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The Future of the Religious Society of Friends in Britain

- 'To live adventurously and be a pattern'

INTRODUCTION

Barry Riley (a former Financial Times Columnist) wrote recently in the Magazine 'Financial World', as follows:
"We are anxiously seeking institutions prepared to fight on the average citizen's behalf. To some extent we used to have them but they have been demutualised, privatised or outsourced. The world has been accumulating more wealth but it has run out of trust".

There is thus a future for The Friends and their timeless Quaker values.
These values, of which 'trust' is a key element, need to be rediscovered in the fields *of banking and financial services*, in which Quakers have been prominent in the past. Society at large needs Quakers to act; to again influence or create institutions that become standard bearers, recognised for their creativity but based upon prudence and integrity.

The questions must, however, be posed; do today's Quakers have the courage to act? Can Quakers, to use George Fox's word, provide 'patterns': examples?
George Fox said – "*Be patterns, be examples in all countries, places, islands, nations, wherever you come, that your carriage and life may preach among all sorts of people, and to them; then you will come to walk cheerfully over the world, answering that of God in every one.*"

Quakers have earned a special place in history with their adventurous reforming zeal: abolition of slavery, prison reform AND founding ethical but effective businesses: Lloyds and Barclays banks for example.

Today the small Quaker voice seems to have been drowned in the clamour of the wider world. Could Quakers be more adventurous in showing the World how their principles could be applied in financial services? This essay seeks to show distinct ways in which Quakers can provide 'patterns'.

<u>Quaker Values</u>

In writing this essay I seek to challenge Quakers with special reference to the following 'Advices and Queries':

27. Live adventurously. When choices arise, do you take the way that offers the fullest opportunity for the use of your gifts in the service of God and the community? Let your life speak. When decisions have to be made, are you ready to join with others in seeking clearness, asking for God's guidance and offering counsel to one another?

34. Remember your responsibilities as a citizen for the conduct of local, national and international affairs. Do not shrink from the time and effort your involvement may demand.
37. Are you honest and truthful in all you say and do? Do you maintain strict integrity in business transactions and in your dealings with individuals and organisations? Do you use money and information entrusted to you with discretion and responsibility? Taking oaths implies a double standard of truth; in choosing to affirm instead, be aware of the claim to integrity that you are making.
41. Try to live simply. A simple lifestyle freely chosen is a source of strength. Do not be persuaded into buying what you do not need or cannot afford. Do you keep yourself informed about the effects your style of living is having on the global economy and environment?

BACKGROUND

The World In Which We Live

Our society and economy have become dependent upon a continued appetite for *consumption* as the source of growth, with consumption fuelled by Government economic policy and money borrowed from lenders competing fiercely for market share and profit; a set of circumstances which has led to the 'credit crunch' – see appendix for an explanation.

Western levels of consumption are putting pressure on the World's resources, and may be complicit in *climate change*.
(One may side with Professor Ian Plimer of Adelaide University and others in being sceptical of models that focus on human-generated carbon dioxide and methane as a major cause of climate change, or alternatively believe in a mass of scientific opinion that humankind and its production of greenhouse gases is a cause of climate change. Either way, the appropriate response for mankind, the Quaker response, should be the avoidance of excess consumption of scarce resources and, faced with uncertainty, to use mankind's talents to the full to minimise any impact of our necessary consumption upon the climate, and the rest of humanity.)

Financial behaviour and consumption go together like a horse and carriage: excess consumption has fuelled excesses in personal financial dealings and in wholesale markets.

The population has become hedonistic and more concerned with its rights than its responsibilities. We live in an environment where the Government finds it easy to subsume the civil liberties hard won over many generations, because so many people are more concerned to live in a society with the apparent benefits of a high material standard of living rather than a society where justice and independent liberties are valued. Such a society is also easily scared into accepting draconian restrictions when they can be convinced that that their comfortable consumption orientated lives are threatened.

