

The Case for a post crunch Bank

Our vision for a secure, accessible local **bank** based at **Post Office** branches and nationalized bank branches. **The Bank of Britain** would provide stable and dependable services in the midst of economic uncertainty. It would reconnect finance with the productive economy, and move away from the careless speculation that caused the current crisis, towards **banking** practices that are better connected with the needs of small businesses and local economies.

At a time when three million people in the UK are still without **bank** accounts, and when **bank and Post office** branches have been closed in the country's poorest areas, it is crucial that the Government invest in a **banking** system which serves ordinary people and works towards financial inclusion. **The Bank of Britain** would prevent further **Post** office closures and provided unprecedented reach via its 11,500 branches.

The Bank of Britain would also provide the financial support that the UK's small businesses so desperately need. By offering appropriate and reliable credit, **The Bank of Britain** would be able to help small businesses - the bedrock of the UK economy - to weather the current economic storm.

About The Bank of Britain underlying this new concept

The Bank of Britain will be based on the **Post** Office network and nationalized bank branches. To an agreed set of principles which we believe has a wide and growing spectrum of support across the UK.

The effect of the **banking** crisis means the need for a new, trusted, state owned **Bank** based on the **Post** Office network and nationalized bank branches. is urgent. The uncertainty affecting the economy, with subsequent impact on social life and communities, means that we need the strongest possible **Post** Office network for economic support and community cohesion.

The Bank of Britain would underpin the future sustainability of the **Post** Office network by greatly expanding the range of services **Post** offices can provide, and crucially, by helping prevent any further **Post** office closures.

The Bank of Britain currently consists of people who share the aim of a viable **Post** Office network that benefits consumers and can offer a wide range of services to both private and business customers.

Summary of Recommendations. **The Post Office** network is a unique national resource. Communities, businesses and individuals all depend on it. It should both be protected and grown. **The Bank of Britain** based on the **Post** Office and nationalized bank branches is the best way of strengthening the **Post** Office by building up and extending its current financial services and securing its future. It is paramount that there are no further closures of **Post offices**.

Post offices are tied to their local communities. **The Bank of Britain** would be an economic driver, lending at small margins, supporting local enterprise rather than global speculation.

£ The current **banking** crisis provides an opportunity for a radical redesign of **banking**. Combating financial exclusion and creating rights to a fair, accessible and trusted **banking** system can best be done through **The Bank of Britain**.

£ **The Bank of Britain** would offer current accounts, access to credit, direct debit facilities, and expand its savings capacity. It would not be shareholder driven and would, through a **Universal Banking Obligation**, be locally based through **Post** office branches and nationalized bank branches.

£ **A Universal Banking Obligation**, similar to the guiding principle of the **Universal Service Obligation** of Royal Mail, must be established through **The Bank of Britain** based on the unique national reach of the **Post Office network** and nationalized bank branches.

£ The UK economy relies on small businesses which in turn rely on **the Post Office** and its efficient, affordable and local service. **The Bank of Britain** will both safeguard the **Post Office network** and offer a more extensive range of financial and other services to aid small businesses.

£ **The Bank of Britain** would reconnect **banking** with local economies and would liaise with other financial bodies including credit unions and community development financial institutions (CDFIs).

£ There are international examples of successful **postal banks** from which the UK could draw

The Vision To create a secure, accessible local **banking** system by growing the role of **Post** offices, the **Post** Office should provide a national **banking** system that delivers stable, accessible and dependable services to the public and businesses. It stands to be one of the best guarantees underpinning economic resilience, promoting financial inclusion and allowing people and businesses to invest and save with confidence and security.

Deposits made through **The Bank of Britain** could play a vital role in reconnecting the **banking** system with the productive economy. As a trusted source of information and advice, and a vital part of the social fabric, the **Post** Office's role as a shop front of the public realm would expand direct, local access to a range of government services. Local and national government should be encouraged to direct services through the network. The Government must commit to not cutting back **Post** Office services. Instead, it should build up the **Post** Office as a financially viable and cohesive social and economic institution. Establishing **The Bank of Britain** on the current **Post** Office **network and nationalized bank branches** will inevitably mean that investments have to be made. In many cases expansion of existing **Post** offices and hiring more staff will be necessary to accommodate the additional **banking** customers and deal with the current experience of long queues.

Establishing **The Bank of Britain** will therefore also mean that a large number of **employment opportunities are created**.

