

Creating Ireland's Alternative Banking Force



Local People
Local Banking
Local Enterprise



Preliminary Proposal Document
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Public Banking Forum of Ireland
RepublicIrelandBank.com

John Loughran

Accountant & Owner of Sandymount Hotel, Ballsbridge Dublin 4 | On Banks

'They have become overly cautious to the point where they're not really functioning in a practical way.

We have never not repaid a cent to the bank and we are a profitable business, yet we still can't get what we need from them. That doesn't make a lot of sense to me and neither does the fact that businesses here are paying average margins of 5 to 6%, when in France you can borrow at 2%. It seems to me that the main preoccupation within the banks is to get themselves out of state ownership. They are not overly concerned about their customers.'

- John Loughran | Sunday Business Post | March 5th 2017

Executive Summary

The Public Banking Forum of Ireland (PBFi) was established in 2013 to address the urgent need for an Irish banking system that serves the *public* interest and to promote the Public / Community bank solution¹.

This proposal document looks at the background to the banking crash, examines the weaknesses of the current banking model and finds that the current Irish banking model is not fit for purpose. In so doing, PBFi propose the creation of an entirely new banking model for Ireland that offers a full-service alternative to the present pillar bank model.

The alternative banking force will comprise a network of new regional Public Banks in Ireland, along the lines of the German Sparkassen banking model. The new Public Banks will combine with Credit Unions and Post Offices, using their existing branch infrastructure to avoid duplication. In addition, there will be a Central Service Provider (CSP) to support the new Public Banks. SBFIC (German's Savings Banks Foundation for International Cooperation) has estimated that the Public Bank network can be established for a once off sum of less than €150m.

PBFi asserts that the expertise of SBFIC (Germany's Savings Banks Foundation for International Cooperation) is crucial to the development of Ireland's Alternative Banking Force. SBFIC's role could include working with the various stakeholders to develop the structures wherein they collaborate for their mutual long term benefit. PBFi further contends that the expertise of world renowned banking expert, Professor Richard Werner is equally crucial to understanding the underlying issues that need to be addressed in creating a sustainable local banking model.

By way of additional information, the proposal is underpinned by seven appendices which provide further pertinent analysis and backup to the core proposal. The appendices cover, inter alia: -

¹ "Public Banking" used throughout this document to describe all forms of public / community / cooperative banking that can bring sustainable, transparent and risk averse banking to Irish citizens, SME's and Micro Enterprises.

- An Alternative Post Office proposal, i.e. a standalone banking model along the lines of the very successful Kiwi bank model in New Zealand. The new Post Office bank would compete with the new Public Bank / Credit Union model as well as the pillar banks.
- The successful German economy and how this success is linked to the 200-year-old Sparkassen Public Banking model and a comparison between the German and Irish banking models.
- The Control of the Nations Credit Creation and Payments System.
- The Characteristics of private pillar banks are compared to those of Community Public banks.
- A closer look at Credit Unions – strengths, constraints etc
- Competition Law / Policy and the Irish Banking Sector
- Ireland’s approach to Re-Banking Ireland. Is it flawed?
- Role of Media in Moulding Public Opinion on Banking / Banking Crisis

It is worth noting that Irish commercial banks which are the so called “*pillar banks*” hold a market share of circa 95% of the Irish market, whilst German commercial banks which include Deutsche Bank, Commerzbank and others hold a mere 12.5% share of the German banking market. This proposal looks at the reasons for this, including intellectual capture and the follow-on effects of high levels of concentration on the indigenous economy.

Despite the market being highly concentrated as it stands, it is set to become even more concentrated with several hundred Post Offices facing closure and Credit Unions being squeezed into unpopular mergers. The pillar banks control credit creation in Ireland. This means that a few CEO’s effectively dictate how much credit is created in the economy, where the credit goes (speculation or the productive economy) and who obtains the credit.

Why do successive governments discriminate against Credit Unions and Post Offices? The current banking structure clearly runs counter to Article 45 of the Directive Principles of Social Policy of the Irish Constitution which states inter alia: -

- ***“That in what pertains to the control of credit the constant and predominant aim shall be the welfare of the people as a whole”.***

This divergence from Constitutional aspirations must be viewed with considerable concern. PBFI looks at the role of “capture”, both intellectual and political capture in the collapse and rebuilding of what is essentially a flawed banking model.

PBFI makes the case that a public banking model, on the lines of that proposed, will become the real driver of the indigenous economy and urges all stakeholders to carefully consider and ultimately support the proposal.

Acknowledgements

This paper has been prepared primarily for members of the Credit Union movement and Post Office network. However, a prerequisite for PBFi's proposals to gain traction will be the support and endorsement of all stake holders including farming, business, consumer organisations and the general public.

PBFi wishes to thank all those stakeholders from these organisations and others from whom we have garnered much invaluable information and insight to assist us in the development of this proposal, including U.S. Attorney and President of the US Public Banking Institute Ellen Browne, Professor Richard Werner, Christopher Simpson (CIVITAS UK), Dr. Thomas Keidel, Director Financial Market Relations at SBFIC, Dr. Jürgen Engle, Project Manager SBFIC, Niclaus Bergman CEO SBFIC and Ben Dyson, monetary expert, all of whom are globally renowned experts on banking and monetary reform.

We also wish to thank and acknowledge the various supporters and promoters of various forms of Community / Public banking for Ireland, including Mandate Union, Post Masters, ISME, Mark Fielding, Patrick Kent President of ICSA, BRUI, ISBA, Sinn Fein, Social Democrats, The Green Party, AAA-PBP, DDI-NCM, Right2Change, Joan Collins & Independents4Change Group, some Independent Alliance TSs, Rural Link, Liadh Ní Riada MEP, Diarmuid O'Flynn, Professor Ray Kinsella, Cllr Bridget Meehan, Sensible Money & Positive Money NI, Friends of Banking, Luke 'Ming' Flanagan MEP, Noeleen Moran SF, Former TD, Peter Mathews RIP. The Labour Party.

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1.Introduction

1.1 PBFI – Who we are.

PBFI is a voluntary group, independent of vested or political interests with many volunteers from all walks of life, including experienced former bankers, former Credit Union executives, former Post Masters and representation from the farming and SME communities. PBFI is part of a broader international alliance of advocates for global financial reform.

PBFI has undertaken significant research into the global banking industry and inter alia, hosted public conferences featuring well known U.S. attorney Ellen Brown² in 2013. In 2014, Christopher Simpson of CIVITAS UK³ addressed the PBFI conference about his commentary and case study on the German Sparkassen bank model⁴, also senior representatives of the Sparkassen Foundation (SBFIC, 2014 & 2015). More recently, Professor Richard Werner⁵ of Southampton University⁶, a leading monetary economist and banking expert Ben Dyson⁷, founder of Positive Money were the keynote speakers at the PBFI's April 2016 Banking and Money Reform Conference in Dublin. In addition, PBFI regularly hosts workshops and briefings to showcase public banking options to public, private and voluntary sector representatives.

In April 2016, PBFI addressed the European Parliament's Committee on Budgets⁸ at a public hearing on *"New Financial Instruments and the role of national promotional banks for the benefit of European SME's"*.

On January 26th 2017, PBFI addressed the Dáil Joint Committee on Finance, Public Expenditure, Reform and Taoiseach on the merits of introducing Community / Public banking to Ireland.

On March 20th, PBFI lodged a submission with the Competition and Consumer Protection Commission in response to its public consultation on the future of Ireland's mortgage market⁹.

² Ellen Brown, author of "The Public Bank Solution" and several other books on banking reform.

³ <http://www.civitas.org.uk/>

⁴ <http://www.civitas.org.uk/content/files/SimpsonSparkassen.pdf> Christopher Simpson Presentation.

⁵ Professor Richard Werner: <http://www.southampton.ac.uk/business-school/about/staff/werner.page>

⁶ https://www.youtube.com/watch?v=MechH0ebs_c Professor Werner's presentation at PBFI's Banking and Money Reform Conference April 2016

⁷ <http://www.bendyson.com/>

⁸ <https://www.youtube.com/watch?v=I5ONP57g0zE> PBFI presentation to EU Parliament Committee On Budgets

⁹ <http://ccpc.ie/news/2017-02-20-future-irelands-mortgage-market-ccpc-opens-public-consultation>

1.2 PBFI - Aims and Objectives

In the aftermath of the 2008 banking crash, world economies imploded and the socio-economic well-being of many countries, not least Ireland was decimated. The E.U. and Ireland rushed into a bank rescue scheme that clearly circumvented State Aid rules. The quid pro quo for discarding State Aid rules was that competition in the banking sector was to be significantly boosted.

Eight years on, the €uro is in disarray; Deutsche bank's financial woes present a systemic challenge to the German economy, with the bank having an estimated derivative exposure of €42 trillion; Italian banks are carrying bad loans amounting to €360bn which threaten the entire Italian economy and then there is Greece. It appears that Europe is currently only resting in the eye of the storm.

What if anything has interest rate swaps, securitisation, foreign exchange derivatives and credit default swaps to do with funding the productive economy? Why have citizens and SME's had to pay for the gambling debts of commercial pillar banks and why does the pattern appear to be repeating itself?

Using the fractional reserve system with virtually no built-in limits or constraints, commercial banks created credit at unprecedented rates which in turn fuelled the speculative property bubble that was to inevitably collapse bringing the country to its knees²². In short, too big to fail banks are the drivers of boom-bust cycles.

Why do Irish citizens / SME's have to pay almost double the average European interest rates? What has happened to the single European market? Why have successive Irish governments discriminated against Credit Unions and Post Offices through a host of restrictions on the products and services they can offer?

Why do privately owned commercial banks hold a monopoly on credit creation and why do these same banks also have monopoly control over the payments system. These are structural issues that further subordinate Credit Unions / Post Offices.

Why has government ruled out introducing a Community / Public Banking alternative to the commercial pillar bank model. Surely, present government policy towards these institutions conflicts with both Irish and E.U. competition law, to such an extent that the very future of these institutions is widely reported to be under threat? Why is the critical payments system under the sole control of private commercial banks?

Why the lack of political will or is it merely a lack of understanding of how banking and credit creation works? Why has mainstream media given such scant and biased coverage of the globing banking sector? Are there solutions going forward? PBFI set out to investigate the current banking sector with a view to identifying alternatives.

1.3 PBFI – Finding Solutions

These issues and questions became the *raison d'être* for the formation of the Public Banking Forum of Ireland [PBFI] in 2013¹⁰. PBFI set itself the target of coming up with a solution that would have at its fulcrum, the development of the productive economy through a banking system that prioritises local and regional funding for the indigenous economy and does not engage in casino style or bonus culture banking.

At first, the development of such an optimal banking system seemed like a very tall order indeed but on closer examination, it transpired that Public and Community banks in Germany (the world's fourth largest economy and the largest economy in Europe, by some distance) have a 70% market share.

The next challenge for PBFI was to consider whether the German Community / Public bank model could be adapted to underpin and promote the Irish economy. PBFI examined several possible public banking models that might suit Ireland. In so doing, it proved impossible to ignore the substantial existing framework and infrastructure of the Credit Union movement and Post Office network.

PBFI reasons that either or both these renowned institutions can provide very substantial synergies, local knowledge and goodwill in the development of a full banking alternative to the current polarised and fractured commercial pillar banking model.

In this paper, PBFI propose that the Credit Union movement, either alone or in tandem with the Post Office network, supports the creation of a network of regional Community / Public banks. It is envisaged that the three entities would closely co-operate with each other, with *inter alia*, Credit Unions and Post Offices depositing funds with the new Community / Public Banks which in turn will offer viable deposit rates. Both Credit Unions and Post Offices would have the option of providing front of house services for the Community / Public Banks.

The Community / Public banks would then provide managed credit, based on a strict fractional reserve ratio of 6:1 (in keeping with the German Sparkassen Public Banking model), to the indigenous economy in particular to the SME /ME sectors, at first cost. This should ensure a flow of sustainable credit to every community throughout the country. The business focus of the Community / Public banks must be on making business work as opposed to collateral collection.

¹⁰ www.republicirelandbank.com

The combination of Credit Unions, Post Offices and Public Banks will provide a full-service banking model that is speculation averse and will prove a robust competitor to the present profit maximising pillar bank model.

1.4 Overview:

After the collapse of Ireland's banking sector in 2008 and following repeated commitments from government in relation to the introduction of real competition in the Irish banking sector, little or no substantive progress has been made¹¹. Over the past eight years, it has become apparent that successive government are trapped in a dichotomy between the growth and welfare of the pillar banks and that of the general welfare of citizens and the indigenous economy.

What is in the best interest of the pillar banks, increasing shareholder value, is totally at odds with providing a robust and risk averse banking platform that could underpin the development of the indigenous economy.

Successive governments have prioritised the shoring up pillar bank balance sheets by allowing them to charge artificially high interest rates to a virtual captive market in Ireland. Irish interest rates have been running at up to double E.U. average rates, while interest rates to depositors has been amongst the lowest in the E.U. What has become of the single European market when it comes to banking? It has become clear that a glaring conflict of interest arises for government between its role as major shareholder in the pillar banks and its dual role as regulator to said banks and its public interest duties. This conflict is exacerbated by corporate and intellectual "capture". The result is the suppression of competition thus stymieing indigenous growth within the economy.

As substantial shareholders in the pillar banks and with the stated intention of selling off its shareholdings, it is in government's interest to act in this manner; inflating rates and charges and cutting costs through a host of branch closures and a move to centralised decision making.

However, this policy runs counter to the conditions imposed by Brussels during the bail-out and the commitments given by government as part of the process where the E.U. / Ireland circumvented state-aid rules during the 2008 / 2009 financial crisis¹².

The Central Bank of Ireland [CBol] and the Competition and Consumer Protection Commission [CCPC], both of whom are agencies of State, have been alarmingly somnambulant regarding their respective responsibilities before, during and since the financial crash in 2008.

¹¹ See Appendix 7 for a synopsis of ISIF and SBCI and on-lenders.

¹² See Appendix 6 Competition Law / Policy and the Irish Banking Sector

With little meaningful progress over the past eight years, the question of Ireland's compliance with EU Competition Law¹³ surely arises. It is difficult to reconcile the present banking policy and behaviour with the almost daily warnings over the future of Credit Union and Post Offices. Hundreds of Post Offices are set to close and Credit Unions are being pressurised to merge.

