

Scale Ireland Submission:

**The Commission
on Retail Banking
2022**

ScaleIreland



Context - start-ups | scale-ups | retail banking:

Scale Ireland is an independent not-for-profit organisation and our mission is to support, represent and advocate on behalf of Irish tech start-up and scale-up companies, and to create the most advantageous conditions for them to succeed.

The start-up and scale-up sector has huge potential in terms of innovation, regional employment, exports and growth. Six Irish tech start-ups are classified as tech unicorns, and are valued at more than one billion dollars. Four of these companies gained this status during the pandemic, underlying their resilience and growth, and the global potential of their innovations.

In the broader areas of finance and banking, there are clear landscape changes taking place. We have made our submission to this consultation on the Future of Retail Banking through that lens: specifically, how can retail banking remain relevant and fit-for-purpose for the start-up and scale-up communities. These points can also apply to the wider SME community.

The Irish retail banking sector employs 22,000 people, and the wider banking sector contributes €1.6 billion directly to the Exchequer, and a further €11.6 billion to the economy each year. It is a significant component of our national economy, and also of our local economies: Our proposals aim to make retail banking more relevant to the sector and supportive of start-ups, scale-ups and SMEs.

1. Enabling Retail Banks to become more ‘start-up friendly’

Scale Ireland members have consistently expressed the view that they don’t necessarily feel that the retail banking sector caters for them. Our research also shows that there is a lower level of awareness in the start-up community around the availability of grants and state schemes.

Both points create a clear opportunity: retail banking could have an enhanced role and become more relevant and fit-for-purpose to the start-up, scale-up and wider SME communities by appointing designated start-up liaison officers in branches. That person could advise and provide vital information on relevant schemes, grants, and banking provisions. This would be very important given the resource and time demands that face founders.

Based on a recent poll carried out by Scale Ireland, as part of our State of Start-ups Survey 2022, we sought the views of start-up founders and CEOs about state grants and funding schemes. We received over 230 responses from leaders in the sector. The findings bolster the case for retail banks to become more ‘start-up friendly’ and play a greater role in the sector. For instance, 24% of start-up founders/CEOs did not know about the R&D Tax Credit, while 74% had not availed of the Employment Investment Incentive scheme and 78% had not availed of the KEEP share option scheme.

While a number of agencies are tasked with advising start-ups and scale-ups, there is a strong case for retail banking to become more relevant to the sector, and ultimately future-proof its standing with these companies. This could be achieved by having designated staff-members who can advise start-ups, scale-ups and SMEs on relevant matters.

2. Regulatory Sandbox

A ‘regulatory sandbox’ could be beneficial to both FinTech start-ups and retail banking insofar as both being allowed to develop innovative products or solutions and trial them safely within a regulatory-proofed environment.

A regulatory sandbox would allow all providers of financial services and payment systems to bring about more innovative products and solutions, which could ultimately benefit start-ups, scale-ups, the wider SME community and customers more generally. Moreover, such a regulatory initiative would enable Ireland to become a strong hub for wider FinTech activity.

Matheson’s defines the challenge solved by regulatory sandboxes: “Over the past number of years, in a move to counter some of the challenges posed to innovation by the authorisation, several countries have implemented regulatory ‘sandboxes’, an approach which is both encouraging the growth of the FinTech and giving their supervisory authorities a much more sophisticated understanding of the changing nature of financial services and firms.

In essence, the concept of a regulatory sandbox is one of a controlled environment in which firms are permitted to ‘live’ test innovations, for a defined period of time, with a ‘relaxation’ of some of the regulatory requirements to which the firms would otherwise be subject, prior to them entering the market”.

The founders of one early stage FinTech start-up articulated the positive and practical benefits of a establishing a regulatory sandbox to facilitate companies which are looking to innovate in a regulated environment.

‘The idea of the regulatory process is very daunting and inaccessible for younger companies. We believe there’s room for collaboration between the Central Bank and FinTechs. We believe a regulatory sandbox would foster innovation and would give start-ups the ability to build, test and refine prototypes. This can be done while also safeguarding the interests of consumers and the stability of the financial system as a whole’.

While a regulatory sandbox would benefit the wider FinTech sector, including start-ups, there is no reason why the broader retail banking sector could not look to such a mechanism to trial and test offerings. It could prove very beneficial to their customers, including start-ups.

