



## **The Case for a Post Bank**

Presented by the Post Bank Coalition

- Communication Workers Union (CWU)
- Federation of Small Businesses
- **nef** (the new economics foundation)
- public interest research centre (PIRC)
- Unite the Union



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

**publicinterestresearchcentre**

## 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, and a research group specialising in the environment and climate. The Federation of SubPostmasters, Consumer Focus and the National Pensioners Convention are 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.

# Summary of Recommendations

The Post Office network is a unique national resource. Communities, businesses and individuals all depend on it. It should both be protected and grown. A Post Bank based on the Post Office is the best way of strengthening the Post Office by building up and extending its current financial services and securing its future. It is paramount that there are no further closures of post offices.

Post offices are tied to their local communities. The Post Bank would be an economic driver, lending at small margins, supporting local enterprise rather than global speculation.

- The current banking crisis provides an opportunity for a radical re-design of banking. Combating financial exclusion and creating rights to a fair, accessible and trusted banking system can best be done through a Post Bank.
- A Post Bank would offer current accounts, access to credit, direct debit facilities, and expand its savings capacity. It would not be shareholder driven and would, through a Universal Banking Obligation, be locally based through post office branches.
- A Universal Banking Obligation, similar to the guiding principle of the Universal Service Obligation of Royal Mail, must be established through a Post Bank based on the unique national reach of the Post Office network.
- The UK economy relies on small businesses which in turn rely on the Post Office and its efficient, affordable and local service. A Post Bank will both safeguard the Post Office network and offer a more extensive range of financial and other services to aid small businesses.
- A Post Bank would reconnect banking with local economies and would liaise with other financial bodies including credit unions and community development financial institutions (CDFIs).
- There are international examples of successful Post Banks from which the UK could draw.

# The Vision

To create a secure, accessible local banking system by growing the role of post offices, the Post Office should provide a national banking system that delivers stable, accessible and dependable services to the public and businesses. It stands to be one of the best guarantees underpinning economic resilience, promoting financial inclusion and allowing people and businesses to invest and save with confidence and security.

Deposits made through the Post Office Bank could play a vital role in reconnecting the banking system with the productive economy.

As a trusted source of information and advice, and a vital part of the social fabric, the Post Office's role as a shop front of the public realm would expand direct, local access to a range of government services. Local and national government should be encouraged to direct services through the network. The Government must commit to not cutting back Post Office services. Instead, it should build up the Post Office as a financially viable and cohesive social and economic institution. Establishing a Post Bank on the current Post Office network will inevitably mean that investments have to be made. In many cases expansion of existing post offices and hiring more staff will be necessary to accommodate the additional banking customers and deal with the current experience of long queues.

Establishing a Post Bank will therefore also mean that a large number of employment opportunities are created.

In November last year the POCA (post office card account) was awarded to Post Office Limited (POL). This, and the fact that POL already offers a range of financial services, means that establishing a fully fledged bank is a natural extension of the POL's current activity.

It is important to distinguish between the coalition's proposals for a Post Bank, and the financial services POL currently provides. POL's financial products are currently provided on a purely commercial basis, and are in partnership with the Bank of Ireland which receives 50 per cent of any profits generated. A Post Bank should instead operate independently and while it will run a commercial operation which will make a profit, the Government could use the Post Bank as a vehicle to tackle financial exclusion and help those on low incomes.

# The Background

As both bank and Post Office branches have closed in many local communities – particularly the poorest – many people and small businesses have seen their direct access to postal services, and also to essential financial services, disappear. Establishing a Post Bank would ensure the provision of financial services based on a return to basic banking principles, where bankers are situated in and understand their local community and its needs. With its network of branches throughout the country, and the high levels of trust that it enjoys, the Post Office is ideally placed to house the new Post Bank.

