POST BANK
at the People's Post Office

Delivering the Post Bank

Financial services for people, communities and small businesses at the Post Office

About the Post Bank Coalition

The Post Bank Coalition has been established to advocate the setting up of a Post Bank based on the Post Office network. We have an agreed set of principles underlying this new concept which we believe has a wide and growing spectrum of support across the UK.

The effect of the banking crisis means the need for a new, trusted, state-owned bank based on the Post Office network is urgent. The uncertainty affecting the economy, with subsequent impact on social life and communities, means that we need the strongest possible Post Office network for economic support and community cohesion. A Post Bank would underpin the future sustainability of the Post Office network by greatly expanding the range of services post offices can provide, and crucially, by helping prevent any further post office closures.

The Post Bank Coalition currently consists of representatives from the trade unions representing Post Office employees, Britain's leading business organisation representing 215,000 small businesses across the UK, an economics think-tank, a research group specialising in the environment and climate, and Britain's biggest pensioner organisation. The Federation of Sub-Postmasters and Consumer Focus are both aware of our work and share the aim of a viable Post Office network that benefits consumers and can offer a wide range of services to both private and business customers.

CWU The communications union

unite the UNION

nef economics as if people and the planet mattered

FSB Federation of Small Businesses The UK's Leading Business Organisation

NPC NATIONAL PENSIONERS CONVENTION

publicinterestresearchcentre

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1. Executive Summary

The Aims of the Post Bank Coalition:

- Revive and protect the Post Office network;
- Support local economies and small and medium size businesses;
- Combat social exclusion, and financial inequalities;
- Introduce diversity into the retail banking system.

The Post Office network of 11,952 branches has been 'secured' by way of the Government declaration that there will be no more post office closures. But the network has to be profitable to remain viable. Post Office Ltd has recognised that the increasing provision of financial services is the way forward. In view of this we urge the Government to avoid piecemeal solutions and create a recognisable, strong and trusted Post Bank.

Post office closures damage local economies by reducing money flow locally, by reducing footfall and by creating delays and travel costs for local businesses. We need a network which positively assists the small businesses upon whom the economy depends.

Post Bank would have the scale and reach to offer banking services to the financially excluded and unbanked. It is the only national network which could do so.

Post Bank, an alternative to the shareholder model of the main High Street banks, would introduce diversity to the banking system and act as an antidote to restrictive practices.

PO infrastructure is equal to the task. It has 24 Cash In Transit Depots, 9 Cash centres across the country and a fleet of 430 Cash in transit vans.

The Post Office already has the basis upon which to build a strong and popular bank. It is growing its financial services in partnership with the Bank of Ireland. Benefits and income would be much greater with sole ownership. In the year ending 31 March 2009, POFs had over 2 million customers, delivering deposit growth of 136% year on year, with UK consumers increasingly viewing the Post Office as a more trustworthy repository for their savings given the problems afflicting the retail banks.

Post Bank could also be an efficient and wide reaching provider of:
- Financial advice
- Financial management tools
- Local business knowledge and assistance
- Links to other financial institutions such as credit unions and organisations providing micro finance
- Innovative banking tools

The decision to set up a Post Bank will be a political one. But it should not be turned down on the grounds that there is no practical, affordable way of creating such a bank.

There are models of alternative banking provision and current options for the creation of a Post Bank. These include:

- **Northern Rock:** We do not need to start from scratch. Northern Rock is now in public ownership, and could form the institutional foundation of a new, mutually structured people's bank.

- **Buying out Bank of Ireland:** The relationship of Post Office Ltd with Bank of Ireland has, we believe, come to the end of its useful life. If the UK government is serious about securing the future of the Post Office network, then a bold decision to support a buy-out of the Bank of Ireland's stake in Post Office Financial Services would be an extremely significant step towards doing so.

- **Incorporating National Savings and Investments:** National Savings and Investments (NS & I) has its origins in the Post Office Savings Bank set up in 1861. It was separated from the Post Office in 1969. It has developed a range of savings and investments over the years to suit the market and meet the needs of customers and the UK Government's need for funding. The Post Office has remained a significant distribution channel for NS&I products.

- **Mutual Banking and the TSB model:** Post Bank offers the prospect of capitalising on a rich but neglected history within British banking, that of mutual banks and non-profit trustee bank models such as the old TSB. These are models which should be considered in the establishment of Post Bank.

The Government should now set up a Working Party to examine the social and economic case for Post Bank.

2. Introduction

With this report the Post Bank Coalition is following up our report The Case for a Post Bank. In that report, launched at the House of Commons in March 2009, we laid out the case for the establishment of a bank based on the popular and trusted Post Office network.

In this paper we suggest a number of options for the establishment of a Post Bank, and outline the services it might provide. We believe that a national Post Bank is needed to augment the services offered by the High St banks, but we believe it should be a different kind of animal to the current retail banking system. The Post Bank is not intended to be a direct competitor of the current High Street banks but to complement them in an attempt to achieve a much needed diversification of the banking sector.

The aims for the Post Bank are to:
- Revive and protect the Post Office network
- Support local economies and small businesses
- Combat social exclusion, and financial inequalities
- Provide immediate fixed capital investment which will constitute a fiscal stimulus (with multiplier effects), as well as the Post Bank system itself leading to new jobs.
- Provide an accessible payments system for the millions of people currently excluded from the banking system,

The Post Bank would exploit a four way synergy:
- The demand for appropriate banking facilities for the 'unbanked' and those who seek safety for small amounts of saving.
- The demands for credit and banking facilities from small businesses and social enterprises and the above individuals.
- The need for renewed confidence in the financial system.
- The availability of a unique resource in the infrastructure of the Post Office – its network of branches, its dedicated staff and the trust the British people have in it.

