An investigation into the effects of the Celtic Tiger on the demand for financial products and the implications of the "Credit Crunch" on Irish consumers of financial products in the North Western region.

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I hereby declare that this dissertation is my own work and has not been submitted previously as an exercise for a degree or any other qualification, and shall be signed in pen by the author.

Signed ______________________ Date______________________

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Dedicated to my loving family

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Abstract

The Irish economy has undergone vast economic restructuring over the years particularly over the last decade. This dissertation reviewed the economic development in Irish history from the 1930's to the "Celtic Tiger" era. The key enabling factors that lead to the "Celtic Tiger" were analysed. The rise in personal borrowing and consumption levels of Irish consumers were identified with particular emphasis on the role of Irish financial service providers during this era. The review concluded with an evaluation of the impact of the recent Credit Crunch on Irish financial service providers.

Primary and secondary research methodologies were utilised to investigate the impact of the "Celtic Tiger" and the recent "Credit Crunch" on the demand levels for financial products and consumer confidence. Primary research was under taken through an empirical qualitative methodology in the form of semi structured interviews and anonymous questionnaires. The secondary research was carried out by critically evaluating relevant published material such as academic books, journals, web sites, documentaries and newspapers.

Key findings were identified from the research. Over the last decade it is evident that the majority of Irish consumers have some level of debt liability to a financial service provider. The re-emergence of a savings culture was evident. The majority of Irish consumers surveyed were unable to define the term "Credit Crunch" however the majority said that the current economic climate has negatively affected the demand for mortgages and personal loans. The findings concluded that confidence in the Irish financial sector still remains positive.

Abbreviations

AIB	Allied Irish Bank
ATM	Automated Teller Machine
BOI	Bank of Ireland
CBI	Central Bank of Ireland
CSO	Central Statistics Office
CU	Credit Union
DSR	Debt service Rate
ECB	European Central Bank
EEC	European Economic Community
EUI	Economist Intelligence Unit
ESRI	Economic Social Research Institute
EU	European Union
FDI	Foreign Direct Investment
FSA	Financial Service Authority
GDP	Gross Domestic Product
GNP	Gross National Product
ICTU	Irish Congress of Trade Unions
IDA	Irish Development Authority
IFSRA	Irish Financial Service Authority
IMF	International Monetary Fund
MABS	Money Advice and Budgeting Service
OECD	Organisation for Economic Co-operation and Development
SEM	Single European Market
SSIA	Special Savings Incentive Account
UK	United Kingdom
US	United States of America
WW2	World War 2

Chapter 1: General Introduction

1.1 Rational

The evolution of the Irish economic miracle commonly known as the "Celtic Tiger", has seen Ireland blossoming from a state of economic despair to a thriving nation. This in turn has catapulted the Irish population into credit overdrive. Aided by lower interest rates introduced by the European Central Bank, financial institutions were able to make credit more freely available, consequently the demand for mortgages, credit cards, overdrafts and loans increased at alarming rates to fund the elaborate lifestyles of Irish consumers. This loosening of monetary policy fed through to most sections of society as even people with poor credit history could avail of cheap credit with the introduction of sub prime lending. Lower income tax rates, wage increases and a general "feel good" factor in the economy attributed enormously to the level of consumer spending and debt levels. Ireland became insatiable as evidenced by one of the highest home ownership rates per capita in the world with over 500 people applying for mortgages every day, borrowing at least eight times the average industrial wage (Lee, 2006). To illustrate this point it would appear that while at government level lessons had been learned regarding the high levels of borrowing, at an individual level fiscal rectitude was the last thing on people's minds. In the 1980's GDP was 130% and domestic debt was 30% per capita while in 2006 the situation was the complete opposite with domestic debt at 130% and GDP at 30% per capita (Lee, 2006). It was also noteworthy that the vast majority of Irelands personal borrowing had been invested in the property market.

Economists such as George Lee and David Mc Williams have been sending out warning signals since 2003 that the "Celtic Tiger" was not indigenous to Ireland and was not here to stay. Consumers chose to ignore such warnings to be cautious with their finances. It is only in the last two years that the Irish population has noticed the transition in the Irish economy.

Ireland is now in the grips of the perfect economic storm. Rising oil prices, strengthening euro, the collapse of the domestic property market, the recession in the United States and the global "Credit Crunch" have all conspired to turn what was once an incredible economic success story into a period of rapid economic decline. This in turn is placing both financial institutions and the customers who availed so readily of the unlimited credit supply in times of the boom under severe pressure now with the threat of recession looming over the Irish horizon.

The "Credit Crunch" as it is commonly referred to has resulted in banks now tightening up their application procedures and eliminating discounted rates in an effort to combat the financial turmoil of the Irish consumer. This can be illustrated by the fact that AIB and Bank of Ireland have recently increased their mortgage repayment rates and all retail banks have increased the stress test in an attempt to stave off bad debts.

The tightening of monetary policy directly impacts on vulnerable first time buyers and is seen by many economists as a key contributing factor in the downturn of the Irish property market. Developers, who have previously borrowed millions from financial institutions to build houses, are now having difficulty offloading them due to a number of factors including the tightening of mortgage criteria, confusion over the stamp duty issue, oversupply of housing and inflated pricing. Property as an investment asset was the dominant choice of Irish investors. However due to this property slump and the greying population, investors have begun to diversify into other forms of investment such as cash, bonds and equities. The annual level of savings has increased and is expected to increase further by 2015. (Wealth of The Nation Report, 2006)

In the past the vast majority of academic literature and media painted an optimistic view about wealth creation and either underestimated or downplayed the rising level of personal debt in Irish society. The aim of this study is to investigate the implications of the economic downturn on the Irish consumer and the subsequent demand for financial products.

1.2 Aims of investigation

By analysing the existing literature, this dissertation will examine the pre "Celtic Tiger" era in Ireland and the underlying factors that led to the evolution of the economic boom. It will examine the impact of the "Celtic Tiger" on the financial service sector, the demand levels for all financial products and the resulting impact on consumer debt levels. It will then address the current economic situation, the possible impact of the "Credit Crunch" and any resulting effect on borrowing, savings and investment patterns of Irish consumers. Recommendations will be proposed for consumers and financial institutions to help deal with the financial pressures as a result of the economic decline.

Specifically the aims of this research are:

a) To review the economic development of Ireland and in particular the enabling factors which led to the boom known as the "Celtic Tiger".
b) To evaluate the impact of the economic boom on financial services in Ireland.
c) To analyse the forces behind the recent global "Credit Crunch".
d) To review the current borrowing/saving and investment decisions made by the Irish consumers and specifically those in the North West region.
e) To suggest recommendations for consumers and Irish financial institutions to help deal with the implications of the recent down turn.

The Irish population has enjoyed over a decade of overindulgence, spending and elaborate lifestyles. Ireland is now facing an altered economic reality and the Irish success story is now subject to much public scrutiny and debate. There is limited published material on the reality of the economic downturn and how the consumer will adapt. It is hoped that this research will add to the existing body of knowledge as to the response of Irish consumers to this new economic condition.

1.3 Study Outline

This Study is divided into four main sections. Firstly, it will review the economic development of Ireland and the emergence of the "Celtic Tiger" and the impact of same on the financial service sector in Ireland.

The second section analyses the recent downturn in the Irish economy and the emergence of the global "Credit Crunch". To analyse the current situation reports, government documents and other current literature will be reviewed.

In the third section primary research will be carried out in order to identify the current trends in savings, borrowings and investment patterns in the North West region by examining customer perceptions of the current situation and its influence on the demand for financial products. Management interviews and questionnaires will be structured in order to form a realistic picture of the current situation of Irish financial services in the North West Region.

Finally, conclusions are drawn regarding the current customer perceptions and the effect of the "Credit Crunch" on demand levels for financial products. Recommendations will be proposed for consumers and financial service providers going forward in an economy subject to the impact of the global "Credit Crunch".

The following chapter will now examine the research methods utilised in this study.

Chapter 2 Research Methodology

2.1 Introduction

This chapter reviews the research processes adopted in this study. The steps taken to prepare, implement and analyse the study are examined. The chapter will justify the use of quantitative and qualitative research methods for this investigation. The secondary research utilised were academic journals, books, government and advisory publications, advisory websites and newspaper articles. The primary research was conducted through the use of questionnaires and semi structured interviews, which will be discussed later in the chapter.

2.2 Choosing a Research Method

According to OECD (1980) research is creative work undertaken on a systematic basis in order to increase knowledge. By utilising this knowledge to devise new applications, such research activity must make an original contribution to the particular field of study. Drew, (1980, pp. 4-8) expands on this by stating "Research is conducted to solve problems and to expand knowledge.......Research is a systematic way of asking questions, a systematic method of enquiry".

Specific guidelines to ensure the research is useful are proposed by Hankel, Sorcher, Beer, and Moses (1982). Firstly they all note that all parties involved in the research should be made aware of the aims of the research. Secondly the study should provide information on the specific problem and then provide a helpful solution. All parties involved in the research should assume that the research outcome would not cause harm to them in any way. Finally, the research and its subsequent findings must be both valid and reliable.

It is normal to divide research methods into quantitative and qualitative approaches. The quantitative method is used to gain statistical data on a particular subject while the qualitative method can be utilised to analyse attitudes and opinions. Both quantitative and qualitative methods were utilised for the purpose of this study in order to gain a comprehensive perspective. Quantitative data will be utilised to identify the facts and figures while qualitative will facilitate the perception and opinions of the customers and the financial institutions to be expressed.

2.2.1 Qualitative Research

Qualitative research methods were developed to enable researchers to study social and cultural phenomena. Qualitative data sources include observation, interviews and questionnaires, documents and texts and the researcher's impressions and reactions. Qualitative research involves the collection of data that is "mainly words, sounds and images (Roberts, 2004, p. 13). Van Maaen (1979, p. 520) describes qualitative research as "covering an array of interpretive techniques which seek to describe, decode, translate and otherwise come to terms with the meaning of naturally occurring phenomena of the social world."

Chadwick et al (1984) summarised the key strengths of Qualitative research to include, allowing the researcher to understand why certain participants respond in a particular way, allowing flexibility and raising the role of the researcher who has to evaluate and interpret the findings. However he identified key weaknesses of qualitative research methods, to include the time consuming nature of the process, the collection of some irrelevant information and the difficulty in generalising the findings.

2.2.2 Quantitative Research

Quantitative research is defined by Cormack (1991, p140) as "a formal objective, systematic process in which numerical data are utilised to obtain information about the world". Saranntakos (2001) explains that the most common forms of quantitative methods utilised are surveys, documentaries, observation and experiments and points to the passive role of the researcher during data collection. Silverman (2000) notes that quantitative research concerns itself with structured organised data.

Mc Collough (1997) summarises the key strength of quantitative research. He suggested that the findings of quantitative research are extremely reliable. However a weakness of quantitative methods is the need for the researcher to identify an initial hypothesis before the research is carried out (Huysamen, 1997) as it can only measure issues known prior to starting the research. Quantitative research generates a single response and does not explain the reasons for their response.
Johnson (1997) cautions that there is a weakness that can be common to both approaches which is researchers' bias, where the researcher permits their own personal view to interfere with the research findings.

Researchers have questioned the reliability of the sole use of quantitative research as it cannot address questions of understanding and meaning (Havitz, 1994 and Henderson, 1991). Most researchers adopt either a quantitative or a qualitative approach, but researchers such as Mingers (2001) have suggested combining one or more research methods in one study. This is known as triangulation. For the purpose of this project both quantitative and qualitative are utilised, the quantitative element will allow the measurement of key variables while the qualitative element will compliment the research further by exploring the views and opinions held by participants.

2.3 Secondary and Primary Data Utilised

Secondary data is all data previously published about the research topic (Roberts 2004). The sources explored for this research project were academic books, reports, articles, websites, magazines, government publications and documentaries. A review of available secondary data enabled the researcher to gain a clearer understanding of the subject under investigation, the identification of potential gaps in the theory which will help formulate a research problem. Primary data is original information collected by the researcher (Roberts, 2004). For this dissertation sources of primary data utilised includes questionnaires and interviews.

2.3 Questionnaires

Due to the sensitive nature of the topic area it was felt that focus groups or personal interviews with customers would not be appropriate, as initial trials displayed unwillingness by people to disclose their personal financial situation. An anonymous questionnaire was therefore deemed more suitable. Key advantages of using a questionnaire approach are the assurance of anonymity, a quick inexpensive method of gaining information and the elimination of researchers' bias. However a key limitation of this approach is that it offers little room for probing, clarification or elaborating.

2.4.1 Questionnaire Design

(See appendix1)

The questionnaire was designed to incorporate the aims of the research. The questionnaire combined both open-ended questions, which facilitated elaboration by respondents, and closed questions that elicited a single response. Primary questions were utilised in order to trigger responses about key research objectives. A pilot study of the questionnaire was conducted in order to eradicate any misleading or unclear questions. Sarantakos, (2002 p. 293) defines a pilot study as "A pilot study is a small scale replica and a rehearsal of the main study" .

2.4.2 Sample Frame

The research sample focused on the North West Region of Ireland, to gain as wide as representation as possible. The main towns Sligo, Carrick-on-Shannon and Letterkenny were chosen and financial providers within the same were identified. From the banking sector Ulster Bank, Bank of Ireland and AIB were selected as they represent the majority share in the Irish banking sector. Other financial service providers such as the Credit Union and financial and mortgage advisors were identified and selected on a basis of the size of the branches and the number of customers.

2.4.3 Distribution

Due to the sensitive nature of the research topic the use of email was not deemed appropriate, as the anonymity of respondents would not be protected. A total of 300 questionnaires were distributed in a hard copy format to large local companies, supermarkets, banks, shopping centres, cafes and hair salons. A wide variety of premises were chosen to provide as broad a sample as possible. A secure box was provided in order to protect the anonymity of the respondents and a collection date was prearranged with the manager of the premises chosen. Data Collection and Analysis of the questionnaires resulted in key trends emerging. The use of both quantitative and qualitative meant a deeper evaluation of these trends was possible. Finally conclusions and recommendation were drawn from the research findings

2.5 Interviews

Pole & Lampard, (2002, p.126) defined an interview as "A verbal exchange of information between two or more people for the principle purpose of one person gathering information from the others". Frey and Oishi (1995 p. 01) defined an interview as " a purposeful conversation in which one person asks prepared questions and another answers them". Interviews can be conducted in various forms, structured, unstructured, semi structured Nichols (1991 p.131)

2.5.1 Structured Interviews

These are based on a very stringent procedure. They are mainly used for quantitative research. There is very little room for probing and elaboration due to fixed question order, which means there is "little room for unanticipated discoveries" (Breakwell, Hammond and Fife-Shaw, 1995 p. 231)

2.5.2 Unstructured interviews

Nichols (1991, p. 131) defined an unstructured interview as an "informal interview not structured by a standard list of questions". There is no order; the interviewer formulates the questions as and when required. The interviewee has the most control in these interviews, as they are free to elaborate on the topic area. Unstructured interviews are mostly for qualitative research. However there is a lot of information collected that is unnecessary (Ghauri and Gronhaug, 2002).

2.5.3 Semi Structured Interviews

Semi structured interviews allow the interviewer to have a certain degree of flexibility in terms of questions asked and the time allocated to the interviewee to respond (Denscombe, 1998). They contain characteristics of both structured and unstructured interviews and they can be used to gain either qualitative or quantitative data.

2.5.4 Conducting the Interview

After analysing the various interview typologies, the researcher decided Semi structured interviews were most suitable. Financial providers were contacted via email (see appendix 5). Eight interviews were arranged over a period of three months during April, May and June, with a representative of each bank, representatives from independent financial advisors and the Credit Union of Ireland. These were useful in gaining a personalised insight into the Irish financial service sector. In addition, the researcher drew up a list of structured questions that were directly related to the research problem. The open-ended questions allowed for further expansion where required. This qualitative data would back up previous secondary research. All the interviews took place within the branches. Before the interviews commenced each manager was given a briefing on the project and they were asked to sign a consent form (appendix 6) to guarantee anonymity.

2.6 Limitations of Research

A number of limitations were encountered while conducting the research for this dissertation. Due to time constraints it was not possible to contact every financial institution in the North West of Ireland so key players were identified to represent the financial service sector. Also it was not feasible to analyse every customer in the North West, so a sample was taken in each county. Many of the financial service providers, which were contacted, were unresponsive. Some responded and arranged a suitable date for an interview but cancelled at the last minute. Other arrangements had to be made with alternative financial service providers. Due to the Data Protection Act (1998) the financial institutions were unable to provide personal information regarding their customers and the views expressed were taken to represent a generalised view.

