Foreword

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As the world changes, financial services must evolve. Yet more than a decade after the great financial crash of 2008, the tools and methods of financial services remain dangerously unreformed. The digital revolution has enabled many to do most of their banking online, but millions of citizens still rely upon bank branches for essential services, and their rapid decline risks leaving thousands of communities behind. Only a fraction of bank lending supports small businesses and trust in banks is at an all-time low.

Elsewhere across the globe regional stakeholder banks are operating with social as well as financial objectives, making a major contribution to financial stability, local economic development, business lending, and financial inclusion. Yet we don’t have these banks in the UK.

This may be about to change. Over the past two years the RSA has been working with the Community Savings Bank Association (CSBA) and our network of 29,000 Fellows to establish a network of regional banks across the UK. This is gaining traction with pioneering local authorities and other institutions and individuals that want to create more sustainable and inclusive local economies that can build community wealth and ensure continued access to essential banking infrastructure.

Urgent action needs to be taken in the North East, as elsewhere across the UK, to ensure we realise this opportunity to rebalance our banking system. This report offers an important alternative to business as usual banking and we fully endorse the call on public bodies across the North East to support the creation of a local bank that will serve the region. Adopting the CSBA model offers a clear path to achieve this.
A Bank for the North East

This paper sets out a programme for the creation of a truly local bank for the people and businesses of the North East. It sets out why we need to do something about local banking, and proposes the adoption of the Community Savings Bank Association’s model, outlining some specifics of how this model could be adapted for our region.

Why we need a new local bank.

For far too long we have been hostage to the power and influence of a banking system which does not have the right incentives, values or structures to be able to support society and the wider economy with what it needs.

Nowhere is this clearer than the abandonment of communities across the UK in the haste to retreat from branch banking. A recent report by the RSA shows that branches still play a vital role in local economies by supporting SMEs and promoting financial inclusion. Despite this, since 2015 at least 3,314 branches have closed and a further 1,076 permanent closures are planned for 2018-19.

Number of planned branch closures in 2018–19

Whilst the North East has not been hit as hard as other regions such as the North West, South East and Scotland, County Durham is the 12th worst affected Local Authority area, with 25 branch closures since 2015. Northumberland has seen 16 closures, Gateshead 11, Redcar and Cleveland 6, Stockton-on-Tees 6, North Tyneside 5, Newcastle 4, South Tyneside 3.

The retreat of banking services has a disproportionate impact on our rural areas. The House of Lords Rural Economy Committee recently noted that the loss of basic services such as banks and ATMs is a key issue for people and businesses in the countryside. Closures in rural areas such as Bellingham, Wooler, Amble, Barnard Castle, Lanchester, Consett, Chopwell and Rowlands Gill have a greater impact on the local population than in areas better served by access to finance. Many small businesses rely on cash and need to bank their takings every day, a round trip of 40-50 miles is not uncommon in the rural parts of the region.
There is also a risk that access to cash may get even worse, as ATM providers consolidate the number of cash machines and start charging for their services. In 2018 free-to-use ATMs in the Link Network declined by 5% or 2,600 machines. Many now rely on Post Offices for some basic banking services, however a recent survey by the National Federation of SubPostmasters warns that 22% of post office workers are planning to close, hand on their business or downsize over the next year. Hopefully separate solutions will be found to ensure the sustainability of the Post Office, however we cannot solely rely on them for banking needs.

Even where branches remain, businesses are not getting the support they need from banks, and too many people are denied access to basic bank accounts and facilities, pushing them into the arms of high cost credit, often worsening already difficult situations. The most vulnerable in our communities are those most affected by these closures. This is not acceptable. We can do better.

We need a banking system that enables:

• Simple, everyday banking for all
  The vast majority of people want a stable and safe place to store their money, grow modest savings, and have access to fair credit as necessary, especially the most vulnerable.

• Sustainable investment
  The need has never been greater to transform our economy to become sustainable, low-carbon and fairer to workers. We need to support the growth of SMEs, entrepreneurs, social enterprises, and community groups seeking to help us tackle our pressing problems.

• A more stable, diverse financial system
  Adding in a new layer of local, co-operative banks will make the overall economy more robust and better able to withstand shocks and stop the retreat of branch banking, which is so important, particularly to our rural communities.

