The Public Banking Forum of Ireland

Banking in the Public Interest!

Est. 2013

Public Banking Forum of Ireland Presentation to Oireachtas Committee on Communications, Climate Action and Environment

on

The Future of Ireland's Post Office Network

(September 4th 2018)

Good afternoon and a sincere thank you to Deputy Naughton and the Members and Staff of the Committee for giving us, the Public Banking Forum of Ireland the opportunity to make such an important presentation regarding the future of the Post Office network and its intrinsic link to the future of Ireland's indigenous economy.

My name is Seamus Maye. I am Co-Chair of PBFI and also Chair of the International Small Business Alliance. On my left is PBFI's Secretary and head of research, Mr. Gerry Duddy and on my far left is PBFI's Mr. Tom O'Callaghan who leads our Post Office research unit. Mr. O'Callaghan is also Chairperson of the Independent Post Masters Group.

Together and with our extensive membership, we bring many dozens of years of experience in Business, Banking, Credit Unions, Post Offices and the Indigenous Economy. PBFI was formed by my fellow Co-Chair, Mr. James Miller in 2013 as a forum to tackle Ireland's hopelessly dysfunctional Banking Sector. I joined in 2014. As a business person with over 40 years' experience and a Commerce Degree, I had a basic understanding of banking and little to no understanding of credit creation, nor indeed the crucial difference between funding the **productive economy** and funding speculative bubbles. PBFI is a solution-based forum. Its members work voluntarily and do not receive any remuneration or expenses. We are wholly independent from vested interests.

We might refer to our comprehensive letter to the Committee, dated June 27th last (Appendix 2) and to an update on the current position (Appendix 1), upon which we intend to rely upon, as part of our presentation.

In addition, we hope, over the coming exchange, to outline the wider issues our country faces in relation to both banking and driving our indigenous economy and how crucial a role, our valued Post Office network can play in assisting the transformation of the Irish socio-economy.

What do we men by "transforming" the economy. Back in March 2011, we wrote a letter of congratulations to incoming Taoiseach, Deputy Enda Kenny, in which we pointed out that Ireland's cost base was unsustainably high and that we had an over reliance on FDI, underpinned by a Corporate tax structure that was incurring the wrath of the U.S, EU, OECD and our near neighbours the UK. Since then, these influential players in international trade have taken steps that may ultimately wipe out Ireland's Corporate Tax advantages. Apple will also prove to be a defining moment in the future of FDI in Ireland.

On the other side of the coin and this is where the Post Office comes in, the reality is that we have only been paying lip-service to our indigenous economy. Like it or not, the responsible and sustainable development of our indigenous economy is crucial to our future. We must create a competitive platform that facilitates the long-term future of our socio-economy.

This view is somewhat at odds with the views put forward by retired Secretary General of the Department of Finance, John Moran who in a May 2016 speech, appears to suggest that Ireland cannot afford rural Ireland (Appendix 3). Clearly, there are choices to be made but we must be careful not to confuse any rural / urban divide with the overriding importance of our indigenous economy.

What is patently clear is that the current structure and behaviour of our banking sector is wholly incompatible with driving our indigenous economy. The pillar banks are not lending in any meaningful way to our citizens, our SME's and farmers and where they are, the rates charged are exorbitant, two, three, four and up to five times what our counterparts in Germany and France are paying (Appendix

4). Last year AIB gouged profits of €1.6 billion and BoI is gouging profits of circa €1 billion per year and it appears that neither institution will pay corporation tax for up to 20 years.

By way of example, last autumn, PBFI did an exercise in comparing a typical mortgage in Ireland versus Germany (Appendix 5). The results are astounding. We took a cost price of €315,000 and a down payment of 10%, leaving €283,500 to be funded by way of mortgage. We used an average interest rate across six Irish lenders and used the rate then charged by the German Sparkasse Public Bank. Over 30 years, the Irish Mortgage holder was paying a staggering €121,000 more than his / her German counterpart for that home - that is a penalty of €4,000.00 per year and we are supposed to be in the single market? Sparkasse currently do business loans at between 1% and 3% and provide mortgages over 30 years fixed for 10 years at 1.1%. Now let us look at Germany's economy.

KfW, Germany's development bank in its 2015 report, states that the German economy boasts almost four million SME and Micro-Enterprises. These account for 99.95% of all companies and 87% have a turnover of less than €1m. Germany is the world's fourth largest economy and by far Europe's largest. Why? Because it is underpinned by a Public and Community Bank network that prioritises people and local economies over profit maximisation. Public and Community banks account for some 70% of the German banking sector, German Pillar Banks e.g. Deutsche Bank and Commerzbank have only circa 12.5% of the market. Irish Pillar Banks hold 95% of the Irish market.

