The Scottish Government
Riaghaltas na h-Alba

SUSTAINABLE RESPONSIBLE BANKING

A STRATEGY FOR SCOTLAND

Sustainable, Responsible Banking:

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The Scottish Government, Edinburgh 2013

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Ministerial foreword

Scottish banking has long been held in high regard, enjoying a global reputation going back centuries for probity, prudence and trust.

The Scottish Government is clear that the banks must continue to play a vital role in Scotland's economic wellbeing. We believe that healthy, properly functioning banks are essential to Scotland and the Scottish economy. The banks have an essential role to play as we address the economic challenges facing us and return to sustainable economic growth. As well as contributing substantially to the Scottish economy, they are also integral to the fabric of Scottish society, providing employment and essential everyday services to thousands of Scots. Nevertheless, this Government also understands that the impact of the financial crisis continues to be felt by every individual, family and business in Scotland.

We are acutely aware that the effects of the crisis and subsequent emergence of reports of poor conduct of some of the banks has created public hostility towards the banks. These concerns must be addressed, as Scotland's economic and social recovery from the financial crisis will not be complete until the appropriate relationship between the banks and the society in which they operate is fully repaired. While the issues of the past must be addressed, we also must work together with the banks and support them in building a new relationship with customers and wider society, one that is firmly based on traditional Scottish banking values so trust can be restored.

Alex Salmond
First Minister

The impact of the financial crisis has been severe and protracted with its consequences continuing to have a significant impact in economies across the world, including Scotland. In the wake of the crisis, the attitudes of consumers, UK and EU regulators and the banks themselves have changed.

This is altering the environment in which the banks operate and subsequently the nature of the banking services they provide, as demonstrated by a changing lending environment for both business and personal customers. Recent events have also heightened the sense that people in Scotland want more from the banking sector than the provision of financial products and services. Banks must be viable businesses in order for people to feel confident about depositing money but customers also want to know that the people who work in the banks behave with decency and integrity. The people of Scotland want to have confidence that the banks have their interests – and that of their money – at the centre of everything they do. They also want to know that banks as organisations operate ethically and responsibly in the world, taking into account environmental and social considerations, as well as the impact they have on the global economy.

The Scottish Government wants to work to ensure our country feels proud of our heritage in sound banking practice, in the principles of prudence, stewardship and professionalism. Indeed, Scotland has been known throughout the world as the home of traditional banking values. The composition of banking in Scotland may have changed dramatically in recent years but these are principles which endure and that should apply to any bank operating in Scotland now and in the future, regardless of their origins.

Purpose

The purpose of this strategy is to set out what Scottish Ministers consider to be the key principles of a sustainable, responsible and healthy banking sector in Scotland. It will explore some of the key issues in ensuring the banks make a positive contribution to Scotland's economic recovery and return to growth. It will highlight where the banks are making particular efforts to improve culture and behaviour and relationships with customers. Genuine and permanent cultural change will only be truly achieved with the commitment and effort of the banks themselves. The banks are taking action to address the challenges facing them and this strategy will provide practical examples of areas in which the banks are making progress. The Scottish Government is determined to ensure that Scotland continues to be considered – here and globally – as the home of traditional banking values.

Scottish Ministers engage regularly with the banks and we will continue this ongoing dialogue with the banks and their stakeholders to support that work. Where the Scottish Government can act, it will, and this is also articulated in the commitments highlighted throughout this strategy.

It is the Scottish Government's view that the principles and approach to banking set out in this strategy should apply to Scotland's approach to banking regardless of Scotland's constitutional future. However, we believe that independence would allow Scotland access to the necessary levers to encourage a responsible, sustainable banking sector that better meet the needs of the Scottish people, that enhances Scotland's competitive advantage and that better enables us to address the economic challenges facing us.

This document will sit alongside the refreshed Strategy for Financial Services in Scotland, which focuses on achieving economic opportunities and growth for the banking sector as part of the wider financial services industry.

This strategy will therefore explore the following key areas:

- The economic and social importance of banks
- Cultural change
- Professionalism and standards
- Competition and diversity
- Access to finance

Economic and social importance of banks

Through the National Performance Framework and the Government Economic Strategy the Scottish Government has set out a clear vision for the kind of Scotland that we want to see. Our central Purpose is to focus the Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. Banking has a vital contribution to make to the delivery of this vision. Healthy, sustainable banks are a necessary part of any healthy, sustainable economy and a vital part of our society. In very simple terms, banks safeguard our savings and deposits and use them to provide mortgages and lending for businesses. We rely on them to protect our money, to make payments and to enable us to own our homes. We need banks to provide finance that creates new businesses and enables established businesses to grow, provide employment and contribute to the economy. As the financial crisis has highlighted, we need properly functioning banks in order to conduct our daily lives and therefore to enable a properly functioning society.

There is a lack of Scottish specific data, however, UK banking statistics provide an indication of the importance of the sector. The quantity of assets held, for example, provides an internationally comparable measure of the scale of a country's banking sector. Assets of banks and building societies resident in the UK at the end of March 2013 totalled £8 trillion.[1] The UK banking sector is highly connected internationally, both in terms of the companies that operate and the location of their transaction partners. At the end of March 2013, foreign-owned institutions held almost half (46 per cent) of all assets held by UK-resident banks and building societies.[2] The UK is the world's leading centre for cross-border transactions, accounting for almost a fifth of the world's outstanding cross-border lending and borrowing in the fourth quarter of 2012.[3]

1 Source: Bank of England
2 Source: Bank of England, Scottish Government Calculations
3 Source: Bank for International Settlements, Scottish Government calculations

Although employment in the banking sector has decreased since the start of the financial crisis in both Scotland and the UK as a whole, the sector remains a major source of employment. Employment in the banking sector in Scotland stood at 43,500 in 2011. The sector accounts for around half of financial services employment in Scotland. Scotland accounts for around 9 per cent of total banking sector employment in Great Britain.[4]

TABLE 1: BANKING SECTOR EMPLOYMENT, SCOTLAND

Year	Employment	% of financial services in Scotland	% of banking in Great Britain
2008	52,300	50%	9.7%
2009	50,200	53%	10.2%
2010	44,900	52%	9.3%
2011	43,500	51%	9.0%

SOURCE: BUSINESS REGISTER AND EMPLOYMENT SURVEY

The top five local authority areas by banking employment together accounted for three-quarters of Scotland's total employment in the sector in 2011. These are shown in the table below. While Edinburgh and Glasgow together accounted for 60 per cent of total banking employment in Scotland, this does reflect the importance of banking employment across Scotland.