In this paper we will:
- Describe some of the documented weaknesses of the current banking system which could in part be remedied by a Post Bank.
- Outline the current services and capacity of Post Office Ltd.
- Suggest the further services a Post Bank could provide.
- Examine how Post Bank could combat financial exclusion.
- Set out some innovative new practices that the Post Bank could adopt.
- Outline the ways in which a sustainable Post Bank could be set up.

3. The current banking system

The current financial crisis has demonstrated the need for diversity and choice in the banking system. By applying the market model we have ended up with market failure, with substantial sectors of the market not being effectively served.

We believe that a Post Bank will offer banking services which are:
- Local
- Non-shareholder driven
- Innovative
- Trusted

A number of organisations and informed individuals have called for a publicly owned bank.[i] Lord Turner, head of the Financial Services Authority, in his review of financial regulation (March 2009) wrote that:

"The financial crisis has challenged the intellectual assumptions on which previous regulatory approaches were largely built, and in particular the theory of rational and self-correcting markets. Much financial innovation has proved of little value, and market discipline of individual bank strategies has often proved ineffective". [ii]

He painted a bleak picture of the institutions to whom we entrust our money. His review identifies three underlying causes of the crisis – macro-economic imbalances, financial innovation of little social value and important deficiencies in key bank capital and liquidity regulations. These were underpinned by an exaggerated faith in rational and self-correcting markets.

The criticisms made by the Cruickshank Report on competition in UK banking, commissioned by Gordon Brown, the then Chancellor, reporting in 2000, remain relevant in large part today. In particular the Report criticised:

- The lack of information provided to personal customers and small to medium sized business customers (SMEs) about banking services and banks' accountability.
- The lack of access to banking services for lower income earners.
- The 'regulatory capture' by the banking industry of their own regulators
- The ability of the major banks effectively to control the money transmission systems (these consist of the ATMs and credit and debit card payment networks, cheques and direct debits, standing orders and high value payments). [iii]

A Post Bank would address the problems of the lack of local knowledge by banks. It would also address the apparent decline of the local lending infrastructure and the lack of bank branches. There are only 170 branches per million people in the UK, compared to 520 in Germany and 960 in France. The number of bank branches is also decreasing all the time. This is a particular problem in low income areas.

Yet there is evidence that, even in the current crisis, there is a market for expanded utility banking for ordinary customers. The fact that Tesco is swiftly setting up its own retail bank is an indication, from a very competitive global firm, that there is an expanding future for banks which value the 'small' customer.

CASE STUDY: HELP FOR BUSINESS

At the end of 2008, European finance ministers struck a deal with the European Investment Bank (EIB) to make funds available to small businesses. There is €15 billion available for the period 2008/2009 via commercial banks as part of an overall package of €30 billion available until 2011. These funds are allocated to banks to enable them to be more flexible and risk-friendly when giving loans to small businesses.

Loans can be taken out by any autonomous firm with fewer than 250 employees to finance tangible investments such as the purchase of plant or property (but not land, unless it is a vital investment) and also intangible investments relating to research and development, building up or taking over distribution networks, the filing or acquisition of patents, or the costs incurred in the transfer of an enterprise enabling the continuation of economic activity. Also eligible are permanent increases in working capital required to develop an expanding company.

The investment can be for any amount – from very small up to €25 million. The loans are generally between two and twelve years. They are distributed via commercial banks in each member state and it will be up to the bank to make the final decision to grant the loan agreement. But the bank is obliged to make sure the applicant is being clearly informed of these favourable terms. The EIB can borrow these funds from the capital markets at good terms and is passing on these conditions to the small business sector. In the UK these funds are being distributed through Barclays Bank, Alliance and Leicester Commercial Bank and Close Brothers.

However, Federation of Small Businesses (FSB) members have found the banks very short on knowledge and very unwilling to promote these loans; members in Northern Ireland were unable to access the funds at all because none of Barclays, Alliance and Leicester nor Close Brothers have branches there.

The experience of other European countries is also illuminating. For example, in Greece, all commercial banks were allowed to distribute the EIB funds, but there was a problem in that none did. It was only when two banks fell into state ownership and were then obliged to do so that the funding started to be loaned to small businesses in Greece. Having received this funding from these two banks, many small businesses then transferred their accounts to those banks. As a result of this, all banks started to distribute these loans.

The FSB has suggested that in the UK this funding could helpfully be distributed through the Post Office network to make it more accessible to small businesses.

4. The Post Office and its Role in National Life

The Government's decision to remove most of its services from the Post Office has not been helpful. Given the critical state of under-investment in the Post Office, the government should give fresh consideration to it as a viable service provider with a 95% national reach – and a bigger number of branches than all the banks put together. Reinstating government services at the Post Office is a necessary and possible contributing element to creating a thriving Post Office network.

New strands of revenue must be explored. Establishing a Post Bank and extending government and small business services would be intended to eliminate the need for an annual state subsidy of £150m and instead make the Post Office a commercially viable financial and service institution. The Post Office's strongest assets are that it is trusted, local and personal and therefore ideally placed to provide these services.

Public services such as tax, pensions, utility bill payments and TV license payments should all be redirected through the Post Office. The Post Office should become a one-stop-shop for government and business services.

The Post Office Card Account (POCA) victory in November 2008, when Government broke off the tendering process and awarded the contract to Post Office Limited for five years is a strong foundation to build upon. But Government must go much further in looking at the Post Office as a crucial partner and practicable distributor of its services.