The Irish government agreed and committed to the introduction of competition to the Irish banking market as a quid pro quo during the banking bailout but instead we have seen a mass exodus of banks, e.g. Irish Nationwide, Anglo, ACC, ICC, Bank of Scotland (Ire) and EBS.

In fact, Article 45 (2) [iv] of our Constitution states *"that in what pertains to the control of credit the constant and predominant aim shall be the welfare of the people".* Under our Constitution, the Oireachtas is bound to enshrine this Directive Principle and as stands, this has not been happening.

Further, in November 2016, Dáil Eireann unanimously passed a motion that allowed for the re-modelling of the Post Office network along the lines of either the German Sparkasse or New Zealand Kiwi Bank model.

Ireland's Post Office network can become a core plank of re-banking Ireland (along with our Credit Unions) just like the Kiwi (Post) Bank has done in New Zealand. With respect, the current narrative on Post Offices is all wrong. All we hear from media is about "saving" our Post Offices and subsidising them, when we can, at the stroke of a pen, turn the network into a thriving profitable bank and multi-service provider.

The Post Office network is failing in terms of monetary returns but the reason for this is quite simple, the business model is wrong. Kiwi Bank makes $100m in profits each year for the people of New Zealand. It **provides credit** at competitive rates and has proved the saviour of the people and SME's of New Zealand.

The current An Post proposals are bizarre and ill thought out. Currently, we are presiding over the destruction of one of our finest National assets, 159 retiring, 231 with no future and the remaining 690 PO's dependent on An Post once again winning the social welfare contract after the current contract expires on December 31st 2019. Having regard to European Procurement law, there is no certainty that An Post will be successful in once again winning this contract.

As a country going forward, we need to start thinking outside the box. In the words of renowned banking Professor, Steve Keen of Kingston University: - *Ultimately the financial sector should be the servant of the rest of the economy not the Master but at the moment, it's the Master of not just the economy but of the politicians as well – so to break the nexus, we need a complete political shift.*

We appeal to you today to immediately call a halt to the wanton destruction of our Post Office network and turn it around to serve the needs of a modern indigenous economy. There is plenty of help and guidance available to your Committee and the Minister. Professor Richard Werner of Southampton University is one of the world's leading banking experts whom we believe could bring enormous perspective to the Committee and we would urge the Committee to engage with him.

We are sure you will have lots of questions for us and will endeavour to be of any ongoing assistance that the Committee may from time to time require.

Thank you for your time.

PBFI

Appendix 1

(Current Situation)

1. 159 Postmasters retiring - 231 more not offered new contract – will inevitably close due to decrease in income going forward.
2. 690 Postmasters left with a Government Social Welfare Contract that ends 31st Dec 2019.

The Current Deal on offer to Postmasters:

Details & Implications:

1. 390 Post Offices offered Exit package and not offered a new contract.
2. 690 offered a new 7 year contract, with no long term security.

The Options on Offer:

Category 1

a) Take the exit package on offer and the community, probably your own community loses its Post Office - Postmaster seen to be closing the local Post Office, leaving An Post and Government out of the picture.

- Is the exit package on offer taxable? To date An Post or IPU haven't confirm in writing to the Postmasters concerned. (Postmasters are contractors not employees hence not a redundancy situation).

b) Refuse exit package and remain on old contract resulting in a significant income decline within 3 years (resulting in inevitable closure).

Category 2

a) Accept condition of a 7 year contract - 60 page document with all new Terms & Conditions.

- The legal advice of a barrister is needed on the 7 year contract – those who have received advice have been advised to 'give it serious consideration' before signing it.

b) Under the 7 year contract Postmasters are accepting income security of only 2.5 years only.

- Is the financial incentive to sign up to new contract taxable? - Again, no confirmation from An Post or IPU directly to the Postmasters concerned.

Post Office Cash Services Contract ends 2019

A recent reply from Minister Regina Doherty, Minister for Employment and Social Protection indicates the current Post office contract is an 18-month deal that runs to the end of 2019; the 2020 contract goes to Public Tender with no guarantee An Post will win it.

"The current agreement allows me, as Minister to extend the term of the contract on an annual basis up to the end of 2019. The Department is required by law to go to public tender for the provision of cash services from 1 January 2020" - *Minister Regina Doherty*

Value of Government Contract:

Government has reduced the value of their contract from €60 million in 2012 to its current value of €51 million; no new services have been introduced to make-up the shortfall.

Bobby Kerr Report & the Government Contract:

While the Bobby Kerr report had excellent proposals, it failed to ring-fence Government contracts to the valued of €60m within the terms of reference that were highlighted within Grant Thornton 2014 report as needed to ensure the long-term viability of the existing Post Office network going forward.

