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New Year Newsletter 2006

Dear friends and colleagues!

For 2006, we wish for you and ourselves that trust between people may become an economic force. We should use financial services to build trust, which will enable greater co-operation, reduce costs and raise productivity. Mistrust and the search for security destroy both the basis of our common humanity and our economic strength. This will also be the theme of our Brussels conference on 28/29. 4. 2006 on "responsible credit", at which you will all be most welcome.

Apart from the basic trust a child feels for its mother, trust between people represents a new historical opportunity. Historically, it was the territory of supernatural forces and the community. People were exhorted to "Trust in God", otherwise they were "building on sand". Mistrust of strangers ("make sure you know who you are dealing with") was a civic duty. It was duty and sentiment, not trust, which provided security and guarantees between people at a time when even brotherly love was still a commandment.

1. Security through differentiation and exclusion was part of the centuries-old tradition of communities. Family, ethnicity and membership of a nation gave us proximity if we belonged and were able to fit in. If we did not belong, as was often the case for Jews, Armenians, for Bahai or Sinti people, the opposite was the case. This proximity was lost for some with the advent of the market society, but for the outsiders it presented an opportunity for escape as the extended family disappeared and the nuclear family became a stage in life, driving people from villages into cities and foreign countries or offering them freedom there. Homo mobilis, a wandering, directionless individual, lost alternately in his ear-phones or deep in conversation, apparently with himself, using his mobile phone to orchestrate his relationships with an increasingly abstract world, has replaced homo stabilis, who had learnt to be politically correct and to worship his chains. Lone parenthood, or so it would appear, has become the hostage, rather than the blessing, of our time.

> Our research into overindebtedness in 2005 for *SCHUFA*[1]'s *Schuldenkompass* was our first opportunity to evaluate iff data lying dormant in the money advice software. The surprise finding was that lone parenthood was the primary risk factor for insolvency. Being alone is an economic problem. Living demands constant expenditure and is full of unforeseen risk, but the market economy provides only an increasingly changeable income. What is overall a sufficient income lets people down at the crucial moment. Some people call it the loss of secure employment and the risk society, others refer to it as flexibility and entrepreneurship. Living with someone, on the other hand, evens things out. An economic community (as opposed to having a partner who lives round the corner) provides a cushion against

[1] Schutzgemeinschaft für allgemeine Kreditsicherung – credit reference organisation

fluctuation in income and makes it possible to continue to service debt. Overindebtedness and being alone are a lethal combination, and children of course make the poverty of the person living alone worse. Our Scoring Systems failed to pick this up when they only took income and credit history into account.

2. Do we want to fight against being alone by using family guarantees for instalment loans, or peer-lending for micro-credit to force new communities into being, or even looking on traditional, feudal communities with nostalgia, which 20th-century ideology tried to make palatable for people with its neo-feudal systems? We could also re-activate the "lifelong nuclear family" and double the tax advantages for marriage, so that lack of children is at least compensated for through a wealth of artificial communities. People do not need that. Money gave them individual freedom and money will also provide them with the opportunity to develop new social constructions. That is because money has made it possible to make contact with everyone throughout a globalised world, to enter into contracts with them and to work together. Financial services offer the tools for using this raw material to overcome the loneliness of individualism through the creation of trust. We call this "the responsible use of money".

3. *Using money rather than having it,* is the slogan on iff's brochures. Having argued for "Access to Financial Services" for all in our 2000 conference in Gothenburg, we narrowed this down in 2005 to the danger of overindebtedness. Only "responsible credit" (http://www.responsible-credit.net) should be available. Only that type of credit creates trust. In our credit advice conference on 17/18.2.2006 at Hamburg University, our sub-heading was "speaking together, learning from each other". Our aim was that consumer advisers, money advisers and bank-customer advisers should discuss the basis for the creation of this sense of responsibility in order to build a new form of trust. The Hamburg conference was, like the conferences in 10 other countries, in preparation for our major conference in Brussels on 28 and 29.4.2006.

