"AN EMPIRICAL STUDY OF THE EFFECTIVENESS OF IRISH BANKS' LENDING REGULATIONS"

By

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Declaration of Authenticity

I hereby declare that, except where daily acknowledged, this thesis is entirely my own work and has not been submitted for any degree in any other institute or university.

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1.4 Research Objectives

The research objectives are outlined below. The primary objective will form the basis of the research. The secondary objectives, when fulfilled will contribute to achieving the primary objectives.

1.4.1 Research Question

"An Empirical Study of the Effectiveness of Irish Banks' Lending Regulations"

1.4.2 Primary Objective:

Examine the effectiveness of lending regulations for Irish banks both prior to and after the collapse of the banking sector.

1.4.3 Secondary Objectives:

- Develop a profile on the banking sector in Ireland
- Evaluate the levels of stability in Irish banking
- Develop an understanding of who is responsible for lending regulations for banks in Ireland
- Investigate AIB, Ulster Bank & Anglo Irish Bank's level of compliance with lending regulation between the Celtic Tiger and present.

1.5 Perceived Difficulties

The first perceived difficulty for the author will be time restraints. There will be external factors when composing research such as classes for college, work commitments and other college work. Also there will be less time available during the work experience module.

As there will be a lot of questionnaires it will be difficult to get all of the questionnaires prepared and sent. The most difficult part of the questionnaires will be analysing the information as it will be qualitative data. The research will be limited to banks in Ireland as it will make the dissertation feasible within the timescale.

1.6 Target Population

The target population are three retail banks in Ireland; specifically, Anglo Irish Bank, Ulster Bank and Allied Irish Bank. The thesis will examine the effectiveness of lending regulations within these three banks.

Chapter 2: Literature Review

The literature review will commence with an analysis of the importance of legislation and regulation for banks in Ireland and explain the similarities between both. The author will then examine the role of governance and its effects on Irish banks; subsequently governance will lead to a brief discussion on ethics. Additionally, the author identifies who influences the Irish banking system; furthermore the main stakeholders of banks are identified. A review of the literature is completed by observing the history of banking in Ireland which leads to a synopsis of the current market.

2.1 Legislation & Regulation

Legislation is the act or process of making a law or laws as defined in the Collins English Dictionary, O' Malley (2001) classifies it as superior or subordinate. Superior legislation is enacted by the legislature: for example, in Ireland by the Oireachtas; subordinate legislation comprises the rules or laws laid down by some person or body under authority delegated by the legislature. Murdoch (1993) states legislation can be divided into two categories:

> *Primary legislation consists of the statues enacted by the Oireachtas and those carried over into Irish law in accordance with article 50 the Constitution. Secondary legislation consists of statutory instruments, bye laws and similar rules made under the authority of a parent statue.*

Legislation is important as it allows for organisations to be governed.; Barack Obama, (2010) said, "*A good compromise, a good piece of legislation, is like a good sentence; or a good piece of music. Everybody can recognise it.*". Nevertheless Canadian American journalist Isabel Paterson (1886-1961) once wrote, *"As freak legislation, the antitrust laws stand alone. Nobody knows what it is they forbid"*; she believes that legislation must be absolutely clear relative to the intellectual capacity of its dedicated target population. Denis Diderot (1713-1784) a French philosopher provides a logical argument for the inter-dependence of effective legislation and the morality of a nation. *"Morals are in all countries, the result of legislation and government; they are not African or Asian or European: they are good or bad."*

Former U.S president Lyndon B. Johnson (1908-1973) once said *"You do not examine legislation in the light of the benefits it will convey if properly administered, but in the light of the wrongs it would do and the harms it would cause if improperly administered"*. Lyndon was of the belief that legislation must be judiciously considered, in all its ramifications prior to publication to allow for a positive impact on its nations people. The Oxford Dictionary of Banking describes regulation *as, "The imposition of government controls over the decisions of individuals or a firm...Regulation is especially important in the financial services industry";* this illustrates the importance of regulation to the banking sector. According to Oxford Dictionaries.com regulation is defined *"the action or process of regulating or being regulated";* and refers to *"a rule or directive made and maintained by an authority"*. The Manitoba website outlines a clear link between regulation and legislation; "*a regulation is delegated legislation. It is made by a person or body under the authority of an Act passed by the Legislature."* Lexus (2011) suggests *"Banking regulation is the activity of the state to set standards by which its role is defined in the banking sector, that is, for the control of credit institutions",* this definition of banking regulation differs from the Central Banks Guide website which emphasises that

> *Regulation and supervision of the business activities, pertaining to the banking industry units will be essential for their effective functioning. Generally, the concept of banking regulation and supervision is defined as control over the creation, operation, and liquidation of banks.*

Regulation therefore, enables banks to function efficiently, which is necessary given the present situation of the banks.

Cuthbertson & Nitzsche (2001) state that banks required regulation due to scandals that occurred in the 1980s and 1990s; and that regulation allows for a system that rewards and penalises the financial risk taking activities, *"The presumption here being that in a general competitive environment governments ought to leave the market mechanism to reward and penalise the normal risk taking activities of participants in the market".*

Research from Levine (2005) postulates that regulating banks is essential;

> *The important relationship between banks and economic welfare has led researchers and international institutions to develop policy recommendations concerning bank regulation and supervision. The International Monetary Fund, World Bank, and other international agencies have developed extensive checklists of "best practice" recommendations that they urge all countries to adopt.*

He further suggests that banks have a private interest and are less likely to have an interest in social welfare (*the well-being of its society*); their interest is more in their own welfare,

> *The private interest view, however, questions whether official supervisory agencies have the incentives and ability to fix market failures and enhance the socially efficient operation of banks. The private interest view holds that politicians and government supervisors do not maximise social welfare; they maximise their own welfare.*

His conclusions are irreproachable, emphasising clearly that there is a fine balance between having too much power and banks being over regulated:

> *Politicians and supervisors may abuse this power to force banks to divert the flow of credit to ends that satisfy the private interests of politicians and supervisors, not the interests of the broader public. Thus, strengthening official oversight of banks might reduce bank efficiency and intensify corruption in lending.*

Mishkin (2001) reinforces this argument, he states, *"Because the failure of a very large bank makes it more likely that a major financial disruption will occur, bank* *regulators are naturally reluctant to allow a big bank to fail and cause losses to its depositors".* Hendrickson (2001) recognises a method used by U.S economist George Strigler (1911-1991). Strigler looked at regulation by modelling it through the process of exchange. He continues, if there were an effective demand for regulation as well as a supply, the outcome would be regulation. This suggests to the author that firms may desire and benefit from regulation. Hendrickson (2001) concludes that regulation can be viewed as an exchange process in which many groups have an incentive to lobby the political process for their own self benefits.

Piesse et al (1995) believes regulation enables the financial system to take shape, and further suggests that banks are extremely regulated

> *Perhaps the most striking example of the influence of regulation is provided by the number of new financial instruments which were introduced, where the incentive to innovate is based on the desire to evade newly imposed restrictions;...... The financial sector is probably one of the most highly regulated industries in the UK, and most other countries.*

Ozeke (2010) wrote an article which refers to Turkish banking legislation, highlighting the need for change, *"Even the regulators themselves criticise the current legislation as inadequate in the fight against money laundering and financing terrorism, since the banks often deny regulators' information requests due to confidentiality even though no one seems sure what this means."* this is relevant to Irelands banks as they are suffering from a financial crisis; in March 2010, Central Bank Governor, Patrick Honohan described the crisis as *"one of the most expensive banking crises in world history."*.

Docherty (2008) indicated that all institutions across the G-10 countries
"*(G-10) refers to the group of countries that have agreed to participate in the (GAB), a supplementary borrowing arrangement that can be invoked if the IMF's resources are estimated to be below member's needs."* responsible for regulating banks within their jurisdictions, implemented the new Basel Capital Accord, now commonly known as Basel II; he reveals that Basel II, which replaced the original regulation,

and helped reduce the possibility of a large bank collapsing. He states that Basel II "*introduces several innovations designed to improve the effectiveness of bank regulation and to reduce the likelihood of large bank collapses and the associated possibility of financial instability."* Basel II builds on Basel I which was set up in 1988. Zaher (2007) states that the general purpose of Basel I was to:

- Strengthen the stability of international banking system.
- Set up a fair and a consistent international banking system in order to decrease competitive inequality among international banks.

Docherty (2008) characterises the main objective of Basel II, "to *strengthen the regulation of internationally active banks within the G-10 and to provide an aspirational standard for the regulation of other banks within these countries and for banks based in countries outside the G-10".* Basel II identifies the requirement for a level of regulation that countries must aspire to; this emphasis on regulation is echoed by the words of Mishkin (2009) who believes that *"With the extension of the government safety net to a wider range of financial institutions, regulation will be needed to limit risk taking by financial firms"*, he suggests that investment banks need to be strictly regulated and that *"This will require stricter regulation of investment banks… as the AIG example suggests, can threaten the health of the entire financial system when they take an excessive risk".*

He supplements his research by stating the need for an introduction of legislation to ensure that lending institutions, "*Regulation and supervision of financial institutions to ensure that they have enough capital to cope with the amount of risk they are likely to be strengthened.*" Banks were lending more money than what was within their means in the recent past which went unchallenged by the regulators "*regulators did not challenge bankers, nor did they restrict lending to developers*." Murphy & Devlin (2009). Docherty concludes by stating that *"moving in such a direction would best be served by an institutional framework that combines the functions of banking supervision and monetary policy against the trend in many countries in recent years".*

Cuthbertson & Nitzsche (2001) recommend that an alternative to governments regulating the banks would be a free banking system, *"with an element of self-regulation in the form of a 'banking club' setting its own rules of entry, conduct, minimum standards";* perhaps this would allow banks to set their own regulatory standards. Piesse *et al* (1995) argues that it is time for regulation to become standardised on a global basis and calls for *"international standards in excess of the informal arrangements through the Bank for International Settlements, or some level of harmonisation.",* the author believes that this approach would be difficult to implement due to its complexity, as each country is different in its culture and its values.

Evrensel (2009) implies that newer approaches to banking regulations of a country are the mirror image of its political system, *"Countries that lack democracy and transparency tend to have powerful supervisory agencies that are accountable only to the political executive and banking regulations that seem explicit and strict on the paper."*

Despite a need for a new system, research undertaken by Slattery (2005) implies that there is a *"lack of systematic research and analysis, and in the absence of a theoretical framework, it is difficult for banks, regulators and governments to make informed decisions".* Slattery advocates that there may be a need for further research due to the lack of framework, however the author agrees with Levine (2005), it is vital that there is an equal amount of power amongst the banks and those who govern them otherwise banks may become overregulated or giving too much power can lead to corruption amongst the banks.

The author coincides with Tobin (2010)

> *Reporting of Fitzpatrick's resignation centred on the fact that his behaviour though inappropriate was ultimately not illegal. It was also pointed out that since bankers are not prohibited from personal property investment and since most banks have rules governing the disclosure of personal interests and the avoidance of conflicts of interest, such behaviour was not illegal. In other words the benchmark for banking behaviour was its legality.*

The author interprets that legislation for lending is not the real issue that impacted on the current state of the Irish banks; no laws were broken, regulatory deficiencies may have been the real issue. This is confirmed by actions taken by the Central Bank of Ireland. The Central Bank of Ireland published an Annual Performance Statement Financial Regulation (2011) which identifies AIB's incompetent regulatory system.

"(AIB) was fined €2m for failing, over a number of years, to have in place robust governance arrangements specifically by failing to have adequate internal control mechanisms to prevent and rectify frequent and many instances of overcharging". The report also identifies key measures in place for 2011 to regulate the financial services in Ireland they include:

- Strengthen the prudential supervisory framework for financial institutions through the implementation of new EU regulations
- Improve the domestic regulatory framework applying to financial institutions
- Ensure that supervisory resources are allocated to areas of greatest risk
- Ensure that new financial institutions entering the market are competently managed and have appropriate business models
- Provide compliance assistance to financial institutions
- Improve compliance through the application of enforcement powers
- Assist with the prevention of money laundering and financing of terrorism
- Prepare for the unwinding of the delegation of functions to the Irish Stock Exchange as mandated by the EU
- Ensure that market participants act in fair and transparent manner

Time will tell if these measures will benefit Irish Banks. There are various options that could be taken to regulate the banks. The writer concurs with Hendrickson (2001) that regulation would occur to organisations where there was a demand and supply for it. The author disagrees with Cuthbertson & Nitzsche (2001), a free banking system would allow banks to set their own standards, however this could also lead to corruption. Legislation is significantly important to banks; however a paper by Morita & Zaelke (2005) identifies that **"***There is a political consensus that the rule of law and good governance are a necessary foundation for efforts to achieve sustainable development".* This implies that legislation needs to work in union with governance to be effective. The researcher intends to investigate if governance needs to work in cohesion with regulation.

2.2 Governance

The Oxford English Dictionary depicted governance as *"the action or manner of governing a state, organisation";* governance is achieved through legislating, influencing or regulating a course of events, governance and regulation therefore co exist. World Bank (1991) defined governance as "*the exercise of political authority and the use of institutional resources to manage society's problems and affairs*". Allen & Greene (2007) observe of the history of corporate governance:

> *Historically the approach to corporate governance has been different on each side of the Atlantic. The US generally adopts a rules based approach to regulation... The EU on the other hand places more emphasis on a principles based approach relying more on moral and market pressure and bottom up influence from market participants. Instead of mandatory rules and prohibitions the emphasis is more on giving shareholders power to influence how their corporate entity should be governed.*

The author believes that both approaches differ in that the US rules based approach offers certainty, the EU approach doesn't; Allen & Greene (2007) suggest the future for corporate governance is a middle ground between both approaches *"Going forward it is likely we will see a meeting somewhere in the middle and this is probably in everyone's interest".* In recent years Ireland has seen a large number of statutory initiatives dealing with corporate governance issues; Allen & Greene (2007) believe that

> *The Irish approach is closer to a rules based than a principles based approach. The key Irish legislative initiatives in this regard are the Company Law Enforcement Act, 2001; The Criminal Law (Theft and Fraud Offences) Act 2001; and the Companies (Auditing and Accounting) Act 2003.*

These legislative initiatives are relevant to Ireland as they signify the emphasis placed on governance in recent years. Governance therefore has become increasingly important and it has some important principles.

Doolan (2007) spoke of an important principle of governance in Ireland, *"The legislative power to make laws is reserved to the Oireachtas".* He continues by stating *"The executive power entrusted with carrying the laws into effect is vested in the Government. The judicial power of applying the law to disputes is reserved to the courts".* He poses a theory that separating powers does not support the three functions of Government *(legislative, executive and judicial)* being distributed, without some over-lapping; the effects of separating power is evident, *" By separating the organs of government, limited power is conferred on each; thus no organ is possessed of unlimited power".* Smallman (2007) advocates that *"We need a model of governance regulation that adequately reflects the complexity of balancing out the interests of all interconnected parties involved in the governance of an organisation*".

Corporate governance is also a fundamental aspect of banking, as demonstrated by the research of Ryan et al (2010); this study identifies the importance of the relationship between corporate governance and finance, and its implications for ethics. The research specifies that corporate governance consists of *"roles and responsibilities, and balance of power among executives, directors and shareholders";* the conclusions drawn from this research are irreprehensible, *"The fields of corporate governance and finance are socially important and dynamic, as evidenced by a decade of tumult and scandal. They offer business ethics researchers the opportunity both to dig deep into long-standing and overarching moral issues and to delve into new and potentially transistor ones*. Burhop (2009) investigated the impact of corporate governance in the 1870s in Germany; from his research Burhop identified, *"that economies should transform their rules of corporate governance during the course of economic development from a low-quality to a high- quality governance system",* the author believes that there is a linkage here between Ireland, another country and governance. Despite the fact that Burhop's study focuses on governance in the late 19th century, the author feels some elements of the study are not out-dated.

A recent study by Wignall et al (2010) recognises the role of governance in the stabilisation of commercial banks, *"While some large diversified banks that focused mainly on commercial banking survived well, others suffered crippling losses. Sound corporate governance and strong risk-management culture should enable banks to avoid excessive leverage and risk taking".* His paper emphasises

> *the need for transparent and comparable accounting rules and for improvements in corporate governance. But the interconnected nature of banking makes it quite different to industrial firms, and it is unlikely that voluntary improvement will be enough to change the potentially damaging things that banks do.*

Crowe (2007) has identified that there has been significant changes in central banks and their practices and especially how they are governed, since the 1980s. He outlines that in Europe a super national central bank now oversees the monetary union; he states *"In all of these situations, central bank law was either revised or written de novo, while institutional objectives, practices, and structures were amended or created from scratch"*. He magnifies the two major areas central to bank governance: independence and transparency; *"greater independence for the central bank could help to provide the policies necessary to achieve lower inflation", " transparency and good communication should improve the effectiveness of monetary policy".* Research by Whitehead (2009) illustrates the need for governance to be reformed to benefit firms *"that change in the capital market may increasingly affect capital structure and corporate governance. My principal focus has been on the implication of that change for how firms are governed".*

In China, state owned commercial banks are regulated by the China Banking Regulation Committee; a study by Wai-Chung Lo et al (2009) recognises that *"an effective board is crucial for good corporate governance"*; furthermore the study cites work from Braendle et al (2005) which outline the main cause for weak corporate governance, "*Corporate governance is generally weak when there is government interference".* The research concludes with the authors recognising the need for effective corporate governance;

> *An effective system of corporate governance is particularly indispensable for the banking industry in China, where the state plays the dominant role. An important benchmark to gauge the success of banking reform in China will be if the banks can establish an effective corporate governance structure.*

Levine (2003) reinforces the importance of effective corporate governance, "*Opaqueness is one of the attributes of the banking industry and without effective corporate governance in place, managers are deemed to behave opportunistically"*. Paul Byrne, president of Trintech (a financial solutions company) was interviewed by Cian Mulloy (2009). In the interview Byrne stated *"In the wake of the Enron and WorldCom collapses, there is a much stronger focus on financial corporate governance within all publicly listed companies"*. It is evident from the research that there has been significant emphasis on corporate governance in recent years. A research paper by Martinelli (2009) further endorses the need for improved governance *"the present financial and economic crisis has again raised demand for a return of regulation and government intervention, although this crisis comes with the need for a re-conceptualization of the role of the state in the complex societies of a globalizing world"*. Martinelli is saying that the government need to look at new concepts to ensure that regulations are made to improve the state of the economy. However, Ovenden (2010) argues that imposing additional rules and requirements has not resulted in effective corporate governance in the past and is unlikely to do so in the future;

> *Other factors such as how those rules are enforced and the importance given to those rules within an organisation are likely to be more effective. Good corporate governance is driven not only by rules and the structure of the board but by the behaviour of those on the board. A regime which encourages good corporate governance and punishes bad corporate governance is likely to more successful in the long run than one that merely imposes onerous rules.*

According to Chalhoub (2009) corporate governance impacts on managerial decision making, *"Corporate governance is a driver of investor confidence and managerial decisions. Bank managers entrusted with executing corporate strategy are increasingly expected to exceed internalize shareholders' and board of directors' (Board) expectations";* his research accomplishes five key drivers of corporate governance performance for Lebanese banks: *"embedment of governance concepts into daily management practice, using governance experience and literacy as a prerequisite for senior positions, applying consistently a code of ethics, engaging shareholders in active participation, and emphasizing accountability".* He outlines that the challenge is to execute them consistently in the long term; the author feels this corresponds with similar challenges Irish banks face.

