

**Opening statement to the Joint Committee on Finance, Public Expenditure and Reform, and
Taoiseach's roundtable discussion on 'the recent Government report on Local Public Banking in
Ireland, financial inclusion and related matters'.**

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(Tuesday, 23rd October, 2018)

Introduction

1. MABS, the State's Money Advice and Budgeting Service¹, very much welcomes the opportunity to participate in the Committee's consideration of the substance of the Report on Local Public Banking in Ireland ('the Report').
2. We have analysed the Report and the related submissions and recognise that proposals in regard to a model of local public banking aim to address many diverse issues /achieve many objectives including, amongst others:
 - a perceived market failure in the provision of credit (to SME's in particular);
 - competition in Irish banking (or absence thereof) and consequent cost of mortgage credit and cost of funds;
 - reduction in the number of intermediaries and associated costs;
 - achievement of social and regional development objectives through re-investment of profits;
 - acting as a potential economic safeguard against a future banking collapse/ the Too Big To Fail (TBTF) risks associated with large commercial banks;
 - providing a potential solution for certain strategic issues facing Credit Unions and Post Offices;
 - the decentralisation of control over both credit creation and the payments system;
 - addressing the closure of bank branches and consequent impact on communities and customers etc.

From this brief synopsis of themes, the Report and the related submissions are evidently wide-ranging in their coverage of issues and point to a variety of concerns to be addressed in the development of banking and financial services in Ireland.

3. We welcome this roundtable and its focus both on the Report and the wider issue of financial inclusion and related matters. We feel it is particularly timely that this discussion is occurring as it touches upon

¹ MABS face-to-face service is available from offices based at 65 locations nationwide, the MABS Helpline is available Monday to Friday from 9am to 8pm (0761 07 2000). MABS is funded and supported by the Citizens Information Board. In 2017, there were 16,740 new clients in MABS and a further 2,552 sought information about budgeting and money management. The MABS National Helpline dealt with 24,659 callers. There were a further 4,922 new clients in the first quarter of 2018 and 6,999 callers to the MABS National Helpline during the same period. The Dedicated Mortgage Arrears MABS Service has supported 5,500 clients over the course of the last three years and since 2013, over 1,200 Debt Relief Notice's, processed with the support of MABS, have been approved. The demographic profile of MABS clients has remained relatively stable over many years but the numbers of mortgaged clients has steadily increased since the recession began, up from 36% at the end of 2009 to 45% in 2018. MABS clients are heavily concentrated in the 40-65 year age bracket, but the number of clients aged 65+ has been growing gradually for the last number of years. (Source MABS statistics www.mabs.ie)

many issues currently pertinent in our casework, including; the role of banks in the lives of our clients, the potential role of Post-Offices and Credit Unions to meet their needs, access to affordable credit, the potential of FinTech, unresolved issues in the mortgage market and developmental opportunities for people and communities currently underserved in their consumption of vital financial services.

MABS focus on financial inclusion

4. We view the primary goals of the proposed local public banking model as set out in the Report (viz. achieving regional development through the support of a banking infrastructure that can support a vibrant indigenous productive sector), positively. However, we wish to state that our expertise derives from what we see in our casework which is more broadly focused on work carried out for people who have been in problem debt and their experiences of interacting with the providers of financial services and their access to affordable credit.
5. Consequently, MABS brings to this discussion, a focus on the needs of a wider segment of the population who need, and (in our view) have a right to, financial services and products that meet their needs in order that they can play an active and productive role in social and economic life, whether they live in Ballyfermot, Ballybeg or Bundoran. While MABS is a national service, it is locally based and rooted in disparate communities nationwide. As a result, we have a sense of the various factors which lead to, and perpetuate financial exclusion whether that manifests in day-to-day access to banking, the availability of accessible, expedient and low-cost payment mechanisms and affordable forms of credit, or having the capability to access and extract best-value from increasingly complex financial products provided not just by banks, but also through an increasing array of intermediaries.
6. This last point has become more manifest in our work for clients of late, arising from a variety of issues in the banking sector, not least the 'Tracker Review', and the manner in which banks responded to it. The Committee, the banking sector, its regulators and those of us who interact daily with consumers, know that many consumers have come to distrust banks and are increasingly wary of any potential toxicity in the financial products they consume. We would note therefore, that while welcoming pioneering and innovative initiatives that may seek to include specific groups in the productive economy, we would not wish to see the important issue of financial inclusion viewed through a lens that is not sufficiently wide to encompass these concerns or risk, that only a partial solution emerges to issues which are, in our view, widespread and systemic.

