Labour Party Submission to the Banking Review

July 2022

Introduction

- The Irish banking sector has gone through significant upheaval over the past fifteen years.
- With the exit of Ulster Bank and KBC respectively, the Labour Party is seriously concerned that **A)** market competition, **B)** customer service delivery and satisfaction and **C**) access to affordable credit will be further undermined over the coming decade and at a critical time for our economic and social development.
- The Labour Party believes a public bank and public banking model is required as part of a new strategic vision for the sector (**see section D**).
- For too long our banks have been focused on narrow goals detached from the demands of citizens, local firms and community services in the domestic economy.
- For example, the expensive acquisition of Goodbody's and Davy's stockbrokers by Ireland's two biggest banks (i.e. AIB and Bank of Ireland respectively) at a time of branch closures, swingeing staff cuts and price rises characterises a sector out of touch with the needs of the real economy.
- It is our view that the contours of the sector need to be proactively reshaped by the State to ensure that social, economic and environmental objectives are met over the coming decade.
- In short, a sustainable, progressive and successful domestic economy will require a retail banking services that is stakeholder and not just shareholder oriented.

A) Market Competition

- As former President of the European Central Bank Mario Draghi pointed out in 2018, the Irish banking system operates as a "quasi-monopoly". The situation has further deteriorated over the past four years with exits from the sector, significant staff cuts and branch closures.
- While the Indecon (2019[1]) report similarly felt there was inadequate competition in the market, this was before KBC and Ulster Bank revealed plans to leave the Irish market.
- We note that Irish banking market appears not to be an attractive proposition for most full-service international retail banks. We are also conscious of arguments surrounding capital requirements and other purported barriers to entry for new players.
- However, while there are regular tin-eared criticisms from some in the sector about 'overregulation' of the banking sector by the Central Bank, given Ireland's catastrophic experience of light touch regulation of financial institutions, strong regulation and enforcement should be valued and embraced.
- We also note that the comparative scale of the Irish retail banking market is often cited as a reason for high customer costs, low competition and related market impacts.
- However, it is notable that Denmark - a progressive social democratic country and successful; economy of a comparable size and population to Ireland - has over 100 different banks specialising and serving the needs of different customers, businesses and social initiatives.
- However, we acknowledge that there are endogenous legacy issues from the Irish banking crash that may present additional barriers for new entrants.
- Additionally, the domination of Bank of Ireland and AIB serves as a historical and significant barrier to entry, with their market share likely to further increase in the coming years. This dominance presents an increased risk to market competition given the government's ongoing privatisation strategy.

[1] https://www.indecon.ie/assets/files/pdf/evaluation_of_concept_of_community_banking_in_ireland.pdf

- The fact that the state retains a significant shareholding in these banks a decade and a half after the 2008-2010 crash means that the State continues to be an active and hugely significant participant in the Irish banking market.
- The arrival of fintech firms and others have been a welcome addition to a small market. Such disruptive technologies and services can and do play a constructive part in a sustainable, mixed financial sector. However, they will not or cannot replace nor provide a full banking service, with just 1% of people at present having their main current account with a digital bank[2]. The potential for the further development of platforms and services in the Fintech space should be formally encouraged and supported by national policy and the regulatory authorities.
- We are concerned though that the government's plans to return banks to full private ownership will see a further remodelling of their businesses to compete with digital-only banking providers and the further socially destructive gutting of their branch networks.
- The view that the state can entirely outsource the filling of the resulting gaps in physical services to our much valued and dynamic credit unions and An Post alone is misguided.
- While credit unions do have a community presence, they are currently unable to offer the full suite of lending and supports to businesses and entrepreneurs that would have traditionally been available within communities. Government has been slow to permit the policy changes required to allow the credit union movement to do all it can do and is prepared to do.
- Likewise, An Post is first and foremost a commercial semi-state communications company. It has other primary responsibilities and cannot plug all of the services gaps left by the removal of a full suite of banking services
- Hence, there is a requirement for a viable regionally-based, community-focussed banking service that can offer the traditional suite of full banking services that have been withdrawn and will come under additional pressure in the years ahead.