1.5 Program for Partnership Government May 2016

Encouragingly and largely through the efforts of PBFI, last year's program for partnership government had specific commitments in relation to the creation of Community / Public Banks and the sustainability of the Credit Unions and Post Offices¹⁴. On November 16th, further progress was made when a motion moved by Deputy Mattie McGrath, on behalf of the Rural Alliance was unanimously carried¹⁵. The motion called for the introduction of a sustainable banking model for Post Offices and the creation of a Community / Public Banking model.

More recently, Minister of State for Regional Economic Development, Michael Ring has initiated a public consultation¹⁶ committing the Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs *"to thoroughly investigate the German Sparkassen model for the development of local Public Banks that operate within well-defined regions. It also calls for the investigation of a new model of Community Banking that could provide a suite of banking services through the Post Office Network, such as the Kiwibank model in New Zealand, where the Post Office owned bank provides a comprehensive suite of financial services, from personal loans and bank accounts to credit cards, business banking and insurance"*.

PBFI wishes to extend its gratitude to Minister Ring for providing this opportunity for all stakeholders and the public to publicly express their views on the feasibility of creating a Community / Public banking model in Ireland.

1.6 Current Irish Situation:

With over three hundred Credit Unions and eleven hundred Post Offices, the platform is already in place to create a local and regionally based alternative to the present pillar bank model. There is pent-up demand throughout the indigenous economy for a sustainable funding model.

¹³ Ibid

¹⁴ http://www.merriestreet.ie/merriestreet/en/imagelibrary/programme_for_partnership_government.pdf

¹⁵ <https://www.kildarestreet.com/debates/?id=2016-11-16a.350>

¹⁶ <http://www.ahrrga.gov.ie/consultation/consultation-on-local-community-banking/>

As it stands, both the Credit Unions and Post Offices are severely restricted in terms of the products and services they can offer and to whom they can offer their services to. To date, successive governments have applied discriminatory terms and conditions to Credit Unions and Post Offices as compared to the pillar banks which, on the face of it, appear to run counter to Irish and EU competition law¹⁷.

What funding is finding its way down to the indigenous economy arrives through various circuitous routes with profit extracted all along the money supply chain and so ends up prohibitively expensive to indigenous enterprise¹⁸. ISIF and SBCI are cumbersome creations and for the most part act as intermediaries with no local focus. Put simply, the Irish solution to funding SME's puts Irish SME's at a significant disadvantage to their German counterparts who obtain funds at first cost from their Public and Community banks. From PBF's interaction with a host of organisations across several sectors of the indigenous economy, the resounding message is that rural Ireland and the indigenous economy is not a government priority.

This concern is exacerbated by former Department of Finance, Secretary General, John Moran who, in May 2016, spoke of the State not being able to afford rural Ireland and that rural Ireland must, effectively face up to significant downgrading.

An example of what can be done when sufficient pressure is applied is the recent emergency agri-loan fund which will make limited funds available on complex terms to farmers at 2.95% to assist those with cashflow problems.

1.7 The Great Urban / Rural Myth – Debunked

It is important to note that throughout this paper, any reference to the indigenous economy not only means rural Ireland but SME and Micro Enterprise [ME] activity across the entire country, including the major cities; the economy has no geographical boundaries.

1.8 Foreign Direct Investment V Indigenous Economy

The real divide occurs between FDI (Foreign Direct Investment) and the indigenous economy. PBF believes that successive governments have created an over reliance on FDI, whilst largely ignoring the indigenous economy.

¹⁷ See Appendix 6 Competition Law / Policy and the Irish Banking Sector

¹⁸ See Appendix 7 Ireland's Approach to Re-Banking Ireland.

The net is rapidly closing on Ireland's controversial corporate tax advantages. Our competitors for FDI, particularly the U.S. and U.K. have signalled their intention to reduce corporate tax rates to compete with Ireland. This coupled with President Trump's stated policy of repatriation and the E.U.'s Apple Tax decision are clear signals that Ireland's favourable FDI environment is about to be significantly eroded⁸; the need therefore for a banking alternative that supports the indigenous economy has never been greater.

1.9 The European Union

It is not as if the pillar bank model has suddenly become sustainable, robust and risk free overnight. The E.U. has failed to learn lessons from the banking crash and continues to pursue a federal banking agenda with an emphasis on promoting a small number of large scale private commercial pillar banks throughout Europe behind a smokescreen of obfuscation and misinformation. Most notably, no credible action has been taken to separate retail banking from investment banking.

The truth, it appears, is that the worst of the financial crisis has yet to come with the Italian government in an on-going tussle with E.U. over state aid rules in relation to bailing out its banks. Germany has a political problem (not to mention the sheer financial challenge) in rescuing Deutsche Bank; Chancellor Merkel has taken such a hard line in relation to bail-outs throughout Europe, that Germany cannot now be seen to bail out Deutsche Bank, even if it could afford to. In addition, Deutsche Bank has recently agreed a settlement of \$7.2bn with U.S. authorities (December 2016) for the miss-selling of mortgage-backed securities before the financial crisis.

Is it not perplexing, even disturbing, that the E.U. will not look at the two-hundred-year-old German Sparkassen model of excellence on its own doorstep and take steps to replicate this proven model throughout Europe? Again, the role of corporate and intellectual capture surfaces.

1.10 Need for Urgent Action

There appears to be little or no awareness amongst the public of the introduction of European Bail-In legislation under the guise of the Bank Recovery and Resolution Directive (BRRD)¹⁹ 2014. Under the BRRD mechanism, customer deposits can be bailed in to support a failing bank; in other words, customers with deposits are mere creditors of the bank. BRRD became a central plank in last years' Italian referendum; the then government was fruitlessly seeking a waiver on BRRD to avoid fleecing ordinary savers in the €360bn bank bail-out / bail-in.

¹⁹ http://europa.eu/rapid/press-release_MEMO-14-297_en.htm

Amid much talk of separating ordinary banking activities (retail e.g. savings and loans) from investment bank activity, little to nothing has changed in Ireland. The bonus driven high risk investment banking culture continues to thrive, creating ever bigger “too big to fail” global banking corporations than was the case in 2008. The U.S. introduced the Glass-Steagall (Banking Act) Act in 1933 after the 1929 Wall Street crash which, for seventy years before its partial repeal in 1999, ensured that commercial and investment banking were kept separate, under different ownership and with different business models. The repeal of significant parts of Glass-Steagall, once again a result of corporate and intellectual capture, paved the way for the 2008 financial crisis.

The public is also largely in the dark regarding the global \$700 trillion²⁰ derivatives bubble that threatens the global banking²¹ sector. As it stands, Credit Union funds are for the most part deposited with these banks. It is therefore imperative that ordinary citizens, Credit Unions and Post Offices have an alternative to depositing their funds in high risk pillar banks. An alternative banking force such as that proposed in this document could help insulate the indigenous economy from the effects of another global banking crash.

2. PBFI Proposal to Create Alternative Banking Force

2.1 The Proposal

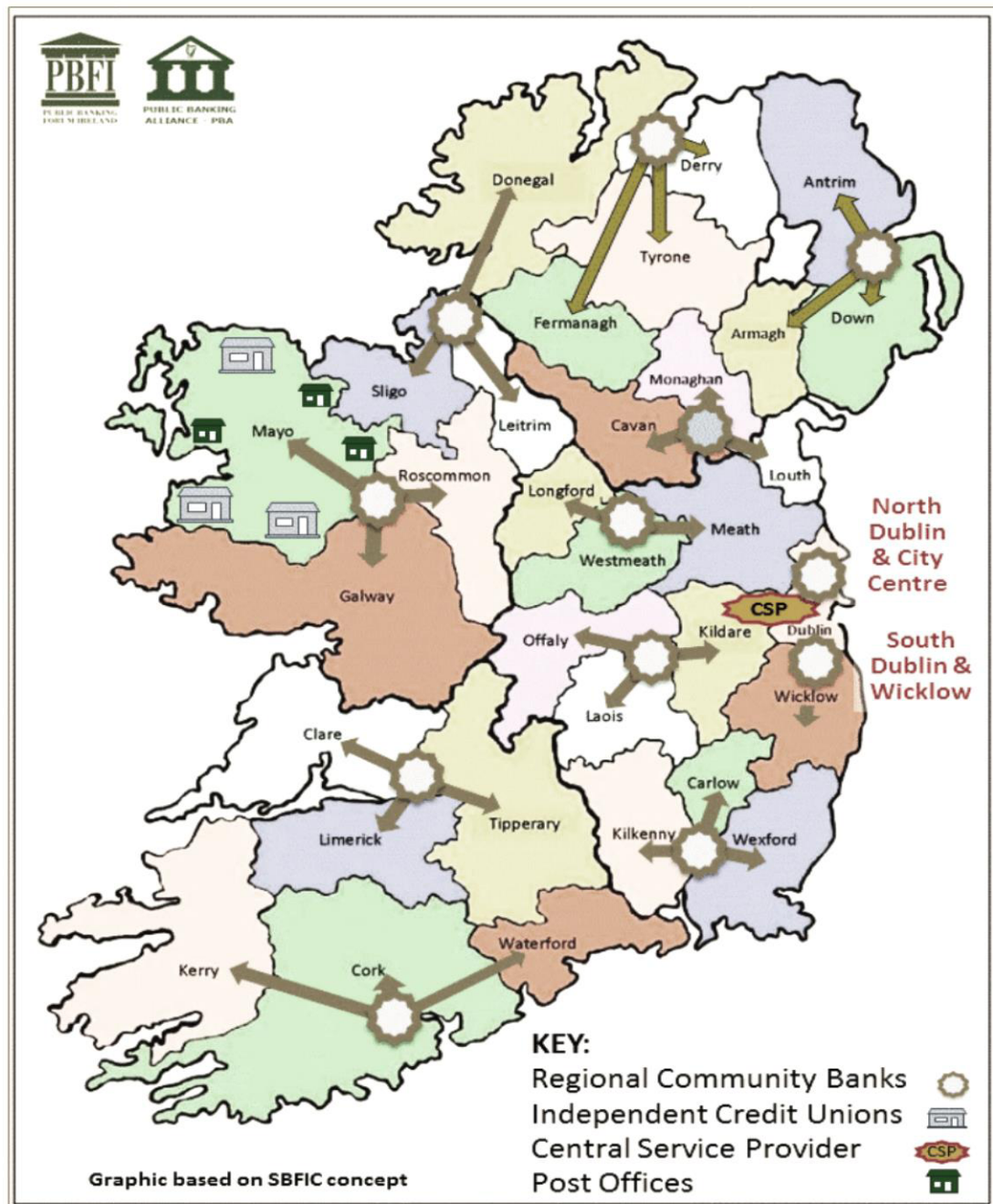
Against the above described background, PBFI has developed the following proposal for an all-encompassing, full banking service model that will, on the one hand compete with the commercial pillar banks and on the other provide a long term sustainable platform for the survival and growth of both Credit Unions, Post Offices and the indigenous economy.

PBFI propose that the Credit Unions and Post Offices collaborate in the establishment of a network of ten Community / Public banks supported by one Central Service Provider [CSP]. Credit Unions and Post Offices will have the option of providing front of house services on behalf of the Community / Public banks, thus re-establishing a locally based, full service banking model to serve communities and the indigenous economy.

²⁰ Bank of International Settlements

²¹ Some sources estimate the total notional derivatives bubble to be closer to \$1.5 quadrillion, if credit default swaps and other exotic instruments are included e.g. Global Research, www.globalresearch.org

Figure 1: Possible Community / Public Bank Locations



This new dynamic, created through a spirit of cooperation between the three entities will massively boost the entire indigenous economy whilst providing a risk-averse platform for savers, bearing in mind that Credit Unions presently have little choice but to deposit member's surplus savings in risk-taking commercial pillar banks.

The new regionally based Community / Public banks will present Credit Unions and Post Offices with a new / alternative investment opportunity. Credit Unions currently have circa €6-8 billion of under-utilised member's deposits. Currently, the return available on these funds is unsustainably low, e.g. Bank of Ireland are now charging Credit Unions for holding large deposits.²³

Like the pillar banks, the new Community /Public banks will leverage these funds using the fractional reserve system but in a constrained manner using a conservative ratio of six to one, in line with the approach of the hugely successful German Sparkassen banking model. This could provide a massive boost to the indigenous economy throughout the regions. The regional Community / Public banks will recycle profits into making more locally focused loans available whilst also investing in local community projects, again in line with the German Sparkassen model.

Lending will be focused on the productive economy, e.g. SME's, local Micro-Enterprises, construction, regional infrastructure, tourism, value added chain in both agriculture and marine, and on voluntary and cooperative enterprises. There will be no lending for speculative purposes.

