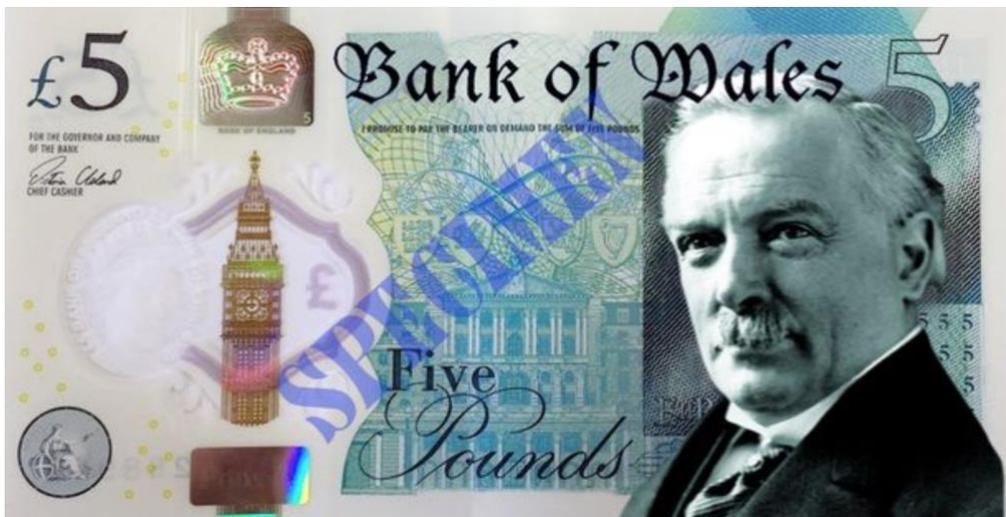


The Case for a community bank for Wales

Banc Cambria



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Introduction – why we need a mutually owned Bank

The Welsh Economy is not healthy. West Wales and the Valleys is the only part of the European Union that has qualified for three rounds of EU Structural Funds, as the problems we suffer are both chronic and systemic, and the work done so far has not brought about a cure.

Our economy, once dominated by UK nationalised industries, has now become dominated by outside commercial interests, largely because our economic development policies have been focussed on inward investment, the inevitable consequence of which is foreign ownership of our industries. Successive UK Governments have been seduced by the monetarist policies of Milton Friedman and the laissez faire capitalism of Ayn Rand, leading to austerity and the privatisation of much of the state. Sadly, they have given up on the proven policies of John Maynard Keynes, forgetting that his advice rescued us from the Great Depression of the 1930's.

Today the need is particularly strong for a redirecting of our economic policies towards developing an economy more rooted in Wales, more sustainable, and with a clear sense of social purpose. We need to address the issues of wealth redistribution, physical regeneration, social & economic development and the environment.

A key part of this reshaping of economic policy is the creation of a Banc Cambria – an independent, locally based, co-operatively governed, mutually owned Bank that would enable the Welsh Economy to be strengthened; to become more resilient and more sustainable. This, in turn, would provide more jobs, whilst helping to fill the financial access gap created by the closing down of local commercial bank branches in towns and rural areas across Wales.

Banc Cambria will have a clear set of immutable principles to guide its policies, and to this end we would also look to examples elsewhere, such as the Quebec Solidarity Fund, which although not a Bank, has clear ethical and social values¹ which govern how it invests its funds.

Banc Cambria can also provide a number of things that the existing, and very useful, revolving loan funds cannot. Currently there is nowhere for individuals and/or corporate bodies to invest in the Welsh Economy. The three Welsh Building Societies offer a place to invest in the property market in Wales, but there are no easy ways to invest in our industry. In addition, a fully licensed Banc Cambria can capture our own money to prevent it leaving Wales, but also, it can actually create money as well.²

Banc Cambria will provide Welsh Government, Local Authorities and the rest of the Welsh public sector with an excellent investment opportunity. It would also provide a reliable and sympathetic source of investment capital to Small and Medium Enterprises (SMEs) across

¹ <https://www.fondsftq.com/en/a-propos/qui-sommes-nous.aspx>

² <https://www.Bankofengland.co.uk/quarterly-bulletin/2014/q1/money-creation-in-the-modern-economy>

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Wales, and as its customers would be part of its ownership and governance, would adapt to their needs rather than the needs of external shareholders.

We believe that the participation of the public sector, especially Local Authorities, is also a key component towards ensuring the success of Banc Cambria and we will work with them to encourage their involvement. They will bring investor confidence, a valuable source of capital, and local economic knowledge and expertise.