Research by Heneghan et al (2007) evaluated recent governance compliance and legal enforcement by taking an Irish initiative; the authors identify the impact of governance shortcomings, *"Moreover, O'Regan et al. (2005) note that such governance shortcomings have been identified as a significant explanatory factor in the financial scandals and corporate collapses that have become a feature of the business world in recent times".*

Kinsella (2009) writes that governance concerns the exercise of power through policies enacted by self-interested agents working within institutions. He continues by saying that these policies necessarily affect different agents in different ways, " *The Irish finance industry, together with the Irish government and its attendant regulatory bodies, have seen spectacular successes and failures from 1990 to 2009. The regulatory climate they helped create allowed a housing bubble to develop*"; the property bubble has now burst, with unpleasant consequences for the Irish economy, especially the Irish Banking system. He reaches an interesting theory in his research with regards to where Ireland's future lays, "*in small, agile service driven companies and medium to large size precision manufacturing companies";* the author feels this theory may require further research to re-enforce it.

Research conducted by Ryan et al (2010) recognises the present standing of corporate governance, *"The fields of corporate governance and finance are socially* *important and dynamic, as evidenced by a decade of tumult and scandal";* Dellaportas et al (2005) argues that bad corporate governance leads to poor performance, "Enron and HIH are cases where financial reporting was deliberately distorted with the objective of misleading investors and the public about the underlying economic performance of the firm"; Ryan et al (2010) identifies potential research in the area of corporate governance and finance,

> *While corporate governance and finance topics have been well researched in the past, they continue to present dynamic issues and valuable opportunities for rewarding ethical analysis. We have outlined both recent events and enduring issues that would benefit from investigation by business-ethics scholars.*

McDonnell and Moynihan (2011) wrote an article which identified recommendations made by the Financial Reporting Council to enhance governance for Irish organisations, the areas suggested to focus on are as follows:

1. The role of the board and directors
2. Board support and role of the company secretary
3. Decision making
4. Board composition and succession planning
5. Evaluating the performance of the board and directors
6. Audit, risk and remuneration
7. Relations with shareholders

They conclude,

> *The focus on corporate governance is here to stay. At an organisational and individual level, changes in behaviour and attitudes are required to ensure that adherence is improved. Shareholders and regulators expect strong governance and this needs to be in place and demonstrable to these stakeholders.*

The author believes that the research on governance identifies a number of problems in administering it in recent years. It is undoubtedly of significant importance to Irish Banks. The author concurs with McDonnell and Moynihan (2011) there must be a change in behaviour and attitudes to stimulate sounder governance of Irish organisations. As further research implies governance will not improve the state of Irish banks alone, it must be supported by excellent ethical standards, *"Good people do not need laws to tell them to act responsibly, while bad people will find ways around the laws"* Plato, Greek Philosopher, 427-347 BC.

2.3 Ethics

The author feels a major emphasis on ethical standards must be taken towards banking following the suggested corruption that caused the financial crisis, Ross (2009) writes

> *For decades Ireland's banks have operated in a world where rules were there to be circumvented; where officialdom turned a blind eye to breaches of codes and laws alike; where customers were cattle; where governments underwrote the activities of cowboys in pinstripe suits.*

Ross (2009) suggests that that there was a clear lack of obedience to ethics, the author feels that it is an area that must be investigated. The Oxford English Dictionary describes ethics as *"the moral principles governing or influencing conduct";* this definition is confirmed by the Collins English Dictionary and Thesaurus, *"the philosophical study of the moral value of human conduct and of the rules and principles that ought to govern it";* they also describe it as *"a code of behaviour considered correct".* Crane & Matten (2004) offer the distinction that the most common and useful way to describe it is as follows: *" Ethics is concerned with the study of morality and the application of reason to elucidate specific rules and principles that determine right and wrong for any given situation. These rules and principles are called ethical theories".* Steinberg (2000) speaks of the significance of business ethics, "… the glue which holds a company together is its beliefs and values, rather than its structures and systems."

Dellaportas et al (2005) categorises ethics into three normative theories: Utilarianism, rights and justice. Utilitarianism is consequential, its principle is maximising the well-being of the majority; utilitarianism is described by Chryssides and Kaler (2005) as *"underlying the point that it is the usefulness if actions which determines their moral character rather than anything in the nature of the action itself"*; there is one common criticism of utilitarianism according to Shaw (1999), he points out that *"we can never know for certain all the consequences for the things we do"*. Rights are non-consequential the principle of rights is that individual rights are respected; Chryssides and Kaler (2005) are of the belief that an ethic of rights "*arose because natural law theory was traditionally about protecting people from unjust or tyrannical actions by governments"*. Finally justice is also non-consequential; its principle is based on fair and equal distribution of benefits and burdens; it is also known as Kantianism, named after the German philosopher Immanuel Kant who claims that one thing and one thing only is good in itself; Fisher & Lovell (2003) concur by stating *"command/principle that must be obeyed with no exceptions"*. Boss (2002) speaks of Kantianism as *"duty, or doing what is right for its own sake is the foundation of morality"*.

Dellaportas et al (2005) speaks of the current environment of competition and drive for performance; he pinpoints that there are a number of threats to ethics and corporate governance; he outlines the sources of threats:

- Stakeholders- where one group of stakeholders has an unfair advantage over other groups
- Products or services- where the poor quality of products or performance or service compromises the standards
- Organisational culture, norm and objectives- where there is a lack of responsible leadership, combined with a self-interested culture and objectives
- Social status and reputation- professional and organisational misconduct where the organisation or the industry act in a way perceived to be detrimental to society, leading to loss of credibility.

The research is suggesting that business must rely on good ethical standards to avoid involvement in corruption or scandals; Pearson (1995) postulates that *"Ethical* *business depends crucially on the ethical standards of the individuals who take critical decisions".* The view of Thompson & Strickland (1998) is that "*an ethical culture has a positive impact on a company's long term strategic success; an unethical culture can undermine it";* this view is supported by Cannon (1992), *"Good relations mean good business. The equation is as simple as that. Therefore today's most important task is encouraging the good relations that will create good business in the future".* A study was carried out by Ferrell & Fraedrich (2002) on the ethical conduct of employees in the workplace. The study revealed that almost ten percent of employees would take advantage of furthering their own interests if in a position to do so; what this means according to Ferrell & Fraedrich is "*they are more likely to manipulate, cheat or be self-serving if the penalty is less than the benefit received for misconduct".*

Fahy (2003) spoke of ethical values in a changing society in Ireland following the decline of the Celtic Tiger, *"Recent tribunal findings have shown clearly that so many powerful people in our state, powerful politically and financially, have cynically used their power and privilege for their own personal gain".* He identifies greed as the catalyst for this change *"Flood and Moriarty, Ansbacher and, yes, our own banking institutions, the construction industry and brown paper bags all remind us that greed has caught hold of us".* Furthermore a paper by Knights & O Leary (2005) discussed banking scandals at Allied Irish Bank and National Irish Bank; their research suggests *"a plausible explanation for the corruption is a failure of ethical leadership";* they believe leaders at both banks created a culture with an emphasis on financial performance. They argue that recent corporate scandals resulted from *"ethical failures arising from contemporary concerns with material and symbolic success, which reside in and reinforce an ultimate preoccupation with the self";* they propose that the best practice for ethical standards are virtues that promote community values and solidarity rather than heroism in the liberal individualistic sense of that term, offers a possibility for challenging the preoccupation with the self and thereby unethical leadership. Unethical leadership can have adverse, especially on society and the economy; a study by Keating et al (2007) provides significant evidence of this,

> *RSM Robson Rhodes (2005) reported that economic crime cost Irish business some €2.5 billion in 2004. These high costs, coupled with the ever-increasing globalisation of the workforce, highlight the need for researchers to examine differences in beliefs about ethical leadership across cultural boundaries.*

O' Brien, (2007) argued that the regulators of Irish and U.S banks only aided domestic companies as it was in their interest to do so. He also predicted possible future scandals involving the regulators, *"Crisis, rather than strategic management, remains the underpinning rational; this is a state of affairs that preordains future scandal."*

There has been much wrote on the ethical standards of banks in Ireland recently; Carolan (2009)wrote a piece in the Irish Times speaking of AIB's reckless lending, *"Among a range of claims, it is alleged the bank was made aware a sub-contractor was allegedly asked by Mr Browne to provide false invoices to AIB so as to provide a pretext to draw down additional funds from AIB, but the bank continued to advance funds without due care"*.An article by Mulcahy (2011) confirms that Anglo Irish Bank also had poor ethical standards in recent years, "*In his role as chairman FitzPatrick exploited his relationship with the bank by ramping up his personal borrowings from Anglo to fund a series of madcap investments that resulted in a cash pile of €50m dwindling to nothing in a period of five years*". The evidence suggests a radical change is required to improve the quality of ethical standards for banks in Ireland.

Van Liedekerke et al (2000) put forward an ethical argument for a trans-national central bank. He says that a global justice in regulating and developing markets can no longer be avoided. The authors believe that this change should be introduced incrementally as a long term measure; there should be a separation of powers *" at least four: (1) a form of effective world government; (2) a world trade organisation; (3) a world central bank; and (4) a supervising agency for financial institutions"*. Briers (2010) argues that integrity plays an instrumental role in ethics, she continues by listing its most common drivers: leadership, strategies, policies and culture; she concludes *"I firmly believe a principles-based approach to ethical decision making is the most appropriate but I fear that the latest crisis will lead to a greater emphasis being placed by government and oversight bodies' on rules".*

The author disagrees with Van Liedekerke et al (2000) who argue that it is inevitable that there will be a trans- national bank; this would be almost impossible to manage and it would not suit many countries, due to cultural differences, various currencies and underlying values. The author concurs with Fahy (2003) greed was one of the primary causes of a diminishing emphasis on ethical standards; furthermore the writer strongly agrees with Pearson (1995), it is the individuals values that ultimately influence ethical standards. Therefore it is obvious that excellent ethical standards will be necessary to have a positive impact on the changes in retail lending legislation for banks in Ireland; this transition can be made easier by the various bodies and people who influence Irish banks.

2.4 Influences

There are a number of various bodies that have been involved in influencing regulation for banks in Ireland. The Central Bank was established in 1943; its primary functions were "*safeguarding the integrity of the currency"* and, echoing a phrase from Article 45 of the State's Constitution, ensuring that "*in what pertains to the control of credit the constant and predominant aim shall be the welfare of the people as a whole."*, the Central Bank consolidated its place until 1964. From the period of 1965 to 1972 it expanded its activities and functions including dealings with the IMF *"Government draws on first tranche (US$22.5 million) of IMF quota through the Central Bank".* From 1973 to 1988 it underwent the development of financial markets and instruments; during this period there is an increase in legislation, *"Credit Policy - Credit guidelines continue to be applied, including differential, i.e., tighter guidelines on the growth of licensed banks' lending for personal (excluding housing) purposes and lending to hire purchase finance companies",* however in 1984 *"Formal guidelines for licensed banks' lending to the private sector terminated".* In 1987 the Central Bank expressed concerns about the rate of increase in banks' lending to the personal sector. From 1989-1993 additional responsibilities and EC capital mobility took place. In 1997 the Central Bank Act came into operation, it empowered the bank *"to regulate payment systems. The Act* *provides for the Bank to authorise all payment systems in the State and to approve their rules".* An external assessment by the banks holder in 2000 concluded that the overall framework of the banks prudential regulation and supervision was developed. On May 1st 2001 the Central Bank and Financial Services Authority of Ireland commenced.

Central Bank of Ireland (2011)

The Irish Financial Services Regulatory Authority (IRFSRA) was the single regulator of all financial institutions in Ireland from May 2003 up until 2008. It clearly defined regulatory responsibilities for all financial institutions that had been regulated by the Central Bank of Ireland. In 2005 IFSRA changed its name to the financial regulator for simplicity, Douglas (2008).

According to Central Bank of Ireland (2011), the Central Bank of Ireland created a single unitary body responsible for both central banking and financial regulation in conjunction with The Central Bank Reform Act 2010. The new structure replaces the previous related entities, the Central Bank and the Financial Services Authority of Ireland and the Financial Regulator. The Act commenced on 1 October 2010. The Central Bank of Ireland has overall responsibility for the regulation and supervision of Credit Institutions authorized in Ireland. The objectives in supervising Credit Institutions are: to foster a stable banking system and to provide a degree of protection to depositors with individual credit institutions. This reformat allows for an overall regulation system in Ireland. The primary goal appears to be to stabilize banking in Ireland. An article by O' Donovan (2011) discusses what the Act means for Ireland; she believes the legislative and regulatory initiatives serve to reinforce Ireland's commitment to resolve and restore confidence of the public in this sector and greater transparency in relation to fitness and probity of senior executives working in financial institutions, she concludes *"This will be achieved through the process of open and transparent regulation; effective and efficient resolution regime for failing institutions; and the active process of deleveraging and downsizing some of the existing institutions in an orderly and transparent manner".*

Central Bank of Ireland (2011) clarifies that *"the Central Bank of Ireland has overall responsibility for the regulation and supervision of Credit Institutions authorised in Ireland".* The objectives in supervising Credit Institutions are: to foster a stable banking system and to provide a degree of protection to depositors with individual credit institutions. Credit institutions are required to be either licensed or authorised by the Financial Regulator. The degree of regulation applied to the various financial service providers by the Financial Regulator depends on their particular business and comprises prudential supervision (solvency) and monitoring compliance with conduct of business rules (Consumer Protection Code). Certain financial service providers such as some investment intermediaries and stockbrokers are also subject to client money rules.

ECB (2011) states that since 1 January 1999 the European Central Bank (ECB) has been responsible for conducting monetary policy for the euro area - the world's largest economy after the United States. The euro area came into being when responsibility for monetary policy was transferred from the national central banks of 11 EU Member States to the ECB in January 1999; *"the ECB, was a milestone in the long and complex process of European integration".* The European System of Central Banks (ESCB) comprises of the ECB and the national central banks (NCBs) of all EU Member States whether they have adopted the euro or not. The Eurosystem comprises the ECB and the NCBs of those countries that have adopted the euro. The Eurosystem and the ESCB will co-exist as long as there are EU Member States outside the euro area.

IMF (2011) provides a detailed database on the IMF (*International Monetary Fund).* They promote international monetary cooperation and exchange rate stability, facilitate the balanced growth of international trade, and provide resources to help members in balance of payments difficulties or to assist with poverty reduction. The IMF achieves this by lending to countries in difficulty and by providing technical assistance and training to countries to improve economic management. With regards to Ireland the IMF has approved a request by Ireland for an extended arrangement which was prepared by the European Department in Consultation with Other Departments and approved by Ajai Chopra and Martin Mühleisen of the IMF on December 4, 2010. The main elements of the program were:

- Achieve a smaller, more robust banking sector to serve Irish economic needs. While this process will take time, it will start immediately and will move with deliberate speed.

- Banks will maintain higher capital adequacy standards to minimize market perceptions of weakness, and thereby achieve improved access to funding.
- The authorities' National Recovery Plan will form the basis of 2011 and subsequent budgets. The Plan makes pragmatic choices to achieve consolidation in a fair manner.
- While Ireland's business environment is very strong, the program addresses remaining impediments that might underpin competitiveness in the years ahead, supporting growth.
- A financing package of €85 billion will support these far reaching changes
- In the attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP), the authorities request a three-year Extended Arrangement under the Extended Fund Facility (EFF) under the exceptional access policy and the emergency financing mechanism. The Fund will contribute SDR 19.5 billion (€22.5 billion, equivalent to 2,321.8 percent of quota) and make available SDR 5 billion on Board approval.
- The Irish authorities will contribute €17.5 billion to this effort from the nation's cash reserves and liquid assets. The European Union and bilateral European lenders will provide the remaining €45 billion on similar terms as those under the EFF, with whom the cooperation will continue. ECB liquidity support is an essential component of the program.
- High program risks reflect uncertain bank losses, a difficult debt outlook despite an unprecedented fiscal adjustment, unclear growth prospects, continued market focus on peripheral Europe countries, and an impending general election.

