Rialtas na hÉireann
Government of Ireland

Local Public Banking in Ireland

An analysis of a model for developing a system of local public banking in Ireland.

A Collaboration between Department of Finance and Department of Rural and Community Development.

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Executive Summary

Background

The Programme for a Partnership Government commits the Government to

> "… thoroughly investigate the German Sparkassen model for the development of local public banks that operate within well-defined regions."[1]

Public banking is where a state, or other public actor, owns a financial institution.[2]

The Department of Rural and Community Development (formerly the Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs) and the Department of Finance are the Government Departments that have been assigned responsibility for fulfilling this Programme for a Partnership Government commitment.[3] This report outlines the findings of the investigation of the German Sparkassen model and its potential in Ireland.

The report describes the current Irish banking environment in terms of credit demand trends, the provision of lending to SMEs, the financing needs of SMEs and the banking alternatives available to them, new mortgage and other retail lending, and mortgage interest rates. It then examines the Sparkassen and Kiwibank models of local public banking. A proposal for a potential model of local public banking, based on the Sparkassen model, from Irish Rural Link and the Savings Bank Foundation for International Cooperation (SBFIC) is considered as part of the analysis of local public banking in Ireland. The views of respondents to a public consultation process conducted on this issue in March 2017 have also been summarised and included.

[1] https://merrionstreet.ie/MerrionStreet/en/ImageLibrary/Programme_for_Partnership_Government.pdf at page 48.
[2] https://banque.ooreka.fr/comprendre/banque-publique
[3] Responsibility for the Programme for a Partnership Government commitment moved from the Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs to the Department of Rural and Community Development in July 2017.

Irish Banking Environment

The Irish retail banking market is highly concentrated, with only five active retail banks operating in the market.[4] The trend that emerges from the latest wave of the Department of Finance's biannual SME Credit Demand Survey is that the level of applications for bank credit from SMEs is falling.[5] The majority of SMEs that apply for bank financing have their credit applications approved.[6] Additionally, SME indebtedness is decreasing and, according to the Central Bank of Ireland, 75-80% of SMEs use internal sources of financing to support their investment needs.[7]

In addition to the retail banks, non-bank finance providers, as well as An Post and the credit union sector, are also important providers of financial services in Ireland. There are a number of specialised non-bank finance providers in the Irish SME finance market, offering products such as senior debt, mezzanine debt, asset finance and invoice discounting. In June 2017, An Post launched a Smart Current Account that can be opened in over 750 post offices and used in all branches of the network.[8] In addition, Ireland has a rural and urban network of 280 credit unions serving 3 million members.[9]

Credit unions are looking to grow their services to small and medium-sized businesses and in doing so fulfil their role as an action group for community development through mobilising local resources for investment in the small firm economy. Such expansion will enable credit unions to diversify and to improve their financial health. Credit unions are looking to play an increasing role in the Irish retail financial landscape into the future and the Central Bank is assisting credit unions in developing their business model. This may also provide a channel for increased lending to the rural SMEs in some cases, subject to the capacity of individual credit unions.

[4] These include AIB, Bank of Ireland, Permanent TSB, Ulster Bank, and KBC.
[5] http://www.finance.gov.ie/sme-credit-demand-surveys-archive/
[6] The trend shown by the Department of Finance SME Credit Demand surveys is that approvals of SMEs' applications for bank finance increased between March 2012 and March 2016. However, the last 2 consecutive waves of the survey have shown an increase in declines of bank applications by SMEs. 73% of SMEs who sought bank finance in the last six months had their application approved, according to the latest wave of the Survey. http://finance.gov.ie/wp-content/uploads/2017/08/SME-Credit-Demand-Survey-June-2017.pdf
[7] https://www.centralbank.ie/publication/sme-market-reports
[8] http://www.smartaccount.ie/?gclid=EAIaIQobChMIqKDrqrS-1wIVx7ftCh2FqQsWEAAYASAAEgJlmfD_BwE
[9] Department of Finance data (June 2017).

Since 2008, the Government has put in place a number of policy measures, such as the Strategic Banking Corporation of Ireland (SBCI), Microfinance Ireland and the Credit Review Office (CRO), designed to support access by SMEs to flexible, appropriately priced and sustainable finance. Similarly, the Irish Strategic Investment Fund (ISIF) has provided considerable funding to debt providers such as Dunport Capital Management[10] and Carlyle Cardinal, which in turn arrange senior and mezzanine debt finance for SMEs.[11] These Government initiatives have so far provided significant support to SMEs across the county, with 85% of all SBCI's lending provided to businesses based outside of Dublin.

The SBCI's goal is to facilitate and encourage the availability of appropriately priced funding to SMEs on more flexible terms than has been available in recent times on the Irish market. To the end of June 2017, €855 million of SBCI supported funding has been provided to 21,132 SMEs supporting 106,728 jobs. The SMEs who received SBCI finance are from almost all business and economic sectors including agriculture, food, retail, healthcare, transport and manufacturing. More than 85% of loans are for investment purposes. There is a broad regional spread of the SMEs supported, with approximately 85% of them based outside Dublin, and 23% of all loans granted to the agricultural sector.[12] The SBCI is working to develop a more diverse range of on-lenders and innovative products to meet the evolving requirements of the SME finance market.

Trends in Finance for SMEs

The downward trend of demand for credit from SMEs and the reduction in the indebtedness of SMEs, combined with the increasing availability of credit from both bank and non-bank sources, suggests that access to finance for SMEs has improved. Nonetheless, higher than average interest rates on loans to SMEs indicate that legacy issues and competition remain problems in the SME finance market.

In relation to applications for credit by SMEs, there is evidence to suggest that this is falling in Ireland, according to the figures from the Department of Finance SME Credit Demand Survey covering the period October 2016 – March 2017.[13] Conversely, the supply of credit, both to SMEs and retail customers, including mortgage lending, is increasing. Central Bank of Ireland data shows that the cost of credit (interest rates) remains higher in Ireland relative to the

[10] Formerly known as BlueBay Asset Management.
[11] http://isif.ie/portfolio/investments-to-date/
[12] http://sbci.gov.ie/wp-content/uploads/2017/08/APPROVED_SBCI_HYR_Summary.pdf
[13] http://finance.gov.ie/wp-content/uploads/2017/08/SME-Credit-Demand-Survey-June-2017.pdf

European average; however, this data also suggests that rates have started to decline. Furthermore, analysis of the Irish banking sector also demonstrates that Irish banks have additional spare capacity to meet any future demand for lending from SMEs and households. This is supported by the fact that capital ratios (such as the fully loaded core equity tier 1) for the Irish banking sector remain above European averages, while loan to deposit ratios also exceed European peers (as of December 2016).[14]

As discussed, interest rates on new lending in Ireland remain above the European average. There are a number of factors influencing this trend, including the high cost of risk at Irish banks (driven, in part, by historical loss rates), the high levels of capital (driven partly by non-performing loans and their impact on risk weighted assets), and the increased consolidation of the Irish banking industry since 2008.[15] These may be contributing factors to the reduced demand for credit by SMEs. However, as the Irish banking industry continues to improve, the impact of these factors is beginning to decline, leading to a subsequent reduction in interest rates.

Government role in the banking sector

The Government has shareholdings in AIB, Bank of Ireland and Permanent TSB. However, the Government's priority is facilitating a functioning and competitive private market and reducing its shareholding in a manner that recovers the taxpayers' investment over time.

The Government is fully supportive of increased competition in the banking sector. It encourages any potential new market entrants to engage with the Central Bank of Ireland and the Department of Finance on this matter.

In examining the potential of the German Sparkassen and Kiwibank model in an Irish context, the report examines their business models as well as how they currently operate in Germany and New Zealand respectively.

[14] https://www.eba.europa.eu/documents/10180/1804996/EBA+Dashboard+-+Q4+2016.pdf/74c92eb4-3083-47fc-bd5d-6a8ac64e8393
[15] https://www.ccpc.ie/business/wp-content/uploads/sites/3/2017/06/2017-06-14-CCPC-Options-for-Irelands-Mortgage-Market.pdf

Sparkassen and Kiwibank models

Sparkassen form part of the public banking sector in Germany. In the case of Sparkassen, the public body responsible for them is a municipality.[16] A municipality can be a city, a town, a district, or a special purpose association of a local authority established for this purpose. Sparkassen operate in geographically delimited areas and they are precluded from operating outside of their particular region. The ethos of Sparkassen is not profit maximisation; rather it is public interest based, promoting financial inclusion and economic development within their regions.[17]

Kiwibank is a subsidiary of New Zealand Post, which is state owned.[18] It provides retail and business banking services through PostShops (post offices), utilising the already existing branch network,[19] while also having a number of standalone branches in larger cities.[20] Kiwibank has an ethos of sustainability and corporate social responsibility, aiming to support communities, help customers take control of their finances and supporting the environment.[21]

In considering the proposal for a potential model for local public banks in Ireland put forward, it is worth noting that neither Irish Rural Link nor SBFIC are proposing to undertake establishing local public banks in Ireland directly or providing investment in order to do so. SBFIC have offered the benefit of their expertise and consultancy services to assist in establishing local public banks in Ireland.

Estimates provided by Irish Rural Link and SBFIC indicate that capital and start-up costs for each local public bank would be between €15 and €20 million. The pilot phase would cost an estimated €50 million.[22] In order to establish the complete local public banking network, a

[16] http://www.civitas.org.uk/content/files/SimpsonSparkassen.pdf
[17] http://economic-research.bnpparibas.com/Views/DisplayPublication.aspx?type=document&IdPdf=28761; https://www.centreforpublicimpact.org/case-study/sparkassen-savings-banks-germany/; http://www.civitas.org.uk/content/files/SimpsonSparkassen.pdf
[18] https://www.nzpost.co.nz/about-us/who-we-are/new-zealand-post-group
[19] https://www.kiwibank.co.nz/about-us/
[20] https://www.kiwibank.co.nz/about-us/press-releases/financial-results-kiwi-group-holdings-including-kiwibank-year-ended-30-june-2017/
[21] https://www.kiwibank.co.nz/about-us/sustainability-and-corporate-responsibility/
[22] http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/DebatesWebPack.nsf/committeetakes/FPJ2017101200002?opendocument#O00050

further 6 banks would cost an estimated €120 million. According to the proposal from Irish Rural Link and SBFIC, the total cost of establishing a local public banking network in Ireland would be approximately €170 million.

There are a number of challenges relating to the public banking business model proposed by Irish Rural Link and SBFIC:

- The locations proposed in the business model overlap significantly with the existing regional network of banks, credit unions and post offices.
- The business model submitted has a number of assumptions relating to cost estimates, interest rates, and loan attrition that would appear to be ambitious.
- It is not clear what the State's role in a local public banking system should be or if it is necessary for the State to have any role.
- It is also not evident that providing the significant investment required to establish a local public banking system can be justified from Exchequer funds at this time.
- Additionally, the proposed governance structure requires further consideration.

Conclusion

The results of the investigation into local public banking indicate that, given the current demand for and supply of credit, there is not a compelling business case for the State to establish a new local public banking system based on either the Sparkassen or Kiwibank model by drawing on Exchequer funding. However, there is no impediment to Irish Rural Link and SBFIC engaging with the Central Bank of Ireland, the credit union sector, An Post or any other private sector entity/investor in relation to their proposal. It is open to them to progress their proposal on this basis in a manner that does not involve State funding.

The Department of Finance will continue to engage in a dialogue with Irish Rural Link and other stakeholders. The Department will also continue to consider whether existing or new policy measures and initiatives could better serve the needs of Irish SMEs, including rural and regional businesses, and retail customers generally. Additional developments and emerging trends, such as FinTech will be kept under review for their potential to develop initiatives that could deliver credit in a more effective and less costly manner.[23] Furthermore, the

[23] Financial technology (FinTech) is new technology and innovation that aims to compete with traditional methods in the delivery of financial services.

Department of Finance will commission an independent external evaluation of other possible ways in which the local public banking concept could possibly be promoted in Ireland. This could, for example, be by means of an online platform, through leveraging the SBCI, through the credit union movement or other means.

It is important also that SMEs are aware of the range of financial and non-financial supports available from the Government and its agencies and in this context, work is being undertaken, and will continue, to increase SMEs' awareness of these supports, including for those in rural areas.

Rural and regional development and supporting Irish SMEs to create employment and economic growth remains an important Government priority and a significant overall policy consideration. In this context, the Department of Rural and Community Development will continue to focus on rural Ireland and rural and regional development generally, and will provide a coordinating role across Government in relation to this priority area.

Introduction

The Programme for a Partnership Government commits the Government to "… thoroughly investigate the German Sparkassen model for the development of local public banks that operate within well-defined regions."[24]

The purpose of this paper is to investigate the possibility of local public banking in Ireland, based on the Sparkassen model, including how it might operate and to evaluate its potential in an Irish context. Local public banking is where a state or other public actor has an ownership stake in a bank or financial institution.

The retail banking market in Ireland is highly concentrated as there are five active retail banks, two of which have a majority market share. The impact of the global financial crisis can be seen in deleveraging by, and risk averseness of, both lenders and SMEs. Some of the issues relating to the Irish banking environment will be set out and explored. These include demand for credit from SMEs and supply of credit to SMEs.

Since the global financial crisis, the Government has responded by putting in place a number of policy supports and initiatives to improve access to finance for SMEs. These include the Strategic Banking Corporation of Ireland (SBCI), Microfinance Ireland, the Supporting SMEs Online Tool, and the Credit Review Office. The Irish Strategic Investment Fund (ISIF) also invests in funds that support SMEs through the provision of debt and equity. There are also a number of business advisory supports provided by state agencies such as Enterprise Ireland.

The key features of the Irish banking environment that come out of this analysis include low application levels for credit, an increasing supply and availability of credit, a trend of reduction in interests rates and a spare capacity for lending.

The recession in Ireland led to a collapse in the construction industry and a dramatic reduction in bank lending. Since then, the market has undergone a considerable recovery resulting in

[24] https://merrionstreet.ie/MerrionStreet/en/ImageLibrary/Programme_for_Partnership_Government.pdf at page 48.

the value of new mortgage lending more than doubling between 2011 and 2016. Current variable rate mortgage rates are still above the Euro area equivalent.[25] The rates on all new mortgage agreements, both fixed and variable rates (excluding renegotiations), are also above the Euro area equivalent rate. It is likely that the concentrated nature of the mortgage market is a contributing factor to these higher than average rates. Central Bank data has shown that mortgage rates are falling with variable rates falling by 0.23% over the past 12 months and fixed rates falling by 0.30% over the same period.[26]

It is in the context of this banking environment that the German Sparkassen model of local public banking has been examined. The German local public banks, called Sparkassen, will be examined to inform how their business model might operate in an Irish context. Irish Rural Link and the Savings Bank for International Cooperation (SBFIC), the development wing of the Sparkassen Group, have put forward a proposal as to how local public banking, based on the Sparkassen model, could work in Ireland. This was submitted as part of a consultation process carried out by the Department of Rural and Community Development. The Sparkassen business model and the proposal from Irish Rural Link and SBFIC will be used to inform the analysis of the potential of local public banking in Ireland. The views of the respondents on local public banking in Ireland, contributed through the consultation process that was carried out, will also be used to inform this analysis.

The analysis will focus on how local public banking could contribute to improving the banking environment in Ireland, in respect of lending to SMEs and mortgages, and whether there is a role for the State in terms of funding and ownership in local public banking in Ireland.

[25] https://www.ccpc.ie/consumers/financial-comparisons/mortgage-comparisons/
[26] https://www.centralbank.ie/docs/default-source/statistics/data-and-analysis/credit-and-banking-statistics/retail-interest-rates/2017m08_ie_retail_interest_rate_statistics.pdf?sfvrsn=4

1. The Banking Environment in Ireland

1.1 Introduction

The Irish Banking system has experienced a challenging number of years with a banking crisis that required capital injections into the banking sector equivalent to 40% of 2013 GDP.[27] The most recent International Monetary Fund (IMF) study in 2017, the Financial Sector Assessment Programme, noted that the balance sheet repair of domestic banks continues, but that the operating environment remains challenging.

1.2 The Structure of the Banking Market

The Irish banking market is relatively concentrated by international standards in terms of the number of market participants. At present, there are five active retail banks operating in Ireland. AIB, Bank of Ireland and Permanent TSB (PTSB) are Irish incorporated banks quoted on the Irish and London stock exchanges, while Ulster Bank and KBC are subsidiaries of foreign banking groups. Danske Bank has limited operations and is consequently not considered an active market participant. In addition, there is a well-developed Credit Union sector with 280 credit unions and over 3 million members. An Post also provide some retail financial services and has recently introduced a Smart Current Account, which can be used in all of its more than 1,000 branches.

The two largest banks in the Irish market are AIB and Bank of Ireland which combined, have a majority market share on new lending.[28] Over the past five years, the size of both AIB and Bank of Ireland's balance sheets have been reduced through the sale of 'non-core' assets and the necessary wider deleveraging of the economy.

The State has a majority shareholding in both AIB and Permanent TSB and less than 15% ownership of Bank of Ireland. Government policy is to return the banking sector to private ownership in a phased manner that maximises the recovery of value to the taxpayer.

[27] https://www.imf.org/external/np/seminars/eng/2014/ireland/pdf/Schoenmaker_IrishBanking.pdf
[28] Relative to the top five Irish retail banks / https://www.centralbank.ie/docs/default-source/publications/sme-market-reports/gns-5-10sme-market-report-2016h1.pdf?sfvrsn=8.

1.3 Sources of Funding for Irish Banks

The size of the Irish banking system has undergone significant shifts over the last 12 years, but, relative to the size of the economy, it is now similar in size to what it was in 2003. This is a more appropriate relative size for the economy than it was in 2008. The aggregate total assets of Irish retail banks[29] stood at €274 billion in Q3 2016, down 7% on the previous year.[30] Of the domestic banks[31], 80% of assets are derived from AIB, Bank of Ireland and Permanent TSB, with only 20% of assets from non-Irish headquartered banks.

1.4 SME Finance Market – Supply of Credit to SMEs

The majority of credit advanced to non-financial enterprises continues to be to SMEs (67%). SMEs are more likely to be indigenous and have a higher reliance on funding from the Irish banking system than larger businesses or multinational enterprises.[32] The SME lending market continues to be highly concentrated. In the Central Bank SME Market Report for the first half of 2017, the combined market share (new lending) of the three main banks, AIB, Bank of Ireland and Ulster Bank, was 82%.[33]

It is in this context that the Strategic Banking Corporation of Ireland (SBCI) was established in order to, among other things, promote competition in the SME finance market. It currently has a 10.65% market share of new lending to SMEs. The SBCI works with both bank and non-bank finance providers in order to promote competition while also seeking to encourage new market entrants.

[29] *Irish retail banks* refer to the five banks offering retail banking services within the Irish State: Allied Irish Banks, Bank of Ireland, Permanent TSB, KBC Bank Ireland plc and Ulster Bank Ireland https://www.centralbank.ie/docs/default-source/publications/macro-financial-review/macro-financial-review-2016-2.pdf?sfvrsn=4

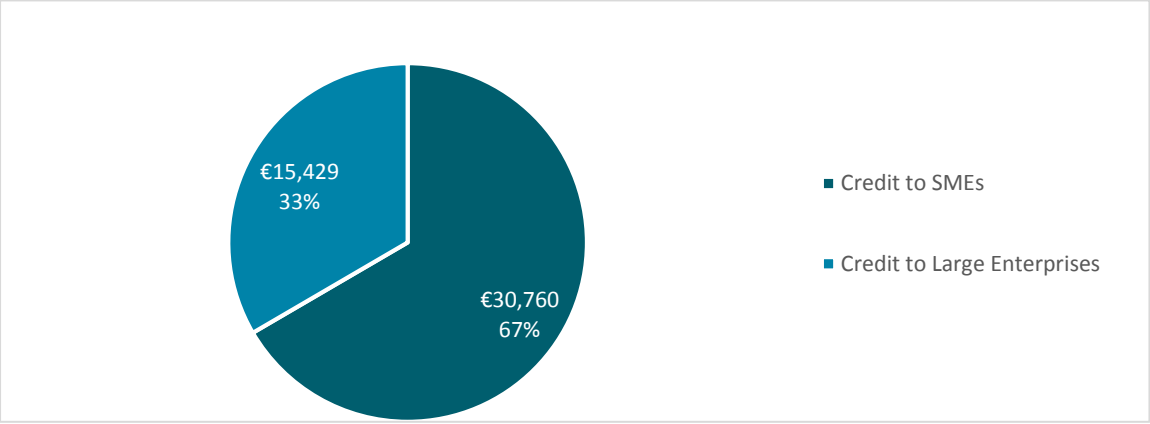
[30] https://www.centralbank.ie/docs/default-source/publications/macro-financial-review/macro-financial-review-2016-2.pdf?sfvrsn=4

[31] *Domestic banks* refer to Allied Irish Banks (AIB) plc (including EBS), Bank of Ireland (BOI) and Permanent TSB (PTSB).

[32] Subsidiaries of multinationals are likely to have the ability to source funding from their parent, and therefore may not need to access financing from Irish banks.

[33] https://centralbank.ie/docs/default-source/publications/sme-market-reports/sme-market-report-2017h1.pdf?sfvrsn=6

Figure 1: Lending to Non-Financial Enterprises



Source: Central Bank of Ireland, Q2 2016; € million

One of the concerns often raised by businesses relates to access to finance for Irish SMEs, and in particular, to agricultural SMEs. Supporting this claim is the fact that during the global financial crisis, the volume of new lending to SMEs decreased significantly. This decline, combined with efforts by businesses to deleverage, led to the total balance of loans outstanding to SMEs falling by over 50% between 2011 and first half 2017; see Figure 2 below. A considerable portion of this decline occurred between 2011 and 2014, and it can be attributed to a decrease in lending to property related businesses.[4]

Following the recovery in the Irish banking sector, and the wider economy, the rate of decline in net lending (new lending less loan repayments) has slowed significantly. This has been driven, in part, by a large increase in new lending to SMEs. However, repayment of loans by SMEs continues to outstrip new lending at present despite the fact that new lending to SMEs more than doubled between 2013 and 2016; see Figure 3 below.[4]

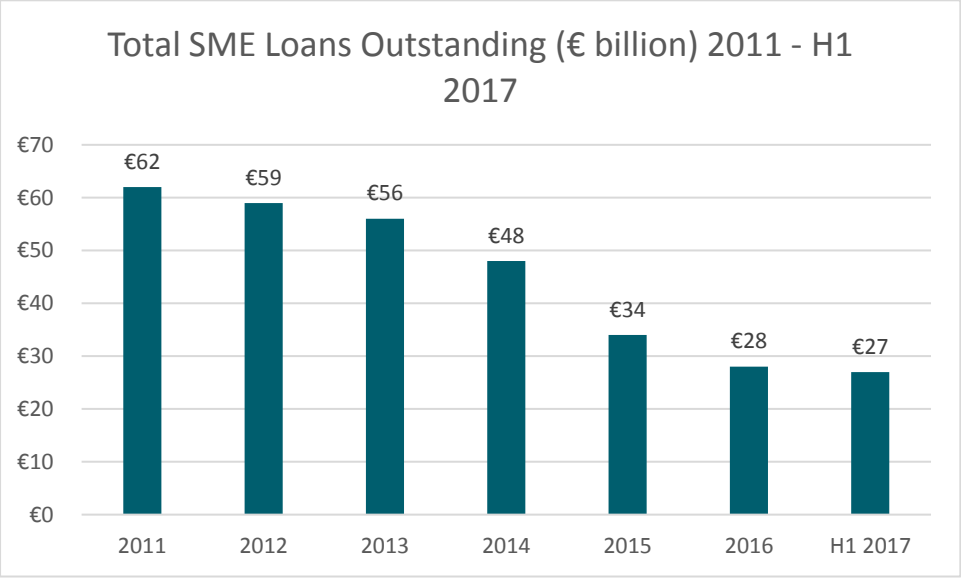
According to Central Bank of Ireland figures, gross new lending to non-financial, non-real estate SMEs continues to grow. Annualised new lending to Q1 2017 was *circa* €3.6 billion, a 32% increase since the first quarter of 2016.[34] This number ranged between €2 billion and €2.5 billion between 2010 and

[34] https://www.centralbank.ie/docs/default-source/publications/sme-market-reports/sme-market-report-2017h1.pdf?sfvrsn=6

2013. There is particular strong growth in new lending in manufacturing and the wholesale and retail sectors.[35]

The Central Bank of Ireland defines gross new lending as the "…amount of new credit facilities drawn-down during the quarter by SME counterparties, i.e. where this credit facility was not part of the outstanding amount of credit advanced at the end of the previous quarter. The data exclude renegotiations. Construction lending is included in these data but real estate activities are excluded."[36]

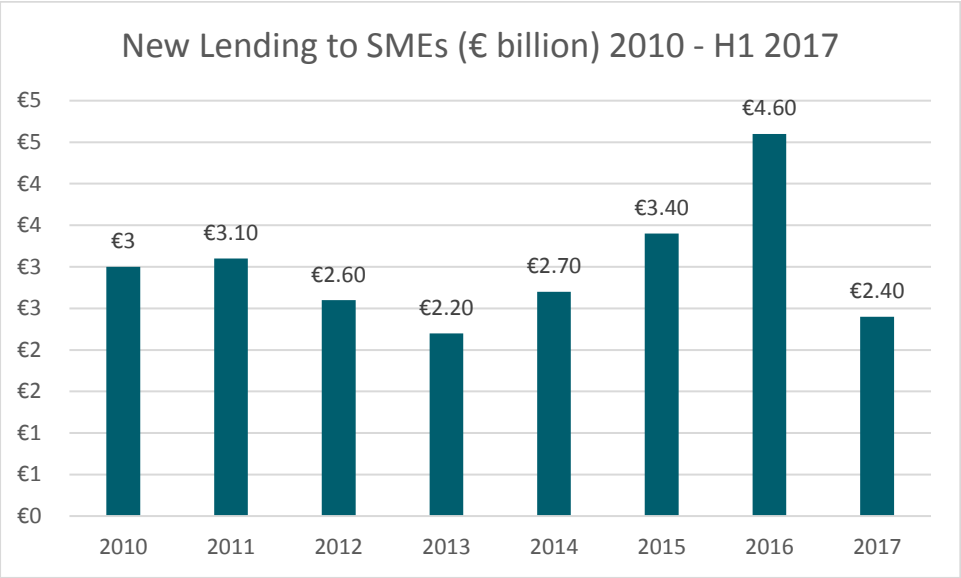
Figure 2: Total SME Loans Outstanding 2011 – H1 2017



Source: Central Bank of Ireland

[35] https://www.centralbank.ie/docs/default-source/publications/sme-market-reports/sme-market-report-2017h1.pdf?sfvrsn=6
[36] https://www.centralbank.ie/docs/default-source/publications/sme-market-reports/sme-market-report-2017h1.pdf?sfvrsn=6

Figure 3: New Lending to SMEs 2010 – H1 2017



Source: Central Bank of Ireland

The Department of Finance conducts a biannual SME Credit Demand Survey, which can be found at www.finance.gov.ie/.[37] This survey series is the most comprehensive survey of SME credit demand in Ireland, covering over 1,500 respondents. SMEs of all sizes trading in all sectors, excluding property development and speculative activities, and operating in all regions are included.

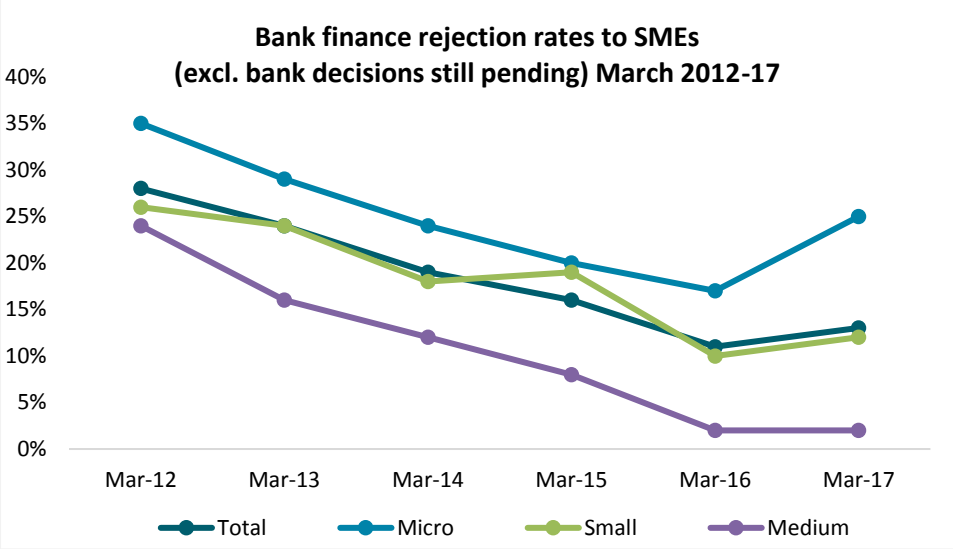
The most recent wave of the Department of Finance SME Credit Demand Survey, for the period September 2016 to March 2017, indicates that the majority of credit requests continue to be approved fully with 75% of credit applications (excluding those applications classified as 'still pending') approved or partially approved.[38] The current rate of decline stands at 11% of all applications, having fallen from 28% in March 2012. However, it is worth noting that smaller businesses face higher rates of rejection.

The Central Bank of Ireland's most recent SME Market Report for the first half of 2017 shows that rejection rates for credit applications by SMEs decreased steadily from March 2012 to

[37] http://www.finance.gov.ie/sme-credit-demand-surveys-archive/
[38] http://finance.gov.ie/wp-content/uploads/2017/08/SME-Credit-Demand-Survey-June-2017.pdf

2016.[39] Between March 2016 and March 2017, rejection rates have shown a slight increase of 1%, from 10% to 11%. Rejection rates are also still above the European average.

Figure 4: SME Bank Finance – Rejection Rates March 2012 – March 2017



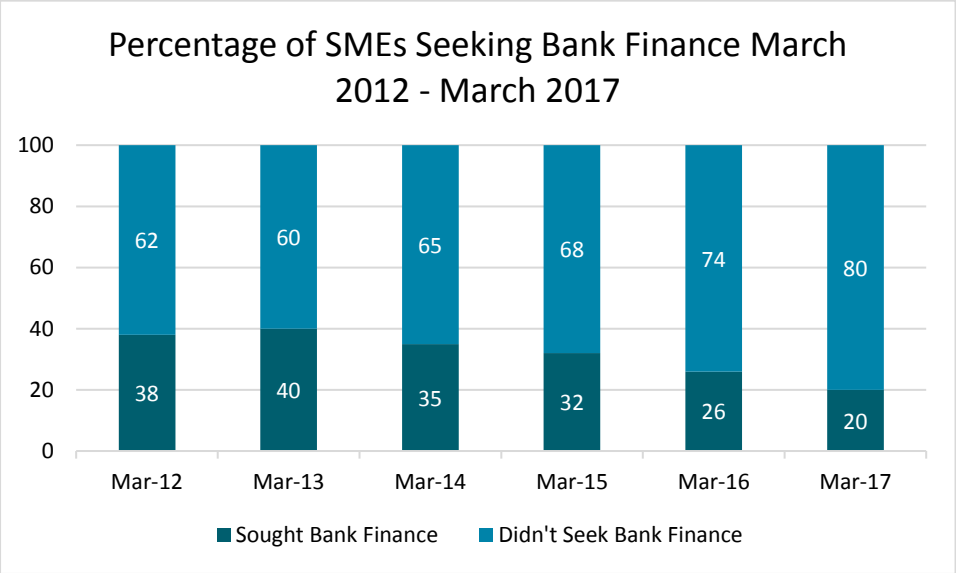
Source: Department of Finance SME Credit Demand Survey

1.5 SME Demand for Credit

As part of the Department of Finance SME Credit Demand Survey, SMEs are asked whether they have sought bank finance over the preceding six months. This measure is designed to determine what the likely levels of demand for credit is amongst SMEs. The percentage of SMEs seeking bank finance has reduced from 40% to 20% between March 2013 and March 2017, see Figure 5 below. In March 2017, of the 80% of SMEs that did not seek finance in the last 6 months, 89% of these SMEs stated that it was because it was not required; see Figure 7 below. This result indicates that many SMEs, instead of borrowing, choose to reinvest retained earnings/profits, and/or continue to draw on existing loan facilities.

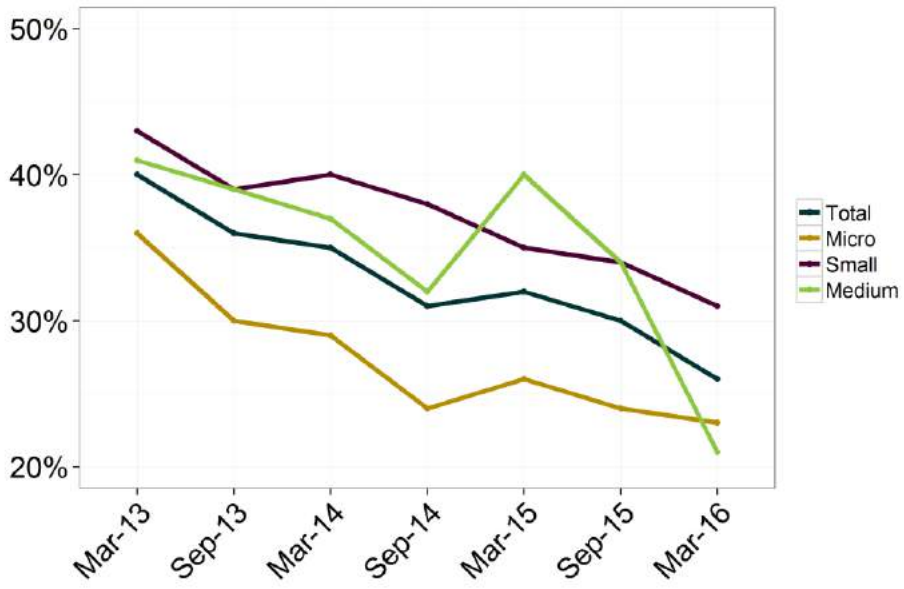
[39] https://www.centralbank.ie/docs/default-source/publications/sme-market-reports/sme-market-report-2017h1.pdf?sfvrsn=6

Figure 5: Percentage of SMEs Seeking Bank Finance March 2012 – March 2017



Source: Department of Finance SME Credit Demand Survey

Figure 6: Application rate for bank finance, March 2013 - March 2016

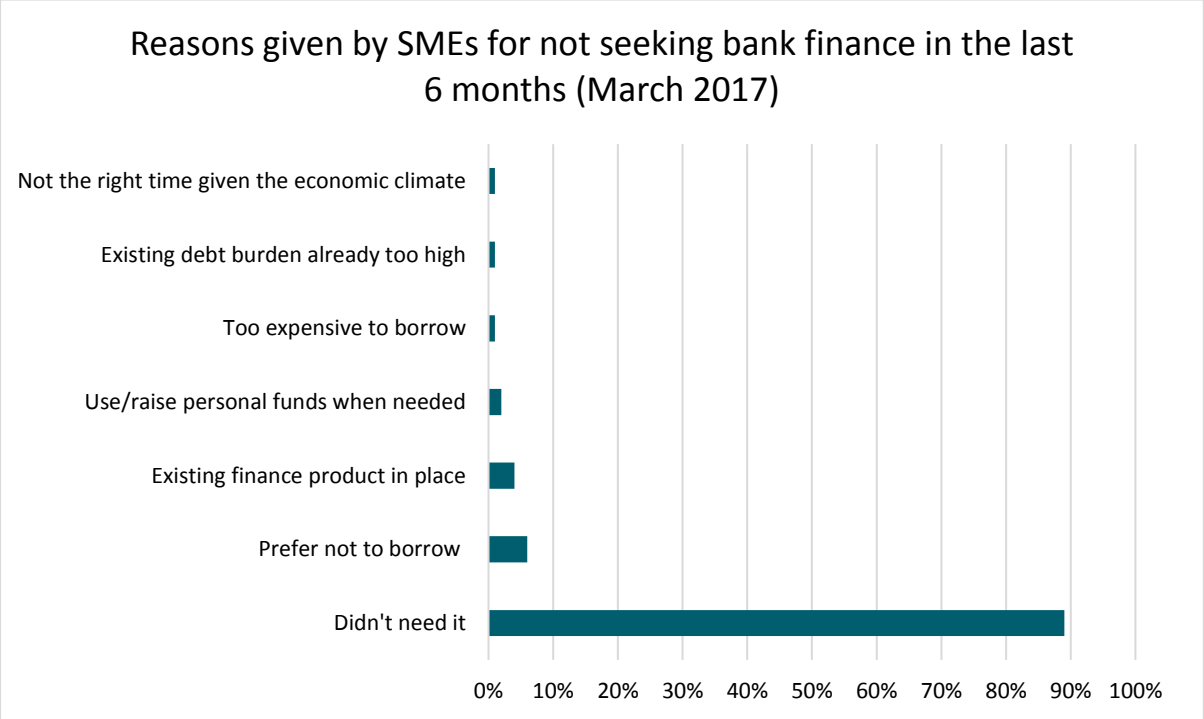


Source: Central Bank of Ireland/Department of Finance Credit Demand Survey.

The share of SMEs applying for bank credit has declined between 2013 and 2016 see Figure 5 and Figure 6 above. This decline in applications for bank credit is observed across all SME size categories. However, the decline in application for bank credit is particularly large for medium sized enterprises; see Figure 6 above.

According to the latest European SAFE Survey, only 12% of European SMEs consider that access to finance is the most important problem faced by SMEs.[40]

Figure 7: SMEs' reasons for not seeking bank finance in the last 6 months (March 2017)

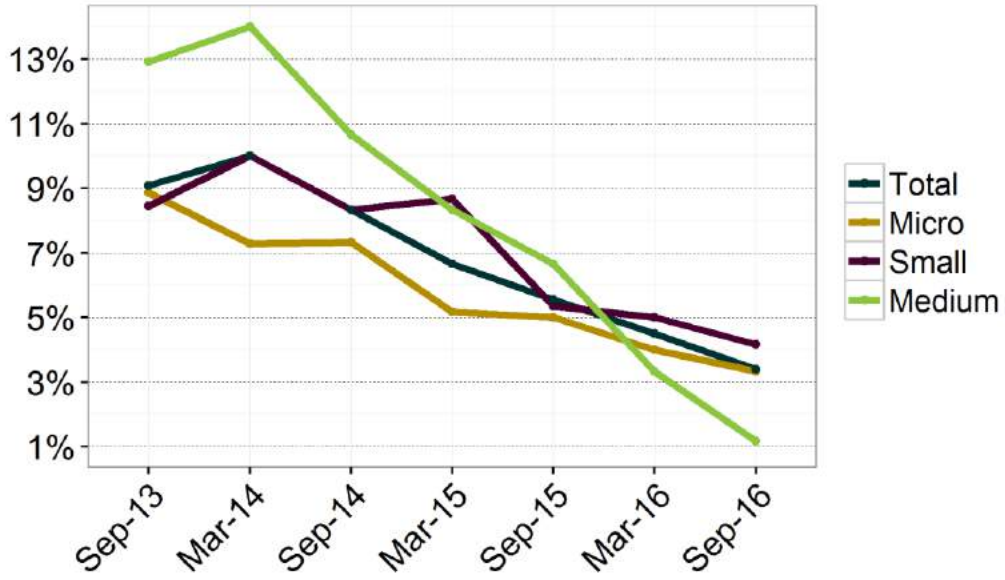


Source: Department of Finance SME Credit Demand Survey – September 2016 – March 2017 wave

[40] 2016 SAFE Survey http://ec.europa.eu/DocsRoom/documents/20369

It is important to note that banking data cover only SMEs and corporates with a loan. The share of firms with no debt has increased from 23% in September 2013 to 50% in September 2016.[41] Additionally, according to Central Bank of Ireland figures, SME indebtedness has decreased between September 2013 and September 2016, as illustrated in Figure 8 below.

Figure 8: Debt to Turnover-Ratio of Irish SMEs September 2013 – September 2016



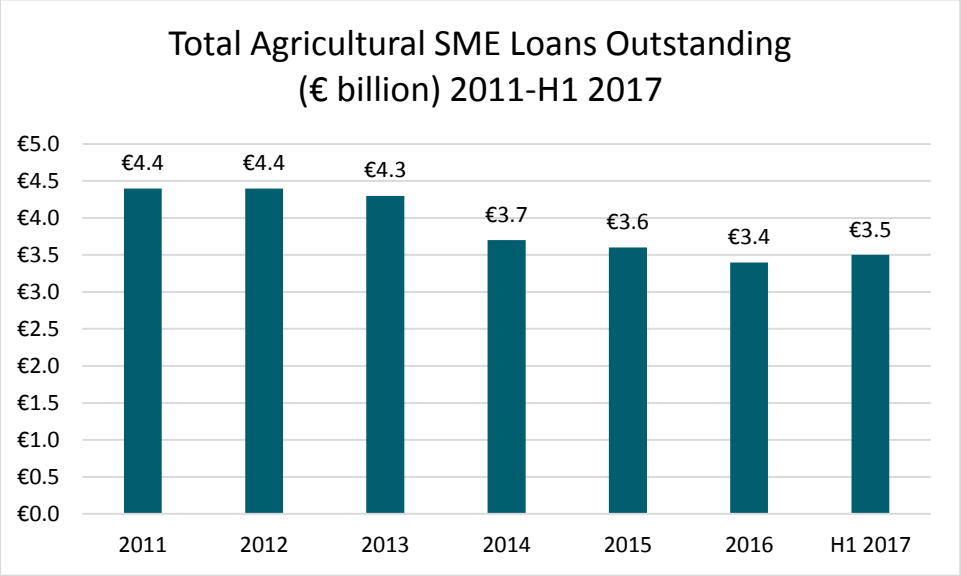
Source: Central Bank of Ireland

[41] https://www.centralbank.ie/docs/default-source/publications/sme-market-reports/sme-market-report-2016h2.pdf?sfvrsn=4

1.6 Bank Lending to the Agriculture Sector

Looking at lending to the agricultural sector in isolation, the impact of the crisis on this sector has been far less severe relative to other industries. Loans outstanding to agricultural borrowers declined by only 21% between 2011 and first half 2017, see Figure 9 below, while new lending has grown each year since 2011.[42] This makes the agriculture sector one of the more stable recipients of bank lending. Between 2011 and 2016 lending to the agricultural sector has grown at an annualised average rate of 3.5%, see Figure 10 below.

