Scottish Independence Convention (SIC)

Transition Paper No.4

SETTING UP A SCOTTISH BANKING SYSTEM

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Introduction

The convenience of online shopping, the ability to borrow, to save, to invest, are reliant on the banking system. However, this convenience comes at a price. The modern banking system, where banks create the money held in the bank accounts of ordinary people[1] has risks attached, risks that became all too apparent during the 2007-2008 financial crisis. The risk is not just the failure of banks such as the Royal Bank of Scotland (RBS). There is also a crisis of personal debt in the United Kingdom (UK) with an estimated 1.2 million people in severe debt.[2] The debt charity Step Change reports that the impact of the coronavirus (Covid-19) is pushing more and more Scots to seek help with debt.[3] Once a certain threshold of debt is reached it becomes unpayable: destroying lives, damaging health and impacting the economy. Debts that cannot be repaid are not just a personal tragedy but also destabilise the banking system that created them.

With independence Scotland will need to set-up a banking system, but it should be done in a way that minimises risk to both the Scottish people and the Scottish economy. The Scottish people will not, and could not, support another banking bail-out – reproducing the UK banking system in an independent Scotland is not an option. Instead, independence is an opportunity to redesign the banking system to protect Scottish citizens from the economic fallout of any future global banking crisis. Resilience should be built into the system by design to ensure that if banks fail, they do not bring down the economy with them.

A Scottish central bank – the Central Bank of Scotland – will need to be set up early in the process (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 this 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.

Central Bank of Scotland

The Central Bank of Scotland will be set up at the start of the transition period following a vote for independence. It would be owned by the Scottish state but may have a degree of operational independence based on the legislation that creates it. The Central Bank of Scotland will have standard central bank responsibilities, which include:

- 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; setting the capital and liquidity requirements for banks operating in Scotland and conducting stress tests to ensure the robustness of the banking system;
- Setting the Scottish currency base interest rate;
- Operating the RTGS system for Scotland to settle large value payments between banks;
- Providing liquidity support to the Scottish banking sector. There will be a mechanism for winding down insolvent banks in a controlled way. Any support for a bank in crisis would be limited to Scottish retail operations. The Central Bank of Scotland would not bail out banking operations outside of Scotland. If a UK bank that also operated in Scotland got into trouble, the Central Bank of Scotland would only take responsibility for the Scottish operations and the UK would take responsibility for the UK operations. Other nations have split this responsibility in the past, for example Belgium and the Netherlands split responsibility for Fortis Bank between them when the bank failed;[4]
- Running the Scottish Deposit Guarantee Scheme to guarantee the Scottish currency equivalent of up to €100,000 held by a consumer or small business at a Scottish bank in the event the bank went bust;
- Managing the Scottish currency accounts of financial services companies who hold Central Bank of Scotland money; deposits by banks at the Central Bank of Scotland, loans to commercial banks, repurchase agreements, and so on.

Most central banks have targets set-up by their governments. For example, the UK Government sets an inflation rate target of 2 percent for the Bank of England, although the bank is operationally independent with regards to how it meets that target. To minimise sharp movements in the exchange rate between Sterling and the new Scottish currency an inflation rate target of 2 percent should be used in the early years of the transition period. However, setting an inflation rate can distort the economy as it suppresses wages (particularly those of younger people) and makes borrowing more expensive in real terms. It also means monetary policy focuses on this target to the exclusion of other objectives.