In 1991, Swiss law took the concept of "responsible lending" from Belgian law, and it was copied by the European Commission into its two draft Directives in 2002 and 2005, although it has now, apparently, been discarded again. This principle was, however, deceptive packaging. It was intended to convey responsibility against, rather than for, credit. Borrowers without sufficient resources were excluded. They were not accorded the opportunities provided by the credit society. It discriminated against business loans to consumers, for whom loans makes it possible to earn an income. This ideology goes back to the patriarchal 19th century, in which credit was only a means for turning another asset into liquidity, not for providing opportunity. Ordoliberal concepts of decent, debt-free folk suggest that it is not the cancellation of credit and products which cannot be adapted to difficult life circumstances which cause the misery of overindebtedness, but rather loans which should not have been made at all. The fact that we all begin our lives with a "loan" from our parents, and that money loans are merely the liquid form of a general credit-society principle, eludes these gentlemen.

The EU principle of "responsible lending" need not, however, take the form of disregard for privacy, data protection, readiness to take risk, and thus responsibility "before lending". It can also introduce "responsibility during the loan", whereby a lender is under an obligation to concern himself with the success of the loan for the customer after the loan agreement is concluded as well. There is little interest in this concept in Brussels, which is dedicated to the market. Rights of withdrawal are to be eroded. Costs continue to lack transparency. The written form will be abolished, the Internet opened up for credit, and the products of unqualified and barely supervised foreign providers will be let loose on home markets. This neo-liberal tendency shuns responsibility and is discriminatory in nature.

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4. The opportunities latent in money are not made available by every use. They have therefore long been no reality for all. Money can be a catastrophe in the hands of the sorcerer's apprentice, as we saw in Goethe's magical broom, which we referred to in last year's Newsletter. But it is not the broom that creates the mischief, and nor is money the source of exploitation and exclusion. Money creates contradictions, and it also provides the opportunity to enjoy individual freedom, the fair distribution of opportunities and the concept of human rights derived from the distribution of uniform money. But it cannot be left to its own devices. The instrument of financial services can tame a devastating money tsunami and turn it into "productive" use for everyone. But to achieve this, lenders must also look and perhaps indeed feel where and what their loans and investments are doing. The stream, the second element on our iff brochure and the title pages of our reports, means that we want to use the river of money in a carefully constructed irrigation system to water the whole country.

> In his fairy tale, written in 1933 and filmed in 1985, "From the Golden Thaler", Hans Fallada makes the grandmother (Hans Fallada, Tales from the Murkelei, Aufbau Verlag Berlin 8th edition 2005, pp 80f) repeatedly impress upon the orphaned Anna Barbara, "Yes, child, if only we had the golden thaler," as the protection against everything evil (p 80) After the grandmother's death, the child embarks on the search and ends up with *Hans Geiz* (Miser), who, deep in the earth, watches over a fortune in useless gold, silver and money with his dogs *Envy* and *Greed*, while his white horse *Despair* freezes in the winter snow. He promises the "golden thaler" to the girl if she polishes three rooms of coins and finds him the one which will bring him freedom and prosperity. But how is it possible to distinguish between good and bad money, when even Nazi money could melt away from the concentration camps and turn up unidentified in Switzerland?
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> Hans Fallada's parable can perhaps help us here. The cleaning-water elf lives in the cleaning bucket, and is one of the people searching for the golden thaler whom Hans Geiz has bewitched and who pesters the girl with his marriage proposals. Ultimately, the poet, whose suicide pact with his friend at the age of 18 ended in tragedy, makes trust in this ugly gnome help the girl to overcome her own suicide plans. She goes on searching, heeding the advice of the ugly gnome, to whom she has given her trust: "Just listen to your own heart and perhaps it will tell you where the right golden thaler lies." (p 99). In the end, she finds it hidden and covered with stains, which she cannot remove with the cleaning water. They both discover that the stain of the miser can be removed with the tears of despair and the bewitched gnome-cleaner then becomes a shining knight when he receives a kiss of gratitude. The coin, first discovered in the cellar of human darkness by the heart and through tears, then cleansed with trust and love to become the elixir of life, casts a spell on the blood-hounds, overcomes the miser and is used by *Anna Barabar,* the gnome-cleaner and the horse *Despair* in the grandmother's house. "And there they lived happily ever after, because they had the golden thaler. Whoever owns it, stainless and shining, will always be happy." (p 106).

The thaler was good, because they used it differently than Hans Geiz with his dogs *Envy* and *Greed* had done. It is the use to which money is put that determines whether it is good or bad money. Both options are available to everyone in today's financial services, be they investors or borrowers.