TABLE 2: BANKING SECTOR EMPLOYMENT, TOP FIVE LOCAL AUTHORITY AREAS IN SCOTLAND, 2011

Local authority	Employment
Edinburgh, City of	15,800
Glasgow City	10,300
South Lanarkshire	2,800
Fife	2,400
West Dunbartonshire	1,600

SOURCE: BUSINESS REGISTER AND EMPLOYMENT SURVEY

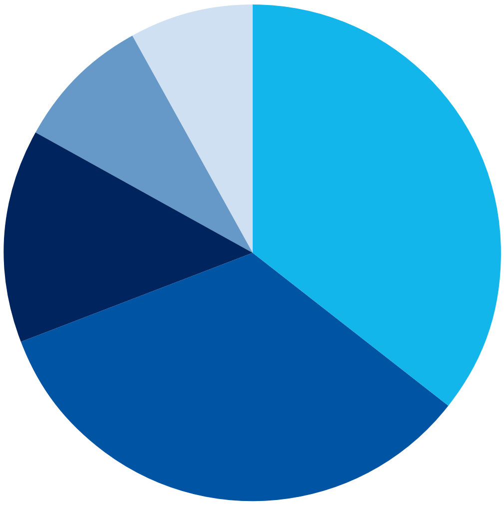
4 The employment statistics in this section use the following definition of the banking sector: Standard Industrial Classification (SIC) 2007 codes 64.1 (Monetary intermediation), 64.91 (Financial leasing), 64.92 (Other credit granting) and 64.99/2 (Factoring). The definition of Financial Services used is consistent with the Scottish Government's Growth Sector Statistics Database. http://www.scotland.gov.uk/Topics/Statistics/Browse/Business/Publications/GrowthSectors/Database
Data discontinuities:

a) Caution should be used when comparing 2008 figures with data from later years. The estimates for 2008 are based on a combination of Annual Business Inquiry, Business Register Survey and Business Register and Employment Survey (BRES) returns whereas 2009 is purely based on BRES data.
b) The results for 2009 are not directly comparable to the results for 2010 and 2011. The 2009 results contain instances of double counting of working owners (directors of limited companies), i.e. directors of limited companies may have been included by those completing the questionnaire in both the employees' and the working owners' categories. This anomaly does not exist for the 2011 results due to a change in the treatment of working owners in the 2011 BRES questionnaire. Results for 2010 have been adjusted to be comparable with the 2011 estimates.

As well as the direct economic contribution of banking, the sector plays a crucial role in supporting the functioning of other sectors of the economy. Key to this is the extent to which banks support small and medium-sized enterprises (SMEs).

Figure 1 shows the market shares of the main lenders to SMEs in Scotland.[5] This is based on the 2012 Access to Finance survey, which asked firms to name their main provider of finance. The SME finance market is relatively concentrated, with two banks accounting for over two thirds of the market. However, when compared to results from the 2010 SME Access to Finance Survey, there is some evidence of a reduction in concentration; the 2010 survey indicated that RBS and Lloyds Banking Group accounted for over three-quarters of the SME banking market. Anticipated branch divestments may further reduce market concentration.

FIGURE 1: MAIN PROVIDER OF FINANCE IN SME BANKING, 2012



Lloyds Banking Group	36%
RBS	34%
Clydesdale Bank	14%
Others	9%
Santander	8%[6]

SOURCE: SCOTTISH GOVERNMENT ACCESS TO FINANCE SURVEY 2012

5 Refer to the SME Access to Finance 2012 report, http://www.scotland.gov.uk/Topics/Economy/access-finance/2012, for a detailed breakdown of lending to SMEs.

6 Totals may not sum due to rounding.

In terms of the supply of finance to SMEs, there has been an improvement in overall supply compared to the 2010 survey – a greater proportion of firms reported that they were offered exactly what they sought in terms of financial support. In the 2012 survey, 84 per cent of firms reported that they were able to access all of the money that they were seeking. However, the proportion of firms that ultimately secured none of the finance sought increased from 8 per cent in 2010 to 11 per cent in 2012. Demand for finance by Scottish SMEs remained broadly stable between 2010 and 2012. Forty-five per cent of SMEs sought new or renewed finance over the three-year period to 2012.

The scarcity of data relating to banking at country level hampers the Scottish Government's efforts to gain a detailed understanding of the banking market in Scotland. We continue to press the UK Government to do more to provide disaggregated data for Scotland. However, the factors described above indicate the importance of the banking sector to Scotland, not just in terms of the employment it provides and its direct economic contribution but in the impact it has on the wider Scottish economy. The Scottish Government therefore considers the future success of banking in this country as a key component of sustainable economic growth.

Independent Commission on Banking

The Independent Commission on Banking (ICB) was established by the UK Government in 2010 to consider reforms to the banking sector to promote greater financial stability, to create a more competitive banking market and to reduce both the likelihood and impact of bank failure.[7] The objectives underpinning the recommendations contained in the ICB's final report, published in 2011, are therefore entirely consistent with the Scottish Government's priorities for the Scottish banking market.

> The Scottish Government supports the measures recommended by the Independent Commission on Banking to ensure continuous provision of vital banking services in the event of a failure and to improve the capacity of the banks to bear losses. The Scottish Government believes that the implementation of retail ring-fencing and the requirement for banks to hold greater capital stocks will have clear benefits for banking customers in Scotland.

7 Independent Commission on Banking, Final report: recommendations, September 2011 http://www.hm-treasury.gov.uk/d/ICB-Final-Report.pdf

The difficulties that everyone in Scotland is experiencing as the economy slowly recovers from the financial crisis have also only served to deepen the erosion of trust between the banks and their customers – both business and personal.

The Scottish Government believes that trust can be regained and, moreover, it must be. Excellent customer service and sound financial stewardship were lost in the pursuit of short-term profit and achieving targets not linked to the best interests of customers or the long-term health of the bank. The banks must therefore clearly demonstrate that they are once again sound and viable businesses and that practices involving the pursuit of short-term profit, such as excessive bonuses, at the expense of fundamental banking principles have been stopped for good. Good progress is being made by the banks in this respect although most, including the banks, would acknowledge there is no room for complacency.

Economic development

Interest in a more long-term and responsible form of economic development has increased significantly in recent years. As the full effects of the financial crisis have been realised, there has been a particular focus on how the banking and the wider financial services sector can support this approach. The Scottish Government's Council of Economic Advisers is looking at how a more responsible form of capitalism can be promoted in Scotland. The Council noted that it will be important to establish a clear definition of what this means for Scotland and identify the opportunities for building on Scotland's existing advantages in sectors such as banking and the low carbon economy. Through supporting the key principles of a sustainable, responsible and healthy banking sector in Scotland, this strategy ties in closely to this theme. In particular, the Council supports opportunities for developing community banking in Scotland and has identified the need to support a longer-term focus rather than the short-term pursuit of profit. This will support economic value creation and sustainable growth, not only in the banking sector but across the Scottish economy.

Triodos Bank

Triodos Bank finances companies, institutions and projects that add cultural value and benefit people and the environment, with the support of depositors and investors who want to encourage socially responsible business and a sustainable society. Triodos Bank takes a conscious approach to using money, which considers its environmental, cultural and social impact.

