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 effects 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 all[1],

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

and most of those are on low incomes. Commercial banks have the right turn away potential 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 sharks[2]. 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 Britian have no branches at all; and the closures are continuing[4]. 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 extent[5]. 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.

[2] https://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

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 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 £1.7bn[6]. 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 motived 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 banks[7]. Britain and the south of Ireland too are monopolised by four or five banks, with the big five banks[8] 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 banks[11].

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

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 need[12], 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.

Lending to small businesses is consistently low and commercial banks are criticised for failing to serve SMEs[13]. 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 turnover[14]. 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 economy[15]. 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 society[16]. 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 position[17].

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

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 campaign[18], 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 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.

[18] https://www.northernmutual.co.uk/
[19] https://neweconomics.org/uploads/files/46fc770bd9488eeb31_q6m6ibhi5.pdf
[20] https://www.csba.co.uk

- ✓ **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 '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 model[21] explicitly mention mutual banking as a solution and say that regional banking enables local economic development[22]. Those involved in delivering the Preston Model[23] 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

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[21] https://cles.org.uk/wp-content/uploads/2019/07/CLES_Preston-Document_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.

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

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 NI[24].

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

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

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.

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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Northern Mutual

Dr G. Bone Dodds | November 2020

This report takes the current (November 2020) business model of the Community Savings Bank Association and applies data on Northern Ireland to inform a likely scenario for a Northern Mutual Bank. It gives suggestions of potential directions for such a bank in order to inform the steering group and to build awareness and feasibility on the model for the region.

It sets out that:

1. There is a need for a locally owned and controlled bank in Northern Ireland that recycles the wealth of the region in order to better support people and businesses and to contribute to sustainable economic development.
2. It is believed that such a bank could get a banking licence, following the progress of other mutual banks in the UK.
3. There is a realistic chance that the bank would be profitable and sustainable having looked at early data on the demographics and markets of Northern Ireland.
4. The purpose of the bank will be developed explicitly to meet the needs of the region, taking into account the existing banking and finance infrastructure.

This document is intended for the purposes of discussion and further investigation. The author believes that further research and resource is needed to fully investigate the viability and potential of a Northern Mutual but that this report takes the first step to show that it is both possible and desirable to explore.

Contents

1. Introduction

Purpose of document

This document sets out a business case for a new regional bank for Northern Ireland based on the Community Savings Bank Association (CSBA) model.

A steering group has been set up to explore the feasibility of developing a regional bank for Northern Ireland. The goal is to develop a trustworthy banking institution to support sustainable economic development in the region by improving access to financial services, retain banking profits, and recycle the collective savings of the region into regionally based business loans and mortgages.

South West Mutual, Avon Mutual, Banc Cambria (Wales), North West Mutual and North East Mutual are currently in different stages of development across the UK.

Summary of proposition

Northern Mutual seeks to provide a customer-owned high street full-service bank to retail customers and enterprises (i.e. SMEs co-operatives, SMEs, micro enterprises, social enterprises, sole traders, farmers) living in or with a connection to Northern Ireland.

The bank will offer interest-bearing current accounts, overdrafts, unsecured and secured term loans and mortgages. In some locations the bank will offer safe deposit boxes.

The bank will be accessible and transparent combining a mix of physical and digital channels with a branch network comprising staffed and automated branches alongside internet banking and a mobile banking app.

2. Why do we need a new bank in Northern Ireland?

The current banking system is not working for many of us, it does not serve the needs of ordinary people or the productive economy in Northern Ireland. The current banking system does not offer

a) an adequate money supply infrastructure to serve certain segments of the market that are not currently well served, nor
b) appeals to customers seeking a bank that aligns with their values and guarantees ownership and control within the region.

An alternative form of banking is necessary, one that will ensure capital gets to the places where it is needed.

2.1 We lack adequate financial infrastructure in Northern Ireland

Identified under-provisions

These are the gaps in the provision currently experienced in Northern Ireland.

Under-provision 1: finance for businesses

Businesses need a good supply of finance and a high-quality banking service. Data for the region suggests that the business market is not currently being well served. Between 2013 and 2019, businesses in Northern Ireland grew by around 10% however SME loans fell by just over 28% (£2 billion). Additionally, a bi-annual survey of business banking quality found that on average just under half of SME customers in Northern Ireland would not recommend their bank to other SMEs[1]. Enterprise NI's recent Barometer survey also found that around half of businesses find it difficult to access working capital/cashflow with 21% finding it very challenging to access[2]. Only 25% of businesses looking for support found it from their bank.

SMEs, co-operatives, micro enterprises, social enterprises, sole traders, and farmers need access to bank current accounts and the payments system in all of its forms, for example flexible overdraft financing and cashflow financing. Northern Mutual will be part of a supportive ecosystem for co-operatives, SMEs, micro enterprises, social enterprises, sole traders and farmers, and will link in with other forms of business support – if it doesn't have a product, service or facility for you, it will introduce you to someone who does.

Under-provision 2: branch users

The region has lost over 30% of its branches since 2015 however many customers continue to value branches. This is particularly detrimental in a region that is largely rural. There is a market gap for a low-cost branch offer that can meet evolving customer needs. Northern Mutual aims to fulfil all of its communities needs by combining physical infrastructure with the best modern technology to provide a great service whilst reducing costs and making branches viable for the modern age.

Under-provision 3: underbanked

Many people still lack a current account, incurring a 'Poverty Premium'. The poverty premium is the additional costs that people on low incomes pay for essential products and services. Research by the University of Bristol found that in 2019 people on low incomes in the UK paid an average of £478 more for essential goods and services[3]. This figure includes a poverty premium of £107 for higher cost credit and £10 for accessing money through ATMs and pre-paid cards. Northern Mutual has a duty to help people access banking with support and guidance. It recognises the important role of the credit union sector and desires to work with credit unions to create a stronger ecosystem that serves the financially excluded and support the existing good work in that sector.

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[1] Business Banking service quality Northern Ireland (August 2020) [Available at: https://www.bva-bdrc.com/products/business-banking-service-quality-northern-ireland/]

[2] Enterprise Barometer 2019, *Enterprise Northern Ireland* (2019) [Available at: https://www.enterpriseni.com/storage/eni-barometer-findings.pdf]

[3] https://fairbydesign.com/wp-content/uploads/2020/11/The-poverty-premium-A-Customer-Perspective-Report.pdf

Whilst Credit Union lending accounts for a third of personal lending, the Consumer Council's Lending, Savings and Debt research for Northern Ireland showed that there are still barriers to accessing banking services for some. For full service current accounts, which credit unions do not offer, only 82% of those on a low income or those in a household with a disabled person, and 82% social housing tenants or 77% for those in areas susceptible to paramilitary activity have access to a current account. Everyone living in the region will be eligible for a current account with Northern Mutual[4]. It is worth noting too, that the Department of Communities Post Office Card Account is coming to an end in November 2021. Many people use this facility to have their benefits paid to them rather than using a bank account. Once this facility is gone, it is uncertain what will replace it.

Overall, only 44% of people have a savings account, this drops to 30% for those living in areas susceptible to paramilitary activity. In the CSBA model, because interest is paid on current accounts in a positive balance, they are also effectively savings accounts. The simplicity of this model should make it easier (and fairer) for people to save.

Under-provision 4: access to cash

In Northern Ireland, two thirds of the population use cash regularly as their main form of payment. This rises to 77% of people in areas susceptible to paramilitary activity and to 79% for those with low income[5]. There is a risk that access to cash may get even worse, as ATM providers consolidate the number of cash machines and start charging for their services. In 2018 free-to-use ATMs in the Link Network declined by 5% or 2,600 machines. The UK's cash infrastructure has become increasingly reliant on the commercial agreement between banks and the Post Office. This creates a vulnerability which was seen in October 2019 when Barclays tried to cancel their agreement with the post office, which would have left thousands in rural areas without easy access to their banking services. Thankfully, they reversed their decision after a public outcry, but it does highlight the need for longer-term banking change that creates more resilience. The Northern Mutual therefore will expand access to cash and will take into account rurality and local population vulnerability in branch placement decisions. The Mutual will have greater capacity for doing this as it will not have the pressure of generating shareholder return, the key driver for the leading commercial banks.

[4] 'Lending, Savings and Debt Research: Northern Ireland Consumers, *The Consumer Council*, (2019) [Available at: https://www.consumercouncil.org.uk/policy-research/publications/lending-savings-debt-research-northern-ireland-consumers]

[5] 'Lending, Savings and Debt Research: Northern Ireland Consumers, *The Consumer Council*, (2019) [Available at: https://www.consumercouncil.org.uk/policy-research/publications/lending-savings-debt-research-northern-ireland-consumers]

2.2 We need a purpose driven financial system

The Northern Mutual also propose to address an increasing demand for purpose driven banking services. Financial services continue to be poorly rated for consumer trust. People believe that the motivations or values of banks do not align with their own - a 2018 survey showed that two thirds of British people do not trust banks to work in the best interests of UK society[6]. And high street banks are accountable to their shareholders and CEOs who are mostly based outside of NI. The banks must answer to them and their primary goal is to make profit for them. This conflicts with the interests of customers who will always come second to shareholders. It is clear that the system is not working for many.

Emerging demands

At present, customers' demands for a trustworthy financial institution that prioritizes purpose rather than maximising profit for its shareholders, are emerging. Northern Mutual addresses those demands by proposing an alternative model of ownership, embedding values that support the just transition to a low carbon economy and implementing a decentralised operational model.

An alternative ownership model

Northern Mutual Limited have met the requirements of the Co-operative and Community Benefit Societies Act (NI) 1969 and the FCA have now registered **Northern Mutual Limited** with CSBA model rules. This a mutual society that abide by the seven co-operative principles recognised by the International Co-operative Alliance.

The society has share capital comprising one class of non-voting ordinary shares and is controlled by its members on the principle of "one member one vote". Members may be individuals or incorporated bodies such as charities, public authorities, or businesses, where businesses can be co-operatives, SMEs, micro enterprises, social enterprises, sole traders, or farmers.

There will be no person, organisation, or consortium of members with a controlling interest defined as an entitlement to control or exercise control of 10% or more of the voting rights. This structure is considered to be a source of competitive advantage.

The individuals taking up the key roles as set out in governance section will be subject to approval by the PRA and the FCA. Finding the right people with the skills and the ambition to create a bank with social, environmental and economic purpose is key to the success of the mutual banks.

Values that support low carbon and just transition

Consumers are placing more emphasis on social and environmental factors in their purchasing decisions. 73% agree that a company can both increase profits and improve the economic and social conditions in the communities where it operates—a nine-point

[6] Palframan, M. (2018) 'Ten years after the financial crisis-two thirds of British people don't trust banks', *YouGov*, (Available at: https://yougov.co.uk/topics/finance/articles-reports/2018/08/29/ten-years-after-financial-crisis-two-thirds-britis)

increase on 2018[7]. Northern Mutual will ensure that our operations do not negatively impact the environment, and will seek investments that actively improve the social and environmental landscape. It will prioritise and encourage indigenous enterprises that can demonstrate social or environmental value and that contribute to the circular economy. This will become ever more relevant as we move deeper into the climate crisis.

We are entering a climate crisis where it is essential that we transition to a post-carbon society while ensuring the transition is just. It has never been more important to build regional resilience and self-reliance so that a just transition can happen and to harness regional wealth in order to finance the transition. Northern Mutual, with its ESG strategy, is perfectly placed to be the vehicle to drive the transition and section 4.2 sets out how Northern Mutual's values, structure and products can be designed to meet these needs.

A decentralised operational model

How close decision-makers are physically and operationally to the people affected by those decisions has an impact on outcomes. A 2018 study showed that decentralised banking with shorter distances allows credit decisions to be made which take into account soft and local decisions, which enhances the profitability of regional banks[8]. So, rather than having a central credit decision agency making decisions through a centralised model, local branches make such decisions based on local knowledge. In this way, the Northern Mutual will always be local.

[7] Edelman Trust Barometer (2019) (Available at: https://www.edelman.co.uk/research/edelman-trust-barometer-2019-uk-headlines-communicators)

[8] Flögel, F. and Gärtner, S. (2018) 'The banking systems of Germany, the UK and Spain from a spatial perspective: lessons learned and what is to be done?', *Institute for Work and Technology Westphalian University of Applied Sciences*, (Available at: https://www.econstor.eu/bitstream/10419/173345/1/IAT_Discussion_Paper_16_01.pdf)

3. Vision, Purpose and Values

Northern Mutual is a co-operative business that seeks to generate long-term sustainable financial returns and have a positive impact on its members and in the communities that it operates in.

Whilst the bank would be relatively small in terms of banks, it would be relatively large in terms of the impact that it will have in the region, reaching £541 million of assets by year 9. The bank's focus will be serving the needs of Northern Ireland, providing a safe, ethical and supportive bank which will lend to businesses that are creating jobs and invest in high quality sustainable homes by driving improvement in housing and home ownership.

Its vision is of democratised banking in which Northern Ireland will own and control the money supply structure in order to retain the money and wealth belonging to this region, circulating it to create an inclusive, sustainable and resilient economy in which individuals, businesses, communities and our environment can thrive.

Its purpose is to exclusively support the region and its regional economy. As a locally owned and controlled bank, it will aim to work for current and future generations through the provision of honest, accessible, ethical and locally-rooted banking services. It will be a purpose-driven bank and not a profit-driven one, supporting the priorities of Northern Ireland, understanding the needs of the region and creating jobs by investing in indigenous businesses. Northern Mutual will ensure that the money generated in the region stays in the region for the good of the region. The Mutual will help individual members achieve their realistic home ownership plans and save well for the future and for retirement. It will always have their back.

Its values will make it stand out from the crowd and make its members proud. The bank is a mutual, which means that it exists to serve its members be a bank that people can trust. It will be a different kind of bank, built on a clear set of values and every element of the bank, including its governance, strategy, products, policies, recruitment, training and remuneration will be built upon these values.

1. The **financial wellbeing of its members** and their communities is at the heart of what it will do.
2. It will build trust through simplicity, honesty and transparency in all its conversations.
3. It will be **fair and inclusive** in all its actions and relationships.
4. It seeks to improve the **financial capability** of its members and employees and support them to achieve their aims.
5. It will leave future generations with a **healthier natural environment** than the one it has inherited.
6. It will deliver **reliability and peace of mind** for members and employees.

At all times, employees can sense-check whether what they are about to do aligns with the Bank's vision, purpose and values by asking themselves two questions:

- Is it safe? (could this action cause harm to the Bank, its members, the community or the environment?)

- Is it fair? (would I be content to see a loved one treated in this way?)

4. Market Opportunity and Rationale

Capital is not getting to the places where it is needed most: indigenous businesses; socially useful ventures based on non-traditional ownership models, with social goals as well as business ones, that need capital can't get access to it; mainstream banking and investment strips out and sucks too much wealth and return away from NI, in relationships that have too much of an extractive caracter. There is way to organise the flows of finance in NI society, so that more wealth is retained and gets to fund the locally owned business activities. It is this gap that the Northern Mutual will fill.

The Northern Mutual gives us an opportunity to create a new bank which is democratic, trustworthy, ethical and deeply rooted in Northern Ireland. Because it will operate with a different set of values and on a different scale to the current banking offer, it will be able to provide a more bespoke service tailored to the needs of individuals, businesses and communities in the region. It can act as a trusted intermediary institution, harnessing the under-utilised capital in the region for wider social and economic benefit, while at the same time ensuring local control and accountability.

The UK domestic banking market is unusual in lacking regional stakeholder banks (banks that have a purpose beyond maximising returns to shareholders).

Such banks exist in various forms from North America, through Europe to South West Asia. They occupy a tier in between large shareholder banks (assets of £100bn-£1000bn) and small specialist credit institutions (assets of £1m-£100m). Their regional focus, smaller scale and values-led approach give them a competitive advantage in serving some market segments such as small and micro businesses, co-operatives and social enterprises.

A similar opportunity exists in Northern Ireland.

Why regional?

The key advantage of the regional model is that everything about the bank, including the business plan, product and services, and customer acquisition strategies will be tailored to the needs of the region.

The embeddedness of the bank in the region is one of its unique selling points for a number of reasons:

1. It will build social capital, local knowledge and relationships to inform investing and lending decisions, getting capital and investment to where it is needed and to where it can be most effective and beneficial for local people and communities.
2. It will meet the specific needs and opportunities of the region through a process of user-centred design, focusing on potential members, including individuals, businesses, communities and stakeholders, while pursuing socially and environmentally-valuable opportunities such as those in the circular economy.
3. It will enable the region's wealth to be better circulated and distributed for the benefit of the people, enterprises and communities so that investments, profits and other benefits are retained locally.

4. It will exclusively operate for the benefit of Northern Ireland, with all branches and the headquarters located there, enabling detailed local and regional knowledge.
5. It will be accountable to its members and will always seek to listen closely to its customers and stakeholders as it grows. This will enable it to adapt and be dynamic to continue to serve the changing needs of the region over time. This is the method by which the Mutual will build its social capital and local knowledge and relationships.

Evidence supports the superior ability of local and regional banks to undertake high quality lending where it is necessary to gather contextual information, such as knowledge of local markets and businesses, that go beyond basic financial and credit file data. It will work with local and central government to align the banks SME strategies to local development plans and other opportunities (such as local wealth building).

The geographical scale of the Region balances the following three factors:

- sufficient market size to achieve viable financial scale.
- reduced concentration risk. The broad range of products offered to both individual and business customers provides diversification of risk to counter geographical concentration.
- market proximity and accountability. Local knowledge and short distances between customers and decision makers is a key competitive advantage for regional banks.

Why mutual?

In Northern Ireland, mutuals are regulated by the CO-OPERATIVE AND COMMUNITY BENEFIT SOCIETIES ACT (NORTHERN IRELAND) 1969.

The Financial Services Compensation Scheme suggest 'alignment' is one of three factors influencing trust – "Is it in the bank's interest to provide the things I want or need?". Mutual ownership aligns interests in this way[9].

This is important for three crucial reasons. First, the bank will bring some much-needed trust into the banking system by putting customers at the heart of the organisation. Being owned by, and therefore in service to its members creates the right incentives for the bank to do what is right for the communities of which it is part and, if something was to go wrong, its members have real power to hold the bank to account.

Second, because it is member owned, this enables the bank to operate with a more sustainable and just idea of value - it would be a stakeholder bank able to account for social and environmental, as well as economic goods. Research shows that stakeholder (as opposed to shareholder) banks can create sustainable returns whilst also serving social needs[10]. This approach would also mean the Mutual to use green cost accounting in addition to more conventional methods.

[9] Chater, N. (2015) 'Mind the Gap: Restoring Trust in Customer Services', *FSCS,* (Available at: https://www.fscs.org.uk/globalassets/press-releases/20151111-fscs-trust-white-paper-final.pdf)

[10] See Prieg, L. and Greenham, T. 'Stakeholder banks: Benefits of banking diversity', *The New Economics Foundation (2013)* [Available at: Https://b.3cdn.net/nefoundation/141039750996d1298f_5km6y1sip.pdf] and Bone, G. 'Banking for the Common Good' p28-32.

Table 1 – Northern Ireland Local Government District

Local Government District	Code
Antrim and Newtownabbey	UKN06
Ards and North Down	UKN09
Armagh City, Banbridge and Craigavon	UKN14
Belfast	UKN06
Causeway Coast and Glens	UKN12
Derry City and Strabane	UKN10
Fermanagh and Omagh	UKN16
Lisburn and Castlereagh	UKN14
Mid and East Antrim	UKN15
Mid Ulster	UKN11
Newry, Mourne and Down	UKN08

Finally, the Northern Mutual will be a bank with a purpose, it will make money, but it's purpose will be guided by its members. Purpose-driven banking recognises that finance is not neutral and that banks should pay attention to the drivers of purpose through their ownership, governance and culture and leadership[11].

Why a bank?

Responding to the market opportunities set out in Section 4 requires a combination of current accounts, deposit accounts and loans and a full range of distribution channels including branches as well as online and mobile banking.

This combination of products and services is only possible with a deposit-taking license, thereby ruling out e-money institution, community development finance institutions or other non-deposit-taking consumer credit structures.

[11] See Bone Dodds, G. 'Barriers to growing the purpose-driven banking system in the UK', *The Finance Innovation Lab* (2020) [Available at: https://financeinnovationlab.org/wp-content/uploads/2020/12/Purpose-Driven-Finance-Finance-Innovation-Lab.pdf]

Credit unions are a very important part of Northern Ireland's financial ecosystem, providing one third of personal loans through the 92 Credit Unions affiliated to the Irish League of Credit Unions[12] and the 38 Credit Unions affiliated to the Ulster Federation of Credit Unions[13].

Credit unions have some limitations and cannot play the same role as a deposit-taking licenced bank. Credit unions can accept deposits and offer branch facilities, however, most do not offer full current accounts and:

- Businesses are limited to 10% of members, 10% of total loans and 25% of deposits which would prevent us from achieving our aims to serve the underserved businesses of Northern Ireland such as co-operatives, SMEs, micro enterprises, social enterprises, sole traders, and farmers, as per the Credit Unions and Co-operative and Community Benefit Societies Act 2016[14].
- Credit unions lend mainly to lower income or sub-prime customers, whereas whilst Northern Mutual will be inclusive, its intention is not to focus on these groups but rather a wide range of target customers across socio-economic groups.
- Our target operating model is to achieve total assets of £500m, one to two orders of magnitude larger than UK credit unions.

Further it is noted that, although technically possible, few credit unions have achieved a commercially viable model for the provision of current accounts or residential mortgages, which are both integral to this business model. In the Republic of Ireland, 115 Credit Unions[15] have begun to offer a form of current account functionality in the case of prepaid debit cards, and some of the Credit Unions in Northern Ireland have begun to offer the same. However, that is not the equivalent of a full service bank account.

According to the latest statistics[16], credit unions in Northern Ireland are only currently lending out around one third of their assets, with around another third of their liquid assets sitting in bank accounts. The result of this is that these savings are effectively taken out of circulation in the local economy. If credit unions were to bank with Northern Mutual, it would be a win-win scenario where credit unions would have a safe place to store their members' money and earn interest, and the Northern Mutual would have a source of deposits it can lend out to local businesses such as co-operatives, SMEs, micro enterprises, social enterprises, sole traders, and farmers.

Building Societies provide a useful savings and mortgage range locally but they are restricted from the wider product ranges needed to provide banking to individuals and businesses.

A better regulatory structure for meeting the market opportunity is a bank with the permissions set out in section 4.6 on page 36.

[12] See Irish League of Credit Unions [Available at: https://www.creditunion.ie/ilcu/about/]
[13] www.ufcu.co.uk/about-us.html
[14] https://www.legislation.gov.uk/nia/2016/16/crossheading/credit-unions/data.pdf
[15] See https://currentaccount.ie/
[16] 'Credit union quarterly statistics – 2020 Q2' Bank of England (30 October 2020) [Available at: https://www.bankofengland.co.uk/statistics/credit-union/2020/2020-q2]

It is worth noting however that Northern Mutual strongly supports the Credit Unions of Northern Ireland. If designed with the participation of the credit union ecosystem, we can ensure that this new mutual bank can amplify and support credit unions at the same time as strengthening and contributing to SME growth and regional economic development, keeping and circulating money in the area. Northern Mutual should be seen as competitive to the banks of Northern Ireland, not its credit unions. After all, credit unions themselves need a bank account to provide their services and deposit their members' money, and we think this should be Northern Mutual and not a mainstream bank that does not act in the best interests of the region, and that has pressures from and is accountable to outside actors.

Coronavirus Recovery

The COVID-19 crisis has exposed vulnerabilities in our economic and financial systems and institutions and highlighted the weaknesses brought about by a decade of austerity. People should have systems and institutions that work with them, not dysfunctional ones that work against them or fall apart when they are most needed. And as we go deeper into the climate crisis, we should probably expect more emergency situations like COVID-19, not fewer. All the more reason, therefore, to have systems and institutions, such as Northern Mutual, that put people first.

During the pandemic, where was our money and what was it doing for us? The millions that sit in our current and savings accounts were in private banks, working hard to earn profits for shareholders. Had the Mutual been operating, with its focus only on investing in the region, there would be an important piece of infrastructure that could be used to support people and businesses throughout the crisis and into the recovery.

There is a need for alternatives and greater local autonomy and decision making in allocating capital for community and ecomomic development and resilience, rather than relying on oustide institutions whose priorities and focus lay elsewhere, that are unable to get local capital to where it is needed and that extract too much from local wealth and local NI capital. The Mutual is one such alternative. The Mutual could also be linked to the goals of the circular economy and environmental protection.

4.1 High Level Strategy, Unique Value Proposition & Proposed Target Customers

High-level strategy

The Bank's strategy is to gain competitive advantage through:

- Superior knowledge of local markets and customers by being based in the region with local branch managers
- Building and maintaining trust with members through the Bank's ownership, governance, values and policies
- Reducing costs and risks by using proven technology
- Applying technology and a lower cost branch model to maintain branch access in places that have lost bank branches
- Lower supply costs through collective bargaining with other mutual banks
- Seeking commercial partnerships with organisations that share our mission and can enhance our member offer

Unique value proposition

Northern Mutual will have a unique value proposition being the only bank in the Region with all the following characteristics:

1) Mission-driven, not solely driven by short-term profits (**purpose**)
2) Wholly committed to Northern Ireland (**place**)
3) Member owned and controlled – one member, one vote (**participation**)
4) Close to its members by being smaller scale with short reporting lines from branch to Board, and by ensuring that help from a human assistant is accessible when needed by the member (**human-scale**)
5) Taking a long-term view of profitability over the whole asset portfolio as well as per individual transaction (**relational**)
6) Having a vested interest in wider economic development in the region, able to work with the current local ecosystem, especially credit unions, local CDFIs and building societies (**collaborative**)
7) Rebalancing money supply and demand by ensuring that the money belonging to member is recycled back into the local economy, rather than being extracted for investment purposes outside the region (**wealth retention**)
8) Lending and investment decisions made in the economic, social and environmental interests of the local region, helping us make a just transition to a post-carbon society and promote the circular economy (**just transition**).

The combination of these six qualities gives Northern Mutual a competitive advantage over other banks and will appeal to a wide range of different potential customers in the Region.

4.2 The Community Savings Bank Association

The CSBA is a co-operative society that has been established to help create and sustain a network of independent, sustainable, regional, mutually owned banks.

For this purpose, the CSBA has made available to the author and will make available to the Northern Mutual certain intellectual property including model rules, template documents, business plans, testing and training facilities, certain software and equipment interfaces and key supplier relationships.

Northern Mutual will need to agree to only use this intellectual property for the purpose of establishing a mutual bank in the Region and for no other purpose. On entering mobilisation, CSBA will grant Northern Mutual a perpetual, non-exclusive right to use the intellectual property. Where the CSBA provides advice on procurement, contracts will always be directly between Northern Mutual and its suppliers. The CSBA is not a member of Northern Mutual.

Viability of model without other banks

It is prudent to ask whether the viability of a regional bank in Northern Ireland depends on the successful development of similar banks elsewhere?

The answer is that the CSBA model is set up is to ensure that each regional bank is fully and completely autonomous to take account of appropriate levels of risk. The CSBA, itself a mutual has undertaken all of its research and development with this aim in mind. If the Northern Mutual ends up being the only CSBA bank in the country, then the only impact on its viability is whether its business plan is viable. Each bank must develop and stand on its own. The IT infrastructure and all agreements with suppliers have been designed so that each individual regional bank enter into them at an agreed price.

The banks currently under development are working collaboratively together and are keen to share research and business plans with each other as they go through the regulatory process. There are discussions on-going as to the future development of this collaborative network whilst assuring regulators that this co-operation will not threaten competition. It is expected that the co-design of this will progress as each regional bank progresses through the licencing application process.

Already efficiencies are being seen, with agreements with companies for commissioned work are enabling reduced prices for work that all banks will have to buy in (such as Due Diligence).

So, to clarify, the viability of a Northern Mutual does not depend on efficiencies with other mutual banks, but there are possibilities for further efficiencies and collaborative working with them as their development progresses, which could further benefit the financial models.

5. Target Customers and Products

5.1. Total Market Size

Membership is a pre-requisite for the Bank providing its services and is open only to residents of Northern Ireland and the 11 local government areas.

A resident is defined as a person or organisation which can be one or more of the following:

- Owns a home or has an address in Northern Ireland
- Is on the electoral register/has a registered office
- Has a significant financial interest
- Has a significant commercial interest
- Has a meaningful community involvement within Northern Ireland

Membership criteria are yet to be finalised but they will be decided based on the objective of retaining profit within the region, and of managing risk in order to protect the bank, for example, to avoid becoming a potential vehicle for money laundering.

The adult population and outstanding balances of SME loans, mortgages and personal loans are shown in the tables below. Our medium term (5 year) target is to capture shares of these overall markets ranging between 5.3% personal current accounts, 10.8% of SME current accounts[17], 0.5% (mortgages), 1.9% personal unsecured loans and 1.4% business unsecured loans.

The Bank will offer a range of products in response to a number of market opportunities where it can gain a competitive advantage. These are summarised on the following page.

Further research is needed, including customer focus groups, direct consultation with potential institutional and business customer groups, and further survey questionnaires.

This research should focus on:

- Defining customer needs
- Testing appetite for the Bank's proposition and
- Understanding what drives switching

[17] Whilst the share of SME current accounts is significant, the financial model is cautiously assuming zero business growth. Over the past 3 years businesses in the region have grown by nearly 5%.

Table 2 – Population statistics by local authority		
	Adult Population	SME Businesses
Antrim and Newtownabbey	113,583	7,062
Ards and North Down	131,544	8,260
Armagh City, Banbridge and Craigavon	167,448	14,948
Belfast	275,075	17,535
Causeway Coast and Glens	116,427	10,577
Derry City and Strabane	118,473	9,126
Fermanagh and Omagh	91,965	14,318
Lisburn and Castlereagh	116,414	8,348
Mid and East Antrim	112,537	8,584
Mid Ulster	113,899	15,962
Newry, Mourne and Down	140,377	15,245
Totals	1,497,742	129,965

2019 NISRA Mid-Year Population Estimates (age 16+) and own analysis of ONS Business Population 2019 Estimates of both registered and unregistered businesses.