2.7 Research Ethics

The researcher was aware that the research topic was of a sensitive nature thus the need for confidentiality was paramount. Questionnaires could not be emailed, so a hard copy was provided for all participants. A secure box was provided with questionnaires in order to protect each individual's privacy. The interviewee's were supplied with a consent form (appendix 6) in order to reassure them that any information they provided, which may be used in the dissertation would not be attributed to them or the financial provider in question. Agreement to use digital recording equipment was requested from each interviewee. Due to the Data Protection Act (1998) the bank was not permitted to provide any personal data on their customers. Also due to the sensitivities of the market place key business information such as the numbers of customers applying for mortgages in 2006 could not be obtained, hence the manager used a speculative approach when answering these questions.

2.8 Conclusion

This chapter has outlined the research methods chosen and provides strong justification for same, due to the sensitive nature of the research topic. Secondary data was explored in order to develop an initial framework for this study. In order to gain the perspective of the customer 300 anonymous questionnaires were distributed in local businesses in the catchment area. Semi structured interviews were then conducted with representatives from the financial service sector in the North West.

Chapter 3 Historical Evolution of Irish Economic Performance

3.1 Introduction

This chapter outlines the evolution of the Irish economy from the 1930's to the present day. The enabling factors that have led to the Irish success story commonly referred to as the "Celtic Tiger" are identified. An analysis into the trends of consumer borrowing, saving and spending patterns throughout the economic boom is outlined. The recent emergence of the "Credit Crunch" and its global impact is evaluated with particular emphasis on its impact on consumer borrowing and saving decisions.

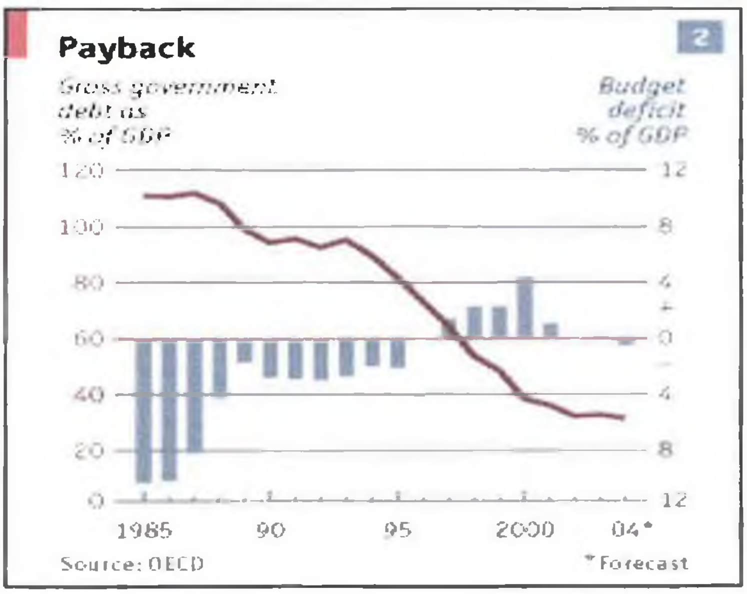
3.2 Economic Overview of Ireland

The recent success of the Irish economy during the boom period is in sharp contrast to the many decades of sharp economic stagnation and decline that had gone before. Indeed the Irish economic performance has been noted for its many failures. Sweeney (p.23,1999) noted that Ireland is the "clearest demonstration of the failure of economic policies." After World War 2 Ireland was labelled "the poorest of the rich" and a "dead economy" by the Economist (Lee, 2006). Lee (2006) argues that Ireland was very resistant to industrialisation and up until 1981 Ireland still remained a very traditional agricultural based economy with a slow growing low technology sector. In the 1987 GDP per capita was 69% of the EU average, unemployment levels reached 17% at one point in the mid 1980's, 248,000 people were claiming social welfare. In 1987 national debt was 112% of GDP (Economist intelligence unit, 2004 (A)) (see Graph 1). However Ireland has been noted in more recent times for its economic success commonly referred to as the "Celtic Tiger". The once dwindling economy had morphed into a thriving nation that was the envy of many countries.

Many factors contributed to the emergence of the "Celtic Tiger". The IDA was central to Ireland's re-launch by co-ordinating an aggressive advertising campaign to attract foreign direct investment by re-branding Ireland as "the country known for education". The Economist Intelligence Unit, (2004 (A)) detailed the changes in the Irish economic statistics. By 2003 GDP had increased to 136% of the EU average, unemployment had dropped to 4% and national debt had shrunk to 33% of GDP (see graph 1). Ireland gained over €4 billion from FDI, 700,000 new jobs were created, imports turned to exports, earnings and expenditure tripled. In 10 years Ireland had become an international success story (Lee, 2006). "Ireland's transformation is so dazzling...... one of the most remarkable transformations of recent times from "basket case" to "emerald tiger" in ten years"

(Economist, 1997 p.6)

Graph 1 Gross Government debt as a percentage of GDP



Source : (Economist intelligence unit, 2004 (A))

3.3 Decade analysis

This chapter will now look back through the decades of Irelands economic performance from the 1930's to the Celtic Tiger phenomena of the 1990's.

3.3.1 1930's

Ireland historically was largely dependant on the agricultural sector, which comprised mainly of small-scale family farms, which generated low material wealth for the economy (Chubb, 1982). Small farms and traditional land ownership arrangements contributed to low productivity levels in agriculture (Turley, Maloney & O,Toole, 2006). However during the 1930's the farming industry became increasingly mechanised, resulting in a labour surplus. As there was less of a demand for manual farm labour and limited opportunities for employment in other sectors this forced many of the population to emigrate to the U.K, US, Canada, Australia and elsewhere in search of employment. This level of high emigration shrunk the labour supply, which ironically had an unintended impact on wage levels in the Irish market, keeping the wage rates higher than expected in a developing country (Turley et al, 2006). This period also saw the Irish government initiating a series of protectionist policies aimed at increasing and protecting domestic activity.

The Control of Manufactures' Act (1932) was designed to keep manufacturing in Ireland under Irish ownership, by legislating that Irish nationals had to retain control of over 51% of manufacturing firms in Ireland. This highlighted how inward looking the Irish economic policies were at the time. At one level the protectionist policies seemed to be successful with industrial production growing rapidly by 50% between 1931-1938, resulting in employment growth from 110,000 to 166,000 (Sweeney, 1999). However Sweeney (1999) also notes that these protectionist policies prolonged the life of some inefficient domestic firms that would not have succeeded in a free market economy.

3.3.2 1940's

While Ireland remained neutral during the Second World War, Irelands national income stagnated, rising just 14% between 1938- 1947. Exports had fallen by half, industrial output and employment had dropped and living standards had fallen. Emigration rose by 36,000 a year, twice the level of the previous decade. In contrast a number of semi state bodies were established in the 1940's such as Irish Steel, CIE and Irish shipping. This reflected the belief that prevailed at the time that the government should provide employment in the form of semi state bodies, if the free market could not (Sweeney, 1999). After WW2 the Public Capital Programme was set up, in order to control public spending. The plan was linked to the US Marshall plan, as a condition for receiving Marshall Aid from the US. Ireland received £150,000 million in the form of the Marshall Aid from the US to assist Ireland in getting back onto their feet after WW2 (Foster, 1989) Marshall Aid was seen by many commentators as an attempt to halt the rise of communism in the west.

3.3.3 1950's

During the 1950's the Irish economy became stagnant. This was partly due to the balance of payments crisis, as the surplus that had been built up before the war had disintegrated between 1947- 1956 (Sweeney, 1999). The 1950's saw Ireland suffering economically, intellectually and culturally. Facing the economic stagnation, T.K Whittaker, the Secretary of the Department of Finance was given the task of developing a programme for Irish economic development. In his proposal entitled 'The Programme for Economic Expansion' (1958) he recommended strategies to assist the agricultural sector and recommendations for attracting FDI through tax reductions and other incentives and eliminating any protectionist measures (Sweeney, 1998). This marked a significant change in prevailing thinking. These economic policies were prompted to shed the inward thinking of the Irish government and to look outward for economic development. Another recommendation was that public expenditure would be utilised on productive projects rather than non-productive projects (Leddin and Walsh, 1998). The overall aim of Whittaker's proposal was to turn emigration into immigration. The programme proved successful for industrial production, which increased by 47% between 1957- 1963. However the agricultural sector was not as successful, witnessing just 1% increase in output during the same timeframe (Lyons, 1976).

3.3.4 1960`s

Whilst Whittaker had sown the seeds for outward expansion through the Programme for Economic Expansion the first steps towards a truly open market economy were made in 1965 when Ireland signed the Free Trade Agreement. Foreign firms began to invest in Ireland and as a result the population increased in 1966 for the first time since the famine (Sweeney, 1999). Emigration levels dropped from extreme levels in 1950's of 409,000 to 135,000 in 1960's bringing the overall population to 2.8 million (CSO,1990). (See table 1)

Table 1. Net emigration levels from Ireland

1920	1930	1940	1950	1960	1970	1980
136,000	101,000	250,000	409,000	135,000	104,000	208,000

Source: CSO, 1990

The government introduced a strategy for export- led growth known as industrialisation by invitation in order to attract FDI. This was a substantial turning point, where Ireland was exposed to a global market and began to play the global game. Turley et al, (2006) highlight the opportunities and drawbacks of globalisation, where the main benefits include cheaper imports and the ability to sell products to a global audience. The drawbacks include increased competition from cheap imports and the exposure to foreign capital flight. Most economists agree that the two main advantageous components of globalisation are export-led growth and the attraction of FDI, which in time will enable rapid economic growth.

GDP had grown at a much higher rate after 1965, growing over 15% every five years with the exclusion of the period between 1980-1985 (Turley et al, 2006). The IDA was awarding grants in abundance to any interested foreign investors; however the indigenous firm were not forgotten, almost one third of loans granted aided domestic firms to compete against the increased competitive pressure. During 1960's FDI was predominantly from the UK with a total of 85 grants approved; this was followed closely by the US with 75 grants approved in the manufacturing sector. However the U.S. surpassed the U.K in terms of contribution to job creation and total investment. During this period the IDA catered for 33,736 new jobs in manufacturing (O Hagan, 1987). It was in the 1960's that many inefficient indigenous firms were wiped out, as they were no longer protected from the competition of foreign investors (Sweeney, 1999).

Another key policy decision taken during this decade was in the area of education. The introduction of free secondary level education in 1967 was seen as the first significant development in Irish education making education a reality for everyone. Throughout the 1960's the government's expenditure on education had doubled, which underlined their recognition that an educated workforce would be crucial to economic development (Hagan and Newman, 2005).

Towards the end of the 1960's there was rapid growth in the level of exports. Economic growth had reached its highest ever level, 4.4% growth on average between 1960 and 1973 (Hagan et al, 2005). The predominant reasons behind the growth were improved trade, rising exports and rising wages rates, all factors which led to encourage the supply of labour.

3.3.5 1970's

In 1973 Ireland joined the EEC. This highlighted their renewed commitment to the strategy for industrialisation with open access to a Single European Market. Ireland was viewed as the "new weak undernourished member of the European family that was in dire need of assistance" (Gottheil, 2003 p. 730). Initially Ireland had neither the capital nor expertise to take advantage of this open access market. In 1973 domestic firms created 67.8% of industrial employment in Ireland and only 32.2% of employment was created by foreign firms, with the UK firms accounting for 14.6% of this. In 1977 all tariffs and barriers were removed from all EEC member states.

The opening of the SEM impacted severely on some of the indigenous firms, which resulted in a huge number of firm closures. Over half of all jobs lost were during 1973 and 1980 (O'Malley, 1989). The Irish now had the opportunity to take advantage of the wider choice of products, improved quality and lower prices as a result of competition. However, they also faced the challenges of playing the global game. Unemployment levels increased in the 1970's on average 7% (Sweeney, 1999). Although Ireland appeared to be doing well, boasting one of the fastest GDP growth rates between 1973 and 1985, the enormous outflow of profits made by FDI in Ireland distorted these figures (Sweeney, 1999). Ireland's sluggish growth was below every European country with the exception of the U.K.

This period also saw the initial foray into the area of centralised wage agreements. Throughout the 1970's the Irish Congress of Trade Unions and the Employer Labour Conference collaborated their efforts to formulate successive wage agreements. In 1976 the government considered a proposal for a "tripartite package" that permitted modest pay rises in return for a reduction in income tax. Negotiations took place directly between the government, employer organisation and the ICTU and by 1979 the National Wage Agreement was integrated as part of the " National Understanding for Economic and Social Development" (Chubb, 1982)

3.3.6 1980's

By the 1980's 44% of Ireland's indigenous businesses had faded out. Textile and clothing industry had dropped by 80%, while chemical and metal production was cut in half. (O' Hearn, 1998). As a result of the closures there was an enormous surge in unemployment. In the early 1980's Ireland suffered population stagnation with large numbers emigrating due to unattractive economic conditions and lack of career opportunities (Gottheil, 2003).

The unstable political situation of the state did not engender confidence with three elections in the space of eighteen months between 1985- 1987. The government was borrowing 7% of GDP to finance current expenditure (Leddin at al, 1998). Finally it was evident that the governments had to reach a consensus to reduce public spending. Leddin at al (1998) notes that the coalition government of 1982-1986 began to tackle this problem. Sweeney (1999) points to the policy of fiscal rectitude where the government introduced cuts in their spending and increased taxes in order to reign in their rapidly expanding deficits and debts. These inflationary policies had a greater impact on unemployment. Unemployment had increased to 17.1% (see table 3). By 1986 national debt was 128%, the budget deficit was 7.9% of GNP. A precarious situation dawned and the failure of the successive government and their economic policies resulted in soaring emigration levels (Leddin et al, 1998). 208,000 people emigrated in the 1980's, almost double the amount in 1970's (Sweeney, 1999).

Table 2: Employment and Unemployment levels (1961-2004)

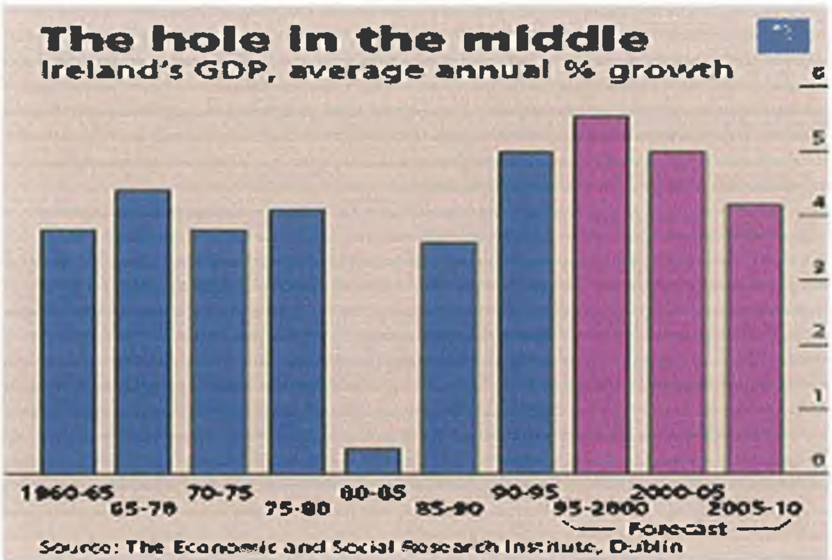
Year	Employment (millions)	Unemployment Rate %
1961	1.053	5.0
1971	1.049	5.5
1980	1.156	7.3
1986	1.095	17.1
1990(1)	1.160	12.9
1996	1.329	11.9
2000	1.671	4.3
2003	1.793	4.4
2004	1.836	4.4

Source: CSO Dublin 2004 (1) CSO QNHS: Revised post census 2002 O'Hagan and Newman 2005 (p77)

The election of the Fianna Fail led Government in 1987 was the turning point in dealing with the serious economic crisis that was facing the country. The Tallaght Strategy, was adopted- where the opposition supported the Fianna Fail budget to dramatically cut public spending, in return for a commitment to reduce income tax rates. This was seen as a key-contributing factor to halting Irelands economic decline; there was also a significant movement towards centralised wage bargaining. Leddin et al (1998) noted that previous wage agreements made during the 1970's broke down under the strain of inflation and unemployment. Due to unemployment levels between 1981 and 1986 wages fell almost 20%. 1987 was a year of incremental wage increases and no industrial strife but an increase in unemployment and emigration during the mid 1980's lead to a return of centralised pay bargaining. The centralised Wage bargaining system helped to enhance Ireland's competitiveness in 1987 (Turley et al, 2006). In 1988 National Wage Agreements now commonly referred to as Social Partnership Agreements between employers, trade unions, governments and other social partners were introduced to help stabilise monetary policy, keep inflation under control and improve the living standard of Irish citizens through wage moderation (IDA, 2008). Leddin et al (1998) notes that The Programme for National Recovery (1988-90) saw the government propose moderate wage increases in return for reduced income tax, social benefits and other measures. In 1988 the standard rate of income tax was 35% and the higher rate was 58%. These centralised wage agreements were aimed at assisting Irelands economic growth throughout the 1990's (Turley et al, 2006).