Changing needs of our client group

7. Since the recession began, MABS has assisted in the order of 250,000 households through its face-to-face service and the MABS Helpline has responded to a similar number of calls. Virtually all of those callers and clients have a money management or over-indebtedness difficulty and may have experienced a breakdown in their relations with their providers of financial services. As Committee members will know MABS target group, when established over 25 years ago, was primarily low-income households and we assisted,

in the early years, with small debts, utility arrears, court fines, credit card debt and so on. We had strong links with Credit Unions in order that, having experienced a money management difficulty, our clients could build a bridge back to affordable and sustainable credit. We have also worked for a long time with all of the main banks in putting in place affordable, sustainable, and realistic repayment plans for the clients we support with the same aim of re-establishing productive relationships. We are dealing with a changing client group; a higher percentage is waged or self-employed, there is an older age profile, and their debts are more substantial. One of our guiding principles is that in MABS our clients are first and foremost customers of banks and financial institutions and those same financial institutions have an ongoing responsibility to their customers as well as, heretofore, an interest in getting relations back on track. We have historically been 'honest brokers' between borrowers and banks, but this landscape is changing, making our work for our clients more difficult and our concern for their future access to affordable, simple, and reliable banking and financial services more acute.

Progress on improving the banking environment...

8. We note that that the analysis in the Report focuses on '*how local public banking could contribute to improving the banking environment in Ireland, in respect of lending to SMEs and mortgages*'. When we reflect on the last decade we can see that much positive progress has been made for the clients MABS supports and has contributed to that goal of improving the banking/financial services environment in Ireland. Those measures include, *inter alia*,

- provision by all main banks of a basic payment account and, as the report highlights, a new Smart Account currently being rolled-out by An Post;
- a new regulatory regime for Credit Unions;
- macro-prudential rules on mortgage lending;
- the CCMA and related MARP process;
- personal insolvency;
- via MABS, (and together with the Insolvency Service of Ireland, the Legal Aid Board, Citizens Information Board and the Courts Service,) ABHAILE, which provides expert supports for borrowers in late-stage mortgage arrears;
- a new credit register;
- the personal micro-credit initiative (implemented by Credit Unions with involvement by many other stakeholders including An Post) known as the *It Makes Sense Loan*;
- recent reductions in mortgage interest rates and potential new offerings in the mortgage market via An Post, Credit Unions and a further prospective new entrant, Finance Ireland;
- Revolut and N26's online offerings which are both gaining Irish customers and Monzo and Starling pass-porting their banking licences to enable operations in Ireland;

