



Advice NI Briefing Paper:

Inquiry into the NI Banking Financial Services Landscape

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Advice NI Briefing Paper for Inquiry into the NI Banking and Financial Services Landscape 2025

Introduction

Advice NI's interest in this Inquiry comes from our direct experience of financial exclusion – which is pervasive in NI – and our desire to find upstream solutions to this and other financial challenges.

Advice NI provides leadership and services to our 65 member organisations. We support our members in their delivery of high-quality advice services by working with them to enhance standards and service delivery; acting as a voice for the independent advice sector; and working in partnership to develop and deliver advice services. Advice NI members offer free, independent, high-quality advice on issues such as benefits, debt, housing, employment, disability, and community care. Advice NI also delivers a range of advice services to the public including in benefits, personal and business debt, the EU Settlement Scheme, and Tax Credits and other HMRC services. We offer a wide range of award-winning training, online and face-to-face, accredited and non-accredited, and we campaign on issues raised by the independent advice network to improve the lives of people in NI.

In 2022/2023, the independent advice network dealt with 260,474 enquiries, and claimed back £74 million to help reduce poverty. The Advice NI welfare changes helpline dealt with 16,645 social security enquires from 7,883 clients, safeguarding the well-being of vulnerable individuals and families. Our personal debt service assisted 3,601 clients in managing nearly £32.9m of debt, empowering individuals to regain control of their finances. Our Business Debt Service guided and supported 118 business owners in resolving £7.3m of debt, helping preserve small businesses and livelihoods. Our policy and information team assisted in shaping key public policies for the better, providing 375 responses to complex adviser queries, producing 16 social policy briefing papers, and submitting 11 consultation responses. Advice NI's training team developed and co-ordinated 42 new courses and delivered 425 training sessions, enhancing the skills and knowledge of 3,123 participants. And Advice NI handled 3,845 HMRC enquires, and dealt with 492 Historical Institutional Abuse enquires.

As mentioned above, Advice NI's interest in this Inquiry comes from our direct experience of the serious harm caused by financial exclusion and our desire to find practical and sustainable remedies to this and other financial problems. Financial exclusion has been exacerbated by the recent trend of diminishing banking services and it disproportionately affects many of the people who avail of independent advice services. Financial exclusion is recognised as a contributor to poverty. In NI, 10% of people have no bank account at all¹, and most of those are on low incomes. Commercial banks have the right turn away potential

¹ <https://www.consumercouncil.org.uk/sites/default/files/2018-08/Research%20Report%20-%20NI%20Financial%20Services%20Project.pdf>

customers who are in financial difficulties or who are not financially attractive, thus excluding people with diminished financial means from mainstream financial services.

The lack of a bank account is a further disadvantage because of the ‘poverty premium’ i.e. paying more for essential goods and services due to missing out on discounts when settling bills through direct debit. And without access to conventional credit, people are more likely to turn to high-interest credit such as payday loans or even loan sharks². And financial exclusion doesn’t only have a financial impact. The Financial Inclusion Commission has said that it “affects education, employment, health, housing, and overall well-being”³.

Financial exclusion is harmful, as are the wider problems surrounding banking and financial services, and Advice NI looks for ways in which the worst impacts of these problems can be mitigated and hopes and expects that this Inquiry will result in tangible outcomes.

Problems with the current financial landscape

The concerns identified in the Terms of Reference for this Inquiry, i.e. the loss of bank branches, access to cash and face-to-face banking services, have been well documented elsewhere and by others giving evidence to this Committee. We won’t go into the statistics here, other than to say that these losses are stark – there are three constituencies in NI who have just two branches each; some constituencies in Britain have no branches at all; and the closures are continuing⁴. Rather, we’d like to take this opportunity to point to a wider issue that is at play. Commercial banking services are part of the broader global financial system, a system that is out of control, and certainly out of our control. The deregulation that was at the heart of the 2008 crisis still goes on today unabated. That crisis should’ve forced banks to focus more on nurturing local economies and less on speculative investments abroad. Tighter regulations should’ve been introduced to prevent a repeat of 2008. Unfortunately, that didn’t happen to any great extent⁵. To this day, the risky investments, the extractive profits, and the exorbitant executive salaries and bonuses exist to the levels they did pre-2008.

