

22 January 2000

New Year's Letter 2000

Dear Friends,

We would like to wish you a promising new year and an excellent 21st century and new millennium – in which we may all prosper. Thank you for your support in the past year and the trust you have invested in our ability to co-operate. For IFF it was a successful year with many new projects, an enlarged staff and promising perspectives for 2000, on which we hope to be able to build.

This millennium started with a question mark caused by the Y2K Millennium bug which kept our financial services industry busy on New Year's Eve. Has the last century been marked by short sightedness and closed horizons? Has it been typical for this last century that our banks and insurance companies - as well as the software industry - could not foresee an event that, since Pope Gregor at least, was absolutely certain? In an interview with Germany's leading newspaper on the 29th of December 1999, the 1900 born Martha Grieben declared the following about "her" century: "All things happened so quickly - just as soon as someone sat down they immediately stood up again."

Sustainability and Long term perspectives in the 21st century

◆ The word for the next century is "sustainable". Things should be managed or created for the coming generations: from our climate to our buildings, cities, living conditions, educational systems, old age retirement schemes, access to capital and communications and, above all else, equal opportunities for all people alike in the modern economy. Such directions should at the same time enrich and perpetuate individual lives and thereby overcome the briefness of a single lifetime.

◆ In the language of financial services sustainable translates into „long term“. Long-term orientation reconciles selfishness with solidarity. In the long run egoism must vanish. This is the proper response to the most stupid saying of the 20th century - that „in the long run we are all dead“ and begs many questions. How much long term thinking is reflected presently in a financial services industry in transition? Banks and insurance companies react nervously with mergers, acquisitions and imitative actions. Abrupt job changes occur because managers concentrate on wealthy clients who look to last week's performance by their competitors in order to show good results at the stock exchange next day. Continental Europe is supposed to be „over-banked“. Bill Gates predicts the end of banks while bankers themselves still believe in their future. But what will banking be in fifty years when the money system will be the unique tool for the distribution not only of wealth but of opportunities in our society?

Short term orientation in banking currently drives more and more start-ups, small businesses and low income home owners out of our credit system, welfare recipients and disfavoured groups from our payment system. Ordinary consumers are "liberated" from personal service while social organisations as well as the community are cut off from capital supply.

The new guideline of the Basle Committee, an informal meeting of central bankers proposes that our banking regulation requires external ratings for each commercial credit applicant. Due to the high cost of such ratings this would extinguish the last efforts to supply a key sector for social and economic development with credit. As in most European countries - but unlike the UK and the USA from where these ideas come - credit extension is a bank monopoly. The end of micro credit will affect the whole economy. Besides, EU-legislation has constantly raised the minimum requirements for banks affecting in particular the rising number of micro lending initiatives in Europe. (In 2000 together with English and French partners IFF will have the opportunity to study these effects with a grant from DG V.)

Short term perspectives dominate the banking agenda. The separation of consumer banking from so-called "private banking" has created new figures on banking performance identifying those who seemingly cause only losses -causing a dramatic branch closing. This affects those who only through access to financial services gain access to income and consumption, cutting them off from adequate personal advice, tailor-made financial products and leaving them with cash machines and electronic banking. This is in sharp contrast to day-trading on the stock exchange, where even ordinary customers get access to speculative information on differences between capital market rates by the minute. For day-traders the next day might as well be next year.

◆ In this context long term perspectives seem to be a luxury from feudal times. Such luxury is not permissible in times of increased competition. State backed supply of financial services in certain areas, for defined groups and ends can - as a public service - only be understood as a detriment to competition and a subsidy which contradicts the European Treaty. The European Commission is in a difficult situation when it denounces, for example, the close relationship between the State and savings banks in Germany on one hand while on the other the Commission wants to fight exclusion and unequal distribution of services in the Member States. But those who want equal opportunities cannot ignore the fact that public rhetoric may hide what are actually symbiotic partnerships between politics and big financial conglomerates in order to share power. We need a thorough and objective investigation into the social effects of banking regardless whether it is chartered privately or publicly. For this purpose we need forms of social auditing in addition to financial statements. We need annual reports comparable to those the American Community Reinvestment Legislation imposes on US banks - as we have outlined in our European study¹ which will now have a follow-up on bank legislation and micro-lending.

It is especially the UK government which has taken a firm position on the need for community reinvestment reports.² Its secretary of state, representing a special task force on financial exclusion, will report on this policy at our 5th conference on financial services on "Access to financial Services" on September 22/23 2000 in Gothenburg, Sweden (see <http://www.iff-hamburg.de> (English flag, quick-start "Int. Conference") A representative of the Swedish government and one from a leading German bank will also address the assembled audience on these issues.

¹ Evers, J./Reifner, U. (Hrsg.) Social Responsibility of Credit Institutions in the EU, Schriften des Institut Für Finanzdienstleistungen e.V. Vol. 2 Nomos: Baden-Baden 1998 (National Reports in English, French and German) (449 S.)