²² See Appendix 3 Control of the Nation's Credit

²³ See Appendix 5: 8.2 Need for Proportionate Regulation and Regulatory Impact Assessment

Figure 2 Present Structure of Credit Union movement

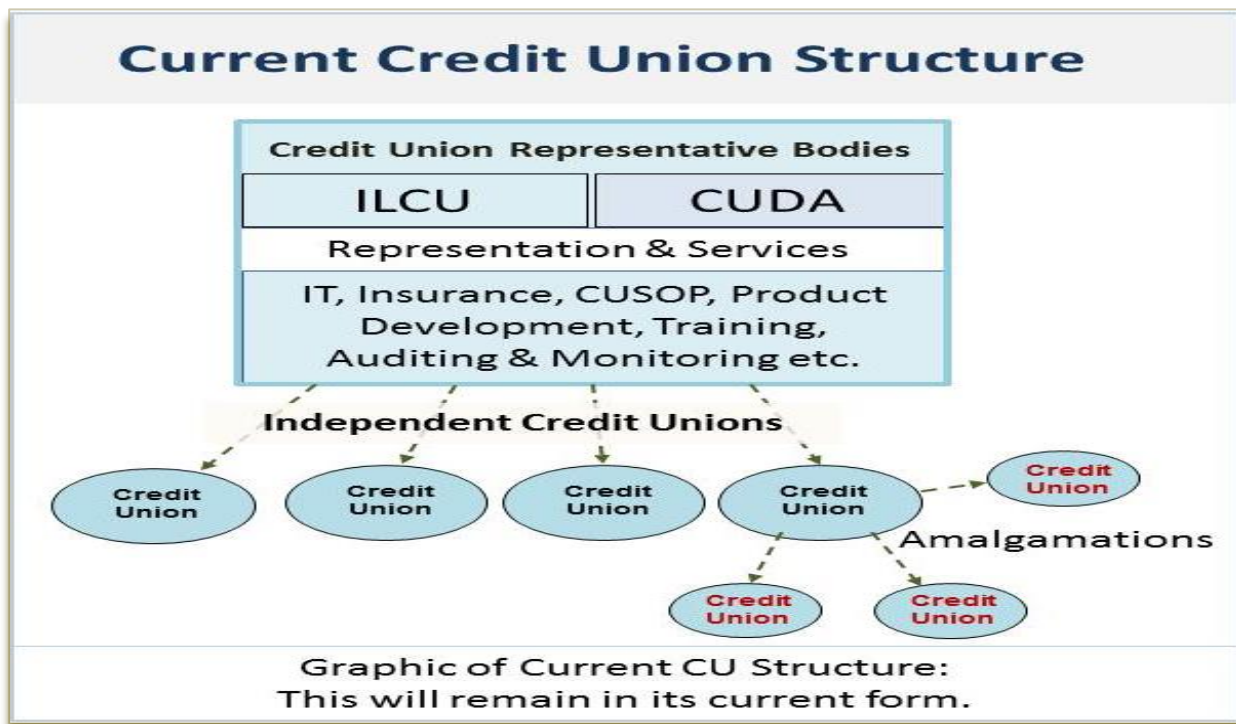
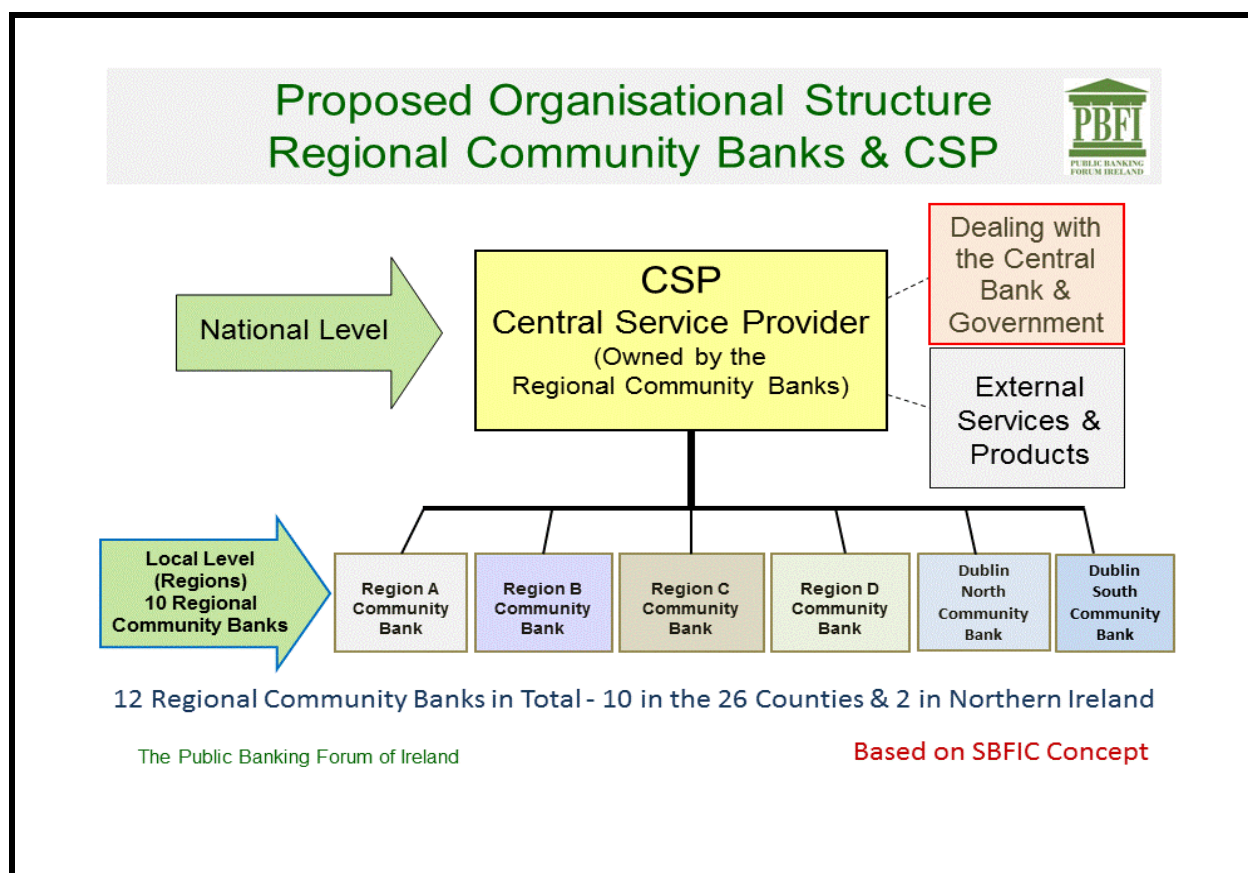


Figure 3: Proposed Organisational Structure of Regional Community Banks & CSP



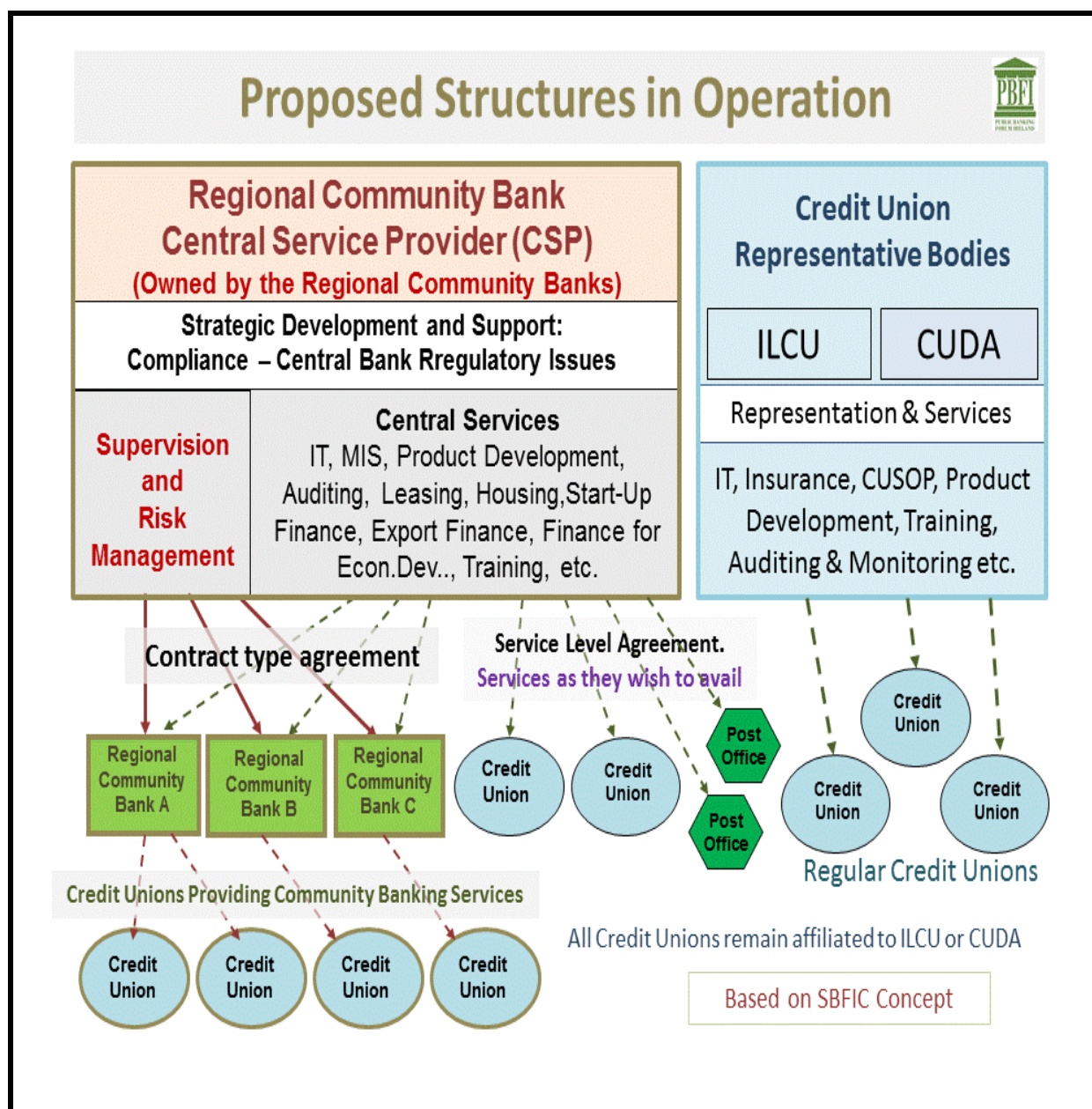
2.2 Necessary Elements of Design and Legal Structure

- Ownership Structure is crucial: The new banks will be publicly owned with a legal structure that ensures they can never be sold. Each regional bank will be owned by the people of the region through a trust in perpetuity. Over time, PBFI envisages each county having its own Community / Public bank.
- The proposed regional banks will be independent, regionally located and regionally focused, supporting and serving the network of participating Credit Unions and Post Offices (those that opt to participate), with a view to providing the full gambit of banking products and services. Their focus will include financing SME's (which provide 68% of all employment) and local indigenous enterprise, thereby ensuring progress, prosperity, appropriate social infrastructure and stability in their respective regions.
- The Community / Public banks should be independent but networked entities all linked to the common Central Service Provider.
- The Community / Public bank board will include bank management staff (who hold the majority vote) and representatives from the Credit Unions, Post Offices, the voluntary sector, local government and SME / farming.
- They should conservatively leverage their funds at no more than 6:1, like the German *Sparkasse*, and lend for productive purposes only; no credit creation for asset speculation.
- The Credit Unions, Post Offices and new Community / Public banks should closely co-operate in their combined best interests but will remain as separate entities, each retaining its own ethos and standing.
- The expertise of the Sparkassen Foundation (Savings Banks Foundation for International Co-operation [SBFIC]) which assists countries worldwide in developing Community / Public banking models should be sought, as should the assistance of other renowned Community Banking experts, including Professor Richard Werner.
- The CSP can engage with the Central Bank on regulatory issues and with Government on policy / legislation.
- The CSP (Central Service Provider) can provide IT, Internal Auditing & Compliance, Product and Service development and other group support services to the regional Community / Public Banks and to those Credit Unions and Post Offices that opt to participate.
- The CSP should be owned and funded by the regional Community / Public Banks, with input to its decision making and policy formation from participating Credit Unions and Post Offices.

Ideally two to four banks would be initially established as pilot projects, monitored and tweaked as necessary and the remaining established over a 5-year period.

2.3 The Central Service Provider (CSP) Vital element of proposed new network.

Figure 4: Proposed Operating Structures



The Post Office network: PBFi's proposal recognises that the Post Office network of over 1,100 branches has the potential to be a major part of the proposed new comprehensive Community / Public Banking

system; providing bank accounts to their customers, banking for the un-banked and providing counter service for Community / Public Bank products and services. However, PBFI equally supports the concept of the Post Offices forming their own full banking model along the lines of the very successful New Zealand Kiwibank model. In such a scenario, there would be two new entrants into the banking market²⁴: -

- Credit Unions / Community Bank network
- Post Office Bank network based on Kiwibank model

Northern Ireland: This PBFI proposal focuses mainly on the Republic of Ireland but it could also be implemented in Northern Ireland for its 1.86 million people, by initially establishing two Community Public banks, perhaps in Derry City and in Belfast.

The addition of regional Community / Public banks in Northern Ireland could provide support for NI's 95 credit unions and their 457,000 members. It also may be possible for the NI community banks and credit unions to avail of some of the services offered by the Central Service Provider in the south. This is an issue that might best be addressed by the German Community / Public bank experts, the SBFIC.

Figure 5: Credit Unions and Community Public Banks can exist together



²⁴ Appendix 1: New Zealand's Post Office Model - Kiwi bank- An option for the Post Offices

2.4 Expertise in Community / Public Banking

The Savings Bank Foundation for International Cooperation (SBFIC) is the not-for-profit foundation of the German Sparkassen Public savings bank group. SBFIC is among the foremost experts in the world on Community / Public banking. Since 1992, SBFIC has assisted with over 150 Community / Public banking projects in more than 60 countries. SBFIC currently has 5 projects ongoing in the EU and 32 projects ongoing in 31 other countries worldwide²⁵.

Representatives from SBFIC have visited Ireland several times, commencing in 2014 on the invitation of the PBFI and other similarly minded groups. SBFIC has put forward a similar proposal to that contained in this document; to set up ten regional Community / Public banks across Ireland on a stand-alone basis, i.e. fully independent of Credit Unions and Post Offices. PBFI believes this option certainly has merit. However, PBFI takes the view, why re-invent the wheel, when a large portion of the infrastructure necessary for the creation of the new alternative banking force is already in situ. PBFI's view is heavily influenced by Ireland's small population base and by the fact that the very future of both Credit Unions and Post Offices is under threat.

There is a growing consensus in Ireland across the political spectrum and throughout indigenous stakeholders that Ireland should create its own Community / Public banking model. The different options available are a matter for further discussion among the various stakeholders; however, PBFI believes it important that the new Community / Public Bank / Credit Union / Post Office system would co-operate and for the most part, focus on different sectors of the market, each targeting a specific lending range, a specific type of customer and a particular sector of the economy.

PBFI encourages such engagement.

2.5 Costing

The estimated total once off cost of setting up the ten regional Community / Public Banks (in ROI) and the Central Service Provider (CSP) is less than €150m²⁶. This includes a cost of €10m per licence for each of the 10 ROI regional Community / Public Banks. Based on an SBFIC estimate, the cost of establishing the CSP is circa €5m. The remainder is accounted for by training, legal services, premises etc. This amounts to **less than €30 per head of population**.

²⁵ SBFIC projects: <http://www.sparkassenstiftung.de/en/projects.html>

²⁶ Estimate compiled by SBFIC in conjunction with PBFI in 2014.

Some initial capital may be required to initiate lending while the deposit base is built up, but this would be subject to further exploration by the various stakeholders. State funds e.g. ISIF could be used to assist in the start-up, repayable over five to seven years from the anticipated operating surplus. These costs are minimal when compared with: -

- €69.7bn bail-out (including the €20.6bn AIB bond) shouldered by taxpayers in the recent bank bail-out, albeit the State holds equity in the pillar banks.
- €8.1bn allocated to ISIF (Irish Strategic Investment Fund) to fund economic development.
- €1.25bn allocated SBCI (Strategic Banking Corporation) to fund economic development.

3. Conclusion

Several factors motivated the forming of PBFi in 2013 and the preparation of this paper, not least a palpable media bias in the coverage of the collapse of the Irish banking sector, the subsequent bail out, a €uro project that is in deep trouble, a debt mountain across E.U. member states that can never realistically be repaid and the stealth-like introduction of European Bail-in legislation, in the guise of the Bank Recovery and Resolution Directive (BRRD) that could undermine the entire Credit Union movement.

