Community Banking: For the People, By the People

If the 2008 crash told us anything it was that our banks were not the trustworthy, infallible institutions we might have thought them to be. Indeed, as the world was plunged into a collapse worse than the Great Depression of the 1930s, nothing could have prepared us for what was going on behind the scenes as their reckless financial gambling and lending practices were slowly revealed.

Most of us would expect to be punished for engaging in such practices, jailed even. But the banks were deemed too big to fail. In Britain they were bailed out by the public purse to the tune of £500 billion and were allowed to carry on business as usual. So the people who caused the crisis faced into the recession with bonuses and profits as big as ever and the people who bailed them out, all the rest of us essentially, were forced into austerity. Our social security system and public services have been cut to shreds, the real value of our incomes has fallen, business closures and jobs losses have been widespread, and personal debt, including mortgage debt, has exploded with many people facing bankruptcy and the loss of their homes.

Interestingly, while most national economies went on life support, the German economy was one of the exceptions, remaining relatively stable and resilient. Many believe this was due to their nationwide network of state-owned banks or Sparkassen, a genuine alternative to the private banking system. 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 SMEs.

We could become more resilient here in Northern Ireland if we had an alternative to the private banking system. Community banking is one such alternative and it’s largely similar to the Sparkassen model apart from the fact that its customer-owned and not state-owned.

The community bank democratises banking by giving local people a say in how our money can be used for our benefit and the benefit of our region and it’s governed by principles and rules that are radically different from those governing private banks. For example, the community bank is established in a single geographical region and must operate within the physical boundaries of that region only, serving the needs of local people and the local economy. In our case, the region is Northern Ireland. The community bank’s customers must live in the local region and the money they deposit in the bank is loaned out in the local economy and nowhere else.

Membership of the bank is open to anybody living in the region, regardless of their financial means. This is important for financial inclusion at a time when it’s becoming more difficult for people with low incomes to open bank accounts, and more than 1 million people across Britain and NI have no bank account. This situation may get worse once the contract for the DWP Post Office Card Account comes to an end in November 2021. Access to banking is a basic utility and the impact of such exclusion isn’t just financial. The Financial Inclusion Commission has said that it “affects education, employment, health, housing, and overall well-being.”
Branches of the community bank make lending decisions locally unlike private banks that make lending decisions at a central location distant from local branches. The community bank is owned and controlled by its customers who become members. Members elect a Board who run the bank and answer to the members – there are no faceless, unaccountable shareholders living outside the region. The community bank isn’t driven by profits or bankers’ bonuses. Of course, it must make enough to sustain itself but profits come secondary to the members and their needs.

However, there’s something more fundamental at work. The community bank helps redress the balance of financial power. The £millions generated by the people in NI is substantial, despite the constant narrative that tells us we have no money. Under our existing banking system, the majority of those £millions are invested outside of the region with none of the benefit of that investment returning to the region or its people. Under the community banking system, ownership of that money would remain with the local population and investment would be redirected into the local region.

Such democratisation of money opens up possibilities we can only dream of. We could use the community bank to invest in and build a network of worker-owned cooperatives. These cooperatives would democratise our workplaces, providing local people with secure jobs paying at least a living wage. They would have social and environmental value primarily focusing on meeting local needs using local resources, thus helping us become more resilient and carbon-neutral.

The idea might seem far-fetched or too good to be true, that of a bank driven by the needs of ordinary people and the real economy rather than by profits and the needs of wealthy investors who generate little of value to the real economy. The question is, why does it seem too good to be true? Why is the very notion of an institution that looks out for the interests of ordinary people and the real economy at a local level so far-fetched? We are so accustomed to globalisation, corporations, profits gravitating towards a small percentage of people, that we react with cynicism when we’re told there’s another way to organise our economy and our society, that there is an alternative.

Whether it seems too good to be true or not, the truth is it’s possible. Thanks to the Community Savings Bank Association, an A-to-Z model for setting up a community bank exists, from the licensing process with the Bank of England right through to approval from the Prudential Regulation Authority and the Financial Conduct Authority to the software needed for a twenty-first century bank. All a region needs to do is gather the start-up money of £20m and submit an application for a licence. And the model can be tailored to meet the specific needs of a region. For example, it can be tailored to complement and not compete with the Credit Unions (very important given the strong and vibrant Credit Union movement here). To begin all of that work, the Our Money campaign was launched this September in Belfast. If you want to find out more, check out the campaign’s website at www.ourmoney.works.

Our Money isn’t alone. Campaigns for community banks have already begun in Greater London; Gloucester & Wiltshire; Devon, Somerset & Cornwall; Wales; Newcastle &
Tyneside; Liverpool, Preston & Lancashire; and Greater Manchester. In all of these regions, people are seeing the potential of community banking.

The community bank isn’t the solution to all our problems but in democratising banking and giving us ownership of our own money, it’s certainly part of the solution.

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