Context - we lack financial infrastructure in Wales

At present, Wales lacks money supply infrastructure owned and controlled within its borders. By creating money and recirculating wealth within the Welsh Economy, Banc Cambria has the potential to be a key agent in developing the resilient and sustainable economies and communities envisioned in Welsh Government policies and strategies such as the *Wellbeing of Future Generations Act* and *Prosperity for All*.

The People's Bank for Wales Action Group started in 2016, and partly as a result of their networking, campaigning and lobbying, the Welsh Government commissioned a report³ in August 2017 from the then Public Policy Institute Wales (PPIW)⁴. This concluded that a fully-fledged, publicly owned Bank could deliver a range of benefits including:

- Better access to investment for SMEs and regional economic development
- Reduced dependence on private sector capital
- The ability to create and retain jobs in Wales
- The ability to “create money” rather than recycle funds

The report noted that the power to “create money” is restricted to deposit-taking Banks which can leverage their capital by a factor of 10:1 or more and could be of real benefit to Wales. As the Bank of England's 2014 Report, *Money Creation in the Modern Economy*⁵ explained, the widespread view among the public and politicians as to how money is created is wrong.

“The reality of how money is created today differs from the description found in some economics textbooks: Rather than banks receiving deposits when households save and lending them out, bank lending creates deposits Whenever a bank makes a loan, it simultaneously creates a matching deposit in the borrower's bank account, thereby creating new money.”

Today over 97% of money in the UK is created in this way as loans by private sector banks. As the PPIW⁶ report highlights: while co-operative and publicly owned banks that take deposits are not a feature of UK Banking, they are widespread in Germany, and, internationally, about 40% of banks are publicly or co-operatively owned. The PPIW report has shown the potential

³ <http://ppiwi.org.uk/ppiw-report-publication-time-for-a-full-public-Bank-in-wales/>

⁴ Now known as the Wales Centre for Public Policy <https://www.wcpp.org.uk>

⁵ <https://www.Bankofengland.co.uk/quarterly-bulletin/2014/q1/money-creation-in-the-modern-economy>

⁶ <http://ppiwi.org.uk/ppiw-report-publication-time-for-a-full-public-Bank-in-wales/>

and the benefits being delivered today for citizens, communities, small businesses and Governmental bodies by public banking from Hamburg in Europe to North Dakota in the USA.

What leading economists say

In advising our predecessor, the People's Bank for Wales Action Group, Professor Gerry Holtham⁷ stated that there is evidence that there are serious gaps in the Welsh financial system that leave businesses and individuals without financial services of the calibre they need. In particular, Professor Holtham identifies a number of problems that a community bank could help solve:

"Small and medium sized businesses require three types of finance: equity; long term loans or "patient" capital; and shorter term working or bridging capital. Data from the British Venture Capital Association shows Wales receives proportionately less start-up and early stage equity finance than any other part of the UK.

"Wales shares with other parts of the UK a difficulty in finding long-term debt finance. Bond markets are developed only for very large companies and Banks tend to make long term loans only when collateralized against assets like property.

"Many smaller Welsh companies have complained that banks, having moved to centralized loan assessment based on financial data, are reluctant to make even shorter loans without guarantees or collateral and then charge fees that make the loans expensive.

"These difficulties in obtaining credit in Wales contribute to a situation where Wales, although a relatively poor part of the UK, is probably a net exporter of private savings. Welsh pension funds take contributions and invest in assets and securities for the most part outside Wales. Furthermore, they pay asset managers based in London fees to manage those investments.

"The withdrawal of local bank managers and loan assessors, while reducing banks' cost bases, is very likely also to reduce the local knowledge that would enable them to make loans based on qualitative and more deeply informed judgement. By restricting loan assessment to centralized spreadsheet-based processes it could reduce local lending and exacerbate any savings outflow from Wales."

Another respected Welsh economist, Dylan Jones Evans, has identified an annual funding gap of £500 million for Welsh SMEs⁸. Whilst the Development Bank of Wales (DBW)⁹ caters for some of this, there is still a gap that needs to be filled. Banc Cambria would be an additional source of funds, working alongside other Government, private sector and mutual financial organizations already in existence.

⁷ <http://www.cardiffmet.ac.uk/news/Pages/Enterprise-Centre-launches-research-project-into-Welsh-Economy-and-appoints-Gerry-Holtham-as-visiting-Professor.aspx>

⁸ <http://eprints.uwe.ac.uk/25608/1/access%20to%20finance%20stage%20%20review.pdf>

⁹ Formerly "Finance Wales"

Legal structure of Banc Cambria

Given that the Welsh Government can only raise a small part of its income via taxes and doesn't hold the bulk of its own funds, we didn't consider the State Government owned Bank of North Dakota model, where the bulk of the bank's business is holding State Government funds, to be a suitable option for Wales, especially so, as it would fall within the Public Sector Borrowing Requirement.