In November last year the POCA (**Post** office card account) was awarded to **Post** Office Limited (POL). This and the fact that POL already offers a range of financial services, means that establishing a fully fledged **bank** is a natural extension of the POL's current activity.

It is important to distinguish between the coalition's proposals for a **The Bank of Britain**, and the financial services POL currently provides. POL's financial products are currently provided on a purely commercial basis, and are in partnership with the **Bank** of Ireland which receives 50 per cent of any profits generated. A **The Bank of Britain** should instead operate independently and while it will run a commercial operation which will make a profit, the Government could use **The Bank of Britain** as a vehicle to tackle financial exclusion and help those on low incomes.

The Background As both **bank** and **Post** Office branches have closed in many local Communities – particularly the poorest – many people and small businesses have seen their direct access to **Postal** services, and also to essential financial services, disappear. Establishing **The Bank of Britain** would ensure the provision of financial services based on a return to basic **banking** principles, where **bankers** are situated in and understand their local community and its needs.

With its network of branches throughout the country, and the high levels of trust that it enjoys, the **Post** Office (and nationalized banks) are ideally placed to house the new **Bank of Britain**.

The current credit crunch is part of the background to our reasoning, but so is the longer term failure of the highly-centralised UK **banking** system to meet the needs of local entrepreneurs and local communities. The shift in the shape and business model of **banks** over the past generation – over-consolidation and over-focus on speculative finance – has not just caused the present financial crisis, but renders **banks** not 'fit for purpose' when it comes to financing the local economy. The evidence suggests that access to appropriate credit has been denied to small companies, individuals and crucial social enterprises for at least a decade while the financial sector grew.

The credit crunch is now making this situation worse. There is already evidence that the **banks** are cutting back on help for small, high street enterprises, which are not just the bedrock of our local economies, but employ 22.7 million people in the UK – and will be the sector that drags the nation out of recession. While political attention is focused on the number of conventional loans, less attention is being paid to the withdrawal of overdraft arrangements and changes in the conditions attached to loans. There are three related problems which **The Bank of Britain** is designed to address:

1. The continuing problem of access to finance for poorer people and places:

About three million of the population is still un**banked**, * and the figure is rising. Their savings, such as they are, earn no interest and are not available for re-investment, and the prospects for local enterprise are further undermined. Evidence shows that basic **bank** accounts are not working. **Banking** services are not universal, despite the creation of basic **bank** accounts the disadvantaged continue to bear the full cost of exclusion. Take

up of basic **bank** accounts has been less than expected and there are concerns about some customers not using the account once they have opened it.

Under a voluntary **banking** code, the major **banks** have little incentive to promote uptake of accounts or to invest in innovative solutions. Without access to affordable credit from **banks** or recognised lenders, people will continue to borrow from sub-prime lenders such as pawnbrokers, doorstep lenders, and even illegal loan sharks with usurious interest rates. These exorbitant payments are a serious drain on poorer people's budgets and deprive local economies of money that could be spent on local goods and services.

* HM Treasury (2008) "Progress towards the shared goal on access to **bank** accounts."
http://www.hm-treasury.gov.uk/financial_inclusion_bankaccounts.htm

2. Poor access to finance by the enterprise economy: Even before the current crisis, the drive to maximise profits has meant that relatively low-margin activities, such as small loans or basic **bank** accounts, were de-emphasised. **Banks** have been reluctant to finance very small businesses given the high transaction costs of appraising and securing such loans. In an FSB survey of February 2009*, 28 per cent of respondents said that they had seen an increase in cost of existing finance such as loans and overdrafts in the past two months, for new credit the figure was 27 per cent. **Banks** increasingly use credit-scoring techniques. Customers thought to be risky, such as small businesses and those based in deprived areas, are more likely to be denied credit. **Banks** charge more to lend in deprived areas. The margin on small business lending in deprived areas is higher than that of lending to small business generally across Britain. But in the financial sector, there is mounting evidence that – having been bailed out by taxpayers – the **banks** are trying to return to profitability at the expense of the small business sector; cancelling overdraft agreements, refusing loans for expansion, and using nationwide formulae to make decisions concerning local matters dependent on details and personalities that the formulae are unable to capture.

Small businesses often operate on credit cards and **bank** overdrafts.

