



## Institut für Finanzdienstleistungen e.V.

Institute for Financial Services  
Institut pour les Services Financiers

4. January 1996

Dear friends and colleagues,

Our best wishes for 1996. It will certainly not be easy for all of us especially those who are working in non-for-profit organizations where government money is involved. IFF is heading towards its 10th anniversary next year. With some pride we notice that for a not subsidized non for profit organization this age is becoming more and more unusual. Indeed in May our staff of presently 8 full time employees was sitting for a financial survival training with different outlooks for the rest of the year. In September we were happy to state that most of our cuts below decent working conditions became unnecessary. We hope that some people will not take the UN declaration of 1996 as a year to combat poverty as a misleading guide to erase those who are still be able to testify that poverty exists. Such misunderstanding did cost the life of some American anti-poverty units during the eighties.

But do we really dream about combatting existing levels of poverty in 1996? We should be more modest. All we can presently hope is to combat pauperization, trying to slow down the process where unemployment, reduced public welfare and concentration of wealth on fewer people creates new and extended poverty.

While some of us in continental Europe still believe that the welfare state will be reinstated one day and people will again be willing to pay more taxes IFF focuses on questions how to integrate public, social and ecological functions into profit driven market mechanisms. We believe that markets are made to fulfill demands and that people will increasingly express financially backed demand for such goods as a sane environment, peaceful life and especially a socially just future. This of course

requires two different developments: the creation of innovative socially responsive offers integrated into traditional commodities and services on one hand and a developed consciousness among people who have personal or professional access to money spending which could be invested into such products. We are convinced that the money system and especially financial services play a core role in both aspects of this developments: giving incentives for new offers and organizing its demand. Money as a double information tool about wealth (quantity and safety of purchasing power) has to be loaded with a third factor: its social implications in spending and earning. That is why without abandoning our traditional partners in the field of consumer protection we invested much of our time and effort in 1995 into what our English and American friends call „social investment“. Our efforts in small business lending, in housing projects and banking in general even led to the conclusion that the reference in our name to „consumer protection“ would no longer be appropriate to cover the scope of our activities.

Two of us have been visiting the USA with a main stay in Chicago at DePaul University and visits to LA, Philadelphia and Washington D.C. With marvelous hospitality and help from our friends (among them our colleagues at DePaul Department of Finance and especially our friends at the branches of South Shore Bank in Chicago, Woodstock Institute, LISC, University of Illinois, UCLA Center of Urban Development, people from the Federal Reserve Board in all big cities we visited, many activists from community development organizations, and last not least bankers from big and small banks) we learned a lot about community development, small business and house financing in deprived metropolitan areas. A draft report in (pitchen) English entitled „Banking and the Community“ comparing the US and Europe was started but is not yet finished.<sup>1</sup>

Instead finished are two reports on the different systems of community responsibility in the US and Germany in German language for the German savings banks association („Ideas from the American CRA system for the German savings bank principle of regional banking“) and the German association of private housing finance companies („Experience from the US to develop housing savings plans“). The information on Small Business Lending was combined with a European survey in the report for the IRED Nord/OECD-Rome conference organized on small business financing. Its interesting contributions together with our report has been edited by us and will be published in English by OECD this year.

Our next big effort will be the forth EU-conference on financial services and consumers. Its title is „The European Monetary Union and Regional (Community) Responsibility of Financial Institutions“ and it will take place from September, 26 through 29 1996 in Strasbourg, France.

In a preparatory meeting in Brussels the end of last year different kind of organisations from development organisations to consumer and welfare organisations and also alternative banks and especially the European association of savings banks were present and have been discussing the agenda. While its plenary meetings will address the big issues of a single European currency as well as of the special role of „regional financial institutions“ our workshops will address „social investment“, „financial services and poverty“, „usury and debt collection“, „ethical investment and environmental concern“ on Friday and „housing finance“, „small business financing and microlending“, „private and public pension schemes“ and the first experience with „consumer bankruptcy schemes“ in Europe. We hope to be able to present the book on „Bank Safety and

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<sup>1</sup> The draft can be asked for at the IFF. The cheapest way would be to ask for the file via compuserve. It is written in WP 5.1. For print outs we would have to get \$50 in advance.

Soundness“ from the papers of the Bergamo Conference in 1993 as a good preparation for the participants. All information can be taken directly from our new internet pages where besides a lot of German language information and our bi-monthly „BankWatch“ some information in English and French is equally available.

Our international database on money advice MonA is slowly but steadily in progress. The database which already has more than 20.000 data sets on all kind of financial services information is widely used in Germany. With special support from DG XXIV contributions from other six countries are making the database more and more European. Different language versions of the programmes are available. In 1996 we would like to use e-mail facilities for the updating and exchange of information where the database itself would become the archive, office and communication toll for an international network of all social „stake holders“ in banking and finance. As due to smaller budgets personal contacts especially in the consumer area have become less numerous the data highway gives us new solutions which we have to use at any price. The presently still time consuming efforts in distributing and organizing information exchange between us will certainly be rewarded by the technical progress where the internet or other online services will open the world from one day to the other. When this opportunities (which are already available) spread the question will not be „how“ to communicate (and how to pay its cost) but „what“ to communicate.