THE POST OFFICE IN FIGURES

- For every £1 transacted in the UK 14p is handled through the Post Office network
- There are 11,952 Post Office branches including 373 Crown Offices
- It has over 30,000 customer-facing positions including those employed by Post Office Limited, by subpostmasters and/or by franchisees
- Each week over 23 million customers make over 34 million visits conducting almost 63 million transactions
- POL is the UK's leading supplier of foreign currency

***Source**: PostComm's 8th Annual Report on the Post Offices (2007/8)*

PO: CASH IN TRANSIT OPERATION

- In 2008/09, Supply Chain collected, delivered, provisioned and processed £25bn in cash, £3bn in Foreign Exchange and £0.65bn in coins.
- In 2008/09, Supply Chain performed over 32,000 retail services per week, 48% of which were on behalf of the Post Office
- Supply Chain delivers services for Post Office Ltd, Royal Mail, The Bank of England (Note Circulation Scheme) and external customers. It has a total of 1250 Customers with 7,000 Customer Branches. External customers include Comet, Waterstones, Whitbread Group, Mothercare, Peacocks, Orange and River Island.
- The business has a total of 1785 staff (500 clerical staff in cash centres)
- There are 5 cash centres within the division: Belfast, Birmingham, Glasgow, London and Manchester, with 380 employees.
- There are 26 CIT (Cash in Transit) Depots with a UK-wide coverage.
- CIT has a fleet of 430 vehicles and 960 drivers.
- Post Office is the only UK company which owns cash centres and CViT fleet. This means it can service its own branches.

5. Current services at the post office

The Post Office currently offers a number of services at its branches, although available products and services sometimes vary across the branch network.

The Post Office in establishing itself as a financial service provider has set up two joint ventures with the Bank of Ireland to launch a range of products. The first venture includes the Post Office instant saver account, growth bonds, cash ISA and credit cards, as well as insurance products such as car, van and life insurance. The other joint venture is for foreign currency exchange services. These joint ventures do however come with a health warning as POL only receives 49.99% and 50% profits, respectively for these ventures. This leaves the remaining profits to go outside the UK. A full list of these products can be found in the Appendix.

In addition to the joint ventures with the Bank of Ireland, personal banking services are already offered on behalf of a number of high street banks acting as 'partner banks' including cash withdrawals, paying in cash and cheques, balance enquiries and cheque encashment. Some post offices also have cash machines.

The multiplicity of different kinds of banking services available in partnership with different providers, and variations from branch to branch, mean that the consumer is often understandably confused as to what services are on offer and to which provider is behind them. A Post Bank as one provider would make Post Office services much clearer and straightforward, enabling the customer to make an informed and transparent choice.

Among the additional services that the Post Office already provides are the following:

- National Savings and Investments (NS & I) – these have their origins in the original Post Office Savings Bank but were separated from the Post Office in 1969. However, the Post Office continues to act as a distribution and information agent for NS & I products, which include Premium Bonds. Some of these products compete with the various savings products launched through the joint venture with Bank of Ireland.

- Bill payments – the Post Office accepts bill payments on behalf of a variety of organisations, including utilities and local authorities. This includes transactions through the Alliance and Leicester trans-cash system, as well as automated payments through swipe cards and key charging etc.

- Government Services – the Post Office provides check and send services for a number of government departments and agencies, for example in relation to UK passport applications, driving licences (and in some branches, international driving permits) and the European Health Insurance Card. In England and Wales, fishing licences are provided.

- Telephone and Broadband Services – the Post Office is developing its profile in the Telecoms sector. It has recently launched a broadband internet service to add to its home landline service.

The Post Office has sought to establish itself as a financial service provider but does not currently offer a wide enough range of financial services. Although it provides a number of branded insurance products; crucially, there is no current account or business account available.

CONSUMER FOCUS: SUPPORT FOR THE POST BANK

Welcoming the launch of the Post Bank coalition campaign, the independent organisation Consumer Focus also called for the creation of a 'neighbourhood' or Post Office Bank. Andy Burrows of Consumer Focus said:

"The availability of a current account is an important first step towards securing a fully-fledged Post Office Bank. Creating a Post Bank service through the Post Office would help build on the Post Office's strongest assets – that it is trusted, local and personal. However, it is important that Post Office Limited now looks to develop the current account as part of a wider Post Bank strategy. A Post Office Bank, with a current account at its heart, could take a number of forms, including Post Office Ltd offering its banking services in its own right, not just in partnership. This is something that Post Office Limited needs to seriously consider as a way to make the most of this important commercial opportunity. Such a proposal could play a significant part in the network's long-term health."

6. Additional services that a Post Bank could provide

The Government needs a reliable means of communicating with and serving the public directly in their local communities. A systematic policy of using the Post Office as a shop-front for government services can help the government reach vulnerable and marginalised members of society in rural and urban-deprived areas.

The Cabinet Offices' Performance and Innovation Report in 2000 recommended a 'Government General Practitioner' scheme whereby trained, IT enabled staff would act as 'your guide to government' providing information and low-level advice on central and local government issues and allowing routine transactions to be carried out.[iv] We would like to see trained counters staff working in this way in all Post Offices across the country.

In addition we would like to see local authorities take on a greater role in Post Office matters, both in terms of the provision of its service through the network and in terms of forward planning.

