Irish Rural Link
Nasc Tuaithe na hÉireann

A Rebuttal of the Joint Report

Local Public Banking in Ireland

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Local Public Banking in Ireland

Introduction

Ireland has seen all too recently the damage caused when the banking sector aggressively seeks short-term higher profits at the expense of the long term good of the economy.

The Government's vision for Ireland's future as set out in the National Planning Framework[1] clearly states a desire for more balanced economic development across all regions of Ireland, urban and rural.

Irish Rural Link put forward a proposal[2] for a Local Public Banking system in Ireland because we have seen the effects of the banking crisis on local communities, particularly in rural areas. Here the effects of the financial crash, largely caused by the banking crisis, have meant that rural areas are still lagging behind in economic terms.

This situation has been acknowledged by the Irish Government who has launched several initiatives to repair the economic and social damage to small towns and villages. They have also acknowledged the reality faced by many businesses who have failed to secure necessary loans, by establishing the Credit Review Office. This office, in successive reports, has charted the many difficulties faced by businesses that have been refused credit and clearly demonstrates the failings of the banking system in this area.

The model of public bank we are proposing would complement and support the Government's ambitions. What better way to facilitate the development of the rural economy and enhance the competitiveness of rural areas than to provide a financial institution with a public mandate to provide financial services to these areas.

The lessons of the financial crash should be learned and the 'Joint Committee of Inquiry into the Banking Crisis' report sets out key areas where characteristics of the banking sector exacerbated the crisis. For example as competition increased in the late 1990s this resulting in "new and more aggressive lending products and practices"[3] The Banking Inquiry also noted in its findings that the banking crisis was characterized by banks moving away from a model funded mainly by customer deposits and prudent lending practices. The lack of an alternative banking model in the Irish market meant there was no mitigation to the financial crash we experienced.

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[1] Objectives of the National Planning Framework, http://npf.ie/project-ireland-2040-national-planning-framework/

[2] IRL Submission https://drcd.gov.ie/wp-content/uploads/IRL.pdf ; Also accompanied by detailed Strategic Plan for the Midlands and other substantive documentation in conjunction with SBFIC.

[3] Report of the Joint Committee of Inquiry into the Banking Crisis, Findings and Recommendations, Chapter 1: Banks. Available here: https://inquiries.oireachtas.ie/banking/volume-1-report/findings-and-recommendations/

The proposed public bank model is not driven by profit maximization to provide shareholder value, but is a stakeholder model with a public mandate. This contributes to the stabilization of the Irish banking sector.

The decision to establish a Local Public Banking model in Ireland has a political as well as an entrepreneurial dimension. On the entrepreneurial side, local public banks have to be self-sustainable after a reasonable time and in the long-run; this is the case with the proposed model. The German Sparkassen model upon which the Irish Public Banking model has been based has not only survived for over 200 years, it has also been more profitable than the commercial banks in Germany and continue to be so today. The decision to initially invest funds in a public banking structure is primarily a political decision.

In this rebuttal document we have set out where we believe the Joint Report on Local Public Banking has misjudged or misinterpreted our proposal. We look forward to the opportunity as part of the stakeholder consultation to further discuss the promotion of a local public banking model in Ireland.

Executive Summary

We made an extensive submission to the consultation process investigating the possible merits of a local public banking model for Ireland. We appreciate that the Joint Report on Local Public Banking has taken this submission into consideration at great length. However, we have to comment on the report in a formal rebuttal as we see mis-understandings with regard to our proposed model, as well as the underlying model of the German Sparkassen.

The submission we made does focus on SMEs and their difficulty in accessing finance and we maintain our argument that their needs are not being met by the remaining pillar banks operating in the Irish market. However, we also demonstrated in our submission the valuable contribution that a local public bank would make to individuals and regional economies becoming more sustainable and robust in periods of economic turbulence.

The decentralized Sparkassen model has proven the stabilizing effect that small, regionally based banks can have for a local economy, and not only in times of crisis. This is because fundamentally the local banks' survival depends on their region's economic success. It is in their interest to help their clients, whether personal or business, overcome their financial challenges rather than let them fail. It is this longer term view that local public banks have to take that is so important. This stems from not having to provide dividends to shareholders, but rather to strengthen their core capital and serve the common good. This does not mean the bank does not make profits; it must be profitable to survive.