More recent developments further confirm that Ireland's economy and by extension its socio-economic well-being has reached a momentous crossroads. The U.S. has President Trump. Brexit is rapidly looming and the E.U.'s Apple tax decision threatens to change the face of foreign direct investment in Ireland, at least in so far as selective and discriminatory tax structures are concerned. There is also much debate around the proposed harmonisation of corporate tax rates across Europe.

The cumulative effects of what might be, given the uncertainty of the nature of the fall-out from all the above are indeed far reaching. Ireland cannot simply put all its young people to work in call centres in Dublin, Cork, Limerick, Galway and Waterford. E.U. policy aligned with the track record of successive Irish government's points to a gradual abandonment of rural Ireland and an ever-increasing drive towards globalisation. Former Department of Finance Secretary General, John Moran has effectively confirmed this²⁷. PBFi unequivocally rejects any proposal that will lead to the further abandonment of rural Ireland or erosion of the indigenous economy.

²⁷ See Introduction Section 1.6

It appears that the E.U. and member states have learnt little from the calamitous financial crash of 2008. Fractured Irish pillar banks are being nurtured, indeed aided by the state, at taxpayer's expense, while our two most reliable financial institutions, Credit Unions and Post Offices are subjected to a host of restrictive practices which threaten their very future.

This inane policy of squeezing Credit Unions and Post Offices has follow-on consequences for Ireland's indigenous economy as has the creation of a whole new closed banking sector via ISIF and SBCI. Finance for the sake of finance is good for finance houses but bad for business. It appears that this new banking sector has become an end in itself, while the original aim (of providing sustainable credit to SME and Micro Enterprises) has been largely diluted, at least in terms of competing with the German Community / Public Banking model.

PBFI is committed to the development of Ireland's embryonic indigenous economy. Ireland's natural resources remain largely untapped, from tourism to exponentially increasing value added along both the agri-sector and aqua-marine supply chains.

The views and aspirations of PBFI and those of the Credit Union movement appear to be closely aligned. In a press release (October 7th 2015), the Irish League of Credit Unions had this to say: -

"Our vision is to have locally based, accountable credit unions providing a full range of personal financial services to members and all who wish to avail of our services. Credit unions want to evolve and change but are increasingly frustrated at the regulatory roadblocks put in our path. These roadblocks threaten the ability of credit unions to continue to serve in communities throughout the country in the future."

PBFI urge both the Credit Union movement and Post Office network, together with all stakeholders to carefully examine the herein proposal. PBFI's proposal avoids any move towards central control of Credit Unions as any such move (to central control) is potentially a move towards a corporate profit maximisation model that may well lead to the Credit Union movement succumbing to corporate control in the medium term, in similar vein to how agricultural co-ops morphed into Plc's.

PBFI proposes a tried and trusted model of Public Banking, based on Germany's 200-year-old Sparkassen banking model. PBFI submits that, inter alia, the Sparkassen foundation (SBFIC) has all of the required expertise both locally in Germany and internationally²⁸ to assist in the setting up and running of the proposed regional Public Banking facility which will seamlessly combine with Credit Unions and Post Offices to create a real alternative banking force; an alternative to the present high

²⁸ <http://www.sparkassenstiftung.de/en/home.html>

risk and wholly inadequate two and a half pillar banking structure that has entirely failed Irish citizens and the indigenous economy.

If rural revival and real indigenous growth is to become a serious government prerogative, then the introduction of Public Banking is a prerequisite going forward. Both Credit Unions and the Post Office network are uniquely positioned to facilitate the introduction of this full-service banking alternative throughout Ireland. The new banking force will, in turn, consolidate the position of Credit Unions and Post Offices in the market by providing an attractive return on capital, boosting business and removing the current prohibitive restrictions on doing business.

The aim should be to deliver at least 50% of the country's banking needs through Community / Public Banks, Credit Unions and Post Offices. The Post Offices could instead opt for the Kiwibank alternative²⁹. In Germany, almost 70% of the market is provided by Local Community / Public Banks.

PBFI research has determined that there are no credible obstacles to the creation of the proposed new ground-breaking banking force other than corporate and intellectual *capture* of the body politic, which has played such a huge part in the collapse of the Irish economy. Transparency International states³⁰ that "legal corruption" played a role in the poor regulation and weak oversight of financial institutions which led to Ireland's banking crisis. The TI report describes "legal corruption" ***"as taking many forms and includes cronyism, patronage and state capture-when powerful groups manipulate policy formation to serve their own interests rather than the public interest"***³¹.

At this critical juncture for Ireland, it is imperative that all forms of corporate and intellectual capture are parked to enable a frank discussion on the future of Ireland's banking sector and how best it can serve the socio-economy. PBFI does not claim to have got everything perfect but contends that its proposal is the basis for a viable and sustainable alternate to Ireland's current not fit for purpose commercial banking model. PBFI urges all stakeholders to start the banking discussion now in the interest of future generations.

²⁹ See Appendix 1: New Zealand's Post Office Model – Kiwibank – An option for Post Offices

³⁰ Transparency International's National Integrity Systems Report (Addendum) 2012
https://issuu.com/transparencyinternational/docs/2012_nisireland_addendum_en?mode=window&backgroundColor=%23222222

³¹ Referenced from Kaufman, Daniel and Vicente, Pedro, 2011 Legal Corruption, Economics and Politics.



Appendix 1

4. New Zealand's Post Office Model - Kiwi Bank an Option for Post Offices

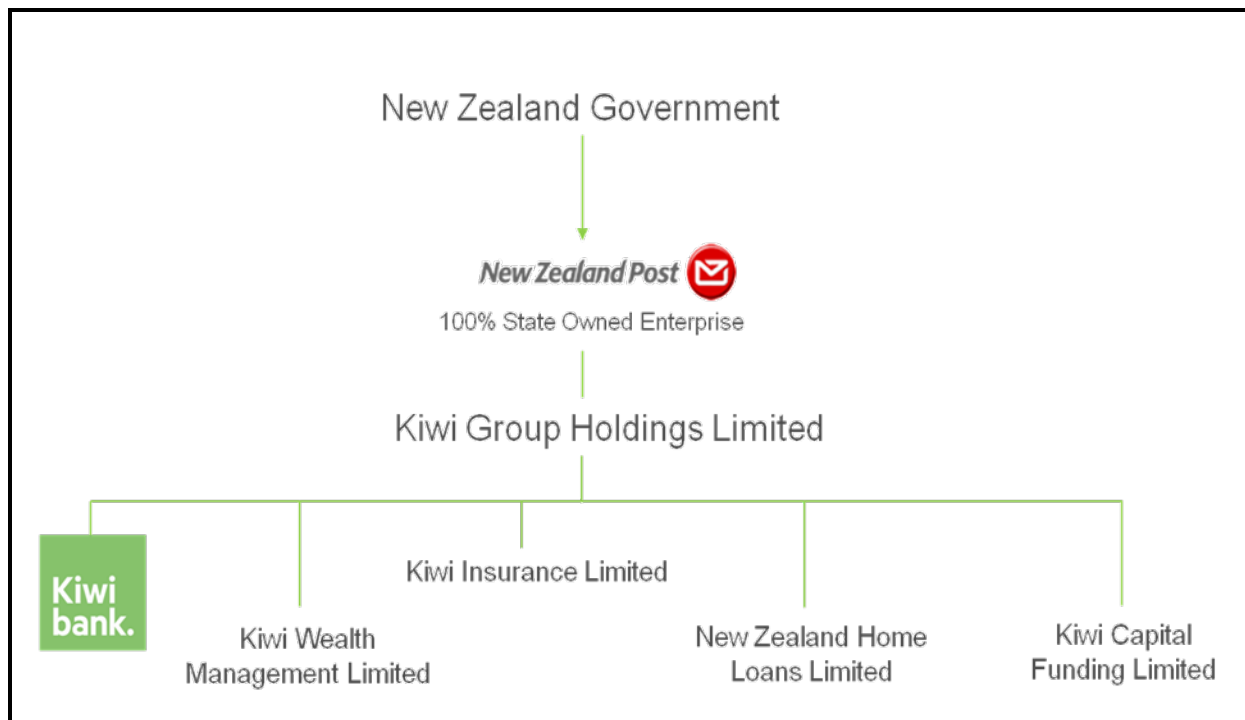
4.1 Overview

New Zealand has a long, if somewhat varied history of Post Office banking culminating in the present state controlled Kiwi bank. The New Zealand Post Office Bank was set up in 1867 and eventually grew into a behemoth with operations spanning post, telecoms and banking. After a period of strained relationships among the various divisions within the organisation, the company was corporatized in 1987. The Post Office bank then became PostBank, a separate corporation with a mission to maximise profit. It was sold outright to ANZ, a major international bank in 1989.

Kiwi bank was then launched in 2002 under the full ownership of New Zealand Post which is in turn fully owned by the state. The new Kiwi bank grew rapidly and became very much the people's bank. The bank does its business transactions through the existing network of circa 280 PostShops (Post Offices). Kiwi bank was launched primarily to give indigenous New Zealand its own bank, to ***“hold Kiwi values at heart and keep Kiwi money where it belongs – New Zealand”***³². Kiwi bank claims to have launched with a thought: *“New Zealand needs a better banking alternative.”*

³² <http://www.kiwibank.co.nz/>

Figure 6: Kiwi bank Ownership Structure: -



Kiwi bank has been a runaway success having more locations than any other bank in New Zealand (using the existing infrastructure). In its first fourteen years, customer numbers have grown to exceed 800,000 with hundreds of new customers signing up each week³³. Kiwi bank provides³⁴: -

- A nationwide ATM network
- Personal Banking – home loans, personal loans, credit cards, current and savings accounts, investments and insurance.
- Business Banking – lending, current and savings accounts, credit cards, investment services and insurance.
- International services – on line and manual international money transfers, foreign exchange and foreign currency accounts.
- Internet, phone and mobile banking, text and e-mail alerts.

4.2 Has Kiwi bank succeeded?

There is no question but Kiwi bank has been a success for the people of New Zealand. It has created a dynamic bank that has offered serious competition to the privately-owned banking giants. However,

³³ Ibid

³⁴ Ibid

Kiwi bank is not a Public or Community bank. It is commercially driven on a for profit basis but its ethos is that of a people's bank. At best, Kiwi bank is a hybrid. Its sister company Kiwi Insurance Ltd provides a whole range of insurance products and services, something that is badly needed in Ireland³⁵.

The big danger is that Kiwi bank could be sold off as indeed was its predecessor Post Bank in 1989. In late 2016, two wholly owned state (Crown) entities, NZ Super Fund and ACC (Accident Compensation Corporation) bought 25% and 22% respectively of Kiwi Group Holdings Ltd which raised Aus\$ 494 million for New Zealand Post. Of this, Aus\$90m is being retained by Kiwi Group Holdings Ltd to strengthen KGHL's balance sheet.

As it stands, neither NZSF or ACC can sell shares outside the existing circle of shareholders for a period of five years. After that point, if they do wish to sell, the government has the option to buy the shares back before they are offered to any third parties³⁶.

Despite being a hybrid, Kiwi bank provides New Zealanders with an immense improvement on what Ireland currently offers its people.

4.3 The view of Leading Global Banking Expert Attorney Ellen Brown

Ellen Brown had the following to say regarding New Zealand's Kiwi bank model³⁷.

"Postal banks are now thriving in New Zealand, not as a historical artefact but as a popular innovation. When they were instituted in 2002, it was not to save the post office but to save New Zealand families and small businesses from big-bank predators. By 2001, Australian mega-banks controlled some 80% of New Zealand's retail banking. Profits went abroad and were maximized by closing less profitable branches, especially in rural areas. The result was to place hardships on many New Zealand families and small businesses.

The New Zealand government decided to launch a state-owned bank that would compete with the Aussies. They called their new bank Kiwibank after their national symbol, the kiwi bird. But the government team planning the new bank faced major challenges. How could they keep costs low while still providing services in communities throughout New Zealand?

³⁵ The possibility of setting up a State or Kiwi bank type insurance company to be administered through Post Offices is something PBFi believes worthy of exploring.

³⁶ <http://www.kiwibank.co.nz/>

³⁷ See Attorney Ellen Brown's Web of Debt Blog, January 9th 2012

Their solution was to open bank branches in post offices. Kiwibank was established as a subsidiary of the government-owned New Zealand Post. The Kiwibank website states:

Back in 2002, we launched with a thought: New Zealand needs a better banking alternative—a bank that provides real value for money, that has Kiwi values at heart, and that keeps Kiwi money where it belongs—right here, in New Zealand.

So we set up shop in PostShops throughout the country, putting us in more locations than any other bank in New Zealand literally overnight (without wasting millions on new premises!).

Suddenly, New Zealanders had a choice in banking. In an early “move your money” campaign, they voted with their feet. In an island nation of only 4 million people, in its first five years Kiwibank attracted 500,000 customers away from the big banks. It consistently earns the nation’s highest customer satisfaction ratings, forcing the Australia-owned banks to improve their service in order to compete.”