B) Service Delivery and Customer Satisfaction

- It is our view that the retail banks are failing to meet the appropriate standards of customer service delivery and care that should be commonplace within a modern, dynamic and ambitious economy.
- From the point of view of the consumer – whether personal, business or social – they are by and large expected to alter their method of interaction with the bank to a largely automated or digital service, with generally a cost increase to consumers for this service.
- Firstly, the existing banking sector is far too remote from its customers. These challenges are particularly acute in rural communities and the regions outside major population centres.
- While many routine day to day services such as the payment of wages or household bills are more conveniently conducted online, more complex transactions such as SME lending requires a regional and community presence that is rapidly declining.
- The retrenchment of the major banks from communities to a remote model based on algorithms has demonstrably caused real hardship and isolation for many communities and the difficulties customers of KBC and Ulster Bank are experiencing in switching their accounts is proof that the continued demand for personal banking services based in local communities.

[2] [Banking research reveals huge dependency on main banks (rte.ie)]

- Moreover, SMEs are often even more exposed to the lack of service from retail banks as they can have very specific needs and difficulties relating to their business which may benefit from timely intervention which may not be readily available e.g. short-term cashflow problems, need to adjust payment timings, investment opportunities.
- Any future policy on retail banking must be driven by the principle of relationship banking.

Staffing Levels and Customer Service:

- For instance, the Labour Party is concerned at a recent Central Bank review which revealed that customers of Irish banks had to endure two hour waits for telephone support, with over half forced to hang up before being connected to a support provider.
- This is unsurprising given the scale of job cuts in the sector over the past decade. Covid-19 has undoubtedly been used as cover for reducing staff numbers.
- Specifically, we note research from the Irish Times (2018) which highlighted "employee numbers in Ireland's banking industry have fallen by almost 50 per cent in the years since the financial crash[3]".
- Layoffs in the sector have escalated since the pandemic, with this trend likely to continue. For example, in 2020 Deloitte Ireland forecasted that Irish retail banks are likely to cut a further "20-30 per cent of jobs – or as many as 7,650 positions – in the next five years[4]".
- Those who remain in the sector are understandably concerned about their employment security and conditions, with bank staff across the country reporting to us that they are experiencing 'restructuring fatigue'.
- The recent frenzy of job cuts has had a very real impact knock on customer service and is directly attributable to the delays for customers switching banks[5].
- Clearly, additional incentives are required to both attract and retain skilled frontline staff to the sector.

- The Labour Party therefore believe that the current prohibition on variable pay including bonuses and any other benefits including health insurance and childcare.
- These restrictions on variable pay and benefits place some 23,000 ordinary bank workers at a material disadvantage to all other employees in the state. These restrictions dictate that performance-based remuneration, bonuses and any other workplace benefits including health insurance and childcare cannot be paid to any staff members.
- In the event that the Minister for Finance decides to end the current restrictions on variable pay and benefits, the Labour Party believe these must be covered under collective bargaining agreements.
- However, it is our position that the €500,000 salary cap and excess bank remuneration charge should be retained.

Ease of Switching:

- The experience of the exits of Ulster Bank and KBC has also exposed the fact that the current switching code is not fit-for-purpose. The anachronistic code may have contributed to the small number of customers who have chosen to change banks in recent years (e.g. 13.6% changed mortgage provider in 2021).

[3] Irish banks have shed 50% of staff since crash (irishtimes.com)
[4] Union to raise fears of job cuts in banking with Department of Finance (irishtimes.com)
[5] Customers face wait of up to three months to open new account with AIB - Independent.ie

- The on-going problems surrounding the enforced account switching by up to one million account holders illustrates the unpreparedness and sluggishness of the remaining banks even for a well-flagged event.
- This will have confirmed many people's pre-conceived notions that switching your current account is not a simple, straight-forward task and therefore any resulting savings would have to be considerable to convince anyone that did not have to, to switch account.
- Given the expected rise in interest rates and the increased demand for change from customers (e.g. 23% of the 'new' mortgages approved in May 2022 were switchers), we believe the code must be urgently updated and modernised.
- The strengthening of regulation, enforcement and competition in this sector would make switching easier and more accessible for customers.
- For instance, clarity is also needed around how overdrafts should be dealt with in the case of switching delays (e.g. from Ulster Bank and KBC exits).