Table 3 - Lending statistics by postcode			
	SME Loans	Mortgages	Personal Loans
	£bn	£bn	£bn
County Antrim BT1, BT2, BT3, BT4, BT5, BT6, BT7, BT8, BT9 BT10, BT11, BT12, BT13, BT14, BT15, BT16, BT17, BT27, BT28, BT29, BT36, BT37, BT38, BT39, BT40, BT41, BT42, BT43, BT44, BT53, BT54, BT56, BT57, BT58	1.69	9.997	0.415
County Armagh BT60, BT61, BT62, BT63, BT64, BT65, BT66, BT67	0.396	1.979	0.093
County Down BT18, BT19, BT20, BT21, BT22, BT23, BT24, BT25, BT26, BT30, BT31, BT32, BT33, BT34, BT35	0.777	5.129	0.224
County Fermanagh BT74, BT92, BT93, BT94	0.182	0.493	0.033
County Londonderry	0.508	2.224	0.109

BT45, BT46, BT47, BT48, BT49, BT51, BT55			
County Tyrone BT68, BT69, BT70, BT71, BT74, BT75, BT76, BT77, BT78, BT79, BT80, BT81, BT82	0.796	1.887	0.108
Credit Union Lending (Whole of NI)			0.629
Northern Ireland	4.322	21.709	1.611

Source: Post code lending data from UK Finance, Q4 2019 and Bank of England Credit Union Statistics

Although Northern Ireland has a smaller population than other areas looking at mutual banking, it has a higher lending market. NI has half of the population and half the SMEs of the North West of England – both the SME and personal lending market is higher. In SME lending this is £500 million more, and around £150 million more in personal lending. Mortgage lending is about 6 billion lower.

5.2. Target Customers

The Bank's structure, operations and governance enable the Bank to act differently and target the customer with a service that will be unique in the region. Although the exact proposition to the customer will depend on further research and engagement with potential customers and stakeholders, some examples of what this may look like include:

Businesses:

- The Northern Mutual will aim to serve the businesses that currently exist in the region as well as aligning itself to potential growth sectors.
- Currently, Northern Ireland 7 largest SME sectors are shown in Table 4.
- The unregistered business sectors show that there may be key markets for first time business accounts, as unregistered businesses are more likely to use their personal current accounts, which is not ideal. Support and marketing could be tailored to those sectors including construction, social work and service-based freelancers.

Table 4 – Northern Ireland Key SME Sectors	All businesses	Unregistered
A - Agriculture, Forestry and Fishing	15.51%	1.48%
C - Manufacturing	6.89%	7.91%
F - Construction	20%	27%
G - Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	10.3%	2.21%
H - Transportation and Storage	3.76%	4.29%
M - Professional, Scientific and Technical	9.65%	11.44%
N - Administrative and Support Service Activities	5.14%	7.14%
Q - Human Health and Social Work Activities	4.66%	7.40%
R - Arts, Entertainment and Recreation	2.85%	5.24%
S - Other Service Activities	7.81%	13.84%
Totals	86.57%	87.95%

Source: Authors analysis of ONS UK Business: Activity, Size and Location (Start 2019)

- As a general rule, the bank will seek to target its lending and support beyond micro-businesses to those that are ready to grow, but with turnovers under £1 million.
- It will also aim to be the bank of choice for the majority of indigenous enterprises in Northern Ireland such as micro businesses, SMEs, co-operatives, social enterprises, farmers and sole traders.

- Northern Mutual will focus on lending to businesses that are creating jobs and adding social and environmental value. In this way, the Mutual will become an important part of the business support ecosystem in the region, and will form strategic partnerships with key stakeholders such as Invest Northern Ireland, local enterprise agencies, co-operative and social enterprise development agencies, farmers' unions, trade unions, Chambers of Commerce, the Federation of Small Businesses, Manufacturing NI, Retail NI, Hospitality Ulster, and others, in order to maximise the support for enterprises in the area and provide added value to its business members.
- Additionally, Northern Mutual's purpose will guide it to align with the economic development of our region and with business sectors mentioned in regional plans such as the Belfast Region City Deal, Department of Economy's 'Rebuilding a stronger economy', the local economy development plans in the councils and plans for the circular economy, with particular emphasis those sectors that have social and environmental value.

Individuals:

- The Northern Mutual will target customers who will appreciate the values of the bank, and will see that banking can be more than just a personal financial investment with excellent service, but also an investment in their communities and region.
- Meaningful stakeholder and community engagement should lead into the design of the bank, from the very beginning the Northern Mutual should show that it is different. It can do this by using service design and user centred design principles to ensure that the feedback given about banking and business needs will directly feed into the design of the bank. For example, if a community thinks that a branch in their local library, post office or community centre will be the best location, then that should influence the decisions about the branch network.
- The interest paid on balances will attract those with savings and ensure Northern Mutual will have a robust balance sheet, enabling its investments in regional businesses and ethical mortgage products and ensuring that money raised in the region will stay in the region.
- There is scope to design smart banking products to support people on lower or more precarious incomes (for example through Jam Jar functionality) which encourage saving and take the customer on a journey to better finances. Having an offer of support, education and coaching would be attractive to members.
- The Mutual will help address financial exclusion since no one living here can be refused a bank account on the basis of low income or poor credit history.

Mortgages:

- One in three households in Northern Ireland spend 25 per cent or more of their household income on housing costs, while one in 10 households spend more than 40 per cent. The percentage of income spent on housing costs is strongly influenced by tenure with those in the private rented sector being most likely to spend more than 40 per cent of their household income on housing costs, with close to one in six in the private rented sector doing so. This contrasts with just over one in 10 of those in the social rented sector and one in 20 of those who own their house with a mortgage[18].

- Northern Mutual can focus on lending that will drive an improvement in homes and in home ownership. It will help people to buy their own home, either directly, through first-time buyer mortgages, re-mortgages, shared ownership or other equitable and (ethical) innovative models. It can also offer mortgage coaching to customers, going on a journey with them to home ownership if that is what they want.
- In the first instance Northern Mutual would aim to support organisations in the region, such as housing associations, co-housing projects and community-led housing projects.
- It will also focus on finance that can drive an improvement in housing, looking at driving improvements in energy efficiency and self-sufficiency, looking at more bespoke products such as self-builds, renovations, housing co-operatives, community building initiatives and more. It could link up with the sustainable construction sector in the region to support better housing and increase climate change resilience[19]. This sector is very underdeveloped in Northern Ireland but the Belfast Climate Action plan has highlighted the urgent need for insulating the existing housing stock and the Mutual could actively target those seeking to establish businesses in this area.
- There is a need across the UK for products that encourage housing suited to the needs of those nearing or in retirement[20].
- Northern Mutual should not lend to bigger housing developments unless they are part of a mass regeneration that is important to local communities, and are committed to building stock with the highest energy efficiency standards. In housing, as with all Northern Mutual's investments, it will be led by the communities we serve, complimented with the knowledge of the local branch managers and staff. The Mutual will consider a maximum loan as a means of managing risk.

The market research carried out for this report has been desk-based, and at this point no specific market research has been carried out in Northern Ireland, however if one looks at the research that South West Mutual commissioned with Opinium Research, in Table 5 below, to get an indication of some of the addressable markets that they found, many of which one would expect to be similar in Northern Ireland.

This research cannot of course drive an understanding of market demand in Northern Ireland, so further research is needed, but it gives a suggestion of areas, in addition to the business, individuals and mortgage customer opportunities outlined above.

[18] Wilson, L. 'Housing Affordability Crisis', *AgendaNI (2019) [Available at: https://www.agendani.com/housing-affordability-crisis/]*
[19] Johnson, J. (2017) 'LEPs and Local Energy', *Liverpool City Region Combined Authority*, (Available at: https://www.liverpoollep.org/wp-content/uploads/2017/03/LEPs-and-local-energy_FINAL.pdf)
[20] Copeman, I. & Porteous, J. (2017) 'Housing our Ageing Population', *The Local Government Association*, (Available at: https://www.local.gov.uk/sites/default/files/documents/5.17%20-%20Housing%20our%20ageing%20population_07_0.pdf)

Table 5 – South West Mutual's analysis of market gaps (based on commissioned Opinium market research)			
Market/economic/ social trends	SWM response	Illustrative indicators of addressable market	Competitive intensity
Loss of trust	Mutual structure	31% more customers express trust in mutuals than PLCs	Medium – no regional building societies, but Nationwide has strong presence
	Simple, honest and transparent products and communication	65% of customers say this would make a bank more trustworthy	Low/Medium – new challengers such as Monzo have clear and simple communications. Current accounts and overdraft charging structures are often complex.
	Remuneration policy (maximum ratio, real living wage and bonus ban)	54% more likely to choose bank with moderate executive pay, and no sales incentives (50%). 50% say fair pay would improve trust	Low – no other banks combine pay ratio, no sales incentives and real living wage
	FSCS protected deposits	We are regularly asked whether deposits will be covered by FSCS	High – this is a hygiene factor but still provides a competitive edge over non-bank EMI competitors
Consumer values – ethics, social and environmental impact	Values-led, reinforced by purpose-with-profits corporate structure Measurement of and reporting on environmental and social impacts	The proportion of the public that are concerned about climate change has reached 80% Over 25% have avoided buying a product or service due to its negative environmental impact in 2017 – up 65% since 2016	Low but increasing – Triodos and Ecology Building Society. Other banks will incorporate in branding but will be unable to deliver on brand promise due to legacy involvement with sectors causing negative impacts
Consumer values – regional impact	Strong regional identity	In our Opinium survey over half of respondents said they would be more likely to choose a regional bank. Between 6% and 9% are 'much more willing' to pay for PCA if the bank explicitly supports the region's SMEs and communities (150,000 – 225,000 potential customers)	None
Under-provision: branch users	Low cost automated branch solution	Certain SME sectors, e.g. retail, leisure and tourism, still rely on cash and require branch banking, and account for a higher proportion of SMEs in the region than nationally	Low – increasing numbers of market towns in the region are becoming branchless
Under-provision: SME finance	Local branch managers designed to gather soft information to augment hard data	Extensive studies demonstrate that smaller locally rooted banks outperform on SME credit	Medium – Handelsbanken serves larger SMEs. One CDFI in the region – South West Investment Group – cannot meet demand. Peer-to-peer and challenger banks aim at secured and easy to assess credit

	Focus on unregistered businesses and SMEs and regional/sector specialisms	9% of personal accounts used for business transactions against T&Cs. We will aim a PCA product specifically at sole traders	Medium – Nationwide entering SME market and challengers targeting SME BCA and deposits
Under-provision: unbanked	Use of full range of KYC verification in accordance with JMLSG	Refusal of ID is the most often cited reason (40%) for customers who want an account failing to get one	Low – Few credit unions offer PCAs and banks have bureaucratic systems inflexible on ID verification
Low carbon transition	Incorporate ESG into risk framework	Transition in business models is likely to require capital investment and working capital across a range of sectors	Low – PRA cites only 10% of banks integrating climate risk in their governance and risk strategy

Source: South West Mutual ‘s Business Plan – Initial Submission (2019)

5.3 Product Summary

Northern Mutual will be a full-service retail bank. It will offer individual and business current accounts, savings, overdrafts, term loans, overdrafts and residential mortgages. The Bank will always seek to implement simple and transparent charging structures.

Pricing

The Bank has a £15 membership fee which buys a share in the Mutual and a £5 per month account fee for individuals and for businesses it is £30 for two shares and £10 per month account fee. The Bank pays interest of 1% on all balances for all members. Dividends are expected to be paid once the Bank reaches profitability[21].

Overdrafts

The Bank will always seek to implement market-leading simple and transparent charging structures. In the case of overdrafts this will be through charging a competitive interest rate (APR) for authorised facilities, no further fees, and providing a small emergency facility for unauthorised overdrafts with no penalty charges.

The CSBA has reviewed PS19/16: High-Cost Credit Review: Overdraft policy statement and CP19/18: Overdraft Pricing and Competition Remedies published on 7 June 2019 and believes that the intended approach to overdrafts will be, at a minimum, fully compliant with them.

Business term loans, secured and unsecured

Aimed at co-operatives, SMEs, micro enterprises, social enterprises, sole traders, or farmers and particularly where local and sector specialist knowledge can give the Bank a competitive edge.

Excluded Products

The Bank will not offer credit cards, and in general will not offer loans to the commercial property sector, unless there is a strong community or environmental benefit to doing so (for example as part of mass regeneration of an area through zero-carbon housing). The Bank will take a flexible approach to buy-to-let and holiday-let mortgages and be guided by further research, as in some areas across the region offering these may be detrimental to the community, whilst in others they may be welcomed. The expertise and decision-making powers of local branch managers will enable the Bank to have area-based policies on this if appropriate. The Mutual will also consider a maximum loan something to consider to help guard against higher doubtful or bad debt, particularly in the early days of operating.

Product Phasing

The detailed product offer will be guided by further market research, but it should expect to offer the products detailed in Table 6 below phased over the first few years in order to manage risk.

[21] The assumptions made here are based on expectation

Table 6 – Phasing of Product Launches				
	Launch	Phase 2	Phase 3	Phase 4
Current accounts	Personal	Sponsored	Children's	
	Business		Sole trader	
	Non-profit	Tailored*		
Savings	Instant (with CA)	Notice	Fixed term	ISAs
Overdrafts	Personal			
	Business			
Term loans	Personal unsecured	Business unsecured	Tailored*	
		Business secured	Personal secured	
Residential mortgages	Remortgage	Purchase	Tailored*	Fixed rate
Other	Safe deposit box			

Product Development

The Bank is currently researching a number of niche markets and tailored products where it can gain a competitive advantage from small scale and close market proximity. Some examples are shown in Table 7 below:

Table 7 – Examples of tailored products		
Category	Description	Rationale
Current accounts	Co-operatives	Banks do not recognise co-operatives as legal forms. Requires appropriate member onboarding and understanding of ownership and control.
	Local councils	Jam jar function may be useful for restricted reserves. Useful source of stable deposits. Better service on mandate changes will win customers.
	Charities	Many new charities in Northern Ireland are finding it difficult to open a bank account with the high street banks. Northern Mutual will be able to provide them with bank accounts.
Term loans – personal	Retrofit	Can be secured on property as 2nd charge. Might be underwritten by councils or govt to speed low carbon transition.
Term loans – business	Low-carbon conversion	For any change in business model that is aimed to reduce environmental footprint, e.g. conversion to electric vehicles or organic conversion.

Mortgages	Self-build	Growing market with few competitors and good margins. Self-build homes account for 60%-80% of new build in Europe but only 6% here. Homes generally built to higher standard than developers.
	Furnished holiday lettings	Important to regional economy and where local geographical knowledge will give a competitive edge. Few competitors and good margins.
	Community led housing	Often bring empty homes back into use. Market too small for mainstream lenders. Examples include co-operative housing, co-housing, community land trusts, self-help groups, mortgages/lending for new mutual/s created out of the Housing Executive.

5.4. Distribution Strategy

A multi-channel distribution strategy will be attractive for significant numbers of members in the Region whilst not leaving anybody behind. The Bank aims to be accessible and transparent, through a mix of physical and digital assets which will give maximum value to the customer. It will take the best of traditional banking models with close operational and functional distance and the best of innovation and technology with a strong digital offer.

Online and Mobile

The core banking system allows members secure online and mobile access to their accounts with the same functionality (excluding cash) that they would have in branch, including to make transactions, obtain information and apply for products. Financial management tools will include analysis of transactions by category and jam jar accounting. This system is now running and figure 1 below illustrates what the online and mobile banking look like.

Figure 1. Mobile Banking Illustration

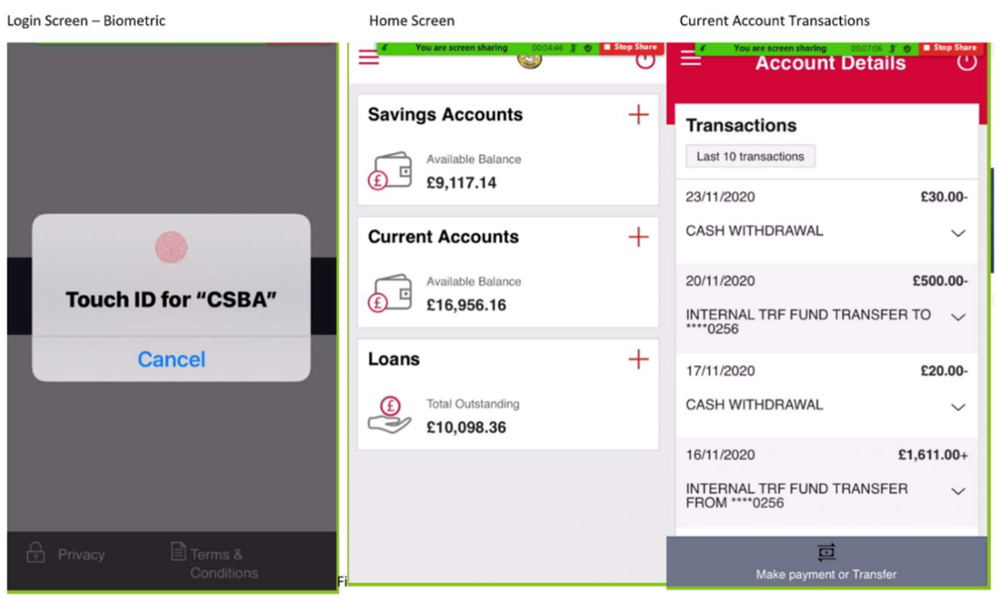
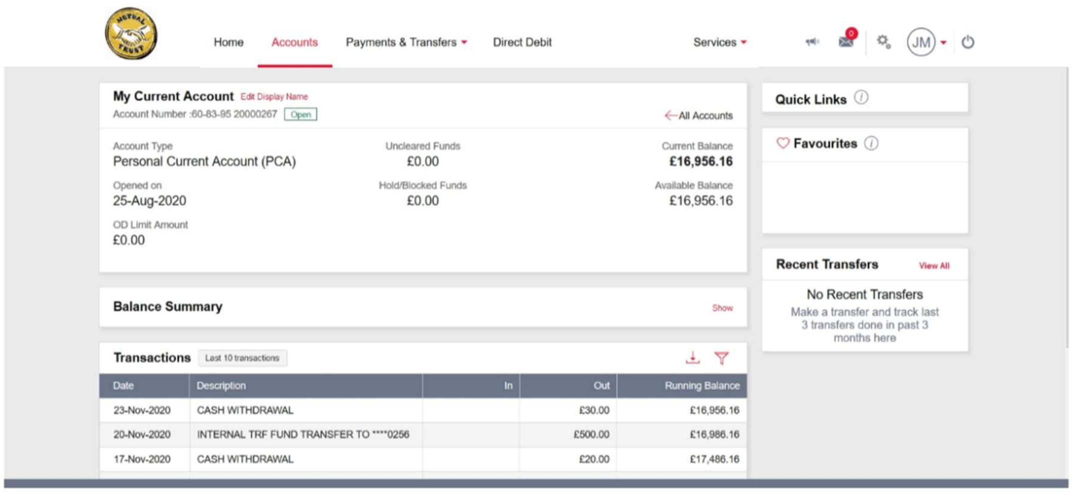


Figure 2. Online Banking Illustration



QR code sales for customers and businesses

One objective of the mutual bank is to increase the amount of money circulating within its region and reduce the money leaking out of it. Another is to provide real benefits and value to its members.

Typically, money leaks out of the region as soon as an external payment system (VISA, MASTERCARD, PAYPAL, etc.) is used. They all take a small part of the payment. In many instances it is the recipient that pays the charge. For low value payments this can be a remarkably high percentage. For Example, PayPal charges between 2.9% +£0.30 to 1.5% + £0.10 (e.g. for a £5 spend minimum charge £0.175 charge)

All Android and Apple phones can read QR Codes. If both the customer and the seller were members of the bank, it is possible to use QR codes to make that payment simply and securely and at no transaction cost to the neither customer nor recipient.
The Bank simply moves the money internally between the accounts and in this way no money leaves the region. Infrastructure needed is simply a QR code displayed in the premises or on a bill. The customer scans the code using the banks online banking app, enters the amount and pays.

This could provide a significant saving to businesses and be a big driver of SME business account take up.

Branches

FCA research indicates that particularly in rural areas there are customer groups who resist moving to digital banking when branches close. The sharp reduction in branches offers a market opportunity for a low-cost branch service through the BankPod® concept (see figure 3 below).

The key to maintaining a lower cost branch network is the TellerInfinity terminal, which allows members to:

- withdraw cash and coins,
- deposit cheques, notes and coins,

- print statements,
- set up bill payments and transfers.

It has a video link which enables the customer to speak face-to-face with bank staff while they are at the terminal. The combination of smart ATM, customer privacy and video enabled customer assistance will provide a competitive edge. Examples of branch options are in figures 4 and 5 below. It is even possible for BankPods® to be placed in shipping containers. And have the same functionality of a full branch, but without staff on site.

Figure 3. Automated Branch Tellers

Figure 4. Principle Branch example layout (122 sq. metres)

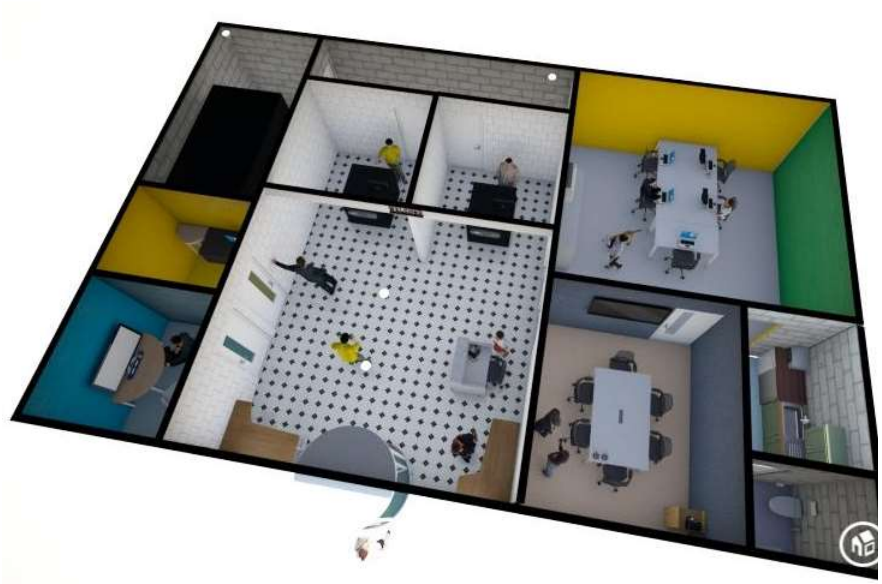


Figure 5. Satellite Branch example layout (42 sq. metres)

Principal branch

The principal branch acts as a local headquarters with staff that serve the area including the Branch Director who has devolved decision-making authority. It is the centre of local knowledge and customer service and carries out account openings, loan origination and collection.

Satellite branch

A satellite branch is a smaller self-service facility without permanent staff or back-room offices and facilities. The basic configuration includes two video-enabled TellerInfinity terminals and a meeting room with video conference facilities. Depending on local demand, it will have staff on hand at certain times.

Satellite branches reduce the cost of the branch network, allow cash and cheques to be deposited, extend access time for members outside of normal hours and take transactional banking back into areas that have lost these facilities.

Telephone service

Northern Mutual will offer telephone banking with phones prioritised for information and service enquiries and banking for vulnerable customers.

Geography

Northern Ireland is a large UK region which contains:

- 2 large cities – Belfast and Derry
- 5 large towns (>40,000) Newtownabbey, Craigavon Urban Area, Bangor, Castlereagh, and Lisburn
- 6 medium towns (20,000-39,000) Ballymena, Newtownards, Carrickfergus, Newry, Coleraine, and Antrim.

Some small towns in the region will be important local and administrative centres which serve larger populations from surrounding areas.

Northern Ireland has seen one third of its bank branches closed since 2015. In December 2020 alone, four Danske Bank branches were closed[22]. There are currently only 183 bank branches in the region (see Table 8 below).

Table 8 - Remaining Branches (up to Jan 2019)		
Parliamentary Constituency	Branches Remaining (2015-2019)	% of network lost since Jan 2015
Belfast East	4	60
Belfast North	10	29
Belfast South	15	48
Belfast West	9	25
East Antrim	5	29

[22] https://www.itv.com/news/utv/2020-09-11/danske-bank-set-to-close-4-ni-branches

East Londonderry	12	25
Fermanagh & South Tyrone	17	15
Foyle	10	17
Lagan Valley	10	23
Mid Ulster	7	46
Newry & Armagh	13	24
North Antrim	11	15
North Down	10	23
South Antrim	5	55
South Down	8	33
Strangford	8	43
Upper Bann	18	10
West Tyrone	11	27
	183	Average 30% reduction of branches since 2015

Source: Which Branch Closures Data 2015-19

The financial model assumes 7 main branches and 21 satellite branches by year 5, commensurate with other smaller banks.

Research into the optimum location of branches is underway taking into consideration:

- Population density, based on 'travel to work', 'travel to shop' and tourist numbers
- Size and industry sectors of local businesses such as co-operatives, SMEs, micro enterprises, social enterprises, sole traders, or farmers
- Existence (or not) of other Bank branches
- Locating a satellite Northern Mutual area within a host organisation, such as town council or post office, subject to satisfying security and customer care standards
- Local demand for branch access, particularly in rural areas
- Financial inclusion
- Access to cash

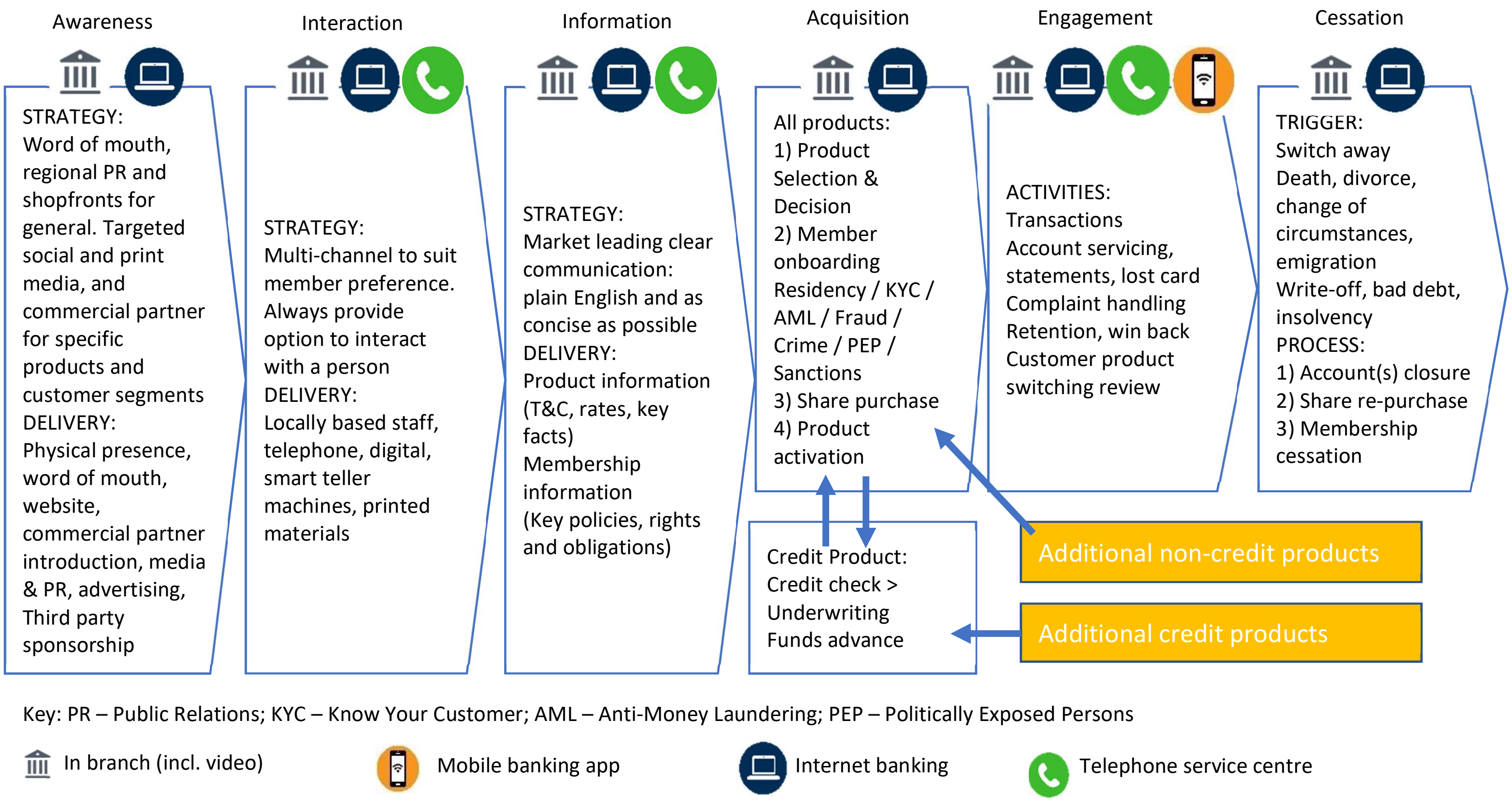
Acquisition Strategy

In addition to the above, Northern Mutual can seek to manage the costs of acquisition by seeking employer support from Government agencies, local councils and major employers so that it can build critical mass locally at fair cost.

5.5 Customer (Member) Journey Framework

A broad framework for customer journeys is set out below. Once market analysis, product features and distribution strategies have been completed Northern Mutual should produce detailed journeys for each product and channel, including analysis of specific conduct risks at each stage.

Figure 3 – Customer Journey Framework



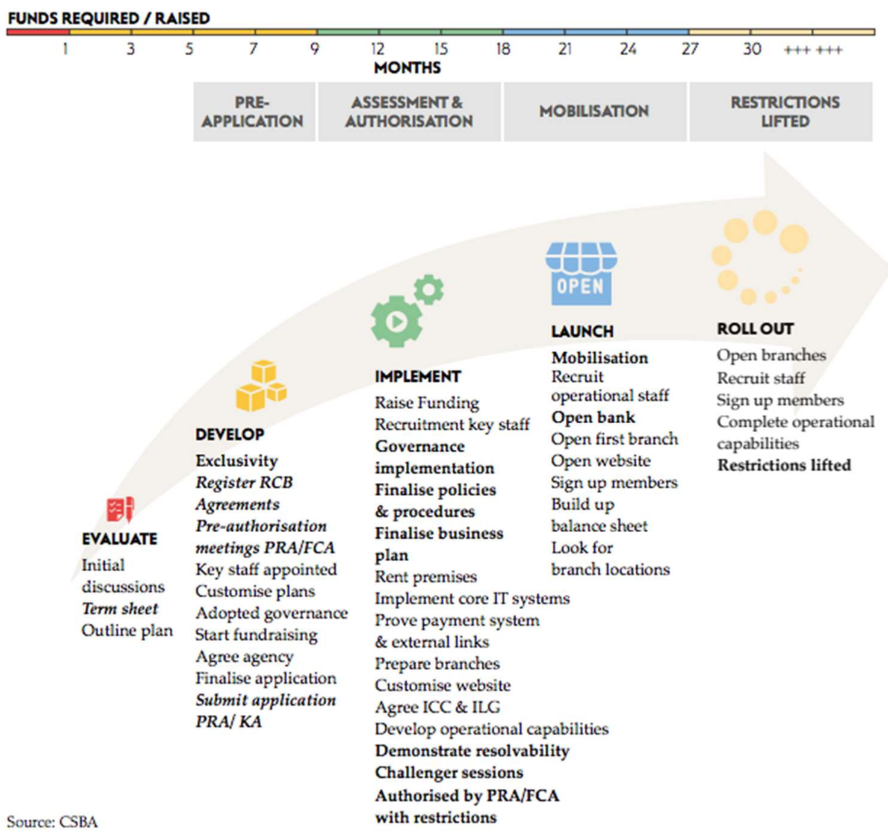
5.6 Regulatory Permissions

The working assumption is that Northern Mutual will seek the following regulatory permissions:

- Accepting deposits from retail and wholesale customers
- Agreeing to carry on a regulated activity
- Dealing in Investments as Principal
- Entering into regulated credit agreements (excluding high-cost short-term credit, bill of sales loan agreement and a home credit loan agreement)
- Exercising or having the right to exercise, lender's rights and duties under a regulated credit agreement (excluding high-cost short-term credit, bill of sales loan agreement and a home credit loan agreement)
- Entering into a regulated mortgage contract
- Administering a regulated mortgage contract
- Advising on regulated mortgage contracts

The rationale for permission applied for will be included in the RBP (Regulatory Business Plan). The regulatory journey is outlined in Figure 4 below.