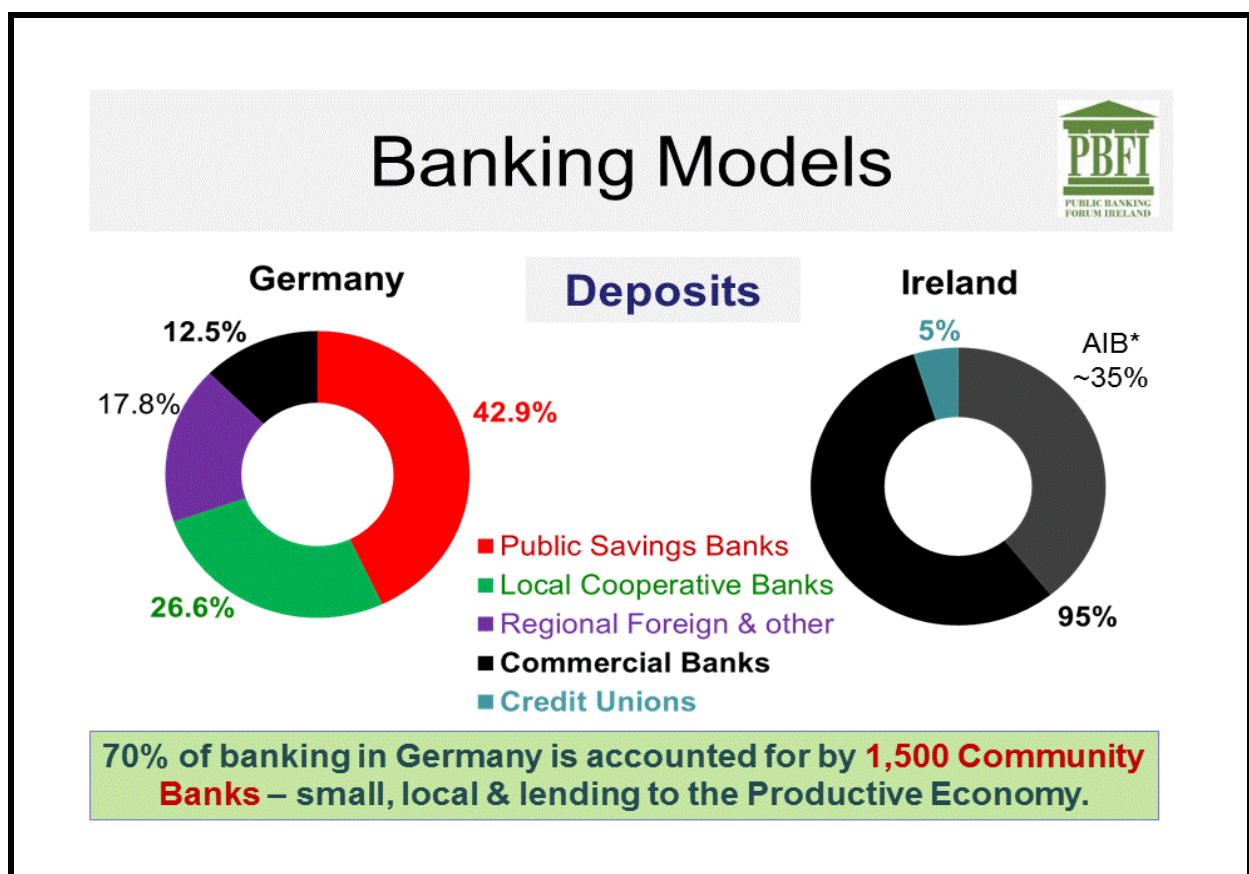
Appendix 2

5. Banking in Germany and Ireland – A Comparison

5.1 German Banking Model Vs Ireland's Oligopolistic Model

The illustration below provides a comparison between the respective banking models of Ireland and Germany.

Figure 7: Market Share for Deposits Germany V Ireland



*AIB 99.8% State owned but owes the State over €16bn

In stark contrast to the highly concentrated Irish pillar bank model, circa 70% of funding for the German economy is provided by Public Savings banks and Co-Operative banks. This figure rises to near 90% when account is taken of Germany's regional banks. The market share of private commercial banks, such as Deutsche Bank AG, Commerzbank AG and others stands at a mere 12.5%. In contrast, Ireland's commercial banks hold c. 95% share of the market. Ireland has no Public or Community banks and the only Co-Operative bank, Rabobank is currently exiting the Irish market.

In Germany, the 400 Public Savings banks with 15,000 branches, which together hold more than 40% market share, increased their lending after the crash of 2008, helping their SME customers weather the crisis and providing a much-needed economic stimulus. Germany also has over 1,030 Co-Operative banks with a market share of 26%.

Current government policy which appears to endorse the rebuilding of the existing commercial pillar bank model at the expense of developing a Community / Public bank competitor does not well serve the public interest; it provides no real competition and does nothing to reduce risk or deal with the monopoly control of credit creation.

Unlike Ireland, most EU countries have public and non-profit-maximising banks with sizeable market shares; this helps to counterbalance the cycles of boom and bust in property markets that are fuelled by commercial bank credit for speculation.

A perusal of the structure of German industry clearly reinforces the importance of Community / Public banking to the economy. While there is a commonly held misconception that the Germany economy is solely driven by large corporations such as Allianz, Siemens, Bayer, Mercedes, Audi, Volkswagen, BMW, Deutsche Bank, the facts on the ground do not bear this out. An October 2015 research paper³⁸ authored by KfW Bank Group made some remarkable findings: -

³⁸ <https://www.kfw.de/migration/Weiterleitung-zur-Startseite/Homepage/KfW-Group/Research/PDF-Files/The-SME-sector-in-Germany.pdf>

Figure 8: KfW Bank Group Figures on Germany Economy October 2015

- 3.67 million small and medium enterprises form the backbone of the German economy.
- These represent 99.95% of all companies.
- 87% have a turnover of less than €1 million.
- Less than 1% have a turnover of greater than €50 million.
- They employ 29.1 million people or 68% of the working population.
- They provide training for 1.2 million young people-that is 89% of all trainees.
- Micro Enterprises with less than 10 employees provide a good third (34%) of workplaces in the German SME sector.

The conclusion to be drawn from the above figures is that Community / Public banking is serving the SME and ME (Micro Enterprise) sector in Germany very well. In Appendix 7, PBFI questions the motives and wisdom of Ireland's approach to re-banking its economy through ISIF, SBCI and a host of on-lenders.

It is therefore imperative that Ireland embrace a Community / Public Banking model similar to that of Germany, which model has stood the test of time, its origins go back to the 18th century and ever since it has played a pivotal role in building Germany's economy into Europe's largest economy by some distance and the fourth largest in the world. Community / Public banks have an entirely different ethos; rather than collect collateral, the policy is **"to make business work"**.

6. Control of the Nation's Credit and Payments System

6.1 Credit Creation

Probably the most serious, most misunderstood and most fundamental problem within banking is the creation of credit (it is important to note that neither Credit Unions or Post Offices create credit). Internationally acclaimed banking expert, Professor Richard Werner³⁹ had this to say: -

“Essentially the borrower is credited with money that’s called a deposit that nobody deposited, its invented. The banks create fictitious deposits and that’s how the money supply is created. As the banks became more powerful they started to write the laws.”⁴⁰

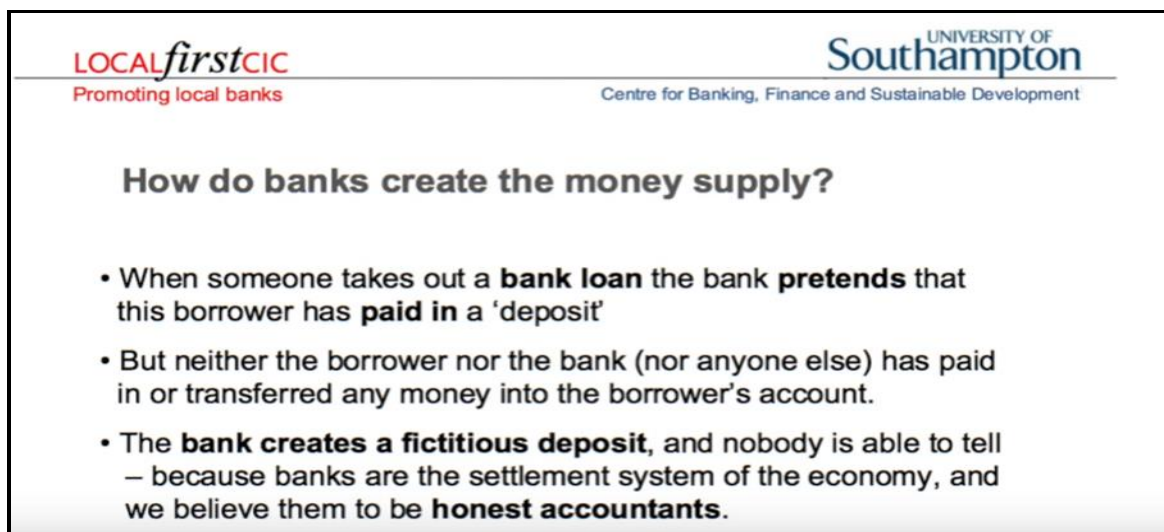
Professor Richard Werner recently surveyed over 1000 students at Frankfurt University wherein 84% believed that credit was created and allocated by the Government or Central Bank. This is the commonly held perception but it is a fallacy - credit creation is the sole preserve of private profit maximising banking corporations.

In the same survey, Professor Werner asked: - *“Would you agree with a financial system where private banks create the money supply?”* Over 90% of respondents said no.

³⁹ Professor Werner of Southampton University is one of the world’s leading authorities on international banking and credit creation. See Footnote 3 for link to Professor Werner’s presentation to PBFI Conference in April 2016.

⁴⁰ Slides in this section courtesy of Professor Richard Werner’s presentation at PBFI’s April 2016 Dublin Conference.

Figure 9: How Banks Create Money



LOCALfirstCIC
Promoting local banks

UNIVERSITY OF Southampton
Centre for Banking, Finance and Sustainable Development

How do banks create the money supply?

- When someone takes out a **bank loan** the bank **pretends** that this borrower has **paid in** a 'deposit'
- But neither the borrower nor the bank (nor anyone else) has paid in or transferred any money into the borrower's account.
- The **bank creates a fictitious deposit**, and nobody is able to tell – because banks are the settlement system of the economy, and we believe them to be **honest accountants**.

Figure 10: Trade Secrets of Banking



LOCALfirstCIC
Promoting local banks

UNIVERSITY OF Southampton
Centre for Banking, Finance and Sustainable Development

Trade Secrets of Banking


The unknown legal realities of the banking business

- **Banks do not take deposits**
- **Banks do not lend money**


Control over credit creation goes to the core of boom–bust economics. The commercial banking system in Ireland controls the credit supply of the nation so essentially it controls the economy of the country. It controls the amount of credit created, who gets it and for what purpose. The recent record of these institutions, supposedly under the watch of the Central Bank and the ECB has proved disastrous for the Irish economy. Whilst these pillar banks are solely profit motivated, the model nevertheless, is supposed to be risk averse in that loans are backed up with securities and collateral provided by the loan applicant.

Only circa. 3% of the money supply is cash (notes & coins). This is the only portion of the money supply that comes into the economy that is not debt with interest attached. It is issued by the ECB through the CBol. The Dept. of Finance / Government benefits in the form of Seigniorage on this 3%. It plans to eliminate cash altogether; in 2014 it kicked off a €1m marketing campaign for a cashless society⁴¹. The remaining circa 97% of credit creation is in the hands of these unaccountable commercial banks. This alone is a staggering fact; to think that a handful of bank CEO's and their management teams, whose sole motivation is to maximise salaries, bonuses and shareholder return, recklessly hyper inflated credit creation to fund the non-productive and speculative economy, when the result was inevitable. Irish citizens were then called upon to fund the €67bn bail-out.

Figure 11: The Creation of Credit



Promoting local banks



Centre for Banking, Finance and Sustainable Development

Trade Secret: What makes banks unique

The case of a £1,000 loan

Step 1 The bank 'purchases' the loan contract from the borrower and records this as an asset.

Balance Sheet of Bank A

Assets	Liabilities
£ 1,000	

Step 2 The bank now owes the borrower £ 1000, a liability. It records this however as a fictitious customer deposit: the bank pretends the borrower has deposited the money, and nobody can tell the difference.

Assets	Liabilities
£ 1,000	£ 1,000

NB: No money is transferred from elsewhere

Recent unchallenged revelations by whistle-blower, Jonathan Sugarman⁴² show the mayhem and total disregard for risk assessment that pervaded the banking, regulatory and political systems, leading to


⁴¹ <http://www.independent.ie/business/irish/central-bank-kicks-off-1m-campaign-for-cashless-society-30033110.html>

⁴² <https://www.youtube.com/watch?v=F-EvFQvoAt4>


the crash. In effect, the wealth and socio-economic well-being of our nation was gambled away by a clutch of privileged institutions underpinned by an effective guarantee by Irish citizens.

Clearly, control of the creation and allocation of the nation's credit supply needs to be urgently addressed through national debate. The introduction of Community / Public banks that practice sustainable lending to the productive economy can substantially counter the reckless behaviour of private banks and therefore counter to some extent the likelihood of further boom-bust cycles.

Figure 12: Barclays Bank – A case for the Serious Fraud Office?



Promoting local banks



Centre for Banking, Finance and Sustainable Development

Fact: How Barclays Bank invented its own capital

Step 4 Barclays now pretends it has discharged its accounts payable liability by recording it as a 'customer deposit'. But neither the bank nor the customer nor anyone else has made such a deposit.

Barclays Bank	
Assets	Liabilities
L £ 7.4bn	A/C P 0
	D + £7.4bn

Step 5 Qatar now draws down its 'deposit' with Barclays, in order to purchase the newly issued preference shares: A liability swap.

Barclays Bank	
Assets	Liabilities
L £ 7.4bn	D 0
	E + £ 7.4bn

Problem solved:
Barclays reports an increase in its capital of £7.4bn.

A case for the Serious Fraud Office.

The question of whether private commercial banks should continue to be permitted to create credit exclusively is one that needs to be urgently addressed.

6.2 Payments System

In addition to monopoly control over credit creation, Ireland's private commercial banks have monopoly control over the payment system, the system used to settle all financial transactions. The operation and proper functioning of the payments system is dependent on the solvency and liquidity of individual banks. Recent stress tests highlighted the vulnerability of both AIB and BoI.

Ireland should ensure that private banking executives are never again in a position to hold government / citizens to ransom through their control over the payments system. The payments system should be nationalised and run through a competent administrator. A Post Office bank, Community / Public bank or a new stand-alone administrator could easily fulfil this task.



Appendix 4

7. Characteristics of Pillar Banks V Public / Community Banks

7.1 Too-Big-to-Fail Pillar Bank Model & Moral Hazard

Essentially, the phenomenon of “too big to fail” created a moral hazard that forced (rightly or wrongly) the Irish Government to issue a systemic guarantee in the amount of €440bn to cover bank customer deposits and bank’s own borrowings back in September 2008. Irish pillar banks were deemed too-big-to-fail on the basis that their failure would threaten the entire financial system and the economy at large. Moral hazard in effect created an insurance policy for the pillar banks under which an unsustainable tsunami of credit was created that inevitably led to the banking crash of 2008.

Without any discernible regulation, a mammoth bonus culture took hold of the financial system, where short term profitability outweighed the bank’s own long term interest as well as the public interest. Extraordinarily, neither the Central Bank nor the ECB made any attempt to reign in the rampant credit creation that led to the crash; if anything, the credit balloon was encouraged by both.

It is scarcely believable that despite the too big to fail culture that ruptured the socio-economic well-being of our people and resulted in unprecedented hardship being foisted on the economically weakest sections of society, current government policy appears to be once again aimed at recreating the too big to fail model that so destroyed the economy.