However, the Welsh Government may choose to support Banc Cambria by investing in it, as well as encouraging the participation of Local Authorities and other parts of the public sector, which do have substantial funds to invest. Without the active participation of a healthy proportion of the Welsh public sector, Banc Cambria would find it more difficult to raise sufficient funds or gain the confidence of sufficient investors in the short term.

In arriving at our preferred mutual co-operative model, we considered a number of other models, such as:

- A publicly owned not-for-profit trust in perpetuity, similar to the old Trustee Savings Bank (TSB), but with added protection to prevent it being broken up or sold off.
- A joint stock company model operating as a subsidiary of a non-profit trust or charity, thus providing an effective asset lock so it can never be sold-on to a commercial enterprise. Examples of this form of asset lock operating in Wales include the John Lewis Partnership and Hodge Bank.

After much consideration, we have concluded that what Wales needs is an independent, mutually owned, co-operatively governed bank, and we consider the Community Savings Bank Association's model¹⁰ to be the best available. This operates under Society legislation which allow for withdrawable and redeemable shares to be issued, as well as permanent shares and a variety of bonds. The CSBA model is specifically designed to issue only Permanent Shares, which can be transferable and which qualify as Tier One Capital under the Capital Requirements Directive IV (CRD IV).

Banc Cambria is one of a number of CSBA model regional co-operative banks being developed across the UK that are backed and invested in by Local Authorities and other public bodies. The Royal Society for the Arts & Science (RSA)¹¹ and New Economics Foundation¹² are supporting this model¹³ and the CSBA have developed plans for up to 19 such regional co-operative banks across the UK.

The Labour Party is also in support of creating a UK wide National Investment Bank¹⁴ which could work in partnership with such regional co-operative banks. In Scotland there is work

¹⁰ <http://www.csba.co.uk>

¹¹ <https://www.thersa.org/discover/publications-and-articles/rsa-blogs/2017/06/everyone-a-Banker-welcome-to-the-new-co-operative-Banking-movement>

¹² https://neweconomics.org/uploads/files/051add837ec5b0ca02_s2m6bo0c0.pdf

¹³ <https://neweconomics.org/2014/02/co-operative-Banks-international-evidence>

¹⁴ <https://labour.org.uk/wp-content/uploads/2017/10/National-Investment-Bank-Plans-Report.pdf>

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underway to develop a Scottish National Investment Bank. This would be different to the existing Scottish Investment Bank¹⁵ that, like the Development Bank of Wales¹⁶, does not have a Banking Licence to take deposits, and is in effect a Government owned revolving investment fund providing finance to businesses and other organisations.

Governance of Banc Cambria

We favour a multi-stakeholder Board, with members drawn from public life, the public sector, investors and borrowers in a similar model to the Welsh Housing Mutual model favoured by Welsh Government for Registered Social Landlords. Thus, Banc Cambria would have a representative Board made up of the citizens of Wales and has a specific remit stating that all loans will be prudent, would have a social or ethical purpose, and could only be lent within the Wales.

The Bank of England's licensing requirements for Directors to satisfy their definition of a "fit and proper person" may constrain this, and we would work with them to develop a hybrid structure, to see to what extent their need to have qualified and experienced bankers as Directors can be combined with a multi-stakeholder model.

The governance model would ensure complete independence from the public sector, whilst maintaining a partnership approach with them. This is important to ensure that Banc Cambria is not considered to be part of the Public Sector Borrowing Requirement, even if a majority of its investment were to come from Government and the public sector.

Banc Cambria will work with the CSBA's standardised administrative and IT structure with a devolved network of regional co-operative banks in a similar way to the federated German Sparkassen¹⁷ Banking model.

¹⁵ <https://www.scottish-enterprise.com/our-organisation/about-us/who-we-work-with/scottish-investment-bank>

¹⁶ <https://developmentBank.wales>

¹⁷ https://en.wikipedia.org/wiki/German_public_Bank

Raising the Capital Investment

The Welsh Government is playing an important enabling role by providing help towards the start-up costs and the Banking licence. If it were also able to invest in the Bank and use its services, it could benefit the Welsh Economy through Banc Cambria's future money creation capability.

Capital investment will be acquired through issuing permanent transferable shares, which are limited to Welsh resident individuals and businesses, but can be bought and sold with the agreement of the Board. These could be attractive to public sector pension funds and other investors who wish to invest in Wales, in the same way as bonds have been. As Dwr Cymru, the mutual that runs Welsh Water has shown, bonds can be very successful for securing long-term capital, and its initial bond issue in 1989 was £19 billion – the largest ever in the UK. This would indicate that there is a market for Wales based financial instruments that Banc Cambria shares could also satisfy.