It is also important to note that the gap we have identified in the market is one that was historically addressed by institutions set up by the state, the ACC and ICC. Recent economic history in Ireland has shown that the target clients of these institutions, agricultural based and industrial SMEs, appeared to be served by banks during the boom years (which led to ACC and ICC being sold off to commercial banks), but when the bust came these SMEs found their financial support was withdrawn. Clearly it adds stability to the Irish economy if these clients are served on a more consistent basis.

We are particularly disappointed with the view in the report that an Irish local public bank would risk 'crowding out' the private sector institutions. The Government has often stated a desire to increase competition in the banking sector so it seems counter-intuitive to be afraid of the effects of introducing competition apparently on the basis that it would reduce the oligopoly profits of existing market players.

It is unfortunate that the report has some inaccuracies in relation to their understanding of the Sparkassen model and how it operates in Germany. There was an invitation extended to the officials carrying out this investigation to visit Germany to see first-hand the model in action which they did not avail of. Notwithstanding this the SBFIC were available to clarify and review any aspects of the detailed submission made which could have avoided such misunderstandings with regard to the way Sparkassen are organized, their Governance structure, their refinancing base and their financial situation in general.

With regard to the report's criticism of the detailed Business Plan for a Midlands Local Public Bank, it is important to remember that the Business Plan was put together based on conditions in the second half of 2016 and it is not surprising that some elements need updating. Nevertheless we are confident of the robustness of our model. Sparkassen have updated the market conditions and carried out detailed simulations that demonstrate the robustness of the Business Plan under different scenarios.

We are looking forward to participating in the stakeholder consultation group that is in the process of being established to continue the detailed investigation of the local public banking concept.

Response to the Report on Local Public Banking

The following pages highlight particular sections of the Joint Report on Local Public Banking that we feel need to be challenged followed by our response. For clarity we have used the section headings of the report and direct quotations are emphasized by blue boxes.

Introduction

> "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."

This is a very narrow definition of public banking and one which would indicate that AIB and Permanent TSB are currently Local Public Banks. There is an extra dimension that forms part of the public banking model being proposed and that is that it operates in the public interest and therefore does not seek to maximize profits for shareholders. This distinction is made in the following definition: "The term public bank refers to a financial institution that is owned by a government agency and operated in the public interest. A public bank may be created by any government agency that is willing to comply with local banking requirements."[4]

> "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."

This is the core paradox where on the one hand SMEs consistently report they do not require credit and yet the increasing supply and availability of credit through SBCI for example, is being taken up.

> "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 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. 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."

It is unfortunate that the analysis of the recovery in Ireland has been described only in terms of the construction industry. One of the problems with the "Celtic Tiger" years was the dominance this industry had on the economy along with the accompanying property bubble. It is important that the construction industry does

[4] From https://www.money-zine.com/definitions/financial-dictionary/public-bank/

make a recovery and the current housing crisis shows that new homes need to be built, however the real economy is much wider than this.
The main role we want the local public bank to contribute to is the recovery and continuing support of our indigenous SMEs in all industries, including the construction industry.

1. The Banking Environment in Ireland

1.2 The Structure of the Banking Market

> "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."

We do not advocate for retention of state ownership of the pillar banks. In our view ownership of shares in any of the pillar banks does not equate to state involvement in a public bank that (per our definition earlier) would also involve the bank being operated in the public interest rather than purely for shareholder value maximization.

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."

As the Irish banking system has shrunk its concentrated nature has increased and the choice of consumers, including SMEs has decreased. What Ireland needs is not a larger banking system but a more diverse banking system.

1.4 SME Finance Market – Supply of Credit to SMEs

> "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%."

This trend is continuing with the most recent SME Market report (2018) indicating this figure has increased to 86%.[5]

[5] SME Market Report 2018, Central Bank of Ireland. Available here: http://www.centralbank.ie/docs/default-source/publications/sme-market-reports/sme-market-report-2018.pdf?sfvrsn=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;"

The fact that lending to SMEs is increasing but is still being out-stripped by repayments of outstanding loans is one reason as to why SMEs do not see access to credit as a major issue, as many still have some debt hangover from the boom years. However it should be noted that in the latest 2017 H2 Market Report on the SME sector the financial vulnerability of SMEs, measured by their Debt to turnover (DTR) ratio, has fallen significantly with almost 50% of SMEs not holding any debt.[6]

"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. This number ranged between €2 billion and €2.5 billion between 2010 and 2013. There is particular strong growth in new lending in manufacturing and the wholesale and retail sectors."