5. If you want lay customers to understand banking business, you must first understand lay customers. In 2005, economics editors und newspaper correspondents were in serious disagreement as to how public confidence should be created.

> A man from Deutsche Bank who according to a respected English newspaper, was the most successful banker of the year 2005, with a 26% return on equity capital, was depicted by a professor in criminal law at Marburg University, in an article carried by the *Frankfurter Allgemeine Zeitung* of 9.1.2006, as blind to the law and a supporter of "shameless profiteers"

"*Nach Gutsherrenart verteilt*"). In two half-page interviews in the *Bild* tabloid (the last one of 20.1.2006 - "I am being encouraged by everyone to carry on") he attempted to resolve the contradiction himself. Is it indeed e to be disloyal to a business by proving his loyalty to its shareholders through intelligent payments and increasing the value of their shares, as the *Bundesgerichtshof* (Supreme Court judgment of 21.12.2005 ref 3 StR 470/04) sees it? In his view, the "special payments in the actual circumstances of a resolution for a takeover were of no benefit to Mannesmann AG" (reference no 27 of the judgment). "The premiums for appreciation reduced the assets of Mannesmann AG without compensation," it went on. Because the resolution for the payment took place after the sale, it was of no benefit either to the business or to its shareholders. Everything had just been decided too late and had only happened as a result of public opinion, which would deprecate the purchase of a decision?

The Paris newspaper "*Tribune*" considered that the judgment had, in general terms, come out against Board actions and self-serving management, which had gone beyond the pale. The *Neue Zürcher Zeitung*, on the other hand, detected "state intervention and undermining the economy" and the economics section of the *FAZ* of 2.2.2006 focused on the economic success for Germany. The German supreme court and large sections of the press, however, sought to complain about more than the timing. "Dr Esser had known beforehand that the resolution would be forthcoming", the BGH correctly held (reference no 46). But the subsequent resolution had been the reason for the increase in share value. The BGH, however, had no intention of rewarding that. It asserted wrongly that "the voluntary special payments were of no benefit to the shareholders" (ref no 27), but went corrected himself when he found: "the level of the special payment for the Defendant Dr Esser, which was exceptional in the German economic area, had been neither discussed thoroughly nor given reasons by the members of the Board, indeed they followed the proposal by majority shareholder Hutchison Whampoa Ltd, agreed by the takeover company Vodafone, whose interests were obviously in conflict with those of Mannesmann AG." (ref no 44). Does the company now belong to the state, and not to its shareholders?

Similarly the Braunschweig Court of Appeals rejected the claim by a shareholder in connection with the scandal concerning the luxury holidays of top managers at VW. It held that the shareholder did not suffer "significant" loss from the dishonest actions of management. That is certainly not the successful assessment in terms of competition. Do the courts have power to judge company programmes? Is the person concerned, along with the *Neue Zürcher*, right to say that he "remains convinced that he had done nothing wrong"? (Bild p 2). In any event, there is a positive concluding sentence: "After all these experiences, I have recently become more sceptical and more critical when I read something about other people. I now always ask myself whether it is really like that or whether it is not quite accurate in its portrayal." Bankers must indeed assume that there is more than one "reality" and that perspective and interest intervene, just like the renowned controversy over the years about positivism in the context of sociology. But then, inspiring trust means developing an ear for the reality of others. Consumers and employees think differently from investors. From their perspective, they would be unable to run a company. Nevertheless, this perspective is no less significant than is the opinion of the patient for a doctor.

6. Banks have taken on the task of managing the money of others. They do not own the money themselves. But managing money does not mean ruling the world, it means offering a mechanism to make the world governable at all. Money is therefore necessarily abstract. You cannot see where it comes from and you do not know where it goes: Pecunia non olet: "It has no smell". For that reason it is also irrelevant that Vodafone wrote the payments off as a loss and will avoid paying the German government any tax for the next few years. If you were to try to interrogate money as to where it comes from and where it goes, as the Swiss finance critic Jean

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Ziegler ("Swiss Whitewash and Dirty Money, and Laundering by the Swiss Banks, 1991", "Swiss, the Gold and the Dead", 2002) asked, Swiss banks would float in a sea of blood and tears. But money cannot fulfil its role if we hang the postmen and journalists who bring the message as responsible for its contents. Herr Esser offered to sell his power to prevent the merger. The Board of Directors weighed up the advantages and disadvantages correctly and made a deal. The bank takes responsibility for ensuring that the money is applied as instructed, and that it is not depleted.

