12 measures for a socially useful financial system

Four international Social Finance and Community Development Federations
put out a call to G-20 Governments

Paris, Brussels and Washington DC: 21 September, 2009

On the occasion of the G20 summit in Pittsburgh on 24 and 25 September, The International Association of Investors in the Social Economy (INAISE), and the European Federation of Ethical and Alternative Banks (FEBEA), joined by the National Community Reinvestment Coalition (NCRC) and the Global Coalition for Responsible Credit (GCRC), demand that the G-20 governments consult with the institutions of social finance and community reinvestment to reform the financial system. They propose 12 measures to ensure that the countries members of G-20 commit immediately to the creation of a new financial system, effective, socially useful and inclusive.

Do we need a Shadow G20 in order to be heard?

The 12 proposals are based on the tested methods and practices of financial institutions members of the four Federations, and founded in research from NCRC and others. Some have already been implemented by G-20 nations. If carried out by all G-20 countries, our proposals would put in place an "international duty to exercise responsibility". Financial services providers and all related firms would be required to follow clear principles of responsibility and to have transparent mechanisms in place to enable citizen oversight, in order to ensure that these principles guide behavior in practice. Remuneration policies within the financial sector would be reshaped in the light of this goal. This affirmative obligation would include the obligation for financial firms properly to consider financial inclusion and the social and environmental impacts of their actions – and their inactions - on all neighborhoods and households, including those on rural, low income and minority communities and territories when designing and offering financial products and services, consistent with safety and soundness.

Our proposals would create stronger regulators to enforce uniform regulations in each G-20 country.

Information on INAISE, FEBEA, NCRC and GCRC is provided at the end of this release.

Call NCRC to join a telephone conference with Mr. John Taylor and Mr. Marcel Hipszman

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12 proposals for real reform of the world financial system

Proposal 1: Regulators in each G-20 country should now require that banks and bank holding companies and their holdings demonstrate that their speculative financial activities are legally and financially fully separated from commercial banking activities and that they are fully supported by adequate, dedicated capital reserves. G-20 fiscal authorities should tax revenues from speculative financial activities at rates higher than those levied on commercial bank activities.

Proposition 2: Excess executive remuneration has promoted irresponsible behavior along the entire chain of financial services production and delivery, leading to risk-taking, misrepresentation and fraud that continues to damage local and national economies. Furthermore, over-remuneration in the financial services sector distorts employment markets, weakening long-term growth by luring many of the brightest young people away from research and production. G-20 governments should cap aggregate financial services compensation at levels comparable to that practiced in a basket of other industries.

Proposal 3: The lack of standardization, documentation and comparability among financial products weakens regulatory enforcement while it increases bank regulatory cost. It hinders truthful pricing of risk and enables fraud. Regulators must insist that all retail and markets-traded financial products be standardized and documented by their producers, to ensure full traceability of the chain of production. Agencies which rate and label financial products and institutions and their subcontractors should be licensed and their fees covered by taxes on financial services.

Proposal 4: Purely speculative financial transactions produce no sustainable value for communities, regions and countries, yet generate massive risks for them. G-20 countries should implement an international tax on speculative financial transactions. Proceeds should be used to finance oversight of systemic risk and to support economic development in less-developed countries.

Proposal 5: All bank and other retail financial service executives, experts, agents, products and services should comply with a rule of "do no harm" to their clients' interests. And as is currently required under the European Union's Marketing and Financial Institutions Decree of 2004 (MiFID), distributors of retail financial services products should be required to identify all retail and small business clients according their level of financial literacy, and be held to enforceable fiduciary responsibilities, specific to each level.

Proposal 6 : Retail financial products are not covered by rules of traceability and quality that are standard for most products (food, pharmaceutical products, etc,.). G-20 Regulators should be required to ensure that all financial institutions adhere to an affirmative obligation to guarantee the traceability of fiduciary engagement and document the risk of all financial products they handle as producers, (re)sellers or buyers. Regulators should enforce penalties for violation of these standards with an obligation to make the client whole.

Proposal 7: Financial exclusion and discrimination in the access to credit weakens the economies of G-20 countries, and leads to disinvestment. **As is currently the case with the US Community Reinvestment Act (credit & investment) and the French Code of Financial Institutions (bank accounts),** G-20 regulators should be required to hold all financial institutions to an affirmative obligation to serve the financial services needs of all communities and territories, consistent with safety and soundness.