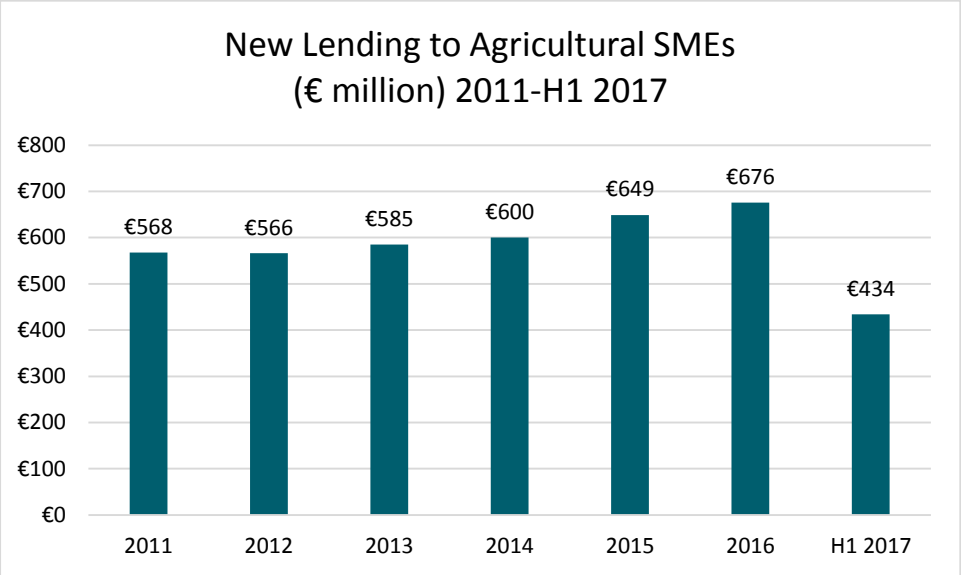
Figure 9: Total Agricultural SME Loans Outstanding 2011 – H1 2017



Source: Central Bank of Ireland

[42] Credit & Banking statistics: Central Bank of Ireland: https://www.centralbank.ie/statistics/data-and-analysis/credit-and-banking-statistics

Figure 10: New Lending to Agricultural SMEs 2011 – H1 2017



Source: Central Bank of Ireland

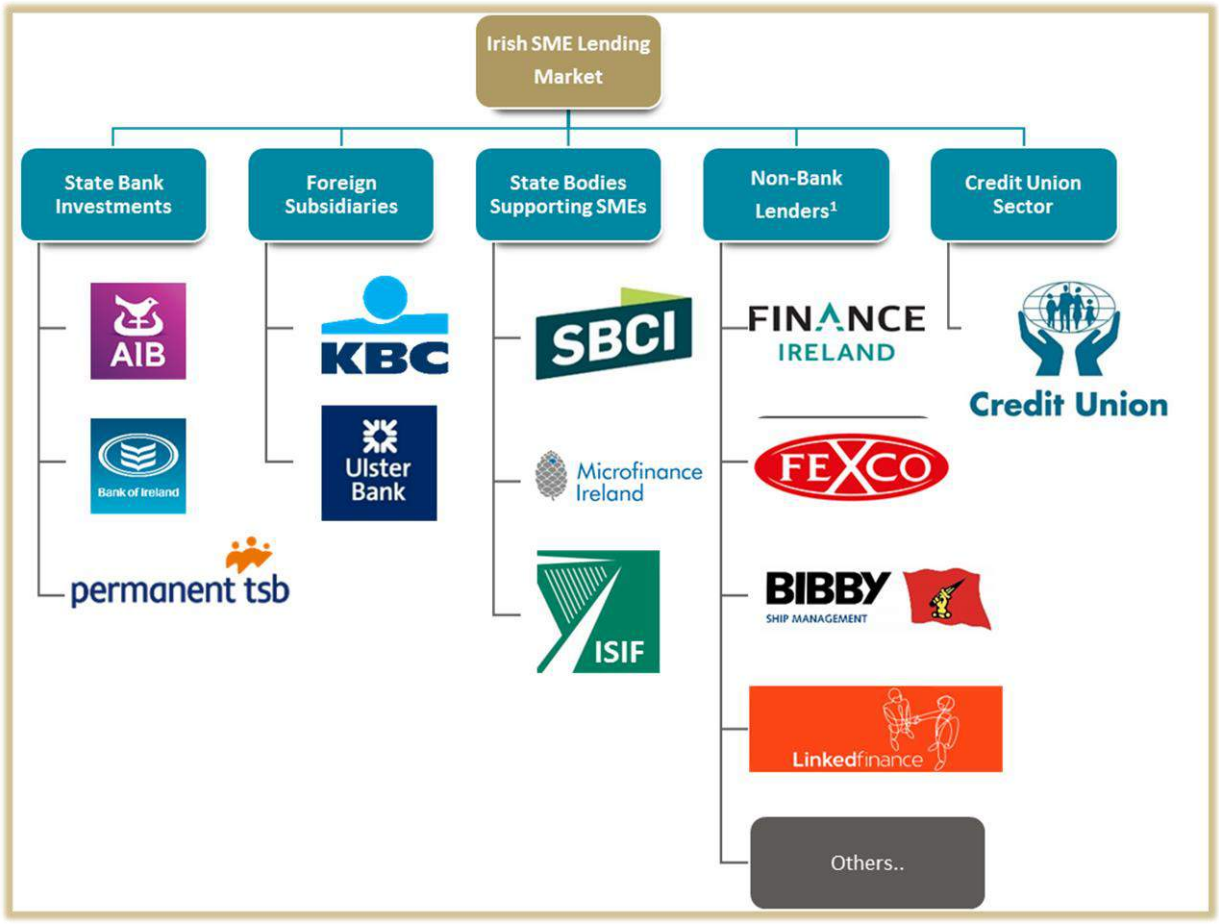
In February 2017, the Strategic Banking Corporation of Ireland (SBCI) launched the Agricultural Cashflow Support Loan Scheme for Farmers in partnership with the Department of Agriculture, Food and the Marine to provide low cost, flexible loans to farmers. This Scheme was intended to ensure that the agri-food sector had adequate support to deal with a period of increased price volatility.

The Scheme was supported by €11 million of EU Exceptional Adjustment Aid and further funding of €14 million from the Department of Agriculture, Food and the Marine, under a derogation from state aid regulations that ordinarily apply to the agriculture sector. The Scheme was also supported by an SBCI guarantee and a €100 million COSME counter-guaranteed facility provided by the EIB Group.

To the end of June 2017, under the Agricultural Cashflow Support Loan Scheme, €118 million of loans were drawn down by 3,787 SMEs supporting 5,011 jobs. The average loan size was €32,084.

1.7 Summary of the Key Players in the SME Finance Market:

The diagram below outlines the various elements comprising the Irish SME lending market. These are the main retail banks, non-bank finance providers, the Credit Union sector and State bodies and policy initiatives put in place to support and facilitate SME access to finance.

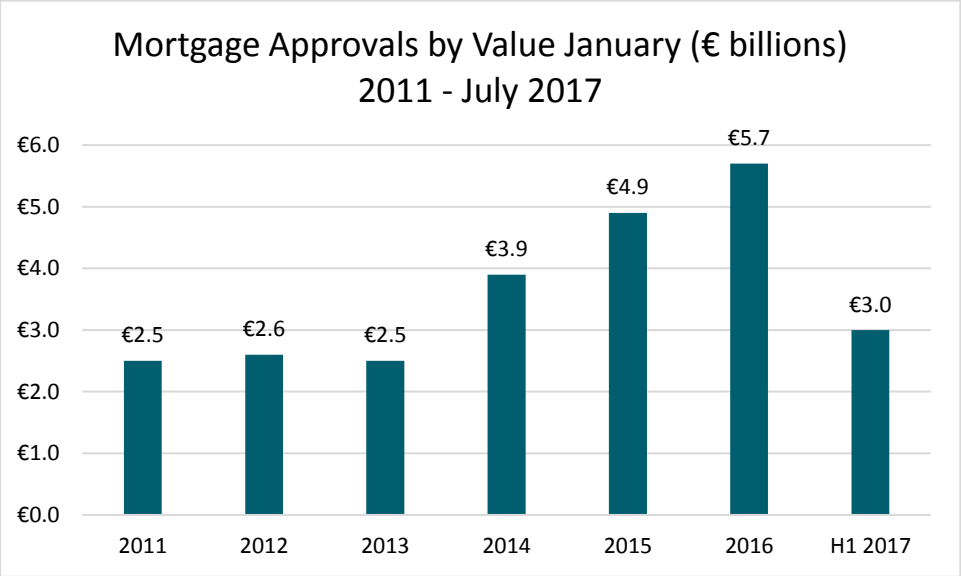


1.8 Availability of credit to retail customers in Ireland

Retail mortgage lending suffered a significant reduction following the global financial crisis. Central Bank of Ireland figures suggest that gross new mortgage lending fell from approximately €40bn in 2006 to just €2.5bn in 2011. Since then, the Irish mortgage lending market has undergone a considerable recovery. The value of new mortgage lending to retail customers more than doubled between 2011 and 2016 as can be seen in Figure 11 below. This rise in mortgage lending and other forms of retail lending, such as personal lending, has

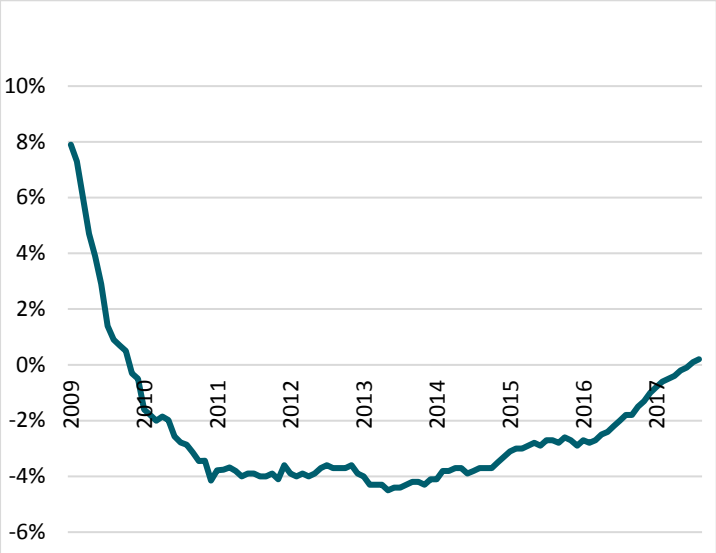
helped the retail banking sector reach its first period of positive net lending since 2009, see Figure 12, below.

Figure 11: Mortgage Approvals by value



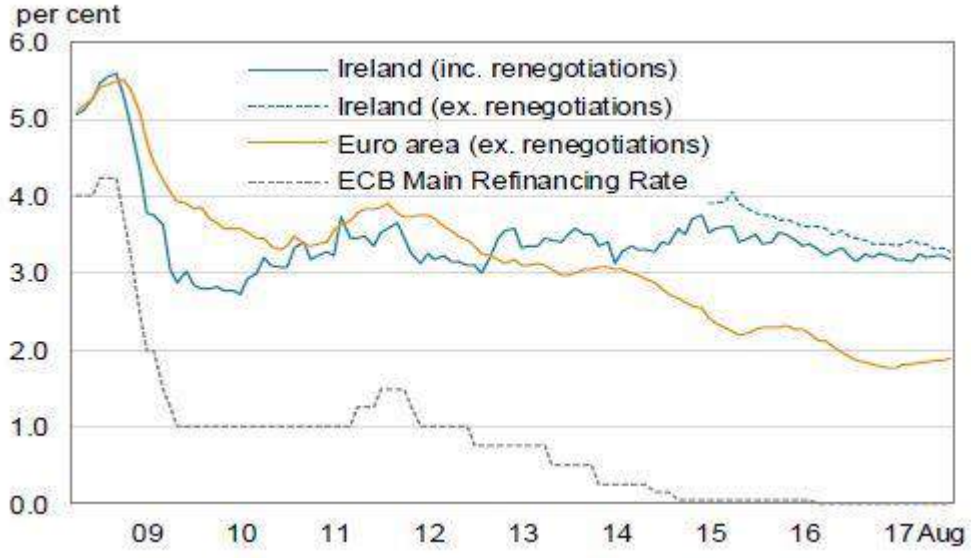
Source: Central Bank of Ireland

Figure 12: Percentage change in net lending to households (including mortgages, consumer credit and other) 2009 – July 2017



Source: Central Bank of Ireland

Figure 13: Interest rates on new floating rate loan agreements to households for house purchase



Source: Central Bank of Ireland

Current Irish variable rate mortgage rates range from 2.95% to 4.2%, which is above the Euro area equivalent. The Central Bank have noted that, "the weighted average interest rate on new variable rate mortgage agreements (excluding renegotiations) stood at 3.37% in August 2017. The rate on all new agreements, fixed and variable (excluding renegotiations), stood at 3.29%. The equivalent Euro area rate was 1.86%.[43]

Quarterly data from the Central Bank of Ireland shows a fall in standard variable rates for new home mortgages. These stood at 3.34% in Q2 2017, a fall of 23 basis points compared to the same period in 2016. Fixed rate home mortgages rates also recorded a decline, with rates fixed for 1-3 years falling by 30 basis points over the same period. As mentioned above, interest rates on new household lending to Irish customers remain above European averages. This can be explained by a number of factors:

1. Cost associated with credit risk: despite considerable progress, Irish banks continue to hold higher than average levels of Non-Performing Loans (NPLs) relative to their European peers. According to the European Central Bank, the Irish banking sector in Q4 2017 had the 6th highest levels of Non-Performing Loans (as a % of total loans) across 16 European countries (falling from 4th in Q4 2016).[44] Similarly, Irish households remain some of the most indebted in Europe, ranking 4th out of 18 countries (Q4 2016).[45] Historical loan losses, high levels of NPLs and household indebtedness all increase the cost of risk for Irish banks, and ultimately lead to higher interest rates on new loans.[46]

2. Cost of capital: due in part to the high rates of household indebtedness and NPLs, Irish banks now hold significantly more loss absorbing capital than the European average. Irish fully loaded core equity tier 1 ratios, a key measure of capital adequacy, stood at 15.7% in Q4 2016, versus a European average of 13.6%.[40] Higher rates of capital relative to the levels of loans outstanding place further upward pressure on interest rates for new lending.

[43] https://www.centralbank.ie/docs/default-source/statistics/data-and-analysis/credit-and-banking-statistics/retail-interest-rates/2017m08_ie_retail_interest_rate_statistics.pdf?sfvrsn=4
[44] https://www.bankingsupervision.europa.eu/banking/statistics/html/index.en.html
[45] https://www.centralbank.ie/docs/default-source/financial-system/financial-stability/macroprudential-policy/household-credit-market-report-h1-2017.pdf?sfvrsn=4.pdf
[46] https://www.ccpc.ie/business/wp-content/uploads/sites/3/2017/06/2017-06-14-CCPC-Options-for-Irelands-Mortgage-Market.pdf

3. Market structure and levels of competition: since 2008, the number of retail lenders in Ireland reduced because of exits (e.g. Halifax), amalgamations (e.g. EBS) and insolvencies (e.g. Anglo Irish Bank). The consolidation of the Irish banking industry may be a contributing factor to higher interest rates on new lending in Ireland relative to the European average.[40]

1.8.1 An Post

As previously indicated, the Irish banking sector consists of five active retail banks, with AIB and Bank of Ireland being the dominant market actors. However, An Post is also an important provider of financial services to retail customers.

An Post's retail network is the largest in the country with approximately 1,125 active post offices that serve approximatively 1.7 million customers per week. Despite Ireland's low population density, post offices are within manageable reach of the vast majority of households. Around 93% of the population lives within 5 kilometres of a post office and nearly 99.9% of the population lives within 10 kilometres of one.[47]

Financial services offered to retail customers at An Post generally fall under four pillars, namely: savings and investments, lending, payments and insurance. An Post currently provides services to retail customers as outlined below, and have publically stated that their strategy is to build on and enhance these offerings in the future:

Savings & Investments

An Post is the sole agent for State savings, offering products ranging from a basic savings account to longer term investments with maturities of 1,3,4,5 and 10 years. The total value under management is in excess of €20 billion.[48]

47 https://www.anpost.ie/AnPost/content/Retail+Partners/About/About.htm/
48 http://www.anpostmedia.com/Media/M9229-An_Post_2016_Annual_Report.pdf

Payments

An Post recently launched a current account, the An Post Smart Account, which offers many of the features traditionally associated with a bank current account, as well as a unique loyalty programme. It is currently available in 750 branches and it is ultimately intended that it will be available nationwide.

An Post is prominent in the provision of foreign exchange services, selling foreign exchange cash in over 300 outlets. In addition, it is the only provider in Ireland offering a foreign exchange debit card. An Post is also the largest agent of Western Union in Ireland enabling foreign exchange payments to over 200 countries worldwide.

The An Post network allows retail customers to pay their everyday bills such as gas, electricity, mobile phone etc. to over 200 companies at all Post Offices, and through its PostPoint subsidiary at *circa* 800 retail outlets.

Insurance

Post Insurance, a wholly owned subsidiary of An Post, is an insurance intermediary that has operated in Ireland since 1999. It employs over 160 staff and has circa 170,000 policy holders, dominated primarily by motor and home insurance policies that are underwritten by Aviva and AIG. Post Insurance also offers life assurance products (underwritten by New Ireland), as well as travel and pet insurance products.

Post insurance operate a network of 26 branches throughout Ireland, most of which are located within larger An Post branches.

Loans

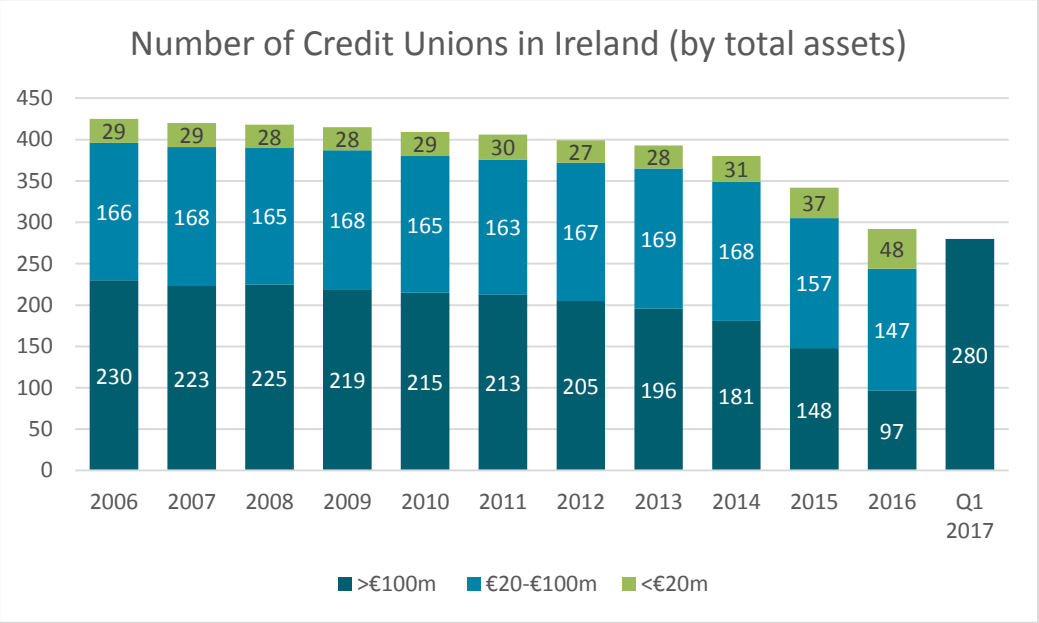
An Post currently offer car loans through Post Insurance and have publically stated that they are looking to launch additional personal lending products in 2018.

In addition to providing financial services to Irish retail customers, An Post also provide banking services on behalf of AIB, Ulster Bank and Danske Bank to their respective customers thereby extending the geographical reach of these organisations.[49]

1.8.2 Credit Unions

Credit unions are member-owned, regulated credit institutions that take in deposits and lend to members tied to them in their common bond, which can be geographic or based on a common connection *e.g.* civil service workers. There are currently 280 credit unions, see Figure 14 below, dispersed across the country with c €16 billion of assets and €4.4 billion of lending.[50] There are *circa* 52 credit unions with assets above €100m. The largest credit union has *circa* €350 million of assets.[51]

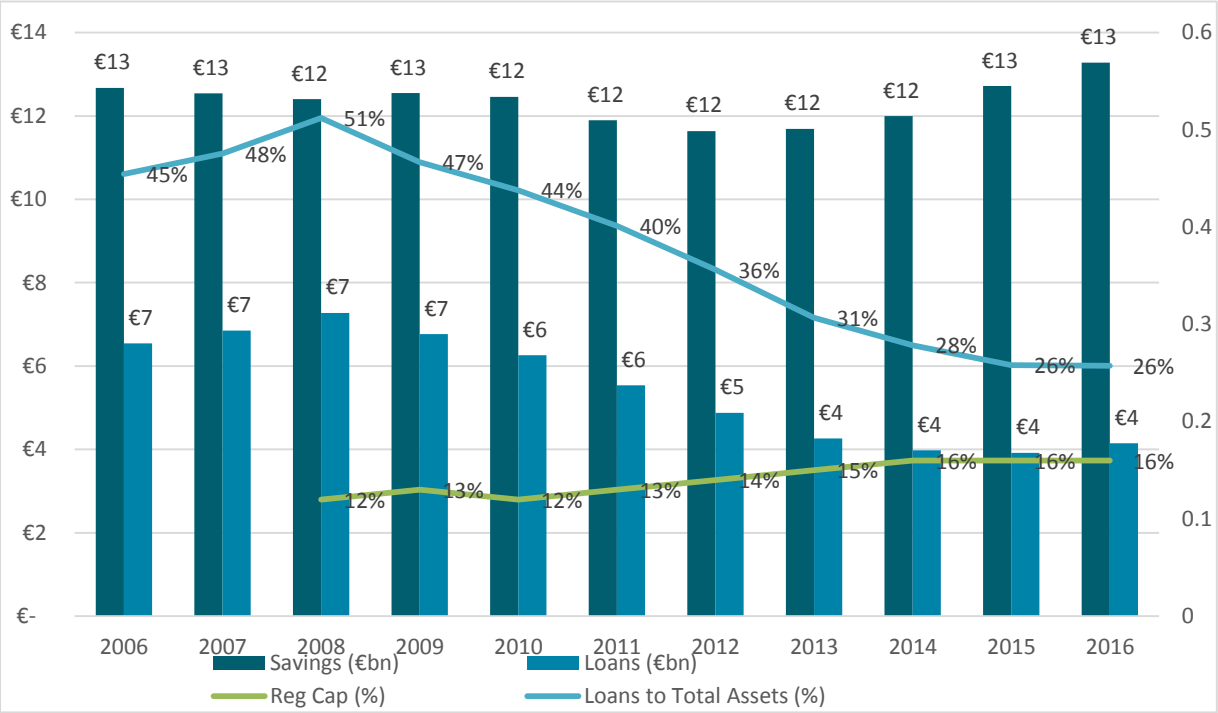
Figure 14: Number of Credit Unions in Ireland (by total assets)



Source: Central Bank of Ireland

[49] www.anpost.ie/AnPost/MainContent/Personal+Customers/Money+Matters/An+Post+Financial+Services
[50] As of June 2017 (Department of Finance analysis).
[51] As of September 2016 (Department of Finance analysis).

Figure 15: Total Savings and Loans of Credit Unions (€ billion) 2006 - 2016



Source: Central Bank of Ireland

While lending by credit unions is unsecured lending to retail customers, they can lend to commercial enterprises, who can be defined as a member, though credit unions do not have the full suite of banking services that an SME would require. Credit union deposits are primarily from retail customers and are generally below €100,000. Only certain credit unions have regulatory approval to receive deposits greater than €100,000.

From an SME perspective, commercial loans cannot, on aggregate, exceed more than 50% of a regulatory reserve and are also subject to large exposure limits (€39,000 or 10% of regulatory reserve whichever is higher). At December 2016, the credit union sector had €61.6 million of commercial loans (of which there were €26.6 million of loans issued for more than €25,000), amounting to 1.5% of loans and 3.4% of regulatory reserves.

For a credit union of €100m asset size with a regulatory reserve of 16%, the maximum commercial loans would be €8 million (8% of assets) with a maximum individual loan size of €1.6 million.

Credit unions currently have a *circa* 30% market share in consumer lending in Ireland. Although the majority of credit union lending is consumer lending they have a small element of SME lending and mortgage lending, both subject to concentration limits as set out above. It is worth noting that credit unions already have significant additional capacity to lend in these categories within the scope of the current regulations.

Credit unions have an average loan to asset ratio of 26% and as a result, they are looking to increase lending in order to develop their business model and to provide additional sources of income.

A large number of credit unions are involved in the Personal Micro Credit scheme which was established by the Department of Social Protection and which is aimed at moving people in the wider local community away from the use of high cost moneylenders and providing an alternative, legitimate and low cost personal loan scheme. Credit unions are offering 'It Makes Sense' loans, at reasonable rates, to people struggling to get credit elsewhere.

Furthermore, the credit union sector is currently considering various proposals to increase its income and develop its business model including:

- Funding of social housing – a revision to the current investment regulations in February 2018 should allow for investment in Tier 3 Approved Housing Bodies.
- Mortgage lending – while mortgage lending is allowed credit unions are seeking additional flexibility to do more mortgage lending. The Central Bank will consider the lending regulations during 2018.
- The sector is working to evolve and develop in order to increase return on deposits through increased lending and increased return on investments. Credit unions are looking at ways to enable them to compete with others in the financial services sector through more lending and the provision of additional services to members to increase loan to asset ratios and to diversify their loan books.

Regarding regulation, credit unions have a specific exemption from the requirements of the European Capital Requirements Directive and Capital Requirements Regulation (CRD and CRR). In addition to legislative requirements, the Central Bank has developed a set of regulations and supervisory practices specific to Credit Unions.[52]

[52] https://www.centralbank.ie/regulation/industry-market-sectors/credit-unions/credit-union-handbook

1.9 Non-Bank Finance Providers and Alternative Sources of Finance for SMEs

There are a number of specialised non-bank finance providers in the Irish SME finance market. Often they provide a more niche offering by specialising in products such as senior debt, mezzanine debt, asset finance and invoice discounting.

1.10 Equity, crowdfunding and grants

SMEs can get funding for their businesses through equity financing as an alternative to bank lending. They can access equity finance from a number of sources. These include business angels, including, for example, the Halo Business Angel Network, or through the Irish Strategic Investment Fund.

Crowdfunding platforms give SMEs access to peer-to-peer lending and there is the potential that they could also provide equity funding.

There are also a number of grants available to SMEs. Many of these are administered through the Local Enterprise Offices. Details can also be found on www.supportingsmes.ie/.

1.11 Capacity for lending of Irish banks

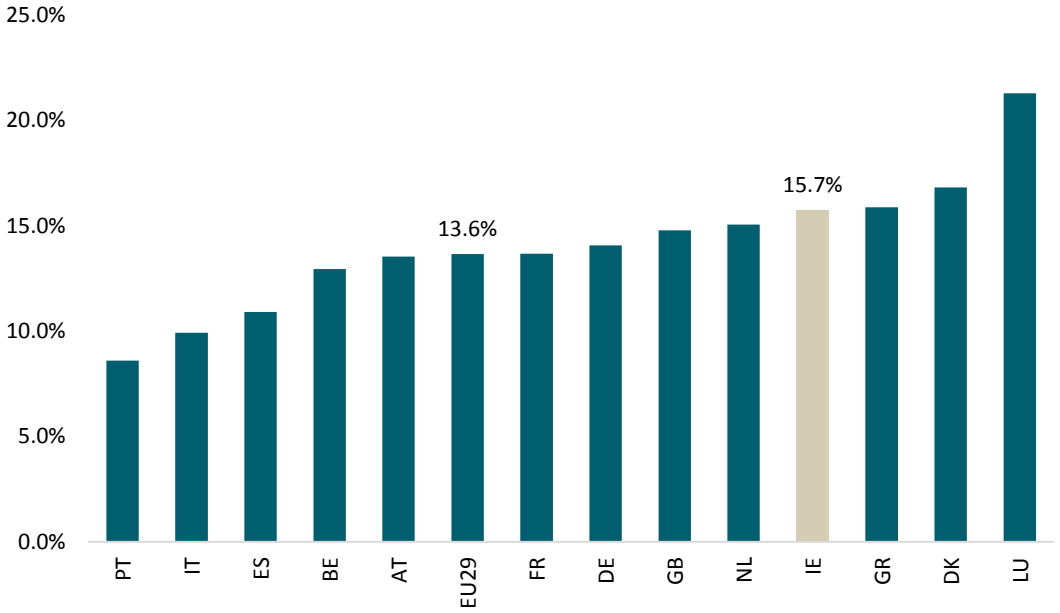
Deleveraging and recapitalisation efforts by Irish banks have allowed them to bolster their capital levels since the crisis. The 'Core Equity Tier 1' ratio provides an indication as to the levels of high quality capital that exists within a given bank (primarily common equity and retained earnings). It also shows what levels of capital banks have available to them to lend to customers and to absorb losses. This key measure of bank solvency shows the Irish banking sector has higher capital levels than the European average; see Figure 16 below. This is partly to do with the high levels of non-performing loans at Irish banks, but also reflects the amount of capital Irish banks have built up since the crisis.

Similarly, Irish banks have further stabilised their balance sheets by improving their funding base. This is demonstrated by the lowering of loan to deposit ratios across the Irish

headquartered banks. This ratio indicates Irish banks' reduced reliance on wholesale funding and demonstrates the increase in the percentage of loans funded by customer deposits. Lower loan to deposit ratios help to determine the capacity a bank has to fund new loan originations. The first half of year financial results for 2017 of the three Irish headquartered banks, PTSB, Bank of Ireland and AIB, show they have reduced their loan-to-deposit ratios to 110%, 103% and 94% respectively; see Figure 17 below.

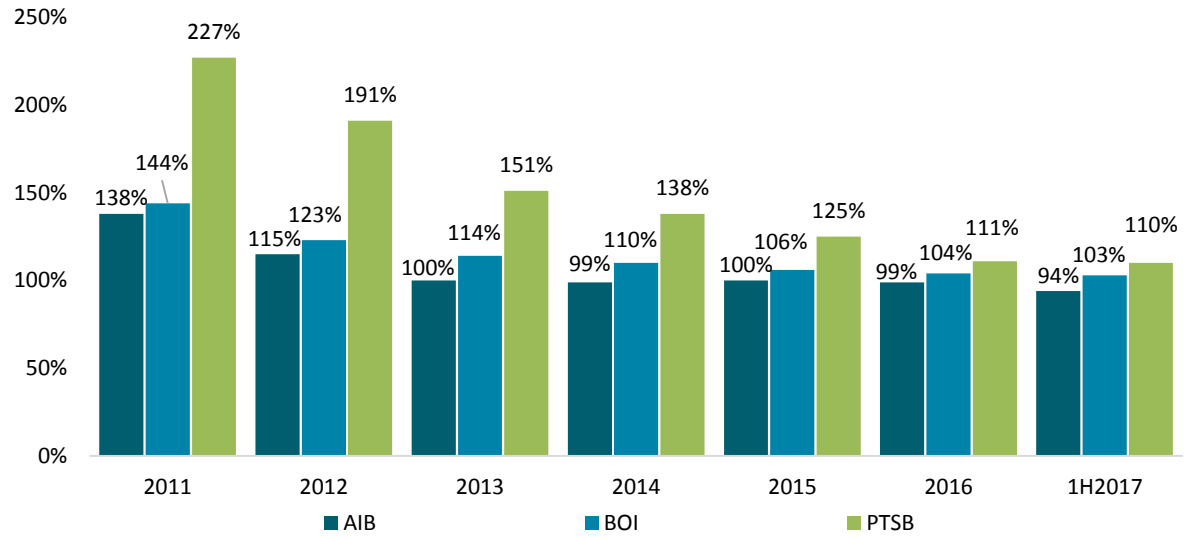
Looking at both these measures, there is significant evidence to suggest that the Irish banking sector has become increasingly more stable from a capital and funding perspective, and that relative to Ireland's European peers, that there is additional capacity to meet demand for lending to Irish SMEs and households.

Figure 16: Core Equity Tier 1 Capital Ratios by Country (Fully Loaded December 2016)



Source: EBA Dashboard, Q4 2016

Figure 17: Falling Loan to Deposit Ratios 2011 – H1 2017



Source: Central Bank of Ireland

2. Existing Government policy measures to support SMEs

The Government has put in place a number of policy measures designed to support SMEs' access to affordable, sustainable and appropriate finance since 2008-2009. These policy measures are supporting greater competition in the provision of SME credit and they are increasing the levels of non-bank credit available to SMEs, as outlined below.

2.1 Strategic Banking Corporation of Ireland (SBCI)

The Strategic Banking Corporation of Ireland (SBCI) is Ireland's national promotional institution (NPI) for SMEs. The SBCI's mandate is to deliver effective financial supports to Irish SMEs and other market segments that address failures in the Irish credit market, while encouraging competition. The SBCI contributes to creating an effective and sustainable SME credit market in Ireland and in the longer term aims to act as a conduit for State and European financing supports, optimising the funding available to Irish SMEs.

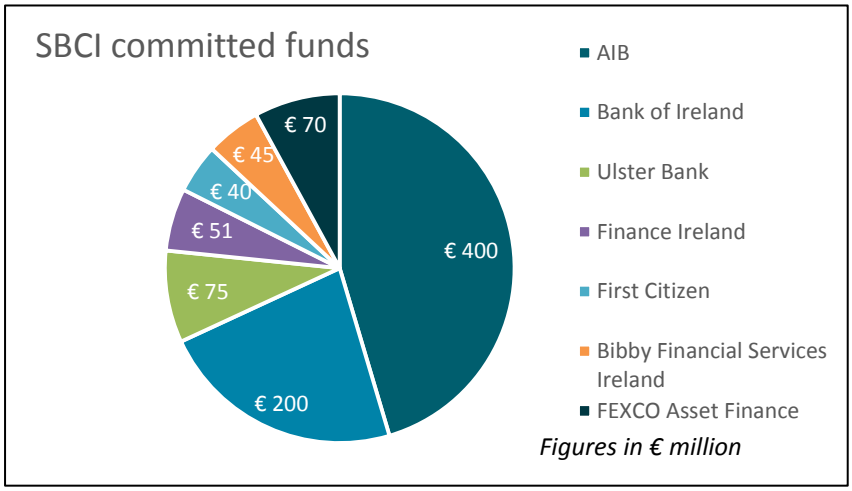
The ethos of the SBCI, as a national promotional institution is similar to that proposed for local public banks. The SBCI has a sustainability mandate; its purpose is to facilitate access to more flexible, appropriately priced finance with better terms to SMEs.

To support its funding activities, the SBCI has long term funding arrangements in place with the European Investment Bank (EIB), Kreditanstalt für Wiederaufbau (KfW), the Council of Europe Development Bank (CEB), the Ireland Strategic Investment Fund and the Funding and Debt Management Unit of the National Treasury Management Agency (NTMA). The SBCI has funding of €1.215 billion to support Irish SMEs to invest in and grow their businesses through access to flexible, appropriately priced credit.

The SBCI uses an on-lending model. This means it does not lend directly to SMEs, rather, the SBCI operates as a wholesale lender, channeling its funds through both banks and non-bank finance providers. The SBCI currently has seven on-lending partners, three banks and four non-bank, they are AIB, Bank of Ireland, Ulster Bank, Finance Ireland, First Citizen, Bibby Financial Services and FEXCO Asset Finance. The SBCI works with non-bank finance providers

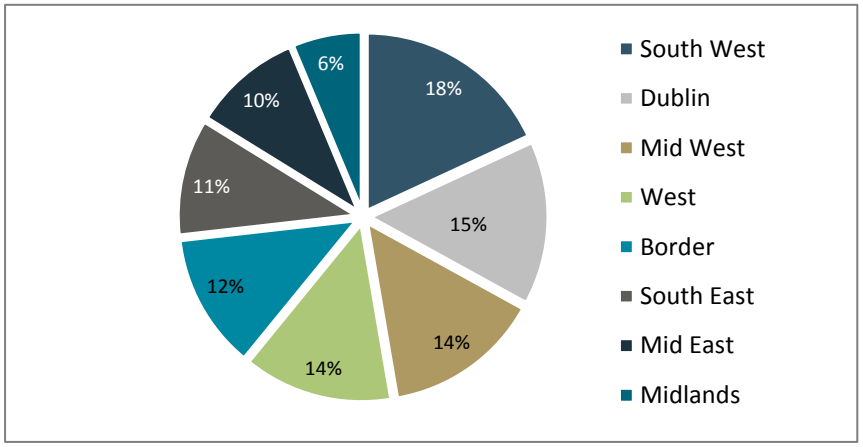
in particular to enhance the range and profile of SME finance providers in Ireland and thereby encourage competition in the SME finance market. Non-bank finance providers offer a greater range of funding products, such as asset finance (leasing and hire purchase) and invoice discounting. Figure 18 below demonstrates how much funding the SBCI has committed to each on-lender. The total funds amount to €881 million.

Figure 18: SBCI committed funds[53]



Source: SBCI

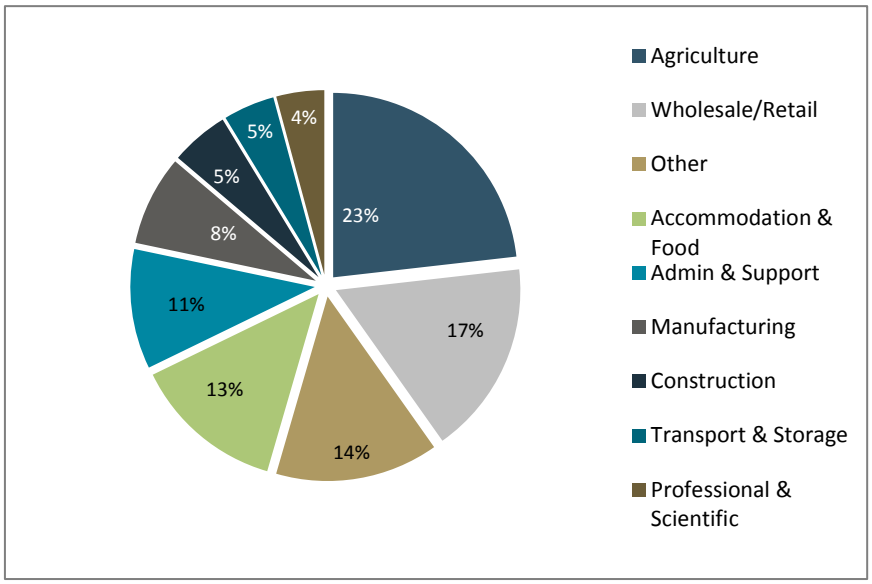
Figure 19: Percentage of SBCI funds (by value) lent by region



Source: SBCI

[53] http://sbci.gov.ie/category/press-releases

Figure 20: Percentage of SBCI funds lent (by value) by sector



Source: SBCI

To the end of June 2017, €855 million of SBCI funding has been provided to 21,132 SMEs supporting 106,728 jobs. The SMEs who received SBCI finance are from almost all business and economic sectors. More than 85% of loans are for investment purposes. There is a broad regional spread of the SMEs supported, with approximately 85% of them based outside Dublin, and 23% of all loans granted to the agricultural sector.[54] The interest rate on SBCI loans is, on average, 1.15% lower than the average market interest rate on loans to SMEs.

The SBCI is working to develop a more diverse range of on-lenders and innovative products to meet the evolving requirements of the SME finance market.

[54] http://sbci.gov.ie/wp-content/uploads/2017/08/APPROVED_SBCI_HYR_Summary.pdf

2.2 Microfinance Ireland

The Microenterprise Loan Fund, administered by Microfinance Ireland, is an additional source of credit that provides loans for up to €25,000 to start-up, newly established, or growing micro enterprises employing less than 10 people. Microfinance Ireland works in partnership with the Local Enterprise Offices nationally to administer this fund (www.microfinanceireland.ie/).

Since October 2012, to the end of March 2017, €15.4 million of Microfinance Ireland loans have been drawn down, supporting an estimated 2,948 jobs in 1,249 micro enterprises with an average loan size of €15,000. Microfinance Ireland has an 82% approval rate to businesses employing 3 people or fewer and a 56% approval rate to start ups, which have been in business for less than 18 months. There is a wide geographic coverage of microenterprises supported, with 79% based outside Dublin.

2.3 Credit Guarantee Schemes

Credit guarantee schemes are a public policy instrument, involving the liability and risk of bank loans to SMEs being shared between the borrowers, finance providers and the Government. The Credit Guarantee Schemes encourage additional lending to small businesses by offering a partial Government guarantee to banks against losses on qualifying loans to eligible SMEs. Additionally, a Counter Guarantee Scheme is set to be introduced which will allow for risk sharing between finance providers, the State, the SBCI and European institutions. Further information is available about both schemes on the Department of Business, Enterprise and Innovation website (https://www.dbei.ie/en/).

2.4 The Credit Review Office

The Credit Review Office (CRO) is a government initiative that helps SMEs who have had an application for credit of up to €3 million declined or reduced by the main banks, and who feel that they have a viable business proposition. This is a strictly confidential process between the business, the Credit Review Office and the bank. The CRO has received almost 900 applications, with almost 700 cases concluded to date. It has successfully overturned

overturns more than 50% of the decisions made by banks. Over €48 million has been advanced on foot of the CRO's recommendations and 3,749 jobs have been created or protected as a result. Further details are available at www.creditreview.ie/.

2.5 The Supporting SMEs Online Tool

The Supporting SMEs Online Tool is a cross-government initiative. By answering eight simple questions, SMEs will receive a tailored list of available Government supports to suit their needs. The Supporting SMEs Online Tool is available at www.supportingsmes.ie/.

There are over 170 different Government supports for start-ups and Small and Medium Sized Enterprises. These are all included on the Supporting SMEs Online Tool. There are a considerable number of supports in place for SMEs to avail of, as appropriate.

The SME Finance Market and Brexit

Irish SMEs will require support generally to diversify and restructure their businesses. There are already significant Government measures in place to support the financing needs of SMEs and these will be available to assist SMEs deal with the effects of Brexit.

There is some indication that the uncertainty surrounding how Brexit will ultimately unfold as well as the implications that it will have for SMEs when it occurs is causing SMEs to delay investment their plans. Many SMEs appear to be waiting to see how the situation develops.

As part of the Government's overall Brexit strategy, a €300m Brexit Loan Scheme is expected to be launched in March 2018. The Scheme has been developed by the Department of Business, Enterprise and Innovation, the Department of Agriculture, Food and the Marine, and Enterprise Ireland and is supported by the Strategic Banking Corporation of Ireland (SBCI), the European Investment Bank Group and the European Commission. The purpose of the Scheme is to assist Irish SMEs and Small Midcap firms with their working capital needs to allow them to adapt and innovate in response to Brexit.

The Scheme is intended to operate under *de minimis* state aid rules and will be supported by State and European guarantees. Loans with flexible and competitive terms will be available to businesses with fewer than 499 employees that are exposed to the impact of Brexit. However, primary producers in the agriculture and fishing sectors will be precluded from the Scheme due to state aid rules.

3. Proposal for Local Public Banking in Ireland

As part of the consultation process carried out by the Department of Rural and Community Development, Irish Rural Link and the Savings Bank Foundation for International Cooperation (SBFIC) have put forward a written proposal for a local public banking system in Ireland, based on the German Sparkassen model.[55]

Irish Rural Link is a representative organisation that campaigns for sustainable rural development in Ireland and Europe.[56] It represents the interests of communities in disadvantaged and marginalised areas by highlighting problems and advocating for policy change.[57] The Savings Bank Foundation for International Cooperation (SBFIC) is the international development policy wing of Sparksasen-Finananzgruppe.[58] Its aim is to promote the Sparkassen model across the world.[59] Its mission is to "think globally, act locally, cooperate internationally – promoting financial inclusion the world over".[60]

Neither Irish Rural Link nor SBFIC are proposing to undertake establishing local public banks in Ireland directly or providing investment in order to do so. SBFIC have offered the benefit of their expertise and consultancy services to assist in establishing local public banks in Ireland.

If established, local public banks would seek to provide retail and SME banking services to rural communities and would attempt to identify regions that would benefit from additional lending to SMEs and households.

[55] http://drcd.gov.ie/consultation-on-local-community-banking-2/
[56] http://www.irishrurallink.ie/about-us/
[57] http://www.irishrurallink.ie/about-us/
[58] http://www.sparkassenstiftung.de/en/about-us/
[59] http://www.sparkassenstiftung.de/en/about-us/
[60] http://www.sparkassenstiftung.de/en/about-us/

3.1 The Sparkassen Model

Sparkassen form part of the public banking sector in Germany. Public banking is where a state, or other public actor, owns a financial institution.[61] In the case of Sparkassen, the public body responsible for them is a municipality.[62] A municipality can be a city, a town, a district, or a special purpose association of local authority established for this purpose. Sparkassen are legally and economically independent financial institutions. There is a special relationship between the municipalities and Sparkassen that means that the municipalities do not own the Sparkassen they are responsible for and also cannot sell them.

