

A Mutual Regional Bank: An Alternative to our Broken System

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In a world that stumbles from one crisis to another, the urgency to find alternative ways to organise the institutions that are supposed to serve us has never been greater. This paper discusses the concept of a mutual regional bank, an alternative to our current banking options which in their current form do not adequately offer the financial services that meet the needs of ordinary people or the real economy.

What's wrong with our current banking system?

The banking sector in NI is dominated by six 'too-big-to-fail' banks, or high street banks¹. Britain and the south of Ireland too are monopolised by four or five banks with the big five banks² controlling around 85% of the British banking market, making it one of the least competitive^{3,4}. UK-wide, 92% of personal current accounts, 85% of mortgages and 88% of small business accounts are owned by the high street banks⁵.

Ironically, market monopolies, or more precisely oligopolies, such as the high street banks are common in capitalism despite all the fanfare and fuss made about the free market economy⁶. Market monopolies and oligopolies are rigged to benefit a small number of interests, allowing them to generate inordinate profits at the expense of consumers who lose out both in value for money and choice. There was a time when many of us probably didn't give a second thought to this arrangement or that it could be harmful. However, in the wake of the 2008 financial crash, which cost the taxpayer £1.162bn up to 2010⁷, attitudes largely changed and we became much more aware of the fundamental flaws in big bank domination. In other words, we know the system is not working.

Despite our increased awareness, little changed in banking following 2008. That crisis should have forced banks to focus more on nurturing local economies and less on speculative investments abroad. Tighter regulations should also have been introduced to prevent a repeat of 2008. Unfortunately, that didn't happen to any great extent⁸. To this day, the risky investments, the extractive profits and the exorbitant executive salaries and bonuses exist to the levels they did pre-2008.

Profit-maximisation lies at the heart of what's wrong with banking. High street banks pursue profit for their shareholders beyond all else and in fact, are obliged to do so

¹ Ulster Bank (subsidiary of Royal Bank of Scotland), Bank of Ireland, AIB, First Trust, Danske Bank and Santander

² HSBC, Barclays, Lloyds, Royal Bank of Scotland and Santander

³ <https://www.civitas.org.uk/content/files/StreetCred.pdf>

⁴ <https://foe.scot/wp-content/uploads/2017/08/Banking-for-the-Common-Good-1.pdf>

⁵ https://neweconomics.org/uploads/files/46fc770bd9488eeb31_q6m6ibhi5.pdf

⁶ The Finance Curse: How global finance is making us all poorer, Nicholas Shaxson

⁷ <http://www.nao.org.uk/highlights/taxpayer---support---for---uk---banks---faqs/>

⁸ <https://foe.scot/wp-content/uploads/2017/08/Banking-for-the-Common-Good-1.pdf>

under law. The needs of people and local communities are usually at odds with the single-minded pursuit of profit. This creates a very clear conflict of interest between high street banks and local communities and why banks will not always respond to situations in ways that act in the best interests of the individual or the community.

For example, in recent years we have seen a diminishing high street presence of banking services, with fewer branches, fewer ATMs and shorter opening hours. NI had 31 branch closures in 2017 alone and a further 15 in 2018, and it's estimated we've lost 30% of all branches since 2010⁹. Such changes are not happening in the interests of communities but are driven by the profit motive.

The big banks offer fairly much the same products and services, differing only in superficial ways. And customers are regularly overcharged for services or mis-sold products they don't need¹⁰, all in the pursuit of profits. An unhappy customer has little choice if the products or services of one bank aren't appropriate for their needs because moving to another bank will likely mean more of the same.

Lending to small businesses is low and the high street banks are criticised for failing to serve SMEs¹¹. SMEs make up over 90% of our businesses in NI and are critical to our economy, yet lending to SMEs has fallen by 25% over successive years¹². Often a small business will want to borrow small amounts of money for a short period of time to get over temporary financial hurdles. A flexible overdraft or small short-term loan may suffice. Lending of this sort isn't all that profitable and banks prefer lending to big business and to sectors where they can make the biggest profits, such as commercial properties¹³.