The most recent SME Market Reports (2018) show that new lending in Q1 2018 totals €3.7 billion, which is unchanged from H2 2017 but up 2.7 % on Q1 2017. Primary Industries (mainly Agriculture) and Wholesale, Retail, Trade & Repairs are the sectors consistently showing the highest level of new lending.

"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. 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 rejection rate has been creeping up since March 2016 and stands at 17% in September 2017. This is more than twice the rate in comparator countries.[7]

1.5 SME Demand for Credit

"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."

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[6] Box 1: The Financial Vulnerability of Irish Small and Medium Enterprises, 2013 to 2017, SME Market Report, 2017 H2, Central Bank of Ireland. Available here: http://www.centralbank.ie/docs/default-source/publications/sme-market-reports/sme-market-report-2017h2.pdf?sfvrsn=5

[7] SME Market Report 2018, Central Bank of Ireland.

As reported in the SME Market Report 2018 demand for credit by SMEs remains persistently low at 23%, this is about half the rate of SMEs in comparator countries.[8] The fact that SMEs not looking for credit, but instead use retained earnings and/or existing borrowing is concerning as this limits their scope for growth.

"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."

In the SAFE 2017 report the strong reliance on trade credit and credit lines as a source of finance by Irish SMEs is highlighted with 50% of SMEs having used both in the past 6 months.[9] Across the EU a credit line is the most important source of financing for SMEs although only 35% actually used it in the past 6 months.

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."

The relative stability of lending to the agricultural sector could well be explained by the use of land as collateral as a basis for much of the loans. Many SMEs do not have the luxury of having a similar large asset base to secure loans.

1.7 Summary of the Key Players in the SME Finance Market

The various elements which make up the Irish SME lending market are indicated in a diagram, without noting the dominance of the three main banks or "State Bank Investments" as they are labeled here.

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."

Obviously the recovery of the housing market is positive for the banking sector, although the existing banks are still in the process of clearing their balance sheets of Non-performing loans from the boom years. The level of personal debt is still of

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[8] SME Market Report 2018, Central Bank of Ireland.

[9] SME Access to Finance Conditions 2017 SAFE results – Ireland. Available here: https://ec.europa.eu/docsroom/documents/26627/attachments/14/translations/en/renditions/native

concern with Irish Household debt being among the highest in Europe. The trend in the reduction of household debt since the financial crisis of 2008 has recently reversed largely thanks to the increase in mortgage lending. The provision of mortgages would not be a priority for a Local Public Bank although it would be something that would be offered as part of its retail banking product offering.

1.8.1 An Post

> "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."

An Post is going through a period of consolidation with regard to their branch network. Overall they are commiting to "a post office for every community of over 500 people; within 15km of 95% of the population (and 3km in urban areas)."[10] The most recent figures indicate that the number of Post Offices will be reduced to 950 following the requested retirement of 161 postmasters.[11]

> "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."

They have set up their own current account offering, Smart Account, while also providing banking services on behalf of some of the main banks. This is the kind of competition that our model would like to bring to the SME banking market.

1.8.2 Credit Unions

> "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."

Currently there are 53 out of the total of 263 Credit Unions with assets ≥ 100 million.[12]

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[10] An Post Press Release, 20/04/2018. Available here: http://www.anpost.ie/AnPost/MainContent/About+An+Post/Media+Centre/Press+Releases/2018/Breakthrough+deal+with+Postmasters.htm

[11] An Post Press Release, 03/08/2018. Available here: http://www.anpost.ie/AnPost/MainContent/About+An+Post/Media+Centre/Press+Releases/2018/An+Post+confirms+161+postmaster+applications+for+voluntary+retirement.htm

[12] Financial Conditions of Credit Unions: 2013 – 2018, Central Bank of Ireland. Available here: http://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/credit-unions/communications/statistics/financial-conditions-of-credit-unions-2013---2018.pdf?sfvrsn=4

> "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."

The additional available capacity of CUs to lend is noted. Currently only 1.9% of outstanding loans are to the commercial sector with 94.2% being personal loans.[13] Given the very small level of loans to SMEs it is unlikely that credit unions would be able to significantly impact in this sector.