Sparkassen operate in geographically delimited areas and they are precluded from operating outside of their particular region. In Germany there are 431 Sparkassen divided in to 12 regions in Germany with 7000 branches serving 50 million customers.[63]

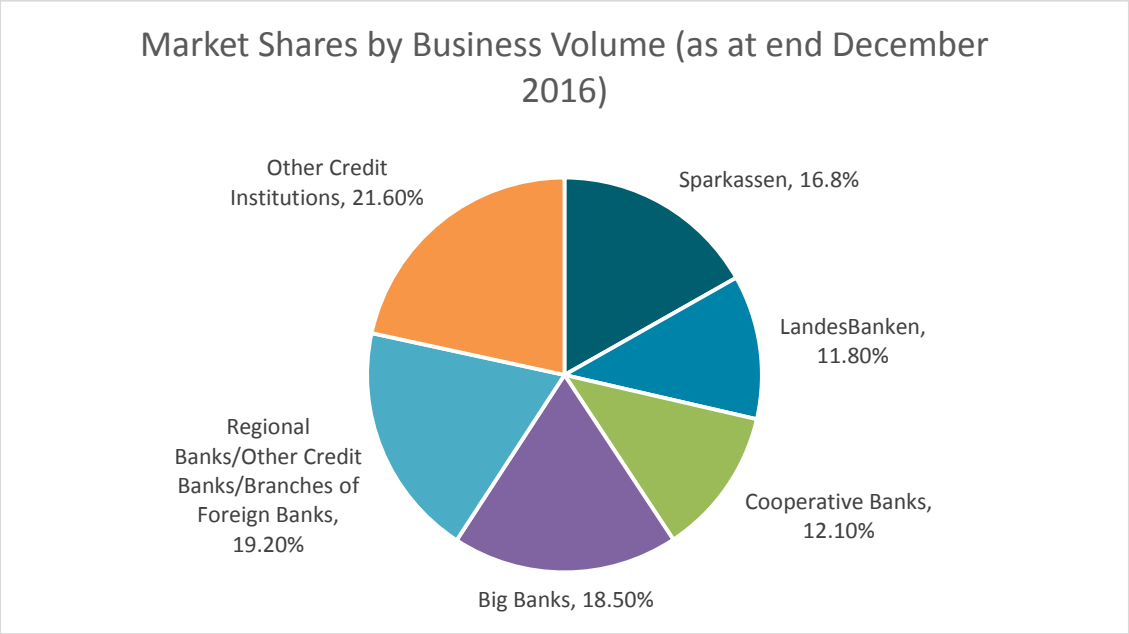
Sparkassen are overseen and managed by a supervisory board and a management board.[64] The supervisory board ensures that the Sparkasse fulfils its public mandate. It is normally chaired by the mayor or head of the district authority and is composed of council representatives, citizens and employees.[65] All members of the supervisory board have financial qualifications. The day-to-day business of a Sparkasse is handled by the management board, which is comprised of banking professionals.[66]

Sparkassen are subject to German banking legislation and banking supervision as well as being subject to European banking regulation and the authority of the European Central Bank.[67]

Sparkassen have a 16.8% market share of the overall German banking sector; see Figure 21 below. The total market volume is €6,998.6 billion.

[61] https://banque.ooreka.fr/comprendre/banque-publique
[62] http://www.civitas.org.uk/content/files/SimpsonSparkassen.pdf
[63] Finanzgruppe Deutscher Sparkassen-und Giroverband (2017) *Financial Report 2016 of the Savings Banks Finance Group*. Deutscher Sparkassen- und Giroverband e. V., Berlin.
https://www.dsgv.de/en/facts/annual_report/financial_report.html
[64] http://www.civitas.org.uk/content/files/SimpsonSparkassen.pdf
[65] http://www.civitas.org.uk/content/files/SimpsonSparkassen.pdf
[66] http://www.civitas.org.uk/content/files/SimpsonSparkassen.pdf
[67]

Figure 21: German Banking Market



Source: Deutsche Bundesbank

The ethos of Sparkassen is not profit maximisation; rather it is public interest based, promoting financial inclusion and economic development within their regions.[68] The Sparkassen ethos is set out in their public mandate; the key objective for Sparkassen is stakeholder value not shareholder value.[69] This public mandate is based upon the following principles:

- to promote financial inclusion;
- to promote saving;
- to strengthen competition; and
- to use profits within the particular region of the Sparkasse and use part of them for social commitments. [70]

[68] http://economic-research.bnpparibas.com/Views/DisplayPublication.aspx?type=document&IdPdf=28761; https://www.centreforpublicimpact.org/case-study/sparkassen-savings-banks-germany/; http://www.civitas.org.uk/content/files/SimpsonSparkassen.pdf
[69] https://www.centreforpublicimpact.org/case-study/sparkassen-savings-banks-germany/
[70] http://www.civitas.org.uk/content/files/SimpsonSparkassen.pdf

While the overall German banking system remains stable, it has been highlighted that German banks, including Sparkassen, have been put under pressure in relation to their earnings and profit margins due to low interest rates and a high cost base.[71]

The business model of Sparkassen involves building close relationships with local SMEs. They employ a combination of relationship and transactional banking. Sparkassen work closely with SMEs during the credit application process, providing assistance as needed, and often visit businesses to understand their operations better. The Sparkassen lending approach, lending criteria and risk assessment is thorough and prudent. Generally, Sparkassen will ensure that the debt can be repaid from cash flow but they will also seek to identify at least one further source of repayment *i.e.* collateral. Sparkassen expect their borrowers to share the risk *i.e.* by providing equity as well (so the financing is not 100%) or through a guarantee. Sparkassen also aim to ensure that the terms of the financing match the borrowers' financing needs.

3.2 Details of the Irish Rural Link and SBFIC Proposal

Irish Rural Link/SBFIC have provided a proposal detailing how they envisage a system of local public banks would operate in Ireland. The proposal has an ethos of benefiting the local community, with profits being used for the benefit of social projects in the community, and an aim of supporting local, regional and rural development, including the development of local, regionally located SMEs.

The Irish Rural Link/SBFIC proposal provides for a total of 8-10 regional local public banks that would be managed independently but employ the same business models.[72] Each bank would have its own network of branches and would operate exclusively within the region in which it is established, focusing solely on servicing the local community within that region. There would be no competition between the local public banks. Initially a pilot of 2-4 banks is envisaged, with the Midlands suggested as the most likely place for establishment, with further banks rolled out over a 5-year period.[73]

[71] https://www.moodys.com/research/Moodys-maintained-stable-outlook-for-Germanys-banking-system-on-resilient--PR_373141
[72] http://drcd.gov.ie/wp-content/uploads/IRL.pdf
[73] http://drcd.gov.ie/wp-content/uploads/IRL.pdf

It is proposed that these local public banks would benefit from shared services through a centralised service provider that would provide functions such as risk management, accounting, IT and HR, lowering the cost base of the local public banks.[74] Each bank would make annual contributions to the Central Service Provider.

The proposed local public banks would be publicly owned and it would be intended that they could not be acquired by third parties. They would be stakeholder driven with a public mandate.[75] They would be designed to be economically viable but not to maximise profits.[76] The profits of the local public bank would be used to ensure a strong capital base and be used for social projects and redistributed to benefit the local community.[77] Their aim would be to support local, regional development. They would operate on the principle "local deposits for local loans".[78]

According to the proposal, the governance structure for an Irish local public bank would be a management board formed by two directors in charge of front and back office management and a risk manager.

It has also been proposed that these local public banks could act as a lender for funds from European sources and as an on-lender for the Strategic Banking Corporation of Ireland (SBCI).[79] The proposal envisages that both the credit unions and post offices could also be involved in the delivery of local public banking.[80] However, it is not clear how this would be integrated in to the wider local public banking network.

Estimates provided by Irish Rural Link and SBFIC indicate that capital and start-up costs for each local public bank would be between €15 and €20 million. The pilot phase would cost an estimated €50 million.[81] In order to establish the complete local public banking network, a further 6 banks would cost an estimated €120 million. According to the proposal from Irish

[74] http://drcd.gov.ie/wp-content/uploads/IRL.pdf
[75] http://drcd.gov.ie/wp-content/uploads/IRL.pdf
[76] http://drcd.gov.ie/wp-content/uploads/IRL.pdf
[77] http://drcd.gov.ie/wp-content/uploads/IRL.pdf
[78] http://drcd.gov.ie/wp-content/uploads/IRL.pdf
[79] http://drcd.gov.ie/wp-content/uploads/IRL.pdf
[80] http://drcd.gov.ie/wp-content/uploads/IRL.pdf
[81] http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/DebatesWebPack.nsf/committeetakes/FPJ2017101200002?opendocument#O00050

Rural Link and SBFIC, the total cost of establishing a local public banking network in Ireland would be approximately €170 million.

In order to facilitate the establishment of these local public banks, it is proposed that the Irish Government would provide for any start-up costs, including staffing, branch fit-outs, marketing and the costs associated with the creation of the Central Service Provider. Sufficient capital would also be needed to meet regulatory requirements. Irish local public banks would be regulated by the Central Bank of Ireland. Each local public bank would require a population base of 250,000-300,000 in order to have sufficient critical mass and achieve viability.[82]

It is envisaged that local public banks would provide a range of banking services to meet the needs of both retail and small business customers, including retail banking, mortgages and finance for SMEs in all areas of the country. The retail product offering of a local public bank is expected to include current accounts, savings, mortgages, credit cards and overdrafts. SMEs would be expected to be able to avail of agricultural loans, term loans, start up loans, business overdrafts and business current accounts.

As mentioned, the proposal envisages that local public banks would partner with the SBCI to provide government backed lending. It should be noted that providing such a wide range of banking services will prove more costly to provide than a more focused business model; this must be factored in when assessing the proposed cost base of the public bank.

The aim of the proposal and the introduction of local public banks is to address a number of problems identified, including rural economic development, lending to rural Irish SMEs, their access to finance and the competitiveness of Irish SMEs and the Irish banking system.

3.3 Analysis of proposed Local Public Banking Model

As part of the submission to the Government, a five-year financial plan was provided that outlines the forecast balance sheet and income statement. Following an in-depth review of

[82] http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/DebatesWebPack.nsf/committeetakes/FPJ2017101200002?opendocument#O00050

these financials, a number of areas were identified with the business case that warrant further attention.

As part of their submission, Irish Rural Link and SBFIC provided a business case outlining how local public banks could be implemented in Ireland. According to the business case, the pilot bank, or 'Midlands Bank' as it is referred to, would have a head office in Mullingar, and be supported by a Central Service Provider in Athlone. The bank would have five branches in total: one 'main branch' in Mullingar, and four regional branches located in Athlone, Tullamore, Portlaoise and Longford. This branch network would be operating in a region with a population of about 280,000.

Irish Rural Link and SBFIC selected the Midlands region for a number of strategic reasons:

1. Network of 'urban centres' in the region: the proposed five branches would service an estimated population of 280,000.[83]
2. Geographic location and connectivity: the region enjoys national interconnectivity with a road and rail network that connects it to both the east and west of the country. It is roughly one-hour's drive to both Dublin and Galway.
3. Rural economic development: the Midlands region saw a slower reduction in unemployment relative to the rest of the country between October 2016 and October 2017. It is believed that increased access to banking services in the region would help grow the local economy.[84]

A review was undertaken by the Department of Finance to assess some of the details outlined in the business case. In particular, the expected locations of the branches were reviewed, as were some of the financial projections for the Midlands Bank.

3.3.1 Branch Footprint

The five locations proposed for the Midlands Banks were assessed by the Department to understand the existing banking presence in those towns**.** This review found that all five towns have a considerable banking presence already in place. As can be seen in the below table, all

[83] Irish Rural Link Strategic Plan
[84] http://www.cso.ie/en/releasesandpublications/er/lr/liveregisteroctober2017/ and Irish Rural Link Strategic Plan

five towns are currently serviced by a credit union and a branch of each of the four largest banks (AIB, Bank of Ireland, Permanent TSB and Ulster Bank).

Figure 22: Existing Bank Branches in Proposed Branch Locations for 'Midlands Bank'

Location		Mullingar	Athlone	Tullamore	Portlaoise	Longford
Already Existing Bank Branches	AIB	Yes	Yes	Yes	Yes	Yes
	Bank of Ireland	Yes	Yes	Yes	Yes	Yes
	Permanent TSB	Yes	Yes	Yes	Yes	Yes
	Credit Union	Yes	Yes	Yes	Yes	Yes
	Ulster Bank	Yes	Yes	Yes	Yes	Yes
	EBS	Yes	Yes	Yes	Yes	Yes

Source: Department of Finance

The presence of such high levels of competition in the towns raises a number of questions:

1. Could an Irish local public bank attract the levels of deposits outlined in the business case?
2. Is the market for current accounts already sufficiently competitive?
3. Would an Irish local public bank have the ability to originate sufficient levels of lending to meet the profits forecasted, as outlined in the business case?
4. Would an Irish local public bank have to reduce its lending rates, and increase deposit rates, in order to gain market share?
5. What would the corresponding impact on profitability be of reducing interest rates?
6. Would the presence of an Irish local public bank, or increased competition in respect of interest rates, lead to a situation where it would be unprofitable for the 'non-public' banks to operate in the region, *i.e.* a 'crowding out' of the private sector?

Additionally, it is not clear that the proposed governance structure, where two of the three directors on the management board are also responsible for administering the front and back

office of the branches of the local public bank, is sufficiently robust or independent. It would generally be standard and best practice that there would be an independent board to provide oversight of the management of any bank or other financial institutions. For example, the Credit Union and Cooperation with Overseas Regulators Act 2012 brought in the legislative requirements for the credit unions to have independent oversight as part of their governance structure.[85]

Based on the proposed business plan, local public banks in Ireland will offer a typical range of retail bank services for individual private customers in the region, as well as providing new mortgage lending for first time buyers and SME loans. It also seems that while there will be banking services for retail customers, local public banks will not focus on retail lending in order to allow the credit unions to continue to operate in this space.

It should be noted that the provision of retail banking services, including current and credit accounts and ATMs would significantly add to the cost base of local public banks and it appears that this market is already quite saturated with retail banking already sufficiently well serviced, including also now by the post offices. The cost effectiveness of local public banks could possibly be improved by more focus in terms of what services it should provide and further consideration of the particular niche and gap in banking services it is best placed and needed to fill.

Additionally, in terms of the local public banks acting as on-lending partners to the SBCI, it should be noted that each individual local public bank would have to be thoroughly assessed by the SBCI, due diligence carried out and the SBCI satisfied that there are sufficiently strong underwriting skills on the part of the local public bank. This is the SBCI's standard procedure for engaging new on-lenders.

3.3.2 Financial Analysis of Business Case

As part of the Midlands Bank business case, a financial plan was prepared outlining the financial performance of the bank, including a five-year forecast of the balance sheet and income statement. Following an in-depth review of these financials, a number of areas were identified in the business case that require further analysis, these are outlined below.

[85] See for example the Central Bank of Ireland handbook on governance in respect of the credit unions https://www.centralbank.ie/docs/default-source/Regulation/industry-market-sectors/credit-unions/credit-union-handbook/cu-handbook-governance.pdf?sfvrsn=2. See also https://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf for general principles in respect of corporate governance

Costs estimates

Using the forecasts provided, the five year financial plan envisages that the business would have the ability to achieve a significant year on year increase in the size of the balance sheet. This, combined with net interest margin assumptions that exceed those of the wider banking industry, implies a rapid increase in revenue, with only a modest increase in costs. This trajectory ultimately leads to a wide divergence between revenue and costs, and suggests a fifth year cost to income ratio that is far below that of the Irish banking industry, the European banking industry (on aggregate) and the German Sparkassen.

Attrition rate assumptions

As outlined, the proposal estimates significant growth in the Midlands Bank balance sheet by year five. As with all banks, new lending to customers is offset by the repayment of old loans previously lent to existing customers. This repayment is also known as 'attrition'. The 'attrition rate' is used to measure the rate at which loans are repaid, and is usually expressed as the average number of years it takes for a loan to mature. The current proposal suggests an attrition rate / average maturity that is not in line with balance sheet forecasts. Correcting this reduces the size of the forecast balance sheet by over a third. This reduction in the size of the balance sheet will greatly reduce the levels of net interest income the bank can achieve, and will therefore reduce the overall estimated profits.

The reduction in profits, stemming from the smaller balance sheet, would consequentially have a significant impact on a local public bank's ability to fund itself through retained earnings. It is therefore likely, that local public banks may require more Government support than anticipated to remain solvent.

Interest rates assumptions

A further challenge identified in the Midland Bank business plan centres around the expected yields on new lending that are outlined in the proposal. Although the lending environment has changed somewhat since the proposal was completed, the interest rates on new lending that are being proposed are considerably higher than those being offered by some of the domestic Irish banks. Normalising these interest rates would again materially impact on the expected profitability of the bank, and further reduce capital levels.

3.4 Conclusions on the Midlands Bank proposal

There are a number of merits to the concept behind a local public bank situated in the Midlands. It would not only benefit from utilising local knowledge to provide more focused banking services to local customers, but it would also be able to reinvest profits in the area it serves. Additionally, it allows for the provision of relationship banking to SMEs which can be beneficial in terms of assisting smaller businesses understand and realise their financing needs and grow and develop. Furthermore, it would increase competition in the banking sector in those areas, and would address customers that may currently be underserved by the existing domestic Irish banks.

However, while the proposal has its merits, it is clear that further research is required to understand the economics of the proposed bank. A State supported public banking network should be able to generate sufficient profits to be self-sustainable. The current business case includes unrealistic estimates around pricing, variable costs, and loan attrition. Lower pricing (more in line with market rates), growing variable costs (that rise with lending growth), and accurate attrition rates would greatly diminish the ability for the business to achieve profitability by year 2, as is proposed in the plan.

To achieve the forecast growth in lending, while absorbing these additional losses, would require government support in excess of the initial sum outlined in the proposal. Although profitability is not the key driver in a public banking proposition, any business case that is suggested should have the propensity to be self-sustainable.

In summary, while recognising the positive elements of the proposal, reservations exist as to the sustainability of the proposed Midlands Bank, and further work would be required on the part of the proposers to provide a sufficient degree of comfort in relation to the proposed business case.

3.5 The Kiwi Bank Model

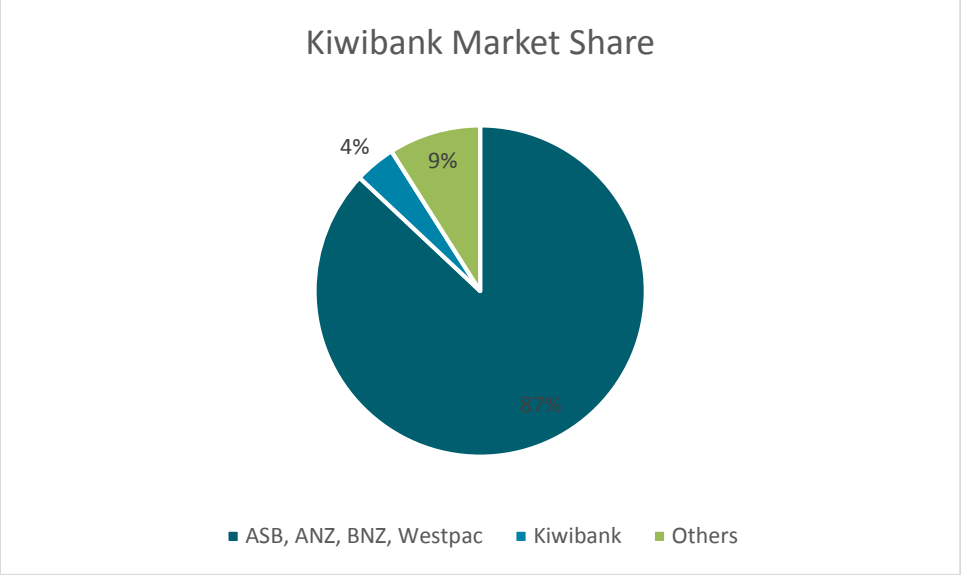
The Kiwi Bank Model

Kiwi Bank was launched in 2002 to create a New Zealand owned alternative to the main retail banks, which were largely Australian owned. Kiwibank is a subsidiary of New Zealand Post, which is state owned. It was established in 2002 with NZ $72.2 million of funds from the New Zealand Government, NZ $6 million in deferred dividends and NZ $1.8million from New Zealand Post. New Zealand Post has a 53% share in Kiwibank.

The New Zealand banking system is highly concentrated. There are 24 registered banks; however, the four largest banks in New Zealand, ASB, ANZ, BNZ and Westpac, control 87% of the retail and commercial banking market (measured in terms of total banking assets).

Kiwibank is the 5th largest bank in New Zealand with 301 branches and over 1 million customers. Kiwibank has approximately a 4% share of the banking market. This is shown in Figure 28, below. To enable Kiwi Bank to grow while meeting capital requirements, New Zealand Post Committed to investing an additional NZ $40 million.

Figure 28: Market Share of Banks in New Zealand



Source: New Zealand Treasury

Kiwibank provides banking services through PostShops (post offices), utilising the already existing branch network and a nationwide ATM network.

Kiwibank has an ethos of sustainability and corporate social responsibility, aiming to support communities, help customers take control of their finances and support the environment.

Kiwibank is state owned and there are no reports of plans for it to be privatised at any point in the future. While it has an ethos of sustainability and social responsibility, it is ultimately a profit-making organisation.

4. Summary of the Responses to the Consultation Process

4.1 The Consultation Process

The Department of Rural and Community Development undertook a consultation process for a period of four weeks in March 2017. Interested parties and stakeholders were asked to provide comments and views regarding a local public banking system in an Irish context.

An invitation to participate in the consultation process was circulated to officials in An Post, the Irish League of Credit Unions, the Credit Union Development Association, and the members of the Irish Banking Federation. All members of the Oireachtas were also informed of the process and invited to submit any observations that they might have.

As part of this process, the Department of Rural and Community Development, along with the Department of Finance met with representatives of Irish Rural Link and the Savings Banks Foundation for International Cooperation (SBFIC), the international development wing of Sparkassen, on a number of occasions. The Departments were provided with a detailed written proposal and accompanying presentation on the Sparkassen model and its potential implementation in an Irish context by SBFIC and Irish Rural Link.

The Department received 16 submissions, all of which have been published on the Department's website (See Appendix 1).[86] The submissions focused on the Sparkassen model rather than the Kiwibank model of local public banking.

[86] https://www.chg.gov.ie/consultation/consultation-on-local-community-banking/

4.2 The Banking Sector

The primary concern of the majority of respondents was a lack of competition in the Irish banking sector and the limited provision of banking services to, and access to finance by, rural Irish SMEs.

Many respondents felt that the Irish economy would benefit from additional finance providers. Respondents noted that there were limited alternatives available to traditional retail banking and the main banks. In particular, respondents highlighted the lack of choice and options in terms of banking and financial services in rural areas.

A number of submissions highlighted the role of credit unions and An Post in the provision of financial services. Some respondents suggested that local public banks could complement the post offices, the credit unions and the Strategic Banking Corporation of Ireland (SBCI) as well as potentially availing of support from the European Investment Bank (EIB).

A number of respondents outlined issues they viewed as causing difficulties in the banking sector during the recent financial crisis. They also noted the effect of deleveraging by banks resulting in a reduced availability of credit.

The offer from SBFIC to provide expertise and advice in establishing a local public banking system in Ireland was welcomed.

4.3 The Sparkassen model

The need for an alternative banking model was reiterated by respondents, who felt that a local community bank could potentially fill a gap between the pillar banks and the credit unions, especially outside of the urban areas. Many respondents were of the view that community banks could work synergistically alongside post offices and credit unions, creating healthier competition within the banking market.

The majority of respondents agreed that the Sparkassen model is a potential solution to the issues faced by the population in rural areas where there is a lack of accessible financial services.

Some respondents provided detailed proposals on how a local public banking model, based on the German Sparkassen, could work in an Irish setting. According to this proposal, local public banks could act as the main providers of financial services for SMEs and farmers. It was also suggested by respondents that local public banks could work closely with Enterprise Ireland, InterTrade Ireland, Local Enterprise Offices (LEOs) and other agencies, as well as acting as an on-lending intermediary for the SBCI to distribute funds to SMEs.

A number of respondents were also of the view that a local public banking system could be set up using the infrastructure of the post offices or credit unions. They felt that this would greatly increase access to banking services for those living in rural areas.

Some respondents were of the opinion that a local public banking system would take too long to establish and that more immediate solutions are required. Others raised concerns that local public banks would focus exclusively on SMEs.

It was also highlighted that the introduction of a new bank could potentially have a detrimental impact upon existing credit unions and instead of creating more competition for customers would simply cause existing credit unions to close.

4.4 Capital Cost

Respondents recognised that substantial capital would be required to set up a local public banking system in Ireland. A concern was raised by some respondents that by restricting local public banks to defined regions it could reduce their profitability and that a national response could potentially be more effective.

4.5 Supply & Demand of Credit

A number of respondents were of the opinion that there is a limited amount of credit available to SMEs and that businesses have difficulty in obtaining loans to start-up or expand.

It was also suggested by some respondents that there was a lack of interest from the commercial banks in lending to SMEs and that potential borrowers were discouraged from applying for credit. Respondents felt that local public banks would be more accessible, take into account the reputation and track record of companies and, more importantly, better understand the dynamics of rural businesses.

The work of the SBCI in providing financing to SMEs was also referred to by a respondent, who noted that the Sparkassen in Germany act as on-lenders for KfW, the German Development Bank. It was also suggested that a new bank could potentially act as a vehicle for distributing European funds to SMEs. However, it should be noted that the SBCI has received funding from KfW and already acts as a conduit for EU financial instruments.

It was acknowledged that the supply of credit is becoming more diverse and that non-bank lending represents an increasing portion of the lending market.

4.6 Role of Credit Unions and Post Offices

A few respondents were in favour of An Post and the credit unions being able to offer a wider range of financial services. In terms of the ability of credit unions to offer greater financial services, this is a regulatory matter under the remit of the Central Bank of Ireland. It was considered by respondents that the ability of the post offices and credit unions to offer more financial services could help create a more competitive banking environment. It was also noted that this could potentially benefit the population in rural areas by enabling more geographically accessible and diverse services.

One respondent noted that An Post already offers a comprehensive range of financial services, including in the savings market. Similarly, some respondents expressed the opinion

that local public banking already exist in the form of credit unions and additional local public banks with a similar ethos was unnecessary.

Respondents noted that credit unions are well established in Ireland and they offer an alternative to banks as well as providing supports to start-up businesses in communities. Another respondent suggested using credit unions to provide local public banking in Ireland. A few respondents also raised concerns that credit unions may not be in a position to compete with local public banks, which could result in some of them closing.

Many of the respondents argued that some of the limitations currently imposed on credit unions should be removed in order to enable them to expand their service offering. For example, loan caps, combined with the savings limit for credit union members were seen as an obstacle to the development of additional financial services in rural Ireland. One respondent suggested that the Government should reform the credit union sector rather than looking at implementing a new banking model given the potential of its assets. It is important to note that regulation of the credit unions is the responsibility of the Central Bank of Ireland and outside of the remit of the Government.

4.7 Business Support Services

The work of the SBCI distributing funds to SMEs was referenced by a few respondents who were of the view that funding is not easily accessible to businesses and mainly distributed through commercial banks. It was noted that a new local public bank could be an additional vehicle to disperse the SBCI funds to local SMEs. The SBCI currently has 7 on-lending partners through which it provides funds to SMEs, 3 of which are banks and 4 are non-bank finance providers.[87]

A lack of awareness on the part of SMEs of Government policy initiative to support access to finance by SMEs, such as the SBCI and the Supporting SMEs Online Tool, was noted by respondents.

[87] http://sbci.gov.ie/about-us/publications

A few respondents also noted that SMEs and start-ups might benefit from mentoring and that this could be provided through local public banks. The Department of Business Enterprise and Innovation and Enterprise Ireland as well as other organisations and agencies offer a number of business advisory support services.

Findings and Conclusions

The Programme for a Partnership Government calls for an investigation of the German Sparkassen model for the development of local public banks that operate within well-defined regions.

The Government is fully supportive of increased competition in the banking sector and would encourage any potential new market entrants to engage with the Central Bank of Ireland further on this matter. However, the findings of this investigation suggest that given the current demand for, and supply of, credit and Government supports already in place, there are few compelling arguments for the State to establish a new bank.

A further rationale put forward for the establishment of a new local public banking model is to provide additional non-financial support to existing SMEs. The Government currently provides numerous business advisory and development initiatives, through a variety of agencies, to SMEs. Work is being undertaken to increase SME awareness of these Government supports. The *Supporting SMEs Online Tool* is the Government's primary resource for information regarding Government supports for access to finance for SMEs. The Online Tool was promoted at a number of events in 2017, including the SFA Annual Conference, the National Ploughing Championships, the ISME Annual Conference, and Taking Care of Business. Additionally, new marketing materials for the Online Tool have been distributed to co-working spaces, enterprise centres and LEOs around Ireland.

It has been recognised that there are a number of positive aspects to, and objectives behind, the proposal by Irish Rural Link/SBFIC. However, in the absence of a business investor, local public banks would seem to require substantial State investment and would most likely replicate SME supports already being provided, for example through the SBCI and Microfinance Ireland, both of which have a mandate to support SMEs, as well as being already heavily financed by the State.

Since lending commenced in March 2015, the SBCI has supported 21,132 SMEs, with loans of €855 million. Moving to develop a new customer facing public banking model would run counter to the policy approach agreed in the context of the establishment of the SBCI where

the State uses on-lenders as the distribution model operating to address market failures on a counter-cyclical basis while creating competition but not being the competition. This model also ensures that the credit risk resides at the level of the on-lender, other than where the SBCI provides guarantees to enhance credit risk appetite at the on-lender level.

Similarly, Microfinance Ireland, an initiative of the Department of Business, Enterprise and Innovation, offers interest-bearing loans directly to SMEs and operates on a not-for-profit basis.

It is not clear that there would be sufficient SME demand for the services of local public banks**.** The results of the latest SME Credit Demand survey conducted by the Department of Finance clearly demonstrate a reduction in applications for credit by SMEs. Just 20% of SMEs have applied for bank finance in the six months to end December 2017, compared to 26% for the same period in 2016.[88] This represents the lowest level of credit demand since the survey commenced in 2011. The survey also clearly indicates that the main reason given by SMEs for not seeking credit is that it is not required, with SMEs choosing to finance economic activity from existing resources. In addition, the number of enquiries made for non-bank finance has been steadily decreasing since March 2013 and now stands at just 6% of SMEs having sought non-bank finance in the period October 2016 to March 2017. These figures indicate that SMEs remain cautious in relation to debt.

It is evident that there is a strong preference at the moment for funding working capital and fixed asset acquisitions through internal funds/equity, if possible. This indicates that there are unlikely to be further improvements in credit demand until business confidence and conditions improve further among SMEs, increasing their appetite to explore growth and expansion opportunities.

Furthermore, there is significant evidence to suggest that the Irish banking sector has become increasingly more stable from a capital and funding perspective, and that relative to Ireland's European peers, that there is additional capacity to meet demand for lending to Irish SMEs and households. There may also be potential for credit unions to be a channel for increased lending to rural SMEs in some cases, subject to the capacity of individual credit unions.

[88] http://finance.gov.ie/wp-content/uploads/2017/08/SME-Credit-Demand-Survey-June-2017.pdf

The SBFIC noted in their appearance before the Oireachtas Committee on Finance, Public Expenditure and Taoiseach that certain Sparkassen in Germany offer mortgage rates as low as 1.1%. They further note that rates are at this level due to the current ECB rates, the fact that their customers continue to place deposits even at very low rates of return and the local competition in the market. However, it is important to note that Sparkassen have a German funding model, meaning that their funders, such as KfW, can source funding at almost German sovereign levels, which is substantially lower than the Irish equivalent.

During the consultation process, SBFIC laid out the prudent nature of lending practiced by Sparkassen whereby a relatively long period of saving by a customer would precede a loan offer. There is, therefore, no expectation that Irish local public banks would offer a substantial change to the current mortgage market.

It is proposed that local public banks would target retail customers. With the development of the new An Post current account, there is the potential for An Post to create additional competition and increase the availability of banking facilities throughout rural Ireland. Credit unions are also well established in this field and are regional and community based.

The proposal for establishing a local public banking system in Ireland would appear to come at a significant cost to the State. SBFIC have proposed a cost of €170 million to set up 8-10 Local Public Banks. Based on the financial analysis of this cost estimate, as set out in Section 3.3, it is likely that the cost will be higher. There would also be the risk that the State would have to guarantee any losses. While the Government, out of necessity, had taken significant shareholdings in the main banks during the course of the global financial crisis, policy is now clearly directed at divesting of that shareholding in the coming years.

Investing in Local Public Banks runs contrary to present Government policy on State ownership of financial institutions. It is important to consider the consequences and implications of this risk and liability to the State of taking on the cost of a local public banking system, particularly from a financial stability perspective. There is no guarantee that if there were further economic difficulties that the State would not be called upon to bail out local public banks. It is not outlined in the proposal how this could be avoided with certainty or how the success of the Sparkassen in Germany during the global financial crisis and recession would be replicated. It is also important to note that the Sparkassen are only offering their

services in terms of consultation on their model rather than operating these proposed banks, so therefore, it is not possible to import their funding model into an Irish context.

To avoid any potential crowding-out, further consideration should also be put into how a public bank would affect the existing bank branches that operate in the Midlands, or any other, region. Based on the analysis of the cost for establishing local public banks in Ireland, based on the Sparkassen model, it does not seem possible for local public banks to achieve a significant increase in levels of lending to Irish SMEs or to substantially reduce the rates of mortgages to Irish retail customers.

Additionally, the proposed model for local public banking in Ireland, based on the German Sparkassen model, does not appear to address or encompass the significant developments in, and disruption to, the banking sector in Ireland brought about by FinTech.[89]

In conclusion, these findings indicate that the implementation of a local public banking system financed by Government should not be pursued, at least not in its current form. Nevertheless, the two Departments recognise that the concept of local public banks has its merits and both Irish Rural Link and SBFIC believe that it has the support of many key stakeholders, including private investors. In this regard, there is no impediment to Irish Rural Link and SBFIC engaging with the Central Bank of Ireland, the credit union sector, An Post or any other private sector entity on their proposal. It is open to them to progress their proposal on this basis in a manner that does not involve State funding.

The Department of Finance will continue to engage in a dialogue with Irish Rural Link and other stakeholders. The Department will also continue to consider whether existing or new policy measures and initiatives could better serve the needs of Irish SMEs, including rural and regional businesses, and retail customers generally. Additional developments and emerging trends, such as FinTech should be kept under review for their potential to develop initiatives that could deliver credit in a more effective and less costly manner. Furthermore, the Department of Finance will commission an independent external evaluation of other possible ways in which the local public banking concept could possibly be promoted in Ireland. This

[89] Financial technology (FinTech) is the new technology and innovation that aims to compete with traditional methods in the delivery of financial services.

could, for example, be by means of an online platform, through leveraging the SBCI, the credit union movement or other means.

It is important also that SMEs are aware of the range of financial and non-financial supports available from the Government and its agencies and in this context, work is being undertaken, and will continue, to increase SMEs' awareness of these supports, including for those in rural areas.

Rural and regional development and supporting Irish SMEs to create employment and economic growth remains an important Government priority and a significant overall policy consideration. In this context, the Department of Rural and Community Development will continue to focus on rural Ireland and rural and regional development generally, and will provide a coordinating role across Government in relation to this priority area.

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Appendix 1 – Responses to Public Consultation

1. Submission by An Post
2. Submission by BRUI
3. Submission by CUDA
4. Submission by Fianna Fail
5. Submission by Green Party
6. Submission by ILCU
7. Submission by IPU
8. Submission by IRL
9. Submission by John Bolger
10. Submission by Joseph Glynn
11. Submission by Karen Jura
12. Submission by Kevin McSherry
13. Submission by Labour Party
14. Submission by PBFI
15. Submission by Rural Independent Group
16. Submission by Sinn Fein

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Response to the invitation to consult from the Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs in relation to the potential for the development of local public banks and for a new model of community banking in Ireland.

Background

An Post, Ireland's national postal service, is a major commercial semi-state organisation providing a wide range of services which encompass postal, communication, retail and financial services.

It is one of Ireland's largest companies directly employing over 9,000 people through its national network of retail, processing and delivery points.

An Post has the largest retail network in the country with over 1,100 outlets, most of which are operated by independent retailers who employ circa 3,000 people. In many cases the Post Office is the only outlet in a community offering financial services.

An Post is a trusted financial intermediary and has significant experience in offering a wide range of financial services, such as State Savings, money transmission, bill payment, transactional banking and Foreign Exchange services through its retail network. Through these activities An Post has developed a unique insight into systems integration, consumer behaviour and constructing commercially viable propositions for financial services. Over many years An Post has developed a highly sophisticated and secure financial transaction processing system that is designed to cope with high volumes of transactions (over 120 million in 2016 to value of €15bn).

Development of local public banks.

The vision being proposed is that up to 10 Regional Public Banks, based on the German Sparkassen model, are to be set up in Ireland supported by a Central Service Provider and using the Post Office network as service outlets. We understand the primary target market for these regional banks to be the SME sector. The model in Germany currently has 50 million customers and the Savings Banks cover all segments of retail – related banking.

An Post's view is that there is room for additional suppliers of financial services to the SME sector in Ireland and is broadly welcome of any additional stimulus that assists the sector.

An Bord/Board: Noel Adamson, Thomas Devlin, Dermot Divilly (An Cathaoirleacht)/Chairperson), Jennifer Loftus, David McRedmond (An Príomhfheidhmeannach/Chief Executive), William Mooney, Ed Murray, Tom O'Brien, Martina O'Connell, Niall Phelan, William Scally, Lorraine Tormey, James Wryan.
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However, we would need to explore in detail with the other Stakeholders, Government, Regulators and the representatives of the German Savings Bank to understand that the model being proposed will address the shortcomings that are evident in the market place and that it can be introduced in a timely and cost effective manner.

An Post believes that the model may take substantial time to implement and will face challenges on a number of fronts. Substantial capital will be required by its shareholders to support a lending model. It is unclear at this juncture how the entity will be regulated and restricting lending within regions to funds raised within the relevant region may cause local balance sheet challenges and be less effective than a national response. It is also not clear what the guarantee system will be for customer deposits.

Other alternative and more flexible lending models are emerging in the Irish SME marketplace offering propositions complementary to and competing with traditional bank secured lending. This is being facilitated by the emergence of significant investment in fintech which offers more adaptable technology solutions to those of legacy system infrastructures, which when combined with private investment funds negates the need to raise funds from retail depositors.

Should Government wish that the Sparkassen model be explored in more detail with all relevant parties, such as Regulators, Government and the proposers of the project, An Post subject to appropriate contracts would be very happy to discuss and to engage in the provision of transactional banking services, similar to services we provide currently to a number of commercial banks.

Community Bank (Kiwibank model)

Kiwibank, owned by the New Zealand Post Office Network provides a comprehensive range of financial services to the personal market in New Zealand. In this regard it is a bank akin to the Pillar Banks in Ireland and offering similar services. Kiwibank has been in operation since 2002.

In looking to such a model for An Post it is important to note the range of financial services An Post Group currently offers its customers. An Post already has 17% of the household savings market in Ireland through the State Savings business operated on behalf of NTMA. It also has a very high market share in the personal Foreign Exchange, Money Transmission and bill payment sectors. The table below shows the products currently available through An Post and the post office sector.

Savings	Investments
Home Insurance	Car Insurance
Life Assurance	Car Loans
Foreign Exchange Cash	Foreign Exchange Debit Card
Western Union Global Payments	Money Transmission Services
Business cash lodgements	Bill Payments
Prize Bonds	Gift Vouchers

In addition An Post has invested significant resources to enable the launch of a current account in the Irish market in quarter 2 of this year. This account will have full transactional capability for SEPA electronic payments and provide its customers with a MasterCard debit card for everyday purchases.

An Post continuously reviews other financial service products and propositions to bring to market. Over the next 12-24 months in addition to its current suite of financial services products the following propositions will be evaluated;

Pensions	Mortgages
Personal and SME lending	Credit Cards

The current model operated by An Post consists of partnering with best in class providers of each product line. Our strategy is to continue with this model as we believe it gives An Post flexibility to react swiftly to changes in consumer demand and allows us to take advantage of the rapidly changing fintech environment.

In executing our strategy we mitigate the cost of a model such as Kiwibank, avoiding significant capital investment by leveraging the regulatory and technical competence of global partners.

Conclusion

An Post is currently providing a significant range of Financial Services to over 1.7 million customers through its network of over 1,100 Post Offices and online channels. An Post will continue to add new products such as our Current account and other propositions outlined above through partnership models. In doing so An Post is providing similar services to consumers and businesses as Kiwibank is doing in New Zealand, without expending significant capital investment and maintaining flexibility in product design.

An Post

29th March 2017

1. Submission by BRUI

SUBMISSION BY BRUI TO CONSULTATION ON COMMUNITY BANKING.

1. INTRODUCTION.

BRUI is a new trade union with a real focus on matters critical to the SME sector. Those matters range from dealing with the national preferences given to Multinationals and international corporations, to very mundane and day to day issues like unfair, outdated and effectively unlawful commercial rates. However, another fundamental matter affects BRUI members and SMEs in general across the country, ie. access to proper sources of credit funding for everyday business activity. Anyone operating in the real economy for the past couple of years, knows too well, that most every business is effectively functioning as a source of credit to fellow traders. There is effectively zero credit from the commercial banks, in too many instances. This is having an enormous impact on businesses and their owner operators. It is not unusual now to have to wait 2 and 3 months for simple payments for goods and services, and yet business owners are expected to manage this system, be profitable, pay labour and associated costs, and provide credit cover for each and all. SMEs are under enormous pressure, and without any fear of contradiction, it is reasonable to say that about 80% of all SMEs are hanging on by strings, including a large % of farmers.

In recent times, government established the SBCI. This has served a purpose for those businesses which have been able to access funds from it, but BRUI is quite certain there are many businesses totally unaware of such funding, regardless of cost of such funding, or the possibility of accessing it. It should be said that funds from SBCI, even if somewhat (1.5%) cheaper than from other sources, is still not cheap, in the context of the miserable "deposit" rates available in recent times...It would seem that, there must be a better system, a system which provides sufficient volumes of credit, proper supervision of same, and particularly sufficient mentoring for start-up and troubled businesses.

Funding from the ISIF is another government initiative. However, it is clear that this funding may have destinations outside of the productive economy, as its mandate is to promote economic activity.

When BRUI was set up, it was done in the consciousness of three certain facts;

A. That there is a better system to support the SME sector.
B. That "official Ireland" doesn't even recognise any distinction between the productive economy, and that part of the economy, which is totally dependent on that productive economy..
C. That commercial rates, what they are, why they exist, what they are based upon and how they are enforced, prove items 1 and 2 above.

2. **BRUI intends to force a serious debate on the nature of the productive economy**.

The productive economy needs to be defined and then properly supported. There are many aspects to this discussion , including the matter of APPLE, Corporation tax, the role of the IFSC, GDP, GNP, FDI, Commercial rates, commercial farming and family farming, Urbanisation, property prices and property business as a false driver of the economy; however, possibly the most important part of that debate must be focused on the nature of Irish commercial , so-called pillar banks, and how they have failed the Irish people and very particularly have failed the SME sector, a fact well evidenced by the role of the same commercial banks in creating the property bubble and subsequent crash, all that went with that, and how they are now withdrawing from the wider community, and abandoning the SME and indigenous industrial sector. That the state should have had to improvise with such funding as that through the SBCI and the ISIF, is clear and ample proof that the commercial banks are simply focused on profit and collateral collection, in return for administering the credit of the nation. That vulture funds, foreign and local, now have as much as €200bn of Irish debt, a major share of which comes from the SME sector, is further proof of how small businesses have been treated. Clearly, "official Ireland " has very little interest in SMEs and in the productive economy which provides about 70% of all jobs.

3. **BRUI fully supports the call for a network of community/Publicly owned banks, to serve the SME sector.**

BRUI have engaged with the PBFI in extensive discussions, re the development of a network of community banks. The establishment of that network is a core objective of BRUI, and BRUI will work to make such a network a reality as soon as possible. BRUI are fully aware that PBFI have made an extensive proposal to this same consultation process, and BRUI fully supports that proposal. However, BRUI has its own very clear mind on the need for a banking service to serve all small businesses and local and indigenous industries. BRUI is particularly aware of the shortage of credit amongst small businesses, and is aware of the fact that the German Sparkasse system is in fact the back bone of the very successful German economy. In coming to terms with the deficiencies in the Irish commercial banking market, as it applies to the SME sector, much knowledge has been garnered about how these commercial banks are focused only on profits, whereas the German Sparkasse are there to support and drive business, to provide proper mentoring and to provide due care to business owners so as to make business work, rather than produce bubbles, and collect collateral in lieu of credit. BRUI fully appreciates the necessity for a network of community type banks, with very specific governances, working on a "not strictly for profit basis" to drive and support small Irish businesses, thus creating an entirely new framework for local and indigenous industry. These new, properly designed community banking entities, will, in time, obviate the need for further forced emigration of young Irish, who, in recent times have been expected to survive on the yellow pack and zero hour contract principles, while false property prices prop up a failed commercial banking industry. What makes those property prices false, is the simple fact that families and young and even middle aged couples cannot afford very basic houses, evidenced by homelessness, vulture funds,

evictions, and people sleeping on the streets. If houses and housing is not designed and provided for those in the productive economy, then BRUI asks how the non productive sector can expect to be catered for in the economy. That non productive element includes over paid civil servants, the IFSC, the legal profession and others. It is more than outrageous that dysfunctional elements of the wider public service can be quite comfortable with salaries several times that of seriously stressed SME owners and workers, and those other civil servants on basic salaries; even pensioned elements of that same civil servant sector are better catered for than that same productive economy. That the APPLE controversy can even arise speaks volumes. One top economist , has estimated that multinational corporations are paying about €8 billion per annum in tax as opposed to approximately the €20 billion which they should be paying; that speaks for itself., but begs the question if there are other "apples" in that same basket. Then there is the matter of the IFSC, and whatever it stands for? BRUI asks, how can there be approximately €150 billion in assets/loans held in SPVs, which, while having almost zero regulation, can use charitable status to "stay tax neutral". Is charitable status not the gift of the minister for finance? Then there is the €430 billion approximately of securitised loans, held by FVCs, with slightly more regulation, but, like SPVs offer almost zero to the Irish economy, except false GDP prices, and unexplained "Irish debt" to the tune of possibly €1 trillion; it seems that these IFSC entities provide to the Irish economy, no more than set up fees, which are utterly miniscule in the context of the sums of monies which they supposedly manage and trade in. While SMEs are intimidated on a daily basis re commercial rates, and honest hard working people can have their cars removed from them for spurious matters of car tax and NCT test certificates, official Ireland has presided over an IFSC business racket, the extent of which is not even imaginable by those same ordinary folk. Johnathan Sugarman's exposé re UNICREDT speaks volumes. BRUI, as representatives of the productive economy, demands that the productive economy be given the respect it is due, and given necessary primacy over and above the non productive sectors, typified by those who lavish on unearned income.