9. The Report documents the support regime that is in place for SMEs very well and also makes reference to some of the initiatives outlined above. Notwithstanding this, we have a view that the banking, payments and credit needs of ‘atypical’ consumers have perhaps not been given sufficient attention either within the context of the Report/proposal for a model of local public banking, or in terms of the measures mentioned above that have been taken to enhance the banking and wider financial services environment. In much the same way as SME’s need to have access to affordable funds through the business cycle, we view consumers as requiring the same type of ‘intertemporal smoothing²’ or affordable credit at critical developmental points, as they move from one life stage to the next and, with regard to our client group, we wonder how this need will be met in the future.
10. As a consequence of their difficulties during recession, many of our clients have impaired credit ratings and consequently weakened relationships with both banks and other financial services providers. In our view, they are not necessarily high-risk consumers but, perhaps, viewed from the perspective of a remote and centralised lending unit within a commercial credit institution whose primary concern is shareholder return, they may face barriers in accessing affordable credit. In MABS, our purpose has always been to enable our clients to **both** overcome their debts and gain access to affordable credit. High-cost credit is a poverty trap. Moreover, we have seen first-hand the damage caused by sub-prime lending in the mortgage market where certain categories of borrower were locked into interest rates which ultimately meant their borrowing was unsustainable almost from the get-go. Other solutions are needed and the Report/proposal is to be welcomed in its proactive search for such solutions, albeit its primary focus appears to be the credit needs of SME’s.
11. While recovery is evident, what we should not overlook is the deep and widespread social and economic ‘scarring’ that exists as a lasting legacy of the recession and the banking collapse. With regard to the issue of mortgage arrears alone, some 118,000 households had a restructure at the end of 2017. We have to recognise that very many consumers of financial services now have an additional ongoing vulnerability arising as a result of their loss of income and earning capacity over the course of the recession. Some have achieved solutions but others, and particularly those whose loans have been classified as ‘non-performing’ and sold on to funds, are a significant on-going concern for MABS and other stakeholders.

Non Performing Loan’s (NPL’s) what next ?

12. On this topic our immediate concerns are very practical. The key concern is what next? The sale of NPL’s represents a severing of relationships between banks and their customers. We anticipate post-sale work-outs of various kinds, through restructuring and insolvency. Regrettably, for some the loss of homes may be inevitable and hopefully a resolution of their accommodation needs will be achieved. However, for

² Allen, F., and D. Gale (1997): “Financial Markets, Intermediaries, and Intertemporal Smoothing,” *Journal of Political Economy* , 105, 523-546

some borrowers there may be no post-sale return to a productive relationship with a main bank or financial institution. Who will provide for the future banking and credit needs of such customers?

13. As distressing as it has been for our clients and others to have their loans sold on, for many the distress is compounded by not knowing what may come *after* whatever resolution is achieved to their mortgage arrears. They have a real concern about how they will bank and what, if any, access they will have in the future to affordable credit. In many cases these are borrowers who depleted any savings they had in early efforts to address a mortgage arrears difficulty. Many will have likewise broken agreements on personal and Credit Union loans in order to prioritise the mortgage and now, they have reached the end of the road with their original lender. There is no buffer left for any future financial difficulty and they know this.

A 'bank for 'atypical' consumers'

14. We appeared before the Committee last year when it considered the findings of the CUAC report and made our views on the future of the Credit Union sector, the importance of their social ethos and the vital role they play within communities and society known at that time,³ and we will not revisit those views here today. However, we note that in its submission to the Report on Local Public Banking, that CUDA rejects the idea that Credit Unions be relegated to acting only as 'the poor man's bank' (pg. 87). We likewise would disagree with such a proposal for Credit Unions. No institution could have that sole purpose.
15. However, if we consider, for the purpose of today's discussion, that the 'poor man' may represent someone who lives on a low income, or who has experienced a reduction in income, who may experience some fragility/unpredictability in their income as a consequence of the nature or type of their employment, who has experienced mortgage or other debt problems and, as a consequence, has a damaged credit rating, but who nonetheless plays a productive economic role and needs to access affordable banking, credit and payments systems - then we need a bank/financial services provider that will, amongst other purposes, meet these needs. Do we have a bank/financial institution that will welcome such atypical consumers and provide products tailored to their needs on fair terms and at an affordable cost? If not, perhaps local public banking can be a potential partial solution to the financial inclusion of underserved segments of the population/ atypical consumers for whom the 'one size fits all' model of provision by main banks may be redundant.