In support of the Post Office's role as public service we propose the following non-exhaustive list of government services that could be provided by the Post Office:

- **'Government General Practitioner' Scheme:** Trained, IT enabled staff act as 'your guide to government'
- **Electronic terminals:** Allowing in-store computer access to all services, including government information, banking and Royal Mail products and services
- **POCA:** Enhanced with greater functionality
- **Passport interviews:** Secure future contracts
- **Routine transactions:** Rent payments (local authority and housing association); council tax queries and payment; congestion charge; payment for social service provision; meals-on-wheels; travel permits; leisure centre passes; parking payment; benefits and tax-credit applications and 'signing on'
- **Local authority consultations** (Micro-consult – aimed at improving response rates to local authority consultations has already been trialled)
- **Local authority communication with residents** (Local Connect – a service which provides local authorities with a means of communicating to local residents through kiosks, leaflets and plasma screens at local post offices – has already been trialled)
- **Information on local authority services**
- **Financial advice:** Debt and financial planning advice

- **Assistance with Government forms:** Recognition and extension of the role already played by the Post Office
- **Visas for foreign travel:** Application checking for standard foreign visas
- **Notification to local and national government departments:** For example, change of personal contact details or circumstances
- **Tax self-assessment:** Checking and processing of forms
- **Court claims**
- **Payment of court fines**
- **Access to bank accounts:** Universal access to bank accounts via the Post Office

The Post Office currently only accepts postal items and payment on behalf of Royal Mail and Parcelforce. This should be extended and also include postal items from other mail providers in order to increase Post Office revenue.

There is plenty of scope to improve services to small local businesses. In as many Post Offices as possible there should be a dedicated business counter that could service and advise small local businesses. A recent survey carried out by the FSB showed that 19 per cent of small businesses now spend a longer time queuing at the Post Office, following the last round of closures. Therefore a dedicated counter would be a welcome improvement.

The obstacles to a Post Bank, which would expand the Post Office's financial services include:

- Doubt in the public mind that the Post Office has the expertise to provide more mainstream, potentially complex, products such as mortgages
- The inability of the Post Office to advertise its products to the same visibility that banks can.
- The inability to invest in marketing generally
- The exclusivity of the deal with the Bank of Ireland
- Creating a Post Bank solely under the auspices of the Post Office may expose it to greater financial risk and market volatility

We do not underestimate the scale of these hurdles, but they are not insurmountable. The potential benefits of developing a Post Bank far outweigh the potential risks and obstacles. The Post Office also enjoys a huge advantage, which should not go unacknowledged. It has public trust and confidence which, uniquely, gives it the capability to become a very much larger financial services provider.

Even before the Post Bank proposal emerged, Post Office Ltd was planning to provide:

- A 'vibrant' small business service
- Consolidated call centres
- An 'integrator' model for products (provided by other companies but branded as Post Office)
- A current account (in partnership with the Bank of Ireland)

7. Access to business finance

Since the 2008 Budget the UK economy has entered a steep decline and small businesses have found themselves in the eye of the storm. Caught between contracting markets, late payments, increasing overheads and a sharp decline in access to finance, many small businesses have failed. Accountancy firm BDO Stoy Hayward estimate that 120 SMEs are failing each day.

There is concern that too many of these businesses were viable and had to shut down simply because of lack of access to finance. This is especially worrying as 54 per cent have said their trade has decreased in the past two months (FSB poll March 2009).

For small businesses, access to finance and cash-flow remain the greatest challenges in the current recession. Measures to boost bank lending have so far failed to meet expectations and many businesses are shutting down as a result.

Many of the schemes that Government has set up to help small businesses have not been as successful as was envisaged. The Prompt Payment Code is failing to attract signatories. This is a special concern as late payments are a real threat to small firms. The FSB continues to work closely with the banks in an effort to improve understanding of the small business community and to boost lending. However, the Coalition believes the Government must now look at measures to supplement bank lending and provide alternative sources of finance, banking and investment.

It is widely recognised that it is Britain's small businesses which will pull us out of recession, rather than the Government or the banks. A recent FSB poll showed 42 per cent of respondents in agreement, compared to 20 per cent who said the Government would.

In the same poll 53 per cent said that despite all the lending schemes, finance would not increase through the banks. This is why we believe a Post Bank would be an ideal institution to service the small business community with its national reach and local knowledge.

8. The need to tackle financial exclusion

The Financial Inclusion Taskforce, set up by the Government in 2005, is charged with considering solutions to the problems of:

- Access to banking
- Access to affordable credit
- Access to free face to face financial advice

The following terms of reference are proposed for the Taskforce in 2008:

To monitor and influence progress towards the Government's goal that people should be able to manage their money on a day-to-day basis, effectively, securely and confidently. This accompanies the Task Force goal of halving the number of adults in households without a bank account.

Post Bank would offer both the scale and the infrastructure to address the three key elements in tackling financial inclusion. It would provide links with credit advice agencies and with credit unions where appropriate; it would link with debt management schemes (Savings from Poverty is one example) and it could provide excellent financial advice and also the means for building customers' financial capability through links with system-based schemes like Fair Banking.[v]

The Taskforce argued (March 2009) that:

"Financial inclusion has never been more important to guarantee the welfare of vulnerable people than during periods of national and international economic difficulty. Recent pressures on the economy and the banking system will particularly affect the most financially vulnerable people. We therefore believe that more work is needed to mitigate the effects of the economic downturn on financial inclusion".[vi]

The big retail banks have failed fully to carry out their legal obligation to tackle financial exclusion. Primary legislation (Financial Services and Markets Act 2000) gives the Financial Services Authority statutory objectives which include financial inclusion. The Post Bank Coalition believes that the existing banks have not yet met these requirements. A Post Bank – designed to be locally based and widely inclusive – would enable the government to make real advances in combating financial exclusion.