Investment in Banc Cambria could be attractive for other reasons. The success of the ethical investment movement through online platforms such as Ethex¹⁸, Seedrs¹⁹ or Crowdcube²⁰ would indicate there is considerable investment looking for a socially responsible home, which could be attracted to Banc Cambria's social mission.

Creating Capital

As the Bank of England makes clear, a licensed Bank can create capital by lending, using the mechanism known as Fractional Reserve Banking.²¹ This enables a Bank to lend out more than the deposits it holds, subject to suitable capital being available from its shareholdings and other assets. This is strictly regulated by the Bank of England, which allows the major high street banks to operate to a ratio of up to 12.5:1 (Risk Weighted Assets [Loans] to Tier One Capital).²² However, it is likely that the Bank of England would initially only permit a much lower ratio for a new bank such as Banc Cambria, and our intention, to ensure the stability and sustainability of the bank, is to cap the ratio we would operate at to 5:1. This ratio for money creation is deliberately prudent, as is the case in the responses to Government consultation for a Public Bank in Scotland.²³

Thus, a Banc Cambria could be established with, say, £40million per annum of start-up share capital subscribed over the first six years (£240 million cumulatively). For example, using our

¹⁸ <https://www.ethex.org.uk>

¹⁹ <https://www.seedrs.com>

²⁰ <https://www.crowdcube.com>

²¹ <https://www.Bankofengland.co.uk/quarterly-bulletin/2014/q1/money-creation-in-the-modern-economy>

²² Tier One Capital is defined by the Bank of England and includes paid up share capital (not withdrawable shares), PIBS (or the equivalent) and accumulated retained profits

²³ Common Weal (2017) Scottish National Investment Bank: Submission to the Scottish Government consultation, November 2017.

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prudent 5:1 ratio of this core capital, Banc Cambria would have the initial capacity to have created new money by year six of £1.2 billion in loans.

This new money sum of £1.2 billion will increase further as Banc Cambria expands its capital base through both additional investment and retained earnings. Thus, the money creation capacity will expand organically as Banc Cambria becomes more firmly established as a lender with a proven track record.

Working with other organisations to develop locally based Banking

A key role of Banc Cambria would be to restore locally based banking, making it easier for smaller local businesses to obtain finance and to enable local deposits to be recycled within the local or regional economy. Having a team of local loan officers with knowledge of the local economy, whilst expensive relative to the increasingly centralized methods of commercial Banks, will be beneficial for renewing local Welsh economies around Wales.

It is our clearly stated intention to work alongside other established finance institutions in Wales, not to compete aggressively against them, but to work synergistically to build a resilient Welsh finance sector. To this end Banc Cambria intends to work in partnership with other organizations that are operating in closely related areas such as Credit Unions, Building Societies, Community Development Financial Institutions (CDFIs), and other local co-operative or public-interest lenders, and benefit from their local knowledge. This would support and optimize the use of human judgement in credit assessment, whilst including those without a credit history (or a credit history that is damaged by past events, but repairable). Banc Cambria will work to strengthen and expand Credit Unions and CDFIs, which could improve the situation for small depositors and borrowers at the bottom of the loan size range and help to fulfil some social requirements to bring financial services to poorer people at a manageable cost. Co-operation with local Post Offices is another opportunity we will pursue.

We will use the knowledge gained from the work of the Public Banking Forum Ireland's consultation with Credit Unions and the Irish Post Office, as well as the experience gained by the CDFI and CU movements in Wales, to build local investment & loan partnerships. Through such partnerships, Banc Cambria could build a network of local brokers or agents in each interested Local Authority area to provide a high street presence, in addition to its own branches. Banc Cambria could also provide technical assistance and credit insurance to make them more attractive to depositors.

We will also make use of the new generation of Automated Bank Terminals such as the TellerInfinity²⁴ which allow for withdrawals and deposits of cash and cheques, as well as providing a direct video link to an assistant in the head office, to help with any queries or problems the customer may have, and even an automated Safety Deposit Box facility if

²⁴ <https://www.glory-global.com/en-gb/products-and-services/hardware/assisted-service/tellerinfinity/>

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required. These can be located at many more sites around Wales to provide a comprehensive service to the public and are currently being trialled by the CSBA.

Banc Cambria will also have to work with other banks in the Real time Gross Settlement (RTGS) and Clearing House Automated Payments System (CHAPS) in order to process transactions between banks, both in the UK and in other countries. We will also work with other UK banks in the cheque clearing system run by the Cheque and Credit Clearing Company Limited (C&CCC). We will clear through a partnership with an existing member bank, and this will be part of the detailed Regulatory Business Plan that will be drawn up and presented to the Bank of England as part of our banking licence application.