4. BRUI supports the call for an Post to become the primary administrator of mortgage credit.

BRUI further supports the call for An Post, in the form of An Post Bank, through the network of 1130 post offices, to become the primary administrator of mortgage credit, at minimal administrative charge to house buyers. This will bring enormous benefits to families, to the productive economy, and will relieve much pressure on salaries and costs of production in the real economy of Ireland, which is now the third most expensive country in Europe to live in. It must be clear to most every man woman and even child, that the so-called pillar banks, and their already disappeared allies (since 2008) have totally abused their control over credit, and that total control must be withdrawn from them. So as to clarify some aspects of information which ground the BRUI position, BRUI makes the following points.

A. Considering that all new bank loans and mortgages are in fact based solely on the individual's "promise to pay", otherwise known as a promissory note, how can it make sense that , while depositors, unsecured lenders, are receiving generally about .6 of 1% in interest per annum, while at the same time, new credit is being issued to new mortgage holders at 8%; if the 8%

were used as a guideline multiplier of deposits lent back to the new mortgage holder, then that would represent about 13 times the deposit rate; in fact, as we now know, new mortgages are new credit based on the promise to pay, and in light of the fractional reserve practice operated by commercial banks, as they have done for centuries, and using a ratio of 10;1, does this not mean that these same banks are leveraging their deposits to the tune of about 130 times . Is this not wanton abuse of privilege by the commercial banks; i.e. the state-gifted privilege of control over the credit of the nation; the above is happening while some businesses are having to draw down ISIF funds at up to 14%. This year, 2017,is the ninth year after the crash, and to date nothing whatever has been done to correct the fundamentally flawed banking system which has no "not strictly for profit" element whatever, whilst in Germany the big commercial banks have only 12.5% of the market there, and 70% of banking services are delivered through public banks of one sort or another.

B. The property bubble has been fully re inflated, but the only salaries to have been raised are those in the non productive sectors of the economy. This makes no sense. While BRUI appreciates ,perhaps better than most, how difficult the Irish economy is now and has been in recent years, official Ireland seems only interested in promoting the FDI aspect of the economy and at the same time playing footsie with vested interests and powerful trade unions. The indigenous productive economy is again being sidelined and sacrificed, with the building sector providing the greatest part of a falsely labelled recovery. BRUI is determined to create a new awareness of the absolute requirement to drive and promote local and indigenous industry, wherein political foolery and corporate interests can never be allowed to dominate again. One property bubble in 20 years is more than enough. Basing and scoring the current growth figures for GDP, on figures from the IFSC, and on the building industry, must constitute more than mistake. BRUI, asks, if official Ireland can be so captured by corporate propaganda and vested interests, that nothing whatever has been done to even analyse the nature of Ireland's banking crash, never mind fix the problem. A term known as "wearing the green jersey" was coined about 10 years ago, or more, whereby banks could do B&B loans of billions, in order to fool all and sundry, even themselves. As of March 2017, the commercial banks, which remain in Ireland since the crash, are now effectively more than 30% more "systemically important " than they were in 2008, and that being the excuse used to bail out the banks, are we not facing a rehash of 2008/9/10?. BRUI is determined to create community owned banks to drive and support productive Ireland, and to restore credit management to its rightful place, i.e. to communities.

C. SMEs have been ignored, abused and sold out to the vultures; Are the vulture funds simply executors of commercial banking corruption. In light of the never ending stream of regulation which is being foisted on SMEs, BRUI suggests that similar supervision be exercised upon the IFSC, and the commercial banking industry. This submission does not propose to expose or explore every single aspect of the non ethical commercial banking industry, but some points must be made.

(1) . The fact that securitisation and similar practices, crafted by top legal firms for the benefits of certain Banking industry elements, could ever be established, clearly informs interested parties, that political capture is a sine qua non to allow such unethical racketeering to be

conducted. It seems that no mortgage holder has been able to find the essential separate contract by which he/she/they gave up power of attorney to their bank, which in turn used that POA to engage in securitisation practices. The absence of any sense of ethics in how these practices were engineered, begs many questions as to who and what has been supervised or regulated. SPVs are unregulated, and yet at Q4 2014, held €150 billion loans /assets, while FVCs held €432Bn. Despite the housing crisis, homelessness, evictions and troubled mortgage holders, this element of the banking industry's business has not been exposed, and for some extraordinary reason was effectively blocked from exposure in the courts.

(2) The fact that banks can tout and advertise themselves as lenders smacks of deception at best. BRUI understands that banks simply administer credit, a phenomenal gift from the state, in return for which the state and the general public have received wholesale abuse of privilege.

D. Payments systems. While commercial banks have full control over the payments systems in this state, it is perfectly true that banking executives can tell government authorities "there will be no cash in the cash machines tomorrow", as was done in September 2008. In light of the cost of the bail out of those same banks, BRUI strongly believes that all payments systems be brought under state control, and administered through the new community bank network Central Service Provider .or other. It seems less than reasonable that the government and the general public can ever again be held to ransom with their own monies by the current money masters.

5. An Observation on the Irish Mortgage Industry

a. Why do Mortgage total payments end up being from approximately 1.5 times the original sum, to more than 2 times the house price, a price which in many cases in 2017, is several times its actual value to the productive economy.

b. Example 1. €100k borrowed for 25 years @3.5% amounts to a total re-payment of €150,187.

(Note that we are currently in a historically low interest rate period; however those lowest interest rates apply mostly to people lending their money in the guise of deposits, as unsecured lenders to the banking industry; Individuals and others, such as the Credit Unions are receiving approximately .6%. on their loans to the banking industry.)

c. Example 2. €100k borrowed for 25 years @7% amounts to a total payment of €212,033 or over 100% interest. Some new mortgages in 2016 are carrying 8% interest rate.

d. Why do banks require so much interest on peoples' own credit?

A1. Is it for lending depositors' money? Banks don't lend money; they simply administer credit. No money is transferred from elsewhere for your mortgage; the credit is simply typed up on a computer keyboard. It is newly created credit.

A2. Is it because the bank is at a loss of the earning potential on its money while you have it borrowed? As we learned, one's mortgage is one's own credit typed up on a computer (created) and is not taken or borrowed from anywhere else. The bank is at no loss.
A3. Is it for setting up the mortgage contract and credit facility? That would be more than excessive.

A4. Is it for the collecting of an automated monthly payment? No comment!

As we can see the exploitive mortgage system is an huge charge by the banking industry on home buyers, and it is the single biggest lifetime financial commitment for most every family. People are spending the best part of their lives working to pay the exorbitant interest charges to the banking industry.

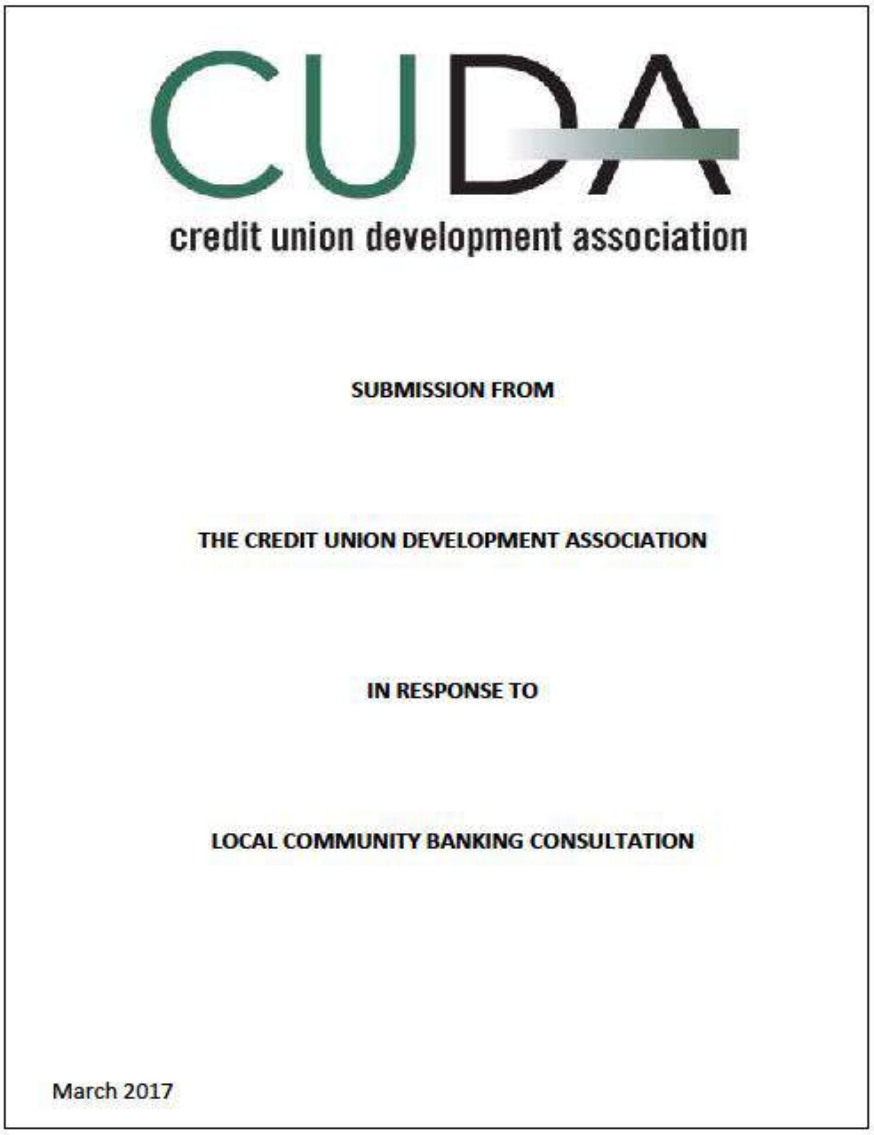
6. **How much abuse can the EME sector take?**

BRUI needs only to look to the Sunday paper of 26March 2016, to read Jim Power's expose of NAMA, at the expense of hundreds of businesses and ultimately at the expense of the tax payer, which is ultimately the productive economy. The suggestion in Jim Power's article that up to €40 billion may be lost by NAMA beggars belief, on top of the bank bail-out. Add to the NAMA losses the thousands, so far not even recognized, of small businesses and their owners, across Ireland, who were thrown to the vultures, because they were not big enough to be in NAMA; that latter group has been carrying a large volume of losses, most of which were not of their own making, and which can never be recovered. Suffice it to say, that in every town and village there are several and many who are in that category.

Conclusion.

BRUI has as one of its core objectives, the establishment of a network of community banks, at county and or regional level, to support and drive the indigenous productive economy, working on a ''not strictly for profit basis'', putting credit

control into communities where it belongs, and delivering ethical services to their communities, with transparent, ethical contractual arrangements, and without reliance on collateral collection, securitization and speculative practices. BRUI fully supports the call for An Post, through its network of post offices, to become the primary administrators of mortgage credit, at zero interest rate, but rather for an administrative charge payable over the lifetime of the mortgage. BRUI further makes it clear, that definite restrictions must be put in place, to ensure that peoples' and the nation's credit may only be used for productive purposes.


CUDA
credit union development association
SUBMISSION FROM
THE CREDIT UNION DEVELOPMENT ASSOCIATION
IN RESPONSE TO
LOCAL COMMUNITY BANKING CONSULTATION
March 2017

Introduction

CUDA (Credit Union Development Association) is a **progressive representative & development association** working on behalf of member-owned, member-directed and professionally managed Credit Unions in Ireland.

CUDA was developed in 2003 and is the only legally incorporated representative association for Credit Unions in the Republic of Ireland. Under the two categories of membership, owner members and affinity members, and with a growing membership, CUDA works with over 40 Credit Unions. This includes some of the largest Credit Unions in the Republic of Ireland. Member Credit Unions have over €5.2 billion in assets and serve a membership of **over 1 million.**

We have worked with Credit Unions throughout the last few years in relation to developing an evolved business model that is bespoke and fit for purpose for the membership of which Credit Unions serve and the regulatory environment in which it operates. We have omitted information and data from this Submission that is of a market sensitive nature. We would be happy to elaborate further on these issues or on any points made in this Submission. Please do not hesitate to contact us in this regard. Contact details are listed at the end of this Submission.

General Commentary

There is no question that banks deserve an enormous amount of criticism for the situation in which we now find ourselves. They made many fundamental errors in managing the credit, liquidity, and market risks in their balance sheets; by pursuing aggressive growth through acquisition; and by failing to invest in serving their customers fairly and well, which is the ultimate foundation of sustainable banking and, significantly, the cornerstone of the success of the credit union movement worldwide.

It is also true that Banks were not alone in this: there were clear failures around the western world by Governments, who passed laws that increased irresponsible lending, and by Regulators, who failed to identify or address growing risks in the balance sheets and business models of banks in the lead up to the crisis.

We have learnt during the financial crisis that a prerequisite for growth and job creation is to experience financial market calmness, with interest rates and asset price volatility eliminated and critically that credit prudently flows to businesses and households.

Since biblical times, ordinary people have resented the power that money lenders have over their lives. It's almost a primal instinct. When banks get it wrong, the implications for the economy and for peoples' lives are severe. This is why the banking crisis was so damaging on not just the economic front but also on a reputational level. It has stirred some very deep-seated feelings among the public. Irish households have experienced approximately nine years of the fallout from the financial crisis and while some are starting to benefit from economic recovery, the experience has driven the primary consumer need – value for

money. We believe People want to experience more, even when they have less to spend. For consumers of financial services, this requires a business proposition with three core elements:

1. Functional
    a. Staff competencies
    b. Services
    c. Products
    d. Channels

2. Emotional
    a. Values and principles
    b. Culture and Identity
    c. Relationships – in good times and in tough times

3. Rational
    a. The total economic cost of purchase

Credit Unions have a total of €16bn in assets[1]. It starts to become evident that the success of credit unions is enabled by the distinct competitive advantage in meeting this consumer need, acting in the best interest of that particular credit union's current and future members.

Specific Commentary

We concur with the argument that Ireland will benefit from community banking services that will drive our indigenous economy and create a platform for rural revival, and indeed urban stimulation. With 281 credit unions and approximately three million members credit unions are very well positioned to deliver this service.

Credit unions in this country, indeed throughout the world, come in all shapes and sizes. They serve every kind of social and economic community, ranging from rural villages to big cities, and from the employees of government departments to those of businesses large and small. Currently their business model varies, while their membership and assets range from the relatively large to the small.

In common with other co-operatives they differ from other businesses in three specific ways:

1. A different purpose: The primary purpose of co-operatives is to meet the common needs of their members, whereas the primary purpose of most investor-owned businesses is to maximise profit for shareholders.
2. A different control structure: Co-operatives use the one-member/one vote system, not the one-vote-per-share system used by most businesses. This helps the co-operative serve common needs rather than the needs of a handful of individuals. It is also a way of ensuring that people, not capital, control the organisation.
3. A different allocation of profit: Co-operatives share profits among their member-owners on the basis of how much they use the co-operative, not on how many

[1] Central Bank of Ireland Financial Conditions of Credit Unions: 2011 – 2016, February 2017.

shares they hold. Most co-operatives invest a significant portion of their profits in improving service to members and promoting the well-being of their communities.

Each credit union's specific business model – the scope of services it provides and the means it employs to deliver those services – is chosen by its democratically elected officials to best meet the needs of its own, unique community of members.

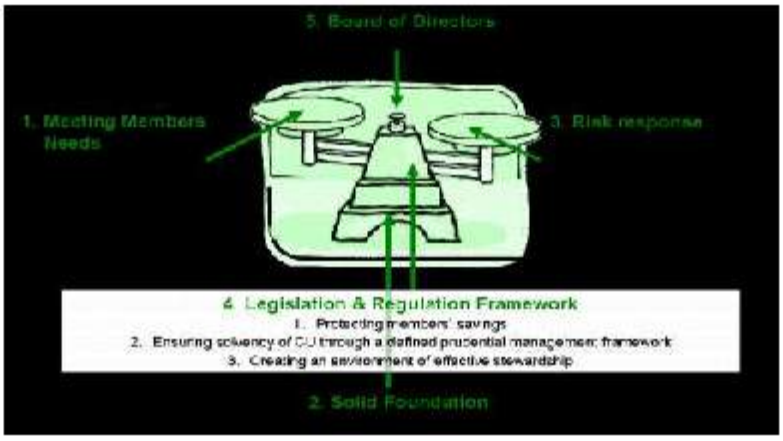
The fundamental wisdom behind the enormous diversity of member-centred decisions those elected volunteers have made over the years is demonstrated by the fact that Ireland has the most credit union members per capita of any major country in the world.

The diversity that follows from local ownership and control is the fundamental reason why credit unions are the most successful social enterprise in Irish history. It is why, for many Irish citizens, the credit union is their first choice for financial services. Credit Unions have ranked No. 1 in consumer satisfaction by the Customer Experience Ireland Survey (CXi) for each of the last two years it has conducted its research, and this ranking, the Report states, is due to the *"unblinking focus on the customer"*.

Because they are owned by their customers, credit unions have earned the trust of those members – by never ripping them off, by taking the time to know them as individuals, by carefully guiding and advising them, by never letting them down when times are bad, and by supporting the particular needs of their communities.

But while the core credit union difference must be nurtured and maintained, it hardly follows that change isn't necessary. Social movements can stagnate and decline when they fail to accept the need to change how they do business, even though their basic principles and ethos are timeless and should never change. CUDA has taken a leadership role in advocating the changes that are essential for credit unions to thrive in the future, and interestingly will deliver the benefits that the advocates for public \ community banking are seeking.

Just as we urged the Commission to recognise the need for a proportionate prudential and regulatory mechanism that fully weighs costs and benefits and that respects the decisions that credit unions make for themselves, it is equally vital that the credit union difference is not lost through a "one-size-fits-all" business model being imposed going forward. The CUDA vision of member governance, legislation and government supervision for the future is shown graphically below:



There are many frameworks to assist credit unions develop a sustainable business model, and these tend to concentrate on three key components: value proposition; governance; and financial structure. The value proposition, as described above, is at the heart of any strategy as it defines the member needs that the credit union will meet. Governance, as the Registrar as highlighted on many occasions, is the most important component of strategy as it focuses on ensuring an effective regulatory and legislative framework; skilled leadership in the credit union; appropriate organisation design and a genuine commitment to the credit union values, compliance, internal audit and risk management. The final component, financial structure, ensures the credit union understands and manages its business financials.

While the banking industry, thanks to Government support, re-emerges from its fragile state, there will be undoubtedly those who advocate less competition, rather than more, in the financial services sector. No doubt they are right if, by competition, they mean competition to finance unneeded shopping centres, housing estates and apartments in Eastern Europe. Or competition in making imprudent investments to pay above-market deposit rates. Of course we need a robust regulatory regime that leaves no room for the sort of reckless risk-taking we saw during the last decade.

The on-going consolidation and market retrenchment of Irish banks means that the 'for-profit' banking sector will be offering less choice to consumers. With fewer banks on the high street, there is a real danger that ordinary people, particularly the ever growing number on the margin, will have less access to affordable credit and to low-cost financial services. In this new environment, Government should positively encourage lively competition that is aimed at giving ordinary people the most convenient, personalised, accessible, and affordable financial services that modern technology can deliver and that prudence [and sound regulatory oversight] can allow.

That means that consumers today have an even greater need than they did five years ago for a strong, not-for-profit co-operative financial system, which they own and democratically control and which operates exclusively for their benefit. That alternative is the credit union.

The public policy case for credit unions is the same as it has always been.

Accordingly, we reject any suggestion that credit unions should be recast into an entirely different new role as some kind of social finance provider or that they be relegated to acting as only a "poor man's bank."

Likewise, we also reject the other extreme, which some appear to be advocating, that credit unions fundamentally restructure themselves into a highly centralised system, with local credit unions operating like branches of a vertically-integrated central body. While that Continental model has worked well for co-operative banking systems in places like The Netherlands [Rabobank] and French-speaking Quebec [Mouvement des caisses Desjardins], it took over a century for those systems to evolve into their present state. Theoretically, perhaps, Irish credit unions might evolve similar structures in the far future, but it would be culturally and practically a disaster to try installing this model over the short run here.

The Irish model of locally owned and controlled institutions is not broken, and it has remained the best choice for credit unions in other English-speaking countries that share similar economic, political, legal and social values. The experience of large and very

successful credit union movements in North America and Australia demonstrates that even relatively small credit unions can operate effectively by sharing back-office services, provided they have the right legislation and supervision.[2]

We have a clear vision that sees credit unions in Ireland capable of being the financial hub of their community, offering real choice to people and being a meaningful alternative to banks, supporting owner managed and small businesses, and also supporting start-up business, while continuing to meet the needs of individual and community financial needs.

We are doing this by building on the qualities that have made credit unions so successful and earned members trust, and loyalty, by being there for them and consistently being on their side whether they are simply trying to cope with the financial challenges of life or to achieve their ambitions for home ownership or financial security. The key however is that unless credit unions are allowed to compete, members will continue to be deprived from best value. At CUDA, we have made real progress helping credit unions strengthening their governance by complying with the absolute barrage of new legislation and regulation, while they also continue to provide services albeit within the 2016 regulations that imposed severe caps on the business levels that can be done.

Our work, through the Solution Centre, includes supporting credit unions to provide home loans to their members in a fully compliant and prudent manner – something that those who are building such capabilities should be allowed to more of. Credit unions need legislative and regulatory assistance:

1. There is a wonderful opportunity for Government to enable credit unions contribute to solving the housing crisis by making a simple amendment to Section 6 of the Credit Union Act 1997 that will enable credit unions to collectively lend to Approved Housing Bodies and Local Authorities for social and affordable housing projects.

2. The Central Bank can enhance credit union regulations to:
    a. Substantially extend lending limits – where capabilities and financial strength exist as short-term lending alone is inadequate for survival;
    b. Urgent need to enhance the classes of investments [draft regulations submitted to the Registrar of Credit Unions] to allow credit unions invest in funds for housing related purposes.

It is also important to remember that preserving a separate legislative structure for credit unions underscores and memorialises Government's commitment to the vital public policy of preserving the unique ethos and philosophy of credit unions.

[2] In the U.S., about 7,500 credit unions with over $960 billion in total assets serve more than 91 million people. Although their average size is inflated by about thirty with assets exceeding a billion dollars each, fully half of all U.S. credit union have assets of less than $20 million. On average, those median-sized and smaller U.S. credit unions have only about 1,350 members apiece. Credit Union National Association, "U.S. Credit Union Profile". Although every year scores of them choose voluntary merger (typically into larger credit unions) the rest have survived many learned predictions that they would all disappear long ago.

Notwithstanding the lip service today paid universally to the ideal of preserving credit union uniqueness, we fear that uniqueness will be steadily chipped away over time, and ultimately lost, unless clear steps are taken and constant vigilance maintained. In that regard, form and symbolism can be every bit as crucial as substance, and we would caution against any attempt to morph credit unions into some bank based super structure.

We look forward to any queries you may have in relation to our Response. We are happy to provide any additional information that you may require. Again, thank you for the opportunity to comment on this consultation local community banking.

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Fianna Fáil submission on Community Banking

Introduction

Fianna Fáil believes that the Credit Unions have perfect potential to provide public community banking to Irish citizens as they are already present across the country. It makes sense for the credit union movement to be considered rather than introducing a new additional Public Bank model. We believe this would be prudent.

As a Party we have been brought forward many new suggestions about how access to funding could be improved for businesses and unfortunately there has been very slow progress.

The Community banking Model or the German Sparkassen model is an interesting concept. The intention is to fill a gap between the Credit Union movement and the Commercial Banking Sector in order to provide credit to the local economy and the local SME sector. We would not be satisfied with any model that would squeeze out or jeopardise the credit union movement.

The suggested Local Public Banks would not have profit maximisation as one of their goals. Instead any modest "profit" obtained from the operations would not be distributed in terms of dividends but would instead be diverted to the local economy for social purposes.

The Local Public Banks would have specific local area that it would be responsible for and would not loan or invest in another jurisdiction. The local focus of this model is very appealing especially given the closure of commercial bank branches throughout the country, Ulster Bank being the latest with the closure of 22 branches.

Fianna Fáil is deeply concerned that the Local Public Bank will not only fill the gap but wedge the gap and push the Credit Unions out of communities.

Credit Unions are currently spread throughout the country in local communities both rural and urban. Credit Unions need regulatory changes to be introduced allow them to become far more active in business and mortgage loans. We have been requesting this for years.

As a Party we want the Credit Union movement to be enhanced not destroyed and confined to the history books.

FIANNA FÁIL
THE REPUBLICAN PARTY

Common Bond – Credit Unions

Credit Unions currently operate a Common Bond that is defined in law. This Common Bond defines the ownership of the Credit Union. A Credit Union that is community based and is owned by the members that are in a common geographic location or a common profession. Credit Unions are democratic in nature as each member has one vote. This means that the common good is served through democratic means by the members of local community.

Fianna Fáil believes that the Common Bond system used by the Credit Unions is ideal for serving the local community. Credit Unions are in perfect position to provide the Public banking model as they are not entirely profit focussed. They are designed to provide local banking services to the local community.

From a legal and regulatory point of view there is little space for a Community Banking Model without pushing out the Credit Union.

Local Emphasis – Credit Unions

The vast majority of Credit Unions have are community based and as a result have a focus on the local community. They are looked upon by and large as pillars of the town or village, alongside the post offices and the newsagent.

The owners/members are from the local community and so have the interests of the local community in mind. This translates through to the management of the Credit Union. From the point of view of the local community Fianna Fáil believes that the Credit Union is uniquely placed to fill this requirement.

Credit Unions are able to make commercial loans to SME's and community loans to local initiatives including:

a) sport and recreation;

b) culture and heritage;

c) the arts (within the meaning of the Arts Act 2003);

d) health of the community;

e) youth, welfare and amenities; and

f) natural environment;

Shared Services – Credit Unions

The Credit Union movement also has a unique shared service model. Currently for smaller Credit Unions throughout the country, they can avail of the Irish League of Credit Unions. The ILCU provides services from audit functions to risk analysis. This is very useful for a small Credit Union that does not have the expertise on certain areas.

Also larger Credit Unions have the expertise themselves and do not require these services to be shared. Again, from this point of view there does not seem to be a space to be filled.

Reform required for Credit Unions

Fianna Fáil believes the Credit Union movement is uniquely positioned to provide banking and credit to the local community and local SME's. However, there are clear issues with the Credit Union regulations that threaten its existence if not addressed.

If the Community Banking Model is introduced now before this reform happens it will only seek to accelerate this process and we will potentially lose the Credit Union movement entirely.

The key areas of concern facing Credit Unions at the moment are what they can invest in and how much they can lend out and for what length of time. If Credit Unions are to survive then these regulations need to be reformed radically. We would support this being done rather than a new and added public banking model being put in place.

Credit Unions are losing money because they are heavily restricted in terms of larger and longer term loans. Unfortunately Credit Unions are prevented from entering the mortgage market in a meaningful way. This means that they have a large amount of cash and have nowhere to lend and earn a return.

The remaining cash that is not loaned out must be invested. Regulation needs to be changed to allow Credit Unions to do this as it is too restrictive at present.

As a result of the restrictions in place, Credit Unions find it very difficult to earn a return and survive. A form of tiered regulation is required whereby bigger Credit Unions can extend greater longer term loans while smaller ones will be restricted to smaller loans.

With reform a group of smaller Credit Unions would be able to pool their resources and lend or invest in the local community and local SME's to a greater extent.

Perhaps once reform has been implemented in the Credit Union sector allowing Credit Unions to evolve and survive, then the concept of Community Banking may be revisited if the need presents itself.

Currently, we believe in Fianna Fáil, if Community Banking is introduced now, it will only succeed in accelerating the demise of the Credit Union movement.

We do not believe this will be good for the country and for local communities around the country. The focus right now should be on reforming the Credit Union sector so that it can survive and continue to serve the local community, economy and business.

Appendix – regulations on Investment and Lending for Credit Unions

INVESTMENT RESTRICTIONS

Classes of Investments

25. (1) A credit union may only invest in euro denominated investments in the following:

a) Irish and EEA State Securities;

b) accounts in credit institutions;

c) bank bonds;

d) collective investment schemes;

e) shares of and deposits with other credit unions;

f) shares of a society registered under the Industrial and Provident Societies Act 1893 to 1978.

(2) The Bank may prescribe from time to time, in accordance with section 43 of the Act, further classes of investments in which a credit union may invest its funds which may include investments in projects of a public nature. Investments in projects of a public nature include, but are not limited to, investments in social housing projects.

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LENDING RESTRICTIONS

Concentration Limits

12. A credit union shall not make:

(a) a commercial loan, where such a loan would cause the total amount of outstanding commercial loans of the credit union to exceed 50 per cent of the credit union's regulatory reserve,

(b) a community loan, where such a loan would cause the total amount of outstanding community loans to exceed 25 per cent of the credit union's regulatory reserve, or

(c) a loan to another credit union, where such a loan would cause the total amount of outstanding loans to other credit unions to exceed 12.5 per cent of the credit union's regulatory reserve.

Large Exposure Limit

13. (1) A credit union shall not make a loan to a borrower or a group of borrowers who are connected which would cause the credit union to have a total exposure to the borrower or group of borrowers who are connected of greater than €39,000 or 10 per cent of the regulatory reserve of the credit union.

(2) Where an exposure to a borrower or group of borrowers who are connected exceeds the limit set out in paragraph (1), the credit union must hold the amount of the exposure that is in excess of the limit in a realised reserve, separate from the regulatory reserve of the credit union.

(3) The requirement specified in paragraph (2) shall not apply, to exposures existing at the time of commencement of these Regulations, for a period of 2 years from the commencement of these Regulations.

Maturity Limits

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14. (1) A credit union shall not make a loan to a member:–

(a) for a period exceeding 5 years if, were the loan to be made, the total gross amount outstanding in relation to all loans with more than 5 years to the final repayment date would exceed –

(i) 30 per cent of the total gross loan book balance outstanding at that time in relation to all loans made by the credit union, or

(ii) if the Bank so approves in writing, 40 per cent of the total gross loan book balance outstanding at that time in relation to all loans made by the credit union, or

(b) for a period exceeding 10 years if, were the loan to be made, the total gross amount outstanding in relation to all loans with more than 10 years to the final repayment date would exceed –

(i) 10 per cent of the total gross loan book balance outstanding at that time in relation to all loans made by the credit union, or

(ii) if the Bank so approves in writing, 15 per cent of the total gross loan book balance outstanding at that time in relation to all loans made by the credit union.

(2) The Bank may impose on approval, for the purposes of subparagraph (a)(ii) or (b)(ii) of this Regulation, any condition that the Bank considers appropriate.

(3) A credit union shall not make a loan to a member for a period exceeding 25 years.

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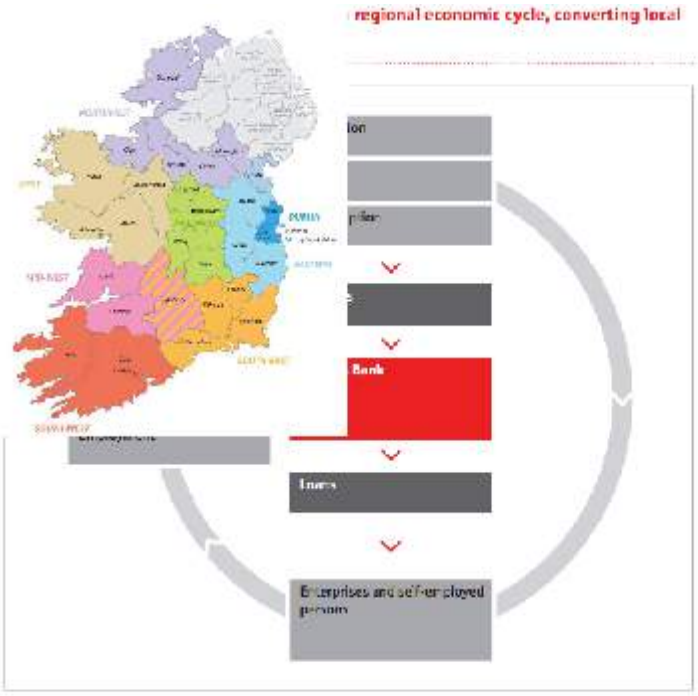

Green Party Submission on Local Community Banking.

Thank you for the opportunity to submit on this matter.

This submission will argue for the establishment of 8 Regional Publicly Owned savings banks to cover the whole country.

It will argue that there is a space in credit supply between larger scale bank lending and the consumer lending being provided by the credit unions and that the presence of regional banks operating on a strict regional savings and lending principal will provide a strong base for the development of SMEs in the regions and for sustained growth of the disparate regional economies around the country.

The submission will argue that the case for regional savings banks owned by stakeholders rather than shareholders and held in trust by Local Authority groups within the region, meets current credit needs most directly. In the very long term regional banks create a financial bedrock to enterprise that cannot be sold off opportunistically as has happened with the ACC and ICC in the recent past.

Trusteeship, residing with a public body, combined with the focus on profit and customer service rather than simple profit maximisation, will also provide a counter cyclical and counter balancing presence in the Irish Banking landscape. Prof Nyberg highlighted in his Banking Report how the entry of overseas banks in the 90s created risky behaviours of the pillar banks. We argue that the corollary of this is that prudential lending based on enterprise propositions rather than asset values by public banks will calm behaviour during a potential boom and mitigate the impacts of a downturn or a credit squeeze during a recession.

Finally the submission will warn against a confused Government response to the financing needs of the SME and regional economic sector.

The temptation to introduce a model to solve tangential problems, for instance in the Postal service, must be avoided.

There are a number of banking models and some have community characteristics but we argue that none can provide the resilience required as we seek to repair our banking sector.

Strict adherence to the regional savings and borrowing principal along with sustainable long term public ownership, it has been shown in Germany through the Sparkasse Banks, can deliver a quality banking service which will reintroduce high quality relationship banking to the SME sector, manage risk appropriately, protect against the contagion of a bank failure and contribute to the public good through its social corporate commitments.

Furthermore experience in Germany also shows that Development funds such as the KfW funding received by Ireland from the German Development bank in 2014 can most readily and speedily be delivered to the productive economy through regional savings banks.

What is a Savings Bank?

Savings banks promote saving, provide banking services to all citizens and have a public mandate to be non discriminatory, to strengthen competition particularly in rural areas and to contribute to the common good, for instance through finance for Local Authority social inclusion initiatives.

Economic and social responsibility go hand in hand .

Savings Banks are publicly owned with trusteeship vested in Local Authority groups covering the designated regions and with populations of at least 250,000.

The banks are held in trust and cannot be sold. The Local Authorities have no shares and have no role in the day to day business of the banks which shall be run by licensed professional bankers.

Local Authorities instead ensure that the public service mandate of their local savings bank is fulfilled.

The Regional Principal.

Savings banks such as we are proposing, operate strictly with the geographic region within which they are established. This is known as the Regional Principal.

For a viable public bank a population base of at least 250,000 people is required.

In cities like Dublin and Cork this is not an issue but in less populous parts of the country it will require Local Authority groups co operating and agreeing to become the trustees of the bank.

The regions themselves can roughly equate to the PIGS 3 regions contained in the following graphic.

This already happens in a number of Local Authority functions, for instance in waste management.

The Regional Principal ensures that the Savings Bank in a region operates very close to its own market, knows its customers and uses that knowledge to balance risk well. The regional principal also ensures that the bank takes a long term perspective and is prepared to invest in the customers financial literacy, if such training is needed to ensure that risk is reduced and the loan is fully repaid.

A spin off from the establishment of Savings Banks that are resourcing their borrowers financial expertise, is that of SME customers become better business people which over time will make the regional economy more robust and the banks more efficient.

Support from the Sparkasse.

As our pillar banks shrink their retail network and even sizable towns are left with one or no bank, there is a unique opportunity for Government to now legislate for the establishment of a public savings bank network. In contrast to the trend we can see with the existing banks, Savings Banks modus operandi and indeed their profitability requires them to be embedded in communities and in the local and regional economies.

The Savings Banks of the sort the Green Party are proposing, will be a worthy Irish solution to a very serious Irish problem, that is weak regional productivity and poor access to opportunity outside the major urban areas.

No single measure will address the decline of the regions and the dominance of the Dublin economic region. We note however that the New National Planning Framework 2040 process recognises and seeks to address this imbalance with an alternative city strategy and we welcome this.

We would argue that now, therefore, is an ideal time to accompany this new spatial goal with a mechanism that allows proportionate credit flow to the regions and in this regard the Savings Bank model has a track record in Germany that can be replicated here in Ireland.

Indeed the Green Party understand from a recent presentation given in Leinster House and from other contacts, that the Sparkasse through its Foundation for International Cooperation (SBFIC) is actively available to all relevant parties to advise and actively support the establishment of a Savings Bank network in Ireland along with a Central Service Provider. We understand that the Foundation has submitted to the Dept of Rural Affairs(DAHRRGA) and the Dept of Finance, a "Proposal for Cooperation and Financial Support" from design phase through set up to final implementation. This is an opportunity we view as important and unlikely to be available to the Government indefinitely. Such support will immeasurably improve the prospect of a successful roll out of an immensely complex process.

It will help address key questions for the founding stakeholders, on business planning, funding for core capital, shared services across the group, risk management, recruitment and training and Central Bank licencing.

It is doubtful if such a project could be undertaken without this extremely substantial offer of support from a Banking group, that wishes to see the Savings Bank model expand within the European Union.

Regional Development.

Access to credit is key to the health of any economy.

Credit supply is diversifying and non bank lending is now a significant portion of all lending .

However questions about the long term sustainability of such lending are yet to be answered and significant weaknesses are apparent .

The Green Party asserts that bank lending with all of the rigours that accompany a loan will remain the dominant source of credit outside certain sectors, Fintech being an obvious one.

As banks withdraw from medium sized Irish towns something that was again highlighted last week by the announcement by Ulster Bank that it is closing 22 branches and in so doing damaging the economies of places like Carrickmacross, Edenderry, Ballymote and Ballyhaunis, places that are now potentially hitting a tipping point from which they may spiral downwards.

The space that we say is available to this new entrant is, in lending terms, in the €50k to €500k loans. These will be business loans for real economic activity not for property speculation. Currently SMEs have an insufficient supply of working capital or finance for investment. We say this, aware that application numbers are still low and drawdown of SBCI funds has been slow. Our intelligence suggests that pre-application processing has diminished the numbers of applicants and that banks lack the appetite or capacity to manage proactively new loans, particularly smaller loans to businesses that require strong relationship support . Start up support is also difficult to access and centralised risk analysis mitigates against start up finance which may well be supported by local market conditions. This is an area where a local bank clearly scores strongly

In contrast Savings banks actively seek out such lending opportunities, manage the risk, support the client through the lifetime of the loan and fuel local economic cycles.

This is the experience in Germany, where the savings banks (Sparkasse) have been SMEs most important source of finance for decades, currently providing half of all business loans and 70% of trade loans. They also on-lend 40% of all KfW development Bak loans into local economies and local businesses across three themes, start up, innovation and green investment. Under all three headings the future of the regions and, we would argue, the success of a new spatial plan for Ireland will require reliable and sufficient credit to these key areas of economic activity. Furthermore, we could expect very rapid growth in all three given the choke on credit all three have experienced for the past decade and the demand for innovation as the economy reshapes to a low carbon model requiring local innovation and highly localised supply chains in energy, food transport and other key goods and services.

A Virtuous Circle

In addition this economic activity will be driven by local savings!

Deposits are returned to the local economy by way of local business loans and so the wealth of the region is retained and not simply leaving the area with every loaf of bread sold, or every kilowatt of energy consumed.

Savings Banks see themselves as a part of a regional economic cycle, converting local deposits into local loans

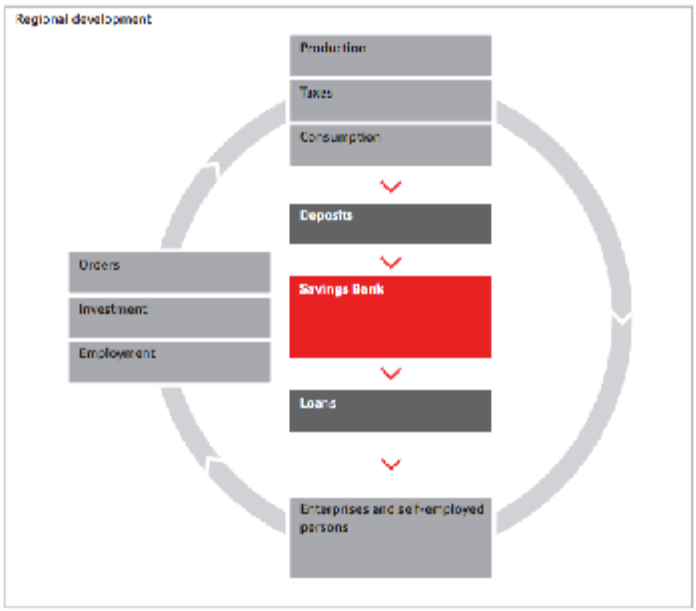

Figure 1 From "Inside the Savings Bank Finance Group".
(https://www.dsgv.de/_download_gallery/Englisch/Inside_the_Savings_Banks_Finance_Group2016.pdf)

A region that is retaining its wealth can retain its people better, and indeed attract those who have left, back to the area. Young people see hope for themselves at home and we finally reverse the death by population haemorrhage and the so called brain drain whereby the innovators and entrepreneurs leave the locality .

We say that Ireland is ripe for such a transformation in its banking profile and that the Sparkasse model which has evolved is designed to operate and thrive in rural and regional settings and is likely to succeed here.

For this reason we would urge the Departments concerned to back this very significant policy intervention which will put a sustainable credit flow into places which otherwise won't attract investment.

Current interventions and supports compensate for poor access to opportunity and employment but at heart they appear to accept the inevitable and ongoing decline of the regions which in economic terms are less and less relevant with Dublin now providing 50% of our GDP

Furthermore we would urge the Departments to take hold of the opportunity being presented by the Proposal for cooperation and support being offered by SBFIC.

It is our view that circumstances will never be as favourable as they are now to work in partnership with the German bank in the development of a new network of Irish banks.

Other developments in community lending and banking.

Clearly this initiative will add to competition for savings and so will be seen as a threat by the Credit Unions.

The Green Party view is that the target and scale of lending to be offered by the Savings banks will be different to the Credit Unions. The lending will be to business and will be very much based on the quality of business planning by the prospective borrower. This is not something that CUs have done traditionally and while some larger CUs are looking for new opportunities to lend it seems to us unlikely that they will be able to develop the required banking expertise in the way that a new retail banking entrant can.

It is also the case that opportunities for cooperation will abound between the CUs and the Savings banks, including areas such as shared payment services and training, deposit facilities for CU savings and so forth. Ultimately the relationship between the two will be competitive when it comes to savings and cooperative in realising efficiencies and achieving a return for depositors based on investment in the local economy. We would expect CU savings to increase as people benefit from a more robust local economic performance.

With regard to An Post, we would see opportunities to deliver additional services in banking which could help the on going diversification process as revenues from postage continues to decline.

Legal Considerations, Founding Principals

Clearly the introduction of a new Banking model in Ireland will be a complex exercise and one that requires very significant commitment from the Department of Finance, the Houses of the Oireactas and in terms of licencing and regulatory oversight, the Central Bank.

Broadly though the Green Party support the analysis of the legal options outlined by Prof Eoin O'Dell in his contribution to the Public Banking Seminar held in the RDS on 16th November 2016 .

