hand and reaping the economic benefits of being a member of the single market on the other.

An economic union is a prerequisite for a successful monetary union.

The main features of an economic union are a trading area (or market) within which persons, goods, services and capital can move without hindrance. These features are usually referred to as the four freedoms.

The main features of a monetary union are:

- The complete liberalisation of capital transactions
- The irreversible locking of exchange rates
- Complete convertibility of currencies
- The introduction of a single currency, the euro
- The conduct of a uniform monetary and exchange rate policy

The euro (€) is the official currency of 20 of the 27 EU countries. These countries are collectively known as the eurozone. Croatia adopted the euro in 2023, becoming the twentieth country to do so.

Historical returns – updated to latest available figures

Statistics prepared annually by Barclays Capital[3] show the annual real rate of return (i.e. return after offsetting inflation over the same period) for UK asset classes to the end of 2021, as follows:

UK real investment returns by asset class (% per annum)

	2021	10 years	20 years	50 years
Equities	9.8	4.7	2.9	4.9
Gilts	-12.6	1.0	2.4	3.0
Corporate bonds	-10.0	3.1	2.3	
Index-linked	-3.1	2.5	3.2	
Cash	-7.00	-2.5	-1.1	0.9

[3] See www.equitygiltstudy.com.

Note: Following a tough 2020 for UK equities – in the context of the unprecedented COVID-19 crisis – 2021 proved a much stronger year for returns. In line with developed market equities more broadly, UK equities were supported by factors including stellar corporate earnings and gradual economic reopening (following the UK lockdowns of 2020 and Q1 2021). Even so, UK equities still lagged behind the performance of their US counterparts. This largely reflected the composition of UK equity indices.

Source: Barclays Equity Gilt Study, July 2022

US real investment returns by asset class (% per annum)

	2021	10 years	20 years	50 years
Equities	15.0	12.5	7.0	6.7
Government bond	-11.1	1.8	4.0	3.8
Corporate bond	-7.6	4.3	4.8	
Cash	-6.5	-1.6	-1.1	0.5

US equities enjoyed a strong 2021, following on from a robust performance in 2020 (a year in which US equities had outperformed broader developed market equities). Strong performance in 2021 was encouraged by stellar corporate earnings growth (which outpaced consensus expectations) and economic reopening in the context of the COVID-19 vaccination rollout. US equities once again outperformed their counterparts in the UK and other developed markets, helped by the relatively high weighting of technology stocks (which continued to perform strongly in 2021) in US equity indices.

Source: Barclays Equity Gilt Study, July 2022

The statistics reveal that, over the longer term:

- Taking a portfolio approach and being diversified is prudent.
- Equity returns are volatile.
- Over the past 20 years, real cash returns were negative.

Equities, property and index-linked bonds are sometimes, therefore, referred to as "real" asset classes due to their past proven ability to provide returns in excess of the rate of inflation over the long term; that is, they offer the best protection against the financial impact of inflation.

On the other hand, bonds (non-index-linked) and cash are sometimes referred to as monetary asset classes, differentiating them from real asset classes (equities and property).

Deposit accounts

Virtually every client will have a deposit account of some type with a bank and/or a credit union. Deposits usually pay an interest rate and provide capital security.

However, there are many different types of deposits, each with their own particular features.

Uses of deposit accounts

Deposit accounts are very often a consumer's first savings account. Deposit accounts are, of course, multi-purpose and can be used by an investor for return and for security. Even in an environment of low interest rates and negative rates, Irish households have recently shown record savings growth.

By the second quarter of 2022, when the pandemic restrictions had been removed, the household saving rate remained far above its usual level. While the 19% rate of Q3 2022 is far below the 33% peak in 2020, it is significantly higher than its long-term average of 10.4% before the pandemic. The savings habits developed during the restrictions appear to be sticking.

Households have generally decided not to spend their lockdown savings, but rather to keep their money in the bank.

Q3 2022 Irish households "added €2.4bn to their €145bn deposits in banks".

(CSO statistical publication, 6 December 2022)

Some liquidity is prudent and required in everybody's financial affairs, and deposit accounts are a fit for this. Those wishing to save for a future event taking a goal-based approach will likely use a savings account to match their circumstance (whether that be near term or more long term), whether going on holiday, buying a car, getting mortgage-ready, future education or getting married. Of course, those with lump sums may wish to take an even longer term savings account. Given these diverse circumstances, deposit providers have created a range of deposit products to fit consumers' needs.

Businesses also use deposit accounts for managing their cash positions.

Risks of investing in shares

Shares are risk investments as there are no guarantees on future dividend income and/or on the price at which the shares may ultimately be sold.

As an example, the following graphs show the performance of the ISEQ Overall Index over a 12-month and a 10-year period to February 2023, which reflects the movement in the market capitalisation of shares listed on the ISEQ over these time periods. It is interesting in particular to view the initial impact Covid-19 had on this index in March 2020 and its subsequent recovery to levels higher than existed in the market pre-Covid. This was then followed by the Russia/Ukraine conflict and its early impact on markets.

Irish Stock Market (ISEQ), 1-year period to February 2023

Source: tradingeconomics.com | OTC/CFD

Reviewing the graphs gives useful insight into the impact of volatility over two different time horizons.

The above graph clearly shows how the outcome (fluctuations in value) for an investor can significantly differ even if investing in the same index depending on investment period as well as price at entry/exit.

Irish Stock Market (ISEQ), 10-year period to February 2023

Source: tradingeconomics.com | OTC/CFD

The risk (volatility) involved in investing in shares is clear in the graphs above. They illustrate periods when share prices fell sharply, followed by periods of recovery in price, and so on. Stock markets do not move in nice steady lines. Therefore, investing in shares is subject to many risks:

- The risk that stock markets and shares values generally may decline because of general economic conditions or uncertainty over some geopolitical event, for example the Covid-19 pandemic, war, terrorist threat, elections, referenda or Brexit, leading to capital loss. This risk is usually known as the *market risk*, i.e. the risk of being invested in the stock market at any time.
- An increase in interest rates may lead to a fall in share prices as investors become more attracted to investment in fixed income securities and switch their funds to fixed income bonds and out of shares. This is referred to as the *interest rate risk*.
- The investor buys or sells shares at the wrong time. As seen in the 12-month graph above, if an investor bought the ISEQ on 12 March 2020 and sold on 31 March 2020, they could have experienced a >c. 30% loss. This is called *timing risk*.
- The risk that a particular share may fall in value due to some specific factors which impact severely on that company; for example, Aryzta (a

company with brands such as Cuisine de France) suffered a 38% fall in its share price in 2018 following a major profit warning. This is usually referred to as stock specific risk.

- The risk that a particular sector could experience some event or conditions leading to a general fall in prices of all shares in that sector, for example airlines following a terrorist attack on a plane. This is called *sector specific risk*.
- The *currency risk* where a particular company derives a significant proportion of its earnings or profits from non-eurozone countries, for example CRH plc, which has a significant portion of sales denominated in US dollar terms. In this example, if the dollar falls in value relative to the euro, the euro value of CRH's US sales and profits will be reduced accordingly.
- The risk that the return achieved may fail to match inflation. This is usually referred to as the *inflation risk*. Over the long term, shares have generally offered the best protection against inflation, but over shorter periods this may not always hold true.
- The risk that the return achieved may fail to match some objective or target return, for example to accumulate a fund to pay off a loan. This is sometimes referred to as *shortfall risk*.

One way to attempt to reduce the volatility of investing in shares is to diversify across:

- A number of different shares
- Shares in different sectors of the market, for example financials, technology and food
- Shares in companies deriving their income and profits from different geographical markets, for example the US, Europe, Japan and the UK

Collective investment funds, such as unit funds, unit trusts and UCITS, offer the investor a convenient way to diversify in a manner which would not normally be feasible for the small investor investing directly in shares.

However, even with such diversification there is still the overall market risk, for example where the world economy is in recession or some geopolitical event causes instability in financial markets worldwide, resulting in share price decline in all major markets and across all sectors.

Treasury bonds

A treasury bond is a bond issued and guaranteed by the Irish government which promises to pay:

- A guaranteed annual income (paid yearly in arrears) expressed as a percentage of the nominal value of the bond, and
- A guaranteed capital payment of the nominal value of the bond at a specified maturity date

Treasury bonds are issued by the National Treasury Management Agency (NTMA), a government agency responsible for all borrowing by the government and for the management of Ireland's national debt.

A selection of the main treasury bonds available for investment is set out below. Note that, on 10 March 2022 the NTMA completed an auction of €1 billion of the benchmark Irish government bonds, 0.35% Treasury Bond 2032 and 1.7% Treasury Bond 2037. In January 2023, the NTMA raised €3.5 billion for a 20-year Green Bond at a yield of 3.106%.

Treasury bond title	Coupon date	Maturity date
3.9% 2023	20 March	20 March 2023
3.4% 2024	18 March	18 March 2024
5.4% 2025	13 March	13 March 2025
0.2% 2027		15 May 2027
1.0% 2026	15 May	15 May 2026
0.9% 2028	15 May	15 May 2028
2.4% 2030	15 May	15 May 2030
0.35% 2032	18 October	18 October 2032
1.7% 2037	15 May	15 May 2037
1.7% 2037	15 May	15 May 2037
3.0% 2043	18 October	18 October 2043
2.0% 2045	18 February	18 February 2045

Updated ratings for Irish government bonds

Rating agency	Long term	Short term	Outlook /trend
Standard & Poor's	AA-	A-1+	Positive outlook
Fitch Ratings	AA-	F1+	Stable outlook
Moody's	A1	P-1	Positive outlook
DBRS Morningstar	AA (low)	R-1 (middle)	Stable trend
R&I	AA-	a-1+	Stable outlook
KBRA	AA-	K1+	Stable outlook
Scope Ratings	AA-	S-1+	Stable outlook

Source: NTMA, February 2023

The ratings for Irish government bonds detailed above demonstrate how rating agencies can differ in their rating for the same issuer.

KEEP scheme extension

The Key Employee Engagement Programme (KEEP) is a share-based employee incentive scheme. It is available to certain qualifying small businesses to grant options to certain employees in order to attract/reward/retain them (comparable to larger organisations).

It will allow an employee to participate in a tax-efficient way in the growth in value of their organisation, especially if this is a small, young business with growth potential.

While participation in KEEP does not require Revenue approval, there are specific conditions that need to be satisfied to obtain the relief; namely, a "qualifying company" carrying out a "qualifying trade" can grant options to "qualifying employees" and these conditions must be satisfied all the way through the period to exercise of the option.

KEEP is applicable in respect of share options granted during the period 1 January 2018 to 31 December 2023. In Budget 2023, it was announced that the programme would be extended until 31 December 2025.

Benefits

The scheme helps SMEs attract and retain talent, and it allows financial incentives to be given without having to give cash.

Limitations
Value limits apply to granting KEEP options to any one employee as follows:

1. €100,000 in any one year of assessment
2. €300,000 in all years of assessment, or
3. 100% of the qualifying individual's annual emoluments in the year of assessment in which the qualifying share option is granted

It is not easy to convert shares held in private Irish companies into cash.

Risk
The valuation of shares and liquidity of shares will potentially be challenges for the scheme.

Taxation
The KEEP scheme allows employees to be liable only to capital gains tax on disposal of the shares. Any tax charge arising will only arise on sale of shares and not on the exercise of the option.

This is in contrast to the income tax, USC and employee PRSI which would normally apply on gains arising on the exercise of share options.

Income tax updates for 2023

Income tax is levied for the 2023 tax year on taxable income as follows:

Taxable income up to *standard rate band*	20%
Excess at higher rate	40%

Each taxpayer has a standard rate tax band (i.e. a level of taxable income subject to standard rate tax) and personal tax credits to be offset against their income tax liability. Any income above this level is taxed at the top or higher rate.

The level of standard rate band varies by the marital status of the taxpayer and whether one or both spouses are working.

A *tax credit* is a credit or deduction against an individual's income tax liability.

Tax credits are allowed in respect of the following items:

- Personal allowance
- Spouse's carer allowance
- Other allowances, for example age allowance, blind allowance, incapacitated child allowance and dependent relative allowance
- PAYE
- Earned income

The tax bands and main tax credits in 2023 are:

	Standard rate tax band 2023	**Personal tax credit 2023**
Single/widowed	€40,000	€1,775
Married couple, one income	€49,000	€3,550
Married couple, two incomes	€49,000 (with an increase of €31,000 max)	€3,550
One-parent family	€44,000	€1,650 (additional)
Employee		€1,775
Earned income		€1,775 (max)

Universal social charge (USC)

A universal social charge (USC) is payable on an individual's income from all sources, i.e. on income before deduction of any tax reliefs, covenants, etc.

The standard rate of USC payable in 2023 is as follows:

Total income subject to USC	**USC rate**
The first €12,012	0.5%
Income from €12,012.01 to €22,920	2%
Income from €22,920 to €70,044	4.5%
Balance over €70,044	8%
Self-employed income over €100,000	11%

There is a surcharge of 3% (total rate 11%) on individuals who have non-PAYE income that exceeds €100,000 in a year, regardless of age.

All individuals are liable to pay the USC if their gross income exceeds the threshold of €13,000 pa.

Reduced USC rates of 0.5% on the first €12,012 and 2% on the balance apply to:

- Those aged 70 or over with total income less than €60,000, and
- Those aged under 70 with total income less than €60,000 and who hold a medical card

The following are some of the types of income exempt from USC:

- Department of Social Protection pensions, benefits and similar payments
- Deposit interest on which DIRT has already been paid
- Dividends paid by credit unions to their members
- Returns from Life Assurance and collective investment fund investments
- The tax-free part of ex-gratia redundancy payments paid by employers

Where income is taxed under the PAYE system, the USC is applied to the gross income before deduction of pension contributions, reliefs, tax credits, etc.

Income tax calculation example

The general outline of how income tax is charged is as follows. The example is assumed to refer to a married couple with one earned income (where the person earning the income is not a proprietary director) and both are under age 65:

Example	
Total gross income from all sources, earnings, taxable investment income, etc.	Schedule E: €95,000 Schedule F: €5,000 (gross dividends from an Irish resident company) Total: €100,000
LESS	
Any *charges* on income, such as tax-deductible maintenance payments and allowable covenant payments	- €1,000 (gross covenant payment, assumed)
LESS	
Reliefs, such as personal pension plan contributions, PRSA contributions, personal contributions to occupational pension schemes, permanent health insurance premiums	- €2,000 (gross personal pension plan contribution)
Taxable income	€97,000
Standard rate tax band	€49,000 (assume married couple, one income) at 20% = € 9,800
Balance taxable at 40%	€48,000 at 40% = €19,200
Total tax	€29,000
LESS	
Tax credits:	Married tax credit: € 3,550 PAYE tax credit: € 1,775 Dividend withholding tax on dividends (25%): € 1,250 Medical expenses (€2,000 at 20%): € 400 Total credits: **€ 6,975**

PLUS	
Add back tax deducted and due to Revenue	Tax deducted on covenant payment: € 200
Total income tax liability for 2023	€29,000 - €6,975 + €200 = €22,225
PLUS USC First €12,012 at 0.5% Next €10,908 at 2% Next €47,124 at 4.5% Balance of €29,956 at 8%	 € 60 € 218 € 2,120 € 2,396 € 4,794
Total income tax and USC liability for 2023	**€27,019**

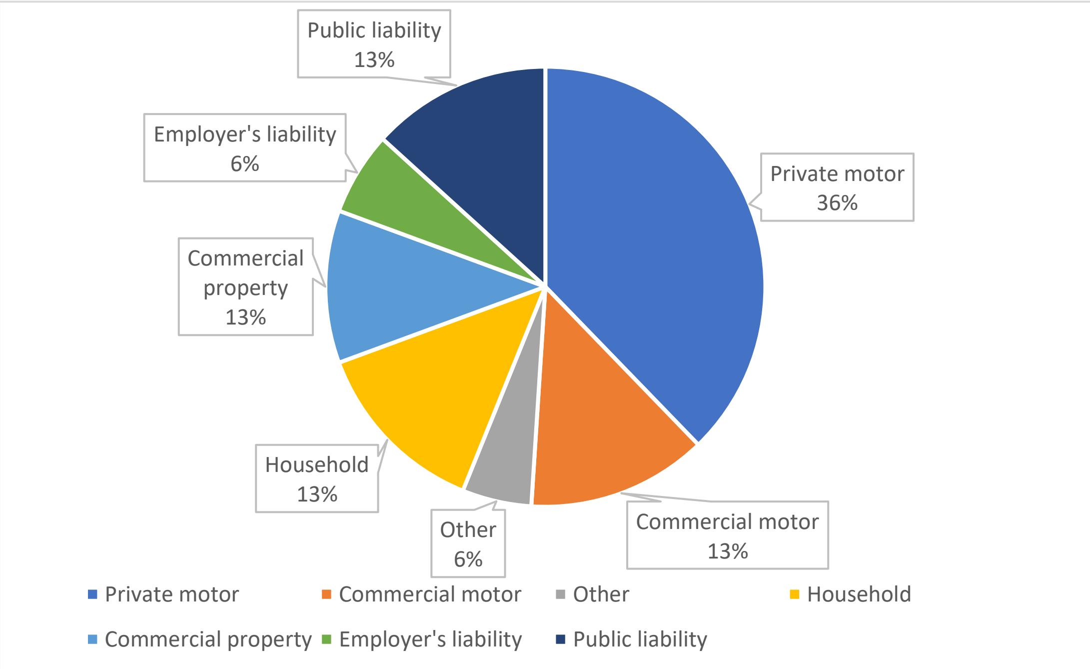
Part One - Section Six - General Insurance.

Irish insurance market

Update

Figure 1 presents the percentage breakdown of insurance business by class for 2020. It shows that motor insurance remains the largest class of non-life insurance, with gross written premium of €1,782 million (private and commercial motor represent 49.1% of all non-life business). Property is the second-largest class of non-life business (commercial property and household represent 25.7%). Liability insurance (public and employers') is the third-largest class and accounts for 18.8% of non-life business.

Figure 1: Irish non-life business by class (2020)[4]



In 2020, the gross written non-life general insurance premium income of members of Insurance Ireland (the domestic Irish market and Irish-based risks) was €3,631

[4] Insurance Ireland, 2022. *Insurance Ireland Factfile 2020*, January, www.insuranceireland.eu. Note, the "Other" category includes travel, personal accident, marine, aviation and transit, credit and suretyship, legal expenses and other miscellaneous classes.

million – down 2.3% on 2019 (see Table 1). This likely resulted from the impact of Covid-19 and the resulting economic slowdown. A low rate of premium income growth is expected in 2023.

Of the new claims notified to Insurance Ireland members in 2020 (301,849), 54% were motor claims, while 20.3% were made on household and commercial property insurance policies. In 2020, net incurred claims costs amounted to €1,571 million (down 0.7% on 2019), leading to a net underwriting profit of €180 million compared to a net underwriting profit of €191.6 million in 2019.[5]

Table 1 Non-life business market 2016–2020

Year	Gross written premium (€m)	Net underwriting result (€m)	Investment income (€m)	Operating result (€m)	Profit premium (%)
2016	3,253	-94	109	16	0.49
2017	3,511	126	101	227	6.47
2018	3,570	180	91	271	7.59
2019	3,715	192	120	312	8.4
2020	3,631	171	57	228	6.28
5 years	17,680	575	478	1,054	5.96

Table 1 outlines the net underwriting result, investment income attributable to the underwriting account and the operating result for the non-life business market for the years 2016 to 2020. After investment income is taken into account, the 17 domestic non-life insurers made a net operating profit of €228 million in 2020, which is a 27% decrease on 2019 (€311.7 million).

The private motor market continued in profit in 2020 (€201 million) for the fourth consecutive year. The net underwriting result in household has been positive over recent years. Benign weather for most of the year contributed to a net underwriting profit of €13 million in 2020. There has been a net underwriting loss in employers' liability of €232 million over the five years up to 2020. This is not surprising as the employers' liability class is subject to the same challenges as motor, with high personal injury claims costs impacting on the results.

[5] Insurance Ireland, 2022. *Insurance Ireland Factfile 2020*, January, www.insuranceireland.eu.

What it means for the insurance industry

In its *Annual Report 2022*, Insurance Ireland described 2022 as "a challenging year for consumers mainly arising out of the impact of Russia's invasion of the Ukraine and the general cost of living crisis".[6]

The CEO of Insurance Ireland noted that:

2022 was a year which saw the industry and the economy emerge from the after effects of the Covid pandemic only to face new and equally unwelcome and unchartered challenges. In what was a very difficult year for consumers, mainly arising out of the impact of the Russia invasion of Ukraine and the general cost of living crisis, one of the few positives has been the continued reduction in the cost of motor insurance which is now at the lowest levels since 2009 as well as an increase in coverage in other areas where previously there was gaps.[7]

Ireland is the largest provider of cross-border life and non-life insurance across the EU and EEA. In 2022, the Irish insurance market was the fourth-largest insurance market in the EU (having increased from the fifth in 2021), and the third-largest reinsurance market in the EU. Nevertheless, Insurance Ireland in its Strategic Objectives set for the 2022–2026 period continues to look to strengthen the Irish insurance market, its regulation, competitiveness and growth potential.[8]

In terms of awards, in its *Annual Report 2022*, Insurance Ireland noted:

The Personal Injuries Guidelines (PIG), which are a major advocacy achievement on behalf of the insurance industry, borne out of Insurance Ireland's public affairs and communications campaigns emphasising the need for award levels for minor/moderate injuries to be reduced. PIAB award levels have reduced. It remains to be seen if the same trends will flow through into Circuit and High Courts.[9]

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[6] Insurance Ireland, 2023. *Annual Report 2021*, p.3, www.insuranceireland.eu.
[7] Insurance Ireland, 2023. *Annual Report 2022*, p.4, www.insuranceireland.eu.
[8] Insurance Ireland, 2023. *Annual Report 2022*, p.8, www.insuranceireland.eu.
[9] Insurance Ireland, 2022. *Annual Report 2021*, p.12, www.insuranceireland.eu.

Central Bank of Ireland publications and priorities

Reminder

The Central Bank of Ireland's (CBI) mission is to serve the public interest by safeguarding monetary and financial stability and by working to ensure that the financial system operates in the best interests of consumers and the wider economy. The CBI prepares and publishes a range of documents that inform a wide range of external stakeholders about the future priorities, activities and desired outcomes under each of its main areas of responsibility. These publications include its Strategic Plan, Annual Report and Annual Performance Statement, Consumer Protection Outlook Report and consultation papers.

Update – *Our Strategy*[10]

Effective from January 2022, the CBI's *Our Strategy* is designed to ensure it can meet the challenges of a changing world and deliver on its mission and vision.

Our Strategy centres on four strategic themes:

- Future-focused. Being future-focused is critical to enabling the CBI to better understand, anticipate and adapt in the context of the far-reaching changes taking place within the financial services industry, with a particular emphasis on technological innovation, climate transition, geopolitical change and developments arising in the context of the Covid-19 pandemic.
- Open and engaged. By being open and engaged, the CBI is emphasising the critical priority of listening to its stakeholders, building dialogue and learning so that it can contribute to building trust in the financial system and foster a wider understanding of the CBI's role. The rapid pace of change and the expectations of its stakeholders means that the CBI needs to be well-connected with them.
- Transforming. Under transforming, the CBI's focus is on reimagining how its organisation operates, with an emphasis on effectiveness and increased agility, in a new hybrid-working model. The role of data and technology in driving effective and efficient processes and supporting its people to deliver on their roles is central to this.
- Safeguarding. Safeguarding reflects the CBI's steadfast commitment to strengthening the design, implementation and operation of its core policy and supervisory frameworks.

[10] Central Bank of Ireland, 2021. *Our Strategy*, www.centralbank.ie.

Our Strategy's themes aim to ensure that the CBI's direction and ambitions over the next five years are responsive and forward-looking.[11] In the words of Colm Kincaid, Director of Consumer Protection at the CBI:

We will continue to evolve our key policy frameworks and approaches, strengthening our ability to maintain price stability and the resilience of the financial system, while ensuring the best interests of consumers and investors are protected. This will include accelerating the evolution of our risk-based supervisory approach, such that it becomes more data-driven, agile and scalable.[12]

Update – *Annual Report and Annual Performance Statement 2021–2022*[13]

The CBI's *Annual Report and Annual Performance Statement 2021–2022* provides an overview of its key activities and work. It acknowledges that 2021 marked another year of uncertainty and change and that the CBI's *Our Strategy* should ensure that the CBI moves at speed amidst this uncertainty.

In its foreword, the CBI governor Gabriel Makhlouf notes:

In dealing with uncertainty, organisations such as the Central Bank must be forward-looking and agile in our strategic approach, to ensure we are capable of moving at speed when new problems arise, working in conjunction with our international counterparts.

The Annual Report outlines many achievements of the work of the Central Bank throughout 2021. Some specific ones that I would like to mention here include our people continuing to work both on-site in critical operations and remotely with the sustained support from our colleagues in the Central Bank to facilitate this, the broad ranging work of our pandemic response team, the development of our Future@Work model, delivering on our commitment to being a socially responsible and sustainable organisation as independently certified, engagement with the public on our policies such as our Mortgage Measures Framework Review, our continued work on market-based finance to address potential sources of financial vulnerability that could affect resilience in future periods of stress, and our focus on conduct, culture and customer treatment through our work on issues of Differential Pricing and Business Interruption Insurance.

[11] Central Bank of Ireland, 2021. *Our Strategy*, p.4, www.centralbank.ie.
[12] Central Bank of Ireland, 2021. *Intermediary Times*. November edition, p.2, www.centralbank.ie.
[13] Central Bank of Ireland, *Annual Performance Statement 2021-2022*, www.centralbank.ie.

Update – *Differential Pricing Review of the Private Car and Home Insurance Markets*

The CBI's 2020 *Differential Pricing Review of the Private Car and Home Insurance Markets* aimed to:

- Establish the impact of differential pricing on consumers
- Assess the extent to which these pricing practices lead to outcomes consistent with the CPC
- Identify the drivers of consumer behaviours including how consumers engage with the insurance industry
- Assess the governance and oversight of differential pricing in the insurance industry

The Review concluded that the practice of price walking could result in unfair outcomes for some consumers in the motor and home insurance markets. The ban on price walking in insurance in the motor and home insurance market was implemented by the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) (Insurance Requirements) Regulations 2022. Since July 2022, insurance undertakings (insurers and intermediaries) cannot charge relevant renewing consumers a premium that is higher than they would charge an equivalent year-one consumer renewing their policy. However, to support competition and switching, new customer discounts will be allowed.

In addition, insurance undertakings are required to carry out an annual review of motor and home insurance pricing policies and processes to ensure sound practices.

The Regulations set out the information that must be provided to consumers in advance of the automatic renewal of an insurance policy, including the right to cancellation. This is another measure to encourage consumers to consider the potential benefits of switching and to increase consumer awareness of the options available to them at renewal time.

<u>Director General at the CBI, Derville Rowland said:</u>

These new Regulations will significantly enhance the consumer protection framework. This will benefit consumers by removing the loyalty penalty for consumers of long tenure while preserving competition in the market.

Update – *Consumer Protection Outlook Report 2023*

The *Consumer Protection Outlook Report* (CPOR) sets out the CBI's consumer protection priorities for the year ahead, the key risks to consumers of financial services and the CBI's expectations of what regulated financial services providers should do to minimise these risks.[14]

The CPOR 2023 was the second CPOR since the introduction of the CBI's new strategy and sought to build on the insights gathered following the CPOR 2022. Colm Kincaid, Director of Consumer Protection, noted that:

These insights have enabled us to anchor on five "Key Drivers of Consumer Risk". These are underlying drivers of the issues of consumer harm (or risk of harm) that we encounter in our work where your inputs indicate more could be done to protect consumers and the integrity of the financial system.[15]

These five Key Drivers of Consumer Risk are:

- Poor business practices and weak business processes
- Ineffective disclosures to consumers
- The changing operational landscape
- Technology-driven risks to consumer protection
- The impact of shifting business models

The CBI's priorities are informed by this sectoral risk analysis along with the assessment of where its interventions have the greatest potential to minimise risks for consumers. Examples of insurance-related priorities arising of the CPOR's findings include:

- Introducing the ban on "price walking" in the motor and home insurance markets so that consumers are not penalised for their loyalty
- The risk of underinsurance for home insurance consumers, potentially leaving consumers at risk of not being fully covered for their losses if they have to make a home insurance claim
- Undertaking thematic reviews and further supervisory engagement on the suitability of long-term Life Assurance products, certain insurance pricing risks, product governance and costs, as well as charges in the investment sector

[14] Central Bank of Ireland, 2023. *Consumer Protection Outlook Report 2022*, www.centralbank.ie.
[15] Central Bank of Ireland, 2023. *Consumer Protection Outlook Report 2022*, www.centralbank.ie.

In the CPOR 2023, the CBI set out its approach to supervisory activities, with a focus on the Key Drivers of Consumer Risk:

In each of these pieces of work and our day-to-day supervisory activities, we will look to see how well firms identify, mitigate and manage the five Key Drivers of Consumer Risk identified in this Report. This will include scrutinising the extent to which firms have embraced and implemented the expectations we have set out for regulated firms with respect to those drivers of risk.[16]

What it means for the insurance industry

Whether facing the challenges associated with the pace of technological change, the impact of climate change or the consequences of Brexit, the CBI acts in the public interest and expects regulated firms to actively consider and act on emerging issues to ensure that they:

- Have sufficient financial resources, including enough to deal adequately with a surge in consumers needing a certain service or support
- Make sustainable improvements in relation to dealing with the Key Risk Drivers for Consumers
- Are well governed, have appropriate cultures (with a more embedded consumer-focused culture at senior management level), with effective risk management and control arrangements
- Can recover if they get into difficulty, and, if they cannot, are resolvable in an orderly manner without significant externalities or taxpayer costs

The CBI's objective is to achieve a resilient and trustworthy financial system which sustainably serves the needs of the economy and its customers and in which firms and individuals adhere to a culture of fairness and high standards.

[16] Central Bank of Ireland, 2023. *Consumer Protection Outlook Report 2022*, p.15, www.centralbank.ie.

Recent legislation

Reminder

The introduction of new legislation and the amendment of existing legislation is a common occurrence in all markets and is necessary if regulation is to remain responsive and effective. This section examines some recent pieces of legislation which have had an impact on the Irish insurance market.

Update – Insurance (Miscellaneous Provisions) Act 2022

The Insurance (Miscellaneous Provisions) Act 2022 was enacted in June 2022 and came into full effect by 1 January 2023. The Act addresses several insurance-related issues highlighted in the Action Plan for Insurance Reform. The main amendments relate to:

- The power of the National Claims Information Database (NCID) to collect data concerning deductions relating to public money (i.e. state supports) from insurance compensation or claims payments.
- CBI to report on insurance measures relating to the oversight of pricing practices of insurance undertakings and insurance intermediaries acts, the measures implemented on price walking and automatic renewal of insurance policies, and whether measures or further measures should be implemented in respect of these issues.
- Disclosures and legal professional privilege under the Consumer Insurance Contracts Act 2019 (CICA): Section 16(10) of CICA was deleted and replaced. This amendment clarified that the disclosures required in respect of consumers and insurers should not infringe on legal professional privilege. Section 16B was introduced to create a duty on insurers to notify claimant of any deductions, including where the deduction is in respect of amounts paid out of public moneys to a claimant (other than deductions in respect of payments in relation to which a corresponding amount has been paid to the Minister for Social Protection in accordance with Part 11B of the Social Welfare Consolidation Act 2005).
- Amendments relating to co-insureds under the Consumer Insurance Contracts Act 2019: Section 18(4) of CICA was amended to provide for a situation where more than one consumer is named on a policy, and the policy excludes coverage for loss or damage to property caused by a criminal or intentional act or omission of a co-insured. That exclusion can only be relied upon against a consumer where that consumer caused, aided or abetted, or consented to the acts or omissions that caused the damage or loss. A consumer could not, however, recover more than that person's proportionate interest in the lost or damaged property. The amendment also clarifies that these provisions do not affect coverage exclusions for loss or

damage caused by war, act of terrorism, nuclear attack or cyberattack.

- Amendments to the Temporary Run-off Regime (TRR) under the EU (Insurance and Reinsurance) Regulations 2015. Following Brexit, UK and Gibraltar insurers lost the ability to write new business in the EU. However, in order to protect Irish policyholders, the TRR allows qualifying UK and Gibraltar insurers to run-off their existing insurance contracts post-Brexit before ultimately terminating their activities in Ireland. The amendments allow UK and Gibraltar insurers in the TRR which are in the process of winding up and in liquidation to continue operations.

What it means for the insurance industry

While the Insurance (Miscellaneous Provisions) Act 2022 provides useful amendments/clarifications and greater oversight of the insurance industry by the CBI, it is the amendments to CICA that are likely to create the greatest impact. Insurers should be conscious of the changes to the requirements around privilege and disclosure under section 16A of CICA. These amendments provide greater detail around the mutual obligations of insurers and consumers to disclose information and reports following a claim, along with clarity around the operation of rules of legal professional privilege. It should be noted that it will be necessary to disclose reports prepared for the purposes of pending or contemplated civil proceeding within 60 days of receipt of the report. Importantly a "report" in this context includes a report "in draft or final form", meaning that, where draft expert reports are received, these will be subject to this requirement and may need to be disclosed.

Update – Central Bank (Individual Accountability Framework) Act 2023[17]

The Central Bank (Individual Accountability Framework) Act 2023 (IAF Act) was signed into law in March 2023 and introduces significant changes to the governance and accountability framework of individuals working in regulated entities. The Act captures developments in the CBI's thinking and the experience of regulators who have implemented accountability regimes, most notably the UK's Senior Managers and Certification Regime (SMCR).

In more recent years, there has been an increased focus nationally and internationally on strengthening corporate culture, driving positive behaviour and increasing individual accountability to mitigate conduct risk and prevent issues arising within firms.

<u>Speaking following the enactment of the IAF Act, the Director General, Financial Conduct, Derville Rowland, noted that:</u>

At its core, financial regulation is about supporting positive outcomes, the interests of consumers and, ultimately, the economic well-being of the community as a whole. The new framework will underpin sound governance across the financial sector. It will achieve this by setting out clearly the good practices expected of firms and role-holders and their accountability.

The framework provides clarity as to standards that must be met by firms and individuals. These are the right standards to underpin the provision of financial services. As regulators, our approach to implementation of the framework will be founded on the principles of proportionality, predictability and reasonable expectations, underpinned by effective enforcement.[18]

Experience has shown that, in order for a regulatory framework to work well, it should stimulate strong and effective governance within firms. To achieve this:

- The allocation of responsibilities within firms needs to be transparent, clear and comprehensive.
- Individuals need to know what they are responsible and accountable for, be clear what standards of behaviour are expected of them, and recognise that, where their actions fall short of expected standards, they will be held accountable.

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[17] Central Bank of Ireland. *Statement – Central Bank (Individual Accountability Framework) Bill 2021*, 27 July, www.centralbank.ie.