The Financial Climate

Some key elements of the financial environment in which a Quaker initiative would have to thrive include:

- A financial climate of severe public ignorance of financial issues.
- A financial climate where citizens are putting far too little money aside for pensions or other likely future costs. British families were in the past saving about 8%pa of their income. In recent years this has fallen to below 4% and in 2008 the savings ratio fell to just over 1%, far below that required by an ageing population.
- Financial services businesses whose fee structures and profits have seriously eroded the returns on long-term investments such as pensions.
- Family breakdown causing financial hardship.
- A massive increase in house prices fuelled by more relaxed lending criteria (lenders taking account of two incomes) and housing demand led by immigration, an ageing population and family breakdown. The main topic of suburban conversation had become 'better to borrow in the expectation of even higher house prices than save for the future'.
- A people and Government that routinely act dishonestly. For example,
  - Insurance companies estimate that 30% of insurance claims are inflated or downright fraudulent.
  - The Government runs a National Insurance system which is certainly not justifiably called 'insurance' since payments into the system give no guarantee of benefits which can change from one year to the next and the system is entirely unfunded, dependent upon one generation's taxes to pay the pensions of the retired.
  - State sector employees benefit from unfunded pension entitlements paid out of general taxation with levels of benefit that the rest of the population could only dream of. (According to the Daily Telegraph, a private sector employee would have to contribute 35% of his/her income to achieve the same pension as that provided out of everybody's taxes for the employees of the State).
  - The Government's much heralded 'Golden Rule' that the Government would, over the economic cycle, only borrow to fund investment, has been, to say the least, a chapter of

dissimulation as the Government changed their definition of the 'economic cycle'.

- The effect of the imbalance in World trade. This is not well understood by the general public as a cause of the credit crunch. Money, like water, needs to find a level. Surpluses will look for profitable opportunities and, as by definition, a country running a large balance of payments deficit is not saving but consuming, a profitable outlet for those with surpluses is to lend the money to American and British consumers to buy houses, cars and electronic goods or to fly away for an exotic holiday. For this option to be open to those with surplus cash, American and British citizens have to be enthusiastic borrowers. The USA and the UK between them spent about US$900billion more on buying foreign goods and services than those two countries earned by the sale of goods and services in 2008, the difference having grown by some US$300billion over three years. China had a surplus of about US$250billion and the tiny oil state of Qatar had a surplus of some US$16billion.

- Risk not being properly recognised. For example:
  - One of the triggers for the credit crunch was the collapse of the 'Asset Backed Securities - ABS' market. The ABS market enabled banks lending to American homebuyers to 'sell' mortgages to investors in large bundles. The volume of money seeking a profitable home made for very high demand for ABS investments but also carried an inherent risk that the banker, knowing that he/she could off-load the mortgage debts, would become less careful in their choice of borrower.
  - Nearer to home, Northern Rock and others financed mortgages relying upon the money market where domestic savings were insufficient, with no appreciation by the directors or the regulator (the FSA) of the 'systemic risk': a collapse of the market.
  - Individuals are unable to evaluate risk and, where they do, seek to pass the consequences of risk to others.

- A World of inequality and imbalance. The inequalities in the distribution of wealth, whilst stark, are widely known but no less damaging, dangerous and unfair for that.
  However economic disadvantage is not fixed for all time and we should not overlook the benefits that the consumer society has brought to many. The Republic of Korea (South Korea) provides an excellent illustration of this. In 1953, when the fighting in the Korean War ended, the South Korean people were amongst the poorest in the world: destitute and starving. Today South Koreans enjoy one of the highest standards of living in the world.

The Case For Quaker Activity

In such a climate, Quakers should not underestimate the difficulties of introducing any sort of initiatives.

The Quaker foundations of the 18th and 19th centuries also operated in a difficult environment, as the Quaker Gurneys found out with the collapse of Overend, Gurney and Company in 1866. They also operated in a world of inequality and the moral corruption, well illustrated in literature by Dickens and by the financier Melmotte in Anthony Trollope's 'The Way We Live Now'.

But they also recognised the universal truths expressed here:

1. Speaking on BBC Radio 4 Woman's Hour (October 15th 2009) Angie Hobbs, Professor of Philosophy at Warwick University made this point:
   "...the making and spending and investing of money are clearly an important part of the ethical life. What we have to think of are ways in which we can do that which benefits ourselves and the wider community..."
2. And as the 18thC moral philosopher and economist Adam Smith wrote:
   "Man was made for action, and to promote by the exertion of his faculties such changes in the external circumstances both of himself and others, as may seem most favourable to the happiness of all." (The Theory of Moral Sentiments, Part II Section III Chapter 3).
   (The underlining in both quotes is mine).

The moral case for business does not demand that we eschew consumption or financial dealings, but asks only that we act responsibly. And we should not seek to avoid personal responsibility by placing decisions about consumption, resource allocation or personal finance under state control. (Where such decisions have been centralised, they have generated more waste, inefficiency and corruption than in most free-market or mixed economies).

ACTION

People are recognising a need for change. Two banks, Co-operative Bank and Triodos, respected for their ethical approach, have recently shown strong business growth. I believe that the pendulum may have started to swing away from consumption for its own sake and financial irresponsibility towards more balance in personal decision-making.