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."

Currently only about 7% of SMEs report making enquiries to such non-bank finance providers.[14] Internal funds/retained earnings still represent the primary source of working capital finance for SMEs with 81% indicating this (an increase of eight percentage points since 2016).[15]

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."

These are alternative sources of funding which may suit some SMEs, although we have some concerns about the unregulated nature of some of these sources. They do not constitute a replacement for a good banking service for SMEs.

1.11 Capacity for lending of Irish banks

> "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."

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[13] Financial Conditions of Credit Unions: 2013 – 2018, Central Bank of Ireland. Available here: http://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/credit-unions/communications/statistics/financial-conditions-of-credit-unions-2013---2018.pdf?sfvrsn=4

[14] SME Credit Demand Survey- April – September 2017, Department of Finance.

[15] ibid

The sectors capacity to lend may be affected by the recent announcement by Central Bank to evoke their counter cyclical powers to demand the banks increase their capital reserves.[16] Irish banks' having the capital capacity to lend to SMEs is not going to translate into loans unless SMEs begin to apply for loans. Clearly there are missing ingredients that are preventing SMEs from wanting to access finance in order to grow their businesses.

2. Existing Government policy measures to support SMEs.

2.1 Strategic Banking Corporation of Ireland

"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."

Where the ethos of the SBCI diverges from that of the Local Public Banking model is where it supports the current centralized structure of the banking system where our model aims to develop a regionally based system that will participate in local economies to steer income and development in those local economies in a decentralized manner.

"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."

The SBCI provides the majority of its funding through AIB, Bank of Ireland and Ulster Bank i.e. over three quarters of the 881m per Figure 18 in the report. Smaller amounts are distributed through other non-bank finance providers. Rather than providing significant competition in the market the funds of the SBCI have largely been augmenting the existing banks' market position. It has been reported that, according to the Chairman of the SBCI, Conor O'Kelly that these banks are no longer looking for liquidity through SBCI as they now have access to low interest rates themselves on the open market.[17] Any new lending is now in the form of risk sharing loans where SBCI are taking on some of the risk as in the Brexit loan scheme.

Although the other non-bank finance providers do provide different "funding products" which may be useful to some SMEs overall it does not address the fundamental lack of competition in the banking sector and the lack of choice for

[16] Countercyclical capital buffer rate announcement, Central Bank of Ireland 05/07/2018. Available here: https://www.centralbank.ie/docs/default-source/financial-system/financial-stability/macroprudential-policy/countercyclical-capital-buffer/ccyb-rate-announcement-july-2018.pdf

[17] "Banks no longer using SBCI's SME loan scheme", Irish Independent, August 17 2018. Available here: https://www.independent.ie/business/small-business/latest-news/banks-no-longer-using-sbcis-sme-loan-scheme-37224639.html

SMEs when looking for a bank to service their needs. It is also noteworthy that SBCI has not found any new on-lenders since November 2016.

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."

This is a very useful fund that targets a particular group of SMEs, but again does not help any SME looking for a banking service.

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."

This is a useful tool and one that SBCI is putting to good use, for example with the Brexit Loan Scheme, although take up by SMEs so far is disappointing.

2.4 The Credit Review Office

The role of the Credit Review Office is very important, as it gives SMEs recourse when they believe they have been wrongly refused loans. It is disappointing that over 50% of decisions are still being overturned. These delays in receiving required finance are often missed opportunities for businesses that affect their ability to grow. The annual reports by John Trethowen give a valuable insight to SMEs struggles to obtain finance and also to the possible causes of the current depressed demand for credit by SMEs. The Credit Review Office's research has shown that SMEs are looking for a more enduring, two way relationship with their bank and one in which their relationship manager has a in depth knowledge of the customers business.[18] The same report also highlights some of the dangers of SMEs over-reliance on self-funding, how it can lead to the business running out of cash, can result with a poor track record as far as a bank is concerned and ultimately SMEs need to think carefully about their overall funding requirements for their expansion or major capital projects. Previous reports have also pointed to the unsuitability of the algorithms and the centralized approach of the main banks when making loan decisions for SMEs.

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."