In terms of public spending the Finance Minister, Mr Ray Mc Sharry introduced cuts in government spending, on average 3.7% per annum between 1987-1989 earning him the nickname "Mac the Knife". Growth rate increases averaged 3.6% per year between 1986-1989, the highest since the 1960's (Leddin et al, 1998) (see graph 2).

Graph 2 GDP and average annual growth 1960-2005



(Source: EIU, 1997)

3.3.7 1990's

The 1990's was the period that became synonymous with the term "Celtic Tiger". Ireland experienced exponential economic growth during the 1990's through increased exports and high levels of FDI. Ireland not only caught up with the average European growth levels but also surpassed them. The most remarkable growth period for Ireland was the period between 1994-99, boasting growth rates of 6% and higher (Turley et al, 2006). By 1994 Irish firms accounted for 56% of employment and foreign firms

accounted for 44% of employment, with US firms accounting for 23.2% of jobs while the UK share fell to 5.8% (O, Sullivan, 1995).
Kevin Gardiner (1994) a UK economist was the first to coin the phrase "Celtic Tiger", to describe Ireland fascinating growth in the 1990's. Sweeney (1999, p12) explained the eastern origins of the phrase "Celtic Tiger" "Ireland's rates of growth in recent years have been sustained at levels close to those of the four Asian Tigers- South Korea, Taiwan, Hong Kong and Singapore."

Turley at al, (2006) outlines how Ireland became a major telecommunication centre with almost 1.1 million phone lines supplying customer service, sales, support and most importantly employment. By 1996 Ireland had accounted for 20% of the European call centre market. Ireland had moved from being almost entirely dependant on its agricultural sector to a high tech service economy. In 1997, 88% of software manufacturing revenues in Ireland was generated by foreign owned companies, which accounted for 91% of Ireland's software exports. (Tallon and Kraemer, 1999). O'Hearn, (1998) identifies the main leaders to enter the Irish market; Intel was the anchor stone followed by Gateway, Dell, IBM.

By 1999, FDI accounted for 22% of Ireland's GDP and 88% of capital make up. While this may seem like a phenomenal success story, the fact that the majority of the overall wealth created is generated from foreign sources with only 12% of capital formation originating from Irish sources, this highlights the Irish dependency problem. US firms were making substantial profits in their Irish based locations, particularly within the pharmaceuticals industry, earning over 50% profit levels. By comparison Irish pharmaceutical industries in Ireland and the US were earning under 5% combined (Gottheil, 2003). Whether the Irish strategy created real economic wealth for the Irish is worthy of some speculation, but it has succeeded in raising the standard of living for the majority of the population during this period. CSO (2001) figures show personal consumption, income levels, employment have all increased dramatically. National income increased on average 10.4 % between 1992-2000, consumption and spending during the same period increased by 5.8%.

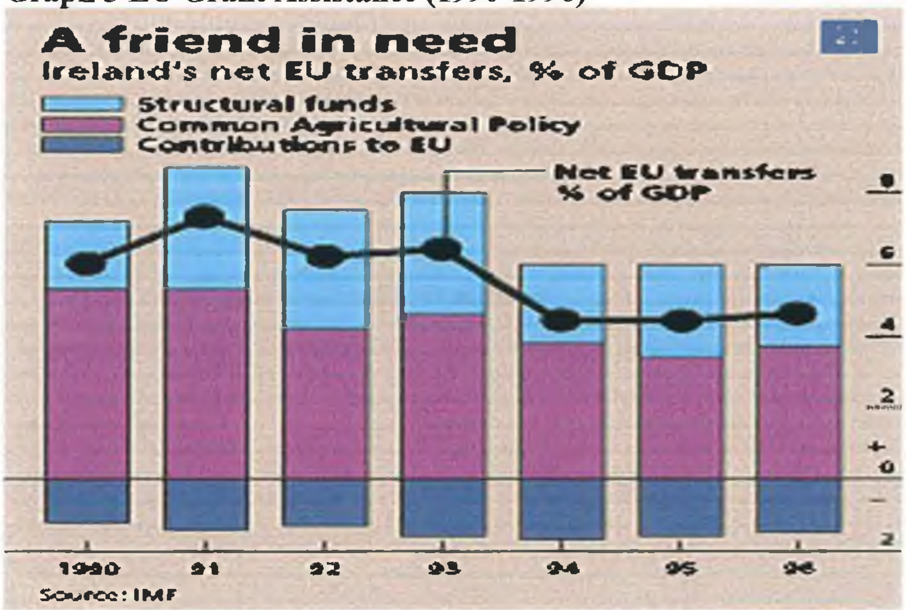
3.4 Enabling Factors of the Irish Economic Boom

Ireland's economic success was influenced by a number of enabling factors from EU assistance, favorable location, FDI, Education, Social Partnership Programme's, favorable demographics to other soft factors such as political stability and peace in Northern Ireland. Some of the key contributing factors will be discussed in this section

3.4.1 EU membership

O Rourke (2001) believes that EU membership is one of the main contributing factors to Ireland economic success story. The EU provided Ireland with some useful tools to build a thriving economy namely a large free market to export into and billions in development funds, all of which helped Ireland reduce their dependence on the UK. The EU Structural Funds allowed for investment in much needed infrastructure. The funds were allocated between the periods 1989 to 1999 (Tallon and Kraemer, 1999). In 1993 the assistance amounted to 35 % of GDP (Honohan and Walsh, 2002) as illustrated in graph 3. The ESRI (2001) reveal that the funds Ireland received provided enormous support and note that the timing was perfect as Ireland was beginning to restructure its economy. These Structural and Cohesion funds provided a fiscal injection that allowed the Irish government to invest in infrastructure for education and training, during a time of cut backs in government spending. Prior to receiving grant aid from the EU the Irish government spending was doled out on a piecemeal basis, which often meant buildings and roads would be left unfinished if the funding ran short. The structural funds were given over a six-year time frame and a development plan had to be devised before each six-year period to ensure funds were utilised correctly.

Graph 3 EU Grant Assistance (1990-1996)



(Source: EIU, 1997)

3.4.2 FDI

Gottheil (2003) suggests that the "Celtic Tiger" phenomenon can be attributed in part to the presence of the industrialisation by invitation strategy that helped attract the huge amounts of FDI from the US, which in turn would produce and provide employment in Ireland. The IDA established efforts to seduce the most desirable industries to locate in Ireland, electronics, computers and pharmaceuticals (Gottheil, 2003). Halligan (2001) points out that the industrialisation strategy was based on inspiring FDI into Ireland, a country that at the time had very little capital or industrial tradition. The IDA very carefully structured this plan. It included the introduction of a very low competitive corporate tax rate of 10% that no other country could match. Significant emphasis was placed on education of the work force. Ireland became a very attractive option for the US, Ireland boasted low tax rates, highly educated labour supply without a language barrier, access to over 300 million customers within the European market and a prime location on the edge of Europe. Other factors which proved attractive for the U.S were favourable time differences and other "soft" factors such as strong cultural ties and the presence of peace in Northern Ireland.

The IDA succeeded in enticing U.S. investment, which stimulated Ireland's economic growth. IMF (1990,1991) figures show GDP had risen 86.8% between 1973 and 1990, which demonstrates an average annual growth of 3.7% (IMF 1990, 1991).

The explosion of FDI accelerated the demand for skilled, well-educated young and experienced labour force and had a positive impact on both employment levels and the type of employment on offer. Well-paid, highly skilled jobs were now, for the first time, available to the Irish on their own shores (Barry, 1996).

Table 3 Level of FDI in Ireland in 2007

Country of Origin	Number of Companies	Total Employment
US	474	95,271
UK	108	7,047
GERMANY	113	10,137
FRANCE	41	2,611
NETHERLANDS	34	2,839
ITALY	29	3,359
JAPAN	28	2,670

Adapted From: Forfas Annual Employment Survey 2007

Accounted for by Irish Financial Services Companies

3.4.3 Education focus

"People are the common denominator of progress.....No improvement is possible with unimproved people and advance is certain when people are educated......Conquest of literacy comes first"

(Galbraith,1958 p. 260)

O 'Hagan and Newman (2005) view education as a basic requirement that needs to be facilitated by Government funding. Education can be expressed as investment into the human capital of an economy. The OECD (2003) acknowledges that investment in human capital can contribute to faster growth rates, output levels and adequate labour supply. Foreign companies are more likely to set up in a country that possesses a highly educated and skilled work force, especially high technological companies.

As mentioned earlier in the chapter, 1967 seen the provision of free secondary level education. It was evident in the 1990's that the government had begun to recognise the importance of education for economic and social development of the country. In order to attract FDI, Ireland would have to provide a highly skilled workforce through increased investment in education and training. During the period between the 1990's and 2002 the number of students attending primary education had fallen, but this is mainly due to the change in demographics. The numbers in secondary education remained fairly stable. The participation in third level education however increased over the same 12 year period due to government incentives, aimed at providing equality in education. In 1996 free tuition fees for full time third level students were introduced, also the number of places available to third level applicants was increased to improve access for all EU students (O'Hagan et al, 2005). The Higher Education Grants Scheme and the Vocational Committee Scholarship schemes provided maintenance grants for disadvantaged students. All policies were devised to increase third level participation rates.

Department of Education (2006) recorded in 2005 that there were 449,500 in primary education, 335,200 students in secondary level and 133,700 in third level (see table4). Over 900,000 people were in full time education, almost 23% of the population. The retention levels of student's at secondary level had improved from 20% in 1965 to 77% in 2004 (see table 5).

Table 4 Numbers and retention levels in full time education (2004-2005)

	Total	% of Total
Primary	449.5	49.00%
Secondary	335.2	36.50%
Third Level	133.7	14.50%
Total	918.4	100.0%

Adapted From: Department of Education and Science, 2006 (IDA 2008)

Rate of Retention at Second Level	
1965	20%
1970	33%
1980	52%
1990	70%
2000	76%
2004	77%

Adapted From: Department of Education and Science, 2006 (IDA 2008)

Table 5 Persons in full-time education (1965-2004)

School Year	First Level	Second Level	Third Level
1970	520,129	197,142	24,496
1980	568,364	300,601	41,928
1990	552,528	345,941	69,988
2000	444,782	349,274	126,300

Adapted From: Department of Education and Science (2006) (IDA 2008)

3.4.4 Social Partnership

The Social Partnership Programme launched a series of further initiatives. Over the timeframe of their adoption Ireland's economic growth grew to twice the average economic growth, inflation had dropped to one of the lowest in EU history and employment had grown on average 2.5% per annum. Between 1987 and 1997 the average industrial wage had increased by 15% with earnings after tax increasing by 9%. By 1997 the standard income tax rate had dropped to 42% and the higher rate had dropped to 46% (Leddin et al, 1998). The most recent programs implemented under the Social Partnership Programme is the Program for Sustaining Progress (2003-2005) and the existing Framework for Social Partnership (2006-2016). The latest agreement proposes 10% wage increases; enhancing of labour standards and social related measures across the unionised sector for a period of 27 months (IDA, 2008). At the time of writing the social partners are currently locked in negotiations aimed at securing a deal which will see the parties over the most challenging economic period in decades

3.4.5 Demographics

Another enabling factor in Ireland's economic boom was Ireland's favourable demographics. The Economist (EIU, 2004 (A)) highlighted that while other European countries were suffering from an ageing population, Ireland has a significant percentage of working age (see table 7). Coupled with fewer pensioners due to the high level of emigration during the 1950 and 1960's resulted in a favourable dependency ratio, Ireland could offer a youthful labour supply to any potential foreign investor. Further the labour supply had increased due to increased female participation. During the 1980's in Ireland, due to social norms and limited amount of employment on offer, women often stayed at home to look after the children, which meant many families had to survive on a single income. Women gradually began to return to the workforce, which increased labour force participation from almost 60% in 1980's to almost 70%. The Economist (EIU, 2004 (A)).

Table 7 Population by age group (2007)

Years	Total	% of Total
0 - 14	833.8	20.4%
15 – 24	633.8	14.6%
25 – 44	1,400.6	32.3%
45+	1,420.8	32.7%
Total	4,339.0	100.0%

Adapted from: Population and migration Estimates, CSO, DEC

3.5 Nature and Demand of Financial Products

The focus of this study now shifts to the impact of Ireland's boom on the level and nature of demand for financial products in Ireland during this time, namely in the area of consumption, personal borrowing and property investment

3.5.1 Rise in Consumption and Debt Levels

Increasing levels of consumption and borrowing by the Irish consumer were fuelled by the economic growth. The "Wealth of the Nation" report (BOI, 2007) highlighted that the majority of Ireland's wealth has been created in the last 12 years. It noted that the net wealth of Ireland had grown 350% in the last 12years. Ireland has become one the world's wealthiest economies, reaching the position as the second wealthiest OECD country in 2007, boasting an average wealth per capita of €196,000 with a reported 33,000 millionaires (BOI, 2007). This report also examines household saving and investment patterns. As the Irish population is greying investment in the pensions are set to increase from 78% of disposable income in 2005 to 150% in 2015. The annual level of savings was €10 billion at the end of 2005 and is set to increase to €13.5 billion by 2010 and €24 billion by 2015. These figures suggest that the Irish public are saving up to 14% of their income. This had a lot to do with the SSIA saving scheme set up by the government and the belated acceptance of the Irish to embrace a savings culture. In contrast the US consumers are saving just 1% and UK just 5% (BOI, 2006). While the level of debt has increased from 89% of disposable income to 140% in the last five years, the level of wealth in the country still outweighs the levels of debt. The problem is that it is not evenly distributed. Much of Ireland's borrowing has been invested in property to generate more wealth (BOI, 2006).

3.5.2 Demand for financial products

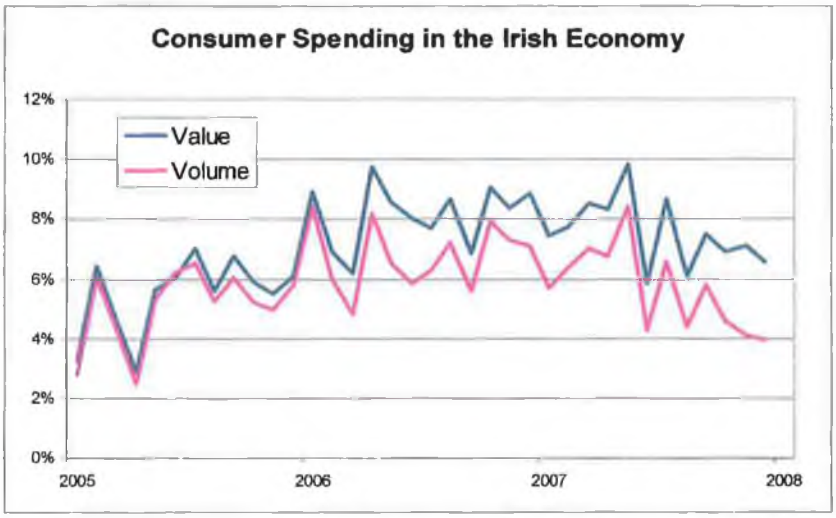
Burton et al. (2004) points to the dramatic increase in access to credit in Ireland over the last decade as a key contributing factor in increasing the overall level of indebtedness in society. There has been a concerning increase in both secured and unsecured lending, which has impacted the level of personal debt. The Central Bank estimated personal debt at the end of 2004 over €85 billion, that is nearly six times the figure of 1994 (Central Bank, 2004, Murphy, 2005). The average unsecured debt in 2004 in the UK is €5,200 compared with Ireland's average of €7,100 (British Banker Association, 2004). The overindulgence of Irish citizens during the economic boom, combined with marketing efforts from financial services have led to the significant rise in access and use of borrowed finance (Datamonitor, 2004), resulting in an inevitable increase in the level of indebtedness in society (Kempton, 2002;Burton et al., 2004, Irish Banking Federation, (2005). Indeed Murphy (2005) points to the change in Irish culture that is debt ridden, where saving has been replaced by quick "fix" borrowing in order to sustain their affluent lifestyles. This is evident in the recent figures published on new car sales in Ireland. The number of new vehicles purchased this year (2008) was 180,754, this has not reached such high levels since 2000 when the number of new car purchased was 225,269 (CSO,2007).

