Summary of findings taken from Oireachtas Banking Inquiry on the following link:

https://inquiries.oireachtas.ie/banking/volume-1-report/appendix-11/

Pre-Crisis Structural and Regulatory Weaknesses

Evidence from the Oireachtas Banking Inquiry — Appendix 11

Purpose

Appendix 11 of the Joint Oireachtas Committee of Inquiry into the Banking Crisis examines the structural and cultural changes made within the Central Bank and Department of Finance following the crisis. While the Committee did not consider itself to have sufficient external evidence to make findings on the effectiveness of those changes, the Appendix records a number of significant weaknesses that existed before the crisis and that subsequently became targets of reform.

1. Weak corporate governance within the banks

The Regling and Watson Report identified failures in bank management and corporate governance as a primary contributor to the financial crisis, stating that errors of judgement in bank management and governance contributed centrally to the crisis.

Patrick Honohan was also critical of the absence of effective corporate and internal governance codes and adequate fitness-and-probity reviews.

These observations point to a pre-crisis environment in which the governance of financial institutions was not sufficiently effective in identifying, challenging or controlling the risks being taken by bank management.

2. Regulation did not prevent problematic banking practices

Former Central Bank board member Alan Gray provided a particularly important description of the regulatory failure:

“Regulatory systems did not cause the crisis, but did not prevent the practices which led to the crisis.”

This distinction is important. The issue identified was not simply the absence of regulation. Rather, the existing regulatory system failed to prevent banking practices that ultimately contributed to the crisis.

3. Weak fitness and probity controls

Before the crisis, the Financial Regulator had introduced "Fit and Proper Requirements" in 2006, effective from January 2007. However, those requirements applied primarily to **new office-holders or individuals changing positions**.

The subsequent reforms were much broader. Under the Central Bank Reform Act 2010, the Central Bank received enhanced statutory powers to veto senior appointments and to suspend or remove individuals from senior positions.

The contrast between the pre-crisis and post-crisis regimes indicates that the earlier framework was regarded as insufficient to provide effective regulatory control over the suitability and conduct of senior bank personnel.

4. Banking supervision was under-resourced

Evidence from several Central Bank witnesses indicated that banking supervision was **significantly under-resourced in the run-up to the crisis**.

This was independently verified by a Mazars report published in February 2009.

The scale of the subsequent planned expansion is illustrative: banking-regulation staffing was intended to increase from 349 people in 2009 to 725 by 2012.

The evidence therefore identifies a substantial capacity problem within the supervisory function at the time the risks were building.

5. Limited supervisory expertise and challenge

The post-crisis supervisory model spec