What is most critical is that the key characterisitics of the Sparkasse model, are enshrined in founding legislation and consequent regulation.

The Local Government Act 2001 and the Local Government Reform Bill 2014 will require significant amendment if Local Authorities are to be trustees.

It would represent a very significant expansion in the functions of Local Authorities but one they are able to handle particularly now, given their statutory role in economic development since 2014, the integration of Local Enterprise Offices into council structures and the role of Enterprise SPCs in Council policy formation.

The Board of Trustees therefore could include positions like CE of the LA, the CE of the LEO the Chairperson of the Council, and other relevant stakeholders from public bodies and wider social and business sectors.

It is important to stress that such trusteeship in no way infers that politicians would be involved in banking. The executive Board must be made up of Professional Bankers.

Core Capital.

The GreenParty see this as a critical early question and one that must be answered.

We see a significant fit between the proposal and the funding priorities of the European Investment Bank and would see the need for early engagement and agreements in principal to provide core capital See link http://www.eib.europa.eu/projects/priorities/sme/index.htm

Conclusion.

The Green Party welcomes this consultation exercise.

Our submission is a non technical one but we believe nonetheless makes a stateable case for this highly significant initiative.

Given the strong support for the initiative which has come from the SBFIC we see a unique opportunity to introduce a true 3rd force in Irish banking .

The offer from SBFIC to cooperate and advise the Irish Authorities, made last November at the RDS by Heinrich Hassis, the Chairman of the Board of the SBFIC, to back this initiative 100% in Ireland, is one we must avail of. It will meet the banking needs of the SME sector and create a wealth generating and wealth retaining banking model in Ireland and especially in those parts of Ireland where the retail banks are withdrawing services.

We do not accept that the move to on-line banking will fill the void left.

We need professional banking services in communities, tailored to regional needs and profiting along with the regions through lending to viable businesses in the region.

The commitment in the Programme For Government to fully investigate the Sparkasse model is one we trust is given in good faith and that a decision will be made on the basis of the facts of the investigation.

There are always excuses for inaction and no doubt there will be plenty in response to this Public consultation.

But we would urge the Department to take a forward looking approach, to build an alliance with the Sparkasse and deliver a transformative action that will leave all other initiatives for rural and regional Ireland in the shade, will shake up the Banking landscape in every city and town in Ireland and deliver capital at the same cost as businesses around Europe currently enjoy.

Mark Dearey,

Green Party Finance Spokesperson.

29th March 2017

Trade and Representative Association
Business Support Services
Monitoring and Supervisory Activities
Movement-Wide ICT Services

IrishLeague of CreditUnions
IRELAND

28th March 2017

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Mr. Stjohn O'Connor,
Principal Officer
Post Office network and Broadband Installation Unit
Department of Arts, Heritage, Rural, Regional and Gaeltacht Affairs
23 Kildare Street,
Dublin 2
D02 TD30

Dear Mr. Stjohn O'Connor,

Thank you for your invitation to make a submission to the German Sparkassen model for the development of local public banks. Credit unions in Ireland have delivered a community based, not for profit and democratically led cooperative movement for over sixty years. The Irish League of Credit Unions (ILCU) are 390 credit unions across the island of Ireland. There are 297 credit unions in the Republic of Ireland affiliated to the League and 93 in Northern Ireland. Our 3 million members in the Republic of Ireland represent in excess of €14 billion in assets, with €12 billion of those assets held in member's savings. Loans represent €4 billion, and the loans to arrears ratio at 8.3% (which is less than half that of banks now, where non-performing loans represent 17.3 % of all loans, even after banks outsourced their bad loans, to a bad bank). We are a well-capitalised, deeply rooted, national network of financial cooperatives, well respected in the communities we serve.

Your investigation of the Sparkassen model arises from the Programme for a Partnership Government. Similarly, that programme has commitments to credit unions and there is a further important commitment in the Confidence and Supply Arrangement between the Government and Fianna Fáil.

The Confidence and Supply Arrangement provides to:

- Develop a strategy for the growth and development of the credit union sector.

And the Programme for Government to:

- ...investigate with all stakeholders how Credit Unions can support social housing through Voluntary Housing Services (Year 1 Action)
- To investigate what role the Credit Union movement can play in the development of new housing, the Department of Finance will engage with the League of Credit Unions to help them develop their housing proposals. (First 100 Days Action)
- Requesting An Post and the League of Credit Unions, as well as any other interested stakeholders, to investigate and propose a new model of community banking.

The Programme for Government also promises:

"We are also committed to ensuring that credit unions benefit from regulatory support, in order to respond to the needs of a changing economy. Specifically we support:

- The rollout and extension of the Personal Microcredit Scheme, which is providing simple microloans to members and helping to combat the use of moneylenders.
- Assisting credit unions in making successful applications to retain members' savings in excess of €100,000 (CP88), recognising the independence of the Registrar of Credit Unions.
- Asking the Central Bank of Ireland to instigate a review of the continued appropriateness of the savings limit within a year of the formation of the new Partnership Government.
- Working with the Registrar of Credit Unions at the Central Bank to gradually lift current lending restrictions as appropriate, including for housing.
- Credit unions' move towards more electronic and online services, including the rollout of debit cards and enhanced online banking service.
- Asking the Credit Union Advisory Committee (CUAC) to conduct a review, and report by the of June 2016, on the implementation of the recommendations outlined in the Report of the Commission on Credit Unions

The core point we would make at this juncture is that there needs to be an integrated, whole of government delivery model, for these commitments across the board. What we see are disparate reviews and processes, but very little actual delivery. We are further deeply concerned about the lack of an overall joined-up policy approach led by the Department of Finance, co-ordinated with a joined-up regulatory approach from the Central Bank. On Tuesday 21st March the League together with other credit union representative bodies were invited to appear before the Oireachtas Committee on Finance, Public Expenditure and the Taoiseach. I attach here our opening address, to a lengthy discussion. It has a lot to say about progress to date, and the processes underlying the lack thereof.

If this is the background to your examination, we do understand it is being undertaken in good faith and with an open mind. In that regard, please be assured of our cooperation. It seems, that what is at stake is the obvious need to provide both an alternative model of financial services to the banking sector and that this is underlined by a virtual return to the Irish banking duopoly of the past. The staggering extent of concentration in the Irish market can be seen by the fact that 95% of all new loans to SMEs are issued by just three banks. Financial concentration is one issue, and a rapidly changing banking model is another. That model is characterised by branch closures, and increasingly access via call centres only. What is progressively lacking is access to effective decision makers, by people. This has a profound effect on communities, and is a significant contributory factor to societal alienation. Key financial decisions, are essential to people's lives. They need to, and deserve to be able to, access the people making these decisions locally.

Credit unions have a local network. We are accessible and we are robustly capitalised. We are culturally engrained in communities and in the Irish financial landscape. We are ambitious and very determined to do much more. To that end and in advance of the last general election we set out our stall, succinctly in a short document called Six Strategic Steps. It outlined the steps we could take, and the measures needed to assist us.

Building on that overarching agenda we have since published detailed policy documents on delivering credit union funds for social housing and SMEs. In relation to social housing, our approach was the result of a specific invitation in government policy; *Social Housing 2020* published in 2014. While progress on those issues to date has been nil, on another issue better progress has been made. In partnership with the Department of Social Protection the *It Makes Sense Loan* micro-lending scheme has been rolled out nationally, and is having a beneficial effect for the most marginalised and financially excluded.

As your process begins, we look forward to hearing from you on behalf of government in conjunction with the financial regulator, what the intended policy goals and key deliverables you are aiming for are. We believe we are well positioned, indeed very probably best positioned, to work with government and the regulatory authority to develop an already deeply rooted network. We have actively sought such a partnership over a very long time, and hope that the process you are leading represents substantive engagement now.

Yours sincerely,

Ed Farrell
CEO

CC Address by ILCU president to the Oireachtas Committee on Finance, Public Expenditure and the Taoiseach
ILCU proposal on funding for social housing
ILCU proposal on funding for SMEs
Six Strategic Steps

Ms Laure Garcia,
Post Office Network & Broadband Implementation Unit,
Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs
7 Ely Place,
Dublin 2,
D02TW98.

29th March 2017

By Post and e-mail to: laure.garcia@ahg.gov.ie

Dear Ms. Garcia,

The Irish Postmasters' Union welcomes the investigation, by the Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs, of a new model of community banking that could provide a suite of banking services through the Post Office Network to include a comprehensive range of financial services, from personal loans and bank accounts to credit cards, business banking, and insurance.

The Union, conscious of the immediate threats facing the Post Office Network, is anxious that this work be completed as soon as possible as the Network is in imminent danger of collapse.

Yours sincerely,

Ned O'Hara,
General Secretary

Irish Rural Link Submission on Local Public Banking

March 2017

Contact Seamus Boland/Noel Kinahan

Introduction and Overview

The impact of the recession and austerity budgets that followed is still being felt in many rural areas and have not seen the same level of economic growth or employment as more urban areas have over the past couple of years. Although unemployment in the state has fallen to just over 6%, in the Border, Midlands and West regions, it still remains an average of 8% and 9.4% in South East Region[1]. Small and Medium sized companies are the backbone of rural areas and are a key employer. However, since the financial crash, a lack of credit circulating was the main factor affecting communities as SMEs in particular tried to survive the economic downturn. The closing of many rural bank branches compounded the feeling of abandonment by the banks in these communities.

Although there are slight improvements in lending by pillar banks to SME's, lending market remains highly concentrated with the combined market share of the three main lenders currently at 93%[2]. With these limited options of credit available to SME's, they are extremely vulnerable to any shocks, either within these three main lenders or external factors, such as a financial crisis. The continued closure of bank branches, limited services and opening times of existing branches and more services moving to phone or online banking, it is becoming more and more difficult for SME's, particularly in rural areas, to access banking services. The Ulster Bank recently announced the closure of 22 more of their branches over the next few months, with the majority of these closures occuring in rural towns and villages. A recent report in the Irish Times highlighed the difficulties and frustrations by SME's about the level of interaction they have with their banks and the services they provide to business customers. They feel they no longer get the level of support or can build relationships with the bank, like they used to[3].

The impact of Brexit has already being felt among many SME's, especially in the agri-food sector and along the border. They are vulnerable to the uncertainties surrounding Brexit and may find it even more difficult to get the necessary supports from the traditional banking system.

Current Government Strategies

The Government has developed strategies that aim to improve the lives of people living in rural areas, increase employment and quality of jobs in all regions of the country and develop regions outside of Dublin to ensure that the country grows as a whole.

[1] CSO Quarterly National Household Survey Q4 2016
http://www.cso.ie/en/releasesandpublications/er/qnhs/quarterlynationalhouseholdsurveyquarter42016/
[2] Central Bank (2017) SME Market Report 2016 H2
http://www.centralbank.ie/stability/Documents/SME%20Market%20Report%202016H2.pdf
[3] Irish Times 24th March 2017 *"Banks say SMEs get good service – not so say firms who feel abandoned"*
http://www.irishtimes.com/business/work/banks-say-smes-get-good-service-not-so-say-firms-who-feel-abandoned-1.3018905

'Realising Our Rural Potential' Action Plan for Rural Development

In January 2017, the Taoiseach and Minister for Arts, Heritage, Regional, Rural and Gaeltacht Affairs launch a Plan for Rural Development which outlined over 270 actions to help improve the lives of those people living in rural Ireland and encourage others to move or return to live in rural areas. The Action Plan is based around five key thematic Pillars, each of which has a series of objectives and actions namely; support sustainable and vibrant rural communities; support enterprise and employment; maximise our rural tourism and recreation potential; foster culture and creativity in rural communities and improve rural infrastructure and connectivity[4].

National Planning Framework Plan Ireland 2040

A 20 year National Planning Framework Plan will be developed in 2017. It is envisaged that this plan will provide the framework for future development and investment in Ireland. One of the main aims will be for the development of effective regions to ensure future national growth can reach every person and area in the country[5].

Regional Action Plans for Jobs

Between June 2015 and January 2016, the Department of Jobs, Enterprise, and Innovation published eight Regional Action Plans for Jobs, aimed at raising employment levels in the regions and facilitating them to achieve their economic potential. The primary objective of these plans is to have a further 10 to 15 per cent at work in each region by 2020 and to ensure the unemployment rate of each region is within one per cent of the State average. One of the main objectives is to increase the number of entrepreneurs/start-ups in each region by a minimum of 25%[6]. The importance of sustainable lending to SME's must be recognised in aiming to achieve this objective.

Local Public Banking can be a vital instrument in achieving the aims and objectives of each of these strategies and IRL welcome that the Government are now going to investigate a local public bank model as stated in The Programme for Partnership Government.

> *"We will thoroughly investigate the German Sparkassen model for the development of local public banks that operate within well-defined regions".* (2016)[7]

and Action 23 of the Action Plan for Rural Development will

> *"Investigate the potential of the German Sparkassen model and the Kiwibank model for the development of local public banks that operate in defined regions".*[8]

[4] Dept of Arts, Heritage, Regional, Rural and Gaeltacht Affairs (2017) *'Realising our Rural Potential: Action Plan for Rural Development'* http://www.ruralireland.website/Rural-Ireland-Action-Plan.pdf
[5] Dept of Housing, Planning & Local Government *'Ireland 2040: Our Plan'* http://npf.ie/
[6] Dept of Jobs, Enterprise and Innovation (2015-2016) *'Regional Action Plans for Jobs'* https://www.djei.ie/en/What-We-Do/Business-Sectoral-Initiatives/Regional-Action-Plans-for-Jobs/
[7] Programme for Partnership Government (2016) http://www.merrionstreet.ie/MerrionStreet/en/ImageLibrary/Programme_for_Partnership_Government.pdf

Local Public Banking

Irish Rural Link (IRL) is the national network of rural community groups, representing over 1200 community groups and over 25,000 individuals committed to socially, environmentally and economically sustainable rural communities. As a result of decreased funding and credit lending to SME's after the financial crash and throughout the recession, IRL began to investigate whether there were other successful, more sustainable models of banking which could serve communities better. Research was carried out in conjunction with part-time university graduates as well as its own internal researchers during the course of which IRL identified the German Savings Bank (Sparkasse) banking model as being one which had been unaffected by the banking crash. IRL also found this model attractive due to its public mandate and the fact that its success was built on a strict regional principle which ensured the success of local SMEs in each bank's region and created a more uniform economic development across the country as a whole. Subsequently IRL developed a working relationship with the SBFIC to explore how this model could be introduced in Ireland and the SBFIC. The wider Sparkassen Group has expressed support for such a model to be established in Ireland to bring added value for regional development. IRL concludes, following in-depth research, that by incorporating the Sparkassen successes and characteristics including stakeholder values this model would act as a banking force for the "real economy".

Workings of Banking Model

This model of banking covers the 26 counties nationally and works on a regional basis following key principles of the "Framework for the Development of Regional Enterprise Strategies." The model is not based on a theory but on an existing regional working banking model bringing prosperity by creating a virtuous cycle of money circulating in the local economy. This model of banking invigorates local communities particularly in the area of SME's and the Agri sectors that allow commerce to thrive.

Contribution to Regional Growth and Employment

Focusing on SME lending will have a direct positive influence on the level of regional employment. Finance for working capital and investment will allow local SMEs to grow and attract outside investors to the region.

Farming and SME business is almost by definition local business. The business model of a Regional Public Bank offers the suitable product mix and efficient lending procedures for the rural business. Its credit risk management takes into account relevant local business information, including "soft" information which enables prudent and fair risk management and allows including start-up finance and finance for innovation into the business proposition of the lender.

[8] Dept of Arts, Heritage, Regional, Rural and Gaeltacht Affairs (2017) *'Realising our Rural Potential: Action Plan for Rural Development'* http://www.ruralireland.website/Rural-Ireland-Action-Plan.pdf

Irish Rural Link, Moate Business Park, Clara Road, Moate, Co. Westmeath
Tel: 090 6482744 | Fax: 090 6481682 | email: info@irishrurallink.ie | Web: www.irishrurallink.ie

The level of client information and business expertise due to the decentralised location of each Regional Public Bank are prerequisites for a successful assignment of public promotion funds to support the rural development.

Recommendations:

Irish Rural Link proposes the following recommendations:

1. **Nationwide Network**
   IRL recommends a nationwide network of 8 to 10 Local Public Banks which are managed independently but with an identical business model working under identical management principles. Initially 2 or 4 pilot banks are envisaged with a rollout of the entire network developed over the next 5 years.

2. **Centralised Service**
   A centralised service unit would provide internal services, including risk management and internal audit and will house a self-supervision unit for the new public banking system.

3. **Specific Business Model**
   Local Public Banks will follow a specific business model that is different from traditional commercial banking i.e, stakeholder driven. The new public banks will have to be economically viable but they will not pursue profit maximisation. It will adopt a business model similar to the German Sparkassen model, which is the key promoter of regional development and SME finance in Germany. It will work on the principle "local deposits for local loans" thereby support local development. Like in the German model the regional public banks will mediate public promotion funds, e.g. from EU sources and the Strategic Banking Corporation of Ireland.
   At the same time they will be enabled to fulfil a public mandate because they will not be under pressure to make dividend payments.

4. **Distribution of funds to the Community**
   Earnings will partly be retained to strengthen their capital base and partly distributed to social projects, also surpluses will be partly distributed to social funds to benefit the local community.

5. **Mentoring Services for SME's**
   SME competence teams should be established in each region to mentor start-ups and provide support. The Local Public Bank needs to also ensure that sustainability is a key function and will support renewable energy projects, like wind energy, local biogas plants and other innovative technologies within regions. Besides short- and long-term credit facilities the Regional Public Bank will offer tailored finance solutions and private equity through local venture capital companies.

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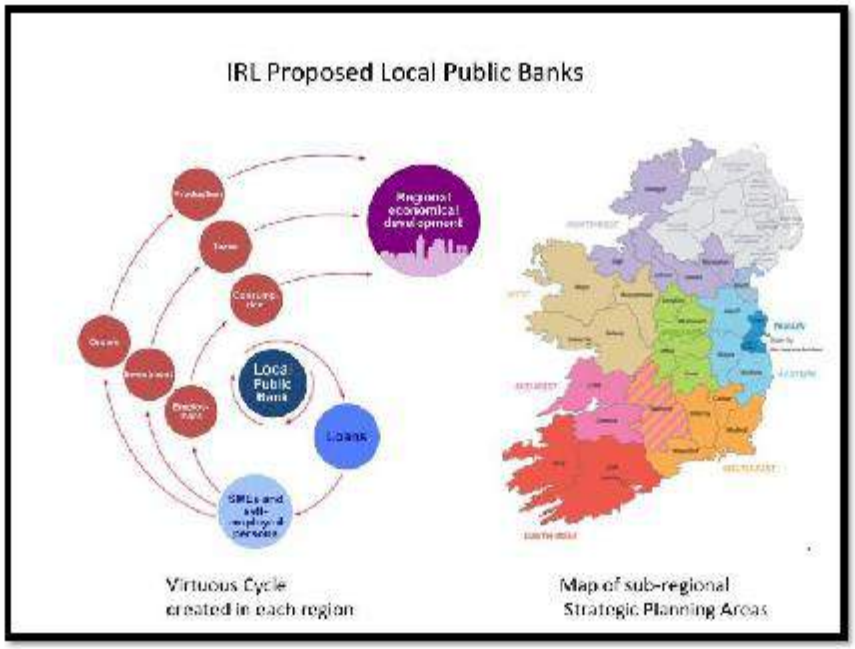
An agricultural expert team should also be established within each region to offer tailored services in finance, taxation, commercial law for the farming sector.



6. Stakeholders

The following are the key stakeholders that should be considered to be involved in the delivery of local public banking:

- **Irish League of Credit Unions and Post Office Network**
  Irish Rural Link in their investigation into the Sparkassen Model has made provisions for the participation of ILCU and Post Offices.

- **Strategic Banking Corporation of Ireland**
  The SBCI have a mandate to increase competition in the market and should be one of the key stakeholder in this.

- **European Investment Bank**
  The EIB is seeking to lend directly to Irish Businesses. At present they do not have suitable local partners for doing this with the Pillar Banks proving lethargic in their support for Irish SMEs despite the massive cash injections they have received to do this.

Irish Rural Link, Moate Business Park, Clara Road, Moate, Co. Westmeath
Tel: 090 6482744 | Fax: 090 6481682 | email: info@irishruralllink.ie | Web: www.irishruralllink.ie

Conclusion

SME's in rural areas continue to face barriers and obstacles when accessing credit, services and supports from traditional banking market. This is hindering their potential to grow and expand.

The hollowing out of regional banking coverage will continue if no alternate structure is established to support regional SME and Personal banking needs. With the publication of the Action Plan for Rural Development and a new National Planning Framework for new Regions being published later this year, an alternate banking structure needs to be part of these strategic plans in order for SME's in rural areas to grow and create employment while at the same time building local communities.

Now we have the chance to engage with a proven successful banking model to establish such an alternate regional pillar and Irish Rural Link strongly believe that the offer of expertise and support from SBFIC and the German Sparkassen Group should not become a missed opportunity. A thorough investigation of this model now needs to happen.

> *"We will thoroughly investigate the German Sparkassen model for the development of local public banks that operate within well-defined regions".* (Programme for Partnership Government, 2016).

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Irish Rural Link the Organisation

Irish Rural Link (IRL), formed in 1991, is a national network of organisations and individuals campaigning for sustainable rural development in Ireland and Europe. IRL, a non-profit organisation, has grown significantly since its inception and now directly represents over 1200 community groups with a combined membership of 25,000.

The network provides a structure through which rural groups and individuals, representing disadvantaged rural communities, can articulate their common needs and priorities, share their experiences and present their case to policy-makers at local, national and European Level.

Irish Rural Link is the only group represented at the national social partnership talks solely representing rural communities' interests.

'Our vision is of vibrant, inclusive and sustainable rural communities that contribute to an equitable and just society'

Irish Rural Link's aims are:

- To articulate and facilitate the voices of rural communities in local, regional, national and European policy arenas, especially those experiencing poverty, social exclusion and the challenge of change in the 21st century.
- To promote local and community development in rural communities in order to strengthen and build the capacity of rural community groups to act as primary movers through practical assistance and advice.
- To research, critique and disseminate policies relating to rural communities including issues such as sustainability, social exclusion, equality and poverty
- To facilitate cross-border networking between rural communities

'Our mission is to influence and inform local, regional, national and European development policies and programmes in favour of rural communities especially those who are marginalised as a result of poverty and social exclusion in rural areas.'

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Dear Laure Garcia,

I would like to make a submission on this topic in a personal capacity.

I will be brief in my remarks as I know your department is already aware of models of public banking and in addition I have no doubt others will be using this consultation process to make very detailed submissions.

The model I support

I think it would be beneficial for Irish society and its economy if we can bring into being a series of local public banks modelled on the successful German Sparkassen banks, with necessary adaptations.
To be clear about how they might work I have pasted below (just to limit my submission to one document) an article that I wrote late last year on the topic. This was published in Village magazine in November.

I would make the following additional points:

- It has never made sense to me that a society should place a vital social function like money in the hands of private businesses to be run primarily for their benefit (profit maximisation). Public banks would have the good of the local economy as their primary focus.

- There is an undoubted difficulty for small business in obtaining credit. Public banks would be an additional source of business finance.

- Existing banks are gradually withdrawing services from smaller communities and loan decisions are becoming more centralised. Public banks would be locally based and more in a position to understand the actual businesses seeking credit.

- Above all **there is really nothing to lose by facilitating the setting up of a series of local public banks**.

Thank you for the opportunity to add my voice to the cause of public banks and I look forward to following the issue.

Yours Sincerely

John Bolger

Transcript of article published in Village magazine on Public Banks

BANKS TO LOVE

Most of us dislike banks, some more than others. And we do so for different reasons, for example because they treat us so badly when we deal with them. Or more generally because of the economic devestation they have inflicted on society. And we feel there is very little that can be done about the current structure of banking services in Ireland.

But the really wonderful news is that right now there are moves afoot to establish a number of new regional "public" banks, with the specific primary purpose of fostering regional economic development. Now isn't that a magnificent objective for a bank instead of maximising shareholder value?

These type of public banks have existed in Germany for 200 years (they're called Sparkassen) where they have built up extensive expertise and they play a huge role in financing small and medium sized businesses, which are the backbone of the country's industrial success. And now the international consulting arm of these German public banks, the SBFIC (never mind the acroymn), is reaching out to countries such as Ireland to help set up similar banks here. This can only be good news for small Irish businesses many of whose development are curtailed because it is so difficult to borrow money.

The new public banks (about 10 around the country) will have a number of distinctive features. First, each will have a legal structre such that it is not actually owned by any shareholders and also with a legal structure that prohibits the sale of the bank. The trustees of such a legal structure might be, for example, the regional local authorities. This will avoid the pressure on the bank to make quick profits based on risky lending in order to pay dividends. Also future governments or the trustees will not be able to sell them off to raise revenue.

Second, and very importantly, each regional public bank will have a "public mandate'. It's main objectives will include: the provision of finance to small and medium sized business; provision of normal banking services to everyone in their region; and the promotion of savings. Note no mention of profit maximisation. Of course a public bank will have to be viable and operate in a sustainable way. But annual surpluses will be used partly to fund social and cultural projects in the region with the balance retained to strengthen the bank's balance sheet.

A third and interesting feature of the proposed public banks is that each will be limited to its own region. For example, in the south east one public bank might cover the counties Kilkenny, Carlow, Wexford and Waterford. Its operations would be confined to those counties, taking deposits and lending only within that catchment area. This "regional principle" has important implications for regional development. Depositors will know that their savings are helping to finance proper businesses in their own area rather than some speculative development in God knows where.

Public banks have a lot in common with credit unions. Both focus on the local population and the local economy. It is anticipated that they will operate in close co-operation and possibly share services such as IT. Public banks will operate somewhere between credit unions and commercial banks. They will lend to business, farmers, environmental projects and to individuals. It is expected that loan amounts will be in the range €15,000 to €500,000.

For the last three years Irish Rural Link (which represents about 600 community groups around the country) has been raising awareness of public banks. It has persuaded government departments and political parties of the merits of promoting such a new banking force. On 16

November next the RDS in Ballsbridge will host a major conference entitled "A New System of Banking for SMEs", dealing with the topic of public banks and how they would benefit this country. Speakers will include Seamus Boland, CEO of Irish Rural Link, Heinrich Haasis, chairman of SBFIC, mentioned above, as well as notable Irish Academics.
Admission to the conference is free but must be booked through the RDS website. Just search the site for "banking".
It is not going too far to say that the setting up of a number of new regional public banks will represent a new dawn for our economy.

The writer is an accountant and has, until recently, lectured in the Business School of IT Carlow. He was formerly chairman of the Housing Finance Agency.

--
John Bolger

A Submission to the Public Consultation on Models for Community Banking in Ireland

The Proposal:
1. That Credit Unions co-operate at regional level to institute regional public savings banks in Ireland, modelled upon the exemplary German Sparkassen public savings banks of today, with the assistance and collaboration offered by the SBFIC, and in co-operation with An Post and community organisations.

2. That CUs lead and 'drive' in instituting the said community/regional banks (and an SBFIC-specified Central Services Provider), with the SBFIC and…
2.1. **With the encouragement and authorisation of the Department of Finance and the Governor of the Central Bank (on the grounds detailed below)** and…
2.2 That CUs open to and engage to co-operate with regional and community interests and their representatives including An Post and the Irish Postmasters Union, and….
2.3 …also the local community, businesses and local public administration
2.4 **That Credit Unions advance the ethos and institution of banking in the public interest in Ireland through, ideally, a nationwide network of around ten such dedicated public banks. The guiding principles of CUs/ Sparkassen correspond.**
2.5 That these banks be held in trust in perpetuity, owned by the community never to be sold or purchased.
2.6 That the community banks be governed as per the Sparkassen, largely by management, but with CU and community/public interest representatives, adequately protected and represented upon the governance boards.

3.1 That the three hundred plus Irish Credit Unions are **uniquely and best qualified to institute the appropriate community model challenger banks for healthy competition and banking system augmentation.**
3.2. **Credit Unions** collectively have the **capacity, the capabilities and competencies** to **lead, drive, develop and implement a new inclusive model of community banking in Ireland**. Products and services can be provided via post offices and sub-post offices
3.3. Having **performed very commendably** as dependable savings and loans type financial institutions (and, like their Euro-counterparts far better than private banks)…
3.4. Credit Unions earned **the trust and loyalty of Irish consumers**, as firmly **evidenced by their superior performance and unexpected rapid recovery** over recent years, (see recent Des Carville CU advisory report.) ……..
Thus uniquely and best qualified, CUs are **most fully deserving of the opportunity to fulfil their potential by fulfilling a far greater role in Ireland's domestic banking system** and financial services sector, with a broader range of products, services and investments.

4. That in due acknowledgement and with due regard to public concerns of recent decades the **Government/Department of Finance and Central Bank of Ireland** might well:
i) Acknowledge that the Irish retail **banking system remains less-than fit-for - purpose** and in need of apt policy measures to secure:
1. **Healthy competition, more consumer choice/s, value, service**….and
2. Reduced **market concentration, as in HH index etc**….and
3. **More and diverse banks** and banking business models,…(Prof. John Kay etc.) and
4. Greater systemic stability and resilience, risk/systemic risk reduction
5. **Better aggregate bank performance** and **cost-efficiency and (ref; Butzbach & Mettenheim, 2011 and subsequent)**
6. **Sufficient financing and credit provision** with prudent sectoral allocation…
7. And address and counter the **threats to rural and regional financial infrastructure (eg; rural sub-post offices)**
8. And advance **customer proximity**, regional/ rural and relationship banking for reciprocal loyalty and associated debt risk/loss reduction.

And Moreover in Regard to Credit Issuance:
6. Derogating the (traditionally sovereign) largely exclusive power to issue the nation's credit money …and to selectively allocate that credit money….essentially to **two** private profit/bonus/shareholder-value-maximising firms…..requires prudential safeguards against systemic distortion, imbalance, failure and contagion.

6.1 Having 'nursed' the too-big-to-fail *'dinosaur duo'* to rude health again Ireland must acknowledge their profit 'fixation' . Bank appetites are whetted by housing shortages and inflated rents. Could they compete again in allocating too much credit for overly speculative real estate '*investment*' at the expense of households and business, taxpayers exacerbating cyclic instability…for profit, bonuses and dividends?
6.2 Democracy and the common good should prevail over or subsist along with private banks to prudently limit credit creation and prudently and fairly balance it's sectoral allocation. **The power to issue and allocate credit needs to be shared**. Sparkassen lend prudently, only locally and never for speculation. **The proposed community banks should be authorised to prudently issue and allocate credit like the Sparkassen at a ratio of up to 6:1, for productive investment in their region.** They should likewise develop prudent finance/lending for **social housing**, mortgages, SME's, the self employed and community/local public infrastructure.

6.3 **Regional empowerment** requires local finance capabilities, channelling local credit to local investment. Customer proximity engenders loyalty and reduces risk. Spatial justice also means re-/distributing essential infrastructure and employment.

7. **Professor Richard A.Werner** and other leading monetary economists have demonstrated that a few countries have avoided or prevented banking crises while developing rapidly, by two routes;

i) Govt/Central Banks impose **volume and sector allocation 'credit guidance'** on commercial banks eg; monthly, prioritising credit for productive purposes/investment, and/or….
ii) Where public/**non-profit-maximising banks constitute a large share of the banking sector** credit volumes and allocation are more restrained and balanced. Germany, in which public/co-op banks dominate the banking market is exemplary.

As a leading monetary economist Professor Werner's advocacy and personal commitment to local banking institutions is a powerful testimonial to the vital importance and inestimable value of the traditional, dedicated local non-profit-maximising bank. It is an authoritative endorsement and encouragement to the many still advocating financial reform, better regulation, public banks and effective action against the systemic risk posed by too-big-to-fail private entities.

CONCLUSION

This policy proposal addresses weaknesses in the banking system; concentration/HH index; a profit-maximising monoculture/imbalance *vs* the German example etc,
The needs for stability, robustness, resilience, breadth, diversity of business models, customer choice, services, value, for dependable credit supply, financial inclusion.
The proposed credit-union-led community bank model would extend co-operation from among credit unions to include An Post/Postmasters and other regional partners and provide a better future for the credit unions, regional communities, marginal POs and local economies. The solution addresses both problems with the one solution.
The proposal in its emergence has been guided throughout by core principles national, political, socio-economic, financial, institutional and regulatory and disciplinary.

It has sought to reconcile;
(1) The challenges and opportunities facing the Irish credit unions and rural P.O.s,…
(2) The needs and opportunities facing domestic banking systems policy… with:
(3) The desirability of instituting a German type Sparkassen-model community bank network in Ireland and the exceptional benefits of such institutions in Ireland.

This proposal is a necessary, practical, achievable and appropriate proposal for Irish policy makers, legislators and financial services professionals to implement and is informed by very extensive research since 2013.

I commend it whole-heartedly to the Minister and his colleagues,

Joseph Glynn MSc.
josephwglynn@gmail.com
Tel: 086 0695897

No need to spend time and money. We already have it.
It's called the Credit Union.

Promoting rural post offices might be more useful.
Regards Karen Jura in Glin, Co. Limerick

To Whom It May Concern

We have been made aware of the ongoing Government review into the Community Banking model, to assess its potential viability for the Irish market.

Having had recent, direct and very unsatisfactory experience as an SME trying to engage with one of the two main Irish banks to secure a modest loan to expand our operation, we believe that our experience should be of interest to this project.

We have provided below a brief background to our organisation and the project we were seeking funding for, as well as a (sadly, less brief) timeline of events from the start of our loan application to its eventual outcome, 12 months later.

Company Background & Proposed Project

We are an outdoor leisure retail and online operation, based in a medium-sized town in the Mid-West. We established in 1994 and incorporated in 1999. The company currently employs 2 full-time and 2 part-time staff.

In early 2016, the Directors identified a gap in the market for a similar retail operation in the nearest city, where none currently exists and where there is a population 12 times larger than where we currently operate. We identified a very well-located premises and entered into preliminary dialogue with the landlord, as a result of which we reached preliminary agreement on an excellent deal on the rent.

Loan Application Process - Timeline

- *February 2016* - we approached our local AIB branch to discuss our proposal and to canvass their interest in supporting this.

- *April 2016* - we submitted our Business Plan, along with all requested supporting documentation, requesting a loan of €135k. We were aware that the European Investment Bank had made funds available to the Irish banking sector specifically for the purpose of supporting SMEs (SBCI), and we referenced this in our application.

- *April-August 2016* - we supplied additional supporting data on multiple occasions as requested by AIB, and twice revised downwards the amount of credit sought, at AIB's behest. NB - the application was being reviewed by AIB in Dublin, reducing our local (familiar) AIB contacts to mere intermediaries in the process. However, at no point during any of the proceedings did the lenders in Dublin ask to speak to us directly to ask questions or to clarify any aspect of our proposal.

- *20th August 2016* - we were verbally advised that we needed to further reduce the amount of capital sought. Believing that we had been realistic in our original request, and that the new business could fail due to lack of adequate capital, we declined to proceed and asked for a formal letter of refusal from AIB so that we could pursue their internal appeal process. At the same time, we had heard Catherine Moroney (AIB Head of Business Banking) speak at a conference about the need for SMEs to speak to their banks about their lending requirements, and above all, to seek sufficient capital when looking for a loan. Following the conference, we made contact with Catherine Moroney to point out how at odds her advice was with our actual experience. She noted our comments, but referred us back to the AIB's loan/appeal process.

- *23rd August 2106* - we received the requested letter of refusal, in which AIB stated that they were unconvinced about our ability to repay the credit - a decision we flatly disagreed with, given our long-standing status as an AIB business and personal banking customer of impeccable standing and repayment history.

- *24th August 2016* - we appealed this decision and asked that it be subject to AIB's internal appeal process. At the same time, we opened dialogue with the Credit Review Office.

- *7th September 2016* - we received a letter from AIB upholding the original decision to refuse our application, and citing the same reasons as the refusal of 23rd August.

Credit Review Office Intervention

- *15th September 2016* - we submitted our case to the CRO for review (Case No 613).

- *Early December 2016* - both we and AIB received verbal notification that the CRO was supporting our application.

- *24th December 2016* - written confirmation from CRO recommending to AIB that we be given the full, original loan amount that we had requested in our Business Plan of April.

- *January 2017* - despite the CRO recommendation, AIB continued to vacillate, requesting yet more financial data from us and persisting in not making us the recommended loan offer.

European Investment Bank Intervention

- *2nd February 2017* - we contacted Mr. John Moran of the European Investment Bank (formerly Director General of the Department of Finance). As mentioned

earlier, we were aware that EIB/SBCI funding had been provided to the Irish banks specifically for the purpose of supporting SMEs and had referenced this in our loan application. Mr. Moran made direct contact with the CEO of AIB, Mr. Bernard Byrne to express his concern that an application upheld by the Credit Review Office had not been progressed and that EIB funding was perhaps not being used for the purposes for which it had been provided.

- *Early March 2017* - Following this intervention - and we believe solely as a result of this - AIB contacted us to advise that they would be sending "local market lenders" to meet with us.

- *15th March 2017* - As a result of this meeting, we were finally made a loan offer in March 2017, over one full year after our dialogue with AIB began.

Summary

- We have a solid, profitable, long-standing business which survived the recession, when many of our competitors didn't.

- We have an unimpeachable track record as a personal and business customer of AIB, going back many years.

- The CRO reviewed and strongly supported our application, therefore there is no business reason for AIB not to have made us our loan offer in the first place.

- We strongly believe that AIB never had any intention of doing so. We believe we were strung along throughout 2016 with a series of requests for more and more supporting data (all of which cost us significant time and money as a small enterprise to produce). We have been independently advised that the data requested by the bank was, in accounting terms, on a forensic level and far beyond what any SME should, or could be reasonably expected to provide for a loan application of this size.

- We do not feel there is any circumstance under which a simple business loan application should take one full year to conclude, and require the intervention of both the CRO and the Head of the European Investment Bank. The CRO report states clearly that a loan application of this nature should have taken 15 days to process.

- As a result of the delaying tactics and the overall time this project has taken to date, we have:

    - Lost two potential experienced staff we had identified for the new operation;

  - Lost the proposed business premises we had identified and negotiated a rent saving of €75k pa on (compared to peak-time rents). We will not easily be able to source a similar premises of similar prominence.

  - Spent approximately €8k on accountant, bookkeeping and secretarial time to produce the level of data that AIB continued to ask us for.

- We feel very strongly, given our experience with AIB and that of other SMEs known to us with similar stories, that the marquee banks are not currently fit for purpose in terms of SME lending. The Dublin-centric, hands-off, zero-dialogue approach that we experienced contributed to the length of the overall process and prohibited the type of normal business negotiation that one would expect.

- We very strongly believe that there is a genuine and urgent need for a new model of community-based banking; one that is accessible to and engages with its customers, that takes account of their existing reputations and business track records, and that understands the dynamics of the rural business community. We understand that the German Sparkassen approach represents exactly this type of local/regional relationship-based model that we believe to be vital to the future of rural Ireland.

We would be more than happy to contribute further to this current investigation in any way you feel would be useful. We include below our contact details should you require any further assistance, or clarification on any aspect of our submission.

Thank you and regards,

Kevin McSherry

Tel: 087-2100424

LABOUR PARTY SUBMISSION
LOCAL COMMUNITY BANKING CONSULTATION
MARCH 2017

The economic crisis of the past decade has not only inflicted high levels of debt, distress and hardship but also left Irish citizens and businesses with less choice in bank services whether private, public or mutually owned.

The investigation of the establishment of a Public Bank Network in Ireland comes against a backdrop the potential evisceration of the Rural Post Office Network, the continued restriction of the Credit Union movement and the ongoing battle with the existing oligopoly - the so called "Pillar Banks", to ensure they serve Irish Society rather than the reverse. We now also face the overwhelming challenge that Brexit poses to Irish SMEs and the regions.

The problems facing securing credit for SMEs are well documented. The Pillar Banks have been recapitalised and the Strategic Banking Corporation of Ireland is forced to go through the Pillar Banks to provide credit to SMEs. The Credit Unions and the Post Office hold vast amounts of untapped capital that could be used for SME finance. It does not have to be this way and it is not sustainable for Ireland's financial system to be based on an oligopoly of Pillar Banks.

PUBLIC BANKING

The concept of Public Banking is poorly understood in an Irish context. A Public Bank is emphatically not a Nationalised Bank like AIB. A public banking model has existed in Germany for 200 years

German Public Banks, called Sparkasse:

- Are municipally owned – not a nationalised bank
- Would be not for profit and be restricted to lending to the regional economy for its business
- Would fill the gap left by the demise of the Building Societies and enterprises formerly served by the ACC
- Both the Post Office and Credit Unions could earn additional income from selling Public Bank services across the counter in their branches
- Would provide a suitable vehicle for European Investment Bank to lend funds to SMEs
- The annual surplus generated by the Local Public Bank is re-invested in Regional Development Projects

The diversity of sources of credit in Germany is reflected in the resilience of the SME sector during the Great Recession. Furthermore there is already work underway in examining the creation of an Irish version of the Sparkasse model of finance and the Labour Parliamentary Party has repeatedly raised this with Government Ministers.

STAKEHOLDERS & PARTNERS FOR AN IRISH PUBLIC BANK NETWORK
A Local Community Bank network in Ireland should complement and strengthen the following partners work in funding SMEs and Rural Communities

- Credit Unions
- Strategic Banking Corporation of Ireland
- European Investment Bank
- Rural Post Office Network

The Labour Party has consulted with the SBFIC (Spakasse Foundation for International Co-operation), Irish Rural Link and a number of Credit Union and Rural Development activists.

SBFIC (Spakasse Foundation for International Co-operation)
Sparkasse Foundation for International Co-operation has a track record of working with and building trust and strong relationships with

- National Credit Union movements
- SMEs and meeting their needs
- Regional Development Agencies
- European Investment Bank

The Sparkasse Foundation for International Co-operation (SBFIC) has done an enormous amount of work investigating the potential establishment of a pilot Local Community Public Bank in Ireland. SBFIC have already met with the European Investment Bank, the SBCI and League of Credit Unions among others regarding piloting the idea in Ireland and suggest it can be a template for financing regional development across the Eurozone.

Labour believes the Department of Regional and Rural Affairs and the Department of Finance need to bring in outside expertise like the SBFIC. Our understanding is that the SBFIC are willing to offer of considerable technical expertise and help mentor an Irish Pilot Public Bank – even to the extent of providing training and mentoring of staff in the pilot until it would be up and running. This would be very much along the model of how the American Credit Unions mentored the embryonic Irish Credit Union movement in the 1950s & 60s.

The development of any Local Community Bank structure in Ireland needs outside expertise. Given that the Irish League of Credit Unions Foundation provides similar mentoring in developing countries to help them benefit from the experience of the success of the Irish Credit Union, the Irish Public Service and State bodies should not be too proud to accept similar advice and mentoring from abroad in adopting a new model of SME and regional development finance.

Protecting the Irish Credit Union Ethos
Labour in Government spearheaded the micro loan initiative between the Department of Social Protection and participating Credit Unions. This was to ensure credit unions could continue to serve people who have difficulties in accessing credit without resorting to loan sharks. Labour is committed to supporting the Irish Credit Union movement grow and meet the challenges of more onerous Central Bank regulation.

The possibility of the introduction of a system of Community Local Banking along the German model has much to recommend it for Irish Credit Unions. In Germany Credit Unions and Local Community Banks often share premises and the Local Community Bank provides a "Central Service Provider" for participating Credit Unions allowing them to meet ever more onerous administrative burdens associated with tighter Central Bank Regulation.