Figure 4 – Regulatory Journey



Source: Travers-Smith, F. and Van Lerven, F. (2018) 'The Local Banking Toolkit', The New Economics Foundation, (Available at: https://neweconomics.org/uploads/files/NEF_LOCAL-BANKING-TOOLKIT.pdf)

6. Ownership and Governance

6.1 Ownership and Control

Northern Mutual is a mutual society incorporated under the CO-OPERATIVE AND COMMUNITY BENEFIT SOCIETIES ACT (NORTHERN IRELAND) 1969 and is registered with the FCA Mutuals Register.

The Society has share capital comprising one class of non-voting ordinary shares and will be controlled by its members on the principle of "one member one vote". Members may be individuals or incorporated bodies such as businesses, charities or public authorities.

Customers are required to become members to access products and services, and all members are required to purchase at least one share, or two shares for incorporated bodies, and are also required to satisfy one of the following tests of residency within the Region:

- Permanent residence (for example, home owner, renting, living with family)
- On the electoral register/has a registered office
- Significant financial interest (for example ownership of a property)
- Significant business interest (for example ownership, directorship or employment)
- Meaningful community interest (for example being a trustee of a charity)

Precise definitions are to be set by the Board. These will be included in the Real Business Plan.

Members each have one vote regardless of the size of their shareholding and therefore, unlike limited company structures, major shareholders do not have a controlling interest in the Bank.

The CSBA consider this structure to be beneficial in ensuring the Board acts in the best interest of stakeholders as a whole and has clear operational independence from major investors. This is particularly important in the case of public sector investors. No individual, organisation or consortium of members will be able to hold a controlling interest.

6.2 Governance

Board responsibilities

The Board will be responsible for the overall leadership of Northern Mutual and will set the Bank's Vision, Purpose and Values and the individuals in key positions will have to be approved by the PRA and FCA (see Section 6.1). In addition, the Board is responsible for:

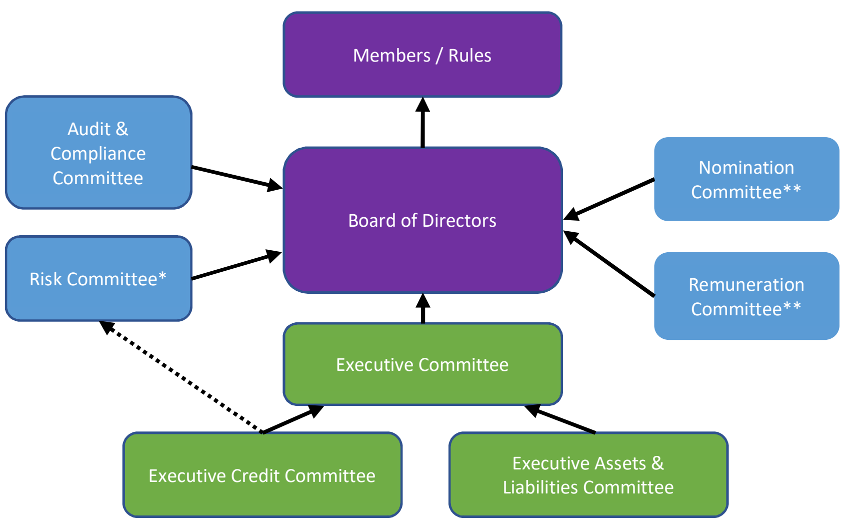
- Approving appointment of all Senior Managers
- Oversight of the CEO and Executive Team
- Oversight of financial / business performance
- Setting and agreeing the long-term strategy
- Determining Northern Mutual's Risk Appetite, including the management of the financial risks from climate change
- Oversight of 'treating customers fairly' policy
- Setting remuneration policies
- Approval of the Annual Report and Accounts
- Seeking expert opinions on specialised or niche business activities to help make informed decisions

In addition, the following responsibilities are relevant in the application for authorisation process:

- Oversight of capital raising
- Oversight of banking launch project plan

The Board will be supported by a number of Sub-Committees shown Figure 5.

Figure 5 – Overview of Board Committee Structure



Notes: * Risk committee receives reports direct from Executive Credit Committee
** Nom and Rem have separate ToR, agenda and minutes, but the same non-executive members and the same Chair. CEO is a member of Nom, but not Rem.

Sub-committees

Northern Mutual will have three sub-committees before mobilisation, Audit, Risk and Nomination and Remuneration.

All committees will be chaired by the appropriate SMF function. Terms of Reference for all committees stipulate that the Chair of the Board can sit on sub-committees but cannot chair them.

Board Composition

The composition of the Board will first and foremost satisfy regulatory requirements, and within those requirements it will create a balance between membership and executive. The Board will have Trustee Directors made up of the Mutual's membership and two Executive Directors (the CEO and the CFO). The rules will provide for a maximum of 12 directors with the majority as Non-Executive Directors.

To ensure sound and informed decision-making, Board members will be provided with relevant training and roles will be well defined. There will be a maximum length of time that an individual can sit on the Board.

During the development stage, a regular skills audit of the Board will be necessary to ensure that the Board comprises the correct and appropriate skills set at each stage of the application process and when fully authorised.

Corporate governance code

It is expected that the Board will agree to voluntarily adopt the Financial Reporting Council's UK Corporate Governance Code 2018.

7. Operating Structure and Model

7.1 Organisational Structure

The Bank plans to launch with four Senior Managers and Certification Regime (SM&CF) roles and expand these as the business evolves. Key roles and reporting lines are summarised in Figure 4, below and key assumptions noted below. SM&CF roles are those that require approval of the individuals from the PRA and FCA. This is critical to the success of the mutual and its ability to move through the regulatory process.

CEO (SM&CF 1 and member of Board)

- responsible for managing the co-sourcing of Internal Audit from an accounting firm with oversight by Audit & Compliance Committee
- Head of Marketing reports to CEO with all financial promotions approved by the Compliance Manager

CFO (SM&CF 2 and member of Board)

- CFO is responsible for regulatory reporting and treasury in addition to accounting, MI, forecasting and data analytics

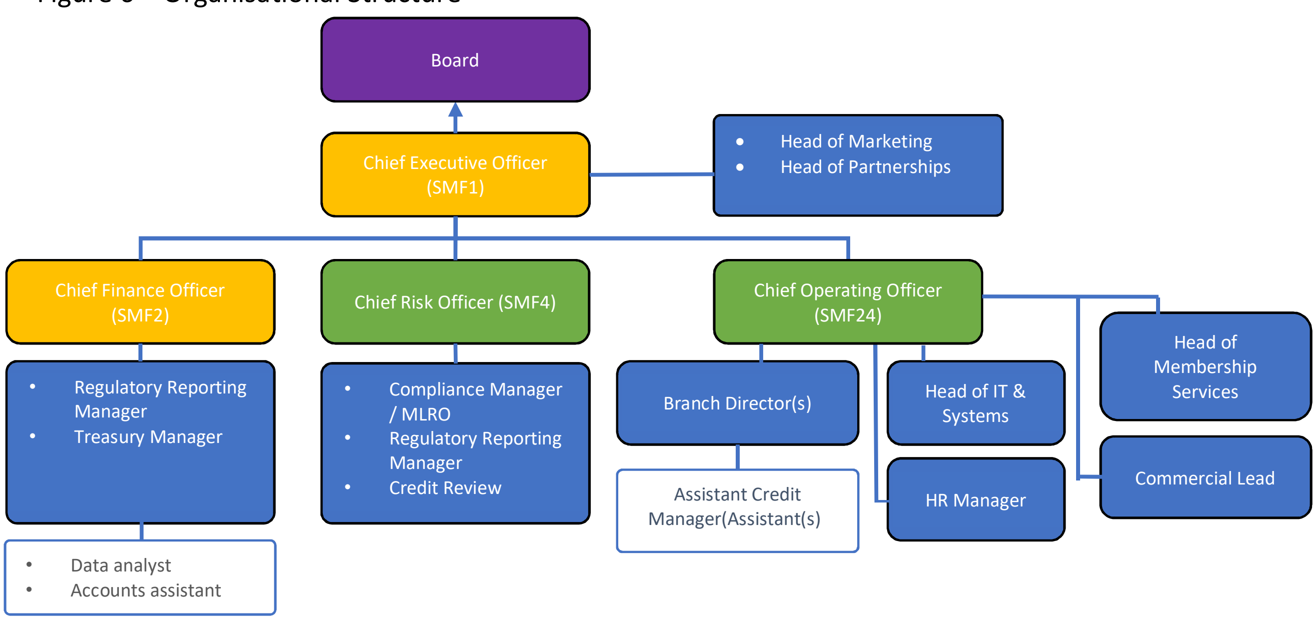
CRO (SM&CF 4)

- CRO will have direct access to report to the Risk Committee
- CRO and Compliance Manager will have direct access to report to the Audit & Compliance Committee
- Responsible for Second Line of Defence monitoring of credit decisions.

COO (SM&CF 24)

- responsible for oversight of IT systems and other operational outsourcing arrangements, supported by a Head of IT and Outsourcing
- Branch Directors have delegated authority within specific limits to approve lending and are responsible for FLOD.
- The main branch at head office will also act as the service centre supporting other branches

Figure 6 – Organisational Structure



7.2 Target Operating Model

Northern Mutual Example Target Operating Model … to be well managed, well-funded and treat members fairly

STAKEHOLDER & MEMBER ENGAGEMENT

SUPPLIERS & OUTSOURCING
Card/ATM: **Mastercard**
Smart teller: **Glory**
Security: **Gunnebo**
Card management: **Evry**
Indirect access to payment systems: **TBC**
Internal audit: **TBC**
External audit: **TBC**
Authorisation: **KPMG**

RESOURCES
People and values
Automated branch model
Local knowledge
Collective bargaining on procurement (CSBA)

PROCESSES
Strategic/scenario analysis
Product/service design
Marketing/promotions
Sales and service
Impact measurement & reporting

VALUES-BASED CULTURE

VALUE PROPOSITION
Purpose: Just transition
Place: NI Region
Participation: Co-op
Human-scale: personal touch when needed
Relational: Lifetime and portfolio approach

RISK MANAGEMENT
ICAAP & ILAAP
KYC & AML
ERMF
Climate & ESG

PRODUCTS
Current accounts
Savings
Overdrafts
Term loans
Mortgages

CHANNELS
Internet banking
Mobile app
Branches: [7 principal / 21 satellite]

MEMBERS
1) Values-led
2) Underserved
via
A. Provision of mass-market products to targeted customers
B. Provision of tailored products to niche markets
[72,800 personal / 13,400 corporate]

COMMERCIAL PARTNERSHIPS
Member benefits / Info. & guidance / Account subsidy

COST STRUCTURE
Interest paid, staff, software, hardware, payment systems, regulatory, premises & marketing
[CIR 46%, 108 FTE]

BALANCE SHEET
Loan book 75% of assets. Deposit funded. No own account financial trading. Range of products to diversify risk. [£475m assets, 18% CAR]

REVENUE STREAMS
Interest received, account fees, payment fees, safe deposit boxes
[£29m income / £15.5m PAT, 3.3% ROA]

INFORMATION SYSTEMS
Cloud based core banking system with single customer view across branch, mobile and internet
Integrated modules for financial, treasury, credit scoring, regulatory reporting, etc.

GOVERNANCE

Society's Rules	One member one vote	UK Corporate Governance Code	Threshold conditions PRA/FCA Handbooks	Senior Managers and Certification Regime	Three lines of defence	ERMF	Outsourcing and co-sourcing

8. Financial Projections

8.1 Summary Financial and Operating Metrics

Northern Mutual has prepared a detailed financial model as a proof of concept. It will be developed and tested in greater detail, including stress testing, prior to submission of the Regulatory Business Plan (RBP).

Key operating statistics, summary financials and market shares are shown in the tables below. Profitability is driven primarily by the rate of customer acquisition during the early years, which is in turn driven by the opening of branches. One would also anticipate internet customers from areas without a branch but for simplicity, no separate estimates have been made for these.

After 5 years a principal branch is projected to have 7,000 personal and 700 business members, a satellite branch has 1,400 personal and 140 business members. By comparison:

- Nationwide - 23,000 total and 11,500 active members per branch,
- Metrobank - 25,000 customers per branch,
- US community banks are profitable with 1000 to 4000 core customers per branch.

The projections are based on opening 7 principal branches each of which has 3 satellite branches.

Current account markets remain highly concentrated, although smaller banks and challenger banks have been gaining share. Market shares for savings and loans are lower, reflecting conservative growth assumptions and focus on niche markets and smaller businesses.

Table 9 – Key operating statistics

YEAR	1	2	3	4	5
Staffed branches at y/e	3	4	6	7	7
Automated branches at y/e	1	4	7	10	13
Individual customers - '000	6.7	22.9	41.4	62.2	81.4
Business customers – ‘000	0.5	1.6	3	4.5	5.9
Staff - FTE	13.4	40.3	51.8	70.3	85.1

Table 10 - Loan Book (£‘000)

	1	2	3	4	5
Personal Loans	£775	£4,285	£10,984	£19,913	£31,955
SME loans	£1,550	£8,570	£21,967	£39,826	£63,910
Mortgages	£2,842	£15,712	£40,273	£73,014	£117,168
Totals	£5,168	£28,568	£73,224	£132,752	£213,032

8.2 Balance Sheet

Assumptions about growth in deposits and loans are cautious, with balances projected to reach £40 million per principal branch and £8 million per satellite branch by year 8 and then staying constant in real terms. By comparison,

- Nationwide = £220m per branch
- Metrobank = £193m per branch

Loans are projected to reach 92% of deposits, or £40 million per principal branch and £8 million per satellite branch. However, this projection will be fed into further stress testing of the Capital Requirement calculations.

The focus during the first few years will be to attract current account deposits and not substantial savings, ISA and term deposits. Interest rates will be structured in line with this objective, with higher rates on smaller balances. As the bank is a mutual, each member buying a share will top up the capital of the bank.

The loan book in the base model is roughly split 32% personal loans, 27% SME loans and 41% residential mortgages. All of these percentages are estimates only and will require further analysis later in the Mutual's development phase. This is a lower proportion of mortgages than most high street banks. As mortgage lending is low margin and high volume this results in the Bank's return on assets, return on capital employed and net interest margins being higher than market averages.

Bad debt ratios have been assumed to be 25% higher than the market average in order to be prudent. However, the aim of the Bank's strategy is that being close to customers and markets will enable better credit decisions and lower rates of default. Scenarios and stress tests will be performed prior to submission of the RBP.

Table 11 – Northern Mutual – Financial Summary

(financial figures '000)

Summary

	Min	Bonus	Div	Pre Open	1	2	3	4	5	6	7	8	9
Number of Principal Branches opened				1	2	1	2	1	0	0	0	0	0
Cumulative No. of Principal Branches				1	3	4	6	7	7	7	7	7	7
Cumulative no of Satellite Branches				-	1	4	7	10	13	14	14	14	14
Operating P&L				-£2,764	-£3,413	-£2,368	£251	£3,337	£8,288	£13,603	£16,479	£18,059	£19,676
Capital													
Cumulative Profit/Loss	Min	Bonus	Div	-£2,764	-£6,177	-£8,544	-£8,293	-£4,957	£3,331	£16,934	£33,413	£51,472	£71,148
Outsourced Services	0		1.5%	£0	£0	£0	£0	£0	£0	-£124	-£202	-£244	-£267
Dividend paid to shareholders	6000	50%	7.5%	£0	£0	£0	£0	£0	£0	-£1,607	-£1,624	-£1,634	-£1,640
Bonuses paid to members				£0	£0	£0	£0	£0	£0	-£4,144	-£6,802	-£8,239	-£9,029
Total Dividend & Bonuses paid to members				£0	£0	£0	£0	£0	£0	-£5,751	-£8,426	-£9,873	-£10,669
Opening balance				£0	£17,255	£13,967	£11,851	£12,423	£16,136	£24,755	£32,843	£41,023	£49,289
Capital Injection				£20,000	£0	£0	£0	£0	£0	£0	£0	£0	£0
Sales of Shares to members				£19	£124	£251	£321	£377	£331	£235	£128	£81	£81
Capital				£17,255	£13,967	£11,851	£12,423	£16,136	£24,755	£32,843	£41,023	£49,289	£58,377
Total Shares in issue				£20,019	£20,143	£20,395	£20,716	£21,093	£21,424	£21,659	£21,787	£21,868	£21,949
Individual Customers					6,725	22,975	41,400	62,225	81,400	90,775	93,625	94,000	94,000
Registered SMEs/Organisations					518	1,678	3,012	4,538	5,932	6,622	6,850	6,880	6,880
Visa card transaction fees)					24	52	98	157	221	268	297	313	320
					328								

Capital Requirement Calculations

		Pre Open	1	2	3	4	5	6	7	8	9
Net Loan Book			£5,116	£28,283	£72,497	£131,434	£210,918	£292,939	£357,324	£403,908	£438,014
Deposits			£14,920	£60,080	£127,080	£205,840	£296,360	£376,160	£426,560	£460,160	£483,680
Tier 1 Capital Ratio			160.5%	46.8%	23.2%	17.4%	17.2%	16.8%	17.3%	18.5%	20.2%
CREDIT RWA Capital (Loans + Fixed Assets+credit institutions)			£7,010	£20,863	£45,376	£76,541	£117,197	£157,097	£186,991	£208,539	£224,559
Capital Requirement - Credit	8%		£561	£1,669	£3,630	£6,123	£9,376	£12,568	£14,959	£16,683	£17,965
Operational RWA			£1,690	£4,474	£8,191	£16,195	£26,486	£37,626	£47,833	£55,470	£60,810
Capital Requirement - Operational Risk	8%		£135	£358	£655	£1,296	£2,119	£3,010	£3,827	£4,438	£4,865
Capital required credit + operational			£696	£2,027	£4,285	£7,419	£11,495	£15,578	£18,786	£21,121	£22,830
Additional Capital Buffer available			£13,271	£9,824	£8,138	£8,717	£13,261	£17,265	£22,237	£28,169	£35,548
Net Loans/Deposits			34%	47%	57%	64%	71%	78%	84%	88%	91%
Cumulative Capital raised		£20,019	£20,143	£20,395	£20,716	£21,093	£21,424	£21,659	£21,787	£21,868	£21,949

8.3 Profit and Loss

The summary profit and loss account is shown in table 12, below. The main source of income is net interest margin although the Bank's strategy is to seek a diversified income stream with 30% of income from fees and charges.

Other income is made up of membership fees, income from safe deposit boxes, debit card fees, and fees for non-members using ATMs. This accounts for one third of income by year 9. Cost assumptions are based on quotes and proposals obtained from suppliers in the case of software, hardware and payments and interbank charges, and market information in the case of staff and premises costs.

Projected staff numbers rise from 33 at launch to 86 in year 5, with 30% in head office functions. There is a maximum salary ratio of 10:1.

In comparison with large high street UK banks, Northern Mutual has a high net interest margin reflecting the lower proportion of mortgages and higher proportions of personal and SME loans.

Table 12 Summary profit and loss account

All financial figures £'000s	Pre-open	Year 1	Year 2	Year 3	Year 4	Year 5
Income						
Interest Payable		(£86)	(£345)	(£731)	(£1,184)	(£1,704)
Interest Receivable		£342	£1,817	£4,574	£8,229	£13,114
Net Interest Receivable		£256	£1,471	£3,844	£7,046	£11,410
Other Income		£645	£2,400	£4,490	£6,662	£8,927
Net Operating Income		£901	£3,871	£8,333	£13,707	£20,337
Operating Expenses						
Branch Administration (excl. dep)	(£94)	(£1,185)	(£2,577)	(£3,693)	(£5,131)	(£6,097)
Provision for bad & doubtful debts	£0	(£52)	(£233)	(£443)	(£591)	(£796)
Central Administration (excl. dep)	(£2,670)	(£2,871)	(£3,122)	(£3,542)	(£4,106)	(£4,515)
Depreciation	£0	(£206)	(£307)	(£405)	(£543)	(£641)
Total Costs	(£2,764)	(£4,314)	(£6,238)	(£8,082)	(£10,371)	(£12,050)
Operating profit/(loss)	(£2,764)	(£3,413)	(£2,368)	(£251)	£3,337	£8,228

Table 13 – Key ratios

	Year 1	Year 2	Year 3	Year 4	Year 5
Net Interest Income/ Total Income	28.4%	38.0%	46.1%	51.4%	56.1%
Cost/Income ratio	478.6%	161.2%	97.0%	75.7%	59.2%

Mutual trading tax treatment

HMRC have confirmed that if banks meet the conditions of Mutual Trading there will be no corporation tax liability on profits.

9. Capital and Funding

9.1 Capital

Capital Structure – CET1

The Bank plans to have a simple capital structure with one form of issued shares qualifying as CET1 capital and no other Tier 1 capital instruments. Shares will have the following key features:

- Directly issued by the Society
- Fully paid up
- Classified as equity for both accounting and insolvency law purposes
- Perpetual, non-withdrawable and non-redeemable
- No differentiated or preferential distribution rights
- No cap on the level of distributions
- No obligation on the Society to make distributions
- Non-voting
- Transferable
- Dividend can be paid (target is 7.5% when the bank becomes profitable)

These qualify as CET1 capital as defined in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June on prudential requirements for credit institutions and investment firms and its amending regulation (EU) No 648/2012, associated technical standards and PRA guidance.

Capital Requirement

Initial financial models indicate that a total of £20m will be required over the first five years to meet current regulatory and internally assessed capital requirements.

The initial financial model has been built on the assumption that all capital is CET1, and the level of CET1 exceeds 13.5% throughout.

This initial estimate of capital requirement remains subject to stress testing and development of the full ICAAP, and currently does not include any Pillar 2B requirement Northern Mutual could look at using Tier 2 subordinated debt capital to provide an additional capital buffer during the years either side of projected breakeven. Once the bank is able to build capital from retained profits then it will have a simple capital structure with CET1 as the only type.

9.2 Capital Adequacy

The Pillar 1 capital resource requirement for credit risk and operational risk calculations are:

- **Credit risk** – all credit risk exposures (business assets, liquidity, off balance sheet, etc.) are allocated risk weights specified under the Standardised Approach in the Rulebook. The aggregate is then multiplied by 8%
- **Operational risk** – calculated by multiplying average of last three years' net income by 15%

The Bank will initially use the average of the projected net income for the first three years as there will not be three years' historic data.

The bank will use the Basic Indicator Approach for calculating the Pillar 1 operational risk requirement.

Capital requirements have been calculated from the Bank requirements with advice from KPMG in Table 14 below.

Table 14 Capital Requirements

Element	Minimum
Pillar 1 requirement	8.0%
Pillar 2A requirement	2.0%
Capital conservation buffer	2.5%
Countercyclical buffer	1.0%
Total capital requirement	13.5%

Projected initial capital requirements are shown in table 15 based on a minimum ratio of 13.5% and assume initial CET1 of £20 million. The excess of capital over the minimum requirement is lowest in year 6 and increases thereafter.

These preliminary estimates exclude Tier 2 or post authorisation equity and are subject to stress testing and business scenario modelling to be undertaken prior to submission of the draft RBP.

The draft Enterprise-wide Risk Management Framework is set out in section 10, and the Bank is developing its Internal Capital Adequacy Assessment Process ("ICAAP") assessment process and risk appetite statements for inclusion in the draft RBP. The detailed ICAAP will be developed prior to application for authorisation.

Table 15 – Tier 1 Capital Calculations (years 1-9)

Tier 1 Capital Calculations										
All financial figures 000s										
Credit Risk										
Net Loans to members RWA		£2,437	£13,475	£34,539	£62,618	£100,486	£139,562	£170,236	£192,430	£208,678
Net Fixed Assets		£1,794	£2,150	£2,736	£2,855	£3,191	£3,302	£3,302	£3,302	£3,302
Loans to Banks & Financial Institutions RWA		£2,779	£5,239	£8,102	£11,068	£13,521	£14,233	£13,452	£12,807	£12,578
Credit RWA		**£7,010**	**£20,863**	**£45,376**	**£76,541**	**£117,197**	**£157,097**	**£186,991**	**£208,539**	**£224,559**
Operational Risk										
Average Operating Income		£901	£2,386	£4,369	£8,637	£14,126	£20,067	£25,511	£29,584	£32,432
Operational Capital	15%	£135	£358	£655	£1,296	£2,119	£3,010	£3,827	£4,438	£4,865
Operational RWA	12.5	**£1,690**	**£4,474**	**£8,191**	**£16,195**	**£26,486**	**£37,626**	**£47,833**	**£55,470**	**£60,810**
Total RWA		**£8,700**	**£25,337**	**£53,567**	**£92,736**	**£143,683**	**£194,723**	**£234,824**	**£264,010**	**£285,369**
Tier 1 ratio		**160.5%**	**46.8%**	**23.2%**	**17.4%**	**17.2%**	**16.8%**	**17.3%**	**18.5%**	**20.2%**

9.3 Fundraising Strategy

Potential investors

There are seven categories of potential investor currently identified to take shares in the Bank:

1. Local authorities. The Bank could receive equity investment from local authorities in the region as well as long-term investment at larger scale
2. Central government departments. The Bank could receive investment from Financial Transactional Capital.
3. Pension funds, for example, NILGOSC. A precedent has been set for this by the investment in Cambridge and Counties Bank by Cambridgeshire Local Government Pension Fund
4. Anchor/economic institutions such as Universities, PSNI, Social Landlords, Credit Unions, CDFIs, charities, charitable foundations, and C&V sector organisations.
5. Impact investors, including social investment funds and religious organisations
6. High net worth / ultra-high net worth individuals and sophisticated investors
7. Regional businesses.
8. Crowdfunding. This option is under consideration for the final tranche of equity capital prior to exiting mobilisation.

9.4 Access to Future Capital

The Bank's business growth strategy is to fund expansion through retained profits and therefore it is not anticipated that the bank would require access to additional capital for this purpose. As every member joins the bank, they buy a share, so capital accrues as the customer base grows.

The following strategies are intended to minimise the risk of needing to raise capital under duress in the event of adverse macroeconomics conditions or other causes of unexpected losses:

- Building capital reserves in excess of minimum requirements through favouring profit retention over maximising returns on equity for shareholders
- A cautious approach to credit growth during the expansionary stage of the credit cycle

Nevertheless, the CSBA have carefully considered the need to readily access additional capital if required for prudent banking.

To enhance the ability to attract equity capital now and over the long term, the Directors will need to consider liquidity, returns and shareholder appetite.

1. Liquidity

There will be a private secondary market for shares in order to provide liquidity and price formation.

2. Returns

The dividend policy is to provide steady growth throughout the economic cycle, so far as underlying profitability and the satisfaction of capital adequacy allow, and thereby to achieve a lower variability in returns than those of publicly listed bank shares. As a co-operative, the Society will follow the Co-operative Principles as agreed by the International Co-operative Alliance. Accordingly, surplus profits are distributable to members in proportion to their economic contribution to the business. The CSBA interpretation is that the economic contribution of capital providers is essential to banking and so profit distribution will satisfy a fair market return on shares *before* other forms of profit distribution to members.

3. Shareholder appetite

The bank will seek to attract a core institutional shareholder base committed to the Bank's business model and who have the financial capacity to subscribe to future equity share offerings. The initial business plan aims for a member base of over 85,000 all of which would also be eligible to buy and sell shares in the secondary market.

9.5 Funding and Liquidity

Funding and Liquidity Strategy

The Bank's strategy is to fund member loans entirely from member deposits (see Table 16 below).

Table 16 – Deposits and Loans ('000)					
£ million	Year 1	Year 2	Year 3	Year 4	Year 5
Deposits	£9,600	£44,400	£106,000	£184,400	£274,000
Net loan book	£3,797	£21,300	£58,401	£112,945	£184,101

The Bank will attract deposits primarily through interest bearing current accounts, augmented by fixed term and notice savings accounts. Current accounts are a more stable source of funding than instant and short notice savings accounts. The provision of both business and personal current accounts also assists with intra-month liquidity.
On the asset side, the diversification of loans across overdrafts, SME and mortgage products results in a spread of maturities.

Liquidity Management

The Bank will develop an Internal Liquidity Adequacy Assessment Process ('ILAAP') statement to set out how it will determine the appropriate quantity and quality of liquidity needed to meet the Overall Liquidity Adequacy Rule ('OLAR') at all times, even under severe but plausible stresses.

In achieving this, Northern Mutual will need to set out:

- The Bank's current calculation and calibration of the Liquidity Coverage Ratio (LCR) requirement; and
- Areas of the Bank's specific liquidity risk profile that are not fully captured within the LCR

LCR and key metrics will be calculated following detailed definition and financial modelling of the product range and stress testing. The ILAAP will be developed in full prior to the authorisation application with details of governance, risk appetite and initial metrics in the draft RBP.

The Bank will have a Treasury management function to manage liquidity and maturity mismatches. Central bank reserves and short-term financial assets, including High Quality Liquid Assets, will be held for liquidity management only. The Bank will not trade on its own account.

Medium and Longer-Term Funding Stability

The Bank recognises that liquidity strength depends on more than just meeting short term LCR requirements. Therefore, the Bank will set an internal risk appetite limit for an appropriate number of survival days before running out of liquidity in stress scenarios; and will maintain an appropriate Net Stable Funding Ratio at all times.

10. IT Strategy and Infrastructure

10.1 Core Banking System

The Bank's IT strategy is to adopt an outsourced model using proven components from reputable and stable third-party suppliers. This avoids the high risks and capital costs of proprietary systems development.

