

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,

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