The shared goal, agreed between the Government and major UK retail banks in December 2004, was to halve the number of adults without access to a bank account. The baseline for the shared goal was set by Family Resources Survey (FRS) data for 2002-03, according to which 2.8 million adults in 1.8 million households were found to have no access to a bank account.

In June 2009, HM Treasury produced the following figures but with the proviso that many of those asked to fill in surveys on banking inclusion do not reply.

According to these figures there was:

- An overall increase of 600,000 banked adults alongside the decrease of 120,000 unbanked adults.
- An overall increase of 400,000 banked households alongside the decrease of 90,000 unbanked households.

TACKLING FINANCIAL EXCLUSION

In March 2009, Transact, the national forum for financial inclusion, based at Toynbee Hall in London, came to the same conclusion, that a Post Bank can be a key solution to financial inclusion.

How might a People's Bank work?

- Marketing is crucial to take-up of basic banking services. Post Offices are in a good position to reach out to financially excluded people who visit their local post offices regularly to access other services.

- The Post Office could partner with other organisations engaged in financial inclusion, such as local credit unions. Post Offices could serve as access points for a range of other services, including those that promote and build financial capability.

- A social enterprise model should also be considered. Setting up a social enterprise bank would ensure that benefits went back to the Post Office and its users. www.transact.org.uk (4 March 2009)

Another measure of financial exclusion – the number of adults without access to a transactional (current or basic, not savings) bank account changed from 3.0 million (1.65 million in households that affirm that they have no account) in 2006/07 to 2.71 million (1.45 million in households that affirm that they have no account) in 2007-08.[vii] In 2003, under pressure from the government, banks created and promised to promote 'no frills' basic bank accounts, which offer no credit facilities and as a result could be opened without customers having to prove themselves as being credit worthy. These offer no interest, have a record of being poorly promoted, and – bank figures suggest – do not always act as a gateway to further financial products and greater inclusion. While figures from the British Bankers' Association [viii] suggest that these accounts are being accessed, the figures for the overall unbanked population suggest that those opening the accounts are not from the groups who are most excluded. Additionally, there are still issues with usage of these accounts, with some accounts lying dormant and others having all the money withdrawn from them in one transaction, arguably negating the benefits of being banked in the first place.

The picture is very different in Western Europe, where banking exclusion averages between one and five per cent. Each country has some form of obligation to encourage inclusion. We do not claim that the government has forgotten the problem of financial exclusion, or 'unbanked' people. The problem is that progress is too slow, as the Financial Inclusion Taskforce recognised.

We believe that the Government should commit to a Universal Banking Obligation and, in recognition of the fact that basic bank accounts offered by banks have not proven to be the hoped for panacea, we believe that a Post Bank could play the key role in delivering on this. It is not backward looking to reintroduce notions of mutuality, concentration on protecting savings, and the provision of impartial advice. Treating banking as a utility would be a step in the direction of re-instating some sound principles into the system.

9. Innovations at the Post Bank

- We propose a narrow bank, a simple bank. It should be obvious that these qualities would have enabled much of the currently bailed out banking system to avoid its recent crises.

- The Post Bank system will offer low interest rates to all concerned. It will not charge the poor (or 'riskier') higher rates; the relevant control should be over the volume of lending. Obviously there will not be high lending to low-income earners, but the bank will judge lending volumes based on income not risk. The Post Bank will not engage in securitisations, and will feel more like the old-model building societies.

- Saving interest rates will also be low. The Post Bank will offer security and transparency; savers will expect no miracles of return from interest.

- The Post Bank will be able to offer a bridging service for borrowers between small credit union loans and large loans from commercial banks. People will be able to build up their credit rating with Post Office loans.

- Post Bank should offer affordable socially-focused insurance, such as home and contents insurance. This could be targeted at the presently financially excluded.

- A Post Office current account, designed with the particular needs of financially excluded people in mind, but attractive to a wide enough customer base to allow for profit generation and cross-subsidisation of products. Current accounts and savings accounts with the Post Office should be linked to financial capability initiatives, such as the FSA's Moneymadeclear campaign.

- Partnerships with other organisations engaged in financial inclusion, such as local credit unions. Post offices can serve as access points for a range of other financial services including debt advice and financial management schemes which allow the poor to budget and pay utilities by direct debit weekly – thus escaping the punitive charges currently levied on cash payment. The organisation Savings from Poverty has a scheme in place, backed by the utility companies, which could be piloted.

- Post Bank will use technology which suits its customers through very low cost payments using mobile phones, along the lines of the highly successful Kenyan money transfer system M-PESA (actually developed by the British government). It will bring the benefits of this system, which has had a major impact on financially excluded people in Kenya, to people in Britain as well. This will provide safe, reliable payments, using cutting edge mobile phone technology, which will reduce the extra demand at Post Office counters and provide some of the basic financial underpinning for the Post Bank.

MOBILE PAYMENTS SYSTEM

The mobile payments system would:

- Reduce the need for extra cash holdings at post office branches. It will make it possible for excluded people to get discounts on utility bills now enjoyed by wealthier people on direct debit. It will be regulated as a Payments Institution, a new category of financial institution which becomes legally possible in November under the Payments Services Directive.

- Require reform of the Paypoint system, allowing people to text cash to ATM machines when they want to draw it out, or to Post Offices.

- Require changes to SIM cards by participating mobile phone networks.

- Give unique account numbers that people can take with them when they change mobile phones.

- Allow the ability to pay utility bills, without queuing, as is now possible in many other countries.

- Allow the government to pay simple benefits out in mobile payments, rather than by cheque, which will mean important savings for the Department of Work and Pensions, and the prospect of much bigger savings later.