In 2004 the CBI warned that Irish people owe more money than they can afford to pay back, owing approximately €85 billion. The rise in the access to credit is followed by a consequential rise in consumer debt (Ross, 2002) and compulsive buying (Park and Burns, 2005) for Irish consumers. In recent times there has been an expanding range of credit options available through both prime and sub prime markets (Burton et al., 2004). The need for "quick fix" borrowing is even more apparent by the number of consumers owning credit cards, many of which are using one credit card to pay off another (Murphy, 2005).

Mc Goran (2004) highlighted the radical change in spending patterns of the Irish consumers in the last 10 years. According to I.F.S.R.A there are more than 2.5 million credit cards in Ireland with an accumulated debt of €1.7 billion. At least 50% of these are delaying payments and are being subjected to penalizing rates and penalty fees(Goran, 2004) . Culloty (2004) notes that there has been a huge increase in people running up large debts on their credit cards despite consumers becoming more educated about financial products and shopping around for the most competitive rates. The level of personal debt is still a worrying legacy of the "Celtic Tiger" era. Other means of easy access to credit including 100% mortgages, the use debit cards, inventive accounting by financial providers to stimulate reported levels of earnings of customers to increase the amount which could be borrowed, all led to perpetuate the cycle of consumer debt. Traditional and non- traditional financial institutions have contributed to the change in consumer attitudes in Ireland. They had adopted aggressive marketing campaigns in order to seduce consumers with the promise of "easy money" (Griffiths, 2000).Ulster Bank, for example is an illustration of such trends; they offered a "free" overdraft of up to €650 if you applied through their ATM channel or an overdraft of up to €2,250 if consumers applied within their branch (O' Loughlin and Szmingin, 2006).

Ireland has shifted from conservative economic background to an excessive spending culture (see graph4), which has resulted in a change in consumer attitude and tolerance of debt as a general part of modern life (Lea et al., 1993). The decision to incur debt is fuelled by a desire to attain the affluent lifestyle fostered by the Celtic Tiger (Chien and Devaney, 2001).

Graph 4



Source: [O'Toole 2008]

Lebens and Lewis (2001) caution that many consumers are unaware of their debt levels or the future implications of their level of borrowing. Indeed O' Loughlin and Szmingin, (2006) suggest that Ireland has become a credit friendly society and argue that despite an economic down turn, the Irish population are stretching to live beyond their means through debt in order to meet their materialistic needs. "Tiger Cubs" are seen to be most at risk, as they have grown up in the Celtic Tiger Ireland where being in debt, over spending and indulgence is a way of life. The cycle of both spending and borrowing beyond their means is likely to continue to play a central role in their future.

Soman and Cheema, (2002) suggest that students in particular have developed a pattern that will be difficult to adjust to throughout their lifecycle, leading to a life long vicious cycle of debt.

Braunsberger et al, (2004) and Rivard, (2002) warn that Irish students are a particularly vulnerable group in relation to credit and debt. The FSA (2005) found that the main predicament for students is a lack of understanding of credit terms and conditions, reducing their ability to make well informed decisions. Christie et al (2001) and Kempson (2002) found that increased access to credit and the aggressive marketing campaigns targeting vulnerable customers with a limited range of financial options compared to higher income customers also had a major impact. Students have accepted debt as part and parcel of student life (Davies and Lea, 1995).

3.5.3 Property Boom

The Irish miracle had materialised so rapidly and one of the key characteristics of the Irish economic boom period was the Irish obsession with property. In the lead up to this the Euro interest rates were cut dramatically, providing further stimulus for an already expanding Irish economy. Property prices were mounting, demand for loans and mortgages grew at alarming rates. Depreciation of the Euro in 2001 made matters worse; low interest rates catapulted Ireland into property overdrive with expanding personal debt to match. One of the key disadvantages in being part of the Euro zone is the fact that the Irish Government had to cease control over monetary policy. Interest rates are now set by the ECB and the Irish were unable to independently increase interest rates in an effort to burst the housing bubble (EIU, 2004).

The property market has a strong connection to financial service market. Mc Williams is (2007 (A)) critical of this close relationship and paints a very unflattering view of the banks conduct during the economic period suggesting that the banks took full advantage of the economic boom and used it as an opportunity to lure young workers into borrowing 15 times their salary to purchase overpriced houses.

Ireland had one of the highest home ownership rates in the world at the height of the boom with over 500 people applying for mortgages every day. People were borrowing at least eight times the average industrial wage. For every man, woman and child there is €70,000 of outstanding debt (Lee, 2006). In the 1980's the GDP was 130% and domestic debt was 30%. In 2006 the situation completely reversed; GDP was now 30% and domestic debt 130% (Lee, 2006). O' Sullivan (2007) suggested that the majority of the wealth in Ireland was created by investment in domestic property. He believes it was the main driver behind the Irish success story. During the five year period leading up to 2005, European interest rates dropped dramatically, which meant a lot of people could switch from renting to buying with an incremental increase in their monthly outgoings. During this time investing in property was rife as house prices were expected to increase further, thus encouraging people to invest now rather than later.

However, as is the case in basic economic theory, for every boom there is a bust. McLaughlin (2007) notes that recently the Irish property sector has seen a slow down in terms of house prices, transactions and levels of mortgage lending, This may be seen as a direct response to tightening of monetary policy by the ECB in an effort to reduce the effects of inflation.

Today the opposite is true, given the high mortgage repayment rates, and houses prices continuing to decline in value. Consumers are more cautious and have begun to enter the rental market again. The result, rising rents over 11% in 2007. The repossession rate has increased from 2% in January 2006 to 4% in June 2007. This highlights that affordability is an issue. The government have abolished stamp duty for first time buyers and reduced the amount for all other buyers in an effort to sustain the demand within the housing market. The average new mortgage will cost over 38% of the average income and 29.5 % of first-time buyer's income due to zero stamp duty, interest relief and longer-term mortgages.

The down turn of the Irish economy, is reflected most sharply in the property market. Houses prices are rapidly declining and the level of demand for home loans has dropped as banks are experiencing a liquidity freeze within the wholesale banking market. The wholesale market is where banks borrow money from each other. Due to the huge losses of sub prime lending, banks are unwilling to lend to each other in case they may be exposed to toxic investments this has inflated the cost of borrowing for the Irish financial institutions. Initially Irish banks absorbed this increase in costs due to uncertainty of the longevity of the situation, but as the condition prolonged banks began to pass the costs on to their customers. The banks began to set their rates independently from the ECB (Madden, 2008). O Regan (2008) of the Irish Bankers Federation states that "While we have all been conditioned to watching the ECB base rate as the driver of retail interest rate changes, the latest development just copper fastens the message that it really is all to do with the wholesale money market".

Madden (2008) proclaims that not all mortgage holders will be affected, only those with variable rates and tracker mortgages. These hikes are quite moderate but it is anticipated to have an impact on the demand for mortgages. Lenders are tightening up their application process and cutting back on 100% mortgages. This will impact on first time buyers who will have to save a lump sum before they will be considered eligible for a mortgage; also this flies in the face of the "quick fix" culture which was so prevalent in Ireland just 18 months ago. Many customers do not have the time to adapt to the change yet and have not saved a deposit.

The financial market has been so volatile and unpredictable recently that consumers are losing their confidence. 2007 was a turbulent year for Irish banks with periods of high profitability rapidly turning into periods of low profitability. International investors are rapidly losing confidence in the Irish success story.

As the banks recently increased their interest rates, the theory suggests that if interest rates are high, borrowing is discouraged and if interest rates are low, borrowing is encouraged. During the period between 2001 and 2007 interest rates were cut sharply in Ireland, which increased the demand for borrowed capital and combined with increased ease of access to credit led to the resulting property boom. There is a relationship between the demand for funds and interest rates. This relationship is known as the marginal efficiency of investment. If the interest rate increases, the demand for money decreases. With the banks currently increasing interest rates independently of the ECB in order to cover the increased costs of borrowing on the wholesale market, this had choked off the demand for mortgages (Leddin et al, 1998)

McLaughlin, (2007) further expands by explaining that the increase in interest rates has had a direct impact on the level of demand for mortgages across Ireland. Lending growth peaked at 28.9% in March 2006 and declined to 24.2% by the end of the year, and dipped further at 20% in May 2007. The Economist Intelligence Unit (2007) cautioned that most of the debt is subject to variable mortgages that are sensitive to fluctuations in mortgage rates.

Mc Williams (2007 (B)) claims that practically every Irish citizen has access to credit cards, overdrafts, loans and re-mortgages. Ireland has become known as a status-obsessed nation. This has posed a number of serious unforeseen circumstances for the consumer and financial services. During the property boom the developers borrowed from the bank pushing up the share price. Mc Williams (2007(B)) also noted that recently, some of the major Irish banks have lost up to 50% of their value. There are many factors that have attributed to this such as the early stages of a housing recession, loss of confidence in the banking sector, the collapse of the sub prime market in the US and the possible exposure to toxic loans.

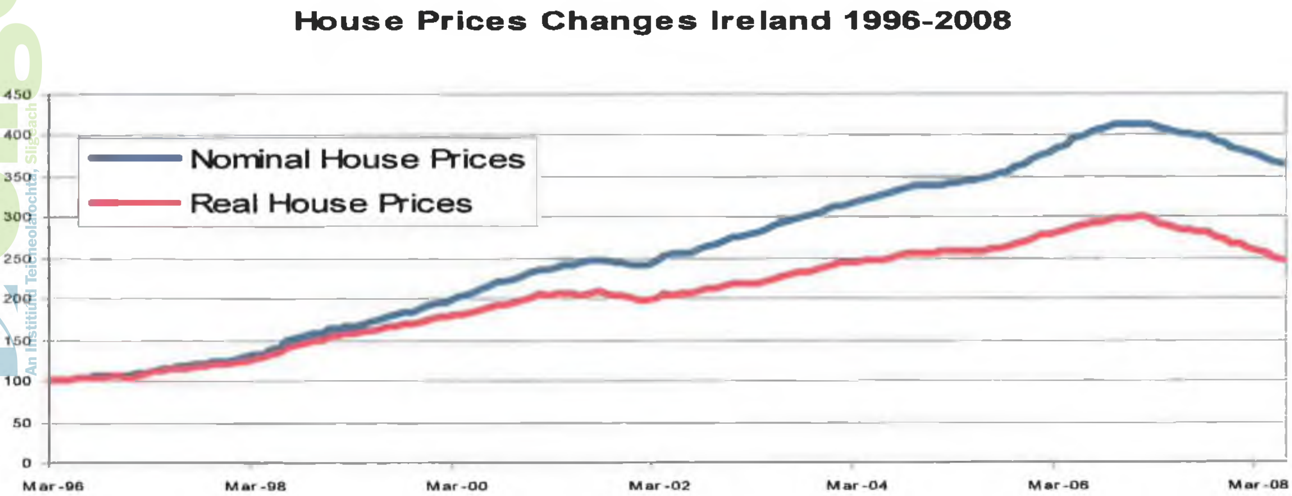
3.5.4 Property values

The average house price in Ireland in 2006 was €371,000 for the entire country, the median of this is €309,000 which represents a more realistic value of the average in Ireland (BOI, 2007 (A)). Kelly (2008) shows that house prices began to decelerate in the last three months of 2006, falling between 10% and 15%. The Irish property market is now hitting a critical point, with developers that have borrowed millions from the banks to build houses having difficulty offloading the houses in order to repay the loan. This has forced many construction and property developers into bankruptcy as a result employment in construction decreased by 16.0% in July 2008 (CSO, 2008).

House prices have continued to fall further into 2007, an average of 0.7% a month (BOI, 2007 (A)). Average houses prices in October 2007 were 4.7% down from October 2006 (Carswell, 2007) "While prices have fallen for the past year, rents have risen considerably, implying that the marginal buyer is currently a renter in the face of the past deterioration in affordability and in response to uncertainty about the outlook for interest rates and house prices."

(McLaughlin, 2008)

Graph5



(Source: O'Toole, 2008)

3.6 Emergence of the "Credit Crunch"

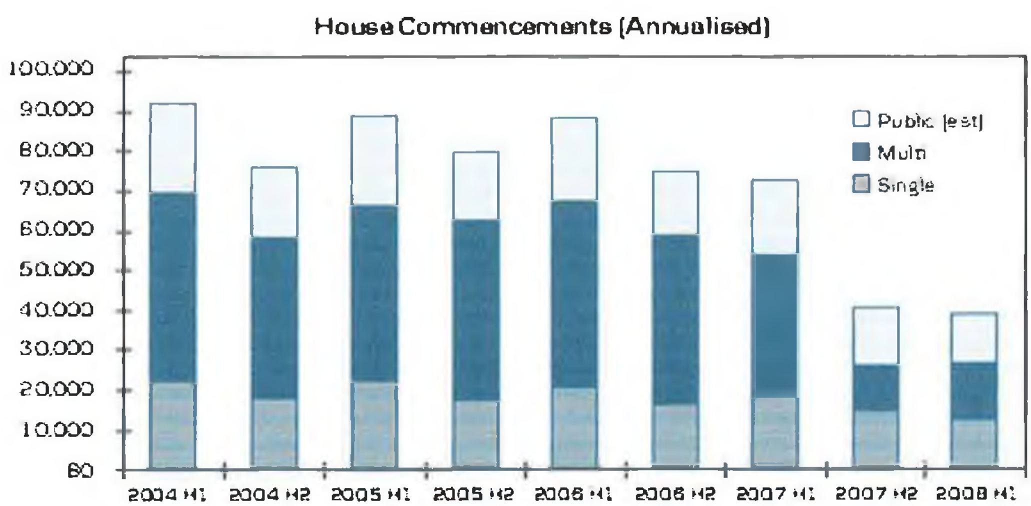
While the term "Celtic Tiger" has become synonymous with Irish economic boom, the term "Credit Crunch" is now inextricably linked to the Irish economic decline. The "Credit Crunch" is described as "an economic condition where investment capital is difficult to obtain. Banks and investors become wary of lending funds to corporations, thereby driving up the price of debt products for borrows"(Investopedia, 2007). Tansey (2008) illustrates how the US had experienced the "Credit Crunch" first hand. The American sub-prime market acting in effect as lenders of last resort as these clients would not get loans from traditional sources of credit supplied mortgages to customers with poor credit histories at higher interest rates: As interest rates increased, these already financially stretched customers could not afford the loan repayments and defaulted on their loans. Many sub prime lenders experienced substantial losses and many were forced out of business. In June the US bank, Bear Stearns, reported expenditure of $3.2 billion (€2.2 billion) in order to bail out funds that were exposed to the sub-prime market. This was the largest recorded bail out operation in banking history to take place in over a decade. Shortly after, the chairman of the Federal Reserve, Ben S. Bernanke, predicted further catastrophic losses of up to $100 billion. As a direct response many investors lost confidence in mortgage-backed securities that were used to fuel the rise of the property boom.

Tansey, (2008) acknowledges that the US recession will have a direct impact on the republic of Ireland growth. As the key global player a recession in the US will cause a ripple effect on the global economy. The US produces over ¼ of the worlds output, with America's GDP accounting for 27.8% of the total world GDP in 2005. The economic relationship that binds the US and Ireland is strong, meaning a downturn in the US economy will have a major impact on Ireland. As mentioned previously the US is Ireland's main source of FDI. In 2005 the US accounted for 47% of all IDA sponsored foreign businesses in operation within Ireland. Furthermore the US is Irelands largest single foreign market, as in 2006 the US purchased 18.3% of all Irish exports. The US is a vital customer for Ireland's service exports particularly in financial, business and tourism services. Finally the US provides employment to over 93,000 people in Ireland which is 70% of the total labour force employed by IDA sponsored foreign businesses. It is estimated that for every job directly employed, there is another two depending on service provision, thus potentially 300,000 jobs in Ireland may be impacted by the US recession.