[18] Central Bank of Ireland, 2023. *The Individual Accountability Framework, Financial Regulation and the Central Bank – consultation and next steps*, 13 March, www.centralbank.ie.

The four key components of the Individual Accountability Framework (IAF) set out to achieve these behavioural, cultural and regulatory objectives:

- The Senior Executive Accountability Regime (SEAR) requires firms to set out clearly and comprehensively where responsibility and decision-making lie in order to achieve transparency as to who is accountable for what within firms.
- The enforceable Conduct Standards set out the behaviour expected of firms and their staff, including obligations to conduct themselves with honesty and integrity, to act with due skill, care and diligence, and in the best interest of consumers.
- The CBI's Fitness and Probity Regime is enhanced to place a greater onus on firms to proactively certify that certain staff are fit and proper and capable of performing their roles with integrity and competence.
- The CBI's Administrative Sanctions Procedure is strengthened to ensure that individuals can be pursued directly for their misconduct rather than only where they have participated in a firm's wrongdoing.

The IAF is ultimately about incentivising positive behaviours and promoting an improved culture within firms while strengthening the CBI's enforcement toolkit. A continued focus by the CBI on proportionality and fair procedures is a key theme of its IAF proposals.

The CBI commenced a three-month public consultation on 13 March 2023 on key aspects of the implementation of the IAF, including the publication of draft Regulations and draft Guidance. It seeks to provide clarity in terms of the CBI's expectations, and seeks feedback on the implementation of SEAR, the Conduct Standards and certain enhancements to the Fitness and Probity Regime. A timeline for implementation of the broader measures under the IAF Act are also set out, with Conduct Standards and enhancements to the Fitness and Probity Regime coming into effect from 31 December 2023, and SEAR to apply to firms initially in scope from 1 July 2024. Insurers (excluding reinsurance undertakings, captive (re)insurance undertakings and insurance special purpose vehicles) will be in scope from these dates.

What it means for the insurance industry

The IAF Act will require insurers to undertake significant work in advance of the formal introduction of Conduct Standards and SEAR. It will therefore be important for insurers to ensure that a clear plan is in place, with a focus on understanding senior management arrangements, governance and HR processes, with a view to preparing clear responsibility maps. While this is a significant undertaking, it provides an opportunity for firms to reflect on existing frameworks and to improve the clarity, understanding and operation of roles and responsibilities within the firm. The Conduct Standards will also impose additional standards and require firms to assess how they will train and support staff and integrate these within the firm through training and support.

Update – Personal Injuries Resolution Board Act 2022

The Personal Injuries Resolution Board Act 2022 was signed into law in December 2022. This Act aims to have more cases resolved through PIAB with its quicker processing times and lower legal expenses than litigation, thereby ultimately reducing the costs of claims for consumers and businesses.

From 13 February 2023, under this Act:

- Where a claim proceeds to litigation, a PIAB assessment that has been accepted by a respondent (insurer) will have the status of an offer of tender payment. This means that where the court award is not greater than the value of the PIAB assessment, the claimant will not recover their costs and will generally also be liable for the respondent's costs.
- PIAB will have additional time to assess claims relating to long-term injuries where a prognosis may not be available within the statutory timeframe, with an increase to two years for such cases, or longer where the parties consent.
- New anti-fraud measures require claimants to provide a PPS number to verify their identity and make it an offence to provide false or misleading information to the Board. The Board may also report suspected offences (e.g. fraud) to An Garda Síochána.

At the time of writing, some of the Act's provisions are awaiting commencement, but, once fully commenced, the Act will also:

- Rename the PIAB. It will become the Personal Injuries Resolution Board.
- Expand the remit of PIAB. In terms of extended scope, PIAB will have the power to consider purely psychological claims.
- Introduce options for mediation. The process will be voluntary and is modelled on the Mediation Act 2017. The mediation process will operate separately to, but concurrently with, the current assessment process. Parties to the mediation process will be entitled to be represented by their legal advisor or to obtain independent legal advice. A mediation report will be prepared, although the parties may withdraw from the agreement within 10 days. Where mediation does not resolve the claim, the Board will assess the claim, unless the respondent has indicated that they do not intend to accept the assessment.

What it means for the insurance industry

The Act introduces potentially significant changes to the assessment process for PIAB. It is hoped that both the provisions relating to mediation as well as the fixing of costs on claimants who reject an assessment accepted by a respondent and receive a lower award following litigation should make engagement with the Board more efficient and effective. (This will be separate to any claims against insurers and intermediaries before the FSPO) The anti-fraud measures should also assist in identifying and mitigating fraudulent claims.

Update – Consumer Rights Act 2022

The Consumer Rights Act 2022 (CRA) was enacted in November 2022. It makes significant and widespread changes to consumer protection laws in Ireland and implements the Digital Content Directive 2019, the revised Sale of Goods Directive, and the Omnibus Directive. It also repeals and replaces a number of pieces of existing consumer legislation, including, of most relevance to insurers, the European Communities (Unfair Terms in Consumer Contracts) Regulations 1995 (which is effectively replaced by Part 6 of the CRA). The broader changes under the CRA, however, primarily relate to traders and the sale of goods, and the provisions relating to digital content and contracts will not apply to contracts for the supply of financial services.

Although much of the CRA excludes financial services, there are substantive changes to the unfair terms requirements, including:

- A new black list of standard contractual terms that will be considered unfair, including terms seeking to inappropriately transfer the onus of proof to the consumer, requiring consumers to pay the costs of arbitration and restricting jurisdiction to where the trader is located (unless the consumer is also located there).
- A grey list of potentially unfair terms which will be presumed unfair. Exclusions from potential unfairness have been narrowed, with unfairness assessment extended to individual negotiated terms, and with less of an exemption for core contract terms.

What it means for the insurance industry

While the majority of changes under the CRA do not apply to the provision of financial services, insurers should be conscious of the expanded scope of unfairness under Part 6 and the repeal of the previous Unfair Terms Regulations for new contracts.

Update – Digital Operational Resilience Act 2022

- The Digital Operational Resilience Act (Regulation (EU)) 2022 (DORA) was published in December 2022, entered into force in January 2023 and is to apply from 17 January 2025. For the avoidance of doubt, although referred to as an "Act", this is an EU Regulation and is to be directly applicable in all member states. The European Supervisory Authorities (including EIOPA) are to develop technical standards to assist with practical implementation.
- DORA aims to strengthen IT security for financial entities, including insurers, and applies to critical third parties providing information communication technologies (ICT) to financial entities and to consolidate and update rules on ICT risk. In particular, DORA sets out requirements for:
- ICT risk management
- Incident management, classification and reporting
- Operational resilience testing
- Information sharing on cyber threats and vulnerabilities
- Measures for the management of ICT third-party risk, including requirements in relation to outsourcing contracts and arrangements
- The regulatory framework seeks to ensure that firms can withstand, respond to and recover from ICT-related disruptions and threats. Insurers will need to take a principles-based approach to addressing ICT risk and will need to consider and assess their interdependencies with ICT providers to minimise the potential impact and costs of disruptive events. The importance of cyber risk can also be seen in the increase in cyber insurance

What it means for the insurance industry

There are limited exclusions from DORA for certain small firms, but it will apply to both financial institutions, as well as the ICT service providers.

As part of DORA, insurers will need to understand their operational interdependencies with third-party ICT providers. It should be noted that many of the measures set out in DORA are at least partially reflected in the CBI Cross-Industry Guidance on Operational Resilience (December 2021), which the CBI has noted is both compatible with/complementary to DORA. Insurers should therefore focus on implementing the CBI's Guidance in preparation for the full implementation and application of DORA, with a focus on identifying key ICT providers, as well as any gaps in existing governance and oversight of those providers.

Consumer protection

Reminder

A cornerstone of the CBI's mission is consumer protection. This is what drives its consumer-centric focus and strategy (see Section B). Since 2007, the Consumer Protection Code has been evidence of this mission, strategy and focus.

Update

In October 2022, as part of its Consumer Protection Review the CBI published a discussion paper on the topic of consumer protection in financial services. This paper seeks views on two broad discussion themes:

- Availability and choice
- Firms acting in the consumers' best interests

Additionally, the CBI has set out eight other specific discussion themes, focusing on:

- Innovation
- Digitalisation
- Unregulated activities
- Pricing
- Effective communication
- Vulnerability
- Financial literacy
- Climate matters

Comments on the discussion paper closed on 31 March 2023, and the CBI intends to publish a public consultation on proposed changes by the end of 2023, with a view to implementing a revised retail conduct framework by 2024.

What it means for the insurance industry

While it is too early to know how the CBI may seek to update and amend the existing Consumer Protection Code, firms should monitor and consider the consultation paper once it is produced. The questions set out in the discussion paper indicate a focus on changes in technology, innovation and digitalisation, the impact and risks from a consumer perspective, increased focus on the general principle of acting in the best interests of customers, pricing transparency, vulnerable consumers, financial literacy and climate matters.

Financial Services and Pensions Ombudsman

Reminder

The role of the Financial Services and Pensions Ombudsman (FSPO) is to resolve complaints from consumers, including small businesses and other organisations, against financial service providers and pension providers.

Update

The FSPO's *Overview of Complaints 2022* notes that the FSPO received and registered 4,781 complaints in 2022 (slightly up from 4,658 in 2021). Eighty per cent of these complaints were received online (up from 74% in 2021). It is notable that 28% of the complaints made were about poor customer service from financial service providers.[19]

Of the 4,647 complaints closed in 2022 (down from 5,010 in 2021), the FSPO:

- Closed 2,090 complaints after registration and referral to providers
- Resolved 1,722 complaints through the dispute resolution process
- Closed 629 complaints through the formal Investigation Services
- Had 361 complaints withdrawn at various stages of the process
- Closed 206 complaints as ineligible

The split across the financial services sectors is as follows:

- Banking 55% (complaints about accounts represented 44% of banking complaints, with 31% relating to mortgages)
- Insurance 24% (motor insurance represented 27% of insurance complaints, with health, accident and other insurances representing 23%)
- Investment 8%
- Pension schemes 5%
- The remaining 8% consisted of complaints which were yet to have a sector assigned.

[19] Financial Services and Pensions Ombudsman, 2023. *Overview of Complaints 2022*, www.fspo.ie.

The top five conducts complained about in insurance in 2022 related to:

- Claims handling (35%)
- Customer service (18%)
- Rejection of claim (15%)
- Maladministration (9%)
- Refusal to give product/service (8%)

The FSPO dealt with more than €7 million in complaint outcomes during 2022, including:

- More than €3.4 million in mediated settlements in 1,137 complaints resolved through mediation in the FSPO's Dispute Resolution Service.
- €616,686 in compensation to complainants directed in the Ombudsman's legally binding decisions following the formal investigation process.
- €965,527 paid to complainants by providers to resolve complaints during the FSPO's formal investigation process.
- €174,495 in redress had been provided by providers to complainants, and, therefore, these complaints were not upheld because it was deemed that reasonable offers of redress had already been made.

The FSPO's *Overview of Complaints 2022* highlights complaint trends, including a noticeable increase in complaints identified as relating to customer service, including providers' failure to provide information, complaint handling issues, and accessibility and communication issues.

During 2021–2022, there was a significant reduction in the number of complaints arising from Covid-19, falling from 600 complaints in 2020, and 275 in 2021, to only 69 in 2022. There were 37 Covid-19-related complaints from the insurance sector, nine of which were business-interruption complaints.

In 2022, 139 new tracker mortgage complaints were received. The FSPO noted that tracker-mortgage-related complaints continued to make up a significant portion of its work. Of those decisions issued in 2022, three complaints were upheld, substantially upheld or partially upheld, and 131 complaints were not upheld.

The FSPO noted that, from 1 June 2022, it began receiving complaints in relation to providers leaving the Irish market. The FSPO received 99 complaints in relation to these exits. Sixteen of these complaints were closed at an early stage, 34 were concluded within the Dispute Resolution Service, and 11 were concluded through a Legal Services resolution.

The *FSPO Strategic Plan 2021–2024* outlines its strategic priorities and projected progress over the next three years as it prepares to manage the ever-increasing complexity of the complaints it receives due to the involvement of multiple providers, the impact of new technology in the delivery of financial services, the ongoing development of new products and processes, and the statutory time limits for bringing a complaint to the FSPO.[20]

What it means for the insurance industry

As noted, over 80% of the FSPO's complaints in 2022 were received via its online complaint form. This reflects the continued switch towards digital delivery channels which began during the pandemic.

Mediation continues to be the preferred option for resolving complaints. Accordingly, by engaging with the parties directly and quickly, it is possible to achieve timely and satisfactory resolution in the majority of cases.

[20] Financial Services and Pensions Ombudsman, 2022. *Strategic Plan 2021–2024,* p.2, www.fspo.ie.

Personal injuries claims environment

Reminder

The National Claims Information Database (NCID) was established under the Central Bank (National Claims Information Database) Act 2018.

The NCID is a repository for aggregate claims data with the purpose of increasing transparency around the cost of claims. This data is collected from insurers and includes premium, policy and claims data. The CBI publishes an Annual Report containing analysis of the cost of claims, the cost of premiums, how claims are settled, how settlement costs vary depending on how claims are settled, and an analysis of the various types of cost that make up settlements.[21]

Private motor insurance was the first class of insurance data to be included in the NCID. In late 2020, data collection began on additional classes of insurance data, which included employers' liability, public liability and commercial property insurance. The scope of the data collected on the NCID can be widened and additional types of insurance can be added in due course.

Update – NCID Reports

The Fourth NCID *Private Motor Insurance Report* was published in November 2022.[22] All insurers providing private motor insurance in Ireland, including insurers providing services in Ireland on cross-border passported basis, were required to submit returns for the year ending 31 December 2021.

The full Report is available here on the CBI website. Some interesting findings include:

- The average earned premium per policy decreased by 2% from 2020 to 2021.
- Claims cost per policy increased by 1%, although this is still a 20% decrease from 2019, reflecting the impact of Covid-19.
- Claims costs as a percentage of premiums were at their lowest point in 2020 at 47%, and this increased slightly to 49% in 2021.
- Claims frequency increased by 11%, although this is still a decrease of 15% from 2019 levels.
- Operating profit was 13% of total income in 2021. Across all years, 2009 to 2021, operating profit was 4% of total income.
- The percentage of injury claimants who settled claims by channel from 2019

[21] Central Bank of Ireland, *National Claims information Database*, www.centralbank.ie.

[22] Central Bank of Ireland, 2023. *Private Motor Insurance Report 4 National Claims information Database*, November, www.centralbank.ie.

to 2021:

- 35% before PIAB
- 14% directly, after PIAB
- 16% through PIAB
- 34% through litigation, before a court award
- 2% through litigation, with a court award

One of the more interesting findings in this report is the impact of legal costs. The report indicated that, between 2015 and 2021, the average compensation of litigated settlements below €100,000 (94% of claimants) is €24,174, with average legal costs of €15,567. By comparison, the average PIAB award is €21,856, with average legal costs of €686. This indicates that litigation (in the average personal injury case below €100,000) results in only a very small additional award amount compared to the award achieved through the PIAB process; yet, the legal costs are almost 23 times more expensive. The litigation route also takes nearly twice as long (3.9 years) to reach the settlement compared to the PIAB process (2 years).

Update – Personal Injury Assessment Board (PIAB)

The replacement of the Book of Quantum with the Personal Injury Guidelines (the Guidelines) from 24 April 2021 was another significant step in the ongoing campaign to reduce the costs of third-party injury claims in Ireland.[23]

The most recent report by PIAB was published in November 2022 and covered January–June 2022. It confirmed that there had been a 38% reduction in the level of monetary awards made by PIAB since 2020. There was also a significant increase in the number of awards below €15,000 and €10,000, with 75% of awards being below €15,000, and 53% below €10,000. For the same time period in 2020, 30% of awards were below €15,000 and 12% were below €10,000.

Prior to the introduction of the Personal Injury Guidelines, the acceptance rate was 51%. There was a decrease following the introduction of the Personal Injury Guidelines – acceptance rates dropped to 36% in May 2021, but they returned to 48% for the same period in 2022.

It is likely that there will be an impact in the future as a result of the Personal Injuries Resolution Board Act 2022, which aims to have more cases resolved through PIAB.

[23] Judicial Council, 2021. *Personal Injury Guidelines*, https://judicialcouncil.ie.

The number of claims being submitted to PIAB has decreased. There were 13,569 claims for this time period in 2019 but 8,989 for the same time period in 2022. However, some of this can be attributed to a significant increase in applications just prior to the introduction of the Personal Injury Guidelines.

What it means for the insurance industry

The latest PIAB report demonstrates the impact of the Personal Injury Guidelines on personal injuries awards, as well as the number of claims for personal injuries overall. The impact on damages is particularly notable, with a decrease of close to 50% on Book of Quantum awards.

PIAB notes that the impact of the Personal Injury Guidelines has yet to be fully felt and that close monitoring of the various settlement channels will need to take place. Other aspects of personal injuries actions are also likely to be impacted further in the future, including claim volumes, settlement behaviours, the nature of the injuries presenting, and the treatment of cases before the courts.

Cyber insurance

Reminder

Cyber insurance is designed to protect businesses from cyberattacks, hacking incidents, accidental loss or interruption of data, or damage to their IT systems and/or networks.

It is widely perceived that only large businesses are under threat from cyberattacks and need cyber insurance cover. If the client is a small business, they may not understand why they would require such cover. All businesses, whether dealing with customers or not, can store, process or manage personally identifiable information relating to their own employees.

Update – Cyber insurance

In the wake of mega data breaches and privacy scandals, major IT outages and the introduction of tighter data protection rules in EU and non-EU countries, cyber risk is now a core concern for businesses in 2023 and beyond.

Cybercrime costs include damage and destruction of data, stolen money, lost productivity, theft of intellectual property, theft of personal and financial data, embezzlement, fraud, post-attack disruption to the normal course of business, forensic investigation, restoration and deletion of hacked data and systems, reputational harm and regulatory fines.

The *Hiscox Cyber Readiness Report 2022* covered eight jurisdictions (six EU (including Ireland), the UK and the US).[24] It reported that 64% of Irish companies have cyber insurance, either as a standalone product or as part of another policy. This is up from 58% two years ago. The report also found that Irish businesses paid out ransoms more regularly than all other jurisdictions covered. In addition, it stated that 25% of Irish businesses paid out to recover data on five or more occasions. The ransom costs were, however, among the lowest of the jurisdictions surveyed (paying on average €17,000 in 2022, although this is a significant increase from €8,000 in 2021). The number-one reason cited for investing in cyber insurance for Irish businesses was fear of the cost of a potential breach. It is therefore likely that there will be an ever-increasing take up by Irish businesses of cyber insurance going forward.

[24] *The Hiscox Cyber Readiness Report* 2022, www.hiscox.ie/cyber-readiness.

Update – Network and Information Security Directive 2 (NIS2)

NIS2 entered into force on 16 January 2023 and must be implemented in Ireland by 18 October 2024. NIS2 is a response to the increasing threat of cyberattacks in the EU. It expands the scope of the current NIS Directive to include medium and large businesses in additional sectors and includes obligations for operators of essential services and digital service providers to put in place cybersecurity and breach reporting.

The other key changes will include:

- Obligations for management bodies in relation to the implementation and supervision of compliance, including potential fines and suspensions for failure to comply
- A requirement for management bodies to receive training on a regular basis, to provide them with sufficient knowledge and skills to apprehend and assess cybersecurity risks
- Access and audit rights for a national competent authority
- Implementation of cyber risk management measures, including policies covering security, incident handling, business continuity, crisis management, supply-chain security, having regard to the risks posed to the security of network and information systems that the relevant entities pose
- A requirement to test the effectiveness of cyber risk management procedures
- Incident notification timelines, including an initial notification of significant incidents within 24 hours (currently only required without undue delay)
- Administrative sanctions, with penalties of up to €10 million or 2% of worldwide turnover, whichever is higher
- The national competent authority will also be obliged to report any incidents involving personal data breaches to the Data Protection Commission.

Firms must also consider the impact of Digital Operational Resilience Act (Regulation (EU) 2022) (DORA).

What it means for the insurance industry

There continues to be a significant and increasing threat posed to both business and financial institutions from cyber threats. An increase in cyber risk insurance coverage and significant developments at an EU level seek to mitigate these risks.

To understand their operational resilience, insurers must take steps to consider their dependence on third parties in providing services as well as understanding who their significant third-party ICT service providers are. They need to put in place plans and measures to mitigate against the risk and impact of cyberattacks on both themselves and their customers.

Further, insurers can expect significant and ongoing regulatory focus from both the CBI and ESAs as additional legislative requirements come into force.

Motor insurance

Update

The Motor Insurance Directive 2021, which amends the Motor Insurance Directive 2019, is due to be transposed into national law by 23 December 2023.

This Directive aims to strengthen the protection of injured parties in motor vehicle accidents and improve the rights of policyholders. The MID amendments will deliver:[25]

- A European framework for compensating victims of motor accidents in the event of insolvency of the motor insurer
- Equal treatment of claims histories in all member states supporting free movement of people
- Unobtrusive checks on uninsured driving which do not require stopping the vehicle
- Harmonisation of minimum amounts of cover in the EU, including what vehicles are subject to compulsory insurance and what the insurance coverage should be. In particular, the rules clarify that accidents caused during the normal use of a vehicle as a means of transportation, including its use on private properties, are covered.[26]

What it means for the insurance industry

The implementation of the Motor Insurance Directive 2021 will be significant. In particular it restricts compulsory motor insurance to vehicles operating in their normal function and widens derogations from compulsory motor insurance where vehicles are not intended for use on a public road (effectively reversing the *Vnuk* case).

While this will mitigate against potential increases in premiums for policyholders, third-party victims of motor vehicle accidents, where the vehicle is not subject to compulsory insurance requirements, will potentially be exposed to greater risks and the potential for under-compensation.

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[25] Central Bank of Ireland, 2021. *Insurance Newsletter September 2021*, p.4, www.centralbank.ie.

[26] This provides clarification in light of the finding in *Vnuk v Zavarovalnica Triglav d.d.*(Case C-162/13) that the compulsory motor insurance requirement should include vehicles being used on private land. In this case, a Slovenian farmer, Mr Vnuk, was knocked off a ladder by a reversing tractor-trailer on a private farm in 2007. The **Motor Insurance Directive 2021** limits the scope to vehicles used as a mean of transportation.

Crisis in Ukraine[27]

Reminder

Firms with underwriting exposure to sanctioned persons, entities or bodies should assess the impact of the relevant sanctions regime(s). In the event that a match or a "hit" occurs against a sanctioned person, entity or body, firms must immediately freeze the account and/or stop the transaction and report the hit to the CBI along with other relevant information.

Firms should have appropriate stress and scenario testing in place to assist with their assessment of the possible impact of the crisis on their financial position, including solvency and liquidity. Understanding any counterparty vulnerabilities is more important than ever, and firms should monitor the potential for elevated concentration risk to entities within their group.

Update

The CBI's *June 2022 Insurance Newsletter* set out the responses received to the CBI's self-assessment questionnaire issued to most (re)insurers. The questionnaire posed questions on insurers' exposures to Ukraine, Russia and Belarus.

The CBI noted that there was little investment exposure for Irish insurers to Ukraine, Russia or Belarus, either directly or through investments. Exposure was instead generally through unit-linked business. Some non-life insurance covered were seen to have a material increase in the level of claims as a result of the crisis in Ukraine, but whether some claims would provide valid was uncertain. Further, certain sectors, particularly insurance related to aviation and cybersecurity, were more exposed than other insurance sectors.

In terms of economic impact, the CBI noted that these generally focused on "second round effects", including inflation, interest rate increases, economic slowdown and stagflation risks, as well as general market volatility.

In terms of compliance with the EU Sanctions on Russia and Belarus (which are now on their ninth package, with a tenth under consideration), the CBI noted that no insurers had reported significant issues complying with the requirements and that most firms had not been affected.

[27] Central Bank of Ireland, 2022. *Insurance Newsletter June 2022*, pp.2–3, www.centralbank.ie.

Ultimately, Peter Towers, in the Insurance Supervision Division of the CBI, concluded that:

The picture painted is one of firms being alert to the immediate implications of the crisis and how the evolving second round economic and financial market impacts may affect their financial position.[28]

What it means for the insurance industry

Although the majority of (re)insurers have limited direct business or investment exposure to Russia, Ukraine and Belarus, all potentially face the secondary effects of the conflict on economic and financial market conditions, both in Ireland and globally (e.g. on bond, equity and property price volatility, inflation rates, interest rates and economic growth).

The rapid escalation of the crisis in Ukraine is a reminder that firms and regulators need to have a risk-management focus that goes beyond a small number of well-defined risks and scenarios. Firms have much to consider depending on the complexity of their business model and their product and geographical footprint.

[28] Central Bank of Ireland, 2022. *Insurance Newsletter June 2022*, p.3, www.centralbank.ie.

Part Two – Section Seven Private health insurance update

Irish private health insurance market

Reminder

Since 2018, the Irish private health insurance market has had three registered Open Membership Undertakings (OMUs) providing inpatient health insurance cover:

- Vhi Healthcare
- Laya Healthcare
- Irish Life Health

The HSF Health Plan Limited is also registered as an OMU but it provides cash benefit plans only and does not offer indemnity cover for medical care.

In the Irish private health insurance market, a number of Restricted Membership Undertakings (RMUs) offer products but only to the employees (current and retired) of particular organisations.

Update

Vhi Healthcare maintains the largest overall share with 48.4% of the market, Laya Healthcare has a 27.6% share, and Irish Life Health has 20.5% of the overall market. RMUs have a combined market share of 3.5%.[29]

In May 2021, Vigo Health entered the market and sold an outpatient-only plan that was underwritten by Irish Life Health. In February 2023, Vigo Health announced that it was closing, citing challenging operating conditions and funding difficulties.

In 2022, there was a 9% reduction in the number of people insured with RMUs.[30] In February 2023, the ESB Medical Provident Fund (an RMU) closed and its membership transitioned to Vhi Healthcare.

[29] Health Insurance Authority, 2022. *Market Statistics (Q4)*, www.hia.ie.
[30] Health Insurance Authority, *Quarterly Bulletins*, www.hia.ie.

What it means for the health insurance market

The three private health insurers are now firmly established in the marketplace. Each insurer continues to come up with innovative ways to attract customers in the highly competitive market. The closure of Vigo has reinforced the difficulty that new entrants have in gaining traction in the market. HSF remains the only specialist outpatient cover provider, while the three OMUs also provide outpatient-only plans.

The Risk Equalisation Scheme (RES) continues to play an important role in the market's structure. However, as the RES is not available to RMUs, other RMUs may consider following the ESB MPF's move to the open market. This may have a long-term effect on the RES.

Market trends

Reminder

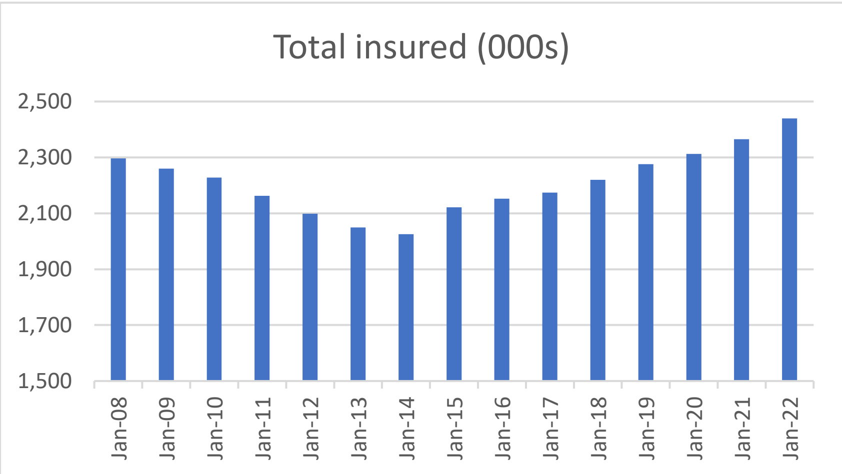
The health insurance market is the largest non-life insurance market in Ireland.[31] From 2008 to 2014, the economic downturn had a significant impact on the private health insurance sector, seeing its nearly 2.3 million members in December 2008 (51% of the population) fall to just over 2 million members by December 2014 (44%).

In advance of the introduction of Lifetime Community Rating (May 2015), 74,000 members joined the market. This slowed down the trend of the ageing population in the market. The number of people paying Lifetime Community Rating loadings continues to increase year on year.

Update

As Figure 1 shows, at the end of 2022 there were 2.44 million people insured with inpatient health insurance plans, higher than the market peak in 2008. However, due to a growing population the percentage of the population with cover remains lower than the peak. The percentage covered at the end of 2022 was 47.6%, compared to 50.9% in 2008.

Figure 1: Inpatient health insurance plans[32]



[31] Health Insurance Authority, 2022. *Annual Report 2021*, p.12, www.hia.ie.

[32] Health Insurance Authority, 2021. *Quarterly Report on Health Insurance (Q4)*, www.hia.ie.

Insured population

The average age of the population is increasing and the percentage of the population in the oldest age cohorts is steadily rising. This leads to an increased demand for healthcare. The proportion of the population with health insurance varies significantly by age. The proportions in the oldest age groups are rising faster than the average. The percentage of the insured population aged over 60 has increased by 0.6% per annum since 2009 and was 23% at the end of 2021.[33]

Although coverage has increased amongst all age groups, uptake is still relatively low among younger adults under the age of 39 and older adults over the age of 85. People aged 40 to 80 are most likely to have health insurance.[34]

Market shares vary significantly by the ages of the insured, although the degree of variation has reduced in recent years. At the end of 2022, Vhi Healthcare insured 54% of those aged 70–79 with insurance, compared to 72% at the end of 2014 (see Table 1).

Table 1: Open Membership Undertakings' market share by age at the end of 2022[35]

2022	Irish Life Health	Laya Healthcare	Vhi Healthcare
0–49	23%	29%	48%
50–59	21%	28%	51%
60–69	21%	29%	51%
70–79	16%	30%	54%
80+	10%	19%	71%
Overall	21%	29%	50%

According to the HIA's *Consumer Survey 2021*, the social profile of people with health insurance continues to be largely those from the white collar/professional socio-economic group.[36]

The survey identified that the key motivators for purchasing private health insurance (PHI) are the lack of speedy access to public services, the cost of medical treatments, the inadequate standard of public services, and the offer of cover with employment.

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[33] Health Insurance Authority, 2022. *Annual Report 2021*, www.hia.ie.
[34] Health Insurance Authority, 2023. Health Insurance Market Report 2021, p.5, www.hia.ie.
[35] Health Insurance Authority, 2023. *Historical data on the market (updated for 2022)*, www.hia.ie.
[36] Health Insurance Authority, 2022. *A Review of Private Health Insurance in Ireland 2021*, p.4, www.hia.ie.

There continues to be a strong belief that having PHI allows people to skip queues (58%) and ensures they receive a better level of service (58%). In line with previous years, PHI is deemed a necessity and not a luxury (61%), and only 27% agree that PHI is good value for money. Among those without PHI, there is a strong recognition (46%) that PHI is a necessity and not a luxury, suggesting that, if they could afford it, they would purchase it.

Premiums

Private health insurance premium income in 2021 was €2.97 billion (up from €2.61 billion in 2020).[37] The three insurers accounted for 94% of this amount. The average premium per insured increased by 2% in 2021. Based on the products held on 1 January 2022, the average premium was €1,466, compared to €1,440 in 2020.[38]

Lifetime Community Rating

The number of people paying Lifetime Community Rating loadings continues to increase. This has increased steadily since its introduction in 2015. At the end of 2022, there were 92,360 persons paying loadings. This represented an increase of 18,500 (25%) from 2021. The value of the loading payments was €21.3 million in 2022, increasing from €17.2 million in 2021.[39]

Claims costs

Due to a near full resumption of services after Covid-19, claims costs increased to €2.12 billion in 2021, from €1,876 billion in 2020. However, this is still below the 2019 figure, even though the number of people with health insurance has increased.[40]

In 2021, most claims were for treatment in private hospitals (50%). Claims for outpatient/GP treatment have increased year on year, with a 16% increase since 2019. Claims in public hospitals have decreased significantly from 21% in 2019 to 15% in 2021. It should be noted, however, that Covid-19 has been a major factor in this trend. Table 2 presents the claims paid by health insurers for hospital and outpatient/GP treatment from 2019–2021.

[37] Health Insurance Authority 2022. Annual Report 2021, p.12, www.hia.ie.
[38] Health Insurance Authority 2022. Annual Report 2021, p.13, www.hia.ie .
[39] Health Insurance Authority, 2023. *Historical data on the market (updated for 2022)*, www.hia.ie.
[40] Health Insurance Authority, 2022. Annual Report *2021*, p.13, www.hia.ie.

Table 2: Breakdown of claims paid 2019-2021[41]

Million €	2021	2020	2019	% Change 2020-21	% Change 2019 -21
Public hospital	310 (15%)	397 (21%)	471 (21%)	-22%	-34%
Private hospital	1072 (50%)	851 (45%)	1070 (48%)	26%	0.2%
Consultant	416 (20%)	355 (19%)	428 (19%)	17%	-3%
Other (out-patient/GP fees)	324 (15%)	271 (15%)	279 (12%)	20%	16%
Total	2122	1876	2248	13%	-6%

What it means for the health insurance market

The previous trends of claims inflation, an ageing population and the faster ageing of the part of the population with health insurance is expected to continue for the medium term. The impact of Covid-19 had reduced claims costs for 2020 and 2021, but the underlying issues remain. Over time, this will likely lead to higher number of claims per person insured. Managing the growth in claims is critical to the sustainability of the private health insurance market.

A number of rate increases were introduced in 2022 and early 2023 across all three insurers. Increased claims costs were cited as the key driver, but it was clear that increased energy costs for medical facilities were also a factor. Market commentary indicates that underlying medical inflation is likely to run in the high single figures, which will have an impact on future pricing.

[41] Health Insurance Authority, 2022. Annual Report *2021*, p.12, www.hia.ie.

Product development

Reminder

Private hospital services in Ireland are delivered by both public and private hospitals. Insurance products in the market typically concentrate on the mid-range hospital product (i.e. full cover in public hospitals, semi-private cover for private hospitals and access to hi-tech hospitals). As premium increases continued, this cover has become more expensive and insurers have developed variations in these products to meet consumer demand for more affordable healthcare options.

Significant product development in the past decade related to the introduction of:

- An excess payable by the policyholder on admission to a private hospital
- A larger excess (co-payment) related to specific procedures (e.g. orthopaedic, ophthalmic and cardiac procedures) carried out in a private hospital[42]
- Hospital networks (public and private) to manage exposure to higher-cost facilities and claims in respect of elective procedures

Practices differ across insurers, with the excess amount varying considerably across plans. An excess can apply on a per-claim, "per-policy" or annual basis depending on the plan. These excesses can be structured as a percentage of the total claim or as a fixed monetary amount per claim. No excesses or co-payments are payable for inpatient care provided in public hospitals as this is not permissible under the Minimum Benefit Regulations. Therefore, excesses can apply only to private hospitals.