- Triodos focuses on lending to small and medium-sized institutions, businesses and charities. By doing so, it can maintain a close connection with the people who run the organisation concerned and track how a loan is actually used. Loans are also deliberately made for specific purposes that the Bank can monitor, such as finance for a specific asset.
- Triodos also lends to larger businesses and initiatives whose primary focus may not be on positive social and environmental added value, but which crucially operate specific projects or assets that are clearly and directly connected to sustainable sectors or activities. These loans must meet the objectives set out in Triodos Bank's core mission.
- Triodos does not operate credit scoring, instead it visits the business requiring finance, and that forms an element of the decision-making process basis on which to provide finance.
- Its salary system is based on the belief that the success and earnings of the bank depend on the combined efforts of everyone who works there. It occasionally rewards exceptional performance by individual co-workers, but any payments are limited to the equivalent of 2 per cent of salary.
- Sustainability is also incorporated in its recruitment, induction, training and development of co-workers.

The Co-operative Bank

For a number of years, the Co-operative Bank has actively facilitated lending to projects within the renewable energy and carbon reduction sectors, particularly within Scotland. The bank has expertise in supporting development of renewable technologies such as onshore wind, hydro, biomass and combined heat and power systems.

The Co-operative's Ethical Plan includes a commitment to lend £1 billion to the renewables sector by 2014. By the end of 2012 the bank had provided more than £450 million of finance to renewable schemes in Scotland, including to the Element Wind project on Benbecula and to the residents of Tiree to install a wind turbine that will provide the community with an income to support future community development.

Restoring trust

The Scottish Government believes that Scotland, as the historic home of traditional banking, can lead the way in building a better banking system based on a relationship of trust between the banks and their customers. The banks have publicly acknowledged that some of their behaviour has fallen short of what customers should expect of them. The banks want to change the public's often negative perception of them and they recognise that the only way to do that is to prove to their customers that the desire to change is genuine and that it is for the long term. That is a hugely important step and one that deserves to be supported.

Access to finance issues will be explored later in this strategy but small business customers frequently report that banks do not know them or understand their business and that this is hindering their efforts to secure lending. This has led to calls for a return to what many might define as traditional banking where the bank had a closer personal relationship with its customers. Some have questioned whether this rather nostalgic idea of banking ever really existed or how realistic it is nowadays when many of us do our banking online. Most of the main banks, however, are signalling a return to traditional or relationship banking by a renewed focus on serving the needs of customers and an understanding that this is what banks exist in society to do.

Handelsbanken

The emergence of Handelsbanken provides a good illustration of a bank whose decentralised operating model enables it to maintain an ethos based around close relationships with customers.

The Handlesbanken model focuses on getting closer to the customer, being able to suit local conditions and match decisions and action to the customer's needs and wishes. It delegates authority to the branch manager and branch offices are given independent lending authority. Pricing is set by the branch and responsibility for the bank's cost-income ratios are entirely the responsibility of the branch manager. The role of central departments is to provide services to the front line.

Staff are not motivated by bonuses and there is no expectation of special remuneration for doing their job well. Rather than risk-taking, Handelsbanken instead focuses on concentrating on customer satisfaction over profit.

Since devolving real power to its front-line people in the early 1970s, Handelsbanken has outperformed its Nordic rivals on return on equity, total shareholder return, earnings per share, cost to income ratio and customer satisfaction.

The banks have clearly indicated that they are committed to putting things right and changing their practices and to striving to meet the standards that their customers rightly expect of them. We should hold them to that commitment. That is important not only for all the personal and business customers of the banks but also for their staff. For many staff in the banks the intended changes in behaviour and practice will be a welcome return to the culture and conduct to which they have always tried to adhere.

We must be prepared for these important changes to take time. Cultural change is undoubtedly hard to achieve and will require a long-term commitment.

The Scottish Government fully supports the banks' efforts to rebuild trust and specifically the measures being taken by some banks to break the link between remuneration and sales targets and reconnect rewards for senior management to long-term performance and customer satisfaction measures.

Grand Central Savings

Grand Central Savings (GCS) while not a bank, offers financial services to people who are socially and financially excluded. GCS aims to bridge the gap between mainstream society and those currently excluded from it. It does this by supporting individuals to develop financial capability and capacity through incentivised savings schemes aimed at encouraging regular and planned saving. A long-term goal is for individuals to achieve basic money management skills, a degree of financial stability and credit worthiness, with a view to them achieving access to more mainstream banking services with a high street bank, or credit union.

Banks should be ready to adopt socially and financially excluded individuals as customers when their circumstances allow and they are ready to do so. Those who have been socially and financially excluded in the past may be more vulnerable in the future. Cultural change towards a focus on customer needs and particularly zero tolerance of selling unnecessary financial products will help ensure that potentially vulnerable customers avoid a return to financial exclusion.

The Scottish Government will continue to engage closely with the banks as they implement fundamental changes to restore customer trust and confidence and will challenge the banks to provide evidence of progress in restoring customer trust and confidence.

Resilience

An important part of restoring trust between banks and their customers is ensuring that people have confidence in the resilience of the banking system. Resilience in this respect refers specifically to the strength and robustness of banking services in the event of disruption caused by, for example, severe weather or transport problems. It does not relate to the regulation or stability of the wider financial system, which is currently dealt with at a UK level. It is vital that even under such circumstances people are able to complete everyday tasks like making payments and having access to cash.

The Scottish Government is working in partnership with the UK Government and the banks to ensure that the banking sector in Scotland has the necessary security and resilience arrangements in place so that the public and businesses have continuous access to essential banking services. We are putting in place specific mechanisms that will support a specific Scottish response to resilience.

The Scottish Government is establishing a Financial Sector Resilience Group for Scotland that will work closely with the banks and others to ensure that mechanisms are in place to deal with disruptive events caused by weather, transport or crime problems, for example, and to give business and personal customers confidence in the banking services they rely on every day.

Professionalism and standards

Banking is a profession. It has, however, often not been considered as such in Scotland or the UK. The efforts of the banks and of those responsible for regulation has so far focused on putting the banks back on a much more stable and viable footing as businesses, while ensuring that they are compliant with regulatory requirements. The Scottish Government believes that this needs to be taken forward in tandem with concerted action to encourage and develop professional standards and qualifications in banking. Such action will be vital to reinforce the cultural and behavioural change that the banks are committed to achieving. Indeed, the Scottish Government's view is that restoring trust and achieving cultural change will not be possible without a firm commitment to professional standards and ethics. The UK Parliamentary Commission on Banking Standards is considering these issues as part of its consideration, which may in turn lead to legislative or regulatory changes relating to professionals standards.

It is also important to note that professions do not exist in a vacuum. There is a symbiotic relationship between the professions and the society they serve, one that is based on trust, that acts to stabilise society and sees the specialist knowledge held by professionals used for the public good.[8] When that professional role is eroded, trust breaks down, society loses confidence and stability, as we have seen since 2008.

The Scottish Government believes that banking must be considered as a profession and that bankers should be appropriately qualified and adhere to professional standards.