The IPU Vote did not include all Postmasters:

200 Postmasters are not IPU members, are they not entitled to have any say?

Only 586 postmasters out of 1040 voted for the new deal.

A concern:

An IPU vote was taken <u>before</u> the final contracts and exit packages were issued in writing.

IPU Conference of May 2018:

Only circa. 60 Post Masters were invited attended National Conference at this critical time in the networks future.

Is it wise to proceed with all the above concerns & issues unresolved?

Subvention – The UK experience.

The Grant Thornton Report 2014

“Subvention was introduced in the UK to account for the loss of income associated with loss of income associated the reduction in social welfare payments. …”

“The subsidy allows the government to fulfil its commitment to maintain the number of post offices at 11,500. Ultimately, subvention shows transformation did not result in a sustainable network.”

Subvention; the Grant Thornton Conclusion –

The UK government have used subvention to help the network there account for the loss of income associated with the reduction in social welfare payments. <u>These subsidies at best provide a safety buffer for the post office while it is trying to establish more reliable long-term revenue streams.</u>

Appendix 2

(PBFI Letter to Communications Climate Control and Environment

June 27th 2018)

The Public Banking Forum of Ireland
Banking in the Public Interest!
Est. 2013

Ms. Hildegarde Naughton, T.D.
Chair of Committee on Communications, Climate Action and Environment
Houses of the Oireachtas
Kildare Street
Dublin 2
D02 XR20

June 27th, 2018

Your Ref: CCAE_I_175_2018 **Re: Future of Post Office Network**

Mr. Denis Naughten T.D. & Minister for Communications, Climate Action & Environment's

Appearance at Seanad Hearing, May 30th, 2018 on

"Piloting a New Zealand style Community Banking Model through An Post"

Dear Deputy Naughton,

We write to impress upon you and your committee the sheer magnitude of the current deliberations concerning the future of the Post Office Network. In doing so, we refer to previous communications, correspondence and Dáil / Seanad debates including the following: -

- October 4th, 2017, Dáil Debate on Post Offices with Minister Denis Naughton
- May 17th, 2018, PBFI's extensive e-mail and attachments
- May 23rd, 2018, Letter, Communications Committee to PBFI
- May 28th, 2018, PBFI letter and attachment
- May 30th, 2018, Seanad Debate on Post Offices with Minister Denis Naughton
- June 15th, 2018, Letter Communications Committee to PBFI

We further refer to PBFI's preliminary report titled ***"Creating Ireland's Alternative Banking Force"*** launched last March and presented to the Joint Departmental (Finance and Rural Affairs) Consultation on Local Community Banking (see link below).

https://www.chg.gov.ie/app/uploads/2017/04/submission-by-pbfi.pdf

In setting out the position relating to the Post Office Network, we thought it useful to set out as much background on the banking sector, the economy and other issues that necessarily feed into any objective consideration by your Committee on the future of Post Offices.

Amid all the recent debate surrounding the future of the Post Office Network, the issue of competition in Ireland's banking sector has all but being ignored. As you may be aware, Ireland's indigenous economy is critically short of an effective funding model. There is overwhelming anecdotal evidence that Irish Pillar Banks are nowhere near meeting the needs of citizens, SME's, and farmers. Despite commitments made by Ireland and the E.U. to open-up the Irish Banking sector to competition during the bailout negotiations, there has been an alarming decline in the level of competition therein. In recent years, the following banks have exited the market: -

- Bank of Scotland (Ireland) together with its wholly owned subsidiary I.C.C. (Industrial Credit Co.)
- A.C.C Bank (Agricultural Credit Company)
- E.B.S. Building Society
- INBS (Irish Nationwide Building Society)
- Anglo Irish Bank
- Danske Bank has largely exited the Irish market

In addition, Pillar Banks continue to close branches and automate more and more of their services, thus moving further and further away from the communities they are expected to serve. In addition, there has been no new start-up in the full-service retail banking sector to counter this consolidation.

Strategic Banking Corporation of Ireland, a flawed solution?

SBCI was launched in October 2014 when Germany's State development bank KfW agreed to provide funding for the Irish SME sector. The European Investment Bank [EIB] together with Irish Strategic Investment Bank [ISIF], the Council of Europe Development Bank [CEB] and National Treasury Management Agency [NTMA] also provided initial funding for SBCI. However, SBCI merely acts as a warehouse for these funds which are then on-lent to several banks and finance houses, who in turn on-lend to other finance houses or end users at rates that are totally askew with rates charged in competing countries e.g. Germany and France. This approach to re-banking Ireland is seriously flawed:

1. Negative Credit History of Applicants: Substantial numbers of would be applicants have poor credit histories arising from the collapse of the financial sector and have no realistic chance of obtaining finance from Pillar Banks.