[18] Credit Review Office Nineteenth Report, 22 March 2018. Available here: http://www.creditreview.ie/wp-content/uploads/2018/03/19th-Credit-Review-Office-Nineteenth-Report-22Mar2018.pdf

Although this is a useful tool it is does not really address the SMEs' need for a personalized service based on their individual requirements and is another faceless, technological solution.

The SME Finance Market and Brexit

"Irish SMEs will require support generally to diversify and restructure their businesses.....Many SMEs appear to be waiting to see how the situation develops."

As mentioned before the SBCI Brexit Loan Scheme is a welcome initiative. The uncertainty surrounding Brexit and what exact form it is going to take is undoubtedly contributing to the "wait and see" approach of SMEs. Perhaps if there was a closer relationship type banking as described by John Trethowen in his reports this would help SMEs to plan with their banks on their approach to the challenges of Brexit.

3. The Proposal for Local Public Banking in Ireland

"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."

The role of Irish Rural Link (IRL) in this has been to submit to the government consultation process a comprehensive model of banking, based on the Sparkassen model, which we feel fulfills the stated objective of showing the relevance of this model within an Irish context. The SBFIC operates by harnessing the expertise of its members, active Sparkassen banks. "This requires the Sparkassen to release highly qualified staff members from their regular duties for assignments in our projects. Alternatively, individual member organisations also engage in a direct partnership with a project and actively work with us on its implementation."[19]

"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."

The services of a Local public bank would not be limited to rural communities; rather it is believed that any region in which one would be established would benefit from the additional lending to SMEs as it would strengthen the local economies involved.

[19] SBFIC website, Our Members. Available here: https://www.sparkassenstiftung.de/en/about-us/organisation/members/

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. In the case of Sparkassen, the public body responsible for them is a municipality. 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."

There is some confusion here over the idea of ownership. As pointed out earlier, the definition used for public banking is somewhat simplistic as it infers that ownership by the state is the only requirement. What makes a public bank different is the requirement that it operates in the public interest, as previously stated.
In Germany the Sparkassen model is over 200 years old and therefore the exact legal set up with regards to ownership is not directly transferable to Ireland. It is correct to say that the municipalities are responsible for the Sparkassen in their area but do not own them and therefore cannot sell them.

"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."

These figures are as at December 2016, the December 2017 figures are 17% market share of the overall German banking sector; total market volume is €7,065.9 billion. Sparkassen are the most important financial partners in the German banking sector, for the SME sector. The Sparkassen share of the market for loans to enterprises is 28.7% of a total market volume of €1,387.7 billion.[20]

"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."

This is based on a generalized assessment of the whole German banking system by Moody's. The Savings Bank Group as a whole have a Moody's corporate family rating of Aa2, unchanged from 2016. The interest margins in all European banks are under pressure due to ECB low interest policy. Nevertheless the Sparkassen in Germany have increased their Profit after taxes by 12.8 %, as shown in the Financial Report of the Savings Bank Group,[21] due to management measures and efficient processes. In contrast to Private Banks, Sparkassen have paid billions of taxes and hundreds of millions for common good activities every year.

[20] Financial Report 2017 of Savings Bank Finance Group. Available from: https://www.dsgv.de/en/facts/annual_report/financial_report.html
[21] Ibid Page 3

"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."

Seeking collateral to share risk is not unique to Sparkassen. All creditors worldwide seek this. Sparkassen have developed many instruments like special loan/collateral arrangements and launched Sparkassen start-up companies to give innovative and interesting business opportunities a chance.

3.2 Details of the Irish Rural Link and SBFIC Proposal

"The proposal envisages that both the credit unions and post offices could also be involved in the delivery of local public banking. However, it is not clear how this would be integrated in to the wider local public banking network."

The proposal was done on the basis of limited resources of Irish Rural Link and therefore the model proposed was a "pure" one without fully integrating either Credit Unions or Post Offices. Nonetheless we fully appreciate and acknowledge the potential for both to play a role in any model specifically designed for the Irish market. We suggested that, at a minimum, the Credit Unions could access services from the Central Service provider to augment their current range of products and that Post Offices could provide similar "over-the-counter" transactions as they currently do for other banks. Part of the follow up to this report we would expect would be to engage with both parties to look in more detail at what part they could each play.

"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."

Irish Rural Link and SBFIC submitted a Concept Paper for Funding Savings Banks in Ireland that proposed a number of ways in which the equity could be funded none of which involved the state providing 100% startup costs. We would expect that in order to retain the "public" nature of the bank that there would be some level of financial input from the state. In the end the funding question will have to be discussed in conjunction with the ownership model to be designed.