10. Setting up a Post Bank

There are number of options that can be explored in order to establish a Post Bank:

Option 1: Using Northern Rock

The events leading up to the nationalisation of the Northern Rock bank have been well documented. It was taken into public ownership in February 2008. The government's shareholding in Northern Rock (it is the only shareholder) is operated through the Shareholder Executive, but rumoured to be moving to UK Financial Investments (set up by the government specifically for this purpose). It also runs the government's shareholding in Lloyds-HBOS (43% of shares), RBS (70.33% of shares) and Bradford and Bingley (the government nationalised the mortgage arm of B&B, while its deposits and branch network were sold to Santander).

Northern Rock made a pre-tax loss of £1.3billion in 2008. It is predicted to be substantially loss-making in 2009. In 2008, impairments on bad loans at Northern Rock totalled £894.4 million.

As a whole the bank deals with loans, mortgages and savings accounts, including current accounts. Following nationalisation, Chancellor Alistair Darling, ordered the bank to be split into a 'good' and 'bad' bank. The 'good' bank includes its branch network and a business including £20bn in customer savings, new mortgage lending and some older home loans. The 'bad' bank includes most of the home loans before the bank was nationalised. The government's plan is to eventually sell-off the good bank, and gradually wind-down the bad bank.

Credit Suisse, the Treasury's adviser has been sounding out a number of potential purchasers for the good part of the bank. In April 2009, the Financial Times reported that Virgin Money had revived its interest in purchasing this part of the bank.[ix]

Using Northern Rock as the basis for the new Post Bank is one option. The access to a banking license, mortgage services and banking expertise could equally well be provided by another trusted banking partner like the Co-operative Bank. But Northern Rock is available, wholly in the public ownership and seeking a future role.

We believe it is time that the public's faith in the banking system was restored by government acceptance that there will be no return to 'business as usual'. Using Northern Rock could be a powerful symbolic gesture by the government to show that it is determined to re-configure banking services.

A practical step would be to have a mortgage bank based on Northern Rock, with the Post Office marketing products, as it does now with Bank of Ireland products. The objectives of financial inclusion would be met by having the wide network of the Post Office open to the whole population.

Nevertheless, we do not support simply substituting Northern Rock for the Bank of Ireland in the existing commercial arrangement with the Post Office for financial services. This would allow Northern Rock to retain its share of the profit and could in future lead to Northern Rock being sold off once a healthy profit was being made. Any involvement of Northern Rock in the operations of the Post Bank should only involve the 'good' bank part of its operation. Any bad or toxic assets should be separated from operations. We envisage a permanent conversion of Northern Rock into a Post Bank, in which the Post Office has a controlling interest.

Using the Northern Rock systems and infrastructure to provide the basis of a Post Bank means that there will not be immediate problems licensing a new bank. Even so, the new Post Bank will have to meet the capital adequacy requirements which are laid down in EU law, depending on the size of the loan portfolio. Mortgages require less capital than ordinary loans, and if the Post Bank is to provide these loans on any scale, then Northern Rock will need to raise some extra capital in order to do so. This can be avoided if the Post Office agrees to ring-fence some of its own capital to satisfy the regulators.

Northern Rock could thus be re-branded, becoming part of Post Office Ltd. Post Bank and Northern Rock branches could be integrated into the Post Office Network where appropriate and staff transferred over. It is acknowledged that discussions would have to take place with the staff and their union representatives to ensure that any proposals were acceptable.

Option 2: Buying out Bank of Ireland's stake in the joint venture with the Post Office

While a government-financed buy out of Bank of Ireland's share of the joint venture would come at a short-term cost, the long term benefits of such a bold move could be substantial, making a considerable impact in combating financial exclusion and securing the future of the Post Office network. The joint ventures between the Bank of Ireland and the Post Office – Post Office Financial Services (POFS) and First Rate Exchange Services (FRES) – together brought in £34 million in profit for the Post Office in the year to 31 March 2009. However the benefits, and potential income for the Post Office, could be much greater if it had sole ownership of the venture.

UK Financial Services – the division of Bank of Ireland which incorporates its joint ventures with the Post Office (together with a branch network in Northern Ireland and Business Banking in UK) made an operating profit of £351million in the year to 31 March 2009.

Customer accounts in this division (mainly those held through POFS) grew by 15% from £17 billion to £19billion. This was driven by strong growth in deposits in POFS. In the year ending 31 March 2009, POFS had over 2m customers, delivering deposit growth of 136% year on year.

Customer Financial Services, which comprises a number of business activities with POL (mainly POFS and FRES) and some smaller retail businesses, delivered a profit of £48 million in the year to 31 March 2009 (compared to £46m in 2008).

While the partnership with Bank of Ireland has been crucial in re-establishing the Post Office's profile and role as a provider of financial services, we believe it has now come to the end of its useful life. It would now be desirable for the Post Office to take sole ownership of its financial services. Given the increasing popularity of the Post Office's financial services, we do not believe it is acceptable that half of the profits from the services are leaving the UK economy. Moreover, there are indications that the future of the Irish banking system is all but secure.

A number of Irish Banks, including Bank of Ireland, have recently been downgraded by the leading credit ratings agencies, provoking calls for the Post Office to re-evaluate its relationship with it. For, example, Liberal Democrat Treasury Spokesperson, Lord Oakeshott, has expressed strong concerns about the security of the Bank of Ireland and the viability of the future relationship with the Post Office. He has suggested that the Post Office seek an alternative partner for its financial services, possibly Northern Rock:

"The UK Treasury must learn the lessons from Iceland and stop turning a blind eye to the issue. It is now time for the Post Office to seriously re-evaluate its commercial relationship with the Bank of Ireland. It is essential that Post Office customers can be confident in the security of their savings".[v]

These comments have followed earlier suggestions that there were 'worrying parallels' between Ireland and Iceland, and that the Irish banks were in 'dire straits'.[xi] Savings in POFS are not covered by the UK Financial Services Compensation scheme, in case of bank failure. Savers in POFS are instead reliant on an Irish government guarantee.