Working with an affiliated Mutual Guarantee Society for Wales

As soon as such organisations can be licenced, Banc Cambria would help to set up a Mutual Guarantee Society (MGS)²⁵ and so reduce the associated risks of business lending for itself and other partnership members. MGSs are widely used as risk management partners by Public and Co-operative Banks across Europe²⁶ but are still not permitted in the UK as an attempt to introduce enabling legislation²⁷ by Christina Rees MP has not progressed.

A Mutual Guarantee Scheme (MGS) for Wales would not be directly under the control of Banc Cambria but could be an affiliated organization that it helped promote. For lending to small, medium and social enterprises, when tangible security is often not available from the individual borrower, MGSs reduce the risk to the lender by providing a collective security from the other MGS members. A Mutual Guarantee Society²⁸ model for reducing the risk of enterprise lending to the banks was developed in Italy in the 1960s for small businesses and co-operatives and has now spread across France, Belgium, Portugal and the Netherlands to most EU countries successfully.

In Germany, the MGS system integrates with other public loan guarantee schemes in a similar way to the UK Enterprise Finance Guarantee scheme. The MGS supplements such public-sector loan guarantee schemes by operating as a complementary co-operative solution for both public banking and private sector banking lenders. An MGS for Wales would make an excellent partner for Banc Cambria, and we would work to support such a venture in the future.

Providing social and environmental benefits

Banc Cambria is committed to financing and supporting businesses and projects in Wales with a social purpose. Whilst Banc Cambria will concentrate on personal and micro-business lending at first, as it grows it will be able to address, along with partner institutions, the

²⁵ <https://aecm.eu/members/what-are-guarantee-institutions/>

²⁶ Tony O'Rourke "Public Banks and small enterprise guarantee programmes", Discussion paper prepared for the Cardiff roundtable event on a Banc Cambria, held at the WCVA on 27 September 2017.

²⁷ <https://services.parliament.uk/bills/2016-17/mutualguaranteesocieties.html>

²⁸ Tony O'Rourke, "The role of Mutual Guarantee Societies", January 2017 - Briefing paper commissioned by Co-operatives UK

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financing needs in sectors such as residential care homes, renewable energy and sustainable forms of agriculture.

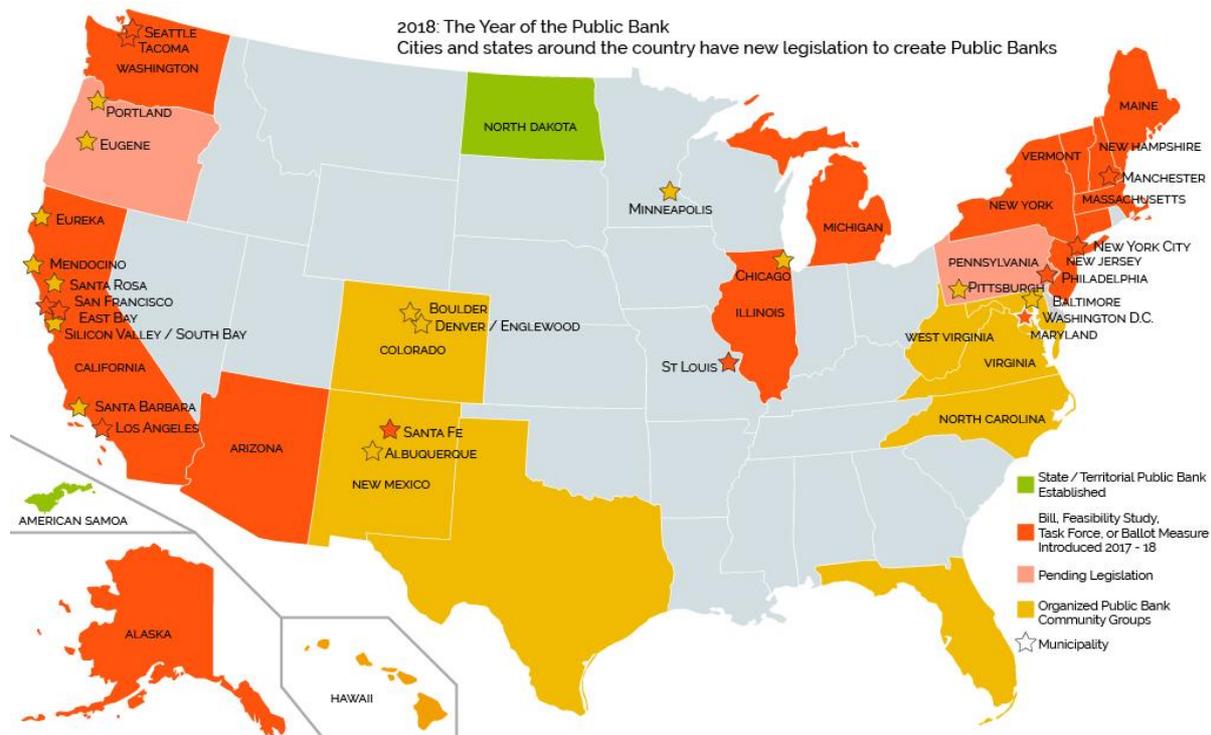
Banc Cambria will work with public and charitable funders to enable it to finance a range of difficult to finance projects with high social and environmental benefits. As Banc Cambria will be driven by social objectives, not just the hunt for profit, any given project could be supported, even if it is not sufficiently profitable for other commercial lenders, as long as it returns an adequate profit, and delivers the bank's social and economic objectives.