2. New Financial Sector: This structure has created a whole new and unnecessary financial sector, with profit being extracted all along the lending chain before consumers and SME's obtain badly needed but overpriced credit.

3. High Interest Rates: this new structure by its very nature drives interest rates to consumers up when Ireland should have been looking to lower interest rates to compete with German and French rates.

4. The structure allows the Pillar Banks to further consolidate their market dominance and to claim enormous margins with close to zero risk, e.g. last November, a senior SBCI executive informed PBFI that it was loaning money to Pillar Banks at .8% and guaranteeing 80% of the onward lending of the pillar bank. Pillar Banks are charging circa 5% to customers with virtually no risk. These type of retail margins / risks are unheard of in mainstream retail banking in Europe.

5. The supports offered by SBCI to Pillar Banks coupled with the restrictions on Credit Unions and Post Offices surely falls four-square into the realm of illegal State-Aid.

6. SBCI is not remotely achieving the aims and objectives as set out in the Strategic Banking Corporation of Ireland Act 2014 because, inter alia, the key objectives of access to finance and affordability have not been met.

7. A damning report on SBCI has recently emerged: - "An Insight Into The Workings of the Strategic Banking Corporation of Ireland -MX-3114N_20180626_130727 (copy attached).

For all the above reasons, SBCI does not serve indigenous Ireland in any effective way. It does however further consolidate Pillar Bank dominance, while at the same time pricing potential Micro Enterprises and SME's out of the market. Indigenous Ireland needs access to competitive funding if it is to compete and deliver for the people of Ireland.

Banking Market Shares Ireland V Germany:

The Committee might for a moment consider the respective market positions of Pillar Banks in Ireland and Germany; German Pillar Banks including Deutsche Bank and Commerzbank have 12.5% of the German market while their Irish equivalents, AIB, BoI, Ulster and PTSB have a staggering 95% of the Irish market.

German Economy:

Below are some striking statistics on the German economy prepared by Germany's state-owned development bank KfW in October 2015 (in the first instance, it should be noted that Ireland no longer has a development bank with both I.C.C. and A.C.C. having been erroneously sold off and subsequently floundering in the financial crises): -

- 3.67 million small and medium enterprises form the backbone of the German economy.
- These represent 99.95% of all companies.
- 87% have a turnover of less than €1 million.
- Less than 1% have a turnover of greater than €50 million.
- They employ 29.1 million people or 68% of the working population.
- They provide training for 1.2 million young people-that is 89% of all trainees.
- Micro Enterprises with less than 10 employees provide a good third (34%) of workplaces in the German SME sector.

Germany has over 390 Public Banks with more than12,000 branches and over 1000 Co-Operative Banks which underpin what is, by some distance, Europe's largest economy. The German Public Banking model is over 200 years old. It is tried and tested, robust, sustainable and consistently outperforms Plc Banks. Germany's Public Banks have never received taxpayer's money.

The Sparkasse Bank currently provides 30-year mortgages, fixed for 10 years at 1.1%. Business loans are available from 1% to 3%.

Irish Interest Rates compared to German Rates:

In contrast, Irish rates are on average twice those of Germany but can be up to five times German rates. For example, it is not uncommon for SME's and Micro Enterprises that seek legitimate business loans to be forced into taking out overdrafts at up to 15% pa. Why are Irish interest rates so high? Is there a banking cartel? Has the behaviour of Irish Banks been probed? What we can say, at the very least, is that Bank charges in Ireland are co-ordinated and are artificially high.

Irish Government complicit in the Co-Ordination of Artificially High Interest Rates?

The State owns 71% of AIB, 74% of PTSB and 14% of Bank of Ireland and is thus a major shareholder in Irish Pillar Banks and cannot be but complicit in the overcharging of Irish citizens, farmer's, SME's and Micro Enterprises. The silence of both the Central Bank of Ireland and the Competition and Consumer Protection Commission regarding Bank interest rates speaks volumes.

Clearly, government has a major conflict of interest which has led to incompatible objectives. Restricting competition in the market whilst charging artificially high interest rates is good for the balance sheets of Pillar Banks but is entirely incompatible with driving Ireland's indigenous economy.

To date, Pillar Banks are winning the battle, aided and abetted by successive governments, whilst Credit Unions, Post Offices and Public Banking (in whatever guise) are wholly suppressed. Why?

