Northern Ireland Assembly

Research and Information Service
Briefing Paper

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Mutual Banking in Northern Ireland: preliminary considerations

RaISe

This Briefing Paper outlines key issues regarding the potential introduction of a "mutual banking" ownership model in Northern Ireland.

Key Points

- In the United Kingdom, there are more than 9,000 mutual organisations currently registered by the Financial Conduct Authority (FCA).
- These include: Co-operative societies (including Community benefit societies); Credit unions; Building societies; and, Friendly societies.
- Organisations are registered as mutual entities under various United Kingdom and Northern Ireland statutes, including: Co-operative and Community Benefit Societies Act (Northern Ireland) 1969 (as amended); and, the Credit Unions (Northern Ireland) Order 1985 (as amended).
- Regulation of organisations carrying out certain financial activities is undertaken by the FCA and the Bank of England's Prudential Regulation Authority (PRA).
- Since 2019, the Community Savings Bank Association (CSBA) have led a campaign to introduce 19 regional mutual banks across the United Kingdom.
- CSBA suggest the investment capital necessary to establish a regional mutual bank is approximately £20 million.
- Key features of a proposed Northern Ireland regional mutual bank include:
    - Mutual – owned by members/customers
    - Regional – serves the Northern Ireland region only
    - Ethical – not profit-driven
    - Inclusive – no one is refused an account
- Potential merits of a Northern Ireland regional mutual bank include:
    - Democratic decision making
    - More services than a Credit Union
    - Community involvement
    - Ability to reach the financially excluded
- Potential demerits of a Northern Ireland regional mutual bank include:
    - Low access to capital
    - Poor branch and ATM access
    - No global reach

Introduction

This Briefing Paper outlines key issues regarding the potential introduction of a "mutual banking" ownership model in Northern Ireland. It is prepared at the request of the Committee for Finance (the Committee), as part of the Committee's ongoing review of the financial services landscape in Northern Ireland. It follows on from a previous RaISe paper prepared for the Committee's review - NIAR 151-24 Current Financial Services Landscape in Northern Ireland: preliminary considerations (dated 11/10/24) - which highlighted key themes concerning access to cash services for customers in Northern Ireland after recent bank branch closures.

Section 1 of this Paper defines the concept "mutual ownership" and outlines the current United Kingdom legislation and regulatory, bases for mutual organisations offering certain financial services to their members. Section 2 summarises the recent campaign for regional mutual banks in the United Kingdom. It outlines key features of the regional mutual banking model, including democratic decision making and ethical investment that benefit the local economy. The Paper concludes at Section 3, summarising potential merits and demerits of introducing a regional mutual banking model in Northern Ireland.

1 Mutual Ownership

By way of context setting, this section explains mutual ownership, presenting the current United Kingdom legislation and regulatory bases for mutual organisations offering certain financial services.

1.1 What is Mutual Ownership?

According to the United Kingdom Government's Guide to Mutual Ownership Models , the term "mutual" is often used as an umbrella term for several ownership models. That Guide describes the distinguishing characteristic of a "mutual" as follows: [1]

> *…the organisation is owned by, and run for, the benefit of its members, who are actively and directly involved in the business – whether its employees, suppliers, or the community or consumers it serves, rather than being owned and controlled by outside investors.*

The Financial Conduct Authority is the registering authority for more than 9,000 mutual organisations in the United Kingdom.[2] It holds and maintains a public record of registered mutuals on a Public Mutual Register, including:

- Co-operative societies (including Community benefit societies)
- Credit unions
- Building societies
- Friendly societies

These types of mutual organisations may offer financial services, such as savings accounts and loans, but unlike commercial banks, they operate solely for the benefit of their members, not shareholders.

[1] https://www.gov.uk/government/publications/mutual-ownership-models-a-guide

[2] FCA (2024) *FCA and Mutual Societies*: https://www.fca.org.uk/firms/our-responsibilities-mutual-societies

1.2 Legislation Basis

According to the United Kingdom Guide on Mutual Ownership, it is important to note that legal structure is not the same as ownership model; and organisations can register as a mutual entity under different statutes.[3] The Public Mutual Register contains details of organisations registered (or previously registered) under the following statues:[4]

- Co-operative and Community Benefit Societies Act 2014 (previously the Industrial and Provident Societies Act 1965)
- Co-operative and Community Benefit Societies Act (Northern Ireland) 1969 (as amended)
- Credit Unions Act 1979
- The Credit Unions (Northern Ireland) Order 1985 (as amended)
- Friendly Societies Act 1974
- Friendly Societies Act 1992
- Building Societies Act 1986

1.3 Regulatory Basis

Some mutual organisations, most typically credit unions and building societies, registered under the above legislation, carry out financial services activities such as deposit-taking and making investments. The regulation of organisations carrying out those activities is undertaken by the FCA and the Bank of England's Prudential Regulation Authority (PRA) under the Financial Services and Markets Act 2000 (FSMA) and the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.[5]

Provisions in the FSMA, relating to FCA regulation, concern oversight of the conduct of organisations offering financial services, including the protection of consumers, market integrity, and the promotion of healthy competition.