For this reason, the Scottish Government should look beyond price stability and set climate change targets for monetary policy to provide support for a Green New Deal; targets which could be achieved by the Central Bank of Scotland implementing investment and lending rules that take climate change impact into account. For example, in addition to monitoring a bank's lending against its capital, banks would also be set a target for greenhouse gas emissions caused by their lending. To monitor the target, a bank would annually report on the greenhouse gas emissions caused by its lending and could be fined or have its licence revoked if the target is exceeded. This will mitigate risk in the banking sector from the impacts of climate change in line with recommendations from the Financial Stability Board Task Force on Climate related Financial Disclosures.[5]

Commercial Banks

Commercial Banking Sector

A commercial bank is one that operates to make money for its shareholders, such as Lloyds, RBS or the Clydesdale. At the 2014 Scottish independence referendum both RBS and the Lloyds Banking Group (which includes the Bank of Scotland) said they would move their headquarters to London in the event of Scottish independence.[6] Since then, RBS has renamed itself the NatWest Group[7] and its Chief Executive Officer (CEO) is based in London. The Clydesdale Bank is now part of the Virgin Money Group,[8] which is currently headquartered in Scotland but includes Virgin Money and Yorkshire Bank. The other four members of the Committee of Scottish Bankers[9] (HSBC, TSB, Sainsburys Bank and Tesco Bank) are either headquartered outside Scotland or part of groups whose primary business is not in Scotland. So,

after an independence vote Scottish banking would be dominated by non-Scottish banks (though this is also the case in countries such as New Zealand[10]).

During the transition period, after the vote for independence, any bank that wanted a Scottish banking licence would need to apply for one from the Central Bank of Scotland. While banks with substantial numbers of Scottish customers are likely to apply it may be the case that smaller UK banks not based in Scotland may not apply. The reason for this is that commercial banks make decisions based on what is profitable to them, irrespective of the impact of that decision on their customers. This is demonstrated by Brexit. While some UK banks (such as HSBC) have applied for European Union (EU) banking licences after Brexit, others have decided to close accounts held by UK citizens resident in the EU[11] leaving former customers to switch to alternative European banks.

Once the bank has a licence, they would deposit capital with the Central Bank of Scotland to support their banking operations. They would then be able to start the conversion of existing bank accounts held by customers based in Scotland into Scottish bank accounts. They would also be able to issue loans and mortgages in the new Scottish currency and carry out any other banking activities they had a licence for.

It is assumed that only banks with a Scottish banking licence would offer accounts in the new Scottish currency as it would not be an international reserve currency such as the US Dollar or the Euro. Its use would be limited to Scotland or businesses and people who did a lot of business with Scotland. (Some businesses based in the UK after independence would have Scottish currency accounts or multi-currency accounts where one of the currencies would be the new Scottish currency. These would be held with a UK bank, which also held a Scottish banking licence.)

Scottish Bank Accounts

After independence Scottish bank accounts will need to be identified and separated from non-Scottish ones. This is for legal reasons (to identify those bank accounts subject to Scottish law). It is also a requirement of the international banking system to identify the country an account belongs to (for payment routing and sanctions checking). Banks with Scottish banking licences would need to begin identifying Scottish and non-Scottish accounts. Once this has been done the Scottish accounts would be moved to the Scottish bank while the rest remain in the UK bank. Scottish account holders would be given the opportunity to convert their accounts to the new Scottish currency or leave it in Sterling.

The Scottish Government would set-up a legal framework for this process as part of its legislation for setting up the Scottish currency. The process of moving an account from a UK bank account denominated in Sterling to one denominated in the new Scottish currency for banks with a Scottish banking licence would be:

- Identify bank accounts belonging to Scottish residents and businesses;
- Notify the account holder that the bank account will be treated as a Scottish bank account (some customers may prefer to keep the bank account as a UK bank account, and this gives them the opportunity to select that option);
- Give account holders the option of converting their account to the new Scottish currency. For customers who wish their account to be in the new Scottish currency, the account will be converted by their bank. For those that do not wish their account to be converted to the Scottish currency, the account would remain in Sterling (assuming the bank offered Sterling accounts to Scottish customers).

Customers with an account at a bank that does not take up a Scottish banking licence will need to switch to a bank that does if they want a Scottish bank account. It is assumed that the Scottish Government would work with the banking industry to develop a mobile and/or online app to help manage this whole process.