> Apparently, however, the public expects more than this. It wants to see meadows blossom and fields flourish from credit ("Community Reinvestment"). It wants to be sure that dirty money is separated from clean money and that money launderers are banished, and to be able to link savings with ethical objectives. That is irrational, and why German banking regulators opposed ethical funds for a long time. But it is no longer an impossibility. Money does not now take the form of coins, it is electronic information. We can now establish where it comes from and where it is going. We can demonstrate ultimately from where the payments to Esser came because, as is well known, the capital markets neither lose nor gain anything, they merely move it around. It is the same for banks here as for Internet providers in China. Should we stop rivers from flowing because there are floods? People, like those in the fairy tale, who want money to be washed clean, disrupt the economy. But does that mean that they are wrong?

Banks now reflect upon what Corporate Social Responsibility means when it is applied to Shareholder Value. Ethics as a concept have become linked with banking. We wanted to conduct research into this with a professor in bank management, who took the shareholder approach as a starting point, a professor in institutional economics and a legal sociologist. The 100-page application failed to find favour with the VW Foundation, because it was not seen as involving any "commercial innovation". Perhaps it would reduce mutual lack of understanding if more were known empirically about what is seen in practice as ethics in communications about money in the course of bank business.

7. Trust means allowing partners to choose their own means and methods. Business demands this from government. But does it apply the same principle to its customers?

> The General Terms and Conditions applied by the banks, together with the new draft European Payment Directive, work on the assumption that, where sums of money are fraudulently withdrawn from a person's account, that person is an accomplice. He must prove that he has not given his PIN number to someone else. If a person applies for personal bankruptcy, there is currently an assumption in the USA, and possibly soon in Germany, that he intends to deceive his creditors. He must demonstrate his willingness to pay by paying minimum amounts. If a disabled person trusts another with access to his cashpoint or his Internet bank account, he is in breach of contract. If someone deposits a fairly large sum of money, he is suspected of money-laundering. If a person overdraws on his account, his bad faith is addressed through enhanced interest rates applicable to provision of an overdraft and, in the recent case of Commerzbank, through additional transaction charges and, in the eastern Länder, with increased monthly inclusive charges. If a person notifies a claim against their insurers, they are treated initially as insurance fraudsters. People who barricade themselves into their houses in order to save money for household contents insurers, and people who promise never to allow anyone else to drive their car are rewarded with lower insurance premiums. People who do not yet have any credit are trusted as little as people who have applied to five providers, because they have no credit score.
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> Trust is penalised, mistrust is rewarded. We now spend 20% of Gross National Product on security, ie on a substitute for trust. Institutional economics calculates for us the economic cost of mistrust. Lenin's frightening saying, "Trust is good, control is better", which enabled

the development of the secret police, trips off the tongue even of liberal business managers. Mistrust is legitimate and is now the justification for numerous additional costs. Mistrust has become the greatest destroyer of productivity. If you observe the scale of wasted security personnel, and not just in Manhattan, you would have to consider the employment of the people rearranging dust in Huxley's "Brave New World" as productive. Our social bureaucracy is not concerned with uncovering apparent scroungers. The public craves proof that everyone is cheating everyone else. 300 pages of regulations governing small research grants brand applicants as suspects. The contract is not granted on the basis of the quality of the proposed research, but on whether that suspicion is allayed. ING-DIBA was, according to its own publicity, chosen as the best Internet bank, and in November 2005 cut off access to clients using the independent Quicken software. Angry customers, who had been using it to run several accounts and to calculate their taxes, were directed to manual entry with special and supplemental questions on the bank's Internet portal, with its heavy advertising. The reason given for this was the prevention of Phishing. Paradoxically, it was suggested as an alternative that customers should entrust the bank and other providers with their financial transactions through credit card payments, direct debit authorities and standing orders. It would have been less costly for the economy if the actual instances of abuse were dealt with.

8. An economy based on mistrust leads to the concentration of power and cartels. Customers are expected to understand that banks alone can prevent abuses. Customers must therefore do everything the bank says. Do people willingly trust them in this way?