Legal Corruption and Irish Pillar Banks:

Perhaps the answer lies with "Legal Corruption". There is a growing body of evidence linking Corporate Interests and Legal Corruption. A 2011 paper, titled Legal Corruption written by economists Daniel Kaufmann and Pedro Vicente describes Legal Corruption as "***taking many forms, including cronyism, patronage and state capture – when powerful groups manipulate policy formation to serve their own interests rather than the public interest".***

Furthermore, Transparency International, in its Ireland 2012 National Integrity Systems Report, states that ***"Legal Corruption played a role in the poor regulation and weak oversight of financial institutions which led to Ireland's banking crisis".***

Where now for Ireland's Economy?

Ireland has benefitted from a spectacularly successful FDI policy for several decades. Our corporate tax regime was the bedrock of this success. Opinions are divided as to whether Ireland facilitated tax-haven status for global corporations or not. However, what is not in dispute is the rapidly changing environment for corporate tax brought about in no small measure by global vehemence at Ireland's corporate tax policy.

- The U.S. is in the process of cutting its corporate tax rates from 35% to 15% and has banned tax-driven corporate inversions.
- The U.K. plans to cut corporate tax rates to 17%
- Canada has reduced its corporate tax rates to 15%
- E.U. plan to harmonise corporate tax rates through such mechanisms as the Common Consolidated Corporate Tax Base (CCCTB).
- The OECD is also pursuing tax harmony through such mechanisms as BEPS (Base Erosion and Profit Shifting).

Ireland's over reliance on FDI went hand in hand with neglect of the indigenous economy. The results are a disturbing imbalance across the economy where highly paid FDI workers can distort house prices (housing is in short supply) to the detriment of indigenous workers.

A re-balancing of the economy with a concerted effort on driving the indigenous economy is a prerequisite for a successful socio-economy going forward. This cannot and will not happen with the current banking structure where the Pillars control 95% of the market and show little interest in the indigenous economy. Dr. John Fitzgerald's recent report broadly endorses our views on FDI and the need to re-balance the economy.

Irish Constitution: - Article 45 (2) [ii iii and iv] Directive Principle:

> [ii] That the ownership and control of the material resources of the community may be so distributed amongst private individuals and the various classes as best to subserve the common good.
>
> [iii] That, especially, the operation of free competition shall not be allowed so to develop as to result in the concentration of the ownership or control of essential commodities in a few individuals to the common detriment.
>
> [iv] <u>That in what pertains to the **control of credit** the constant and predominant aim shall be the welfare of the people as a whole.</u>

Urgent need for Indigenous Banking Sector:

To-date, and despite unfair and anticompetitive restrictions, two of Ireland's most revered institutions are still standing, the Credit Union Movement and Post Office Network. These institutions can and must play a key role in unshackling the indigenous economy.

It is not open to the Department of Finance or indeed Government to simply park the Constitution, together with Irish and European Competition Law for the purpose of promoting, through the bestowing of favour, an elite Pillar Banking cartel, at the expense of Credit Unions and the citizen owned Post Office Network.

Plight of Credit Unions:

Credit Unions are being squeezed to the point that, as presently structured, the Credit Union model is unsustainable. Any informed observer can only conclude that successive Governments and the Central Bank are in breach of both Irish and European Competition Law, in so far as the comparative treatment of banks and Credit Union's is concerned (dissimilar conditions on similar transactions etc).

PBFI is of the view that Credit Unions guided by Germany's Sparkasse Foundation (SBFIC) can provide badly needed and sustainable banking services in the SME and personal banking sector and that a working group between the two would be a logical next step. Public / Community banks can thus be created which will go some way towards addressing the lack of competition in the banking sector. The new Public / Community banks as proposed could achieve anything from 15-30% of the Irish market over time.

Post Office Network:

The same applies to our Post Office Network. No-one disputes the critical role that Post Offices play throughout the country, both in rural and urban Ireland. Over the past number of years, there have been numerous reports on the future of Post Offices; however no fundamentally viable proposals have emerged to "save" the Post Offices. Strangely, no effective consideration has been given to the obvious solution, i.e. to remodel the Post Office Network on the lines of the outstanding New Zealand model, Kiwi Bank.

The reasons for this are in the main twofold, either the authors have been captured by their paymasters who dictate the outcomes (legal corruption) or they have not had the requisite levels of knowledge in regard to the indigenous economy, banking, the Constitution and E.U. / Irish Competition Law or both.

The Current IPU Deal:

As stands, the Post Office Network, in its capacity to create badly needed competition to the Pillar Banks is being captured right under our noses. The current convoluted proposal is likely to impact negatively on the economy, by removing the Post Office Network as a possible competitor to the Pillar Banks and in effect, 390 Post Offices are set to close under the proposal.