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[3] https://www.gov.uk/government/publications/mutual-ownership-models-a-guide

[4] https://www.fca.org.uk/firms/our-responsibilities-mutual-societies

[5] A public record of mutuals regulated by the FCA and the PRA under the FMSA is held on a Financial Services Register, operated and updated by the FCA.

Provisions contained in the FSMA, relating to PRA regulation, focus on ensuring the organisation's stability and resilience, including guaranteeing capital and risk management.

Note: this is a very complicated legal area and the Committee may wish to seek legal advice on the interpretation of provisions contained in the FMSA with regard to the regulation of any proposed future regional mutual bank in Northern Ireland.

2 Campaign for Regional Mutual Banks

This section summarises the recent campaign to introduce several regional mutual banks across the United Kingdom.

2.1 Great Britain

Since 2019, the Community Savings Bank Association (CSBA) have led a campaign to introduce 19 regional mutual banks across the United Kingdom. CSBA has developed a banking model package for starting a mutual bank, including the licensing process, financial modelling, agreements with key suppliers, legal forms and constitutional documents for a customer owned bank. These have been agreed and registered with the FCA as model rules.[6] The CSBA suggest the investment capital necessary to establish a regional mutual bank is approximately £20 million (m).[7]

At the time of writing, no regional mutual bank is trading in the United Kingdom. However, the following organisations have registered with the FCA under a mutual ownership model: Greater London Mutual Ltd; Avon Mutual Ltd; South West Mutual Ltd; Banc Cambria (Wales); and, Northern Mutual Ltd (Northern Ireland).

[6] https://www.csba.co.uk/about-us/

[7] NICVA (2024) *A Regional Mutual Bank for Northern Ireland*: https://www.nicva.org/article/a-regional-mutual-bank-for-northern-ireland-webinar

2.2 Northern Ireland Campaign

In August 2020, the Northern Ireland Council for Voluntary Action (NICVA) hosted an online information session by members of Our Money Campaign for the development of a regional mutual bank in Northern Ireland. During the session, campaigners outlined how a regional mutual bank ownership model could: redress regional inequalities; make financial inclusion the norm; help build and store community wealth; and, contribute to building regional economic resilience.[8] Key features of the model are outlined below in Box 1**:**

Box 1: A Regional Mutual Bank in Northern Ireland[9]

Mutual – owned by members/customers, not by shareholders, accountable to members.

Regional – serves the Northern Ireland region only, members live in the region, the model recycles money back into region and prioritises the needs of local communities and businesses.

Ethical – is not profit-driven, prioritises what's best for the people, society and the environment of the region.

Inclusive – is open in that no one is refused an account and the model proactively targets needs it identifies as not well met by current financial institutions, such as those who are financially excluded, small business and local arts and community sectors.