² see Financial Times October 21, 1999 „We have to shame banks over financial exclusion“

Securing the Fruits of Sustainable Banking

In general, rationally behaving banks and especially insurers - who by definition have to include long-term and social deliberations into their businesses - know that investment into education, living conditions of tomorrow, start-up businesses and labour intensive small enterprise as well as the furthering of social organisations or the amelioration of conditions for health and welfare are necessary to build a productive economy which is cost efficient and has many prosperous clients in a society which has little need of transfer income. Each business has started small and many wealthy clients face mishaps in their lives which may bring them into the temporary situation of being undesirable clients. In a survey undertaken by a major German bank using a sample of 1000 households, advice on future problems and their consequences for the credit contract ranked second among wealthy clients when it came to requested mortgage loan information. There is no issue as regards long-term attitudes not being profitable for our banks. Rather the problem lies in the fact that those who invest in long term relationships may not be those who profit from them because less responsible financial businesses may just use the money they save on sustainable banking by buying those clients out from the other banks.

Immortal Banks

In his book entitled "Images of Organization" Gareth Morgan has shown that modern businesses dependant on their sector of production, ends and size are organised according to ideological stereotypes: the mechanisms of a machine in an authoritarian style organisation, a biological organism in co-operative organisations, the brain for electronic industries where each worker is supposed to represent the whole, the ways of culture as a means of cohesion, a political system with parties and elections, a psychological prison or a form of domination. For industries in transition to which we can presently count banks and insurance companies the author identifies a long term desire to survive the turmoil they are going through: "We can understand organisations and much of the behaviour within organisations in terms of a quest for immortality." (p. 213) "The whole process of organising lies in the realisation of one's own identity." (245) His advice for businesses in transition who want to keep up a steady image for their employees as well as their clients in a moving environment is: "Think and act systematically: more self-reflection, less self-centredness." (246)

In spite of short term pressure, long-term and social commitments for sustainable banking are therefore vital even in a rational management strategy of today.

All depends therefore on the question of whether we can help to protect long term committed banks from short term pressure and failure in a narrow minded environment.

Research Approaches for sustainable financial services at IFF

In this context we have tried to define our work at IFF in 1999 in identifying four areas of action in which costs can be inflicted on those who seek short term profits to the detriment of social banking, to allocate resources where promising developments are visible and to pay attention to the issue of social responsibility in banking:

- (a) Consumer awareness for sustainable banking
- (b) creativity and responsibility at the supply side
- (c) critical control by the public
- (d) regulative and compensatory state action.

a) Consumer power

In 1999 a major activity undertaken by IFF consisted was that of supporting consumer "unions". Through our service agreements we answer questions and supply expertise and so allow consumer advice organisations the possibility to enter new areas and consider to new issues which they often simply do not have time or the expertise to answer. With legal exper-

tise on loopholes in consumer credit and payment legislation in Germany, on Citibank's policy of discriminating in consumer credit by applying different interest rates according to customer income levels, on the consumer impact of the UCIT (liberation-) guidelines, on the consumer policy programme of the banking directorate of the European commission in a hearing of the European parliament and 70 smaller expert reports on consumer related issues in financial services we have tried to allocate legal costs where suppliers try to exploit a lack of education or ignorance about the law and short term attitudes.

FIS-Money Advice has also played a major role this past year. Our free internet data base (<http://www.money-advice.de>) with its 27.000 data-sets is an updated archive for all kinds of sustainable financial advice and research. In 1999, despite the international sponsoring from the EU commission having been interrupted, we have nevertheless managed to sell the first two sponsorship spaces to the German Postbank and the HUK Coburg Insurer. This is the first time in the history of consumer protection that private financial services providers have made information available about themselves in a standardised form - elaborated together with IFF. We want to enlarge this form of sponsoring to the international level next year and thus provide financing for our partners in other countries. If the Commission accepts this challenge we will be able to reappear in a totally modernised form on the internet and thereby concentrate all our resources. We hope that many more organisations in Europe and America will join us to this cooperative data-base designed as a gateway to sustainable banking on the internet.

A major event in September this year will be our International Conference in Gothenburg, Sweden where with the support of DG Sancom, the Swedish government, and various banking organisations we will be able to bring together important representatives of the social and the financial world in 8 workshops and four panels.

In spring 2000 we are looking to explore the opportunities which US private law provides for the incorporation of public goals into private financial services. We hope we will find interested partners at New York University Law School, where this research will be conducted.

At the present time the increasing financial constraints being imposed on consumer organisations all over Europe is cause for concern. Nearly all publicly financed consumer research in specialized agencies is running out of funds. While on the one hand the European Commission favours self-regulation with the participation of consumer organisations in areas such as mortgage credit or payment cards - where high levels of skill and expertise are required - it does not provide for an adequate remuneration of such services consumer organisations provide for the public. In this respect such policies which address inadequate participation potential seems only to disguise a factual shift of State power to the suppliers. The UCIT regulation was a questionable example of "closed-shop" influence of investment funds on EU-regulation. The „Action Plan for a single financial market“

(<http://europa.eu.int/comm/dg15/en/finances/general/action.htm>) has a similar approach of a European maximum consumer protection standard being sacrificed for the single market. "Money advice" and debt counselling organisations face similar problems. With a project on stages of social sponsoring, IFF has provided a handbook on how to proceed at a local level to get support from creditors who profit not only from debt advice but can also earn a better image and market profile through support and co-operation.