Treanor (2010) argues, a number of bank leaders influenced the current state of Irish banks; former chief executives of Anglo Irish Bank David Drumm and Sean FitzPatrick are identified as culprits of unethical standards towards legislation, *"FitzPatrick quit as chairman of Anglo Irish Bank in December 2008 before being arrested in a dawn raid in March 2010 as part of an investigation into financial irregularities at the nationalised bank*". Eugene Sheehy of Allied Irish Banks is recognised by Treanor for having played a part in the demise of Irish banking *"With Goggin in charge, AIB's loans to builders more than doubled between 2005 and 2008, and accounted for more than a third of the Irish loan book in 2008".* Despite the finger being pointed at the leaders of various Irish banks there are a number of other influences that affected the Irish banking sectors current state.

David Cameron, English prime minister believes that Irish banks were poorly regulated, *"I don't want to make life difficult for the Irish at a time when they are trying to take difficult decisions about their own economy but they did have a consumer boom, property boom, badly-regulated banks ".* He expressed that joining the euro may have affected the plight facing Irish banks at present*, "I always think the great lesson from the Exchange Rate Mechanism is that the Euro is the Exchange Rate Mechanism without an exit, and that is a problem*", Irish Examiner (2011) .The author believes Cameron is correct in that the banks were poorly regulated which is evident from the research; however further research will be necessary to prove if indeed joining the euro affected Irish banks significantly. Levin & Coburn (2011) found *"that the crisis was not a natural disaster, but the result of high risk, complex financial products; undisclosed conflicts of interest; and the failure of regulators, the credit rating agencies, and the market itself to rein in the excesses of Wall Street.".*

Research by Kelly (2009) outlines the influence of the property bubble; it began in 2000 and peaked in 2006, as with many other western European countries, with a combination of increased speculative construction and rapidly rising prices. He identifies in his research a direct correlation between the collapse of the construction industry and the banking collapse. The literature suggests that the Irish banking system failed due to a number of influences: governing bodies, bank managers, poor regulation and risk taking which the author agrees with. Additionally the writer coincides with the findings of Levin & Coburn (2011); high risks, regulatory failings and conflicts of interests appear to have had a major impact on the current climate for Irish banks. There are a number of variables which influenced the bank; however the author recognises the importance of observing both sides of the argument, therefore the stakeholders of the bank must also be identified.

2.5 Stakeholders

On 22nd December 2010 Mary McAleese signed the Credit Institutions (Stabilisation) Act 2010 (the Act) into lrish law. A report by Goodbody (2011) reveals that the Act *"contains many novel and significant restrictions on the rights of Irish bank creditors, shareholders, directors, employees and parties contracting with Irish banks".* The author senses that this act places restrictions between the stakeholders and the banks which will help stabilise the banks in Ireland.

A stakeholder is defined as *"A person, company, etc., with a concern or (esp. financial) interest in ensuring the success of an organization, business, system, etc."*, Oxford English Dictionary (2010).It is also described as *"A person, group, or organization that has direct or indirect stake in an organization because it can affect or be affected by the organization's actions, objectives, and policies"*, BusinessDictionary.com (2011)

The Oxford Dictionary of Finance and Banking elaborate; they mention a stakeholder theory:

> *An approach to business that incorporates all the interests of stakeholders in a business. It widens the view that a firm is responsible only to its owners; instead it includes other interested groups, such as its employees, customers, suppliers, and the wider community, which could be affected by environmental issues. It thus attempts to adopt an inclusive rather than a narrow approach to business responsibility.*

Standard Chartered categorise the various types of stakeholders that exist which clarifies specifically who are the stakeholders for banks, *"Below we describe some specific groups with whom we are seeking to broaden our relationships and dialogue"*:

- Socially Responsible Investment Analysts
- Professional bodies
- Bank employees
- Existing and potential shareholders

- Customers
- Business partners and suppliers
- Government
- Non-government organisations (NGOs)

The author researched Allied Irish Bank (AIB), Ulster Bank and Anglo Irish Bank to investigate how these banks treats their stakeholders. The first bank observed was AIB. Its Investor Relations website stated the following regarding its stakeholders:

> *Being a responsible corporate citizen is very important to AIB, wherever we operate. We support the voluntary approach to corporate social responsibility and follow best industry practices. A sub-committee of the main AIB Board - the Corporate Social Responsibility Committee - assists the company in discharging its social responsibilities.*

Ulster Banks (2011) instigates their relationship with stakeholders is built on trust,

> *Being corporately responsible is about building trust with everyone we encounter – our employees, customers, shareholders, suppliers, local communities, government, industry and the media. This trust can only be built through honest, direct and meaningful actions that demonstrate the kind of people we are and the real integrity we bring to our business activities.*

Finally the author observed Anglo Irish Banks (2011); their statement regarding stakeholders reads as follows:

> *We take a responsible approach to environmental issues and are proactive in seeking innovative ways in which to become more efficient. In addition, the management and staff of the Bank believe that a commitment to supporting the development of the wider community is an important part of our corporate responsibility ('CR').*

Satisfying stakeholder needs is a difficult process given significant number of various stakeholders. The author is of the opinion that primary research will underpin if the banks statements regarding their stakeholders are true; given the present state of the banks in Ireland. To understand the present state of Irish banks the writer must recognise banking in Ireland by taking a historical view.

2.6 History

Barrow (1975) articulates "*Banks first appeared in Ireland around the end of the seventeenth century, as they had about half a century earlier in England, as offshoots of other businesses… the term first appears in Irish law in an act of 1709";* he elaborates, *"but it was not until after the suspension of cash payments in 1797 that country banking became widespread in Ireland*". The timeframe is reinforced by McGowan (1990), he declares that *"although Irish banking cannot claim direct links with the Italian banking dynasties of the thirteenth century, it can be traced back to the 1680s, when currency notes were introduced in Ireland alongside the circulation of coins";* he maintains that in the mid-19th century a number of legislative changes paved the way for a greater emphasis on commercial banking. Mcgowan (1990) recognised legislation deriving from the early 20th century, *"The Currency Act 1927 declared that the standard unit of value shall be the Saorsát pound later to be described as the Irish pound in 1937*

The Central Bank formed in 1943 after currency commission dissolved, has made a noteworthy contribution to Irish banking, McCarthy (1984) outlined its main objectives, "*The new authority was permitted to accept certain interest free deposits, rediscount bills and fix and publish a minimum official rediscount rate.".* The formation of the Central Bank ensures that there were industry restrictions on the range of commercial activities for financial institutions, *"Ensuring the Stability and Efficiency of Banks/ Banker and Agent to the Government"*, Irish Banks (1985)

In the mid-1960s there was an influx of major banks from North America and Europe; these banks "*quickly established themselves in Ireland and helped to create a more competitive climate within the banking industry".* Two major Irish banks consolidated their position within Ireland through mergers; Bank of Ireland *"took over the Hibernian Bank in 1958 and the Irish branches of the National Bank in 1965"*, in 1966 *"Allied Irish Banks was founded through the merger of three banks:*

the Munster and Leinster Bank, the Provincial Bank of Ireland and the Royal Bank of Ireland". In the 1980s *"the magnitude of direct lending from abroad to the private sector remained close to about one tenth of total private sector borrowing from banks within the country".*

McGowan (1990)

O Sullivan (2010) claims*" The Irish banking regulatory system has been the subject of much debate and change in recent years";* Westrup (2005) endorses this argument further, " *Ironically, many of the regulatory restrictions, that were designed to protect the stability of the banking system, were removed as well as artificial distinctions between different levels of financial institutions in the 1990s*. Research by O'Sullivan & Kennedy (2007) identifies the number of foreign banks entering the Irish market, *"The liberalisation of the Irish banking system together with a relaxation of entry requirements to the Irish Payment Clearing System facilitated the entry of a number of international banks to the domestic market".*

D'Agostino et al (2008) mention the Celtic Tiger and its effects, *"Ireland experienced unprecedented levels of growth during the economic boom period (1997-2007). During that time, it transformed itself into one of the most vibrant economies in Europe".* The author believes that perhaps the rapid transformation experienced in the late 1990s-2007, was difficult to control, especially when observing the present state of the current market.

2.7 Current Market

The IMF (2006) observed that growth in Ireland had become increasingly unbalanced since 2002, with a *"heavy reliance on building investment, sharp increases in house prices, and rapid credit growth, especially to property-related sectors",* the author believes that these were initial warning signs for Irish banking as much of their finances were associated with property.

Despite indications that Irish banks were struggling, it took until 2008 for the realisation that banks in Ireland were in serious trouble; Evans-Pritchard wrote

> *The Irish banks have been bleeding money as the property bust sets off a chain of defaults. House prices have fallen for eighteen months, and are now*

down 13pc from their peak. Construction reached 21pc of gross domestic product at the height of the bubble.

With banks losing significant money he announced the situation facing Ireland *"Ireland is now the first Eurozone state in official recession".* In his article Evans-Pritchard quoted the opinion of Moritz Kraemer head of European Sovereign ratings at S&P which identified some of the consequences of the recession *"If it all goes terribly wrong in the property market, there could be significant losses for the treasury given the size of the Irish banking system. This could hit the sovereign rating*."

Many banks became involved in risk taking; Honohan (2010) wrote that *"Banks leveraged their deposits with sizeable borrowings from abroad*", this illustrates how high risks impacted on the current market. The rapid deterioration in the Irish economy is reflected in the financial results of the main Irish banks. O' Sullivan & Kennedy (2010) states *"In May 2009, recently nationalised Anglo Irish Bank, posted a loss of over 4.1 billion, the largest in Irish corporate history, and expects loss to be 7.5 million by the end of the year".* They also recognise deterioration in AIB, who had a large increase in its debts; in 2008, *"AIB reported pre-tax profits of 1 billion, a 60 per cent reduction from the previous year. It announced a 4.3 billion bad debt charge in 2009, due to an increase this year in its loans in difficulty by 9 billion to 24.3 billion".* The writer is of the opinion that due to the decline of the banks, regulatory measures were undertaken.

The Irish banking sector suffered a further setback when it was announced that Anglo Irish Bank was to become nationalised in January 2009; O' Halloran (2009) wrote that "*The Government is set to take full ownership of troubled Anglo Irish Bank to safeguard the troubled financial institution's future".* O' Sullivan & Kennedy wrote that in April (2009) the Minister of Finance announced that the Irish Central Bank, and not the Financial Regulator, would be at the centre of financial supervision and financial stability oversight in the future "*The Irish Central Bank will provide for the full integration and co-ordination of prudential supervision and the stability of individual financial institutions and the financial system as a whole".* This scenario derived as a result of a number of issues that the Financial Regulator had in regulating the banks *"The Financial Regulator has said it views the issues* *relating to transactions between Irish Life & Permanent and Anglo Irish as completely unacceptable."*RTE News (2009)

Due to a number of financial irregularities other Irish banks started to decline. An article written by Monaghan (2009) revealed that the collapse of the Irish property markets led to mounting bad debts at Irish lenders, led by Bank of Ireland and Allied Irish Banks. Measures had to be undertaken to safeguard the banks, in her article she wrote that *"Brian Lenihan, the Finance Minister, has proposed creating a "bad bank", known as the National Asset Management Agency, to buy up such loans as a step toward restoring lending*" the aim of establishing NAMA was to revive the Irish economy.

McDonagh (2010) made a statement to address the establishment of NAMA *"we will do everything in our power to try and ensure that the Ireland has a better future while at all times protecting the interests of the taxpayer*". The purposes of the Act are:

> *(a) To address the serious threat to the economy and the stability of credit Institutions in the State generally and the need for the maintenance and stabilisation of the financial system in the State, and(b) to address the compelling need—*
>
> *(i) to facilitate the availability of credit in the economy of the State,*
>
> *(ii) to resolve the problems created by the financial crisis in an expeditious and efficient manner and achieve a recovery in the economy,*
>
> *(iii) to protect the State's interest in respect of the guarantees issued by the State pursuant to the Credit Institutions (Financial Support) Act 2008 and to underpin the steps taken by the Government in that regard,*
>
> *(iv) to protect the interests of taxpayers,*
>
> *(v) to facilitate restructuring of credit institutions of systemic importance to the economy,*

(vi) to remove uncertainty about the valuation and location of certain assets of credit institutions of systemic importance to the economy,

(vii) to restore confidence in the banking sector and to underpin the effect of Government support measures in relation to that sector, and

(viii) to contribute to the social and economic development of the State.

National Asset Management Agency Act (2009)

Fears were raised by the SFA (2009) that NAMA wouldn't be sufficient to get banks lending to small businesses in Ireland, casting doubts over NAMA's credibility, *"The Small Firms Association (SFA) says it does not believe that the Government's Nama plan will be enough to get credit flowing to small businesses around Ireland".*

Due to increased pressure Ireland were forced to take a rescue package from the IMF; Labanyi (2010) wrote that *"The European Union has approved an €85 billion rescue package for Ireland which, if drawn down in its entirety today, would attract an average interest rate of 5.83 per cent".* O Brien (2010) interviewed the late Brian Lenihan regarding claims that the ECB warned Ireland of the threats facing them, "*Brian Lenihan has claimed the European Central Bank forced Ireland into taking a bailout and rejected claims by a senior ECB figure that the bank warned Ireland in mid-2010 of the dangers it faced".*

The literature suggests that at present Irelands banking system is in a recovery period. Time will tell if the bailout received from the IMF will contribute to the sustainability of Irish banks. Following this present state for banks there have been calls for further investigation into the regulatory system, as cited by Tobin (2010) *"Separately, there has been a call for an in depth inquiry to identify the weaknesses and failures in the regulatory system".* This presents the researcher with the task of investigating the effectiveness of lending regulations by conducting primary research. The method of primary research will be chosen in Chapter 3: the Research Methodology.

Chapter 3: Research Methodology

3.1 Introduction

In partial fulfilment of this dissertation, the effectiveness of regulations in lending for banks in Ireland will be evaluated. The value of undertaking this research is underpinned by O' Sullivan & Kennedy (2008) "The Financial Regulator and its regulated entities are now operating in a very difficult economic landscape and respond to the criticism that they were not prudent enough during the property boom". Furthermore the author believes there is ample justification for a primary investigation as evidenced from the secondary research in Chapter 2.

The thesis will focus on the banking sector in Ireland. The relative contribution of lending regulation for banks in Ireland will be examined; prior to and after the collapse of the banking sector. This study will conclude by highlighting issues relevant to potential research. Primary research will be fulfilled through the administration of a questionnaire.

"There is nothing like looking, if you want to find something. You certainly usually find something, if you look, but it is not always quite the something you were after."

J.R.R. Tolkien, English Writer and Author, (1892-1973)

3.2 Research Objectives

The research objectives are to evaluate the effects of lending regulation, prior to and after the downfall of the Irish banking sector. The research will be conducted using a questionnaire to understand the emphasis placed on regulation and stability of banks during the 'Celtic Tiger' and compare that to the current emphasis on regulation and stability of the banks. Finally the research will aim to identify areas that may be relevant to potential further research.

3.3 Research Design

The researcher assembled a questionnaire and distributed it to participants. The questionnaire was also made available for completion via e- mail. Upon completion of questionnaires the researcher began to evaluate them and obtain a result. The results reached formed the basis of the conclusions and recommendations of the dissertation.

3.4 Advantages of Questionnaire

The questionnaire was chosen due to the nature of the investigation; Kumar (1996) writes that asking difficult questions *"may have made the respondents feel reluctant to answer"*. The author concluded a questionnaire was convenient, Kumar (1996) believes a questionnaire *"ensures anonymity"*. The author agreed that a questionnaire was relevant to the study population. Also due to the wide geographical spread the researcher found that a questionnaire would be the most applicable for this type of research.

Clough and Nutbrown (2002) speaks of the attractions in selecting a questionnaire for primary research,

> *The questionnaire is a widely used and useful instrument for collecting survey information, providing structured, often numerical data, being able to be administered without the presence of the researcher, and often being comparatively straightforward to analyse…*

The researcher coincided that these advantages reinforced the selection of questionnaires as the primary research tool; however the author emphasised identifying the disadvantages of the questionnaire so that they could be overcome.

3.5 Disadvantages of Questionnaire

Kumar (1996) identifies a number of disadvantages with a questionnaire. He also made note that not all data collection using this method had the following disadvantages; however it is important to understand that these disadvantages are based on a number of factors, nonetheless it is essential to be aware of them. They are:

- Limited application
- Low response rate
- Self-selecting bias

- Lack of opportunity to clarify issues
- Spontaneous responses are not allowed for
- Response to a question may be influenced by the response to other questions
- It is possible to consult others
- Responses cannot be supplemented by other information

The researcher understands that those who have access to the internet are contradictory to those who are without it. This is confirmed by Ranchod and Zhou (2001); according to their survey online respondents are more internet savvy, heavier users of e-mail and have more years of e-mail experience. According to Wyatt (2000) there is a lack of control over the situation, places moods, browsers and loading speeds means that questionnaire validity may be compromised. The researcher understands that the internet has become much more common nowadays due to the emergence of broadband, however to ensure that non internet users are also included in the questionnaire they shall be issued questionnaires either through post or if possible they will be delivered by the researcher.

According to Clough and Nutbrown (2002), Questionnaires may well be a quick way to generate large amounts of data, but they can take some time to design so that responses received are the kind you hoped for, and the questions are clear to the respondent. The researcher took great care ensuring the questionnaires were designed so that all questions were easily understood and there weren't any differing interpretations which may slightly skew the results. To avoid the questionnaire becoming limited, the author provided a section at the end of the questionnaire entitled 'Additional Comments' to allow participants to include anything extra which they feel may be worthwhile to add.

3.5 Questionnaire Issues

When selecting a questionnaire as the tool for primary research, the author understands the issues that could arise. Firstly it is essential that respondents can clearly comprehend all of the questions, Grix (2001) concurs with Kumar (1999) "*If a respondent misunderstands a question only slightly, their reply is very likely to be of little value to you and they are less likely to respond in the first place*". Kelley (1999) writes that a number of steps must be taken when developing a questionnaire:

- Define the objectives of the survey.
- Identify the funds available for the project.
- Define the population and identify the sampling method.
- Ascertain the type of questions that will best meet the objectives.
- Decide which types of results are required.
- Develop the questionnaire and cover letter.
- Determine the type of analysis to be performed for each question in the questionnaire.
- Pilot test the questionnaire, revise if necessary, and pilot test again.