Why does government policy appear to back the pillar banks in this manner, when there is a gaping conflict between the interests of pillar banks and those of the wider economy? There is a ready-made solution, the creation of an Alternative Banking Force encompassing Credit Unions, Post Offices and a network of new public banks.

7.2 Centralisation v Customer Proximity and Regional Empowerment

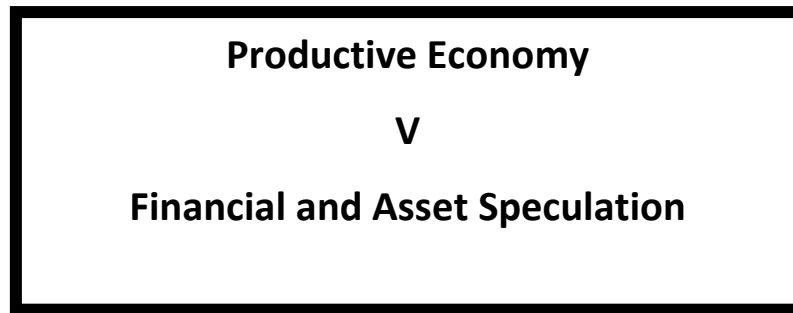
Ireland's pillar banking model is becoming more and more polarised towards Dublin based institutions; the branch network continues to shrink and even the most trivial of loan applications are decided by faceless administrators in Dublin.

The indigenous economy cannot be best served by pillar banks that are beating a retreat from the regions whilst preoccupied with innumerable bonus motivated teams working on extraneous oddities such as securitisation, derivatives, interest rate swaps, arbitrage, alternative investments, algorithmic trading, hedging, junk bonds, instruments, taking liquidity risks and long / short positions, proprietary trading and structured products, none of which have any place in the indigenous economy.

Back in the 1970's, Ireland had a network of regional banks, e.g. Munster and Leinster Bank, National Bank, Provincial Bank of Ireland and Royal Bank of Ireland. In that era, decision making was largely devolved to individual branches with oversight from regional or head office. This model worked well for individuals and SME / farmers. **In short, the current banking structure is not fit for purpose.**

It is imperative for the survival and growth of the indigenous economy that banking activity occurs predominantly within the local community, local decisions for local enterprise, i.e. that we go back to basics. PBFI's proposal takes account of the existing infrastructure that provides for close customer proximity and decision making which will in turn empower every region of the country.

7.3 Credit Creation:



A prerequisite to placing the economy on a sound footing going forward is an understanding of the role and effect of credit creation on the economy. Successful post war economies such as Hong Kong, Japan, Korea, Taiwan, Indonesia, Malaysia, the Republic of Korea, Singapore and Thailand (collectively known as the East Asian Miracle) were built on creating credit for the productive or real economy. These economies limited lending for financial transactions to below 15% for decades, until the 1980's, when lending itself exploded and lending for financial, asset and property transactions soared to more than 30% in Japan. The U.S. created a similar asset bubble in the 1920's and Scandinavia did so in the 1980's. More recently, U.K. Greece, Portugal, Spain, Italy and Ireland created massive asset bubbles which led directly to financial collapse in these countries. Lending for financial transactions, e.g. asset and property does not add value to the economy. As Professor Richard Werner puts it, financial transactions do not add value because *"it is a zero-sum game"* (what one party gains, the other loses).

The lesson to be learned is that credit for property and asset speculation creates property and asset bubbles, followed by financial crisis with potential catastrophic effects for the socio-economy, unless strictly managed. The banking model proposed by PBFi operates on a strict fractional reserve ratio of 6:1 and does not engage in lending for speculation.

7.4 Credit for the Real Economy, the Productive Economy

In reshaping the banking sector and setting goals going forward, it is important to differentiate between 'economic activity' and 'servicing the productive economy'. In 2015, a handful of multinationals in the tech, pharma and aircraft leasing sectors caused enough 'economic activity' to reflect a 26.3% growth in GDP, making Ireland liable for an extra €280m in EU contributions. Employment growth was just 2.6% during this period or one-tenth of the GDP "growth".

PBFI contends that Government policy has failed to adequately provide for effective and sustainable lending to the productive economy which reflects a failure to understand the primacy of the productive economy⁴³. This view is backed up by ISME findings for Q2 2016 which led then CEO Mark Fielding to state:

“Access to finance is still among the top three main concerns of SME owners, behind cost of doing business and economic uncertainty. The refusal rate of 35% is still too high and points to a continued overbearing risk aversion by the main banks and their inexperienced staff. The national figures clearly demonstrate that all three rescued banks are chasing Prudential Liquidity through reduction of the quantity of loans on their balance sheets through a reduction in SME lending.....one of the keys to economic revival and sustained recovery is a properly functioning banking system. The cornerstone of the economy is the SME sector, which will never reach its potential starved of appropriate finance. The Government must stop merely acknowledging that we have a banking problem and begin to act decisively.”

The East Asian Economic Miracle was made possible through prudent lending with an emphasis on the indigenous economy of the region. A 1993 study by the world bank⁴⁴ on the Asian Economic Miracle found that the Asian economies had ***“been unusually successful at sharing the fruits of growth”***. The study found that rapid economic growth occurred alongside a move towards an even income distribution. There are lessons to be learned from the Asian Miracle⁴⁵.

7.5 Community / Public Banks and the Productive Economy

By design, Community banking ensures the availability of sufficient volumes of credit for the productive economy at **first** cost to borrowers. PBFI contends that government approach to funding the indigenous economy is fundamentally flawed⁴⁶. PBFI’s proposal dovetails with the unique position and geographical spread of both Credit Unions and Post Offices. The proposed Alternative Banking Force will seamlessly fill the clearly discernible banking void and play a pivotal role in empowering the indigenous economy through local and regional lending.

⁴³ See Appendix 7, Flawed Government Approach to Funding the Product Economy.

⁴⁴ World Bank Policy Research Bulletin, August – October 1993, Volume 4, Number 4

⁴⁵ See Documentary: - “Britain’s Trillion Pound Horror Story” <https://vimeo.com/92357576>

⁴⁶ See Appendix 7.

Ireland's indigenous economy has vast potential for expansion. The marine and fisheries sector, agri sector, green energy and tourism are largely untapped. Some structural change may be required, particularly in the fisheries and agri sector.

The recently created brands of the Wild Atlantic Way and the new Ancient East initiative provide a platform for a host of tourism related SME and micro enterprises. There is further demand for funding for a host of agri-sector initiatives including craft beer brewing, organic farming, local stone ground milling operations, local bakery sector, tannery, sugar and industrial hemp production together with virtually unlimited potential to re-establish the fishing and fish processing sector.

In addition, there is a demand for local modern state of the art beef, lamb and pig processing units that have the potential to add enormous value within the processing chain, particularly in the rapidly growing markets for "fifth quarter" produce⁴⁷.

As it stands, the indigenous sector is almost totally reliant on funding from the fractured pillar bank sector (with 3 banks having 95% of the SME market) that has returned to its old ways of financing speculation and globalisation whilst only paying lip service to real development of the productive economy.

It is extraordinary that despite pent-up demand for funding and exponential opportunities to expand the productive economy, successive governments have gone to such lengths to restrict the role of Credit Unions and Post Offices, to such an extent that their respective futures are under serious threat; a very disturbing dichotomy?

7.6 Has Foreign Direct Investment Peaked?

The assumption must be that FDI into Ireland has peaked, primarily for the following reasons: -

- E.U. Apple Tax Decision, whatever the outcome of the appeal, secretive tax arrangements containing discriminatory or selective treatment for one or a few global corporations will no longer be on offer to attract future FDI. Ireland will retain its 12.5% corporate tax rate and the 6.25% rate for research and development (KDB, Knowledge Development Box) will remain.
- U.S. action under President Obama to curb inversions, which halted to proposed inversion between Pfizer and Allergan in April 2016. President Trump has committed to taking an even tougher stance on inversions.

⁴⁷ "Fifth Quarter refers to circa 50% of an animal's live weight that farmers currently receive no payment for. It includes heart, liver, kidneys, tongue, stomach, skirt, tripe, intestine, tail, embryonic fluids, horns, head, ears, glands etc. Fifth quarter is used in making a host of pharmaceuticals, cosmetics, household and industrial goods, including insulin.

- U.S. President Trump has committed to lowering U.S. corporate tax rates from 35% to 15%. Whatever happens, the gap between Irish and U.S. corporate tax rates is set to narrow considerably. As recently as St. Patrick's Day 2017, President Trump's press secretary, Sean Spicer spoke in relation to US jobs in Ireland: - ***"those jobs in a lot of cases, moved to Ireland because of a more favourable tax climate, a more favourable business climate. Our job is to get them back, unfortunately."***
- The U.K. has already committed to lowering corporate tax rates to 17% by 2020 and Prime Minister Theresa May has not ruled out a further lowering of rates to less than 15%.

Unquestionably, Ireland has placed an over-emphasis on FDI to the extent that the latent indigenous economy has been neglected. All of this means that, going forward, Ireland must lower its cost base to drive the indigenous economy. Again, a prerequisite for advancing the indigenous economy is a fully functioning banking sector that can provide funding at first cost without the funds having to go through, in some cases, layers of intermediaries⁴⁸. PBF's proposal comfortably achieves this aim thus making an overwhelming case for the introduction of German style public banking to Ireland.

⁴⁸ See Appendix 7: Ireland's Approach to Re-Banking Ireland

8. Vista Facing Credit Unions is Stark

8.1 Credit Unions left with no option but to introduce Savings Cap

Recent announcements that several Credit Unions are being forced to impose lower caps on savings, as low as €25k, only serve to heighten concerns regarding the future of Credit Unions. Government imposed restrictions are preventing Credit Unions from loaning to the SME sector which, in turn impacts severely on loan income. The knock-on effect is that Credit Unions cannot comply with the requirements for its reserves held in the Central bank (reserves must come from profits on loan income). This latest development coupled with negative interest rates applied by the commercial banks place Credit Unions in an even tighter straight jacket while SME / ME are starved of credit.

8.2 Need for Proportionate Regulation and Regulatory Impact Assessment

The Central Bank imposes a hugely disproportionate burden of regulation on Credit Unions without any measurable justification and appears unwilling to acknowledge that the key challenges facing Credit Unions are as a **direct result of the banking collapse**. The banking collapse was primarily caused by a catastrophic failure of regulation of the pillar banks which allowed exponential growth in lending for speculative purposes, mainly in the property sector⁴⁹. The Central Bank together with the ECB turned

⁴⁹ Between 1997 and 2008, credit creation relative to GDP more than tripled creating profound distortions in the Irish economy. The proximate cause of the boom and bust in Ireland since 2000 is well known: construction. Ireland went from getting 4–6 per cent of its national income from house building in the 1990s—the usual level

a blind eye to the creation of this unsustainable credit bubble⁵⁰. The pattern was repeated across the PIIGS countries, Portugal, Italy, Ireland, Greece and Spain.

Credit Union loan arrears and bad debts spiked in the aftermath of the banking crisis with rising unemployment and austerity. Credit Union loan books fell from €7bn to under €4bn between the collapse in 2008 and the end of 2015, because of the banking collapse and this dramatic reduction in loan income has been the biggest challenge faced by the Credit Union movement. Moreover, in a move designed to stimulate economic growth, EU monetary policy switched towards negative interest rates in 2014. This further impacted on Credit Unions in terms of returns on deposits. Credit Unions affiliated to ILCU alone, claim to have more than €8.5bn in surplus funds⁵¹.

The Credit Union movement remains extremely well capitalised and continues to operate prudently as illustrated by the following figures from ILCU 2016 figures⁵²:

- Credit union lending up by €216 million in 2016 (ROI)
- Credit union loans are up by €216 million (6.1%) in 2016 and were up €94 million alone in the last quarter before year end, September 2016.
- 68% of credit unions (192) have recorded growth in their loan books
- Loans have now been up for five out of the last six quarters.
- The credit union movement is extremely well capitalised, reserves have increased by 8.4% to €2.3 billion.
- Credit unions have €880 million in excess capital above the 10% minimum capital requirement.
- Total loan provisions (funds set aside for loan losses) now exceed total gross loan arrears by €170 million. This buffer is in addition to capital reserves of €2.3 billion.
- Gross loan arrears have fallen by 27% (€119 million) for the year to end September 2016, and are now at a ten-year low.

for a developed economy—to 15 per cent at the peak of the bubble in 2006–07, with another 6 per cent coming from other construction. (Morgan Kelly, The Irish Credit Bubble, December 21st 2009).

⁵⁰ <https://www.youtube.com/watch?v=F-EvFQvoAt4> Whistle-blower Jonathon Sugarman speaking in European Parliament, November 15th 2016

⁵¹ ILCU statement, October 20th 2016

<https://www.creditunion.ie/communications/pressreleases/2016/title,10484,en.php>

⁵² Press Release from ILCU, December 7th 2016

<https://www.creditunion.ie/communications/pressreleases/2016/title,10600,en.php>

- Arrears have fallen for 19 consecutive quarters.

In contrast, pillar banks continue to pose an ongoing systemic risk to the financial system, to the wider economy and to state/taxpayers. In the most recent stress test carried out by EBA⁵³, AIB and Bank of Ireland fared second and fourth worst respectively among 51 EU banks scrutinised over their ability to withstand a three-year theoretical economic shock. To make matters worse, these poor results were achieved on the back of AIB and BoI charging the highest interest rates in Europe, almost double the EU average⁵⁴.

Of further concern is the fact that during late 2015 and 2016, insurer FBD switched over €150m of its deposits from the pillar banks into corporate bonds. When one considers that FBD's CEO, Fiona Muldoon is former Director of Credit Institutions at the Central Bank, FBD's recent action is both informed and foreboding. Ms. Muldoon told the Irish Independent that the switch was because of the extremely low returns offered on term deposits by banks, coupled with fears that new bail-in rules (BRRD) introduced by the European Union could expose bank bondholders and depositors to bailing out a failed lender.

PBFI acknowledges the work of ReBo⁵⁵ and the Report of the Commission on Credit Unions⁵⁶, in particular the Commission's acknowledgment of the need for a tiered regulatory approach to Credit Unions. The Commission's final report states in 7.6.1: -

"However, it is important to ensure that the regulatory requirements in place for credit unions are proportionate to the nature and scale of the credit union. In recognition of this, the Commission recommends a tiered regulatory approach".