3. Access to Services - Accounts, Credit, Mortgages and Debt for Founders and start-ups

As with all new businesspeople, founders and the early employees of start-ups are finding it difficult to access mortgage funding through retail banks. This comes at a time when the start-up sector is increasing in importance and expanding. More than 2,000 start-up technology companies were registered in Ireland in 2021, employing 47,000 people nationwide.

While a PAYE employee (of a multinational corporation, public body etc.) has to present six months of financial information to a bank when applying for a mortgage, in many cases a founder or early employee of a start-up will often be expected to furnish two years of financial information and, in the case of a founder, may also be asked to furnish financial information on the company itself.

As the founder of Cilter, Rena Maycock outlined on the matter in a recent article in The Currency: “The assessment of risk here is all wrong. Allow me to illustrate. If our receptionist, in full-time permanent employment at our SME, were applying for a mortgage, she would need to provide six months of payslips and possibly her employment contract to evidence the stability of her income and meet that repayment risk benchmark.

‘However, I, as the company owner, am characterised as self-employed and held to an entirely different standard. In addition to the bank statements and asset register, I must provide two years’ Chapter 4’s (P60’s in old money) which show my total earnings from all sources minus taxes; so the equivalent of a payslip – but for 24 months, not our receptionist’s six.

Additionally, they ask for three years of company accounts, company bank statements, tax clearance certificates for me and the company. And the list goes on”.

Dealing with a high level of administration to get a mortgage, and effectively being locked out of access to a mortgage for two years after founding a company is a serious deterrent to entering the start-up ecosystem and, in turn, creates unnecessary friction between traditional retail banking and the wider tech ecosystem. At a time when entrepreneurship is being broadly promoted and encouraged at a national level, entrepreneurs are facing additional challenges in accessing credit and mortgages.

Separately, there is an administrative burden on many founders when opening a bank account that causes undue pressure, expenditure, time and resources. Opening an account for business banking needs to be streamlined, and an emphasis placed on this for all participants within the system.

There should be a facility for customers, including founders, to open an account with a retail bank online, rather than having to attend in person.

Founders also experience difficulties when trying to access personal loans. Separately, founders and start-ups as businesses should also be able to access debt through retail banking. While debt is not a suitable funding mechanism for many start-ups, those for whom debt is appropriate, experience considerable difficulties in accessing business loans on reasonable terms (i.e in relation to fees, required covenants, interest rates etc.)

Overall there needs to be a reduction in the administrative burden on founders when dealing with the retail banking sector.

4. Introduction of a Payment Services Regulator

There is a need for the introduction of a payment services regulator, as advocated for in the past by a number of FinTech organisations. At present, there is potential for issues to fall between departments on matters relating to payments services between the various functions within the Central Bank. It is also clear that the needs of payment services firms, as distinct from more traditional banking institutions, are quite different. In order to ensure that each specific sector gets the required attention and focus, a review should be undertaken to consider a reorganisation of the Central Bank of Ireland directorates, to incorporate a Payment Services Regulator. Finally, it is clear that there are difficulties in relation to processing times around a number of different types of payment service licenses. A specific, focused Payment Services Regulator would be beneficial in the short, medium and long-term both to the FinTech sector, as well as to the retail banking sector.

Conclusion

Scale Ireland resides within the wider technology sector, but specifically represents indigenous high potential start-up and scale-up companies. Scale Ireland has made a submission through the specific lens of how retail banking can assist start-up and scale-up companies, and in doing so, the broader SME community.

From this perspective, we have made four clear recommendations which could be given further consideration as part of this consultation.

We believe having ‘start-up experts’ within the structures of traditional banks is a very practical approach that would also bolster the position of banks as enterprise hubs in towns and villages across the country. This would complement a growing and high potential sector in communities, and promote their growth and expansion.

Additionally, consideration must be given to the treatment of start-up and scale-up founders/ entrepreneurs when it comes to accessing credit and mortgages, opening a bank account and accessing debt from traditional retail banks. This needs to be reviewed to ensure these administrative burdens do not deter entrepreneurship, at a time when it is widely recognised that this sector has huge potential in terms of employment, exports and growth.

Finally, in terms of regulatory reform, both the introduction of a regulatory sandbox, as well as a review of the need for a payment services regulator could prove useful to allow a greater focus on the challenges ahead for both the retail banking model and the start-up and scale-up sector.