The Central Bank has again reduced the savings limit for Credit Union members and only 26% of members' shares and deposits are now lent for productive use. The remaining credit union funds are in investments or on deposit in the Pillar Banks. This is not sustainable way forward for the sector. The Irish League of Credit Unions is engaging with the Department of Finance to find ways to ensure these funds can be invested in a vehicle that can lend to SMEs. The ILCU proposition is that Credit Unions would participate in a State backed vehicle that would:

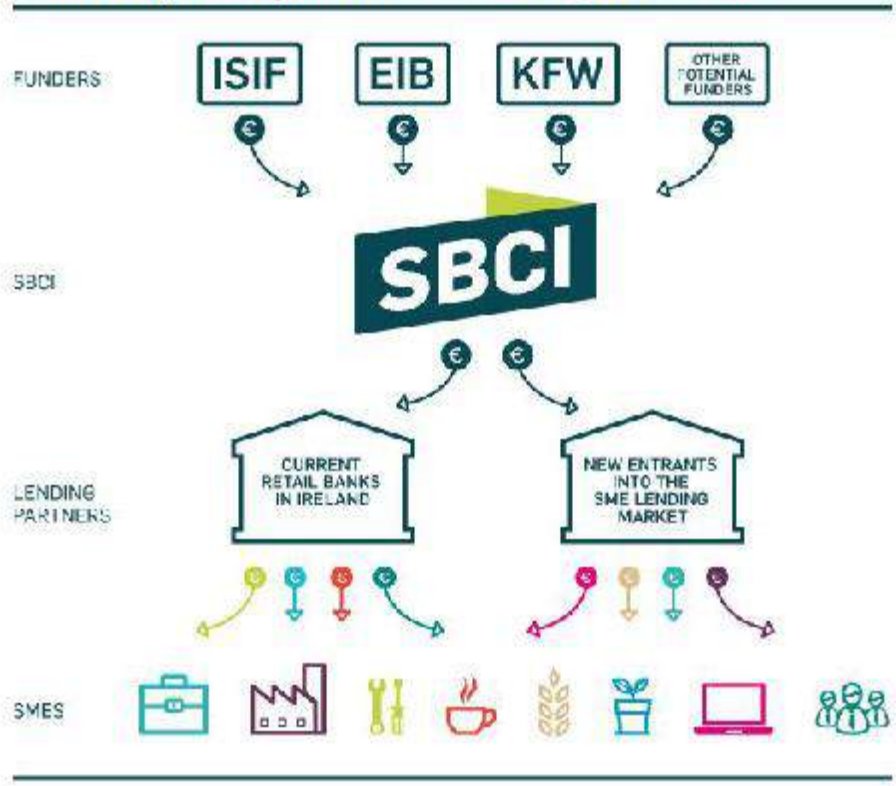
- Enable Irish Credit Unions to act as an efficient distribution network to originate SME loan applications
- Enable Irish Credit Unions to invest in a funding facility that will lend to SMEs in Ireland

The Labour Party is of the view that any Local Community Banking model developed in Ireland must complement existing credit unions, allow them to extend the range of services they offer members and be able to pool certain back office functions to strengthen their ability to meet ever more onerous Central Bank regulation.

Such a development can be done in a manner that is consistent with and protects the Credit Union ethos if Credit Unions are fully involved in the development of a Local Community Bank structure from its investigation and inception.

Strategic Banking Corporation of Ireland
Labour called for the establishment of the SBCI in 2010 and subsequently established this during the recent coalition government. SBCI is seeking to expand its support for SMEs.

Below is the original concept for how the SBCI is to support SME finance.



To date the SBCI have only been able to partner with the current Irish retail banks, in particular the Pillar Banks. Part of the SBCI's mandate is to provide market access for new entrants to the SME lending market, however in order to make this possible the government and central bank need to provide the legal structure for a model of Local Community Banking with a focus on SME lending.

The SBCI sources considerable funds from the German KfW State Bank. However it is anomalous that the KfWs funds are not dispersed to SMEs through a Local Community Banking system in Ireland. In other EU member states such Local Community Banks exist to do this.

European Investment Bank
The EIB is expanding its role in lending directly into the economy as part of the EU Investment Plan for Europe which aims to deliver investment to the real economy through initiatives such as The European Fund for Strategic Investments (EFSI) and the European Investment Advisory Hub (EIAH). The aim of these initiatives is to offer opportunities for boosting competitiveness, growth and jobs in the agricultural sector and rural areas.

These EIB supports for the real economy are typically delivered at local level in the European Union through local banks which include Local Community Public Banks like the Sparkasse in Germany. Ireland is missing out on availing fully of these funding opportunities because we do not have an appropriate local community banking network that would help to identify and assist projects that would benefit from this kind of investment.

The EIB are now stepping up their direct involvement in the real Irish economy with the opening of their Dublin office. Ireland needs to have the Local Community Banking structures that are common place in a number of other EU member states to be able to most effectively realise the EIB's expanded mandate to provide funds to support SMEs.

Post Office Bank Network
The Post Office Network Business Development Group concluded that the biggest opportunity for An Post and the Rural Post Office Network lies in the provision of an extended suite of banking/financial services. The Post Office Network remains in serious difficulty and needs additional products and services if it is to remain viable in many rural areas.

The Local Community Banking network on the German model offers a Post Offices a financial service they can sell without having to commit to establish their own bank (this has proved challenging for An Post in the past). A Local Community Banking system could also provide the link between Post Offices and Credit Unions that many have called for to strengthen both institutions.

FUNDING OF PILOT AND ROLL OUT OF NATIONAL NETWORK OF LOCAL COMMUNITY BANKS

From our consultation with the SBFIC they estimate that Ireland has the population to support 8-10 Local Community Banks on the German Sparkasse model. The total initial seed capital for such an enterprise is in the region of €50 million.

The Irish Government published eight regional Action Plan for Jobs between 2015 and 2016 that are scheduled to run over five years. With Brexit, these plans are now need to be revised and updated following extensive economic and exposure analysis for each region. Action is required now to stem, and prevent future losses

State aid rules prohibit strong state action to support and rescue SME's that will be affected by a hard Brexit. A range of stakeholders have called for a temporary suspension of these rules for the adjustment period of Brexit. The Labour Party supports this call, and has already called for the establishment of a Brexit Trade Adjustment Fund that would channel investment and resources to affected enterprises. The establishment of a Local Community Banking network should be developed and initially financed within this context.

CONCLUSION

Labour Ministers fought vigorously to establish the SBCI in the 2011-16 coalition government. Although the SBCI is making a valuable contribution to financing SMEs it was never Labour's intention that it would use the Pillar Banks as a conduit for financing SMEs. Like the SBCI, the European Investment Bank is frustrated that it must go through the Pillar Banks in Ireland and is seeking a more appropriate conduit for SME financing as exists in other EU member states.

The Sparkasse Foundation for International Co-operation (SBFIC) has done an enormous amount of work investigating the potential establishment of a pilot public bank in Ireland. This includes the offer of considerable technical expertise and help to mentor an Irish Pilot Public Bank – even to the extent of providing training and mentoring of staff in the pilot until it would be up and running.

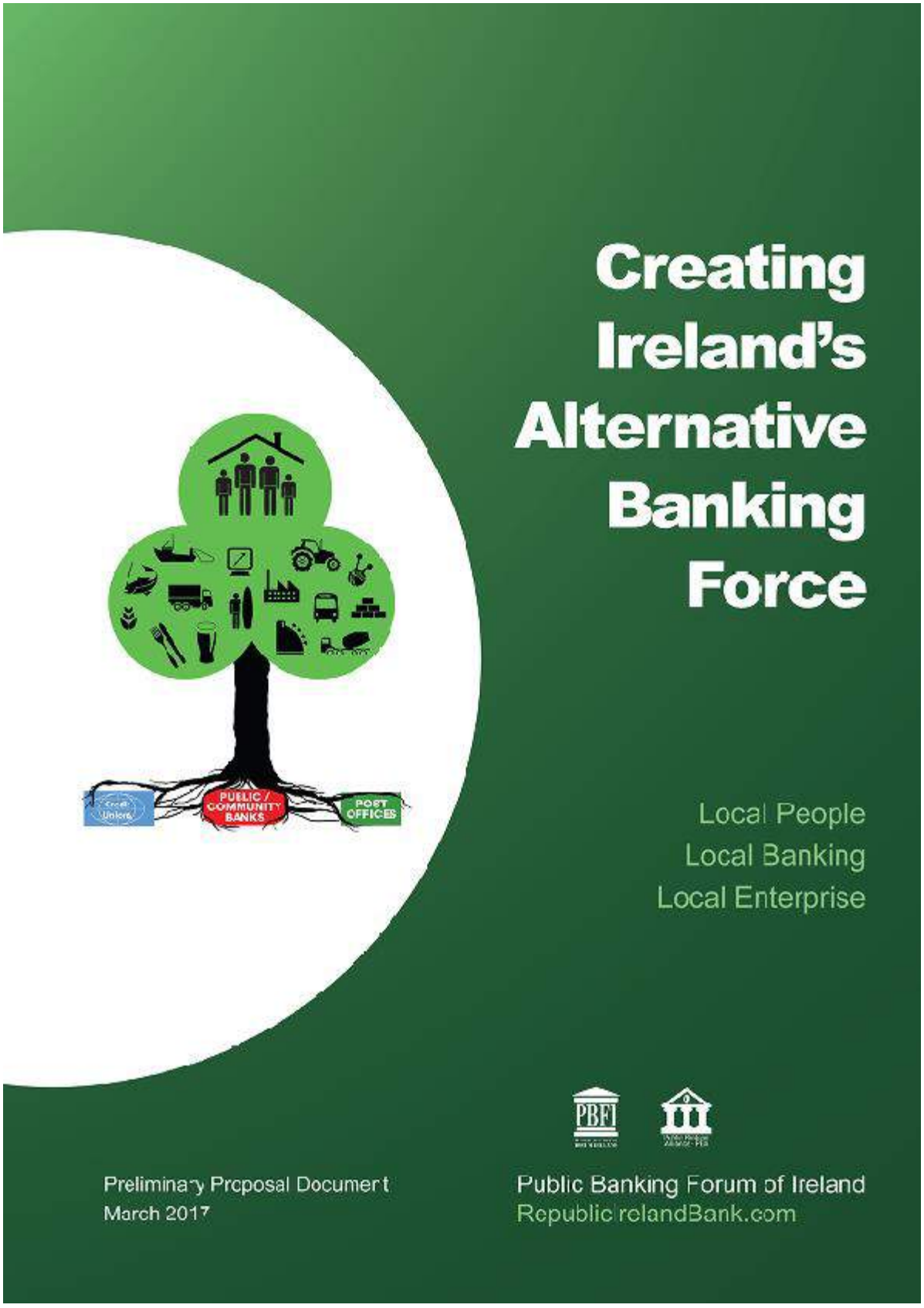
Labour believes there is an opportunity to strengthen regional development with the development of a Local Community Bank network now exists and it urgently required given the serious challenge Brexit poses to the regions.

Labour calls on the government not to miss this opportunity and pull together the relevant stakeholders to develop a pilot Local Community Bank.

Joan Burton TD
Spokesperson for Finance

Willie Penrose TD
Spokesperson for Regional & Rural Affairs

March 2017


Creating Ireland's Alternative Banking Force
PUBLIC / COMMUNITY BANKS
POST OFFICES
Local People
Local Banking
Local Enterprise
PBFI
Preliminary Proposal Document
March 2017
Public Banking Forum of Ireland
RepublicIrelandBank.com

John Loughran

Accountant & Owner of Sandymount Hotel, Ballsbridge Dublin 4 | On Banks

'They have become overly cautious to the point where they're not really functioning in a practical way. We have never not repaid a cent to the bank and we are a profitable business, yet we still can't get what we need from them. That doesn't make a lot of sense to me and neither does the fact that businesses here are paying average margins of 5 to 6%, when in France you can borrow at 2%. It seems to me that the main preoccupation within the banks is to get themselves out of state ownership. They are not overly concerned about their customers.'

- John Loughran | Sunday Business Post | March 5th 2017

Executive Summary

The Public Banking Forum of Ireland (PBFI) was established in 2013 to address the urgent need for an Irish banking system that serves the *public* interest and to promote the Public / Community bank solution[1].

This proposal document looks at the background to the banking crash, examines the weaknesses of the current banking model and finds that the current Irish banking model is not fit for purpose. In so doing, PBFI propose the creation of an entirely new banking model for Ireland that offers a full-service alternative to the present pillar bank model.

The alternative banking force will comprise a network of new regional Public Banks in Ireland, along the lines of the German Sparkassen banking model. The new Public Banks will combine with Credit Unions and Post Offices, using their existing branch infrastructure to avoid duplication. In addition, there will be a Central Service Provider (CSP) to support the new Public Banks. SBFIC (German's Savings Banks Foundation for International Cooperation) has estimated that the Public Bank network can be established for a once off sum of less than €150m.

PBFI asserts that the expertise of SBFIC (Germany's Savings Banks Foundation for International Cooperation) is crucial to the development of Ireland's Alternative Banking Force. SBFIC's role could include working with the various stakeholders to develop the structures wherein they collaborate for their mutual long term benefit. PBFI further contends that the expertise of world renowned banking expert, Professor Richard Werner is equally crucial to understanding the underlying issues that need to be addressed in creating a sustainable local banking model.

By way of additional information, the proposal is underpinned by seven appendices which provide further pertinent analysis and backup to the core proposal. The appendices cover, inter alia: -

[1] "Public Banking" used throughout this document to describe all forms of public / community / cooperative banking that can bring sustainable, transparent and risk averse banking to Irish citizens, SME's and Micro Enterprises.

- An Alternative Post Office proposal, i.e. a standalone banking model along the lines of the very successful Kiwi bank model in New Zealand. The new Post Office bank would compete with the new Public Bank / Credit Union model as well as the pillar banks.
- The successful German economy and how this success is linked to the 200-year-old Sparkassen Public Banking model and a comparison between the German and Irish banking models.
- The Control of the Nations Credit Creation and Payments System.
- The Characteristics of private pillar banks are compared to those of Community Public banks.
- A closer look at Credit Unions – strengths, constraints etc
- Competition Law / Policy and the Irish Banking Sector
- Ireland's approach to Re-Banking Ireland. Is it flawed?
- Role of Media in Moulding Public Opinion on Banking / Banking Crisis

It is worth noting that Irish commercial banks which are the so called ***"pillar banks"*** hold a market share of circa 95% of the Irish market, whilst German commercial banks which include Deutsche Bank, Commerzbank and others hold a mere 12.5% share of the German banking market. This proposal looks at the reasons for this, including intellectual capture and the follow-on effects of high levels of concentration on the indigenous economy.

Despite the market being highly concentrated as it stands, it is set to become even more concentrated with several hundred Post Offices facing closure and Credit Unions being squeezed into unpopular mergers. The pillar banks control credit creation in Ireland. This means that a few CEO's effectively dictate how much credit is created in the economy, where the credit goes (speculation or the productive economy) and who obtains the credit.

Why do successive governments discriminate against Credit Unions and Post Offices? The current banking structure clearly runs counter to Article 45 of the Directive Principles of Social Policy of the Irish Constitution which states inter alia: -

- ***"That in what pertains to the control of credit the constant and predominant aim shall be the welfare of the people as a whole".***

This divergence from Constitutional aspirations must be viewed with considerable concern. PBFI looks at the role of "capture", both intellectual and political capture in the collapse and rebuilding of what is essentially a flawed banking model.

PBFI makes the case that a public banking model, on the lines of that proposed, will become the real driver of the indigenous economy and urges all stakeholders to carefully consider and ultimately support the proposal.

Acknowledgements

This paper has been prepared primarily for members of the Credit Union movement and Post Office network. However, a prerequisite for PBFI's proposals to gain traction will be the support and endorsement of all stake holders including farming, business, consumer organisations and the general public.

PBFI wishes to thank all those stakeholders from these organisations and others from whom we have garnered much invaluable information and insight to assist us in the development of this proposal, including U.S. Attorney and President of the US Public Banking Institute Ellen Browne, Professor Richard Werner, Christopher Simpson (CIVITAS UK), Dr. Thomas Keidel, Director Financial Market Relations at SBFIC, Dr. Jürgen Engle, Project Manager SBFIC, Niclaus Bergman CEO SBFIC and Ben Dyson, monetary expert, all of whom are globally renowned experts on banking and monetary reform.

We also wish to thank and acknowledge the various supporters and promoters of various forms of Community / Public banking for Ireland, including Mandate Union, Post Masters, ISME, Mark Fielding, Patrick Kent President of ICSA, BRUI, ISBA, Sinn Fein, Social Democrats, The Green Party, AAA-PBP, DDI-NCM, Right2Change, Joan Collins & Independents4Change Group, some Independent Alliance TSs, Rural Link, Liadh Ní Riada MEP, Diarmuid O'Flynn, Professor Ray Kinsella, Cllr Bridget Meehan, Sensible Money & Positive Money NI, Friends of Banking, Luke 'Ming' Flanagan MEP, Noeleen Moran SF, Former TD, Peter Mathews RIP. The Labour Party.

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1.Introduction

1.1 PBFI – Who we are.

PBFI is a voluntary group, independent of vested or political interests with many volunteers from all walks of life, including experienced former bankers, former Credit Union executives, former Post Masters and representation from the farming and SME communities. PBFI is part of a broader international alliance of advocates for global financial reform.

PBFI has undertaken significant research into the global banking industry and inter alia, hosted public conferences featuring well known U.S. attorney Ellen Brown[2] in 2013. In 2014, Christopher Simpson of CIVITAS UK[3] addressed the PBFI conference about his commentary and case study on the German Sparkassen bank model[4], also senior representatives of the Sparkassen Foundation (SBFIC, 2014 & 2015). More recently, Professor Richard Werner[5] of Southampton University[6], a leading monetary economist and banking expert Ben Dyson[7], founder of Positive Money were the keynote speakers at the PBFI's April 2016 Banking and Money Reform Conference in Dublin. In addition, PBFI regularly hosts workshops and briefings to showcase public banking options to public, private and voluntary sector representatives.

In April 2016, PBFI addressed the European Parliament's Committee on Budgets[8] at a public hearing on *"New Financial Instruments and the role of national promotional banks for the benefit of European SME's"*.
On January 26th 2017, PBFI addressed the Dáil Joint Committee on Finance, Public Expenditure, Reform and Taoiseach on the merits of introducing Community / Public banking to Ireland.
On March 20th, PBFI lodged a submission with the Competition and Consumer Protection Commission in response to its public consultation on the future of Ireland's mortgage market[9].

[2] Ellen Brown, author of "The Public Bank Solution" and several other books on banking reform.
[3] http://www.civitas.org.uk/
[4] http://www.civitas.org.uk/content/files/SimpsonSparkassen.pdf Christopher Simpson Presentation.
[5] Professor Richard Werner: http://www.southampton.ac.uk/business-school/about/staff/werner.page
[6] https://www.youtube.com/watch?v=MechH0ebs_c Professor Werner's presentation at PBFI's Banking and Money Reform Conference April 2016
[7] http://www.bendyson.com/
[8] https://www.youtube.com/watch?v=I5ONP57g0zE PBFI presentation to EU Parliament Committee On Budgets
[9] http://ccpc.ie/news/2017-02-20-future-irelands-mortgage-market-ccpc-opens-public-consultation

1.2 PBFI - Aims and Objectives

In the aftermath of the 2008 banking crash, world economies imploded and the socio-economic well-being of many countries, not least Ireland was decimated. The E.U. and Ireland rushed into a bank rescue scheme that clearly circumvented State Aid rules. The quid pro quo for discarding State Aid rules was that competition in the banking sector was to be significantly boosted.

Eight years on, the €uro is in disarray; Deutsche bank's financial woes present a systemic challenge to the German economy, with the bank having an estimated derivative exposure of €42 trillion; Italian banks are carrying bad loans amounting to €360bn which threaten the entire Italian economy and then there is Greece. It appears that Europe is currently only resting in the eye of the storm.

What if anything has interest rate swaps, securitisation, foreign exchange derivatives and credit default swaps to do with funding the productive economy? Why have citizens and SME's had to pay for the gambling debts of commercial pillar banks and why does the pattern appear to be repeating itself?

Using the fractional reserve system with virtually no built-in limits or constraints, commercial banks created credit at unprecedented rates which in turn fuelled the speculative property bubble that was to inevitably collapse bringing the country to its knees[22]. In short, too big to fail banks are the drivers of boom-bust cycles.

Why do Irish citizens / SME's have to pay almost double the average European interest rates? What has happened to the single European market? Why have successive Irish governments discriminated against Credit Unions and Post Offices through a host of restrictions on the products and services they can offer?

Why do privately owned commercial banks hold a monopoly on credit creation and why do these same banks also have monopoly control over the payments system. These are structural issues that further subordinate Credit Unions / Post Offices.

Why has government ruled out introducing a Community / Public Banking alternative to the commercial pillar bank model. Surely, present government policy towards these institutions conflicts with both Irish and E.U. competition law, to such an extent that the very future of these institutions is widely reported to be under threat? Why is the critical payments system under the sole control of private commercial banks?

Why the lack of political will or is it merely a lack of understanding of how banking and credit creation works? Why has mainstream media given such scant and biased coverage of the globing banking sector? Are there solutions going forward? PBFI set out to investigate the current banking sector with a view to identifying alternatives.

1.3 PBFI – Finding Solutions

These issues and questions became the raison d'etre for the formation of the Public Banking Forum of Ireland [PBFI] in 2013[10]. PBFI set itself the target of coming up with a solution that would have at its fulcrum, the development of the productive economy through a banking system that prioritises local and regional funding for the indigenous economy and does not engage in casino style or bonus culture banking.

At first, the development of such an optimal banking system seemed like a very tall order indeed but on closer examination, it transpired that Public and Community banks in Germany (the world's fourth largest economy and the largest economy in Europe, by some distance) have a 70% market share.

The next challenge for PBFI was to consider whether the German Community / Public bank model could be adapted to underpin and promote the Irish economy. PBFI examined several possible public banking models that might suit Ireland. In so doing, it proved impossible to ignore the substantial existing framework and infrastructure of the Credit Union movement and Post Office network.

PBFI reasons that either or both these renowned institutions can provide very substantial synergies, local knowledge and goodwill in the development of a full banking alternative to the current polarised and fractured commercial pillar banking model.

In this paper, PBFI propose that the Credit Union movement, either alone or in tandem with the Post Office network, supports the creation of a network of regional Community / Public banks. It is envisaged that the three entities would closely co-operate with each other, with inter alia, Credit Unions and Post Offices depositing funds with the new Community / Public Banks which in turn will offer viable deposit rates. Both Credit Unions and Post Offices would have the option of providing front of house services for the Community / Public Banks.

The Community / Public banks would then provide managed credit, based on a strict fractional reserve ratio of 6:1 (in keeping with the German Sparkassen Public Banking model), to the indigenous economy in particular to the SME /ME sectors, at first cost. This should ensure a flow of sustainable credit to every community throughout the country. The business focus of the Community / Public banks must be on making business work as opposed to collateral collection.

[10] www.republicirelandbank.com

The combination of Credit Unions, Post Offices and Public Banks will provide a full-service banking model that is speculation averse and will prove a robust competitor to the present profit maximising pillar bank model.

1.4 Overview:

After the collapse of Ireland's banking sector in 2008 and following repeated commitments from government in relation to the introduction of real competition in the Irish banking sector, little or no substantive progress has been made[11]. Over the past eight years, it has become apparent that successive government are trapped in a dichotomy between the growth and welfare of the pillar banks and that of the general welfare of citizens and the indigenous economy.

What is in the best interest of the pillar banks, increasing shareholder value, is totally at odds with providing a robust and risk averse banking platform that could underpin the development of the indigenous economy.

Successive governments have prioritised the shoring up pillar bank balance sheets by allowing them to charge artificially high interest rates to a virtual captive market in Ireland. Irish interest rates have been running at up to double E.U. average rates, while interest rates to depositors has been amongst the lowest in the E.U. What has become of the single European market when it comes to banking? It has become clear that a glaring conflict of interest arises for government between its role as major shareholder in the pillar banks and its dual role as regulator to said banks and its public interest duties. This conflict is exacerbated by corporate and intellectual "capture". The result is the suppression of competition thus stymieing indigenous growth within the economy.

As substantial shareholders in the pillar banks and with the stated intention of selling off its shareholdings, it is in government's interest to act in this manner; inflating rates and charges and cutting costs through a host of branch closures and a move to centralised decision making.

However, this policy runs counter to the conditions imposed by Brussels during the bail-out and the commitments given by government as part of the process where the E.U. / Ireland circumvented state-aid rules during the 2008 / 2009 financial crisis[12].

The Central Bank of Ireland [CBoI] and the Competition and Consumer Protection Commission [CCPC], both of whom are agencies of State, have been alarmingly somnambulant regarding their respective responsibilities before, during and since the financial crash in 2008.

[11] See Appendix 7 for a synopsis of ISIF and SBCI and on-lenders.
[12] See Appendix 6 Competition Law / Policy and the Irish Banking Sector

With little meaningful progress over the past eight years, the question of Ireland's compliance with EU Competition Law[13] surely arises. It is difficult to reconcile the present banking policy and behaviour with the almost daily warnings over the future of Credit Union and Post Offices. Hundreds of Post Offices are set to close and Credit Unions are being pressurised to merge.

1.5 Program for Partnership Government May 2016

Encouragingly and largely through the efforts of PBFI, last year's program for partnership government had specific commitments in relation to the creation of Community / Public Banks and the sustainability of the Credit Unions and Post Offices[14]. On November 16th, further progress was made when a motion moved by Deputy Mattie McGrath, on behalf of the Rural Alliance was unanimously carried[15]. The motion called for the introduction of a sustainable banking model for Post Offices and the creation of a Community / Public Banking model.

More recently, Minister of State for Regional Economic Development, Michael Ring has initiated a public consultation[16] committing the Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs ***"to thoroughly investigate the German Sparkassen model for the development of local Public Banks that operate within well-defined regions. It also calls for the investigation of a new model of Community Banking that could provide a suite of banking services through the Post Office Network, such as the Kiwibank model in New Zealand, where the Post Office owned bank provides a comprehensive suite of financial services, from personal loans and bank accounts to credit cards, business banking and insurance".***

PBFI wishes to extend its gratitude to Minister Ring for providing this opportunity for all stakeholders and the public to publicly express their views on the feasibility of creating a Community / Public banking model in Ireland.

1.6 Current Irish Situation:

With over three hundred Credit Unions and eleven hundred Post Offices, the platform is already in place to create a local and regionally based alternative to the present pillar bank model. There is pent-up demand throughout the indigenous economy for a sustainable funding model.

[13] Ibid
[14] http://www.merrionstreet.ie/merrionstreet/en/imagelibrary/programme_for_partnership_government.pdf
[15] https://www.kildarestreet.com/debates/?id=2016-11-16a.350
[16] http://www.ahrrga.gov.ie/consultation/consultation-on-local-community-banking/

As it stands, both the Credit Unions and Post Offices are severely restricted in terms of the products and services they can offer and to whom they can offer their services to. To date, successive governments have applied discriminatory terms and conditions to Credit Unions and Post Offices as compared to the pillar banks which, on the face of it, appear to run counter to Irish and EU competition law[17].

What funding is finding its way down to the indigenous economy arrives through various circuitous routes with profit extracted all along the money supply chain and so ends up prohibitively expensive to indigenous enterprise[18]. ISIF and SBCI are cumbersome creations and for the most part act as intermediaries with no local focus. Put simply, the Irish solution to funding SME's puts Irish SME's at a significant disadvantage to their German counterparts who obtain funds at first cost from their Public and Community banks. From PBFI's interaction with a host of organisations across several sectors of the indigenous economy, the resounding message is that rural Ireland and the indigenous economy is not a government priority.

This concern is exacerbated by former Department of Finance, Secretary General, John Moran who, in May 2016, spoke of the State not being able to afford rural Ireland and that rural Ireland must, effectively face up to significant downgrading.

An example of what can be done when sufficient pressure is applied is the recent emergency agri-loan fund which will make limited funds available on complex terms to farmers at 2.95% to assist those with cashflow problems.

1.7 The Great Urban / Rural Myth – Debunked

It is important to note that throughout this paper, any reference to the indigenous economy not only means rural Ireland but SME and Micro Enterprise [ME] activity across the entire country, including the major cities; the economy has no geographical boundaries.

1.8 Foreign Direct Investment V Indigenous Economy

The real divide occurs between FDI (Foreign Direct Investment) and the indigenous economy. PBFI believes that successive governments have created an over reliance on FDI, whilst largely ignoring the indigenous economy.

[17] See Appendix 6 Competition Law / Policy and the Irish Banking Sector

[18] See Appendix 7 Ireland's Approach to Re-Banking Ireland.

The net is rapidly closing on Ireland's controversial corporate tax advantages. Our competitors for FDI, particularly the U.S. and U.K. have signalled their intention to reduce corporate tax rates to compete with Ireland. This coupled with President Trump's stated policy of repatriation and the E.U.'s Apple Tax decision are clear signals that Ireland's favourable FDI environment is about to be significantly eroded8; the need therefore for a banking alternative that supports the indigenous economy has never been greater.

1.9 The European Union

It is not as if the pillar bank model has suddenly become sustainable, robust and risk free overnight. The E.U. has failed to learn lessons from the banking crash and continues to pursue a federal banking agenda with an emphasis on promoting a small number of large scale private commercial pillar banks throughout Europe behind a smokescreen of obfuscation and misinformation. Most notably, no credible action has been taken to separate retail banking from investment banking.

The truth, it appears, is that the worst of the financial crisis has yet to come with the Italian government in an on-going tussle with E.U. over state aid rules in relation to bailing out its banks. Germany has a political problem (not to mention the sheer financial challenge) in rescuing Deutsche Bank; Chancellor Merkel has taken such a hard line in relation to bail-outs throughout Europe, that Germany cannot now be seen to bail out Deutsche Bank, even if it could afford to. In addition, Deutsche Bank has recently agreed a settlement of $7.2bn with U.S. authorities (December 2016) for the miss-selling of mortgage-backed securities before the financial crisis.

Is it not perplexing, even disturbing, that the E.U. will not look at the two-hundred-year-old German Sparkassen model of excellence on its own doorstep and take steps to replicate this proven model throughout Europe? Again, the role of corporate and intellectual capture surfaces.

1.10 Need for Urgent Action

There appears to be little or no awareness amongst the public of the introduction of European Bail-In legislation under the guise of the Bank Recovery and Resolution Directive (BRRD)[19] 2014. Under the BRRD mechanism, customer deposits can be bailed in to support a failing bank; in other words, customers with deposits are mere creditors of the bank. BRRD became a central plank in last years' Italian referendum; the then government was fruitlessly seeking a waiver on BRRD to avoid fleecing ordinary savers in the €360bn bank bail-out / bail-in.

[19] http://europa.eu/rapid/press-release_MEMO-14-297_en.htm

Amid much talk of separating ordinary banking activities (retail e.g. savings and loans) from investment bank activity, little to nothing has changed in Ireland. The bonus driven high risk investment banking culture continues to thrive, creating ever bigger "too big to fail" global banking corporations than was the case in 2008. The U.S. introduced the Glass-Steagall (Banking Act) Act in 1933 after the 1929 Wall Street crash which, for seventy years before its partial repeal in 1999, ensured that commercial and investment banking were kept separate, under different ownership and with different business models. The repeal of significant parts of Glass-Steagall, once again a result of corporate and intellectual capture, paved the way for the 2008 financial crisis.

The public is also largely in the dark regarding the global $700 trillion[20] derivatives bubble that threatens the global banking[21] sector. As it stands, Credit Union funds are for the most part deposited with these banks. It is therefore imperative that ordinary citizens, Credit Unions and Post Offices have an alternative to depositing their funds in high risk pillar banks. An alternative banking force such as that proposed in this document could help insulate the indigenous economy from the effects of another global banking crash.

2. PBFI Proposal to Create Alternative Banking Force

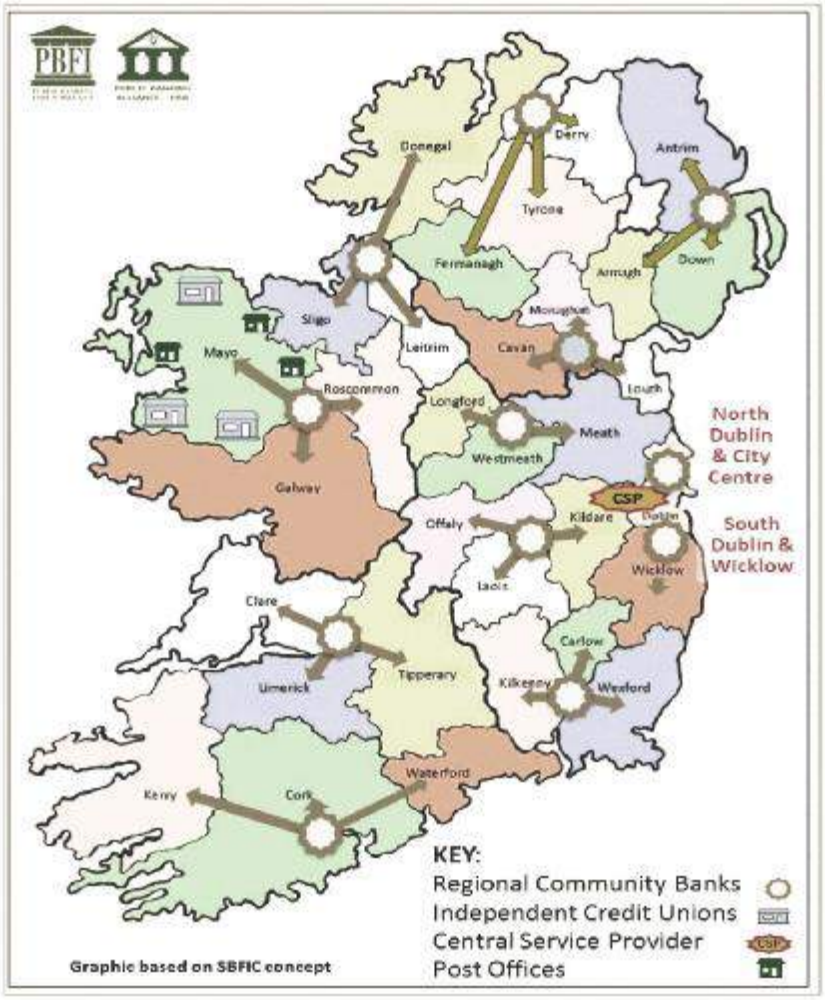
2.I The Proposal

Against the above described background, PBFI has developed the following proposal for an all-encompassing, full banking service model that will, on the one hand compete with the commercial pillar banks and on the other provide a long term sustainable platform for the survival and growth of both Credit Unions, Post Offices and the indigenous economy.

PBFI propose that the Credit Unions and Post Offices collaborate in the establishment of a network of ten Community / Public banks supported by one Central Service Provider [CSP]. Credit Unions and Post Offices will have the option of providing front of house services on behalf of the Community / Public banks, thus re-establishing a locally based, full service banking model to serve communities and the indigenous economy.

[20] Bank of International Settlements
[21] Some sources estimate the total notional derivatives bubble to be closer to $1.5 quadrillion, if credit default swaps and other exotic instruments are included e.g. Global Research, www.globalresearch.org

Figure 1: Possible Community / Public Bank Locations



This new dynamic, created through a spirit of cooperation between the three entities will massively boost the entire indigenous economy whilst providing a risk-averse platform for savers, bearing in mind that Credit Unions presently have little choice but to deposit member's surplus savings in risk-taking commercial pillar banks.

The new regionally based Community / Public banks will present Credit Unions and Post Offices with a new / alternative investment opportunity. Credit Unions currently have circa €6-8 billion of under-utilised member's deposits. Currently, the return available on these funds is unsustainably low, e.g. Bank of Ireland are now charging Credit Unions for holding large deposits.[23]

Like the pillar banks, the new Community /Public banks will leverage these funds using the fractional reserve system but in a constrained manner using a conservative ratio of six to one, in line with the approach of the hugely successful German Sparkassen banking model. This could provide a massive boost to the indigenous economy throughout the regions. The regional Community / Public banks will recycle profits into making more locally focused loans available whilst also investing in local community projects, again in line with the German Sparkassen model.

Lending will be focused on the productive economy, e.g. SME's, local Micro-Enterprises, construction, regional infrastructure, tourism, value added chain in both agriculture and marine, and on voluntary and cooperative enterprises. There will be no lending for speculative purposes.

[22] See Appendix 3 Control of the Nation's Credit

[23] See Appendix 5: 8.2 Need for Proportionate Regulation and Regulatory Impact Assessment

Figure 2 Present Structure of Credit Union movement

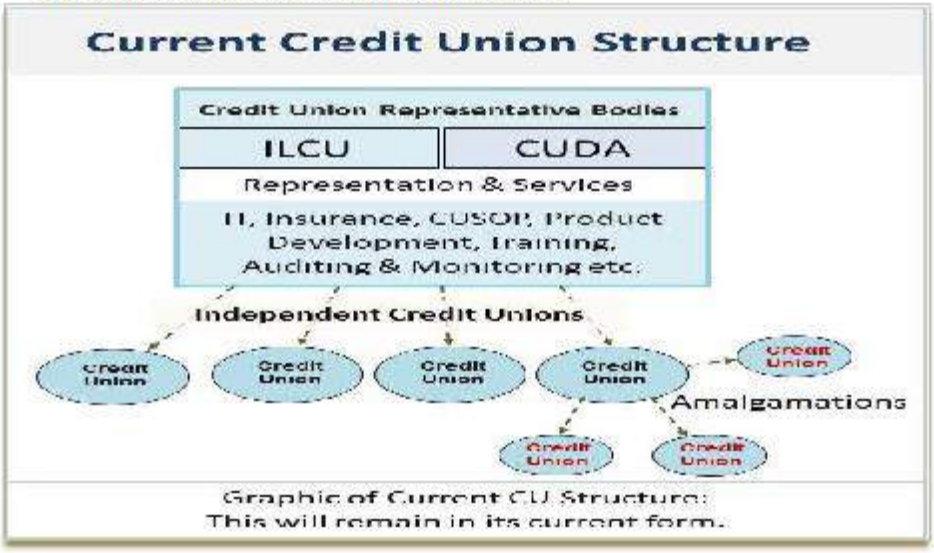
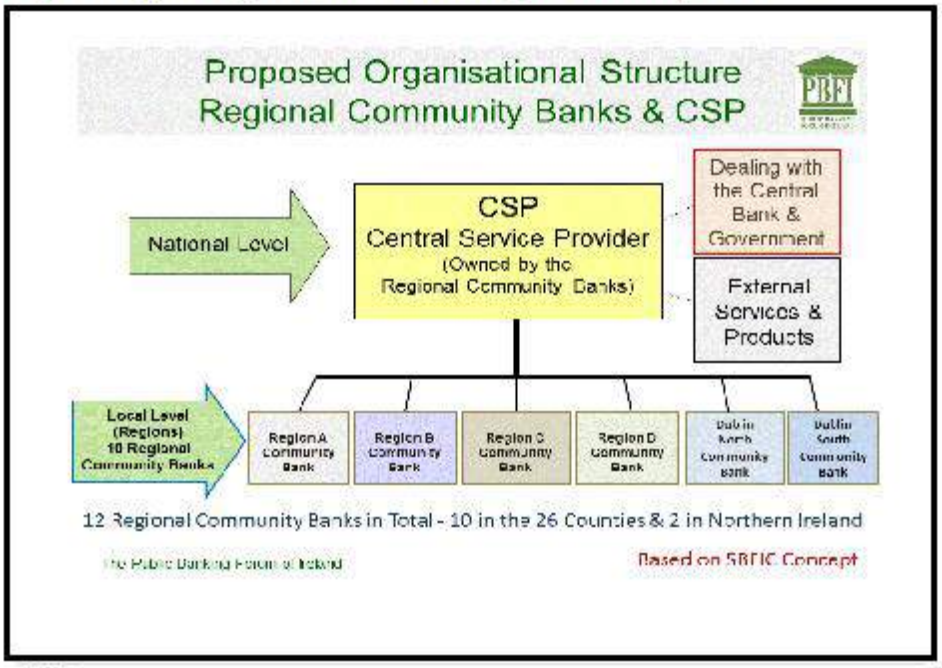


Figure 3: Proposed Organisational Structure of Regional Community Banks & CSP



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2.2 Necessary Elements of Design and Legal Structure

- Ownership Structure is crucial: The new banks will be publicly owned with a legal structure that ensures they can never be sold. Each regional bank will be owned by the people of the region through a trust in perpetuity. Over time, PBFI envisages each county having its own Community / Public bank.

- The proposed regional banks will be independent, regionally located and regionally focused, supporting and serving the network of participating Credit Unions and Post Offices (those that opt to participate), with a view to providing the full gambit of banking products and services. Their focus will include financing SME's (which provide 68% of all employment) and local indigenous enterprise, thereby ensuring progress, prosperity, appropriate social infrastructure and stability in their respective regions.

- The Community / Public banks should be independent but networked entities all linked to the common Central Service Provider.

- The Community / Public bank board will include bank management staff (who hold the majority vote) and representatives from the Credit Unions, Post Offices, the voluntary sector, local government and SME / farming.

- They should conservatively leverage their funds at no more than 6:1, like the German *Sparkasse*, and lend for productive purposes only; no credit creation for asset speculation.

- The Credit Unions, Post Offices and new Community / Public banks should closely co-operate in their combined best interests but will remain as separate entities, each retaining its own ethos and standing.

- The expertise of the Sparkassen Foundation (Savings Banks Foundation for International Co-operation [SBFIC]) which assists countries worldwide in developing Community / Public banking models should be sought, as should the assistance of other renowned Community Banking experts, including Professor Richard Werner.

- The CSP can engage with the Central Bank on regulatory issues and with Government on policy / legislation.

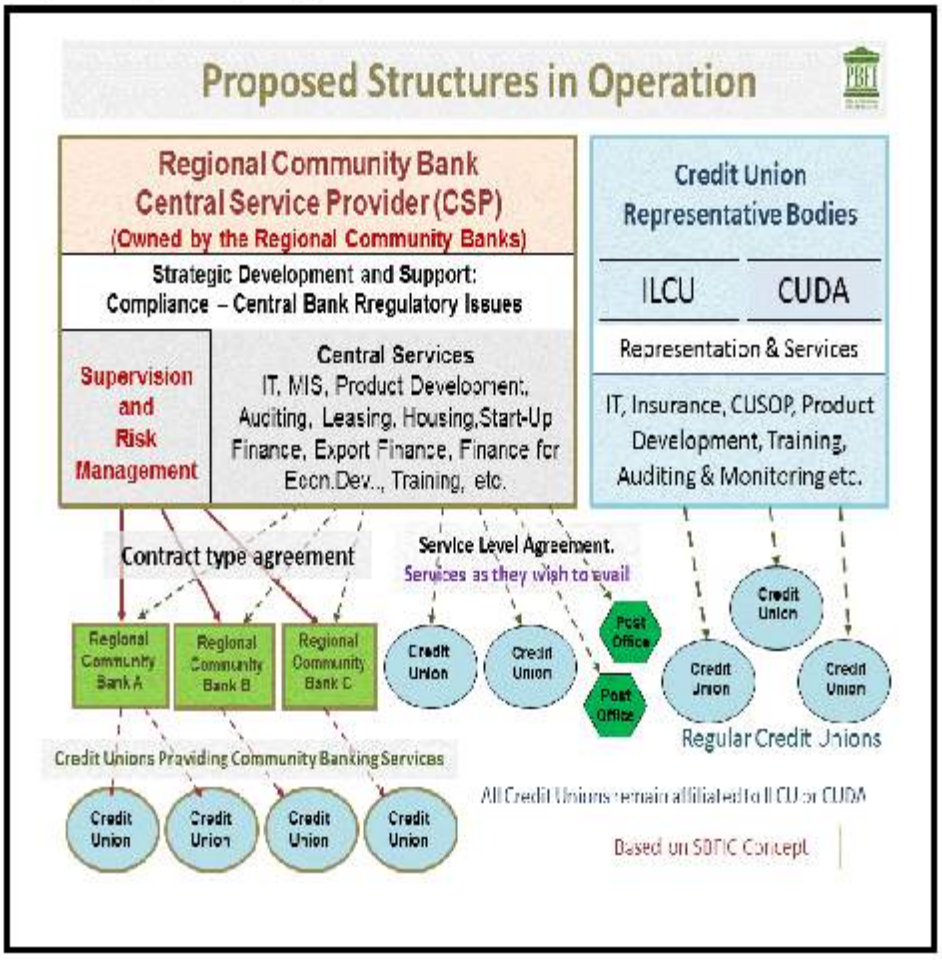
- The CSP (Central Service Provider) can provide IT, Internal Auditing & Compliance, Product and Service development and other group support services to the regional Community / Public Banks and to those Credit Unions and Post Offices that opt to participate.

- The CSP should be owned and funded by the regional Community / Public Banks, with input to its decision making and policy formation from participating Credit Unions and Post Offices.

Ideally two to four banks would be initially established as pilot projects, monitored and tweaked as necessary and the remaining established over a 5-year period.