Bankers, like their counterparts in other recognised professions are in a position of trust. We expect them to have the required knowledge and expertise in dealing with our money and we rely on them to do so with honesty and integrity and in a way that safeguards our interests. People's money should be dealt with by a technically competent, ethical and appropriately qualified person.

It is not true to say, however, that bank staff do not currently apply professional standards in their daily working lives and, indeed, many do hold banking qualifications. However, according to the Chartered Banker Institute, the number of employees gaining professional qualifications in Scotland has declined significantly. Achieving standards is not only about individuals holding qualifications but about instilling a culture of competence and commitment to professionalism, supported by qualifications, that permeates throughout the organisation. For that to be achieved, it

8 Why professionalism is still relevant, George Beaton, University of Melbourne, January 2010 http://www.professions.com.au/Files/Professionalism_Beaton.pdf

must be supported by the leadership within the banks. Importantly, that would help to restore the pride and esteem of bank staff in what they do and the vital services they provide to their customers.

Chartered Banker Institute

The Chartered Banker Institute (the Institute) was established in 1875 and is not only the oldest banking institute in the world but is the only remaining professional banking institute in the UK. The Institute operates across the UK and globally. It awards the Chartered Banker designation to individuals who meet the Institute's highest standards of ethical, professional and technical competence and who continue to do so through the Continuing Professional Development requirements. In 2011, the Chartered Banker Professional Standards Board (CB:PSB), an initiative led by nine UK banks and the Institute, launched the Chartered Banker Code of Professional Conduct. In 2012, the CB:PSB published the Foundation Standard for Professional Bankers, which allows bank staff to demonstrate that they have the knowledge, expertise, ethics and integrity necessary to work in the banking sector. The Institute is working closely with the banks to help them to integrate the Foundation Standard into their operations.

The development of the Chartered Banker Professional Standard Board's Foundation Standard and the Code of Professional Conduct demonstrates that there is strong support from within the banks for fundamental reform and for a culture of banking based around professionalism and ethics, supported by a qualifications framework. Working with the financial services industry, Skills Development Scotland (SDS) is supplementing this commitment through the development of the Skills Investment Plan, which will also consider what skills are required by the banking sector now and in the future. That will help to ensure that banks continue to have access to staff with the appropriate qualifications and competencies. More generally, SDS is supporting the ongoing development of existing bank staff through programmes such as Modern Apprenticeships.

The Scottish Government supports initiatives to develop professional standards and ethics as a welcome and necessary step in the efforts of the banks to restore public confidence and principles of stewardship that meet the highest standards of expertise, integrity and ethics.

Nevertheless, the Institute has indicated that more could be done. It considers that those bank staff in key senior and customer supporting roles should be required to become members of a professional body for banking and that misconduct or a breach of the Code of Professional Conduct should incur sanctions, including potentially being struck off. The Scottish Government recognises that moving to mandatory membership of a professional body for banking for key individuals would be a fundamental and significant change to banking that would require the agreement of and commitment from the banks as well as from the regulators and relevant banking organisations. However, the Scottish Government believes that serious consideration should be given by these institutions to what further measures might be required to improve adherence to an agreed set of professional standards.

The Scottish Government will work with the Chartered Banker Institute and the banks in Scotland to encourage maximum support for, and uptake of, the Foundation Standard and to promote the Chartered Banker designation for all appropriate staff. The Scottish Government will also consider with the Institute and the banks what the options might be for making membership of a professional body mandatory for bankers in order to bring banking closer into line with other professions.

Clydesdale Bank

Clydesdale Bank is working to make sure that all of its employees have achieved an appropriate – and accredited – professional standard. It has started by taking employees in Direct Banking, Retail, and Operations and IT, through the Professional Banker Certificate programme (the entry level qualification offered by the Chartered Banker Institute) or an internally accredited certificate developed in conjunction with the Institute.

The bank is now rolling out the Foundation Standard for Professional Bankers, which, as noted above, is the first standard to be published by the Chartered Banker: Professional Standards Board (CB:PSB).

By mid 2013, more than one in five Clydesdale Bank employees will have completed this programme. To reach the Foundation Standard employees must demonstrate a good knowledge of the purpose and function of banks, the economic environment in which they operate, products and services and regulatory and legal requirements. They must also demonstrate a commitment to take responsibility for acting ethically and professionally and to build relationships based on honesty, integrity, fairness and respect.

Clydesdale Bank has committed to take all of its employees through the Foundation Standard, or a more advanced standard if appropriate and available, by the end of 2015.

Lloyds Banking Group

In 2012 Lloyds Banking Group (LBG) introduced two new codes of conduct; the Code of Business Responsibility and the Code of Personal Responsibility. These set out the values and standards the Group will adhere to at a business and individual staff level.

The codes are based on corporate values, underpin the way LBG does business as a Group, set out behaviours that it wants to be known for and set stakeholder expectations. The Codes are built around five pillars of responsible business and underpin LBG's Ethics Policy:

- Put customers at the heart of the business.
- Aim to be a great company to work for.
- Work responsibly with external stakeholders.
- Invest in communities to help them prosper and grow.
- Work to continually reduce its environmental impact.

In early 2011 LBG announced public targets for reducing the number of complaints it receives – a move which has led to a 50 per cent reduction in the number of banking complaints received over the last two years compared to 2010 levels (excluding PPI claims).

In 2012, the Group also introduced a professional complaint handling qualification, developed by the Chartered Banker Institute, which all Complaint Handlers will undertake. By the end of 2012, 50 per cent of all Complaint Handlers had passed this bespoke qualification. Lloyds Banking Group is the first financial services institution to have qualified complaint handlers.

Competition and diversity

The financial crisis substantially changed the profile of banking throughout the world. One of the changes it brought about in the Scottish banking market was an increase in concentration levels, particularly with the merger between HBOS and Lloyds TSB, the acquisition by Santander of Abbey National and Alliance & Leicester and the acquisition of the Dunfermline Building Society by Nationwide Building Society, all of which served to reduce choice for consumers in banking services. In its 2011 final report, the Independent Commission on Banking (ICB) acknowledged that Scotland is considered a separate banking market by the Competition Commission (CC) and the Office of Fair Trading (OFT). The ICB's final report also highlighted that concentration levels in the Scottish banking market, particularly for SME customers, are considered by the CC and OFT to be high.

While the Scottish banking market has seen the emergence of new players such as Tesco Bank and Virgin Money, it continues to be extremely difficult for new challenger banks to enter the market. An OFT report in 2010[9] found that new entrants to retail banking found significant challenges in attracting customers and expanding market share. The greatest barriers arise from strong brand loyalty, low switching and the difficulty in attracting personal and SME customers, who have a preference for those banks with an extensive branch network. In addition, high capital requirements have also served as a barrier to new banks entering the market. The Scottish Government therefore welcomes the recent regulatory changes to lower tier one capital requirements for new banks.