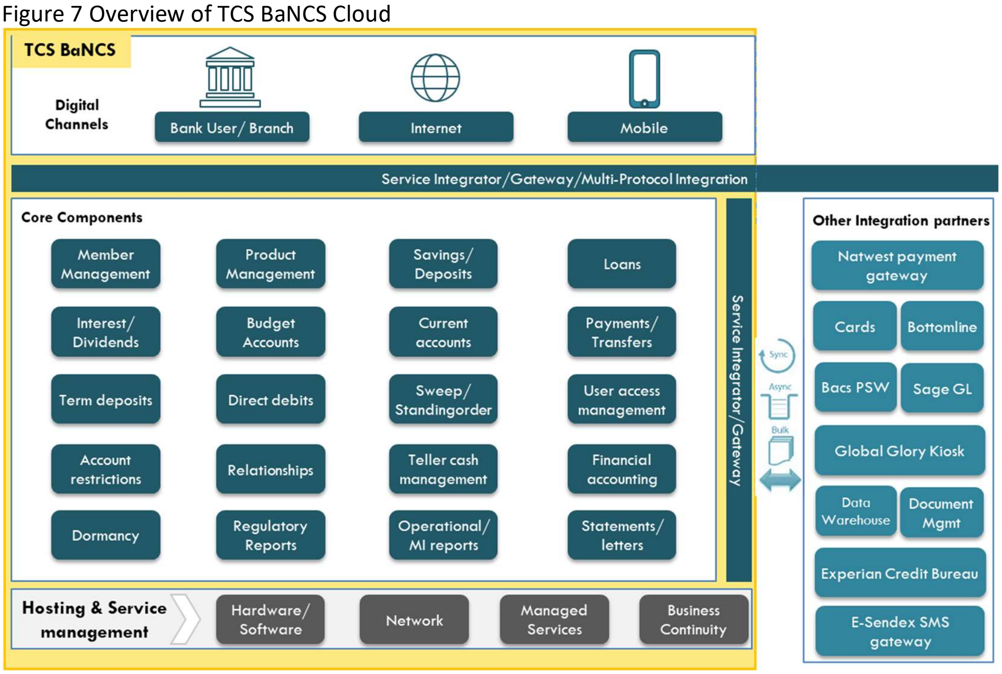
Currently our favoured core banking system is TCA BaNCS Cloud from Tata Consulting Services. The system provides full functionality for:

- Current Accounts, including overdraft facility, Direct Debits, Standing Orders, Transfers (payments in and out), BACS, Faster payments, ATM and Point of Sale integration, Statement production
- Deposits / Savings Accounts / Notice Accounts / Term Accounts
- Cash ISAs
- Loans – these will be established via a Loan Origination Solution which facilitates both automated and manual underwriting
- Fees and Charges – calculated and charged automatically

Members can apply for and service their accounts via their preferred choice of internet, mobile app or in person via their local branch.

KYC and Sanctions screening can be achieved either manually or through an integrated solution from a third-party provider linked to the TCS BaNCS Core Banking System.

Figure 7 Overview of TCS BaNCS Cloud



10.2 Integrated Solutions

TCS BaNCS is configured for integration with appropriate third-party packages such as:

Teller Infinity (Glory Global): An enhanced Automated Teller Machine (ATM) providing additional services / functionality such as video links and cash recycling. Interfaced with the Core Banking System for full range of member account management services and to the Link network for non-member ATM functionality.

Payment Systems: The Bank is presently negotiating with an Indirect Access Provider to agree sponsored access to payment systems to facilitate Faster Payments, Direct Debits, SWIFT, BACS and cheque clearing. Our preferred partner is NatWest and contracts will ensure compliance with ISO20022 / ISO8583 standards.

Experian: Identity check and Address lookup functionality to ensure the AML / KYC check is completed. Provides and / or checks address details to Royal Mail convention. Also provides PEP and Sanctions Screening.

Evry: Mastercard debit card issuance and management. Services include Transaction Surveillance, notification by customers of fraudulent transactions and of lost or stolen cards. In addition, Evry will authorise card transactions against balance limits (including Limits / Amount to Spend etc) as provided by the Bank.

Risk, Regulatory and Management Reporting

A full suite of software solutions can be integrated with TCS BaNCS to provide MI and reporting. These include:

- Lombard Risk: Risk Reporting
- Fairmort WILF: Regulatory Reporting
- SAGE200: General Ledger
- Htec Labs: Document Management System
- Indus Soft: Collections Management

The above are indicative only and may change as negotiations develop. Nevertheless, they are considered to demonstrate the availability of a full range of third-party suppliers that the Bank will be able to contract with to support the Bank's services to members.

10.3 Governance of IT and Outsourcing

Key to negotiations with third-party suppliers is commitment to appropriate service levels the Bank considers necessary to deliver a safe and viable service to our members. Appropriate pre-contract due diligence will be undertaken on all third-party IT suppliers. This will be completed before submission of application for authorisation, with a view to having agreed contracts in place prior to entering mobilisation.

In completing this due diligence, the Bank will pay due regard to the FCA's finalised guidance 'FG 16/5 – Guidance for firms outsourcing to the 'cloud' and other third-party IT services'.

The Bank has determined that the outsourced function is regarded as 'critical or important' as defined by the guidance and in SYSC 8.1.4.

Pre-Implementation

Prior to implementation the core banking system and integrated solutions will undergo a full and robust program of User Acceptance Testing (UAT), including live testing during mobilisation within the Bank's authorisation with restrictions.

IT systems will not be implemented until UAT results are seen and approved by the Board. During implementation and for six months after exiting mobilisation the COO will be supported by a steering group responsible for ensuring full IT functionality and security. This steering group will be chaired by a non-executive director and will report regularly to the Board.

Post-Implementation

Once fully operational the COO will be accountable for the day to day oversight of the customer facing IT systems including adherence to all SLAs negotiated with third party suppliers.

The COO will be responsible to the Board for the ongoing performance of the Bank's IT infrastructure. A monthly dashboard report will be made available to the Board for full analysis of all Key Performance and Key Risk Indicators.

Disaster Recovery and Service Interruption

The BaNCS core banking system is hosted in the cloud and mirrored in real time on a secondary site. Their system includes automated failover provisions and robust disaster recovery mechanisms.

Third party suppliers of integrated solutions such as NatWest and Evry are all expected to host their systems in dual secure locations. For example, the Evry systems are hosted in their Norwegian Data centre with two separate facilities interconnected by a virtual data centre.

11. Risk Management Framework

A draft version of the Enterprise-wide Risk Management Framework (ERMF) has been developed by the CSBA for review on a regular basis by the Board. As the Bank works towards mobilisation and full authorisation the ERMF will continue to evolve and develop. This will ensure that all risks materialising as the business evolves are identified, assessed and appropriately mitigated or controlled. A final version will be completed and agreed by the Board before the Bank leaves mobilisation.

The scope of the ERMF extends to all major risk types faced by the Bank and is underpinned by appropriate governance, controls, processes, systems and policies. It provides details on how risks are to be managed and key control activities conducted. The ERMF consists of six main constituents (Governance, Risk Universe, Appetite, Policy, Processes and Tools) which are summarised in Figure 6 and described in the following sections.

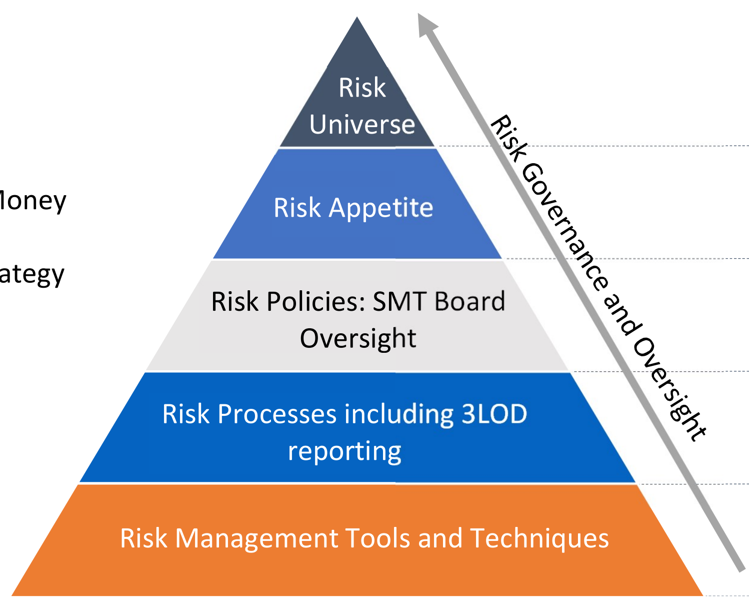
The Management Responsibilities Map sets out relationships between Board, sub-committees, employees and other stakeholders and is a key part of how risk is monitored and managed and how the Bank identifies and assesses the potential impact of risks on the business.

Many of the risks that will impact the Bank have already been identified and work is in progress to determine the level of risk Northern Mutual considers appropriate to its business and strategic goals and what controls and mitigation should be in place.

In accordance with SS3/19, responsibility for managing the financial risks from climate change rests with the Board and the CEO. The Audit and Risk Committee will review the ERMF as it develops. Ultimately, as the Bank's operations grow in scale and scope, it is envisaged that the Audit and Risk Committee will be demerged into two separate Committees.

A number of other policy and procedural documents also support and direct the Bank's Risk Governance. These are:

- Conduct Risk Policy
- Lending Policy
- Organisation Chart
- Financial Crime & Anti-Money Laundering Manual
- Climate and ESG Risk Strategy



11.1 Three Lines of Defence

Overlapping all aspects of the Bank's Risk Governance is the Three Lines of Defence model widely applied in banking. Figure 7 provides an overview of how the Bank should expect this model to function following full authorisation.

The model promotes the ethos that the First Line is 'responsible for compliance'. However, this cannot be relied upon in isolation and just as important is the culture of an organisation. Section 2 of this document discusses the Bank's Vision, Purpose and Values – these demonstrate that there is a culture embedded at the heart of the Bank that fully supports and promotes good conduct and robust risk mitigation.

First Line

The Bank's operational and branch management and the executive directors. They own and are responsible for identifying, monitoring and reviewing the risks within their area and subsequently providing updates to the second line of defence via departmental risk and control self-assessments and the risk register.

Second Line

Compliance and Risk Management departments (reporting to the CRO) which are responsible for providing oversight and challenge to the first line of defence and providing assurance to the Board on risk management and compliance with the Bank's legal and regulatory requirements.

Third Line

Internal audit function and external auditors. There are independent of each other. Internal Auditors report to the CEO while External Auditors report to the Audit Committee.

Figure 8 – Three lines of defence model

Oversight	Board Executive Committee		
Who	First line Marketing Member acquisition Operations - includes all aspects of member management post acquisition	Second line Risk Management Compliance	Third line Internal Audit External Audit
What	Responsible for drafting and acting in line with policies and procedures Designs and implements appropriate Controls Undertakes First Line Monitoring / Testing of Controls	Independent challenge and ad hoc advice to First Line Advises First Line on Regulatory mapping Second line testing (independent verification of First Line findings) Provides risk management framework in accordance with risk appetite	Internal audit: planned regular periodic assurance for Board External audit: full scope external audit

11.2 Risk Universe

The Risk Universe comprises five risk categories and three risk lenses. All risks the Bank may be subject to fit within one of the categories to allow effective bottom-up and top-down assessment. The three risk lenses are cross-cutting and may enhance or reduce risks within each category.

Risk Lenses			Risk Categories
Climate Risk: Physical	Climate Risk: Transition	Other ESG risks	Operational and conduct
			Financial crime
			Credit
			Business and strategic
			Market and liquidity

Operational and Conduct Risk

Operational Risk is the risk of loss from inadequate or failed internal processes and systems, or from external events (such as regulation/sector environment).

Conduct risk is the risk of the Bank treating its members unfairly and delivering inappropriate outcomes. The Board believes that the fair treatment of members is be integral to its culture, embracing the FCA's Principle 6 which states "a firm must pay due regard to the interest of its customers and treat them fairly". Regulatory risk is considered to be part of conduct risk.

Financial Crime Risk

The risk of cyber-attacks on the Bank, attempts to defraud the Bank's customers, or to use bank accounts for money laundering either directly or through the exploitation of customers as mules and/or financing or facilitating criminal activities.

Credit Risk

There are three main types of credit risk which may have an impact on the Bank:

- Default Risk - customers failing to meet their credit repayment obligations. This is a key risk for the Bank.
- Counterparty Risk – loss of investments and deposits with other financial institutions. This is considered minimal as Northern Mutual aims to deposit surplus funds with the Bank.
- Concentration Risk – risk arising from concentration of lending to a single or small number of counterparties, and/or a limited number of industry sectors; and/or a restricted geographical area.

The CSBA considers that the geographic concentration risk of operating in Northern Ireland is mitigated by diversification across different types of loan, industry sectors and personal and business members.

Business & Strategic Risk

The risk that the Bank fails to achieve the strategic objectives outlined in the RBP due to changes in markets, technology, consumer trends, competitive position and macroeconomic forces such as adverse impacts on output and employment from global economic conditions, Brexit and UK interest rates. From the second year of authorisation the RBP will be replaced by the Strategic Plan which will be reviewed annually for approval by the Board.

Market & Liquidity Risk

Market risk is defined as the risk of losses in on- and off-balance-sheet positions arising from movements in market prices, and typically encompass the risks pertaining to interest rate related instruments and equities in the trading book, and foreign exchange risk and commodities risk throughout the Bank. As with Counterparty Risk, Market Risk is considered reduced as surplus liquidity will be held with the Bank. Foreign exchange risk is reduced as transacting in foreign currency will be limited to providing personal customers with travel money facilities.

Liquidity Risk is the risk that the Bank cannot meet its financial obligations as they fall due.

In alignment with the Bank's vision, purpose and values, it applies three cross-cutting Environment, Social and Governance risk (ESG) lenses to all four categories of risk described above.

Climate Risk - Physical

Physical risks can arise from climate and weather-related events, such as heatwaves, droughts, floods, storms and sea level rise. They can result in large financial losses, impairing asset values and the creditworthiness of borrowers. They also present a threat to the Bank's operations.

Climate Risk - Transition

Transition risks can arise from the process of adjustment to a low-carbon economy. Changes in policy, technology and sentiment could prompt a reassessment of the value of a large range of assets and create credit exposures for the Bank as costs and opportunities become apparent.

Other ESG risks

Other environmental and social impacts of business activities can affect long-term financial performance and understanding them is integral to forming a comprehensive understanding of risks. The Bank intends to apply UNEP FI Principles for Responsible Banking and incorporate ESG factors into its risk and credit assessment criteria.

11.3 Risk Appetite Framework

The Bank's Risk Appetite is 'The level of risk the Board is willing to take in order to deliver its Strategic Objectives.' Risk Appetite is intended to act as the link between Business Strategy and the Risk Strategy by bringing strategic context to identified risks; clear escalation criteria and informing capital and liquidity planning and stress testing.

A clearly articulated risk appetite communicates the Board's view on the risks that should be acquired, avoided, retained or removed from the Bank. This supports the Bank by providing direction to key decisions such as long-term planning; new product development; business process change; pricing decisions/reviews; marketing campaigns; and infrastructure investment decisions.

The four Risk Categories have been broken down into their constituent parts and reviewed to determine the level of risk the Bank is prepared to accept. Currently there are 25 sub-categories of risk with the appetite mostly set at Low, Very Low or No Risk. There are currently only two sub-categories of risk where the Bank is prepared to accept Medium Risk, and both are sub-categories of Credit Risk. There are no risks sub-categories where the Bank is prepared to accept a High Risk.

11.4 Policy, Processes and Tools

Risk Policy

Effective risk management requires that all staff working in the Bank clearly understand their roles and responsibilities and the limits placed upon them. A clear framework of policies and accountabilities is integral to achieving this, giving staff clear guidelines about what they can and cannot do, and what to do when something is outside of their role responsibility.

The policy framework is a key component of the Bank's ERMF. It allows the Bank to adopt a consistent approach to risk management; increasing efficiencies and effectiveness and ensuring operations are conducted within the Board's risk appetite. The Bank's policy documents provide clear rules and guidance to assist effective decision making and cover all aspects of risk.

All policies are therefore subject to a process which covers their preparation, internal review and approval.

Risk policies are categorised as Level One Policies (which require Board approval), Level Two (which require Executive Committee approval) and Level Three (which require Policy Owner approval).

Risk Processes

A timetable will be agreed for the review of the Bank's internal risk processes including the ICAAP, Recovery & Resolution Plan, the Pillar III Disclosures and Annual Report and the ILAAP. These processes are integral to the Bank's Risk Management Framework and are designed to meet the Bank's regulatory requirements as a Capital Requirements Regulation credit institution.

Risk Management Tools and Techniques

The Bank will apply scenario analysis methodologies to understand macro risks, including climate, political, social and economic risk, and stress testing to understand how potential scenarios impact the balance sheet.

To support measuring, monitoring, reporting and record-keeping of specific risks, the Bank will integrate appropriate risk and compliance systems into its core banking system.
The Risk Committee will review internal risk management techniques to ensure there is adequate internal assessment from both bottom-up and top-down approaches to risk management.

12. Key Current and Future Risks

The Bank will have a risk register in place as part of its ERMF to assess and monitor pre-trading risks as well as key risks post-authorisation.

The register records estimates of likelihood and impact, as modified by controls and mitigation strategies, in order to asses each risk.

Set out below are six selected key risks from the register.

Table 18 – Risks, Controls and Mitigation

Risk	Outcome	Likelihood	Impact	Key Controls/Mitigation
Failure to raise sufficient capital	The Bank will be unable to progress with its banking licence application	MEDIUM	HIGH	Early fundraising work to gauge interest. Progress on capital raising will be monitored monthly by the Board. Management accounts are prepared by the CEO and scrutinised as part of the review. In the event of failing to raise sufficient capital, staff contracts and other financial commitments allow for an orderly dissolution of the Society.
Failure to obtain authorisation	The Bank will be unable to trade	MEDIUM	HIGH	Northern Mutual will have a strong and experienced team who will work with forerunner CSBA banks to navigate the application process. Progress is reviewed by the Board. The Board will commission professional advice if needed. In the event of failing to gain authorisation, staff contracts and other financial commitments allow for an orderly dissolution of the Society.
IT Systems do not meet business need	The Bank will be unable to deliver the functionality promised. This could prevent exiting mobilisation within the 12-month time limit.	LOW	HIGH	Full due diligence paying regard to FG 16/% - guidance for firms outsourcing to the 'cloud' and other third-party IT services will be undertaken on all IT suppliers prior to signing contracts. Via the CSBA at Bicester office the Bank has access to a fully functioning 'branch' allowing full testing of system's functionality before contracts are signed. Full UAT testing during mobilisation.
Failure to attract enough members	Additional capital may be needed. Persistent underperformance would lead to orderly resolution.	MEDIUM	MEDIUM/ HIGH	Market research in the early stage will test demand. Further research prior to submitting the RBP and application for authorisation. The Board will review and approve the RBP including an assessment on demand to ensure viability.
Poor implementation of plan	Risk of failing to attract staff with the right skills, calibre and in sufficient numbers	LOW	MEDIUM	Northern Mutual will create a high-level project plan (similar to example SWM plan on page 62) which will outline the recruitment plans needed to ensure that the correct people are in place at the

	to deliver the plan, leading to customer detriment, reputational damage and regulatory sanction.			correct stages up to and after full banking licence approval. Recruitment plans and their progress form a key part of the Board's oversight of the application.
Cyber Crime	IT systems being illegally breached would mean the bank is unable to carry out day to day operations and/or loss of sensitive data.	LOW	LOW/HIGH depending on extent	Pre-mobilisation – enforcement of security procedures and IT policies by staff. Use of Microsoft systems and carefully selected IT suppliers. Post-authorisation – staff training, robust enforcement of risk processes around IT and data. Prepared response to various cyber breach scenarios designed for rapid action to minimise harm to members.

13. Project Timeline

Northern Mutual is at an early stage of development, the mutual is registered and there is a small voluntary team. For the project to grow it will need to bring in funding to without an initial team and resource, the author is unable to set out a specific timeline here.

Other CSBA mutual banks further along this process indicate that it is likely to take 2-3 years to reach mobilisation.

Feedback has shown that Brexit has impacted on the resources of the PRA and FCA and that some delays have been expected. Any timeline will also be impacted by availability of appropriately skilled staff and resource to get a team working on this.

By Spring 2020 it is expected that Avon Mutual and South West Mutual will have had a feedback meeting from the regulators after submitting their RBP and will have been invited to submit the full banking licence application. 9/10 banks that are invited to submit a banking licence application receive their licence.

The following page is an example project plan taken from South West Mutual's draft Business Plan which gives an idea of the necessary stages, however it has taken them longer than expected, notwithstanding the Coronavirus crisis which has expanded timescales further.

Tony Greenham, Director of South West Mutual has provided the following update:

> *"A bank that can draw on our experience will save a huge amount of time compared with the timetable below, but there is a basic reality of the to and fro with the regulators that means that I think 6 months would be impossible. I think for planning expect it to take 12 months from the initial submission. Of course the other big factor in the timetable is fundraising. If I already had the funds, I would get to licence many months quicker and our progress going forward is more dependent on capital raising than anything else now (as we have made great progress on the RBP).*
>
> *To an extent it depends on how much work is done in the preparation stage, but pre-application involves a number of steps. This the SWM timeline:*
>
> *10 April 2019. I wrote to the new bank start up unit requesting an initial meeting. They reply requesting a business plan*
>
> *20 June 2019. We send in our initial submission (outline business plan). We provided more information than is usual and it was important to show genuine market research and knowledge.*
>
> *8 August 2019. Initial meeting with NBSU (note 7-week timeline elapsed between submission and meeting)*

21 August 2019. Feedback letter received (another 2 weeks)

28 August 2020. First draft RBP submitted. This took us 1 year, but it was severely delayed by 6-8 months to resolve some issues, and then because of Covid-19 and lockdown. You could allow 3-4 months but it needs to be high quality so don't rush it.

4/5th November 2020. Feedback meetings. Note the time of c10 weeks in between submission and meeting. This was entirely outside of our control. We are expecting written feedback before end of November.

January 2021. We aim to submit 2nd draft RBP and will have prepared (but not yet submitted) a draft ICAAP/ILAAP

March 2021. Submission of 1st draft ICAAP/ILAAP (and updated RBP)

May 2021. Submission of 2nd draft ICAAP/ILAAP.

June 2021 Invitation to Challenge Sessions"

Bearing in mind this feedback, the timetable is dependent on a) fundraising capacity (largely in order to pay for the work needed and provide capacity to withstand any delays) b) team skills and preparedness and c) any unforeseen delays. The regulator has a set timetable at certain points in the process, however feedback so far is that they will try to ensure that you have everything in place before you are allowed to submit at the various stages of the process.

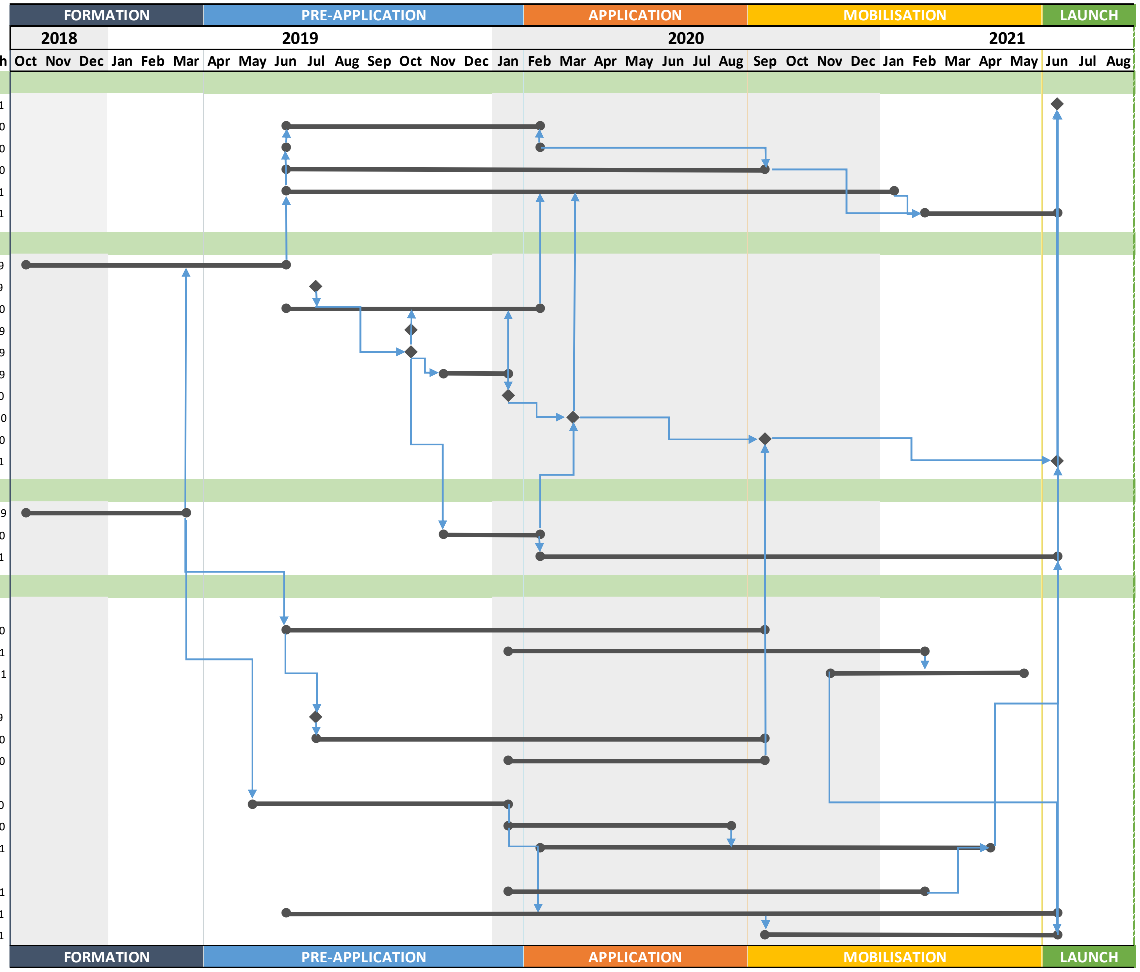
The author strongly recommends the Northern Mutual team liaising with and drawing on the expertise of the mutual banks further along the regulatory process to minimise any delays.

13.1 Next steps

The Northern Mutual Team need to raise money to develop a team with some key, experienced banking professionals to lead early discussions with the regulators and to develop a fundraising strategy to enable the Mutual and begin conversations with key sectors and potential partners in the region to develop this early stage proposition.

South West Mutual Draft Project Plan Overview

Task	Start	Finish
Marketing and Products		
Launch to general public (phase 1 products)		Jun-21
Define commercial partnership strategy	Jun-19	Feb-20
Customer (Member) journeys mapped & refined	Jun-19	Feb-20
Develop brand and marketing strategy	Jun-19	Sep-20
Product strategy, development & market research	Jun-19	Jan-21
Friends & family testing	Feb-21	Jun-21
Regulatory		
Initial business proposition & strategy submission	Oct-18	Jun-19
Initial meeting with FCA / PRA		Jul-19
Regulatory business plan preparation	Jun-19	Feb-20
Submit draft regulatory business plan		Oct-19
Feedback meeting		Oct-19
Mobilisation/IT/outsourcing meetings	Nov-19	Dec-19
Challenge sessions		Jan-20
Application for authorisation		Mar-20
Enter mobilisation		Sep-20
Exit mobilisation		Jun-21
Capital Raising		
Founder share offer: launch/close	Oct-18	Mar-19
Development round: launch/close	Nov-19	Feb-20
Capitalisation round: launch/close	Feb-20	Jun-21
Operations		
People:		
Key executive / board recruitment (CEO/CFO/COO)	Jun-19	Sep-20
Head office function readiness	Jan-20	Feb-21
Recruit & prepare branch team	Nov-20	May-21
Governance & risk:		
Key NED functions filled (Chair/Audit & Risk)		Jul-19
Policies, processes & procedures identified & established	Jun-19	Sep-20
Audit, risk, compliance, reporting functions established	Jan-20	Sep-20
IT / systems:		
Select & onboard IT & outsource partners	May-19	Jan-20
Mobilisation & disaster recovery plan produced & readied	Jan-20	Aug-20
Implementation & testing of IT systems	Feb-20	Apr-21
Premises:		
Identify & establish head office	Jan-20	Feb-21
Identify branch locations	Jun-19	Jun-21
Secure & fit-out branches	Sep-20	Jun-21



Key:

Milestone ◆

Task or process commencement / end ●

Linked tasks or processes / dependencies

14. List of Abbreviations

AML	Anti-Money Laundering
BCA	Business Current Account
CIR	Cost-Income Ratio
CAR	Capital Adequacy Ratio
CDFI	Community Development Finance Institution
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COO	Chief Operative Officer
CSBA	Community Savings Bank Association
ERMF	Enterprise-wide Risk Management Framework
ESG	Environment, Social and Governance
FCA	Financial Conduct Authority
FCSC	Financial Services Compensation Scheme
FLOD	First Line of Defence
FTE	Full-Time Equivalent
GLM	Greater London Mutual
ICAAP	Internal Capital Adequacy Assessment Process
ID	Identification
ILAAP	Internal Liquidity Adequacy Assessment Process
ISA	Individual Savings Account
JMLSG	Joint Money Laundering Steering Group
KYC	Know Your Customer
MI	Management Information
PAT	Profit After Tax
PCA	Personal Current Account
PEP	Politically Exposed Person
PR	Public Relations
PRA	Prudential Regulation Authority
RBP	Regulatory Business Plan
RRP	Recovery and Resolution Plan
ROA	Return on Assets
SLOD	Second Line of Defence
SME	Small and Medium Sized Enterprise
SM&CR	Senior Managers & Certification Regime
SWM	South West Mutual
SWIG	South West Investment Group
T&Cs	Terms and Conditions
UAT	User Acceptance Testing

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Client Analysis & Relationship Development

northernmutual

Perceptions of a Mutual Regional Bank for Northern Ireland

November 2024

Northern Mutual

Background

The Northern Mutual Campaign is a co-operative society set up to establish a mutual, regional bank in Northern Ireland – the **Northern Mutual Bank**. The campaign was launched in 2019 and is currently at the development stage.