2.3 The Central Service Provider (CSP) Vital element of proposed new network.

Figure 4: Proposed Operating Structures



The Post Office network: PBFI's proposal recognises that the Post Office network of over 1,100 branches has the potential to be a major part of the proposed new comprehensive Community / Public Banking

system; providing bank accounts to their customers, banking for the un-banked and providing counter service for Community / Public Bank products and services. However, PBFI equally supports the concept of the Post Offices forming their own full banking model along the lines of the very successful New Zealand Kiwibank model. In such a scenario, there would be two new entrants into the banking market[24]: -

- **Credit Unions / Community Bank network**
- **Post Office Bank network based on Kiwibank model**

Northern Ireland: This PBFI proposal focuses mainly on the Republic of Ireland but it could also be implemented in Northern Ireland for its 1.86 million people, by initially establishing two Community Public banks, perhaps in Derry City and in Belfast.

The addition of regional Community / Public banks in Northern Ireland could provide support for NI's 95 credit unions and their 457,000 members. It also may be possible for the NI community banks and credit unions to avail of some of the services offered by the Central Service Provider in the south. This is an issue that might best be addressed by the German Community / Public bank experts, the SBFIC.

Figure 5: Credit Unions and Community Public Banks can exist together

[24] Appendix 1: New Zealand's Post Office Model - Kiwi bank- An option for the Post Offices

2.4 Expertise in Community / Public Banking

The Savings Bank Foundation for International Cooperation (SBFIC) is the not-for-profit foundation of the German Sparkassen Public savings bank group. SBFIC is among the foremost experts in the world on Community / Public banking. Since 1992, SBFIC has assisted with over 150 Community / Public banking projects in more than 60 countries. SPFIC currently has 5 projects ongoing in the EU and 32 projects ongoing in 31 other countries worldwide[25].

Representatives from SBFIC have visited Ireland several times, commencing in 2014 on the invitation of the PBFI and other similarly minded groups. SBFIC has put forward a similar proposal to that contained in this document; to set up ten regional Community / Public banks across Ireland on a stand-alone basis, i.e. fully independent of Credit Unions and Post Offices. PBFI believes this option certainly has merit. However, PBFI takes the view, why re-invent the wheel, when a large portion of the infrastructure necessary for the creation of the new alternative banking force is already in situ. PBFI's view is heavily influenced by Ireland's small population base and by the fact that the very future of both Credit Unions and Post Offices is under threat.

There is a growing consensus in Ireland across the political spectrum and throughout indigenous stakeholders that Ireland should create its own Community / Public banking model. The different options available are a matter for further discussion among the various stakeholders; however, PBFI believes it important that the new Community / Public Bank / Credit Union / Post Office system would co-operate and for the most part, focus on different sectors of the market, each targeting a specific lending range, a specific type of customer and a particular sector of the economy.

PBFI encourages such engagement.

2.5 Costing

The estimated total once off cost of setting up the ten regional Community / Public Banks (in ROI) and the Central Service Provider (CSP) is less than €150m[26].This includes a cost of €10m per licence for each of the 10 ROI regional Community / Public Banks. Based on an SBFIC estimate, the cost of establishing the CSP is circa €5m. The remainder is accounted for by training, legal services, premises etc. This amounts to **less than €30 per head of population**.

[25] SBFIC projects: http://www.sparkassenstiftung.de/en/projects.html

[26] Estimate compiled by SBFIC in conjunction with PBFI in 2014.

Some initial capital may be required to initiate lending while the deposit base is built up, but this would be subject to further exploration by the various stakeholders. State funds e.g. ISIF could be used to assist in the start-up, repayable over five to seven years from the anticipated operating surplus. These costs are minimal when compared with: -

- €69.7bn bail-out (including the €20.6bn AIB bond) shouldered by taxpayers in the recent bank bail-out, albeit the State holds equity in the pillar banks.
- €8.1bn allocated to ISIF (Irish Strategic Investment Fund) to fund economic development.
- €1.25bn allocated SBCI (Strategic Banking Corporation) to fund economic development.

3. Conclusion

Several factors motivated the forming of PBFI in 2013 and the preparation of this paper, not least a palpable media bias in the coverage of the collapse of the Irish banking sector, the subsequent bail out, a €uro project that is in deep trouble, a debt mountain across E.U. member states that can never realistically be repaid and the stealth-like introduction of European Bail-in legislation, in the guise of the Bank Recovery and Resolution Directive (BRRD) that could undermine the entire Credit Union movement.

More recent developments further confirm that Ireland's economy and by extension its socio-economic well-being has reached a momentous crossroads. The U.S. has President Trump. Brexit is rapidly looming and the E.U.'s Apple tax decision threatens to change the face of foreign direct investment in Ireland, at least in so far as selective and discriminatory tax structures are concerned. There is also much debate around the proposed harmonisation of corporate tax rates across Europe.

The cumulative effects of what might be, given the uncertainty of the nature of the fall-out from all the above are indeed far reaching. Ireland cannot simply put all its young people to work in call centres in Dublin, Cork, Limerick, Galway and Waterford. E.U. policy aligned with the track record of successive Irish government's points to a gradual abandonment of rural Ireland and an ever-increasing drive towards globalisation. Former Department of Finance Secretary General, John Moran has effectively confirmed this[27]. PBFI unequivocally rejects any proposal that will lead to the further abandonment of rural Ireland or erosion of the indigenous economy.

[27] See Introduction Section 1.6

It appears that the E.U. and member states have learnt little from the calamitous financial crash of 2008. Fractured Irish pillar banks are being nurtured, indeed aided by the state, at taxpayer's expense, while our two most reliable financial institutions, Credit Unions and Post Offices are subjected to a host of restrictive practices which threaten their very future.

This inane policy of squeezing Credit Unions and Post Offices has follow-on consequences for Ireland's indigenous economy as has the creation of a whole new closed banking sector via ISIF and SBCI. Finance for the sake of finance is good for finance houses but bad for business. It appears that this new banking sector has become an end in itself, while the original aim (of providing sustainable credit to SME and Micro Enterprises) has been largely diluted, at least in terms of competing with the German Community / Public Banking model.

PBFI is committed to the development of Ireland's embryonic indigenous economy. Ireland's natural resources remain largely untapped, from tourism to exponentially increasing value added along both the agri-sector and aqua-marine supply chains.

The views and aspirations of PBFI and those of the Credit Union movement appear to be closely aligned. In a press release (October 7th 2015), the Irish League of Credit Unions had this to say: -

"Our vision is to have locally based, accountable credit unions providing a full range of personal financial services to members and all who wish to avail of our services. Credit unions want to evolve and change but are increasingly frustrated at the regulatory roadblocks put in our path. These roadblocks threaten the ability of credit unions to continue to serve in communities throughout the country in the future."

PBFI urge both the Credit Union movement and Post Office network, together with all stakeholders to carefully examine the herein proposal. PBFI's proposal avoids any move towards central control of Credit Unions as any such move (to central control) is potentially a move towards a corporate profit maximisation model that may well lead to the Credit Union movement succumbing to corporate control in the medium term, in similar vein to how agricultural co-ops morphed into Plc's.

PBFI proposes a tried and trusted model of Public Banking, based on Germany's 200-year-old Sparkassen banking model. PBFI submits that, inter alia, the Sparkassen foundation (SBFIC) has all of the required expertise both locally in Germany and internationally[28] to assist in the setting up and running of the proposed regional Public Banking facility which will seamlessly combine with Credit Unions and Post Offices to create a real alternative banking force; an alternative to the present high

[28] http://www.sparkassenstiftung.de/en/home.html

risk and wholly inadequate two and a half pillar banking structure that has entirely failed Irish citizens and the indigenous economy.

If rural revival and real indigenous growth is to become a serious government prerogative, then the introduction of Public Banking is a prerequisite going forward. Both Credit Unions and the Post Office network are uniquely positioned to facilitate the introduction of this full-service banking alternative throughout Ireland. The new banking force will, in turn, consolidate the position of Credit Unions and Post Offices in the market by providing an attractive return on capital, boosting business and removing the current prohibitive restrictions on doing business.

The aim should be to deliver at least 50% of the country's banking needs through Community / Public Banks, Credit Unions and Post Offices. The Post Offices could instead opt for the Kiwibank alternative[29]. In Germany, almost 70% of the market is provided by Local Community / Public Banks.

PBFI research has determined that there are no credible obstacles to the creation of the proposed new ground-breaking banking force other than corporate and intellectual *capture* of the body politic, which has played such a huge part in the collapse of the Irish economy. Transparency International states[30] that "legal corruption" played a role in the poor regulation and weak oversight of financial institutions which led to Ireland's banking crisis. The TI report describes "legal corruption" ***"as taking many forms and includes cronyism, patronage and state capture-when powerful groups manipulate policy formation to serve their own interests rather than the public interest"[31].***

At this critical juncture for Ireland, it is imperative that all forms of corporate and intellectual capture are parked to enable a frank discussion on the future of Ireland's banking sector and how best it can serve the socio-economy. PBFI does not claim to have got everything perfect but contends that its proposal is the basis for a viable and sustainable alternate to Ireland's current not fit for purpose commercial banking model. PBFI urges all stakeholders to start the banking discussion now in the interest of future generations.

[29] See Appendix 1: New Zealand's Post Office Model – Kiwibank – An option for Post Offices
[30] Transparency International's National Integrity Systems Report (Addendum) 2012 https://issuu.com/transparencyinternational/docs/2012_nisireland_addendum_en?mode=window&backgroundColor=%23222222
[31] Referenced from Kaufman, Daniel and Vicente, Pedro, 2011 Legal Corruption, Economics and Politics.

Appendix 1

4. New Zealand's Post Office Model - Kiwi Bank an Option for Post Offices

4.1 Overview

New Zealand has a long, if somewhat varied history of Post Office banking culminating in the present state controlled Kiwi bank. The New Zealand Post Office Bank was set up in 1867 and eventually grew into a behemoth with operations spanning post, telecoms and banking. After a period of strained relationships among the various divisions within the organisation, the company was corporatized in 1987. The Post Office bank then became PostBank, a separate corporation with a mission to maximise profit. It was sold outright to ANZ, a major international bank in 1989.

Kiwi bank was then launched in 2002 under the full ownership of New Zealand Post which is in turn fully owned by the state. The new Kiwi bank grew rapidly and became very much the people's bank. The bank does its business transactions through the existing network of circa 280 PostShops (Post Offices). Kiwi bank was launched primarily to give indigenous New Zealand its own bank, to ***"hold Kiwi values at heart and keep Kiwi money where it belongs – New Zealand"***[32]. Kiwi bank claims to have launched with a thought: *"New Zealand needs a better banking alternative."*

[32] http://www.kiwibank.co.nz/

Figure 6: Kiwi bank Ownership Structure: -

Kiwi bank has been a runaway success having more locations than any other bank in New Zealand (using the existing infrastructure). In its first fourteen years, customer numbers have grown to exceed 800,000 with hundreds of new customers signing up each week[33]. Kiwi bank provides[34]: -

- A nationwide ATM network
- Personal Banking – home loans, personal loans, credit cards, current and savings accounts, investments and insurance.
- Business Banking – lending, current and savings accounts, credit cards, investment services and insurance.
- International services – on line and manual international money transfers, foreign exchange and foreign currency accounts.
- Internet, phone and mobile banking, text and e-mail alerts.

4.2 Has Kiwi bank succeeded?

There is no question but Kiwi bank has been a success for the people of New Zealand. It has created a dynamic bank that has offered serious competition to the privately-owned banking giants. However,

[33] Ibid
[34] Ibid

Kiwi bank is not a Public or Community bank. It is commercially driven on a for profit basis but its ethos is that of a people's bank. At best, Kiwi bank is a hybrid. Its sister company Kiwi Insurance Ltd provides a whole range of insurance products and services, something that is badly needed in Ireland[35].

The big danger is that Kiwi bank could be sold off as indeed was its predecessor Post Bank in 1989. In late 2016, two wholly owned state (Crown) entities, NZ Super Fund and ACC (Accident Compensation Corporation) bought 25% and 22% respectively of Kiwi Group Holdings Ltd which raised Aus$ 494 million for New Zealand Post. Of this, Aus$90m is being retained by Kiwi Group Holdings Ltd to strengthen KGHL's balance sheet.

As it stands, neither NZSF or ACC can sell shares outside the existing circle of shareholders for a period of five years. After that point, if they do wish to sell, the government has the option to buy the shares back before they are offered to any third parties[36].

Despite being a hybrid, Kiwi bank provides New Zealanders with an immense improvement on what Ireland currently offers its people.

4.3 The view of Leading Global Banking Expert Attorney Ellen Brown

Ellen Brown had the following to say regarding New Zealand's Kiwi bank model[37].

"Postal banks are now thriving in New Zealand, not as a historical artefact but as a popular innovation. When they were instituted in 2002, it was not to save the post office but to save New Zealand families and small businesses from big-bank predators. By 2001, Australian mega-banks controlled some 80% of New Zealand's retail banking. Profits went abroad and were maximized by closing less profitable branches, especially in rural areas. The result was to place hardships on many New Zealand families and small businesses.

The New Zealand government decided to launch a state-owned bank that would compete with the Aussies. They called their new bank Kiwibank after their national symbol, the kiwi bird. But the government team planning the new bank faced major challenges. How could they keep costs low while still providing services in communities throughout New Zealand?

[35] The possibility of setting up a State or Kiwi bank type insurance company to be administered through Post Offices is something PBFI believes worthy of exploring.
[36] http://www.kiwibank.co.nz/
[37] See Attorney Ellen Brown's Web of Debt Blog, January 9th 2012

Their solution was to open bank branches in post offices. Kiwibank was established as a subsidiary of the government-owned New Zealand Post. The Kiwibank website states:

Back in 2002, we launched with a thought: New Zealand needs a better banking alternative—a bank that provides real value for money, that has Kiwi values at heart, and that keeps Kiwi money where it belongs—right here, in New Zealand.

So we set up shop in PostShops throughout the country, putting us in more locations than any other bank in New Zealand literally overnight (without wasting millions on new premises!).

Suddenly, New Zealanders had a choice in banking. In an early "move your money" campaign, they voted with their feet. In an island nation of only 4 million people, in its first five years Kiwibank attracted 500,000 customers away from the big banks. It consistently earns the nation's highest customer satisfaction ratings, forcing the Australia-owned banks to improve their service in order to compete."

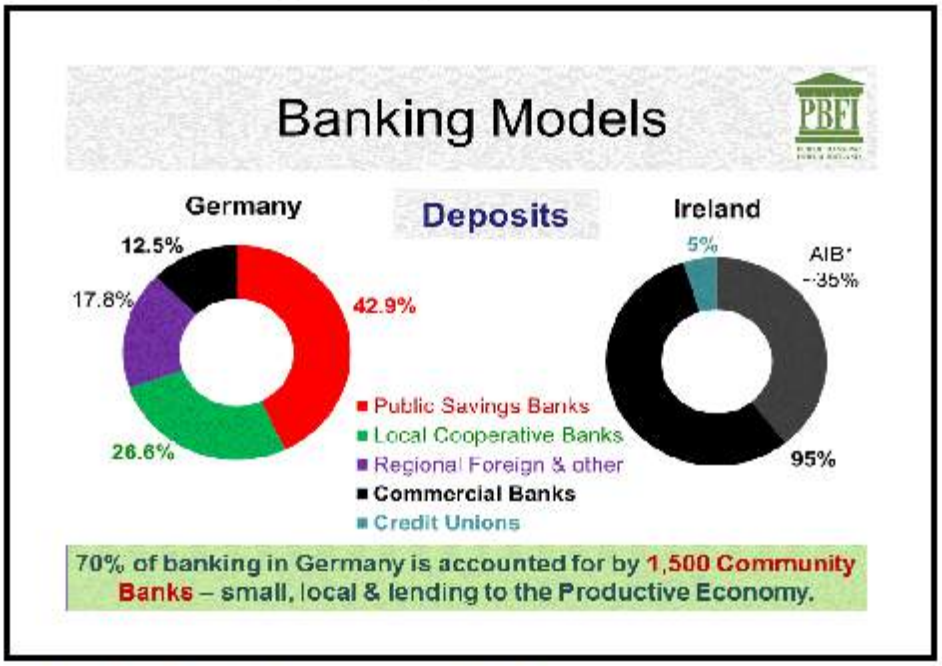
Appendix 2

5. Banking in Germany and Ireland – A Comparison

5.1 German Banking Model Vs Ireland's Oligopolistic Model

The illustration below provides a comparison between the respective banking models of Ireland and Germany.

Figure 7: Market Share for Deposits Germany V Ireland



*AIB 99.8% State owned but owes the State over €16bn

In stark contrast to the highly concentrated Irish pillar bank model, circa 70% of funding for the German economy is provided by Public Savings banks and Co-Operative banks. This figure rises to near 90% when account is taken of Germany's regional banks. The market share of private commercial banks, such as Deutsche Bank AG, Commerzbank AG and others stands at a mere 12.5%. In contrast, Ireland's commercial banks hold c. 95% share of the market. Ireland has no Public or Community banks and the only Co-Operative bank, Rabobank is currently exiting the Irish market.

In Germany, the 400 Public Savings banks with 15,000 branches, which together hold more than 40% market share, *increased* their lending after the crash of 2008, helping their SME customers weather the crisis and providing a much-needed economic stimulus. Germany also has over 1,030 Co-Operative banks with a market share of 26%.

Current government policy which appears to endorse the rebuilding of the existing commercial pillar bank model at the expense of developing a Community / Public bank competitor does not well serve the public interest; it provides no real competition and does nothing to reduce risk or deal with the monopoly control of credit creation.

Unlike Ireland, most EU countries have public and non-profit-maximising banks with sizeable market shares; this helps to counterbalance the cycles of boom and bust in property markets that are fuelled by commercial bank credit for speculation.

A perusal of the structure of German industry clearly reinforces the importance of Community / Public banking to the economy. While there is a commonly held misconception that the Germany economy is solely driven by large corporations such as Allianz, Siemens, Bayer, Mercedes, Audi, Volkswagen, BMW, Deutsche Bank, the facts on the ground do not bear this out. An October 2015 research paper[38] authored by KfW Bank Group made some remarkable findings: -

[38] https://www.kfw.de/migration/Weiterleitung-zur-Startseite/Homepage/KfW-Group/Research/PDF-Files/The-SME-sector-in-Germany.pdf

Figure 8: KfW Bank Group Figures on Germany Economy October 2015

- **3.67 million small and medium enterprises form the backbone of the German economy.**
- **These represent 99.95% of all companies.**
- **87% have a turnover of less than €1 million.**
- **Less than 1% have a turnover of greater than €50 million.**
- **They employ 29.1 million people or 68% of the working population.**
- **They provide training for 1.2 million young people-that is 89% of all trainees.**
- **Micro Enterprises with less than 10 employees provide a good third (34%) of workplaces in the German SME sector.**

The conclusion to be drawn from the above figures is that Community / Public banking is serving the SME and ME (Micro Enterprise) sector in Germany very well. In Appendix 7, PBFI questions the motives and wisdom of Ireland's approach to re-banking its economy through ISIF, SBCI and a host of on-lenders.

It is therefore imperative that Ireland embrace a Community / Public Banking model similar to that of Germany, which model has stood the test of time, its origins go back to the 18th century and ever since it has played a pivotal role in building Germany's economy into Europe's largest economy by some distance and the fourth largest in the world. Community / Public banks have an entirely different ethos; rather than collect collateral, the policy is **"to make business work"**.

APPENDIX 3

6. Control of the Nation's Credit and Payments System

6.1 Credit Creation

Probably the most serious, most misunderstood and most fundamental problem within banking is the creation of credit (it is important to note that neither Credit Unions or Post Offices create credit). Internationally acclaimed banking expert, Professor Richard Werner[39] had this to say: -

"Essentially the borrower is credited with money that's called a deposit that nobody deposited, its invented. The banks create fictitious deposits and that's how the money supply is created. As the banks become more powerful they started to write the laws."[40]

Professor Richard Werner recently surveyed over 1000 students at Frankfurt University wherein 84% believed that credit was created and allocated by the Government or Central Bank. This is the commonly held perception but it is a fallacy - credit creation is the sole preserve of private profit maximising banking corporations.

In the same survey, Professor Werner asked: - ***"Would you agree with a financial system where private banks create the money supply?"*** Over 90% of respondents said no.

[39] Professor Werner of Southampton University is one of the world's leading authorities on international banking and credit creation. See Footnote 3 for link to Professor Werner's presentation to PBFI Conference in April 2016.
[40] Slides in this section courtesy of Professor Richard Werner's presentation at PBFI's April 2016 Dublin Conference.

Figure 9: How Banks Create Money

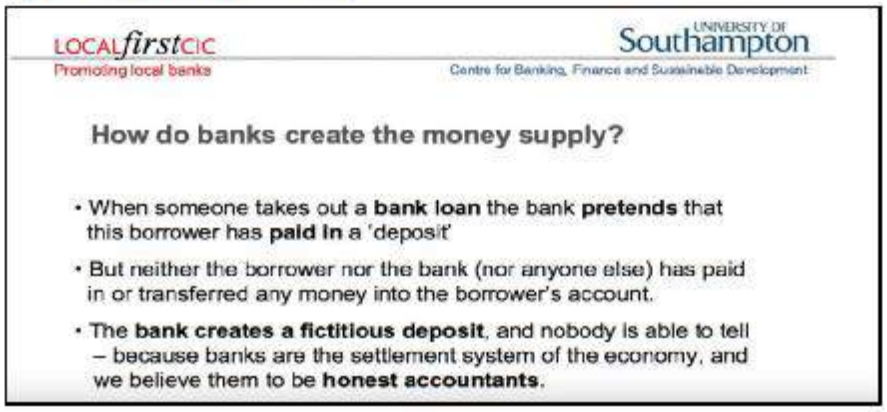
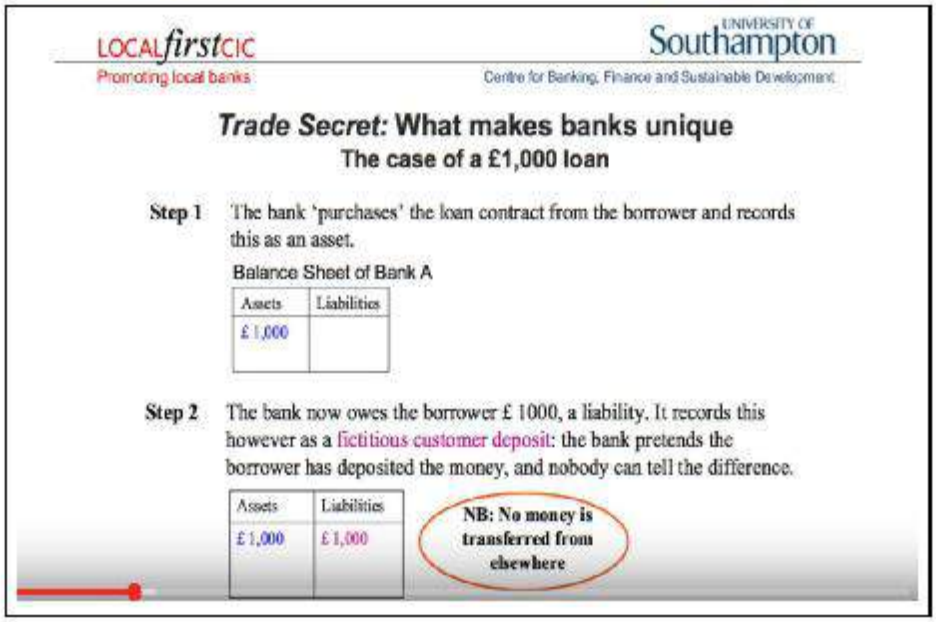


Figure 10: Trade Secrets of Banking

Control over credit creation goes to the core of boom–bust economics. The commercial banking system in Ireland controls the credit supply of the nation so essentially it controls the economy of the country. It controls the amount of credit created, who gets it and for what purpose. The recent record of these institutions, supposedly under the watch of the Central Bank and the ECB has proved disastrous for the Irish economy. Whilst these pillar banks are solely profit motivated, the model nevertheless, is supposed to be risk averse in that loans are backed up with securities and collateral provided by the loan applicant.

Only circa. 3% of the money supply is cash (notes & coins). This is the only portion of the money supply that comes into the economy that is not debt with interest attached. It is issued by the ECB through the CBoI. The Dept. of Finance / Government benefits in the form of Seigniorage on this 3%. It plans to eliminate cash altogether; in 2014 it kicked off a €1m marketing campaign for a cashless society[41]. The remaining circa 97% of credit creation is in the hands of these unaccountable commercial banks. This alone is a staggering fact; to think that a handful of bank CEO's and their management teams, whose sole motivation is to maximise salaries, bonuses and shareholder return, recklessly hyper inflated credit creation to fund the non-productive and speculative economy, when the result was inevitable. Irish citizens were then called upon to fund the €67bn bail-out.

Figure 11: The Creation of Credit



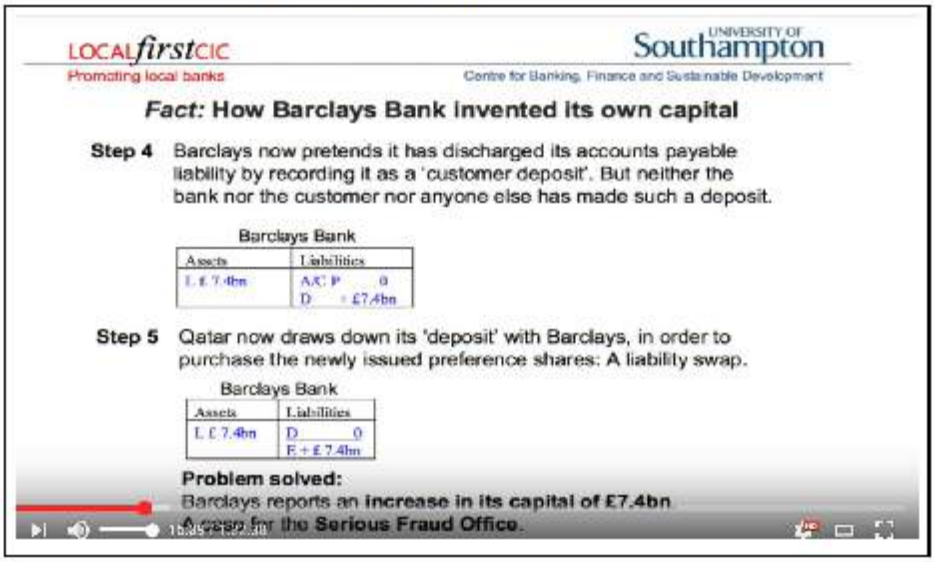
Recent unchallenged revelations by whistle-blower, Jonathan Sugarman[42] show the mayhem and total disregard for risk assessment that pervaded the banking, regulatory and political systems, leading to

[41] http://www.independent.ie/business/irish/central-bank-kicks-off-1m-campaign-for-cashless-society-30033110.html
[42] https://www.youtube.com/watch?v=F-EvFQvoAt4

the crash. In effect, the wealth and socio-economic well-being of our nation was gambled away by a clutch of privileged institutions underpinned by an effective guarantee by Irish citizens.

Clearly, control of the creation and allocation of the nation's credit supply needs to be urgently addressed through national debate. The introduction of Community / Public banks that practice sustainable lending to the productive economy can substantially counter the reckless behaviour of private banks and therefore counter to some extent the likelihood of further boom-bust cycles.

Figure 12: Barclays Bank – A case for the Serious Fraud Office?



The question of whether private commercial banks should continue to be permitted to create credit exclusively is one that needs to be urgently addressed.

6.2 Payments System

In addition to monopoly control over credit creation, Ireland's private commercial banks have monopoly control over the payment system, the system used to settle all financial transactions. The operation and proper functioning of the payments system is dependent on the solvency and liquidity of individual banks. Recent stress tests highlighted the vulnerability of both AIB and BoI.

Ireland should ensure that private banking executives are never again in a position to hold government / citizens to ransom through their control over the payments system. **The payments system should be nationalised and run through a competent administrator. A Post Office bank, Community / Public bank or a new stand-alone administrator could easily fulfil this task.**

Appendix 4

7. Characteristics of Pillar Banks V Public / Community Banks

7.1 Too-Big-to-Fail Pillar Bank Model & Moral Hazard

Essentially, the phenomenon of "too big to fail" created a moral hazard that forced (rightly or wrongly) the Irish Government to issue a systemic guarantee in the amount of €440bn to cover bank costumer deposits and bank's own borrowings back in September 2008. Irish pillar banks were deemed too-big-to-fail on the basis that their failure would threaten the entire financial system and the economy at large. Moral hazard in effect created an insurance policy for the pillar banks under which an unsustainable tsunami of credit was created that inevitably led to the banking crash of 2008.

Without any discernible regulation, a mammoth bonus culture took hold of the financial system, where short term profitability outweighed the bank's own long term interest as well as the public interest. Extraordinarily, neither the Central Bank nor the ECB made any attempt to reign in the rampant credit creation that led to the crash; if anything, the credit balloon was encouraged by both.

It is scarcely believable that despite the too big to fail culture that ruptured the socio-economic well-being of our people and resulted in unprecedented hardship being foisted on the economically weakest sections of society, current government policy appears to be once again aimed at recreating the too big to fail model that so destroyed the economy.

Why does government policy appear to back the pillar banks in this manner, when there is a gaping conflict between the interests of pillar banks and those of the wider economy? There is a ready-made solution, the creation of an Alternative Banking Force encompassing Credit Unions, Post Offices and a network of new public banks.

7.2 Centralisation v Customer Proximity and Regional Empowerment

Ireland's pillar banking model is becoming more and more polarised towards Dublin based institutions; the branch network continues to shrink and even the most trivial of loan applications are decided by faceless administrators in Dublin.

The indigenous economy cannot be best served by pillar banks that are beating a retreat from the regions whilst preoccupied with innumerable bonus motivated teams working on extraneous oddities such as securitisation, derivatives, interest rate swaps, arbitrage, alternative investments, algorithmic trading, hedging, junk bonds, instruments, taking liquidity risks and long / short positions, proprietary trading and structured products, none of which have any place in the indigenous economy.

Back in the 1970's, Ireland had a network of regional banks, e.g. Munster and Leinster Bank, National Bank, Provincial Bank of Ireland and Royal Bank of Ireland. In that era, decision making was largely devolved to individual branches with oversight from regional or head office. This model worked well for individuals and SME / farmers. **In short, the current banking structure is not fit for purpose.**

It is imperative for the survival and growth of the indigenous economy that banking activity occurs predominantly within the local community, local decisions for local enterprise, i.e. that we go back to basics. PBFI's proposal takes account of the existing infrastructure that provides for close customer proximity and decision making which will in turn empower every region of the country.

7.3 Credit Creation:

Productive Economy

V

Financial and Asset Speculation

A prerequisite to placing the economy on a sound footing going forward is an understanding of the role and effect of credit creation on the economy. Successful post war economies such as Hong Kong, Japan, Korea, Taiwan, Indonesia, Malaysia, the Republic of Korea, Singapore and Thailand (collectively known as the East Asian Miracle) were built on creating credit for the productive or real economy. These economies limited lending for financial transactions to below 15% for decades, until the 1980's, when lending itself exploded and lending for financial, asset and property transactions soared to more than 30% in Japan. The U.S. created a similar asset bubble in the 1920's and Scandinavia did so in the 1980's. More recently, U.K. Greece, Portugal, Spain, Italy and Ireland created massive asset bubbles which led directly to financial collapse in these countries. Lending for financial transactions, e.g. asset and property does not add value to the economy. As Professor Richard Werner puts it, financial transactions do not add value because *"it is a zero-sum game"* (what one party gains, the other loses).

The lesson to be learned is that credit for property and asset speculation creates property and asset bubbles, followed by financial crisis with potential catastrophic effects for the socio-economy, unless strictly managed. The banking model proposed by PBFI operates on a strict fractional reserve ratio of 6:1 and does not engage in lending for speculation.

7.4 Credit for the Real Economy, the Productive Economy

In reshaping the banking sector and setting goals going forward, it is important to differentiate between 'economic activity' and 'servicing the productive economy'. In 2015, a handful of multinationals in the tech, pharma and aircraft leasing sectors caused enough 'economic activity' to reflect a 26.3% growth in GDP, making Ireland liable for an extra €280m in EU contributions. Employment growth was just 2.6% during this period or one-tenth of the GDP "growth".

PBFI contends that Government policy has failed to adequately provide for effective and sustainable lending to the productive economy which reflects a failure to understand the primacy of the productive economy[43]. This view is backed up by ISME findings for Q2 2016 which led then CEO Mark Fielding to state:

"Access to finance is still among the top three main concerns of SME owners, behind cost of doing business and economic uncertainty. The refusal rate of 35% is still too high and points to a continued overbearing risk aversion by the main banks and their inexperienced staff. The national figures clearly demonstrate that all three rescued banks are chasing Prudential Liquidity through reduction of the quantity of loans on their balance sheets through a reduction in SME lending……one of the keys to economic revival and sustained recovery is a properly functioning banking system. The cornerstone of the economy is the SME sector, which will never reach its potential starved of appropriate finance. The Government must stop merely acknowledging that we have a banking problem and begin to act decisively."

The East Asian Economic Miracle was made possible through prudent lending with an emphasis on the indigenous economy of the region. A 1993 study by the world bank[44] on the Asian Economic Miracle found that the Asian economies had ***"been unusually successful at sharing the fruits of growth".*** The study found that rapid economic growth occurred alongside a move towards an even income distribution. There are lessons to be learned from the Asian Miracle[45].

7.5 Community / Public Banks and the Productive Economy

By design, Community banking ensures the availability of sufficient volumes of credit for the productive economy at first cost to borrowers. PBFI contends that government approach to funding the indigenous economy is fundamentally flawed[46]. PBFI's proposal dovetails with the unique position and geographical spread of both Credit Unions and Post Offices. The proposed Alternative Banking Force will seamlessly fill the clearly discernible banking void and play a pivotal role in empowering the indigenous economy through local and regional lending.

[43] See Appendix 7, Flawed Government Approach to Funding the Product Economy.
[44] World Bank Policy Research Bulletin, August – October 1993, Volume 4, Number 4
[45] See Documentary: - "Britain's Trillion Pound Horror Story" https://vimeo.com/92357576
[46] See Appendix 7.

Ireland's indigenous economy has vast potential for expansion. The marine and fisheries sector, agri sector, green energy and tourism are largely untapped. Some structural change may be required, particularly in the fisheries and agri sector.

The recently created brands of the Wild Atlantic Way and the new Ancient East initiative provide a platform for a host of tourism related SME and micro enterprises. There is further demand for funding for a host of agri-sector initiatives including craft beer brewing, organic farming, local stone ground milling operations, local bakery sector, tannery, sugar and industrial hemp production together with virtually unlimited potential to re-establish the fishing and fish processing sector.

In addition, there is a demand for local modern state of the art beef, lamb and pig processing units that have the potential to add enormous value within the processing chain, particularly in the rapidly growing markets for "fifth quarter" produce[47].

As it stands, the indigenous sector is almost totally reliant on funding from the fractured pillar bank sector (with 3 banks having 95% of the SME market) that has returned to its old ways of financing speculation and globalisation whilst only paying lip service to real development of the productive economy.

It is extraordinary that despite pent-up demand for funding and exponential opportunities to expand the productive economy, successive governments have gone to such lengths to restrict the role of Credit Unions and Post Offices, to such an extent that their respective futures are under serious threat; a very disturbing dichotomy?

7.6 Has Foreign Direct Investment Peaked?

The assumption must be that FDI into Ireland has peaked, primarily for the following reasons: -

- E.U. Apple Tax Decision, whatever the outcome of the appeal, secretive tax arrangements containing discriminatory or selective treatment for one or a few global corporations will no longer be on offer to attract future FDI. Ireland will retain it's 12.5% corporate tax rate and the 6.25% rate for research and development (KDB, Knowledge Development Box) will remain.

- U.S. action under President Obama to curb inversions, which halted to proposed inversion between Pfizer and Allergan in April 2016. President Trump has committed to taking an even tougher stance on inversions.

[47] "Fifth Quarter refers to circa 50% of an animal's live weight that farmers currently receive no payment for. It includes heart, liver, kidneys, tongue, stomach, skirt, tripe, intestine, tail, embryonic fluids, horns, head, ears, glands etc. Fifth quarter is used in making a host of pharmaceuticals, cosmetics, household and industrial goods, including insulin.

- U.S. President Trump has committed to lowering U.S. corporate tax rates from 35% to 15%. Whatever happens, the gap between Irish and U.S. corporate tax rates is set to narrow considerably. As recently as St. Patrick's Day 2017, President Trump's press secretary, Sean Spicer spoke in relation to US jobs in Ireland: - ***"those jobs in a lot of cases, moved to Ireland because of a more favourable tax climate, a more favourable business climate. Our job is to get them back, unfortunately."***

- The U.K. has already committed to lowering corporate tax rates to 17% by 2020 and Prime Minister Theresa May has not ruled out a further lowering of rates to less than 15%.

Unquestionably, Ireland has placed an over-emphasis on FDI to the extent that the latent indigenous economy has been neglected. All of this means that, going forward, Ireland must lower its cost base to drive the indigenous economy. Again, a prerequisite for advancing the indigenous economy is a fully functioning banking sector that can provide funding at first cost without the funds having to go through, in some cases, layers of intermediaries[48]. PBFI's proposal comfortably achieves this aim thus making an overwhelming case for the introduction of German style public banking to Ireland.

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[48] See Appendix 7: Ireland's Approach to Re-Banking Ireland

Appendix 5

8. Vista Facing Credit Unions is Stark

8.1 Credit Unions left with no option but to introduce Savings Cap

Recent announcements that several Credit Unions are being forced to impose lower caps on savings, as low as €25k, only serve to heighten concerns regarding the future of Credit Unions. Government imposed restrictions are preventing Credit Unions from loaning to the SME sector which, in turn impacts severely on loan income. The knock-on effect is that Credit Unions cannot comply with the requirements for its reserves held in the Central bank (reserves must come from profits on loan income). This latest development coupled with negative interest rates applied by the commercial banks place Credit Unions in an even tighter straight jacket while SME / ME are starved of credit.

8.2 Need for Proportionate Regulation and Regulatory Impact Assessment

The Central Bank imposes a hugely disproportionate burden of regulation on Credit Unions without any measurable justification and appears unwilling to acknowledge that the key challenges facing Credit Unions are as a **direct result of the banking collapse**. The banking collapse was primarily caused by a catastrophic failure of regulation of the pillar banks which allowed exponential growth in lending for speculative purposes, mainly in the property sector[49]. The Central Bank together with the ECB turned

[49] Between 1997 and 2008, credit creation relative to GDP more than tripled creating profound distortions in the Irish economy. The proximate cause of the boom and bust in Ireland since 2000 is well known: construction. Ireland went from getting 4–6 per cent of its national income from house building in the 1990s—the usual level

a blind eye to the creation of this unsustainable credit bubble[50]. The pattern was repeated across the PIIGS countries, Portugal, Italy, Ireland, Greece and Spain.

Credit Union loan arrears and bad debts spiked in the aftermath of the banking crisis with rising unemployment and austerity. Credit Union loan books fell from €7bn to under €4bn between the collapse in 2008 and the end of 2015, because of the banking collapse and this dramatic reduction in loan income has been the biggest challenge faced by the Credit Union movement. Moreover, in a move designed to stimulate economic growth, EU monetary policy switched towards negative interest rates in 2014. This further impacted on Credit Unions in terms of returns on deposits. Credit Unions affiliated to ILCU alone, claim to have more than €8.5bn in surplus funds[51].

The Credit Union movement remains extremely well capitalised and continues to operate prudently as illustrated by the following figures from ILCU 2016 figures[52]:

- **Credit union lending up by €216 million in 2016 (ROI)**
- **Credit union loans are up by €216 million (6.1%) in 2016 and were up €94 million alone in the last quarter before year end, September 2016.**
- **68% of credit unions (192) have recorded growth in their loan books**
- **Loans have now been up for five out of the last six quarters.**
- **The credit union movement is extremely well capitalised, reserves have increased by 8.4% to €2.3 billion.**
- **Credit unions have €880 million in excess capital above the 10% minimum capital requirement.**
- **Total loan provisions (funds set aside for loan losses) now exceed total gross loan arrears by €170 million. This buffer is in addition to capital reserves of €2.3 billion.**
- **Gross loan arrears have fallen by 27% (€119 million) for the year to end September 2016, and are now at a ten-year low.**

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for a developed economy—to 15 per cent at the peak of the bubble in 2006–07, with another 6 per cent coming from other construction. (Morgan Kelly, The Irish Credit Bubble, December 21st 2009).

[50] https://www.youtube.com/watch?v=F-EvFQvoAt4 Whistle-blower Jonathon Sugarman speaking in European Parliament, November 15th 2016

[51] ILCU statement, October 20th 2016
https://www.creditunion.ie/communications/pressreleases/2016/title,10484,en.php

[52] **Press Release from ILCU, December 7th 2016**

https://www.creditunion.ie/communications/pressreleases/2016/title,10600,en.php

- **Arrears have fallen for 19 consecutive quarters.**

In contrast, pillar banks continue to pose an ongoing systemic risk to the financial system, to the wider economy and to state/taxpayers. In the most recent stress test carried out by EBA[53], AIB and Bank of Ireland fared second and fourth worst respectively among 51 EU banks scrutinised over their ability to withstand a three-year theoretical economic shock. To make matters worse, these poor results were achieved on the back of AIB and BoI charging the highest interest rates in Europe, almost double the EU average[54].

Of further concern is the fact that during late 2015 and 2016, insurer FBD switched over €150m of its deposits from the pillar banks into corporate bonds. When one considers that FBD's CEO, Fiona Muldoon is former Director of Credit Institutions at the Central Bank, FBD's recent action is both informed and foreboding. Ms. Muldoon told the Irish Independent that the switch was because of the extremely low returns offered on term deposits by banks, coupled with fears that new bail-in rules (BRRD) introduced by the European Union could expose bank bondholders and depositors to bailing out a failed lender.

PBFI acknowledges the work of ReBo[55] and the Report of the Commission on Credit Unions[56],in particular the Commission's acknowledgment of the need for a tiered regulatory approach to Credit Unions. The Commission's final report states in 7.6.1: -

"However, it is important to ensure that the regulatory requirements in place for credit unions are proportionate to the nature and scale of the credit union. In recognition of this, the Commission recommends a tiered regulatory approach".

In relation to the operating environment, the Commission further acknowledges in its final report that:

"As Chapter 3 shows, a number of weaknesses have been identified in the sector:

• Costs have almost doubled, driven primarily by increases in provisions, and income has declined.

• Credit unions are significantly under-lent. The average loan to asset ratio as at 31 December 2011 was 40.76%, an historic low. As a consequence, the share of investment holdings by Irish credit unions is high.

[53] European Banking Authority, results released July 2016
[54] See Appendix 6, Competition Law / Policy and the Irish Banking Sector
[55] http://www.rebo.ie/ The Credit Union Restructuring Board
[56] http://www.finance.gov.ie/ga/what-we-do/banking-financial-services/credit-unions/credit-union-commission/commission-credit-unions Commission on Credit Unions

This adversely impacts upon income generation as the return from investments tends to be lower than interest receivable on loans.

• Since 2007, credit unions have suffered a sharp decline in their return on assets, which by 30 September 2011 had fallen to 0.6%.

• There is evidence of a wide disparity in credit union performance with larger credit unions tending to perform better than their smaller counterparts."

Perhaps the Commission's next finding has set the tone for ReBo and its consolidation strategy.

Commission Final Report (7.2.2): -

> *"Looking ahead, there is also a range of challenges facing credit unions:*
>
> - *A modern regulatory framework will require investment in systems, skills and expertise and a new way of working. These will lead to additional costs and point to the need to find new economies of scale".*
> - *Credit unions, in general, need to produce additional income which could be generated from, inter alia, expanding the range of products and services that credit unions provide."*

Very significantly, the Commission makes a finding that closely dovetails with PBPI's proposal.