Relationship-banking, where trust is built between the bank and its customers, has practically disappeared. Banks have replaced local decision-making which was based on trust and local knowledge of customers with more centralised services and machine-generated decisions, and all with the aim of cutting costs. But trust works both ways and customers are more sceptical of banks. Pre-2008, banks were generally viewed as safe and as acting with integrity. That view has changed. A UK survey in 2018 showed that two thirds of people did not trust banks to work in the best interests of society¹⁴. We still bank with them, not because we trust them but because we have no alternative.

In the interests of profits, banks have the right turn away potential customers who might not be financially attractive, and excluding them from mainstream financial services. Financial exclusion is recognised as a contributor to poverty. In NI, 10% of people have no bank account at all¹⁵. Most of them are on low incomes so this

⁹https://www.consumercouncil.org.uk/sites/default/files/original/39156_Banking_on_Change_Report_FINAL.pdf

¹⁰https://neweconomics.org/uploads/files/BUILDING_A_NEW_ECONOMY.pdf

¹¹<https://www.civitas.org.uk/content/files/StreetCred.pdf>

¹² Launch of Our Money mutual bank campaign for NI, Queens' University, 18 September 2019

¹³https://neweconomics.org/uploads/files/46fc770bd9488eeb31_q6m6ibhi5.pdf

¹⁴<https://yougov.co.uk/topics/finance/articles-reports/2018/08/29/ten-years-after-financial-crisis-two-thirds-britis>

¹⁵<https://www.consumercouncil.org.uk/sites/default/files/2018-08/Research%20Report%20-%20NI%20Financial%20Services%20Project.pdf>

percentage may rise when the contract for the DWP Post Office Card Account comes to an end in November 2021. The lack of a bank account is a further disadvantage because of the ‘poverty premium’ i.e. paying more for essential goods and services due to missing out on discounts for paying bills through direct debit. And without access to conventional credit, people are more likely to turn to high-interest credit such as payday loans or even loan sharks¹⁶. Financial exclusion doesn’t only have a financial impact. The Financial Inclusion Commission has said that it “affects education, employment, health, housing, and overall well-being”¹⁷. The problem of financial exclusion has been highlighted during the COVID-19 crisis as instances of those self-isolating, and without bank accounts and access to online services, have struggled to get access to money to buy essentials like food.

The climate crisis, as well as a decade of austerity, are causing more and more of us to think about the social and environmental impact of our economy and of our own individual actions. There’s a greater realisation too that we can have viable enterprises and a healthy economy while simultaneously prioritising the needs of society and our environment. The two are not mutually exclusive. However, banks motivated solely by profit will find it a challenge to support that position¹⁸.

What’s the alternative?

Given all that’s wrong with the existing private banking system and equally, given the importance of access to finance, it is fair to say that an alternative would be desirable, one that removes the fundamental problems and actually provides us with services that suit our needs and not the needs of the bank.

A viable alternative is regional banking i.e. regional stakeholder banks that have a purpose beyond maximising returns to shareholders and that are restricted to doing business in their local region only. These can be customer-owned (i.e. mutual) or state-owned. Other alternatives to the high street banks exist such as challenger banks e.g. Metro Bank and online banks e.g. Starling Banks but these don’t have local roots and are private for-profit ventures.

Regional banks can be found in most other places around the world, including North America, South East Asia and all throughout Europe¹⁹. Their regional focus, smaller scale and values-led approach give them a competitive advantage in serving some market segments. After the 2008 crisis, while most national economies went on life support, the German economy remained relatively stable and resilient. Many believe this was due to their nationwide network of state-owned regional banks called Sparkassen. The Sparkassen didn’t have to be bailed out like the big banks, and rather than limit their support for struggling small businesses (which the big banks were doing everywhere else), they continued lending to SMEs²⁰. In fact, the same

¹⁶https://www.consumercouncil.org.uk/sites/default/files/original/39156_Banking_on_Change_Report_FINAL.pdf

¹⁷<https://www.financialinclusioncommission.org.uk/facts>

¹⁸<https://www.edelman.co.uk/research/edelman-trust-barometer-2019-uk-headlines-communicators>

¹⁹<https://foe.scot/wp-content/uploads/2017/08/Banking-for-the-Common-Good-1.pdf>

²⁰https://neweconomics.org/uploads/files/BUILDING_A_NEW_ECONOMY.pdf

can be said for the Swiss Cantonal Banks and Swedish Handelsbanken²¹, which are further examples of regional banks.

