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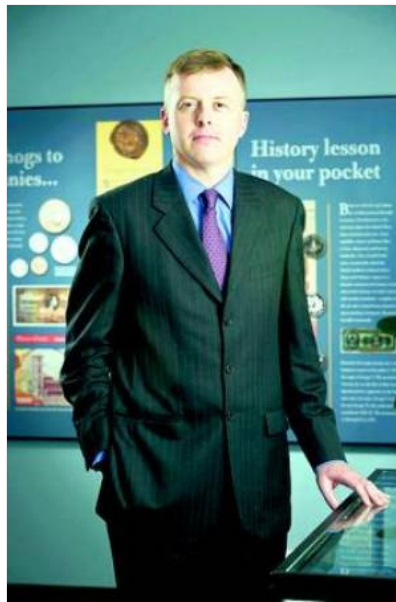
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## Bermudan must make bad banking disappear

The new financial regulator, Matthew Elderfield, comes from Bermuda and was a surprise choice to many. While he can help Ireland get more insurance business, Elderfield may also need to take on his political masters from time to time, writes Peter Oakes



Newly-appointed financial regulator Matthew Elderfield will hopefully not view the Irish banks with the same tunnel vision as his predecessors

The appointment of Matthew Elderfield as the chief financial regulator is both a compliment to and an indictment of Ireland's financial services regulatory system.

The compliment is that Ireland has managed to attract a young, enthusiastic and outcomes-driven regulator with a blend of commercial awareness and regulatory foresight. It is an indictment because, apparently, we could not find anyone within Ireland, or indeed an experienced Irish expat, fit for the purpose.

Perhaps this is too simplistic. We do not know whether other candidates decided not to proceed with their applications after running a rule over the role, the structure of the regulator, those he or she would be responsible for regulating, his or her faith in the government to support real change, the likelihood of a new government during the early stages of the regulator's career or indeed whether salary expectations could not be met.

The announcement of Elderfield's seven year term as head of financial supervision comes less than a fortnight after former taoiseach Bertie Ahern admitted his mistake in removing the power of regulating banks from the Central Bank. The appointment of Professor Patrick Honohan as governor of the Central Bank was a clear signal by the finance minister that outsiders are required to get us back on track and to fix the mess of their predecessors. Elderfield continues this tradition. Against this backdrop it will be interesting to see whether AIB wins its battle to appoint an internal candidate as chief executive.

Although some might be surprised at the appointment of a regulator from the Bermuda Monetary Authority (BMA), Elderfield has strong experience in European banking and investment. Prior to his appointment at the BMA, he headed a major division at the UK Financial Services Authority (FSA) responsible for supervising large, complex banking groups. With the notable exceptions of Australia and Canada, all banking regulators have come in for criticism alongside the banks they regulate. Elderfield, with his international experience, will hopefully not mistakenly view Irish banks with the same tunnel vision as his predecessors.

There is also a business bonus from his appointment. Ireland has an immediate and unique opportunity to become Europe's centre of excellence for insurance and reinsurance. We have done well recently capturing a greater share of that market from overseas, including Bermuda, which is our main competitor in this field. The fast approaching Solvency II directive will require a chief regulator with strong policy, risk management and high-level advocacy skills in Europe and internationally. Elderfield

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may just be the right man at the right time.

The new chief regulator faces several of challenges when he takes up his job in January 2010. First, there are major management issues to deal with. He will be the key operational leader who will kill off the ridiculous, half-baked and antiquated regulatory structure we adopted as recently as 2003. He will require exceptional change-management skills. His task will be made more daunting by ensuring that his 400-odd troops stay on message throughout the transition. This will be no mean feat. Some staff will leave. Others who thought their career progress was guaranteed may find the outsider curtailing their expectations. However, others who align themselves with the regulator's new objectives – and there will be quite a few of these good folk – should find a rewarding and respected career ahead.

Second, Elderfield must be seen delivering effective and swift regulatory sanctions against banks and many of their past and current senior management without fear or favour. This will cause clashes: he might have to go head-to-head with his political masters as he throws open the closets where the skeletons can be found.

Whatever action he decides on, it must be proportionate. He cannot afford to send out the signal that Ireland is an unfriendly place to do business. The IFSC is Ireland's engine room and without it the economy would be laid to waste. Elderfield must ignore each and every call – from interest groups and politicians – to delay his enforcement work for fear of prejudicing investigations by the gardaí and the Office of Director of Corporate Enforcement.

Thirdly, Elderfield's job will be as much about marketing Ireland as it is about supervising its financial markets. The United Kingdom, mainland Europe and the United States, where he has much experience, are not exactly universal supporters of Ireland's taxation policy. Matthew Elderfield's Bermudian promotional skills should serve him (and us) well on this front.

Fourth, the new regulator's role is about long-term sustainability of Ireland's regulated markets. He needs to articulate a clear vision and adopt a mission statement (like the FSA) for the new regulator. His senior deputies, some of whom have not yet been appointed, must be a new breed of strategic thinkers.

Finally, accountability and integrity must be restored, not only in Irish banks but also at the regulator's office. Remembering Patrick Neary's early retirement as chief executive of the Financial Regulator and comments by former Central Bank governor John Hurley, one could be forgiven for thinking we had stumbled onto the set of Yes Minister. Some of the greatest nonsense emanated from these two high-ranking public servants. No doubt all statements were made honestly and in good faith. But we the public, whose best interests these government employees were supposed to serve, were left listening to a governor claiming he had warned us about the banking system and the banks' exposure, while his subordinate appeared on national TV to assure us that the banks were well-capitalised.

History has written the final chapter on this sorry tale. The new regulator, together with the new governor, will operate under exactly the same law (until it is changed) as their predecessors did. It won't look too good for the old boys if the new kids on the block can navigate their way through these deficient laws which so badly hamstrung the previous chief executive and governor.

Looking at the tasks ahead for Matthew Elderfield, one wonders whether the current salary for the job of €291,000 is enough. Let's hope, too, that someone has mentioned the proposed 20% pay cut for highly paid government employees!

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