Insurers introduce such strategies to identify and segment business with lower claims costs through differential pricing and to target the younger and healthier population. These strategies include marketing to lower-risk groups (e.g. offers on child rates) and offering products with reduced orthopaedic benefits. This segmentation, which results in older people on higher premium plans, accelerated in 2020, and, at the end of 2021, 62% of insured people had restricted orthopaedic benefits.[43]

[42] Health Insurance Authority, 2018. *The Irish Healthcare System - An Historical and Comparative Review*, www.hia.ie.

[43] Health Insurance Authority 2023, *Market Report 2021*, p.9, www.hia.ie.

Non-Advanced contracts have been available since March 2013. The definition of a Non-Advanced contract requires that the contract provides for not more than 66% of the full cost for hospital charges in a private hospital.

In advance of the introduction of Lifetime Community Rating in May 2015, insurers introduced an increased number of basic plans to cater to the budgets of those entering the private health insurance market for the first time to avoid the Lifetime Community Rating levy. In response to this, a large number of new members joined the market, but many subsequently did not renew their cover.

Update

Insurers have continued to adopt strategies to attract business with lower claims costs through differential pricing to targeted groups. This practice may undermine Community Rating. These strategies include the maintenance of a large number of plans offering similar benefits but with significant differences in pricing. At the end of 2021, there were 321 plans in the market, but 30% of people were on one of the health insurers' top five plans.

All three private health insurers offer products with reduced orthopaedic benefits in private hospitals, and the number of these plans on offer has increased in recent years. Few older people are insured on these plans. This segmentation, combined with a greater reluctance amongst older people to change product/insurer and the fact that older people are likely to have products with higher benefits, has resulted in a situation where older people on average pay significantly higher premiums than younger people. This gap further increased in 2021 with the average premium difference reaching €483 (June 2021), compared to €466 (June 2020).[44]

Table 3 presents the breakdown of cover held by the insured population based on the five levels used by the HIA. It shows that 94% of the market has access to cover in private hospitals.

[44] Health Insurance Authority, 2021. *Report to the Minister for Health on an evaluation and analysis of returns from 1 July 2020 to 30 June 2021, including advice on Risk Equalisation Credits*, www.hia.ie.

Table 3: Breakdown of plans according to the HIA's five levels of cover[45]

Level		Plans	% On Plan
Level 1	Public hospitals only.	24	7%
Level 2	Semi-private room in a private hospital, with high out of pocket costs, for example a high excess of more than €150 per claim.	42	13%
Level 3	Semi-private room in a private hospital, with low out of pocket costs, for example an excess of less than €150 per claim.	56	30%
Level 4	Private room in a limited number of private hospitals, with high out of pocket costs for example, an excess of more than €150 or a shortfall for orthopaedic claims	177	48%
Level 5	Private room in all private hospitals, with low out of pocket costs, for example no orthopaedic shortfall, and excess less than €150 per claim.	22	3%

Other product developments include:

- On 1 January 2022, there were 321 active inpatient plans. In 2021, 25 plans were retired and 30 new plans were introduced.[46]
- 92% of customers held advanced plans, similar to previous years.
- The reaction to the impact of Covid-19 saw a large increase in the range and depth of telehealth services available including:
    - Online doctor provided via insurers' websites or apps
    - Telephone consultations (previously only available after a face-to-face visit)
    - Additional telephone or video services including minor injury triage, physiotherapy, speech and language therapy, and mental health supports

What it means for the health insurance market

The practice of targeting younger and healthier lives in the market is expected to continue. However, increased awareness and adoption of telehealth and digital supports means that newer plans may now be attractive to older customers. The HIA continues to monitor all market and product developments. Ongoing adjustments to the distribution of the Risk Equalisation Fund via the Risk Equalisation Credits, Hospital Bed Utilisation Credits, and a proposal to introduce a high-cost claims pool continue to ensure that community rating is protected while avoiding over-compensation.

[45] Health Insurance Authority 2022. Annual Report 2021, p.13, www.hia.ie.

[46] Health Insurance Authority 2022. Annual Report 2021, p.13, www.hia.ie.

Eligibility for public health services

Reminder

Sláintecare is the government's 10-year programme to transform the Irish health and social care services. If delivered, it will establish a universal, single-tier health service where patients are treated solely on the basis of health need rather than the ability to pay, removing the two-tier system of public and private healthcare.

One of the most contentious issues between the public hospitals and private health insurers is the "Public Hospital Bed Re-Designation". The Health Amendment Act 2013 provided that health insurance customers can be charged a private rate for public treatment in public hospitals. To allow for this, patients are asked to sign a Private Insurance Patient (PIP) form, which means they waive their right to treatment as public patients. If a patient does not sign this form, they will be treated as a public patient. Private patients are charged between €800–€1,000 per night for a private room, €659–€813 per night for a semi-private room and €329–€407 for a day case, depending on the hospital attended, plus consultant fees. If admitted as a public patient, they are charged a standard fee of €80 per night, up to a maximum of €800 in one year. No charge applies to medical card holders.

The introduction of the charge in 2014 has led to an increase in claims payments of approximately €200 million.[47] The effect of this change on claims appears to have occurred with a time lag with most of the increasing effect on claims occurring in 2015 and some continuing effect in 2016. Claims paid to public hospitals have fallen since this high, although claims paid remain much higher than before the new charging regime was introduced.[48] The reduction in claims costs paid to public hospitals in recent years can be attributed to insured people no longer signing forms to be treated as a private patient in a public hospital. This follows awareness campaigns by all insurers and industry bodies highlighting the high claims costs associated with the practice.

[47] Insurance Ireland, 2017. *78% of Irish Adults Say It's Unacceptable for Health Insurance Holders to Pay Twice for Treatment in Public Hospitals*, 6 March, www.insuranceireland.eu.
[48] Health Insurance Authority, 2019. *Annual Report 2018*, p.16, www.hia.ie.

Update

The HIA reported a reduction in payments to public hospitals in 2021 of €310 million (compared to €471 million in 2019 (pre-Covid-19)).[49] This reflects the scale of the reduction to services in public hospitals for privately insured patients (-34%).

The *Sláintecare Report* on the future of healthcare in Ireland recommended the phased elimination of private care from public hospitals, which is likely to be a disruptor to the private health insurance market. The Report notes potential impacts in terms of premiums and consumer offerings as a result. Ireland's system of private practice in public hospitals is very unusual, and proposals in the Report aim to move Ireland towards the accepted norm in almost all developed countries.[50]

In September 2022, the Health Miscellaneous Provisions (No.2) Act 2022 was enacted, removing the acute public inpatient charge of €80 per day (including day-case charges) for children under 16 years of age in all public hospitals.

Funding was provided in Budget 2023 to abolish all acute public inpatient charges for patients in public hospitals. In January 2022, the Minister for Health received government approval to publish the General Scheme of the Health (Abolition of Public Inpatient Charges) Bill 2023. The Bill, when enacted, will remove the acute public inpatient charge of €80 per day, up to a maximum of €800 in a year (including day-case charges), for people accessing care as a public patient in all public hospitals.[51]

What it means for the health insurance market

The public health services will continue to be under pressure, particularly given the demands of an ageing population, the recovery from Covid-19 emergency measures, increased demand from the reduction in diagnostic and screening services in 2020/21, increasing costs and a health service that has a limited capacity.

The abolition of the statutory inpatient charge came into force on 17 April 2023. This resulted in the removal of two plans from the market (Laya's Health Protect and Vhi's Plan P) which had provided cover for the statutory charge but were obsolete

[49] Health Insurance Authority 2022. Annual Report 2021, p.12, www.hia.ie.

[50] Department of Health, 2019. *Report of the Independent Review Group established to examine Private Activity in Public Hospitals*. 26 August, www.gov.ie.

[51] *Minister Donnelly receives government approval to publish the General Scheme of the Health (Abolition of Public Inpatient Charges) Bill 2023, 7 February 2023, www.gov.ie.*

once the charge was abolished.

Rates of pay for consultants and general resourcing issues relating to medical staff mean that there are a large number of consultant and nursing vacancies in the public health sector. It is estimated that there are 700–900 consultant vacancies at any one time, and this will have an impact on the ability to scale up the Sláintecare plans. A new consultant's contract aims to remove private work from public hospitals, but crucially will allow consultants to complete private work in other facilities.

Given the likely timing required to remove private practice from public hospitals, the disruption is unlikely to have a material impact on the market in the short to medium term. It is expected that changes will take 10 years to be fully implemented.

Risk equalisation

Reminder

The Health Insurance Act 2013 introduced a Risk Equalisation Scheme (RES). Under this RES, there is a Risk Equalisation Fund (REF) which is administered by the HIA. The aim of the REF is to provide private health insurers with higher premiums for insuring older and less-healthy people through a system of Risk Equalisation Credits (REC) funded by a Stamp Duty (Community Rating Levy).

The higher part of the premium in respect of older people is payable from the REF in the form of REC. In this way, community rating is maintained but insurers receive higher premiums in respect of older people to partly compensate for the higher level of claims. The REC vary by age, gender and level of cover, and the Stamp Duty (Community Rating Levy) varies by adult and child and type of contract.

In addition to the REC, the Act also introduced Hospital Bed Utilisation Credits (HBUC) designed to compensate private health insurers for claims costs associated with sicker people. The HBUC is paid from the REF to insurers in respect of each admission to a private hospital.

Insurers will receive a credit from the REF in respect of all insured lives aged 65 and over and in respect of each hospital stay in private hospital accommodation. The RES only applies to the Open Membership Undertakings and to health insurance contracts that provide for inpatient indemnity payments. The changes in the rates of credits and stamp duty come into effect on 1 April each year.

Update – Risk Equalisation Fund

In 2021, €802 million was collected in stamp duties. Of this, €645 million was redistributed in the form of age-related RECs and €127 million was returned in HUCs, leaving a surplus of €29 million. The retained reserve at the end of 2021 exceeded €115 million.[52]

Update – Community Rating Levy

For the year commencing 1 April 2022, the HIA recommended a once-off reduction in the Stamp Duty (Community Rating Levy). This was due to a large surplus in the REF following lower claims activity in 2020 and 2021. The HIA proposed a reduction of 10% (€45) be applied to Advanced products and 22% (€35) be applied to Non-

[52] Health Insurance Authority, 2022. *Annual Report 2021*, p.64, www.hia.ie.

Advanced products.[53] The April 2023 rate saw an increase of €32 for Advanced products and a decrease of €12 for Non-Advanced products. Table 4 presents the rates that are applicable from 1 April 2023.

Table 4: Community Rating Levy[54]

Age Band	**Stamp Duties from 1 April 2023 to 31 March 2024**		**Stamp Duties from 1 April 2022 to 31 March 2023**		**Change**	
	Non-Advanced	Advanced	Non-Advanced	Advanced	Non-Advanced	Advanced
17and under	€36	€146	€41	€135	(€4)	€11
18 and over	€109	€438	€122	€406	(€12)	€32

Update – Risk Equalisation Credits

Overall, the RECs have reduced on the basis that the net claims cost have reduced (see Table 5).

Table 5: Age-related Risk Equalisation Credits[55]

<table>
<tr><td colspan="9">Age Related Health Credits (ARHC)</td></tr>
<tr><td colspan="5">Age / gender / level of cover credits from 1 April 2023 – 31 March 2024</td><td colspan="4">Change from current credits</td></tr>
<tr><td></td><td colspan="2">Non-Advanced</td><td colspan="2">Advanced</td><td colspan="2">Non-Advanced</td><td colspan="2">Advanced</td></tr>
<tr><td></td><td>Male</td><td>Female</td><td>Male</td><td>Female</td><td>Male</td><td>Female</td><td>Male</td><td>Female</td></tr>
<tr><td>64 and under</td><td>€0</td><td>€0</td><td>€0</td><td>€0</td><td>€0</td><td>€0</td><td>€0</td><td>€0</td></tr>
<tr><td>65-69</td><td>€350</td><td>€200</td><td>€950</td><td>€525</td><td>€25</td><td>€50</td><td>€0</td><td>€25</td></tr>
<tr><td>70-74</td><td>€525</td><td>€400</td><td>€1,550</td><td>€1,075</td><td>€25</td><td>€50</td><td>(€25)</td><td>€0</td></tr>
<tr><td>75-79</td><td>€775</td><td>€575</td><td>€2,300</td><td>€1,650</td><td>€0</td><td>€0</td><td>(€75)</td><td>(€50)</td></tr>
<tr><td>80-84</td><td>€900</td><td>€625</td><td>€2,725</td><td>€1,950</td><td>(€50)</td><td>(€25)</td><td>(€250)</td><td>(€175)</td></tr>
<tr><td>85+</td><td>€1,000</td><td>€700</td><td>€3,000</td><td>€2,050</td><td>(€150)</td><td>(€75)</td><td>(€550)</td><td>(€375)</td></tr>
<tr><td colspan="9">Hospital Utilisation Credit (HUC)</td></tr>
<tr><td colspan="2">Night</td><td colspan="3">Day</td><td colspan="2">Night</td><td colspan="2">Day</td></tr>
<tr><td colspan="2">€125</td><td colspan="3">€75</td><td colspan="2">No change</td><td colspan="2">No change</td></tr>
<tr><td colspan="9">Hight Cost Claims Pool (HCCP)</td></tr>
<tr><td colspan="5">Quota Share 40%</td><td colspan="4">No change</td></tr>
<tr><td colspan="5">Threshold €50,000</td><td colspan="4">No change</td></tr>
<tr><td colspan="5">Rolling HCCP (Cross Over Period Allowance)</td><td colspan="4">Included</td></tr>
</table>

Update – Hospital Bed Utilisation Credits and high-cost claims pool

In the HIA September 2022 Report to the minister, no changes were proposed to rates applying to HUCs (€125 for night and €75 for day), nor was any change

[53] Health Insurance Authority, 2021. *Report to the Minister for Health on an evaluation and analysis of returns from 1 July 2020 to 30 June 2021, including advice on Risk Equalisation Credits*, www.hia.ie.
[54] Health Insurance Authority, 2022. *Report to the Minister for Health on an evaluation and analysis of returns from 1 July 2021 to 30 June 2022, including advice on Risk Equalisation Credits*, www.hia.ie.
[55] Health Insurance Authority, 2022. *Report of the Authority to the Minister for Health on an evaluation and analysis of returns from 1 July 2021 to 30 June 2022, including advice on Risk Equalisation Credits*, p.6, www.hia.ie.

proposed to the quota share or threshold for HCCPs, currently set at 40% and €50,000 respectively.[56]

Update – Overcompensation assessment

Each year, the HIA assesses whether any insurer has been overcompensated by the Risk Equalisation Scheme, enabling them to earn more than a reasonable profit. The assessment as to whether the 2016–2020 RES results in overcompensation is based on whether a net beneficiary's profit exceeds 4.4% per annum, calculated on a rolling three-year basis. For the period 2019 to 2021 inclusive, the HIA determined that the net beneficiary (Vhi Healthcare) had not been overcompensated as a result of the RES.

The Health Insurance Acts have been amended to change the maximum allowable return on sales profit of beneficiaries of the RES to 4.9% for the three-year period 2020 to 2022, 5.4% for 2021 to 2023 and 6% for subsequent three-year periods.

What it means for the health insurance market

The evaluation and analysis of information returns, financial information and market developments indicate that there is a continued need to provide support for community rating. The introduction of the HCCP and the 2022 reduction in stamp duty rates should reduce the REF surplus. The inclusion of the ESB MPF members within the risk equalisation framework from 2023 and the potential that other RMU may move to the open market may have an impact on rates in the future.

[56] Health Insurance Authority, 2022. *Report of the Authority to the Minister for Health on an evaluation and analysis of returns from 1 July 2021 to 30 June 2022, including advice on Risk Equalisation Credits*, p.6, www.hia.ie.

The impact of Covid-19 and HSE cyberattack on capacity in the Irish health system

Reminder

In 2020 and 2021, in light of the demands of the Covid-19 pandemic, the government contracted with private hospitals to provide additional capacity to support the public hospital system. This had a major impact on the volume of procedures carried out in public and private hospitals and on the volume and cost of claims for the insurers. Additionally, a cyberattack on the HSE in May 2021 resulted in the cancellation of a large number of procedures, which again impacted on claims.

Update

While the HSE's use of private hospitals for Covid-19 has ended, the HSE continues to use some private hospitals to expand capacity to alleviate the pressure on public hospitals. While overall private hospital capacity is increasing, the HSE use does have an impact on the capacity available for insured patients.

On the whole, there is a widespread understanding that demand for medical services remains extremely high. This is in part down to an age-related increase in demand, and the pent-up demand from the lack of access to services in 2020 and 2021. The private healthcare market has responded by building additional capacity in the form of a new private hospital in Limerick and expansions to existing hospitals and diagnostic clinics in many areas of the country.

What it means for the health insurance market

Although the direct impact of Covid-19 and the HSE cyberattack have receded, the HSE's continued use of private hospital capacity is having an impact on the capacity available to privately insured patients. While claims figures remain below pre-pandemic rates, the additional capacity under construction and recently completed will result in increased claims volumes and costs for insurers from the current levels.

ESB Medical Provident Fund

Update

In February 2023, ESB Medical Provident Fund (ESB MPF) ceased to provide medical insurance. ESB MPF began operations in 1955, providing medical insurance for ESB employees and their families. It was one of the largest Restricted Membership Undertakings (RMU). Following a period of market review and competitive tender, members of the ESB MPF scheme transitioned to Vhi Healthcare.

Following the introduction of the Health Insurance Act 1994, ESB MPF became an RMU, and as a result of this status it was not part of the risk equalisation framework introduced in 2015. Like other RMUs, the ESB MPF had cited increased claims costs, claims inflation, aging memberships and a reduction in new joiners as factors affecting the long-term viability of the sector.

What it means for the health insurance market

In December 2022, there were approximately 85,500 members of RMUs (3.5% of the total market). The market share of RMUs has been steadily decreasing, from 4.8% in 2003 to 3.5% in 2023. This is most likely a combination of the increase in the overall market size, and the RMUs' difficulties in growing their own memberships.[57]

ESB MPF represented close to 20,000 members, and the market share figures for early 2023 will likely reflect that change. It is expected that other RMUs may review their long-term viability in terms of the increasing age profile and the absence of Risk Equalisation Credits. If more RMUs were to move out of the market, this may affect the risk equalisation framework.

[57] Health Insurance Authority, 2022. *Market Statistics (Q4)*, www.hia.ie

Section Eight - Housing Loans and Associated Insurances.

Registering the ownership of property

Each time the ownership of a property changes (i.e., sold, gifted or inherited), a new deed of title is drawn up to record the change. Tailte Éireann, the independent government agency formed by the merger of the Property Registration Authority (PRA), the Valuation Office and Ordnance Survey Ireland (OSI), is responsible for the system for recording transactions relating to property in Ireland.
There are two separate systems for recording property-related transactions in Ireland:

1. The registration of deeds system (Registry of Deeds)
2. The registration of title system (Land Registry)

Both systems are under the control of Tailte Éireann, and the systems are mutually exclusive in so far as, in a particular transaction relating to land, the title can be either unregistered or registered:

- *Unregistered* (i.e. the title is not yet registered in the Land Registry and so the Registry of Deeds system applies)
- *Registered* (i.e. the title has been registered in the Land Registry and so the Registry of Deeds system is irrelevant)

Approximately 93% of property in Ireland is registered, accounting for almost 90% of titles.
The *registration of deeds* system has been operated by the Registry of Deeds since 1708, following its establishment by the *Registry of Deeds (Ireland) Act 1707*. Its purpose was to give priority to registered deeds and the prevention of fraud in dealing with the transfer of ownership of land.
The *registration of title system has* operated since 1892 and provides a **state-guaranteed** title to property. In other words, once a property is registered correctly in the Land Registry, the government is guaranteeing that this information is correct.

Central Bank regulations for lending

In 2015, regulations issued by the Central Bank and referred to as macro-prudential policy for residential mortgage lending placed limits on the proportion of mortgage lending at a high loan-to-value (LTV) ratio. The regulations also limit the proportion of mortgage lending at high loan-to-income (LTI) ratio (i.e., a maximum multiple of the borrower's gross income before tax or other deductions) by regulated financial services providers.
The Central Bank of Ireland points out that the limits they impose are

supplementary to individual banks' credit policies and are not designed as a substitute for lenders' responsibilities to assess affordability and lend prudently on a case-by-case basis. A lender may choose to offer a lower LTV for a borrower based on the credit assessment of the borrower's loan application or the property involved. On the flip side, under the regulations a lender is given some flexibility and discretion to breach these upper limits when assessing individual cases.

These regulations are reviewed by the Central Bank annually and have been amended on a number of occasions, most recently in November 2022.

The regulations apply to the purchase of residential property by:

- First-time buyers
- Non-first-time buyers
- Investors

The LTV and LTI regulations **do not apply** to:

- Switcher mortgages or refinancing of an existing housing loan (once the loan amount advanced on the new loan does not exceed the amount outstanding under the existing loan)
- Housing loans entered into for the purposes of addressing pre-arrears or arrears

- **LTV** regulations do not apply to negative equity mortgages.
- **LTI** regulations do not apply to buy-to-let (investor) mortgages or lifetime mortgages.

Therefore, in assessing the maximum loan a lender is prepared to offer an individual borrower, the lender looks at these two main factors:

- **Loan-to-value** (LTV) ratio, i.e. the loan sought relative to the value of the property, and what category of purchaser the borrower may be:
  - First-time buyer
  - Non-first-time buyer
  - Investor
- **Affordability** - the borrower's expected capability to make the loan
  repayments without undue financial hardship.

For the purpose of the regulations, the Central Bank of Ireland defines a first-time buyer as:

a borrower to whom no housing loan has ever before been advanced. Where the borrower under a housing loan is more than one person and one or more of those persons has previously been advanced a housing loan, none of those persons is a first-time buyer.

Example

James was a single first-time buyer in 2008 when purchasing an apartment with a
90% mortgage.
He recently married Jane, who has never owned property before. James has now sold his apartment and Jane and James are now buying a house together.
Even though Jane is a first-time buyer, as James had a previous housing loan, and they are now purchasing together, they will not be treated as first-time buyers under the Central Bank regulations.

Loan-to-value (LTV) ratio

How much an individual can borrow from a lender is normally dependent on the loan-to-value ratio (also known as LTV).

A lender's LTV ratio is the ratio of:
Housing loan amount advanced / Value of the property purchased with the loan

The value of the property is taken as the ***lower*** of:

- The purchase price of the property
- The lender's valuation of the property

It is important to note that LTV is based on the lower amount of the purchase price or the lender's actual assessment of the property value.

Example – Purchase price valuation

John, a first-time buyer, is purchasing a property for €200,000. However, the valuer acting on behalf of the lender states that the property is valued at €180,000.

The lender's maximum LTV ratio for first-time buyers such as John is 90%.

The maximum loan the lender will advance to John to purchase this property will be 90% of the lower of €200,000 (purchase price) and €180,000 (valuation), i.e. 90% x €180,000 = €162,000.

Loan-to-value (LTV) limits

The purpose of an LTV limit is to ensure that, if a borrower defaults and the lender has to repossess the property and sell it to pay off the loan, the lender hopes that the property value will be sufficient to fully repay the loan and any accumulating arrears. If not, the lender could suffer a loss.

In conjunction with their own lending policy, a lender must now take into consideration the regulations laid down by the Central Bank of Ireland in relation to LTV values as discussed above.

Under Central Bank rules a "first-time buyer is defined as a borrower to whom no housing loan has ever before been advanced. Where the borrower under a housing loan is more than one person and one or more of those persons has previously been advanced a housing loan, none of those persons is a first-time buyer".

Under the Central Bank regulations, there are different limits for different categories of buyers:

- A first-time buyer (max 90%)
- A non-first-time buyer borrowing for a PDH (max 90%)
- Investors borrowing for the purchases of a non-PDH (i.e. a buy-to-let) (max 70%)

Principal dwelling homes

First-time buyers	Non-first-time buyers	Investors
90% LTV applies	90% LTV applies on new mortgage lending regardless of the value of the property being purchased.	70% LTV applies on new mortgage lending regardless of the value of the property being purchased.

Example 1 – First-time buyers

Ruth is a first-time buyer purchasing a property valued at €275,000. The maximum loan available to her is 90% of the value of the property. Therefore, subject to meeting all other criteria laid down by the lender, Ruth can borrow up to €247,500. Therefore, Ruth will need a deposit of €27,500.

Ruth may also be eligible to apply for the enhanced Help to Buy scheme to cover her deposit up to a maximum of €27,500 (10% of her property value).

Example 2 – Non-first-time buyer and first-time buyer purchasing together

Ann and Denis are getting married and purchasing their first home together. The purchase price is €400,000. Denis will be selling his apartment, which he has owned for 10 years. This will release a small amount of positive equity.

As one of the parties was previously advanced a housing loan, they are now BOTH classified as non-first-time buyers for the purpose of the LTV regulations. The LTV limit of 90% applies.

Therefore, the maximum they can borrow is €360,000. They will require a minimum deposit of €40,000.

Obviously, these limits are the maximum a lender can apply, and should a lender feel it is prudent to do so, they can impose stricter lending limits. For example, a lender may reduce the loan-to-value for one-bed apartments or for properties in certain locations.

Under the Central Bank guidelines, lenders are given some leeway and are allowed to breach the LTV limits by up to 15% of the total aggregate monetary amount of loans advanced in one year to first-time and second and subsequent buyers and 10% for buy-to-let buyers.

Each lender will apply their own criteria for when and why they will lend outside the standard Central Bank rules. However, examples of such rules include:

- Only one of the exceptions can be breached, i.e., higher LTV or higher lending multiple
- Current affordability and potential for a higher future income
- Borrower has no other debts and a clean credit history

Affordability
Loan-to-income (LTI) limits

Lenders assess and underwrite housing loan applications with the key requirement that the applicant demonstrates their ability to make the monthly loan repayments. Under the Central Bank regulations, mortgages on a private dwelling home are subject to a borrowing limit of 4 times loan to gross income for first-time-buyers or 3.5 times loans to gross income (single or combined incomes) for second and subsequent buyers. Therefore, if a single individual who is a first-time buyer earns a salary of €55,000, the maximum loan advanced within Central Bank LTI limits is €220,000.

However, this is a maximum guideline and different lenders will have different criteria for establishing the maximum loan it is prepared to advance to a particular housing loan applicant based on other circumstances, such as monthly outgoings.

In addition, the Central Bank allows for some discretion by a lender where they feel an application merits a higher LTI limit. Following the 2022 mortgage review, the Central Bank of Ireland ruled that, since 1 January 2023, the following discretions to LTI lending apply:

- 15% of new lending to first-time buyers is allowed over the 4 times limit
- 15% of new lending to second and subsequent buyers is allowed over the 3.5 times limit

For example, the lender may be prepared to provide a higher loan where the loan-to-value ratio is, say, less than 75% (for example, where a parent has gifted the applicant sufficient funds to make up the 25%) and/or where a parent is prepared to act as guarantor for the loan. A lender may also be prepared to lend a higher loan amount based on an individual's previous credit history, current occupation and potential for salary increases leading to a higher net disposal income in the future.

However, even in this situation, while a lender may lend beyond the standard LTI value they will apply a *net disposable income* (NDI) test (affordability test). This means that, even if they go beyond the 4/3.5 times limit, the lender will require that the borrower has a certain amount of money left each month at their disposal for living costs.

Whether or not the borrower can afford the loan repayment is always a key factor in assessing the suitability of any loan to any particular borrower.

Therefore, different lenders may be prepared to offer differing amounts to the same loan applicant within and over and above the Central Bank limits.

LTI limits do not apply to switcher mortgages, restructured mortgages for those in arrears, buy-to-let mortgages or lifetime mortgages.

Example

Patricia is a single first-time buyer earning a salary of €55,000. Patricia has no other loans outstanding. Patricia wishes to purchase a property valued at €270,000.

All things being equal and notwithstanding lender's discretion, the following would apply:

- Purchase price €270,000 – maximum LTV is 90%.
- Maximum loan which could be advanced subject to LTV limits is €243,000.
- Patricia earns €55,000 so the maximum LTI limit which could be advanced is

€220,000.

Therefore, when applying for a housing loan the maximum Patricia may be advanced, subject to lender's discretion, is €220,000.

Creditworthiness assessment

While Central Bank guidelines mentioned above introduced a prudential policy for residential mortgage lending, the Consumer Mortgage Credit Agreements Regulations 2016 also introduced regulations regarding creditworthiness assessment to ensure they comply with the EC Mortgage Credit Directive with the aim of establishing EU-wide standards and principles.

These regulations require that a creditor must:

- Before the conclusion of the credit agreement, assess the creditworthiness of the consumer
- Ensure that the procedures and information on which the information is based are established, documented and maintained

Local authority home loan

A government-backed mortgage to assist first-time buyers was launched on 1 February 2018. It is now applicable for both first-time buyers and for those applying through the Fresh Start principle. The loan, now known as Local Authority Home Loan, is available nationwide from all local authorities. It was previously known as the Rebuilding Ireland Home Loan.

Eligible applicants can apply for a Local Authority Home Loan to purchase a new or second-hand property, or to build their home. It also includes the purchase of homes through state schemes such as the Tenant Purchase Scheme and Affordable Housing Schemes. (Applicants to the First Home Scheme are excluded from also availing of the Local Authority Home Loan.) The loan is a normal capital and interest-bearing mortgage which is repaid by direct debit on a monthly basis. The interest rates are fixed at long-term reduced rates.

Up to 90% of the market value of the property can be borrowed.

Maximum market values of the property that can be purchased or self-built are:

- **€360,000** in Dublin, Kildare or Wicklow
- **€330,000 in Cork, Galway Louth or Meath**
- **€300,000 in Clare, Kilkenny, Limerick, Waterford, Westmeath or Wexford**
- €275,000 in Carlow, Cavan, Donegal, Kerry, Laois, Leitrim, Longford, Mayo, Monaghan, Offaly, Roscommon, Sligo or Tipperary

This limits the amount that can be borrowed to no more than **€324,000** in Dublin, Kildare and Wicklow, and no more than **€2**47,500 in Carlow, Cavan and Donegal.

The market value of the property can be above these limits if the property is available through the Local Authority Affordable Purchase Scheme.

At the time of writing, a Local Authority Home Loan offers two fixed-rate products:

- 3.35 % fixed for up to 25 years (APR 3.4%)
- 3.45% fixed for mortgages with a term from 26 years up to 30 years (APR 3.51%)

All rates are exclusive of Mortgage Protection Insurance (MPI), which is a requirement of borrowing. Eligible borrowers are required to partake in the local authority collective MPI scheme. MPI is payable monthly, in addition to loan repayments.

Eligibility criteria:
To be eligible for a Local Authority Home Loan, an applicant must:

- Be a first-time buyer or be eligible under the Fresh Start principle. Applicants can be considered under the Fresh Start principle if:

They had previously purchased or built a residential property but are now divorced and have both left the property and divested themselves of any interest in the property.

They had previously purchased a residential property but have been divested of this through insolvency or bankruptcy proceedings. Additional creditworthiness will need to be undertaken in this circumstance.

- Be aged between 18 and 70 years.
- Must show affordability of payments which can be no greater than one-third of household income.
- Be in continuous employment for a minimum of two years as a single applicant or the primary applicant of a joint application.
- Have an annual gross income of not more than €70,000 as a single applicant or not more than €85,000 combined as joint applicants.
- Submit two years of audited accounts or an accountant's report if self-employed.
- Provide evidence of insufficient offers of finance from two banks or building societies.
- If a first-time buyer, must not be a current or previous owner of residential property in or outside the Republic of Ireland.
- Occupy the property as your normal place of residence.
- Purchase or self-build a property which does not exceed the maximum market value applicable for the county in which it is

located.
- Satisfactory credit record and a check will be made on the Central CreditRegister.
- Must have long-term right to reside and work in Ireland.

Application forms must be submitted directly to the local authority where it is planned to purchase the property.

The Help to Buy incentive can also be used towards a deposit for eligible properties.

First Home Scheme

The First Home Scheme (FHS) is a new scheme that was introduced in 2022 by the government of Ireland (Department of Housing, Local Government and Heritage) and participating lenders to help first-time buyers and other eligible homeowners to purchase a newly built home in a private development in the Republic of Ireland. It is a shared equity scheme, which has the aim of bridging the gap between the buyer's deposit and mortgage and the price of their new home. Homebuyers can receive funds from the scheme in return for the FHS taking a percentage ownership in the property purchased.

Eligibility for the scheme: in order to be eligible for the scheme, there are a number of criteria that must be fulfilled by both the home buyers and the type of property.
To be eligible for the scheme, the **buyer** must:

- Be over 18 years of age
- Be a first-time buyer or other eligible homebuyer (i.e. have previously purchased or built a property in the Republic of Ireland with a spouse, civil partner or partner and that relationship has now ended and the applicant has no beneficial interest in the previous property, or the property has been sold or divested of as part of a personal insolvency if bankruptcy arrangement or other legal process as a consequence of insolvency)
- Have mortgage approval with a participating lender
- Borrow the maximum amount available from one of the participating lenders (i.e. up to four times income)
- Not be availing of a Macro Prudential Exception (MPE) (i.e. exception to CBI lending rules)
- Have a minimum deposit of 10% of the property purchase price

To be eligible for the scheme, the property being purchased must:

- Be a newly built house or apartment in a private development in the Republic of Ireland
- Be bought as a principal private residence
- Be within the local authority property price ceiling for the property type (may differ in different locations)
- Not be a self-build

The local authority price ceiling currently varies between €325,000 and €500,000 depending on the area and type of property. See Property Price Ceilings (firsthomescheme.ie) for current maximum price ceilings.

The First Home Scheme can fund up to 30% of the market value of the property, unless the buyer is availing of the Help to Buy incentive, in which case the maximum funding is reduced to 20%. The minimum equity share is 2.5% of the property price or €10,0000, whichever is higher.

Example 1:

Ellen and Alannah are first-time buyers and purchasing a house together at a price of €350,000 in Kildare. They have a combined salary of €65,000. Under CBI Loan to Income rules, the maximum they can borrow is €260,000. They have a deposit of €26,000 saved and are not availing of the Help to Buy incentive.

€260,000 – **maximum borrowing**
€ 26,000 – **deposit**

Total funds available – €286,000

They could meet the shortfall of €350,000 - €286,000 = €64,000 through the FHS as it is below the 30% maximum they can avail from the scheme.

Example 2:
Jack and Jane are first-time buyers and purchasing a house together at a price of €420,000 in Dublin. They have a combined salary of €70,000. Under CBI Loan to Income rules, the maximum they can borrow is €280,000. They have a deposit of €42,000 and are also availing of €30,000 under the Help to Buy incentive.