A 2008 FSB survey ** showed that 29.4 per cent of respondents used **bank** overdrafts as a major financial source for their business. The figure for personal credit card was 10 per cent.

3 The Bank of Britain would offer a **less formalised banking structure** for those small firms that cannot afford to fully run on own savings or retained profit.

* Federation of Small Businesses (February 2009) Credit Crunch Survey

** Federation of Small Businesses (2008) Putting the Economy Back on Track: Business Support and Finance, p. 11.

3. Continuing access to finance problems in the social enterprise sector: The growing social enterprise sector is playing an increasingly critical role in the UK economy, delivering public services, building innovative new approaches to local economics, reaching those parts of the community and economy that conventional businesses fail to reach. The problem is that finance for new social enterprises is often hard to find, and finance to invest in successful models – either to replicate them or mainstream them – is particularly scarce. This is not a result of the credit crunch, but has been the case for some years, Social enterprises do not aim to maximise financial returns, rather they

target 'social returns'. As a result, financial returns will be lower than in other sectors, making them unattractive to straight commercial investors. They need investors who are also motivated by social rather than financial returns. Public funding for the community finance sector has also been short-term, patchy and increasingly scarce, because community investment tax relief is regarded as too complex and narrow to attract sufficient investment capital. It is in need of revision.

The **banking** crisis of 2007-9 has exacerbated the problem, but it has not caused it. Britain needs the kind of diverse local **banking** infrastructure that benefits our competitors in northern Europe and parts of the USA. The conventional **banks** have played too little role in creating this, so it would be naïve to expect that a simple return to 2007 lending levels would solve the problem.

Quite the reverse: the UK **banking** sector is now consolidated to the point where it is not well geared to meeting local needs. **The Bank of Britain** is an example of urgently needed intervention.

The Bank of Britain recognises that **The Bank of Britain** account structure has to be competitive to attract business customers.

The Principles of the Bank of Britain

1. Safeguarding the unique and popular **Post** Office network and the elimination of the risk of further local closures. There must be an end to the downgrading of **Post** Office services caused over many years by Government uncertainty and neglect, as well as poor management.

The Government's new commitment to strengthening the **Post** Office network by extending the financial services it can provide is most welcome. But this alone is not enough. The establishment of **The Bank of Britain** is essential in safeguarding the future of the **Post** Office network. This **Bank** will hugely increase **Post** Office custom, it will enable the Government to increase the work it passes to the **Post** Office; it will enable the **Post** Office to build up its business profitably. It will enable the POCA to be embedded in a trusted **bank**, thus removing the threat that it could again be put out to tender.

2. The new Bank of Britain could address the problem of financial exclusion.

Commercial **banks** have physically retreated from large tracts of the country leaving people badly served. There are three million people in the UK without **bank** accounts * and this figure is still rising as the **banking** crisis has increased the number of those who have difficulty accessing **banking** services, especially if they need mortgages, loans or overdrafts. People without access to financial services, the un**banked** or under-**banked**, effectively pay an unfair premium for basic services. Consolidation in the UK **banking** sector has destroyed regional **banks** and closed local branches. Branch networks of both **banks** and building societies have been in continuous decline since the 1980s. Britain's least affluent inner cities and traditional manufacturing areas have lost more local high street branches than any other area since 1995. Lack of **bank** branches has clear negative consequences for low-income customers and local businesses.

*HM Treasury (2008) "Progress towards the shared goal on access to **bank** accounts."
http://www.hm-treasury.gov.uk/financial_inclusion_bankaccounts.htm

The Bank of Britain will break the model of risk-taking by being publicly owned and locally based, with a diversity of services and partnerships such as credit unions and community development finance institutions (CDFIs) which currently work to provide personal and business finance to local communities, for example. It will focus on serving local communities and economies building upon these strong foundations, credit unions and CDFIs could support **The Bank of Britain** in developing better ways of delivering complementary community based financial services. New legislation passed last year allowed for a liberalisation of the rules governing credit unions and cooperatives, making it possible for groups to become members, allowing interest to be paid on members' deposits and allowing credit unions to provide services to a wider range of people. **Post** office closures give a negative message to many communities that are already struggling to survive due to the fact that they are largely excluded from mainstream financial services.