And with our project on "financial illiteracy" we are aiming to strengthen the general level of consumer knowledge on financial issues. The withdrawal of the welfare State and the ever growing importance of financial services for retirement schemes, education, income creation, housing and communication will create a new class of illiteracy whose members may still be able to read and write but not communicate in the economic environment. This leaves large parts of our financial economy without control and opens the door for fraud and short term profits. We will not focus on the traditional educational sector but wish to explore opportunities in everyday life where low income households are faced with financial information and forced but also are enabled to learn. This may be with the supplier, in front of their TV-set, in debt counselling or through a telephone call to their consumer or other social organisation. Adding

to and enriching such procedures through financial education may be more promising than piling up another million leaflets and books in the cellars of banks and government agencies.

b) Creativity of Suppliers

Long term commitment requires an investment of time, ideas and knowledge about the social environment of financial institutions. At the margins of the financial and social sectors, go-betweens are needed to channel ideas and opportunities from one sector to the other. We started our social investment projects some 6 years ago when these words were still unknown in Germany. In the meantime a major part of our research has focussed on micro lending and its forms of implementation - on a European level for the ILO and the European Commission as well as on a national level together with a major German bank. With a grant from the Volkswagen foundation we have also investigated the role of financial "adjustments" in small business failure.

At this moment I should remember the generous support we received in the beginning from Joan Shapiro - at that time senior vice president at South Shore Bank Chicago - who helped us through her numerous visits to Germany and by showing us around the US. Without her ideas and enthusiasm we would not have dared plunge into this field. We have also had the pleasure of meeting other great women involved in social banking especially Rosalind Copisarow from Fundusz Micro in Poland, Maria Novak from Adie in France and Elaine Kempson from the Personal Finance Research Center in Bristol who all demonstrate (to a male dominated banking world) that a sustainable "money business" may necessitate not only new ideas but also different criteria for selecting personnel.

In our forthcoming "**Best Practice Competition**" for ideas, products and services which ensure access to financial services for the conference in Gothenburg all providers of financial services - as well as social organisations - are requested to participate and maybe win an award. The conditions for this competition can be requested from the IFF. Consumer and money advice organisations are equally requested to send us examples of their vigilance on sharp practice - where certain groups or neighbourhoods are discriminated against.

In some consultancy projects with financial services suppliers we have tested the quality of advice and counselling tools as well as developing ideas for mini-outlets which may help to keep up a local presence in difficult environments, the internet appearance and developed a new product following the idea of a reverse mortgage for retirement plans.

c) The Media

The media is of paramount importance in maintaining long term interest and control to the demand and supply side as well as to the political sphere. The increasing amount of financial information in newspapers, television and specialised journals requires a level of sophistication and knowledge which we can partly provide. The number of requests to the IFF from journalists has risen consistently. With advice, fact checking and our own analysis we are to a large extent a public agency in private form. With our first regular television appearance on Wednesday afternoons we hope to learn just how the supply of directly useful advice to the public is necessary in guaranteeing the elements of financial education for a sustainable future.

d) The State

The last year has seen us heavily involved in questions concerning consumer bankruptcy procedures. One project comparing the practical achievements of three debt counselling agencies in three different EU Member States (UK, Austria and Germany), the development of our CAWIN software into the leading German debt counselling software as well as our participation in a number of meetings where the new scheme and its strange reception by the German legal system and the Courts has led us to a new project which will evaluate the problems which have arisen in out-of-court debt settlement practices.

Political consultancy has also increased. From the European Parliament to parties and government agencies from different countries, many opportunities have shown us that the political decision making process lacks expertise and autonomy in the increasing role the State plays in European banking and its regulation. Many of the experts come directly or indirectly from the supplier side and far too often voice only short term concerns. Members of Parliament seem to overestimate the technical difficulties of financial services regulation which is analogous to financial mathematics: in spite of difficult formulae and wording, money is never more than income and payments in a certain time with a defined risk. The normative settings are often quite simple and many politicians are able to participate. But they are also often hidden under artificial language and behind mathematical veils - which can be lifted.

About us

IFF has expanded further and now employs 9 fulltime members of staff, together with its "student help" of 18 employees. The turnover has reached €1 million. We are happy that we have no changes in staff other than the addition of Helga Springeneer as a lawyer. In fact we will be looking for at least one more economist this year to cope with the number of projects.

I should note, as a final comment, that nearly all of us have worked in international projects - where Stefanie Jack (stefanie.jack@iff-hamburg.de) is in charge of co-ordination including organising the Gothenburg conference.

Thank you very much for helping us in our work, for the magnificent co-operation and for the trust you invest in us by. We also thank you for the occasional critique which helps to keep us on our toes.

On behalf of all IFF's collaborators, I offer you our best wishes.

Yours sincerely,

Udo Reifner