Loans

Loans are "private contracts between individuals, households and businesses, and financial institutions".[12] They cannot be changed without the agreement of both the lender and borrower. If both

the lender (the bank or credit union for example) and borrower (the individual or business) want to keep the loan under the existing terms, they could do so. In which case, the loan would remain in Sterling with the interest rate unchanged and governed by UK law.

However, following independence the regulatory environment would change. Scotland would be a separate country to the remainder of the UK (rUK), with different laws and different market conditions. This would be the case irrespective of the currency used by an independent Scotland, though the introduction of a Scottish currency does impact the way banks will regard Scottish loans.

Foreign currency loans are defined by the Financial Conduct Authority (FCA)[13] and are considered high-risk products. This is because movements in the exchange rate between the loan currency and the currency of the borrower's income mean that the borrower could have difficulty repaying the loan. They are not normally available to individuals, households, or smaller businesses and are more expensive for banks because of the greater amount of capital needed to support this type of lending.

As with bank accounts, lenders will want to split Scottish loans from rUK loans. Again, it would be in the interest of the Scottish Government and the banking industry to roll out an app to facilitate this process (the app should include an option to compare alternative credit providers for customers who want to switch banks). However, following independence, financial institutions may want to renegotiate any outstanding loans due to the change of country and any extra provisioning requirements of a Sterling loan repaid by income in the new Scottish currency. A Scottish customer with an outstanding loan at the time of independence will have several options, including keeping the loan in Sterling with the same interest rate or converting the loan to the new Scottish currency with an interest rate applicable to the new currency.

It is assumed that banks that had lent to Scottish customers at the time of independence, but did not want to take out a Scottish banking licence, would sell their loan book to a financial institution with a Scottish banking licence. To safeguard consumers, any legislation setting up the Scottish currency should include a clause that gives them the right to switch to an alternative loan provider. For new loans taken out following independence, only banks with Scottish banking licences would offer loans. Normally these would be in the new Scottish currency, with the exception of larger corporations (who understood the risks) or borrowers who receive their income in a currency other than the Scottish currency.

Mortgages

No change to mortgages would be required if these are repaid during the transition period when Sterling and the Scottish currency are equivalent. However, due to their long-term nature there will be many Scottish mortgages that have a final repayment after the end of the transition period and will need to become Scottish mortgages.

Mortgages have regular points when they can be re-assessed, for example at the end of a fixed interest rate period. At these points, the borrower has the option of switching mortgage provider and the lender can review the mortgage conditions. Over the transition period mortgage lenders will review the affordability of Scottish mortgages and reprice them accordingly. When this is done mortgage borrowers will have several options regarding their Scottish mortgage, including (but not limited to) keeping the outstanding amount in Sterling with the same interest rate conditions (such as linked to the Bank of England base rate) or converting the mortgage to the new Scottish currency with an interest rate applicable to the new currency.

Lenders that provided mortgages to Scottish customers before independence, but did not want to offer mortgages after independence, would in all likelihood sell their mortgage book to a financial institution that offered Scottish mortgages. To safeguard consumers, any legislation setting up the Scottish currency should include a clause that gives customers the right to switch to an alternative mortgage provider if their mortgage was sold in this way.

Only banks with Scottish banking licences would be able to offer retail Scottish mortgages for new mortgages taken out following independence. Normally these would be in the new Scottish currency, except for borrowers who receive their income in a currency other than the Scottish currency.

Savings

During the transition period after independence Scottish savers will need to decide whether to transfer their savings to the new Scottish currency or leave it in Sterling. Banks with a Scottish banking licence will need to have sufficient reserves in the Scottish currency to operate and so will encourage Scottish savers to keep their money with them.