"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…… 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."

At first glance this argument seems reasonable, because a wide portfolio naturally triggers more infrastructure cost to offer and maintain this. We believe our proposed cost assessments of the model have factored in these costs. The experience from Sparkassen demonstrates its ability to provide excellent service, products and competitive prices combined with a first class IT system with an average Cost Income Ratio of 67.9%.

3.3 Analysis of proposed Local Public Banking Model
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."

The analysis misses the point altogether of nature of competition and how introducing a bank with a different approach attracts different customers. As an example consider how Lidl and Aldi both opened branches in Mullingar despite the town already being well served with supermarkets: Tesco, Dunnes Stores, Supervalu etc. They were successful because the new supermarkets offered something new and were a different model. In fact the new entrants have changed customer behavior with many shoppers now taking advantage of the choice available and frequenting more than one supermarket exclusively.

"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?"

The questions asked here further show the misunderstanding of the type of competition being proposed. The incumbent financial institutions all operate using the same business model. The new entrant would not. People would be attracted to using the new entrant if they were interested in having a different kind of relationship with their bank.

The Report itself states increased levels of deposits for other market players. There is no reason why the new public bank would not also attract deposits. A local public banking sector would also have less aggressive profit targets which should allow it to make its deposits and loans at least equally attractive to other market players.

As is the case with deposits the Report states increased levels of loans for other market players. Again there is no reason why the new public bank would not also attract increased loans.

Reducing loan interest rates and increasing deposit rates is only one possible strategy to gain market share. The model we are proposing would rather focus on other advantages it would have over existing banks: understanding local businesses, speed and service portfolio available. We believe customers will have high regard for relationship, advisory concepts and the prospect of support from their bank in difficult economic situations.

There would of course be an impact on profitability with a lower interest yield per contract, although it would be expected that a higher sales potential and volume would offset this. However, as stated above we would not envisage lower rates a being the main strategy to gain market share.

It is difficult to understand the idea that the public bank would lead to crowding out of the private sector. From a market economy perspective competition is part of the system and a higher level of competition is intended by the Government. The Oligopoly profits of the private banks to be paid by all customers would shrink. In the light of a "dysfunctional market" it can´t be political and social consensus to protect private institutions at the expense of the general public.

"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."

The report previously has described the proper supervision mechanisms (P 44: "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.) The new bank similarly would be subject to regulation by the Central Bank of Ireland. The management board would clearly be separate from the personnel administering the front and back office functions.

"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.."

The bank would also finance other mortgage lending not just first time buyers.

Our proposal recognized that the majority of Credit Unions' loans are consumer loans and we proposed advancing loan amounts in the range of €20,000 - €500,000.

Thus the target was a market segment between the traditional core customer segments of the Credit Unions and the Commercial banks.

"...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."

The new bank would obviously have an ambition to become an on-lending partner to the SBCI but we would not expect to have the right to be one and would apply using the standard procedure of the SBCI for new on-lenders.

3.3.2 Financial Analysis of Business Case

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."

The report raises doubts on volume development and rapid increase of revenue as being not in line with costs or key figures in banking. We agree that cost management and utilization of paid capacities are important keys to success. The report must take into consideration that the newly founded bank starts at day one to build up from zero volume with an existing body of employees, in other words from 0% utilization capacity to 100% load over time. Therefore, only from a certain size (volume) on, more staff is needed for additional business.

Providing a fully-fledged portfolio to meet customers' needs at both competitive rates and with customer-friendly conditions, we believe growth targets are feasible due to the overall attractiveness and the underlying products and conditions.

The Sparkassen approach to a local public bank in Ireland would include the provision of cutting-edge IT technology, providing significant cost advantages.
The interest rates used in our Business plan are based on local sources. Deposit and savings account interest also resemble the current market.

Attrition rate assumptions

"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 report's critique on attrition rates is a valid point to discuss. Unfortunately, it does not reflect the specifics of the different business approach of the local public bank. The proposed model engages more in mid-to-long-term credit exposure, aligned with its development / support approach for SMEs in its region – generating longer tenures as a result, with both, regular loan products and subsidised EIB, CEB, KfW or local development program loans.