3.6.1 Global impact

The "Credit Crunch" has had a global impact. September 2007 saw the British bank Northern Rock fall foul to a major liquidity crisis, which meant they had to resort to the Bank of England for emergency capital. However once the media became aware of the situation a panic situation emerged, with customers swarming to the bank to withdraw their funds. This was the first situation of its kind since 1866. Despite guarantees from the Bank of England, the bank ended up under public ownership. This banking crisis had a negative impact on Irish banks and their customer confidence due to their geographic proximity of the UK to Ireland. At the same time international lenders believed that the Irish property boom was drawing to a close and capital flight ensued leaving Irish lenders very vulnerable. Their predictions were accurate as house construction was decelerating from record levels (Tansey, 2008). In 2007 approximately 85,000 homes were constructed Ireland and it is estimated that this will drop to as little as 50,000 (O 'Toole, 2008).

Graph 6 House commencements (2004-2008)



Source O'Toole (2008)

In August 2007, the "Credit Crunch" had seen their first casualty in Ireland. A Dublin firm Structured Credit Company which specialised in credit risk reinsurance from banks suffered a massive hike in their debt from €5 million to €350 million in the space of one month as their customers were seeking more security. Only three months later we saw another casualty, which was more high profile. The International Securities Trading Corporation, which specialises in lending to banks set up by the Anglo Irish banks, experienced a plummet in the value of their assets due to the "Credit Crunch" (Tansey, 2008). O Mahoney (2007) had predicted annual profits of €15 million and a 2008 floatation; however in contrast by November he was trying to recoup the company from outlandish debts of €871 million.

BOI was the first of the major financial institutions to come forward during the credit storm in April 2007. The bank was forced to go public, in order to reassure investors that the bank was secure and well funded, without any exposure to the sub prime market and that they were experiencing healthy profit growth. By November however the credit storm had worsened and the BOI was forced to cut back their forecasted earnings for 2008. BOI stock had fallen 30% and was continuing to descend further. Irish life and Permanent TSB were least fortunate; the group unlike BOI were exclaiming that their condition might not be stable if conditions of the "Credit Crunch" were to deteriorate further. The bank proclaimed that if the market remained volatile that profits could plummet by 9%, as a result their stock dropped by 11% at one point (Carswell, 2007).

3.7 An Overview of the Current Economic Situation

Ireland might be in the line of the aforementioned perfect economic storm. The hangover effects of the "Credit Crunch" combined with other factors such as the US recession, the collapse of the Irish property market, increased competition from low cost locations, increased energy costs, increasing interest rates, reduced accessibly to credit and the strong euro are all impacting severely on the Irish economy.

The ECB (2008) predicts GDP to grow to 2.4 % in 2008 compared to last year's growth of 5.3%. The ERSI (2008) have declared that Ireland will experience a recession in 2008 for the first time since 1983. The ERSI (2008) report outlines a number of key predictions about the Irish economic situation, expecting consumption rates to grow just 1 % in 2008 and by 2% in 2009. Exports are forecasted to grow by 4.8% in 2008 and 4.4% in 2009 - well down from 2007 growth of 8.2%. The deficit on public finance is predicted to grow to 2.8% of GDP in 2008 and 3.9 % in 2009.Unemployment is expected to rise to over 7% by the end of 2008, however employment gains should resume in 2009. Inflation is predicted to average at 4.5% in 2008 and 3% in 2009. The ERSI (2008) stress that these are all worrying developments for the Irish economy. The ECB (2008) signalled that the growth of residential mortgages had dropped to 9.6% in July 2008, pointing to the fact that the last time the annual rate was in single figures was back in December 1987. The ECB (2008) noted in their report that credit card debt dropped in July, declining from 11.4% in June 2008 to 10.2% in July 2008. Credit card spending amounted to €1.2 billion in July 2008 but the level of repayments received was €1.3 billion. However, total lending to the private sector increased in July by €3.3 billion or 0.8% to €396.3 billion.

Despite all these factors the BOI are more optimistic about the future in their recent report. The "Irish Property Review "(BOI, 2007(A)) indicates that affordability is set to improve this year and next, due to the expected rise in incomes in Ireland with earnings expected to increase by 4.9% this year (2008) and 4.5% next year. The report reviewed the impact on the housing market, using the affordability model, which captures the annual cost of servicing a new 25-year mortgage relative to average income. This year's model shows affordability improving to 37.1% in 2008 and 35% next year. The BOI (2007) also notes that the demand for private sector mortgage lending continues to fall by 29% so far this year. The BOI (2007) believes that this pace of decline may start to bottom out as the year unfolds but for 2008 as a whole, gross mortgage lending is expected to fall to €29 billion.

First time buyers will once again have to save an initial deposit before they will be considered for mortgage approval. The recent increase in interest rates will also limit customer's affordability. Many customers are playing a waiting game in the hope that interest rates will fall and house prices will settle before committing to long-term debt. The ERSI (2008) and other economists such as O'Toole (2008) suggest that it will be at least 2010 before any major improvement will be visible in the Irish economy. They suggest that the situation is likely to get worse before it will get better.

Chapter 4: Demand for Financial Products - Consumers Perspective.

4.1 Introduction

In this chapter the results of the customer questionnaire are presented. It aims to establish the impact of the "Celtic Tiger" period on consumers spending, borrowing and saving patterns. It will also examine the impact of the recent "Credit Crunch" on consumer confidence in the Irish Financial Service sector. Recommendations to improve customer confidence as proposed by participating customers are outlined. Finally in this chapter conclusions are presented based on the findings of the questionnaires.

4.1.1 Pilot Questionnaires

A series of pilot questionnaires were carried out to identify key trends and eliminate any questions, which may have been misleading or misinterpreted. Ten questionnaires were distributed to academic staff and students, who were asked to identify any questions that were unclear and comment on any other problems with the questionnaire in terms of layout or content.

4.1.2 Results of Customer Pilot Questionnaires

Academic staff commented that some respondents might be unwilling to disclose their income bracket. Income was seen as an essential variable in the research and therefore the need for confidentiality became even more apparent. Incorporating a secure box where respondents could place their questionnaires further ensured respondent's privacy. The students found that some of the financial terminology used in the questionnaire was difficult to comprehend, so the phraseology of the questionnaire was amended.

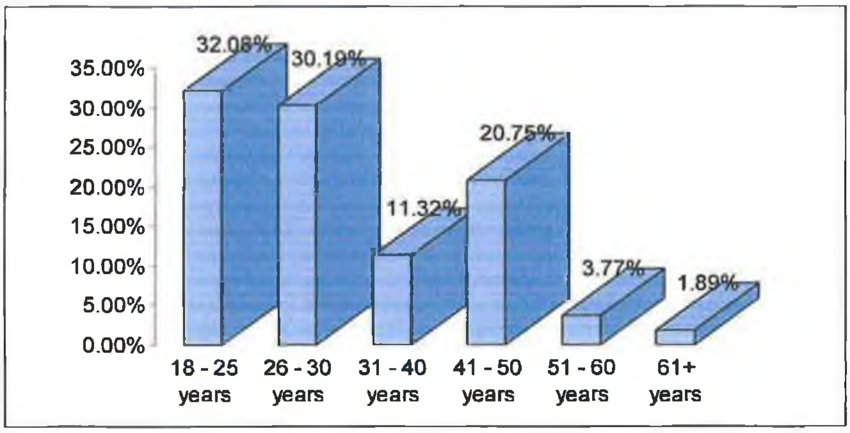
4.2 Results of the Customer Questionnaire

Results of the customer questionnaire are now analysed in this section. A total of 300 questionnaires were distributed, of which 163 were completed, giving a 54% completion rate.

4.2.1 Personal Information

Of the sample of respondents 69% were female and 31% were male.

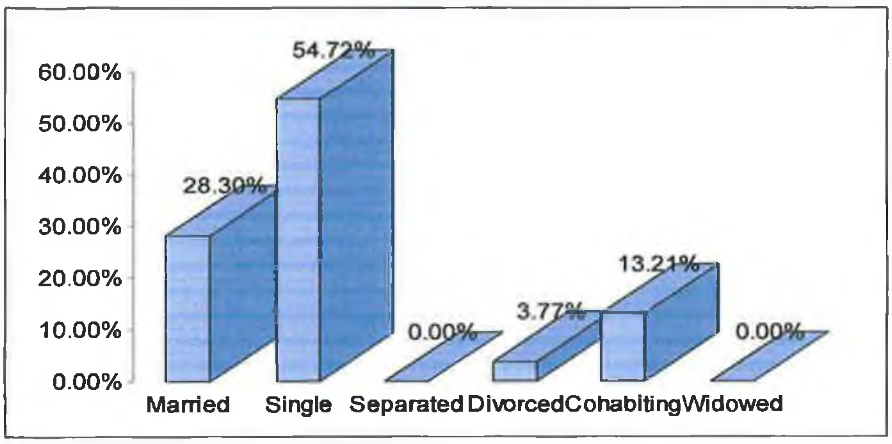
The following graph represents age profile of the respondents.



Graph 7: Age Profile of Respondents

The majority of the respondents were between 18- 25 years (32.08%) followed closely by the 26 – 30 age group (30.19%).

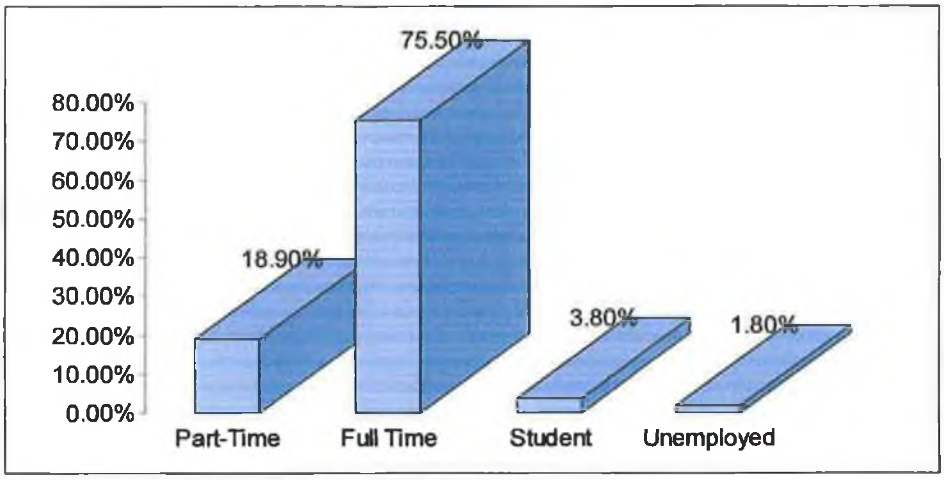
The following graph represents the marital status of the respondents.



Graph 8: Marital Status of Respondents

As illustrated in the above graph 54.72% of respondents were single, 28.30% were married, 13.21% were cohabiting and the remaining 3.77% were divorced.

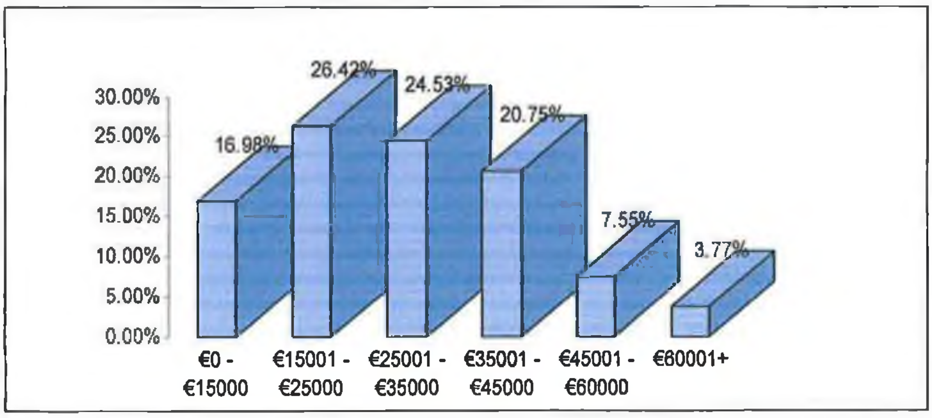
The following graph represents the employment status of the respondents.



Graph 9: Employment Status of Respondents

The overwhelming majority of respondents were in full time employment (75.5%). 18.9% were in part time employment, 3.8% were students and the remaining 1.8% were unemployed.

The following graph represents the income bracket of the respondents.



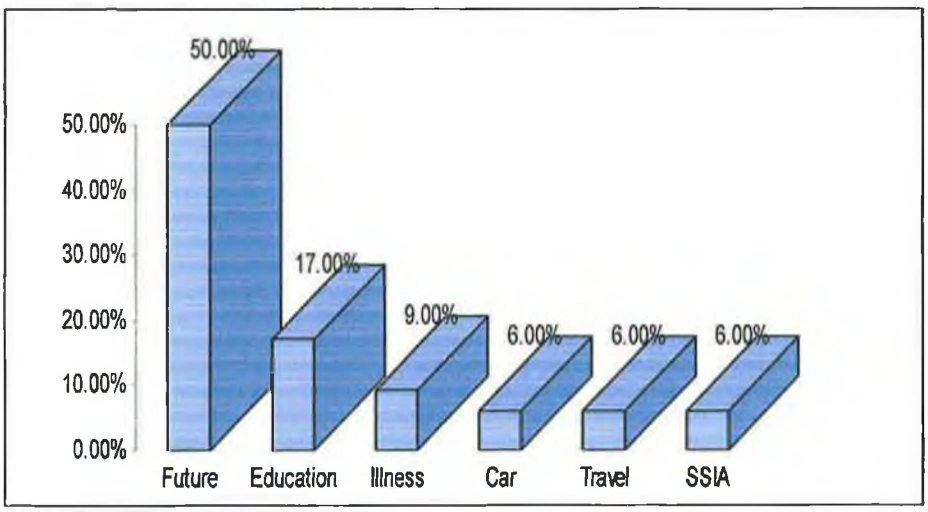
Graph 10: Income Bracket of Respondents

26.42% of respondents earn between €15,001-€25,000, 24.53% earn between €25,001-€35,000 and 20.75% earn between €35,001-€45,000.

4.2.2 Customer Savings

To evaluate the saving patterns of customers in the North West of Ireland, customers were asked if they had set up a savings account in the last ten years (Appendix 1, q2).
It emerged that the majority of respondents (80%) had set up a savings account within the last 10 years. The motive for setting up a savings account was primarily to save for the future (50%). Other reasons included, educational needs (17%) illness (9%) travel (6%) and availing of an SSIA (6%). The majority of respondents said " I am just saving for a rainy day" while one respondent noted
" I have just recently been forced to set up as savings account because I wish to buy my first home, it will be another few years before I have saved enough for a deposit; it is really unfair, if I had applied for a mortgage two years ago this would not be the case".

The following graph represents the reasons cited for setting up a savings account



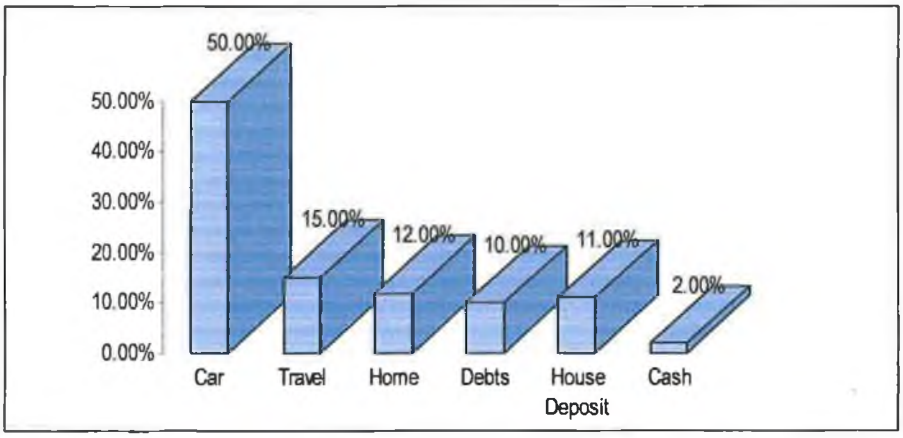
Graph 11: Reasons for Setting up a New Savings Account

Of the 20% that had not set up a savings account within the last 10 years ,the main reason given was lack of disposable income (40%), while 30% of customers never thought of it. One respondent said " I do not earn enough to save, the cost of living is far to high in this country, how can a person on an average salary afford to set money aside after all the bills are paid and the kids are fed? "

4.2.3 Personal Loans

To determine the level of borrowing over the last decade, respondents were asked if they had taken out a personal loan within the last 10 years. (Appendix 1, q3).The majority of respondents (73.6%) had borrowed finance over the last 10 years while 26.4% had not. The main reasons cited for taking out a loan included car purchase (50%), travel purposes (14%). 10% of respondents had taken out a personal loan to cover credit card debt.