ISAs are savings accounts which have no tax levied on income earned and are governed by UK tax laws. Under the current UK ISA regulations, if the account holder moves abroad (ceases to be resident in the UK) they can keep any existing ISA accounts. Therefore, any resident of Scotland who owns an ISA at the time of independence could keep it and continue to enjoy the tax-free arrangements associated with the ISA. However, in doing so they will take on exchange rate risk between their savings in Sterling and the new Scottish currency. Additionally, Scottish savers who have savings in UK Government bonds or want to have their private pension paid in the new Scottish currency may want to move their savings to the new Scottish currency to minimise risk. For this reason, the Scottish Government should either offer Scottish banks the ability to offer savings in Scottish Government bonds or set-up a Scottish Savings Bank that allows individuals to lend to the Scottish Government in return for interest on their savings.

Credit Unions

While many of the banks serving Scotland will not be Scottish after independence there will still be many Scottish financial institutions that will continue serving their communities. One example is credit unions that offer current accounts, loans and savings to thousands of Scots. Credit Unions have a Common Bond, which means they focus on a geographic area. For example, membership of Glasgow Credit Union is open to people who live or work in the greater Glasgow "G" postcode area,[14] whereas membership of the HI-Scot Credit Union[15] is open to anyone in the Highlands and Islands. So, unlike banks there is no risk of them leaving Scotland after independence.

While credit unions are regulated financial institutions and any savings in them are protected by the deposit guarantee scheme, they cannot create money, unlike banks. They can only lend money that has been deposited with them and so are less impacted by a financial crisis. For example, Canada did not have a banking crisis in 2008.[16] When it did go into recession at the end of 2008 it was because its trade with the United States was impacted by the recession in the USA. The strength of its banking sector came partly from the size of its credit unions. Glasgow Credit Union, with over 50,000 members and over £100 million of assets, is the largest credit union in the UK. In Canada, the largest credit union is VanCity (from Vancouver, roughly the same size of population as Glasgow) with over half a million members and 24 Billion Canadian Dollars of assets.[17] It is possible to borrow and save without using banks.

Following independence there is a risk of foreign banks pulling out of Scotland. As a way of providing resilience to the Scottish economy, the Scottish Government should encourage Scottish residents to save with local credit unions. The added advantage is that credit unions lend to people in their common bond area. So, money deposited with credit unions is invested in the saver's local economy rather than lent to a foreign multinational as so often happens with money saved with banks.

Scottish Payments

Paying for Things

The way we pay for things is changing. We use cash less and electronic payments, such as card or online banking, more, a change that has accelerated during the Covid-19 pandemic.[18] However, moving away from cash has an impact on local economies and some retailers have seen their income reduce because less people are paying by cash.[19] This is because every time a payment is made by card the card company (such as Visa or MasterCard), the card issuer and the bank processing the card payment for the retailer all take a fee. As the card companies are not Scottish and few of the banks are, this represents money leaving the Scottish economy, even when a Scottish customer is paying a Scottish shopkeeper in a Scottish high street. Electronic payments are also profitable for the banking sector

because it allows them to close branches and remove ATMs, which reduces their costs but leaves communities (particularly those with an elderly population) struggling without access to cash.[20]

The move to electronic payments also has risks attached. If the technology fails or the banks go bust, as they did in 2008, it means that the people of Scotland would be left with no way of paying for things without bailing out the banks again. Therefore, as part of the transition following independence, we need to build a new payment model that could continue to function in the event of a banking crisis.

The first step would be for the Scottish Government to set-up a SPIS[21] at the start of the transition period as an alternative to using credit or debit cards. The SPIS will be a PISP (Payment Initiation Service Provider) and will be a phone app or a website checkout that will allow payments to be made by transferring money between banks (from the shopper's bank account to the retailers). This can be triggered by a money transfer app (such a Swish in Sweden[22]) or by a QR code (in a similar way to Alipay[23]). This means smaller retailers and market stall traders could take electronic payments without expensive point of sale machines. Under the UK Payment Services Regulation banks are required to accept payment instructions from an authorised PISP and so the SPIS could be introduced prior to independence to allow this service to be fully operational at the time of independence. As a bank transfer does not include card providers it is cheaper for the retailer. And as the payments service will be owned by the Scottish Government, any fees and taxes will stay in Scotland supporting local jobs.