€280,000 – **maximum borrowing**
€ 42,000 – **deposit**
€ 30,000 – **Help to Buy incentive**

Total funds available – €352,000

The shortfall between the funds available and the property price is: €420,000 - €352,000 = €68,000. They can meet this shortfall through the FHS as it is below the 20% maximum equity share they are permitted due to them availing of the Help to Buy Scheme.

Charges:

There are no service charges associated with the First Home Scheme for the first five years of ownership. However, if a buyer remains within the scheme, from the beginning of year six onwards an annual charge is applied to the equity share of the property.

The current service charges are:

- 1.75% for year 6–year 15
- 2.15% for year 16–year 29
- 2.85% for year 30+

The rates are fixed for the life of the equity facility.

The annual service charge is calculated by multiplying the original property purchase price by the First Home Scheme equity share and multiplying the service charge for the year in question.

Example:

Original purchase price: €500,000
Equity amount: €60,000

Years 1–5:	Service charge	0%		€0.00
Years 6–15:	Service charge	1.75%	€1,050	(i.e., €60,000 x 1.75%)
Years 16–29:	Service charge	2.15%	€1,290	(i.e., €60,000 x 2.15%)
Year 30+:	Service charge	2.85%	€1,710	(i.e., €60,000 x 2.85%)

The above is assuming there has been no part payment made to the equity share and that there are 365 days in a year as the actual service charge is calculated on a day basis.

Redemption of equity share:
If an individual wishes to make a partial redemption against their equity share, the minimum permitted is 5% of the original equity amount. Only two partial redemptions are permitted in any 12-month period. An up-to-date valuation from an FHS-approved valuer is required before a redemption quote or payment can be accepted. The valuation is valid for 12 months. From year six, if redeeming the equity share in full, all accrued unpaid service charges must be paid in full.
As the scheme is based on a percentage of the value of the property, the equity share to be redeemed will also be based on the same percentage of the current market value of the property.

Example:

Jenny purchases a property in 2023 at a cost of €400,000. She has availed of the FHS at an equity share of 20% of the value of the property, i.e., €80,000.

She wishes to redeem the equity release share in full in 2026. The property is now valued at €450,000. As the equity share of the property is 20% of the value of the property, she will have to pay €90,000 to redeem it in full, assuming she had not made any previous part redemption payments. If she had owned the property for more than five years, she would also be liable for any outstanding service charges in addition to the equity share payment.

Obligation to redeem the equity share in full.

The full equity share must be redeemed, as well as any unpaid service charges that have accrued, if:

- The property is sold
- The property is no longer the principal private residence
- The mortgage is switched to a non-participating lender
- The applicant (or last applicant in the case of joint applications) dies

The above events are referred to as realisation events in the customer contract.

The participating lenders at the time of writing are:

- Allied Irish Banks plc (including AIB, Haven Mortgages and EBS)
- Bank of Ireland Group plc
- Permanent TSB plc

Tracker variable rate loans

During the boom times, competition in the market saw lenders offer mortgages where the lender set a formal link between the variable rate charged and the ECB refi rate. This type of variable rate loan was usually referred to as a *tracker mortgage* because:

- The interest rate charged was guaranteed not to exceed the ruling ECB rate by a specified maximum margin, for example + 1% per annum. The variable rate would therefore tend to track the ECB refi rate as it moved up and down. However, some tracker mortgages imposed a base or minimum loan rate, which applied regardless of how low the ECB rate fell.
- The interest rate charged was guaranteed to change with the ECB refi rate within a certain time span, for example within 15 or 30 days of a change in ECB rate.

Tracker mortgages are variable rate loans, but the borrower has the comfort of knowing that the rate charged will never exceed the ECB refi rate by more than the specified fixed margin and that, if the ECB rate falls, the fall will be passed on within a certain minimum period. Of course, the other side of the coin is that increases in rates will be passed on quickly as well. The first ECB rate rise in a number of years took place in July 2022, with an increase in the base rate of 0.5%. It had been set at 0% since March 2016. However, with unprecedented inflation rates throughout the eurozone it has been increased on a number of occasions since then in an attempt to curb excessive inflation rates. At the time of writing, the current rate base rate is

3.5%.

Lenders no longer offer tracker mortgages to borrowers. However, borrowers who are still on tracker rates continue to benefit from tracking the ECB refi rate. It is important to be aware of the benefit of a tracker rate and the fact that, if you are advising a client to remortgage their property, they may well lose these benefits.

Green mortgages

A new type of loan being offered by a number of lenders is a green mortgage. With a green mortgage, a lender will generally offer the borrower lower interest rates if the property they are borrowing for meets certain environmental standards. This would usually be tied to the BER (Building Energy Rating) rating of the house, with ratings over a certain level (usually A1 to B3) being offered the preferential rate. A BER certificate rates a house's energy performance on a scale between A and G. The most energy efficient homes receive an A rating, with the least receiving a G rating.

One of the prerequisites of being eligible for a green mortgage is that the borrower will be required to provide a copy of their BER certificate before they take out the loan.

In most cases, borrowers purchasing new builds would expect to qualify for a green mortgage (subject to usual lending conditions). However, existing homeowners who upgrade their houses to the required energy efficiency standard may also qualify for the preferential rates.

Help to Buy incentive

In the Budget announcement 2016, the government announced a new Help to Buy (HTB) incentive designed to help first-time buyers of newly built homes to assemble the required deposit. The scheme also applies to once-off self-build homes.
The original HTB incentive provided for a refund of income tax and deposit interest retention tax (DIRT) paid over the previous four tax years up to a maximum of €20,000.

However, as part of the July 2020 Stimulus Plan during the Covid-19 pandemic a temporary enhancement was made to the existing Help to Buy incentive. This was extended in the Finance Act 2020. Subject to the applicant satisfying certain conditions, enhanced relief is available to a maximum of €30,000 between 23 July

2020 and 31 December 2024.

- The amount that can be claimed under the enhanced relief is the lesser of:
  - €30,000 (for enhanced relief)
  - 10% of the purchase price of a newly built home, or 10% of the completion value of a self-build
  - The amount of income tax and DIRT paid by the first-time buyers in the four years before the purchase of the newly built home or self-build

The amount that could be claimed under the original scheme – which applied from 1 January 2017 to 22 July 2022 – was the lesser of: €20,000, 5% of the purchase price of a newly built home or 5% of the completion value of a self-build

- The amount of income tax and DIRT paid by the first-time buyers in the four years before the purchase of the newly built home or self-build

- First-time buyers who buy or have bought a new residential property between 19 July 2016 (signed a contract) and 31 December 2024 may be entitled to claim a refund of income tax and DIRT paid over the previous four tax years. This also applies to self-builds for the same period.
- If two or more people are purchasing together, they must both be first-time buyers, i.e., not have previously bought or built a property either individually or jointly with anyone else. If the buyers have previously been gifted or inherited a property, this does not affect eligibility. The apportionment of the relief can be determined by the claimants. It does not have to be a 50/50 split.
  - To qualify, the borrowers must obtain a mortgage of at least 70% of the purchase price (or, for a self-build, 70% of the valuation approved by the mortgage provider) on a property valued at €500,000 or less.
  - In all cases, applicants must be tax compliant for the previous four years.
  - The property must be purchased through a qualifying contractor as defined by

Revenue. Building contractors must apply to Revenue for approval.

- Contractors wishing to operate the HTB incentive need to:
  - Be tax compliant and VAT registered
  - Provide the properties for sale during the period the incentive is available
  - Compliant with all Planning and Development Acts 2000

to 2016 in respect of the qualifying residences

Revenue can claw back any refund of income tax or DIRT that was paid out on the scheme if:

- The individual(s) was not entitled to a refund.
- The individual(s) does not remain in the property for a minimum of five years.
- The individual(s) does not finish the process to build the property.
- The individual(s) does not finish building the property.

Amount of relief allowed:

Purchase price or valuation	**1 January 2017 to 23 July 2020**	**23 July 2020 to 31 December 2024**
Up to €500,000	Relief of up to 5% of purchase price or €20,000 (whichever is lesser)	Relief of up to 10% of purchase price or 10% of valuation price on completion or €30,000 (whichever is lesser)
Over €500,000	No relief	No relief

Example 1

Stephen and Anna, both first-time buyers, paid a deposit on a new property valued at €350,000 in January 2016.
In May 2016, they signed the official contract to purchase. As the contracts were signed before 19 July 2016, they do not qualify for the Help to Buy scheme.

Example 2

Angel and Mary, both first-time buyers, paid a deposit on a new property valued at €375,000 in January 2018. They obtained a loan of €250,000 to assist them in the purchase.
They do not qualify for the Help to Buy scheme as the loan amount was less than 70% of the purchase price of the property.

Example 3

Denise, a first-time buyer, and Joe, who owns his own home, are selling his house
to buy a new private residential property together.
As Joe already owns a property, even though it will be sold, and they are buying a new property together, neither of them will qualify for the Help to Buy scheme.

BPFI Housing Market Report 2023

OVERVIEW OF TRENDS

Indicator	Latest quarter	One year ago	% change
Dwelling completions	6,716	5,640	19.1%
Dwelling commencements	7,349	6,997	5.0%
Dwelling planning permissions	11,659	8,463	37.8%
Transactions	11,158	11,024	1.2%
Yr/yr change in transaction prices	3.9%	15.1%	
Yr/yr change in rent prices*	6.7%	7.4%	
Mortgage approvals	11,576	12,091	-4.3%
Mortgage drawdowns	10,497	9,910	5.9%

*Data available up to Q3 2022

COMMENTARY

Increasing housing supply has moderated price rises but affordability challenges remain

Annual housing price inflation in Ireland recently peaked at over 15% in March 2022 and has been declining since then. Average prices increased by 3.6% in the 12 months to April 2023 according to the most recent data from the Central Statistics Office (CSO). However, on a monthly basis, average property prices at the national level have been declining since the beginning of 2023, with no change in April 2023 and since October 2022 in Dublin.

Overall, as of April 2023, average national prices were 1.7% higher than their highest level observed in 2007. However, regional differences remain where average prices in Dublin were 9.1% lower than their 2007 peak whereas they were 2.5% higher than the peak observed in the rest of Ireland. Property prices nationally have increased by over 127% from their low in early 2013.

Higher housing prices reflected in bigger loans and higher borrower incomes

BPFI mortgage data shows that solo first-time buyer (FTB) applicants buying or building a new home accounted for 16.5% of all FTB drawdowns in 2022 compared to 15% in 2019. For FTBs buying an existing home, the share of solo applicants was at 32% in 2019 compared with 33% in 2022. In other words, the share of solo applicants amongst FTBs remained stable over the 2019-2022 period notwithstanding the fact that average property prices increased by almost 26% in the same period. This is mainly due to increases in the average incomes of borrowers, from €59,000 in 2019 to €67,000 in 2022 for solo FTB applicant. Similarly, increases in average prices over the period contributed to higher loan values.

Percentage Change over 12 months for Residential Property Price Index

Source: Central Statistics Office (CSO)

COMMENTARY

The decline in the annual property price inflation can partly be explained by the significant increase in housing supply since the pandemic as well as recent interest rate increases by the European Central Bank. After significant increases in average prices between 2013 and 2018, average price increases moderated with increasing supply in the market until the Covid-19 pandemic halted most private home building. As housing supply increased significantly since the pandemic, we have seen a similar trend in average price increases. There were nearly 30,000 units completed in 2022 and 6,716 new completions in the first quarter of 2023, a 19.1% increase from around 5,640 completions in the first quarter of 2022. This is actually the most completions seen in any first quarter since the data series started in 2011 and it is 36% higher than the levels observed in the first quarter of 2020, prior to the pandemic.

A good indicator of future housing supply is the number of units commenced. In 2022, nearly 27,000 residential units were commenced. The most recent data shows that 27,542 units were commenced in the twelve months to April 2023 which is a healthy sign of the pipeline for completions. Looking at the January-April 2023 period, we see that nearly 10,000 units commenced which was significantly higher than levels observed during the same period in 2021 and 2022. If the current trend in residential construction activity were to continue, it is likely that total output in 2024 would be around 28,000 units.

In terms of planning permissions, there was an annual increase of 37.8% in the total number of dwelling units approved at 11,659 units in Q1 2023 compared with 8,463 units in Q1 2022. Houses accounted for 52.7% of all new dwelling units granted planning permission in Q1 2023, the third consecutive quarter where more houses than apartments have been granted planning permission and the highest level observed in a quarter since Q2 2009. More than half (53.4%) of all dwelling units granted planning permission in the state in Q1 2023 were in the Fingal County Council local authority area.

Housebuilding trends remain robust but rural regions rely on self-builds

Self-build units continue to play a significant role in total housing completion numbers. Even though their share in total output has declined over the last number of years, self-builds accounted for nearly 18% of total completions in the first quarter of 2023. However, loan level data shows that there is significant variation in different regions. For example, in Dublin FTB self-build mortgages accounted for around 3% of FTB mortgage drawdowns on new properties in 2022 whereas in the South and Mid-West, nearly 74% of FTB drawdowns on new properties were for self builds, and that compared to 84% for mover purchasers.

Self-builds as % Drawdowns on New Properties (2022)

Source: BPFI

COMMENTARY

In terms of mortgage activity, there were 10,908 mortgage drawdowns in the first quarter of 2023 valued at €2.9 billion. Mortgage drawdown activity rose in volume terms by 10.1% year-on year and increased in value terms by 14.1% over the same period. First-time buyers (FTBs) remained the single largest segment by volume and value accounting for around 51% of overall mortgage drawdowns. The value switching mortgage drawdowns rose by over 25% year on year in the first quarter of 2023 to €579 million, however there was a significant decline compared to the previous two quarters and this decline in mortgage switching, compared to levels observed in the second half of 2022, is likely to continue for the rest of 2023.

In terms of approvals, a total of 3,899 mortgages valued at €1.1 billion were approved in April 2023, a 9.4% decline in terms of volumes compared with the same period last year. This brought the total value of approvals to €15.9 billion in the twelve months ending April 2023, with around 57,375 mortgages approved during the same period. Re-mortgage/switching activity fell by 63.5% in volume terms year on year and by 64.6% in value in the same period. Switching activity accounted for around 7% of mortgage approvals, in volume terms, in April 2022 compared with around 32% at its peak in October 2022.

We expect the switching approval activity to continue to fall especially in the second half of 2023, compared to 2022. Recent data from the Central Bank of Ireland (CBI) shows that the share of fixed rate mortgages reached 60% of loan balances by December 2022. Total switching activity, including customers switching providers or choosing a different rate with their existing provider, reached a record €9.4 billion in 2022.

Current indicators show that house building activity remains robust with completions and commencements at record levels. This increased supply should provide better affordability for potential home buyers as average prices start to moderate. At the same time, existing and further cost pressures, as well as the changing interest rate environment could affect the viability of some of the housing projects currently planned, particularly in the institutional investor market, which could affect output in 2024 and further.

Dr Ali Uğur, Chief Economist,
Banking & Payments Federation Ireland

HOUSING SUPPLY

New dwellings completed

More than 6,700 new dwellings were completed in Q1 2023, according to the Central Statistics Office (CSO), 19.1% more than in Q1 2022 and the highest Q1 quarterly volumes since the CSO started reporting quarterly completions in 2011.

About 36.1% of completions in Q1 2023 were apartments, the highest proportion since the data series began.

Dublin accounted for about 37.6% of all completions in Q1 2023 and 75.4% of apartment completions. Munster and the Dublin Commuter region (Louth, Meath, Kildare and Wicklow) accounted for about 21.4% and 19.9% of completions, respectively.

While the number of scheme house completions in Dublin Commuter rose by 8.8% year on year to 926, apartment completions in the region were about 3.6 times higher than in Q1 2022 at 235.

Source: Department of Housing

HOUSING SUPPLY

BPFI Housing Market Monitor Q1/2023

New dwellings commenced

More than 7,300 housing units were started in Q1 2023, 5% more than in Q1 2022 and the highest quarterly total since Q3 2021.

Dublin and Dublin Commuter accounted for 37.4% and 20.4%, respectively, of housing starts in Q1 2023. More than 2,700 dwellings were commenced in Dublin, 19.4% more than in Q1 2022. By contrast, Dublin Commuter housing starts fell by 19.2% to less than 1,500 over the same period. Commencements rose on a year-on-year basis in Connacht-Ulster.

Only 13.3% of units commenced in Q1 2023 were one-off units, the lowest proportion since the data series began in 2004. Connacht-Ulster was the only region in which more than a quarter of housing starts were one-offs, at 44.3%.

HOUSING SUPPLY

BPFI Housing Market Monitor Q1/2023

New dwelling planning permissions

The number of residential units granted planning permission rose by 37.8% year on year in Q1 2023 to 11,659. This was the most units since Q4 2021.

More than 5,500 apartments were granted planning permission in Q1 2023, some 47.3% of all units and 46% more than in Q1 2022. Dublin accounted of 84.1% of apartments nationwide and 44.3% of houses. Fingal County Council alone accounted for 73.1% of all apartments and 35.7% of all houses granted planning permission nationwide in the quarter.

The Dublin Commuter region accounted for only 7.6% of units granted planning permissions in Q1 2023, compared with 20.9% in Q1 2022. The number of dwelling units approved fell by 50.3% in 2022 to 881, although the number of units in Meath increased by 10.3% to 376.

Waterford and Westmeath were the only counties, apart from Dublin, in which the number of dwelling units approved increased by more than 100 year on year.

HOUSING SALES & RENTALS

BPFI Housing Market Monitor Q1/2023

Transaction prices

Residential property price inflation decelerated further in Q1 2023, with prices up by 3.9% in the twelve months to March 2023, compared with an increase of 15.1% in the year to March 2022. The CSO's national index decreased to 166.2.

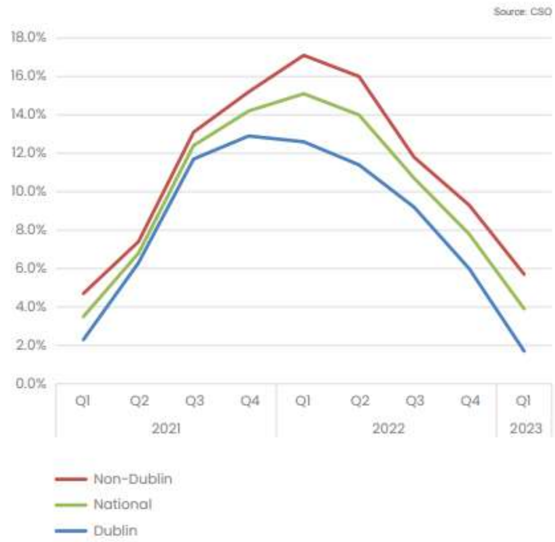
Prices for new dwellings were 11.1% up year on year, while prices of existing dwellings were 3.5% higher.

Prices in Dublin rose by 1.7% in the 12 months to March 2023, with house prices in Dublin increasing by 1.6% year on year and apartment prices in the county by 2.1%.

Residential property price inflation outside Dublin rose by 5.7% year on year, with house prices up by 5.9%.

Prices vary significantly by location, type and status. At almost €403,000, the median new house price was 40.3% or about €116,000 higher than the median existing house price in March 2023 (based on filings of household purchases at market prices).

Nine local government areas (all of Dublin, Kildare, Cork County, Meath, Wicklow and Galway City) had median residential property prices at or above the national median price of about €310,000 in the twelve months ending March 2023. By contrast, eight counties had median prices of less than €200,000.



HOUSING SALES & RENTALS

BPFI Housing Market Monitor Q1/2023

Rents

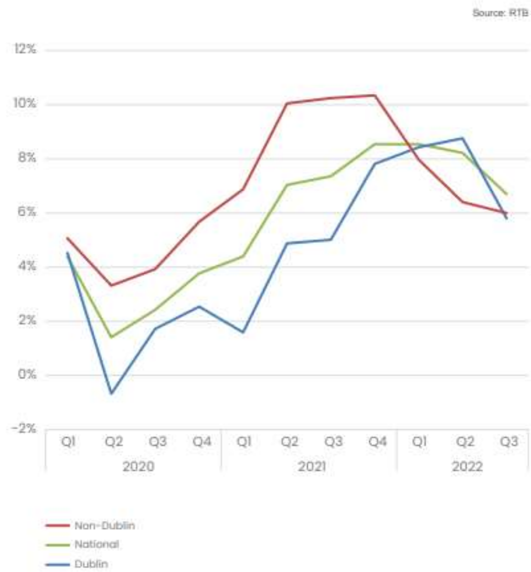
The annual rate of rental inflation was 6.7% in Q3 2022 with the national standardised rent level increasing to €1,482, according to the Residential Tenancies Board (RTB), based on new rental tenancies.

Fourteen counties had standardised rent levels of more than €1,000, led by Dublin at €2,022, which was 5.5% higher than in Q3 2021. All other Leinster counties, except Kilkenny, Longford and Offaly, had average rents above €1,000. While 14 counties reported their highest standardised rent level since the data series began in Q3 2007, in six other counties, it was the second highest.

Standardised rent levels fell slightly in Carlow and Kilkenny, when compared with Q3 2021, but rents increased by more than 10% in 12 counties.

Some 20.9% of new tenancies involved rents of more than €2,000 per month in Q3 2022, up from 18.3% a year earlier. In Dublin, 38% of properties paid rent of more than €2,000, with a further 34.7% paying between €1,501 and €2,000. Outside Dublin, 44.5% paid €1,000 or less.

About 55.3% of new tenancies were for were apartments or flats in Q3 2022, down from 58.8% in Q3 2021. Some 75.8% of new tenancies in Dublin in Q3 2022 were for apartments/flats.



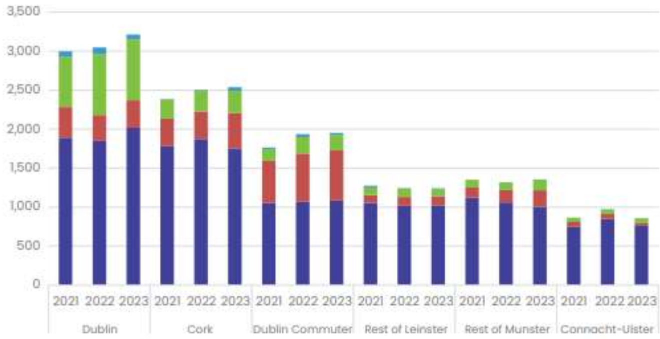
PROPERTY TRANSACTIONS

Household market purchases of residential property rose by 1.2% year on year to 11,158 in Q1 2023. On an annual basis, there were 50,159 purchases in the twelve months ending March 2023, the second highest level since the data series began in 2010.

Dublin was the largest housing market in Q1 2023 with more than 3,200 household market purchases, 5.4% more than in 2022 and giving it a 28.8% share of the national market. Dublin accounted for almost half (49.5%) of apartment sales.

In terms of property type and dwelling status, apartments accounted for 15.2% of sales in Q1 2023, while existing houses accounted for 68.5% of sales.

While Dublin, Kildare and Cork accounted for 24.5%, 19.2% and 12.2%, respectively, of new house sales in Q1 2023.



*This data is based on stamp duty filings with the Revenue Commissioners reported by the CSO for purchases of residential properties by households at market prices. It excludes properties purchased at non-market prices and by non-household buyers.

MORTGAGES

Mortgage Approvals

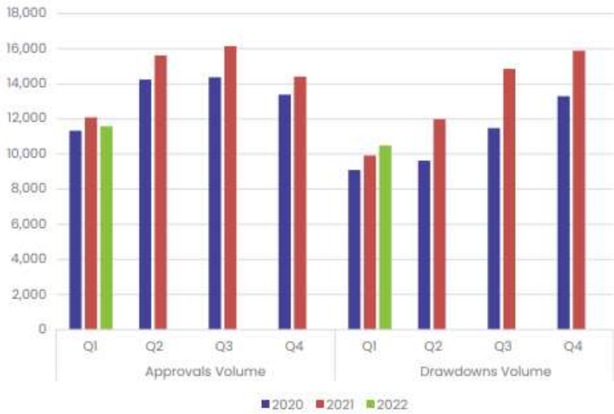
Mortgage approval volumes fell by 4.1% year on year in Q1 2023 to almost 11,600. This was the second highest Q1 volume since the data series began in 2011.

First-time buyer (FTB) approval volumes rose by 4.3% year on year to more than 6,600 while mover purchase volumes fell by 1.7% to 2,553.

Mortgage Drawdowns

Mortgage drawdown volumes rose by 5.9% year on year to almost 10,500 in Q1 2023. This was the highest Q1 level since 2009. Growth in switching continued to outpace purchase mortgage growth.

FTBs drew down more than 5,300 mortgages, up 3.0% year on year and the highest Q1 volume since 2007. Re-mortgage volumes continued to grow albeit at a much slower rate with growth of 19.1% year on year to almost 2,100.



ABOUT THE REPORT

The information presented here is based on a range of publicly available reports and datasets and collated by Banking & Payments Federation of Ireland. It is intended to bring together the range of housing and mortgage market data available and to constructively inform on-going analysis and assessment of the housing and mortgage market.

Figures are presented by quarter and by region, where possible. Unless otherwise specified, quantities given for quarters (and/or regions) are totals, while prices are averages for the entire quarter. The sources used for compiling the report are as follows:

- the Department of Housing, Local Government and Heritage [dwelling commencements]
- the Central Statistics Office [new dwelling completions, planning permissions, number of housing sales transactions, residential property price indices]
- Residential Tenancies Board [rental prices]
- Banking & Payments Federation of Ireland [mortgage approvals, drawdowns]

For information on the data sources and analysis, please contact:
Anthony O'Brien, Head of Sector Research & Analysis, BPFI.

Section Nine - Consumer Credit

Unfair terms in consumer contracts

Until 2022, The European Communities (Unfair Terms in Consumer Contracts) Regulations 1995 apply to all contracts between a consumer (i.e., an individual acting outside their business) and a seller of goods or supplier of services, including financial services contracts and insurance policies.

However, this Regulation was repealed in 2022 with the introduction of the Consumer Rights Act 2022.

According to the Consumer Rights Act 2022, a consumer is defined as "an individual acting for purposes that are wholly or mainly outside of that individual's trade, business, craft or profession".

Unfair standard terms are not binding

An "unfair term" in a consumer contract, where the term was not individually negotiated between the consumer and the service provider, is not legally binding on the consumer. The Consumer Rights Act 2022 states:

> *A term of a consumer contract is unfair if, contrary to the requirement of good faith, it causes a significant imbalance in the parties' rights and obligations under the contract to the detriment of the consumer.*

A contract term is regarded as not individually negotiated where it was drafted in advance and the consumer was therefore unable to influence its substance, for example terms of a pre-printed Life Assurance policy document, loan agreement and investment management agreement.

However, even if a term of the contract is deemed to be an "unfair term" under the Act and hence not legally binding on the consumer, the rest of the contract remains legally valid provided it is capable of continuing in existence without the unfair term.

The Act sets out certain examples of terms which are deemed to be unfair terms and hence not legally binding on the consumer, i.e., terms which have the object or effect of:

- Giving the trader the exclusive right to interpret any term of the contract

- Giving the trader a shorter notice period to terminate the contract than the notice period required of the consumer
- Excluding the liability of the trader for the death of or personal injury to a consumer which arises from an act of omission of a trader
- This exclusion does not apply to a consumer contract which is a contract of insurance related to life.

A trader is defined as a person who sells gods or services as a business, trade or profession.

The Competition and Consumer Protection Commission or the Central Bank can seek a court order prohibiting the use of any term in consumer contracts adjudged by the Circuit or High Court to be an "unfair term". Therefore, ultimately the test of "unfairness" in a consumer contract will be decided by the courts.

Transparency of terms

Traders must ensure that the terms of a contract are transparent. A term of a contract is deemed to be transparent if:

- The term is expressed in concise, plain and intelligible language.
- The term in a written contract is legible and presented clearly.
- The term is made available to the consumer in such a way that they can read/see the contract prior to its completion (regardless of whether or not they take up this opportunity).

Where there is doubt about the meaning of a contract term, the interpretation most favourable to the consumer is to apply.

Assessing transparency of a term

When assessing the transparency of the terms in a contract, certain matters need to be taken into account:

a. The subject matter of the account
b. How the contract is communicated and presented to the consumers
c. Any other terms of the contract, or any other contract on which the term in question is dependent

d. Compliance with any obligations relating to the provision of information to the consumer imposed by an Act or Regulation which must be complied with before conclusion of the contract, and
e. All circumstances relating to the conclusion of the contract

If there is a dispute over a term, the trader will be obliged to prove that the term is transparent. This effectively imposes an obligation on financial services firms which provide standard contracts to consumers (e.g., a Life Assurance policy or a loan agreement) to draft such contracts in "plain intelligible language". If the terms of such a contract are not transparent (i.e., they are not drafted in plain intelligible language), they are open to challenge by consumers as being "unfair".

Enforcement
The Competition and Consumer Protection Commission, the Central Bank or a consumer organisation7 can apply to the Circuit or High Court for a declaration that any term drawn up for general use in contracts is unfair, and the courts can grant an order prohibiting the use or continued use of such a term or similar terms.

Reporting unfair terms

There are authorised bodies which can apply to the courts for a declaration that a particular term is unfair.

If you have a complaint about a seller or supplier using unfair contract terms, you can report the issue to the authorised bodies below:

Complain to:	About the following contracts:
Competition and Consumer Protection Commission (CCPC)	Consumer contracts for a range of goods and services
Central Bank of Ireland	Consumer contracts with financial services providers such as banks, financial companies and retail intermediaries.
The Commission for Communications Regulations (ComReg)	Consumer contracts in relation to telecommunications, electronic communications, broadcasting transmissions, premium rate services and postal sector.

Overview: Consumer Protection Code

The Consumer Protection Code was published by the Central Bank on 25 July 2006 and came into effect on 1 August 2006. An updated and revised version of the Consumer Protection Code came into effect in 2012, replacing the original Code. Additional amendments were also introduced in May 2022. These will come into force in August 2022.

The Code sets out the regulatory requirements that financial service providers must comply with when dealing with consumers, regardless of the type of firm with which they interact. Financial service providers must act in consumers' best interests by ensuring that they know and understand consumer needs, sell them products and services that are suitable and provide them with appropriate information to enable them to make an informed choice. The Code has the force of law.

Not all provisions of the Consumer Protection Code apply to products governed by the European Union (Consumer Credit Agreements) Regulations 2016. Some products are not under the remit of the Consumer Credit Agreement Regulations, such as insurances associated with consumer credit, and so the main provisions of the Consumer Protection Code are relevant to these and must be noted.
The Code applies to regulated activities of all regulated entities operating within the state, including:

- The services of all regulated entities operating in the state for which they are required to be authorised by, or registered with, the Central Bank
- Persons with an equivalent authorisation or registration in another EU or EEA member state when providing services in this state on a branch or cross-border basis
- The services of a financial or investment nature which are subject to the regulation of the Central Bank, for which a separate authorisation is required

Without prejudice to the generality of the above, the Code is applicable specifically, but not exclusively, to:

- Credit institutions (banks and building societies)
- Insurance undertakings
- Investment business firms (other than when conducting MiFID services)

- Insurance intermediaries
- Investment intermediaries, authorised under the Investment Intermediaries Act
- 1995
- Mortgage intermediaries
- Credit unions, when acting as insurance intermediaries
- Regulated entities providing retail credit
- Home reversion firms
- Debt management firms
- Electronic money institutions
- Payment institutions
- Credit servicing firms
- Hire-purchase agreements, including PCP
- Consumer-hire agreements
- Buy now pay later (BNPL) agreements

Accordingly, the Code is relevant to lenders in Ireland when they are providing credit, as well as when they are selling insurance related to that credit (payment protection insurance). Where a lender is referred to, it should be taken as a reference to a regulated entity providing credit.

The Code does not apply to regulated entities when:

- Providing services to persons outside the state
- Providing MiFID services
- Providing the services of a moneylender, within the meaning of the Consumer Credit Act 1995
- Carrying on the business of reinsurance or reinsurance mediation
- Carrying on the business of a bureau de change or money transmission, within the meaning of Part V of the Central Bank Act 1997
- A credit union is providing services other than insurance mediation

Definition of a "Consumer"

A "consumer" for purposes of the Code is defined as:

- A person or group of persons, but not an incorporated body, with an annual turnover in excess of €3 million in the previous financial year (for the avoidance of doubt, a group

of persons includes partnerships and other unincorporated bodies such as clubs, charities and trusts, not consisting entirely of bodies corporate), or
- Incorporated bodies having an annual turnover of €3 million or less in the previous financial year (provided that such body shall not be a member of a group of companies having a combined turnover greater than the said €3 million)

and includes where appropriate, a potential "consumer".

By way of example, this definition includes the following customer types:

- An individual
- A sole trader, partnership, charity, trust or other unincorporated body
- A limited company with an annual turnover equal to or less than €3 million

The effect of this definition is that all customers other than a limited company with an annual turnover greater than €3 million are consumers.

Consumer Protection (Regulation of Retail and Credit Servicing Firms) Act 2022

This Act was introduced in 2022 as a means of extending the authorisation requirements of the providers of hire-purchase, PCP agreements and buy now pay later (BNPL) arrangements. These firms must now be authorised by the Central Bank as a retail credit firm. The consequence of this is that customers (generally related to natural persons only) of the above agreements can now avail of additional consumer protection from the Consumer Protection Code and Fitness and Probity requirements.

Hire-purchase agreement

A hire-purchase agreement is:

> *an agreement for the bailment of goods under which the hirer may buy the goods or under which the property in the goods will, if the terms of the agreement are complied with, pass to the hirer in return for periodical payments; and where by virtue of two or more agreements, none of which by itself constitutes a hire-purchase agreement, there is a bailment of goods and either the hirer may buy the goods, or the property therein will, if the terms of the agreements are complied with, pass to the hirer, the agreements shall be treated for the purpose of this Act as a single agreement made at the time when the last agreement was made. (CCA, s.2 (1))*

So, hire-purchase is a form of bailment of goods. What is bailment? This is a technical term for the delivery of goods by one person (the bailor) to another person (the bailee) for a particular purpose on condition that the bailee will return the goods to the bailor once that purpose has been fulfilled. In a typical hire-purchase transaction, there is both a bailment and a purchase. The owner of the goods, i.e., the bailor, delivers them to the hirer/consumer, i.e., the bailee, on condition that the hirer/consumer will return them to the owner. However, it is also a condition of the agreement that ownership of the goods will pass to the hirer/consumer provided that the repayments are met. So, the goods are hired or "bailed" up to the point where the hirer/consumer owns them, usually at the end of the period, and the purchase comes into effect. Hence the name "hire-purchase".

The owner must state the cash price of the goods before the agreement comes into effect and must do so other than in the agreement itself. The owner can do so in one of two ways:

> a) *If the hirer has inspected the goods or like goods and at the time of his inspection tickets or labels were attached to or displayed with the goods clearly stating the cash price, either of the goods as a whole or of all the different articles or sets of articles comprised therein, or;*
>
> b) *If the hirer has selected the goods by reference to a catalogue, price list or advertisement which clearly stated the cash price of the goods as a whole or of all the different articles or sets of articles comprised therein.*

Obviously, if a prospective hirer knows the cash price of the goods, they can decide whether they need to avail of hire-purchase at all. It will also help them to decide, if they go ahead, whether to withdraw from the agreement within the cooling-off period.

