

**Briefing Paper BP10/2015**

**Is UK Banking Better?**

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Kate Elliot (Ethical Researcher, Rathbone Greenbank Investments), Ed Mayo (Secretary General, Co-operatives UK) and Richard Werner (Professor of International Banking, University of Southampton) formed a panel chaired by Andy Mullineux as part of Bournemouth University's Festival of Learning in June 2014.

Rathbone Greenbank partnered with the Ecumenical Committee on Corporate responsibility (ECCR) to meet with leading UK banks to assess how well they were performing with respect to: culture change, responsible taxation, social and environmental risks in lending activities, banking for local economies, and access to finance. A distinction was drawn between public trust and confidence. At the start of the financial crisis in August 2007, banks lost confidence in each other. Subsequently, public trust in banks had been further undermined as evidence emerged of miss-behaviour; ranging from miss-selling scandals to market price rigging. The banks expressed a genuine awareness of the need to embed better values and improve compliance. Despite these small steps in the right direction, it was clear that the banking industry had some way to go before it regains public trust.

Ed Mayo illustrated the potentiality of community oriented mutual banking. Gale Cincotta, a famous community activist in Chicago, identified 'red lining' by banks of neighbourhoods that were regarded as 'unbankable'. This prompted the 1977 Community Reinvestment Act,

which required US banks to serve the credit needs of households in communities from which they took deposits.

Andy Mullineux recalled the fictitious character George Bailey, played by James Stewart in the favourite US Christmas movie: "It's a Wonderful Life" (1946). George Bailey ran the town's Housing and Loan Association, which funded an affordable housing programme. The town's rival shareholder-owned bank unsuccessfully tried to undermine George and the Housing and Loan Association in order to make way for commercial housing and other property development projects in the town. This raised the question: 'what sort of banks do we really want'? Diversity in bank ownership structures, including mutual and shareholder models, should be promoted to promote access to finance amongst households and small enterprises with varying needs. In the US and Germany, relatively small local mutual banks serve households and small enterprise needs, whilst larger, shareholder-owned, banks serve larger companies and corporations.

The first credit union in the England, which was established in Wembley in the 1970s by people from the West Indies, was based on the CUs that had been formed in the Caribbean. CUs, which lend at capped rates to member-savers with a 'common bond', have a longer tradition in the US and Ireland. The largest CUs tend to be work-based, often benefiting from employer sponsorship of back-office operations and premises. Smaller, more community based, CUs tend to rely on voluntary workers and use community meeting places to contain costs. Justin Welby, the Archbishop of Canterbury, is promoting CUs as an alternative to 'payday' lenders and making church premises available to help support their operation.

In 1775, Richard Ketley, the landlord of the Golden Cross public house in Birmingham, devised a mutual self-help scheme for house building for homeless Irish 'navies' building Birmingham's canals. He encouraged them to put some of their wages in a glass, rather than spend it all on beer. When enough savings were accumulated, the first house was built, and they kept saving until all the contributors had a house and the building society was closed. The idea spread and 'perpetual' building societies developed. The largest one surviving

today, for those that 'demutualised' to become mortgage banks all failed in the financial crisis, is Nationwide.

Richard Werner asked: what is the purpose of banks and can they in fact be good? Commercial banks determine the supply of money, which is a 'public good' whose production has been privatised and rationed by big banks in pursuit of profit. In the UK, 95% of consumer and small business banking is conducted by the big banks, whilst in Germany 70% is conducted by local banks.

The newly created Hampshire Community Bank (HCB) aims to be the first in a network of local banks serving the Southern region. It is a 'not for profit' bank owned by a charitable trust and is modelled on German savings banks. In the US and Germany, big banks serve large firms, whilst smaller banks serve smaller enterprises. The HCB will be a local bank for both local households and businesses and hence a truly community oriented bank.

A UK, or EU, version of the US Community Reinvestment Act should be contemplated and the retail banking sector should be regulated as a utility; given that the payments system is infrastructural and money (or credit) is a 'public good', as is financial stability. To the extent that regulation and supervision require competition to be restricted, which is debateable, the case for regulating retail banking, like the energy sector, as a utility in order to assure that it serves household and small business needs is compelling. Wherever possible, however competition from 'challenger banks' and internet 'crowd-funders', credit unions and mutually-owned banks should be promoted in order to achieve diversity and thus to better serve household and small enterprise needs.

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