The author agrees that all of these steps were taken to ensure a competent administration of the questionnaire. Kumar (1996) identified the methods to administer a questionnaire:

- The mailed questionnaire
- Collective administration
- Administration in a public place

The author recognises that due to the quality and speed of the internet at the time, Kumar had not identified e mail as a method of administration. The author believes this method will allow for a much quicker response and allow for a much faster easier administration process in the opinion of the researcher. A survey conducted by Shannon and Bradshaw (2002), found that by using web based questionnaires 25% of responses were received in the first 24 hours. This coincided with the researcher's experience in which the response time was similar. Ilieva (2002) conducted a study, its results suggests that online surveys have a much higher completion rate than mail surveys. Schleyer and Forrest (2000) conclude that online surveys reduce costs in comparison to traditional mailing, telephone questionnaires and in person interviews. The author coincides with Evans and Mathur (2005) who state with regard to survey administration that online surveys are automatically placed into the data base; they are analysed in a co-ordinated integrated manner that is extremely cost effective.

3.6 Types of Questions

Kumar (1996) states that *"In an interview schedule or questionnaire, questions may be formulated as: open- ended or closed- ended".* He outlines the fundamental difference between the two types; in an open ended question the possible responses are not given, *"In the case of a questionnaire, the respondent writes down the answers in his/her words".* Kumar (1996) writes "*In a closed-ended question the best possible answers are set out in the questionnaire or schedule and the respondent or the investigator ticks the category that best describes the respondent's answer".* The author chose the types of questions to ask by visualising how the information gathered would be used.

Vinten (1995) outlines that open questions may be also referred to as *"free answer", "free response", "write in"* or *"unrestricted"* questions. He states that open ended questions establish the topic for respondents. He believes that open ended questions are chosen by researchers as they carry less risk of biasing responses and more chance of extracting genuine attitudes and views. O Cathain and Thomas (2004) determine the benefits of responses to open questions *"Responses may also be used to corroborate answers to closed questions, offering reassurance to the researcher that the questionnaire is valid, or highlighting problems with particular questions".* They feel researchers use open questions in a questionnaire as *"they may be driven by a desire to offer respondents an opportunity to voice their opinion".* The author concurs with O Cathain and Thomas (2004), open questions were provided in the questionnaire to allow respondents to voice their opinion, and also to reinforce the research while highlighting potential issues that may have been overlooked by the researcher.

It is evident that closed questions follow a dissimilar format to open ended questioning. Vinten (1995) refers to closed questions as *"check answer", "pre coded"* or *"restricted"* questions. Respondents must choose their answers from a series of answers that is most familiar with their own views. O Cathain and Thomas (2004) outline the reasons for including a closed question in a questionnaire:

Closed questions represent the researchers' agenda, even if they have been developed through listening to people's views in focus groups and depth interviews. The use of 'any other comments' may redress the power balance between researchers and research participants.

The advantages of asking a closed question are underpinned by Vinten (1995). He states that closed questions are easier to handle, and cost less to administer and process. Closed questions also reduce the time of an interview and allow interviewers without a great deal of experience to use them successfully.

The author coincides with O Cathain and Thomas (2004) as the closed questions that have been asked represent the agenda that the researcher has. The advantages identified by Vinten (1995) persuaded the author to select a higher number of closed questions. The researcher strongly disagrees with Kumar (1996) who wrote that "*In a closed-ended question the best possible answers are set out in the questionnaire or schedule and the respondent or the investigator ticks the category that best describes the respondent's answer".* Based on the authors experience the best possible answers can be overlooked and it is only when respondents answer the open ended questions that the researcher understands if the best possible answers were set out in the questionnaire. Ultimately the researcher provided a mixture of open ended questions and closed questions, whereby a number of the open ended questions were used as follow up questions to gain a deeper insight into the respondent's views. The number of closed questions outweighed the number of open ended questions so that the primary research followed a similar agenda to the secondary research.

3.7 Underlying Philosophical Assumptions

A paradigm is "a set of all different forms of a word". Denzin and Lincoln (2008) refer to Table 6.1 by Guba and Lincoln (1994); the table provides an understanding of the basic beliefs of alternative inquiry paradigms. They describe their paradigm as "the basic belief system or worldview that guides the investigator". Within their paradigm ontology is referred to as "virtual reality shaped by social, political, cultural, economic, ethnic, and gender values; crystallised over time". Epistemology can be described as either transactional/ subjectivist and has "value-mediated findings". These descriptions are reinforced by Clough and Nutbrown (2002) who further describe the philosophy terms underlining the research, "Traditionally, for philosophers the twin terms of methodology are ontology and epistemology, understood as the study of being and knowing respectively". They define ontology "as a theory of what exists and how it exists". Epistemology is "a related theory of how we can come to know these things".

Guba and Lincoln (1994) stated that ontological assumptions refer to the nature of reality. Reality can be both subjective and multiple as seen by participants in a study. The researcher can provide different perspectives by quoting the words of participants. Guba and Lincoln (1994) stated that epistemological assumptions refer to the relationship between the researcher and the area being researched. It is imperative that the researcher lessens the distance between themselves and the area being researched; the author feels this has been achieved by a substantial review of the relevant literature which has been complemented by spending time in the field with participants of the questionnaire who are highly experienced in the researched area.

Colace et al (2009) propose that ontology is one of the most effective tools for reinforcing knowledge shared by groups of people. The author proposes that ontology is the most appropriate tool for the research being conducted as it involves questionnaires that will acquire the knowledge of a number of different people.

3.8 Idioms of Research

The term idiom is defined in the Collins Dictionary as a *"group of words which when used together have a different meaning from the words individually"*. The author comprehends that an idiom is the vocabulary or usage of a specific group or subject.

This research will be conducted in the field of regulations in Irish banking; specifically with regards to lending. The author endeavoured achieving this goal by researching books, electronic journals, referenced journals, websites and newspaper articles regarding regulations and their effects on Irish banking. The sources utilised have a characteristic idiom relevant to this area which will be integrated to the study.

3.9 Selection of a Research Idiom

The researcher intends to assess what the study hopes to achieve by obtaining an extensive amount of secondary research; the author will select the most suitable books, journals, websites and newspapers to reference that are appropriate to answer the question being researched.

3.10 Selection of Research Method

To ensure the confidentiality of all respondents and also taken the relevant timeframe into consideration, the most appropriate means of undertaking primary research will be a questionnaire. The questionnaire will be available to fill out via e-mail or alternatively in paper format. Participants will be sent an e mail version, otherwise they will receive a hard copy either by post or where possible the hard copy will be issued directly. The objective is to gather relevant information on the effectiveness of regulations in lending for banks in Ireland.

3.11 Sample Size and Sample Selection

Kumar (1996) explains the concept of sampling, he believes sampling,

> *Is the process of selecting a few (a sample) from a bigger group (the sampling population) to become the basis for estimating or predicting a fact, situation or outcome regarding the bigger group. A sample is a sub- group of the population you are interested in*

He continues by writing that when calculating the sample size for a questionnaire the following must be considered:

- At what level of confidence do you want to test your results, findings or hypothesis?
- With what degree of accuracy do you wish to estimate the population parameters?
- What is the estimated level variation (standard deviation), with respect to the main variable you are studying, in the study population?

Kelley (1999) believes that sample size is based on a number of factors such as *"the anticipated response rate, the variation within the population, the amount of error that is acceptable, and the budget and time frame"*. The author coincides with Kelley (1999) and Kumar (1996) that to select an appropriate sample, it must be within the constraints of the author's budget. The researcher agrees with Kelley (1999) who writes *"If there is a limited budget or limited time in which to perform the study properly, the scope of the study may have to be lowered"*. The author understands this as the research is time restricted which of course affects the constraints of the study. The sample was obtained by sending e mails to various AIB, Anglo Irish Banks and Ulster Bank branches throughout Ireland. AIB, Anglo Irish Bank and Ulster Bank websites and also the golden pages website were used to retrieve contact details for the branches interacted with. The author also used personal contacts where possible with some of the branches.

Regarding sample selection Kelley (1999) mentions a selection bias which may result from the samples being non- representative, he writes

> *A non -representative sample may be chosen by using poor sampling methods. Occasionally, even if probability sampling methods are used, a non-representative sample may be obtained by chance. If the sample is clearly non- representative, and a random sampling method has been used, another sample may be chosen to replace the first.*

Kumar (1996) mentions the extent of variation in the sampling population regarding sample selection, *"the greater the variation in the study population with respect to the characteristics under study for a given sample size, the greater will be the uncertainty".* The author believes that the sample chosen will not be affected by uncertainty. The researcher is of the opinion that there is no great deal of variation across the study population, only geographically; therefore the appropriate sample size and sample selection has been chosen. The author did recognise that ideally the population targeted would be spread evenly across the different banks, branches and locations in Ireland; however, it was difficult to obtain such a balance and the study acknowledged this when conducting an analysis of the information attained.

3.12 Questionnaire Sections

The first section (Question 1- Question 5) of the questionnaire will provide an overview of general information of the respondent. This section will categorise which bank the respondent works in, their position and their primary field in banking. The section finishes with general questions to observe if the respondents understand who is responsible for banks compliance with regulations for lending.

Section two (Question 6-16) focused on a number of areas. The section begins with questions regarding the stability of the banks at present, during the Celtic Tiger and a question regarding the future stability of the banks. The next area covered in the section is emphasis on credit policies. The section closes with questions regarding compliance with regulatory guidelines and lending regulations.

The third section of the questionnaire focuses the attitude of the respondents regarding alternative means of regulation and an open question to understand what the respondents feel would help improve compliance with regulation. Finally an additional comments section was added for respondents to add any other issues they feel may be of importance.

3.13 Research Timeframe

February- April involved an extensive review of the literature on lending regulations for Irish banks and the compilation of a questionnaire. The pilot questionnaire was issued in early June. The final questionnaire was issued in Mid-June with a cut-off date set for responses. The month of July was used to analyse the responses from the returned questionnaires. The research was collated during August to provide a conclusion based on the primary research available and the secondary research undertaken. The schedule is illustrated in table 1 below:

Table 1

February	March	April	May	June	July	August
Lit Review	Lit Review	Lit Review	**Exams**	Pilot Questionnaire	Questionnaire Analysis	Finish
----------------------------	--------------------	Questionnaire	----------------------	Final Questionnaire	--------------------------------------	

3.14 Why the Research is Worthwhile

The preliminary literature review shows various authors opinions on regulation and how it can be useful. Also other authors will argue it prevents an organisation from growing. By identifying whether or not the banks complied with lending regulations it will allow the researcher to evaluate the effectiveness of lending regulations for banks in Ireland. This will contribute to the research area by providing ample recommendations that may improve the effectiveness of lending regulations for Banks in Ireland.

3.15 Data Collection

Grix (2001) defines data collection as *"the process through which empirical data are produced and collected via a number of different data sources".* Naylor et al (1966) believes research objectives in business and economics usually take the form of:

- Questions to be answered;
- Answers to be tested
- Estimates to be arrived at

The respondents will have a timeframe of two weeks from which they can complete the questionnaire. After one week respondents shall be reminded of the questionnaire and after the cut-off point questionnaires shall be collected.

3.16 Ethical Issues

Due to the nature of the research all respondents will get a form which will imply that all information obtained will be used solely for the purposes of this research. The author will guarantee anonymity for all respondents to ensure that any personal information issued will not have any impact on their position within their respective bank; to ensure this occurs none of the respondents will be asked to include their name.

3.17 Data Analysis Techniques

Despite having competent knowledge of SPSS the researcher decided that it wasn't appropriate for this type of research. The author chose to use logical analysis. Logical analysis, according to Miles and Huberman (1994), is an outline of generalised causation and a logical reasoning process. Due to the authors proficiency with computers analysing the data manually will be the most appropriate process to evaluate the data. Kumar (1996) states that to analyse data using a computer *"you should be familiar with the appropriate program"*. The researcher felt that due to previous experiences, Microsoft Excel was the program that was most suited to logical analysis and also the program the author was most familiar with.

3.18 Research Limitations

The timescale for questionnaires to be completed is quite narrow due to the time taken to compile and analyse results. The research is also limited in that the area investigated was by only one person; the behaviour of one person may not reflect the behaviour of the majority of the population, others may behave differently, therefore there can be alternative explanations to the research findings.

Due to the large number of branches for each bank, the study is restricted in that only ten branches from each of the banks have been selected for the questionnaire. Unfortunately this means that a number of branches have not been included in the study. In an effort to nullify this issue the author insured that the branches selected represented the target population.

Finally respondents may complete the questionnaire in accordance with what they think the author wants to read, rather than their own views. To annul the problem the researcher did not indicate any bias in the cover letter of the questionnaire; therefore the respondents should form their own opinions.

3.19 Pilot Questionnaire

A pilot questionnaire was issued to a convenient sample of the target population with relative expertise in the area of the research. The objective of the pilot questionnaire was to eliminate any difficulties in the interpretation of questions and erase any discrepancies in the questions. This process was invaluable as it ensured all questions were easily interpreted and all bias was therefore avoided.

Feedback received from the pilot questionnaire allowed the author to ask more relevant questions based on the pertinent points specified by the respondents. The pilot questionnaire also helped identify that legislation was not the key issue; internal credit policies and lending regulations were much more relevant to the study. One of the participants of the pilot assured the author that a number of questions being asked would not provide the information that the study required. Therefore this respondents input and expertise proved to be instrumental in compiling the final questionnaire.

The majority of participants in the pilot questionnaire recommended that the researcher altered the layout of the questionnaire into various sections. They felt that the layout provided in the pilot was confusing as it involved moving from one topic to another without any linkage. The author took this advice on board and ensured the final draft was well laid out and also well linked.

Overall the pilot questionnaire proved successful as it improved the quality and relevancy of the final questionnaire tenfold. Without the expertise of the participants this would not have been possible. The findings of the primary research will be presented in Chapter 4: The Research Findings.

Chapter 4: Research Findings & Analysis

4.1 Introduction

Chapter four provides a detailed analysis of the questionnaires that were distributed to three banks in Ireland; AIB, Anglo Irish Bank and Ulster Bank. The researcher administered the final draft of the questionnaire (Appendix B) following a pilot questionnaire (Appendix A). The final questionnaire was administered to ten different branches of each bank. The first ten respondents in each bank to complete the questionnaire were included in the study. The chapter begins with a description of the target population. Following this the data has been analysed using logical analysis as mentioned in Chapter 3 section 3.17 Data Analysis Techniques.

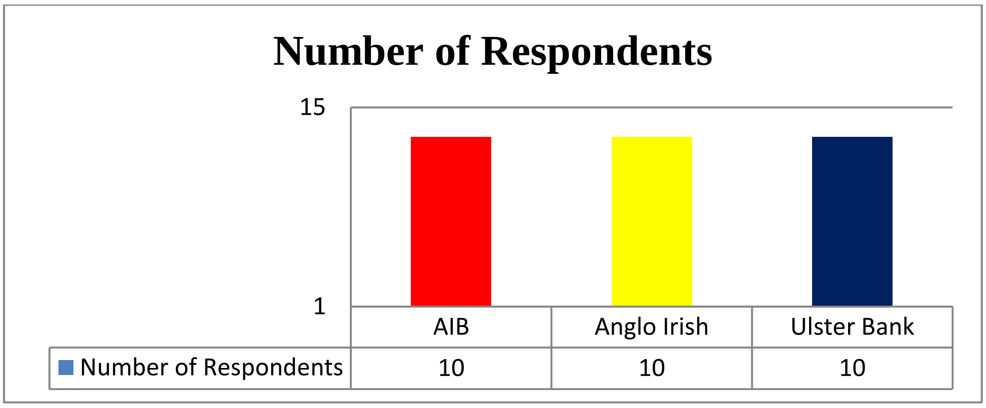
4.2 Target Population

The target population consists of the three aforementioned banks. The researcher issued 15 questionnaires to the three banks. Ten branches were targeted for each bank. The author collected and analysed the first ten respondents for each branch, therefore a total of 30 questionnaires were included in the data analysed for the research findings. The author believes that this figure is sufficient; despite the number of banks in Ireland, the relevant participants were selected carefully in each bank to ensure that their opinions and expertise represented the population.

4.3 Analysis of the Questionnaire

All questionnaires were distributed in Mid-June with the cut-off point being two weeks after the questionnaires were issued as mentioned in Chapter 3: Research Methodology. All questionnaires were analysed during the month of July. (Fig A) illustrates that there were an equal number of respondents to the questionnaire.