This type of lending will require a more skilful and disciplined loan assessment, and so a separate internal risk assessment process will be created to ensure this class of lending is separately authorised, monitored and controlled.

Appendix A - Learning from the growth of other Public and Co-operative models

Richard Werner, Professor of International Banking at Southampton University, has developed a similar, but public sector owned model for the Hampshire Community Bank²⁹ which has already applied for a banking licence, and which, using investment from Local Authorities and the local University, is currently operating as a revolving loan fund.

Ellen Brown, a US Attorney and founder of the Public Banking Institute,³⁰ is a valued adviser with unrivalled expertise. In the USA, the Public Banking movement is starting to gain momentum, particularly so as 2019 is the centennial of the Bank of North Dakota:



- In San Francisco, City Treasurer José Cisneros has set up a Task Force to explore the feasibility of creating a Municipal Public Bank and to recommend opportunities to leverage the City's Banking and investment portfolios.
- In New Jersey, the new Governor elect, former Goldman Sachs Banker and Democrat, Phil Murphy, is promising a Public Bank, saying: *"This is money that belongs to the taxpayers of New Jersey, so it should be invested in them."*
- In Los Angeles a ballot measure for a city-owned bank introduced by the president of the City Council in July 2018 won 44 percent of the vote, indicating that round two, already in process, is likely to succeed.
- The Washington State public banking caucus has 23 senate members — nearly a majority — pursuing a state-owned bank that will include cities and counties as

²⁹ <http://hampshireBank.org>

³⁰ <http://www.publicBankinginstitute.org>

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participating members. The legislature has allocated \$480,000 for a business plan needed to apply for a bank charter, due to be completed in June 2019.

- Oakland City Council has approved a \$100,000 public bank feasibility study.
- Public banks have been introduced at the federal level as a funding mechanism for the Green New Deal put forward by Alexandria Ocasio-Cortez (D-NY), which is now supported by 31 members of the House.
- Across the nation, from Maine to Hawaii, Alaska, West Virginia, Connecticut, and Texas, more than 25 initiatives for public banks are actively being pursued; and over 60 organizations are promoting public banks.

Members of the Public Banking Forum Ireland,³¹ have indicated they would be happy to come to Cardiff to assist and share experience. The Forum have presented a Comprehensive Public Banking System Proposal for Ireland *“Creating Ireland’s Alternative Banking Force, Preliminary Proposal Document”*³² to the Irish Government Finance Committee. The Forum proposes a network of up to 10 regional Banks with a shared back-office services centre. This centre would provide information technology, risk management, tax advice and other services for all the federated Banks in order to keep the cost base as low as possible.

The expertise of Germany’s Savings Banks Foundation for International Cooperation (SBFIC) is also available to help develop Banc Cambria. Niclaus Bergmann, managing director of the German-based Savings Banks Foundation for International Co-operation,³³ speaking at a conference organized by the Public Banking Forum Ireland in Dublin said:

“A network of regional banks with close links to the local economy are the most effective type of SME lenders. A system of regional publicly owned Banks with a focus on lending to the SME sector could play an important role in restoring faith in the banking system and supporting economic growth”.

His proposal is that, in Ireland, each bank would have core capital funded by private investors and possibly Local Government. Each bank would need a core capital level of roughly €10m, although this could be as little as €5m, depending on its business plans. Liquidity would be provided exclusively from deposits.