Further, flexible products such as smart current accounts can even act as a partial long-term source of credit line. Even with reduced credit periods (e.g. 6 years) and approx. 1/3 less in volume, the business case remains intact, with break-even shifting 1-1.5 years. According to market research, rates used are marketable, as competitors seem to offer more expensive rates to the customers. The reduced levels of income still show adequate and sufficient profitability, even after a number of (cumulative) worse case scenarios in revenue or expenses. SBFIC holds detailed and transparent simulations on these. Our results show that there would be sufficient source of income to invest and strengthen its capital basis, and does not support the negative outlook that Government may be required to support because of lack of earnings and solvency.

Contrary to the report's conclusions on (local public) Midlands Bank, the business case shows its self-sustainability and adequate profitability. It does not support the report's further assumption that Government support as indicated is needed.

Interest rate assumptions

"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."

The indicative interest rates used in the calculations were those prevailing at the time i.e. end of 2015. However, as stated previously the interest rates in the Business plan are largely in line with current market rates.

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."

In this analysis some recognition of the different approach being proposed by the new model is evident.

"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."

We have addressed the specific issues raised here, but we also would point out that the figures provided were necessarily only indicative ones meant to illustrate the kind of impact that a small local public bank could have in a region in a relatively short space of time.

"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."

The model is proposed to grow organically and sustainably but we acknowledge that further work is required to update the figures. This needs to be carried out in conjunction with any discussions about the final design of the model.

3.5 The Kiwi Bank Model

This model operates substantially like the existing commercial banks. The model of using PostShops (post offices) to deliver services is in the process of being changed in favour of more standalone branches.[22]

4. Summary of the Responses to the Consultation Process

It was a pity that the consultation process did not facilitate key groups to engage with the department officials to enhance the outcomes of the process. There was a broad level of agreement on many areas, for example; the current lack of competition in the Banking sector, the need for an alternative model of some kind, the need to consider the credit unions and the post offices in any model.
The idea of an alternative model based on the Sparkassen model received support from a number of different respondents.

Irish Rural Link and the SBFIC have approached this on a cross-party basis and we were happy that the main parties engaged in the consultation process. We have also engaged directly with many of the other stakeholders who responded to the

[22] For example see: https://www.odt.co.nz/news/dunedin/closure-nz-post-kiwibank-branches-confirmed

consultation process as well as other stakeholders who did not make a submission including: Enterprise Ireland, IDA, the Local Enterprise Offices, Central Bank of Ireland, ISME, SFA, IFA, Chambers Ireland and the County and City Management Association.

Findings and Conclusions

"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."

We dispute the findings of the investigation, as we believe current demand for credit is suppressed and the Government supports, while welcome, are no substitute for the kind of services that SMEs would like to have available to them from their bank. At the very least we feel this is a compelling argument for the State to facilitate and make a contribution to the establishment of 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 'non-financial' supports we are proposing are a 'win-win' for the proposed new bank. By providing their SME customers with these supports the bank gains a closer relationship with the customer and gathers richer 'soft' information on them. This leads to better credit decisions by the bank and the customer gains from the extra supports for their business.

"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."

The level of State investment required will, as indicated before, depend on the final model designed. The SBCI was set up to address a market failure in the banking sector so it would be harsh to complain if a competitor came into the market to rectify this failure. As we have pointed out before the support the local public bank would propose to provide to SMEs goes beyond just funding but aims to build a long-term relationship with their customers. We also believe that retail customers will appreciate the better service provided by the local public bank.

"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."

The SBCI by itself cannot create competition in the banking sector. It augments the range of lenders by the addition of non-bank finance providers.

"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.**"**

The results of the latest SME Credit Demand survey on its own do not indicate what the demand for the services of local public banks would be. The research carried out by the Credit Review Office gives an indication that a bank offering the services to SMEs proposed would be of interest to SMEs i.e. banking services based on relationship banking.

"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."

The Credit Review office has also pointed out some of the disadvantages of SMEs relying on internal funds. It is questionable whether the choice is a "strong preference" of SMEs or currently seen as the only option for many SMEs.

"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."

The Irish banking sector may be more stable but this stability is partly thanks to the lack of competition in the sector. There may be additional capacity available but currently the interest rates are very high relative to Ireland's European peers and the SME sector is subject to twice the rejection rate of those peers. The number of credit unions with the capacity to lend to the SME sector is currently small. The credit unions are also not able to offer SMEs the full range of services they would expect from a bank.

