

Cross Party Group on Monetary Reform

Annual General Meeting

12.15pm, February 10th 2015

Conference Room 24, National Assembly for Wales

Subject: 'Rural Wales: The Land that Banks Forgot'

Guest Speaker: Prof. Nicholas Ryder, Bristol University of West England

Attendees

Akmal Hanuk AH from Islamic Banking Finance Centre

Anthony Slaughter (AS) Green Party candidate for Cardiff South & Penarth

Bill Hudson (BH)

Chris Stoodley (CS) Credit Unions

Daf Wyn Williams (DW) Independent

Dean Coombes (DC) Awesome Cardiff

Gennie Rose (GR) 010 Vision Media Production

Gruffydd Meredith (GM) Arian Cymru

John Waters (JW) Robert Owen Community Banking Fund

Jonathan James (JJ) Independent

Josh Miles (JM) Federation of Small Business

Laura Nunez (LN) Independent

Martyn Ford (MF) Independent

Meirion Morgan (MM) Gorwel

Rhian Marie Thomas (RMT) Barclaycard

Richard Kite (RK) Positive Money

Tianshu Zhao (TZ) Cardiff Business School

Justin Lilley (JL)

Darren Millar AM (DM)

Russell George AM (RG)

Main talk

NR: Thank you for inviting me. Since the financial crisis and even before I have taken a special interest in access to credit. We have experienced an era of irresponsible or socially harmful lending following a period of deregulation and an explosion in access to credit. However, the situation now appears to be slowing e.g. JP Morgan Chase have shown a reduction in mortgage originations to \$16.8 billion (66% of what it was a year ago).

Looking at the evolution of consumer credit it is worth noting the changes in legislation. There has been convenient credit but this was often expensive and could lead to over-indebtedness. The focus now is moving towards 'affordable credit'. Being simple and transparent, affordable credit is very different to what pay-day lenders offer, having (formerly) uncapped interest and complicated terms with very little consumer protection.

Convenient credit did cause a 'dark side' where sections of society were becoming financially excluded, unable to access certain services for various reasons e.g. technology, information, credit rating, savings, willingness to speculate, etc.

The UK has very high private/personal/household debt figures with the total increasing every 5 minutes by on average £152 million. Credit card debt currently stands around £61 billion in UK.

For those unfortunate enough to be unable to repay they become trapped in a debt spiral that is virtually impossible to escape from.

Should we blame the Banks? Banks do what they are supposed to do. They are under no statutory obligation to maintain a branch network, to educate their customers or offer advice on debt management or to benefit society as a whole – the purpose of a private bank is to provide services and to make profits for shareholders.

On the lead up to the financial crisis banks were behaving in irresponsible and predatory ways, offering loans without proof of income or in some cases they knowingly lent to a borrower that would be unable to repay. For others it may have been something like store cards that led to financial mismanagement and debt.

In 2012 the FSA identified deliberate targeting of vulnerable, aggressive/disproportionate fees as unlawful and discouraged this sort of behaviour. As a result a number of banks have undergone rebranding exercises e.g. Lloyds TSB, Barclays, etc.

However, it seems inevitable that many high street banks will close as services are increasingly accessed on mobile or online devices.

Credit Unions offer a worthy alternative but have not been appreciated since 1998. Credit Unions are for *everyone* who is a member of the Common Bond. It is a common misconception that Credit Unions are banks for poor people. This is untrue and efforts must be made to redress the balance in perception and to create a more positive and worthwhile image.

In the USA, Credit Unions play a pivotal role offering a quarter of mortgages. Following the economic crises and recession Credit Unions have proved far more resilient than banks and have managed to sustain growth over this period.

Scotland has an established network of Credit Unions and Wales is growing in this department but more still needs to be done.

To deter further irresponsible lending the OFT has introduced new fines. Whereas they were limited to £50,000 they are now unlimited in the UK. This follows the pattern set in the USA where massive fines have been issued up to \$17 billion.

In conclusion, though firms such as Wonga have not faced fines from the FCA they have been forced to limit interest rates and some of their fees. However, pay-day lenders are still permitted to function. What is worrying is how they target poorer communities and exploit people on low incomes. These people are excluded from conventional finance and forced to seek out alternatives that are borderline extortion.

A possibility for Wales, like in the USA is to have a network of community banks that supply branches and banking services. Alternatively, greater emphasis placed on financial literacy could lead to greater inclusion and access to more diverse services.

(Slides of the presentation and supporting documentation can be provided on request)

AGM Business

DM: Thank you to Prof. Ryder. The CPG was set up to identify problems and build consensus on means of redress and to tackle injustices that we face as a result of the current monetary system. As today is our AGM can I seek nominations for the role of Chair of the group?