The mutual regional bank is particularly appealing because, with being customer-owned, it doesn't need governmental buy-in to be established. The principles and legal constitution of a mutual regional bank force it to operate in ways that are distinctly different from the high street banks^{22,23} as detailed in the table below:

The Mutual Regional bank...	The High Street bank...
It can be set up to operate in partnership with the Credit Unions (CUs) to complement, not compete, with them.	Its operations are independent of CUs and they offer services and products that are in direct competition with CUs.
It operates within a designated local region and is obliged to the serve needs of that local region only.	Its operations are not restricted to any particular region and there is no obligation to promote the local economy.
It is owned and controlled by its customers who become members by buying at least one share ²⁴ .	It is owned by its shareholders who are unaccountable to customers or the local region.
Members must live in local region to ensure that ownership and management are local.	Shareholders can live anywhere outside region; they're unlikely to have an interest in local region.
Membership is open to anybody living in the local region regardless of financial means, thus promoting financial inclusion.	It can refuse to do business with people in financial difficulties or not financially attractive, thus excluding people with diminished financial means.
Members pay modest fees and interest rates for the purposes of making the bank sustainable.	It is profit-driven so fees and interest rates are costly to customers but lucrative for the bank.
It puts people first, not targets or profits.	It priorities profits and shareholders' interests first.
It retains members' deposits for investment in the local economy and local businesses.	It uses customers' deposits to engage in speculative and often riskier investments outside the local region.
It retains profits and interest from lending for investment in the local economy.	It can, and often does, take profits out of local economy.
It lends to members so all lending is local i.e. overdrafts, mortgages, business loans.	It can lend to customers living anywhere and isn't restricted to local lending.
It makes all lending decisions locally.	It makes lending decisions at a central branch.
It invests in small businesses, co-operatives, start-ups and the self-employed to promote	It prefers to deal with big customers i.e. rich customers, big businesses, and favours

²¹ <https://www.civitas.org.uk/content/files/StreetCred.pdf>

²² https://neweconomics.org/uploads/files/46fc770bd9488eeb31_q6m6ibhi5.pdf

²³ <https://www.csba.co.uk>

²⁴ Members are allowed one vote, regardless of how many shares they've purchased although dividends are proportional to investment. The primary aim is that people join and buy a share. Shares can be set at any price, for example as low as £15.

The Mutual Regional bank...	The High Street bank...
productive lending that stimulates the real economy and creates local jobs.	speculative lending which does little for the real economy.
Members elect a Board of local people which runs the bank and answers to members.	It is run by managers who answer to shareholders and not customers or the needs of the region.
It cannot be taken over or sold into private ownership.	It is in the private ownership of shareholders.
Staff build relationships with members, getting to know them, their families and their particular circumstances, thus helping to build mutual trust.	It is less likely to know its customers, and staff are less likely to build relationships, because the bank is not closely connected with the local region.
It has no staff incentive structures such as bankers' bonuses and commission-based sales targets.	It operates an incentive culture which can encourage imprudent or irresponsible behaviour in staff.
Its regional focus makes it more resilient to financial downturns and less prone to boom-bust cycles.	It is not resilient when it comes to crashes and is 'too big to fail' which means it may need to be propped up by government when a crisis hits.

How is a mutual bank different from Credit Unions?

Credit Unions (CU) are self-help cooperative financial organisations geared to attaining the economic and social goals of members and the wider local communities. NI has a long-standing and strong CU movement with a membership reaching over 30% of adults in NI²⁵.

CUs share a lot of the same principles and ethical goals as a mutual regional bank. But, crucially a CU is not a bank, which is why people will nearly always have a current account with a high street bank over and above any CU account they might have.

Most CUs do not offer electronic banking services and payment methods. CUs are restricted in what they can do with their customers' savings and unable to invest it in the local economy, they most routinely deposit what they don't lend in high street bank accounts or the Charity Bank. Because CUs are loans and savings institutions, as a rule, they don't offer mortgages, overdrafts to SMEs or individuals, or current accounts and all the transactional services associated with current accounts (although some offer pre-paid debit cards).

In Germany, the Sparkassen operate under the same roof as the savings and loans institutions, with both institutions complementing each other rather than competing. The CUs in NI could work in partnership with a mutual regional bank.