Because of this global financial system, vast amounts of wealth are extracted from local economies and concentrated in the hands of a small section of society – corporations, extractive industries, bankers, financiers, speculative investors. This happens at the expense of people, the environment, and the real economy.

In NI, the wealth generated locally – from employee salaries, business transactions, public sector employers and charities, public procurement, pensions, etc. – is deposited in commercial banks. For example, £billions are deposited in commercial banks through

²https://www.consumercouncil.org.uk/sites/default/files/original/39156_Banking_on_Change_Report_FINAL.pdf

³ <https://www.financialinclusioncommission.org.uk/facts>

⁴ <https://www.which.co.uk/money/banking/switching-your-bank/bank-branch-closures-is-your-local-bank-closing-ayYyu4i9RdHy>

⁵ <https://foe.scot/wp-content/uploads/2017/08/Banking-for-the-Common-Good-1.pdf>

current and savings accounts of individuals, indigenous small and micro businesses, farmers, community and voluntary groups, and charities. The deposits that aren't loaned to customers are mostly invested outside the region for the purposes of chasing profits for shareholders. In 2019 alone, Ulster Bank had deposits from savers in NI of £7bn but only loaned out £3.6bn. The remaining £3.4bn of local wealth was invested outside the region. To put this sum in perspective, £3.4bn is nearly double the 2020/21 budget for the Department for Communities and the Department for the Economy combined. As of the second quarter of 2024, savings in the Credit Unions were around £1.7bn⁶. Almost £1bn of that had not been loaned to members and most of that will have been deposited with a commercial bank. Then there's the local government pension scheme administered by the NI Local Government Officers' Superannuation Committee (NILGOSC) which has a value of around £10bn. It's difficult to know how much, if any, of this is being invested in the local region. The same is true for Civil Service Pensions NI.

What this cursory snapshot shows is that we are far from being a heavily dependent, impoverished region. If we think about it, our problem really isn't lack of wealth but lack of access to that wealth. Our wealth enters the global financial system through commercial banks and is then mostly invested outside the region, not in our local region or for our benefit. Our priority should be to prevent this wealth leaking out of the region and into the global financial system.

The global financial system is motivated by profit-maximisation. Commercial banks pursue profit for their shareholders beyond all else and in fact, are obliged to do so under law. The needs of their customers are usually at odds with the necessity to pursue profit. This creates a very clear conflict of interest between commercial banks and local communities, and this is why banks will not always respond to situations in ways that act in the best interests of the customer or the community.

The NI banking sector is dominated by six 'too-big-to-fail' commercial banks⁷. Britain and the south of Ireland too are monopolised by four or five banks, with the big five banks⁸ controlling around 85% of the British banking market, making it one of the least competitive markets^{9,10}. UK-wide, 92% of personal current accounts, 85% of mortgages, and 88% of small business accounts are owned by commercial banks¹¹.

The big banks offer similar products and services, differing only in superficial ways. And customers are regularly overcharged for services or mis-sold products they don't need¹², all in the pursuit of profit. An unhappy customer has little choice if the products or services of one bank aren't appropriate for their needs, because moving to another bank will likely mean more of the same.

⁶ Credit Union quarterly statistics, UK government and Bank of England

⁷ Ulster Bank (subsidiary of Royal Bank of Scotland), Bank of Ireland, AIB, First Trust, Danske Bank and Santander

⁸ HSBC, Barclays, Lloyds, Royal Bank of Scotland and Santander

⁹ <https://www.civitas.org.uk/content/files/StreetCred.pdf>

¹⁰ <https://foe.scot/wp-content/uploads/2017/08/Banking-for-the-Common-Good-1.pdf>