The Scottish Government continues, however, to remain very concerned that a lack of sufficient competition in the Scottish banking market is having a negative effect, not only in terms of consumer choice and availability of credit, but also on the ability of Scottish businesses, particularly SMEs, to invest and grow. As previously noted, for example, the Scottish Government's SME Access to Finance Survey 2012 shows that 70 per cent of the SME lending market is provided by just two banks. As noted earlier, anticipated branch divestments may help to reduce market concentrations.

Switching

While high concentration levels arguably reduce choice for customers it is not the only consideration in determining what constitutes a competitive banking market and there are other factors which affect customers' willingness and ability to move between competitors. For example, the ICB report also highlighted low levels of account switching, in Scotland in particular, among both personal and business customers. Trust undoubtedly plays a role in customers' decisions as to whether to switch accounts and so the banks' efforts to improve customer service and re-establish trust in the banking system will also help to improve customers' confidence to move

9 Review of barriers to entry, expansion and exit in retail banking, OFT, November 2010

their accounts between providers. The Scottish Government welcomed the ICB's recommendation that a free current account redirection service should be established to ease the process of switching, including measures to reduce the chance of errors. It is encouraging that current account providers covering the vast majority of the market have signed up to implementing the new switching service by September 2013 and is another indication that the banks are committed to change.

Transparency

Transparency is a further important factor in encouraging competition and providing a further incentive for personal and business customers to move between providers. To make informed decisions about which bank will offer them the best service and products for them, customers need to be able to understand not only the full range of costs and fees associated with their account but also to properly understand how those charges affect them. True transparency comes not just from banks being open and up front about their own charges and fees but also by making customers aware of the service standards they should expect from their bank. If customers are truly to be able to accurately compare their bank with other providers and make a properly informed choice about whether putting their money elsewhere might benefit them, the banks must present pricing and customer service information in a consistent and understandable way that enables comparison.

> The Scottish Government welcomes new entrants to the Scottish banking market and supports the banks' efforts so far to improve transparency and make switching easier for customers. The Scottish Government encourages the banks to do more to assist customers to be able to compare between providers and choose the right one for their circumstances and banking needs.

Market concentration, price transparency and switching all have a significant impact on Scotland's ability to achieve a truly competitive Scottish banking market but offering consumers real choice requires some more fundamental changes to the way banking services are currently provided.

HSBC Bank

In 2010, HSBC Bank, recognising room for extra competition in the Scottish market, committed to a Scottish growth programme. Since then, it has invested over £9 million in extending its network in Scotland. Throughout 2011 and 2012, HSBC opened new retail locations in Stirling, Falkirk, Dundee and Dumfries and relocated its Aberdeen branch to new premises in the centre of Aberdeen. It also expanded its commercial footprint, opening new commercial centres in Dundee and Aberdeen and strengthening its existing commercial teams in Edinburgh, Inverness and Glasgow and has created an Agriculture Division covering the whole of Scotland. HSBC now employs over 3200 people in Scotland.

Diversity

A truly competitive banking market is about more than simply the number of banks. True competition and choice comes through diversity that offers consumers a real alternative to the incumbents. Diversity in the banking sector and, indeed, in the wider financial services industry, means having a range of different business ownership models and even organisational size in the market offering customers access to a variety of products and services. In particular, this means the presence of mutuals, such as building societies, co-operatives, credit unions, which operate stakeholder ownership as a business model rather than the more conventional shareholder ownership model. While mainstream banks have a focus on creating value and returns for shareholders, mutuals are owned and run for the benefit of their members or stakeholders, usually their customers or employees. That is not to say that one model is better than another, rather that it creates choice for consumers in the kinds of organisation they choose to provide their banking services. This should in turn lead to greater innovation and efficiency in customer service and products.

Diversity in banking, as in other areas of the corporate environment, also helps to reduce over dependence on any one operating or business model. This should mean greater stability and robustness in the financial system since different types of organisation will respond differently to any change in economic circumstances. In the event of a significant failure or shock, this can more easily be absorbed by a spread of institutions operating alternative ownership models and different risk appetites. It is worth noting that mutuals have generally demonstrated greater resilience through the financial crisis than the mainstream banks.

Diversity also extends to other aspects. Since mutuals operate for the benefit of their customers or stakeholders, rather than for shareholders, they often adopt value systems which allow them to pursue objectives which are not solely based on profitability and shareholder return. This means they may be focused on other priorities such as ethical concerns or providing services for customer groups, which would perhaps be regarded by others as less profitable. Member ownership and the smaller scale of many mutuals also means that they tend to be located in the same geographical area as their members, in some cases even in the same regions or communities. Such proximity to customers can help to promote commitment to the localities in which they operate.

As set out in the Government Economic Strategy, the Scottish Government is focused on building resilient and adaptable communities, which have the quality of life, environment and connectivity to allow individuals and businesses to create and capitalise on opportunities. The banking sector has a vital role to play in supporting these ambitions. Retail banks form a key part of the local infrastructure that determines the resilience of communities. For example, for many local businesses one of their most important relationships is with their local bank. Therefore, ensuring an extensive retail banking network that reaches across Scotland, including our remote communities, is important to ensuring that all parts of Scotland can maximise their potential.

Airdrie Savings Bank

The Airdrie Savings Bank attributes much of its success to its proximity to its customers and a commitment to the local communities in which it operates. This in turn fosters a strong focus on high quality service to a stable and loyal customer base. The Airdrie Savings Bank is the last remaining independent savings bank in the UK. It also adheres to mutual principles and is governed by a board of unremunerated trustees specifically appointed to represent the interests of depositors. That model has ensured that throughout the financial crisis the bank has maintained a cautious approach to risk and a reputation for safety and integrity.

The banking market in Scotland is dominated by large institutions. Smaller institutions are arguably better able to provide a more personalised service to their customers largely because their scale allows more scope to become familiar with them and their needs. This can be a particular issue for SMEs, which can feel that the quality of service they receive from the banks is not based on an in-depth knowledge of their business.

The issue then is perhaps not so much one of simply scale but one of increasing centralisation. It could be argued that it is simply not possible for the large banks with thousands of customers to get to know them in any detail. For many customers, the size of a bank or its operational structure is not a particular consideration but they rightly expect a high quality of service whatever the size of the organisation.

In our discussions with the mainstream banks, they have indicated that they too would welcome increased diversity and competition in the Scottish banking market. They recognise the benefits of operating in an environment that encourages product innovation and drives up standards of service which in turn will increase customer satisfaction levels.

The Scottish Government believes that diversity in the Scottish banking market will help to achieve more responsible, sustainable and competitive banking services that offers genuine choice to personal and business customers.

Greater diversity would mean having access to a broader range of different types of banking service providers, rather than just a greater number of mainstream banks – this is to say competition in the qualitative rather than just the quantitative sense. Banks are not the only way for people to access banking services. Crucially, a greater proportion of mutuals would promote greater resilience and stability in the Scottish banking market, enabling it to better withstand any future financial crises and so lessen the impact on the Scottish economy. The Scottish Government wishes to encourage a Scottish banking market that encompasses different ways of providing banking products and services to as wide a range of consumers as possible. We also want to see a range of institutions headquartered here, providing employment here and committed to serving Scottish customers.