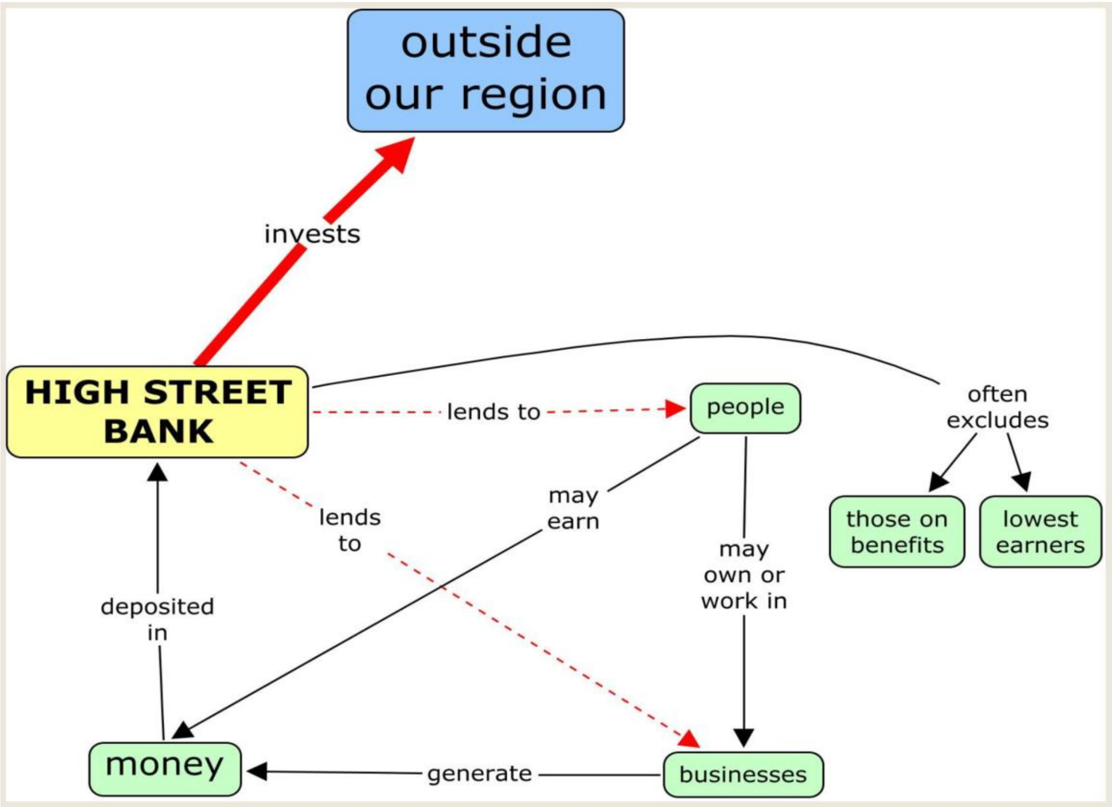
Resilient – helps build regional economic resilience by building and storing community wealth, giving individuals more control over their own money so as a region they can manage climate and other crises.

[8] https://www.nicva.org/article/our-money-the-campaign-for-a-mutual-bank-for-northern-ireland

[9] As cited immediately above.

The written briefing that accompanied the information session included two flowchart figures aimed to conceptualise the model. Both are reproduced here. The first, Figure 1 below, shows how the traditional high street/commercial banking model allows money to flow out of the region:

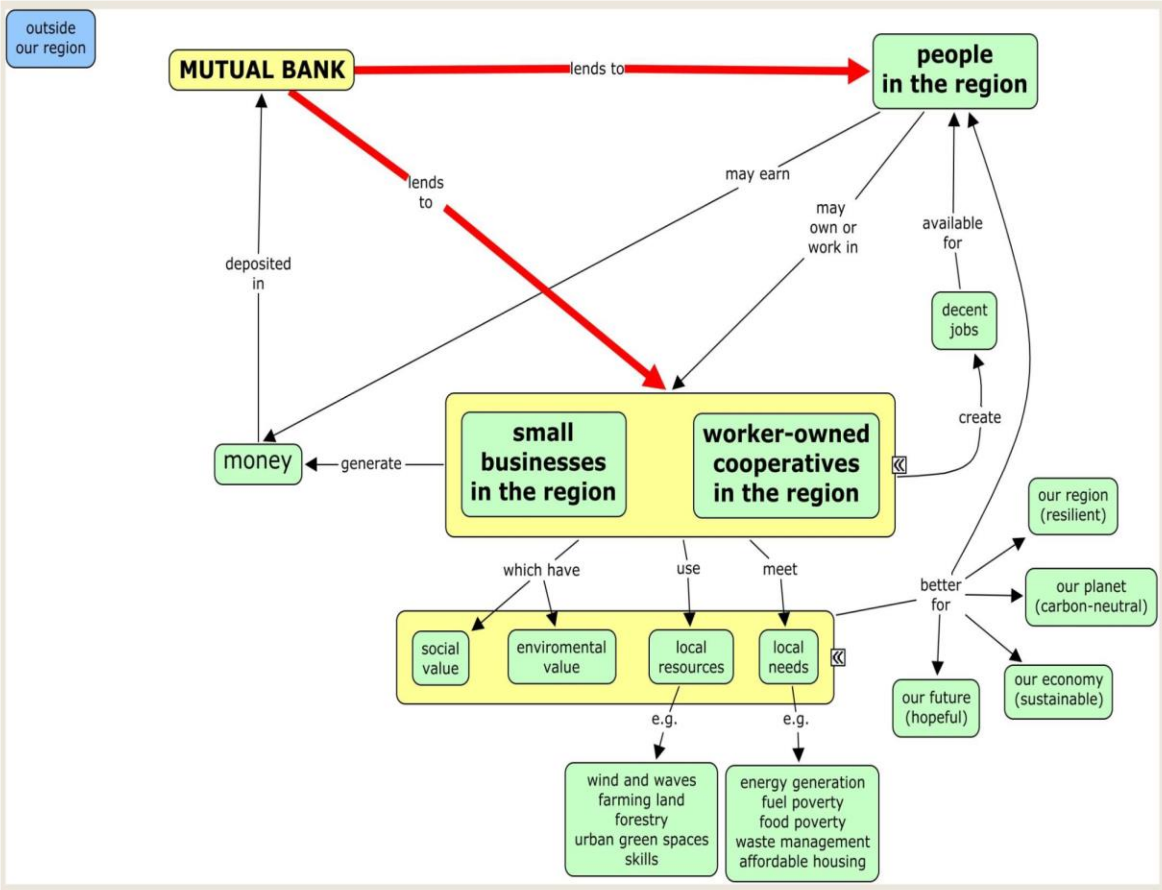
Figure 1: Traditional High Street Commercial Banking Model