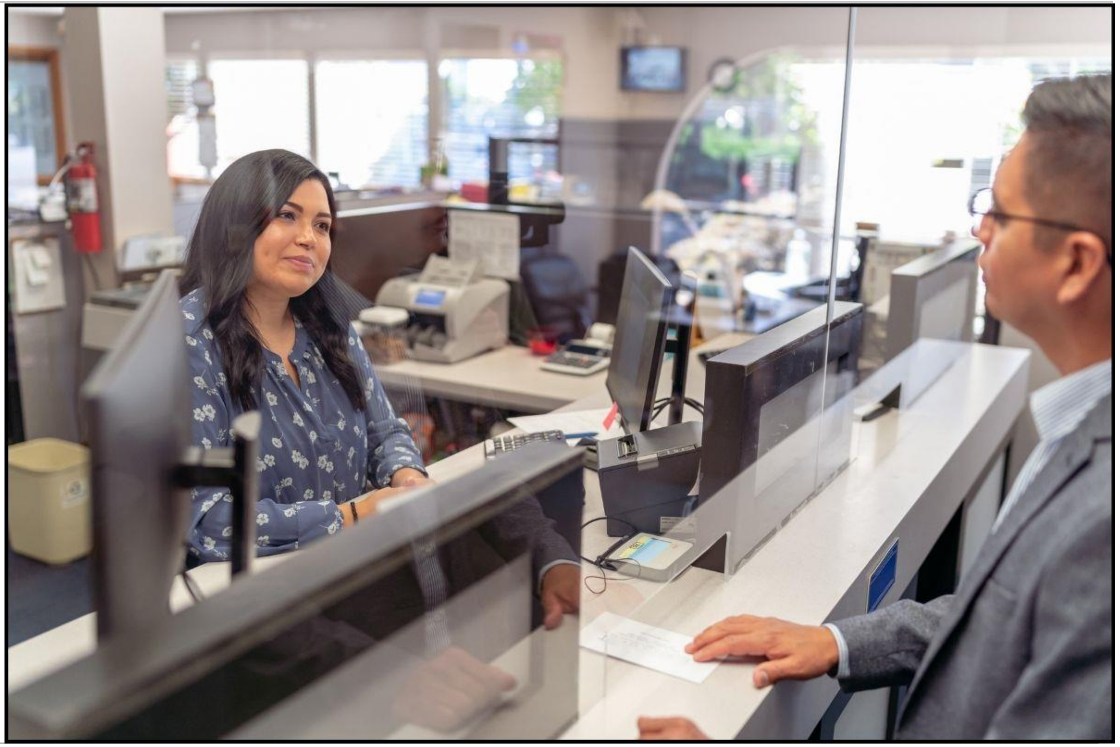
A mutual bank is an alternative to high street banks. It is a fully-fledged bank, offering traditional, mobile and online banking services, but is owned by its customers (also called members) rather than shareholders.

Deposits are invested into the region in which the bank operates. A mutual bank is purpose-driven and profit-driven, putting the needs of local people, the local economy and the local environment first.

Once established, the Northern Mutual Bank intends to offer all the usual services you get from any bank: current accounts, business accounts, overdrafts, business loans, debit cards, mortgages, electronic payments, and foreign exchange. The Bank will have a mix of physical and digital channels with a branch network of staffed and automated branches, Internet banking, mobile banking, and an automated safe deposit box service.

For further information about the Northern Mutual Campaign visit: www.northernmutual.co.uk

About the research



Background to the research

To ensure decisions are grounded on hard evidence, in March 2024 the Northern Mutual Campaign commissioned CARD Group Research & Insight to carry out an independent research study with members of the public across Northern Ireland. The research was designed to:

- Explore awareness of, and views on, a regional mutual bank offer
- Build an evidence base around what influences people in making their banking decisions
- Establish an understanding of the market for the service.

This report provides a detailed analysis of how the research was undertaken and the findings.

Methodology

The research was carried out in three stages:

1. Exploratory research to gain context and identify research themes
2. Qualitative discussions with 8 members of the public to learn about requirements and experiences
3. A quantitative survey with 400+ respondents living across Northern Ireland

Exploratory

- Desk research and a review of existing literature was carried out
- A focus group was held with local community benefit societies in May 2024

Qualitative

- Qualitative discussions involved depth interviews held using online video software
- Interviews were conducted in June 2024
- Engaged a cross-section of members of the public in terms of gender, age, location and occupation

Quantitative

- The quantitative stage involved an online survey which included advanced analytics approaches
- The survey was live between 16 July and 1 August 2024
- 407 full responses were received.

Executive summary

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Client Analysis & Relationship Development

Executive summary

Interacting with a bank or other financial institution is part of daily life for most people

- 98% of people said they held a current account and used a debit card for day-to-day spending.
- 77% have at least one savings account, while 34% are paying off a mortgage and 22% a loan.
- 80% of people use more than one financial services provider to access the services and benefits they require, with an average of 2.9 different providers used per respondent to the research.
- Traditional banks are the most popular type of provider, used by 88% of people, followed by online challenger banks (41%).
- 10% of people have been turned down for a bank account at some stage.

While most interaction is online, reassurance is provided by the existence of a branch network

- Day-to-day financial transactions are most likely to be carried out through an online banking app with 53% of people using a banking app almost every day, and 80% at least weekly. Comparatively, just 5% of people visit a bank branch at least weekly.
- 84% said they prefer to carry out most banking transactions using online or mobile banking
- 68% said it is important to them that their bank has a physical branch they can access, seeing a physical branch as a source of reassurance, somewhere to get help with a problem or where they can undertake more complex transactions.
- Few respondents expressed any difficulties either with getting online or having access to the internet, such as through a smart phone or tablet, that would impact on their ability to use online banking.

Executive summary

There is a high degree of interest in the mutual banking concept

- Generally, people responded positively to the definition provided of a mutual bank.
- 52% said they were likely to switch to a mutual bank, while 60% were likely to open a new account with a mutual bank.
- Younger people and those on a higher household income were those most likely to consider switching to a mutual bank.
- Where the response was less positive, respondents expressed some confusion over the differences between a mutual bank and the existing Credit Union model. Others questioned whether a mutual bank, with a community focus, would be as professional or secure as more traditional banks.

But many people remain reticent to switch their main banking provider

- 50% of people had switched banking provider at some stage in the past.
- 32% were actively looking to switch or were open to switching from their main provider.
- A higher proportion of people (80%) had opened an additional account with another provider.
- The qualitative research found that some respondents worried that switching would be a hassle, while others described a loyalty to an existing provider, as factors that stopped them from switching.

Executive summary

Knowing their money is secure, and being able to do things quickly and easily, were stated as top priorities

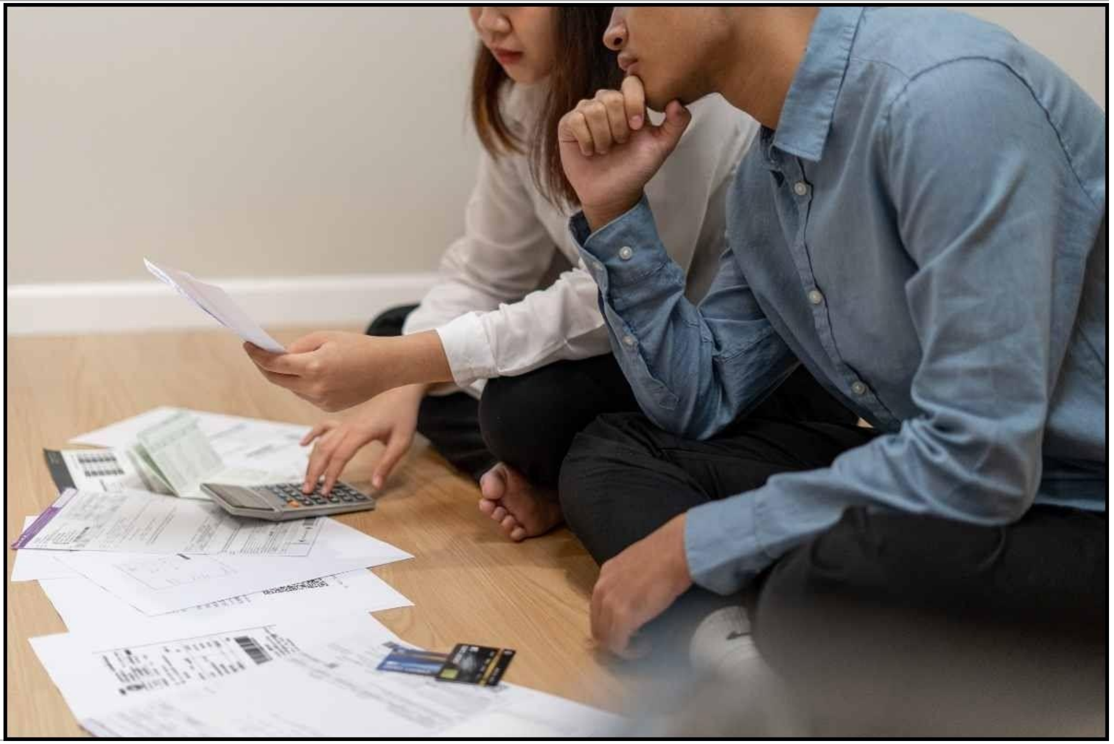
- In terms of core services provided by their bank, 75% of people identified ‘knowing their money is safe and secure’ as their first or second priority.
- More people said it was important for them to be able to do everything online, than said it was important for them to be able to visit a branch when they need to.
- In terms of features and perks, the top priority identified by people was that it is quick and easy to do everything they needed with their bank. This was followed by good rates for savings or loans, and then excellent customer service.

But advanced analytics highlighted that people’s actions (such as choosing or switching bank) are most strongly shaped by whether the bank has a branch presence in Northern Ireland and how the bank distributes its profits

- Respondents demonstrated a strong preference for a bank that:
  - has a branch presence in Northern Ireland (though this does not have to be in their immediate locality)
  - distributes its profits to customers and/or local communities.

- Under these circumstances, respondents were more willing to pay a monthly fee to access services.

Qualitative findings



Qualitative findings

Perceptions of the mutual banking concept

Research participants welcomed the concept of a mutual regional bank. They saw such a venture as being ethically sound and facilitating investment into their local communities.

Some participants recognised aspects of a mutual bank in the Credit Union model and prior to hearing additional information were unclear that the differences were sufficient to merit a new venture. Several participants also shared their uncertainty over the meaning of ‘mutual’ banking and said they would need further reassurance on the professional credentials of the bank.

Common queries concerned whether a mutual bank would have a local branch network. Branches were seen as offering a form of reassurance, instilling confidence in the brand. Despite this, all participants said they rarely if ever visited a branch.

“What you’ve described could bring more prosperity into the wee towns, and even the cities – bring more growth maybe into places. It could encourage more people to think of setting up a business.”

“I haven’t been in a branch for years, but I would still hate for them to close a branch. I like knowing they are there. It’s a security thing.”

Qualitative findings

How participants currently interact with their bank

Participants were likely to have more than one account – for example a current account and a savings account, while some others also had a mortgage or bank loan. Most participants said they had accounts with more than one provider.

Most participants interacted with their bank through an app on their phone, doing so several times a week and much more frequently than they would have ever used a branch. App-users referred to the ease and convenience the facility offered for day-to-day updates and interactions. Some others described occasionally using telephone banking services.

Branches were seen to be essential for physical banking transactions, that is those involving cash deposits, foreign exchange transactions or lodging cheques. Outside of this, branches were seen to be beneficial where the participant had encountered a problem and needed or wanted to speak to an official.

Participants were aware of the conflict between their desire to have a local branch and not having visited one for a considerable time.

Qualitative findings

Expectations and experience of bank interactions

Most participants shared that they have had a generally positive experience with their bank where they had to call into a branch or make a telephone call. For many, there was a sense that their bank was there for them if they needed them.

Where a participant had encountered a negative experience, this tended to relate to experiencing poor customer service. Typically, this centred on difficulties in finding someone to speak with about an issue, with reference to “being passed from pillar to post.”

For others, going into branch was not a positive experience and they had been made to feel unwelcome and patronised – an interesting flipside to branches in that the service they provide is not always valued.

One participant described his bank as “useless and outdated”, making specific reference to continuously receiving information through the post when he would much prefer contact via email or through his banking app.

Several participants highlighted the closure of bank and building society branches as giving them a negative experience, even where they admitted to not having used or expecting to use a branch.

Qualitative findings

Choosing banks and switching inertia

The strongest influence on the choice of a new bank was recommendations from friends and family. This was the case whether it was for a first account or to switch providers. Recommendations were much more frequently mentioned than knowledge of the institution or interest rates.

Some participants in the qualitative stage had switched providers for their main banking activities, although the majority had remained with the same main banking provider since they opened their first account. Some had not ever considered switching.

Those who had not switched described wanting to “avoiding the hassle” of cancelling and recommencing direct debits and setting up new apps on their phone. Others had no interest in switching despite receiving recommendations and incentives. These participants talked about a sense of loyalty to their provider, particularly where they had previously had a positive experience. A more common practice was to open an account with another provider to access preferential interest rates for a savings account or other perks.

Some respondents were not averse to switching but simply had not seen a need to do so.

Most of those who had switched banks felt compelled to do so, citing reasons including the closure of a local branch, a negative experience or a change in circumstances.

Qualitative findings

There is little expectation of fees for day-to-day services

No participant in the qualitative research stage was paying a monthly account fee for their day-to-day banking services.

Participants said they would expect to see a monthly fee for business banking accounts, premium accounts that offer additional perks such as travel insurance or preferential interest rates, or for customers with very large incomes and balances to access associated benefits.

Some participants felt the direction of travel in banks was towards the introduction of monthly fees and most had seen or been offered account ‘upgrades’ that came with a monthly fee. For participants a monthly fee changed expectations.

Most participants mentioned that a bank account was not something they would expect to pay for. They felt that banks were able to make money by lending out their deposits and that this was something for which they should be rewarded rather than charged. Should a bank wish to charge them, they would prefer to switch to one that valued their deposit.

Some others were more open to the prospect of a small payment however they would expect more in return, such as a better quality service or the ability to easily speak to someone in a branch.

Qualitative findings

Qualitative insights for a mutual bank

The conflict between wanting access to a branch network that customers rarely if ever use highlights the need for reassurance in a banking brand. Customers currently feel that branches provide for trust and confidence in the bank but, in knowing they rarely use them, may be amenable to other strategies.

Participants experienced a considerable degree of friction in relation to paying banking fees. Charging fees changed customer mindsets towards a more transactional model where they expected a return for money spent. This prompted participants to evaluate the return they would be receiving on the new monthly fee. Most found the benefits did not outweigh the cost.

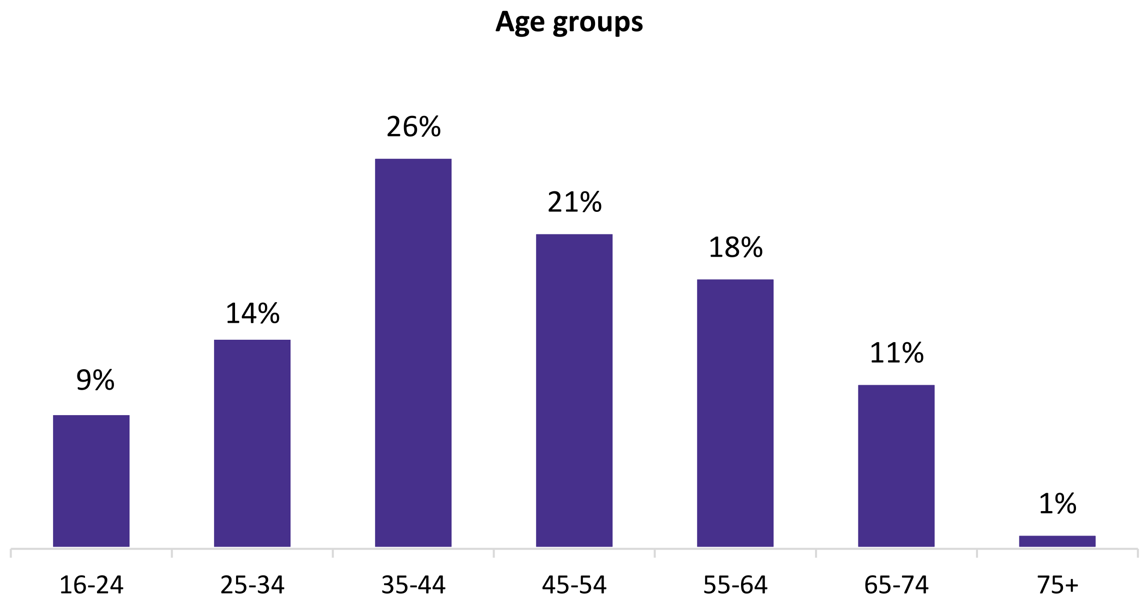
Yet participants also saw the mutual model as one that drove investment and tangible improvements in their local communities. Repackaging the fee issue towards a model where customers were seen as investors in their communities, and where account fees were instead seen as co-operative and collaborative contributions towards community development may change some mindsets.

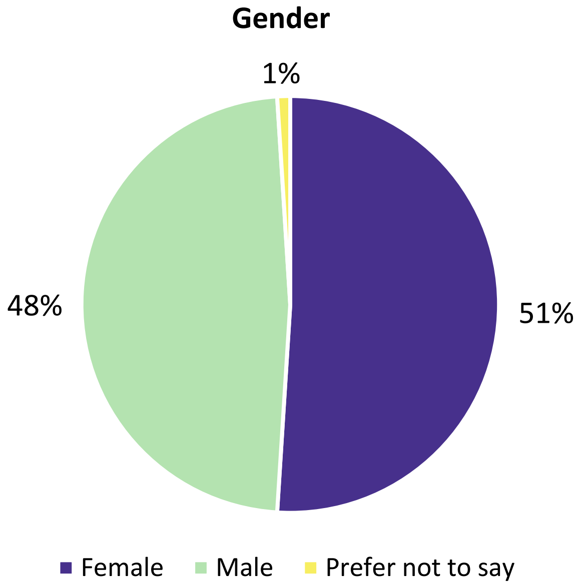
More customers may find a new community investment account to be a more attractive proposition than switching their current account, and this could be a much-needed stepping stone towards wider engagement with a mutual.

Quantitative findings

Who participated in the research

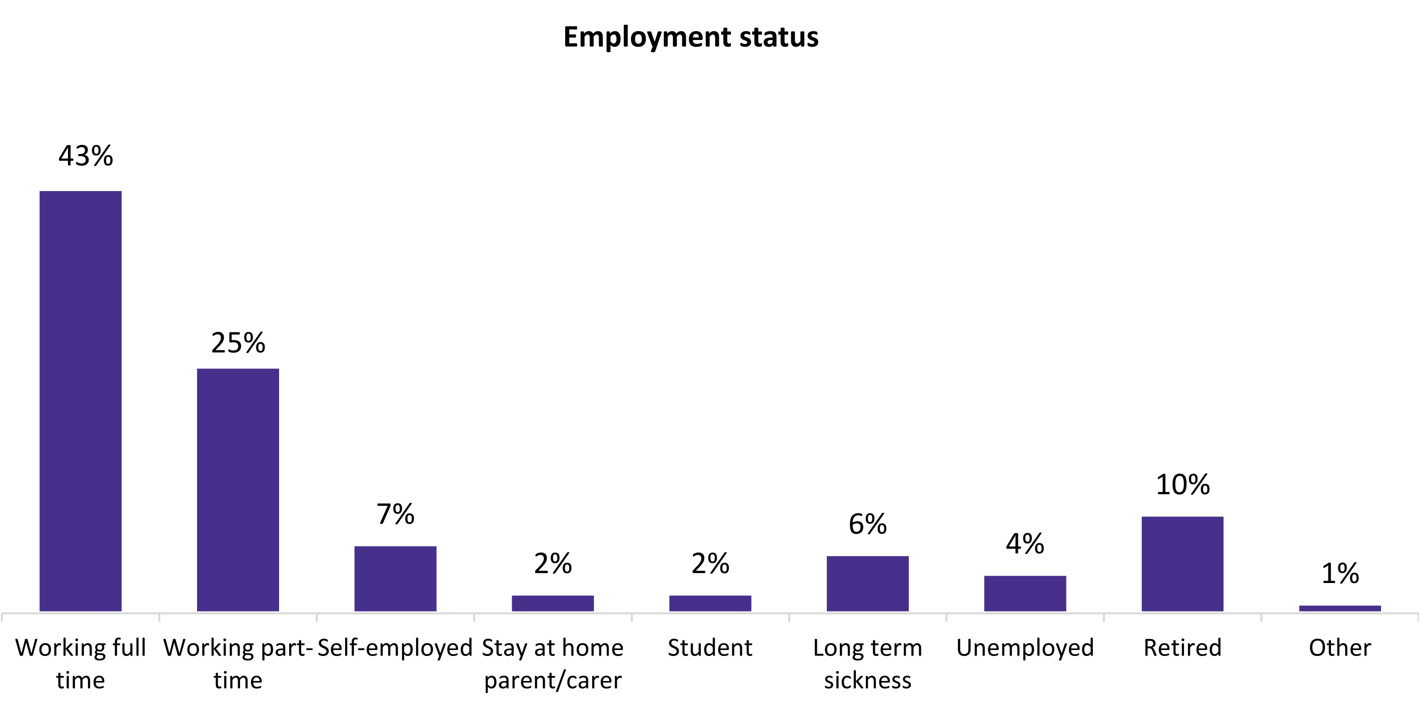
Age and gender of respondents

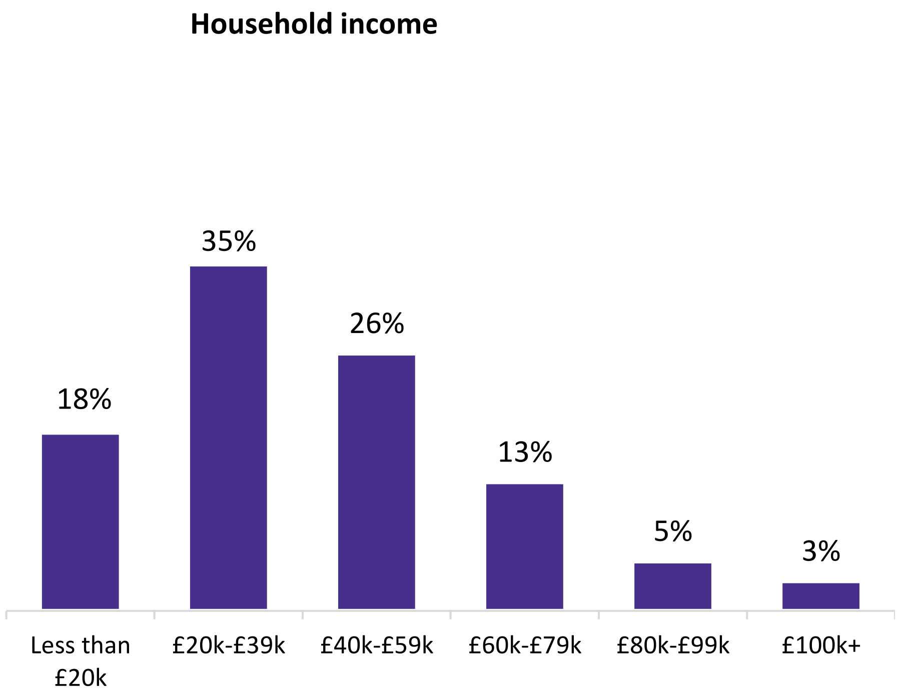




Respondents from across all age groups participated in the research, ranging from young adults and students through to older adults and pensioners. There was an equal gender balance of respondents.

Employment status and household income

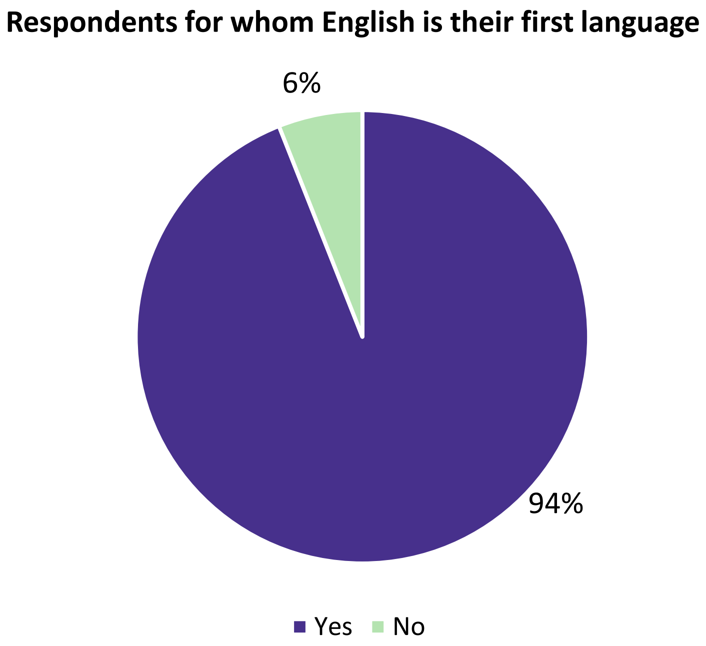


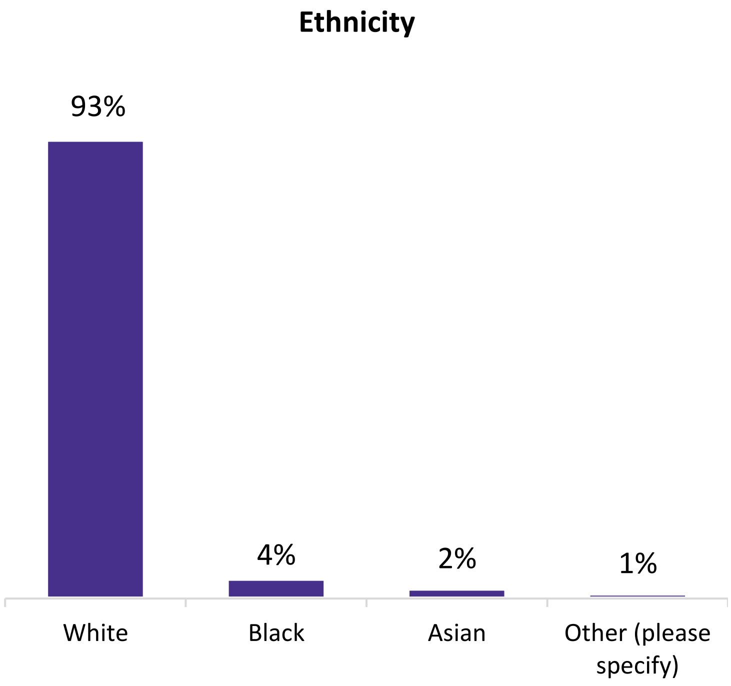


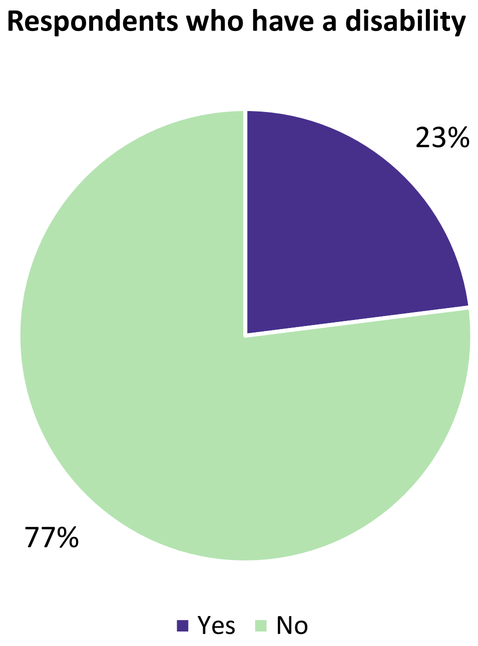
75% of respondents were working - either employed full-time or part-time, or self-employed. 10% were retired, while 14% were not working due to reasons including long term sickness, being a stay-at-home parent/carer, a student or unemployed.

53% of respondents to this research have a household income of less than £40,000 per annum. This roughly correlates with data from across Northern Ireland where approximately three fifths have a household income below the mean weekly household net income of £649 per week, or £33,748 per annum (*Northern Ireland Poverty and Income Inequality Report 2022-23, published 27 March 2024*).

Ethnicity and disability



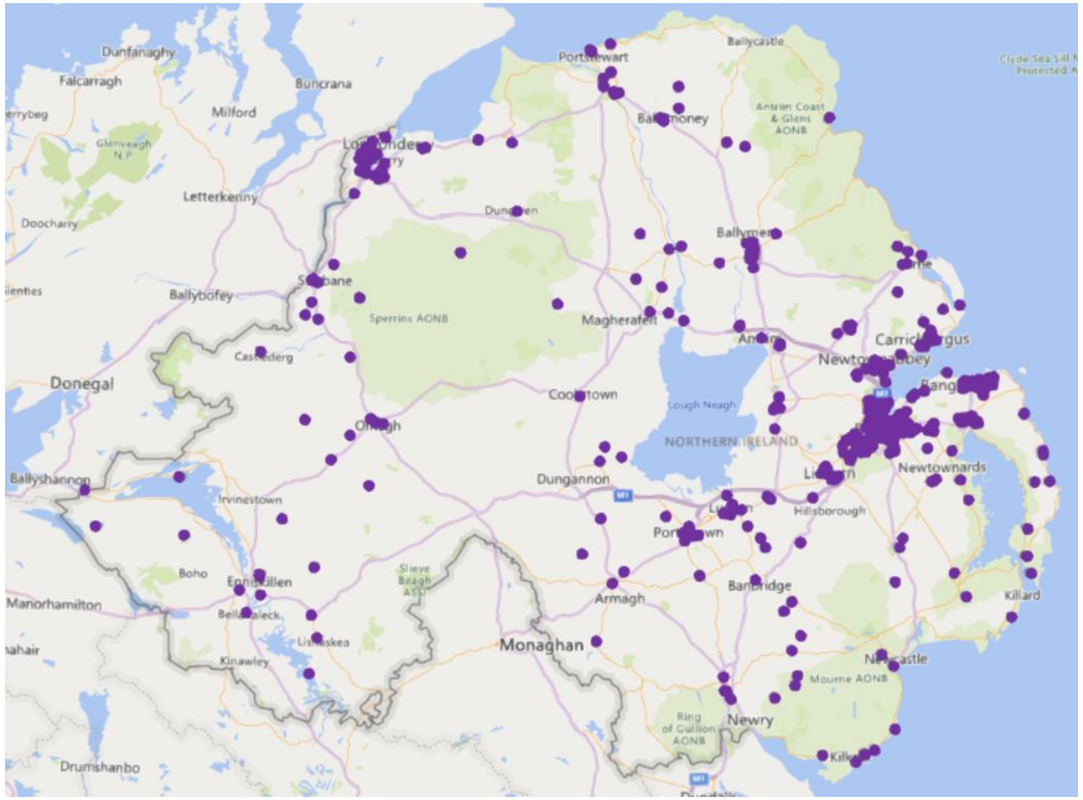


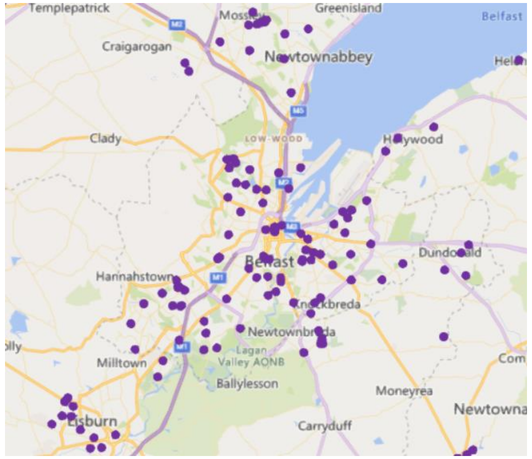


The majority of respondents (93%) reported their ethnicity as white. Other here includes those of mixed ethnicity. 94% indicated that English is their first language.