The Pillar Banks strategy of offering their services via Post Offices is clearly a ploy to eliminate potential competition and thereby retain current artificially high interest rates. As stands, a minimum of three Pillar Banks will use Post Offices to deliver services at a huge discount on what it presently costs the banks to offer these same services. Why cannot the people of Ireland benefit from banking through the Post Offices? Why does it have to be the Pillar Banks who profit.

The current deal on offer to Post Masters is ill thought out, flawed and seeks to take advantage of the weakness of individual Post Masters. Individual Post Masters cannot in general afford appropriate legal advice and are under pressure at work and therefore need a realistic time scale to fully inform themselves on the options available and evaluate same.

Under the proposals, 690 Postmasters were offered new contracts which must be signed **by July 1st.** A further 390 Postmasters were offered the choice of exiting the business or continuing to operate under their old contract, which will become progressively less and less viable leading to certain closure. This second group has another month to decide it's fate.

Its worth noting that only circa 60 out of a total of circa 900 members attended IPU's 96th National Conference on May 19th and 20th last. It is furthermore bizarre that the postal vote was rushed through on May 11th, prior to the National Conference. Why were Post Masters not given the opportunity to be properly informed and to debate the new deal at their National Conference? The Grant Thornton advice obtained by the IPU was merely posted on the IPU website and to date, we believe this has not been posted to members. IPU has also advised its members to obtain independent legal advice. Why has An Post and IPU sought to obfuscate such a critical development?

PBFI is of the view that the decision-making process should be deferred until all of the relevant issues have been fully aired, including the option of setting up a Kiwi style Post Bank.

Many questions arise regarding the status of the current Post Office deal, e.g.:

- Post Office Cash Services Contract ends in 2019 - A Short Term Deal:

  A recent reply from Ms. Regina Doherty, Minister for Employment Affairs and Social Protection to a question posed by Deputy Thomas Pringle, suggests the current Post Office deal is an 18-month deal that will see Postmasters having to revisit government by the end of 2019. This make no sense whatsoever and underlines that the deal is unsustainable but conveniently, 390 Post Offices will have disappeared at the stroke of a pen.

Minister Doherty's response on the question of renewing the Department's cash services contract with An Post for another year is noteworthy (is there to be a breach of E.U. procurement law in 2019 to "save" the Post Offices again): -

"The current agreement allows me, as Minister, to extend the term of the contract on an annual basis up to the end of 2019. The Department is required by law to go to public tender for the provision of cash services from 1 January 2020."

- Commercial Bank involvement in the Post Office Network:

  AIB, Ulster Bank and Danske Bank are already providing services through the Post Office Network and recently, Deputy Michael Fitzmaurice failed to obtain an answer to a written question to Minister Denis Naughten as to whether Bank of Ireland is also in negotiation with An Post to provide banking services. There is however, a body of anecdotal evidence that supports this concern.

  Bank of Ireland already conducts a large part of its U.K. business very profitably, through the British Post Office Network. A recent report for the U.K's CWU (Communications Workers Union) carried out by Professor Barbara Casu Lukac of City University London's Cass Business School says that buying the banking business back from Bank of Ireland **would help the Post Office to remain self- funding,** though the estimated cost of the buy-back is **£2 billion**.

- Grant Thornton Independent Financial Advice:

  Independent financial advice obtained by the IPU on the current deal from Grant Thornton has been described by a group of Post Masters as 'financial advice, one would need financial advice to understand'. The majority of Post Masters are in need of real independent advice and need time and resources to do so effectively. This has been endorsed by the Independent Postmasters Group (see copy letter attached).

- The Exemplary Kiwi Post Bank model and Banking Licence:

Kiwi Bank was launched in 2002 under the full ownership of New Zealand Post which was in turn fully owned by the State. Kiwi Bank was launched primarily to give indigenous New Zealand its own bank, ***"to hold Kiwi values at heart and keep Kiwi money where it belongs – New Zealand".*** Kiwi Bank has been a runaway success, generating over $7m profit for the state in its third year of operation. It has increased profits consistently ever since to over $100m p.a. in recent years.

Leading global banking expert, Attorney Ellen Brown had this to say of the Kiwi Bank: -

"Postal Banks are now thriving in New Zealand, not as a historical artefact but as a popular innovation. When they were instituted in 2002, it was not to save the Post Offices but to save New Zealand families and small business from big-bank predators. By 2001, Australian mega-banks controlled some 80% of New Zealand's retail banking. Profits went abroad and were maximised by closing less profitable branches, especially in rural areas. The result was to place hardships on many New Zealand families and small businesses".