¹¹ https://neweconomics.org/uploads/files/46fc770bd9488eeb31_q6m6ibhi5.pdf

¹² https://neweconomics.org/uploads/files/BUILDING_A_NEW_ECONOMY.pdf

Lending to small businesses is consistently low and commercial banks are criticised for failing to serve SMEs¹³. SMEs make up 99.8% of our businesses in NI; they employ 77% of the private sector workforce; and are responsible for over 70% of private sector annual turnover¹⁴. To say SMEs are crucial to our local economy, is an understatement. Yet, lending to SMEs is £4bn less today than it was in 2014. Adjusting for inflation, that equates to £6.5bn less lending to SMEs, which is £6.5bn less investment the local economy¹⁵. Often a small business may only want to borrow a small amount of money for a short period of time to get over a temporary financial hurdle. A flexible overdraft or small short-term loan may suffice. However, the lending systems that commercial banks have in place are not SME-friendly and require a lot of paperwork that many very small businesses simply can't provide. Onerous systems are needed when lending is not done on trust at a local level where relationships can be built.

Relationship-banking, where trust is built between the bank and its customers, has practically disappeared. Banks have replaced local decision-making which was based on trust and local knowledge of customers with centralised services and machine-generated decisions. Trust works both ways and today's customers are more sceptical of banks. Pre-2008, banks were generally viewed as safe and as acting with integrity. That view has changed. A UK survey in 2018 showed that two thirds of people didn't trust banks to work in the best interests of society¹⁶. We still bank with them, not because we trust them but because we have no alternative.

The climate crisis, as well as a decade of austerity, are causing more of us to think about the social and environmental impact of our economy and of our individual actions. There's a greater realisation too that we can have viable enterprises and a healthy economy while simultaneously prioritising the needs of society and our environment. The two are not mutually exclusive. However, banks motivated solely by profit will find it a challenge to support that position¹⁷.

A possible solution

A core issue comes down to how we get access to and control of our wealth. Advice NI believes that one answer lies in the creation of a mutual regional bank, and we support the Northern Mutual bank campaign¹⁸, a campaign created to establish a mutual regional bank in NI. A mutual regional bank is a challenger bank that offers a genuine alternative to

¹³ <https://www.civitas.org.uk/content/files/StreetCred.pdf>

¹⁴ <https://www.gov.uk/government/statistics/business-population-estimates-2024>

¹⁵ <https://www.ukfinance.org.uk/data-and-research/data/sme-lending-within-uk-postcodes>

¹⁶ <https://yougov.co.uk/topics/finance/articles-reports/2018/08/29/ten-years-after-financial-crisis-two-thirds-britis>

¹⁷ <https://www.edelman.co.uk/research/edelman-trust-barometer-2019-uk-headlines-communicators>

¹⁸ <https://www.northernmutual.co.uk/>

existing commercial banks and is governed by rules different from those governing commercial banks^{19,20}.

How it's different

- ✓ **Mutual:** A mutual bank is owned and controlled by its members who must live in or have a strong connection to the local region. The bank's Board is elected by the members and must answer to them – there are no faceless, unaccountable shareholders living outside the region.
- ✓ **Regional:** A mutual bank is licensed by the Bank of England to operate within the physical boundaries of its defined region, serving the needs of the people and the economy in that local region, with lending permitted in the local community and nowhere else. This means a mutual bank retains the wealth generated in its region for the benefit of the people and communities living there.
- ✓ **Not driven by profit:** A mutual bank is not profit-driven, it is purpose-driven. Its purpose is to serve the needs of the local region. And while it aims to make a profit, called a surplus, it does so only to be sustainable. Because it's not driven by profit, a mutual bank doesn't pay bonuses or incentives to executives and has a more equitable salary structure than commercial banks.
- ✓ **Ethical lending:** A mutual bank is an ethical lender. Being not-for-profit, the bank can make lending and investment decisions that put the economic, social and environmental interests of the local region first. It can prioritise lending to SMEs and business start-ups. It can promote lending to worker-owned co-operatives since positive social and environmental impacts are core to co-operating principles.
- ✓ **Financial inclusion:** A mutual bank promotes financial inclusion because membership is open to anybody living in or connected to the region regardless of financial means. A mutual also endeavours to return banking services to communities by increasing access to cash and branches through staffed and automated branches (see below for more on automated branches), and by reversing the current trend of branch and ATM closures, especially in rural and disadvantaged areas.
- ✓ **Trust:** A mutual bank makes lending decisions at local branches, and builds up relationships with members, getting to know them, their families, and their particular circumstances, thus helping to build trust.

