Rabobank

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Mr Michael Noonan TD,
Minister for Finance,
Department of Finance,
Upper Merrion Street,
Dublin 2.

4th July 2016

Dear Minister,

Public Consultation: Extension of Levy on Financial Institutions to 2021

I refer to the proposal announced in Budget 2016 and the public consultation paper issued by the Department of Finance on 9th June 2016 to extend the existing Irish Bank Levy (the 'levy') imposed on certain financial institutions, which was due to expire in 2016, for an additional five years to 2021.

The purpose of this letter is to express our significant concerns, and those of the Rabobank Group in the Netherlands, in relation to the extension of the levy and how it might operate in future. Rabobank operates in Ireland through a number of separately run business lines one of which is RaboDirect, an online savings offering. RaboDirect's retail customer deposits are not covered under the Irish Deposit Guarantee Scheme and so RaboDirect does not impose any contingent financial liability on the Irish State or the Irish banking industry.

Impact of the Levy on RaboDirect

Our opinion is that the scope and nature of the extension to the levy is anti-competitive and disproportionate.

Anti-Competitive

We believe the current levy is anti-competitive:

- The current levy is fixed by reference to *historic* DIRT payments and therefore changes in business volumes, up or down, are not reflected in the levy. This distorts proper competitive factors in the market by favouring those with an aggressive growth strategy. This is acknowledged in your Consultation Paper which notes the need to rebase the levy to allow for changes in market participants that have occurred in the previous three years and yet the proposed approach is to now fix the base year for the next five years.
- Basing the levy on DIRT paid creates a competitive disadvantage for those who wanted to reward customers with higher rates of interest as they are penalised with a higher levy.
- Certain deposit gathering entities within the jurisdiction, such as Credit Unions, are not burdened by the levy putting them at a competitive advantage.

Disproportionate

We believe that basing a levy on deposits disproportionately impacts our business. As outlined in the Table below, Rabobank is paying 3% of the overall levy while representing less than 1% of market share.

Alternative Methods of Calculation

It is our view, where the Government insists on imposing a levy on financial institutions, any methodology should be fairly based and not impede competition.

On this basis, we believe any levy should be tied to an institutions *overall scale* and not related to the levels of DIRT paid or to the level of deposits held.

More importantly, we consider that a more appropriate methodology would be to re-base the levy on a rolling basis, such as one year in arrears, and not have it fixed for long periods based on past events. This would more fairly reflect the current performance of the financial institution and avoid market distortions. For example, should the Government continue to base the levy on DIRT remitted to the Revenue then the levy amount should be based on the prior period DIRT amount and, if necessary, have a variable levy % to achieve the required yield.

Conclusion

As RaboDirect operates primarily as a savings bank and operates an efficient low margin business model the current structure of the levy is inequitable, anti-competitive and disproportionate. This levy is having a significant negative impact on RaboDirect's businesses and at a minimum we believe that the levy should be based on a rolling annual mechanism.

I trust the above comments are constructive to you and your department in framing policy for the future.

Yours sincerely,

Kevin Knightly
Chief Executive Officer

[1] Bank levy liabilities have been extracted from the 2015 annual reports of each financial institution.

[2] The market share has calculated based on Irish assets per publicly available annual reports

[3] £14m per RBS 2015 Annual Report (rate: 0.737)

[4] Inter company assets have been eliminated on consolidation

[5] Information not available