The current credit crunch is part of the background to our reasoning, but so is the longer term failure of the highly-centralised UK banking system to meet the needs of local entrepreneurs and local communities. The shift in the shape and business model of banks over the past generation – over-consolidation and over-focus on speculative finance – has not just caused the present financial crisis, but renders banks not ‘fit for purpose’ when it comes to financing the local economy. The evidence suggests that access to appropriate credit has been denied to small companies, individuals and crucial social enterprises for at least a decade while the financial sector grew.

The credit crunch is now making this situation worse. There is already evidence that the banks are cutting back on help for small, high street enterprises, which are not just the bedrock of our local economies, but employ 22.7 million people in the UK – and will be the sector that drags the nation out of recession. While political attention is focused on the number of conventional loans, less attention is being paid to the withdrawal of overdraft arrangements and changes in the conditions attached to loans. There are three related problems which the Post Bank is designed to address:

1. **The continuing problem of access to finance for poorer people and places:** About three million of the population is still unbanked,<sup>1</sup> and the figure is rising. Their savings, such as they are, earn no interest and are not available for re-investment, and the prospects for local enterprise are further undermined. Evidence shows that basic

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<sup>1</sup> HM Treasury (2008) “Progress towards the shared goal on access to bank accounts.” [http://www.hm-treasury.gov.uk/financial\\_inclusion\\_bankaccounts.htm](http://www.hm-treasury.gov.uk/financial_inclusion_bankaccounts.htm)

bank accounts are not working. Banking services are not universal, despite the creation of basic bank accounts, and the disadvantaged continue to bear the full cost of exclusion. Take up of basic bank accounts has been less than expected and there are concerns about some customers not using the account once they have opened it. Under a voluntary banking code, the major banks have little incentive to promote uptake of accounts or to invest in innovative solutions. Without access to affordable credit from banks or recognised lenders, people will continue to borrow from sub-prime lenders such as pawnbrokers, doorstep lenders, and even illegal loan sharks with usurious interest rates. These exorbitant payments are a serious drain on poorer people's budgets and deprive local economies of money that could be spent on local goods and services.

2. **Poor access to finance by the enterprise economy:** Even before the current crisis, the drive to maximise profits has meant that relatively low-margin activities, such as small loans or basic bank accounts, were de-emphasised. Banks have been reluctant to finance very small businesses given the high transaction costs of appraising and securing such loans. In an FSB survey of February 2009, 28 per cent of respondents said that they had seen an increase in cost of existing finance such as loans and overdrafts in the past two months.<sup>2</sup> For new credit the figure was 27 per cent. Banks increasingly use credit-scoring techniques. Customers thought to be risky, such as small businesses and those based in deprived areas, are more likely to be denied credit. Banks charge more to lend in deprived areas. The margin on small business lending in deprived areas is higher than that of lending to small business generally across Britain. But in the financial sector, there is mounting evidence that – having been bailed out by taxpayers – the banks are trying to return to profitability at the expense of the small business sector; cancelling overdraft agreements, refusing loans for expansion, and using nationwide formulae to make decisions concerning local matters dependent on details and personalities that the formulae are unable to capture.

Small businesses often operate on credit cards and bank overdrafts. A 2008 FSB survey showed that 29.4 per cent of respondents used bank overdrafts as a major financial source for their business. The figure for personal credit card was 10 per cent.<sup>3</sup> A Post Bank would offer a less formalised banking structure for those small firms that cannot afford to fully run on own savings or retained profit.

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<sup>2</sup> Federation of Small Businesses (February 2009) Credit Crunch Survey

<sup>3</sup> Federation of Small Businesses (2008) *Putting the Economy Back on Track: Business Support and Finance*, p. 11.

- 3. Continuing access to finance problems in the social enterprise sector:** The growing social enterprise sector is playing an increasingly critical role in the UK economy, delivering public services, building innovative new approaches to local economics, reaching those parts of the community and economy that conventional businesses fail to reach. The problem is that finance for new social enterprises is often hard to find, and finance to invest in successful models – either to replicate them or mainstream them – is particularly scarce. This is not a result of the credit crunch, but has been the case for some years, Social enterprises do not aim to maximise financial returns, rather they target 'social returns'. As a result, financial returns will be lower than in other sectors, making them unattractive to straight commercial investors. They need investors who are also motivated by social rather than financial returns. Public funding for the community finance sector has also been short-term, patchy and increasingly scarce, because community investment tax relief is regarded as too complex and narrow to attract sufficient investment capital. It is in need of revision.

