



# Banking for the Common Good

Laying the foundations of safe, sustainable,  
stakeholder banking in Scotland

Executive Summary



COMMON WEAL



# CURRENT BANKING SYSTEM



- **SHAREHOLDER BANKS**
- **CREDIT UNIONS**
- **MUNICIPAL SAVINGS BANKS**
- **AIRDRIE SAVINGS BANK**

Scotland's banking system is unstable and unfit for purpose. In 2008, led by Scotland's RBS, the UK banking system collapsed and formerly private banks required £1,162 billion of support from the UK Government. The crisis cost the UK economy as a whole up to £7,400 billion.

Eight years have passed since the crisis and our banking system is broadly unchanged. Scotland has an extremely highly concentrated banking sector and Scotland's banks are not providing the services required by people or business. UK-wide 2 million people do not have a bank account and there are now 1,500 communities with no access to banking. Evidence suggests that the poorest are the most likely to lack access. Small businesses are neglected, and what lending is available is disproportionately focused outside of Scotland.

Our banks are not providing sufficient funds for much-needed infrastructure. Our banking system is structurally unable to fund "patient capital", i.e. low-return but potentially risky investments, like those which are needed to stimulate the transition to a low-carbon, sustainable economy. Instead, billions are channelled into property, inflating asset prices, as well as unsustainable industries such as coal mining, the manufacture of nuclear weapons, and speculation on food prices, a practice which is fuelling global malnutrition.

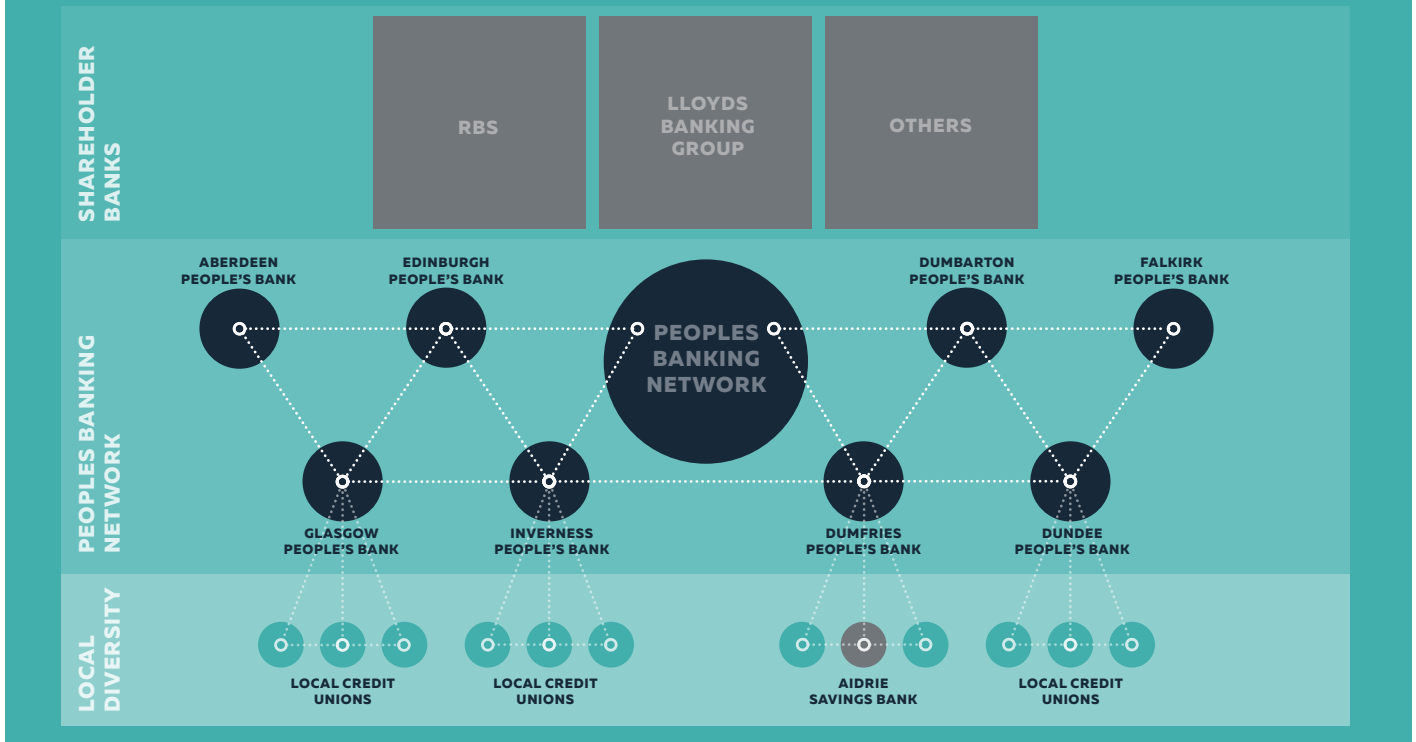
Alternative institutions exist but are small and