The Scottish Government believes that more accessible community banking could have an important role to play in the Scottish banking market in the future, whether this involves mainstream banks, credit unions, mutuals or new forms of institution. Community banks could take different forms but could offer a range of banking services, within local communities to personal and business customers, that might not be currently readily available.

The Scottish Government will explore the potential for promoting further community banking options in Scotland.

Studies[10] have suggested that the current implementation of financial services legislation is not conducive to encouraging diversity, focused as it is on large, shareholder owned organisations. Indeed, it is likely that it is a barrier to the entry of new, smaller organisations into the market and to the growth of mutuals whose stakeholder ownership model presents challenges to the current regulatory framework. Mutuals can feel that the regulatory framework has not been developed to reflect differences in scale or business models. Independence may offer an opportunity for Scotland to consider how regulation can take better account of the needs of mutuals.

In the ongoing development of financial services regulation in an independent Scotland, the Scottish Government will be able to consider how the regulatory architecture in Scotland might better be able to encourage diversity.

10 Promoting Corporate Diversity in the Financial Services Sector, Jonathan Michie, University of Oxford, 2010; The Mutuals Manifesto 2010, Mutuo.

Credit unions

Credit unions are financial co-operatives, which are owned by their members and which traditionally operate under Common Bond criteria, meaning that they serve people who, for example, live in a particular area, belong to a certain organisation or work for a specific employer. Profits are distributed to members through dividends and members have a say in how their credit union is run. There are 109 credit unions currently operating in Scotland with around 280,000 members. They are becoming an increasingly significant part of the Scottish banking services market holding more than £210 million in savings and lending around £180 million. Some Scottish credit unions can offer current accounts, cash ISAs and mortgages.

As well as providing a range of financial products, credit unions are committed to encouraging their members to save, rather than just borrow, and to increasing financial capability among their members through training in budgeting and financial management. Their commitment to charging interest rates, which are capped and generally significantly lower than most mainstream lenders, means that they can offer loans to those who would not otherwise be able to access lending through conventional providers and whose only other alternative is payday loan companies or even illegal lenders. The not-for-profit ethos of credit unions enables them to make these types of loans but in order to be sustainable, credit unions also need to make higher value, longer term loans. Such higher value loans can still be offered on a highly competitive basis, however.

Glasgow Credit Union

Glasgow Credit Union was founded in 1989 to serve the employees of Glasgow District Council. In 2006 it expanded its common bond to include everyone living or working within the Glasgow postcode area, and since then has gone on to become the largest and most successful credit union in the UK.

Around 30,000 people are members of Glasgow Credit Union, and earlier this year it became the first UK credit union to reach £100 million in assets – making it larger than some of the smaller UK-wide building societies. Last year alone, £72 million was lent to members in the form of secured and unsecured loans and mortgages. The credit union now has over 80 employer partners from the public, private and third sector, offering its services to their staff through payroll/salary deduction.

Glasgow Credit Union offers a range of savings and loan products and it has recently been awarded the Social Enterprise Award for its newly launched Consolidation Loan, which helps people who are committed to reducing their monthly outgoings to consolidate existing balances into one easy to manage loan. Glasgow Credit Union is also one of the few credit unions to offer mortgages.

The credit union is very active in its local community, building strong links with community groups, charities and schools. Projects include providing financial education sessions for young mums at Rathbone (a voluntary youth sector organisation), various fundraising activities for Yorkhill Children's Foundation, including donating £1 for every junior account opened, and working with primary and secondary schools to help administer tailored financial education.

The credit union movement is particularly strong in Scotland and it is growing. However, in international terms, it is still relatively very small. Around 93 million people, or a quarter of the population in the United States are members of a credit union. In Australia, credit unions are working towards becoming a credible challenge to the dominance of the four big banks there.

In Scotland, many of the credit unions have the potential to become financially sustainable. There exists potential to increase their membership and to attract a more diverse customer base, providing affordable, alternative financial products to more vulnerable individuals and families. This is a view shared by others, including the Church of Scotland, which is looking at a number of initiatives designed to strengthen the credit union movement in Scotland.

The Scottish Government believes that Scottish credit unions have the potential to become an even greater force in offering an alternative to the mainstream banks and to helping promote diversity in the Scottish banking market.

The Scottish Government will continue to work with the Scottish credit unions and with representative organisations to explore ways to raise the profile of the credit union movement in Scotland and so maximise the accessibility and range of services available across the country.

Access to Finance

Access to affordable finance for business is crucial to both achieving economic recovery and supporting jobs in the short term and to delivering long-term sustainable economic growth. However, securing affordable finance remains a considerable challenge, in particular for the small and medium-sized enterprises (SMEs) that make a vital contribution to the Scottish economy.

It is clear that access to finance is an important issue for the Scottish economy, with a body of evidence pointing to both demand and supply side failure in the SME finance market:

- some companies are postponing borrowing to fund growth plans, awaiting positive market developments before making longer-term investment decisions; and
- some viable firms are unable to secure funds at affordable rates.

As the economy continues to emerge from the recession, boosting access to finance (from both demand and supply perspectives) will be a key element of any sustained recovery. There remains a significant funding challenge for banks as a result of regulation at national and international level, which is likely to further restrict the availability of credit, especially for SMEs.

Small and medium-sized businesses typically have few alternative sources to bank finance to support investment. The arguments for encouraging alternative and innovative sources of finance, such as supply chain finance, are therefore strong and more diversity and competition in the financial system will give businesses greater choice and potentially lead to greater systemic resilience.

The Scottish Government is already directly working with the banks to improve the supply of finance for viable businesses, as well as providing advisory support, through our enterprise agencies and Business Gateway, to help companies improve their chances of securing funding. The Scottish Investment Bank (SIB) delivers risk capital and debt finance support to growth and exporting SMEs, working with banks and, in early stage risk capital, the wider investment community, in particular Business Angel syndicates. Access to finance is primarily a role for the banks but where there are demands of market failure, the SIB will seek to address these gaps working at a Scottish, UK and European level. For their part the banks engage directly with the business community, both nationally and locally, to encourage greater business confidence to invest for the future.

The Scottish Government will continue to work closely with the banks to deliver improved access to finance for Scottish SMEs.

It is also important that UK-wide schemes, such as Enterprise Finance Guarantee, National Loan Guarantee Scheme and

Funding for Lending Scheme continue to be accessible through lenders to Scottish businesses and for Scottish businesses to receive their fair share of lending. The Scottish Government welcomes the UK Government's plan for a state backed business bank provided that it supports the ambition to boost business lending and the exploration of alternative forms of finance for SMEs.

The Scottish Government places considerable importance on the availability of lending data for Scotland to allow us to monitor and respond to developments. The availability of regular transparent performance data – disaggregated across the UK – will be a key mechanism in monitoring the various schemes' progress and the performance of individual lenders. The Scottish Government is aware that there are plans being developed at UK level to enhance the availability of lending data and we await the outcome of that work. In the meantime, we would also press the banks for greater transparency and to introduce a culture of openness on lending activity.