RG: I nominate Darren Millar.

DM: In the absence of other nominations I am prepared to accept the nomination. Are all content?

All: Yes

DM: We also need to appoint a Secretary for the CPG. I have received a nomination for Justin Lilley. Are there any other nominations? I can see that there aren't. Are all agreed to appoint Justin?

All: Yes.

DM: Thank you. We will now open the floor for questions.

Questions and discussion

DW: What are the difference between UK and USA with regards to Credit Unions?

NR: The first Credit Union in the USA was 1809 and there has always been a general dislike of banks. In 1998 when there was talk of changing interpretations of the Common Bond, over one million people marched on the White House to demand the decision be repealed. In the USA there are a

plethora of services Credit Unions can offer for diverse groups of customers. UK Credit Unions have evolved over a lesser period and has a less robust system but just as much potential for dynamism.

JM: Is the role of Credit Unions across Northern Ireland and the Republic of Ireland [for social harmony and cohesion] an example compared to Wales? Are the wider issues caused by the 'big 5'?

NR: Northern Ireland is not eligible for certain guaranteed measures allowed by the flexible bank framework so this could be a reason why Credit Unions are a more popular option. To look at competition law in the banking sector should be a priority for UK Government [Competitive Markets Authority est. 2014]

RG: There have been three bank closures in Montgomeryshire recently, what has been lost? What are the gaps in the market? What stops banks working together?

NR: People need confidence to discuss finance. They need to put trust in the person or institution. With more mobile technology there is scope to utilize spaces like libraries, post offices, etc. One of the initiatives that worked in the US was the Community Reinvestment Act ensuring banks maintain branch networks where as the UK has tended to focus on issues of compliance and risk management.

DM: 46% bank closures applied to Wales would be devastating. Moving towards a balance between minimum service and universal access will be important.

AH: The FCA does not allow SMEs access to the amount of capital they need through Credit Unions. There is a convergence between Credit Unions and Islamic Finance on ethical principles and maybe good mutual partners to scale up lending for enterprise do you think? Maybe the CDFI model is useful?

JW: The Community Finance solution is based on a partnership model and aims to provide synergy for Credit Unions. Cliff Rosenthal, Pat Conarty, Mick Brown and many more are active in this area. Problems include competition for grant funding. We do not need to reinvent the wheel just appreciate what we still have, fill in the missing pieces and get nodes talking. Credit Unions need to co-operate with other co-operators.

NR: Legislation for Credit Unions in the Irish Republic is of use to SMEs acting as co-operatives providing member and business loans. In the US Community Development Credit Unions were established to support "sinker States" and create lending for social reform so they can offer higher risk loans.

MF: The UK seems punitive in law of default, repossession and bankruptcy compared to elsewhere. The UK there is a six year time delay compared to only two years in the rest of the EU. Can predatory lending lead to long term or permanent harm to individuals and communities? Are fines a token gesture?

NR: It is worth looking at contravention of ECHR. There needs to be some accountability. Banks are profit driven so fines will hurt their profits unless they are able to pass on the cost to customers.

CS: Lenders want fast growth, are social lenders looking at long term productivity benefits?

NR: It is about educating people to have a more mature and sensible attitude to finance, to encourage savings, efficiency and enterprise. It is looking beyond short term profit towards the long term net benefits to Wales. Unless we educate people culturally they will use credit cards.

CS: Have changes to bankruptcy law helped now people do not have to wait as long to start rebuilding their credit rating?

NR: Bankruptcy is not the answer - we do not want to encourage that approach. We instead need an ethos of earning and saving. Mckensie (1974) predicted CCJs would be detrimental to society. The answer is re-education of the public and a re-constitution of finance – the Big Bang for people and communities.

JJ: Do the household debt figures account for mortgage debt?

NR: Yes, information on figures can be found at credit action. In the future we may be looking at another perfect storm.

JW: Credit Unions are obliged to educate, the problems are in serving the needs of the financially excluded. Lending to SMEs is key to sustainability. Could we not cap profits not interest?

DW: How do we educate young people when they are thrust into debt for university degrees?

NR: Universities should be a prime market for Credit Unions as both borrowers and savers.

RP: It's not just people that could be more financially literate; businesses would also benefit hugely but they are often left financially excluded because they are assumed to have the required knowledge and to access services as they need. Most do not realize they are able to pool and leverage pensions and to lend to other businesses.

DM: We appear to have hit on two key issues

- 1) Support for Credit Unions to reach out beyond static markets.
- 2) Financial literacy will be incorporated in the Future Generations Bill with Bethan Jenkins AM invited to contribute now she has withdrawn her own Bill for Financial Education and Inclusion.