The banking crisis of 2007-9 has exacerbated the problem, but it has not caused it. Britain needs the kind of diverse local banking infrastructure that benefits our competitors in northern Europe and parts of the USA. The conventional banks have played too little role in creating this, so it would be naïve to expect that a simple return to 2007 lending levels would solve the problem.

Quite the reverse: the UK banking sector is now consolidated to the point where it is not well geared to meeting local needs. The Post Bank is an example of urgently needed intervention.

The Post Bank Coalition recognises that the Post Bank account structure has to be competitive to attract business customers.

# The Principles of the Post Bank

1. **Safeguarding the unique and popular Post Office network and the elimination of the risk of further local closures.** There must be an end to the downgrading of Post Office services caused over many years by Government uncertainty and neglect, as well as poor management.

The Government's new commitment to strengthening the Post Office network by extending the financial services it can provide is most welcome. But this alone is not enough. The establishment of a Post Bank is essential in safeguarding the future of the Post Office network. This Bank will hugely increase Post Office custom, it will enable the Government to increase the work it passes to the Post Office; it will enable the Post Office to build up its business profitably. It will enable the POCA to be embedded in a trusted bank, thus removing the threat that it could again be put out to tender.

2. **The new Post Bank could address the problem of financial exclusion.** Commercial banks have physically retreated from large tracts of the country leaving people badly served. There are three million people in the UK without bank accounts<sup>4</sup> and this figure is still rising as the banking crisis has increased the number of those who have difficulty accessing banking services, especially if they need mortgages, loans or overdrafts. People without access to financial services, the unbanked or under-banked, effectively pay an unfair premium for basic services.

Consolidation in the UK banking sector has destroyed regional banks and closed local branches. Branch networks of both banks and building societies have been in continuous decline since the 1980s. Britain's least affluent inner cities and traditional manufacturing areas have lost more local high street branches than any other area since 1995. Lack of bank branches has clear negative consequences for low-income customers and local businesses.

The Post Bank will break the model of risk-taking by being publicly owned and locally based, with a diversity of services and partnerships such as credit unions and community development finance institutions (CDFIs)

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<sup>4</sup> HM Treasury (2008) "Progress towards the shared goal on access to bank accounts."  
[http://www.hm-treasury.gov.uk/financial\\_inclusion\\_bankaccounts.htm](http://www.hm-treasury.gov.uk/financial_inclusion_bankaccounts.htm)



which currently work to provide personal and business finance to local communities, for example. It will focus on serving local communities and economies building upon these strong foundations, credit unions and CDFIs could support the Post Bank in developing better ways of delivering complementary community based financial services. New legislation passed last year allowed for a liberalisation of the rules governing credit unions and cooperatives, making it possible for groups to become members, allowing interest to be paid on members' deposits and allowing credit unions to provide services to a wider range of people. Post office closures give a negative message to many communities that are already struggling to survive due to the fact that they are largely excluded from mainstream financial services.

There is growing expertise in the credit union and CDFI sector about how best to service the needs of financially excluded household. Credit unions and CDFIs have been evolving sensitive responses to the financial needs of lower income households. These sectors of the market involve negotiating higher credit risks, higher transaction costs and a high level of professional skill in budgeting and money management advice. The Post Bank would design ways of collaborating with and supporting these initiatives.

In 2005/06, 13 million people in the UK lived in households that were below the low-income threshold. This is roughly one-fifth of the population. Among the many factors contributing to the decline of disadvantaged neighbourhoods are limited access to finance and lack of appropriate financial training and business support. Poverty is now concentrated in specific geographic areas and where these areas have lost banks, thus excluding local people from the banking system, the Post Office already provides a known and trusted face.