The following graph represents the reasons cited for taking out a personal loan



Graph 12: Reasons for Taking out a Personal Loan

A number of respondents borrowed for travel purposes one respondent said " I took out a loan to travel the world for a year, I had just finished college and I wanted to go before I got a professional job, so I had to borrow, I am still paying that back today but it was worth every penny" While the use of borrowing to cover other personal debt did not feature significantly one respondents said " I took out a loan to pay off my credit card bills".

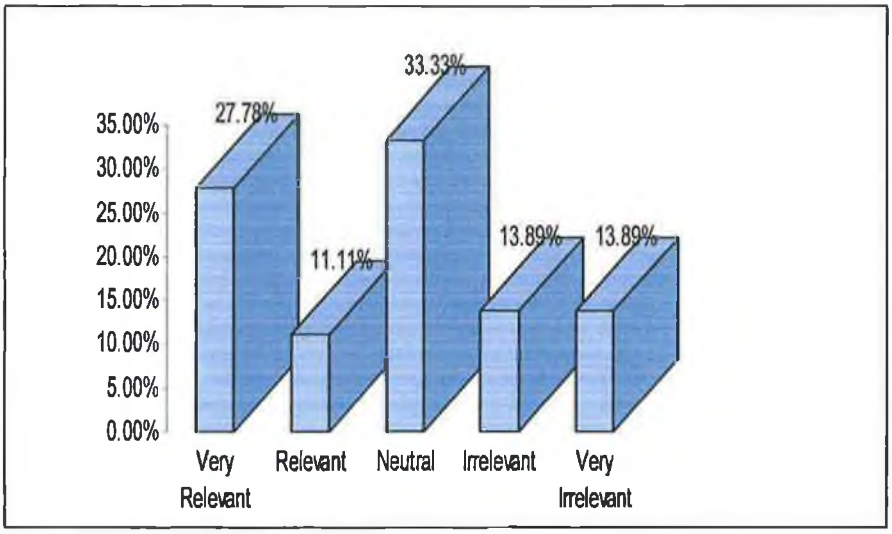
Of the respondents that had not taken out a personal loan, 75% said that they did not feel the need to borrow. However 50% of those who did not require a personal loan were between the age group 18-26. One of the respondents said " I have not had the need yet to borrow; my family are putting me through college I probably will have to when I finish college to go travelling".

4.2.4 Interest Rates

In order to determine the importance of interest rates to consumers, respondents were asked if they noted the interest rate applicable at the time of acquiring their personal loan. (Appendix 1, q4) Analysis of the data suggests that 78.6% of consumers had taken account of the interest rate before taking out a personal loan while 21.4% did not. One respondent said " Yes I noted the interest rate when I was getting my loan but it wasn't that relevant as I really needed the cash at the time".

To further investigate the significance of interest rates, respondents that had noted the interest rate were asked to score how relevant it was at the time. The majority (38.9 %) indicated that interest rates were relevant at the time of loan application. Just 17.8% said that interest rates were not relevant when applying for a loan.

The following graph represents the relevance of interest rates during loan application



Graph 13: Interest Rate Relevance

The impact of the recent increase in interest rates on the demand for personal loans was examined (Appendix 1, q5). Analysis of the data suggests that interest rates now play a more significant role when borrowing. 56.6% agreed that it would influence their decision to take out a personal loan while 43.4% agreed that it would not. 45% of customers suggested they would avoid taking out a personal loan as it is too expensive with 20% of respondents reporting that they would hold off borrowing until the interest rates have stabilised. However 32% of respondents believe that interest rates are not significant if the finance is urgently required.

" I would not take out a loan at this time, I will wait to see if the interest rates will level off " while another said " I applied for a loan yesterday for my child's college fees, the interest rate does not effect my decision as I urgently need the cash".

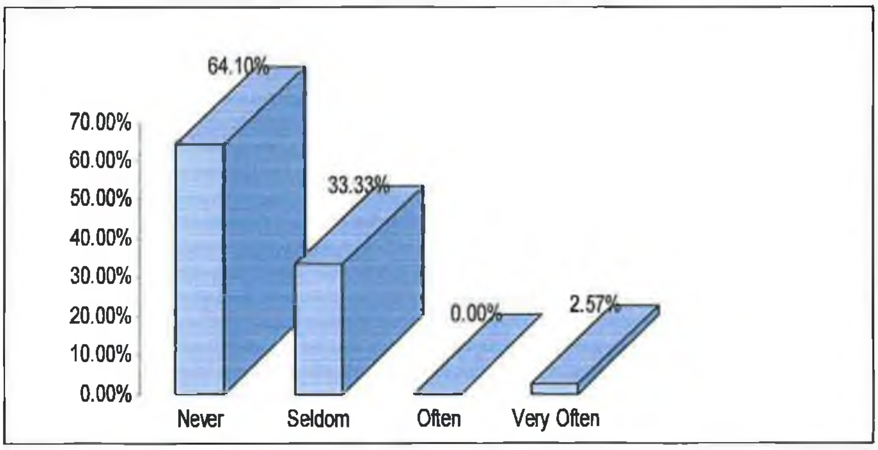
The effect of the recent increase in interest rates on customer saving patterns was examined. 50.9% of respondents concur that the recent hike in interest rates had influenced their decision to save while 49.1% said it had no impact. (Appendix 1, q6) One respondent said "if the rate was very high it would encourage me to save especially during this time of unrest, as I would earn a greater return on my money" while another said "Interest rates would not effect my decision to save as I would only save if I had something in particular to save for".

4.2.5 Credit Cards

In order to establish the level of credit card borrowing, respondents were asked if they own a credit card. Of those who indicated they had a credit card, the majority (71.7%) possess two or more credit cards. 57.9% hold a single credit card, 34.2% own 2 and 7.9% indicated that they had 3 or more.

It was interesting to note that 71.8% of customers are currently aware of the interest rates on their credit cards while 28.2% are unaware of the rate applicable to their credit card. In order to examine the frequency of default on credit card repayments, respondents were asked to indicate how often they incurred late fees. The overwhelming majority (64.1%) indicated that they never had incurred late fees, 33.3% reported that they incurred late fees very seldom, while only 2.57% said they had incurred fees very often.

The following graph represents the frequency of default on credit card repayments



Graph 14: Frequency of Defaults on Credit Card Repayments

It is interesting to note that only 28.9% have thought of switching credit card providers to avail of cheaper rates. When probed further, 39% of respondents cited too much hassle as the primary reason for this. Other reasons suggested for not switching included the belief that they already had the best rates available (39%), or 22% said they do not incur late fees regularly, so they have no need to shop around for better rates.

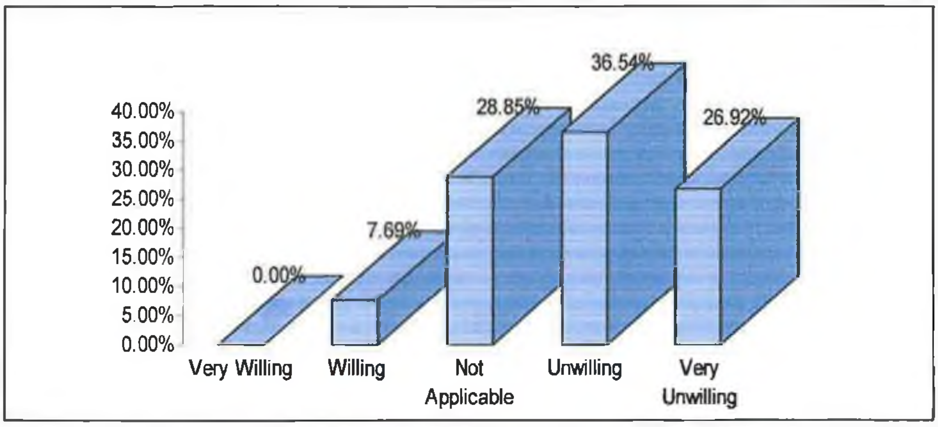
To investigate the effect of the current economic climate on credit card spending respondents were asked if their spending patterns have changed recently. 45% reported that economic conditions had an impact on their credit card usage, 35% say it had no impact while 20% say their credit card usage had changed to a certain degree. Most comments highlight that customers are more cautious using their credit cards for example two respondents commented "I try to keep spending on my credit card to a minimum" and "I treat it like cash, I don't use it anymore, unless I know I have the cash to pay it back on time".

4.2.6 Mortgage Demand

To evaluate the level demand for mortgages, participants were asked if they had taken out a mortgage in the last 10 years. The majority (58.5%) had not in fact done so with 41.5% reporting that they had. Of those who had essential need for housing (62%) was cited as the main catalyst for obtaining a mortgage in the last decade, 18.5% obtained a mortgage for investment purposes, 18.5% were influenced by the increased availability of credit, 11% were seduced by introductory rates.

To determine the level of confidence in the mortgage market, customers were asked to rate how willing they would be to take out a mortgage in the current economic climate. 36.5% of respondents would be very unwilling, while just 7.7% said they would be willing to take out a mortgage at this time. The rationale behind this unwillingness to obtain a mortgage was highlighted with 42% suggesting the decline in house prices as the core reason as they wish to avoid negative equity. 15% cited increasing interest rates as the principal deterrent.

The following graph represents the willingness of respondents to take out a mortgage in the current economic climate.



Graph 15: Willingness to take out a Mortgage in current economic climate

4.2.7 "Credit Crunch"

To ascertain the level of understanding of the current situation in the financial markets, respondents were asked to define the term "Credit Crunch". Out of all the responses just 1% of respondents answered correctly. 15% of the respondents that attempted to answer were aware of its implications on customers in terms of increasing interest rates and reduced access to credit, due to lending institutions tightening up their application procedures.

4.2.8 Current Economic Conditions

To further investigate the impact of the current economic climate on financial products respondents were asked to indicate which products would be most affected. The majority (34.1%) suggested that mortgage demand would be affected. 20.9% said personal loans, 20.9% said other investment option, 13.2 % said savings and 11% said pensions would be affected.

4.2.9 Factors that Influence the Demand for Financial Products

To determine the importance of other variables when choosing a financial product respondents were required to rate each variable in terms of impact, from strongly impacts to very little impact on their decision. 35.85% agree that inflation rates and job security are key variables that strongly impact their decision when choosing financial products, 33.96% say that interest rates strongly impact, while economic trends (28.30%) and introductory offers (26.42%) have less of an impact.

4.2.10 Consumer Confidence

In order to analyse the confidence levels of the Irish consumers in the financial service sector respondents were asked to rate their confidence on a scale from very confident to not confident at all. One third of the respondents expressed indifference (32 %), with the majority (42%) very confident in the Irish banking sector. The remaining respondents portrayed very little confidence in the Irish banking sector triggering hostile responses such as "I do not trust or respect any bank as they are ruthless" and "The banks are solely focused on profit generation and not the customers needs". When these respondents were probed further 40% said this was due to the banks focus on profit generation rather than customer needs, 30% suggested that the media is responsible for the hampering on consumer confidence in Irish financial services.

Consumers suggested what efforts could be made if any to improve customer confidence in the Banking sector. 25% said there is nothing that can be done, a further 25% suggest that the banks should be more customer focused, 21% suggest that the banks should lower interest rates and increase transparency in their terms and conditions and avoid hidden charges, while the remaining 8% suggested that if the media was more positive it would boost customer confidence.

4.2.11 Financial Situation

In order to ascertain whether customers were aware of their exact financial position in terms of debt, savings and income, customers where asked if they were conscious of their finances. 77.4% of respondents said they were. This may have a lot to do with the downturn in the economy as people are paying more attention to their spending patterns and are more conscious of the liabilities while 22.6% where not aware of their financial exact situation.

4.3 Conclusions Drawn

It was evident from the research that while the majority of the respondents (73.6%) had taken out a personal loan in the past 10 years, a larger proportion (80%) had set up a savings account. This supports the theory that Ireland had and still has a healthy savings culture. A key trend that emerged was the respondents' reasons for taking out personal loans. The majority of respondents were borrowing for luxury goods such as cars (50%) or travel (15%). Only 10 % had borrowed capital to consolidate debt. This highlights that a small proportion of consumers are in a vicious cycle of debt, however it is evident that it is not yet a major issue for consumers in the North West.

Economic trends, introductory rates and ease of access were not seen to be a significant factor when determining the level and nature of mortgage demand. This conflicts with the theory that suggests that current economic conditions, ease of access and inventive marketing ploys from financial institutions have had a strong influence on customer's personal borrowing decisions. Factors such as Inflation (35.85%) and job security (35.85%) were identified as the key variables that strongly influenced the customer's decision to borrow. 33.96% of respondents suggested that interest rates would also strongly impact their decision; however 46% of these respondents said that if the finance was deemed to be essential the interest rate would be irrelevant.

The research established that the majority (70%) of the respondents held at least one credit card; this supports the aforementioned "quick fix" borrowing trend that emerged in Irish society over the last 10 years. However just over 35% stated that they had fallen into arrears on repayments on occasions. This is not as high as the theory suggests, where 50% of customers are defaulting on credit card repayments. It was interesting to note that over 66% of respondents had not considered looking at alternative credit card providers to avail of cheaper rates. This conflicts with the theory suggesting that consumers are becoming more educated and shopping around for the most competitive rates. Over 65% of respondents agreed that they had changed their spending on their credit cards due to the current economic conditions. Most respondents are more cautions and use their credit cards sparingly.

However it is also useful to note that a trend emerged from the research, where a saving culture has come back into fashion. Customers, once again, have to save for a deposit in order to obtain a mortgage.

In terms of Mortgages 41.5% of the respondents had acquired a mortgage in the last 10 years, 29.5% said they were motivated by increased accessibility of credit and introductory rates, a further 18.5 % obtained a mortgage for investment purposes and 11%.

These were the contributing factors that lead to the property boom. The banks marketing strategy, increased accessibility to credit and low introductory rates had influenced consumers in the North West of Ireland to obtain a long-term commitment to debt in the form of a mortgage. The majority of respondents expressed a strong reluctance to take out a mortgage in the current environment citing increasing interest rates and falling house prices as the main deterrent.

Current economic conditions such as increasing interest rates and the collapse of the property market have been identified as the key contributing factors to the fall in mortgage demand.

It is evident from the research that the overwhelming majority of respondents do not particularly understand the meaning or the origin of the term "Credit Crunch". However the respondents are very aware of how it impacts their pockets. This combined with continuous negative media has eroded customer confidence in the banking sector to a degree. However the majority of the respondents still remain confident in their financial service providers. The findings of the research concluded that the recent "Credit Crunch" is felt more by the banks than the consumers. The majority of the respondents still remain confident in their bank. Another key finding was that while the Irish banks are suffering as a result of the "Credit Crunch" the Credit Union appears to have benefited, by way of customer activity.

In terms of responsibility for the high level of customer debt, the banking sector do not see themselves as the major contributor to this debt cycle. While they may accept a proportion of the blame they consider customer negligence as a key component to the rising level of debt in Irish society. Irish customers and other financial service providers do not share this view. They believe that the banks are guilty of irresponsible lending to consumers without a true assessment of affordability.

The following chapter will examine the banking sector's perception of the Celtic Tiger phenomenon and it's impact on the demand for financial products. The implications of the recent "Credit Crunch" will be investigated from the viewpoint of the banking sector.

Chapter 5: Demand for Financial Products – The Providers perspective

5.1 Introduction

This chapter outlines the views of the financial service providers, in respect of the demand for financial products during the economic boom and the recent "Credit Crunch". The results of seven semi-structured interviews, with managers representing the banking sector, Credit Unions and financial advisors are analysed and presented.