Services offered by a mutual regional bank

- ✓ **Standard banking services:** A mutual bank offers all the standard services offered by any bank: personal and business current accounts, overdrafts, business loans, debit cards, mortgages, electronic payments, foreign exchange. Current accounts have a

¹⁹ https://neweconomics.org/uploads/files/46fc770bd9488eeb31_q6m6ibhi5.pdf

²⁰ <https://www.csba.co.uk>

‘jam jar’ feature, allowing money to be set aside for essential bills into different sections within a single account. This feature helps people better manage their finances. In addition, current accounts also earn interest for members, something that typical current accounts don’t offer.

- ✓ **Online banking:** A mutual bank offers Internet and mobile banking. Most people take online banking for granted and are deterred from banking with institutions that don’t provide such options. A mutual will offer this as standard.
- ✓ **Access:** A mutual bank offers a branch network of both staffed and automated branches. In automated branches, a machine not unlike an ATM gives members access to all the usual online banking services, but it also gives members the option to make a video call to bank staff if they need to talk to someone. None of the commercial banks in NI offers automated branches. These branches could operate out of existing community facilities e.g. a community centre, a local shop, a local Credit Union, a local Post Office, etc., and so don’t incur the same running costs. This is a way of getting banking services back into communities without excessive overheads. Of course, automated branches would operate under tight security, just as ATMs do.
- ✓ **Money-saving:** A mutual bank offers a QR code feature for current and business accounts. One objective of a mutual bank is to increase the amount of money circulating within the region and reduce the money leaking out. The use of debit cards to pay for goods is a significant drain of money away from a region. These cards use an external payment system, e.g. Visa, Mastercard, which extract a small part of the payment. In many instances it is the recipient who pays the charge, and for low value payments this charge can be a remarkably high percentage. For example, PayPal charges between 2.9% to 1.5% for every transaction, e.g. for a £5 spend minimum, there’s a £0.175 charge. For some businesses, this amounts to £thousands annually. But a mutual bank has a local payment scheme that works using QR codes and a mobile phone app. When a customer and a business are members of the bank, a QR code (displayed in the business premises or on a bill) is scanned using the bank’s online app on their phone and the app makes the payment simply and securely at no transaction cost to customer or the recipient. The bank simply moves the money internally between the accounts and in this way no money leaves the region.
- ✓ **Business lending:** A mutual bank prioritises affordable lending (secured and unsecured loans, and overdrafts) to small businesses and cooperative start-ups in the region. A mutual bank offers SMEs faster and easier access to the right level of cashflow.
- ✓ **Multiplier effect:** By virtue of having a Bank of England licence, a mutual bank can avail of fractional reserve banking i.e. it will be able to lend more than it holds in deposits. The current reserve requirement sits at 10% (which is a multiplier of 10, with banks able to lend out 10 times more than their reserves). Even if we had a mutual bank that operated under a more conservative and less risker reserve of say

4%, this would still create a positive multiplier effect in the region, e.g. £20m of local wealth would become £80m, giving us greater leverage on our money.

It should be noted that mutual regional banks are commonplace in most other parts of the world, including Sweden, Germany, Switzerland, Spain, the US, Australia and New Zealand. The British jurisdiction is an outlier in this respect.

More than a bank

However, a mutual regional bank is not simply another customer choice on the high street that provides adequate banking services and access to cash. A mutual bank can have a much more profound impact on our region that goes way beyond banking services alone.

Previously in this paper, we discussed the issue of wealth being drained from the region and how our wealth enriches others, not us. This isn't just our problem but is a problem for local regions across the globe. A priority for us should be to prevent our wealth leaking from the region and into the global financial system. Community Wealth Building (CWB) is a model designed to prevent wealth leaving local regions. A mutual bank complements the CWB model and sits under the Making Financial Power Work pillar. In fact, the Centre for Local Economic Strategies who have pioneered the CWB model²¹ explicitly mention mutual banking as a solution and say that regional banking enables local economic development²². Those involved in delivering the Preston Model²³ in England now have a campaign to establish a mutual regional bank in their own area, the Northwest Mutual bank campaign.

