

Workshop: 'How to start interest free banking in EU countries'

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1. Theme of the workshop

In two EU countries we find interest free banks: Sweden with JAK bank, based in Skövde (and probably the biggest initiative); Denmark with 15 smaller banks. The functioning and the ideas behind this model were presented and discussed in a workshop the previous day.

In other countries (Belgium, Germany, The Netherlands, Ireland, ...) grassroots organisations would like to start interest free banking as well. Until now none of these groups could realise its goals.

2. Essential aspects of the theme

Several reasons prevented the initiative in Belgium to be successful.

- a. A market research (on limited scale) showed that people would not be interested in an interest free loan and savings system if it was not organised through a bank. It is possible to organise the same financial circuit of saving and lending with a co-operative society. However, without the banking licence, the savings would not take the form of a saving account, but it would be share capital of the co-op. This implies that the so-called 'saving/share' would not be guaranteed in the insurance system of the banks. As a consequence people tend not to participate. This is the reason why Netwerk Vlaanderen decided not to organise it in such a way.
- b. To start an independent bank would be another possibility. The minimum capital required is 6.000.000 €. It means that it is not an option. Other legal requirements have to do with the minimum standards of the operations, ratios, qualified personnel, reporting to the authorities etc. These elements imply a big investment in information systems and highly qualified staff. With the actual capital base of Netwerk Vlaanderen of about 2.000.000 € this is clearly not realistic.
- c. Collaborating with an existing bank sounds like a logical conclusion. After several contacts it turned out that no traditional bank (in Belgium) was actually prepared to co-operate, even if the risk would be very low. With social or ethical banks the situation was different.
A possible co-operation with JAK stranded on following obstacles: language barrier, differences in legislation between Belgium and Sweden, different currency, and the fact that for the Swedish JAK bank, the priorities were their development in Sweden rather than an investment or expansion abroad.
A co-operation with Triodosbank (Headquarters in The Netherlands, and a full branch office in Belgium) stranded on following items: lack of administrative system to handle private loans, not convinced of the 'idea' of interest free banking, nor of its growth potential. On top the fact that one bank would offer its clients both loans with and without interest might be confusing.

Other obstacles that hinder the co-operation with existing banks.

- a. If a bank, even if it is an ethical bank, offers its shareholders a dividend, this would be in contradiction with the whole idea of interest free banking. In Germany one bank, namely GLS, is from this viewpoint a potential partner. They do not remunerate their share-capital, and they already do partly interest free savings and loans.
- b. The computer software used by JAK Sweden is not compatible with the GLS system. JAK Sweden bought special developments and also pays licence fees for common banking tools. The software is necessary, and in any case a very expensive undertaking. The Danish JAK banks have developed their own software at a lower cost, and the system does what it is supposed to do. (Humble as they are they call it their Mickey Mouse software.)
- c. The resources of JAK Sweden are scarce. International co-operation involves in the first place time from the limited staff. And although the initiative may seem to be a normal bank, in Sweden itself the JAK bank is not yet known enough by the general public.

Possible elements towards a solution.

- a. In Poland it might be sufficient to work just with small loans and donations. This could be realised through a system of micro-credits, be it that these work mostly on an interest basis. A further possibility is the introduction

of local money (community currency) in the local bank or micro credit system.

- b. Could the link with Community Currencies promote the spreading of the idea of interest free banking? From the point of analysis of our money system, we certainly discover links between the concepts of interest free savings and local currencies that are also interest free. On the practical side differences are huge: the first are about the circulation, the second about hoarding, small local groups versus a fully developed and regulated bank.
- c. The JAK banking system has in fact two currencies: the first and most important is the 'vision, spirit and willingness' and on the second place comes the real money. It means that the initiative was only possible with the co-operation and regular meetings of many people and volunteers.
JAK can be seen as an initiative with two legs. If the first one is realised (through the input of volunteers), would then the realisation of the second be easier? The experience of Netwerk Vlaanderen does not confirm this point of view.
- d. How to realise things having limited resources. For example JAK Sweden could get legal advice for 10 % the price that other banks had to spend, because of their network, contacts and volunteers.
In Denmark it is still possible to start with a lower capital, namely 1.000.000 €.
- e. If for example in Hungary a guarantee fund could be created, would that allow JAK to open a branch, if all risks are covered? This would not resolve the extra cost and the limited resources. However JAK Denmark showed a preparedness to offer its services if (1) the legal aspect can be handled, (2) no extra cost would be incurred and (3) no risk would touch the actual balance sheet.
- f. In New Zealand three legal options are available: (1) work as a bank with high capital requirements, (2) as a credit union or (3) a charitable fund with lower capital requirements. And maybe some older exotic forms do exist, also in EU countries.
JAK also started as a grassroots organisation.
Netwerk Vlaanderen also works as a non-profit organisation, but still lacks the funds and the capacity to jump to a higher level in the field of financial products because of the banking regulations. On the ideological side a lot more could be realised: campaigning, influencing the government, new legislation against financial speculation (Tobin Tax) and ethical investment.
- g. Would it be possible to start with a community currency to end up with a bank? This is what happened with WIR in Switzerland. It would be only one step further to transform this in an interest free bank, handling savings and loans. This may also make it obvious for the government that actual legislation should be adapted.
- h. The JAK bank in Sweden concentrates on its own development and the loan/savings system. The development of community currencies is however very impressive and no link with JAK has yet been established. The co-operation or combination of both community currencies (money in circulation) and JAK system (savings-money) could create a synergy.
- i. Is it possible for JAK (Sweden or Denmark) to open office in other countries? JAK wants to work local in the first place. It started with a small group of members, handling their money, savings and loans in an almost informal way. This stresses the importance of democracy, which was also at the basis of their development. So the start is the trust and confidence built up in this group. It is better to start from a little group and grow slowly.
- j. How to convince people that JAK really works and can be compared with a normal bank? The JAK bank in Denmark actually combines both interest free banking and interest based banking. Newcomers can start with interest and afterwards shift to or combine with interest free savings.

3. Conclusion

No real conclusion was formulated. In fact a lot of information was exchanged and new ideas were proposed. It will be up to the different initiatives to continue their efforts in realising plans of interest free banking. They may find extra motivation in the arguments raised, and see the importance of their combined efforts, eventually the linking up of interest free savings and community currencies.