Figure A

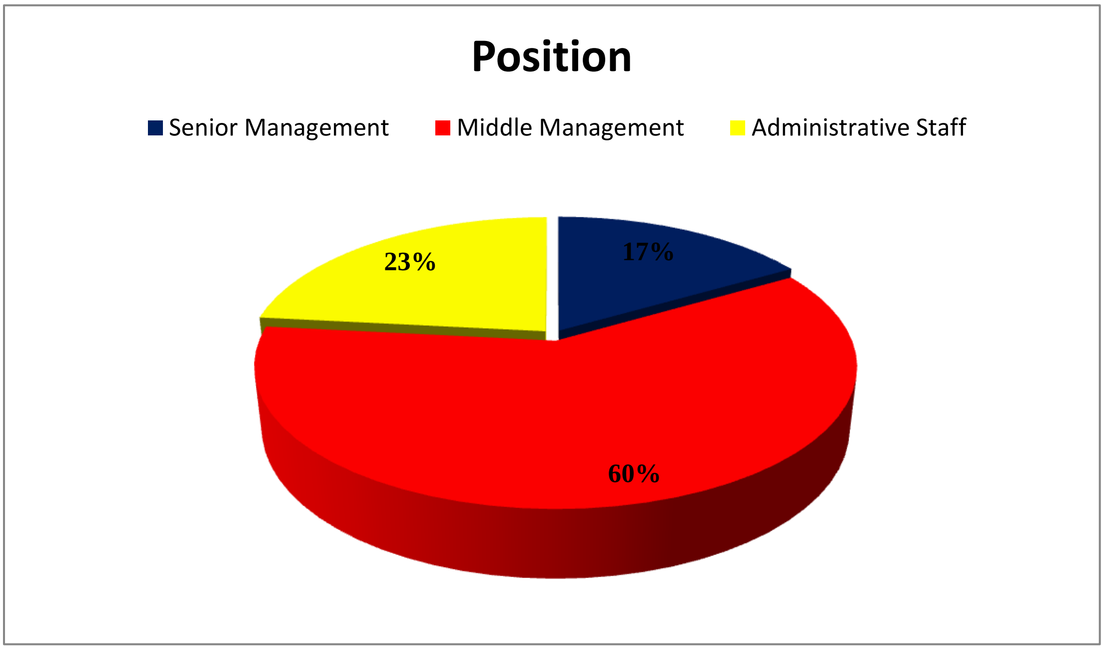


`Question 2

Question two categorised the position held by each participant of the questionnaire. This question was designed to find out the role of the participant. Upon analysing the data the respondents who were involved in a management position seemed less reluctant to criticise their bank while answering the open ended questions. Figure B outlines the various positions held by the respondents. As documented below 60% of respondents held a middle management position, 16.6% were senior management and finally 23.3 % were administrative staff. This question was appropriate as it allowed a wide variety of views held internally by staff within each bank.

It is apparent from observing Figure B that middle management accounted for the majority of participants included in the questionnaire. The author would have preferred to have a wider spread of senior management to add to the expertise in the area; however the researcher believes that this does not flaw the results.

Figure B

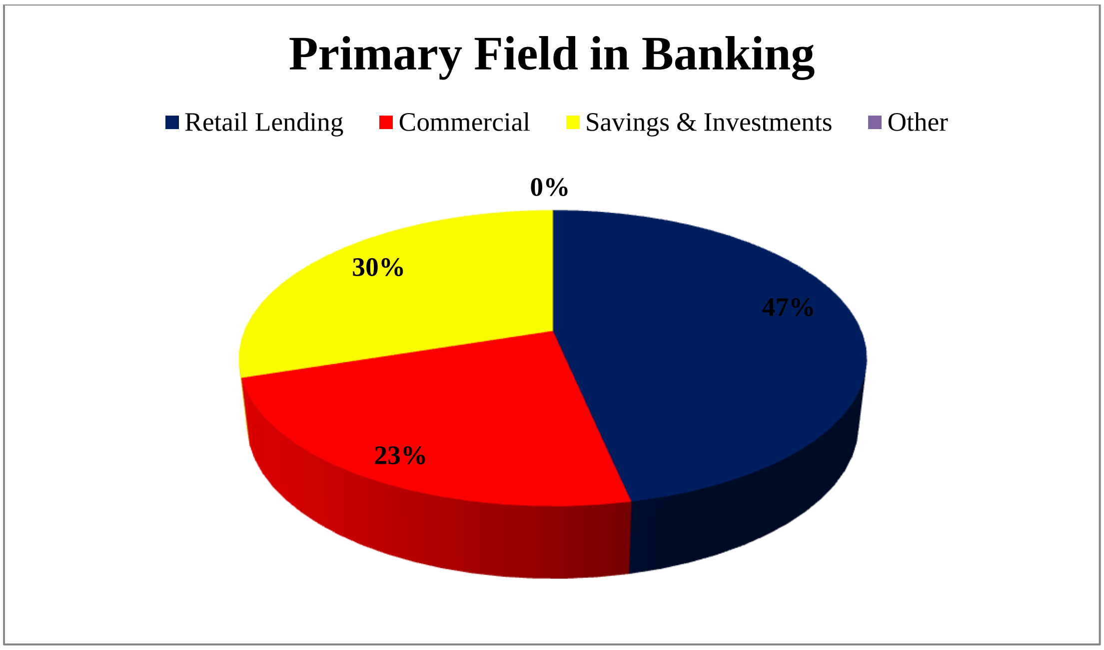


Question 3

The third question of the questionnaire outlined the primary field that each respondent specialised in. The question was designed to ensure that participants were included with expertise in each area of banking to ensure the target population didn't have a bias. Therefore this proved to be the case as demonstrated in (Figure C). 46.6% of participant's primary field was retail lending; 23.3% answered their primary field as commercial banking and finally 30% specialised in savings and investments. None of the respondents specified any other area as their primary field.

Figure C suggests that the majority of participant's primary field is retail banking, commercial banking and savings and investments accounted for the rest. The author believes that as participants may have a different primary field, they may have various opinions on the some of the questions.

Figure C



Question 4

The fourth question asked respondents who they felt were responsible for banks compliance with regulations for lending. This question was left open with the objective being to analyse if there was a similar pattern in the answers. The general consensus appeared to be that most participants felt it was the responsibility of all staff within the bank to ensure compliance with regulations for lending.

Respondent 6 from Anglo Irish Bank has identified their primary field as retail lending wrote *"All staff on a daily basis in their roles. Legal and compliance department for ensuring business operates within regulation and keeps up to date with regulatory updates"*. This coincided with a number of participants; Respondent 4 from Allied Irish Bank answered *"All staff in their roles"*. Respondent 2 from Ulster Bank believed *"Although the legal department plays a significant role ensuring that the bank obey the regulatory guidelines, ultimately the entire staff must act responsibly to ensure that Ulster Bank complies with regulations for lending"*.

A small number of respondents had a contrasting opinion. Respondent 9 from Allied Irish Bank answered

> *Governing bodies must ensure that banks comply with regulations; if banks are not complying with regulations for lending, they are not acting within the*

banks best interest, therefore the financial regulator and Central Bank of Ireland play a significant role.

Respondent 1 from Anglo Irish Bank whose position was at an administrative level felt that " *It is up to the bank manager to guarantee that the all staff act appropriately by obeying all lending regulations, if the managers don't make staff aware of these regulations they cannot be enforced".*

Despite the variety of answers, 24 participants (80%) believed that all staff was responsible for banks compliance with regulations for lending. The author believes that perhaps a combination of factors effect banks compliance with lending regulations. Obviously as 80% of participants believe all staff is responsible, they play a significant role in effecting banks compliance with lending regulations. Governing bodies must also oversee compliance with lending regulations in a professional manner. The author speculates that if all individuals act ethically and obey lending regulations it will go a long way to improving compliance with lending regulations.

Question 5

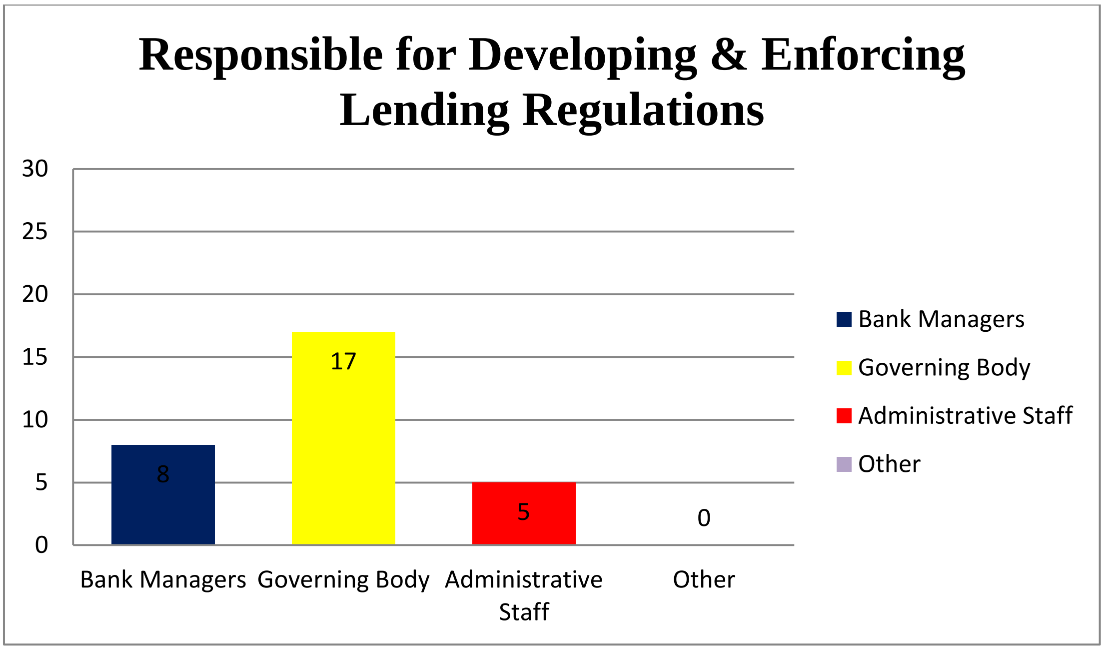
Question number five asked participants who they felt were responsible for the development and enforcement of lending regulations. Over half the respondents (56%) felt that Governing Bodies were responsible. 26.7% believed bank managers were accountable for developing and enforcing regulations. 16.7% answered that administrative staff were liable for lending regulations to be enforced and developed. None of the respondents wrote that they felt anyone other than the three options provided were responsible.

When asked to elaborate on the answer, some respondents chose to do this. Respondent 7 from Ulster bank wrote *"The mistakes of the past were that the banks were left to regulate themselves. Governing bodies must develop, enforce and police regulation".* Respondent 2 from Anglo Irish Bank wrote *"Governing bodies must set aside clear specific regulatory guidelines for lending; they must be enforced by staff internally within banks".* Figure D below illustrates the variety of answers provided by all of the respondents, providing a clear observation of the participant's opinion.

Evidently the majority of participants believe that governing bodies are responsible for developing and enforcing lending regulations. The author believes that based on secondary research it is obvious that governing bodies are responsible for the development and enforcement of lending regulations. The author believes it may be conceivable that there is a need for further education on banking staff at administrative level. This would create a better understanding of who develops and enforces lending regulations for staff at all levels within banks.

The author feels this question is directly linked to Question 4 and that an alternative reason for some participants not answering governing bodies may have been that they felt a combination of all three were responsible for developing and enforcing lending regulations.

Figure D



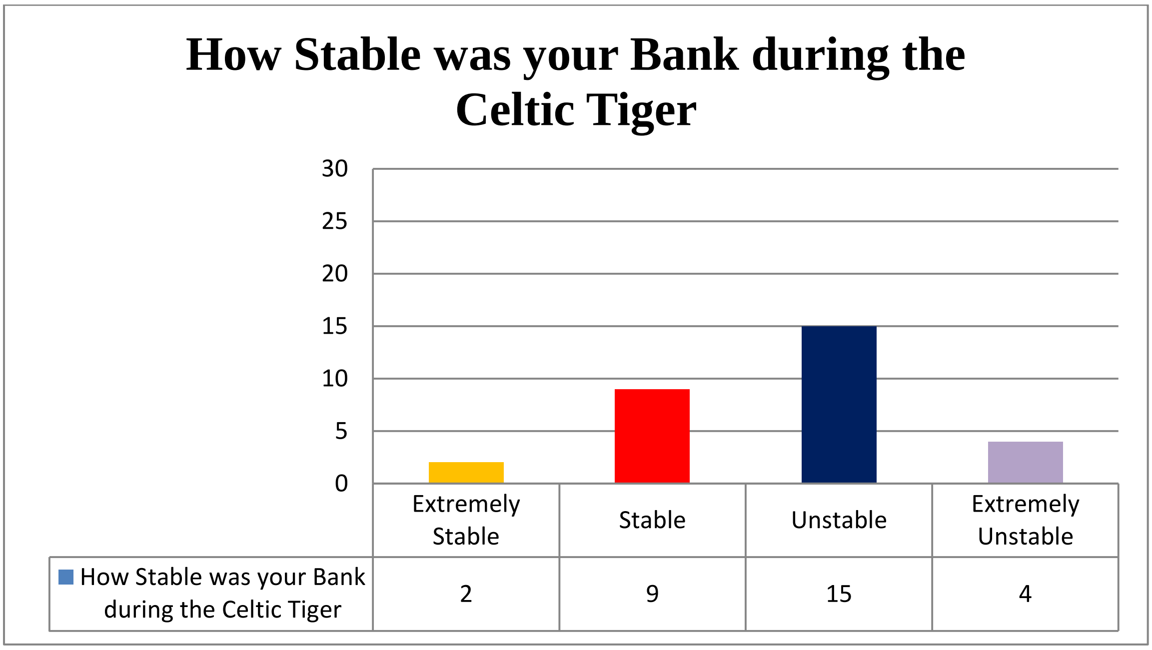
Question 6

The sixth question asked respondents how stable they felt their bank was during the Celtic Tiger period. This question was based on their opinion during the aforementioned period. This question was asked to understand if participants could foresee the demise in the banking sector.

Figure E below illustrates the breakdown of the data using a bar chart to categorise the data. Of the 30 respondents, exactly half (50%) felt at the time that their bank was unstable. Only 6.6% felt that their bank was extremely stable. 30% answered that in their opinion the bank in which they worked was stable. Four respondents (13.3%) felt that their bank was extremely unstable during the Celtic Tiger period.

The researcher questions why 50% of participants felt their bank was unstable during the Celtic Tiger, yet nothing was done to prevent the decline which followed. Upon further analysis the author speculates that if these thoughts were acted upon the demise of the banks may have been avoided. Possibly the participants chose not to act on their beliefs for the safety of their jobs at the time.

Figure E



Question 7

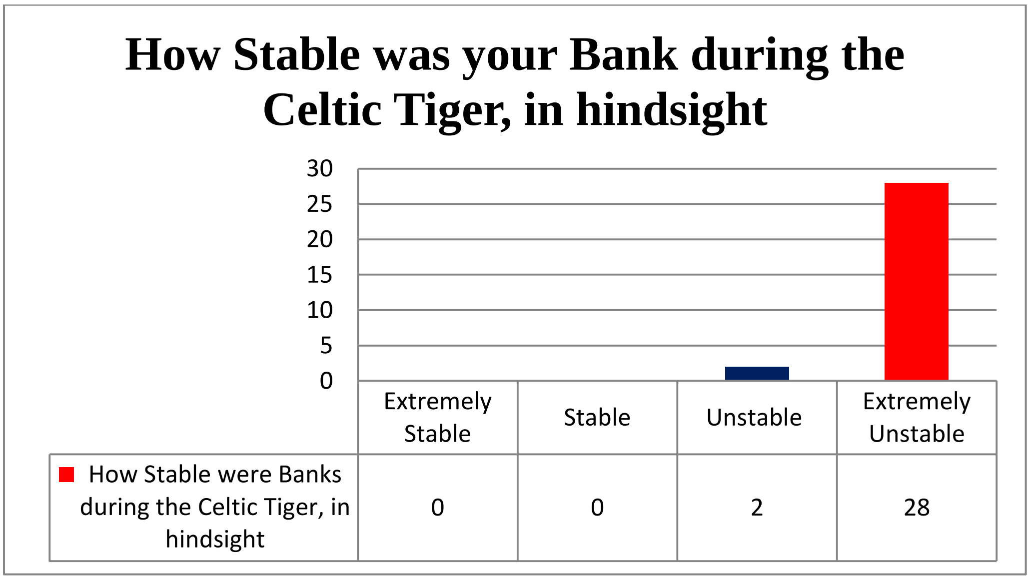
Question number 7 asked participants how stable they felt their banks were during the Celtic Tiger, in hindsight. This question allowed participants to answer based on a reflection of the Celtic Tiger using the current situation as a guideline for the effects of banking practices during the Celtic Tiger period. This allowed respondents to gauge the stability of their banks using knowledge acquired from the Celtic Tiger period to present.

The results are demonstrated in Figure F below. Despite the options available to participants, none of the respondents felt that in hindsight, their bank was extremely stable; none of the respondents felt their bank was stable. Two of the participants felt that the bank was unstable during the Celtic Tiger.

The author finds the most intriguing piece of data in Figure F is that a staggering 93.3% of respondents feel that in hindsight, banks were extremely unstable during the Celtic Tiger. The results in Figure F therefore are conclusive.

The data in Figure F is not surprising, looking back at the Celtic Tiger and comparing it with what participants know now banks were obviously unstable during the Celtic Tiger. This is further evident in Chapter 2 (The Literature Review). Figure F suggests that as banks were so unstable in the Celtic Tiger they may have needed to be better regulated both internally by the banks themselves and externally by governing bodies.

Figure F



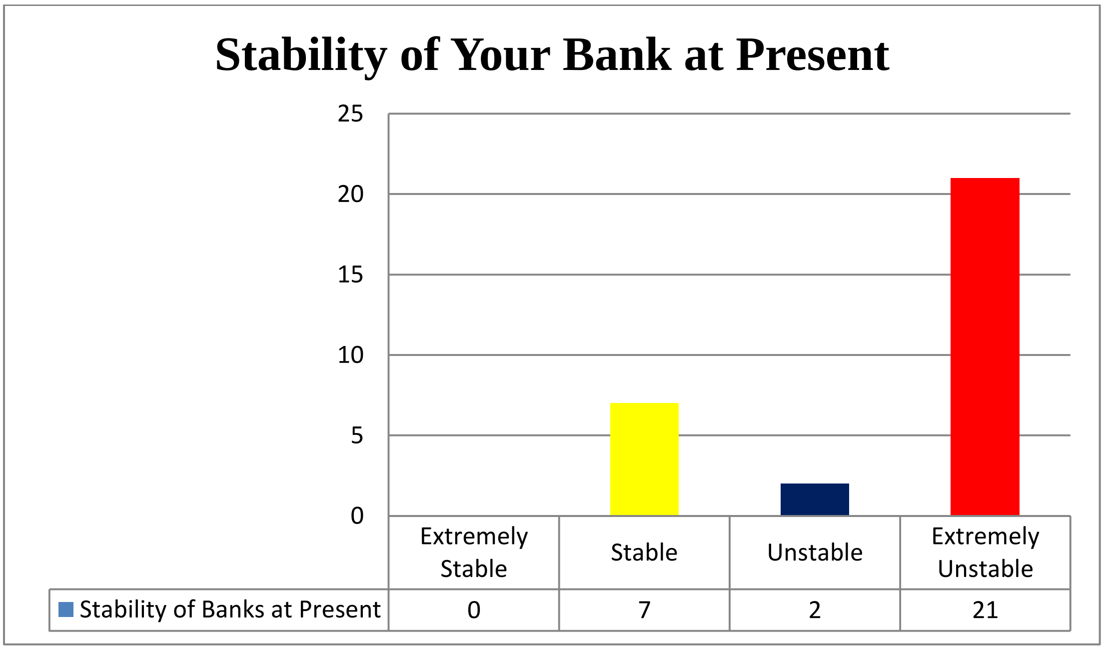
Question 8

Question eight provides a strong linkage with previous questions 6 and 7 as it asks participants again about the stability of their bank, however this question asks about the banks stability at present as opposed to the Celtic Tiger period. The author noted that many of the respondents answered in a similar pattern to question 7.