3. **A Universal Banking Obligation (UBO), similar to Royal Mail's Universal Service Obligation, should now be established.** The Post Office is a trusted brand which has attracted massive savings during the current crisis. A Post Bank, based on this trust, would ensure the UBO, and help guarantee access to fair finance.

The Government has taken the welcome decision to keep POCA within the Post Office and it must now work to deliver many more financial services through the Post Office. A wide network of ATMS must be provided, which will accept POCAs and must be enabled by all the big commercial banks to use their cards, without charge.

The Post Bank would not have a shareholder-driven structure. It will be able to offer a more independent set of advice services, low interest loans, and local involvement than banks currently provide.

4. **The Post Office structure is essential to the economic health of Britain's small businesses, a major driver of our economy.** The small enterprise sector has a critical role to play in recession. Not only does it employ 59 per cent of the private sector workforce, but the ability to finance new ideas and enterprising individuals to fill gaps in provision during recessions is the way that economies eventually pull themselves into better economic times. If the banking infrastructure is inadequate for small enterprise, then recovery is likely to be delayed. SMEs employ an estimated 13.5 million people, and have an estimated combined annual turnover of £1,440 billion. They account for 99.9 per cent of all enterprises, 59.2 per cent of private sector employment and 51.5 per cent of private sector turnover.

A recent FSB survey with responses from around 5,500 small businesses revealed that: 38 per cent thought that a Post Bank built on the Post Office network was a good idea and that they would consider banking with such a bank.

- Many respondents also said that they wholeheartedly support the idea of a Post Bank, regardless of whether they were in need of different banking services.
- Some respondents suggested that that a post bank should have free or competitive charges for their accounts, longer opening hours and the possibility to link fully with other High Street banks.
- Many who chose to comment said a Post Bank would have been an even better idea before the last round of closures as the reach would have gone even further, particularly in rural communities.

Anything that will prevent future post office closures is welcomed by the small business community. Small businesses rely on their local post offices for mail services. The FSB survey showed that 79 per cent of respondents use the Post Office for their mail services and 88 per cent use stamped mail rather than metered mail. Making the journey to the post office regularly to purchase stamps and have parcels weighed and franked is an important part of the work of a small business. If small businesses could also access a wider range of financial services at the post office they could deal with many more errands in one visit, saving them valuable time.

The closure programme has already affected thousands of small businesses. Many small business owners have said that they can now no longer pop out to the nearest post office on foot but have to get in the car, find parking and pay for it and then queue for much longer than normal only to deal with their everyday business activities. In order to strengthen the Post Office network there is strong support for the concept of a Post Bank to ensure that the Post Office network remains healthy and can expand to meet future needs. A Post Bank would also bring financial services within the local reach of small businesses that currently may have no bank branch in their area.

This would mean that they could access 'patient' or long-term capital to see them through the current crisis – a Post Bank could do this where commercial banks are unable to.

A Post Bank would reconnect with the real economy of business and local enterprise. The Post Bank would liaise with a variety of financial and economic providers including credit unions and CDFIs. It would be able to pilot a number of new and modernised ways of investing and saving- for example green energy bonds and investment in local economies.

5. **The Design and Capacity of the Post Bank.** The Post Bank would be set up with Government financing. This is not the risky operation currently being carried out with commercial banks; capitalising the Post Bank would not be used to finance existing debt but to serve real local economies. The bank could also be capitalised through the issue of local bonds, giving local investors a stake in a local financial provider. The bank should cover its costs eventually but there will be certain products and services to do with loans, debt advice, that could be funded from Government funding programmes directed at poverty and social inclusion. There is already a huge sum of money in NSI savings, transferred during the present crisis, from commercial banks. In the year 2007/8 (the period in which Northern Rock failed) NSI inflows grew by 9.9 per cent to take annual inflow to £15.5bn. It is safe to say the 'flight to quality' will have intensified thereafter.