"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."

As noted in SBFIC's appearance before the Oireachtas FINPERT Committee the Sparkassen have total assets of €1.1 trillion and total deposits of €1.1 trillion and are therefore 'nearly self-financing'. This is because they have built up their capital base through retained earnings over the 200 plus years they have been operating. Thus their low mortgage rates have nothing to do with a "German funding model". They also note that the competition in the market means that the 1.1% mortgage rate is offered by the other commercial banks operating in the market.[23]

"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 not proposed that the mortgage market would be a priority of the local public bank. Mortgages would be offered as part of the overall retail suite of products and as noted the SBFIC see no reason why the newly established bank would not be able to offer lower rates than are currently on offer in the Irish 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."

As noted earlier we fully appreciate and acknowledge the potential for both Credit Unions and Post Offices to play a role in any model specifically designed for the Irish market.

"The proposal for establishing a local public banking system in Ireland would appear to come at a significant cost to the State…..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."

[23] Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach, Banking Sector in Ireland (Resumed), 12/10/2018. Available here: https://www.oireachtas.ie/en/debates/debate/joint_committee_on_finance_public_expenditure_and_reform_and_taoiseach/2017-10-12/4/

This analysis of the cost of the system presumes full funding by the state of the whole system. The overriding difficulty to overcome is the policy of divesting the shareholding in the main banks.

"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."

It is not hard to see on the one hand why the state might be reluctant to invest in a public bank. However there does not seem to be any consideration given to the less risky profile of the model, the fact that each independent bank would be regulated as any other (small) bank and therefore the scope for a large bailout being required is non-existent.
The success of the Sparkassen during the recession is not a once off achievement. The point of the way in which the Sparkassen operate is their consistent performance through many boom & bust cycles. This is a result of the different way in which they operate compared to the commercial banks. In particular they deal with the SME sector in their region with the attitude of "What can we do to help them succeed?" because they know that the success of the businesses in their area feeds directly into the success of the bank.
The SBFIC are not just "hands-off" consultants but they also allocate highly trained staff from their Sparkassen members to participate in projects and sometimes more direct partnerships are established with individual Sparkassen to implement projects.

"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."

AIB and Bank of Ireland and Ulster Bank account for 86% of SME lending. This is the main target market the local public bank is addressing. There could not possibly be any 'crowding out' of these banks positions in such a concentrated market.
The opportunity is there for a local public bank to achieve significant increases in lending to local SMEs in its region but it will not be overnight. Rather the characteristics of the bank are to build organically and sustainably based on establishing relationships with the SME customers in the region based on the banks' proximity to its customers.
Providing lower rate mortgages is a goal but not a priority of the model.

"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."

The proposed model did not specifically address the digitization of banking services, but in adopting the German Sparkassen model we are adopting a modern, forward looking banking model that is in touch with the digital age. You may be surprised to discover how far advanced the Sparkassen are compared to the Irish banks when it comes to the use of technology. The 2017 Annual Report of the Savings Bank Group lays out in some detail their approach to digitization and significantly how the focus is fully on the customer and what technology can do to enhance their banking requirements.[24]

"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."

Irish Rural Link does not agree with many of the conclusions in this report and will continue to work to ensure that the full merits of the proposed banking model are recognized. We will continue to engage with all stakeholders, including the Government to further this proposal.

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

Irish Rural Link welcomes the continued engagement by the Department of Finance with all stakeholders and we hope that they will consider further the benefits that the local public banking model could bring to SMEs in all regions of the country. We

[24] The Digital Agenda of the Savings Bank Finance Group, Financial Report 2017. Available here: https://www.dsgv.de/en/facts/annual_report/financial_report.html

do not believe that FinTech of itself is a solution but digital banking is of course part of any modern banking system.
Irish Rural Link is looking forward to contributing to the independent external evaluation of how local public banking can be promoted in Ireland.

"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."

It is our view that a local public bank could be very much a part of increasing SMEs awareness of the range of supports available from the Government and its agencies.

"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."

The setting up of local public banks in Ireland would provide real impetus to the development of our regional economies. Our SMEs deserve some real focus on their needs and the support of a bank whose success would depend on the SMEs success would be a significant step.