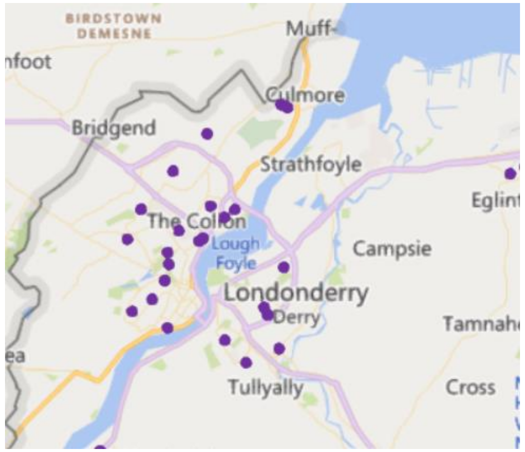
23% of respondents, almost a quarter, said their day-to-day activities are limited because of a health problem or disability.

Home location





Greater Belfast



Derry/Londonderry

Respondents came from across Northern Ireland, with a higher proportion from the larger cities of Belfast and Derry/Londonderry.

Use of banks, building societies and credit unions

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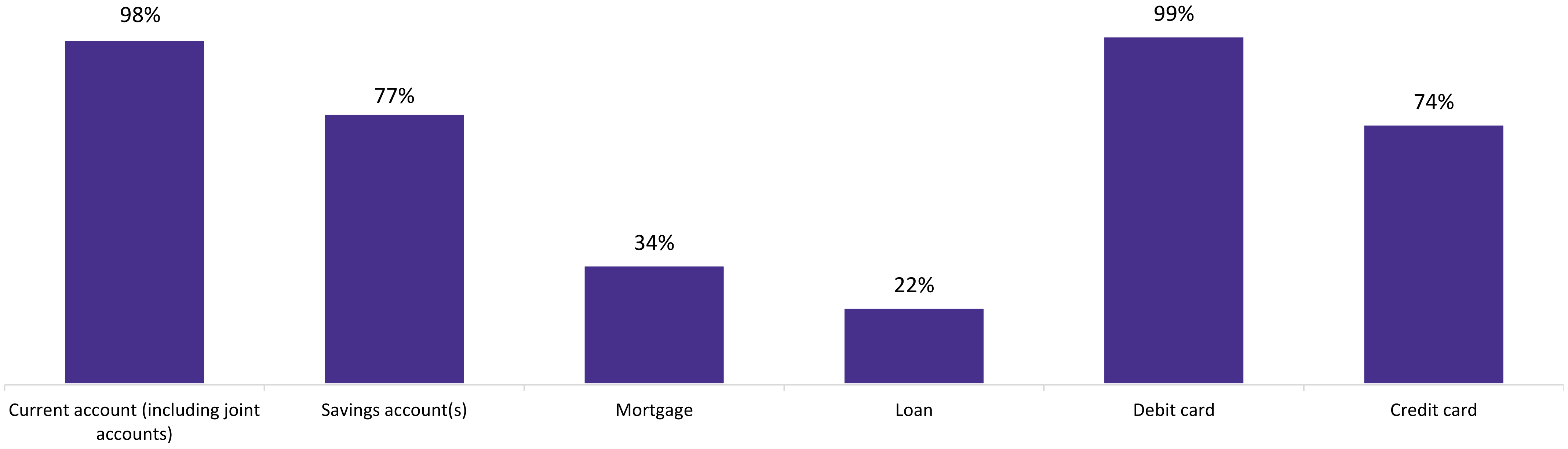
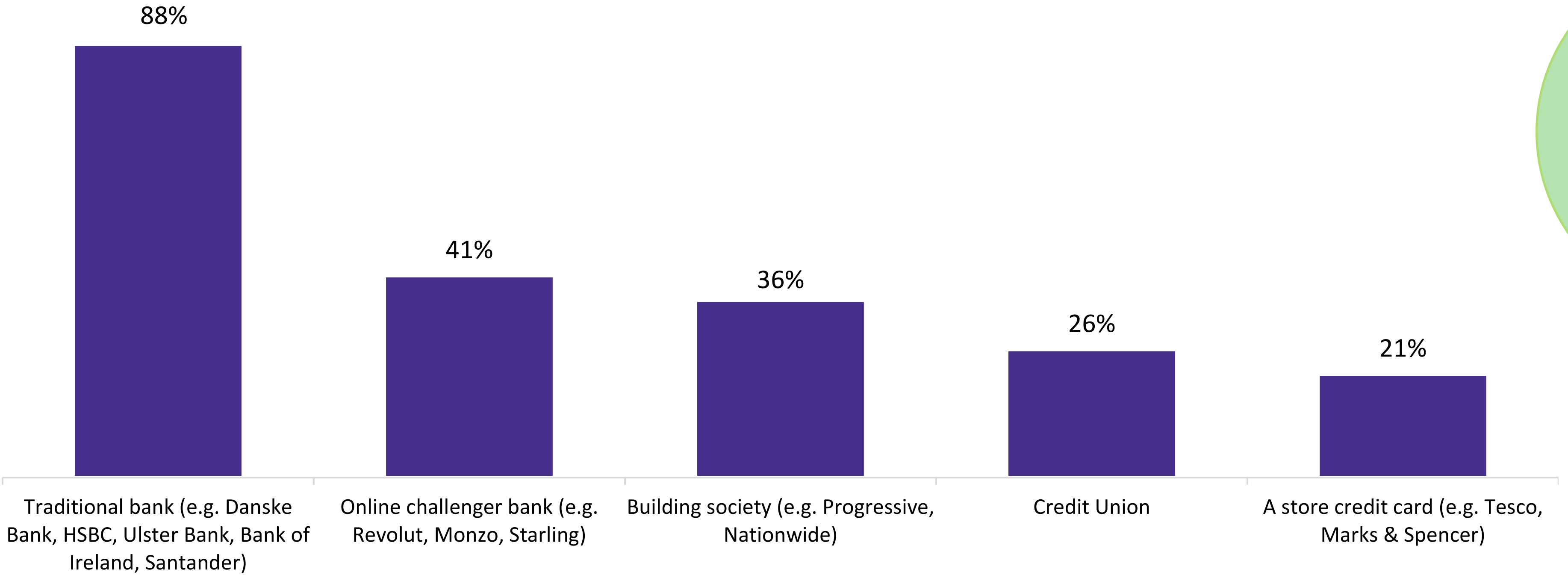
Use of specific accounts and financial products



The majority of respondents (98%) reported having a current account, while just over three quarters (77%) have at least one savings account. Around a third have a mortgage account, while 22% have a loan other than a mortgage.

99% of respondents use a debit card while 74% report having a credit card. Slightly more respondents reported having a debit card than hold a current account. These respondents may use a 'Pre-paid card' – a debit card that operates on a pay-as-you-go basis and can typically be accessed by people who are unable to get a bank account.

Use of financial services providers

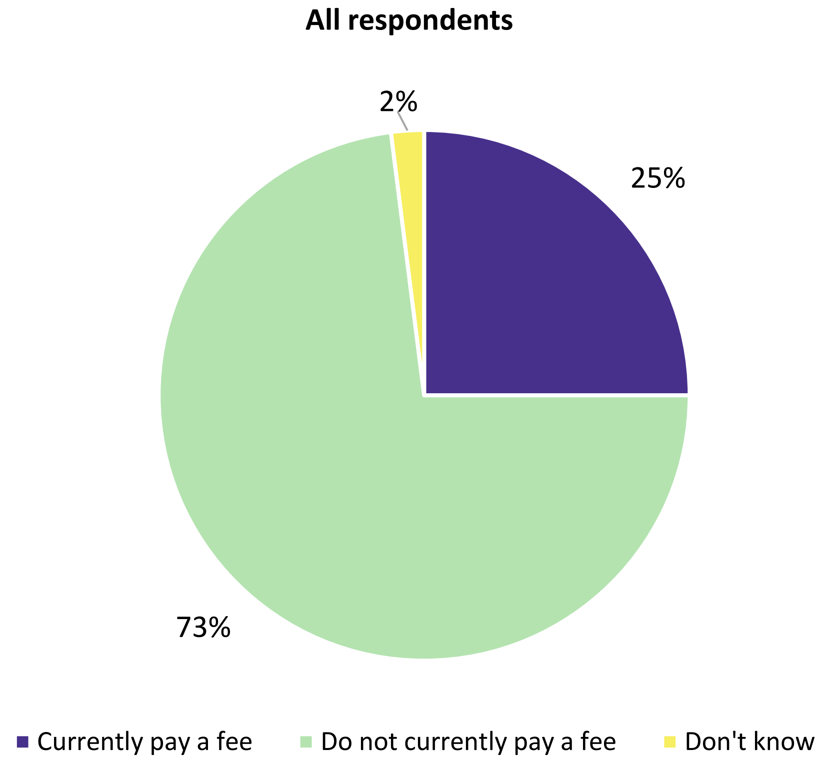


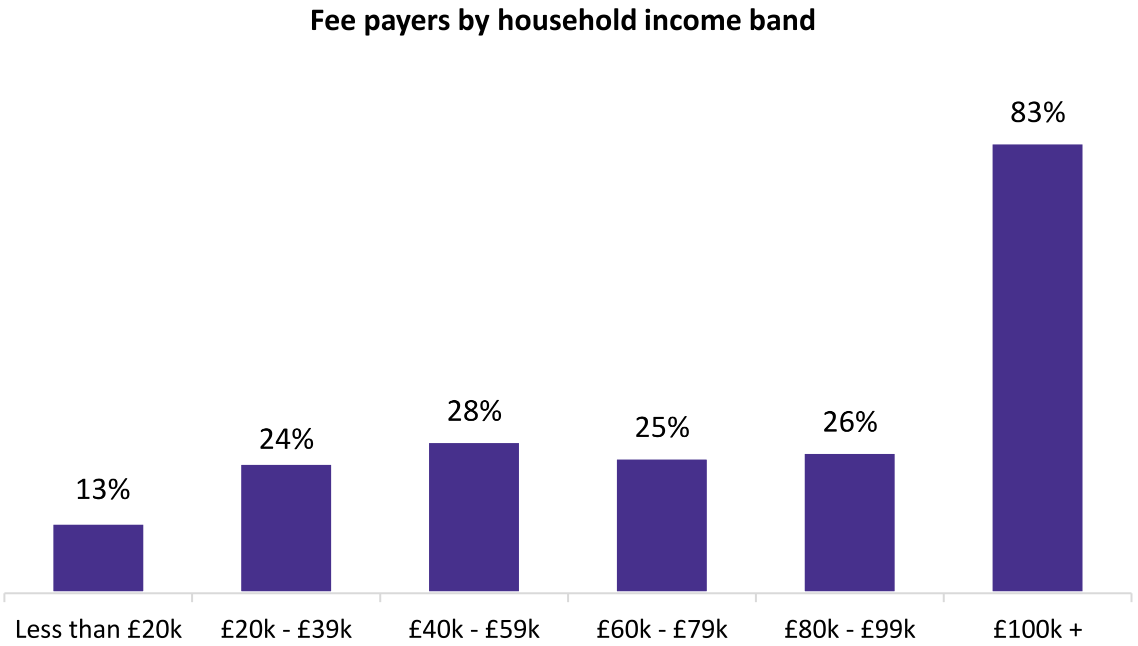
2.9 different providers used per respondent (average)

Traditional banks remain the most popular type of provider, with 88% of respondents accessing at least one account or product through a traditional bank. However, online challenger banks are growing in popularity with 41% of respondents having an account with an online challenger bank. Over a third (36%) of respondents use a building society, while just over a quarter (26%) have an account with a Credit Union.

Many respondents were willing to use a number of different providers. On average, each respondent used 2.9 different providers. 15% used 5 or more different providers.

Fees to financial services providers

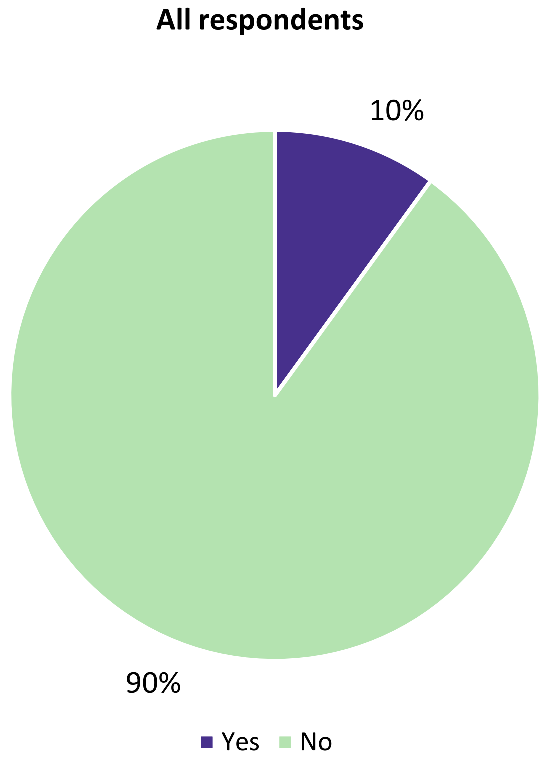


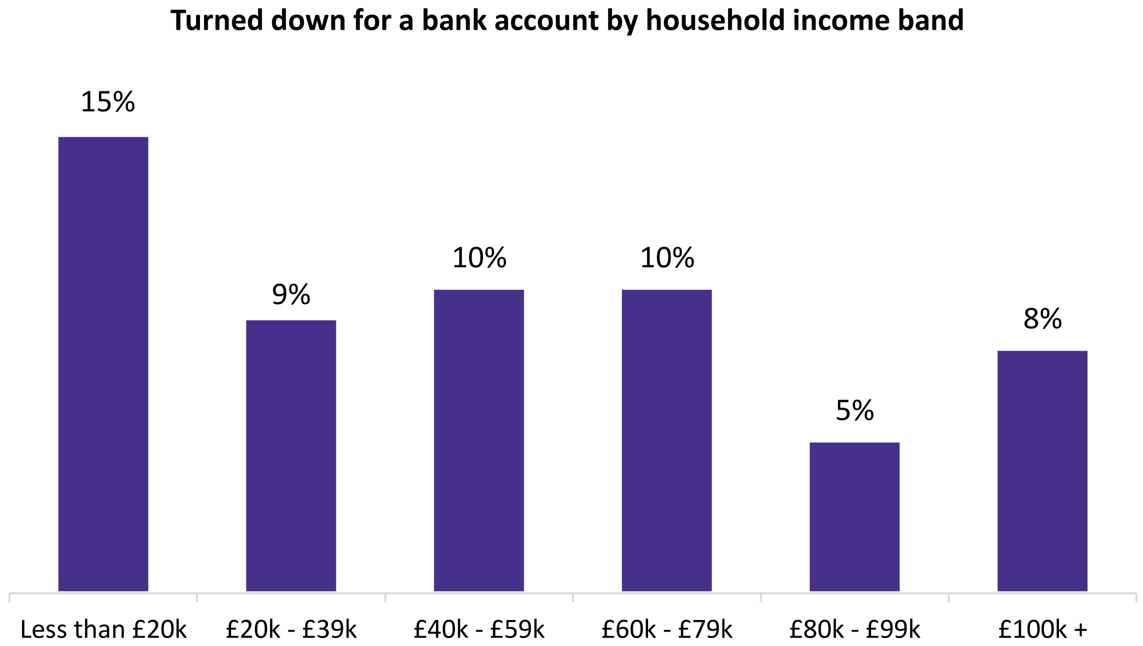


A quarter of respondents currently pay a fee to their bank for their current account, enabling them to access additional benefits (eg insurance or car breakdown cover).

Respondents with the highest household incomes were much more likely than those on the lowest household incomes to pay a fee for current account access – 83% of those with a household income of £100,000 + per annum pay a fee, compared to 13% of those with a household income of less than £20,000. Around a quarter of those on middle incomes are paying a fee for their current account access.

Turned down for a bank account

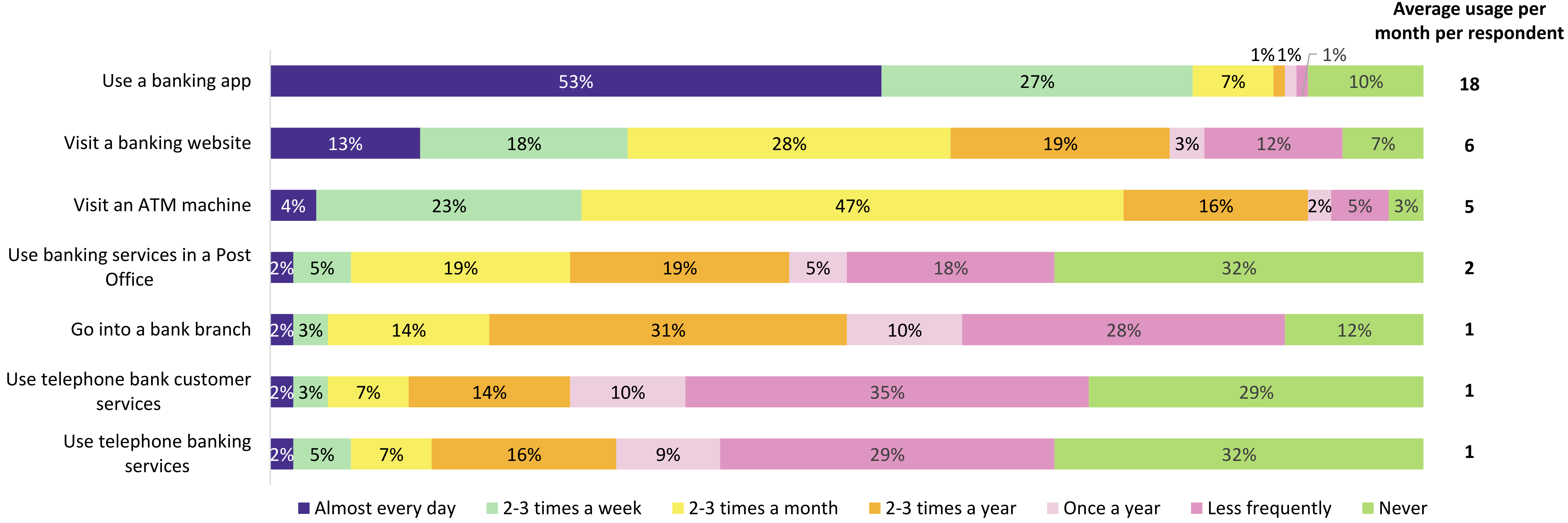




One in ten respondents had previously been turned down for a bank account. This figure is higher for those on the lowest incomes, applying to 15% of those with a household income of less than £20,000 per annum. While some respondents were unclear as to why they had been turned down, others knew this was due to factors such as:

- Poor credit score
- Insufficient income
- Lack of required identification, documentation or a permanent address
- Being new to the country

Frequency of using financial services



A banking app was the service most frequently used by respondents. 80% of respondents used a banking app at least twice a week. 10% of respondents never used a banking app.

Respondents were likely to use telephone banking, telephone customer services, or to visit a bank branch less frequently than other services.

Frequency of using financial services

Using a banking app

88% of 16-34 year olds: use a Banking App at least 2-3 times a week

59% of those aged over 65: use a Banking App at least 2-3 times a week

27% of those aged over 65: never use a Banking App

Go into a branch

6% of 16-34 year olds: never go into a bank branch

4% of those aged over 65: never go into a bank branch

65% of those aged over 65: go into a bank branch at least 2-3 times a year

Younger respondents were more likely than older respondents to use a Banking App more frequently. 88% of those aged 16-34 use a Banking App at least 2-3 times a week, while just 1% never use a Banking App. Comparatively, 59% of respondents aged over 65 use a Banking App at least 2-3 times a week – and 27% never use one. While younger respondents were slightly less likely than older respondents to go into a bank branch, the difference was not significant. 6% of those aged 16-34 said they never went into a bank branch, compared to 4% of those aged 65 and over.

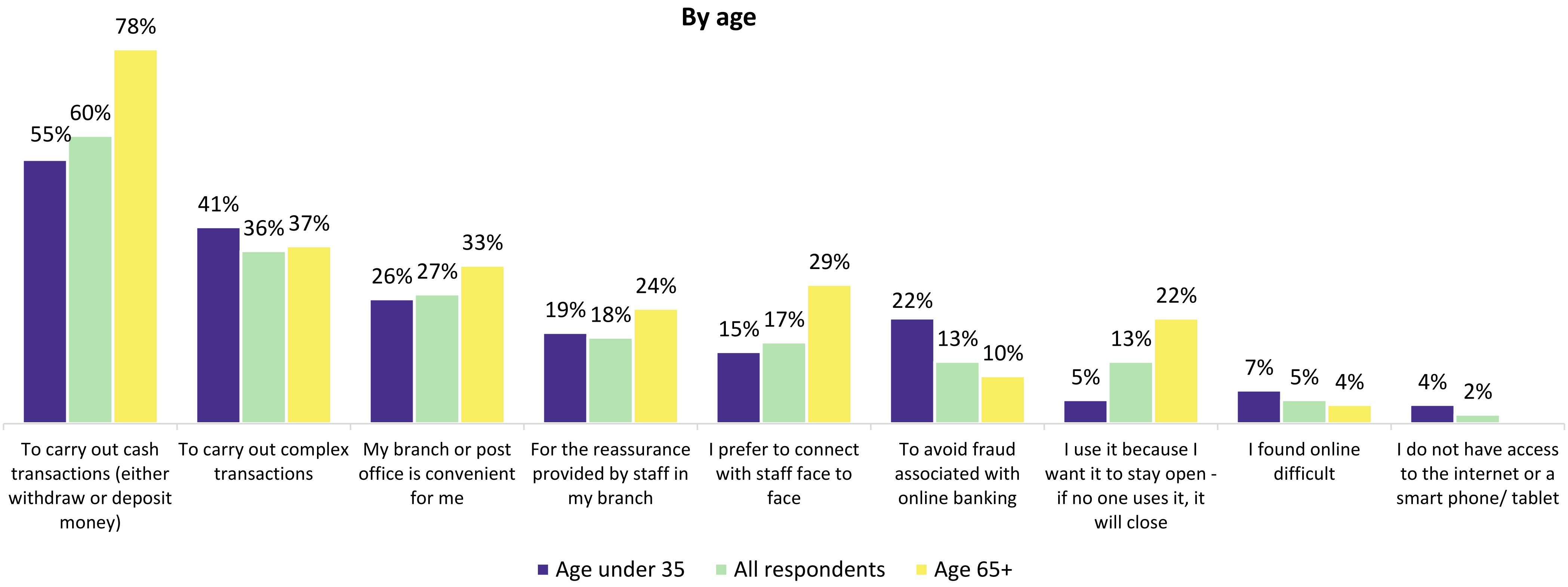
Services most likely to be used for particular actions

	1st	2nd	3rd
Check your account balance	Banking app (79%)	Banking website (1%)	Telephone banking (3%)
Check a payment	Banking app (76%)	Banking website (14%)	Telephone banking (3%)
Open an account	Banking website (32%)	Banking app (31%)	In-branch (31%)
Close an account	In-branch (34%)	Banking app (34%)	Banking website (23%)
Set up or amend a direct debit	Banking app (59%)	Banking website (20%)	In-branch (14%)
Raise an issue	Banking app (33%)	In-branch (22%)	Telephone customer services (20%)
Stop a lost or stolen card	Banking app (55%)	Telephone customer services (18%)	Telephone banking (10%)
Make or change a payment	Banking app (67%)	Banking website (13%)	In-branch (9%)
Take out cash	ATM machine (92%)	Post office (4%)	In-branch (4%)
Lodge cash or a cheque	In-branch (49%)	Post office (21%)	Banking app (15%)

For the majority of day-to-day actions, respondents were most likely to use their Banking App. However, some actions were more likely to be performed using other services:

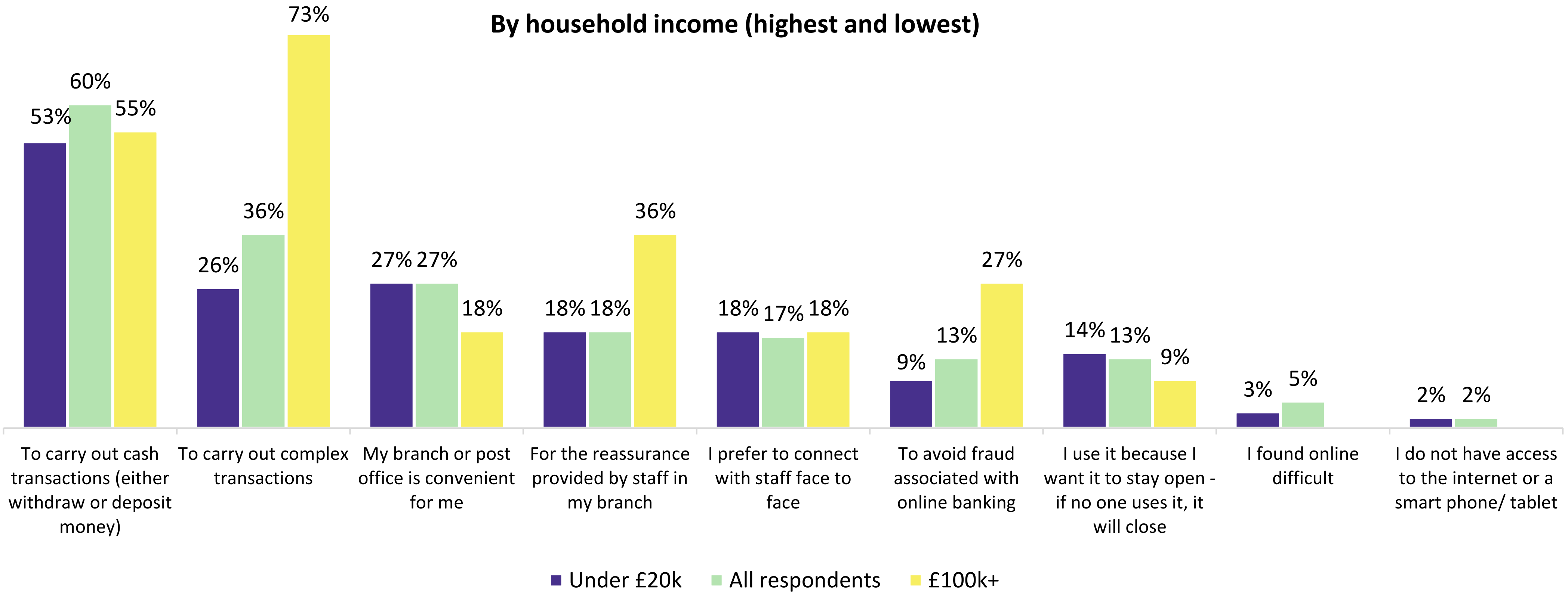
- Respondents were more likely to go in-branch to close an account or to lodge cash or a cheque
- They were more likely to visit a banking website to open an account
- ATM machines were most likely to be used for taking out cash.

Why people choose to visit a bank or post office



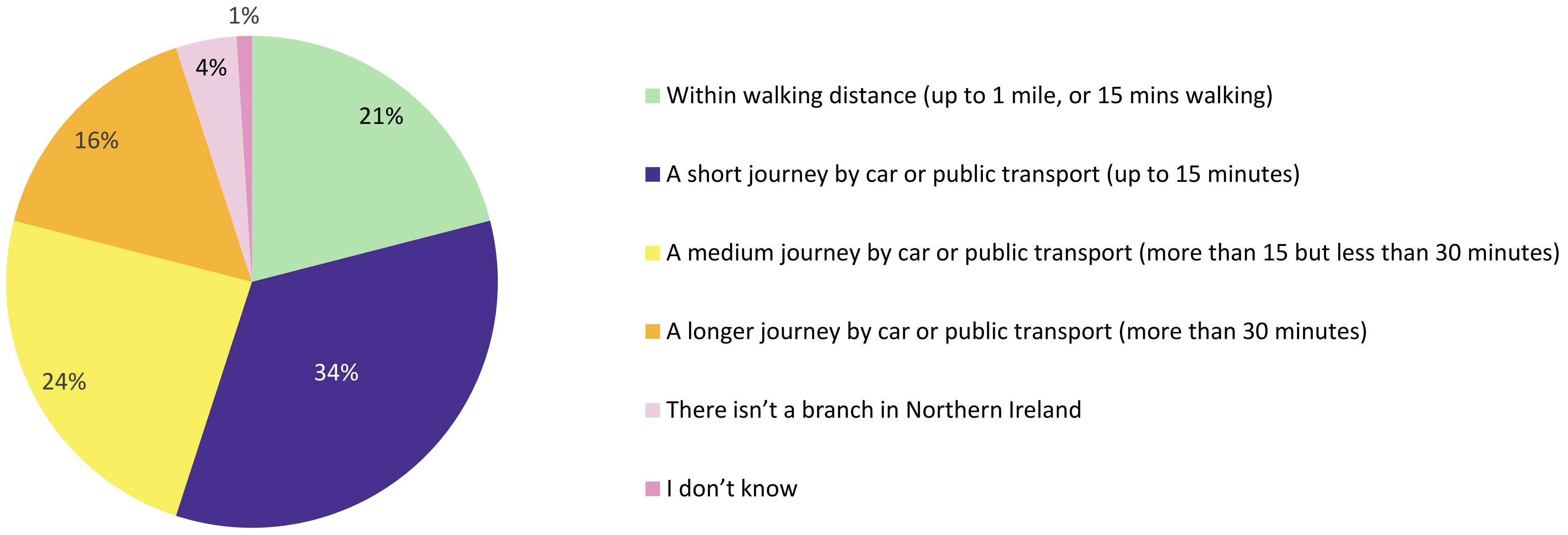
The majority of respondents who use a bank branch or post office do so in order to carry out specific transactions, such as those that must be done in cash or are more complex. Almost a fifth of respondents referred to the 'reassurance' provided by staff in a branch, or a personal preference for connecting with staff face to face. Older respondents are more likely to carry out cash transactions within a bank or post office, and to prefer a face-to-face connection with staff. It is also this age group who are most likely to use a branch in order to ensure it remains open. Younger respondents are more concerned than older respondents with avoiding fraud associated with online banking. There are no significant variations in reasons given depending on household income.