5.2 Rise of the Financial Service Sector During the Celtic Tiger

A considerable rise in the level of personal borrowings, mortgages and a significant rise in commercial borrowings particularly in the building sector were identified as the key characteristic of the boom lending by the banking sectors. One manager was quoted saying "The building sector fuelled an increase in employment as well as disposable income, which has led to year on year growth in terms of our product sales in particular personal loans, mortgages and commercial loans". However this increase in demand was not evidenced in the Credit Union. A CU representative noted that when credit was freely available from the banks people were happy to avail of this source of credit. Customers tend to turn to the CU in bad times. One CU representative stated that "the Credit Union tends to do well when the economy is not doing as well. More people approach us looking for loans. We are viewed differently than the banks. In terms of growth we have remained fairly stable whereas the banks are continuously up and down along with economic cycles. We tend to see a little more when times are harder, especially now that the banks are really tightening up." The mortgage advisors point to the huge increase in the purchase of property as an investment assset due to the high degree of confidence of house prices increasing.

5.2.1 Saving Patterns

One manager noted that the small savings market during the economic boom might not have been as prevalent as the 1980's, when people were inclined to save. During Celtic Tiger times credit was more freely available therefore people had a lack of incentive to save.

The banking sector reported that savings has become popular more recently, with young people now inclined to save like their parents did. The tightening of mortgage application procedures now requires customers to save large deposits in order to obtain a mortgage and this was seen to be the factor behind this drive to saving.

The CU on the other hand relies strongly on savings in order to lend to their customers. In an effort to encourage customers to save, the CU has set up budget accounts for customers in order to help customers budget for events like Christmas, birthdays, holidays and the like, thus reducing the need of borrowing for non current items. One CU manager reported that "there is no point borrowing €3000 for a holiday every year when this can be easily saved for by putting an amount aside each week. People are going back to basic budgeting and sacrificing some things and it's no harm". However the same CU representative said, "I would like to say that people are saving more but our numbers don't back that up. They tend to remain fairly level. I would say people are not spending as much, rather than saving more."

5.2.2 Personal Borrowing

All the financial service representatives agreed that during the boom period, people were more liable to borrow as credit was readily available and they were confident of their capacity to repay. In recent times the banking sector has seen visible signs of a slow down in the level of personal borrowing. " A lot of customers were taking out loans for cars that wouldn't do it now, the numbers of customers applying for loans has dropped" one bank manager stated.

Both the banking sector and the CU explained that the criterion for personal loan application has remained the same over the boom period.

As members of the CU, customers are required to save for ten weeks before they can borrow, however this will not guarantee approval for a loan. This provides security for the loan and also benefits the customer because once they repay the loan they still have savings. The CU sees this as stimulating the savings ethos, as evidence by the following statement "When we lend we are using our members money so we do require people to save. It's also protection in case they are unable to afford repayments, whereas in a bank you are not required to have a savings account. You don't need security with the Credit Union. Your savings are your security." The CU will also look at the amount the customer wishes to borrow, their income, liabilities in terms of rent and mortgages and assess the individual character. As a rule of thumb the CU believe that customer should only be paying 35% of their income on debts. Once the customer can afford the repayments without difficulty the loan will be granted.

A critical issue today for all lending assessors is the level of indebtedness of their customers. They are more conscious that people may be over borrowing. All the managers in the banking sector stated that although income is an important variable, there is more of a focus on the purpose of the loan and what it would be used for. The CU noted that "We now see much higher indebtedness in terms of credit cards, especially for younger people, we would ask them simply do they have a credit card, most people are honest, but you will have a fair idea by looking at a person's bank statement to see what their spending habits and lifestyle are like".

A common theme identified between bank managers was that the element of fear that was previously attached to having a credit card and being in debt to their bank was dramatically reduced. All interviewees reported a huge increase in the level of arrears in credit card payments.

All the financial representatives confirmed the finding that, customers were reluctant to borrow in the current economic climate. A banking representative was quoted saying

"People are more cautious about borrowing, but we cannot save for everything. People will always need access to money they don't have; however the purpose for borrowing has changed. People aren't necessarily borrowing to go to New York shopping for the weekend anymore. Borrowing is for essential need, which will always be present".

While the banks have cited a drop in the demand for personal loans the Credit Union has seen an increase in the numbers of Customer's applying to them for loans. This is due to the restrictions now in place by the banks forcing customers to find alternative means to access credit.

5.2.3 Mortgages

During the economic boom, mortgages for investment properties were the predominant financial product. Typically developers were applying for finance to purchase land to develop property with the aim of generating a higher return. All financial representatives agreed that the peak periods for mortgage lending was between 2005 and 2007. However this has changed since the economic slow down and applications for mortgages on investment properties have almost disappeared. Autumn 2007 marked the first change in this trend particularly in the area of investment mortgages where a huge reduction was recorded. This was due to the over supply of housing and the decline of property prices.

In relation to personal mortgages, both financial providers have agreed that no criteria has changed; One financial institution said that they maintained their strict lending policies and guidelines and stuck to the 92% mortgages and did not engage in the 100% mortgages. As a result they lost a lot of business to other financial institutions that were giving the total mortgage required. One bank outlined their standard assessment procedure for obtaining a mortgage "the bank will review your income over the last 6 months including bank statements, loans, savings and general account movement. The (DSR) debt service rate is based on your net monthly income, and this is applied in order to test your ability to repay mortgage payments. For example If you were earning €2000 net wage a month the DSR might suggest that you could afford to pay up to 35%

of this without struggling. In addition a stress test is carried out in order to test the interest rate fluctuation on your ability to repay the mortgage. However in the past the DSR may have slightly increased to allow customers to borrow a little more, but other than that our procedure has remained the same." The bank concurs that they would now apply the same consultation and procedure that they would have during the boom period.

One mortgage advisor suggested that "even though investment property has slowed down, people are still getting married and buying their first home and they are still buying, 90% of their mortgages at the moment are for first time buyer who are buying property for necessity rather than investment opportunities, or switchers that are switching their mortgages from other institutions".

Currently the CU does not facilitate mortgage lending this is due to lack of capital funds. All CU representatives did not believe that this was the purpose the CU was set up for.

5.2.4 Marketing Criteria

All bank mangers stated that there was no difference in marketing efforts during the Celtic Tiger era. Newspaper and TV advertising were still the main mediums utilised. The banks advertising methods became more users friendly in order to make their products more attractive. This is evidenced in their latest ad campaigns which are marketed to the late teen and early twenties age group.

Since the evolution of the recent "Credit Crunch" another bank stated that they had stepped up their marketing in an effort to encourage people to save. Another banking official said that they run an annual student campaign in September to encourage students to set up a savings account, and promote their €1500 interest free overdraft.

The mortgage advisors and the CU all agreed that their efforts were unchanged during the economic boom.

5.2.5 Deposit Acquisition

The CU is not exposed to the inter bank market as they use their customer's deposits to fund their personal loans. The banking sector on the other hand has exposure to the volatile inter bank market. The banks have begun to reassess their capital supply. One bank manager noted that there was now an increased focus on deposit acquisition. This will allow the bank to use their own funds for lending rather than buying it from the wholesale market. This is achieved by encouraging not just regular savers but also all other customers to save. An example used by one manager "if customers were setting up a current account they would also be encouraged to set up a savings account, especially if their were considering applying for a loan or mortgage in the near future as their credit and savings history would be reviewed."

5.2.6 Sub Prime Exposure

All bank managers concur that their bank has not been exposed to sub-prime lending practise. However all the annual results and announcements will be released over the next 12 months and will clear up which banks are exposed or not. One manager noted the example of the Saxson Bank in Dublin. "This bank had engaged in sub prime lending but at the time they wouldn't have been seen to be doing the wrong thing." In his opinion every bank that has been exposed to the sub prime now regrets it but did not at the time.

5.2.7 100% mortgages

All bank managers said that they were never in favour of the 100% mortgages, but they were in favour of lending money at what ever level if the customer can afford it comfortably. One banking representative said "On unique occasions 100% mortgages were supplied but this was very rare and applicants had to adhere to strict criteria. The standard family home mortgages were kept at the 92%. While this institution did launch introductory rates, this was only in the last 18 months and has been removed again now." One mortgage advisor discussed the lending ratio over the last 25 years indicating, "that there was a time when I would be talking to a customer about lending 75% finance to your 25 % finance and that was quite conservative." One bank official suggested the reason behind this change in lending ratios over the boom "Market forces and increased competition from niche financial providers that entered into the market, gave rise to what some people might call competition, while others might say it was irresponsible lending." He noted "if you have a bank which is offering 85%, 95% making it impossible for other banks to lend at the ratios that they were using, then as long as the Central Bank permits that the ratio could go up and up and up." Bank managers said the bottom line for their bank at all times was affordability. One manager stressed, " It is irrelevant if the mortgage is for 75% or 100% of the house the primary concern is affordability."

One Mortgage advisor stated that he would not encourage his clients to obtain a 100% unless affordability is not an issue he said "I personally would not advise my clients to obtain a 100%, in unique circumstances only, affordability is the concern"

5.2.8 Consumer Confidence

All bank managers unanimously agreed that customer confidence in the banking sector has been eroded in recent times. This is evidenced by increased numbers of customers coming in for consultations now whereas before they did not feel the need previously. One manager said, " People are more aware that if the banks went belly up, there is only a threshold amount that the bank would be liable for. People are concerned and are ringing up the bank to be reassured and are moving their money to a number of different institutions to keep their money safe."

The CU perspective was that "the bank the church and the doctor where traditionally viewed as the respectable institutions this isn't the case any longer, they have shown to be less than careful with peoples money, overcharging and not being honest. This has eroded customer confidence."

One bank manager suggests that the media are mainly responsible for the negative attitude and opinions that some customers now hold against the financial institutions. He said, " If we talk enough about a recession it will happen. We will talk ourselves into a recession and this is due to the huge amount of negative publicity and media about the Irish economy and Irish financial service providers".

A financial advisor noted, "There are certainly a number of people trying to consolidate their debts. Recession for some people is three holidays a year instead of four, but certainly people are more cautious borrowing money."

A CU representative stated they are also more cautious in terms of lending, as a lot of their customers are plumbers, electricians, and construction workers. He noted that there is not the same confidence in job security as before and that no job is going to exist infinitely.

Suggestions to improve confidence levels were outlined by each bank manager. One bank manager suggested that banks should be transparent at all the times with customers, about terms conditions and rates. Once they see this, it will inspire confidence. One manager noted, "If customers are advised and informed at the very start you very rarely have problems," Another bank manager addressed the issue of improving customer relationships, explaining that currently only their high profile customers with dedicated portfolios have personal relationships with their banker. The manager detailed their efforts for improving customer service "We eliminated the online loan application, so customers now have to come in for a personal consultation. The focus is on customer service; our bank spent millions on a customer service initiative called ALPHA last year. There was a new role created the "Relationship Manager" who is always on the shop floor to assist customers, walking the queue dealing with customer queries. Previously there was a lot of business lost through poor communication, not phoning customers back, as there was no person assigned to this area now there is".

A CU representative suggested that the banks are more apprehensive than customers. He explained, "For banks there is the constant fear of a queue of people forming outside a bank in Ireland, it could happen very easily confidence is very fickle all it would take is a rumour that a bank has run out of money. The worst thing that could possibly happen is a crisis in the banking sector in Ireland. When it comes to peoples hard earned cash if people have a doubt they will take their money out"

The financial advisors suggested that the confidence has been eroded due to decelerating house prices this has meant that people are less willing to purchase property in the current climate, as they do not want negative equity.

All financial representatives agreed that confidence will be restored in the next year or two but the demand for financial products will never return to the levels during the "Celtic Tiger" phenomena.

5.2.9 Responsibility

An interesting divide in opinions appeared when interviewees were asked who they felt was responsible for the huge increase in consumer debt levels. The CU representatives and the non banking sector believed that the banks should be held accountable in part for this situation as it was felt that they had irresponsibly lent money to customers that did not have the means to pay it back. A financial advisor argued that "The banks are responsible in that they have they allowed people to take on more debt than they can afford. They cannot claim that they did not know because the Credit Bureau is set up that you can do a credit check which will tell how much debt a customer owes, so why then would the bank offer you a credit card with a limit of €6000 this is simply because their salary is based on commission".

However one bank manager responded to this viewpoint by saying "I don't ever recall a banker taking out a gun and holding it to someone's head to get them to borrow. When customers were refused credit from one bank they would just go to another bank to get it".

The CU view was " unfortunately people will always fall into arrears people will get sick, people will lose their jobs there is a accepted level of default in any lending book. If you look at credit card lending from these majors banks, they have huge limits, in my view this is irresponsible lending. We will not bail out people to get the banks off the hook."

5.2.10 Impact of Competition

The banking sector agreed that there has been large numbers of new entrants into the financial market such as Halifax and MBNA, but reported that their impact has been minimal while agreeing that the new entrants had introduced more competition into the market in terms of rates but they haven't necessary impacted significantly on market share. One bank manager explained "that these niche players set up attractive introductory offers that are lower than the standard rates in order to gain short term liquidity. This evoked a little bit of a shift in terms of the transient customer". He elaborated further by saying that "often our consumers will avail of these offers but more often then not they move back, this due the capacity of the major banks to provide a better service aspect."

The CU however does not participate in competing with these new entrants, The credit union representative described the banks "They all are pretty much the same if you took their names down over their doors it would be difficult to tell the difference between them. Our interest rates have not changed really in 40 years; we are actually reducing our rates this year while other banks are pushing theirs up. We don't need to follow cycles. We don't employ a sales culture to get your business like other banks."

5.2.10 Global impact

The closures of large American financial institutions, and more recently the closure of HSBC in Ireland have had an impact on the Credit Union, as to where they would place their money. The manager noted "RABO would be triple A rated bank, it's the only triple A rated bank in Ireland. We would only deal with banks above a double A rating. We would not place money with any of the smaller building societies at the moment. We have a substantial investment with RABO at the moment and the balance of our money is in a liquidity fund. However Northern rock was a double A rated institution and seemed very safe, it is ahead of most of the institutions in the North West"

One bank manager offered reassurance in the banking sector by saying "there are no Northern Rocks in the Irish banking sector". He proclaimed that the main players in the Irish banking sector are secure.

5.2.12 Credit Crunch

All financial service providers were asked if they believed that customer understand the term "Credit Crunch" all interviewee unanimously agreed with the findings saying that they don't believe that the customer fully understands the term, all they see is how it impacts on them by interest rates increasing and reduced access to credit.

5.3 Conclusions Drawn

From the interviews conducted, the increase in the level of personal loans, commercial loans and mortgages, in particular investment mortgages for the construction sector during the economic boom was noted by all financial representatives.

Autumn 2007 marked the initial slowdown in borrowing for all banks in questions, while the CU noted an increase in their loan applications since the introduction of the "Credit Crunch".

The financial sector all agreed that the criteria for loan and mortgage applications had not changed throughout the years, yet the theory suggests that the banks had indeed changed their criteria in terms of lending. Stating that banks were lending to customers that did not have the means to repay, without difficulty. The banking sector, believe that they have always focused on affordability and this did not change during the boom period. All interviewees noted that the element of fear that was previously attached to borrowing finance had been eliminated over the years; this supports the theory that customers now see debt as part and parcel of their lifestyle. The banking sector noted a huge increase in the level of arrears in credit card payments, this supports the aforementioned theory but it conflicts with the consumer findings, where only a small proportion of respondents said that they incurred late fees often.

The banking sector representatives noted the re- emergence of the savings culture in Irish society, with customer once again having to save for an initial deposit in order to secure a mortgage. The banks are turning their attention towards deposit acquisition due to the volatile wholesale market in an effort to raise their own capital supply. The CU, however did not notice this increase in saving but believe that customers will once again have to revert to basic budgeting practice. This is facilitated through the introduction of budget accounts that will require customers to save on a regular basis.

During the economic boom, mortgages for investment properties were the predominant. However this was not evident from the consumer research conducted, as the financial providers explained that this increase was mainly subject to the construction sectors rather than the private mortgage sector.

All banks representatives declared that their institution was free from Sub prime lending. However no one can be certain until the all losses and toxic loans are exposed over the next year.

The financial service sector as a whole agrees unanimously that consumer confidence has been eroded in recent times. The banking sector attributed this to the constant negative media surrounding Irish financial services. It is evident that there is a blame game in operation as to the increasing levels of consumer debt. The banking sector believe customer negligence is a key factor in rising consumer debt, stating if they were not approved for a loan or mortgage in one bank they would simply get it else where. While the CU and the mortgage advisors believe that the banks have engaged in irresponsible lending practises and now that the damage is visible they are retracting in an effort to reduce their exposure to toxic loans.