It is not only retailers who would get paid using this service. The Scottish Government and Scottish local councils could use it to receive payments of taxes, fines, membership payments, and so on, thus saving money. For these reasons, Her Majesty's Revenue and Customs (HMRC) is introducing a Payment Initiation Service for the payment of UK taxes by direct bank transfer (rather than by credit or debit card), costing an estimated £3 million to set-up the service.[24]

There are other advantages from introducing a SPIS:

- It would provide valuable data on Scottish spending patterns in real time. The economic impact of different government measures could be analysed without waiting months for the figures;
- It would be used to fight tax avoidance by online retailers who claim a Scottish customer is paying in Luxembourg or Ireland for goods being delivered from a Scottish warehouse (all purchases made using the SPIS would take place in Scotland for tax purposes);
- It could be used by retailers to provide an alternative to ATMs, with the retailer supplying cash to a customer in return for an electronic payment. When this takes place banks would pay the retailer for providing the service in the same way they pay ATM operators for providing a cash withdrawal service. A trial service of using a shop as an ATM has been set-up in Denny (in the Falkirk area).[25]

Setting up a SPIS will not only provide a cheaper service for the Scottish high street and keep the money in Scotland. It will also 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[26]).

Debit and Credit Cards

After independence shops and websites in Scotland would continue to accept debit and credit cards. Even if there was widespread use of the new payments service there will still be card use by visitors and Scots who want to use credit cards for larger purchases or where the card holder wants the insurance that comes with a credit card purchase.

Bank debit cards are linked to a bank account. When a bank account is converted to the new Scottish currency the debit card associated with it will be converted at the same time. As banks split into a Scottish and rUK part, a new card would be issued with a new number. If a customer switches banks they would be issued with a new debit card.

During the independence transition period any credit cards denominated in Sterling and held by Scottish customers could continue to be used. Banks and credit card companies that started to offer Scottish credit cards would issue new cards, denominated in the new Scottish currency, when the old one expired (unless the customer requested a Sterling card). If the credit card company chose not to offer

credit cards to Scottish residents then the customer would need to switch to a credit card provider that did offer Scottish cards once their credit card had expired.

Pre-paid cards (cards that have a certain amount loaded onto them) would not be converted to the new Scottish currency. The money on them could continue to be used but a new pre-paid card would be required if the user wanted to load new Scottish currency onto a pre-paid card.

Standing Orders

During the transition period any standing order from a Scottish currency account paying to a Sterling account would be treated as a same currency payment and the full amount would be credited. After the transition period a standing order between a Scottish currency account and a Sterling one would be a cross currency payment and so could attract foreign exchange commission or have an exchange rate.

Direct Debits

For people on a regular monthly wage a direct debit is useful for paying regular bills (mortgage payment, rent, electricity) or a variable amount (based on mobile phone or electricity usage). However, they do not work well for people with less secure incomes since the direct debit request must be paid in full; there is no option for part payment. If the bank account has insufficient funds the direct debit can be rejected and the account holder charged a fee. So, if the account holder loses hours at work, or has extra bills to pay (for children's new shoes or a car breakdown) then they can end up in debt through paying by direct debit. As a result, some people prefer to pay directly by cash to keep control of their finances, even if the resulting bill is higher.

Pay.UK is introducing “Request to Pay” as an alternative to direct debits (Request to Pay is also being introduced in the Eurozone). Request to Pay works like direct debits but instead of the company being credited (the electricity provider or local gym) deciding how much they will be paid, the person whose account is being debited is in control of the amount being debited. They can pay the full amount or a partial amount depending on what they can afford.

As part of the transition process and the legislation setting up the Scottish currency, a right to pay for basic services by Request to Pay should be introduced by the Scottish Government to allow people to manage their finances and avoid debt.