Branch Closures:

- The extent of branch closures and concurrent staffing cuts have also seriously undermined customer confidence, the viability of our national branch network and has served to exacerbate the phenomenon of financial exclusion.
- Despite the strong growth in population, the footprint of the traditional banks continues to fall in rural Ireland. This will accelerate if AIB, BOI and PTSB are to be re-privatised as the current government has in essence proposed.
- A recent survey has suggested that 80% of people believe that bank closures will be 'detrimental' to local communities, with 4 in 10 having said they will switch banks if their local branch closes[6]. Undoubtedly, vulnerable groups (e.g. elderly people), local interests (business, services and community groups) and rural communities will be disproportionately affected by such decisions.
- The diminishing of relationship banking has negatively impacted retail customers and SMEs. The local know-how of a locally based financial institution can be lost. It is the relationship banking that SMEs enjoy in many other EU banking markets that will be absent from the Irish financial services landscape.
- Moreover, the shareholder banks operate a highly centralised, automated, algorithm model of lending that disadvantages Irish SMEs and start-ups relative to their EU counterparts.
- The Labour Party is deeply concerned by this trend and the current absence of any requirement placed on banks to carry out lack of impact assessments *prior* to proposed branch closures. For example, it compares unfavourably with the 12-month period required in the UK and the obligation imposed on financial institutions there to meaningfully engage and consult with affected customers and communities where closures are under consideration[7].
- We believe the Code of Practice as it relates to the bank branch network and consumer rights must be changed. The Central Bank must play a much more vigorous role and banks considering exiting from a community must be obligated to work with the regulator to undertake rigorous economic and social impact assessments of their plans before the green light is given.
- Regulation regarding the 'Last Bank in Town' must also be urgently considered to ensure that no community is left without a local branch providing a full suite of services.

[6] Bank closures will be 'detrimental' to communities | WLRFM.com
[7] Bank of Ireland branch closure frenzy must be paused - The Labour Party

ATMs and Legal Tender:

- Likewise, we are concerned by the related withdrawal and/or outsourcing of ATM services. The former undoubtedly leads to greater difficulties accessing cash, while the latter may potentially lead to ATM fees for withdrawing one's own money (as evidenced in Northern Ireland).
- Similarly, there is also anecdotal evidence of businesses increasingly refusing cash payments which increases the risk of financial exclusion, particularly among vulnerable groups.
- Possible power outages, cyber-attacks and the breakdown of individual proprietary systems are all events that have taken place on various occasions recently that have resulted in people not being able to carry out routine day to day transactions. Having a cash alternative is essential and should be a legal obligation.
- Going forward, the Labour Party believes stronger regulation and legislation (if necessary) is required to safeguard surcharge-free ATM withdrawals, the availability of ATMs to the public and the status of cash and the question of the ongoing acceptance of cash for all transactions.

C) Access to Affordable Credit:

Mortgage Market:

- Irish mortgage interest rates – the cheapest form of personal loan – are the second highest in the Eurozone after Greece and double the currency bloc's average rate.
- We are concerned that mortgage interest rates increased by the largest amount in nearly five years in January 2022 (0.7%).
- We note that the ECB interest rates are set to rise over the coming months and years. We are deeply concerned that this will put further upward pressure on domestic mortgage interest rates, especially at a time of rising inflation.
- The increase in mortgage interest rates comes against the backdrop of high demand for housing and rapidly increasing accommodation costs.
- The exit of Ulster Bank and KBC from an already uncompetitive Irish banking sector will undoubtedly lead to less consumer choice and the potential for remaining lenders to further increase borrowing rates and exploit their dominant position in the market.
- We also note that despite the potential for significant savings, Ireland currently has a low rate of mortgage switching (1% of all mortgages in 2021), with the rate of switching lagging behind other analogous countries.
- Evidence shows that "older households, those with lower education, income and wealth are less likely to consider switching or refinancing" (Byrne et al. 2020, 6[8]).
- However, behavioural factors alone cannot account for Ireland's comparatively low rates of mortgage switching, and other aforementioned structural barriers (e.g. staffing levels, a problematic switching code, poor competition) must be reviewed and addressed by the Central Bank.
- Given these conditions, we also note "the difficulties being experienced by potential buyers in saving for the deposit required by the LTV limits" [9] as cited in the Central Bank Stakeholder summary report.
- We are concerned that conditions attached to approval in principle (e.g. timeframes) may be too restrictive given the current rate of housing development and market conditions.

