

**SUBMISSION TO THE
INDEPENDENT EVALUATION
OF COMMUNITY BANKING**

**financial
services
union**

Gareth Murphy

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INTRODUCTION

Banking services are undergoing processes of change and transformation which amount to a dramatic shift away from previous service provision models.

Technological change is one engine of this transformation. Technologies unheard of just a short few years ago are transforming every aspect of banking.

The challenge today is to ensure we in Ireland have a banking sector which suits the needs of society and of communities, that supports a productive economy and is delivered in a sustainable way for customers, staff and the environment.


Financial Services Union (FSU) has thousands of members in over 400 locations delivering local banking in Ireland. Every day FSU members deliver banking services to hundreds of thousands of customers. We are present in every aspect of the sector. This gives us a unique understanding and particular insight into local banking.

The core of our argument is that the debate about local community banking in Ireland has been too narrow. Rather than focusing on one set of solutions, we need a holistic, whole of society approach. There should be an aspiration to deliver first class local banking services, supporting customers, society and the economy, in every part of Ireland. This can be delivered by reforming our banking and finance services to prioritise customers and social goals, rather than an exclusive focus on shareholder gain, privatisation or short-term interests.

This short position paper has been informed by these local perspectives, as well as the views of our staff, who have decades of experience and expertise in the sector. The paper is underpinned by decisions taken at our national conference.

We look forward to discussing this paper further with the review and with stakeholders in the sector. We reiterate our call for a genuine, all-encompassing debate about the future of banking and financial services in Ireland. The means to do this are set out in this paper.

Yours sincerely,



Gareth Murphy,
FSU Acting General Secretary

ABOUT FSU

We are the leading trade union for staff in banking and financial services, with members across the Irish banking retail network and broader financial services.

Our mission in relation to local banking

- To support our members in the delivery of high quality, sustainable banking services locally to customers.
- To ensure as many people as possible have access to banking services locally.
- To promote decent working conditions and high-quality jobs throughout local banking.
- To ensure that technology does not replace face-to-face banking.
- To support a regulatory regime that protects customers, staff and local banking services.

FSU GUIDING PRINCIPLES FOR LOCAL BANKING IN IRELAND

The review should accept, as a fundamental goal of banking policy:

- That as wide a spread of banking services should be available at local level in Ireland underpinned by face-to-face human in command decision making.
- That no single policy model should be awarded precedence in pursuit of the above goal. This means we should adapt as many positive measures as possible which can support local banking.
- That other questions of banking policy cannot be divorced from the local banking policy. This means that questions of ownership models of banks (public, private, mutual), investment direction and general bank strategy cannot be separated out from the debate on local banking.
- That a far greater level of cooperation is required to protect local banking services. This mean greater interaction between the banks, credit unions, post offices, local government, enterprises, representative bodies and others should be encouraged to promote local banking services. The delivery of a banking forum and more diverse banking boards would be a positive step on the right direction and we ask the review to recommend this.
- The provision of local banking services in not an issue for rural Ireland alone. The availability of local banking services is also important to urban areas.
- That regulation is required to promote sustainable banking. This means that certain banking models need to be examined more closely. The app-only banking approach, as promoted by Revolut, does not represent sustainable banking or local service provision. We ask that the review take further research on these apps, how they leverage off existing banks and whether they meet regulatory standards.
- That strengthening the voice of front line staff through regulation from below in the form of enhanced collective bargaining rights, greater facilities for worker reps, worker representation on Boards and the promotion of whistle blowing protections and culture are directly related to strengthening the local provision of services and a sustainable community focussed model.

LOCAL BANKING UNDER STRAIN

Ireland traditionally had a high penetration of local banking services when international comparisons were considered. Indeed, Ireland avoided the local bank branch closures which took place in many countries in the 80s, 90s and early 00s.

However, Ireland has since caught, and indeed surpassed many other countries who introduced the first waves of bank closures in the 80s.

The last decade of 2008-2018 has witnessed the greatest decline of branches in banking in modern Irish history. In 2008 there were 884 branches across the following networks: Bank of Ireland, AIB, Ulster Bank, Permanent TSB and EBS. 190, of these, or 21%, have been shut down in the last 10 years.

These numbers don't even include the closure of 27 National Irish Bank branches after the withdrawal of Danske from retail banking in the Republic of Ireland. These closures have disproportionately affected rural towns and communities.

A study by Sean O' Dubhlain of Trinity College compiled figures of closures from across AIB, Bank of Ireland and Ulster bank and revealed that in total there were 142 bank branches closed across the 26 counties between 2007 and 2017. Limerick lost 24 branches.

A number of reports ('House of Commons Briefing Paper 385', 'Move Your Money – Abandoned Communities', 'Do Bank Branches Still Matter Dept. of Economics MIT 2014, 'World Economic Forum Report') definitively show the negative economic impact a Branch closure has on a town and community.

- In Britain, lending to SME is reduced by 64% where a Branch closes
- In Britain, on average where the last Bank in town has left, the town received £1.6 million less in lending the year after the closure
- In the US, loans to small businesses fell by 13% post closures and the supply of mortgage also fell

Numerous surveys find that small businesses in particular, need and want the local Branches more than other types of customers. For rural towns around Ireland the Branch is critical to employment and economic life in the town. While some personal customers can utilise technology, for businesses face to face banking is much more important.