There is growing expertise in the credit union and CDFI sector about how best to service the needs of financially excluded household. Credit unions and CDFIs have been evolving sensitive responses to the financial needs of lower income households. These sectors of the market involve negotiating higher credit risks, higher transaction costs and a high level of professional skill in budgeting and money management advice. **The Bank of Britain** would design ways of collaborating with and supporting these initiatives. In 2005/06, 13 million people in the UK lived in households that were below the low-income threshold. This is roughly one-fifth of the population. Among the many factors contributing to the decline of disadvantaged neighbourhoods are limited access to finance and lack of appropriate financial training and business support. Poverty is now concentrated in specific geographic areas and where these areas have lost **banks**, thus excluding local people from the **banking** system, the **Post** Office already provides a known and trusted face.

3. A Universal Banking Obligation (UBO), similar to Royal Mail's Universal Service Obligation, should now be established. The **Post** Office is a trusted brand which has attracted massive savings during the current crisis. **The Bank of Britain**, based on this trust, would ensure the UBO, and help guarantee access to fair finance. The Government has taken the welcome decision to keep POCA within the **Post** Office and it must now work to deliver many more financial services through the **Post** Office. A wide network of ATMS must be provided, which will accept POCAs and must be enabled by all the big commercial **banks** to use their cards, without charge.

The Bank of Britain would not have a shareholder-driven structure. It will be able to offer a more independent set of advice services, low interest loans, and local involvement than **banks** currently provide.

4. The Post Office structure is essential to the economic health of Britain's small businesses, a major driver of our economy. The small enterprise sector has a critical role to play in recession. Not only does it employ 59 per cent of the private sector workforce, but the ability to finance new ideas and enterprising individuals to fill gaps in provision during recessions is the way that economies eventually pull themselves into better economic times. If the **banking** infrastructure is inadequate for small enterprise, then recovery is also likely to be delayed. SMEs employ an estimated 13.5 million people, and have an estimated combined annual turnover of £1,440 billion. They account for 69.9 per cent of all enterprises, 59.2 per cent of private sector employment and 51.5 per cent of private sector turnover.

£ Many support the idea of **The Bank of Britain** built on the **Post** Office **network and nationalized bank branches**, regardless of whether they were in need of different **banking** services.

£ **The Bank of Britain** will be free with competitive charges for their accounts, longer opening hours and link fully with other **nationalized** High Street **banks**.

£ **The Bank of Britain** would have been an even better idea before the last round of closures as the reach would have gone even further, particularly in rural communities. Anything that will prevent future **Post** office closures is welcomed by the small business community. Small businesses rely on their local **Post** offices for mail services. The FSB survey showed that 79 per cent of respondents use the **Post** Office for their mail services and 88 per cent use stamped mail rather than metered mail. Making the journey to the **Post** office regularly to purchase stamps and have parcels weighed and franked is an important part of the work of a small business. If small businesses could also access a wider range of financial services at the **Post** office they could deal with many more errands in one visit, saving them valuable time.

The closure programme has already affected thousands of small businesses. Many small business owners have said that they can now no longer pop out to the nearest **Post** office on foot but have to get in the car, find parking and pay for it and then queue for much longer than normal only to deal with their everyday business activities. In order to strengthen the **Post** Office network there is strong support for the concept of **The Bank of Britain** to ensure that the **Post** Office network remains healthy and can expand to meet future needs. The **Bank of Britain** would also bring financial services within the local reach of small businesses that currently may have no **bank** branch in their area.

This would mean that they could access 'patient' or long-term capital to see them through the current crisis – **The Bank of Britain** could do this where commercial **banks** are unable to.

The Bank of Britain would reconnect with the real economy of business and local enterprise. **The Bank of Britain** would liaise with a variety of financial and economic providers including credit unions and CDFIs. It would be able to pilot a number of new and modernised ways of investing and saving- for example green energy bonds and investment in local economies.

5. The Design and Capacity of the Bank of Britain.

The Bank of Britain is not the risky operation currently being carried out with commercial **banks**; capitalising **The Bank of Britain** would not be used to finance existing debt but to serve real local economies. The **bank** could also be capitalised through the issue of local bonds, giving local investors a stake in a local financial provider.

The Bank of Britain could be used as a deposit for local council's temporary surplus cash. They never should have been allowed to speculate in Iceland and other dubious schemes but used for local finance.