---

[8] Room to improve: A review of switching activity in the Irish mortgage market (centralbank.ie)
[9] Summary Report Mortgage Measures Framework Review (centralbank.ie)

- We also note the difficulties experienced by a significant number of prospective homeowners whose employers have availed of State supports (e.g. Employment Wage Subsidy Scheme), in drawing down approved mortgages.
- We are concerned that that the current mortgage and housing market, in addition to the rapidly rising cost of living, significantly increases the risk of households falling into mortgage arrears.
- We note the decline in the number of those in mortgage arrears in recent years. However, we are concerned that the total number of mortgage accounts that are more than three months in arrears was 34,182 in September 2021. We are concerned that a significant number of these accounts are in long-term arrears[10].
- We are particularly concerned that credit servicing firms and retail credit firms, colloquially referred to as "vulture funds", hold 67% of all residential mortgage accounts that are in arrears, according to Central Bank statistics. This is particularly worrying given that these firms hold only 14% of all residential mortgages in the State[11].
- It is unclear why anyone should still be pursuing outstanding mortgages arising from the GFC. It seems to take inordinately long for it to be established whether a borrower can afford to repay their mortgage and longer again for any real actions designed to lead to a solution for either party.
- Despite the banks having received very substantial capital infusions, they effectively refused to restructure distressed mortgages and instead sold the loans to vulture funds. This refusal prolonged the agony for customers and the real economy.
- The Labour Party has formally on the Central Bank mortgage review to explore and propose innovative solutions to deal with the reality of Long-Term Mortgage Arrears and to assist borrowers who are chronically in debt with no realistic market solution open to them.
- In this regard, we welcome the Deputy Governor of the Central Bank's call for "meaningful engagement" between lenders and those in long-term mortgage arrears to try and find the right solution to overcome long-standing debt problems.
- It is our view that the Code of Conduct on Mortgage Arrears (CCMA), which sets out the guidelines on mortgage arrears, must be immediately strengthened to provide a specific list of enforceable options that may be suitable for a borrower who is in difficulty.
- As it stands, under the current CCMA, commercial banks have the power to pick and choose which alternative payment options they are prepared to offer to struggling households in mortgage arrears. This must be addressed.

- Overall, **g**iven the prevailing high average mortgage interest rates in Ireland, we believe urgent action is needed to bring rates in line with the Eurozone average.
- The Labour Party's recently introduced the *Central Bank* (*Variable Rate* Mortgages) *Bill* 2022. This legislation if enacted would give the Central Bank[12] powers to cap variable mortgage rates. It is imperative that the government and the Central Bank considers the potential scope for such caps within the Irish context.
- Given the current low rates of mortgage switching in Ireland despite the potential for significant savings, the Labour Party re-iterates our call for a comprehensive government-funded social marketing campaign to promote switching, particularly with respect to

[10] Mortgage arrears continue to fall despite impact of pandemic - Independent.ie
[11] Mortgage arrears continue to fall despite impact of pandemic - Independent.ie
[12] https://www.oireachtas.ie/en/debates/debate/dail/2022-06-28/8/

"gender, education, financial literacy and behavioural characteristics (that) can help explain the degree of reported inhibition towards switching" (Byrne et al. 2020, 2[13]).
- Additionally, the Labour Party strongly believes that structural factors which prohibit switching must also urgently be addressed.