²⁵ <https://www.consumercouncil.org.uk/sites/default/files/2018-08/Research%20Report%20-%20NI%20Financial%20Services%20Project.pdf>

How might a mutual bank benefit the local region?

A mutual regional bank has the potential to transform the local region in ways beyond merely providing more democratic banking services:

- A mutual regional bank would act as a challenger bank to the high street banks and operate as a co-operative society thus promoting equality, civic participation and local and customer ownership.
- It would be a vehicle for adapting to some of the imminent changes and challenges ahead because having greater say over how our money is used will be central to our ability to meet challenges. Brexit will change the architecture of finance, largely leaving us without access to EU funding, among other things. The climate crisis will bring more uncertainty globally, requiring us to become more resilient and self-reliant. In the COVID-19 crisis, the Coronavirus Business Interruption Loan Scheme (CBILS) failed to deliver for SMEs, partly due to government mismanagement and partly due to bank mismanagement²⁶. A mutual bank, with personal knowledge of its members, would be in a position to better assess the eligibility of applicants to the Scheme and get money to them.
- A mutual regional bank would prioritise affordable lending (secured and unsecured loans, overdrafts) to small businesses and business start-ups in the region, especially worker and consumer cooperatives. By helping local businesses in this way, the bank would help create better paid and better quality jobs, and could help increase the resilience and sustainability of the local economy and local communities.
- It would choose to prioritise economic sectors that add social and environmental value such as renewable energy and zero-waste management; this would assist in mitigating against the climate crisis and help build resilience and sustainability in the local region.
- NI has an ample supply of money despite the dominant narrative that tells us we have none. For example, it is estimated that the total net deposits in the current accounts of our SMEs alone is £1.48 billion²⁷. A mutual bank would act as a mechanism that would allow us to: a) retain and recycle the ample supply of money generated in the region; b) match the demand for money with the supply.
- A mutual regional bank would be ethical because lending and investment decisions would be made in the economic, social and environmental interests of the local region; and because it would have a more equitable salary structure than the high street banks, wouldn't be driven by profit, answer to external shareholders, or pay bonuses or incentives to executives.
- It would have an important role to play in building community wealth, as promoted by the Preston model²⁸.

²⁶ <https://www.cityam.com/the-long-read-the-coronavirus-loan-scheme-risks-failing-the-people-it-was-designed-to-help/>

²⁷ Community Savings Bank Association, <https://www.csba.co.uk>

²⁸ https://cles.org.uk/wp-content/uploads/2019/07/CLES_Preston-Documents_WEB-AW.pdf.

- A mutual regional bank would be instrumental in driving inclusive growth, according to the RSA Inclusive Growth Commission²⁹.

Conclusion

Our financial institutions are failing us, placing a greater premium on the pursuit of profit than on doing what is best for people and their communities. A mutual regional bank is an alternative banking institution that puts its customers and the needs of its local region before profit.

Until recently, it was extremely difficult to establish regional banks because of hostile regulators, massive IT systems costs, an inability to access payment systems controlled by the large banks, and because cooperatives were not permitted to have a banking licence. However, since the financial crisis, there's been a political commitment to allow new challenger banks. This has meant an increase in the availability of high-spec off-the-shelf IT solutions, the break-up of the payments monopoly, changes to the Cooperative and Community Benefit Society Act (NI) 2016 to allow cooperatives to become banks, and the establishment in 2016 of the Bank of England's New Bank Start-up Unit.

With these changes have come more favourable start-up conditions for regional banks and a co-operative society called the Community Savings Bank Association (CSBA) has created a comprehensive package containing all the components necessary to help regions establish their own mutual bank. Already, several regions across Britain have launched mutual bank campaigns with the help of CSBA: Greater London Mutual Ltd, Avon Mutual Ltd, South West Mutual Ltd, Banc Cambria (Wales), North East England, North West England, and Greater Manchester. In NI too, a campaign for a mutual bank has been launched and in the coming months, this campaign will be seeking public support.

A mutual regional bank won't be the solution to the challenges we face but in democratising banking and giving us ownership of our own money, it will certainly be part of the solution.

²⁹ <https://www.thersa.org/discover/publications-and-articles/reports/final-report-of-the-inclusive-growth-commission>



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