It is important for businesses to recognise that the lending landscape has changed and that requires them to make an even stronger case for funding, demonstrating proportionate risk and repayment capability. Obtaining new finance or renewing facilities is not an automatic right. There is also compelling evidence that some companies with growth potential have been delaying implementation of their growth plans as a result of economic conditions and a perception that they would be unsuccessful in securing the growth finance they need. While the banks' lending criteria are higher now than in the past, accessing finance is possible with the right proposition. It will be the best prepared businesses with the strongest business models and the most robust business plans that will secure the necessary finance. The enterprise agencies or the Business Gateway can provide advice and information to companies before they approach the banks.

Through the Scottish Investment Bank, the availability of specialist financial readiness support to help companies to be in a stronger position to secure growth and export finance has been increased. This is complemented by enterprise agency account management support which is increasingly targeted on building company confidence to implement their growth plans.

The Scottish Government believes it is important that banks work with our enterprise agencies and Business Gateway, to support growth companies and sectors that are a priority for Scotland. Banks should actively refer companies to the enterprise agencies, Business Gateway and other professional intermediaries to help ensure that investment propositions are more readily fundable.

In October 2010, in response to the financial crisis and as part of the banks' plan for being part of the recovery process, the Business Finance Taskforce published the *Supporting UK Business* report. Participating banks agreed to establish transparent appeals processes for lending applications that are declined, to ensure each bank has a fair and equitable appeals process.[11] The appeals process allows any SME with turnover of up to £25 million, which is declined any form of lending, to appeal – for any reason – to the participating bank concerned. Results from the first annual report[12] of the Business Finance Taskforce Appeals Process Independent External Reviewer found that:

- the main reason for credit being declined (almost 40%) is due to credit scoring;
- affordability (ability to repay credit) is the next largest reason for declines; whilst
- credit scoring is cited as the reason to decline funding more often for start-ups and those switching banks.

Businesses are being encouraged to make use of the lending appeals process if they feel they have been unfairly turned down for credit.

The Scottish Government believes the banks should encourage business customers, who have received decisions to reject applications for finance, to use the Business Finance Taskforce appeals process and encourage businesses to take up this facility.

11 Business Finance Taskforce's membership consists of senior staff from Barclays, LBG, RBS, Santander and Standard Chartered coordinated by the BBA and supported by HMT, BIS and the Bank of England.

12 http://www.betterbusinessfinance.co.uk/news/entry/first-annual-report-of-the-independent-external-reviewer-of-the-appeals

Scottish Investment Bank (SIB)

The Scottish Investment Bank (SIB) has a Scotland-wide remit to ensure both early stage and established SMEs with growth and export potential have access to growth capital. SIB plays an important role with banks and the wider investment community, in particular Business Angel syndicates, in improving both the demand for finance (including assisting companies in identifying suitable funding options and accessing appropriate funding through SIB's financial readiness specialists) and the supply of finance through the operation of equity and debt funding schemes and supporting companies to implement their growth plans, particularly early stage, innovative, technology-based companies.

SIB was established by the Scottish Government as a division of Scottish Enterprise in December 2010 to work with private sector investment partners to deliver early stage equity schemes and interventions to support the access to finance needs of growth and exporting companies. This has included the establishment of the Scottish Loan Fund, part-funded by the European Regional Development Fund (ERDF), banks and pension funds, aimed at established growth and exporting companies.

SIB's remit has evolved with market developments including the launch of a specific loan fund to support the development of Scotland's re-cycling infrastructure and a significant investment fund for renewable companies, which illustrate how SIB can make an increasing contribution to developing opportunities to give Scottish companies competitive advantage.

SIB is not a deposit-taking bank. All funds are operated on a fully commercial basis with private sector partners. It is involved in the majority of investment deals in the early stage market in Scotland. During the financial period 2010-2012, the Scottish Investment Bank invested £53 million alongside £116 million from private sector partners in 200 companies. The activity of SIB is held in high regard by the investment community in Scotland and investee companies.

> The Scottish Government encourages the banks to make relevant staff aware of the range of products and services delivered by the Scottish Investment Bank, which could assist clients at the early stages or improve prospects for growth and exporting.

We believe that SIB is an important element of the business finance landscape in Scotland and the strong foundation it has established could be built upon to offer additional support for growth and exporting SMEs and we wish to investigate the evolution of SIB into a "Scottish Business Development Bank".

A Scottish Business Development Bank would not compete with existing clearing banks as it would not seek to take deposits or provide banking facilities. It would have an SME focus providing services and financial products, alongside wider company growth activities of the enterprise agencies, Scottish Development International and Business Gateway. It would seek to assist companies to grow and develop overseas markets and support growth sectors, particularly those priority sectors identified as important for Scotland. Such a bank could be an independent organisation that would work closely with the private sector financial community and the UK Government's proposed business bank on the delivery, administration and market responses on both commercial debt and risk capital investment. It would source resources to support its activities, potentially utilising existing SIB investments, funding available from Europe, specifically ERDF but also accessing new opportunities through European funding streams, including exploring the opportunity to channel resources from the European Investment Fund into Scottish SMEs.

The Scottish Government will examine the business case for the creation of a "Scottish Business Development Bank".

Santander

The Santander Breakthrough programme provides growth capital designed to complement the cashflow of fast-growing small entrepreneurial businesses. These loans are not secured on equity, which means all the growth created by the entrepreneurs remains with them. In addition to access to finance, the Breakthrough programme organises events at which owners can come together and benefit from peer-to-peer conversations. It also helps these businesses plan by assisting them to prepare market entry plans by taking them on subsidised trade missions to locations around the world. These Breakthrough trade missions have taken delegates to Brazil and the USA and it is preparing future visits to parts of Europe, Latin America and North America.

To help businesses grow, the programme consists of organised "Masterclasses", in which groups of 15-20 companies pay a visit to businesses such as Google, LOVEFiLM or Innocent. They hear from senior corporate figures on how to address the operational challenges faced by businesses, such as how they can grow to become a major success story. In addition, it helps businesses source management-level talent in the form of mentors and business coaches. The remaining part of the programme involves 500 graduates from Santander's 59 university partners in the UK undertaking three-month subsidised internships with fast-growth SMEs over the next 12 months.