Figure G highlights the findings. None of the participants feel that at present, banks are extremely stable. 23.3% feels that at present their bank is stable. 6.67% answered that at present their bank is unstable. 70% of respondents answered that their bank is extremely unstable at present. Figure G, like figure F is conclusive in its results, the majority of participants clearly feel that their banks are extremely unstable in the present economic climate.

Upon completing an analysis of the data the researcher believes that many participants feel banks are extremely unstable at present due to the well documented economic downturn combined with the bailout required to allow banks to begin lending again, as mentioned in the Literature Review. Question 9 recognises some alternatives to ensure banks can achieve stability again.

Figure G



Question 9

The ninth question asked participants what they felt should be done to ensure the long term stability of their banks. This question may have proved difficult, as it was answered by a twelve out of thirty participants. The author believes that in hindsight this was a difficult question to answer, which resulted in a low response rate.

Despite the lack of respondents there were some opinions that merited a mention in the research findings. Respondent 3 from Ulster Bank wrote that *"Staff must act ethically and obey all regulatory guidelines; excellence must be striven for by managers".* Respondent 8 from Allied Irish Bank felt that *"Long term stability can only be achieved through strict governing and enforcement of regulations over time*". Respondent 10 from Allied Irish Bank stated *"This can only be achieved over time; the government have taken measures to put confidence back into the banks, however long term stability will be accomplished when these measures are proven to have worked".*

Respondent 2 from Anglo Irish Bank was very specific the answer provided *"Many of the banks have now become state owned; this means that government will keep much tighter control over these banks. There will no longer be a situation where, banks are lending to people who are not matching the criteria in the guidelines. Bankers will be penalised heavily if they attempt the practices that cost Ireland so much in recent times. It will take some years to be in the strong position banks achieved prior to the economic boom, however in my opinion long term stability can be achieved over time".*

The general feeling among those who responded was that it would take a long time to achieve stability in the long term. It does appear that the government will play a major role in banks achieving long term stability, combined with a strict enforcement of regulatory guidelines.

The author believes that as 60% as of respondents did not answer this question, there must be an issue with it. The researcher believes that the respondents may have felt uncomfortable answering it as achieving long term stability will be very difficult for banks to achieve. Explaining how it will be achieved will also be difficult as it will take a combination of elements to achieve it.

Question 10

The author asked question ten to observe what emphasis was placed on internal credit policies during the Celtic Tiger. The researcher felt that internal credit policies dictated banks performance during this period.

The results have been categorised amongst the three banks in Figure H below. 16.7% (5) of respondents had a strong emphasis on internal credit policies; four out of five that had a strong emphasis on internal credit policies were Ulster Bank, one out of five was with AIB and none of the five were with Anglo Irish Bank.

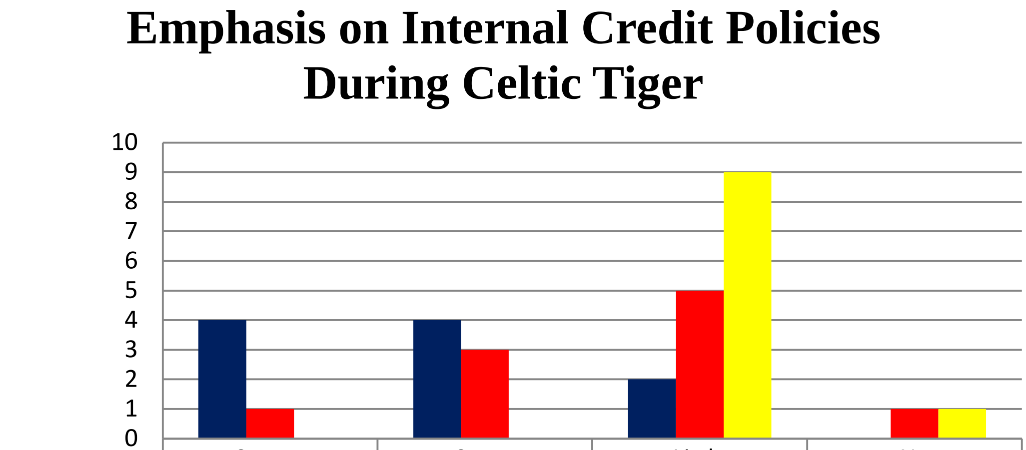
Seven out of thirty respondents (23.3%) felt that there was some emphasis on internal credit policies during the Celtic Tiger. Ulster Bank accounted for four of the seven respondents, while AIB accounted for three. Again Anglo Irish Bank had none of the respondents.

53.3% of participants answered that they had little emphasis on internal credit policies. Two of the sixteen who answered they had little emphasis were with Ulster Bank, five of the sixteen were with AIB, nine participants were with Anglo Irish.

6.7% of respondents answered that their bank had no emphasis whatsoever on internal credit policies. One respondent was with AIB and the other who answered was with Anglo Irish Bank.

It is evident when observing Figure H that Anglo Irish had little emphasis on internal credit policies during the Celtic Tiger. When this data is combined with the secondary research, one of the reasons for this lack of emphasis may have been over lending to borrowers who did not match their lending criteria. Furthermore their overexposure to the property market may have lead to less of an emphasis on internal credit policies.

Figure H



	Strong	Some	Little	No
Ulster Bank	4	4	2	0
AIB	1	3	5	1
Anglo Irish	0	0	9	1

Question 11

The eleventh question asked what emphasis is placed on internal credit policies at present within each of the banks. It is evident from the results that there is a much stronger emphasis on internal credit policies at present in comparison to the Celtic Tiger.

From observing Figure I below, 83.3% participants stated there is a strong emphasis on internal credit policies; it is obvious that there has been a shift in emphasis since the Celtic Tiger period. All three banks appear to have a strong emphasis at present.

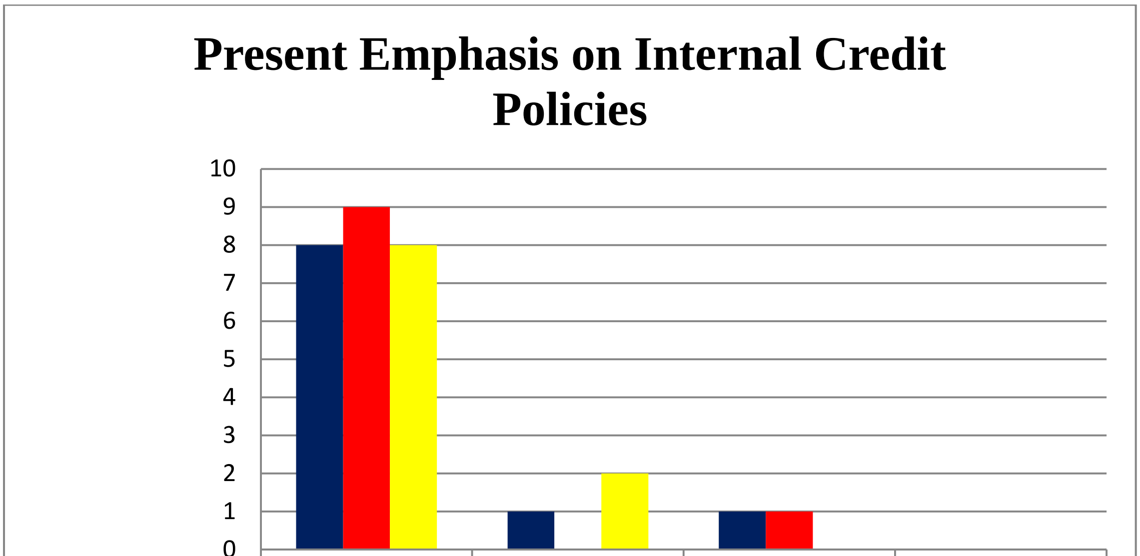
10% of participants felt that at present there was some emphasis on internal credit policies in their banks, AIB were the only bank that didn't mention that there bank had some emphasis on internal credit policies.

6.7% had little emphasis on internal credit policies. One respondent each from Ulster Bank and AIB felt that there was little emphasis on internal credit policies. Anglo Irish Bank participants did not feel there was little emphasis on internal credit policies. At present none of the banks felt that there was no emphasis on internal credit policies.

It is obvious from the results in Figure I that all banks have a much higher emphasis on internal credit policies at present due to the role of the government. Supervision of banks at present is much tighter than during the Celtic Tiger period.

The author believes that the results in Figure I could impact on the results in Figure G in future years. By having a much stronger emphasis on internal credit policies at present, this may contribute to banks becoming more stable over time.

Figure I



	Strong	Some	Little	No Emphasis
Ulster Bank	8	1	1	0
AIB	9	0	1	0
Anglo Irish Bank	8	2	0	0

Question 12

The twelfth question asked respondents why they felt there was a change in emphasis on internal credit policies. This question was only applicable to the respondents who answered question ten and eleven differently; therefore 80% of participants answered. This question was used as an open question to follow up question ten and eleven to explain why respondent's opinions had changed.

Respondent 6 from Anglo Irish Bank felt that there was a change in emphasis on internal credit policies *"Due to the financial crisis and the fact that the bank is now state owned"*. Respondent 4 from Anglo Irish Bank wrote *"Regulatory environment* *has changed, ownership structure has changed, internal risk management has structures have changed, and senior management has changed".* Respondent 8 from Allied Irish Bank believed *"Government are now much stricter insisting that all banks have a stronger emphasis on internal credit policies; this was not the case during the Celtic Tiger".*

Respondent 10 from Ulster Bank stated *"I would not say there has been a major change as Ulster Bank had an emphasis on internal credit policies, however I believe that due to the well documented financial crisis all banks now must have a strong emphasis on internal credit policies".* Respondent 4 from Ulster Bank answered "All banks now must have a strong emphasis on internal credit policies due to the influence of the government and the fact that a number of Irish banks are now state owned.

The author agrees with Respondent 10 from Ulster Bank. From observing results to question ten (Figure H) and eleven (Figure I) it is clear that Ulster Bank had more of an emphasis on internal credit policies. The researcher believes that due to the fact that Anglo Irish Bank and Allied Irish Bank are state owned there emphasis has had to change to a strong emphasis on internal credit policies, which is evident from observing Figure H and Figure I. The author also concurs with Respondent 6 from Anglo Irish Bank and recognises that the financial crisis was the major factor contributing to the obvious change in emphasis on internal credit policies.

Question 13

Question 13 asked respondents to rate their banks compliance with lending regulation out of ten during the Celtic Tiger and at present. It is apparent in Figure J that banks are much more compliant with lending regulation at present than they were during the Celtic Tiger.

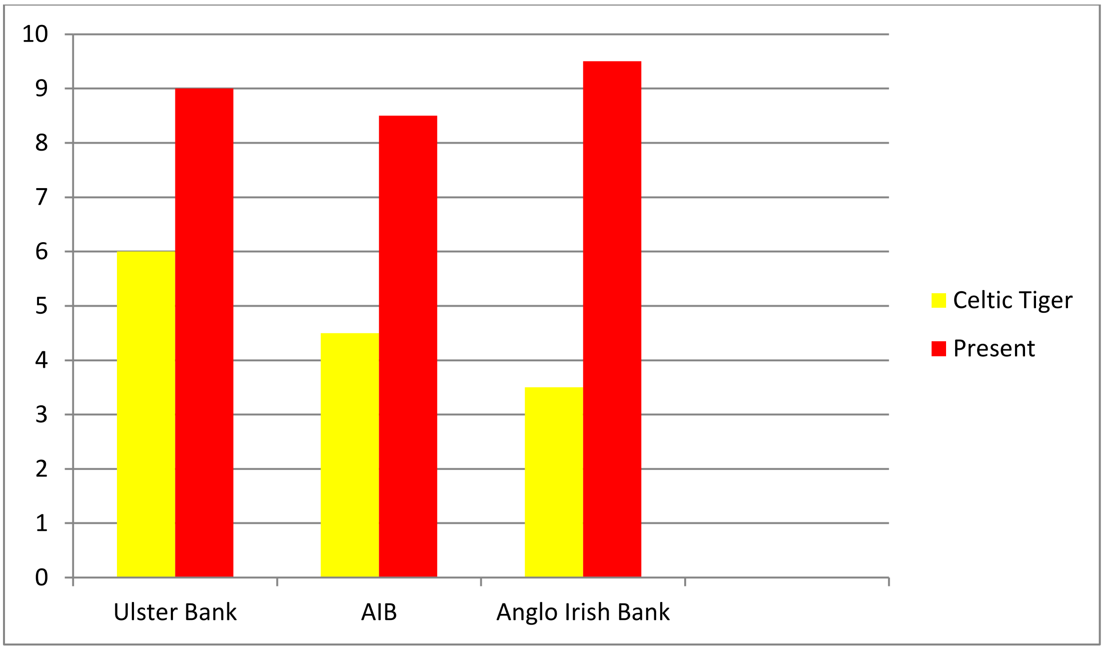
From observing the respondents from Ulster Bank, on average they rated Ulster Banks compliance with lending regulations during the Celtic Tiger at 6/10. At present they rate their compliance at 9/10.

AIB felt their bank complied on average 4.5/10 during the Celtic Tiger. They now feel their bank complies with lending regulations on average approximately 8.5/10. Again compliance with lending regulations has increased.

Finally Figure J illustrates Anglo Irish Banks participant's opinion on their compliance with lending regulations out of ten. During the Celtic Tiger they felt their compliance was on average 3.5/10. They now feel their compliance with lending regulations is on average 9.5/10, another significant increase.

The author felt due to the dramatic increase in compliance with lending regulations an explanation must be sought after; this was achieved in Question 14 & 15.

Figure J



Question 14

The purpose of question fourteen was to comprehend the reason for the majority of participants marking such a low score for compliance with lending regulations during the Celtic Tiger. From observing Figure J Ulster Bank scored compliance at 6/10, AIB 4.5/10 and Anglo Irish 3.5/10. Documented below are the main reasons identified by respondents.

Respondent 9 from Anglo Irish answered *"Regulation requires that assets are well diversified – this was not the case as there was an over exposure to property".* Respondent 2 from Anglo Irish Bank wrote *"Light touch regulation, institutional interpretation of the rules".*

Respondent 4 from Ulster Bank wrote

> *As a bank we were more compliant than some of our counterparts in that we didn't focus all of our assets in one area, it is difficult to say we were completely compliant. Without a doubt from a present view it is obvious we obeyed lending regulations more so than others.*

Another participant, Respondent 8 from Ulster Bank reiterated this point *"None of the banks were 100% compliant; however in my opinion Ulster Bank did try to comply with lending regulations. This was difficult to achieve during the Celtic Tiger as lending escalated and got out of hand".*

Respondent 2 from Allied Irish Bank believed *"Obviously we focused our interests too heavily on the property bubble; so much that at times I feel our bank jeopardised its compliance with lending regulations by risking its assets for larger returns".* Respondent 5 from Allied Irish Bank stated *"It has been well documented in the media that banks did not always act in their best interests during the Celtic Tiger. Allied Irish Bank was no different.*

The author believes that the majority did not comply with lending regulations as they had their eyes on the "bigger prize". As the property market was booming during the Celtic Tiger the banks appear to have overlooked lending regulations to profit from the property bubble. Ulster Bank appear to have complied more so than AIB and Anglo Irish as they diversified their assets in other markets; in other words they were less greedy than their counter-parts. Despite the lack of compliance to lending regulations this differs from the present day whereby compliance with legislation is a necessity as outlined in Question 15.

Question 15

This question asked participants to justify their answer in question thirteen which asked to mark out of ten their banks compliance with lending regulations at present. There appeared to be a much higher compliance with lending regulation at present than during the Celtic Tiger as illustrated in Figure J.

Respondent 3 from Allied Irish Bank wrote *"Due to changes in the bank there is more emphasis in complying with regulation that the previous emphasis on growth".*

Respondent 7 from Anglo Irish Bank believes *"Enforced regulation and increased supervisory procedures"* have signalled an increase in lending regulation.

Respondent 9 from Anglo Irish Bank identified the reason for an increase in compliance *"Banks are more compliant now as they are under the microscope. The lack of compliance in the past is unacceptable in today's society. Those who do not comply will face the consequences".* Respondent 4 from Ulster Bank outlined "*All banks have to be more compliant at present. Many banks are in the process of recovery and to ensure a repeat of the past is avoided all lending regulations are strictly monitored and enforced".*

The general feeling among participants is that compliance with lending regulations is much higher due to enforced regulations and stronger supervision on all banks. The author coincides with Respondent 3 who believes that the emphasis has shifted for banks from focusing on growing the banks in the past to complying with regulation at present. The author aims to investigate how strict each of the banks felt they act towards their own regulatory guidelines in Question 16 to support the answers participants provided in questions thirteen to fifteen.

Question 16

This question sought the opinion of participants as to how they felt their bank acted towards their own regulatory guidelines. Evidently by observing Figure K, AIB and Anglo Irish were less obedient than Ulster Bank.