Payment Processing and Settlement

During the transition period after independence Scotland will need to build two payment systems to process payments.

The first would be a low value domestic payment system for the instant movement of money between individual, household, or business accounts (for payments under 250,000 Scottish pounds) equivalent to the existing Faster Payments and BACS systems in the UK. This system will process payments, standing orders and direct debits and would be based on ISO 20022 payment messages. This same technology is being rolled out in the UK as part of the New Payments Architecture and is already in use by the Eurozone Single European Payments Area.

The second would be an RTGS system run by the Central Bank of Scotland for high value payment settlements (for example for a house purchase). This would be a movement of money in real time to reduce intra-day liquidity risk (to prevent banks storing up debts until the end of the day) and would only be available to direct participant financial institutions that have accounts with the Central Bank of Scotland for this purpose.

Payment systems such as this are used to support domestic payments in all countries with a national currency and it takes several years to set-up and go-live. To give an indication of the timeline, the new Icelandic payment system took 5 years to go live,[27] whereas the new Nordic P27 payment system is planned to go live in Sweden with batch payments after 2 years.[28] [29] Private IT companies (such as Sia or

VocaLink) have software that can perform the processing. Based on these comparable projects it is estimated that a Scottish inter-bank payments system would take around 4 years to set-up.

Paying People Outside of Scotland

Traditionally, paying people in other countries through cross currency or cross border payments has been expensive due to electronic payments systems being based in a single country. This has resulted in Fintech (financial technology) alternatives, such as Wise (previously TransferWise), that offer cheaper alternatives to banks. However, it is not just new technology that is making cross-border payments easier. Payment schemes are increasingly operating at a regional level. The most obvious example is SEPA (Single European Payments Area), which is a payment system for Euro payments throughout Europe.[30] Membership of SEPA is open to banks across the European Economic Area (EEA) although UK banks are still able to process SEPA Euro payments. There is no reason that real time Euro payments would not be available from Scottish banks so that a Scottish business could make an instant Euro payment to a German business, for example.

Another example is P27 which will be a real time payment scheme for the Nordic countries (27 refers to the 27 million people living in Finland, Sweden, Denmark and Norway). This will allow cross border, cross currency payments to be made as easily as domestic ones. All four countries have different currencies, but businesses often serve customers across the whole region. This could be a model for a British Isles payment scheme providing real time domestic payments across the rUK and Scotland.

At the start of the transition period all the accounts in Scotland will be with banks connected to the UK payments network. As these banks gain Scottish banking licences, they could offer Scottish bank accounts a connection to the UK payments network (and similarly a connection to the Scottish Payments System to their UK customers). This would ease trade between Scotland and the rUK after independence. Alternatively, some of the Fintech payment providers could offer cheaper services or banks could offer business customers "multi-currency accounts" where an account has sub-accounts in different currencies to provide same currency payment services in multiple currencies. Whatever solution is chosen, payments between Sterling and Scottish currency accounts will not be the expensive problem they once would have been.

Scottish Universal Bank Accounts

As we found to our cost in the 2007-2008 financial crisis, the banking system is inherently unstable. It has been designed with the aim of maximising the availability of credit for mortgages, retail spending and pursuing growth. However, this ability to lend is also at the heart of its instability; banks run out of money when the loans or the mortgages do not get repaid. The last time the UK Government bailed out the banks it imposed a decade of austerity with the associated rise in personal debt and the use of foodbanks to "balance the books".[31]

The biggest problem with the banking crisis was its speed and the impact it could have had. If people could not withdraw cash or use their bank accounts because the banks had run out of money then families would not be able to buy food, pay the rent, or get the bus to work. The economy would stop.

Following the introduction of Universal Credit, which is generally paid directly into a bank account,[32] this risk has increased as nearly everyone manages their money through a bank account. If the banks fail, the economy fails and the government will need to bail out the banks, again.

