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Markets for the Many: Keynote speech by Cathy Jamieson MP, Shadow Financial Secretary to the Treasury

Thank you Phillip. Good afternoon everyone.

Thank you all for coming today and thanks to ResPublica for inviting me to deliver the keynote speech at the launch of their latest Green Paper, Markets for the Many: How civic finance can open up markets and widen access.

It is vital that we discuss what kind of financial services we want to create in the new economic landscape which stretches ahead of us.

And we should take the opportunity to debate the reforms needed to take us to where we want to go.

I am grateful to ResPublica for this report which I hope will spark debate, as it provides one possible framework for the next wave of reforms.

Introduction

This Parliament has witnessed the passing of arguably the most significant legislation relating to financial reform in recent times.

Whilst it is fair to say that the reform we have seen so far is a step in the right direction, arguably it does not go far enough in creating the financial services that we really need.

In order for our economy to make a real recovery, we need financial services that support our small businesses and truly serve the needs of our citizens and wider society.

The problem with the Coalition's reforms is that they do little to increase effective competition.

And they don't promote a diversity of ownership models across banking, insurance and savings.

In order to create this, a more rounded holistic approach to financial reform is needed.

An approach which assesses the ability of the financial sector as a whole to cater for the long-term needs of society.

The report argues that building societies, mutual insurers and community finance institutions, have the ability to make the financial sector inherently more secure, capable and responsive precisely because of their growth prospects and inclusive models.

Financial reform should therefore strive to strengthen the roles of these civic institutions but this effort has so far been largely absent from the Coalition's reforms.

Building Societies

As I've indicated already, one of the most striking realities to surface from the financial crash is the lack of choice and diversity in our financial sector.

Thanks in large part to the demutualisation of the late 80s and early 90s, we have been left with a banking industry with a highly concentrated market dominated by a small number of large companies of the shareholder model.

That demutualisation, with its promises of growth and windfall dividends for members, heralded an exodus from the sector as many societies relinquished their mutual status and converted to plc banks.

Whilst the global market share of co-operative and mutual banks has increased from around 9 per cent in the mid-1990s to about 14 per cent in 2004, building societies in the UK account for only 3 per cent of banking assets.

The lack of diversity in ownership models in the UK is also stark in comparison to our European competitors, who have considerably more diverse financial system in terms of corporate models and ownership structures.

Five EU member states (including France and Germany) have more than a 40 per cent share of co-operative or mutual banks in terms of branch networks.

But despite their small numbers in the UK, building societies remain a significant part of our financial sector.

By their nature more responsible with their members' money, building societies were not as hard hit by the financial crisis and have become the success story of the

Government's Funding for Lending scheme.

Since July 2012, building societies have increased their lending by 5 per cent, outperforming the high street banks and providing credit to consumers in need.

With SME lending falling by more than 25 per cent since 2009, and with an estimated funding gap of £22bn by 2017, it is clear that building societies, under the right legislative change, can provide much needed support to our SMEs.

Our country's SMEs are the workhorses of our economy and key to our future success.

If we want to create a more diverse, competitive and consumer-focused financial sector, then it is vital that building societies play a strengthened role in providing both business and personal finance.

It is also important that incoming regulation relating to capital ratios recognises the low risk nature of the building society model.

It is crucial that regulators recognise this, and develop an approach to financial reform that factors in the specific needs of the sector.

Building societies must form a key focus of future reforms.

Mutual Societies

It is a similar story with our insurance sector.

From their height at the beginning of the 20th century, mutual societies have fallen into decline. The establishment of the NHS and the Welfare State enabled people to receive support from the state, and in a similar fashion to building societies, mutual societies also underwent their own demutualisation process.

In 1995, over half of the UK insurance market was mutual. Since then, their market share has shrunk to around 7.5 per cent.

And again, in comparison to our European neighbours, the difference is striking. Today, mutual insurers enjoy a 50 per cent market share in Holland, 45 per cent in Germany, 43 per cent in Denmark and nearly 40 per cent in France.

As with our banking sector, it is clear that one model dominates.

Homogenised sectors dominated by one ownership model weakens competition and diversity - and it is the consumers, the majority, who suffer.

A more diverse and competitive insurance market, with a financial mutual presence analogous to our European neighbours, can only be beneficial for customers and society as a whole.

For this to happen, mutual societies must be able to raise capital to compete in the sector and develop new financial products. Measures in the Mutuals' Redeemable Shares Bill, which was introduced to the Lords last July (and still awaits its Second Reading), would enable mutual societies to raise additional funds and safeguard their mutual status.

As this report points out, it is also important for mutual insurers to establish networks of cooperation to compete at scale with their competitors.

The success of such structures is evident throughout Europe, in the US and Australia, where central network institutions have maintained a strong mutual presence in their financial sectors.

As we've seen then, there are many reasons why we should all be working hard to support the growth of building societies and mutuals.

A healthy and responsive financial sector should be diverse. Shareholder and stakeholder models should compete to ensure that consumer's needs are met and that they receive the highest quality of services.

And levelling the playing field to enable building societies and mutual societies to compete should be central to the next wave of financial reforms.

Community finance

I'd also like to say a few words about the role community finance can play in helping consumers and businesses.

I think all of us here would agree that for finance to fulfil its potentially transformative role, it must provide for and reach all citizens.

But in the aftermath of the financial crash, this has simply failed to happen. Financial provision for many parts of society has been severely limited. There are now a large number of customers and whole communities that are underserved by mainstream financial institutions.

Community Development Finance Institutions, (CDFIs), provide community finance.

They prioritise disadvantaged communities and focus their efforts on improving economic opportunity, alleviating poverty and regenerating neighbourhoods.

But so far, CDFIs have received little attention from the Government's reforms. With lower-income households unlikely to see their earnings return to pre-2008 levels until at least 2018, people up and down the country have been forced to turn to credit as a way of making ends meet.

But these consumers are being grossly under-served. Lending to consumers from high street banks is still down on 2008 levels, and demand is by far outpacing supply.

And the result? A record number of people taking out payday loans with 3 out of 4 borrowers struggling to meet their repayments according to the Citizens Advice Bureau.

It's vital then that there are alternative, secure forms of credit that vulnerable, hard-working people can turn to.

In contrast to what has happened with most high street banks, CDFIs have actually increased the amount of credit available to consumers and businesses by 256 per cent – rescuing thousands of businesses from closure and households from illegal loan sharks.

With an estimated demand for community finance between £5.45bn and £6.75bn, it's clear the CDFIs have a greater role to play and need investment to meet demand.

In the US, the Community Reinvestment Act requires all banks to reinvest in their local economies. Between 1996 – 2009, this legislation has produced $68.5 billion of private investment.

If similar legislation were introduced in the UK, CDFIs could act as the primary vehicle for such investment, dramatically boosting private investment in our communities.

Encouraging investment in CDFIs, promoting community finance partnerships and establishing CDFIs as lenders of first resort for SMEs, would be highly beneficial to our small businesses and communities.

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Closing remarks

Let me finish by saying -

Having been on two financial services bill committees, you might expect me to agree with those who now say ‘job done’ – leave us alone to stabilise the new regime.

But I don’t agree with that.

Financial services reform must go further. We need a financial system that supports our small businesses and truly serves the needs of our citizens and communities

As ResPublica argue in this report, this should be the primary and civic duty of the financial sector.

Building societies, mutual societies and community finance institutions, have the structure and ability to make the financial sector inherently more secure, capable and responsive – they are perfectly placed to fulfil this civic duty.

These institutions would, if suitably supported, help make the financial sector more balanced and capable of meeting society’s demands.