Personal Credit:

- Additionally, it can be harder to obtain personal credit for basic needs – for example, home insulation, for educational purposes or for car finance.
- Specifically, Central Bank statistics show that the average interest customers here are paying on borrowed money is nearly 7.5% compared to a eurozone average of 5%. For example, a €20,000 home-improvement loan over ten years at the average rate of 7.49% in Ireland would cost almost €235 a month compared to €212 a month at the eurozone average.
- Consequently, Irish consumers pay almost €2,800 extra in interest over the lifetime of the loan than our Eurozone peers[14].
- On the other hand, we are concerned that there is an increasing number of Buy Now Pay Later (BNPL) offerings that can lead to consumers taking on more debt than they should.
- Clients can also be encouraged to increased indebtedness due to the ease with which different credit is being offered often at point of sale and without reference to existing debt the consumer might have.
- These trends are particularly worrying given the ongoing cost-of-living crisis.
- We also note that other EU Central Banks, for example the Central Bank of Portugal (i.e. Banco de Portugal) "calculates and publishes quarterly the maximum interest rates in force for each type of consumer credit" with these rates constituting "maximum limits on the charges that can be contracted in each type of credit agreement".
- We note there is precedent for such caps on the rate for borrowing within Irish and EU law (e.g. caps on moneylenders[15]).

Business Loans:

- Likewise, loans for Irish SMEs have consistently been nearly double the EU average[16].
- Moreover, the choice of credit is particularly narrow if you are an SME and want to have the bulk of your financial needs met by the one institution.
- Survey evidence has consistently shown that application rates by Irish SMEs for bank finance were among the lowest in the euro area. An EIB survey stated that roughly one-in-ten Irish firms are characterized as finance-constrained, about double the EU average[17].
- Labour is concerned that the lack of availability of and appetite for credit by our SMEs is constraining the growth of our economy as these are the backbone of the economy and provide the vast majority of employment.
- In doing so we do note the presence in the market and the success of, for example, Microfinance Ireland the evolution of peer-to-peer lending platforms to support indigenous enterprise.

---

[13] Room to improve: A review of switching activity in the Irish mortgage market (centralbank.ie)
[14] Irish loan interest rates far higher than eurozone (businessplus.ie)
[15] Consumer Credit Directive
[16] Irish SME interest rates almost twice the rates of other euro countries 30 November -0001 Free (farmersjournal.ie)
[17] Closing remarks by Deputy Governor Sharon Donnery at joint Central Bank of Ireland, European Investment Bank, ESRI conference, "Business Finance & Investment: Recovering from the Pandemic, Preparing for Future Challenges"

- It is our view that a regional, stakeholder-oriented banking model with a focus on indigenous SMEs would bring benefits to our economy.
- We also acknowledge that SMEs (especially many microenterprises) may not be sophisticated consumers of financial products and thus deserve the protection of knowing their credit providers are regulated by the Central Bank.

Concluding Remarks on Access to Affordable Credit:

- We note that banks regularly blame the increased capital charge for the higher mortgage rate, but a Goodbody Stockbroker's analysis in July 2021 found the real difference is in the banks operating costs compared to their EU counterparts
- In comparison, some banks within the directly comparable Danish market charge negative mortgage interest rates to attract customers. In contrast to Ireland, the Danish sector is also highly diversified, with banks tailoring their specialised product offerings to specific target customers and sectors (e.g. business, agricultural, social enterprises etc).
- We note that Irish banks are more reliant on the interest differential between their deposit and lending rates as a source of income than most of their EU peers, making them more reluctant to decrease lending rates.
- It is our view that to suggest that a pure trade-off between operational costs and interest rates exists (note Q5) is somewhat disingenuous.
- In short, the existence of community-based banking services is not the reason for higher Irish interest rates.