A buy-out by the Post Office of Bank of Ireland would have parallels with the operation in 2008 which saw Tesco buy out its joint venture with Royal Bank of Scotland. The profits of the joint venture – Tesco Personal Finance were £206 million in 2007 and around £240 million in 2008. The buy out (of the 50% RBS stake) cost Tesco around £950 million.

Option 3: Incorporating National Savings and Investments into a new Post Bank
National Savings and Investments has its origins in the Post Office Savings Bank set up in 1861. It was separated from the Post Office in 1969. It has developed a range of savings and investments over the years to suit the market and meet the needs of customers and the UK Government's need for funding. The Post Office has remained a significant distribution channel for NS&I products.

As of 31 March 2008, the amount invested in NS&I was £84.8bn. NS&I is one of the UK's largest savings and investments providers, with 28 million customers and offers retail savings and investments that are 100% secure, backed by HM Treasury. Its total balance of funds represents about 16% of the national debt.

Sales for the year, including reinvestments, reached £15.5bn, up 9.9% from £14.1bn in 2006/07, due primarily to unexpectedly high levels of customer interest and investment in NS&I products as a result of the concerns about the security of the UK banking sector at the end of 2007. NS&I total funds grew by £5.9bn, compared to growth of £5.6bn in 2006/07.

Sales through the Post Office were £7.7billion in 2007-08, up from £7.2billion the year before. As noted in the NS&I annual report, this reflected the continued preference by many customers for face-to-face counter and postal transactions, demonstrating the value the Post Office provides in offering trusted, traditional routes to NS&I products and information.

NATIONAL SAVINGS & INVESTMENTS SALES

	2007/08	2006/07
Internet Sales	£2.8bn	£2.4bn
Telephone Sales	£2.6bn	£2.2bn
Post Office Counter Sales	£4.3bn	£4.4bn
Post Office Postal Sales	£3.4bn	£2.8bn
Direct Postal Sales	£0.3bn	£0.6bn

National Savings and Investments could be brought under the broader umbrella of the Post Bank, given the amount of its business that goes through the Post Office. NS&I assets could be used to give the Post Bank a greater financial security

Option 4: Mutual Banking and Trustee Savings Banks

Post Bank offers the prospect of capitalising on a rich but neglected history within British banking, that of mutual banks and not for profit models such as the original Trustee Savings Bank (TSB). Historically it has not always been the case that to be an effective institution a bank has to be shareholder-owned and motivated by profit. Nor is total state control the only alternative to such a bank public sector. Assuming either ignores the UK's pioneering history of co-operative and mutual structures, in the banking sector and beyond, as well as certain key institutions in today's financial landscape.

There is a case for a mutualised structure: The mutual banking model evolved in the early 1800s precisely better to serve customers by making clients the owners. The co-operative principle is the realisation of a true stake-holder approach, as opposed to the profit-focus of shareholder ownership. In evidence to a 2006 parliamentary enquiry, Northern Rock insisted that their success of the past eight years would not have been possible under the old mutual model. Less than two years later, the Rock was bankrupt.

Some banks have benefited from customer trust and acumen. The Co-operative Bank has seen record growth in deposits and transfers from high street banks as depositors have chosen an alternative model of banking. Legal structures exist that are able to support complex co-operative businesses, often incorporated as companies limited by guarantee through industrial and provident society legislation.

The retreat from these mutual and trustee models, accelerated by the Building Societies Act of 1986, culminated in a much-reduced mutual sector. It is now evident that the price paid in terms of stability and equity for users of financial services has been too high.

The Way Forward

The future of Northern Rock is a policy question that requires a solution, as are the questions of how to safeguard the future of the Post Office network and promote financial inclusion in the UK. Option 1 would provide a desirable solution on all these questions. Northern Rock would become part of the Post Bank, created as part of Post Office Limited, and branches could be subsumed into the Post Office Network where appropriate.

However, this would still leave open the question of whether or not the Post Bank could operate side by side with the existing joint venture with Bank of Ireland. Could there be a division of responsibility and services between the Post Bank and POFS or could the two be combined? This might create unnecessary complications and still leave in place an unsatisfactory model in which significant profits from Post Office banking (which could be ploughed back into Post Office Ltd) were flowing out of the UK into the Irish banking system. Moreover, the poor credit rating of the Irish banks and the precarious situation in the Irish banking system does not bode too well for the future security of this arrangement.

There has been a dramatic upsurge in interest in the UK in banking at the Post Office, as demonstrated by the considerable deposit growth over the last year. Consumers are increasingly looking for a trusted local alternative to the somewhat discredited high street banks. But the present arrangement means that the Irish banking system is reaping the benefits of this growth in customer accounts at the Post Office, when a new arrangement could see the profits from Post Office banking being ploughed back into the Post Office network. Buying out the Bank of Ireland's share of POFS will give it a more stable future, and one guaranteed to benefit the public interest, serving community need.

While taking sole control of its financial services might expose the Post Office to greater market volatility than would be the case as part of the joint venture, the potential risk of this is outweighed by the potential benefits. Moreover, at a time of market volatility – given the current recession and in the wake of the banking crisis, it is notable that customers have been flocking to Post Office financial services, due to its image as a trusted and secure local institution.