In relation to the operating environment, the Commission further acknowledges in its final report that:

"As Chapter 3 shows, a number of weaknesses have been identified in the sector:

- *Costs have almost doubled, driven primarily by increases in provisions, and income has declined.*
- *Credit unions are significantly under-lent. The average loan to asset ratio as at 31 December 2011 was 40.76%, an historic low. As a consequence, the share of investment holdings by Irish credit unions is high.*

⁵³ European Banking Authority, results released July 2016

⁵⁴ See Appendix 6, Competition Law / Policy and the Irish Banking Sector

⁵⁵ <http://www.rebo.ie/> The Credit Union Restructuring Board

⁵⁶ <http://www.finance.gov.ie/ga/what-we-do/banking-financial-services/credit-unions/credit-union-commission/commission-credit-unions> Commission on Credit Unions

This adversely impacts upon income generation as the return from investments tends to be lower than interest receivable on loans.

- *Since 2007, credit unions have suffered a sharp decline in their return on assets, which by 30 September 2011 had fallen to 0.6%.*
- *There is evidence of a wide disparity in credit union performance with larger credit unions tending to perform better than their smaller counterparts.”*

Perhaps the Commission’s next finding has set the tone for ReBo and its consolidation strategy.

Commission Final Report (7.2.2): -

“Looking ahead, there is also a range of challenges facing credit unions:

- *A modern regulatory framework will require investment in systems, skills and expertise and a new way of working. These will lead to additional costs and point to the need to find new economies of scale”.*
- *Credit unions, in general, need to produce additional income which could be generated from, inter alia, expanding the range of products and services that credit unions provide.”*

Very significantly, the Commission makes a finding that closely dovetails with PBPI’s proposal.

Commission Final Report (7.2.5): -

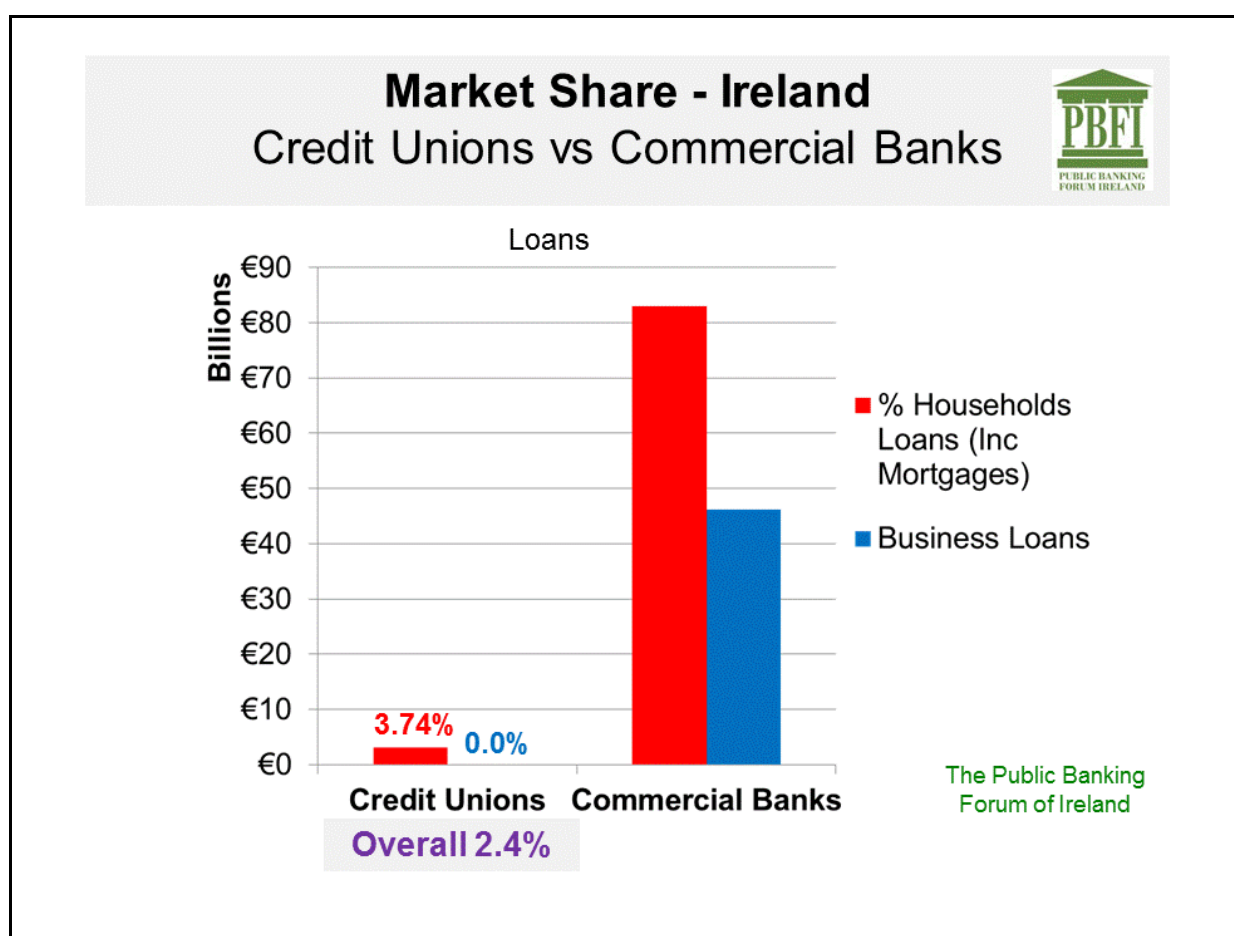
“If credit unions can reduce their cost base through economies of scale and scope, while improving their income stream through the provision of a wider range of products or expanding existing lending, then there is an opening for credit unions to become a third pillar of the Irish financial system.”

Under PBFI’s proposal, the development of many new banking products together with the associated increased investment in systems, skills and expertise will largely be borne by the Central Service Provider [CSP], leaving individual Credit Unions and Post Offices to reap the benefit of the increased revenue stream arising from their role in the new full service Alternative Banking Force. PBFI’s proposal obviates the need for wide-spread closures and / or mergers of Credit Unions and Post Offices.

8.3 Credit Union market share

The graph below demonstrates the paltry 3.7% share of Irish household debt / loans held by Credit Unions. PBFI's proposal to form an Alternative Banking Force incorporating Credit Unions, Post Offices and a new Public Bank network will have the capacity to dramatically increase market share (to many multiples of 3.7%). There will be combined capacity to develop a substantial will loan book over the medium to long-term.

Figure 13: Credit Union and Commercial Banks Market Shares-Ireland



Against this backdrop, it is perplexing that past governments / Central bank have imposed such draconian regulations and operational restrictions on Credit Unions. These restrictions have given the pillar banks a one-way ticket to charge artificially high interest rates to SME's and consumers alike. There is a widely-held perception that the scope of Credit Union activity is being deliberately suppressed to facilitate profit maximisation by pillar banks.

8.4 The vista facing Ireland's Credit Unions is stark.

The vista facing Ireland's Credit Unions is stark. Despite written commitments to actively promote competition in Ireland's banking sector, government has failed to take any meaningful steps to do so, though it is acknowledged that the recently announced Consultation Process by Minister Michael Ring and the Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs offers some encouragement. It should be a matter of concern that Brussels favours a federal pillar bank system over models like the German Public / Community bank example.

On the one hand, government, a major shareholder in our two and a half pillar banks, has colluded in the fixing of artificially high interest rates with the sole purpose of fattening balance sheets (at consumer's expense) whilst on the other hand, government continues to impose potentially fatal anti-competitive restrictions on Credit Unions: -

Restrictions on Credit Unions

- Government imposed €100,000 cap on savings that an individual member can hold in the credit union. Credit Unions are now having to self-implement low deposit caps (as low as €25k) because of difficulties paying dividends and charges levied by commercial banks to hold large Credit Union deposits.
- No more than 10% of a credit unions total loan book can be for a period greater than 10 years (15% in some cases).
- Credit unions are currently required to maintain a Regulatory Reserve Ratio of not less than 10% of total assets.
- Credit unions currently have little option but to place funds on deposit with commercial banks which given current interest rates achieves negligible returns.
- Credit Unions are not allowed to make loans to incorporated SME's and Micro Enterprises; lending must be to private individuals.
- Credit Unions traditionally have not been permitted to engage in mortgage lending, though some changes are afoot in this regard.
- The restrictive and drawn-out process to allow Credit Unions access to debit cards, current accounts etc make Credit Unions less attractive.
- There are totally unjustified and restrictive delays in clearing cheques.

- In the aftermath of the banking crash, many would be Credit Union costumers were driven back to ruthless money lenders (who operate with impunity), as it became increasingly difficult to secure loans from Credit Unions with so many failing credit checks.

8.5 Bank Credit Creation v. CUs lending money

As per Appendix 3, banks don't lend money. Banks simply facilitate the creation of the 'loan' applicant's credit, i.e. the bank purchases the 'borrowers' promise to pay (the 'loan' contract) in return for the 'credit facility' (or money) referred to in the contract. The bank does not pay the 'borrower'; instead, it records a credit to the customer's account. No money is transferred from elsewhere. This 'credit' is what we use as our currency. The application form, "promise to pay" is effectively translated into computer credit.

Securitisation of loans and mortgages by banks allows banks to sell books of loans and thereby further increase credit creation in an almost unlimited manner. Banks can also borrow to increase their reserves, which further facilitates credit creation.

"Banks lend by simultaneously creating a loan asset and a deposit liability on their balance sheet. That is why it is called credit "creation" – credit is created literally out of thin air (or with the stroke of a keyboard)⁵⁷."

Commercial banks extend credit in amounts of up to ten times their reserves, when and if they abide by lending rules, as against Credit Unions that lend real money (their members deposits). Commercial banks can make, at a minimum, ten times the profit that Credit Unions can make on lending, and with negligible risk.

PBFI's proposal substantially levels the playing field and introduces badly needed competition to the banking sector.

⁵⁷ Paul Sheard, Chief Global Economic & Head of Global Economics and Research, Standard and Poor's.

8.6 Mortgage Market

Credit Unions have been exploring the mortgage market for some years now. PBFi welcomes this proposed move but cautions against lending into a property bubble which could have devastating implications. At present, property prices are significantly out of proportion with average salaries of circa €37k per annum. Ireland's productive economy cannot support present house price levels, particularly in the greater Dublin / Leinster area. Huge tranches of houses have been bought up by vulture funds for as little as 17c in the euro but housing supply remains constricted and prices vulnerable. Entry into the general mortgage market now would be an extremely risky venture for Credit Unions or indeed for the proposed new Alternative Banking Force as envisaged by PBFi. PBFi's proposal is intended to drive the indigenous economy forward, both rural and urban. The provision of an adequate housing infrastructure is core to supporting the indigenous economy and visa versa. Credit Unions are reported to have circa €5bn available to invest.

PBFi believes that Credit Unions / Alternative Banking Force should enter the housing market in partnership with government / social housing organisations so to accelerate the provision of social housing in circumstances where there is a guaranteed return on investment. The return would be more than the paltry rates offered by pillar banks but would equally make the funding of social housing affordable. Clearly, there would be huge merit in PBFi's proposal to create an Alternative Banking Force, as available funds could be leveraged at 6:1, the strict fractional reserve ratio adhered to in the German model.

9. Competition Law / Policy and the Irish Banking Sector

9.1 Overview

In creating the conditions for the various bank bailouts, the EU, ECB, IMF and Irish Government collectively / collusively produced word formulas to justify wholesale breaches of European and Irish Competition Law (particularly State Aid Law). Regardless of the rights or wrongs of the bank bailouts, the above institutions emphasised that introducing competition in the Irish Financial Sector was a fundamental condition attached to the bailouts.

The reality is that these same institutions are colluding to create a federal European banking model dominated by a few privately-owned pillar banks with exclusive power to create credit. Even the incredibly successful German Public and Co-Operative banking sector is coming under pressure from Europe / ECB and its long-term existence is under threat. How can this make any sense? A 200-year-old banking system that is publicly owned and has been the driving force in creating the world's fourth largest economy is now under threat because it conflicts with E.U. objectives?

The crux of the problem is that the commitments made by Ireland and the E.U. appear to run contrary to E.U. / ECB policy. It could be interpreted that the commitment to introduce real competition into the Irish banking sector was a mere ruse to justify circumventing E.U. State Aid law.

The imperative remains that the Irish government and E.U. deliver on competition commitments. It goes without saying that the German Community / Public banking model should form the cornerstone of any new banking force.

9.2 Market Concentration

Ireland's domestic banking and financial services sector remains highly concentrated by international standards⁵⁸. Customers are denied the benefits of competition in terms of better value for money, choice and service. The Competition Authority investigated this issue in 2005. Its report focused on three specific areas; personal current accounts, lending to small business and the crucial role of the payments clearing system. A host of anti-competitive restrictions on competition were identified in the report and the Competition Authority put forward twenty-four recommendations to remove obstacles to competition⁵⁹.

However, since 2008, competition has steadily eroded with several banks exiting the Irish market. Today, three banks BoI, AIB and Ulster bank control 95% of lending to small business⁶⁰ in Ireland. Three banks have 79% of the mortgage market and almost the total mortgage market is in the hands of five commercial banks⁶¹.

Policy-makers, including the former Governor of the Central Bank, Patrick Honohan, spoke of '*new entrants from overseas*' that might enter the Irish market and provide competition. This has not materialised in any meaningful way; instead scores of vulture / hedge funds have managed to buy up billions of euro worth of Irish property assets at massive write downs, facilitated by Government, Central Bank, NAMA, KPMG (special liquidators to IBRC) and Revenue (tax breaks), while Irish citizens / SMEs were unable to obtain credit.

⁵⁸ The Herfindahl Index does not give an accurate picture as Credit Unions are included in the measurement of concentration.

⁵⁹ [file:///C:/Users/Seamus/Downloads/banking%20report\(1\).pdf](file:///C:/Users/Seamus/Downloads/banking%20report(1).pdf) CA Banking Report Sept '05 Full Report
[file:///C:/Users/Seamus/Downloads/banking%20report\(1\).pdf](file:///C:/Users/Seamus/Downloads/banking%20report(1).pdf) CA Banking Report Sept '05 Exec Summary

⁶⁰ <https://uk.finance.yahoo.com/news/irelands-three-big-banks-control-staggering-95-lending-131438647--finance.html>

⁶¹ <http://www.irishtimes.com/business/financial-services/ulster-bank-gets-larger-share-of-irish-mortgage-market-1.2753985>

This approach by government is again evidenced by the introduction of ICAV legislation⁶². Further, in correspondence sent to PBFI, dated January 8th 2016, on behalf of Finance Minister Michael Noonan, the Minister dismisses out of hand any support *“for the creation of a Local Public Banking System.....at this time”*. To date, Government action appears to be completely at variance with government and ECB stated commitments, i.e. to bring competition into the market.