Crises in securities and the campaign to get rid of retail customers have brought poll findings on trust in banks in Europe to a new low. According to a survey published in Great Britain, the majority does not trust banks to be fair where there is a conflict with its own interests. Following self-serving investment advice in relation to junk bonds, the failure to adjust variable interest rates in relation to savings, loans and mortgage agreements, unidentified delays in value dates in the accounts of small businesses, excessive charges for changing pension scheme providers, self-serving calculation methods in relation to buy-back values on insurance for outstanding loans, already excessively expensive and with their own hidden provisions, which are suspected of being extortionate, excessive pre-payment indemnities and fees for the effect of third parties on the account – all these factors have lost many providers an enormous amount of the trust that had been built up over centuries. The banks, which had made an enormous effort, often considerably to their detriment, to earn and win back the trust their customers had vested in them, lose out when one bank, for example, instead of comparing apples with pears, compared mortgage loans using pre-payment indemnities with repayment mortgage loans. Banks lose out when customers assume that banks collectively exploit the guilelessness of their customers through their parameters for calculating losses, just as the recently PEX index which the Supreme Court ruled to be arbitrary and unlawful because they put together themselves in order to earn more indemnities.

If consumer autonomy becomes a security risk, the market economy can no longer function. A prerequisite of the market economy is contracts based on trust, to which both parties will adhere despite having no prior knowledge of each other. If we give the status of economic religion to mistrust, we will have to punish breaches and ensure compliance with guns. For that reason, all private law, throughout the world, demands even more trust in connection with contractual dealings. The "Emperor's Clause" (Arthur Leff) in civil law obligations is the principle of "good faith", doing what is "conscionable", known generally since Roman times as "bona fide". Withdrawal of basic trust from partners in the market and the state, as one of all the necessary checks und balances, means joining ranks with those who see parliamentarianism and the market as a dangerous invitation to anarchy, rather than a means for the free expression of the individual.

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9. Financial services can build trust. They are means of substituting feudal obligations and barriers in society with measures for building up trust. Lending binds people to each other and enables mutual aid and trust. GLS bank Germany puts "giving, lending, and gifts" on the same level anthroposophically and seek to find an alternative to interest as a driving force. There is no need. *Credit* institutions are literally spenders of trust (from the Latin *credere*, to believe, trust). When we give someone *credit*, we believe him. If someone loses credit, we mistrust him. It was only possible to acquire the capital needed for major investments because the first banks gained the trust of investors, which was co-operation between strangers for the same ends. This trust enabled the economy to grow.

> Many bankers, who base their ruthlessness towards debtors on the trust of their investors, have failed to notice that trust is now needed towards everybody. In making payments, the ordinary consumer also relies on his income being conveyed in accordance with his instructions, on time, without someone helping themselves to fees, in order to pay his bills. Private pension schemes require even more. This is where financial service providers need trust the most, so that they can fulfil their social function. In order that citizens can make the sacrifice of saving for a pension, they need certainty that they will receive an adequate pension from their pension providers, sufficient to meet their needs. Insurers have always sold trust in the fact that they will be there in their customers' time of need. But it is lenders who need trust the most now.

10. It is now lenders who must be creditworthy. But according to the banking theory of adverse selection and moral hazard, lenders are condemned to trust their borrowers not to misuse the loan. Ultimately, the lender gives capital to the borrower, trusting the borrower to pay it back. That was the position in relation to the concept of the loan in the old version of § 607 of the German Civil Code, prior to the legislation of 2001 reforming the law applicable to debt, which stated that repayment was less significant than the payment of interest.