Mr Bergmann said:

“It is unlikely that AIB and Bank of Ireland would support the concept of public banks, but the pillar banks still have big problems. They are in no position to serve the entire economy, particularly SMEs. Credit Unions also have problems, particularly with consumer loans. The public banks would be regulated as normal and consequently covered by the deposit guarantee scheme”. Public banks would put a huge focus on ethical behaviour, which is critical if the public are to have their faith restored in the banking system.”

³¹ <http://republicirelandBank.com>

³² <http://www.chg.gov.ie/app/uploads/2017/04/submission-by-pbfi.pdf>

³³ <http://www.sparkassenstiftung.de/en/>

Appendix B - Proviso: Things Banc Cambria will not do

There are some things Banc Cambria will not do:

It will not attempt to plug the venture capital gap.

There are only a couple of private companies in Wales providing advice and introductions to smaller businesses looking for corporate finance and there is one business angel network, Angels Invest Wales (formally Xenos) sponsored by the Welsh Government.

The Development Bank of Wales, also provides venture capital. DBW provides equity investment in companies up to £5 million per deal, which is significantly greater than the previous cap of £2 million under Finance Wales.

It will not be a subsidiary of Welsh Government in order to ensure it is not restricted by the Public Sector Borrowing Requirement (PSBR).

As a Welsh Government owned project, the new Development Bank of Wales's access to the wholesale debt markets is restricted, because its borrowing is counted by the UK Treasury against both the Departmental Expenditure Limit and the PSBR. DBW activities, therefore, have to compete with other Welsh Government spending budgets. This restricts the scale of operation of the DBW and means it must develop a function as an agent, syndicating loans, which are not on its own books, whenever large investment deals are required.

It will not duplicate the work of the new, publicly owned Development Bank of Wales

The Development Bank of Wales is partly financed by Welsh Government, the European Union and Barclays Bank, and is not a deposit taking bank, but a fixed size rotating loan fund. As such, DBW is targeting SMEs based in Wales with a mix of loan and investment funds from its central fund.

Banc Cambria, having chosen to take both investments and deposits from public organizations, businesses and the public in Wales, is limited in size³⁴ only by the confidence these investors have in it, and will be able to create new money to invest in the Welsh Economy.

Banc Cambria will work alongside the Development Bank when appropriate, sharing risk, and reaching micro businesses through its partnerships with Credit Unions and CDFIs, to which it can 'wholesale' funds.

³⁴ It must be noted that if Banc Cambria was itself an institution of the Welsh Government, it too would be restricted in access to the debt markets by the PSBR, hence our commitment to the independent co-operative model

Appendix C - What will Banc Cambria do, and why do we need one?

Q *What would be the unique benefit and selling point of Banc Cambria?*

As a mutual, Banc Cambria will be owned and controlled by its membership, which is restricted to people, organisations and businesses resident in Wales. It will work for them, supplying their specific banking needs in a socially responsible and environmentally sustainable way.

It will work in partnership with other organisations, including the Development Bank for Wales, which concentrates mostly on loan packages to SMEs plus some venture capital and mezzanine funds, as that is the area in which its staff have most expertise. Credit Unions and CDFIs provide credit to individuals and SMEs but cannot provide a full banking service to them. We will work to complement these organisations, providing the services they cannot, and at times sharing risk with them by co-financing loans with them.

Banc Cambria will develop its own specialist expertise, and so be able to provide additional and complementary access to low cost investment capital to the public and the SME sector in Wales.

Q *Won't Banc Cambria simply replace the lending currently provided by the private sector banks operating in Wales?*

A We envisage that Banc Cambria's services will be delivered at the local level, much of it with partner agencies, and some directly from its own branches. With a much better understanding of local needs and circumstances, and with no outside shareholders looking constantly for profit, Banc Cambria will be able to reach those small enterprises that the Commercial Banks don't want to deal with or that lack the property collateral they require. These local linkages will also enable Banc Cambria to better assess risk than the existing high street lenders.

Rather than maximizing profit for external shareholders, Banc Cambria's mission is to improve access to funds for the public and SME sector of Wales whilst achieving reasonable returns, and at all times to be prudent in its lending. It will not lend to over indebted members irrespective of the pricing of any such loans.

Additionally, it will not provide any form of director or staff incentive which will encourage or reward imprudent or irresponsible behaviour, and this is written into its governing documents.

Other successful banks have similar missions, for example, the German KfW Development Bank's³⁵ is "to secure the social, economic and ecological well-being of the people of Germany."

³⁵ KfW Entwicklungsbank <https://www.kfw.de/inlandsfoerderung/Öffentliche-Einrichtungen/index-3.html>

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Q *All banks create money, where there are lending opportunities that will be profitable for them and their shareholders – there are many private-sector banks operating in Wales that do this, so why is a Banc Cambria needed in addition?*

A The primary purpose of Banc Cambria is not to make profits, but to provide a prudential loan facility to the public and SMEs, and in so doing to create money to finance the Welsh Economy. As the Bank of England makes clear, this money is generated by the act of lending itself, and can, in theory, be up to 12.5 times the actual Tier One³⁶ capital investment in the bank, although Banc Cambria will not exceed a more prudent 5:1.