The knock-on effect of the failure to tackle the unhealthy levels of market concentration has resulted in a massive transfer of wealth from Irish citizens to foreign owned funds, while tens of thousands of mortgage holders across the country are in danger of losing their homes.

Neither does it appear, has any consideration been given to the prospect of a second round of bank failures? As recently as August 2016, the Central Bank⁶³ stated that AIB and BoI were 'vulnerable to a downturn'. This view was shared by global ratings agency, Standard and Poors. A repeat occurrence would mean another economic collapse and depositors, including Credit Unions could lose their deposits through bank bail-ins⁶⁴. An alternative risk averse banking force would at least offer security to depositors.

9.3 Constitution of Ireland 1937

Before looking at Irish and European Competition law, a perusal of the Irish Constitution⁶⁵, particularly, Article 45 of the Directive Principles of social policy gives further cause for concern. These principles are enshrined in the Constitution but responsibility for their implementation rests with the Oireachtas. While Article 45 is somewhat aspirational, there are nevertheless some clear Directives that successive governments fail to even acknowledge: -

Article 45 2 (ii) *That the ownership and control of the material resources of the community may be so distributed amongst private individuals and the various classes as best to subserve the common good.*

⁶² Irish Collective Asset Management Vehicles Act 2015, drafted by Goodbody Stockbrokers
[https://www.google.ie/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0ahUKEwjG54rtr73RAhWNc1AKHXBaDHUQFggeMAA&url=http%3A%2F%2Fwww.irishstatutebook.ie%2Feli%2F2015%2fact%2F2%2Fenacted%2Fen%2Fpdf&usg=AFQjCNERuDrIBMe7gok3mUdzwAljxoas9A](https://www.google.ie/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0ahUKEwjG54rtr73RAhWNc1AKHXBaDHUQFggeMAA&url=http%3A%2F%2Fwww.irishstatutebook.ie%2Feli%2F2015%2Fact%2F2%2Fenacted%2Fen%2Fpdf&usg=AFQjCNERuDrIBMe7gok3mUdzwAljxoas9A)

⁶³ <http://www.independent.ie/business/irish/aib-and-boi-vulnerable-to-a-downturn-central-bank-34934063.html>

⁶⁴ New E.U. rules introduced at the start of 2016 via the Single Resolution Mechanism allow for bank bail-ins, where depositors money (above €100k) must be used (seized) to a level of 8% of the bank's liabilities before any public money can be used to bail out the bank.

⁶⁵ <http://www.irishstatutebook.ie/eli/cons/en/html>

Article 45 2 (iii) *That, especially, the operation of free competition shall not be allowed so to develop as to result in the concentration of the ownership of control of essential commodities [credit creation] in a few individuals to the common detriment.*

Article 45 2 (iv) *That in what pertains to the control of credit the constant and predominant aim shall be the welfare of the people.*

PBFI submits that the process of restructuring the Irish banking sector must take account of the Constitutional requirements contained in Article 45.

9.4 Irish and European Law

A perusal of Irish⁶⁶ (Section 4 and 5 Competition Act 2002) and European⁶⁷ Competition Law (Articles 101 and 102 TFEU) leaves no doubt but that successive Irish Governments together with the Central Bank and Pillar Banks have / are comprehensively in breach of both Irish and European Competition Law. Indeed, the European Commission introduced several procedures to override the rules on State Aid⁶⁸, to enable the rescue of Irish and E.U. pillar banks⁶⁹ in and around 2008 / 2009. However, in doing so the Commission imposed numerous conditions on the Irish Government including: -

2.5 Commitments by the Irish authorities⁷⁰

(102) The Irish authorities have undertaken a number of commitments related to the scope of the divested and run-off entities by BOI as well as regarding behavioural measures to ensure the preservation of the value of these activities and to specifically address the limitation of the distortion of competition resulting from the State support.

2.5.5 Commitments regarding State Measures⁷¹

⁶⁶ <http://www.irishstatutebook.ie/eli/2002/act/14/section/4/enacted/en/html#sec4>
<http://www.irishstatutebook.ie/eli/2002/act/14/section/5/enacted/en/html>

⁶⁷ <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:12008E101>
<http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:12008E102>

⁶⁸ <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A12008E107>

⁶⁹ EU approved €592 billion in state aid to lenders between 2008 and 2012

⁷⁰ State Aid N 546/2009 / State Aid N 149/2009– Restructuring of Bank of Ireland

http://ec.europa.eu/competition/state_aid/cases/233382/233382_1163194_133_2.pdf

⁷¹ Ibid

(155) Ireland has committed to undertake a package of alternative measures in order **to restore the competition in the Irish banking market by facilitating entry and expansion of competitors and enhancing the consumer protection in the financial sector**. In particular, Ireland committed to carry out specific measures in order to enhance:

- (a) Customer mobility and protection (provision of information; transparency to facilitate consumer decision making; financial inclusion);
- (b) Entry of competitors (electronic banking, SEPA migration, quality and availability of credit history information and reporting by banks);
- (c) Corporate governance.

3.1 Existence of State Aid⁷²

(159) The Commission first has to assess whether the measures constitute State aid within the meaning of Article 107(1) TFEU. According to this provision, State aid is any aid granted by a Member State or through State resources in any form whatsoever which distorts, or threatens to distort, competition by favouring certain undertakings, in so far as it affects trade between Member States.

Already approved aid measures

(160) With regard to the measures already approved by the Commission in its decisions pertaining to the recapitalisation of BOI20, the CIFS21 and ELG22 guarantee schemes in which BOI participates, and NAMA23, **the Commission has already concluded that those measures constitute State aid in favour of BOI specifically or of the schemes' participating institutions, which include BOI**. The Commission notes that **Ireland has acknowledged that these measures constitute State aid**.

Moreover, the web of government restrictions placed on Credit Unions and Post Offices create clear distortions in the market for credit and other banking services. It is quite astonishing that private commercial banks can continue to create credit simply by having the borrower sign a promissory note while Credit Unions cannot either lend “real” money or receive a viable interest rate from commercial banks.

⁷² Ibid

9.5 Competition and Consumer Protection Commission

In a 2011 paper titled “Stability and Competition in Irish Banking; Friends or Foes?” Cathal Hanley and Andrew Rae of the Irish Competition Authority concluded that⁷³: -

“there is a real risk that the creation of a banking duopoly will not only reduce competition in the medium term but it may also exacerbate the Too Big To Fail (TBTF) problem, which has forced the Irish State to step in to cover the losses of private interests, to an even more serious Too Big To Save (TBTS) problem. Such a situation would arise if, in the event of another crisis, the two remaining banks became too big to bail out.

*The two pillar strategy seeks to address the problem of financial stability but there is a concern that the measures taken to protect the banking system in the midst of the crisis may risk prolonging the recessionary cycle if such policies halt the dynamism that creates investment and jobs. The pillar banks, like any other institution afforded shelter from competition, have a vested interest in protecting the new status quo. **The challenge for policy makers is to clearly distinguish between interests of the banks, which can be expected to strongly resist restoring competition, and the interests of consumers and taxpayers which lie in the maintenance of a stable and competitive banking system.***

In summary, PBFI contends that the earlier position taken by the Minister and Department of Finance regarding the creation of a Local Public Banking System is deeply flawed and further asserts that the current structure and behaviour of the Irish banking sector wholly ignores the prerogative to comply with Irish and European competition law. PBFI reasons that “legal corruption” in the guise of regulatory and intellectual capture goes to the root of the problem⁷⁴.

⁷³ <http://www.ccpic.ie/sites/default/files/2011-10-14%20Competition%20Policy%20%26%20Financial%20Stability%20-%20Friends%20or%20Foes%20PAPER.pdf>

⁷⁴ See Footnote 24 in the Conclusion

10. Ireland's Approach to Re-Banking Ireland

10.1

Adequate or Flawed Approach?

In evaluating Ireland's response to the banking crash in terms of putting structures in place to ensure that sufficient funding at sustainable rates is made available to the indigenous economy, we look at structure, availability and cost in the context of funding the productive economy. PBFI contends that Ireland's response, whilst having several positives, is substantially flawed.

Ireland has created a whole new financial sector through the creation of the Irish Strategic Investment Fund [ISIF] and the Strategic Banking Corporation of Ireland [SBCI]. These in turn operate through a host of intermediaries, including AIB and BoI. This serves to enhance the dominance of these banks and further protect them from competition.

Crucially these pillar banks have will be influenced in decision making by negative credit history of many applicants who have fallen victim to the credit bubble. Furthermore, private commercial banks with hugely dominant positions can distort the market for credit e.g. in the decision by the European Commission against the European cement cartel⁷⁵ in 1994, the Commission found that the large cement companies influenced international banks into withholding and / or withdrawing credit facilities from competitors or would be competitors.

⁷⁵ <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A31994D0815>

10.2 Irish Strategic Investment Fund

Formerly known as the National Pensions Reserve Fund [NPRF], ISIF came into effect in December 2014, at which time the assets of the NPRF were transferred to ISIF. ISIF has a mandate to invest its €8bn fund commercially to support economic activity and employment in Ireland.

So far, ISIF has committed €2.6bn of this. Its predecessor, NPRF had already invested a total of €20.7bn in AIB and Bank of Ireland on the direction of the Minister for Finance⁷⁶. NPRF and ISIF both had / have two investment portfolios, a Discretionary Portfolio and a Directed Portfolio, the latter portfolio holding investments directed by the Minister for Finance.

It is noteworthy that NPRF's statutory investment policy did not apply to the directed bank investments; this raises further state aid questions⁷⁷. ISIF now includes both portfolios; its website states that the dual objective mandate of the fund, i.e. investment return and economic impact, represents a new approach to investing and will require all investments to generate investment returns and have an economic impact in Ireland.

ISIF directly funds some infrastructural type investment such as its long-term commitment of €54m to a €230m infrastructural development plan for DCU to specifically target student accommodation projects⁷⁸. However, much of ISIF's investment goes to an assortment of on-lenders for mezzanine and equity support of already established enterprises.

10.3 Strategic Banking Corporation of Ireland

SBCI was launched in October 2014 when Germany's state promotional bank KfW agreed to provide funding for the Irish SME sector. The European Investment Bank [EIB] together with ISIF, the Council of Europe Development Bank [CEB] and National Treasury Management Agency [NTMA] also provided initial funding for SBCI. However, SBCI merely acts as a warehouse for these funds which are on-lent to eight finance houses⁷⁹. SBCI has a total funding capacity of €1.25bn, of which €554 million has so far been on-lent.

⁷⁶ www.isif.ie

⁷⁷ Ibid

⁷⁸ Ibid

⁷⁹ AIB, Bank of Ireland, Finance Ireland Limited, Merrion Fleet Management Limited, Ulster Bank, First Citizen Finance, Bibby Financial Services Ireland and Fexco Asset Finance.

According to SBCI's CEO, Nick Ashmore, SME's that obtain SBCI funds through on-lenders are receiving 1.5% discount on market rates. However, Irish interest rates are almost double EU average rates. Is this new banking structure efficient and cost effective for SME's and the indigenous economy? Has it brought more competition into the Irish banking sector? Why has the establishment of a Public / Community banking network not received even the scantest of consideration (until now)?

In bailing out Ireland's pillar banks, both government and the E.U. gave firm commitments to introduce real competition into the Irish banking sector (Appendix 6). Why then make the profit maximising pillar banks the main beneficiaries of SBCI funds? On the face of it, there are conflicts for government between saving the pillar banks and what is best for indigenous Ireland. ISIF has over €20bn invested in AIB and Bank of Ireland with a mandate to make commercial returns and government, once again appears fixated with maximising pillar bank profits at the expense of consumers.

The key question is, does Ireland's cost of funds compete with other EU economies and the answer is a resounding no. This cumbersome and convoluted structure of intermediaries has created a whole new and costly financial sector that cannot compete with rates charged by German Community / Public banks, which provide funding at first cost. The indigenous economy is the loser.

Ireland's indigenous economy should be able to access credit at 3-4%. Much has been made of the emergency funding made available to farmers at 2.95% but this should and could easily be the norm. The farming community has been highly critical of the terms and conditions attached to these loans with many complaining that they cannot get access to the cheaper credit.

In summary, PBFI believes that the structures put in place to Re-Bank Ireland are flawed to the extent that the system fails in its primary objective of getting low-cost competitive loans to SME's at rates that allow them compete with their German counterparts while also enhancing the dominance of private pillar banks.



Appendix 8

11.Role of Media in Molding Public Opinion on Banking / Banking Crisis

Irish Media, in common with its international counterparts, has failed in its duty to properly inform the public in relation to the structures, behaviour and ramifications of the existing banking sector (monopoly on credit creation etc). The National Broadcaster RTE has come in for sustained criticism for what many see as bias in favour of government policy and strategy. PBFi submits that RTE has failed in its primary function of serving the public interest, which is a core principle of its own Journalism Guidelines (2014)⁸⁰, Broadcasting Authority of Ireland Codes and Standards⁸¹ and the Broadcasting Act 2009⁸². Ireland's privately-owned media has fared no better.

These views are supported in a recent PHD research paper by Mark Cullinane on the response by the BBC and RTE to the economic crash that found: -

⁸⁰ <https://static.rasset.ie/documents/about/rte-journalism-guidelines-2014.pdf>

⁸¹ <http://www.bai.ie/en/codes-standards/#al-block-3>

⁸² <http://www.irishstatutebook.ie/eli/2009/act/18/enacted/en/html>

- Both BBC and RTE “**as having fallen more or less in lockstep with the right-wing economics of their respective conservative governments.**”
- An analysis of the more than 150 separate broadcast items across the sample revealed some consistent features that **confirm the general impression of public service broadcasting’s susceptibility to reproducing the preferred narratives of their political masters.**

PBFI submits that the National Broadcaster RTE has a duty to provide generous air time in the form of documentary and debate to leading global experts on banking, banking reform and credit creation such as: -

- **Professor Richard Werner, Economist Southampton University**
- **Ellen Brown, Attorney and Author**
- **Representatives from Savings Bank Foundation for International Cooperation (SBFIC)**
- **Professor Michael Hudson, Economist**
- **Professor Steve Keen, Economist**
- **Professor Ray Kinsella**

PBFI also calls on privately owned audio visual, audio and print media to get the Community / Public banking discussion going in the best interests of creating a thriving indigenous economy that maximises the future social-economic outcome for all Irish citizens.