Royal Bank of Scotland

The Royal Bank of Scotland is working with the Scottish Government on the £2 million EDGE scheme which offers entrepreneurs grants up to £50,000. The bank has also launched Inspiring Enterprise, a new initiative aimed at boosting youth enterprise. The scheme has been launched with funding of £1.5 million over three years to provide grants of up to £50,000 to organisations across the UK that encourage and support youth enterprise. By the end of 2015, Inspiring Enterprise aims to help an additional 100,000 young people in the UK to explore enterprise, develop their skills and start up in business, whatever their background. In addition to the £1.5 million funding pot, the initiative includes:

- Extending the bank's award-winning partnership with The Prince's Trust and doubling its support for Youth Business Scotland (YBS) to £600,000 over the next three years. The money for YBS will go to three areas: its Growth Fund to support young people seeking to expand their business; small grants to help young people test their ideas and start their business; and "Elevator" networking events to bring young people together to talk about business and enterprise.
- A new three-year partnership – worth an additional £300,000 as well as mentoring and other practical support – to Entrepreneurial Spark, the business incubator/accelerator where Scottish start-ups and early stage businesses are hot-housed, nurtured and enabled for up to a year.
- Extending a commitment to the RBS university enterprise programmes, run by Find Invest Grow (FIG), which recognise and reward the most enterprising student societies and invest in the best business ideas from UK undergraduates and recent graduates.

Conclusion

Prudent, trustworthy, safe. Words that have been strongly associated with Scottish banking. The financial crisis changed that and in the aftermath, the banking sector's reputation was tarnished and trust undermined.

Scottish Ministers are clear about the importance of the banking sector to Scotland and to the Scottish economy. They also recognise that the Scottish people feel that they have good reason to mistrust the banks as we all experience the personal and economic effects of the crisis. However, trust must be restored between the banks and society if we are to achieve economic recovery. In order to do that and rebuild the esteem of the sector, banks need to continue to demonstrate a commitment to return to the core principles of prudence, trustworthiness, stewardship and professionalism. They must strive for long-term sustainability and decision making. Scottish Ministers recognise that the banks are now beginning this process of cultural change. This document has sought to set out the Scottish Government's position on banking and the challenges it faces.

The Scottish Government supports the measures recommended by the Independent Commission on Banking to ensure continuous provision of vital banking services in the event of a failure and to improve the capacity of the banks to bear losses. The Scottish Government believes that the implementation of retail ring-fencing and the requirement for banks to hold greater capital stocks will have clear benefits for banking customers in Scotland.

The Scottish Government fully supports the banks' efforts to rebuild trust and specifically the measures being taken by some banks to break the link between remuneration and sales targets and reconnect rewards for senior management to long-term performance and customer satisfaction measures.

An important part of restoring trust and changing culture will be the banks' commitment to focus on the needs of customers and to reinforce banking as profession. The banks must instil a culture of competence and commitment to professionalism, supported by qualifications, that permeates throughout their structures.

The Scottish Government believes that banking must be considered as a profession and that bankers should be appropriately qualified and adhere to professional standards.

The Scottish Government supports initiatives to develop professional standards and ethics as a welcome and necessary step in the efforts of the banks to restore public confidence and principles of stewardship that meet the highest standards of expertise, integrity and ethics.

The Scottish banking market is highly concentrated and the Scottish Government wants to see greater competition. That means not only welcoming new entrants to the market but also improving real choice for Scottish consumers through a diverse range of providers offering different types of banking services. Scotland already has a strong credit union movement, for example, but there is scope to enhance the role they play in offering an alternative to the mainstream banks. New challenger banks, price transparency and switching are all important to enhancing competition but encouraging diversity will be vital to achieving a truly competitive Scottish banking market.

The Scottish Government welcomes new entrants to the Scottish banking market and supports the banks' efforts so far to improve transparency and make switching easier for customers. The Scottish Government encourages them to do more to assist customers to be able to compare between providers and choose the right one for their circumstances and banking needs.

The Scottish Government believes that diversity in the Scottish banking market will help to achieve more responsible, sustainable and competitive banking services that offers genuine choice to personal and business customers.

The Scottish Government believes that Scottish credit unions have the potential to become an even greater force in offering an alternative to the mainstream banks and to helping promote diversity in the Scottish banking market.

Access to finance continues to be a challenge for the banks and for businesses, particularly SMEs. Greater diversity in the Scottish banking market would provide SMEs with a range of alternative sources of funding to the mainstream banks. However, the banks still have a vital role to play and we will continue to work with them in boosting the supply of finance to businesses. A number of initiatives are proposed or in place to ensure that businesses are able to access the finance they need to grow but we will look at what other solutions might be available, including the potential for the evolution of the Scottish Investment Bank to a "Scottish Business Development Bank".

The Scottish Government places considerable importance on the availability of lending data for Scotland to allow us to monitor and respond to developments. The availability of regular transparent performance data – disaggregated across the UK – will be a key mechanism in monitoring the various schemes' progress and the performance of individual lenders. We would also press the banks for greater transparency and to introduce a culture of openness on lending activity.

The Scottish Government believes it is important that banks work with our enterprise agencies and Business Gateway, to support growth companies and sectors that are a priority for Scotland. Banks should actively refer companies to the enterprise agencies, Business Gateway and other professional intermediaries to help ensure that investment propositions are more readily fundable.

The Scottish Government believes the banks should encourage business customers, who have received decisions to reject applications for finance, to use the Business Finance Taskforce appeals process and encourage businesses to take up this facility.

The Scottish Government encourages the banks to make their relevant staff aware of the activity of the Scottish Investment Bank and the different debt and equity support that is available which could assist clients at the early stages or improve prospects for growth and exporting.

There will be further challenges ahead for the banks but change is achievable and, more importantly, it is necessary. The banks have made clear public commitments to changing their behaviour and their culture. We should provide them with the opportunity to demonstrate that these commitments are genuine and seek evidence that they are being implemented. Cultural and behavioural changes will require a long-term commitment but that does not lessen the priority we place on them. A return to the traditional Scottish banking principles of professionalism, stewardship and prudence will strengthen the banks, it will support economic recovery and it will benefit us – their customers.

Our commitments are:

- The Scottish Government will continue to engage closely with the banks as they implement fundamental changes to restore customer trust and confidence and will challenge the banks to provide evidence of progress in restoring customer trust and confidence.

- The Scottish Government is establishing a Financial Sector Resilience Group for Scotland that will work closely with the banks and others to ensure that mechanisms are in place to deal with disruptive events caused by weather, transport or crime problems, for example, and to give business and personal customers confidence in the banking services they rely on every day.

- The Scottish Government will work with the Chartered Banker Institute and the banks in Scotland to encourage maximum support for, and uptake of, the Foundation Standard and to promote the Chartered Banker designation for all appropriate staff. The Scottish Government will also consider with the Institute and the banks what the options might be for making membership of a professional body mandatory for bankers in order to bring banking closer into line with other professions.

- The Scottish Government will explore the potential for promoting further community banking options in Scotland.

- In the ongoing development of financial services regulation in an independent Scotland, the Scottish Government will be able to consider how the regulatory architecture in Scotland might better be able to encourage diversity.

- We will continue to work with the Scottish credit unions and with representative organisations to explore ways to raise the profile of the credit union movement in Scotland and so maximise the accessibility and range of services available across the country.

- The Scottish Government will continue to work closely with the banks to deliver improved access to finance for Scottish SMEs.

- The Scottish Government will examine the business case for the creation of a “Scottish Business Development Bank”.

The Scottish Government
Riaghaltas na h-Alba

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