What if the hirer does not inspect the goods and so does not see the price? In that case, the owner of the goods would not have met their obligation to state the cash price as the condition for complying with that obligation had not been met. This is similar in effect to the sale of goods where the law implies a condition that the goods are of merchantable quality unless "the buyer examines the goods before the contract is made, as regards defects which that examination ought to have revealed" (Sale of Goods and Supply of Services Act 1980, s.10). In other words, there is no such implied condition if the consumer examines the goods before buying them.

Hire-purchase and credit-sale agreements both give rise to certain fees and charges. They vary and include the following:

Documentation fee	**Can be payable at the start of the agreement.**
Interest surcharge	A rate of interest may be payable on any amount unpaid due to a missed repayment.
Penalty fee	Fee for a late or missed payment.
Rescheduling charge	Hire-purchase and credit-sale are the least flexible forms of credit. It may not be possible to change the repayments or extend the term of the arrangement and, if an institution agrees to reschedule the term or repayment terms, it may charge a fee to do so.
Repossession charge	In the case of hire-purchase, if an institution has to repossess the goods it will charge a fee at the end of the agreement
Completion fee	A nominal amount called a "completion fee" can be charged before the customer becomes the owner of the goods.

"Hire-purchase price"

The "hire-purchase price" is the total sum payable under the hire-purchase agreement in order to complete the purchase of the goods to which the agreement relates, **exclusive** of any sum payable as a penalty or as compensation or damages for breach of the agreement.

Example

Lucia buys a car under a hire-purchase agreement. The cash price is €14,400:

-she pays an initial deposit of €500

-she has to pay an initial "documentation" fee of €75

-she will pay 61 monthly instalment repayments of €298.70, i.e. a total of €18,220.70

-she will have to pay a final "completion" fee of €75

Her total hire-purchase price is therefore €500 + €75 + €18,220.70 + €75 = €18,870.70, whereas the cash price is €14,400.

Right to terminate the hire-purchase agreement

The consumer is entitled to terminate a hire-purchase agreement covered by the Consumer Credit Act 1995 at any time during the term of the agreement by giving notice in writing to the owner of the goods involved.

The consumer will usually have two options:

1. Return the goods and pay a fee

   OR

2. Purchase the goods by paying a lump sum

Return the goods

In this case, the consumer must pay a fee of:

50% x hire-purchase price LESS repayments already made and due before termination of the agreement unless some alternative is specified in the agreement.

Example

In the example above, the hire purchase price is €18,870.

Let's assume that after 19 repayments have been made, Lucia contacts the finance company to terminate the agreement and arranges to return the car to them. She has found that she can no longer afford the repayments.

She will have to pay to the finance company:

50% x €18,870 (the hire-purchase price) LESS (€500 + €75 + (19 x €298.70)) = €3,184.70

Obviously, if Lucia above had already paid more than 50% of the hire-purchase price in payments, under the agreement she would only be liable on termination for any repayment outstanding at the date of termination of the agreement.

The consumer is usually liable for any repair costs where the consumer has not taken reasonable care of the goods provided under the agreement.

Purchase the goods

The consumer can purchase the goods by paying the difference between the hire-purchase price and repayments already made less an "interest rebate" which finance companies usually allow for early repayment of a hire-purchase agreement.

Example

In the example above, the hire purchase price is €18,870.

Let's assume that after 19 repayments have been made, Lucia contacts the finance company and indicates she wishes to purchase the car outright at this stage.

She may have to pay to the finance company:

€18,870 (the hire-purchase price) LESS (€500 + €75 + (19 x €298.70)) LESS €1,250 (assumed interest rebate) = €11,370.

Repossession

The owner of goods (e.g., finance company) cannot repossess the goods let under the hire-purchase agreement without a court order where the consumer has paid at least one-third of the hire-purchase price.

Example

In the example above, the hire-purchase price is €18,870.

Until Lucia has paid at least 1/3rd x €18,870, i.e. €6,290 in this example, the finance company can repossess the goods without a court order by giving 21-days' written notice to the consumer. However, the finance company would only be likely to do this if the consumer had fallen behind in repayments and/or it believed the consumer had caused damage to the goods.

After Lucia has paid at least 1/3rd x €18,870, i.e. €6,290 in this example, the finance

company cannot repossess the goods without a court order.

Requirements for a hire-purchase agreement

A hire-purchase agreement must be in writing and signed by both the hirer and by or on behalf of all other parties (CCA, s.58 (1)). The same applies to a guarantee relating to the agreement, with the obvious addition that the guarantor must also sign. A copy of the agreement must be given or sent to the hirer either at the time it is made or within 10 calendar days. In the case of a guarantee, a copy of it and the agreement must be given or sent to the guarantor within 10 calendar days of the agreement being made.

A hire-purchase agreement must contain the following information:

a) The hire-purchase price
b) The cash price of the goods, to which the agreement relates
c) The amount of each of the instalments by which the hire-purchase price is to be paid
d) The date, or the method of determining the date, upon which each instalment is payable
e) The number of instalments
f) The names and addresses of all parties to the agreement at the time of its making

g) Any costs or penalties to which the hirer will become liable for any failure by the hirer to comply with the terms of the agreement

(CCA, s.58 (2))

Following the introduction of the Consumer Protection (Regulation of Retail Credit and Credit Servicing Firms) Act 2022, the APR must now also be present on a hire-purchase agreement. The APR can be no higher than 23%. The hire-purchase price is "the total sum payable by the hirer...in order to complete the purchase of the goods" (CCA, s.65 (1)). Two other items must appear in the agreement:

1. A list of the goods sufficient to identify them
2. A notice (which must be at least as prominent as the rest of the agreement) stating the right of the hirer to terminate the agreement in certain circumstances, i.e. the cooling-off period, and restrictions on the owner's right to recover the goods

Cooling-off period

The consumer has the right to a "cooling-off period" of 10 calendar days after receiving a copy of the hire-purchase agreement. The agreement must state in a prominent position that it is a hire-purchase agreement, and that the hirer can waive their right to the cooling-off period. If the hirer chooses to waive it, they must do so separately from their acceptance of the terms and conditions of the agreement.

Personal Contract Plan

A Personal Contract Plan (PCP) is a type of hire-purchase agreement being offered by many car sales companies arranging finance agreements for their customers. Like a hire-purchase agreement, the individual does not own the car until the final payment has been made. Providers of PCP agreements are now also subject to being regulated as retail credit firms as a result of the Consumer Protection (Regulation of Retail Credit and Credit Servicing Firms) Act 2022 and, as such, certain provisions of the Consumer Protection Code also apply to its consumers.

With a PCP, repayment is broken down into three parts:

1. **The deposit** – the deposit is typically between 10% and 30% of the value of the car, depending on the finance provider. This can be paid either as an upfront payment or a trade in can be used to offset this.

2. **Monthly repayments** – PCP agreements are usually made for terms between three and five years. PCPs generally have low monthly repayments, which can make them seem more affordable when compared to other forms of finance.
3. **Guaranteed Minimum Future Value (GMFV)** – the GMFV is the minimum future value of the car on the final payment date given to the consumer at the outset. The amount must be equivalent to, or at least equivalent to, the final hire-purchase payment, i.e. the amount the consumer will have to pay to own the car at the end of the agreement. There are conditions attaching to the GMTV that state the guarantee is subject to the reasonable condition of the car and certain mileage limits on the final payment date.

In the event that a car is being returned early, the GMFV is included as a payment on a PCP agreement as it is a hire purchase agreement.

At the end of the PCP agreement, once the car is within the conditions attaching to the GMTV a number of options are available to the consumer:

- Part exchange the vehicle for a new car on another PCP finance contract. You may also need an additional deposit along with your GMFV. Vehicle can be exchanged with any motor dealer once GMFV is cleared.
- Keep your car by paying the final instalment, equivalent to the GMFV.
- Return the vehicle to your car dealer. The dealer's finance company offsets the vehicle's GMFV from the final payment which should clear the residual balance owed in full. If there is any residual balance due to, say, excessive mileage on the car, the consumer will have to make an additional payment.

A consumer should be cautious of entering this form of credit if:

- They want flexibility in relation to making payments, or
- There is a possibility of excess mileage

In addition, as it is a type of hire-purchase agreement, the same rules regarding returning the asset during the term or having it repossessed apply.

Section Ten – Debt Management

Rent pressure zones

A rent pressure zone (RPZ) is a designated area where rents cannot exceed general inflation, as recorded by the Harmonised Index of the Consumer Price (HICP), or 2% pro-rata per year where the actual HICP is higher than this. This rule applies to both new and existing tenancies (unless an exemption is being applied). (These new max increases were introduced following the Residential Tenancies (Amendment) Act 2021, which was enacted on 11 December 2021.)

Rent pressure zones are located in certain areas of the country where rents are highest and rising. They are in place as a method to moderate the rise in rents in these areas and also to provide a stable and sustainable rental market for both tenants and landlords.

A number of local authority (LA) and local electoral areas (LEA) have been designated as rent pressure zones. The first rent pressure zones came into effect in December 2016, with the most recent in September 2020. Full details of LAs and LEAs designated as rent pressure zones can be found at https://www.rtb.ie/rent-pressure-zones.

For an area to be designated as a rent pressure zone, the following criteria apply:

> *"The standarised average rent in the previous quarter must be above the appropriate reference standarised average national rent in the quarter; and The annual rate of rent inflation in the area must have been 7% or more in four of the last six quarters" (Residential Tenancies Board)*

In addition to the above points, since 4 June 2019 there are three different standardised average rents to be used when assessing an area.

If a tenancy was already in existence at the time of an area being designated as a rent pressure zone, then they remain under the existing rent review measures (rent review once in 24 months) for the purpose of the next rent review. However, following the initial review following the designation of the area as a rent pressure zone the rent can then be reviewed annually (in line with the regulations).

In the case of a new tenancy in a rent pressure zone, unless an exemption has been applied a landlord must provide the new tenant with the following information at the beginning of the tenancy:

- The amount of rent that was last set under a tenancy for that dwelling
- The date the rent was set under a tenancy for the dwelling
- A statement as to how the rent has been set, taking the rent pressure zone formula into account

Rent cannot be set above local market rents for similar properties (examples of three similar properties in the locality of similar area must be shown).

Since the enactment of the amended Act in December 2021, rent reviews in rent pressure zones can occur only once in every 12 months (every 24 months outside rent pressure zones). Following the designation of a rent pressure zone, all existing tenancies at the relevant date of designation are still covered by the 24-month rent certainty laws. Therefore, the landlord must wait 24 months from the tenancy commencing or 24 months from the last rent review notice before serving notice of any rent increase. A tenant must receive notice of any review to their rent of at least 90 days in writing. The rent cannot be increased by more than HICP or to a max of 2% and, notwithstanding this, should also not exceed the local market rents for similar properties. After an initial rent review, the landlord will be entitled to review the rent every 12 months.

If a tenancy begins after the area has been designated as a rent pressure zone, the rent can be reviewed annually.

Right to return of a tenancy deposit

Where a tenancy ends, a landlord is obliged to return the deposit in full to the tenant, unless the tenant did not give proper notice of termination (resulting in loss to the landlord), bills or rent were left outstanding or the accommodation was damaged beyond usual wear and tear.

Termination of tenancy where rent is not in arrears and tenant's obligations have been met.

Under the Act, tenancies generally run in four-year cycles to allow for "security of tenure" for the tenant – during the first six months of a tenancy, the landlord can require a tenant to leave without reason but must still give relevant written notice. Where the tenancy has lasted between six months and four years, where a tenant continues to meet their obligations under a tenancy, the landlord cannot terminate prior to three years and six months having passed unless certain circumstances apply (e.g. the landlord wishes to sell the property within three months) and a minimum required period of notice applies (this minimum amount increases relative to the time the tenant has been renting the property). This protection (known as a Part 4 tenancy) may also apply to fixed-term tenancies in certain circumstances provided the tenant has been renting and in compliance with their obligations for six months and a valid intention to remain in the property has been provided by the tenant to the landlord. (This is due to change for all new tenancies created on or after 11 June 2022, where they will become tenancies of unlimited duration after six consecutive months in situ).

However, the Residential Tenancies (Deferment of Termination Dates of Certain Tenancies) Act 2022 came into effect on 29 October 2022. This is temporary legislation, covering the "winter emergency period" (30 October 2022 to 31 March 2023). It gives additional protection for those who were due to have their tenancies terminated during this period by deferring their tenancy termination date. The duration of the deferment differs by the length of tenancy, with those in shorter tenancies having a greater deferred notice period.

Changes to probationary period for a Further Part 4 tenancy

The Planning and Development (Housing) and Residential Tenancies Act 2016 extends the Part 4 tenancy cycle from four to six years. This applies to all new tenancies that commenced on or after 24 December 2016, including a Further Part 4 tenancy coming into existence on or after this date.

A tenancy may be terminated within the first six months without giving a reason. Once a Part 4 tenancy comes into existence, it can only be terminated by using one of the Section 34 grounds in the 2004 Act.

In summary, these grounds are:

- There has been a failure to comply with obligations under the tenancy.
- The dwelling is no longer suited to the needs of the occupying household.
- The landlord intends to sell the dwelling within three months of the termination date.
- The landlord requires the dwelling for own or family-member occupation.

- Vacant possession is required for substantial refurbishment of the dwelling.
- The landlord intends to change the use of the dwelling.
- If a fixed-term lease is in place, the termination of a Part 4 tenancy, which also has the benefit of a fixed-term lease, can only occur where:
    - There has been a breach of obligations by either landlord or tenant
    - The landlord has refused a sublet or assignment request from the tenant

* The fixed-term lease provides for specific grounds for termination, and these grounds comply with the terms of the 2004 Act.

Terminating a Further Part 4 tenancy has changed since 17 January 2017. Where a landlord is seeking to terminate a Further Part 4 tenancy in the first six months (the probationary period), they will be required to rely upon one of the Section 34 grounds (the fixed-term lease termination restrictions continue to apply). Prior to this change, a landlord could terminate a Further Part 4 in the first six months without providing a reason.

Notices of termination and the "Tyrrelstown" amendment

The "Tyrrelstown" amendment commenced on 17 January 2017 and relates to a restriction on the sale of 10 or more units, the subject of tenancies, in a development. The content of the Notice of Termination has not changed but an amended statutory declaration is required under these circumstances. An individual statutory declaration will have to accompany each individual notice of termination.

The 2016 Act restricts the termination of certain tenancies and requires additional information to be inserted into the statutory declaration where an exemption to the Tyrrelstown amendment is being relied upon. This new law confirms that a Part 4 Tenancy cannot be terminated on the grounds of an intention to sell where the landlord is seeking to sell 10 or more dwellings within a development during the relevant time. "Relevant time" means any period of six months within the period beginning with:

- The offer for sale of the first dwelling, and
- Ending with the offer for sale in the development of the last dwelling.

The restriction on the selling of 10 of more units is subject to a market-value exemption. The restriction does not apply where the landlord can show, to the satisfaction of the RTB, that the price to be obtained by selling the dwellings at market value is more than 20% below the market value that could be obtained if sold with vacant possession, and that applying this restriction would, having regard to all the circumstances, be unduly onerous on the landlord, or would cause undue hardship on the landlord.

It should be noted that a notice of termination on the grounds of an intention to sell, which was served before 17 January, will operate under the previous rules. It should also be noted that the provisions will apply to all tenancies, including those created before 17 January.

Negative equity

A mortgage is said to be in negative equity when a decline in the value of the property against which the mortgage loan is secured exceeds the combined buffer of the initial equity in the property (determined by the original LTV ratio), the equity built up in the property due to any house price appreciation that occurred after the mortgage drawdown and any reduction in the principle due to repayments made since the loan's origination.

The presence, or otherwise, of negative equity is determined by the difference between a property's current market value and the outstanding value of the mortgage securing it, otherwise known as the current LTV. Current LTVs of over 100% signify that a mortgage is in negative equity, whereas a ratio below this threshold indicates that the borrower retains a degree of positive equity in their home.

During the collapse in Irish residential house prices, a percentage of outstanding owner-occupier Irish residential mortgages were considered to be in negative equity. However, this has changed over recent years and, with the increase in house prices over the past few years, this situation has changed for the majority of cases. There are still a number of borrowers in negative equity due to inability to decrease their mortgage during the recession years. However, not all negative equity borrowers are in arrears. This is an important point as negative equity does not necessarily equal mortgage arrears.

Negative equity impacts on the financial position of the individual householder, but it may also influence wider economic considerations such as consumption.

Identify ways to reduce debtors' expenditure, including debt repayments

Before being able to reduce expenditure, a consumer first needs to know what they are paying out each month. Identifying expenditure is the first step in reducing expenditure. There are a number of very useful spending diaries available that help a consumer identify and manage what they are paying out each month. In particular, MABS have a "Budget Sheet" that allows a consumer to record, on a weekly or monthly basis, what they are spending on items such as housing costs, food/housekeeping and utilities. No matter what tool or diary is used by a consumer, it is vital that expenditure is documented in order to analyse areas that can be reduced.

In order to complete the expenditure section of a budget, gather all the paperwork needed to do a financial review, including a list of bank accounts and the balance on each, a list of all loans (note the balances and completion dates of each, and find and keep the original agreements), bank statements, utility bills, insurance policies, motor tax and NCT information, and any other financial information on regular spending, such as grocery bills. Once all the paperwork is available, it is now possible to complete a spending diary.

The Insolvency Service of Ireland (ISI) has published a guide to standard of living and reasonable living expenses (RLE). This serves as a useful benchmark when determining how much a household should be spending each month. Below is an example taken from the guide that outlines the set costs for the various household compositions.

3.2 SET COSTS TABLE

Monthly Figures	Motor Vehicle required? (No)	Motor Vehicle required? (Yes)
Household composition	Adult Set Costs	
Single Adult (No Children)	€1,084.93	€1,296.02
Couple (No Children)	€1,764.37	€1,897.62
Single Adult (With Children)	€1,065.88	€1,354.51
Couple (With Children)	€1,506.58	€1,700.34
Icons designed by Freepik	Children Set Costs	
Infant	€216.51	€216.51
Pre-school	€72.36	€72.36
Primary School	€245.15	€233.45
Secondary School	€454.58	€442.88

As can be seen from the guide above (updated in 2022), it is important that a consumer is very aware of what is being spent on all household expenditure. Having this information documented is the first step in reducing this expenditure. Using the headings from the Standard Financial Statement (SFS), we will now look at some practical ways in which a consumer can reduce expenditure.

Potential ways of reducing expenditure

Utilities

- With so much competition between providers, shop around for a better deal on utilities such as gas, electricity, mobile and home telephone.
- Examine the TV package held and look at ways of reducing this cost (e.g. cancelling an expensive sports package).
- Reduce the use of utilities in order to reduce the monthly cost (e.g. the Sustainable Energy Authority of Ireland gives valuable tips on how to reduce energy consumption http://www.seai.ie/).

Household

- Each household cost should be broken down and examined. Is it essential or can it be done without? MABS have a very useful spending diary on www.MABS.ie.
- Look for the best offers in all the supermarkets.
- Only buy what is needed.
- Shop around.

Transport

- Cut out non-essential travel, wherever possible.
- Utilise public transport if it saves money.
- Avoid tolls and car-parking charges, when possible.
- If two cars are owned, look at the feasibility of selling one car (reduces costs along with clearing car loan, if applicable).
- Carpool to save on transport costs.

Mortgage-related costs

- Shop around for home insurance quotes.
- Review mortgage protection, life and illness cover and shop around for better deals.
- If paying Payment Protection insurance, are borrowers eligible for a claim if they need to make one?

Education

- Are there any schoolbook grants or rental schemes available?
- Shop around for school uniforms and shoes.
- Cut out voluntary contributions when affordability is not there.

Medical

- Apply for a medical card.
- Shop around for health insurance.
- Avail of tax rebate on medical expenses.

Social

- Cut down on lifestyle expenses such as eating out and take-aways.
- Be realistic on what is affordable for family events (e.g. Christmas).
- Reduce or cancel membership to clubs or gyms.

Monthly debt repayments

- Prioritise mortgage repayment.
- Approach all debt providers to discuss a more appropriate arrangement that matches budget.
- Claim on Payment Protection policies, where applicable.
- Consolidate loans, if applicable.
- Stop using credit cards where balance will not be cleared by due date.
- Speak with MABS or Citizen Advice.

It can be a challenging time for a consumer, so an advisor needs to take this into account when discussing expenditure and spending habits. Notwithstanding this, it is important to cover off some key areas at any meeting in order to effectively manage the personal finances of a consumer. Some of these areas include:

Analyse expenditure

One should analyse each item of expenditure to determine whether it is in line with the consumer's circumstances (referring to the ISI Guide will assist in this task). Having a clear picture of the consumer's personal circumstances, such as marital status and number of dependants, is also needed to effectively analyse a consumer's expenditure.

Monthly expenditure

All expenditure should be expressed monthly. This means that any expenditure that is paid weekly, fortnightly or yearly should be expressed monthly. Where an expenditure item is paid weekly and is fixed (i.e. repayment does not change), the amount should be multiplied by 52 and divided by 12 to get the monthly figure. Items such as electricity or gas that are variable (i.e. repayment amount changes) should be averaged out over a year to determine the average monthly cost.

Challenge expenditure

It can be difficult, but consumers may need to be challenged on their expenditure. This may involve determining the full extent of all expenditure as the consumer may not have divulged all spending. It may also involve challenging the spending habits of the consumer and asking what is being done to reduce expenditure. This is where the ISI guide above will assist an advisor in benchmarking reasonable living expenses during the conversation.

Debt repayments

Ignoring debt repayments and allowing loans or mortgages to go into arrears will not help a consumer deal with their current difficulties. It is important to find out what level of contact they have had with their debt providers and what agreements have been put in place.

Supporting documentation

Where an advisor is not happy with the information given by a consumer, supporting documentation should be sought. This is not about catching out a consumer but about ensuring the budget is realistic and a true reflection of their current situation.

Commitments

It is important to find out what a consumer has already done, if anything, to help reduce expenditure. More importantly, what commitments are they going to give to help reduce expenditure going forward? This could include shopping around for better-priced utilities, cutting out non-essential expenditure or undertaking to contact short-term debt providers.

Budgeting and reasonable living expenses (RLE)

In 2012, the government legislated for a major reform in the manner in which distressed debt can be managed. The Personal Insolvency Act 2012 was enacted. The information on RLE attached is based on information extracted from a publication by the Insolvency Service of Ireland (ISI) on RLE.

As part of this legalisation, the concept of RLE was created. RLE can be regarded as the minimum amount which should be provided to support the standard of living of the debtor before income can be used to service debt, other than the mortgage on the family home. The cost of a reasonable mortgage on the family home is regarded as part of RLE.

The ISI is required by section 23 of the Personal Insolvency Act 2012 to prepare and issue guidelines as to what constitutes a reasonable standard of living and reasonable living expenses.

Under the model developed by the ISI, reasonable living expenses are the expenses a person necessarily incurs in achieving a reasonable standard of living, this being one which meets a person's physical, psychological and social needs.

The costs attributed to a household are termed "set costs". To these are added the reasonable costs of housing, childcare and special circumstances where these arise. This produces the total for reasonable living expenses for a given household.
The guidelines are intended to give direction to approved intermediaries and guidance to personal insolvency practitioners in assessing, for relevant provisions of that Act, what may be considered "reasonable" in the context of a standard of living and living expenses.

Reasonable living expenses

Household composition

Set costs can be found by looking up the tables contained in the RLE guidelines and finding which best fits the situation of the applicant based on household composition and on the need of the household for a car. The set costs of a household are compiled by totalling the costs for each individual in the household.

Childcare

A significant expense arises where paid childcare is needed, particularly at the first two stages of childhood, i.e. infancy and pre-school. Where childcare costs are paid, they are added to the total for set costs. During the insolvency process, an approved intermediary (AI) or personal insolvency practitioner (PIP) will assess the reasonableness of these expenses, taking into account the factors outlined in the guidelines.

Housing

Housing can also be a significant expense. In considering what constitutes a reasonable and sustainable accommodation expenditure in an individual case, the AI or PIP will assess the rent or mortgage payments, taking into account the factors outlined in the guidelines.

Special circumstances

The differing needs of persons, having regard to matters such as their age, health and whether they have a physical, sensory, mental health or intellectual disability can be accommodated by a debtor specifying reasonable costs which arise as a consequence of ill-health, age or disability under this category of special circumstances. This category may also be used where a debtor has persons other than their minor children financially dependent on them, such as where the debtor is contributing financially to the care of an adult dependant such as an elderly relative or a college-going child.

Determining reasonable living expenses

The ISI has prepared reasonable living expenses guidelines to, among other things, give direction and guidance in assessing what may be considered “reasonable” in the context of reasonable living expenses for certain purposes. The ISI recognises that reasonable living expenses will necessarily vary depending on the debtor’s relationship status, employment status, need for a vehicle, and the number and ages of their children (if any).

While reasonable living expenses have to be calculated to a mainly objective standard, it is important that some flexibility be allowed so as to recognise and provide for the differing needs of persons, particularly in relation to ill-health and disability. In preparing their guidelines on RLE, the ISI carried out considerable research and consultation and, as such, its work is a good guide for a debt advisor when preparing and assessing a debtor’s budget.

Budgeting – understanding social welfare entitlements

The Department of Social Protection has a range of social welfare payments that provide financial support. To receive a social welfare payment, a person must make an application if they think they are entitled to a payment. It is important for consumers to maximise their entitlements as it will assist them in budgeting more effectively.

The first step before applying for a payment is to find out which payment they may be entitled to. Payments are available for:

- Unemployed people
- Families and children
- Widows, widowers and surviving civil partners
- Guardians or orphans
- Older and retired people
- Disabled people
- Carers

If a person is in receipt of a social welfare payment, they may also qualify for extra social welfare benefits. These extra payments include:

- **Free travel in Ireland**
  Everyone aged 66 and over living permanently in Ireland is entitled to travel free of charge on public transport. Others on certain social welfare payments also share this entitlement.
- **Social welfare payments and living on a specified island**
  If a person is getting a certain social welfare payment and living on a specified island off the coast of Ireland, they can get an increase in their social welfare payment.
- **Household benefits package**
  This incorporates electricity allowance, natural gas allowance and the free television licence.
- **Living alone increase**
  The living alone increase is a supplementary payment for people on social welfare pensions who are living alone.
- **Fuel allowance**
  The National Fuel Scheme provides an allowance to low-income households that are unable to meet their heating needs.

Application process for social welfare payment

To apply for a social welfare payment, a person must complete an application form and provide other supporting documentation. The information and documentation vary from one payment to another. The type of documentation required will also depend on personal circumstances. However, a person must normally submit some documentation with their claim form. For example, for most claims they will need to submit their birth certificate.

Points to note

- If a person qualifies for a payment, they may be able to get an increase in their payment for an adult dependant.
- As part of the procedure, they may be interviewed in their home or asked to attend an interview at their local social welfare office.
- While their claim is being processed by the department, they may qualify for the Supplementary Welfare Allowance. This provides a basic weekly allowance to eligible people who have little or no income.
- It is important that applicants make their claim as soon as they know they are entitled to the payment.
- All payments must be claimed within a specific period of time. If they do not claim on time, they may lose out.
- If they are asked to provide information reasonably required by a social welfare inspector when investigating their claim, they must provide the statements, information or documents within 21 days. The same time period applies to their spouse, civil partner, cohabitant, employer and certain other people (for example, landlords).
- If they are refused a social welfare payment or get a lesser amount than they expected, they have 21 days to appeal the decision of the Department of Social Protection.

Social Welfare Appeals Office

If a person thinks they have been wrongly refused a social welfare benefit, they can appeal this decision to the Social Welfare Appeals Office. They can also appeal if they are unhappy about any decision of a Social Welfare Deciding Officer. The Social Welfare Appeals Office is an independent agency and is not part of the Department of Social Protection.

The Social Welfare Appeals Office also deals with appeals for some payments under the Supplementary Welfare Allowance scheme. However, it does not deal with the discretionary elements of the Supplementary Welfare Allowance Scheme.
The consumer can appeal on the special Social Welfare Appeals form, also available from their Social Welfare Local Office or the Social Welfare Appeals Office. They can also set out the grounds of their appeal in a letter addressed to the Social Welfare Appeals Office. In their appeal, they must include the following information:

- Their name
- Their address
- Their Personal Public Service Number
- The type of payment they are claiming
- The decision they are appealing against
- The reasons they disagree with the decision that has been made

Budgeting – issues to consider when prioritising payments

Consumers will prioritise debt payments in terms of their needs and the impact which non-payment will have on them. Putting food on the table and a roof over their heads is always a high priority. For these reasons, the mortgage payment is, or should be, of high priority. In recent years, there was some evidence of a reversal of this, with unsecured debt being given preference. The word "strategic default" came into being to describe a situation where it was felt borrowers were defaulting on mortgage debt in order to gain an advantage. The following factors may have contributed to this change in preference:

- Negative equity
- The scale of negative equity, meaning mortgage borrowers had less to lose in a mortgage default
- Repossession
- Perception that mortgage lenders could not or would not foreclose
- Stigma
- The stigma of foreclosure seemed to reduce

The Money Advice and Budgeting Service (MABS) sets out guidelines on what it regards as "priority payments" and "secondary payments". MABS advises consumers to deal with priority payments first and then allocate payments to secondary creditors on a pro-rata basis. Pro-rata payment is the fair distribution of a consumer's disposable income in order to pay debts. Payments are calculated on a percentage basis. The largest debt gets the largest portion of disposable income. The end result is that all debts and arrears get cleared at the same time.

Priority payments (these should be paid first)

- Mortgage/rent (including arrears)
- Tax/VAT
- Secured loan
- Utilities
- Maintenance by court order
- Court fines
- Lease
- Court orders
- TV licence
- Some hire-purchase agreements

Secondary payments (some examples)

- Unsecured loans
- Credit/store cards
- Catalogue/goods on credit
- Some hire-purchase agreements
- Service suppliers
- Friend/family loans

In terms of budgeting, it is important for consumers to have a priority on the order of the payment of creditors in terms of need, but this should be done in full consultation with each creditor. Clear and open communication with creditors allows them to understand the position of the consumer and, in the context of a plan, to deal with their liability.

Budgeting – choosing the best payment solutions

A great variety of payment tools are available to the consumer to enable them to plan and budget payments. It is important for a consumer to choose the most suitable payment method that is appropriate to the circumstances involved. The following is a summary of some of the key payment tools available to consumers in managing their debts:

- ***MABS contacting creditors***
  MABS can contact creditors on the consumer's behalf, making offers of payment on the basis of what the consumer can afford.

- ***Credit union – budget payment plan***
  Credit unions offer a budget payment plan service to help with budgeting.

- ***Local property tax***
  Revenue offers a range of methods for paying the tax. A consumer can opt to make one single payment or opt to phase their payments in equal instalments.

- ***Deduction from wages or salary***
  This is commonly used for savings plans. It can be used to repay loans. The employee pays at source – the funds do not go into their bank account – reducing the risks of the funds going elsewhere.

- ***Standing orders/direct debits***
  Consumers can set up standing orders or direct debits from their bank account to make regular payments. These are commonly used to pay utility bills and mortgage payments.

- ***Internet banking***
  This allows consumers to make payment from mobile devices.

- ***Credit card/debit card***
  Consumers can use a credit card and/or a debit card to make payments on the internet. It is important to note that a credit card attracts a very high interest rate and should not be used to make payments off other lending debts.

- ***Pre-pay/pay-as-you-go***
  For distressed consumers, utility bills prepay or pay-as-you-go method may allow for better management of finances.

Commission for Regulation of Utilities (CRU)

As energy utility providers (such as electricity or natural gas) may be one of the key creditors, a debt management firm needs an understanding of the CRU's role in regulating the energy supply industry.

The CRU has a consumer protection function in ultimately resolving complaints consumers have with energy companies and Irish Water (the CRU requires all suppliers to maintain a robust internal complaints handling process, which must be exhausted by the customer before the CRU can be approached to resolve an outstanding issue).

The CRU also maintains a list of accredited price comparison websites which could help an indebted customer reduce their outgoings, freeing up additional funds to resolve any arrears difficulties.

The CRU has set out guidelines for the protection of energy customers which require suppliers to put in place codes of practice and customer charters guaranteeing a minimum level of service. The CRU have developed a rulebook, called the "Supplier Handbook".

The Handbook requires suppliers to develop a series of codes of practices across different areas, covering areas such as marketing, billing, disconnections, complaint handling and vulnerable customers. Suppliers must also develop a customer charter, which guarantees their codes of practice.
In the context of resolving debt arrears, or disputing debts, where it appears that the relevant CRU-regulated creditor is acting in an unfair manner, it may be

appropriate for the consumer to raise a complaint to the CRU (e.g. where customers believe an allegation of overcharging has not been properly handled, which may have given rise to the unpaid debt, or where a customer believes an energy provider is acting unreasonably with regard to a proposed alternative repayment plan, or where problems arising regarding switching providers may be preventing a reduced outlay on utilities bills).

Customer charters, codes of practice and customer rights

All suppliers must meet the CRU's guidelines for the protection of customers. Some have chosen to do this by producing separate documents for each code with a covering customer charter and others have produced a single customer charter with all of the code requirements contained in it. Customers are entitled to receive a copy of the documents their supplier has produced.

Billing and disconnections

All customers are entitled to prompt and regular bills from their supplier. Included in the Commission's guidelines are the requirements for suppliers to ensure that bills are accurately calculated, state whether they are based on an estimated customer or actual read, clearly indicate the period being charged for, include payment and tariff options, any VAT or levies and set out any free gas entitlements.

This code also sets the arrangements for how suppliers must engage with customers experiencing financial difficulties. Suppliers are required to assist customers in genuine financial difficulty in making a payment plan. Payment plans are a method of assisting customers who are experiencing financial difficulties in paying their bills. In addition, the code sets out the procedures that suppliers must follow before disconnecting a customer.

Complaints handling

Suppliers must put in place a process that customers can follow if they have a complaint to make regarding their supply. Suppliers must outline how they will effectively and transparently handle a customer's complaint and provide the steps required for doing so. They should also notify their customers of compensation and refund arrangements that apply if service quality standards are not met.

Marketing code

This code requires suppliers to protect customers against unwanted, unfair or misleading marketing methods.

Vulnerable customers

All suppliers of domestic customers are required to offer customers non-standard formats for communication. This can include spoken word or braille billing and letters for customers with visual impairment and the use of minicom or text messaging for customers with hearing impairments instead of telephoning. In order to receive these services, customers must join the industry Special Services Register. Customers can request an application form from their supplier.