6.7% of the banks were extremely strict towards their own guidelines, neither AIB nor Anglo Irish acted strictly towards their own guidelines. This suggests a lack of obedience and compliance on their behalf.

23.3% of respondents felt their banks acted strictly towards their guidelines; Ulster bank had the majority of respondents, AIB had just one and Anglo Irish Bank did not act strictly towards their guidelines.

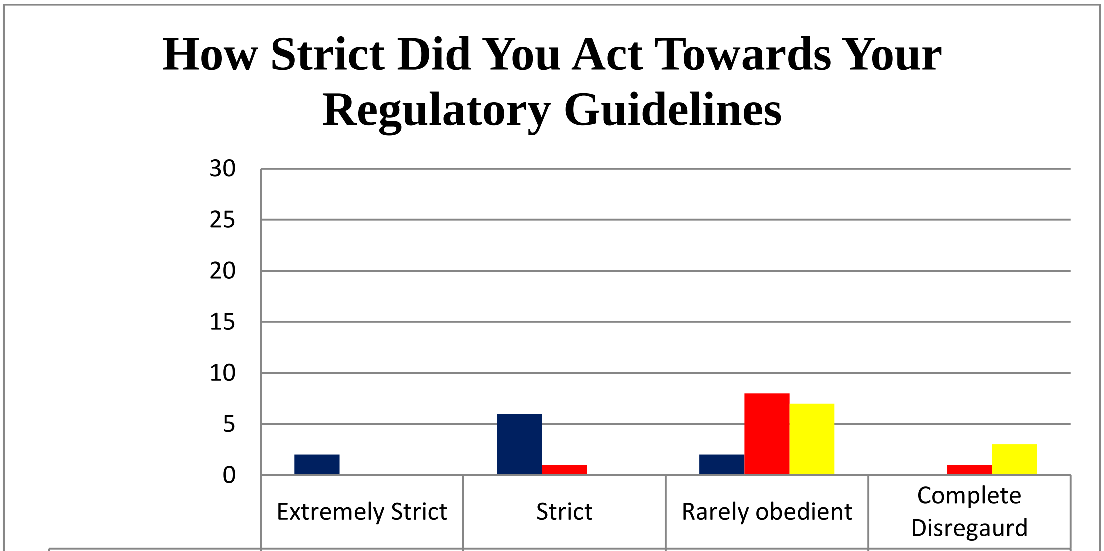
56.7% believed they rarely obeyed their regulatory guidelines; AIB and Anglo Irish Bank had the majority who were rarely obedient.

13.3% showed complete disregard of regulatory guidelines. Anglo Irish had three respondents who felt they showed complete disregard of regulatory guidelines.

The author believes that the data stipulates that the majority banks did not act in their best interests during the Celtic Tiger. This may imply that data illustrated in Figure E and Figure H has direct links with Figure K below. In Figure E banks were displayed with the majority unstable during the Celtic Tiger. In Figure H it appeared that the majority of banks had little emphasis on internal credit policies during the Celtic Tiger. Figure H shows that the majority of banks did not act strictly towards their own guidelines.

The author speculates that lending regulations were not effective during the Celtic Tiger due to the actions of internal staff. To avoid this happening again, the author believes that the possibility of tougher punitive measures and stronger supervision may need to be observed to ensure that all staff act extremely strict to their regulatory guidelines.

Figure K



	Extremely Strict	Strict	Rarely obedient	Complete Disregaurd
Ulster Bank	2	6	2	0
AIB	0	1	8	1
Anglo Irish Bank	0	0	7	3

Question 17

Due to the lack of compliance with lending regulations, question seventeen asked participants what they felt should be done to improve compliance with lending regulation for banks in Ireland. 86.7% of participants answered this question. The author believes the response rate was high as participants felt they could contribute to the research with their opinions. The relevant comments are highlighted below.

Respondent 8 from Allied Irish Bank wrote that *"Stronger monitoring and enforcement from governing body"* would improve compliance with lending regulations for banks. Respondent 4 from Anglo Irish Bank believed that the best way to improve compliance with lending regulations for banks is through *"Increased regulatory oversight and transparency on operations. Greater training and improved risk management infrastructures"*.

Respondent 10 from Ulster Bank insisted *"An independent governing body must regularly supervise and monitor all banks to ensure they are fulfilling the criterion that is in place so that the updated standards are met"*. Respondent 1 from Anglo Irish answered *"The government have taken the correct procedures by enforcing newer guidelines that will manifest a stricter compliance with lending regulations for a more compliant banking system; this will be achieved through time and patience"*.

Respondent 2 from Ulster Bank simply wrote "*As long as the banks are well governed, compliance with lending will occur over time; it is important to ensure that if banks are not state owned in future that they are still well regulated to ensure that we have learnt from our mistakes"*.

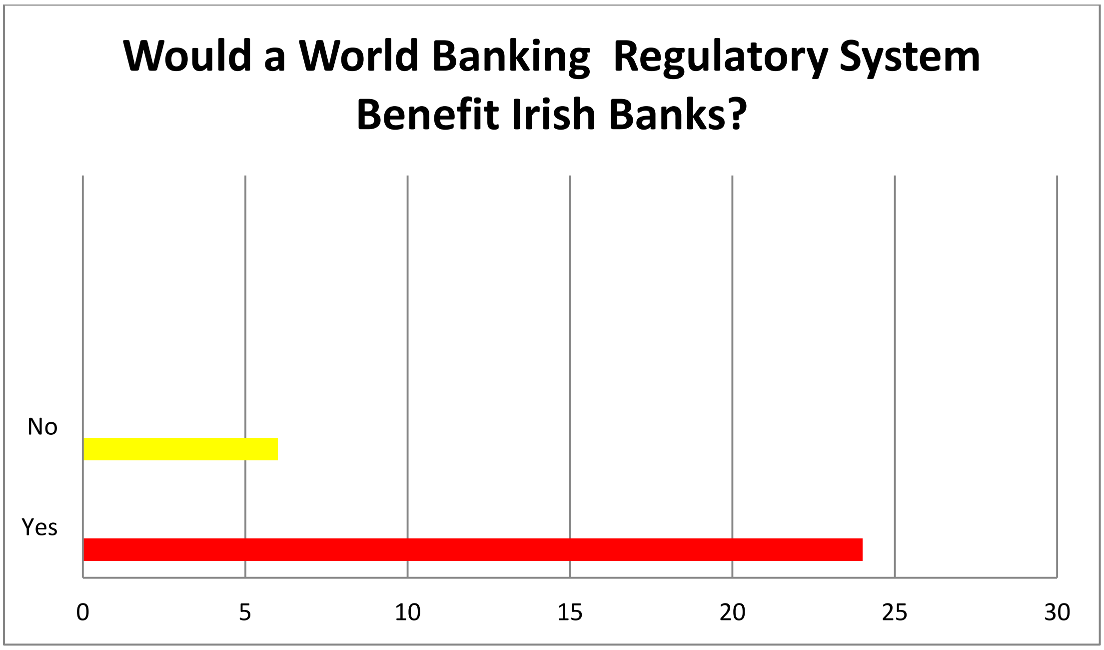
The researcher feels that Respondent 4 was very insightful and agrees that improved risk management infrastructures may enable banks to avoid the pitfalls of the past.

Based on the overall views of respondents, improving compliance with lending regulations will be achieved through perseverance, enforcement and supervision of banks that are state owned and especially banks that are not owned by the state.

Question 18

The final question of the questionnaire asked respondents if they felt a world banking regulatory system would benefit Irish Banks. They were also asked to justify the answer. From observing Figure K 80% of respondents agreed it would benefit Irish banks, 20% believed it would not benefit Irish Banks.

Figure K



The key responses are identified when asked to justify the participant's answers. Respondent 7 from Ulster Bank agreed that it would benefit Irish banks. The reason stated *"Yes. It would create global standards. Banks compete for equity from investors. Investors would be reassured with a level playing field rather than depending on single country regulation"*. Respondent 4 from Anglo Irish Bank also agreed and stated "*Yes if established international best practice standards and had appropriate regulatory engagement with institutions".*

Respondent 3 from Allied Irish Bank didn't agree that a world banking regulatory system would work "*There are too many barriers for it to work efficiently. Every country has different cultures, values and beliefs. Some countries are very rich some countries are poor; I just couldn't imagine it would work.*

The author believes that a world banking regulatory system might benefit Irish banks, however understands implementation would be extremely difficult.

Additional Comments

This section of the questionnaire allowed respondents to voice any extra information they felt relevant to the research. Only 16.6% of respondents added additional comments. The author believes this may have been due to time constraints.

Respondent 4 from Anglo Irish Bank had some very insightful views on the research topic

> *Banks may be plc.'s but due to the role they play in society they should be treated differently to plc.'s. As has been seen governments have to come to the rescue when bank's fail to protect depositors, therefore governments need to be fully aware of the liability they have. There should at least be a state representative appointed board member.*

Respondent 8 from Ulster Bank added "*Governing bodies have a responsibility; it is pivotal the same mistakes are not made. The banks will recover but it will be a long term procedure*". Respondent 2 from Ulster Bank spoke of lending regulation "*Obviously the reason the banks are in trouble is that lending regulations were not followed 100%; in the future they must be obeyed 100% to avoid a repeat of the past*".

Evidently there was a low response rate to this question; however the researcher trusts that those who answered provided some useful comments that have added to the data attained from the questionnaire. Banks being treated differently to plc.'s is an interesting concept as they play an influential role in society. It is an area that new regulation could be added to whereby a government representative is appointed as a board member in each of the banks, thus ensuring a tighter supervision and enforcement of lending regulations. The author hypothesizes that perhaps if an independent body could govern such a move, it could possibly have the desired effect.

4.4 Summary

Chapter four contained an analysis of the primary data collected that was relative to the research topic "An Empirical Study of the Effectiveness of Regulations in Lending for Irish Banks". The target population was specified and justified by the author for their expertise in the relative area of the research.

The research timeline was outlined to ensure the questionnaire was completed on schedule for the rest of the thesis. Following this there was a clear presentation and analysis of the data which addressed the research question throughout.

4.5 Conclusion

Following an analysis of the primary research the majority of participants felt that the government is responsible for the development and enforcement of lending regulation. Respondents mostly answered that all staff were responsible for their banks compliance with regulations for lending.

It is obvious that many participants had varying opinions on the stability of their bank during the Celtic Tiger. When asked this question in hindsight the majority of participants felt that there bank was extremely instable during the Celtic Tiger. At present 70% of participants feel their bank is unstable.

Over half the respondents felt that there was little emphasis on internal credit policies during the Celtic Tiger. At present 83.3% feel there is a strong emphasis on internal credit policies; the change noted between this time periods is accounted for in Question 12.

Respondents were also asked to rate their banks compliance with lending regulations during the Celtic Tiger and at present. AIB and Anglo Irish were much less compliant during the Celtic Tiger; Ulster Bank was more compliant in the same period. At present all banks are very complaint. The reasons are explained in Question 14 and Question 15. Participants are also asked how strongly their banked acted towards their own regulatory guidelines during the Celtic Tiger. A similar pattern occurred here; Anglo Irish and AIB were less strict towards their own guidelines whereas Ulster Bank was stricter on following their own guidelines.

The chapter concluded with open questions. Participants were asked what should be done to improve compliance with lending regulations for banks in Ireland; some useful opinions were added by respondents. Participants were also asked if they felt a world banking regulatory system would benefit Ireland, again respondents justified their answers with some insightful comments. To complete the questionnaire participants were asked to add additional comments that they felt would add to the research. Despite the low response rate to this question, those who did answer provided useful feedback to add to the research.

In Chapter 5 the conclusions of the research will be drawn in light of Chapter 4 (Research Findings & Analysis) and Chapter 2 (Literature Review). This chapter will review the objectives stated in Chapter 1 and outline whether the research study has satisfied its objectives.

Chapter 5: Conclusions

5.1 Introduction

Following an analysis of the research findings in Chapter 4, Chapter 5 draws a conclusion to the research. The author will discuss the primary and secondary objectives from chapter 1 to observe if they were fulfilled.

5.2 Primary Objective

The primary objective of this research was to examine the effectiveness of lending regulations for Irish banks both prior to and after the collapse of the banking sector. In Chapter 2, the importance of regulation became evident; research by Levine (2005) outlined the necessity of regulation "*The important relationship between banks and economic welfare has led researchers and international institutions to develop policy recommendations concerning bank regulation and supervision".*

The author ensured fulfilling the primary objective was possible by compiling an extensive review of the literature which explored regulation, legislation, governance, ethics, influences, stakeholders, history and current market. Research by Dellaportas et al (2005), McDonnell & Moynihan (2011), Pearson (1995) and Levin & Coburn (2011) enabled the author to gauge a greater understanding of the research area. The overall secondary research conducted in Chapter 2 allowed the author to become an expert in the area.

It is evident from the secondary research that lending regulations were not effective during the Celtic Tiger. O' Halloran (2009) wrote that "*The Government is set to take full ownership of troubled Anglo Irish Bank to safeguard the troubled financial institution's future".* The government intervention suggests Anglo Irish bank did not have effective lending regulations. O' Sullivan & Kennedy (2010) make an argument that suggests AIB's lending regulations was ineffective "*It announced a 4.3 billion bad debt charge in 2009, due to an increase this year in its loans in difficulty by 9 billion to 24.3 billion".* The reason that lending regulations may have been ineffective are explained by Ross (2009) who summarises "*For decades Ireland's banks have operated in a world where rules were there to be circumvented; where officialdom turned a blind eye to breaches of codes and laws alike.*

The author feels that this is reinforced by the primary research. Figure J illustrates that during the Celtic Tiger all three banks were much less compliant with lending regulations than they currently are. On average, Anglo Irish participants rated their compliance at 3.5/10, AIB rated their compliancy at 4.5/10 and Ulster Bank rated their compliancy at 6/10. Participants attributed reasons such as focusing assets too much on the property market. Respondent 2 from Anglo Irish wrote *"Light touch regulation, institutional interpretation of the rules".*

The researcher believes that staff may have acted in this manner to grow their bank without realising the consequences at the time. Bank managers may have taken the risks because of greed; combine this with a lack of punitive measures it becomes easier to understand why lending regulations were ineffective prior to the collapse of the banking sector.

Following the collapse of the banking sector it appears that lending regulations will be more effective. Figure J clearly illustrates that banks are extremely compliant with lending regulations at present. Respondent 7 from Anglo Irish Bank best explains why this is so *"Enforced regulation and increased supervisory procedures*". It will become easier to understand how effective lending regulations are at present by observing the stability of Irish banks over time. If the banks reach a stable state over the next few years, lending regulations will be deemed effective.

Therefore following an analysis of the research the author concludes that lending regulations were ineffective prior to the collapse of the banking sector. Furthermore the effectiveness of lending regulations after the banking sector will become more apparent over time depending on the stability of Irish banks. The secondary objectives analysed in 5.3 enabled the researcher to fulfil the primary objective efficiently.

5.3 Secondary Objectives

Chapter 4 allowed the author to become more focused on answering the secondary objectives mentioned in Chapter 1. All of the secondary objectives laid the foundations to satisfying the primary objective. All secondary objectives have been satisfied and are discussed below.

5.3.1 Develop a profile on the banking sector in Ireland

The first secondary objective outlined in Chapter 1 was to develop a profile of the banking sector in Ireland. The researcher believes this objective was achieved in the Chapter 2 (Literature Review). Historically the Central Bank of Ireland played a very influential role in developing the Irish banking sector. In more recent times the Irish Financial Services Regulatory Authority and the IMF have become more significant influences.

What becomes obvious in literature review is that Irish banking went from being in an extremely strong position which peaked during the Celtic Tiger, to its present state of demise. Fahy (2003) among other authors identified greed as the catalyst for change in the Irish banking sector.

A review of the literature allowed the author to theorise that regulatory deficiencies may have played a significant role in the demise of Irish banks. This theory was investigated in Chapter 4 (The Research Findings). Based on the findings, over half the banks (56.7%) rarely obeyed their own guidelines as outlined in (Figure K). Based on the literature the author believes this took place between the late 1990s and 2007, when banks were expanding so rapidly they became difficult to control as confirmed by D'Agostino et al (2008) *"Ireland experienced unprecedented levels of growth during the economic boom period (1997-2007).*The effects of this were described in Chapter 2 by Honohan (2010) *"Banks leveraged their deposits with sizeable borrowings from abroad*". At present the Irish banking sector is in a period of recovery to ensure stability is achieved.

5.3.2 Evaluate the levels of stability in Irish banking

Upon completing the literature review it became obvious to the researcher that Irish banking had become more unstable in recent years. The IMF (2006) mentioned factors which were affecting the levels of stability in Irish banking in 2002 *"heavy reliance on building investment, sharp increases in house prices, and rapid credit growth, especially to property-related sectors".*

The author noted that the similar factors were mentioned by some participants in the research findings. Respondent 9 from Anglo Irish Bank answered in Question 14 "*Regulation requires that assets are well diversified – this was not the case as there* *was an over exposure to property"*. Due to this over exposure to property banks became more unstable. This is confirmed by the primary research. In Figure E 50% of participants felt that at the time they felt banks were unstable during the Celtic Tiger. In Figure F 93.3% feel in hindsight banks were extremely unstable during the Celtic Tiger. Figure G symbolises that 70% of participants believe that banks are extremely unstable at present. The author concludes that banks were unstable during the Celtic Tiger due to a lack of compliance with lending regulations as mentioned in 5.2.

Banks are currently very unstable as confirmed by O Brien (2010) "*Brian Lenihan has claimed the European Central Bank forced Ireland into taking a bailout and rejected claims by a senior ECB figure that the bank warned Ireland in mid-2010 of the dangers it faced"*. The author strongly believes there is a direct correlation between the unstableness in banks and the lack of compliance with lending regulations which both started during the Celtic Tiger.

5.3.3 Develop an understanding of who is responsible for lending regulations for banks in Ireland

The author aimed to develop an understanding of who is responsible for lending regulations in Ireland. The research observed that a number of different organisations have responsibilities that contribute to lending regulations.