> The image of a bitterly disappointed lender, waiting in vain for his monthly payment from a feckless borrower, haunts bank advisers and the letters from collection institutions, despite all empirical research into the causes of overindebtedness and its relationship to income. Of course there are feckless men and women who fly off to Miami on credit and live there on welfare cheques from at home. But they are not employees, nor are they typical of families for whom unemployment, reduced working hours, reductions in pay, marital breakdown, sickness and accidents intervene as acts of fate and ruin their liquidity. Default rates of less than 1% are characteristic of most German consumers, demonstrating that they are trustworthy despite the most lamentable circumstances. Credit fraud, in the form of false declarations of income at the time the loan agreement is made, alleged by dubious lenders in their payment reminders, is not infrequently the expression of the nod and wink given to set the loan up, in which the seller wanted to make the loan at all costs. The stated intention to build a loft extension as a fictitious way of raising the limit on the loan was the adviser's idea.
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> Germany and France retain a remarkable level of trust among borrowers which is the envy of Anglo-Saxon countries. In the USA, 30% of student loans remained unpaid before. Meanwhile, harsh collection methods, which we described in our report on solidarity forms of private student finance for the German Savings Banks foundation, brought the level down to 13%. Extortionate interest rates on credit card loans and payday loans take the place of current account overdrafts, which are a cheap form of small loans provided through solidarity finance, and which can easily be monitored. The fact that the American Congress, under pressure from the credit card industry, which generates over 70% of overindebtedness, has virtually done away with the statutory right of small borrowers to obtain release from their debts, is merely the echo of a product and its sales methods which actually invites abuses like

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pyramiding. Overdrafts demonstrate that it can be done differently. This is one of our contribution to the International Coalition for Responsible Credit, established by us and the National Community Reinvestment Coalition in the US.

11. Borrowers who are no longer trusted by anyone do not feel under an obligation to be trustworthy. Where advantage is taken of people who have nothing left, because they have become defenceless, as in the truly pitiless ideology of predatory lending, consumers respond with the same logic – take what you can get, before someone else gets there first. Credit card fraud, wangling loans through devious means, abuse of consumer bankruptcy, use of one credit card to pay another, concealment of assets from creditors, all are the expression of a world of mistrust in the credit society. The European Commission, in so far supported by the Round Table of the major European banks (2006 Memorandum, "Consumer Protection and Consumer Choice") is in the process of promoting liberalised structures for the provision of small loans in Europe, through the principle of mutual recognition and total harmonisation, or total de-regulation, and through the abolition of the use of the monopoly of the banks to ensure quality standards in credit provision. It will be impossible to get rid of what develops as a result.

12. Borrowers invest trust in banks. Credit transports future income into the present. I entrust part of the wages and income I expect to receive, in order to support my family and our children, to the bank in the form of monthly instalments, which return with interest what the bank advanced to me as capital.

> Just as I entrust my goods to a haulage company and hope that it does not damage them in transit, that it will take what they are into account, I also entrust a significant part of myself and my family to the bank. It is not my money, because I haven't obtained it yet and I can't even be certain that I will have it in the future. I transfer my living to the bank under a contract. With that living, I also place part of myself in the hands of the bank. "House and home, man and mouse, wife and child" are what I stand to lose if my loan goes awry. Money advisers know what I am talking about. 4.5 million households are affected in Germany, one-third of all borrowers fall into arrears or difficulties at some point and may well feel threatened as a result. Where the finances don't add up, the family stops functioning, the children take second place and home and work are put at risk. These are not isolated cases. These cases are an inextricable part of the financial transport system and are much more frequent than the accidents in passenger transport which we so fear in the form of aircraft accidents, bus and railway crashes. We have developed a vast array of state protection against misconduct by carriers and transport providers. Driver's licences, strict liability, countless regulations and inspections. A driver, who carelessly endangers the life entrusted to him, has no hope of public sympathy. He is unworthy of the trust placed in his profession.

A bank which automates loan cancellations, reversing the commitment to make available future monthly salary payments, behaves like a carrier which unloads the goods halfway. The debtor's future and family are ruined, all because he is unable to pay two instalments, with the result that he is now obliged to pay back the balance of the loan. Protection against termination, which is taken as read in loans in the form of materials and labour under housing and employment law, is alien to loans in the form of money, which gradually fulfils precisely these relationships. Before we come to the point of legislating in this context, which also burdens the relevant markets where it serves no purpose, providers should consider how they could secure liquidity instead of acceleration of instalments, the customer's cashflow before his balance sheet. iff has encountered interest in its proposals that insurance in respect of the outstanding balance on a debt could be substituted with insurance in respect of liquidity.