D) Labour's Vision for the Retail Banking Sector

- The Labour Party and others, most notably the Financial Services Union (FSU) have been calling for a review of the Irish retail banking landscape for some time.
- We have consistently said that the current and previous administration have shown no strategic vision for Irish banking and for the place of banking in our economy, beyond the disposal of the State shareholdings.
- We welcome this initiative. However, it appears to us that government appears content to continue with its hands-off approach in terms of shaping the banking landscape, content to leave the market to three banks (AIB, BOI and PTSB) along with the credit unions and An Post.
- Notwithstanding this, we believe that PTSB has the capacity to become a more significant force in Irish banking provided they, government and the regulator pursues the correct policy and strategic approach.
- Labour believes where there is significant market failure – in this case a failure in terms of real and substantial competition in the banking sector that is likely to become even more acute – there is an onus on the state to recognise this and to step in to address it.
- It makes economic, business and social sense to create the conditions for a market that includes diverse, community-based and customer-led service provision akin to the days when Ireland had shareholder banks like ICC, ACC, Trustee Savings Banks, thriving Building Societies and Credit Unions.
- The Labour Party reiterates our call for a reappraisal and introduction of a Sparkasse-type public bank and community/public banking model to serve social-economic objectives, including the provision of affordable long-term credit to prospective homeowners and entrepreneurs.

The State as an 'activist' bank shareholder and the case for a Public Bank:

- It is our view that the State needs to turn from a passive bank owner into an activist shareholder, utilising its unique position in the market to drive better outcomes for our society and economy.
- In the short terms, the terms of the Relationship Framework Agreements between the Minister and banks in which the State has significant stakes should be revisited where necessary to ensure domestic economic, social and environmental goals are prioritised.
- We note significant international evidence which suggests that public banks lend more and at lower rates than commercial banks.
- Research by the IMF (2020) demonstrated that during the Global Financial Crisis (GFC), public banks lent relatively more than domestic private banks in many countries, thus helping to stabilise businesses and jobs. In other words, their public purpose allowed them to play more of a countercyclical function, ameliorating the worst parts of the crisis.
- Moreover, a recent ECB Working paper (Borsuk et al. 202218) also warned that a fully privatised bank sector risks worsening future crises. The paper specifically noted that "a mixed composition consisting of foreign and domestic-owned banks that are controlled by the state and private owners is advisable." This should be noted by the government as it continues to work to divest the State of our shares in AIB and as we look set to enter a challenging and uncertain period for our economy.

AIB – A Case Study:

- Labour is advocating continuing state control in AIB – Ireland's leading bank – by retaining a substantial holding and active board membership.
- This should be sufficient to keep its governance clean, relevant and to maintain control of the bank within Ireland.
- AIB is one of the two largest banks in Ireland and it plays a crucial role in lending to individuals particularly for mortgages and to the SME sector. AIB is also a leading indigenous company and major employer. Banking and credit for individuals and SMEs is a crucial part of the operation of our relatively small domestic economy.
- As it stands, the Irish citizens own AIB and the State retains a 63.5% ownership in the bank. This has been reduced from a 99.9% stake in AIB after bailout of the Irish banks. In the past 6 months alone, the taxpayers', stake in AIB has been reduced to 63.5% to 71.1% (at a time when Irish, EU and Global stock markets have recorded record prices)[19].
- This sell-off, sanctioned by the Minister for Finance, also comes at a time when Irish bank shares could double over ECB rate hike[20].
- In short, the Labour Party believes, supported by evidence, that the ongoing sale of AIB shares goes completely against the short-term and long-term interests of the Irish economy and taxpayer.

[19] gov.ie - Minister Donohoe welcomes the successful disposal of part of State's shareholding in AIB Group plc (www.gov.ie)
[20] https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2661~5a47947b05.en.pdf

- AIB collapsed because of its shockingly poor lending policy and history. In 2010, the Irish taxpayer rescued AIB because it was a strategic bank. It remains a strategic asset and is performing very well under public ownership.
- Labour believe banks are vital public utilities, providing money/credit for personal, business and social causes. We now have a once-off opportunity to keep one major Irish bank in public ownership.
- The privatisation of other indigenous companies for ideological reasons has shown not to be in the public interest. Retaining public ownership would also lessen the State’s current over-dependence on foreign direct investment, assists the State to become more entrepreneurial and guard against the risk of foreign ownership with the bank becoming subservient to wider interests.
- AIB is currently shifting away from fossil fuels to sustainable finance which is most welcome. However, this may change with the loss of public ownership despite the State’s strategic climate goals and the pressing need for affordable “green” finance.
- Another benefit of retained public ownership in AIB is to maintain the cap on executive remuneration. One of the greatest political, economic and moral challenges today is that of growing and widening inequality. Excessive CEO pay and remuneration is part of this problem.
- Overall, it is best for the State (especially in a small, open economy where one super-sized operator plays a disproportionate role in the economic activity of the country) to be actively involved in the economy in the very strategic sector of banking and credit.