The information received by the customer's supplier is also shared with Bord Gáis Networks so that they are aware of the customer's need in the event that they are also writing to the customer or making a visit to their home.

In addition to these services, the Commission has also placed an obligation on suppliers to ensure that elderly customers who are registered with them are not cut off in the winter months if they run into payment difficulties (November–March).

Pay-as-you-go metering

The code guidelines apply to the use of all pay-as-you-go metering and budget controller solutions where they are installed by the electricity or natural gas distribution system operators on behalf of licensed suppliers or budget controller solutions installed directly by the supplier. Suppliers must provide a written explanation of what a prepayment meter/budget controller is and how it operates to customers using this technology.

It is the supplier's responsibility to assess the suitability of prepayment meters/budget controllers for a given customer. It is important that customers are capable of using any technology that is provided safely and that they can access the budget controller and access a location to purchase top-up for their budget controller.

Commission for Communication Regulation (ComReg)

Similar to the energy service providers regulated by the CRU, other creditors may include communications providers, particularly cable/satellite television, telephone (landline and mobile) and internet providers. The Commission for Communications Regulation (ComReg) is the regulator for the electronic communications (telecommunications, radio communications and broadcasting) and postal sectors. The 2002 Communications Regulation Act sets out ComReg's statutory objectives. These include (for the electronic communication sector):

- To promote competition

- To contribute to the development of the internal market
- To promote the interests of users within the European community

In carrying out its responsibilities, ComReg seeks to ensure that, through the development of effective competition, Irish consumers receive the highest-quality products and services from the widest choice of operators and at the best prices. ComReg also has a consumer protection function in ultimately resolving complaints which consumers have with these service providers.

ComReg has established a framework on Codes of Conduct for the handling of complaints by consumers which each operator must provide to their customers with details of the procedure for making a complaint and the level of service a customer should expect when doing so.

Where the supplier's dispute resolution service has either broken down or failed to produce a satisfactory outcome for the consumer, the consumer can then make a complaint to ComReg, which will seek to resolve the dispute. ComReg does not require provision of compensation to the customer as a remedy; however, suppliers may choose on a discretionary basis to award compensation in the event of an adverse finding against them by ComReg.

ComReg is also required to maintain transparent and up-to-date information on prices and tariffs for certain services. Customers in financial difficulty may find budgeting easier if cheaper deals for similar levels of service are available to them. In this regard, ComReg have a comparison section on their website to help consumers compare the costs of personal mobile, home phone and broadband price plans, as well as some packages which cover a combination of these.

ComReg also has responsibility in relation to the Irish regulations on unsolicited electronic marketing, and in this regard debt management firms should be aware of their overarching data protection obligations in relation to unsolicited marketing both electronically (e.g. text, telephone and email) and normal (e.g. postal) and ensure any necessary ComReg and the Data Protection Commission requirements are met in that regard when engaging in unsolicited marketing.

Section Eleven – Credit Unions

Structure of credit unions

What is a credit union?

A credit union is a financial co-operative or mutual organisation set up to provide savings and loan services to its own members. To qualify for membership of a credit union, it is necessary to hold one or more common bond.

The main types of common bond are:

- Community, i.e., all members live, work or attend an educational institution in a particular defined geographical area, for example Greystones Credit Union Ltd or Synergy Credit Union Ltd.
- Occupational, i.e., all members follow a particular occupation, for example Education Credit Union Ltd or Public Service Credit Union Ltd.
- Industrial, i.e., all members work for (or are retired from) the same employer, for example RTÉ Credit Union Ltd or Ervia Employees Credit Union Ltd.
- Associational, i.e., all members also belong to a society that was formed other than for the purposes of forming a credit union, for example ANSAC (Army Naval Services Air Corps) Credit Union Ltd, which has the common bond of membership of the Permanent Defence Forces Representative Association (PDFORRA), or Teachers' Union of Ireland Credit Union Ltd.
- Other, i.e., any other common bond approved by the Central Bank.

The Report of the Commission on Credit Unions described the distinctive nature of credit unions as follows:

> *Credit unions are self-help co-operative financial organisations geared to attaining the economic and social goals of members and wider local communities. Each credit union is governed by its members. The membership elects (from within that membership)*

unpaid volunteer officers and directors who establish the policies under which the credit union operates. Voting within the credit union is on a one-member, one-vote basis. Credit unions cannot do business with the general public due to charter limitations based on serving a membership that is characterised by a common bond. The common bond is based on a pre-existing social connection (such as belonging to a particular community, industrial or geographic group).

In Ireland, the first credit union was formed in 1958.

Each credit union is a separate legal entity.

As of 30 September 2022, there were 205 credit unions registered and trading in the Republic of Ireland.[58] Their total membership is estimated at 3.4 million people, giving Ireland one of the highest credit union participation rates in the world.[59]

The progress of credit unions from September 2019 to September 2022 has been:

	Sep. 2019	Sep. 2020	Sep. 2021	Sep. 2022
Total loans €bn	5.11	5.09	5.25	5.60
Total assets €bn	18.33	19.42	19.98	20.31
Loan to assets %	27.9	26.20	26.3	27.6
Average arrears >9 weeks %	4.59	4.81	3.38	2.99
Average realised reserves %	16.53	15.89	16.02	16.05
Average annualised ROA %	0.70	0.40	0.60	0.31
Number of credit unions reporting	241	228	213	205
Total savings €bn	15.27	16.32	16.79	17.03

Source: Central Bank: "Financial Conditions of Credit Unions: 2022 Issue 9", March 2023

The number of credit unions by asset size has varied in recent years, as follows:

[58] Central Bank's Financial Conditions of Credit Unions: 2022. Issue 9, March 2023. See also http://registers.centralbank.ie/DownloadsPage.aspx.
[59] Central Bank's Financial Conditions of Credit Unions: 2019:2. Issue 6, December 2019. Note that there may be some double counting as individuals can be members of more than one credit union.

Number of credit unions by asset size

As at	<€40m	€40m–€100m	>€100m	Total[60]
30 September 2016	163	81	48	292
30 September 2017	142	78	53	273
30 September 2018	117	81	54	252
30 September 2019	103	83	55	241
30 September 2020	88	78	62	228
30 September 2021	72	75	66	213
30 September 2022	63	75	67	205
Overall change	-100	-6	+18	-79
% Change	-61%	-7%	+40%	-30%

Source: Central Bank: "Financial Conditions of Credit Unions: 2022:1 Issue 9", March 2023

Core member services

Members of credit unions place their savings with the credit union in the form of shares and deposits, and in return:

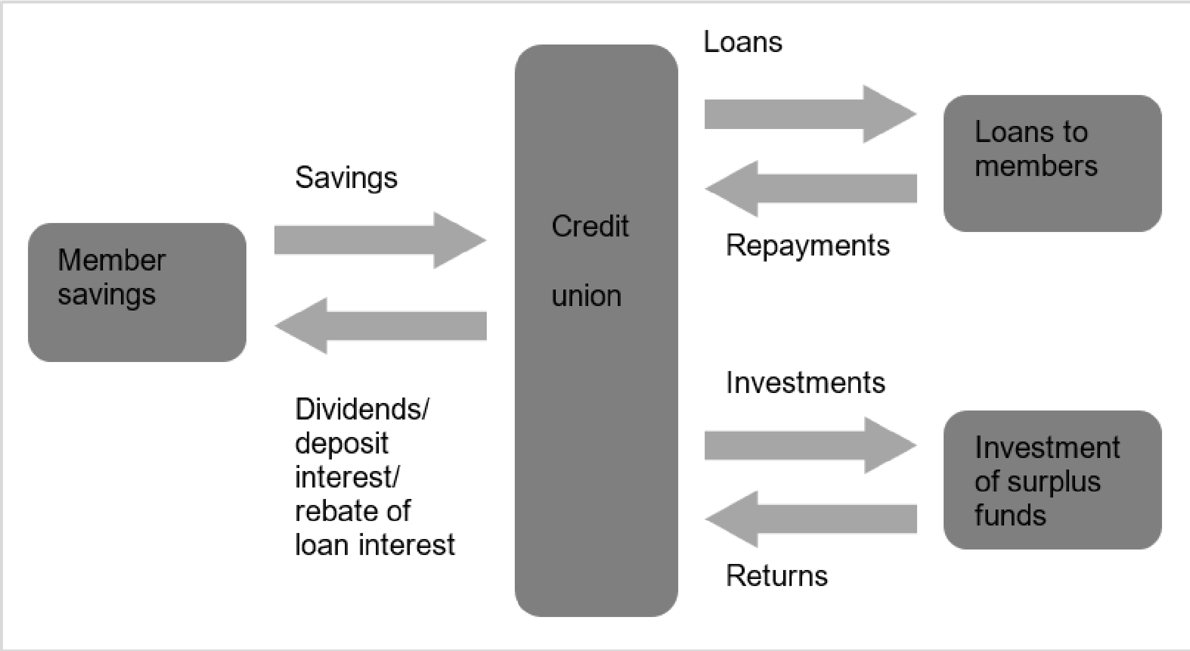
May get a return on their savings from dividends and interest paid by the credit union and/or a rebate of interest paid on loans, and

Benefit from one or more financial services provided by the credit union for its members, including the provision of loans

A credit union's core member services are, therefore, the provision of savings and loans. While credit unions in total currently have a loan to assets ratio of about 28%, this ratio will be higher for some credit unions and lower for others. In its March 2023 report on the financial conditions of credit unions in 2022, the Central Bank observed that the range of loan to asset (LTA) ratios reported by credit unions had not varied between 2021 and 2022, with the lowest reported LTA ratio at 13% and the highest at 67%.

The basic operation of a credit union can be represented in a simplified form as follows:

[60] Based on credit unions that submitted returns.



The two main items of income earned by a credit union are therefore:

- Loan interest paid by members, and
- Investment returns earned by the credit union from the investment of other assets

How credit unions differ from banks

The "Report of the Commission on Credit Unions, March 2012" included a table comparing credit unions with banks:

Credit unions	Banks
Not-for-profit, member-owned financial co-operatives funded primarily by voluntary member deposits.	For-profit institutions owned by shareholders.
Conduct business solely with their members, and their members are in turn the owners of the credit union, there is a coincidence of ownership and consumption.	Conflict between depositors and borrowers (the customers) and shareholders (the owners).
Members share a common bond, such as where they live or work.	Typically serve middle-to-high income clients. No restrictions on clientele.

Credit union members elect a volunteer board of directors from their membership. Members each have one vote in board elections, regardless of their amount of shares in the credit union.	Shareholders vote for a paid board of directors who may not be from the community or use the bank's services. Votes are weighed based on the amount of stock owned.
Surplus monies generated from business activities belong to the members, distribution method decided by members.	Shareholders receive pro-rata share of profits.
Financial services provided are primarily basic savings and loan products with some insurance offerings.	A wide range of financial services are on offer.
Local offices, limited use of ATMs, internet and phone technology for the provision of services.	Branch network, sophisticated technology-based provision and delivery of services.
Exist to attain the economic and social goals of members.	Exist to maximise profit and shareholder wealth.

Some comparisons have become less valid over time as credit unions increasingly use technology to offer online services and mobile apps: by September 2022, for example, 112 credit unions were offering house loans (mortgages), 122 were offering community loans and 149 were offering business loans.[61]

By June 2023, 73 credit unions were offering current account and/or debit card services to their members.[62]

The Registrar of Credit Unions (RCU)

Historically, the Central Bank of Ireland was the sole authority responsible for authorisation, regulation and supervision of all financial services providers established in the state, including credit unions. With the inception of the Single Supervisory Mechanism (SSM) in 2014, the European Central Bank became the competent authority for banking supervision.

[61] Central Bank's Financial Conditions of Credit Unions: 2022:1. Issue 9, March 2023.
[62] Source: https://currentaccount.ie/support/participating-credit-unions/.

The main legislation which regulates credit unions is the Credit Union Act 1997 (as amended), and various regulations made under that Act, including the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016,[63] the Credit Union Act 1997 (Regulatory Requirements) (Amendment) Regulations 2018, the Credit Union Act 1997 (Regulatory Requirements) (Amendment) Regulations 2019, and the Credit Union Act 1997 (Regulatory Requirements) (Amendment) Regulations 2020.

Under the Credit Union Act, the Central Bank of Ireland is required to administer the system of regulation and supervision of credit unions provided for by the Act with a view to:

- The protection by each credit union of the funds of its members, and
- The maintenance of the financial stability and wellbeing of credit unions generally

The Central Bank of Ireland must appoint a person as the Registrar of Credit Unions (RCU), subject to the agreement of the Minister for Finance.

The Central Bank Act 1942 sets out the responsibilities of the RCU as follows:

a. as the delegate of the Central Bank of Ireland, for managing the performance and exercise of the functions and powers of the Bank under the Credit Union Act 1997, and

b. if management of the performance and exercise of the functions and powers of the Bank under any other Act or law are delegated to the Registrar, for managing the performance and exercise of those functions and powers.

The RCU is required to operate under the direction of the Central Bank, through the "Head of Financial Regulation" of the Central Bank:

> *In carrying out the responsibilities and exercising the powers imposed or conferred by this section, the Registrar, through the Head of Financial Regulation, is subject to the control of the Bank and shall comply with any directions by the Central Bank Commission with respect to the carrying out of those responsibilities or the exercise of those powers.*

The Central Bank has the power to make regulations for credit unions and in doing so must have regard to:

> *… the need to ensure that the requirements imposed by the regulations so made are effective and proportionate having regard to the nature, scale and*

[63] Can be cited as the "Principal Regulations".

complexity of credit unions, or the category or categories of credit unions, to which the regulations will apply.

The RCU has specific powers under the Credit Union Act 1997, including the power to:

- Register a credit union
- Appoint, remove or suspend a member of the board of directors
- Suspend or remove a member of the board oversight committee
- Approve the provision of additional services
- Remove the credit union's auditor from office
- Issue various prudential, supervisory and reporting requirements to credit unions
- Issue a regulatory direction to a credit union
- Petition the High Court for an order to wind up a credit union

Credit Union Advisory Committee

The Credit Union Act 1997 provides for a Credit Union Advisory Committee (CUAC), whose functions are to advise the Minister for Finance and the RCU in relation to:

- The improvement of the management of credit unions
- The protection of the interests of members and creditors of credit unions
- Any other matters relating to credit unions about which the minister, the RCU or such other persons as may be specified by the minister may from time to time seek the advice of the committee

Appointments to the CUAC are made by the Minister for Finance:

- By reason of that person's knowledge of matters pertaining to credit unions, or
- Because that person is capable of giving substantial practical assistance in the work of the advisory committee

The maximum number of members of the CUAC is seven. The minister must nominate one member of the CUAC to act as its chair.

A member of the Dáil or Seanad cannot be appointed to the CUAC.

The RCU is required to consult with the CUAC in certain circumstances, including before issuing regulations to credit unions.

In other circumstances, the RCU *may* consult with the CUAC but is not required to do so before exercising some function or power, for example where the RCU can approve the provision of additional services by credit unions.

Registration of a credit union

An entity must meet *all* of the following criteria in order to be eligible for registration by the RCU as a credit union under the Credit Union Act 1997:

- It must be formed for the following three principal objects:
    1. The promotion of thrift among its members by the accumulation of their savings
    2. The creation of sources of credit for the mutual benefit of its members at a fair and reasonable rate of interest
    3. The use and control of members' savings for their mutual benefit
- It may not have any other purposes outside the following:
    1. The training and education of its members in the wise use of money
    2. The education of its members in their economic, social and cultural wellbeing as members of the community
    3. The improvement of the wellbeing and spirit of the members' community
    4. The provision to its members of such *additional services* as are for their mutual benefit, i.e., services additional to the core savings and loans services
- The Act provides that a credit union cannot carry on any business or activity "which is not appropriate or incidental to the objects for which it is formed".
- Admission to membership of the credit union must be restricted to persons who share with all other members at least one of the *common bonds* specified in the Act. This is a key feature distinguishing credit unions from banks.
- The credit union must have at least 15 members who are of "full age", i.e. have reached the age at which a person acquires the capacity to exercise all the rights of an individual who is not under a disability. Currently, this age is 18 (or 16 if married or previously married).
- The credit union must have a set of rules which comply with certain minimum requirements for credit union rules set out in the Credit Act Union

Act 1997. Where there is a conflict between a credit union's rules and the Credit Union Act 1997, the Act takes precedence.

- The credit union's registered office must be in the state.
- The credit union must maintain insurance cover for each financial year[64] to insure itself against any loss suffered or liability incurred by reason of the fraud or other dishonesty of any of its officers. This cover is sometimes referred to as *Fidelity Insurance*. The level of cover required will usually vary by the size of assets of the credit union.
- Any other conditions which the RCU can impose as a condition of registration in order to protect the interests of members of the credit union.

The RCU can, subject to notification to the credit union involved and consideration of any representations made by the credit union, amend any registration condition.

The common bond requirement

A unique feature of credit unions is that their rules *must* require that admission to membership be restricted to persons who share at least one *common bond* with all other members of that credit union. This reflects the fact that credit unions are *mutual* organisations run for the benefit of their members.

The rules of a credit union can allow a person who lives in the same *household as* AND is *a member of the family*[65] of another member of the credit union to become a member of that credit union even though that family member does not directly share the common bond.

Example 1

Mary works for XYZ Ltd and is a member of the XYZ credit union. The common bond of the credit union is being an employee of XYZ Ltd. Mary shares this common bond directly with other members, but her son, Paul, does not as he does not work for XYZ Ltd.

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[64] Under the Credit Union Act 1997, a credit union's financial year must run from 1 October to the following 30 September.

[65] Member of the family is widely defined in the Credit Union Act 1997: "...that person's father, mother, grandfather, grandmother, father-in law, mother-in-law, spouse or civil partner, cohabitant, son, daughter, grandson, granddaughter, brother, sister, half-brother, half-sister, uncle, aunt, nephew, niece, first cousin, step-son, step-daughter, step-brother, step-sister, son-in-law, daughter-in- law, brother-in-law or sister-in-law."

The rules of the XYZ credit union can allow Paul, Mary's son, to become a member if he is living in the same household as Mary, even though Paul does not work for XYZ Ltd.

Note that a cohabitant of a member can be admitted to membership of a credit union even if they do not directly meet the common bond requirement in their own right.

Example 2

Mary works for XYZ Ltd and is a member of the XYZ credit union. The common bond of the credit union is being an employee of XYZ Ltd. Mary shares this common bond directly with other members, but her partner, John, does not as he does not work for XYZ Ltd.

The rules of the XYZ credit union can allow John to become a member as he is cohabiting with Mary.

Subject to the rules of the credit union concerned, a member who held the common bond does not lose their membership because they lose the bond. Provided the rules permit, the member retains their membership, voting rights and the right to apply for loans from the credit union.

It is up to each credit union to decide whether it wants its rules to allow individuals who shared the common bond to remain as members if they cease to hold the common bond in the future.

Example 3

Pat has been a member of the Greenacre Credit Union Limited as he has lived in the area for many years.

The rules of the Greenacre Credit Union provide that an individual who ceases to hold the common bond, i.e. live in the Greenacre area, can remain as a full member of the credit union.

Pat is now changing job and moving to Cork. Pat can remain as a member of the Greenacre Credit Union even though he no longer lives in that area.

A member who ceases to hold the common bond is referred to as a "non-qualifying member". Non-qualifying members are not taken into account when determining whether a common bond exists between members of a credit union.

Example 4

Over the years, many residents of the Greenacre area have moved out of the town into the nearby village of Hillview. Greenacre Credit Union Limited (GCU) has a significant number of members living in Hillview.

As GCU's rules permit this, members moving from the Greenacres area to Hillview retain their membership, voting rights and the right to apply for loans from the credit union.

However, Hillview village is outside the common bond area of GCU, so people who are from Hillview cannot join GCU. This is because they do not share a bond with GCU's "qualifying" members.

Where the rules of a credit union provide for this, a credit union can decide on the total amount of loans and/or percentage of loans that it will grant to non-qualifying members.

Where the business of a credit union (the "transferor credit union") is transferred to another credit union (the "transferee credit union"), the common bond of the transferee credit union is taken to include the common bond of the transferor credit union and the rules of the transferee credit union are amended accordingly, on and from the date on which the transfer takes effect.

Effect of registration of a credit union

A registered credit union is treated under the Credit Union Act as a "body corporate" (i.e. it has a legal entity separate from that of its individual members) with perpetual succession and limited liability.

Each registered credit union is provided by the RCU with a unique "CU" registration number.

The CBI is required to maintain a register of registered credit unions. It can be viewed at: http://registers.centralbank.ie/DownloadsPage.aspx. The following is an extract from the CBI's June 2023 Register of Credit Unions. Note the unique registration number provided to each registered credit union shown:

211CU	Cahir Credit Union Limited
63CU	Cairde Credit Union Limited
356CU	Cana Credit Union Limited
255CU	Capital Credit Union Limited

Each registered credit union has an official registered name. It cannot use any name or title other than its registered name.

There are a number of restrictions in the Act with regard to the registered name of a credit union:

- It must contain the words "credit union" or its Irish equivalent "comhar creidmheasa".
- The name must end with "Limited" or "Ltd" or their Irish equivalents "Teoranta" or "Teo".
- A credit union cannot be registered with a name identical to an existing credit union, or so nearly resembling such a name as to be likely to mislead members of the public as to its identity.
- A credit union cannot in its registered name use the word "bank", "banker", "banking" or any other word which is a translation, variant or derivative of any of these words.
- A credit union can only change its name by way of a resolution passed at a general meeting AND with the prior approval in writing from the RCU.

A registered credit union is also required by the Act to:

- Have its registered name painted or affixed in a conspicuous position and in letters easily legible on the outside of its registered office and every other office or place in which the business of the credit union is carried on.

  However, a sub-office of a credit union can also show its branch name along with the name of the credit union on the outside of the branch office.

- Have a seal with its registered name in legible characters. The seal can only be used under the authority of a resolution of the board of directors and must be attested by the signature of two directors and countersigned by the secretary.

- Show its registered name in all notices, advertisements, business letters, invoices, cheques, etc. issued by the credit union.

- It is an offence for anybody other than a credit union to use the words "credit union" or "comhar creidmheasa" when describing themselves, or to represent themselves as being a credit union. However, such use is permitted by an officer of a credit union when referring to their role and by associations or groups of credit unions where the RCU has approved the name in writing.

Example

Examples of permitted usage:

- Pat Murphy, Chair of the board of directors, Greenacre Credit Union Ltd
- The Irish League of Credit Unions
- The Credit Union Development Association

Examples of prohibited usage:

- Credit Union Experts & Co., Management Consultants
- Credit Union Recruiters Limited

Cancellation of registration

The RCU can cancel the registration of a credit union in a number of different circumstances:

- If the number of the members of the credit union has been reduced to fewer than 15

- The registration has been obtained by fraud or mistake

- The credit union has not commenced business within 12 months of the date on which it was registered

- The credit union has suspended its business for a period of not less than six months or has ceased to function

- At the request of the credit union

- The credit union exists or is being used for an illegal purpose or has wilfully and after notice from the RCU violated any of the provisions of the Credit Union Act 1997

- Where it appears that the members of the credit union no longer have a common bond

Suspension of registration

In any of the circumstances outlined above for cancellation of a credit union's registration, the RCU can alternatively order the suspension of the credit union's authorisation for a term not exceeding three months, subject to the right to renew such suspension.

Where the RCU proposes to suspend or cancel the registration of a credit union, it must give that credit union at least two months' written notice and specify the grounds for the proposed suspension or cancellation.

Where the RCU cancels or suspends the registration of a credit union, the credit union involved can appeal the RCU's decision to the Financial Services Appeals Tribunal.

Rules

As already indicated, each registered credit union must have a set of rules which comply with the minimum requirements of the First Schedule of the Credit Union Act 1997 and are registered with the RCU.

Rules which the RCU has confirmed comply with the First Schedule of the Act are referred to as "registered rules". The registered rules of a credit union are binding on the credit union and its members.

A credit union can only change its registered rules[66] by a resolution passed by not less than two-thirds of the members present and voting at an AGM or at a special general meeting called for the purpose of considering a resolution proposing an amendment of the rules.

Two copies of the proposed amendment to the rules signed by four members, one of whom must be the secretary, and another must be a director of the credit union, are then sent to the RCU for registration.

[66] Other than for the purpose of changing its name.

Before submitting the proposed amendment to the RCU, the credit union must be satisfied that the amendment is not contrary to financial services legislation.
If the RCU is satisfied that the proposed amendment to the rules is not contrary to financial services legislation, the RCU will issue to the credit union, within three months of receipt of the amendment, an acknowledgement of registration of the revised rule(s).
Any rule change which causes a member to increase their shares or pay up any unpaid part of their shares is not binding on that member without their written consent.
The credit union must supply a copy of the credit union's rules to a member on request, subject to the payment of a small fee.

Members

Conditions of membership

A credit union must normally have at least 15 members at all times.

In order to become a member of a credit union, a person must apply for membership. Applications for membership are considered by a "membership committee" of the credit union, which will decide to either approve or refuse membership to the applicant.

However, any person refused membership can appeal to the District Court, which can confirm the refusal of membership or direct the credit union to admit the person as a member.

Each member must have at least one fully paid up share in the credit union, while the rules cannot require a member to have, as a condition of membership, fully paid up shares of more than €10.

An individual under the age of 16 can be a member of a credit union unless the credit union's rules prohibit this. However, such an individual does not have any voting rights and cannot be a member of the board of directors or of a principal committee or be an office manager of that credit union until they reach age 18.

Some credit unions allow joint membership, for example husband and wife or parent and adult child, where the shares are held in "joint tenancy", i.e. on the death of one, full legal ownership of the shares automatically transfers to the surviving member.

While the vast majority of members of credit unions are individuals, a company, group or society of individuals can also be admitted to membership of a credit union, provided that the majority of members of the company, group or society are eligible for membership of the credit union in their own right.

Withdrawal from membership

A member of a credit union may withdraw from membership of the credit union by giving notice in accordance with the rules of the credit union and withdrawing their shares.

Expulsion of a member

A member of a credit union may be expelled from the credit union by a resolution passed by not less than two-thirds of the members present and voting at a special general meeting of the credit union called for the purpose, provided that the member concerned:

- Is given at least 21-days' notice in writing of the meeting and the proposed resolution, and
- Is given a reasonable opportunity of being heard at the meeting

A member who is expelled from a credit union may appeal the expulsion to the District Court for the area in which the registered office of the credit union is situated.

Repayments

Where a member is expelled or withdraws from membership of a credit union, the credit union must repay to the member within 60 days of cessation of membership all monies due in respect of shares and deposits held by that member with the credit union, *less* a deduction of any loans owed by the member to the credit union.

However, the credit union cannot make any repayment of funds to an expelled or withdrawing member unless all their liabilities (including contingent liabilities) to the credit union, whether as borrower, guarantor or otherwise, have been fully discharged or otherwise fully provided for by a person other than the credit union.

Governance

The Credit Union Act 1997 specifies a number of different management positions and functions in a credit union. The key persons charged with the overall responsibility for the general control, direction and management of a credit union are members of the "board of directors".

The Act specifies that a credit union must have governance arrangements which:

- Are such as to ensure that there is effective oversight of the activities of the credit union, taking into consideration the nature, scale and complexity of the business being conducted
- Include a clear organisational structure with well-defined, transparent and consistent reporting lines
- Are documented and set out the roles, responsibilities and accountabilities of the officers clearly in writing
- Are communicated in writing to all officers in the credit union
- Are subject to regular internal review by the board of directors on, at a minimum, an annual basis

The term "officer" of a credit union includes:

- A member of the board of directors, including the chair and secretary of the board
- A member of the board oversight committee
- A member of any of the principal committees, which are the credit, credit control and membership committees
- The risk management officer
- The compliance officer
- A credit officer
- A credit control officer
- Any *employee* not previously mentioned

- A *voluntary assistant*, i.e. a member of the credit union who, although not a remunerated employee of the credit union, is engaged in any way in the operation of the credit union

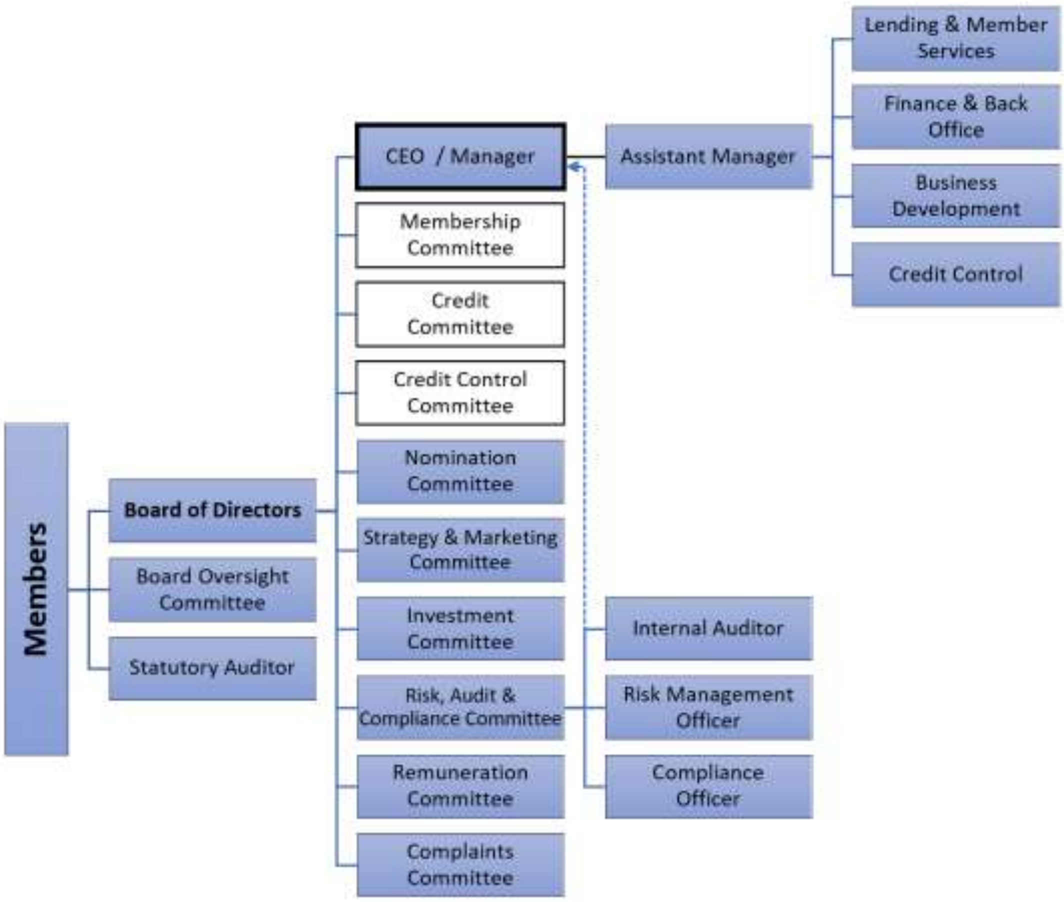
A credit union must maintain a register of its current and past officers, excluding employees or voluntary assistants unless they hold one of the other officer positions, including for each past and current officer:

- Name, address and membership number
- The office or offices held
- Date of appointment to each office
- Date of cessation of each office

The "management team" of a credit union consists of:

- The manager
- The risk management officer
- Any other officer positions within the credit union that are essential to the proper management of the credit union and are likely to enable the person holding the position to exercise significant influence on the conduct of the affairs of the credit union

The chart below sets out the typical organisational structure of a credit union, as specified in the Credit Union Act 1997 (as amended):



Functions reserved for the board

Some of the specific functions and responsibilities of the board of directors may be delegated to sub-committees, as set out in the Credit Union Act 1997. Certain functions may not be delegated, as set out in section 55(6):

> *"In respect of the exercise of functions by the board of directors of a credit union, the board shall set out in writing a register of matters or categories of matters that require the board's approval and which cannot be assigned by the board to other persons for performance on the board's behalf. The register shall be used to record all such approvals by the board of directors."*

Functions which may **not** be delegated for performance on the board's behalf are:

- Making nominations for controlled posts or functions that require pre-approval by the Central Bank under the fitness and probity regime
- Electing the chair, vice-chair and secretary of the credit union

- Appointing the manager/CEO of the credit union and, in so doing, ensuring that the person complies with all legal requirements (including requirements which the Central Bank may prescribe) to be appointed
- Reviewing the performance of the manager/CEO on an annual basis
- Appointing a risk management officer and a compliance officer
- Approval of the appointment by the manager/CEO of a member of the management team
- Appointing an internal auditor and reviewing the performance and effectiveness of the internal audit function at least annually, including reviewing and approving the internal audit charter and the internal audit plan and reviewing and approving any modifications to them, ensuring they are updated and that any issues identified in the review are managed and rectified in a timely manner
- Approval of the appointment by the manager/CEO of a credit officer
- Authorising credit officers to grant loans in excess of shareholdings and setting the limit of such authorisation
- Approval of the appointment by the manager/CEO of a credit control officer
- Appointing and removing the members of board sub-committees including principal, statutory, regulatory and other committees
- Appointing:
    - A credit committee, which will decide on applications for credit
    - A credit control committee, which will seek to ensure the repayment of loans by members of the credit union in accordance with their loan agreements
    - A membership committee, which will consider applications for membership of the credit union
- Implementing a risk management process that ensures all significant risks are identified and mitigated to a level consistent with the risk tolerance of the credit union
- Reviewing and approving all elements of the risk management system on a regular basis, but at least annually and, in particular:

- Assessing the appropriateness of the risk management system
- Taking account of any changes to the strategic plan including the credit union's resources or the external environment
- Taking measures necessary to address any deficiencies identified in the risk management system

- Approval of the annual compliance statement before this is submitted to the Central Bank
- Approving and documenting in writing a policy for identifying, managing and resolving conflicts of interest and which policy will apply to all officers of a credit union
- Setting the price or interest rate to be applied on loans or particular classes of loans from time to time; setting specific terms and conditions for certain loans or types of loan and ensuring these are communicated to members in advance of or when applying for loans
- The review, on a quarterly basis, of the Register of Related Party Exempt Exposures
- The selection of the main credit union IS operating system and its service provider and approval of contracts and service level agreements with external IS providers
- Carrying out at least annually a comprehensive review of its overall performance, relative to its objectives; implementing any necessary changes or improvements and documenting this review
- Retention of certain documents, including documents providing evidence of the annual review of board performance which will be retained by the board for a period of six years so that they are available to the Central Bank if required
- One member of the board of directors acting on behalf of the board (along with one member of the board oversight committee and the CEO/manager) must sign (approve) the audited annual accounts
- Reporting to members at the AGM, including presenting the annual accounts of the credit union to the members at the AGM

- The removal from office of an officer of the credit union, except directors or members of the board oversight committee, where the board of directors has duly determined that there has been a failure by the person concerned to perform their duties or responsibilities

- In the event of there being no BOC, convene a special general meeting of the credit union within one month of the occurrence of the event in question to elect a board oversight committee.