13. European law in adjacent states can provide ideas in this context if the EU can be restrained from laying down a concrete jungle of credit legislation instead. David

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Caplovitz, the father of research into indebtedness, wanted to mount a claim against banks for the destruction of the American family. His manuscript on compulsory insurance for no-fault missed loan payments is in the possession of iff and has not yet been published. There are beginnings in the law. The duty of bankers to discuss the problem with borrowers, the prohibition against profit from re-scheduling debt or new thinking on insurance for outstanding loan balances with a view to protecting the customer's liquidity, rather than the loan balance, and enabling his economic survival. There are limits to usury and interest rate caps, which operate as a guarantee of productivity for individual households. The EU and the Round Table, on the other hand, want to see unregulated credit cards available over the Internet at the click of a mouse, merely because they are cheap and allow for economies of scale, without taking into account the social devastation wrought in the USA and the UK. The Round Table still only knows of three principles in Europe: information, advice and complaint. Would that have enabled us to develop the railways as a safe form of transport? People who think too short-term do not earn trust. The way back from eating at table to eating at the trough, from love to sex, from pleasure to addiction and from credit to lending money is inevitable. We can do better.

14. 2005 was a difficult year for all of us at iff. Invitations to make public tenders in the area of consumer protection and socially adapted financial services were not forthcoming from Berlin, from Brussels or from the foundations. DG SANCO indicated that consumer-based institutions could not be given any further commissions because they could not guarantee scientific independence. It was replaced by research into innovation that pays, and calls for tenders that presuppose knowledge of the banks' internal figures. Prolonged preliminaries and then an extremely short period to do the work – research as management consultancy for government. Are the English management consultants, who are now doing the work, more independent? What the mistrust society costs small businesses in terms of overtime, nerves and lost pleasure in productive work is illustrated by the following short report, which you may wish to skip. In any case, 2005 was also a year of auditors (5 inspections) and applications.

> Two people from the tax office spent 3 weeks with us, always leaving punctually at 5pm. They discovered that non-profit research projects financed from public funds five years ago, in respect of which all participants had assumed exemption from VAT, were retrospectively subject to VAT and they threatened recovery of €70,000 . €6,000 remained for us. No-one knows now which projects with the government and public authorities are subject to VAT. This threatens the survival of non-profit organisations. A team travelled up from Brussels for 3 days in order to establish that a flight was made in Business Class instead of Economy. An auditor from Berlin wanted reimbursement of DM 70,000 because we were alleged to have demonstrated retrospectively that we had asked for more money than we would have needed. Our mistake was to find own resources when the government gave a negative response to our request to provide more funds. The bureaucracy assumed that we could have found this money already at an earlier stage so that the subsidy had not been necessary. Our representations appeared to have brushed away this idea.
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> It went no better with the applications. 300 pages of procurements directives from Brussels and Berlin have put small organisations out of the running. The prohibition against contact before tendering makes no sense for research because there is no other opportunity for the offices issuing the tenders to take account of their specific areas of competence. If someone wants to buy meat from a baker, they go to the supermarket. McKinsey and Roland Berger are, however, not better, they are just bigger and more standardised. That is apparent from their reports. The quality of tenders now rests entirely on the knowledge of the officials dealing with them. They concentrate entirely on the procurements directives and just reproduce the political positions of their Ministers. That way, they can do nothing wrong. That is the context of research into payment cards and their effect on consumers and the

economy, or production of an across-the-board e-learning system on consumer law and financial services in umpteen languages. It is absurd, but there are organisations which take the commissions and deliver them in the same spirit. In one bid, we quoted 3% above an apparent limit and were eliminated instead of informed. We did not find, however, the "enclosed red sticker", which was also a ground for elimination. The other bidder had delivered one copy too few. The contract then went to the third in the group, who had copied the tender text, but had complied well with all the formalities. In another tender procedure, we were thrown out because our Hamburg software partner had failed to enclose certification of its German knowledge. Tenders usually have internal limits which the bidders never know. Because these hackneyed subjects could be done just as well in a week as in a year, we were eliminated because we were too expensive. In another procedure, we guessed right, which aroused the suspicion that we had insider information. A six-person anti-corruption commission interrogated us for a whole day at our expense. When they failed to find anything, the project was simply cancelled.

I have a suggestion for small business policy. Small businesses should be paid €1,000 per day for the inspections which cripple their business. We would have earned a balance of €14,000 from the tax office. The 300 pages of procurement regulations should be substituted by the principle of equal opportunity for projects involving under €150,000 and there should be a spot check on the tender procedure after 5 years. Finally, the principle of indebtedness on initiation of a contract should also apply under public law. The procurement office would be responsible for ensuring that it does not culpably frustrate, prolong or terminate the procedure.