A Public Bank to Power Climate Action

The urgency of addressing the climate emergency along with rising energy prices demands a bigger and more interventionist approach than the provision of "Green loans" or special "green mortgages" for low BER houses by retail banks.

As with improving customer service (as outlined by the former CBI governor Patrick Honohan), retail banks might be better pushed towards providing products that promote carbon neutrality by having a bank in public ownership, such as AIB. We do note that AIB has already recorded some success with their 'green loan' products.

Additionally, the arguably under-utilised Strategic Banking Corporation of Ireland (SBCI) and the Irish Strategic Investment Fund (ISIF) should be re-purposed to provide cheap, long-term credit to householders and businesses for climate action. This would be in line with mooted changes to the EU fiscal rules which would empower green investment at the State level.

For instance, low-cost loans (at near ECB rates) could be provided by a revamped SBCI for retrofitting initiatives which would create thousands of new jobs, cut Ireland's dependence on foreign fossil fuels and drastically reduce our carbon emissions.

<u>International Examples:</u>

Public banks across the world are already the pioneers in green lending. Despite only accounting for c. 20% of total global banking assets, they invest nearly as much as all private banks combined in the green economy (Güngen and Marois, 2019).

Germany's Kreditanstalt für Wiederaufbau (KfW) has a sustainable finance mandate and is responsible for financing some one-third of Green Investments in what is the EU's best performing country on climate action.

Switzerland is currently considering the idea of a Green Investment Bank (GIB) with a mandate to be a source of expertise and data that would be made available to other financial sector participants.

Several US states invest public finances into sustainable projects via green banks. These include the New York Green Bank, the New Jersey Green Resilience Bank and the Connecticut Green Bank.

The UK Green Investment Bank was formed in 2012 to help meet climate targets but was later sold to the private sector. Although sold to private ownership, it has been reported that a new UK Investment Bank may be established.

Other examples of sustainable State investment include Australia's Clean Energy Finance Corporation, Japan's Green Fund and the Scottish National Investment Bank which also invests millions across Scotland to deliver on climate goals.

The Case for a Public Banking Model:

- The Report on Public Banking in Ireland and the Indecon Report both concluded that there was no economic case for a public bank in Ireland. Those reviews were based on a much different banking landscape than that which currently exists.
- It is our view that the terms of reference for the Indecon Report meant that the exercise was set up to fail.
- Likewise, the 'Local Public Banking in Ireland' report recognised the benefits of a public banking system but determined, extraordinarily, that there was no economic case for the government to invest in one.
- The innate flaws in this report have been exposed by the withdrawal of KBC and Ulster Bank.
- Likewise, credit unions cannot be expected to engage in larger scale SME and mortgage lending and the State has been slow to permit them to broaden their services and products.
- Given the evidence of market failure, Labour believes that the government must take immediate action, using the expertise available to it, to revisit and embark on a process to design and implement a comprehensive community/public banking system that serves the needs of our local communities and businesses.
- The reality of State's participation in the banking market is a fact and this will continue to be the case in the medium to long term.
- The State needs to establish a number of regional community banks that will provide the range of services that retains local market knowledge, know-how, have a long-term investment focus and the skillsets to provide a full range of banking services.
- Regional, stakeholder-oriented banks with a focus on indigenous SMEs would bring benefits to our economy and help promote balanced regional growth and sustainability.
- The academic evidence (and evidence sited earlier from global and European multilateral bodies) on the benefits of Community/Public Banks to economies is clear.
- The creation of a network of such institutions across Ireland would create much needed competition and provide an alternative home for customer's deposits should the retail banks again threaten their own existence and the viability of our economy through reckless actions.