Ireland too, is but a viable banking licence away from a permanent solution to the Post Office issue; the comprehensive network is in place, an advanced IT structure is in place, P.O.'s already provide current accounts and the Post Office brand is highly respected. PBFI estimate that a new Kiwi style Post Office Bank can, like Kiwi Bank, achieve a 20% market share over time.

All that is lacking is the political will to move the project forward. The Kiwi Bank model is the obvious solution to the Post Office issue.

A commitment to carry out an in-depth examination of the Kiwi Bank model was incorporated into the current Programme for Government (16th Nov 2016); the motion was unanimously passed in the Dáil. PBFI promoted the Kiwi Bank model in its submission, titled "Creating Ireland's Alternative Banking Force" to the Joint Departmental Consultation Group in March 2017: - link provided again: -

https://www.chg.gov.ie/app/uploads/2017/04/submission-by-pbfi.pdf

Conclusion:

Under the PBFI proposal, the Post Office Network will, if remodelled on the lines of New Zealand's Kiwi Bank, achieve circa 20% of Ireland's banking market and together with a Credit Union / Public Bank alliance can achieve circa 45% of the Irish market. This still leaves Pillar Banks with considerable market dominance though they will be forced to compete. This is the only way to secure and drive Ireland's indigenous economy. There are crucial decisions to be made and your Committee has a key strategic role to play.

There are some very important public interest issues at the heart of the discussion on the future of the Post Office Network, not least Competition, State Aid and the future of Ireland's indigenous economy, starting with the inevitable closure of 390 Post Offices and consequent knock-on effects on local communities.

With the Department of Finance displaying all the hallmarks of being captured by the Pillars, it is crucial that your Committee is fully informed and takes an objective and impartial view, regardless of party politics, on how best the Post Office Network can serve the people of Ireland.

An immediate root and branch re-appraisal of the role of Ireland's Post Office Network is therefore vital before this prize asset is decimated. PBFI would value the opportunity to further present its case to your committee.

Sincerely,

____

Seamus F. Maye Joint Chairperson PBFI (+353 87 6485600) For and on Behalf of PBFI Executive

cc

Ms. Margrethe Vestager, European Commissioner for Competition
Mr. Denis Naughten TD and Minister for Communications, Climate Action and Environment
Mr. Mark Griffin, Secretary General, Department of Communications, Climate Action and Environment
Mr. Paschal Donohue TD and Minister for Finance
Mr. Derek Moran, Secretary General, Department of Finance
Mr. Leo Varadkar TD and Taoiseach of Ireland
Mr. Michael Ring TD and Minister for Rural and Community Development
Mr. Kevin McCarthy, General Secretary, Department of Rural and Community Development
Mr. David McRedmond Group CEO An Post
Mr. Ned O'Hara, General Secretary, Irish Post Masters Union
Ms. Regina Doherty, Minister for Employment Affairs and Social Protection
Mr. John McKeon, Secretary General, Department of Employment Affairs and Social Protection

Appendix 3

(State can’t afford Rural Ireland)

State can't afford rural Ireland - Moran

Former Finance chief warns that a 'mature debate' is needed on future of traditional country life

1 *DIVISIVE PLAN: John Moran believes that rural living should not be subsidised. Photo: Gareth Chaney Collins*

Ronald Quinlan
May 8 2016 2:30 AM

-
-

The former secretary-general at the Department of Finance, John Moran, has strongly criticised the membership of the new Dail for refusing to engage in a "mature debate" on the future of rural Ireland - and warned that the country can no longer afford to subsidise the personal choices that people make, when they elect to live in the countryside.

Speaking to the Sunday Independent, Mr Moran expressed his concern that the State's insistence on supporting rural living will see Ireland fall foul of the very same difficulties experienced by our less populated counties as competition between the world's economies intensifies.

He said: "The type of issues being faced at the moment by some of the less populated counties along the western seaboard and in the midlands may become the issue for Ireland in the future, particularly if things like corporate tax rates are equalised across Europe.

"This could happen by others bringing their rates down as the UK is doing as opposed to us having to bring our rates up."

Mr Moran said it was important to understand that "Ireland is tiny in the context of Europe, and even more tiny in the context of the world". The lack of attention given in London to Ireland's role in the Brexit debate was a "wake-up call" he said in terms of "how marginal Irish issues are in Europe and in very large corporate boardrooms across the world".

His comments follow on from a speech he delivered recently to the Dublin Chamber of Commerce Dublin 2050 Conference, in which he set out radical proposals for Ireland's development.

Under Mr Moran's plan, the State's future investment would be concentrated on the growth of regional cities - as opposed to the preservation of rural living. Calling for the recreation of Ireland as a 'global city', he laid out his plan.