Proposal 8: Statistical oversight of all financial institutions is necessary to ensure that each equally respects its service obligations directly as well as through subsidiaries and holdings. To this end G-20 regulators should require financial institutions to publish annual data on their production, **as is already the case in the United States under the Home Mortgage Data Act**. This data should cover all territories served in any fashion by a financial institution, and enable the disclosure of discrimination in the quality, price and availability of products and services.

Proposal 9: G-20 governments should require public representatives to sit on the board of financial institutions in which there is a public investment, guarantee, deposit or a loan.

Proposal 10: All G-20 Regulators should be required to take into account the statements, complaints and requests of individuals, community groups, local elected officials and consumer organizations. Regulators should reply with fully documented responses in a timely fashion.

Proposal 11: Access to affordable, appropriate financial services including credit are a fundamental condition of economic citizenship in modern society. It is a right which imposes a duty to service on all financial institutions. In addition, G-20 regulators should develop that right by encouraging the development of credit unions, bank and non-bank social finance and community development organizations, micro-credit organizations and cooperatives. This should include favorable tax treatment.

Proposal 12: Capital markets have weakened competition by creating international banking conglomerates. Their size alone presents a systemic risk to the international economy. This trend hinders the creation of a diverse, resilient financial system. It should be countered by regulation, by taxation and by affirmative policy. G-20 regulators should test any proposed new regulation of finance by whether it increases the variety of financial service providers while ensuring safety and soundness. Current "one size fits all" capital standards and accounting rules in IFRS and Basel II are inappropriate and should be adapted to meet the safety and soundness needs of diverse institutions. Finally, banks that generate high systemic risks should apply higher solvency ratios in order to meet the higher risk incurred by governments responsible for their supervision.

INAISE and FEDEA – Two Federations of social investors and banks

The worldwide social finance / community development sector is composed of hundreds of banks, cooperatives, credit unions, investment funds, micro-lenders and other financial service providers holding well over 150 billion Euros in client assets.

At a moment when world financial institutions are reeling from a crisis they helped create, these institutions are growing because of the confidence they inspire in their members and their clients. The regulated banks of the INAISE network alone represent a combined balance sheet of over 10 billion Euros in mid-2009, and have experienced 30% per-year growth since the beginning of the financial crisis. FEBEA members represent 21 billion Euros of assets. These results confirm the pertinence of our model of prudent management, oriented to long-term growth. They comfort our choice of investments in innovative markets (renewable energy, environmental industry, real estate and agriculture and fair trade) and confirm our belief in finance that serves community development, underserved groups and minorities, culture and entrepreneurship.

The social economy we help to fund provides nearly 10% of all employment in Europe and in the United States. This fact alone explains our duty of vigilance towards the rules and regulations that ensure the security and the credibility of our global financial system. We at INAISE and FEBEA join NCRC and GCRC to demand the leaders of the G-20 to commit to rapid implementation of these 12 proposals for regulatory and fiscal change.

NCRC AND GCRC – Two Federations of Community organizations and service providers

The National Community Reinvestment Coalition (NCRC) was formed in 1990 to develop and harness the energies of community reinvestment organizations from across the country so as to increase the flow of private capital into underserved communities. It federates more than 600 community-based organizations from across the nation: community development corporations; local and state government agencies; faith-based institutions; community organizing and civil rights groups; minority and women-owned business associations as well as local and social service providers.

NCRC's National Homeownership Sustainability Fund leverages the expertise of a national network of mortgage finance advisors to prevent foreclosure. Our National Training Academy provides training, and legal and technical assistance. We lead innovative community partnerships to enhance the delivery of financial, technical, and social services to individual consumers, homeowners, and small business, and conduct two financial service advisory councils that include the nation's largest financial companies. NCRC represents its members before Congress and federal regulatory agencies, supported by research and policy research that has been cited in hundreds of newspapers.

The Global Community Reinvestment Coalition (GCRC) is a cross-national collaboration among groups in 79 countries that include Brazil, Mexico, Colombia, Guatemala, India, Bangladesh, South Africa, Japan, Germany, and the UK. Its purpose is to advance fair and inclusive financial systems, with effective standards and incentives that promote the highest professional benchmarks, best practices and responsive innovations from financial firms, services that are necessary for all. With funding from the Ford Foundation, NCRC and its international partners initiated this work in 2004 via the Global Fair Banking Initiative/GFBI.

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For further informations :
http://www.inaise.org
http://www.febea.org
http://www.ncrc.org