15. In 2005, the private sector has gradually become iff's major research partner. We are co-operating with the biggest German savingsbank HASPA and the Hamburg education authority in implementing the school-banking scheme, and it now includes over 1,200 pupils in Hamburg. Our conference on 17 and 18 February, with its slogan "Talking together, learning from each other," brought together banks, bank customers and people with an interest in banks to discuss the issue of social responsibility and solutions to the contradiction between shareholder value and social justice.

We also support youth banking at Deutsche Bank and management training at Creditplus, which we may extend to Volkswagenbank and Deutsche Bank shortly. Our private pension product designs are finding their way into provider conferences and have been publicised by the Deutsche Bank subsidiary, DIA. Independent financial advisers are also looking to us, as well as money advice centres and consumer centres, for designs for pension advice schemes. The press receives support when their interest goes beyond sensationalism. We are kept busy with almost daily interviews, email enquiries, and requests for opinions from television magazine programmes, from the mainstream media to the journal for bakers. Meanwhile, work is paying again because we no longer bid to public authorities in response to illusory tenders. This means that we are having to learn a few lessons. Private commissions are frequently exclusive and secretive. The payer wants to keep the benefit for itself. That is difficult for us and we endeavour to persuade them that the benefit to them increases if they do something for the common good. Moreover, banks are not used to dealing with small entities. That is also apparent in the periods that pass between initiation of a contract and the project, requiring the availability of spare capacity. Through this communication, we have come to know a new type of banker, who understands that communication with users and the public pre-supposes the articulacy of these groups. Customer-friendliness therefore means customer responsibility or empowerment. All of this leads to numerous misunderstandings. A Belgian money adviser, like many providers, thought that we were too critical of the banks; an Italian consumer association thought that we were too friendly towards the banks. We

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seek to translate. That means that we must speak both languages. Our series of conferences and questionnaires, completed by financial service providers, make clear that this interface is gaining in significance and our creativity is in demand in the development of new products and forms of advice, in mutual dealings and in staff training.

16. Our thanks are due, as always, to iff staff, who have done everything they could through countless hours of overtime. In the wake of his promotion, Achim Tiffe has taken responsibility for credit law, pensions and tests for magazines and providers, on which he works with Michael Feigl, who continues to manage our database system. Angela Gruber has taken on internal business administration, office management and responsibility for our many assistants after we had to cut back on another post. Anne Schelhowe very rapidly skilled up in basic financial education, which is operating extremely well. Michael Knobloch is responsible for legal advice, insolvency and consumer law, while Matthias Cantow looks after our CAWIN and *finanzcheck* software. Carolyn Goschke and Julia Bahlburg, back from Ireland, are specialising in work on the database. Oliver Hansen is looking after our IT, Oliver Haas the calculation service. Without Michel Harkenholt, Francesca Moscon and Sebastien Clerc, organisation of the conferences in Germany, Italy and Brussels would be impossible. The excellent collaboration with John Taylor and his stuff in Washington has been a learning experience for us in how NGOs can find both their role and their economic base in market economy conditions, without losing their independence.

But a big thank you is also due to clients, and to organisations that have commissioned work from us, who have taken an interest in our work and can see, now that the government has broken away, that there is a need to support our independence in our research, and the consequent discomfort, if it is to be of benefit. That is not easy for everyone, and indeed last year's Newsletter cost us a contract. We hope this one will compensate for it.

17. In 2006, we want to invest more in product innovation in the finance sector, to develop new ideas for the year 2050, to create the means for a qualitative improvement in financial advice, to improve basic financial education, to bring things like pensions into adult education, and to carry out research into corporate social responsibility at the practical, product development level. There are also developments in the law, international co-operation in building up the International Coalition for Responsible Credit and a link between training and research with Hamburg University. In 2007 we will be 20 years old. During that time, one year was rarely like another and in the future there will be no chance of avoiding constant change.

Happy New Year to you all for 2006 and I hope you will find the optimism we need and which can only flourish if trust persists, so that we do not stand alone if things do not go quite as we want. People who succeed at everything haven't taken any risks and have therefore not improved.

With best wishes.

Yours sincerely

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