Setting up a committee

Where the board decides to set up a committee, the decision must be taken at a board meeting and documented, including setting out the terms of reference (TOR) for the committee:

- Identifying the subject matter of the area concerned and respective responsibilities of both the board of directors and the committee

- Identifying the matters that may be decided by the committee and those that require the approval of the board

- A schedule of matters reserved for the board of directors that would otherwise be performed or carried out by the committee

- The procedures for monitoring and documenting in writing the exercise of the matters to be carried out on behalf of the board

The Credit Union Handbook provides guidance on the minimum TOR of a board committee:

The terms of reference for board committees should cover the following at a minimum:

- *Membership;*
- *Reporting arrangements;*
- *Meeting frequency;*
- *Voting rights;*
- *Quorums; and*
- *Method and frequency of review of terms of reference.*

> *Terms of reference should be reviewed regularly, at least annually, by the board of directors and updated to ensure their continuing appropriateness.*

Appointing members of a committee

When appointing members of a committee, the board of directors must ensure that:

- Each committee has an appropriate balance and sufficiency of skills and expertise available to it to carry out the matters delegated to it, and
- Where necessary, some or all of the members of the committee are prepared to undertake relevant training to enhance their skills and experience for the purpose of carrying out their functions

The board of directors of a credit union must endeavour to ensure that no one individual director is in a position to exercise excessive influence or control, in respect of the business affairs of the credit union, through membership of committees.

Term of office

The term of office of a committee member runs to the next general meeting at which an election will be held for the board of directors, or until an earlier date specified by the board at the time of appointing the committee member.
A committee member can be removed from the committee at any time by a decision of the board of directors.

Appointment of secretary and chair

The board of directors or the committee itself in consultation with the secretary of the credit union must appoint a secretary to each committee.

The committee must have a chair, as provided for by the terms of reference, or otherwise by the committee.

The Central Bank Credit Union Handbook provides guidance in relation to the chair of a committee:

> *The chair of the board of directors should not act as chair of a board committee.*

Reporting to the board

Each committee must prepare and submit a written report of its activities and deliberations to the board of the credit union at least quarterly in every year.

The Central Bank Credit Union Handbook provides guidance in relation to committee reporting to the board of directors:

> *The Central Bank expects that the chair of each board committee should report to the board of directors on its proceedings after each meeting, and at least quarterly, on all matters within its duties and responsibilities. Each committee should make whatever recommendations to the board of directors it deems appropriate on any area within its remit where action or improvement is needed.*

Governance update

The RCU recently issued an update to credit unions in respect of the application of term limits for members of the board of directors of a credit union.

The limits are set out in sections 53(12) and 53(13) of the Credit Union Act 1997 and stipulate that:

> *(12) A member of a credit union may not be appointed or elected to the board of directors if he or she has served for more than 12 years in aggregate in the previous 15 years on either the board of directors or the board oversight committee of the credit union.*
>
> *(13) For directors of a credit union or members of the board oversight committee who were already directors or members of the board oversight committee on the date of the commencement of this section in respect of such credit union, the 12-year period set out in subsection 53(12) commences on the date this subsection so commences.*

For the purposes of section 53(12), any time served as a director or a member of the board oversight committee from 3 March 2014 will contribute towards the calculation of the aggregate 12-years' service in the previous 15 years.

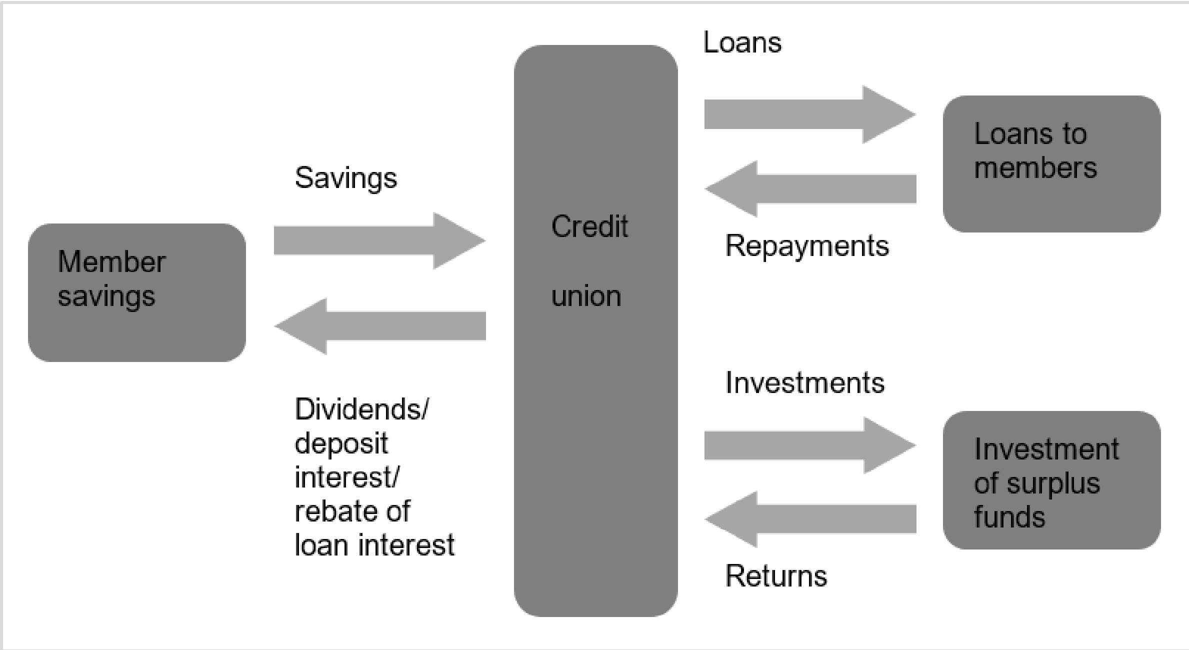
Therefore, the earliest date on which the 12-year limit under section 53(12) may have an impact will be 2 March 2026.

Referring to queries received on the application of the 12-year limit in the case of members of the board of directors or board oversight committee of a credit union that has completed a transfer of engagements to another credit union, the RCU stated that:

…credit unions should note that any time served by a person on the board of directors or the board oversight committee of a transferor credit union does not count towards time spent on the board of directors or board oversight committee of the transferee credit union for the purpose of section 53(12)

Core services

The core financial services which a credit union provides to its members are savings and loans (also technically referred to as "credit").



Savings
A credit union can accept savings from members by:

- Issuing shares to members, and
- Accepting deposits from members

Board of directors' responsibilities
The board of directors is required to approve, review and update at least annually policies in relation to member shares and deposits, including the setting of:

- A maximum number of shares a member can hold, and
- A maximum member deposit amount

The board of directors must make an annual recommendation in relation to dividends to members for approval at an AGM. The recommendation could be for no dividend or a nominal rate of dividend to be paid.

However, see below for the various restrictions which apply to the level of dividends which can be declared.

This directors' recommendation must be ratified by a majority of members present and voting at an AGM to be effective. The rate of dividend approved by the members at the AGM can be less than the rate recommended by the board of directors but cannot be greater than the recommended rate.

The rate of interest payable on deposits from time to time is determined by the board of directors.

Limits on savings

The Credit Union Act (Regulatory Requirements) Regulations 2016 imposes two restrictions on credit unions in relation to members' savings in the credit union:

- The total value of deposits of a credit union cannot exceed the total value of its members' shares in the credit union.
- The maximum total savings which a member can normally hold in a credit union, i.e. the total of all shares and deposits, cannot exceed €100,000.

A credit union with total assets in excess of €100 million can apply to the RCU for approval to increase individual members' savings in excess of €100,000. RCU Guidance clarifies the type of accounts which are aggregated for the purposes of the €100,000 limit:

The following are examples of the types of accounts that are included when calculating the total savings held by an individual member in a credit union:

- *Deposit accounts;*
- *Share accounts;*[67]
- *Dormant accounts;*
- *Joint accounts; money in joint accounts is assumed to be split equally unless evidence shows that it should be split otherwise. The Central Bank expects credit unions to maintain sufficient records to ensure that members and their associated savings can be readily identified for calculation of total savings held by each individual member.*

[67] The Central Bank Credit Union Handbook guides that, for the purposes of Prudential Return reporting to the Central Bank, the credit union should report the total savings held by each individual member in the credit union to include the savings held by the member in a savings club account, where applicable.

- *Savings stamps; credit unions are required to maintain adequate records to allow savings stamps to be attributed to individual member accounts.*

- *Budget accounts; where a credit union member holds a budget account, any positive balance in this account is included in the total members' savings calculation. Where this account is in a negative balance, the total amount overdrawn from the account is not taken into account when calculating total members' savings.*

- *Clubs/associations; where clubs and associations hold savings in a credit union, the savings limit applies in respect of the total savings of the club or association. The club or association is treated as a single member for the purposes of applying the individual member savings limit.*

- *Minor accounts; where a minor has an account in their own name where a member is the signatory on the account, the individual member's savings limit applies in respect of the minor, whose name is on the account.*

Where payment of interest or a dividend would result in an individual member's savings exceeding €100,000 the Central Bank expects the credit union to take steps to avoid this situation arising. Credit unions should consider paying out such amounts to the member to avoid such breaches occurring.

Attached savings are to be included when calculating the total savings held by an individual member in a credit union.

Where credit unions offer a current account, positive balances in such accounts must also be included when calculating the total savings held by a member.
As already referred to above, the board of directors are required to set and review annually policies in relation to:

- A maximum number of shares a member can hold, and
- A maximum member deposit amount

Dividend restrictions

A number of regulatory restrictions apply to the rate and amount of dividends which can be declared or paid:

- The maximum rate of dividend which can be declared is 10% of the nominal value of the shares or a lower percentage, which may be specified by the RCU.

- Dividends can only be paid out of:

- Surplus funds for the financial year in question after meeting statutory reserving requirements, or
- Reserves set aside in previous years for the purpose of paying a dividend

- Where a credit union fails to meet its statutory reserving requirements, it may be required to transfer all or part of its surplus to reserves and must obtain the written approval of the RCU before paying a dividend or loan interest rebate.
- A credit union cannot distribute from its annual operating surplus investment income or an investment gain to members or transfer investment income or an investment gain to a reserve set aside to provide for dividends, unless the investment income or investment gain:
    - Has been received by the credit union at the balance sheet date, or
    - Is investment income that will be received by the credit union within 12 months of the balance sheet date
- The Central Bank Credit Union Handbook states:

> *…Any investment income, which does not fall within the criteria (set out above) should not be distributed and should be transferred to a reserve, which is designated as not eligible for distribution, for so long as those amounts do not meet these criteria.*
>
> *While amounts falling within these criteria may be considered as available for distribution, any decision by the board of directors of the credit union on the actual distribution level for a particular year must be considered in the context of whether it is prudent to do so.*
>
> *In particular, in making an assessment on the amount of any distribution of income receivable within 12 months of the balance sheet date, any terms or conditions attaching to the receipt of this income, such as a requirement to hold the investment until maturity before a return crystallises, must be taken into account.*
>
> *Where the circumstances are such that the credit union may need to breach any of the terms or conditions attaching to the particular investment, no distributions of such income should be made until the income has been received.*

- Where a credit union has complied with its statutory reserving requirements but has recorded a deficit in its annual accounts and is proposing to pay a dividend and/or a loan interest rebate, the credit union must inform the RCU in writing at least three weeks before it gives notice of its Annual General Meeting.

Deposit interest restrictions

Two restrictions apply:

- The rate of any interest payable at any time on deposits of a particular class must be the same for *all* deposits of that class.
- A credit union must ensure that the rate of interest it offers at any time on deposits of any class does not exceed the rate of return it receives from the use of its funds, whether in the form of loans or investments.

Restrictions on withdrawing savings

A credit union is entitled to require at least 60-days' notice to withdraw shares, and at least 21-days' notice to withdraw deposits.

"Attached savings" are shares or deposits which were pledged in writing by a member as security for a loan *at the time of issuing the loan* to the member or guaranteed by the member in respect of a loan issued to another member, i.e. where the member in question has a contingent liability to the credit union. Savings made after the issuing of the loan are *not* attached savings.

Where the member's outstanding liability to the credit union, whether by way of loan and/or guarantee, falls to less than the attached savings, then the level of "attached savings" also falls to this level.

Where a member has an outstanding liability to the credit union, they can only make a withdrawal from their savings in one of two circumstances:

- From unattached savings, and
- From attached savings where the withdrawal is approved by a majority of the members of the board of directors voting at a meeting of the board, subject to the level of the member's attached savings after the withdrawal being at least 25% of the member's outstanding liability to the credit union

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Example

Fiona is a member of ABC Credit Union. She has:

- Shares in the credit union of €14,000
- An outstanding car loan from the credit union of €7,500. She had originally pledged her shares as security for the car loan, whose original amount was €12,500.

Currently, she has attached savings of €7,500, i.e. the amount of her car loan now outstanding, and the balance of her savings, i.e. €6,500, is unattached savings.

The maximum Fiona can withdraw from her savings currently is:

- €6,500 of unattached savings, plus
- €7,500 less 25% x €7,500, i.e. €5,625, subject to approval by the board of directors at a board meeting; i.e. immediately after her withdrawal, the level of her attached savings will be €7,500 less €5,625, i.e. €1,875 or at least 25% of the value of her outstanding car loan liability of €7,500.

Of course, in this case the board of directors could refuse to allow Fiona to withdraw anything from her attached savings and could limit her withdrawal to her unattached savings only, i.e. €6,500.

However, the RCU can issue a notice to a credit union specifying a higher or lower percentage than the 25% referred to above for the minimum level of attached savings as a percentage of the outstanding liability after the withdrawal.

Where a member has specifically consented in writing, a credit union may withdraw immediately part or all of the member's savings as a set-off against the amount owed by the member to the credit union.

For example, a credit union may be able to make a set-off where a loan has gone into arrears and the credit agreement which the member signed gave a specific power to this effect to the credit union.

Transfer of shares

The rules of a credit union may allow a member to transfer their shares to another member, subject to any restriction on the maximum number of shares which a member may hold.

The transfer may be subject to approval by the board of directors, and, where such approval is not forthcoming, the member may appeal such decision to the District Court.

Deduction of DIRT

A credit union is obliged under Part 8 Chapters 4 & 5 of the Taxes Consolidation Act 1997 to deduct deposit interest retention tax (DIRT) from dividends and interest paid on all credit union deposit and share accounts.

The DIRT rate for interest earned in 2023 is 33%.

However, DIRT is *not* required to be deducted from accounts, which are otherwise subject to DIRT, if the member has completed Revenue declaration forms DE1 or DE2, i.e.:

- The member and/or their spouse is aged 65 years or over during the year, and their total annual income (*including* the gross equivalent interest and dividends) does not exceed the income tax exemption limit for the year (DE1).

OR

- The member or their spouse (if appropriate) is permanently incapacitated by physical or mental infirmity from maintaining themselves and would be entitled to a refund of the entire amount of DIRT deducted (DE2).

DIRT is also not required to be deducted where the member is not resident in the state and has completed a non-resident declaration to the credit union.

DE1, DE2 and non-resident declarations must be retained by the credit union for the greater of six years and three years from the time a deposit or share account is closed.

Where a credit union deducts DIRT, it must provide the member with a statement showing:

- The gross interest/dividends credited to the account
- The amount of DIRT deducted from the gross interest/dividends
- The net amount of the interest/dividends

- The date of crediting the interest/dividends to the account

Revenue reporting

Credit unions are required to make certain *automatic* returns to the Revenue Commissioners in respect of all interest and dividends paid to members.
The Return of Payments (Banks, Building Societies, Credit Unions and Savings Banks) Regulations[68] 2008 apply to credit unions and impose various obligations on credit unions in this regard.

Obligation to seek and verify a tax member's reference number

Credit unions are required to "make all reasonable efforts" to seek a tax reference number (PPSN for an individual customer) from any customer who opens a *new* share or deposit account on or after 1 January 2009. Application forms for opening new accounts must provide for the tax reference number.

The member's tax reference number collected can be used by the credit union *only* for the purpose of making returns to Revenue under the Return of Payments and Common Reporting Standards and for reporting to the Central Credit Register, and for no other purpose**.** For example, a credit union computer system should *not* give users the facility to search for a member using their PPSN as this would be using a member's PPSN for a purpose other than making the annual return to Revenue.

The credit union is required to seek documentation from a person opening a savings account to verify the tax reference number provided by the person, for example an Employment Detail Summary.

Automatic reporting to Revenue

A credit union is required to *automatically* report electronically to the Revenue details of all member share and savings accounts (regardless of when the account was opened) where interest or dividends of more than €300[69] are paid or credited by the credit union to the account in a calendar year by no later than 31 March following the end of that year. The details must be returned for the first year in which an account is opened, even if the interest/dividend is less than €300 in the first year.

Value dating and payment execution times

Payments received and cleared by a credit union for a member's account on a business day must be credited to the member's account on that same business day, i.e. "same-day value". The credit union must also ensure that the funds are

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[68] S.I. 136/2008, amended by S.I. 56/2015.

[69] For joint accounts, reporting applies where the total interest or dividends paid or credited to the account exceeds €300, rather than apportioning the interest between the two account holders.

immediately available to the member after the amount has been credited to their account.

A credit union can set a cut-off time during a business day for payment instructions received after that time to be treated as received on the *next* business day.

However, where a payment instruction is specified by the member to be executed on a future specific day or after a specific period of time, the instruction is deemed to have been received on the agreed future day, or on the business day following that agreed day if the agreed day is not a business day.

A payment instruction received on a day which is not a business day is assumed to be received on the next business day.

A payment instruction to transfer funds must generally be executed by the end of the next business day following the receipt of the instruction. This deadline is extended by another business day for paper-based payment instructions.

Deposit Guarantee Scheme
The Deposit Guarantee Scheme is a statutory scheme to compensate depositors in the event that a bank, building society or credit union established and authorised in the state becomes unable or unwilling to repay its deposits (including credit union shares) because:

- The Central Bank of Ireland has determined that, for the time being, the institution concerned appears to be unable, for reasons which are directly related to its financial circumstances, to repay the deposit and has no current prospect of being able to do so.
- A court has appointed a liquidator or examiner to the institution, or
- A court has made, for reasons which are directly related to the institution's financial circumstances, any other ruling that has the effect of suspending depositors' ability to make claims against it.

The scheme is administered by the Central Bank of Ireland.

One hundred per cent of a member's savings in an individual credit union are currently guaranteed by the Deposit Guarantee Scheme, up to a maximum of €100,000.

The €100,000 limit is per member per credit union, so that, if an individual were a member of more than one credit union, they would benefit from the €100,000 limit in each credit union.

Each credit union had, in the past, been required to maintain in the Deposit Protection Account at the Central Bank of Ireland an amount equal to 0.2% of the total deposits and shares held on behalf of its members.

Credit union funds in the Deposit Protection Account were transferred to the Deposit Guarantee Scheme Legacy Fund at the Central Bank and used for a period to pay each credit union's risk-based contribution to the Deposit Guarantee Contributory Fund. Once a credit union's funds in the Legacy Fund are depleted, the credit union must pay annual risk-based contributions.

Annual contributions are calculated based on five risk indicators, weighted as below:[70]

Risk categories and core risk indicators for credit unions		
Risk category	**Core risk indicator**	**Weight**
Capital	Total realised reserves ratio	24%
Liquidity and funding	Liquidity ratio	24%
Asset quality	Arrears ratio	18%
Business model and management	Return on assets	17%
Potential losses for the DGS	Unencumbered assets/covered deposits	17%

Loans

Board of directors' responsibilities

The board of directors has specific responsibility to approve, review and update (at least annually) the lending policies, including lending limits, of the credit union.
Under the Credit Union Act (Regulatory Requirements) Regulations 2016, a credit union must establish and maintain the following written policies:

- Credit policy
- Credit control policy

[70] See the Central Bank's publication "Risk-Based Contributions to the Irish Deposit Guarantee Scheme", 2016.

- Provisioning policy

The board of directors must appoint:

- A credit committee, to decide on loan applications
- A credit control committee, which will seek to ensure the repayment of loans by members of the credit union in accordance with their loan agreements

The Central Bank Credit Union Handbook sets out guidance on the *minimum* contents of the written credit policy:

> *The credit policy should cover the following at a minimum:*
>
> - *Objectives of the policy;*
> - *Organisational arrangements setting out the roles and responsibilities of officers involved in lending including credit officers and the credit committee;*
> - *The lending authorisation limits of the credit committee and credit officers including clear limits on the total funds available for the granting of loans;*
> - *The classes of loans that the credit union may offer;*
> - *The maximum repayment period appropriate to different classes of loans;*
> - *The interest rate applicable to each class of loan, if applicable;*
> - *The maximum number of top-up loans and additional loans that the credit union may provide to a member;*
> - *Processes on lending to related persons which shall:*
>
> \- *Prevent members of staff of the credit union making a loan to a related party which would provide that party with more favourable terms than a loan by the credit union to non-related parties;*
>
> \- *Prevent persons related to the borrower from being part of the process of granting and managing a loan to such a borrower;*

- *Prevent members of staff of the credit union managing a loan to a related party on more favourable terms than a loan by the credit union to non-related parties;*

- *Arrangements for the on-going reporting and monitoring of loans to related parties and for the review of the related party policies;*

- *Arrangements for monthly written reports to the board of directors; and*

- *Arrangements for annual internal audit assessment of compliance with related party lending requirements.*

• *Circumstances in which loans with atypical repayment arrangements, for example, single or lump sum repayment loans, will be considered and particular approval conditions, including security conditions, attaching to such loans;*

• *Policy regarding curtailment of loans to members in arrears;*

• *Circumstances in which security (including guarantors) for loans must be obtained and the differing type and level of security required depending on the size and/or risk profile of the loan;*

• *The types of security which may be accepted for loans and the valuation method for each type of security;*

• *Approach to categorisation of loans as "secured loan" and "unsecured loan" for the purpose of the maximum loan term limits set out in the Regulations;*

• *Internal limits in respect of credit concentration and loan portfolio diversification including the maximum amount of personal loans, business loans, community loans, house loans and loans to other credit unions;*

• *The application, assessment and decision-making process for the approval of loans including the lending criteria to establish capacity to repay for all types of borrowers;*

• *Exceptions reporting;*

• *Policy regarding the determination of income of loan applicants;*

• *Specific procedures for evaluating house loans, business loans, community loans and loans to other credit unions;*

Procedures to prevent conflict of interest and ensure segregation of duties between the approval and payment of loans;

- *Systems of control to ensure a credit union does not breach any limits including concentration limits, large exposure limits, maximum loan terms and loan-to-income and loan-to-value limits;*
- *Procedures for retention of loan documentation, including loan application forms/credit agreements, security and ability to repay documentation;*
- *Reporting arrangements, including the frequency, form and content of reporting by the credit committee to the board of directors;*
- *The process for the approval, review and update of the credit policy by the board of directors; and*
- *The factors to be taken into account in the review of the policy including:*
  - *The appropriateness of the prevailing interest rates on the various categories of loans depending on current or likely future economic conditions; and*
  - *The effect of any interest rate increase on borrowers' ability to meet their repayment obligations.*

The Central Bank Credit Union Handbook also sets out guidance on the minimum contents of the written credit control policy, including:

The credit control policy should cover the following at a minimum:

- *Objectives of the policy;*
- *Organisational arrangements setting out the roles and responsibilities of officers involved in credit control including the credit control committee and credit control officers;*
- *Procedures for the recording and monitoring of loans;*
- *Processes in relation to arrears management and rescheduling;*
- *The standard time after which the credit control procedure is to be first activated in respect of loans in arrears;*

- *Description of the various stages of the credit control procedure from first contact with members in arrears to the legal recovery process and/or enforcement of security;*

- *The criteria and procedure, including approval procedure and authorisation required, for rescheduling of loans and for transferring members share balances against loan arrears;*

- *The criteria and procedure, including approval procedure and authorisation required, for writing off bad debts;*

- *Procedure for review and follow up of bad debts written off;*

- *Procedures for the recording and monitoring of loans in arrears;*

- *Procedures for communication with members in relation to loan arrears and for changing the terms of the loan agreement;*

- *Reporting arrangements, including the frequency, form and content of reporting by the credit control committee to the board of directors; and*

- *The process for the approval, review and update of the credit control policy by the board of directors.*

A credit union must ensure that it has appropriate processes, procedures, systems, controls and reporting arrangements in place to monitor compliance with section 35 of the 1997 Act and with the regulatory requirements imposed under that section.

Statutory requirements

Credit unions are generally subject to two statutory requirements in relation to offering and making loans to members:

- Relevant provisions of the Credit Union Act 1997 (as amended), which are mainly in sections 35–38 inclusive, and associated RCU requirements.

  AND

- The European Communities (Consumer Credit Regulations) 2010,[71] S.I. 281/2010, which applies to credit unions providing loans of between €200 and €75,000 to members for their own personal use, i.e. not as part of the member's trade, business or profession.

[71] Referred to as "Consumer Credit Regulations" or "CC Regs" in the text following.

	Credit Union Act 1997	Consumer Credit Regulations
Applies to	All loans	Loans between €200 and €75,000 provided to a member for personal purposes, i.e. acting outside their trade business or profession
Advertising of loans	RCU has general powers to issue a written direction to a credit union or a group of credit unions to withdraw or amend a particular advertisement.	Advertisements for loans which refer to a rate of interest or cost must include the information specified in Regulation 7(2) of the Consumer Credit Regulations.
Loan application	Must be in writing and state: • The purpose for which the loan is sought, and • The security, if any, offered for it. S35(4)	
Underwriting	The ability of the loan applicant to repay must be the primary consideration in underwriting the loan application. S35(2) Where the credit officer has delegated loan approval powers from the board of directors, the credit officer must enquire into the character and financial circumstances of a loan applicant and the security offered, if any, in order to: • Ascertain the applicant's ability to repay a loan in accordance with its terms, and • Ensure that the provision of the loan does not involve undue risk to members' savings. S65(3)	A credit union is to assess the member's "creditworthiness" before making a loan or providing any significant increase in an existing loan to the member. The assessment of the member's creditworthiness must be carried out on the basis of "sufficient information": • Obtained from the member, where appropriate, and • By consulting a relevant "database". Regulation 11(1) CC Regs

	Credit Union Act 1997	Consumer Credit Regulations
Security	Loan can be advanced with or without security being required. S35(2) Security can include a written pledge of a member's shares or deposits or a guarantee by the member. S35(11) Savings pledged or guaranteed in this manner are referred to as "attached savings". S32(3)(d)	

	Credit Union Act 1997	Consumer Credit Regulations
Automatic provision of pre-contractual information to the member		*Before* a member becomes legally bound by a loan, the credit union must "in good time" provide the member with a document called a "Standard European Consumer Credit Information (SECCI) Form" to allow the member to "compare different offers in order to take an informed decision on whether to conclude a credit agreement". The format of the SECCI form is set out in the Consumer Credit Regulations. The SECCI must be provided to the member on paper OR on another durable medium,[72] and must be personalised to reflect any preferences expressed by the member, such as the amount of loan sought and the member's preferred term of the loan. Regulation 8, CC Regs

[72] "Durable medium" is defined in the Consumer Credit Regulation as: "any medium that enables a consumer to store information addressed personally to the consumer in a way that renders it accessible for future reference for a period of time adequate for the purposes of the information and allows the unchanged reproduction of the information."

	Credit Union Act 1997	Consumer Credit Regulations
Provision of adequate information to member		The credit union must provide an "adequate explanation" to the borrower before providing the loan to enable the member to assess whether the proposed loan is appropriate to their needs and financial situation, where appropriate by explaining: • The SECCI • The essential characteristics of the loan proposed • The specific effects they may have on the member, including the consequences of default in repayments The explanation can be provided verbally or in writing. Regulation 8(10) CC Regs
Provision of information to the member on request		A member seeking a loan can request the credit union to provide them, free of charge, with: • A copy of the draft credit agreement, and • A copy of the SECCI form, as the case may be. The credit union must provide the member with the requested information unless the credit union has already decided it is unwilling to offer a loan to that member. Regulation 8(8) CC Regs

	Credit Union Act 1997	Consumer Credit Regulations
Loan approval	Credit union rules may allow for approval of a loan by: • The credit officer, working under the supervision of the credit committee. The board of directors may delegate certain loan approval powers to the credit officer. S65(1)(b) OR • A meeting of the credit committee, where the application is approved by at least two-thirds of those present and a majority of the committee as a whole. OR • A meeting of the board of directors, where the application is approved by a secret ballot by at least two-thirds of those present and a majority of the members of the board as a whole. S36(2)	

	Credit Union Act 1997	Consumer Credit Regulations
Loan refusal	If a loan application considered by the credit officer or the credit committee was turned down, the member can appeal the refusal to an appeals body, made up of the board of directors, excluding any director who was a member of the credit committee if that committee considered the loan. The appeals body can overturn the loan refusal decision of the credit officer or the credit committee and approve the loan application if approved by at least two-thirds of the appeals body present at the meeting and a majority of the appeals body as a whole. S37	The credit union which rejects a member's loan application based on consulting a database must inform the member immediately and without charge of the result of the consultation of the database and the particulars of the database involved. Regulation 12, CC Regs
Loan approval	Member must be notified in writing of the loan approval and any time limit to the approval. S37A(1). For loans NOT subject to the Consumer Credit Regulations, the loan approval notice must include prominently on the front page the information listed in S37D(1) in a form approved by the RCU. A loan offer cannot be made conditional on the member using an additional service (e.g. arranging insurance) provided by or through the agency of the credit union. S51(1)	

	Credit Union Act 1997	Consumer Credit Regulations
Credit agreement must be in writing	If the loan amount exceeds €200, then there must be a written credit agreement between the credit union and the member, signed by the member. S37B(1)(a) A copy of the signed agreement must be handed personally to the member or delivered/posted to them within 10 days of signing of the agreement. S37B(1)(b) Any guarantee for the loan is evidenced by a written contract of guarantee with the credit union, signed by the guarantor, and a copy of the signed contract of guarantee must be handed personally to the guarantor or delivered/sent to them within 10 days of signing of the contract.S37B(1)(c)	A credit agreement must be drawn up on paper or on another durable medium, a copy of which must be provided to the member and any guarantor to the loan. Regulation 13(1) & (2) CC Regs
Content of the credit agreement	For loans NOT subject to the Consumer Credit Regulations, the credit agreement must contain the details set out in S37C(1) of the Credit Union Act 1997, and prominently on the front page of the agreement the information listed in S37D(1) in a form specified by the RCU.	The credit agreement must contain the information specified in Regulation 13(3) of the Consumer Credit Regulations.

	Credit Union Act 1997	Consumer Credit Regulations
Cooling-off period	For loans NOT subject to the Consumer Credit Regulations, the member can withdraw from the agreement within 14 days from the later of the date of signing of the credit agreement and the date on which the member was provided with the information in S37C(1). S.37C(2)	The member can withdraw from the loan agreement without penalty within 14 days from the later of the date of signing of the credit agreement and the date on which the member was provided with the SECCI. The member must repay any capital to the credit union, along with interest accrued at the borrowing rate from the date the loan was drawn down to its date of repayment, within 30 days of notifying the credit union of their withdrawal from the loan. Regulation 17, CC Regs

	Credit Union Act 1997	Consumer Credit Regulations
Change in borrowing rate		A credit union must inform a member, in writing or in another durable medium, of any change in their loan rate *before* the change comes into force. The notice sent to the member must also state the repayments after the new rate applies and, if the number or frequency of repayments changes, details of such changes. However, the credit union does not have to notify the borrower in advance of any change in the loan rate, but instead can provide the information to the member "periodically", if the credit agreement so allows, and: • The change in the loan rate is caused by a change in a "reference rate", e.g. a set rate applied by the credit union to all similar loans. • The new reference rate is made publicly available (e.g. on the credit union's website), and • Information concerning the new reference rate is kept available on the credit union's premises. Regulation 14, CC Regs

Loans to officers

A loan provided to an officer of the credit union in excess of the value of their attached savings must be approved by a vote of not less than two-thirds of the members of a special committee.

The special committee must consist of a majority of the board of directors and at least one member of the credit committee but cannot include the officer who is applying for the loan.

A credit union cannot accept as security for a loan a guarantee from an officer of the credit union for a loan to another member, unless that other member is the spouse, civil partner, child or parent of the officer.

Loans to non-qualifying members

A "non-qualifying" member is a member who once held the common bond of the credit union but now no longer does.

The rules of a credit union can provide for limits to the total amount of loans it may provide to non-qualifying members.

Rate of interest

The Credit Union Act 1997 imposes certain restrictions on credit unions in relation to the interest the credit union can charge on its loans:

- The interest on a loan cannot at any time exceed 1% per month of the amount of the loan outstanding at that time.
- The interest on a loan must include all the charges made by the credit union in making the loan.
- The rate of interest charged on any class of loans granted at a particular time shall be the same for all loans of the class.

If the credit union accepts or charges interest above the maximum outlined directly above:

- The credit union is taken to have waived all interest agreed to be paid by the member in respect of the loan, and
- The member, or the member's personal representative, is entitled to recover as a simple contract debt any interest already paid on the loan.

The Central Bank Credit Union Handbook states:

> *When considering the interest rate to be applied to different categories of loans, the board of directors should take proper account of the level of risk*

involved in such loans, subject to the limit on interest rates set out in section 38 of the 1997 Act.

Some credit unions may, as a distribution of their annual surplus, declare a "rebate of interest" paid by borrowers, for example 5% of interest paid in the previous financial year, which is normally paid to the member's share account, unless they instruct the credit union to transfer the rebate to their loan account to reduce the loan amount accordingly.

Categories of lending

Credit unions are subject to a number of restrictions in their lending to members. These are contained in section 35 of the Credit Union Act 1997 and in the Credit Union Act (Regulatory Requirements) Regulations 2016.[73]

A credit union can only make loans which fall into the following categories:

Personal loans	Business loans	Community loans	House loans	Loans to other credit unions
• A loan to a natural person for a purpose unrelated to the person's trade, business, profession or the purchase of property	• A loan (other than a community loan) to one or more members: ○ Made for the purpose of the person's trade, business or profession ○ Made to a micro, small or medium enterprise ○ Not made for the purpose of financing buildings or land that is intended for generation of rental income • A loan made to an approved housing body	• A loan to a community or voluntary organisation established for the express purpose of furthering the social, economic or environmental wellbeing of individuals within the common bond in the areas of sport, arts, culture, health, youth or the natural environment	• A loan to buy, build or improve a member's principal private residence • A loan to refinance such a loan	• A loan advanced to another credit union

[73] As amended by S.I. 642/2019, the Credit Union Act 1997 (Regulatory Requirements) (Amendment) Regulations 2019 and S.I. 675/2020, the Credit Union Act 1997 (Regulatory Requirements) (Amendment) Regulations 2020.