Why people choose to visit a bank or post office



Respondents with the highest household incomes are more likely than respondents with the lowest household incomes to choose to visit a bank or post office branch to carry out complex transactions, for the reassurance provided by staff in their branch, or to avoid fraud associated with online banking. Respondents with the lowest household incomes are more likely to report that their branch or post office is convenient to them, compared to those with the highest household incomes. A small proportion of these respondents find online transactions difficult, or do not have easy access to the internet.

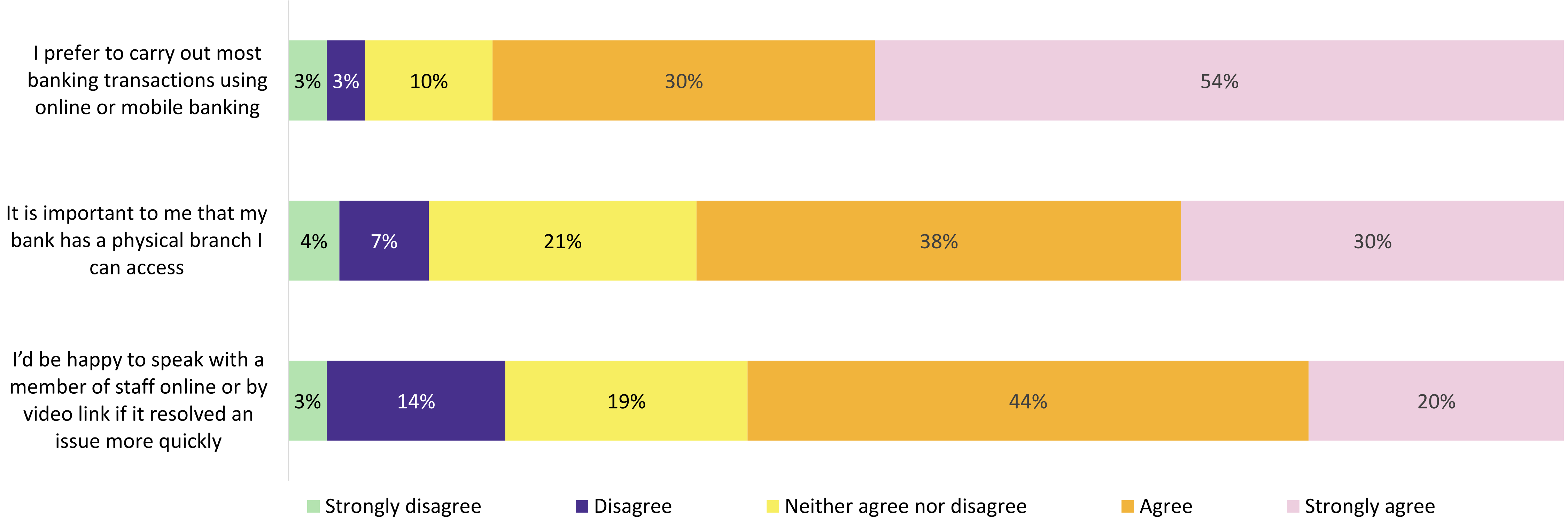
Convenience to a bank or building society branch



The majority of respondents (55%) live within a short car journey of their bank or building society branch. However, a significant proportion of respondents do not. 40% live far enough from their bank or building society branch that they would need to travel at least 15 minutes by car or public transport to visit it. 4% report using a bank or building society that does not have a branch in Northern Ireland.

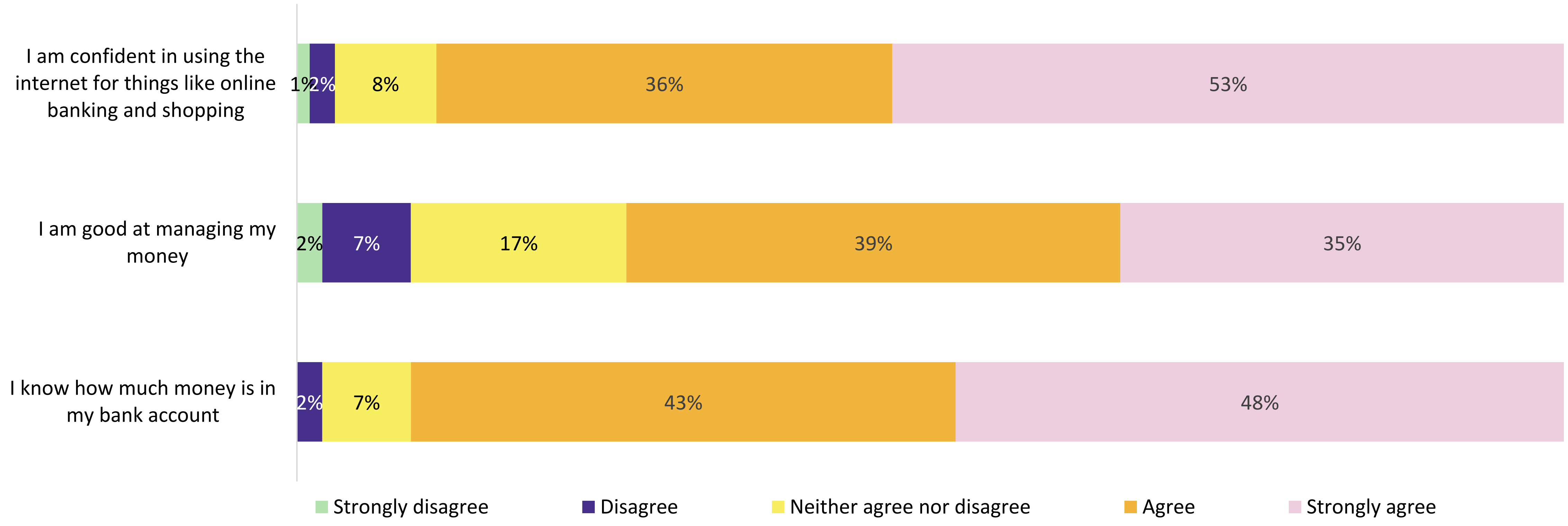
Personal approach to banking

Attitudes towards online and physical banking



A significant majority - 84% of respondents - said that it is their preference to carry out most banking transactions using online or mobile banking. However, 68% also said that it is important to them that their bank has a physical branch that they can access. 64% would be happy to speak with a member of staff online / by video link if it resolved an issue more quickly.

Attitudes towards money management

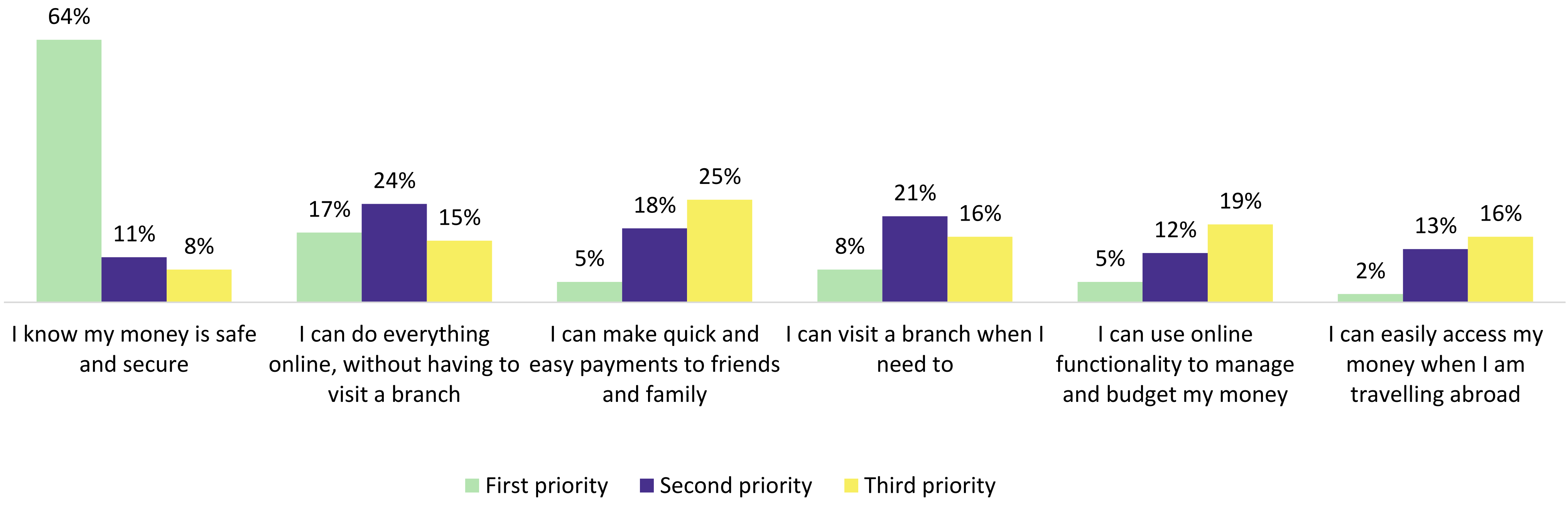


89% of respondents feel confident in using the internet for things like online banking and shopping. Most respondents - 91% - say they know how much money is in their bank account, while a smaller proportion (74%) feel they are good at managing their money.

What people are looking for in a bank, building society or credit union

Services and functionality

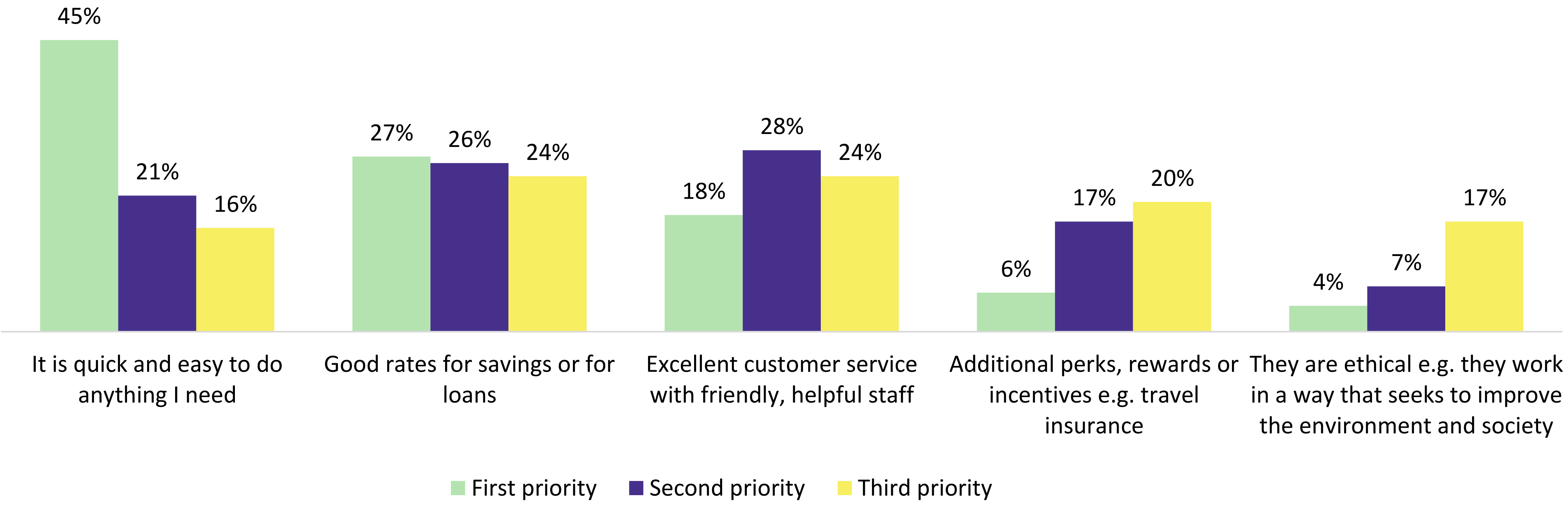
Average score	4.1	2.8	2.4	2.1	1.9	1.8



Respondents were asked to rank a number of services and functionality features from most important (1) to least important (6) in terms of what they are looking for in a bank or building society. The most important factor for respondents was knowing their money is safe and secure. This was either the first or second priority for 75% of respondents. A higher proportion of respondents said that it was important for them to be able to do everything online, than those who said it was important that they could visit a branch when they need to.

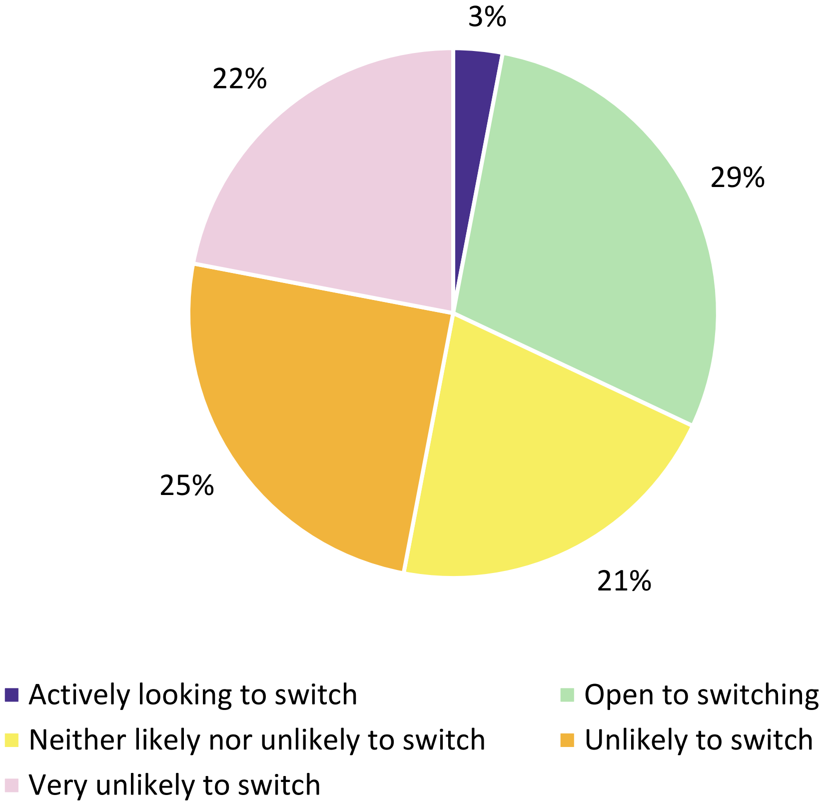
Features and perks

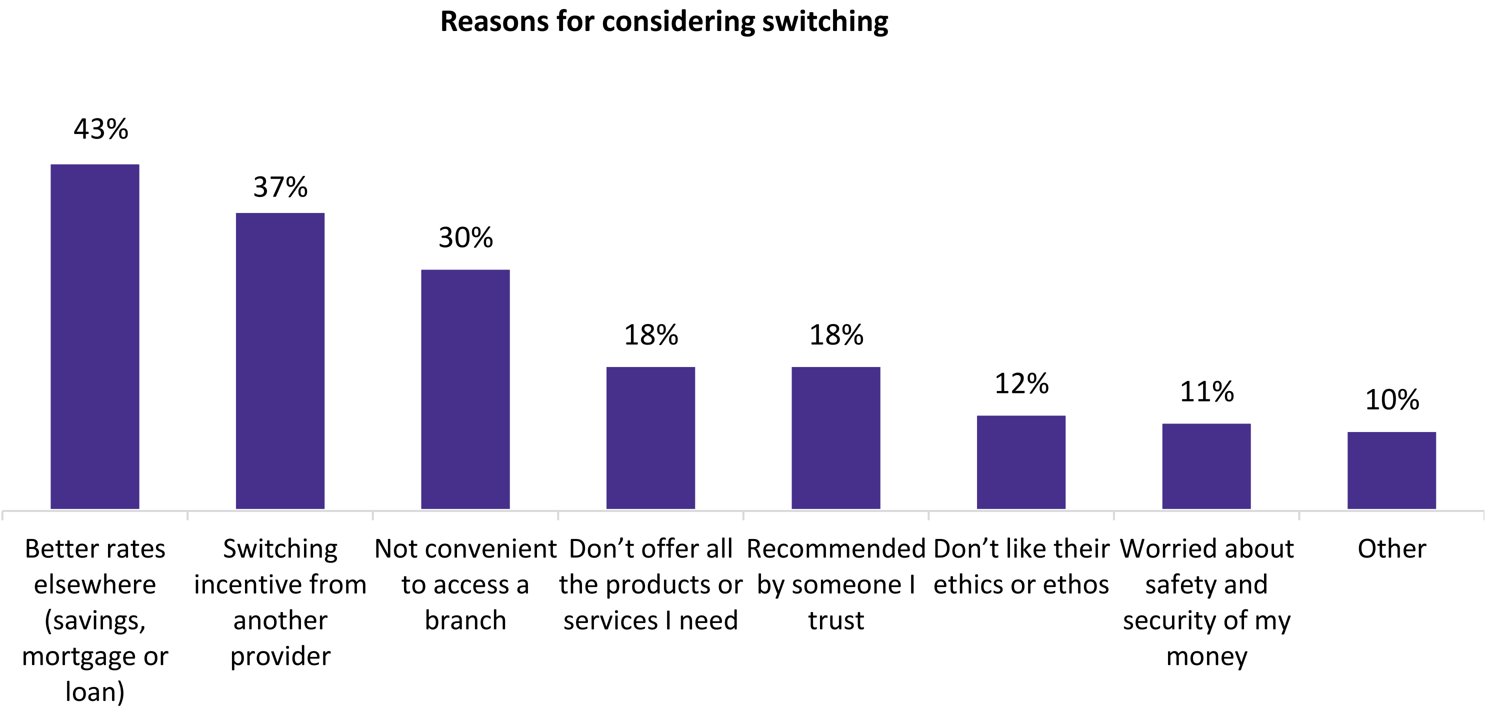
Average score	3.1	1.8	1.4	1.1	0.9



Respondents were also asked to rank a number of features and perks from most important (1) to least important (5) in terms of what they are looking for in a bank or building society. The most important factor for respondents was that it is quick and easy to do everything they need, ranked as the most or second most important factor for 66% of respondents. This was followed by good rates for savings and loans, and excellent customer service. Least important was that the provider is ethical, however 11% of respondents still ranked this as their first or second priority factor.

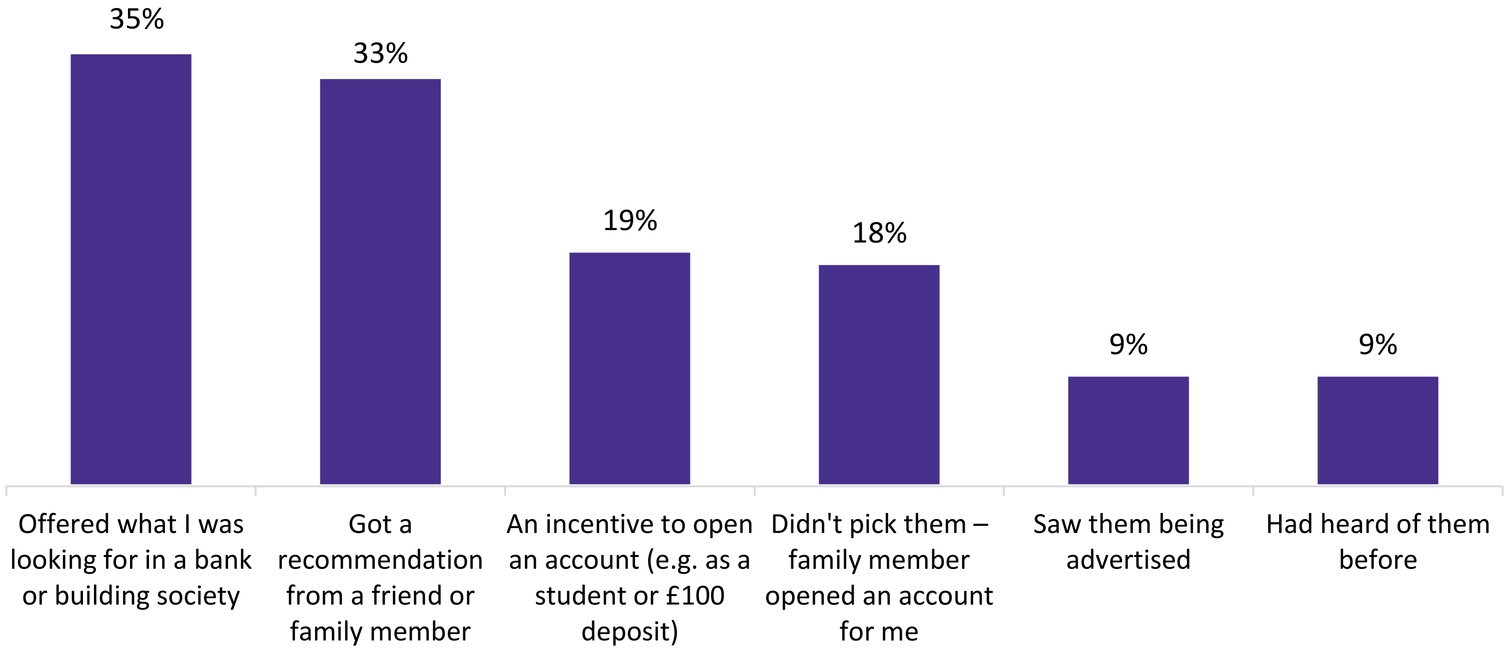
Likelihood to switch provider





50% of respondents had switched their main banking provider in the past. Currently, 32% are either actively looking to switch from their main banking provider or are open to doing so. Reasons given for this combine a range of ‘pull’ and ‘push’ factors. Primarily, there are ‘pull’ factors at play – the attraction of better rates at another provider, or a switching incentive offered. ‘Push’ factors include inconvenient branch locations, a failure to offer all the products or services needed and concerns around factors such as ethics, ethos and safety and security. Other here included a change in personal circumstances, negative publicity for a provider, and taking out or changing a mortgage.

Reasons for picking main banking provider



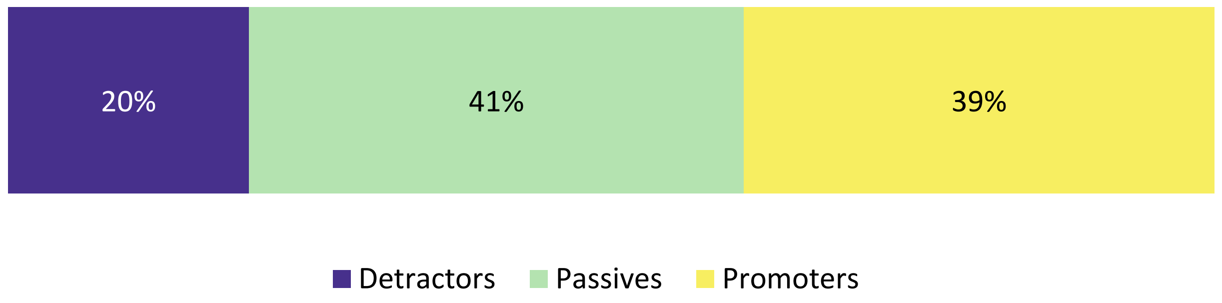
"They had the closest branch to where I was living."

"I opened a student account 35 years ago and still use it."

"They offered good interest on a current account."

The two main reasons respondents gave for picking their main banking provider are that the provider offered what they were looking for (services, functionality, features and perks) and following a recommendation from a friend or family member. Incentives to open an account also play a role, while 18% of respondents were continuing to use an account that had previously been opened for them by a family member.

Views on their provider: Net Promoter Score (NPS)



NPS +19

Overview

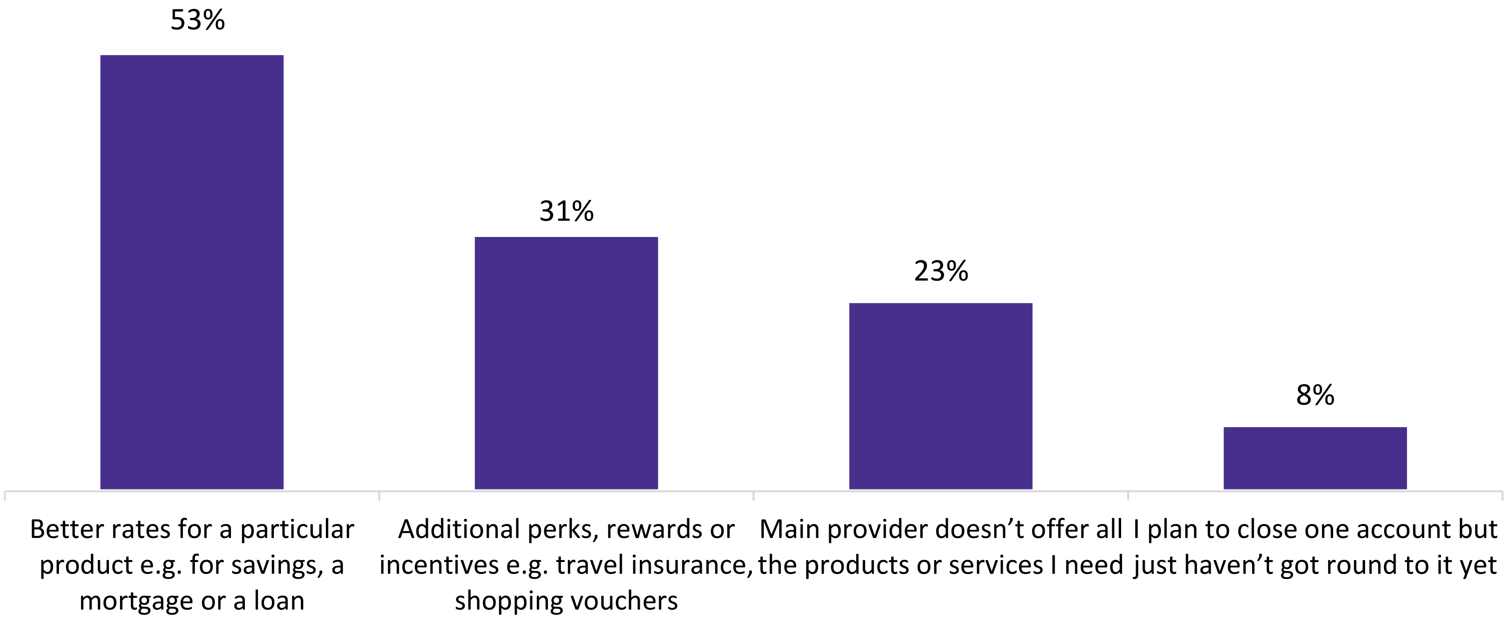
Respondents were asked how likely they would be to recommend their main banking provider to a friend, colleague or family member on a scale of 0 to 10, where 0 represented not at all likely, through to 10 representing a definite yes.

To calculate the Net Promoter Score (NPS), the proportion of those giving a rating of 0 to 6 ('Detractors') is subtracted from the proportion of those giving a score of 9 or 10 ('Promoters'). Those giving a score of 7 or 8 are classed as 'Passive' and are not involved in the determination of the Net Promoter Score.

The Net Promoter Score can reach as low as -100 or as high as +100.

39% of respondents are classified as 'promoters' returning a rating of 9 or 10 out of 10 in relation to their likelihood for recommending their main banking provider to someone else. Respondents returned a positive Net Promoter Score (NPS) of +19. The NPS is used by banks across the UK to track customer experience. Generally an NPS above 0 is considered good, as it means there are more promoters than detractors. Above 20 is favourable, above 50 is excellent and above 80 is world class.

Reasons for using a range of different providers



"I spread my money across a few different providers because each guarantees my money up to a certain amount."

"I have been disillusioned by my main banking provider because of branch closures. It is not the same local, friendly, reliable place that it was formerly."

"I like the ethos of the Credit Union and try to have as little to do with banks as possible."

"I have one that is online only, and one where there is a physical branch."

80% of respondents use a number of different providers for banking services. More than half of those respondents choose to do so in order to access better rates for a particular product, such as a savings account or mortgage, compared to the rates offered by their main provider. Around a third have opened a product with another provider in order to access additional perks, rewards or incentives.

Perceptions of a Regional Mutual Bank

Definition of a Mutual Regional Bank

Overview

Respondents were given the following definition of a Mutual Regional Bank.

