SETTING UP A SCOTTISH BANKING SYSTEM

In Setting up a Scottish Banking System, the fourth paper in the Scottish Independence Convention's Transition series, finance expert Peter Ryan presents the case for banking reforms in the transition period leading to independence and explains the processes needed to set this up.

Peter proposes that independence is an opportunity to redesign the banking system, that things need to be done differently and that reproducing the UK banking system in an independent Scotland is not an option. He approaches banking reform from the perspective of what is needed for the well-being of Scotland's citizens and its economy and not from what is best for the banks and the profits for their shareholders. His paper explains how the system can be reformed in a way that minimises risk in order to protect Scottish citizens and the Scottish economy from the economic fallout of any future global banking crisis.

The convenience of online shopping, the ability to borrow, to save, to invest, are reliant on the banking system. However, the modern banking system, where banks create the money held in the bank accounts of ordinary people has risks attached, risks that became all too apparent during the 2007-2008 financial crisis.

He explains that a Scottish central bank – the Central Bank of Scotland – will need to be set up early in the transition period leading to independence to oversee the creation of a new Scottish currency and to be the competent authority providing regulatory oversight of the banking system. Several concurrent activities would then follow to deliver the new banking system, which are outlined in his paper:

- Issuing Scottish banking licences and creating a commercial banking system;
- Setting up a Scottish Payments System. There are three parts to this: a Scottish Payments Initiation Service (SPIS), a domestic payment system (which will replace Faster Payments and BACS) and a Real Time Gross Settlement (RTGS) system;
- Creating a Scottish Universal Bank Account for all people in Scotland to provide the resilience that is missing in the UK banking system.

The Central Bank of Scotland will be owned by the Scottish state but may have a degree of operational independence based on the legislation that creates it. It will have standard central bank responsibilities, including providing banking to the Scottish Government, issuing the national currency, managing Scotland’s foreign currency reserves, being the banking regulator and issuing Scottish banking licences.

The paper looks in detail at how the Central Bank of Scotland will operate, the role of the commercial banking sector, setting up Scottish bank accounts and how the transition of the banking system from Sterling to the new Scottish currency will work. How the reforms will work with regards to bank loans, mortgages and savings, whether with commercial banks or with existing Scottish credit unions, as well as credit and debit cards, payments and so on is also clearly presented.

Looking at how to do things differently while providing resilience to the Scottish economy, Peter suggests that following independence the Scottish Government should encourage Scottish residents to save with local credit unions (giving examples of the Glasgow Credit Union and the HI-Scot for the Highlands and Islands that lend to people in their common bond area so that the deposited money is invested in the saver’s local economy rather than being lent to a foreign multinational as so often happens with money saved with banks).

He also proposes that a new payment model – a Scottish Payment Initiation Service – is set up by the Scottish Government at the start of the transition period as an alternative to using credit or debit cards. This will provide a payment service for the wider Scottish economy and not just for the financial services industry. It would allow direct bank transfers (from the shopper's bank account to the retailers) meaning that smaller retailers and market stall traders could take electronic payments without expensive point of sale machines. It will provide resilience to the retail economy and provide an alternative to card companies if they have a failure with their IT processes (such as Visa in 2018). And since the payments service will be owned by the Scottish Government, any fees and taxes will stay in Scotland supporting local jobs. It would also continue to function in the event of a banking crisis.

His proposal for a Central Bank Digital Currency (CBDC) – money held at the Central Bank of Scotland, not in a commercial bank – would enable Scottish residents to open CDBC accounts in the new Scottish currency. Everyone in Scotland would get a personal Universal Bank Account with the Central Bank of Scotland. This would be a free and secure form of banking. All payments from the Scottish Government to an individual (such as benefits, wages for government employees, tax rebates, etc.) would be paid to this account in the new Scottish currency, reducing government costs as these payments would be internal transfers rather than payments to external banks. It would be linked to the Scottish Payments System and so it will be possible to pay bills, withdraw cash, set-up direct debits and move money to a savings account in a commercial bank. Wages could be paid into this account. The account would not offer an overdraft and loans would only be available from commercial banks to protect financially vulnerable account holders.

A new Scottish banking system, he argues, should be one that provides everyone in Scotland with access to safe and secure banking and be designed to stop vulnerable people falling into debt. After years of austerity and now the impact of Covid-19, the personal debt crisis is leading more people in Scotland to seek help. And once a certain threshold of debt is reached it becomes unpayable: destroying lives, damaging health and impacting the economy. In these circumstances the Scottish people will not, and could not, support another banking bail-out. Debts that cannot be repaid are not just a personal tragedy but also destabilise the banking system that created them.

The benefits of Scotland having its own currency, a Central Bank of Scotland, a Scottish Universal Bank Account, and a government-backed financial services system will give an independent Scotland the resilience it will need if the banks go bust, or the card IT system fails, or a bank cannot process payments. The reform of the banking system will ensure that there is an alternative, that the economy can continue without another bailout to the banks that would result in more austerity and leave millions destitute.

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