If the UK government is serious about securing the future of the Post Office network, then a bold decision to support a buy-out of the Bank of Ireland's stake in POFS would be a significant step towards doings so. It would have a short-term cost, but provide long term investment in the security of the network. Such a move could also have a considerable effect in terms of benefiting and revitalising local communities and small businesses and combating financial exclusion, and provide a beacon for a new model of banking, grounded in local communities and committed to the public interest.

Furthermore, while NS & I is already running rather successfully as a stand-alone operation, the question of whether its assets could be brought into a Bank model (option 3) should be subject to further examination, once the principle of a Post Bank, incorporating existing publicly owned institutions and taking sole ownership of existing Post Office financial services, is accepted.

We would also urge serious consideration of the principles of mutualisation and trustee governance in the setting up of Post Bank (option 4). This means taking seriously the models of mutuals and of the Trustee Savings Bank.

The future models of banking will be very different from those we currently use. It is not our intention simply to re-invent banking models from a generation ago.

Overcoming the challenges

The Post Bank will not be a player on the wholesale markets. But it will make sense for it to use the interest rate swap market to manage its risk, to make sure that it can use its variable rate deposits to finance fixed rate loans without risking major losses if interest rates change. In this respect, the new Post Bank will resemble the old building society model. It is not our objective to compete with the remaining building societies: instead, our plan is that the Post Bank should be able to sell joint products with other building societies – and with credit unions – through the Post Office network.

The main challenge for the Post Bank is that, by tackling financial exclusion, it will be more vulnerable to economic downtowns and failing loans than other financial institutions. There is clearly a risk that it will simply inherit clients that nobody else will lend to. We do not believe this is an objection to the launch of the Post Bank, for the following reasons:

- The financial crisis was caused not by risky lending but by the instability of the financial system
- The evidence suggests that the market for small business loans, for example, is very far from saturated. The big banks have largely abandoned the market, so the Post Bank will not necessarily find itself servicing only the most risky.

- Because of its national reach, Post Bank will be able to offset the risk in some sectors and regions against others
- The m-payments system will very much reduce the cost of providing basic banking services to the unbanked, and will also attract young people in search of innovation and convenience.
- The criteria for lending will necessarily have to be strict. The Post Bank will be able to afford only low default rates, and will lend accordingly.

Governance and ownership

We want Post Bank to be set up in the public sector, with the kind of modern, accountable structure that the Turner Report demands. We would suggest that the Post Bank be established as a not for profit organisation, with profits returned to the business, with access to both government and private funding. It would be free of government control or interference, would be able to borrow on the open market, would be able to hire from the best of private sector management and would have a clear public service remit.

We would also recommend a continental model for the board structure, with employees and other outside membership of the supervisory board. In Germany, companies are run by two boards – one management and one supervisory – which includes employee representation. The Post Bank would then be driven by the long term interests of its stakeholders: bond holders, employees and customers.

Post Bank with a remit to be as inclusive as possible would sit well with the consultation launched by the European Commission in February 2009, on how best to make sure every EU citizen has access to a bank account.[xii]

11. Conclusions

The Post Bank Coalition now calls for a Post Bank to be set up, to underpin the Government's promise that there will be no more Post Office closures, and to ensure that the Post Office survives by thriving. We now have 12,000 post offices, approximately half of the number which existed 20 years ago. This unique, popular and trusted network must be strengthened and modernised.

We urge the Government to acknowledge the extent to which its objectives of financial inclusion, diversity in the retail banking system, support for strong local economies, and the long term sustainability of the present Post Office network, could be met by creating a Post Bank.

The Government should now take the next step, by establishing a Working Party to examine in detail the business and social case for Post Bank and produce by the end of 2009 a business plan for its creation.

The Post Bank Coalition genuinely believes that this proposal would have popular support from the UK public.

Appendix: Current Post Office products

The following is a list of Post Office products, currently operated in conjunction with the Bank of Ireland (BoI); all of which are either provided directly, or provided by a third party through joint ventures with BoI. Unless stated, all are provided by BoI directly:

Savings Products

Instant Saver	
Growth Bonds	
5 Year Saver	
Maturity Account	
Cash ISA	(Family Investments although all deposits with BoI)
Investment ISA	(Family Investments)
Child Trust Fund	(Family Investments)

Lending Products

Credit Card	
Mortgages	(Standard and Buy to Let variants)
Personal Loans	

Insurance Products

Car	(BISL)
Home	(BISL)
Van	(BISL & Norwich Union, now Aviva)
Motorcycle	(Devitt)
Pet	(Axa)
Life	(Norwich Union, now Aviva)
Over 50s' Life Cover	(Norwich Union, now Aviva)

Other Financial Products and Services

- **Post Office Christmas club**: By providing customers with a plastic card budgeting service, POL allows them the chance to put aside money in an easy and flexible way to help them budget for Christmas expenditure (Gift Voucher Shop).

- **ATMs**: POL manages circa 1,660 'Free to Use' ATMs. These are owned by the Bank of Ireland and covered by a commercial arrangement with the Bank of Ireland. They are situated both inside and outside Post Office branches and at other convenient locations.

- **Post Office Banking**: POL provides over the counter banking services (i.e. accepts deposit and withdrawal transactions and can answer queries) for both personal and business customers of Bank of Ireland in the UK. (Note: The Post Office also offers free access to cash for personal current account customers of twelve UK banks and for basic bank account holders of a further five banks)

- **Bureau de Change**: A jointly (50%) owned 'Joint Venture' in which POL provides foreign currency exchange with 0% commission and competitive rates for customers for over seventy different currencies.

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