Post Office staff already conduct financial services in an 'FSA compliant' manner. A proportion of Post Bank services would be carried out through telebanking and internet banking. New legislation last autumn gives Credit Unions more scope and we see a major role for them in linking to Post Bank. Recruiting staff with financial expertise should not be a problem, given the redundancies made in the banking sector. The Post Office has the single biggest computer linked system in Europe and it is the third biggest UK cash carrier in terms of employees and vans. The Bank of England has recognised the Post Office as a cash storing institution. Post offices are well suited to banking: Crown Offices have strong rooms and small post offices can be the first port of call for bank customers.

The Post Bank will not have the very high and random charges that commercial banks have developed. We have a choice - free banking or charges that are lower than those of commercial banks (the Post Bank will not be shareholder driven). These charges could be part of the Bank's investment back into its communities.

Post Bank could also pilot innovative schemes for new financing and for re-connecting with local economies. Green energy bonds and local government bonds are both worth exploring.

6. **The international examples of post office banking are positive and**

**can be emulated.** Many of Post Office Ltd's overseas equivalents have developed comprehensive banking services to offset losses of other traditional services, which have made substantial contributions to the viability of these national post office networks. Even if they are not like for like comparisons to the UK banking and postal structures, they are useful examples of merger of post and bank services..

The French postal service, La Poste, launched its bank in January 2006. By 2007 it had over 11 million postal banking accounts and accounted for nearly a quarter of La Poste's turnover.

The Italian postal service, Post Italiane, launched 'BancoPosta' in 2000 and by 2002, Post Italiane showed a net profit for the first time in 50 years. This turn-around is largely attributable to the business generated by BancoPosta and has led to an expansion of the Italian post office network which currently stands at over 14,000 post offices.

In Germany, Deutsche Post's Postbank, although it has suffered problems, remains the largest German retail bank by customer numbers (14.5 million) and Germany's largest issuer of credit and debit cards. Banking transactions account for 39 per cent of business over German post office counters.

7. **Where Does a Post Bank fit within European Regulation?** The European Commission would want to take a view on the State Aid and competition implications of this. BERR would want to engage in initial discussions with the EC to clear the way for the establishment of a Post Bank.

The criteria against which eligibility for EU State Aid clearance for UK government support for the post office network is measured within the European Commission's broader definition of "services of general economic interest": These include:

- a) processing of social benefit and tax payments;
- b) processing of national identity and licensing schemes;
- c) universal cash payments for public utility services;
- d) universal access to basic cash and banking facilities and Government savings instruments, especially for rural customers and those on social benefits
- e) access to universal postal services.

In practice, the existence and growing popularity of Post Banks throughout the EU would make it difficult for the Commission to withhold support, particularly in the current, ongoing financial and economic crisis.

# Conclusion

There is both a need and an appetite for transformative change in our economic and banking institutions. A Post Bank based on the Post Office network will provide a solid, trusted basis for new banking, new investment and the revival of local economies.

The Post Bank must be dramatically different from the failed commercial banking model. It must signify a departure from profit-driven, speculative banking practices and a return to locally based, sound financing. It must be inclusive, reaching out to other social and financial organisations concerned with the economic health of their communities. It must be a banking system for all the people.

A successful Post Bank would offer real, long-term financial security to individuals and businesses and provide a vital role for the Post Office commensurate with the high esteem in which it continues to be held by the British people.

# Appendix: Financial services currently offered by post offices

## Insurance

- Car insurance
- Home insurance
- Travel insurance
- Life insurance
- Lifestyle protection
- Over 50s life cover
- Van insurance
- Motorcycle insurance
- Pet insurance

## Savings

- Instant saver account
- ISA
- Growth bonds
- Child trust fund
- NS&I products

## Loans and mortgages

- Credit card
- Personal loans
- Mortgage



**Written by the Post Bank Coalition**

**Contact:** [postbank@neweconomics.org](mailto:postbank@neweconomics.org)

Lindsay Mackie (Post Bank Coalition Secretary)

c/o **nef** (the new economics foundation)  
3 Jonathan Street  
London  
SE11 5NH

**t:** 07968821390