

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(DAHRGA) 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 Bank 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

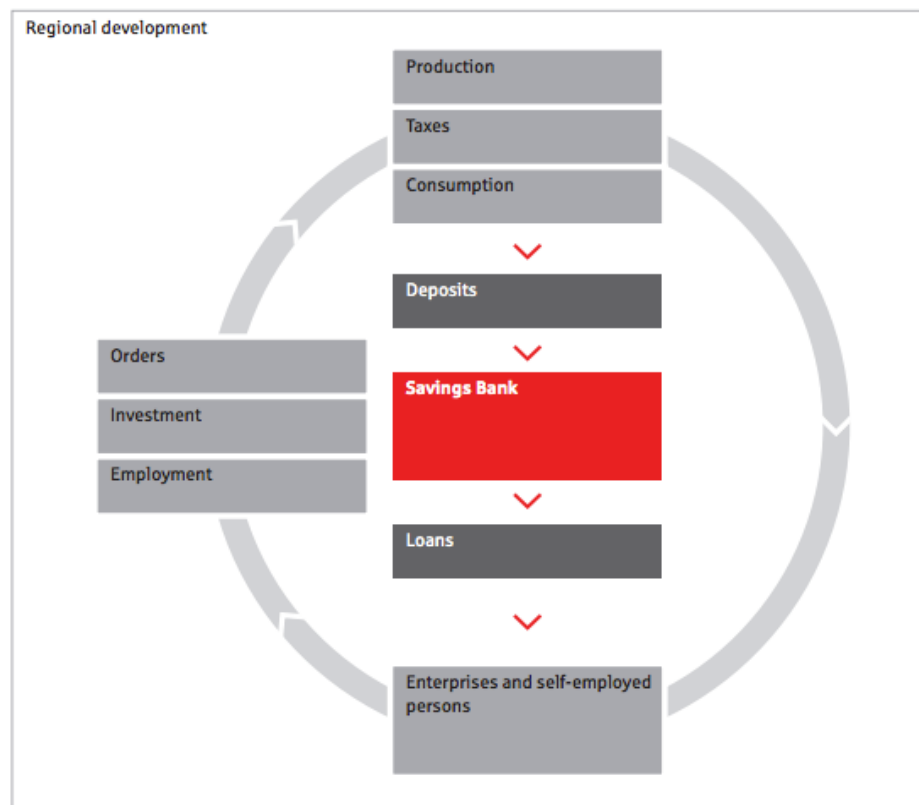


Figure 1 From “Inside the Savings Bank Finance Group”.
(https://www.dsgv.de/_download_gallery/Englisch/Inside_the_Savings_Banks_Finance_Group2016.pdf)

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 characteristics 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