With a mutual regional bank in place, giving us access to our wealth, what would that mean for NI?

Immediately, there would be positive social and economic impacts. A mutual bank would give us more control over our own money. It would allow us not only to retain the money deposited within the region, but the multiplier effect would increase that money many times over. In turn, we would be able to unlock the potential of £billions of locally generated wealth and invest it in our economy, in infrastructure, in climate action, in tackling poverty. It would also give us the resources to protect ourselves from future shocks and challenges that may occur due to the climate crisis and global events such as energy price fluctuations, pandemics, etc. Research has shown that mutual banks have a higher commitment to financial inclusion; have a higher proportion of SME lending; have a credit allocation that goes into the real economy; and are shown to reduce regional inequalities and build greater resilience in local economies during times of recession. By having our own mutual regional bank, all these opportunities would be open to NI.

A note on mutual regional banking and the Credit Unions

²¹ https://cles.org.uk/wp-content/uploads/2019/07/CLES_Preston-Documents_WEB-AW.pdf.

²² <https://cles.org.uk/community-wealth-building/how-to-build-community-wealth/>

²³ The Preston Model is the popular name given to CWB delivery in the northwest of England.

Credit Unions (CU) are self-help cooperative financial organisations geared to attaining the economic and social goals of members and the wider local communities. NI has a long-standing and strong CU movement with a membership reaching over 30% of adults in NI²⁴.

Credit Unions share many of the same principles as a mutual bank. However, their operation is different from banks, mutual or otherwise. The most distinct difference is that they don't hold a banking licence. One of the disadvantages of not holding a licence is that they can't avail of the multiplier effect. Nor can they hold an account with the Bank of England – the holder of a Bank of England account can earn interest, at Bank of England interest rates, on their deposits. By virtue of being a bank, a mutual bank can, if it chooses, place all non-loaned savings in its Bank of England account and earn interest on those, while the Credit Unions don't have that option. Further, few Credit Unions have the scale or financial or technological capacity to handle the full suite of electronic banking services or payment methods, and that makes it difficult to offer all the transactional services associated with current accounts. Therefore, they can't offer personal or business current accounts, and they can't offer standard debit cards (although some may offer a pre-paid debit card).

But it's not helpful to talk about differences. Essentially, Credit Unions and mutual banks are both alternatives to the existing commercial financial sector and have local interests at their centre. Credit Unions and a mutual bank could work in partnership and complement each other, not compete, much like what happens in Germany, for example. It is also entirely feasible for one of the Credit Unions here to apply for a licence to become the mutual bank.

Conclusion

The current financial system in NI does not serve well either individuals or businesses here. It is also a major drain on locally generated wealth, denying us the opportunity to invest that wealth in the local region and economy. In this paper we put forward the case for having our own mutual regional bank in NI as one potential solution to the problems in current banking and finance.

The Committee might be interested in the supplementary materials that we've provided alongside this briefing paper: a business case for the mutual bank; and an independent survey we commissioned, completed as recently as December 2024, which provides insights into people's attitudes in NI to banks and banking services and which – we would attest – offers crucial evidence to aid the Inquiry and its outcomes.

Financial services are a reserved matter – as pointed out in this Inquiry's Terms of Reference. However, setting up a locally owned bank is not a reserved matter, and legislatively, there's nothing to prevent us taking the initiative and making it a reality. The Welsh, for example, are working on establishing their own mutual bank with the full support, including financial support, of the Welsh government.

²⁴ <https://www.consumercouncil.org.uk/sites/default/files/2018-08/Research%20Report%20-%20NI%20Financial%20Services%20Project.pdf>

While we don't suggest that this Committee commits to supporting the Northern Mutual campaign solely, we do urge the Committee to endorse its vision and objectives; and to consider mutual banking as a banking and finance solution which complements and adds value to existing initiatives, which will remedy a significant number of the financial exclusion issues that face so many in NI, and which has the potential to transform this region.



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