Commission Final Report (7.2.5): -

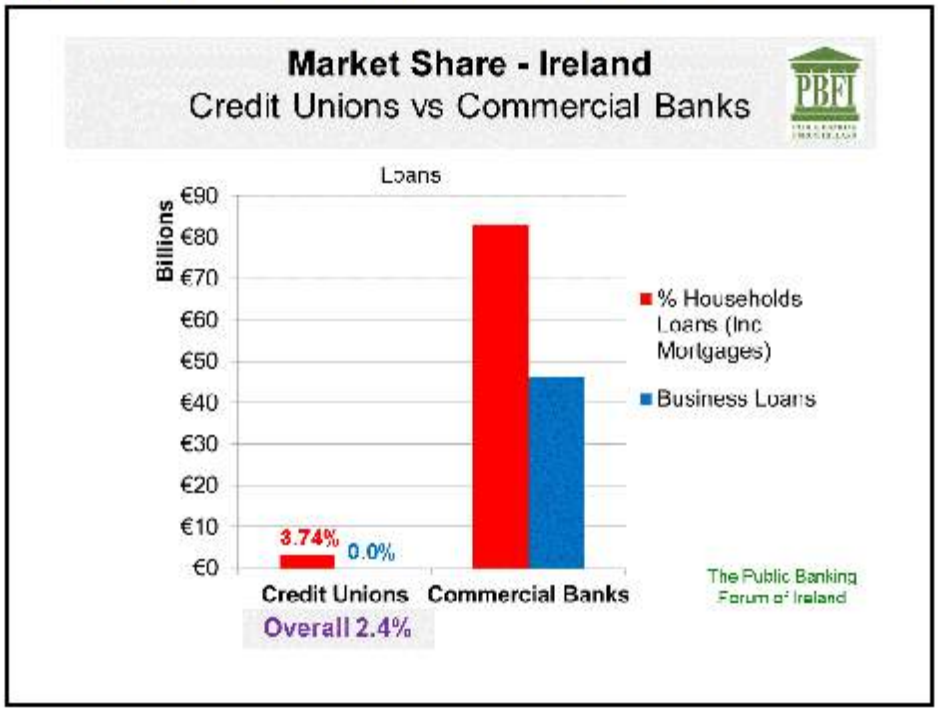
> *"If credit unions can reduce their cost base through economies of scale and scope, while improving their income stream through the provision of a wider range of products or expanding existing lending, then there is an opening for credit unions to become a third pillar of the Irish financial system."*

Under PBFI's proposal, the development of many new banking products together with the associated increased investment in systems, skills and expertise will largely be borne by the Central Service Provider [CSP], leaving individual Credit Unions and Post Offices to reap the benefit of the increased revenue stream arising from their role in the new full service Alternative Banking Force. PBFI's proposal obviates the need for wide-spread closures and / or mergers of Credit Unions and Post Offices.

8.3 Credit Union market share

The graph below demonstrates the paltry 3.7% share of Irish household debt / loans held by Credit Unions. PBFI's proposal to form an Alternative Banking Force incorporating Credit Unions, Post Offices and a new Public Bank network will have the capacity to dramatically increase market share (to many multiples of 3.7%). There will be combined capacity to develop a substantial will loan book over the medium to long-term.

Figure 13: Credit Union and Commercial Banks Market Shares-Ireland



Against this backdrop, it is perplexing that past governments / Central bank have imposed such draconian regulations and operational restrictions on Credit Unions. These restrictions have given the pillar banks a one-way ticket to charge artificially high interest rates to SME's and consumers alike. There is a widely-held perception that the scope of Credit Union activity is being deliberately suppressed to facilitate profit maximisation by pillar banks.

8.4 The vista facing Ireland's Credit Unions is stark.

The vista facing Ireland's Credit Unions is stark. Despite written commitments to actively promote competition in Ireland's banking sector, government has failed to take any meaningful steps to do so, though it is acknowledged that the recently announced Consultation Process by Minister Michael Ring and the Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs offers some encouragement. It should be a matter of concern that Brussels favours a federal pillar bank system over models like the German Public / Community bank example.

On the one hand, government, a major shareholder in our two and a half pillar banks, has colluded in the fixing of artificially high interest rates with the sole purpose of fattening balance sheets (at consumer's expense) whilst on the other hand, government continues to impose potentially fatal anti-competitive restrictions on Credit Unions: -

Restrictions on Credit Unions

- Government imposed €100,000 cap on savings that an individual member can hold in the credit union. Credit Unions are now having to self-implement low deposit caps (as low as €25k) because of difficulties paying dividends and charges levied by commercial banks to hold large Credit Union deposits.
- No more than 10% of a credit unions total loan book can be for a period greater than 10 years (15% in some cases).
- Credit unions are currently required to maintain a Regulatory Reserve Ratio of not less than 10% of total assets.
- Credit unions currently have little option but to place funds on deposit with commercial banks which given current interest rates achieves negligible returns.
- Credit Unions are not allowed to make loans to incorporated SME's and Micro Enterprises; lending must be to private individuals.
- Credit Unions traditionally have not been permitted to engage in mortgage lending, though some changes are afoot in this regard.
- The restrictive and drawn-out process to allow Credit Unions access to debit cards, current accounts etc make Credit Unions less attractive.
- There are totally unjustified and restrictive delays in clearing cheques.

- In the aftermath of the banking crash, many would be Credit Union costumers were driven back to ruthless money lenders (who operate with impunity), as it became increasingly difficult to secure loans from Credit Unions with so many failing credit checks.

8.5 Bank Credit Creation v. CUs lending money

As per Appendix 3, banks don't lend money. Banks simply facilitate the creation of the 'loan' applicant's credit, i.e. the bank purchases the 'borrowers' promise to pay (the 'loan' contract) in return for the 'credit facility' (or money) referred to in the contract. The bank does not pay the 'borrower'; instead, it records a credit to the customer's account. No money is transferred from elsewhere. This 'credit' is what we use as our currency. The application form, "promise to pay" is effectively translated into computer credit.

Securitisation of loans and mortgages by banks allows banks to sell books of loans and thereby further increase credit creation in an almost unlimited manner. Banks can also borrow to increase their reserves, which further facilitates credit creation.

"Banks lend by simultaneously creating a loan asset and a deposit liability on their balance sheet. That is why it is called credit "creation" – credit is created literally out of thin air (or with the stroke of a keyboard)[57]*."*

Commercial banks extend credit in amounts of up to ten times their reserves, when and if they abide by lending rules, as against Credit Unions that lend real money (their members deposits). Commercial banks can make, at a minimum, ten times the profit that Credit Unions can make on lending, and with negligible risk.

PBFI's proposal substantially levels the playing field and introduces badly needed competition to the banking sector.

[57] Paul Sheard, Chief Global Economic & Head of Global Economics and Research, Standard and Poor's.

8.6 Mortgage Market

Credit Unions have been exploring the mortgage market for some years now. PBFI welcomes this proposed move but cautions against lending into a property bubble which could have devastating implications. At present, property prices are significantly out of proportion with average salaries of circa €37k per annum. Ireland's productive economy cannot support present house price levels, particularly in the greater Dublin / Leinster area. Huge tranches of houses have been bought up by vulture funds for as little as 17c in the euro but housing supply remains constricted and prices vulnerable. Entry into the general mortgage market now would be an extremely risky venture for Credit Unions or indeed for the proposed new Alternative Banking Force as envisaged by PBFI. PBFI's proposal is intended to drive the indigenous economy forward, both rural and urban. The provision of an adequate housing infrastructure is core to supporting the indigenous economy and visa versa. Credit Unions are reported to have circa €5bn available to invest.

PBFI believes that Credit Unions / Alternative Banking Force should enter the housing market in partnership with government / social housing organisations so to accelerate the provision of social housing in circumstances where there is a guaranteed return on investment. The return would be more than the paltry rates offered by pillar banks but would equally make the funding of social housing affordable. Clearly, there would be huge merit in PBFI's proposal to create an Alternative Banking Force, as available funds could be leveraged at 6:1, the strict fractional reserve ratio adhered to in the German model.

Appendix 6

9. Competition Law / Policy and the Irish Banking Sector

9.1 Overviewe

In creating the conditions for the various bank bailouts, the EU, ECB, IMF and Irish Government collectively / collusively produced word formulas to justify wholesale breaches of European and Irish Competition Law (particularly State Aid Law). Regardless of the rights or wrongs of the bank bailouts, the above institutions emphasised that introducing competition in the Irish Financial Sector was a fundamental condition attached to the bailouts.

The reality is that these same institutions are colluding to create a federal European banking model dominated by a few privately-owned pillar banks with exclusive power to create credit. Even the incredibly successful German Public and Co-Operative banking sector is coming under pressure from Europe / ECB and its long-term existence is under threat. How can this make any sense? A 200-year-old banking system that is publicly owned and has been the driving force in creating the world's fourth largest economy is now under threat because it conflicts with E.U. objectives?

The crux of the problem is that the commitments made by Ireland and the E.U. appear to run contrary to E.U. / ECB policy. It could be interpreted that the commitment to introduce real competition into the Irish banking sector was a mere ruse to justify circumventing E.U. State Aid law.

The imperative remains that the Irish government and E.U. deliver on competition commitments. It goes without saying that the German Community / Public banking model should form the cornerstone of any new banking force.

9.2 Market Concentration

Ireland's domestic banking and financial services sector remains highly concentrated by international standards[58]. Customers are denied the benefits of competition in terms of better value for money, choice and service. The Competition Authority investigated this issue in 2005. Its report focused on three specific areas; personal current accounts, lending to small business and the crucial role of the payments clearing system. A host of anti-competitive restrictions on competition were identified in the report and the Competition Authority put forward twenty-four recommendations to remove obstacles to competition[59].

However, since 2008, competition has steadily eroded with several banks exiting the Irish market. Today, three banks BoI, AIB and Ulster bank control 95% of lending to small business[60] in Ireland. Three banks have 79% of the mortgage market and almost the total mortgage market is in the hands of five commercial banks[61].

Policy-makers, including the former Governor of the Central Bank, Patrick Honohan, spoke of *'new entrants from overseas'* that might enter the Irish market and provide competition. This has not materialised in any meaningful way; instead scores of vulture / hedge funds have managed to buy up billions of euro worth of Irish property assets at massive write downs, facilitated by Government, Central Bank, NAMA, KPMG (special liquidators to IBRC) and Revenue (tax breaks), while Irish citizens / SMEs were unable to obtain credit.

[58] **The** Herfindahl Index does not give an accurate picture as Credit Unions are included in the measurement of concentration.
[59] file:///C:/Users/Seamus/Downloads/banking%20report(1).pdf **CA Banking Report Sept '05 Full Report**
file:///C:/Users/Seamus/Downloads/banking%20report(1).pdf **CA Banking Report Sept '05 Exec Summary**
[60] https://uk.finance.yahoo.com/news/irelands-three-big-banks-control-staggering-95-lending-131438647--finance.html
[61] http://www.irishtimes.com/business/financial-services/ulster-bank-gets-larger-share-of-irish-mortgage-market-1.2753985

This approach by government is again evidenced by the introduction of ICAV legislation[62]. Further, in correspondence sent to PBFI, dated January 8th 2016, on behalf of Finance Minister Michael Noonan, the Minister dismisses out of hand any support ***"for the creation of a Local Public Banking System.....at this time".*** To date, Government action appears to be completely at variance with government and ECB stated commitments, i.e. to bring competition into the market.

The knock-on effect of the failure to tackle the unhealthy levels of market concentration has resulted in a massive transfer of wealth from Irish citizens to foreign owned funds, while tens of thousands of mortgage holders across the country are in danger of losing their homes.

Neither does it appear, has any consideration been given to the prospect of a second round of bank failures? As recently as August 2016, the Central Bank[63] stated that AIB and BoI were 'vulnerable to a downturn'. This view was shared by global ratings agency, Standard and Poors. A repeat occurrence would mean another economic collapse and depositors, including Credit Unions could lose their deposits through bank bail-ins[64]. An alternative risk averse banking force would at least offer security to depositors.

9.3 Constitution of Ireland 1937

Before looking at Irish and European Competition law, a perusal of the Irish Constitution[65], particularly, Article 45 of the Directive Principles of social policy gives further cause for concern. These principles are enshrined in the Constitution but responsibility for their implementation rests with the Oireachtas. While Article 45 is somewhat aspirational, there are nevertheless some clear Directives that successive governments fail to even acknowledge: -

Article 45 2 (ii) ***That the ownership and control of the material resources of the community may be so distributed amongst private individuals and the various classes as best to subserve the common good.***

[62] Irish Collective Asset Management Vehicles Act 2015, drafted by Goodbody Stockbrokers
https://www.google.ie/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0ahUKEwjG54rtr73RAhWNc1AKHXBaDHUQFggeMAA&url=http%3A%2F%2Fwww.irishstatutebook.ie%2Feli%2F2015%2Fact%2F2%2Fenacted%2Fen%2Fpdf&usg=AFQjCNERuDrlBMe7gok3mUdzwAljxoas9A
[63] http://www.independent.ie/business/irish/aib-and-boi-vulnerable-to-a-downturn-central-bank-34934063.html
[64] New E.U. rules introduced at the start of 2016 via the Single Resolution Mechanism allow for bank bail-ins, where depositors money (above €100k) must be used (seized) to a level of 8% of the bank's liabilities before any public money can be used to bail out the bank.
[65] http://www.irishstatutebook.ie/eli/cons/en/html

Article 45 2 (iii) ***That, especially, the operation of free competition shall not be allowed so to develop as to result in the concentration of the ownership of control of essential commodities*** [credit creation] ***in a few individuals to the common detriment.***

Article 45 2 (iv) ***That in what pertains to the control of credit the constant and predominant aim shall be the welfare of the people.***

PBFI submits that the process of restructuring the Irish banking sector must take account of the Constitutional requirements contained in Article 45.

9.4 Irish and European Law

A perusal of Irish[66] (Section 4 and 5 Competition Act 2002) and European[67] Competition Law (Articles 101 and 102 TFEU) leaves no doubt but that successive Irish Governments together with the Central Bank and Pillar Banks have / are comprehensively in breach of both Irish and European Competition Law. Indeed, the European Commission introduced several procedures to override the rules on State Aid[68], to enable the rescue of Irish and E.U. pillar banks[69] in and around 2008 / 2009. However, in doing so the Commission imposed numerous conditions on the Irish Government including: -

> *2.5 Commitments by the Irish authorities*[70]
>
> *(102) The Irish authorities have undertaken a number of commitments related to the scope of the divested and run-off entities by BOI as well as regarding behavioural measures to ensure the preservation of the value of these activities and* ***to specifically address the limitation of the distortion of competition resulting from the State support.***
>
> *2.5.5 Commitments regarding State Measures*[71]

[66] http://www.irishstatutebook.ie/eli/2002/act/14/section/4/enacted/en/html#sec4
http://www.irishstatutebook.ie/eli/2002/act/14/section/5/enacted/en/html
[67] http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:12008E101
http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:12008E102
[68] http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A12008E107
[69] EU approved €592 billion in state aid to lenders between 2008 and 2012
[70] State Aid N 546/2009 / State Aid N 149/2009– Restructuring of Bank of Ireland
http://ec.europa.eu/competition/state_aid/cases/233382/233382_1163194_133_2.pdf
[71] Ibid

(155) Ireland has committed to undertake a package of alternative measures in order ***to restore the competition in the Irish banking market by facilitating entry and expansion of competitors and enhancing the consumer protection in the financial sector****. In particular, Ireland committed to carry out specific measures in order to enhance:*

(a) Customer mobility and protection (provision of information; transparency to facilitate consumer decision making; financial inclusion);

(b) Entry of competitors (electronic banking, SEPA migration, quality and availability of credit history information and reporting by banks);

(c) Corporate governance.

3.1 Existence of State Aid[72]

(159) The Commission first has to assess whether the measures constitute State aid within the meaning of Article 107(1) TFEU. According to this provision, State aid is any aid granted by a Member State or through State resources in any form whatsoever which distorts, or threatens to distort, competition by favouring certain undertakings, in so far as it affects trade between Member States.

Already approved aid measures

(160) With regard to the measures already approved by the Commission in its decisions pertaining to the recapitalisation of BOI20, the CIFS21 and ELG22 guarantee schemes in which BOI participates, and NAMA23, ***the Commission has already concluded that those measures constitute State aid in favour of BOI specifically or of the schemes' participating institutions,*** *which include BOI. The Commission notes that* ***Ireland has acknowledged that these measures constitute State aid.***

Moreover, the web of government restrictions placed on Credit Unions and Post Offices create clear distortions in the market for credit and other banking services. It is quite astonishing that private commercial banks can continue to create credit simply by having the borrower sign a promissory note while Credit Unions cannot either lend "real" money or receive a viable interest rate from commercial banks.

[72] Ibid

9.5 Competition and Consumer Protection Commission

In a 2011 paper titled "Stability and Competition in Irish Banking; Friends or Foes?" Cathal Hanley and Andrew Rae of the Irish Competition Authority concluded that[73]: -

> *"there is a real risk that the creation of a banking duopoly will not only reduce competition in the medium term but it may also exacerbate the Too Big To Fail (TBTF) problem, which has forced the Irish State to step in to cover the losses of private interests, to an even more serious Too Big To Save (TBTS) problem. Such a situation would arise if, in the event of another crisis, the two remaining banks became too big to bail out.*
>
> *The two pillar strategy seeks to address the problem of financial stability but there is a concern that the measures taken to protect the banking system in the midst of the crisis may risk prolonging the recessionary cycle if such policies halt the dynamism that creates investment and jobs. The pillar banks, like any other institution afforded shelter from competition, have a vested interest in protecting the new status quo.* ***The challenge for policy makers is to clearly distinguish between interests of the banks, which can be expected to strongly resist restoring competition, and the interests of consumers and taxpayers which lie in the maintenance of a stable and competitive banking system.***
>
> In summary, PBFI contends that the earlier position taken by the Minister and Department of Finance regarding the creation of a Local Public Banking System is deeply flawed and further asserts that the current structure and behaviour of the Irish banking sector wholly ignores the prerogative to comply with Irish and European competition law. PBFI reasons that "legal corruption" in the guise of regulatory and intellectual capture goes to the root of the problem[74].

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[73] http://www.ccpc.ie/sites/default/files/2011-10-14%20Competition%20Policy%20%26%20Financial%20Stability%20-%20Friends%20or%20Foes%20PAPER.pdf
[74] See Footnote 24 in the Conclusion

Appendix 7

10. Ireland's Approach to Re-Banking Ireland

10.1

Adequate or Flawed Approach?

In evaluating Ireland's response to the banking crash in terms of putting structures in place to ensure that sufficient funding at sustainable rates is made available to the indigenous economy, we look at structure, availability and cost in the context of funding the productive economy. PBFI contends that Ireland's response, whilst having several positives, is substantially flawed.

Ireland has created a whole new financial sector through the creation of the Irish Strategic Investment Fund [ISIF] and the Strategic Banking Corporation of Ireland [SBCI]. These in turn operate through a host of intermediaries, including AIB and BoI. This serves to enhance the dominance of these banks and further protect them from competition.

Crucially these pillar banks have will be influenced in decision making by negative credit history of many applicants who have fallen victim to the credit bubble. Furthermore, private commercial banks with hugely dominant positions can distort the market for credit e.g. in the decision by the European Commission against the European cement cartel[75] in 1994, the Commission found that the large cement companies influenced international banks into withholding and / or withdrawing credit facilities from competitors or would be competitors.

[75] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A31994D0815

10.2 Irish Strategic Investment Fund

Formerly known as the National Pensions Reserve Fund [NPRF], ISIF came into effect in December 2014, at which time the assets of the NPRF were transferred to ISIF. ISIF has a mandate to invest its €8bn fund commercially to support economic activity and employment in Ireland.

So far, ISIF has committed €2.6bn of this. Its predecessor, NPRF had already invested a total of €20.7bn in AIB and Bank of Ireland on the direction of the Minister for Finance[76]. NPRF and ISIF both had / have two investment portfolios, a Discretionary Portfolio and a Directed Portfolio, the latter portfolio holding investments directed by the Minister for Finance.

It is noteworthy that NPRF's statutory investment policy did not apply to the directed bank investments; this raises further state aid questions[77]. ISIF now includes both portfolios; its website states that the dual objective mandate of the fund, i.e. investment return and economic impact, represents a new approach to investing and will require all investments to generate investment returns and have an economic impact in Ireland.

ISIF directly funds some infrastructural type investment such as its long-term commitment of €54m to a €230m infrastructural development plan for DCU to specifically target student accommodation projects[78]. However, much of ISIF's investment goes to an assortment of on-lenders for mezzanine and equity support of already established enterprises.

10.3 Strategic Banking Corporation of Ireland

SBCI was launched in October 2014 when Germany's state promotional bank KfW agreed to provide funding for the Irish SME sector. The European Investment Bank [EIB] together with ISIF, the Council of Europe Development Bank [CEB] and National Treasury Management Agency [NTMA] also provided initial funding for SBCI. However, SBCI merely acts as a warehouse for these funds which are on-lent to eight finance houses[79]. SBCI has a total funding capacity of €1.25bn, of which €554 million has so far been on-lent.

[76] www.isif.ie
[77] Ibid
[78] Ibid
[79] AIB, Bank of Ireland, Finance Ireland Limited, Merrion Fleet Management Limited, Ulster Bank, First Citizen Finance, Bibby Financial Services Ireland and Fexco Asset Finance.

According to SBCI's CEO, Nick Ashmore, SME's that obtain SBCI funds through on-lenders are receiving 1.5% discount on market rates. However, Irish interest rates are almost double EU average rates. Is this new banking structure efficient and cost effective for SME's and the indigenous economy? Has it brought more competition into the Irish banking sector? Why has the establishment of a Public / Community banking network not received even the scantest of consideration (until now)?

In bailing out Ireland's pillar banks, both government and the E.U. gave firm commitments to introduce real competition into the Irish banking sector (Appendix 6). Why then make the profit maximising pillar banks the main beneficiaries of SBCI funds? On the face of it, there are conflicts for government between saving the pillar banks and what is best for indigenous Ireland. ISIF has over €20bn invested in AIB and Bank of Ireland with a mandate to make commercial returns and government, once again appears fixated with maximising pillar bank profits at the expense of consumers.

The key question is, does Ireland's cost of funds compete with other EU economies and the answer is a resounding no. This cumbersome and convoluted structure of intermediaries has created a whole new and costly financial sector that cannot compete with rates charged by German Community / Public banks, which provide funding at first cost. The indigenous economy is the looser.

Ireland's indigenous economy should be able to access credit at 3-4%. Much has been made of the emergency funding made available to farmers at 2.95% but this should and could easily be the norm. The farming community has been highly critical of the terms and conditions attached to these loans with many complaining that they cannot get access to the cheaper credit.

In summary, PBFI believes that the structures put in place to Re-Bank Ireland are flawed to the extent that the system fails in its primary objective of getting low-cost competitive loans to SME's at rates that allow them compete with their German counterparts while also enhancing the dominance of private pillar banks.

Appendix 8

11.Role of Media in Molding Public Opinion on Banking / Banking Crisis

Irish Media, in common with its international counterparts, has failed in its duty to properly inform the public in relation to the structures, behaviour and ramifications of the existing banking sector (monopoly on credit creation etc). The National Broadcaster RTE has come in for sustained criticism for what many see as bias in favour of government policy and strategy. PBFI submits that RTE has failed in its primary function of serving the public interest, which is a core principle of its own Journalism Guidelines (2014)[80], Broadcasting Authority of Ireland Codes and Standards[81] and the Broadcasting Act 2009[82]. Ireland's privately-owned media has fared no better.

These views are supported in a recent PHD research paper by Mark Cullinane on the response by the BBC and RTE to the economic crash that found: -

[80] https://static.rasset.ie/documents/about/rte-journalism-guidelines-2014.pdf
[81] http://www.bai.ie/en/codes-standards/#al-block-3
[82] http://www.irishstatutebook.ie/eli/2009/act/18/enacted/en/html

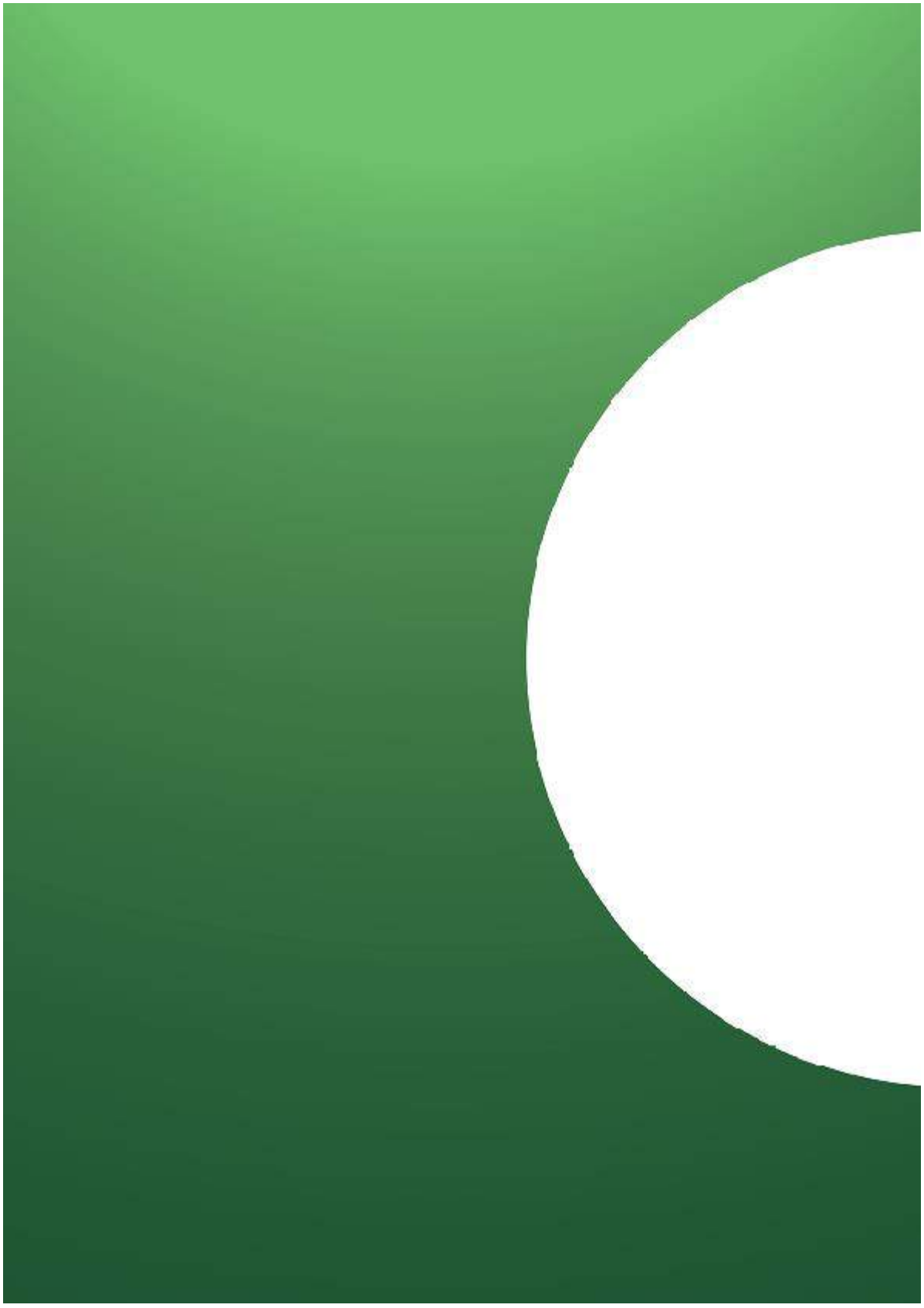
- Both BBC and RTE **"as having fallen more or less in lockstep with the right-wing economics of their respective conservative governments."**

- An analysis of the more than 150 separate broadcast items across the sample revealed some consistent features that **confirm the general impression of public service broadcasting's susceptibility to reproducing the preferred narratives of their political masters.**

PBFI submits that the National Broadcaster RTE has a duty to provide generous air time in the form of documentary and debate to leading global experts on banking, banking reform and credit creation such as: -

- **Professor Richard Werner, Economist Southampton University**
- **Ellen Brown, Attorney and Author**
- **Representatives from Savings Bank Foundation for International Cooperation (SBFIC)**
- **Professor Michael Hudson, Economist**
- **Professor Steve Keen, Economist**
- **Professor Ray Kinsella**

PBFI also calls on privately owned audio visual, audio and print media to get the Community / Public banking discussion going in the best interests of creating a thriving indigenous economy that maximises the future social-economic outcome for all Irish citizens.



RURAL INDEPENDENT GROUP

SUBMISSION TO THE CONSULTATION ON

LOCAL COMMUNITY BANKING

28th March 2017

Dear Minister Ring,

As outlined in the Programme for a Partnership Government, this government committed to advancing a new model of 'community banking'.

We are all aware of the vital social and economic value of the post office, particularly for Rural Ireland. Community banking would secure the viability of the post office network throughout the state by enabling banking services, including bank accounts through the post office network and enabling credit services, including bank loans, micro-loans and credit cards through the post office network.

The Rural Independents Group fully support the concept of Community Banking based particularly on either the Kiwibank model in New Zealand or the German Sparkassen model.

You will recall that In November of last year the Rural Independent Group introduced a Dáil Motion that received unanimous support which called on the Government to:

-implement an action plan for the Post Office Network within 3 months;

-implement a new Community Banking service operated by an Post to be made available in all Post Offices throughout the country.

We also called for the government to agree a once off Capital Investment Fund for the further modernisation of the Post Office Network to enable the widespread provision of banking services in rural and disadvantaged urban areas, most of which have been completely abandoned by the current banking model.

The Rural Independent Group fully support the work of the Public Banking Forum of Ireland who's recent analysis demonstrated that Irish commercial banks which are the so called "pillar banks" hold a market share of roughly 95% of the Irish market, whilst German commercial banks which include Deutsche Bank, and others hold a mere 12.5% share of the German banking market.

The banking model in this state needs a root and branch reform. We simply cannot allow the punitive monopoly of the pillar banks to continue as they maintain their stranglehold on the creation

of credit and insist on operating from principles directly opposed to the public good. We believe that Community Banking can offer a viable alternative to our current model.

We welcome this consultation period, however, It is vitally important that this issue is progressed as a matter of priority and we look forward to a positive outcome from your Department and some progress on the establishment of Community Banking to help secure the future of Rural Ireland.

Yours sincerely,

Mattie McGrath

Mattie McGrath TD

Michael Healy Rae

Michael Healy Rae TD

On behalf of the Rural Independent Group

Relevant Articles in relation to Community Banking

Providing Low-Cost Banking by Saving the Post Office – Ellen Brown

http://www.counterpunch.org/2015/03/27/providing-low-cost-banking-by-saving-the-post-office/

By @NatCounterPunch

Postal banking already a success

Countries as varied as Germany, Japan and New Zealand have successful postal banking services. The Japan Post Bank is the country's largest holder of personal savings.

For more than a century, what is now known as the Japan Post Bank accepted deposits but did not lend, instead handing deposits to the Ministry of Finance, which used the funds to finance public-works projects. In 2001, the bank began direct lending instead of sending its deposits to the ministry. But this was accompanied by a privatization scheme. That scheme was halted in 2009, and has not been re-instituted despite the return of the conservative Liberal Democratic Party that originally pushed for the privatization. The bank would be a huge prize for private bankers, as it reported net income of ¥355 billion (US$3.0 billion) for its fiscal year 2014.

New Zealand's Kiwibank was founded in 2002. Big Australian banks had controlled 80 percent of New Zealand's retail banking, and those multi-nationals were quick to close less profitable branches. To provide financial services to underserved communities, and keep capital at home for local investment, the New Zealand government established Kiwibank as a subsidiary of New Zealand Post, putting its branches in post offices. The results were swift, reports public-banking advocate Ellen Brown:

"Suddenly, New Zealanders had a choice in banking. In an early 'move your money' campaign, they voted with their feet. In an island nation of only 4 million people, in its first five years Kiwibank attracted 500,000 customers away from the big banks. It consistently earns the nation's highest customer satisfaction ratings, forcing the Australia-owned banks to improve their service in order to compete."

Kiwibank reported net income of NZ$100 million (US$76 million) for its fiscal year 2014. The bank reports it now has 860,000 customers.

Germany's Postbank is also highly profitable, reporting fiscal-year 2014 earnings of €431 million (US$473 million). The bank specializes in providing "simple, low-cost products for day-to-day needs," and says it has 14 million clients, including more than 300,000 small and mid-sized companies.

Germany's Postbank

One of Germany's largest banks for private customers

Deutsche Bank gained a majority stake in the firm through a tender offer completed in December 2010

With around 14 million customers, 19,000 employees and total assets amounting to €149 billion, the Postbank Group is one of Germany's largest financial service providers. It focuses on business with private customers and with small and medium-sized companies.

Private customers

Postbank offers its private customers simple, low-cost products for their day-to-day needs. The products offered range from payment transactions and deposit and lending business to bonds, investment funds, insurance policies and home savings contracts.

Postbank is easily accessible for its customers at its branches, online or by telephone. It has the most dense branch network of any bank in Germany. At its own over 1,000 branches, it offers extensive financial services as well as postal services. In addition, there are over 4,500 Deutsche Post partner branches where selected Postbank financial services are available, as well as 700 Postbank Financial advisory centers. 3,000 mobile advisors support Postbank's customers, particularly with mortgages and retirement provisions.

In online and telephone banking, Postbank boasts a leading position in Germany. A total of 9 million customer accounts are activated for online banking. And 9 million customer accounts can be accessed via telephone banking. This direct trend is still on the rise.

Business and corporate clients

About 300,000 companies in Germany are Postbank customers. In the area of business clients, it supports self-employed professionals, freelancers, business proprietors, associations and condominium owners' associations. It offers them simple and attractive solutions covering the major requirements with regard to payment transactions, financing, investment and provisions.

In business with its corporate clients, Postbank draws on its core competencies, offering solutions for payment transactions, commercial real estate financing, traditional corporate financing for SMEs, factoring and leasing, and investment management. PB Firmenkunden AG, a Postbank Group company, supports Postbank's corporate clients in person and by telephone.

Why Bernie Sanders Wants Post Offices To Offer Banking - Newsy

https://youtu.be/-dBGnrl9ml0

Video: Post Office Should Provide Banking Services https://youtu.be/mgL9kwGHTpY **Published on Mar 19, 2014**

Ends

BAKERY
BANK
COFFEE
PHARMACY
MARKET
LOCAL BANKS FOR LOCAL BUSINESS
Sinn Féin
A SINN FÉIN DISCUSSION PAPER
– SUMMER 2015

'STARVED OF CREDIT'

This, more than any other sentence, was the description of the key problem facing small and medium enterprises (SMEs) during the recession in the south of Ireland.

While banks were bailed out with over €64 billion of taxpayers' money, on top of the €30 billion for NAMA to acquire distressed loans, SMEs and small agricultural enterprises, the backbone of the economy, saw their credit lines dry up.

Despite not having caused the recession, these businesses, along with ordinary citizens, bore the brunt of it, as banks sought to correct their mistakes and stabilise their balance sheets.

While there are signs of a fledgling recovery in some aspects of the financial world, it is crucial that we take this period to reflect on the crisis caused by the banks withdrawing credit and consider proposals to try to prevent this happening in the future.

SME FACTS

- The Irish economy is dominated by SMEs, which employ approximately 70% of Ireland's non-public/self-employed workforce, above the European average. The vast majority of Irish enterprises are micro firms, employing less than 10 persons
- Between 2008 and 2012 the sector lost about 17% of its employees
- During the crisis, reports commissioned by the Department of Finance, the Central Bank, the Irish Small and Medium Enterprises representative body (ISME) and InterTrade Ireland, among others, established a pattern in the refusal of credit to SMEs
- The percentage of declined loan applications over the period was above the European level. At the end of August 2014, ISME recorded a loan refusal rate of 42%, with increasing delays in bank decisions. In addition, smaller loans are offered at far more expensive rates than larger loan amounts

From 2011 – 2013, the southern government attempted to impose SME lending targets on the two domestic pillar banks, Allied Irish Bank and Bank of Ireland. Both banks received State capitalisation and each was required to sanction lending of at least €3 billion in 2011, €3.5 billion in 2012 and €4 billion in 2013 for new or increased credit facilities to SMEs.

The banks claimed they were meeting their targets. However, unlike the mortgage arrears resolution targets, the SME targets are not published.

However, under questioning in the Dáil and Oireachtas Finance Committee, it was revealed that much of what was being extended to SMEs was a roll-over of existing loans, not new lending.

The banks were using capital to massage their account sheets, not stimulate SME activity.

The published mortgage target figures have been widely criticised as permitting the banks to meet the targets in unfair and arbitrary ways. We can only speculate that if the detail of the SME figures were available they would present a similar picture.

The government could have exercised more control over these commercial banks, but it didn't – choosing to allow them instead to make purely commercial decisions to the detriment of the public good. The situation concerning the management of mortgage distress shows the same pattern.

In 1927, in one of its first economic acts, the Irish Free State created the Agricultural Credit Corporation. Its aim was to finance business and developments in agriculture. It was so successful, the Industrial Credit Corporation, with the aim of financing industry, was established.

Throughout that decade and the next, despite the fact the State's founding parties were economically conservative, public money was used to stimulate social enterprise. The development of the electricity network is proof of that, alongside the insightful creation of the ACC and ICC.

Unfortunately, neither of those banks exists in their original capacity any longer.

That is where the concept of a new system of public banking steps in.

A PUBLIC BANKING PROPOSAL

This short discussion paper examines a proposal to establish a local public banking system in Ireland.

Sinn Féin is producing this paper following engagement and consultation with the Savings Banks Foundation for International Cooperation SBFIC, the research arm of the German Savings Bank Association, DSGV, which represents 417 Sparkassen (savings banks) with 15,300 branches in Germany.

The Sparkasse banks are the public part of the three-pillared banking approach in Germany and hold 40% of the market share – which indicates just how successful this sort of banking can be.

This system can complement the good work undertaken by the credit union sector in providing small household finance.

Everyone agrees that improved access to finance will be vital for a continuous economic recovery and development, and we believe that the proposed local Public Banks could act as mediator for public funds being made available by the newly established Strategic Banking Corporation.

CURRENT BANK SYSTEM

Following the financial crisis, the Irish financial sector was rationalised into three main banks:

- Allied Irish Bank (AIB)
- Bank of Ireland (BoI)
- Permanent TSB (PTSB)

These banks hold a market share of roughly 90%. The Irish State holds almost 14% in shares at Bank of Ireland, 99% of AIB and a 75% stake in Permanent TSB. All three banks are still undergoing adjustments to their balance sheets and all are still carrying portions of fragile mortgages and distressed loans.

The crisis saw a huge reduction in their numbers of both branches and employees.

Speaking to the Finance Committee in November 2014 Central Bank Governor Patrick Honohan spoke about the need for a "a second tier of banking which is geared more towards local concerns, with local managers and a greater level of local awareness."

THE STRATEGIC BANKING CORPORATION OF IRELAND

Whilst the Strategic Banking Corporation of Ireland has recently been established, its limitations are already evident and it is a far cry from what was committed to in the Programme for Government.

The aim of this Corporation is to provide:

- Additional credit, in particular to SMEs
- Competition in markets for the provision of credit to borrowers, in particular SMEs
- A diversity in the types of finance available in the State
- Finance to projects that promote economic development of the State

The Corporation is to secure €800 million in funding for SMEs and act as an intermediary between capital providers, including German public bank KfW, the European Investment Bank, the Irish Strategic Investment Fund (formerly the National Pension Reserve Fund) and others. It is intended that the current commercial banks in Ireland act as a distribution platform.

While the government insists that new entrants can avail of the SBCI funding, to date we have simply seen the existing banks use the funding. Only time will tell of how effective this model is and our concern is that these banks will ultimately soak up the credit with no real positive impact for SMEs.

It is Sinn Féin's view that a new system of local public banks would be better suited to act as intermediaries between business and the Corporation, in the stead of existing commercial banks.

LOCAL PUBLIC BANKS PROPOSAL

1. 10 public banks, managed independently but with an identical business model and management principles, throughout the 26 Counties. 2 to 4 pilot banks to be established initially, with the roll-out of the network over a full term of government (5 years). We would like to see these banks established in the 6 Counties also, subject to an agreed funding model
2. The establishment of a centralised specialist unit to provide internal services including: procurement; risk management; auditing
3. The new public banks will follow a business model that will provide economic viability but will not be ran for profit maximisation for shareholders
4. Earnings will be distributed between: the cost of running the banks; strengthening capital bases; invested in local community and regional projects
5. The local bank will operate within a well-defined region to prevent cherry-picking, and increase the incentive to invest in the sustainable development of their region
6. The focus on the home region will increase customer and local economy knowledge
7. The principle of local deposits to local loans will provide finance opportunities for economically weaker regions

BUSINESS MODEL

All Local Public Banks will follow the same business model, although various regions might ask for emphasis on some specific businesses.

This model will ensure:

- Appropriate and sufficient provision of financial services to all customers in a responsible and sustainable way
- The promotion of local economic development, particularly for small and medium-sized enterprises in the region
- The encouragement of savings and strengthening of basic financial education
- Provide competition to existing banking system
- Retention of profits for capital strengthening and local investment
- Farmers and small to medium enterprises will be the main clientele
- The target market will be a segment in between the traditional core customer segments of credit unions and commercial banks. Typical loan amounts will be in the range of €10,000 to €500,000

FINANCING THE BANKS

While this is a discussion document, we are striving to provide indicative figures for what this type of proposal would require in financing.

Detailed business plans are being developed with the aid of the Savings Bank Foundation for International Cooperation, a not for profit foundation that is part of the German DSGV.

In the interim, it is suggested that each Local Public Bank would require at least an initial capital provision of €10 million. In addition, €5 to €10 million would be required for the development of the Central Service Provider. Finally, sufficient liquidity has to be available to allow a smooth business start for each regional bank, as the deposit base still has to grow over time.

Based on the German experience, a business area with a population of 200,000 to 400,000 inhabitants would allow the development of a viable business and sufficient deposit base.

It is envisioned the banks would act as intermediaries for the Strategic Banking Corporation of Ireland.

Economies of scale will be achieved through the Central Service Provider (CSP), which is jointly owned by the banks. The CSP will provide services such as auditing, IT, risk management, product development, marketing, accounting, personnel management etc. to the banks. The CSP itself will not be a seller of services in the market; it will have no banking licence.

The local banks will work under a joint liability scheme. In cases of economic difficulty, the banks will support each other to ensure the survival and stability of another institution.

Each Local Public Bank will be managed by a professional management team which will be recruited from the Irish market. Specific preconditions will be set by the regulatory authorities for licence allocation. All key positions will only be given to qualified personnel.

In the initial phase of the new local institutions it could be reasonable and necessary to provide coaching for the management board. External consultancy as well as training and further training for members of staff of new Local Public Banks can be provided by SBFIC and the German Sparkassen.

LEGAL ISSUES

The public banks in Germany receive backing from their regional authorities and in the Irish case, local authorities could be considered as trustees.

In the long run, an important challenge will be to ensure that the banks cannot be taken over by private banking groups or investors, whose principal aim is generally to increase profits.

The final legal status and form of ownership would have to be decided by the stakeholders involved in close cooperation with the Central Bank of Ireland. Sinn Féin recommends that the new system be established under specific legislation setting it apart from commercial banking.

This legislation will have to ensure that:

- Each bank is a legally and financially independent entity
- The population within the business region is adequately represented in the supervisory board, which is also established under the Sinn Féin corporate governance recommendations (40% gender quota requirements; fair and transparent appointments process and pay; a bar of excessive directorship holdings)
- The day-to-day business is handled by the management board, comprised of banking professionals as required by the Regulator
- The banks operate under commercial principles, but no pressure is applied by the need for dividend distribution
- The banks are supervised by the current regulation system
- No overlapping services but rather complimentary financial services are presently offered by Irish Microfinance and by the Irish Post office. Cooperation might be feasible, especially with the existing credit union structure, which could also benefit from the centralised specialist provider

FINANCING SMES AND AGRICULTURE

- The focus of the banks will be on SME lending. Finance will be available for working capital, investments and most importantly, start-up finance
- A competent and efficient team will be established in each bank, providing special products developed by the Centralised Service Provider
- The banks will work closely with Enterprise Ireland, InterTrade Ireland and the Local Enterprise Offices (LEOs) in identifying and connecting with the SME sector
- There will be a special focus on sustainable economic investment – that is, in areas of social and environmental friendly growth
- Finance through equipment and machinery leasing will be provided by the CSP
- Lending decisions will be based on business plans, results from cash-flow analysis, solvency and credit-history of the customer. Lending decisions will be based on a multi-tier decision process operated by the directorate of each local bank and will be performed within the shortest-possible decision time. Decisions on standardised products and very small loan amounts will be taken at branch-level. However, all decisions will be based on a "four eye principle" and on standardised Group risk management guidelines

- The availability and provision of collateral will be a contributory decision-making factor, but not the determining criterion
- Effective borrowing costs and conditions will reflect market rates
- The focus on local business for local clients will support an effective risk management and will help to keep costs of risk at comparatively low levels
- Funding will be based on deposit taking which will facilitate long-term lending
- The self-supervision team from the Central Service Provider will monitor the lending performance of all individual Local Public Banks. Compliance with all internal guidelines and official regulatory requirements will be subject to the Group's internal audit