The **bank** should cover its costs eventually but there will be certain products and services to do with loans, debt advice, that could be funded from Government funding programmes directed at poverty and social inclusion. There is already a huge sum of money in NSI savings, transferred during the present crisis, from commercial **banks**. In the year 2007/8 (the period in which Northern Rock failed) NSI inflows grew by 9.9 per cent to take annual inflow to £15.5bn. It is safe to say the 'flight to quality' will have intensified thereafter.

Post Office staff already conduct financial services in an 'FSA compliant' manner. A proportion of **The Bank of Britain** services would be carried out through tele**banking** and internet **banking**. New legislation last autumn gives Credit Unions more scope and we see a major role for them in linking to **The Bank of Britain**. Recruiting staff with financial expertise should not be a problem, given the redundancies made in the **banking** sector. The **Post** Office has the single biggest computer linked system in Europe and it is the third biggest UK cash carrier in terms of employees and vans. The **Bank** of England has recognised the **Post** Office as a cash storing institution. **Post** offices are well suited to **banking**: Crown Offices have strong rooms and small **Post** offices can be the first port of call for **bank** customers.

The Bank of Britain will not have the very high and random charges that commercial **banks** have developed. We have a choice - free **banking** or charges that are lower than those of commercial **banks** (**The Bank of Britain** will not be shareholder driven). These charges could be part of the **Bank's** investment back into its communities. **The Bank of Britain** could also pilot innovative schemes for new financing and for re-connecting with local economies. Green energy bonds and local government bonds are both worth exploring.

6. The international examples of Post office banking are positive and can be emulated. Many of **Post** Office Ltd's overseas equivalents have developed comprehensive **banking** services to offset losses of other traditional services, which have made substantial contributions to the viability of these national **Post** office networks. Even if they are not like for like comparisons to the UK **banking** and **Postal** structures, they are useful examples of merger of **Post** and **bank** services.

The French **Postal** service, La **Poste**, launched its **bank** in January 2006.

By 2007 it had over 11 million **Postal banking** accounts and accounted for nearly a quarter of La **Poste's** turnover. The Italian **Postal** service, **Post** Italiane, launched 'Banco**Posta**' in 2000 and by 2002, **Post** Italiane showed a net profit for the first time in 50 years. This turn-around is largely attributable to the business generated by Banco**Posta** and has led to an expansion of the Italian **Post** office network which currently stands at over 14,000 **Post** offices. In Germany, Deutsche **Post's Postbank**, although it has suffered problems, remains the largest German retail **bank** by customer numbers (14.5 million) and Germany's largest issuer of credit and debit cards. **Banking** transactions account for 39 per cent of business over German **Post** office counters.

7. Where Does a The Bank of Britain fit within European Regulation? The European Commission would want to take a view on the State Aid and competition implications of this. BERR would want to engage in initial discussions with the EC to clear the way for the establishment of a **The Bank of Britain**.

The criteria against which eligibility for EU State Aid clearance for UK government support for the **Post** office network is measured within the European Commission's broader definition of "services of general economic interest": These include:

- a) Processing of social benefit and tax payments;
- b) Processing of national identity and licensing schemes;
- c) Universal cash payments for public utility services;
- d) Universal access to basic cash and **banking** facilities and Government savings instruments, especially for rural customers and those on social benefits
- e) Access to universal **Postal** services.

In practice, the existence and growing popularity of **post office based banks** throughout the EU would make it difficult for the Commission to withhold support, particularly in the current, ongoing financial and economic crisis.

Conclusion There is a both a need and an appetite for transformative change in our economic and **banking** institutions. **The Bank of Britain** based on the **Post** Office network and nationalized bank branches will provide a solid, trusted basis for new **banking**, new investment and the revival of local economies.

The Bank of Britain must be dramatically different from the failed commercial **banking** model. It must signify a departure from profit-driven, speculative **banking** practices and a return to locally based, sound financing. It must be inclusive, reaching out to other social and financial organisations concerned with the economic health of their communities. It must be a **banking** system for all the people.

The Bank of Britain would offer real, long-term financial security to individuals and businesses and provide a vital role for the **Post** Office commensurate with the high esteem in which it continues to be held by the **British people**.

Appendix: Financial services currently offered by **Post** offices:

Insurance; Car, Van, Motorcycle, Home, Pet, Travel, Life, Over 50s life cover.

Savings; Instant saver account, ISA, Growth bonds, Child trust fund, NS&I products, Loans and mortgages, Credit card, Personal loans, Mortgage