For this reason, an independent Scotland should introduce a Central Bank Digital Currency (CBDC). This would be money held at the Central Bank of Scotland, not in a commercial bank. Scottish residents would be able to open a CDBC account in the new Scottish currency. By doing this, Scottish residents would be able to have an electronic bank account without the risk of their bank going bust. This would "increase the robustness of the retail payment system"[33] by providing a digital alternative to the commercial banks. As the Universal Bank Account would be linked to the SPIS, a Scottish resident would have the convenience of banking without the risk of using a commercial bank.

This would work as follows:

- Everyone in Scotland would get a personal bank account with the Central Bank of Scotland. All payments from the Scottish Government to an individual (such as benefits, wages for government employees, tax rebates) would be paid to this account in the new Scottish currency. This will reduce the cost to the government as these payments would be internal transfers rather than payments to external banks.
- It will be linked to the Scottish Payments System and so it will be possible to pay bills, withdraw cash and set-up direct debits from this account. It will also be possible to move money from the Central Bank of Scotland to a commercial bank (for example if the account holder wanted to have a savings account with a commercial bank).
- It will be possible to pay your wages into this account.
- The account would be free to use.
- The account would not offer an overdraft and loans would only be available from commercial banks to protect financially vulnerable account holders.

By providing a free and safer form of banking it can be expected that people will want to keep their money in the Central Bank of Scotland rather than in commercial banks which could go bust. This would impact on commercial banks by reducing the capital available to them. But since the Scottish Universal Bank Account would pay no interest, savings would still need to be deposited at a commercial bank or credit union. Similarly, there would be an initial cap of 10,000 Scottish pounds in the Universal Bank Account. Any balance above this amount would attract a negative interest rate of -1 percent to ensure money is not withdrawn from the savings accounts of commercial banks resulting in a run on the banks. This is a similar design to the Japanese CBDC which caps accounts at ¥50,000.[34]

The interest rate on the Scottish Universal Bank Account and any cap on balances would be kept under review and used as a means of monetary policy. For example, if we wanted to cool down an overheating economy, the Central Bank of Scotland could introduce a savings account, paying interest to encourage people to withdraw money from the commercial banks, so reducing their ability to lend. Similarly, if we wanted to invest in the economy the money in the Scottish Universal Bank Accounts would be used as capital for investment in Green New Deal projects funded through the Scottish National Investment Bank. So, instead of the money in our current accounts being used by commercial banks to increase their profits and make cheap loans available to rich entrepreneurs, we can use our money as capital for investing in the Scottish economy to provide real jobs for ordinary people.

Introducing a Scottish Universal Bank Account will mitigate the risk of Scotland's banking sector being dominated by non-Scottish banks. And the ability to use the capital for investment in Scotland to provide Green jobs and combat climate change will reduce the Scottish Government's need to borrow.

Conclusion

During the years of austerity between 2010 and 2019 the UK Government spent £6 billion a year on building up the UK foreign exchange reserves.[35] That £6 billion a year could have been spent on education, on the NHS, or providing food for children whose parents are now dependent on foodbanks.

This £6 billion a year spending was not to support the pound. That fell 10 percent in value in a few hours after the EU referendum result, but there was no attempt to intervene from the UK Government during this collapse in value. Instead, this money provides insurance to the banking sector, particularly to cover the exposure of UK banks to foreign markets.

Banking is a risky business, so we will use independence to reform the banking sector. We will introduce a Scottish Universal Bank Account to provide everyone in Scotland access to safe and secure banking. This will be structured in such a way to stop vulnerable people falling into debt to satisfy the need for profits for the shareholders of banks. Additionally, we will introduce a SPIS to provide a payment service for the Scottish economy that works for the wider economy and not just the financial services industry.

Along with the resilience introduced by having our own currency, we will provide an alternative government-backed financial services system. This added resilience will ensure that if the banks go bust, or the card IT system fails, or a bank cannot process payments, there is an alternative to ensure that the economy can continue without another bailout to the banks resulting in more austerity and leaving millions destitute.

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