Source: Our Money Campaign (2020)

The second, Figure 2 below, shows how the regional mutual bank model can benefit small businesses and worker owned co-operatives in Northern Ireland, by redistributing money received from customer/member deposits.

Figure 2: The Regional Mutual Banking Model



Source: Our Money Campaign (2020)

3 Potential Merits and Demerits of a Mutual Bank

This section summarises potential merits and demerits of introducing a regional mutual bank in Northern Ireland

3.1 Potential Merits

Table 1 below presents a summary of key merits of a regional mutual bank in Northern Ireland:

Table 1: Potential Merits of a Northern Ireland Regional Mutual Bank[10]

Potential Merits of a Regional Mutual Bank for Northern Ireland
Democratic Decision making Democratised ownership model allows members to have a say in how the money is used. Commercial banks may have less flexibility in decision-making due to larger organisational structures. Decisions would be for the benefit of all the people in the region.
Offer more Services beyond a Credit Union Both credit unions and mutual banks fall under the 'customer-owned' umbrella, but, a credit union is not a bank and cannot offer overdrafts, mortgages, electronic banking services and payment methods or business loans in the same way as a bank.
Community Involvement Staff can build relationships with members, getting to know them, their families and their particular circumstances, helping to build trust. A regional mutual bank, with personal knowledge of its members, would be in a position to better assess the eligibility of applicants for small loans or overdraft facilities. Commercial banks are for-profit financial institutions owned by shareholders and are focused on generating profits for these shareholders. A regional mutual bank will have a stronger focus on customer benefits and community involvement. Arguably, without the pressure to maximise shareholder

[10] NICVA (2020) Our Money Campaign. Advice NI (2020) A Mutual Regional Bank: An Alternative to our Broken System.

returns, a regional mutual bank may offer more competitive interest rates on savings and loans, as well as lower fees. A regional bank may have a remit to invest more ethically than commercial banks, and re-distribute wealth across the region.
Able to reach the Financially Excluded A regional bank may offer services to the financially vulnerable, such as the long term sick, unemployed or people on low incomes. Campaigners state that membership will be open to anyone living in the region, regardless of financial means. Small business owners and sole traders could avail of small loans to help with temporary cash flow problems. In Northern Ireland, the Our Money campaign suggested that £15 would be sufficient to open an account in a future regional bank, arguing that this amount would allow the vast majority of individuals to become members.[11]

Source: NICVA, Our Money Campaign, and Advice NI

3.2 Potential Demerits

Table 2 below presents a summary of potential key demerits of a regional mutual bank in Northern Ireland:

Table 2: Potential Demerits of a Northern Ireland Regional Mutual Bank[12]

Potential Demerits of a Regional Mutual Bank for Northern Ireland
Access to Capital In 2020, a report on the purpose driven banking sector, cited access to capital as the single biggest challenge facing mutual banks.[13] Membership rules mean that a regional mutual bank will not have access to venture capital and only members (in the location) can invest. The CSBA suggest the investment capital necessary to establish a regional mutual bank is approximately £20

[11] https://www.nicva.org/article/our-money-the-campaign-for-a-mutual-bank-for-northern-ireland

[12] NICVA (2020) Our Money Campaign. Advice NI (2020) A Mutual Regional Bank: An Alternative to our Broken System.

[13] Finance Innovation Lab (2020) Barriers to Growing the Purpose-Driven Banking Sector in the UK

million. This could prove challenging in Northern Ireland without the help of outside investors.
Branch and ATM Access A future regional mutual bank here may have fewer physical branches and ATMs than traditional commercial banks or building societies. Furthermore, with higher resources to invest in advanced technology, commercial banks generally have more access to cutting-edge digital banking technologies. However, a future regional mutual bank may decide to participate in the shared ATM networks to expand access to cash.
Global Reach Some large commercial banks often have an international presence, which can be beneficial for customers who travel or do business globally. It could also be argued that a global presence could potentially protect against an aggressive corporate takeover. The relatively smaller mutual banks could be viewed as more vulnerable in this regard.

Source: NICVA, Our Money Campaign, and Advice NI