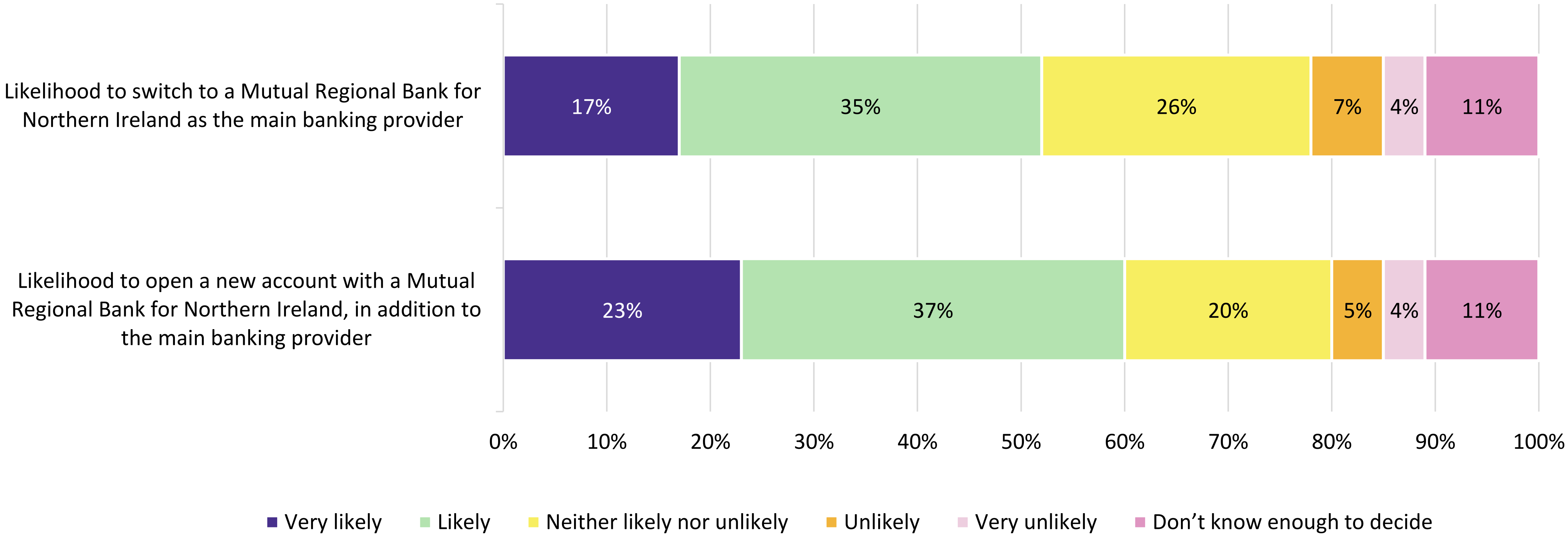
Regional Mutual Banks are commonplace in other European countries such as Germany. A mutual bank is exactly the same as a traditional bank in that it is a professional licensed bank run by fully qualified staff, offering the same products and services as traditional banks, and is regulated by the Financial Conduct Authority, BUT

It is different from a traditional bank in that:

- *It is locally owned by its customers, who are its members.*
- *It is community focused, set up to benefit local people rather than maximise profits for global shareholders.*
- *It prioritises bringing banking services and access to cash back into villages, towns and cities.*
- *Funds are invested in local communities and local businesses – rather than outside of the region.*
- *It provides a bank account to anyone who needs one.*
- *It will not invest in industries or activities that harm the environment.*

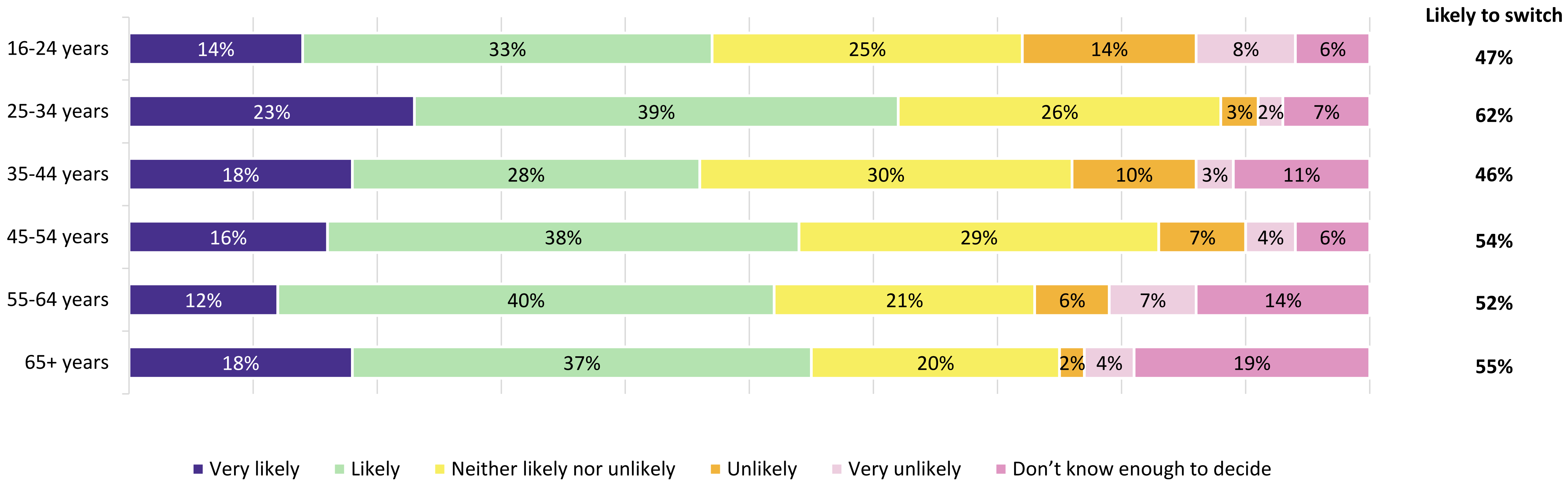
They were then asked for their views on whether this is a type of provider that would be of interest to them.

Perception of the Mutual Regional Bank offer



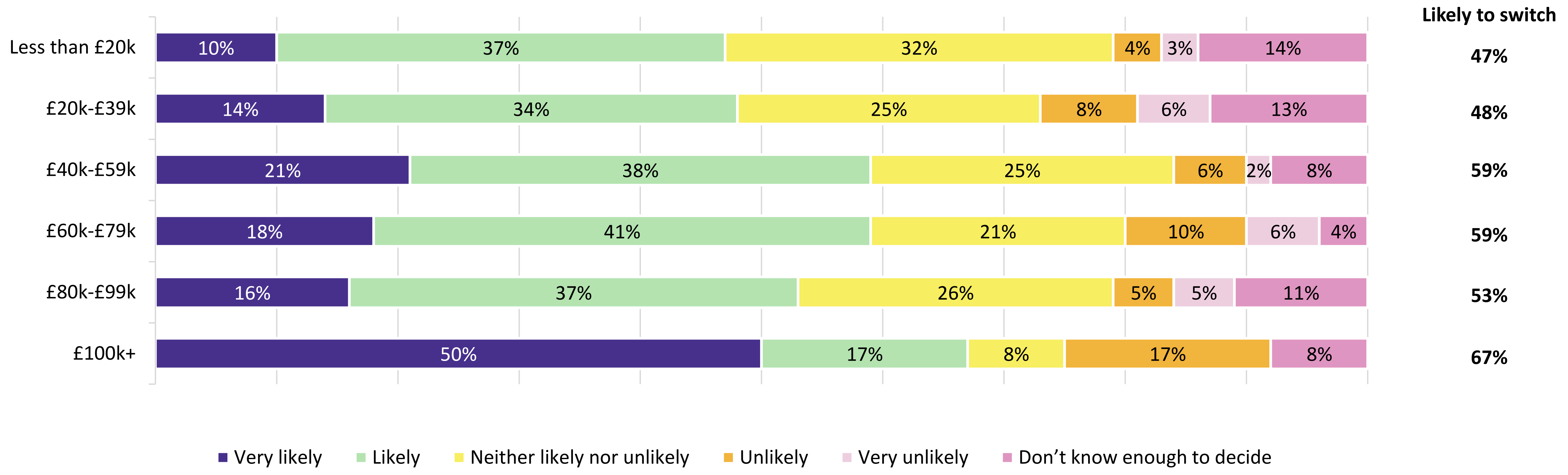
Based on the definition of a Mutual Regional Bank for Northern Ireland, 52% of respondents said they would be likely or very likely to switch to a Mutual Regional Bank for Northern Ireland as their main banking provider. A higher proportion, 60%, said they would be likely or very likely to open a new account (such as a loan or savings account) with a Mutual Regional Bank for Northern Ireland. 11% of respondents said they did not have enough information to make a decision.

Likelihood to switch: by age group



Respondents aged 25-34 years are those most likely to consider switching from their current main banking provider to a Regional Mutual Bank for Northern Ireland. 23% of this age group say they would be Very likely to switch. They are followed by respondents in the middle and older age categories, those aged 45 years and older.

Likelihood to switch: by household income



As their household income increased, respondents were generally more likely to consider switching from their current banking provider to a Mutual Regional Bank for Northern Ireland. Half of all respondents with a household income over £100k per annum said they were very likely to consider switching to a Mutual Regional Bank.

Positive interest in switching to a Mutual Regional Bank

"This model seems to give the customers more control. As it is run by the customers, I feel it would have my best interest in mind. Local businesses tend to do more for the community than big companies."

"A community-based bank is more ethical and would be of more benefit to local communities than corporate entities."

"I think this would benefit local communities and businesses, so would help the area thrive."

"If they have a local branch and can offer good saving rates then I would be interested."

"I like that it will provide an account for everyone."

"This sounds like the way forward for local/regional banking."

"It has the benefits of a bank, but with the feel of a local credit union."

"Good that it will be run by people with local knowledge and it sounds more trustworthy than other options."

"I have no local branch at the moment and am not all that savvy online at the age of 82. I would be happy to see this type of bank in my town."

"I really like that it will contribute to the local community and economy, and that it will do nothing to harm the environment."

"I think we are all sick of bankers and their disgustingly large salaries and shareholders with their huge profits so it's good to have an option to use a community bank."

"It sounds brilliant that it creates jobs for the local people and rewards the local community with any of the profits. It's a win win!"

"I would know that my money is safe and protected instead of it potentially being lost to an overseas bank."

Key themes shared by respondents who had a positive interest in switching to a Mutual Regional Bank included a strong interest in the 'community' aspect of the model, with profits invested locally to benefit local residents and businesses. They liked that ownership of the Bank would be in the hands of its members, rather than profit seeking shareholders. Local knowledge and a local focus was seen as a measure of trustworthiness and, for some, made them feel their money would likely be more secure. Several respondents qualified their positive attitude, saying that it would still be important to have competitive rates and other key banking features.

Not interested or undecided in switching to a mutual bank

"It is no different to a local Credit Union which I already use for the majority of my banking services and are already established in the community. They do not charge obscene and unfair fees or charges like all mainstream banks do."

"I would need to see how it works in reality."

"I just don't have enough information about this bank to decide whether I would consider opening an account."

"I prefer an established UK wide bank."

"I like the security of a traditional bank."

"I am a citizen of the world, I prefer international banks."

"I am happy with my online banking app, and am not sure I would get the same from this new model."

"All depends on what incentives it offers."

"Would worry this would erode access to the national banking system and marginalise NI people."

"I'm not sure I trust them?"

"I worry that I am subsidising the other customers and therefore not getting the best return on my money."

"I need the use of investment banking services including share dealing and collateral lending. Regional banks and even most national UK banks don't offer anything like these types of services."

Where respondents were unlikely to consider switching to a Mutual Regional Bank for Northern Ireland, themes that emerged included some confusion over how the model would differ from existing Credit Unions, uncertainty over the security credentials of the Bank and how it would operate in practice. Some respondents were cautious in their interest, and felt they would need more information about the model. Others felt that they would be unlikely to receive the benefits they receive from larger, more established banks.

Advanced Analytics

Client Analysis & Relationship Development

Advanced analytics: discrete choice analysis

Overview

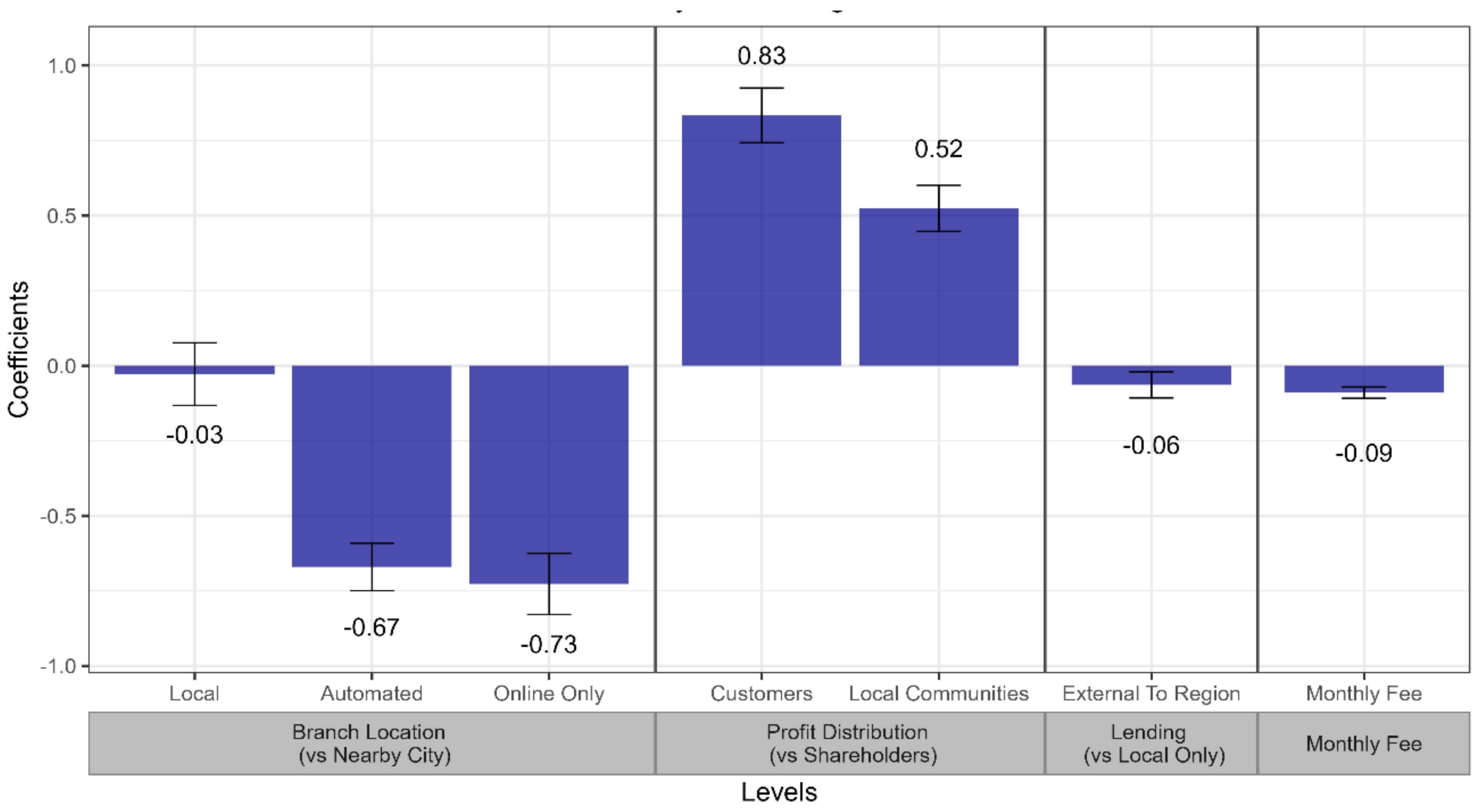
As part of the quantitative survey we used Discrete Choice Analysis, a form of advanced analytics, to gain a deeper understanding of the factors that influence individuals in their choice of banking provider.

Each respondent was presented with a series of questions offering two scenarios relating to their personal banking and were asked to select which of the two scenarios connected most with them. Each respondent saw eight different sets of scenarios, 16 scenarios in all. Each scenario contained a range of options, themed across four areas:

- Location
- Ethos
- Investment approach
- Fees.

Through undertaking an advanced analysis of respondent choices we can share robust insight into the impact of different variables on likely consumer behaviour.

How profits are distributed has a strong influence on behaviour

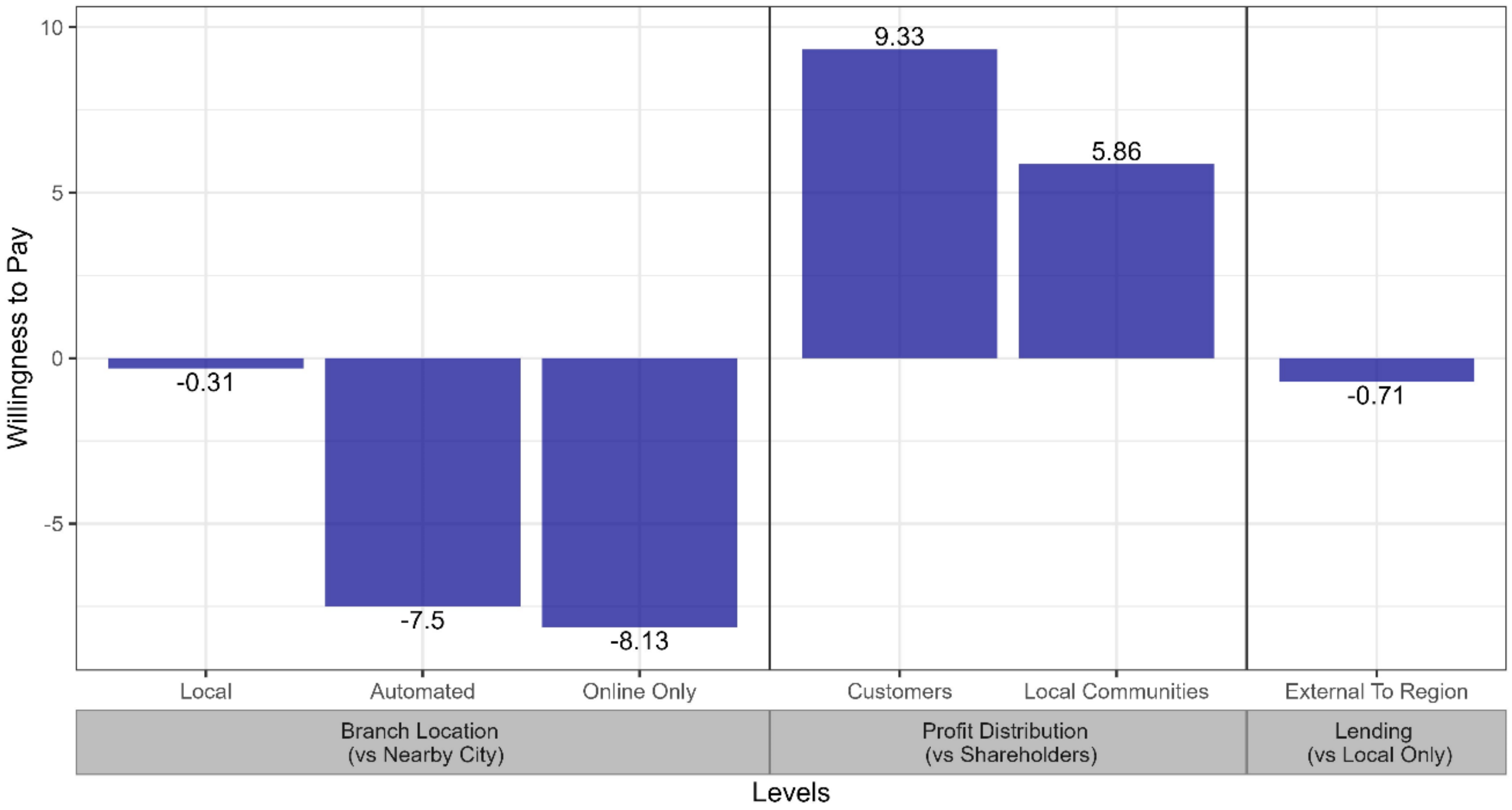


This graph gives critical insights into factors influencing the likelihood of a bank being chosen by respondents. Positive coefficients (numbers above 0) indicate a higher probability of selection, while negative coefficients (numbers below 0) suggest a deterrent effect. When compared to having a branch in a nearby city, automated and online-only banking options significantly decrease the likelihood of the bank being selected, indicating a strong preference against these services as the only option for banking. Having a local branch does not have a significant impact on the bank’s attractiveness.

The bank's appeal increases substantially if it distributes profits to customers or local communities, rather than to shareholders, as these options have strong positive coefficients. Lending to external regions and imposing a monthly fee slightly reduce the chances of the bank being chosen, but these effects are minor compared to the negative impact of automated and online-only services.

To maximise attractiveness, the bank may wish to avoid automated-only and online-only options and focus on profit-sharing strategies that benefit customers and local communities.

Profit distribution and location of service impact on attitudes to bank fees



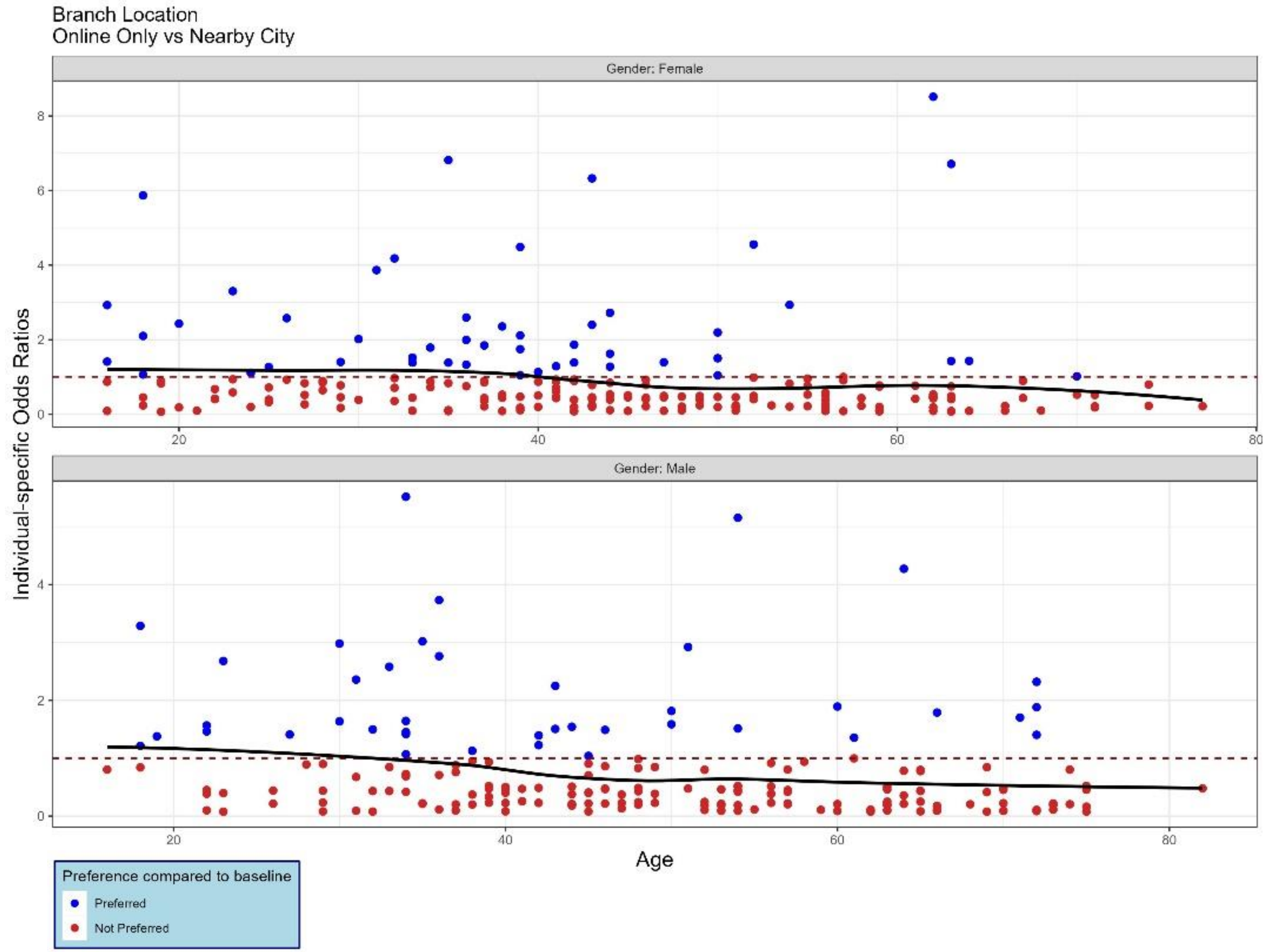
This graph shows the coefficients that influence respondents' willingness to pay for a bank account based on factors like branch location, profit distribution, and lending practices.

The data indicates that automated-only and online-only services have a significantly negative impact on willingness to pay for services, while having a local branch has a less severe but still negative effect when compared to having a branch located in the nearest city.

Conversely, respondents are more likely to pay bank fees if the bank distributes profits to customers and local communities, rather than to shareholders. In contrast, they are less willing to pay if the bank lends to external regions.

Overall, these indicators have a similar impact on decision-making, whether respondents are choosing a bank or deciding how much they are willing to pay for an account.

Younger respondents show a preference for online-only banking



These graphs compare preferences for online-only banking (blue) versus nearby city branch banking (red) among males and females across different age groups. In the first graph, it is evident that most females prefer nearby city branches over online-only banking, although a notable proportion does favour online options. The preference for online banking appears to be more pronounced among females aged 18-35, as indicated by the trend line consistently above the baseline for this age group.

The second graph reveals a similar overall trend among males, with a majority preferring nearby city branches over online-only banking. However, the aversion to online-only banking is more pronounced among males aged 40 and older compared to their female counterparts. Younger males, like younger females, show a stronger inclination towards online banking, suggesting a generational shift in preference.

Overall, while both genders show a preference for having access to a nearby city branch rather than an online-only option, younger individuals across both genders exhibit a higher tendency towards online-only banking.

Summary of discrete choice findings

How profits are distributed has a strong influence on behaviour

- Respondents displayed a much stronger preference for a bank that distributes profits to its customers and to local communities, rather than to shareholders
- They were much more likely to be willing to pay a monthly fee to a bank that distributes its profits in this way

As does the availability of a branch presence

- Respondents were also more likely to opt for a bank that has a branch presence, where facilities are not exclusively either automated or available online
- And were more likely to be willing to pay a monthly fee where their bank has a physical branch presence
- However there is no strong preference as to the location of the branch – whether local to the respondent or in the nearest large city

Lending patterns and fee structures have limited impact

- While lending to external regions, rather than local lending only, and charging a monthly fee slightly reduce the chance of a bank being selected, the impact is minor

Bank of choice: *Respondents demonstrated a strong preference for a bank that* ***has a branch presence in Northern Ireland*** *(though this did not have to be in their immediate locality) and that* ***distributes its profits to customers and/or local communities****. Under these circumstances, respondents were more likely to be willing to pay a monthly fee to access services.*

Conclusions

Conclusions

This research was designed to:

1. Explore awareness of, and views on, a regional mutual bank offer
2. Build an evidence base around what influences people in making their banking decisions
3. Establish an understanding of the market for the service.

While awareness of a regional mutual bank offer is low, once the concept of a Mutual Regional Bank for Northern Ireland was explained, it generated strong interest.

This was evidenced through the proportion of respondents expressing an attraction to a Mutual Regional Bank either as a motivator to switch from their main banking provider or as offering an additional option that they would consider alongside their main banking provider.

A task for the Northern Mutual Campaign will be to move potential customers from a position of interest to one where they are prepared to act on that interest. The research built a robust evidence base in relation to the factors that influence people in making their banking decisions. Importantly, it generated evidence both in relation to stated preferences or attitudes, and in relation to actual behaviour. This allows for a deeper understanding of the intrinsic motivating factors that need to be understood in order to shape people's behaviour. The research highlighted that what people express in terms of their attitudes does not always translate into actions.

Conclusions

A key influence on banking decisions emerged as whether a bank has a presence within Northern Ireland, which is seen as offering reassurance.

Stated preferences indicated that a local bank branch presence provided reassurance for respondents – those less so for the younger generation. However, the majority of people rarely use a bank branch and there is clearly a growing trend in terms of usage of online challenger banks which provide no local branch presence at all. Advanced analytics highlighted that people's actions – such as choosing or switching bank – are still strongly shaped by whether the bank has a branch presence in Northern Ireland. Importantly however, the branch presence did not need to be within their immediate locality. This reflects the sentiment that, for many, a bank branch is not somewhere they will regularly visit – but they take comfort in knowing that, should they have a problem or issue, they would be able to access one and to speak with someone who has regional knowledge.

However, few people choose to visit a bank branch on a regular basis indicating that while a local presence will be important for Northern Mutual, there may be other opportunities to offer reassurance to potential customers.

As an evidence base for the Northern Mutual Campaign this highlights the importance of reassurance in influencing decision making in relation to banking decisions. As a dual approach, the Campaign may seek to promote their plans to offer a strong local presence, while also highlighting other avenues through which banking customers can benefit from quick and easy access to someone who can help them and who has local knowledge, for example, through automated branches, online and telephone support.

Conclusions

Another strong influence on behaviour is the way in which banks distribute their profits, with a clear preference for those which distribute their profits for the benefit of customers and/or local communities.

Advanced analytics also revealed a strong resonance with how a bank distributes its profits in shaping behaviour. Specifically, respondents demonstrated a clear preference for a banking provider that distributes its profits to customers and/or to local communities rather than to shareholders. This presents a unique opportunity – and clear point of differentiation - for the Northern Mutual Campaign which has, at its heart, a commitment to local and community investment.

This insight can inform specific products and their effective marketing to potential customers.

Options for consideration may include specific branding for ‘community investment accounts’ giving potential customers a product through which they gain a sense of pride, a sense of having contributed directly to their local community – all while accessing the services and benefits they would expect from any other banking provider. These accounts could be linked to an annual ‘impact’ report highlighting to account holders the benefit that they have helped to generate. They could also be linked to accessing vouchers, discounts or incentives encouraging spending within the local community – a key enabler of a circular economy benefitting local businesses as well as local people. In offering a product of this nature, any associated fee may be seen less as a transactional arrangement between customer and bank, and more as an investment within the local community.

Conclusions

While there is a general apathy towards switching bank, the research offers insight into how to achieve a tipping point at which it becomes more attractive to switch banking provider to the Northern Mutual Bank than it is to remain with the status quo.

The research, in line with a wealth of international evidence, indicates a degree of apathy towards switching bank amongst the population in general. However, it also revealed that a high proportion of people are willing to use several providers in order to meet their banking needs. The findings offer a number of insights to assist the Northern Mutual Campaign in seeking to influence decision making.

In order to overcome a general apathy to switching banking providers, a 'tipping point' needs to be reached at which point there are more factors driving someone to make a switch than there are blocking them from doing so. A good model to consider here is "Drive and Drag".

> **Drive:** These are the factors that encourage a particular behaviour. In relation to banking, this may include switching incentives, resonance with values such as how profits are distributed, or connection with emotions such as offering a product that creates a feeling of goodwill or of pride.
>
> **Drag**: These are the factors that would stop someone from embarking on a particular action. In relation to banking, this may include a fear that switching will be time-consuming and burdensome or a lack of understanding in terms of what an alternative provider may offer.

To compel action by an individual, such as to switch banking providers, drive factors must exceed drag factors.

Conclusions

The research also identifies an opportunity to establish an engagement and sentiment pathway through which to attract people into initially using a standalone Regional Mutual Bank product as a step towards switching to the Bank as their main banking provider.

Another course of action for the Northern Mutual Campaign may be to open up a longer-term switching pathway for individuals. This could be through establishing a set of products or services attracting people onto the first step of a staircase that progresses them towards deeper and wider engagement with the bank.

For example, a community investment or savings account could offer a sentiment pathway through which individuals would be attracted to initial engagement with the bank alongside their main banking provider, as a first step towards a full switch.

This will require identifying and targeting the right people, with the right message, at the right time, for the right step.

Conclusions

In identifying an initial market for the service, early adopters emerged as younger people and those from a higher household income.

The research provided helpful insight into understanding the initial market for these services. Generationally, younger people were more likely to consider a switch to a Mutual Regional Bank. Interestingly, almost one in five people were still banking with a provider with whom an account had been opened for them, such as by a parent. This indicates a potentially strong market for first time and youth accounts for young people who will continue to bank with the Northern Mutual into the future.

More affluent respondents were also more likely to consider a switch to a Mutual Regional Bank than those on a lower income.

These insights can be used to target 'early adopters' for what will be a new concept in Northern Ireland, establishing an initial strong customer base on which to build and attract more customers through providing the reassurance of a known entity, where:

- Their money is safe and secure
- They can do what they want quickly and easily
- They can do everything online, using a modern and customer friendly interface, as well as benefiting from a local in-person presence.

The insights generated through this research establish a strong interest in a Regional Mutual Bank offer for Northern Ireland, together with a robust evidence base in relation to the factors that influence people in making their banking decisions. Using this intelligence is key to informing campaigns and communications to attract customers, targeting them specifically at the interests and motivations for key markets.

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