The secondary research identified the Central Bank of Ireland as a major factor influencing lending regulations throughout the Celtic Tiger. The Financial Services Authority of Ireland also held some responsibility for lending regulations during the Celtic Tiger.

According to Central Bank of Ireland (2011), the Central Bank of Ireland created a single unitary body responsible for both central banking and financial regulation in conjunction with The Central Bank Reform Act 2010. Central Bank of Ireland (2011) confirms *"the Central Bank of Ireland has overall responsibility for the regulation and supervision of Credit Institutions authorised in Ireland"*.

Despite the significant role of the Central Bank of Ireland it is important to recognise the input of the ECSB and the IMF. The ECSB comprises of the ECB and the national central banks (NCBs) of all EU Member States whether they have adopted the euro or not. The IMF promote international monetary cooperation and exchange rate stability, facilitate the balanced growth of international trade, and provide resources to help members in balance of payments difficulties or to assist with poverty reduction. They are also responsible for issuing Irish banks with a bailout.

In the primary research their appeared to be a lack of understanding among some participants as to who is responsible for lending regulations. 56% of participants coincided with the secondary research and answered that governing bodies were responsible for lending regulations. There appeared to be a lack of transparency among other participants whose opinion was divided. 26.7% felt bank managers were responsible, while 16.7% believed administrative staff was responsible.

The researcher concludes that a number of bodies play a significant role in contributing to lending regulations in Ireland. Ultimately the Central Bank of Ireland are responsible, however the IMF and ECSB can influence the Central Bank of Ireland due to their position in world and European banking respectively. Furthermore it is the role of bank staff to enforce lending regulations.

5.3.4 Investigate AIB, Ulster Bank & Anglo Irish Bank's level of compliance with lending regulation between the Celtic Tiger and present

It is palpably obvious from a review of the literature that Allied Irish Bank were not compliant with lending regulations. Carolan (2009) wrote

> *Among a range of claims, it is alleged the bank was made aware a sub-contractor was allegedly asked by Mr Browne to provide false invoices to AIB so as to provide a pretext to draw down additional funds from AIB, but the bank continued to advance funds without due care".*

Treanor (2010) noted the consequences of AIB,s lack of compliancy with lending regulation *"With Goggin in charge, AIB's loans to builders more than doubled between 2005 and 2008, and accounted for more than a third of the Irish loan book in 2008".*

Figure J confirms Allied Irish Bank were much less compliant with lending regulations during the Celtic Tiger with participants agreeing on average their compliancy was 4.5/10. Upon further observation of Figure J AIB are now much more compliant with lending regulations with an average compliancy of 8.5/10. Additionally Figure K instigates that AIB had 8 participants who were rarely obedient with internal policies of their bank.

Based on this information the author concludes that Allied Irish Bank were incompliant with lending regulations during the Celtic Tiger. At present AIB are very compliant with lending regulations.

When reviewing the literature the author noted that Ulster Bank was rarely mentioned regarding incompliancy with lending regulations. The author therefore assumes that Ulster Bank was more compliant with lending regulations than the other banks mentioned.

This theory is confirmed when studying the research findings. Ulster Bank staff felt that on average their compliancy was 6/10 as outlined in Figure J. This score is higher than AIB and Anglo Irish and it represents a more ethical obedience towards lending regulations among staff. A possible reason for this may be that Ulster Bank invested its assets into a diverse range of industries. Figure J also displays that at present Ulster Bank are even more compliant with lending regulations; 9/10.

Figure K supports this theory; 6/10 participants felt that Anglo Irish acted strictly towards their internal policies. The author accepts that this data is conclusive; Ulster Bank was the most compliant of the three banks questioned during the Celtic Tiger; however their compliance level could still have been better. At present Ulster Bank are also extremely compliant with lending regulations.

Anglo Irish, as has been well documented throughout the research were the least compliant. In the secondary research this becomes apparent from an early stage. Tobin (2010) speaks of Sean FitzPatrick's resignation

> *Reporting of FitzPatrick's resignation centred on the fact that his behaviour though inappropriate was ultimately not illegal. It was also pointed out that*

> *since bankers are not prohibited from personal property investment and since most banks have rules governing the disclosure of personal interests and the avoidance of conflicts of interest, such behaviour was not illegal. In other words the benchmark for banking behaviour was its legality.*

The author deems that this indicates that lending regulations were not complied with; however, as it was not illegal it continued to happen. Mulcahy (2011) underpins this point "*In his role as chairman FitzPatrick exploited his relationship with the bank by ramping up his personal borrowings from Anglo to fund a series of madcap investments".*

The data in Figure J is irrefutable; Anglo Irish participants answered that on average they would rate their compliancy with lending regulations during the Celtic Tiger as 3.5/10. This is the lowest average rating of all three banks. At present Anglo Irish Banks compliancy with lending regulations is on average 9.5/10 which is the most compliant of all three banks. Figure K shows that 7/10 Anglo Irish participants felt they acted rarely obedient to their internal credit policies. This underlines their lack of compliancy with lending regulations.

During the Celtic Tiger Anglo Irish Bank was the least compliant of all three banks. Ulster bank was the most complaint however they could also have improved on their compliancy. At present all of the banks are extremely compliant with lending regulations. The author thinks that this is due to stricter enforcement and surveillance of compliance with lending regulations amongst all banks in Ireland, especially the state owned banks.

5.4 Summary

The chapter commences with an introduction stating what will be discussed throughout the conclusions. 5.2 investigate if the primary objective has been achieved. In 5.3, the secondary objectives are fulfilled by reaching a conclusion on them individually. The chapter is complete with a summary a research conclusion.

5.5 Research Conclusion

Following a conclusion of the primary and secondary objectives the overall research conclusions that the author has reached are as follows:

- Lending regulations were ineffective prior to the collapse of the banking sector. Furthermore the effectiveness of lending regulations after the banking sector will become more apparent over time depending on the stability of Irish banks.
- Following the development of a profile of the Irish banking sector, at present, it is in a period of recovery to ensure long term stability is achieved.
- Irish Banking was unstable during the Celtic Tiger. At present Irish banking is currently unstable and it will take time for banks to reach a stable position in the future
- The Central Bank of Ireland is responsible for lending regulations for banks in Ireland. The IMF and ECSB have the power to influence the Central Bank of Ireland due to their position in world and European banking respectively. All bank staff in their respective roles is responsible for enforcing it.
- During the Celtic Tiger AIB and Anglo Irish Bank were very incompliant with lending regulations; Ulster Bank were more compliant, however they also had room for improvement. At present all of the banks are extremely compliant with lending regulations.

In Chapter 6 recommendations shall be made by the researcher based on the conclusions reached. Additionally areas of further potential research will be provided by the author.

Chapter 6: Recommendations & Potential Further Research

The author believes that following extensive research the following recommendations may increase the effectiveness of Irish banks' lending regulations.

6.1 Recommendations

- To improve the effectiveness of lending regulations for banks in the future, the author coincides with Respondent 4 from Anglo Irish Bank. There needs to be an increased regulatory oversight and transparency on operations. There is also a necessity for greater training and improved risk management infrastructures. This would ensure that all banks are more compliant with lending regulations and avoid the pitfalls of the past.
- Following an extensive review of the secondary research, combined with the research findings the author wishes to make the following recommendation: To assist in the recovery of Irish banks and to add to their stability the researcher believes a state representative should be appointed as a board member within the state owned banks. Possibly a state representative could also be appointed at board level within Irish banks which are not owned by the state. This would be beneficial to the Irish economy and also aid in the recovery of Irish Banks.
- The researcher recommends that improved training is provided to staff at administrative level. This will increase their knowledge on lending regulations that exist, who is responsible for them and clearly specify the punitive measures that are in place for those who do not comply with them. This will improve the enforcement of lending regulations within Irish banks by staff internally.
- The researcher believes that quarterly inspections must be carried out by senior members of the Central bank of Ireland. The purpose of the inspections would be to ensure that all banks are meeting the criteria for lending regulations; therefore banks internal policies must be observed throughout the process. The author believes that this would improve all banks compliance with lending regulations.

6.2 Potential Further Research

Based on the research findings and the literature review the author noticed a possible area for potential further research. Piesse *et al* (1995) mentioned in the secondary research that banks could be regulated on a global basis. *"International standards in excess of the informal arrangements through the Bank for International Settlements, or some level of harmonisation."* the author disagreed with this suggestion in the literature review due to its complexity. Following an analysis of the research findings the researcher probed the idea to participants of world banking regulatory system. Participants were asked if it would benefit Irish banks, 80% agreed that it would (Figure K).

Respondent 7 from Ulster Bank stated *"Yes. It would create global standards. Banks compete for equity from investors. Investors would be reassured with a level playing field rather than depending on single country regulation"*. Respondent 4 from Anglo Irish Bank also agreed and stated "*Yes if established international best practice standards and had appropriate regulatory engagement with institutions".*

The author coincides that it would be beneficial if it was implemented in an efficient manner. There are several obstacles to overcome, such as varying cultures, values, language barriers and various wealth of nations. The researcher believes that if these obstacles are overcome it would be worthwhile to all nations; therefore the author believes this is an area that could be an area that is investigated for potential further research.

6.3 Final Comments

Upon completion of this thesis the researcher believes that all forms of secondary literature have been researched extensively. This allowed the author to become conversant in all areas of the research. The author prepared for the primary research by compiling a comprehensive analysis of the options available to conduct the primary research. Following this the form of primary research selected was a questionnaire. The researched analysed all findings in Chapter 4. Conclusions and recommendations were reached in Chapter 5 & 6 respectively.

The primary objective has been achieved as the author has examines the effectiveness of lending regulations for Irish banks both prior to and after the collapse of the banking sector. Lending regulations prior to the collapse of the banking sector proved ineffective; now that it is in the process of recovery over time it will become evident if lending regulations are effective at present. The researcher is optimistic that the recommendations made will contribute in some way to a competent recovery for Irish banks.

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Appendices

Appendix A

Questionnaire (Pilot)

1) Please tick the bank which you are/were employed in:

Allied Irish Bank ☐

Anglo Irish Bank ☐

Ulster Bank ☐

2) Please tick the position which you occupy:

Senior Management ☐

Middle Management ☐

Administrative Staff ☐

3) How ethical in your opinion did your bank act regarding lending legislation?

Extremely ethical in all aspects ☐

Obeyed somewhat ☐

Unethical rarely ☐

Completely unethical ☐

4) In your opinion has your bank ever lent money that may have risked the banks future?

Often ☐

Occasionally ☐

Rarely ☐

Never ☐

5) How strong in your opinion was obedience to legislation emphasised amongst employees during the Celtic Tiger?

Strongly emphasised ☐

Emphasised moderately ☐

Rarely emphasised ☐

No emphasis whatsoever ☐

6) Does your bank have its own legislation, or is it regulated by a governing body? (Please specify)

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7) During the Celtic Tiger, how much financial support did your bank provide to SME's?

Full Support ☐

Moderate Support ☐

Rarely Supported ☐

No Support ☐

8) In your opinion who is responsible for banks compliance with legislation?

Bank Managers ☐

Governing Body ☐

Staff ☐

Other (please specify) ☐__________________________________

9) Please categorise how stable you felt your bank was during the Celtic Tiger?

Extremely Stable ☐

Stable ☐

Unstable ☐

Extremely Unstable ☐

10) Please categorise how stable you feel your bank is at present:

Extremely Stable ☐

Stable ☐

Unstable ☐

Extremely Unstable ☐

11) Please explain why there is a difference between answers to question 9 &10 *(if applicable)*

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12) Which of the following, best represent the emphasis placed on ethical standards within your bank at present?

Strong Emphasis ☐

Some Emphasis ☐

Little Emphasis ☐

No Emphasis Whatsoever ☐

13) Please specify the emphasis placed on ethical standards within your bank during the Celtic Tiger?

Strong Emphasis ☐

Some Emphasis ☐

Little Emphasis ☐

No Emphasis Whatsoever ☐

14) Please explain the difference between your answers to question 12 &13 (if applicable)

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15) Please rank the following banks in order of their compliance to lending legislation: 1 most compliant, 3 least compliant.

Allied Irish Banks ☐

Anglo Irish Bank ☐

Ulster Bank ☐

16) In your opinion who should be responsible for the development and enforcement of lending legislation?

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17) What should be done to improve compliance with lending legislation for banks in Ireland?

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18) In your opinion who should be responsible for the development and enforcement of lending legislation?

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19) Do you believe a world banking regulatory system would benefit Irish Banks? Why?

20) How does your bank intend to achieve a stable state, given our current economic climate?

Additional Comments

Please add any additional comments you feel that are relevant which may contribute to the research:

Thank you for time, it is very much appreciated and will aid to the research in my dissertation.

Appendix B

Research Questionnaire (Final Draft)

Gorthbrack,

Pullathomas,

Ballina, Co. Mayo

E-mail: michaeldoocey@gmail.com

Phone Number: 086 0723820

Dear sir/ madam,

My name is Michael Doocey; I am a Masters student in the Business Strategy & Innovation Management programme at G.M.I.T. At present I am completing my dissertation entitled “An Empirical Study of the Effectiveness of Regulations in Lending for Irish Banks”. I wish to ask for your assistance, by filling in the questionnaire I have provided. The purpose of this questionnaire is to evaluate the effectiveness of lending regulations on Irish banks. The questionnaire is quite short and will take at most 15 minutes to complete.

In order to complete the questionnaires please follow these simple instructions:

- Provide any extra information you feel relevant in the page entitled: Additional Comments
- Please note that you are not obliged to answer all questions, if there is a question you feel uncomfortable answering please leave it blank.
- Please note you are not obliged to answer this questionnaire; If you do wish to participate in this questionnaire please send it to the return address provided

Please note that this questionnaire and all information that you provide will be held in the strictest confidence. I would be grateful if you sent the completed questionnaire to the address provided on or before August 11th 2011. Finally I wish to express my gratitude to you for your time and assistance, it is greatly appreciated.

Kind Regards,

____

Michael J. Doocey

Research Questionnaire

1) Which of the following banks are/were you employed in?

Allied Irish Bank ☐

Anglo Irish Bank ☐

Ulster Bank ☐

2) Please tick the position which you occupy/ occupied:

Senior Management ☐

Middle Management ☐

Administrative Staff ☐

3) Which of the following would you classify as your primary field in banking?

Retail Lending ☐

Commercial Lending ☐

Savings and Investments ☐

Other (Please Specify) ☐ ________________________________

4) In your opinion who is responsible for banks compliance with regulations for lending?

____

____

____

5) In your opinion who should be responsible for the development and enforcement of lending regulation?

Bank Managers ☐

Governing Body ☐

Administrative Staff ☐

Other (Please Specify) ☐ ________________________________

Please elaborate

____

____

6) Please categorise how stable, at the time, you felt your bank was during the Celtic Tiger period?

Extremely Stable ☐

Stable ☐

Unstable ☐

Extremely Unstable ☐

7) Please categorise, in hindsight, how stable you feel your bank was during the Celtic Tiger period?

Extremely Stable ☐

Stable ☐

Unstable ☐

Extremely Unstable ☐

8) Please categorise how stable you feel your bank is at present:

Extremely Stable ☐

Stable ☐

Unstable ☐

Extremely Unstable ☐

(If your answers to question 7 and 8 do not match please answer question 9, if answers to question 7 and 8 are the same proceed to question 10)

9) In your opinion, what internal changes should be made to ensure the long term stability of your bank?

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10) Which of the following, best represent the emphasis placed on internal credit policies within your bank during the Celtic Tiger?

Strong Emphasis ☐

Some Emphasis ☐

Little Emphasis ☐

No Emphasis Whatsoever ☐

11) Which of the following, best represent the emphasis placed on internal credit policies within your bank at present?

Strong Emphasis ☐

Some Emphasis ☐

Little Emphasis ☐

No Emphasis Whatsoever ☐

(If your answers to question 10 and 11 do not match please answer question 12, if answers to question 10 and 11are the same proceed to question 13)

12) Why do you feel there has been a change in emphasis on internal credit policies?

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13) Please rate in your opinion, from a present perspective your banks' compliance with lending regulation out of 10 during the following periods. (10 = extremely compliant, 1= Incompliant in every way.

Celtic Tiger ☐

At Present ☐

14) Please explain the reasons for the rating you provided during the Celtic Tiger period in question 13:

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15) Please explain the reasons for the rating you provided for the present period in question 13:

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16) How strict, in your opinion did your bank act towards its own regulatory guidelines during the Celtic Tiger?

Extremely strict ☐

Strict ☐

Rarely obedient ☐

Complete disregard of guidelines ☐

17) In your opinion what should be done to improve compliance with lending regulation for banks in Ireland?

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18) Do you believe a world banking regulatory system would benefit Irish Banks? Why?

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Additional Comments

Please add any additional comments you feel that are relevant which may contribute to the research:

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Thank you for your time, it is very much appreciated and will aid my research studies.

Appendix C

(Please note that all names have been concealed due to the author providing all participants with anonymity)
From: *************@gmail.com
Sent: 16 June 2011 17:09
To: **
Subject: Fwd: Thesis Questionnaire

Guys,
A friend of mine is doing a Masters and asked me to complete the attached.
Would you mind doing the same and return? You can do it anonymously but if you feel uncomfortable about answering it's no problem.

Regards,
*****

---------- Forwarded message ----------
From: **Michael Doocey** <michaeldoocey@gmail.com>
Date: June 2011 17:36
Subject: Thesis Questionnaire
To: **************@gmail.com

Hi *****,
Following our discussions from the pilot questionnaire, it has been revised; attached is the final draft of the questionnaire. Please follow the instructions attached in the cover letter. As mentioned previously, this information will be held in the strictest confidence and your identity will remain anonymous. Please forward it to your colleagues in the branches we agreed upon at our meeting. Thanks again for all your help, it is much appreciated.
Kind Regards,
Michael Doocey.