Figures from the IMF reveal the changing nature of local banking in Ireland. In 2017, the most recent year from where figures are available, Ireland had 20.73 bank branches per every 100,000 adults. In 2009, this figure was 34.12. (IMF, 2018)

<http://data.imf.org/?sk=E5DCAB7E-A5CA-4892-A6EA-598B5463A34C>

Sean O'Dubhlain, in his study "Bank branch closures in the Republic of Ireland: An exploration of financial exclusion and economic geographical unevenness (2007-2017)" described the situation in Irish branch banking as follows:

“Between 2009-2010, the number of commercial bank branches per 100,000 adults decreased by 4.6% across the EU, while the number in Ireland plummeted by 18%. This negative trend followed into 2015, with the average decline of Irish branches per year (8.3%) more than double that of the EU (3.8%) since 2009. According to this data, Ireland has reduced its number of commercial bank branches per 100,000 adults by 41% between 2009-2015, compared to a decrease of 21.8% of branches in the EU”.

These changes in the numbers of bank branches have occurred alongside a transformation in staffing. Figures from AIB annual reports, to give an example, reveal a 40% drop in bank staff numbers. (AIB, 2008/2016)

The changing nature of local branch banking, in addition to the challenges for business lending/ and investment in the local community, gives rise to the potential of financial exclusion. Analysis from O’Dubhlain 2018 shows that the majority of the percentage of closures occurred in less affluent areas. The profit-driven motive of privately owned banks, or those nationalised seeking to return to private ownership, is in contradiction to widespread accessible local banking. Challenges also exist in terms of access to the internet in some areas, and internet penetration among certain categories of the population. CSO figures show that 11% of the population have no access to the internet. Particular challenges exist around access to broadband in rural areas, with a knock on impact for financial inclusion. In Leitrim, for example, only 58% of the population have access to broadband. (CSO, 2018).

SOLUTIONS

FSU believes that protecting strong local community banking is vital for the sustainability of communities, local jobs and the local economy. To promote local community banking, the following positive regulatory changes should be considered.

- ‘Minimum Service Standards to Communities’ must be built into regulations to ensure a level competitive playing field and equal participation by all regulated entities in the market. Service level commitments need to be built into the regulation and/or provision of banking licensing to ensure that every participant in the banking market is fairly contributing to the provision of local banking services and not just here for short term profit and gain.
- The CBOI must produce clear regulations on peer-to-peer lenders and new banking app providers.
- Before any change to the retail footprint is considered the Banks should have to publish impact assessment reports and engage in extensive public consultations with the Union and also communities and customers. In advance of this being established a moratorium on all branch closures should be imposed on banks.
- Where there are particular blackspots, or closures are justifiable, Banks should have to ensure there are mobile and alternative flexible banking options that maintain levels of face to face banking and services for customers. These must be meaningful and not token gestures.
- In order to protect lending to local areas Banks should also have to submit specific details on lending levels to areas affected by branch closures or proposed closures to the CBOI to ensure that credit remains available to local business and we do not see the drastic drop in SME lending that has accompanied branch closures in Britain.

Further retrenchment in community banking and local services must be halted, there should be:

- An immediate moratorium on all branch closures by Banks to support rural re-development and spreading the recovery more equally around Ireland
- A thorough and immediate analysis of the potential risk to sustainable banking represented by mobile banking apps. We ask the review to agree that such an investigation be carried out by the Central Bank. At a very minimum, all entities in receipt of a banking license must contribute to minimum service standards, so as not to undermine sustainable banking.

Staff are the backbone of local community banking. There can be no real community focus without the involvement of banking staff. We want:

- A culture of support not opportunity. Banks needs to prioritise service over sales in performance management and measurement. The CBOI should produce a code of

practice on performance management and targets that prioritises service provision over sales.

- There is no doubt Artificial Intelligence (AI) is becoming more prevalent in the sector and represents a significant risk to local banking and the economy more generally. The potential of lending by AI leading to a bubble is significant. FSU supports a Human in Command approach to any use of AI where humans are always the decision makers on both customer and staff matters. This is consistent with regulatory regimes in both Ireland and Britain which are specifically linked to the accountability of humans, not machines. This review needs to recommend Human in Command banking always. The review should also recommend the established of an Ethical AI board to overview the use of AI in banking with a specific mandate to ensure the provision of local banking services are enhanced and not damaged by AI.

One of the many impacts of the of banking crisis in Ireland has been the consolidation of the banking sector into one (shareholder based) model of banking, whether private ownership or being managed to return to private ownership. This represents a systemic weakness in the sector and a significant risk to the Irish economy. To combat that and enhance local service provision we need more diverse forms of banking and regulation in the sector and voices of staff and customers need to be heard and listened to. To that end FSU supports:

- The CBOI having a specific mandate to increase the diversity of ownership models of banking in the sector to ensure real competition, to spread risk and to provide greater levels of service.
- The setting up of a comprehensive banking forum. This forum would be stakeholder controlled and it would involve government, staff, customers, the full spectrum of banking and finance providers, and civil society. We suggest that the banking forum is convened by the Department of Finance with an independent chair, and sits over an agreed period. The forum's deliberations could form the backbone of a comprehensive, all-encompassing strategy on the future of the sector, including local community banking.
- To change the composition of Bank boards, so that the voice of staff and bank customers is heard in decision making.

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