The UK has one of the most highly concentrated banking systems in the world, with the biggest 4 banks accounting for over 70% of the market share of personal current accounts. And despite the entrance of competitor banks in recent years, the big four have only lost 5% of market share since 2005. Countries with more resilient economies have a diversity of local, regional and municipal ‘stakeholder banks’. These add economic value by filling the gaps where commercial banks are unwilling to go – maintaining a presence in rural areas, providing patient capital, relationships with small businesses, and serving the financially excluded. They also have a positive impact on financial stability and they are profitable, not charitable.

What does this mean for the North East?
The North East does not currently have anything that could be described as a vibrant, diverse, and local banking system.

The CSBA Model.

An organisation called the Community Savings Bank Association (CSBA) have laid the groundwork to enable the creation of a UK-wide network of 18 mutually-owned, regional savings & loans banks to serve the financial needs of people of ordinary means, local community groups, small and medium sized companies.

The CSBA has carried out extensive research supported by the Royal Society for the Encouragement of Arts, Manufactures and Commerce (RSA), led by Fellow James Moore and a team with over 150 years of banking experience between them. This research has led them to develop a concept of a ‘community bank in a box’. This network of independent, customer-owned, regional banks take the best of past banking practice and the latest technological innovation to ensure that the costs of operating the bank are minimised for a sustainable and profitable model.

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It is time to create something better...

Capital Investment Phasing for a CSBA Bank

There are a number of stages to building a regional co-operative bank, which are outlined above alongside the targets for funding. Initially, the start-up phase where the initial research and development of the specific model needed for the region is developed, needs a relatively modest amount of seed-funding.

Once the market research has been completed, stakeholders identified and founding members and the core team in place, authorisation by the Bank of England takes 12 months, during which time the full required capital of around £20 million needs to have been secured. It is expected that to succeed, soft commitments to the full value of the capitalisation should be in place before the banking license is applied for.
Each bank will be legally and operationally separate, with decision-making made by its members – the customers. By collaborating on the infrastructure with other banks in other regions, the risks, costs and timescales of creating each new bank is reduced through the use of proven banking systems, standard product ranges and common operating structures.

Each bank has as its starting point a complete business model, legal structure, IT system, product line, branding and corporate governance framework – which is simpler, cheaper, faster, and less risky. Certain core functions are co-owned, cost shared and developed with others in the network, enabling economies of scale. The products offered by each bank will include a competitive range of current, savings and loan accounts, together with online capability.

Regulation has been primed by the CSBA, making the process easier and less risky. Mutual societies are regulated by the FCA, who have registered the CSBA and approved its constitutional documents as “model rules” that can be used, with its permission, by the individual regional community banks for quicker and cheaper registration. These model rules are the core constitutional documents, which encapsulate all the principals, powers, and obligations that a new co-operative bank will need.

Crucially, these documents are open enough that each regional bank can put its own stamp on the organisation, adapting it to fit the particular needs of their area. At the heart of the model sits local democratic decision-making and ownership by the members in a truly mutual bank.

Customer-owned banks only became legally possible in the UK in 2014. Mutuality is embedded in the structure of the CSBA model bank and it would be the UK’s first genuinely co-operative regional bank. This is important for two crucial reasons. First, the bank will bring some much needed trust into the banking system by putting customers at the heart of the organisation. Being owned by, and therefore in service to its members creates the right incentives for the bank to do what is right for the communities of which it is part, and if something was to go wrong, its members have real power to hold the bank to account.

Second, because it is member owned, this enables the bank to operate with a more sustainable and just idea of value - it would be a stakeholder bank able to account for social and environmental, as well as economic goods. Where shareholder banks can destroy that which is dear to us in search of the highest profit margins, stakeholder banks can create sustainable returns whilst also serving social needs.

**Inclusive and Fair**

The CSBA model has inclusivity embedded. Every single person who lives in the regions that the bank covers is entitled to a basic bank account. This should impact on the poverty premium which is on average the £490 per year people on a low income pay for access to basic goods and services, of which around £92 is driven by financial exclusion! No longer should someone be forced to pay more because they are excluded from direct debits or cheque cashing services.

Because the bank is controlled by its members the members are free to make decisions to use some of the profits to achieve certain social or community goals, of which some services might want to be subsidised to make it fairer or more inclusive for certain activities.

**Simple**

The CSBA model is transparent and upfront about fees, current accounts will be open to all, but it will not be free. Currently retail banks in the UK run on the profits from high fees charged for overdrafts or other facilities and through the bank cross-selling you products you don’t need (hence the PPI scandal). The CSBA model is much simpler.

