



Local banking

Small banks serving the local area, focussed on lending to local businesses, don't exist in Scotland. The Scottish banking sector is dominated by a few, very large, commercial banks.

A 'concentrated' banking sector like Scotland's is not healthy. It leaves people with very little choice as to where to put their money; it means the local economy is neglected as big banks concentrate on global financial markets and use credit scores, not local knowledge, to make lending decisions; and it means the economy is vulnerable to a big bank going bust.

In the UK, local banks account for only 3% of the sector's assets, compared with 67% in Germany and 34% in the US.¹ The UK banking sector is one of the least diverse in the developed world.

A stronger local banking and credit union network in Scotland would give people more choice where to bank; create institutions focussed on lending to small businesses; reduce the need for pay-day lenders and their extortionate rates; and create a banking sector more resilient to financial shocks.

"Greens want to see a revival of local banking and more lending to small businesses. With some bold but achievable action we could take back the initiative from a banking culture that has caused so much economic pain in recent years."

Alison Johnstone, Scottish Green MSP



How to create strong local banks?

In 2008, RBS was bailed-out by 45 billion pounds of tax-payers' money, it is now over 80% owned by the UK Government. The chancellor, George Osborne, is desperate to re-privatise the bank – he is ideologically opposed to public ownership. Only the sheer scale of the financial losses the Treasury would incur prevented him from starting the sale in summer 2013.

The Scottish Green Party believes that RBS presents a unique opportunity to kick start a resilient local banking sector.

The Scottish Government should negotiate the transfer of the domestic banking operations of RBS in Scotland to a subsidiary wholly owned by the Scottish government. The bank should then be split into a network of local banks for every city and region. These banks would serve only their local region, be governed by local stakeholders and hold a dual social and financial mandate. They would share back-office functions to achieve scale and make use of RBS's established systems.

A successful example of local banking is the German Sparkassen banks, which are run by professional bankers to make a profit and benefit the local economy, and are supervised by a board of local stakeholders and each serve a population of roughly 200,000. These banks have increased their lending to small enterprises and the self-employed since the financial crisis while similar lending from the large commercial banks has dropped.ⁱⁱ

Financial implications

The proportion of RBS serving the real UK economy is low, about 16% of total assets.ⁱⁱⁱ The value of assets serving the Scottish economy is likely to be less than half of that figure. The UK Government already owns 82% of the bank and therefore the cost of buying out shareholders from the Scottish retail banking operations may not be inordinately high.

Negotiations with the UK Government could establish the value of the sector and any additional assets the Scottish Government may need to acquire, such as a proportion of the 'bad bank'.

ⁱ [nef calculations](#) using central bank data, IMF research, banks' annual reports and data provided by industry trade groups.

ⁱⁱ Deutsche Bundesbank [figures](#).

ⁱⁱⁱ Figures compiled by nef from RBS annual reports.



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