No 486/2017

7th September 2017

Dear Colleague

POST OFFICE: THE CASE FOR A POST BANK – PUBLICATION OF CASS REPORT

Branches and members will be aware that one of the Union’s key policies to ensure a long-term sustainable Post Office for the future is the creation of a Post Bank wholly owned by the Post Office. Indeed this concept has been extremely successful in other countries, most notably in France with La Banque Postale and in Italy with Poste Italiane.

The Post Office already has a commercial arrangement with the Bank of Ireland (which we understand is due to expire in 2023) for the provision of certain financial services products including mortgages. However, this arrangement falls considerably short of a Post Office owned Post Bank and is a poor substitute with profits being shared with the Bank of Ireland (which has no outlets in the UK). Whilst this model may have been of some benefit initially, it is now with the passage of time, outdated and needs replacing with a much more robust and ambitious Post Bank that can better serve the wider community including Small and Medium Enterprises (SMEs).

As a consequence of our policy, with the aim of influencing government, earlier this year we commissioned the Centre for Banking Research, Cass Business School, City University of London, to write an independent report making the case for establishing a Post Bank. We view the publication of this important report as central to re-launching our discussions with the Post Office and the government about securing the future of the Post Office.

The comprehensive report (attached to this LTB for your information) has been published today, in time for the TUC and political party conferences, in order to ensure maximum impact.

The following extract is taken from the Cass Report’s Executive Summary:

"Our recommendation is that the partnership with the Bank of Ireland should be ended, for two key reasons:

1. Due to the persistent negative legacy from the financial crisis and further current challenges, the Bank of Ireland is unlikely to invest substantially in the partnership in the near future.
2. In more general terms, a partnership model with a large private bank for the provision of postal financial services leaves the Post Office’s ambitions for growth dependent on the fortunes of the partner.

We advise that the Post Office acquires the Bank of Ireland UK portfolio (or part thereof), thereby retaining all the customers that have acquired products and services white-labelled via Post Office Money. This strategy would alleviate
previous concerns that it would be difficult to gain market share in a very competitive market. This would also allow the Post Office to capitalise on existing skills and expertise.

We recommend that the Post Bank be set up as a subsidiary, with a separate management team. This would facilitate the newly established entity application for a banking licence to the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA). It would also help ease the government concern that a Post Bank would introduce risk to the Post Office’s balance sheet, as the new entity would be endowed with its own capital.

We estimate that the initial equity should be in the region of £2 billion. This amount of equity would be sufficient, for example, to allow the Post Bank to acquire the Bank of Ireland UK portfolio. While we discuss different alternatives to raise this initial capital, the amount equates to the investment the government has put into the Post Office in the past seven years. We estimate that the profits the Post Bank would generate would eliminate the need for an ongoing annual subsidy for the Post Office and put it on a sustainable footing for the future. Furthermore, the current macroeconomic conditions are ideal to raise the initial capital, due to the low interest rates environment.

Government Consultation and Funding

Branches will be aware that the government undertook a consultation exercise on the Post Office network which closed just before Christmas last year. As it stands, the government hasn’t published a response to the consultation. In the Union’s submission to the consultation, we stated the following in respect of establishing a Post Bank:

"The Post Office has a highly trusted brand and a more extensive network than all of the banks and building societies in this country put together. This should be the foundation for a positive vision of a service that could have huge economic and social value to the country....

... A Post Bank would be a growth engine for the Post Office and a crucial service for businesses and individuals as banks continue to close branches across the country...

... A Post Bank could help to address financial exclusion which is a serious problem in the UK, with estimates that 1.5 million people do not have access to a bank account. It could offer affordable, responsible deals on personal loans, helping to tackle the problem of payday lenders that charge huge annualised interest rates of over 1000%. Like La Banque Postale, it could also offer financing for much needed social housing projects and we believe lending to and supporting socially useful projects would be a unique selling point for a Post Bank...

... Establishing a Post Bank would make the Post Office a lender in its own right rather than a credit broker, giving it much greater potential to grow its customer base and generate revenue. This will require capitalisation through public funding, but all the evidence from state owned post banks overseas shows that this would be an extremely worthwhile public investment...”

The statements above have been substantiated by the Cass report which in fact builds upon these important themes.

We are given to understand the government is planning to make an announcement with regards to the future funding package for the Post Office, and this is most likely to be just prior
to or during the Tory Party Conference. Presumably, any announcement surrounding future funding will also respond to last year’s consultation. We have sent a copy of the Cass report to Margot James, Parliamentary Under-Secretary (Department for Business, Energy and Industrial Strategy) and this places us ahead of any government announcement. Naturally we will be promoting the report to government with the aim of shaping the debate and narrative around the future of the Post Office and integral to this is the creation of a Post Bank.

**Media & Press Coverage**

Attached is a joint press release from Cass and ourselves that includes quotes from Dave Ward, General Secretary. We are very pleased with the joint press release as the two organisations together give this report gravitas and the quotes are extremely powerful so hopefully we will in the coming days see quite a lot of press coverage on this issue. An article was also published in the Guardian this morning which can be viewed by using the following link:


We have also provided a copy of the report to Paula Vennells, Post Office Chief Executive, and will be encouraging the Post Office to support the overall concept and philosophy being advanced within. We will of course be writing to our Post Office members at their home addresses to update them about this important report and our ambition to promote a viable and sustainable Post Office of the future via a Post Bank.

Further developments will be reported.

Yours sincerely

Dave Ward  
General Secretary

Terry Pullinger  
DGS(P)

Andy Furey  
Assistant Secretary