There is a £5 per month fee for individual customers, which rises to £10 per month for SME’s. However, unlike regular bank accounts, you will accrue interest on your current account balance. So, if you have money in your account, you will get paid interest by the bank, if however you have an overdraft and you owe money, you will pay interest on the amount overdrawn, with no need for separate savings accounts.

This will benefit those who are unable to save but have income going through their account every month, even if it then goes out to pay the bills. Similarly, SME’s are net savers, but most of their savings sit in their current accounts waiting to go out. The simplicity of the CSBA model is that SME’s will also be rewarded for providing this liquidity to the bank.

**Profit-sharing**

The profits the bank makes is able to be shared with its members – through giving higher interest for savers, lower rates for borrowers, and a dividend for members.

**Bringing Back Branch Managers**

A new bank should be rooted in the communities in which it is based. Over the years the role of branch managers has been stripped back in favour of automated systems which centralise decision making. Whilst this may increase short-term profits, the loss of local decision-making leads to poorer expertise, as knowledge is the key to making good investments and fair decisions. Branches would have managers with real power to make decisions, and they will be rooted in the communities that they serve.

It is important that we capture the expertise of recent bank managers who have been made redundant or changed jobs due to branch closures now, and harness them to train up the next generation of managers and staff so that we are not left with a skills shortage in the years to come.

Branch managers should reflect the populations that they were set up to serve and embody the values and principals of the bank.

**Mutuality**

A mutual bank is a financial organisation which is owned by its members rather than shareholders, and allows members to have a share of the profits and democratic control on a one-member-one-vote basis.
What should a bank for the North East look like?

In addition to the mutuality and democracy that is already embedded in the CSBA model, here we set out some of the elements we think are crucial in creating a local banking system that works for the common good.

Built by us, for us

CSBA banks target regions with populations of around 2.5-3 million. The North East had a population of 2.845 million in 2017. The bank needs to aim for 46,750 personal account customers and 12,750 business customers to be fully financially sustainable. In the North East that requires a market share of 1.7% of current accounts and 7.83% of SMEs.

There are some challenges, the North East is a large region, some 3,318 square miles but with the lowest population in the UK. We also have the lowest GDP per capita in the UK and at 5.6% the highest unemployment rate. A bank, properly designed, will be rooted in community and business need and will make a real economic and social impact in the region.

One North East

For the North East, the CSBA propose that there needs to be one regional bank – covering from the Scottish to the Yorkshire and Cumbrian borders. This is to ensure a critical mass of people necessary to grow and sustain a bank whilst keeping the bank at a small enough level, with a good blend of urban and rural, to ensure that the ‘local’ element is not lost. We would suggest that the initial research should be done using participatory consultation methods to really understand the needs, test the market, and ensure that communities across the region would be happy with any approach taken.

Vibrant branch network

The initial research stage should identify a comprehensive picture of the banking landscape in the North East, taking care to identify gaps in provision and use participatory processes to engage SMEs and vulnerable citizens in particular to find out what a new bank needs to do to serve our region and ensure universal banking provision. This will lead to a deeper understanding of the network of branches needed, taking into account the likely future of further branch, ATM or Post Office closures.

Supportive of social finance

A bank for the North East should exist not to compete with other institutions that already exist to provide socially useful finance, such as credit unions and community development finance, but they should be partially owned by and supportive of them. Credit unions need to access banks in order to operate, and are in some cases as liable to damage from unstable banking practices as any banking customer. This bank should be set up in full consultation with existing social finance organisations operating across the region and this should be reflected in its constitution.

Reflect a modern, diverse region

The bank should ensure that the geographical areas it covers are adequately reflected in branch locations, but that it also has diversity in the decision-making, operational and governance structures of the bank. It should be gender diverse and gender competent and should reflect the best organisational practice in diversity and inclusion in meaningful ways.

Remuneration

The Prudential Regulatory Authority Supervisory Statement on Remuneration SS2/17 sets out bank regulations on pay and bonuses. The bank would be assessed on proportionality level 3 as the assets would not exceed £15 billion. It should have a remuneration committee who should set overall salary and remuneration for all employees of the bank. The CEO and high-level staff should, as a matter of principle, have a maximum salary ratio of 1:10. The lowest paid member of staff (employee and contractor) This creates an incentive to raise all employee wages in recognition of the shared value creation. Real living wage of £8.75 (13.63733pa), National living wage £7.83 (13.0765pa), National minimum wage £7.38 (13.41699pa).

We have the power to change the banking system for the common good.

We’re in, are you?

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