The banks suggested that increased transparency and improve customer service are the best way to restore customer confidence in the banking sector.

The following Chapter will summarise the key conclusions and recommendations from the research findings.

Chapter 6: Conclusions and Recommendations

This study aimed to identify the impact of the Celtic Tiger on the demand for financial products and the impact of the recent "Credit Crunch" on consumers in the North West of Ireland. A combination of research methods were employed, questionnaires and interviews were complimented by the review of secondary data. The research question was "What are the implications for Irish consumers within the North West due to the recent decline in the Irish economy and the global turmoil in the financial market". This required an examination of the financial service providers and gaining an insight into the perception of the consumers of financial products in the North West of Ireland. The following section outlines the key findings and conclusions of the research undertaken. It will outline recommendations for customers and financial service providers, to help deal with the financial pressures as a result of the "Credit Crunch" and a rapidly declining economy.

The study found that the majority of consumers had taken out a personal loan in the last 10 years, this suggests that a large proportion of the North West of Ireland have some level of debt obligation to a financial institution.

A recommendation for the banks is to follow in the footsteps of the Credit Union, by encouraging their customers to set up a budget account, whereby a customer can budget for special occasions such as Christmas or a wedding. The bank advises the customer to set aside a specific amount each week in order to reach their target amount. This will prevent the customers from borrowing for non-current items. This will also provide liquidity for the banks, freeing up excess capital for other loan requirements.

From the research conducted, a contrast to the literature was noted. The banking sector stated that their lending criteria had remained the same over the years from the boom period to the present day. While the theory suggests that the banks have changed their lending criteria over the years. During the boom period the banks increased the accessibly of credit and were involved in irresponsible lending practice through inventive accounting.

The research concludes that the majority of customers held at least one credit card. Although the banks and the theory suggests that there has been a huge increase in the level of arrears on repayments, only the minority of respondents said they fall into arrears and are subject to late fees often.

A recommendation for customers to avoid defaulting on repayments would be to purchase high priced goods early in the month in order to maximise the repayments period and minimise the possibility of high interest rates accruing. Also the previsions to educate the consumer on debt management could be achieved through the emergence of financial comparison sites or advisory web sites such as itsyourmoney.ie.

The re-emergence of a saving a culture was evident from the findings. The customer research indicated that the majority of respondent had set up a saving account. The banking sector also noted this increase in saving patterns suggesting that customers once again have to save an initial deposit before they would be considered for mortgage approval.

The banking sector noted that the majority of mortgages were obtained for investment purposes, however the customer's findings did not back this up. This is due to the fact that the majority of investment mortgages were supplied to the construction industry, while this study focused on the private sector.

Both the research findings and the theory suggest that the recent increase in interest rates, combined with the decline in property value have impacted severely on mortgage demand It also concluded that job security and inflation impact strongly on the demand for borrowed capital

A recommendation would be for the banks to set up more manageable payment plans for customers who are experiencing difficulty. By reducing the monthly payments until the customer is able to comfortably afford the repayments again. This will instil confidence and trust among the banks and their customers.

The research findings indicated that the majority of consumers did not understand the term "Credit Crunch". However the financial sector pointed out that consumers were aware of the direct impact of the "Credit Crunch" such as increasing interest rates and reduced access to credit. It was evident from the research that the credit crunch is felt more by the banks than the consumers. It was highlighted, that while the banking sector may be suffering losses as a result of the "Credit Crunch" the CU appears to be thriving This research indicates that a lot of customers still remain confident in the Irish banking sector. The banking sector suggests that any loss in customer confidence is primarily due to the negative media coverage that has shaped the opinions of the general public.

A recommendation to regain the customer's trust would be to focus on a customer centric approach. This would involve the implementation of relationships marketing i.e. building a personal relationship with customers. It is not a realistic expectation to form a personal relationship with every individual customer however many customers are willing to engage in a relationship with their banker. The main reason for this is that customers often have long-term dealings with their financial institutions and require an element of trust when placing their finances in their possession. One of the core reasons for banks to engage in building relationships with their customers is because customers make judgements based on previous experiences with their bank for example their first loan. This would require careful customer analysis and changes to the banks culture roles and responsibilities.

Appendix 1:

QUESTIONNAIRE

I am currently conducting research into the impact of the "Credit Crunch" on consumer confidence within the Irish Banking Sector. I would be very grateful if you could spare some of your valuable time to complete the following survey.

All information provided is strictly confidential.

Personal Details

Q1.

(a) Gender

Male ☐ Female ☐

(b) Marital Status

Married ☐ Single ☐ Separated ☐ Divorced ☐

Cohabiting ☐ Widowed ☐

(c) Age

18- 25 years ☐ 26- 30 years ☐ 31- 40 years ☐ 41- 50 years ☐

51- 60 years ☐ 61+ years ☐

(d) Employment status

Part- time ☐ Full-time ☐ Student ☐ Unemployed ☐ Retired ☐ Other ☐

(e) Income bracket

€0-€15,000 ☐ €15,001-€25,000 ☐ €25,001-€35,000 ☐

€35,001- €45,000 ☐ €45,001-€60,000 ☐ €60,001+ ☐

Savings/Loans

Q2 Have you set up a savings account within the last 10 years?

Yes ☐ No ☐

If yes, what reason(s) prompted to set up a savings account?

____

____

____

If no, what discouraged you from setting up a savings account?

____

____

____

Q3 Have you taken out a personal loan(s) in the last ten years?

Yes ☐ No ☐

If Yes, what reason(s) prompted you to take out a personal loan?

____

____

____

____

If No, what discouraged you from taking out a personal loan?

____

____

____

____

Q4. Did you note the interest rate applicable at the time of your loan ?

Yes ☐ No ☐

If Yes was it….

Very relevant 1 2 3 4 5 not relevant at all (Please circle your choice)

Q5 Will the recent increase in interest rates influence your decision to take out a personal loan?

Yes ☐ No ☐

Please explain ____

____

____

Q6 Will the recent increase in interest rates influence your decision to set up a saving account?

Yes ☐ No ☐

Please explain ______________________________

____

____

Q7 Are there any other factors that would currently influence your decision to take out a personal loan?

____

____

____

____

Q8 Are there any other factors that would currently influence your decision to set up a savings account?

____

____

____

____

Credit cards

Q9 Do you hold a credit card?

Yes ☐ No ☐

If so, how many did you own?

1 ☐ 2 ☐ 3 ☐ 4+ ☐

Q10 Are you aware of the current interest rates on your credit card?

Yes ☐ No ☐

Q11 How often are you penalised for late payment?

Never ☐ seldom ☐ often ☐ very often ☐

Q12 Have you thought of switching to another credit card provider to avail of lower interest rates?

Yes ☐ No ☐

If not why not?

____

____

____

Q13 Has the current economic climate changed your spending patterns on credit cards?

Yes ☐ No ☐ somewhat ☐

Please explain

____

____

____

____

Q14 (a) Have you taken out a mortgage in the last ten years?

Yes ☐ No ☐

If yes, which of the following prompted your decision to take out a mortgage?

(a) Low interest rates
(b) Availability of credit
(c) Essential need for housing
(d) Speculative motives
(e) Other

____

____

____

____

Q15 How willing would you be to take out a mortgage at this present time?

Very willing ☐ willing ☐ not applicable ☐ Very unwilling ☐ unwilling ☐

Please explain:

____

____

____

____

Consumer confidence

Q16 What is your understanding of the Term "Credit Crunch"?

____

____

____

____

Q17 Would the current economic conditions impact your decision to take up any of the following financial products?

(a) Personal loan ☐
(b) Saving Scheme ☐
(c) Mortgage ☐
(d) Pension ☐
(e) Other investment options ☐

Q18 Which of the following factors are currently impacting on your decision to avail of financial products ? (Please circle your choice.)

(a) Interest rates
Strongly impact 1 2 3 4 5 6 7 Little impact

(b) Inflation rates
Strongly impact 1 2 3 4 5 6 7 Little impact

(d) Salary
Strongly impact 1 2 3 4 5 6 7 Little impact

(e) Economic conditions/ market trends
Strongly impact 1 2 3 4 5 6 7 Little impact

(f) Introductory offers
Strongly impact 1 2 3 4 5 6 7 Little impact

(g)Job security
Strongly impact 1 2 3 4 5 6 7 Little impact

Q19 How confident are you in the Irish banking sector?
Very Confident 1 2 3 4 5 6 7 Not confident

Please give a reason for your answer

____

____

____

____

Q20 Are you aware of your exact financial situation at this time in terms of personal loans, savings, mortgages, etc.?

Yes ☐ No ☐

Q21 In your opinion is there anything that can be done to improve customer confidence within the Irish Banking sector?

____

____

____

____

Q22 **Any additional comments**

____

____

____

____

Appendix 2: **Bank Manager Questions**

1. Can you discuss briefly the rise of the banking sector during the "Celtic Tiger" era?

2. In the prime years of the "Celtic Tiger" what marketing efforts were made by the bank to attract more customers?

3. What impact had new entrants to financial industry (Halifax, MBNA) have on your marketing efforts?

4. Which financial products were predominant during the Celtic Tiger era?

5. When was the peak period (s) for borrowing and saving?

6. When was the peak period (s) for mortgage applications?

7. Has the bank be exposed to sub-prime lending in the past? If so what are the consequences of that today?

8. Can you explain the rational for 100% mortgage and do you think that clients have now suffered?

9. Is the bank current offering 100% mortgages, who can apply for them?

10. What are the differences in criteria when applying for a mortgage now and back during the boom period?

11. What are the differences in criteria when applying for a Personal loan now and back during the boom period?

12. Recent data has shown that consumer-spending habits are still the same despite the downturn, do you agree?
    in terms of personal loans and credit card use?

    Why?

13. How has the level of savings changed over the years from the Celtic Tiger to post Celtic Tiger years?

Why?

14. How has the level of borrowing (personal loans) changed over the years from the Celtic tiger to post Celtic Tiger years?

    Why?

15. How has the demand for mortgages changed over the years from the pre- Celtic Tiger to post Celtic Tiger years?

    Why?

16. Has the bank cut their marketing efforts since the "Credit Crunch".
    If so why?

17. Data suggests that the average levels of personal debt has increased four fold Do you think the banks can be held responsible in part for this?

18. What are the negative implications of the mortgage boom on the banking sector today e.g repossessions, bad debts?

19. What can be done apart from tightened up mortgage application procedures, to ensure default risk reduction?

20. What were the initial indicators for the bank that the economy was heading towards a decline?

21. When did the "Credit Crunch" initially hit your bank?

22. What customers were mainly effected and how?

23. Has the recent closures of many of the large US financial institutions and the stories about Northern Rock in the U.K worry the bank in any way?
    If not why not

24. Bank of Ireland were one of the first to come forward about the threat of a global credit crunch, to ensure customers there were stable and were free from the sub prime market is this still the case today?

    What about other banks?

25. What role if any do you think the bank has in promoting a more sensible attitude towards debt?

26. During this time of unease is the bank currently using it as an opportunity to encourage people to save?

    If so how?

27. Do you think that the current reluctance to take out a mortgage in the current climate will disappear in the near future?

28. Do you think customer confidence in the banking has been eroded in recent times?

    If so why?

29. What factors do you think will bring about an increase in consumer confidence?

30. In your opinion how will economic decline impact on the Irish Banking sector and in particular your bank into the future?

31. Do you think that people generally understand the impact of the credit crunch on interest rates?

32. Have you noticed a change in consumer's investment patterns?

Appendix 3: **Financial/Mortgage Advisor Questions**

1. Can you briefly explain the services that are provided by the company?
2. Can you discuss briefly the effects of the "Celtic Tiger" years on the company?
3. In the prime years of the "Celtic Tiger" what marketing efforts were made by the Company to attract more customers?
4. What impact had new entrants to financial industry (Halifax, MBNA) have on the company?
5. What impact had new entrants to financial industry (Halifax, MBNA) have on your marketing efforts?
6. How has the property sales been effected by the "Celtic Tiger"?
7. When was the peak period (s) for mortgage applications?
8. Does the company advise 100% mortgages?
9. Can you explain the rational for 100% mortgage and do you think that clients have now suffered?
10. What are the differences in criteria when applying for a mortgage now and back during the boom period?
11. How has the level of borrowing (personal loans) changed over the years from the Celtic tiger to post Celtic Tiger years?

    Why?
12. How has the demand for mortgages changed over the years from the pre- Celtic Tiger to post Celtic Tiger years?

    Why?
13. Has the company been impacted by the recent "Credit Crunch"?
14. Has the company reduced or increased their marketing efforts since the "Credit Crunch".
    If so why?

15. Data suggests that the average levels of personal debt has increased four fold Do you think the banks can be held responsible in part for this?

16. What can be done apart from tightened up mortgage application procedures, to ensure default risk reduction?

17. What were the initial indicators for the company that the economy was heading towards a decline?

18. Have the recent closures of many of the large US and UK financial institutions impacted on the company in any way?
    If not why not?

19. Do you think that the current reluctance to take out a mortgage in the current climate will disappear in the near future?

20. Do you think customer confidence in the financial service sector has been eroded in recent times?

    If so why?

21. What factors do you think will bring about an increase in consumer confidence?

22. In your opinion how will economic decline impact this company into the future?

23. Do you think that people generally understand the impact of the "Credit Crunch"?

24. Have you noticed a change in consumer's investment patterns?

Appendix 4: **<u>Credit Union Questions</u>**

1. Can you discuss briefly the rise of the Credit Union during the Celtic Tiger era?
2. In the prime years of the Celtic Tiger what marketing efforts were made by the credit union to attract more customers?
3. What impact had new entrants to financial industry (Halifax, MBNA) have an impact on the Credit Union?
4. What impact had new entrants to financial industry (Halifax, MBNA) have an impact on the Credit Unions marketing efforts?
5. Which financial products were predominant during the Celtic Tiger era?
6. When was the peak period (s) for borrowing and saving?
7. What are the differences in criteria when applying for a Personal loan now and back during the boom period?
8. Recent data has shown that consumer-spending habits are still the same despite the downturn, do you agree?

   Why?
9. How has the level of savings changed over the years from the Celtic Tiger to post Celtic Tiger years?
10. How has the level of borrowing (personal loans) changed over the years from the Celtic tiger to post Celtic Tiger years?

    Why?
11. Has the Credit Union cut their marketing efforts since the "Credit Crunch". If so why?
12. Data suggests that the average levels of personal debt has increased four fold Do you think the banks can be held responsible in part for this?

13. What were the initial indicators for the credit union that the economy was heading towards a decline?

14. Has the recent "Credit Crunch" impacted on the credit union?

15. What customers were mainly effected and how?

16. Have the recent closures of many of the large US and UK financial institutions impacted the credit union in any way?

17. What role if any do you think the credit union has in promoting a more sensible attitude towards debt?

18. During this time of unease is the credit union using it as an opportunity to encourage people to save?

    If so how?

19. Do you think that the current reluctance to borrow in the current climate will disappear in the near future?

20. Do you think customer confidence in the financial service sector has been eroded in recent times?

    If so why?

21. What factors do you think will bring about an increase in consumer confidence?

22. In your opinion how will economic decline impact on the credit union into the future?

23. Do you think that people generally understand the impact of the "Credit Crunch"?

24. Have you noticed a change in consumer's investment patterns?

Appendix 5: **Letter to Financial Service Providers**

Dear

My name is Rienna Henry and I am currently studying for my Masters in Marketing with Sligo Institute of Technology. For my Dissertation I have chosen to research the impact of the "Credit Crunch" on consumer confidence within the Irish financial service sector.

I am writing to see if it is possible to conduct a brief informal interview with you in the near future in order to obtain a viewpoint from the Irish financial service sector. This will help me to gauge a more thorough understanding of my topic and give my research added depth with a balanced perspective.

Hoping you can help me in this regard,

Yours sincerely

Rienna Henry
087-7914667
s00026118@itsligo.ie

Appendix 6: **Letter of consent**

Interviewee:

Title: An investigation into the impact of the "Credit Crunch" on consumers and the implications for the Irish banking sector.

I agree to be interviewed for this dissertation research. I have had the project explained to me. I have given permission to be interviewed by the researcher.

I understand that the researcher may use any information provided to back up previous dissertation research .The researcher agrees not to attribute any information gained to the interviewee or the Company, within the dissertation.

Signature .... Date ....

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