"This is not an easy message for rural Ireland, and there will be casualties in terms of life as we have known it. But I believe trying to swim against the tide of global trends will in 50 years' time look just as outdated as the policies pursued by Eamon de Valera with his 'maidens dancing at the crossroads'.

While Mr Moran said it was important to consider the potential impact of his proposals on people's lives in rural Ireland, balanced regional development should not involve the approach which had been adopted by governments traditionally, whereby there was "one for everyone in the audience or an IDA factory in every town".

Mindful of the concerns of rural dwellers, the former Finance chief insisted his proposals would actually help regions outside of Dublin and Ireland's other existing major cities to counteract what he described as the "subordinated position of non-central regions". He warned that persisting with a strategy in which the State subsidised rural living would lead to an environment that "may not be a viable model for the future".

Citing the experience of France, he said: "Even with the amounts of money that is being spent in France on infrastructure, which are far in excess of anything we spend in Ireland, they are pulling back services from less efficient parts of their country and encouraging those areas to develop a different business model."

Appendix 4

(Banks don’t want to lend – Cabinet Minister)

Sunday Business Post, May 6th 2018: -

Banks don't want to lend, says cabinet minister

- Rural and community development minister Michael Ring blasts Irish financial institutions
- Plans to develop a community banking sector modelled on German Sparkasse system

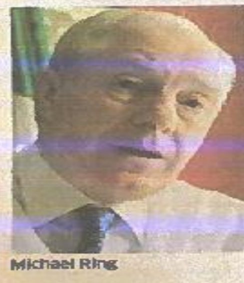
BY IAN GUIDER

Rural and community development minister Michael Ring has said banks "are not for the people any more" and no longer want to give out cash or loans.

In response to a Dáil question last week, the Mayo TD said his department and the Department of Finance were preparing to release a report in the next couple of weeks on proposals to develop community banking in Ireland.

"There is a problem and I am hearing every single day as a rural deputy, not as a minister, how banks are dealing with consumers.

"We do need a bit of competition in the market. Banks have certainly lost the sense of what they used to do and are certainly not there for the people any more. They are there for themselves, not for the ordinary general public who need banking services." Minister Ring said in response to questions from Labour TD Willie Penrose.



Michael Ring

"The banks no longer want to take cash and they do not want to give out loans. I do not know what they want to do any longer. There are many complaints. Small businesses are finding out daily that they cannot obtain the credit they need, nor can they get the supports.

"We want to get the report published. I would love to see more competition in the banking market. I will try to get my job done, get the report to the cabinet as quickly as possible, have it published and then see where we are."

The report has been in the works for some time and there has been criticism of the government for not pushing ahead with developing something similar to Germany's local Sparkasse model. Officials from Sparkasse have offered to help establish community banking in Ireland. The model in Germany involves public-owned lenders offering a variety of retail and SME products.

Most of the major banks have scaled back their banking presence and the number of services offered in branches as the use of digital banking rockets. But there have been calls for either the post office network or credit unions to be allowed offer a greater range of financial services.

Although the Irish banking market has seen the number of players shrink, it is not thought that there is any great desire on behalf of non-Irish banks to enter the market.

Dermot K
Dublin

Appendix 5

(Using Taoiseach Varadkar's Housing example)

Using Taoiseach Varadkar's Example -

The Actual cost of buying Leo Varadkar's €315k 'affordable' house is €485k

Best Interest Rates on 5 Year Fixed Rate Mortgages in Ireland.
Rates checked November 4th 2017 http://www.moneyguideireland.com
LTV up to 90%

- **BOI** 3.0%
- **EBS** 3.25%
- **AIB / Haven** 3.3%
- **KBC** 3.55%
- **Ulster** 3.75
- **PTSB** 3.75%

Average Irish Interest rate
5yr Fixed 3.43%
Nov 2017

PUBLIC BANKING FORUM IRELAND

House costs €121k less in Germany
€4k p/a x 30(yrs)
Sparkassen Rate 1.1% - Fixed for 10yrs

Fixed Loan Data		www.drcalculator.com *	
Property value:	315000	Payment:	1261.99
Down payment:	31500	Start date:	November 2017
Down payment %:	10	End date:	October 2047
Principal:	283500	Total interest:	€170,816.36
Interest %:	3.43	Interest as % of Principle:	**60.25%**
Years:	30	Total payments:	€454,316.36

The actual cost of the house in IRL is c. €485k
(Total Payments of €454k + Deposit of €31.5k)
Bank Interest is c. €170k (60.25% of Principle)

Add Property Tax for 30 Years while the bank 'owns' the house + Personal Insurance + Home Insurance.