Debt advice and local public banking

16. We have not looked at models of local public banking in sufficient depth to identify in detail the potential for MABS clients or other atypical consumers but we know from peer debt advice agencies in other jurisdictions, such as the Netherlands, that public banks and debt advice agencies can work effectively together to advance the needs of consumers who may have experienced debt problems.

³https://data.oireachtas.ie/ie/oireachtas/committee/dail/32/joint_committee_on_finance_public_expenditure_and_reform_and_taoiseach/submissions/2017/2017-03-21_opening-statement-ann-marie-o-connor-mabs_en.pdf

17. In the Netherlands⁴, for example, local social banks can offer the following financial services:
- a. Credit, either consumer credit or exclusively credits meant to settle debts (debt resolution credits).
 - b. Mortgages, (described as being a very limited offering and generally only in a case where a household would be forced to sell off their property and be left with significant debts).
 - c. Bank-accounts, for example for individuals who can't get an account with a commercial bank. Such accounts are used primarily to provide budgeting services.
 - d. Financial advice, for example about certain financial products such as insurances.
 - e. Start-up loans, for smaller to very small ventures, and only in case where a town council believes the venture is something the bank should invest in. This is described as limited in scale.
 - f. Fund management: only for funds that have a social or environmental goal. This is quite a recent market for social banks in the Netherlands.
18. If proposals on local public banking are to be developed further, we would like to see some of these issues considered or, the opportunity to contribute to the discussion based on a more in-depth appraisal of how debt-advice and the needs of our clients could be married in a practical and sustainable way within any such a proposal.

FinTech

19. We note that the report makes reference to the potential of FinTech stating that, *'the proposed model for local public banking in Ireland...does not appear to address or encompass the significant developments in, and disruption to, the banking sector in Ireland brought about by FinTech'*. We concur with this view and feel strongly that this needs further exploration both in the context of the specific subject matter of the Report and the proposed model, but also more broadly to address some of the issues we have highlighted in this opening statement. We therefore greatly welcome the Department of Finance's statement that *'Additional developments and emerging trends, such as FinTech will be kept under review for their potential to develop initiatives that could deliver credit in a more effective and less costly manner'*(p.10).
20. In the CIB/MABS consideration of the Central Bank of Ireland's 'Discussion Paper 7- Digitalisation and Consumer Protection Code' (October 2017)⁵,we highlighted our belief that *'innovative digitalised financial products, designed with the particular needs of vulnerable consumers in mind offer significant potential for the social and economic development of these otherwise potentially marginalised groups'*. We further noted in that paper some of the innovations (including a mix of government, incumbent and start-up

⁴ Personal comms NNVK.eu

⁵ https://www.mabs.ie/downloads/news_press/20180625A_mabs_response_to_dp7.pdf

projects) emerging under the UK Financial Conduct Authority's (FCA's) 'Project Innovate' during Year 1 of its 'Regulatory Sandbox'. (pg 10)⁶.

21. We do not profess to have technical expertise in this area, but would like to see the needs of our clients and other atypical consumers (as set out in this opening statement) factored in at the outset of developments in digitalised financial services rather than tacked-on at the end. For example, PSD2 could open potential avenues for our clients to access affordable financial services, tailored to their needs and enabling their financial inclusion. Aware, that unlike the Sparkassen model which is the primary substance of the Report, these approaches have not been cycle-tested, we see scope for a 'sand-box' - type regulatory regime that could exploit both fin-tech and reg-tech to the benefit of our client group, reducing cost and facilitating access for the types of consumer we have previously described as 'atypical' and potentially underserved by main banks and financial institutions.

⁶ BUD' is described as 'An online platform and app which allows users to manage their financial products, with personalised insights, on a single dashboard'; 'Govcoin Limited' is a project through which, 'A technology provider has partnered with the Department for Work and Pensions (DWP) to determine the feasibility of making emergency payments using means other than cash'; 'Swave' is 'A micro savings app that provides an across-account view; enables a round-up service every time a user spends money and calculates an affordable savings amount based on the user's spending behaviour'.