We have to admit that until now not much cross national information is requested in the non for profit area. Instead this sector plays the role of warning from internationalization not using its possibilities for own developments while banks and insurance companies just do the opposite. designing, regulating and selling financial services more and more internationally.

We are presently discussing with the European Network of Debt Advice the enlargement of the database to issues like debt collection and debt recovery a business that is highly internationally developed. (see e.g. Dun&Bradstreet)

Another internationally interesting issue is the rise of credit cards in Europe and its access to consumer credit. We are presently conducting a study on the danger inherent in the new form of automatic credit supply without preliminary information at the moment when credit is taken. A campaign in Germany that was made against a joint venture between Citibank and the German Railroad where Citibank offered credit cards free of charge to all about 4 million card holders and even tried to force them into the engagement was rather successful because people became suspicious of its merits when they learned about the high interest rates of the related credit and data protection problems. According to the German Handelsblatt only 10% to 20% of the rail card holders instead of an estimated 50% accepted this offer. We are presently trying to focus on the German subsidiary of Crédit Lyonnais: BfG who offers a free of charge bank account only for people in work.. We try to show that this openly discriminating system where BfG expects 300.000 new clients, is an attack on our social beliefs where 3.5 million unemployed people cannot be neglected. We do not object to the fact that people who pay more can get more. But we have to fight all efforts in which it is assumed that certain people will never be able to bring profit to the banking industry. Neo feudalism is this Crédit Lyonnais/BfG system where people are classified to their status and not to their activity.

If you assume that iff is heading towards fundamental opposition to financial institutions you are perfectly wrong. We want to be a fair partner to the financial services industry giving them access to issues where they lack expertise and knowledge. Consumer orientation was one of the issues of our seminars with savings banks, coop banks, bank management circles and mortgage banks which took place in 1995 bringing together consumer advocates and bankers at the invitation of the iff. Especially bankers found this type of direct talks on topics on mutual interest rewarding and asked for similar events in 1996. We would like to include international topics into this agenda. The first could be for example the experience with banking ombuds schemes in different European countries. If you would be interested to join us in its preparation you are welcome.

Other internationally important questions we are dealing with are the privatization of state owned financial institutions (e.g. Postbank) and safeguards for their public commitment after privatization (see our internet press release) as well as the private financing of formerly publicly performed functions. The question how a public subsidy given as a lump sum to a development agency in deprived areas could be made a steady source of income in this area and at the same time generate more economic activity is one of such interesting tasks where we try to design a partly privately financed real estate development project. Turning tenants into owners in a more collectively organized form using individual ownership and its advantages for private initiative and tax relief but integrating it into a legal defined network of mutual and state support is another interesting task.

Our software on consumer credit and mortgage loans has been further developed. It is designed to recalculate all financial products on the market with the special aim to integrate packages into one product in order to evaluate its quality for the client (SALIS: Security, Access, Interest Rate, Liquidity, Social Responsibility) as well as the support for debtors after a contract has been made

.(variable rate problems, rebate on interest in early repayment, refinancing, insurance, guarantor protection, mortgage procedures and eviction etc) We are presently finishing a new windows version of CADAS 4.0 which with the help of the Savings Banks will organize the debt advice in the light of the 1999 coming into force of the insolvency act.

Our new and broader activities as active developers of new financial services faces us with questions how to use those instruments in large scale banking and insurance designed to lower cost for big players, reduce risks and make the products more adapted to special needs just for every day clients especially poor people. Why should poor people not use closed credit card circles to stimulate inter se activities, why should we not use hedging to cope with variable rate problems in consumer credit or mortgage loans. What is about factoring for small business and microlending. Why should inhouse banking not be used as a tool to help communities to save on cost? Especially the problems with a weaker retirement system we will face developments where ordinary people will be collectively bound together in private pension schemes which opens the world to large sums.

We think that the world of consumer organizations, welfare organizations, cities and public administration as well as the world of national and internationally active development organizations is getting closer to each other. The consumer centrals in East Germany already have to do with problems that cannot be restricted to the best offer. How can you create consumer market power if consumers have no money? How can they get money without jobs? How can you create jobs without economic development and how will economic development be possible without consumer demand? The solution for all of this seems to be investment and credit. But to push investors in the right direction we need transparency and competition. Test organizations still focus on the upper middle class egoism. They become less and less distinctive from other financial media addressing the broad public. The success of more progressive forms in environmental issues lets us hope that money and human affairs will equally develop more links than at present.

Thank You very much for Your dedication, cooperation and enthusiasm for common issues. We hope that the new ways of communication will bring us closer together without consuming the rest of our scarce time budget. We are proud to see that addresses on nearly all continents are on our mailing list from America, Europe to Israel, Malaysia.



(Prof. Dr. Udo Reifner)