This created money can be focussed on the economic needs of our society, rather than just being aimed at the most profitable lending opportunities. Also, any surplus generated would be retained within the Welsh Economy, whereas the profits generated by the private sector banks (none of which, apart from Hodge Bank, are based in Wales) are extracted from the Welsh Economy and distributed to head offices, senior executives and shareholders across the rest of the world.

Q *Would Banc Cambria not be another loss-making exercise needing constant subsidy to compensate for it taking risks on small businesses, and having high overheads by operating in marginal areas where other Banks have withdrawn?*

A No. Experience in Co-operative Banks operating in other countries is that small loans from a sympathetic lender actually have a lower recidivism rate than medium sized loans from commercial sources. Co-operative in other countries, many of which are over 100 years old, are profitable in their own right, and need no public subsidy, because they operate efficiently and prudently.

Also, the business model proposed of working with existing financial institutions, can open up the availability of a range of high street outlets at low cost. Possible high street partnerships could include existing Credit Unions and CDFIs, as well as Welsh Building Societies, with which we are not intending to compete but to complement. Many of these already have a number of offices operated in partnership with other finance businesses, so are familiar with this business model. Other possible outlets could be in Local Authority premises where a small space could be rented at a low, but unsubsidized cost.

Q *Who would Banc Cambria lend to, and why?*

A Banc Cambria has no restriction on who it lends to provided they are resident in Wales and meet its mission. It will lend to individuals, start-up businesses, established and growing businesses, and indeed any form of lending which both meets its mission and is considered to be a sound proposition. It will be demand-led, not product-led, and will seriously consider all requests received.

³⁶ Tier One Capital is defined by the Bank of England and includes paid up share capital (not withdrawable or redeemable shares), PIBS (or the equivalent Core Capital Deferred Shares) and accumulated retained profits

The Case for Banc Cambria

Responsible Finance UK, which represents the emerging micro-finance companies in Wales that service harder to reach businesses, start-ups and social enterprises, believes they could quadruple their growth rate if they had both a willing partner and better access to capital via Banc Cambria.

Where appropriate, Banc Cambria will also work alongside the Development Bank of Wales, sharing risk and reaching micro businesses through its partnerships with Credit Unions and CDFIs.

Q *How will Banc Cambria minimize and control its risk?*

A It will work with local partners, as well as having close relationships with local regeneration teams, partner organizations and SME member organizations such as the Federation of Small Businesses (FSB). This will provide local and regional insights which will help to reduce risk.

It will develop a balanced portfolio of loans, with less risky loans linked to assets making up a large part of its lending. Also, as already happens in Germany and in other EU countries with Co-operative Banks, it will support the development of Mutual Guarantee Societies. These massively reduce the risk of lending to SMEs by spreading the loan risk across a number of inter-related partner SMEs who jointly underwrite the loan risk.

Q *How would Banc Cambria be capitalized?*

A Banc Cambria should be a licensed Bank with full powers to take deposits and issue credit. This is vital if the bank is going to be capitalized in such a way that it can make a serious impact on the development of the Welsh Economy as a whole. Credit creation should be based on a leverage ratio which is much safer than Commercial Banks to ensure the Bank is well capitalized. This should be less than the generally permitted 12.5:1 and we intend to operate a much lower ratio. Our view, in a similarly prudent vein to the Scottish proposals, is to stay at 5:1.³⁷

Local Authorities, the Welsh Government and other public bodies will be encouraged to invest in shares. From this starting point, the Bank will offer a permanent transferable share issue which should be an attractive option for public and private investors alike. Also, public pension funds in Wales should see Banc Cambria as a very reliable investment, and the Welsh Government could work to encourage pension fund managers to take this approach.

It is worth noting that investors have great confidence in other mutual enterprises. Following on from its initial £19billion issue in 1989, Dwr Cymru, the non-profit mutual behind Welsh Water, has recently secured a further £300 million investment with an 18-

³⁷ The BoE currently allows most Banks a ratio of Tier One to Risk Weighted Assets (principally loans) of 12.5:1, but prudent advice is to work to lower ratios. The Public Banking Institute recommends a maximum of 10:1, and the proposals for a Scottish National Investment Bank are considering a ratio as low as 2.5:1

year bond issue at 2.5%, which is a lower ticket than any of the private sector water companies can achieve.

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