struggling to compete in a system set up to privilege the big banks. Payments systems, which facilitate the electronic exchange of funds, are controlled by the biggest banks, which have a vested interest in excluding entrants. London based Metro Bank is the only new high-street bank to open in the UK in 150 years. Small regulatory changes have not rebalanced our finance sector or repurposed finance to serve the needs of society.

We need more diversity in our financial institutions. Other developed economies have a range of institutions which provide stability and public accountability.

National investment banks provide strategic and long-term finance to industry either directly or through intermediaries. Examples include Germany's Kreditanstalt für Wiederaufbau, the European Investment Bank and the Nordic Investment Bank. The existence of national investment banks or other forms of public ownership of banking is closely associated with higher economic growth and greater economic stability. Studies of Germany, China and Russia have also evidenced that public banks are more efficient than private banks. Structured at arms-length national investment banks do not incur additional public sector debt and can be used to leverage tightened government infrastructure budgets.

# PROPOSED BANKING SYSTEM



Most developed countries also have some form of local and regional banking, owned and capitalised by local government or local investors, and focused on investing within a specific geographic area. US credit unions fulfil this role, where 47% of the population are members of a credit union. Switzerland's cantonal banks and the Germany's local Sparkassen banks are major providers of current accounts.

Whilst retaining their independence, local banks in Germany also cooperate regionally to gain economies of scale for shared services such as payment systems and marketing. Stakeholder banks such as these lend counter-cyclically and, not beholden to maximising profit, invest patiently. In 2012 Germany's local banks provided 45% of long-term business lending.

In 2013 the Scottish Government said it would seek to "fully repair... the appropriate relationship between the banks and the society in which they operate" insisting "where the Scottish Government can act, it will." We believe Scotland's banking system should build on the best practice from around the world. We suggest a new model is necessary to provide banking for the common good.

Not-for-profit "People's Banks" should be established in Scotland's regions to offer banking services to local people and business. They would be overseen by representatives

of local people and bank workers with support from financial experts, and be capitalised by national investment bodies and local authorities. By investing solely in their respective regions, People's Banks would help money circulate within local areas and serve the public interest.

Local banks would be part of a "People's Banking Network" to share risk and cooperate on training, marketing and the operation of key services such as payments systems.

A "Scottish National Investment Bank" would help establish these institutions by offering seed funding and structural support. The bank would be institutionally independent from Government but publicly owned, and mandated to promote through its lending sustainable development and employment.

A national investment bank would leverage Scotland's existing infrastructure budget to invest in projects which private banks are unwilling or unable to fund. We argue that with only a modest 6.5% (£225 million) of the Scottish Government's capital budget invested as subscribed capital this new bank would leverage a total of £3.4 billion to invest from year one. Scotland's local government pension funds, valued at £28 billion, could invest in bonds issued by such a bank, giving them a reliable mechanism through which to invest in local infrastructure.

## Recommendations

Our analysis focuses on Scottish banking. Scotland is part of the Sterling area and just as this analysis is applicable across the UK, so are our proposals. However in the absence of a response from the UK Government we believe that with vision and political will the Scottish Government can implement these reforms directly.

Our recommendations are:

- Scotland's political parties should discuss and endorse the implementation of our model for banking for the common good.
- The Scottish Government should convene a taskforce to examine these proposals in greater depth, bringing in a wide range of stakeholders to include Scottish Enterprise, economic development agencies, existing local and municipal banking institutions, credit unions, civil society groups and local authorities.
- The taskforce should commission legal and regulatory advice on how a Scottish National Investment Bank could be created, to underpin the creation of a People's Banking Network for local, democratic banking in Scotland.

**Read the full report at  
[www.foe-scotland.org.uk/banks](http://www.foe-scotland.org.uk/banks)**

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