New definitions for "approved housing body" and "Tier 3 Approved Housing Body"
The 2016 (Principal) Regulations define "approved housing body" and "Tier 3 Approved Housing Body" as follows:

- *"Approved housing body" means a housing body granted approval status under section 6 of the Housing (Miscellaneous Provisions) Act, 1992*
- *"Tier 3 Approved Housing Body" means a housing body granted approval status under section 6 of the Housing (Miscellaneous Provisions) Act, 1992 and classified as Tier 3 under the Voluntary Regulation Code for Approved Housing Bodies in Ireland*

The Central Bank updated the lending and investment chapters of the Credit Union Handbook to reflect what it termed "significant developments in the registration and regulation of Approved Housing Bodies (AHBs) in recent years". The update provides guidance for credit unions on lending to (and investing in) AHBs as follows:

In February 2021, the Approved Housing Body Regulatory Authority (AHBRA) was established under the Housing (Regulation of Approved Housing Bodies) Act 2019 (the 2019 Act), with responsibility for, among other things, the registration and regulation of AHBs. AHBs no longer hold approval status under section 6 of the Housing (Miscellaneous Provisions) Act, 1992. From 1 January 2022, AHBRA is responsible for establishing and maintaining the register of AHBs and for registering organisations as AHBs. Pursuant to section 34 of the 2019 Act all organisations that had Approved Housing Body status and were listed on the register previously maintained by the Department of Housing, Local Government and Heritage were deemed to be registered with AHBRA and have a specific timeframe to make a formal application to become registered as an Approved Housing Body with AHBRA. In addition, the Voluntary Regulation Code for Approved Housing Bodies in Ireland (the Code), with which AHBs coming within the Tier 1, Tier 2 or Tier 3 classification criteria previously voluntarily complied, ceased as of 31 December 2021.

As AHBs are no longer housing bodies "granted approval status under section 6 of the Housing (Miscellaneous Provisions) Act, 1992", for the period until the definitions of "approved housing body" and "Tier 3 Approved Housing Body" in the 2016 Regulations are amended, the references to approved housing body in the Regulations can be read as being a reference to the AHB being registered (or deemed registered) as an approved housing body with AHBRA under the 2019 Act. In addition, the reference in the definition of "Tier 3 Approved Housing Body" to an AHB *being "classified as Tier 3 under the Voluntary Regulation Code for Approved Housing Bodies in Ireland" should be read consistent with how Tier 3 AHBs were classified under the Code, specifically:*

- *All AHBs with more than 300 units; or*
- *Tier 2 AHBs with sizable development plans or other AHBs with development plans in place to provide more units (taken to mean development plans to reach more than 300 units).*

Concentration limits

A credit union cannot make:

- A community loan where such a loan would cause the total amount of outstanding community loans to exceed 25% of the credit union's regulatory reserve

  OR

- A loan to another credit union where such a loan would cause the total amount of outstanding loans to other credit unions to exceed 12.5% of the credit union's regulatory reserve

  OR

- A house loan or a business loan where such a loan would cause the combined total gross amount outstanding in relation to house loans and business loans to exceed 7.5% of the assets of the credit union, and, within this combined limit, the total gross amount outstanding in relation to business loans must not exceed 5% of the assets of the credit union

However, a credit union with assets of at least €50 million can increase its combined total gross amount outstanding in relation to house loans and business loans to 10% of the assets of the credit union, provided that the credit union:

- Notifies the RCU at least one month in advance that it intends to increase lending in respect of house loans and business loans, and
- Can confirm that it met the minimum asset size criterion for at least the two consecutive quarters immediately preceding the date of notification, and
- Can confirm that it maintained regulatory reserves of at least 12.5% for at least the two consecutive quarters immediately preceding the date of notification

- The total gross amount outstanding in relation to business loans must not exceed 5% of the assets of the credit union.

- A credit union with assets of at least €100 million can apply to the RCU for approval to increase its combined total gross amount outstanding in relation to house loans and business loans[74] to 15% of the assets of the credit union, provided that:

- The credit union can confirm that it met the minimum asset size criterion for at least the two consecutive quarters immediately preceding the date on which the application was submitted, and

- The RCU is satisfied that the credit union has demonstrated that the approval would be:

    - Consistent with the adequate protection of its members' savings

    - Effective and proportionate, having regard to the nature, scale and complexity of the credit union

    - Considering also the total realised reserve position of the credit union and any other such matters as the RCU may specify from time to time

Large exposure limit
A credit union cannot make a loan to a borrower or a group of "connected" borrowers which would cause the credit union to have a total exposure to that borrower or group of connected borrowers of the greater of:

- €39,000, and

- 10% of the credit union's regulatory reserve

Where an exposure to a borrower or group of borrowers who are connected exceeds this limit, the credit union must hold the amount of the excess exposure in a realised reserve, separate from its regulatory reserve.
The Central Bank Credit Union Handbook provides the following guidance on "connected" borrowers:

> *The purpose of identifying groups of borrowers who are connected is to identify if it is likely that the financial problems of one borrower would cause difficulties for other borrowers in terms of full and timely repayment of a*

[74] In the October 2022 issue of its "Credit Union News" publication, the Central Bank observed that seven credit unions are currently approved for the 15% limit, with five active notifications in place in respect of the 10% limit.

loan and as such whether those borrowers present a single or common risk to the credit union.

*Single or common risk will generally occur where the credit union considers there is **material** financial interdependence between borrowers (such economic dependence may be mutual or one way).*

In practice, the Central Bank expects that connected borrowers would be identified during the standard underwriting process for a loan.

The following is a non-exhaustive list of examples of potential connected borrowers. It is a matter for each credit union to determine, taking account of all of the individual circumstances, if such borrowers are connected:

- *A group of borrowers who are borrowing for a common purpose and who are dependent on a single income source to repay their individual loans;*
- *The borrower and his/her spouse/partner if by contractual arrangements both are liable and the loan is significant for both – in terms of potential impact on the ability of the spouse/partner to repay (it should be noted all spouses/partners would not automatically be presumed to be connected borrowers); or*
- *A borrower and guarantor, where the guarantee is so substantial for the guarantor that his/her ability to service their other liabilities with the credit union will be affected if the guarantee is claimed by the credit union.*

It is important that a credit union identifies groups of borrowers who are connected to enable the credit union to monitor concentration risks in its loan portfolios. Each credit union needs to determine its exposure to groups of borrowers who are connected based on all the information available to the credit union, including (but not limited to) information provided by members in support of their loan application and any information provided in response to specific questions from the credit union to the borrower to enable it to identify groups of borrowers who are connected. Whether or not borrowers constitute a group of borrowers who are connected is a matter to be determined by the credit union in each case. The assessment undertaken by the credit union to determine whether or not borrowers constitute a group of borrowers who are connected should be documented in writing.

Establishing whether borrowers are connected will involve the necessary processing of personal data in the normal course of credit union business and a credit union should ensure that there is no illegal disclosure of personal data. A credit union is the controller of the personal data of its members, officers and staff and each credit union must ensure that this data is processed in accordance with data protection law.

The Central Bank considers it appropriate that a credit union should consider any exposure greater than 2.5% of the regulatory reserve to be an individual large exposure.

The relationship between the large exposure limit (as defined in the Regulations) and an individual large exposure is best illustrated by way of example:
In a credit union with total assets of €50 million and regulatory reserves of €5 million (10% regulatory reserve ratio):

- The maximum large exposure to a borrower or group of connected borrowers permitted under the regulations would be €0.5 million (maximum of 10% of regulatory reserves or €39,000, whichever is the greater).

- An individual large exposure would be defined as €0.125 million (2.5% of regulatory reserves).

In a credit union with total assets of €3 million and regulatory reserves of €300,000 (10% regulatory reserve ratio):

- The maximum large exposure to a borrower or group of connected borrowers permitted under the Regulations would be €39,000 (maximum of 10% of regulatory reserves or €39,000, whichever is the greater).

- An individual large exposure would be defined as €7,500 (2.5% of regulatory reserves).

Maturity limits
There are a number of limits on the maximum maturity term of loans which a credit union can make:

- The maximum loan term for an unsecured loan is 10 years.

- The maximum loan term for a secured loan is 35 years.[75]

However, a credit union can (with the consent of the borrower) alter the repayment conditions of a loan to extend its term beyond the specified limits in cases where:

- The loan is in arrears at the time the repayment conditions are altered, or
- The loan would fall into arrears if the repayment conditions were not altered because the terms of the original loan agreement would no longer be met.

House loans
A credit union can only grant a house loan where it holds the first legal charge on the property in respect of which the loan is to be provided. A house loan is generally a loan to purchase, improve, renovate or build the borrower's principal private residence, and includes loans to refinance such loans.

Mortgages
Credit unions must follow conduct of business rules set out in the Regulations when creating such mortgages[76] or providing advice to members (who are consumers) on such mortgages. In particular, the credit union must act honestly, fairly, transparently and professionally, taking account of the rights and interests of the consumer.
The credit union must when providing mortgages to consumers or advising consumers on mortgages take into account:

- Information about the consumer's circumstances
- Any specific requirement made known by the consumer
- Reasonable assumptions about risks to the consumer's situation over the term of the mortgage

A credit union must provide a consumer applying for a mortgage with a personalised European Standardised Information Sheet (ESIS) as a stand-alone document on paper or another durable medium before the mortgage is completed to enable the consumer to compare mortgages available on the market, to assess

[75] "Secured loan" is defined as "a loan that is secured by a mortgage, charge, assignment, pledge, lien, or other encumbrance in or over any asset or property, but shall not include unsecured guarantees by third parties". "Unsecured loan" means a loan that is not a secured loan.
[76] A loan or credit which is secured by a mortgage on residential immovable property and where the person to whom the credit is provided is a consumer, i.e. an individual not acting in the course of a trade, business or profession.

their implications and to make an informed decision as to whether to conclude the mortgage with the credit union.

After offering a mortgage to a consumer, the credit union must allow the consumer a 30-day “reflection period” to decide whether to accept the offer. During the reflection period, the offer of credit shall be binding on the credit union and the consumer may accept the offer at any time during the reflection period.

A credit union must provide adequate explanation to the consumer on the proposed mortgage and any ancillary services in order to enable the consumer to assess whether the proposed mortgage and any ancillary services are suitable to their needs and financial situation, include providing information on:

- The European Standardised Information Sheet (ESIS) document provided
- The essential characteristics of the mortgage
- The specific effects the mortgage may have on the consumer, including the consequences of default in repayment by the consumer
- Where ancillary services are bundled with the mortgage, whether each component of the bundle can be terminated separately and the implications for the consumer of doing so

Before concluding a mortgage with a consumer, the credit union must make a thorough assessment of the consumer’s creditworthiness. That assessment must take appropriate account of factors relevant to verifying the prospect of the consumer being able to meet their repayments under the mortgage. The credit union must ensure that the procedures and information on which the assessment is based are established, documented and maintained.

The European Banking Authority have published three sets of guidelines for lenders, with which credit unions must comply when providing mortgages:

- Guidelines on good practices for mortgages
- Guidelines on creditworthiness assessment
- Guidelines on arrears and foreclosure

A credit union will offer a mortgage to a consumer only where the result of the creditworthiness assessment indicates that the consumer is likely to be able to make the repayments required under the mortgage.

Where a credit union refuses to grant a mortgage to a consumer, it must inform the consumer without delay of the refusal and, where applicable, that the decision is based on automated processing of data. Where the refusal is based on the result of the database consultation, the creditor will inform the consumer of the result of such consultation and of the particulars of the database consulted.

Requirement for business plan

A credit union can grant a business loan, community loan or a loan to another credit union only where a comprehensive business plan and detailed financial projections (supported by evidence-based assumptions), appropriate for the scale and complexity of the loan, are provided and in place *before* granting the relevant loan. The Central Bank Credit Union Handbook provides guidance on the elements of such a business plan.

This requirement does not apply to a business loan granted to a borrower or group of connected borrowers for a gross loan amount less than €25,000.

Reporting requirements

The board of directors must receive a written report on the performance of loans on a monthly basis, and in particular on the performance of business loans, community loans, house loans and loans to other credit unions.

Lending to SMEs

The Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Lending to Small and Medium-sized Enterprises) Regulations 2015 impose various additional requirements on credit unions, from 1 January 2017, when lending to SMEs:

- Appropriate training of staff
- The offer of a meeting, on an annual basis, to borrowers
- Greater transparency for borrowers around the application process
- Reasons for decline in writing
- Greater protections for guarantors
- Requirement to engage with borrowers in arrears and financial difficulties

Loans to related parties

There are a number of restrictions on the granting of loans for gross amounts more than €2,000 to "related parties", i.e. to:

- A member of the board of directors or the management team of a credit union

- A member of the family of a member of the board of directors or the management team of a credit union, or

- A business in which a member of the board of directors or the management team of a credit union has a significant shareholding (more than 10% of the shares or voting rights)

The main restrictions are:

- The loan must not be provided or managed on more favourable terms than a loan made to a non-related party.

- The making of the loan must be subject to individual prior approval in writing by the credit committee, while the management of the loan must be subject to individual prior approval in writing by the credit or credit control committee.

- The credit union shall exclude individuals on the credit committee or the credit control committee with conflicts of interest in relation to the making or management of such loans.

- The credit union must record and monitor loans made to related parties and report, in writing, to the board of directors on related party loans on a monthly basis.

  The internal audit function of the credit union must assess, at least annually, the compliance or otherwise by a credit union with the above restrictions on loans made to related parties, and, after each assessment, submit a written report to the board of directors indicating their findings and conclusions and, where appropriate, making recommendations on any changes required.

- The credit union's credit policy must include the process to be followed in relation to making loans to related parties.

Where loans are made to related parties for gross amounts less than €2,000, the credit union must ensure that these "exempt exposure" loans are:

- Monitored to ensure that the limit imposed is not exceeded

- Recorded in a register of exempt exposure loans so that the credit union can demonstrate how it has complied with this requirement, and

- Included in a report on such loans that is reviewed and approved by the board of directors of the credit union on a quarterly basis

The Central Bank's Credit Union Handbook sets out guidance for credit unions on lending to related parties:

> *The objective of the requirements for related party lending set out in the Regulations is to ensure that related parties do not receive more favourable treatment than other credit union members and that there is appropriate oversight of such loans.*
>
> *The Regulations contain an explicit requirement that related parties do not receive more favourable treatment than non-related parties.*
>
> *Credit unions should have processes in place to ensure that they can comply with requirements relating to related party lending.*
>
> *Regulation 21 of the Regulations requires that each credit union record, monitor and report data on related party lending.*

Credit control committee and credit control officer

The primary function of the credit control committee is to seek to ensure the repayment of loans by members of the credit union in accordance with their loan agreements.

The function of the credit control officer is to assist the credit control committee and work under its supervision and control.

Anti-money laundering and terrorist financing

Risk assessment

Credit unions are obliged to understand the level of risk presented by a member and to be in a position to apply a risk-based approach in their compliance programmes.

"Risk-based approach" means an approach whereby firms identify, assess and understand the ML/TF risks to which they are exposed and take AML/CFT measures that are proportionate to those risks.

To comply with their obligations under the CJA 2010, credit unions should assess:

a. The ML/TF risk to which they are exposed as a result of the nature and complexity of their business (the business-wide risk assessment), and

b. The ML/TF risk to which they are exposed as a result of entering into a business relationship (individual risk assessments)

The risk assessment process in each case should involve two distinct but related steps:

a. The identification of ML/TF risk factors[77]

b. The assessment of ML/TF risk

When assessing the overall level of residual ML/TF risk associated with their business and with individual business relationships, credit unions should consider both the level of inherent risk and the quality of controls and other risk-mitigating factors.

Business risk assessment

The CJA 2010 requires that a firm carry out a business risk assessment to identify and assess the risks of money laundering and terrorist financing involved in carrying on its business activities.

As set out in the Central Bank Guidelines, the business risk assessment "should identify the ML/TF risks, which the Firm is potentially exposed to and, in accordance with the Firm's risk-based approach, outline where resources need to be prioritised in order to counter ML/TF".

[77] Under EBA Guidelines, "risk factors" means variables that, either on their own or in combination, may increase or decrease the ML/TF risk posed by a business relationship.

The business risk assessment is required to consider at least the following risk factors:

a. The type of customer (member) that the credit union has

b. The products and services being provided

c. The countries or geographical areas in which the credit union operates

d. The type of transactions carried out by and for members

e. The delivery channels available to members

f. Other prescribed additional risk factors

In conducting the business risk assessment, the credit union is also required to have regard to any applicable information in the national risk assessment and any guidance on risk issued by the Central Bank or RCU.

As a financial institution, the credit union is also required to take account of any applicable guidelines issued by the European Banking Authority, the European Securities and Markets Authority or the European Insurance and Occupational Pensions Authority.[78]

In addition to the sources that credit unions are required to have regard to under section 30A(2), they should also use various relevant and reliable sources when carrying out their business risk assessment.[79] Examples include:

- European Commission's Supranational Risk Assessment
- European Commission's list of high-risk third countries
- Communications issued by FIU Ireland
- Risk factors contained in Schedule 3 and 4 to the CJA 2010
- Guidance, circulars and other communication from the Central Bank and other relevant regulatory bodies
- Information from industry bodies

[78] Collectively referred to as the European Supervisory Authorities, or ESAs.
[79] Such sources may also relevant when conducting the member/transaction risk assessment.

- Information from international standard setting bodies such as Mutual Evaluation Reports (MERs) or thematic reviews

- Regulatory Technical Standards and Opinions issued by the ESAs

- EU measures, including financial sanctions and designation of high-risk countries

- Information from international institutions and standard setting bodies relevant to ML/TF risks (e.g. UN, IMF, Basel, FATF)

- Other credible and reliable sources that can be accessed individually or through commercially available databases or tools that are determined necessary on a risk-sensitive basis

Section 54(3) of the CJA 2010 requires the methodology for conducting the business risk assessment to be documented in writing. Under Central Bank Guidelines for AML/CFT governance, the methodology should be reviewed and approved by the board of directors.

The business risk assessment must be documented in writing and approved by the board. Along with any related documents, it must be kept up to date in accordance with the credit union's internal policies, controls and procedures. It must also be available, on request, to the Central Bank.

Under EBA Guidelines, credit unions should record and document any changes made to the business risk assessment in a way that makes it possible for the firm itself and for competent authorities to understand how it was conducted and why it was conducted in a particular way.

Member or transaction risk assessment
In addition to the business risk assessment, section 30B of the CJA 2010 requires that a firm identify and assess the money laundering and terrorist financing risk in relation to a customer or particular transaction. Credit unions must consider relevant risk variables in order to determine the extent of customer due diligence to be applied to a particular customer or transaction, having regard to:

a. The business risk assessment

b. The risk factors set out in section 30A(2) of the CJA 2010

c. Any relevant risk variables, including at least the following:

i. The purpose of an account or relationship

ii. The level of assets to be deposited or the size of transactions undertaken

iii. The regularity of transactions or duration of the business relationship

iv. Any additional prescribed risk variable

d. The presence of any factor specified in Schedule 3 or prescribed under section 34A of the CJA 2010 suggesting potentially lower risk, for example:

- Customer risk factors such as members being resident in geographical areas of lower risk
- Product, service, transaction or delivery channel risk factors such as financial products or services that provide appropriately defined and limited services to certain types of customers so as to increase access for financial inclusion purposes
- Geographical risk factors such as members being registered, established or resident in EU member states or third countries having effective anti-money laundering (AML) or combating financing of terrorism (CFT) systems

e. The presence of any factor specified in Schedule 4 or prescribed under section 39 of the CJA 2010 suggesting potentially higher risk, for example:

- Customer risk factors such as businesses that are cash intensive or where the ownership structure of the company appears unusual or excessively complex given the nature of the company's business
- Product, service, transaction or delivery channel risk factors such as payments being received from unknown or un-associated third parties
- New products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and pre-existing products
- Geographical risk factors such as members coming from or being resident in countries identified as not having effective AML/CFT

systems, having significant levels of corruption or other criminal activity or being subject to sanctions, embargos or similar measures issued by organisations such as the European Union or the United Nations

f. Any additional prescribed factor suggesting potentially higher risk

Central Bank guidance is that credit unions should document the outcomes of the customer or transaction risk assessment in writing and ensure this is kept up to date in accordance with the credit union's internal policies, controls and procedures.

Risk factors

Credit unions should ensure that their business-wide risk assessment is tailored to their business profile, proportionate to the nature, scale and complexity of the firm and takes into account the factors and risks specific to this, regardless of whether the assessment is done internally or by an external provider.

A generic ML/TF risk assessment that has not been adapted to the credit union's specific needs and business model ("an off-the-shelf ML/TF risk assessment") is unlikely to meet the requirements.

Section 30A.(1) of the CJA 2010 sets out the risk factors that must be considered, including:

- Customer risk
    - Relevant factors to consider include the member's or beneficial owner's business or professional activity, reputation, nature and behaviour, which may present or combine to present higher risks if, for example, the member:
        - Is a politically exposed person, has political connections or holds a high-profile public position that could be abused for private gain
        - Has links to sectors associated with higher corruption risk, such as construction, pharmaceuticals and healthcare, arms trade and defence, extractive industries and public procurement
        - Has links to sectors associated with higher ML or TF risk, such as certain money service businesses, casinos or dealers in precious metals, or to sectors that involve significant amounts of cash

- Has a negative reputation based on, for example, adverse media reports or other reliable and independent information sources that report credible allegations of criminality or terrorism against them

- Has had their own or a close associate's assets frozen due to administrative or criminal proceedings or allegations of terrorism or terrorist financing

- Was the subject of a previous suspicious transactions report(s)

- Has behaved or transacted in the past in a way that raised doubts about their integrity

- Is unable to provide robust evidence of their identity (without a reasonable explanation or legitimate reason for this), seems reluctant to share CDD information or appears to disguise the true nature of their business

- Cannot give a plausible explanation for their source of wealth or source of funds, for example through their occupation, inheritance or investments

- Does not use the credit union's products and services consistent with expectations based on the information they provided when the account was opened

- Is publicly known to be under investigation for terrorist activity or has been convicted for terrorist activity or is known to have close personal or professional links to such persons

- Performs transactions involving the fund transfers from and/or to countries where groups committing terrorist offences are known to be operating

- Is or works for a not-for-profit organisation whose activities put them at a heightened risk of being abused for terrorist financing purposes

- Country or geographic risk
    - Relevant factors to consider include the jurisdiction(s) in which the member or beneficial owner is based, resides or has relevant personal or business links, or legal or financial interests of which the credit union should reasonably have been aware.

- Products, services and transactions
    - Credit unions should consider the level of complexity and transparency of a product, service or transaction and the extent to which it may be cash intensive, as well as its value or size and any cap or limit on these.
    - Where a transaction involves a third party, relevant risk factors to consider include:
        - The extent to which the credit union can identify the third party and understands their relationship with the member, for example a state welfare body
        - Whether products and services are funded primarily by fund transfers from the member's own account at another financial institution that is subject to AML/CFT standards and oversight comparable to those required under 4AMLD
    - The risks associated with new or innovative products or services should also be assessed, in particular where this involves new technologies or payment methods.
- Channel or distribution risk
    - Credit unions should consider risks arising from how the business relationship with the member is conducted, for example on a face-to-face basis or by online or other remote channels.
    - Where the member is not physically present for identification purposes, the credit union should consider:
        - Whether the member deliberately avoided face-to-face contact other than for reasons of convenience or incapacity
        - Whether the forms of non-face-to-face CDD being used are reliable
        - What steps have been taken to prevent impersonation or identity fraud

When considering the risk factors set out in the CJA 2010, credit unions should take a holistic view of the risk(s) associated with any given situation and note that, unless required by the CJA 2010 or EU legislation, the presence of isolated risk factors does not necessarily move a relationship into a higher or lower risk category.

Beneficial ownership

Credit unions are obliged to identify any beneficial owner(s) connected with a member or service, whether the member is a natural person or a legal person or entity. There is also a requirement to verify the beneficial ownership by taking measures that are consistent with and proportionate to the level of ML/TF risk associated with the member, as assessed by the credit union.

Credit unions are expected to consider scenarios where beneficial ownership may be a factor and to assess and document the procedures to be followed.

As part of its verification processes the credit union is required to confirm that (where applicable) information concerning beneficial ownership has been entered by the member into the relevant Register of Business Ownership. The registers are:

- The express trust[80] (beneficial ownership) register, referred to as the Central Register of Beneficial Ownership of Trusts (CRBOT), which is the responsibility of the Revenue Commissioners
- The Central Register of Beneficial Ownership of Companies and Industrial Provident Societies, maintained by the Registrar of Companies
- The Central Register of Beneficial Ownership of Irish Collective Asset-Management Vehicles, Credit Unions and Unit Trusts, maintained by the Central Bank

As for members who are natural persons, a credit union may allow an account to be opened by an entity before ascertaining that the information concerning its beneficial ownership has been entered in the relevant register, but no transactions may be made on the account until that information has been ascertained.

[80] The term "express trusts" is not defined in regulation, but the Revenue Commissioners describe it as a trust "created in express terms, as distinguished from one inferred from the conduct or dealings of the parties". Examples of relevant trusts in scope of registration include private family trusts and certain types of charitable trusts, typically those involved in holding property or other substantial assets.

Legislative and regulatory developments update

Payment of regulatory levies

All credit unions are required to pay the following regulatory levies currently:

Central Bank	Credit unions are required to pay an annual regulatory levy to the Central Bank. The annual levy currently payable by credit unions is 0.03022% of the credit union's total assets at 31 December 2021 balance sheet date, provided that the total levy collected or recovered from credit unions does not exceed the total costs incurred by the Central Bank in performing the functions and exercising the powers of the Central Bank under the Credit Union Act 1997.
Financial Services and Pensions Ombudsman	Credit unions are required to pay an annual levy to the Financial Services and Pensions Ombudsman. The levy for the year ended 31 December 2023 was €675.
Credit Institutions Resolution Fund	Credit unions are required to pay a levy to the Credit Institutions Resolution Fund for the year ending 30 September 2023 by 28 February 2023 of 0.024725% of the total assets of the credit union as shown in the credit union's balance sheet forming part of its quarterly prudential return to the RCU in respect of the reporting date of 30 June 2022.
Credit Union Fund (Stabilisation)	Credit unions are required to pay a levy to the Credit Union Fund for the year ending 30 September 2023 by 28 February 2023 of 0.001484% of the total assets of the credit union as shown in the credit union's balance sheet forming part of its quarterly prudential return to the RCU in respect of the reporting date of 30 September 2022.
Competition and Consumer Protection Commission	For the year ended 31 December 2023, a levy calculated on the basis of 0.00171% of its total assets as at 30 September 2021 or, if these asset figures are not available, of its total assets as at 30 September in the most recent year available, as supplied to the Commission by the Central Bank of Ireland. A minimum levy of €50 is payable by each credit union

Certain Financial Vehicles Dedicated Levy	Credit unions are required to pay an annual levy of €811 to the Central Bank to defray expenses incurred in connection with the Registration of Beneficial Ownership of Certain Financial Vehicles.

A credit union which is a registered **insurance intermediary** is also required to pay the following ***additional*** annual levies in relation to its insurance intermediary registration:

Central Bank	As a registered insurance intermediary, a credit union is required to pay an annual levy to the Central Bank of a fixed minimum of €950 plus a variable (A-B) * C, where A = total of the credit union's "Income from Fees" and "Income from Commissions" as reported in the credit union's latest insurance intermediary online return to the Bank B = €200,000 C = Variable levy rate of 0.31%
Financial Services and Pensions Ombudsman	As a registered insurance intermediary, a credit union is required to pay a separate levy to the Financial Services and Pensions Ombudsman Bureau for the year ended 31 December 2023 of 15% of the insurance intermediary levy paid by the credit union to the Central Bank in 2021, subject to a minimum levy payment of €155.
Investor Compensation Company Ltd	As a registered insurance intermediary, a credit union is required to pay a levy to the Investor Compensation Company Ltd Fund B. The contribution rate varies by the annual level of insurance commission/fee income the credit union has received as follows for the three-year funding cycle commencing 1 August 2022 and ending on 31 July 2025.

Band	Income band structure (€)	Levy band (€)
1	< 150,000	100
2	150,001–400,000	200
3	400,001–700,000	270
4	700,001–1,500,000	500
5	1,500,001–3,000,000	900

	6	3,000,001–6,000,000	1,600
	7	6,000,001–15,000,000	6,500
	8	15m–25m	10,500
	9	> 25m	13,000

RCU circular regarding annual accounts

The RCU usually issues a circular to credit unions and their auditors, drawing their attention to certain "areas of focus" for the auditing of annual accounts for the financial year ended 30 September. The year-end September 2022 circular highlighted several areas, including:

Loan provisioning	(...) From a financial reporting aspect, Financial Reporting Standard 102 (FRS102) requires that, at the end of each reporting period, credit unions assess loans for objective evidence of impairment and that provisions should be immediately recognised. Credit unions should assess all loans for objective evidence of impairment based on all available information including current information and events at the date of assessment. Credit unions should consider how circumstances arising from the evolving economic situation may affect the likelihood of loss events occurring in their loan portfolios. In summary, we expect that during the 2022 year-end process, as we would each year, that credit unions will undertake a detailed assessment of their loan books and identify appropriate loan loss provisions based on all available information at assessment. Credit unions must ensure that the approach is rigorous and prudent in seeking to identify and deal with distress within loan books – with an overriding objective of endeavouring to ensure, as far as possible, that the level of distress is not underestimated.

Review of fixed assets valuations	Where a value in use approach is adopted for the valuation of credit union premises, boards should consider the appropriateness of the underlying assumptions used in deriving the expected cash flows to ensure they are reasonable and supportable. The value in use calculation should be supported by realistic assumptions aligned with financial projections derived from achievable and realistic business objectives, taking account of changes to the economic and business environment.
Review of investments valuations	The review of investment valuations is another critical part of the year-end process, particularly in view of a changing interest rate environment, current market volatility and related impacts on the investment portfolios of individual credit unions. The accounting policy adopted by the credit union board for the valuation of investments should comply with the relevant sections of the Credit Union Act 1997 (the 1997 Act), in particular section 110 and the relevant accounting standards. Section 110 of the 1997 Act requires that any item in the accounts shall be determined on a prudent basis, and in particular that all liabilities and losses which have arisen, or are likely to arise in the financial year to which the accounts relate, or a previous financial year, shall be taken into account, including those liabilities and losses which only become apparent between the balance sheet date and the date the accounts are signed. Full and detailed disclosure of the accounting policy adopted for valuation of investments should be included in the annual accounts. We also remind credit unions that section 43 of the 1997 Act sets out provisions relating to credit unions' investment of surplus funds including the requirement that a credit union "shall manage its investments to ensure that those investments do not (taking account of the nature, scale, complexity and risk profile of the credit union) involve undue risk to members' savings".
Multi-employer defined benefit plans	We have been highlighting pension costs and connected disclosure issues for some time now. While the scale of the deficit in the Irish League of Credit Unions (ILCU) defined benefit pension scheme, as advised by ILCU to its members during 2022, has not raised broader sector stability concerns, there will be financial impacts for all affected credit unions. The importance and need for building and maintaining adequate levels of capital by credit unions to protect members against future/unforeseen losses is clear – with the need to cover pension deficits being a practical example of such need. It is important that there is full clarity and transparency for members in the annual financial statements. Credit unions are therefore expected to take a prudent approach to the upfront recognition of associated financial impairments where they have been advised of any pension deficits arising. This is something the Central Bank will continue to pay close attention to over the coming period.

	More broadly, credit union boards should be mindful of their obligations under section 108 of the 1997 Act to ensure that the accounting records give a true and fair view of the state of affairs of the credit union and disclose the financial position of the credit union. They should also ensure compliance with the relevant accounting standards, including FRS 102 in respect of accounting for multi-employer defined benefit pension plans. Boards should also fully understand the implications of any new pension arrangements for their credit union, including risk management considerations covering financial, operational, legal and HR implications and seek independent third party advice as appropriate.
Credit union distributions and prudent reserve management	In the context of the 2022 year-end, credit union boards must be cognisant of the challenging economic environment and uncertainty on the economic outlook. Maintaining and building adequate levels of reserves, including adequate operational risk reserves, remains key to ensuring credit union financial stability and resilience. The Registry of Credit Unions expects all credit unions to continue to take a prudent approach to distributions in the context of reserve management. Where a credit union may be considering proposing a distribution, they are expected to contact their supervisor in the Registry of Credit Unions at an early stage to clearly outline the rationale for proposing this course of action, taking account of liquidity and operational resilience positions and the need to demonstrate prudent forward-looking capital reserve management in the current environment.
Systems of control and cybersecurity	Boards and management of credit unions are reminded of their responsibilities for establishing an effective internal control framework and for monitoring systems and controls on an ongoing basis. In assessing the systems of control, the board and management should ensure comprehensive policies and procedures are in place, proper accounting records are maintained and that effective segregation of duties and cash management processes are in place. The year-end is an opportunity for each credit union to review its internal controls environment and policies and procedures as necessary. Given the upward trend in reported IT and cybersecurity incidents by organisations domestically and internationally, both within and outside the financial sector, credit unions need to be continuously vigilant regarding potential vulnerabilities in their IT systems. Taking into consideration the potential adverse financial, legal, customer and reputational impacts arising from IT and cybersecurity incidents, identification and mitigation of risks in these areas by firms remains a key focus for the Central Bank and should be a priority for all credit unions on an on-going basis. Credit unions must ensure that they have strong and robust systems of controls in place to maintain ongoing compliance with section 76G(2)(a) of the 1997 Act (Information Systems). IT and Cybersecurity controls should be an integral part of the

	overall systems of control framework including in relation to data security and business continuity arrangements. It is the responsibility of credit unions to understand the range of specific IT-related risks which they are exposed to and ensure that these are appropriately mitigated and managed.
Accrued interest – contingent liability	The 2021 Financial Year End Letter, issued on 7 September 2021, reminded credit unions of the need to assess potential issues relating to accrued interest, which may have been referenced in contingent liability notes in prior year financial statements. The importance of retaining records relating to decisions taken on these matters was also clearly stated in the 2021 Year End Letter. It is of concern that our subsequent 2021 year-end supervisory engagement identified instances where a number of individual credit unions had not taken sufficiently evidence-based decisions in relation to accrued interest. These findings led to further interaction with, and the issuance of correspondence on 9 September 2022 to, a cohort of relevant credit unions. This matter is currently subject to continued engagement with these credit unions. As also outlined in the 2021 Financial Year End Letter, we expect that, for any impacted credit unions, all pertinent matters, including any decisions/actions taken during the year and, where relevant, any future planned actions are considered, in order to ensure that the financial accounts reflect an accurate position as at 30 September 2022. Specifically, it is expected that if a credit union has determined that any of its members have been affected by this matter, that those members have been advised/are being advised of planned actions/reimbursement as appropriate. Furthermore, it is expected that any update on the position of a credit union on this matter is provided to the membership by way of an updated note in the 2022 financial statements. It is also important that credit unions ensure that appropriate recognition criteria and measurement bases are applied to contingent liabilities and that sufficient information is disclosed to enable members to understand the underlying matter.

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