The time is right for Quaker action.

What Practical Steps Can Adventurous Quakers Take?

Quakers will, of course, continue to lobby for justice, give to charity, work voluntarily and take similar steps towards improving the lot of the less fortunate.

But Quakers should now aim to provide 'patterns' for the community at large, to demonstrate how individuals and businesses may return some balance to consumption and saving decisions, based upon personal integrity, sound advice and institutions that will respond in an honest and straightforward manner.

The rest of this essay explains three different approaches that Quakers may take.
The first option offers a relatively simple course, requiring little capital and a more modest commitment of other resources. The third option would be the most adventurous course; much more complex and resource intensive. Option 2 is a sort of half-way position. Options 1 and 2 could, in time, however lead into option 3.

1) <u>Creating a quality mark or certification scheme for the use of existing financial services companies</u>
Quakers could draw-up a set of quality standards expected of a financial institution and invite commercial banks and other institutions serving the general public to apply for certification under the scheme.
A current example of a respected certification scheme is one that grants permission for the use of the word 'Organic' on food: food sold as Organic is controlled and certified by the Soil Association.

The Financial Services Authority (FSA) and the Office of Fair Trading (OFT) have the statutory duty to apply standards to all financial institutions, but this universality does not enable one institution to differentiate itself from the herd. (As from the 1st November 2009 the Banking Code, a form of self-certification adopted by the banking industry, ceases to operate as the FSA imposes generic standards for all banks and similar institutions to follow in their dealings with customers).
Furthermore, Government organisations do not always carry the highest level of public trust or confidence. The FSA, in particular, has far to go to re-build its reputation, following its failure to effectively monitor the banks it was charged to regulate.

A quality mark associated with the known upright standing of the Quaker community and their standards would carry public respect and an institution holding a Quaker quality mark would have a powerful marketing advantage pointing to evidence of a clear difference in its standards from those not so approved.

A financial institution would have to establish a set of standards for its dealings with its customers AND the standards expected of customers in return. To qualify an institution would have to demonstrate, at least, that:

- new relationships with customers were established with clear principles understood on both sides,
- lending was soundly based on customer ability to repay,
- appropriate policies for lending to small and medium-size businesses were put in place,
- when circumstances moved against the customer making repayment difficult, proper systems were in place to minimise the impact, such as the transfer of the family home to a housing trust rather than repossession,
- savings rates were fair and that long-term savings, such as pension funds, were administered at reasonable cost so that the compounded value was not unduly diminished,
- staff were polite and knowledgeable.

This list is not exhaustive but indicates the sort of qualities that would be demanded.

Fees charged to institutions seeking accreditation would fund a quality mark scheme. These fees would pay for the cost of enquiries. Accredited members would also pay an annual fee for inspection and use of the mark.

Accreditation would be based upon formal announced meetings with the institution's management, unannounced contacts (mystery shopping) and customer surveys.

I envisage a scheme that would become much sought after particularly if banks such as the Co-operative Bank and Triodos continue to eat into the customer base of their bigger competitors on the strength of their ethical reputation.

This scheme would give a once proud and respected industry the mechanism by which it could regain the level of respect and trust it enjoyed in the first three quarters of the 20th C.

2) <u>A Marketing business</u>
A step beyond the quality mark scheme in 1) above would be a Quaker marketing company, selecting products and services from a range of providers that could meet the standards Quakers would expect of an institution. The standards expected would be similar to those set-out in part 3) below, where a Quaker Bank or joint venture is proposed.
A current example is the Fairtrade business that markets goods from a range of suppliers but with an ethical objective: fair opportunities for Third World farmers.
A Quaker marketing business would require capital, but not to the extent required to found a bank, and staff.
The business would identify products and brand, advertise and distribute its selected range. Appropriate distribution channels would also be required; selected and trained Independent Financials Advisors (IFAs) being an obvious possibility.

3) Founding a bank or participating in a joint venture financial institution

This is the adventurous option.
The 18th Century Quaker bankers, such as Sampson Lloyd and his partners, founded banks using their own capital and the reputation built-up in their earlier commercial enterprises.

Founding an entirely new bank is, today, of course, a very much more complex and regulated undertaking, *but not impossible* as Professor Muhammad Yunus, creator of the Grameen Bank, and winner of the 2006 Nobel Peace Prize, has demonstrated. He saw that micro-loans, mainly to women, in poor countries would provide families with the capital to improve living standards by their own efforts and that such borrowers were good credit risks.

There are about to occur, however, a unique set of circumstances that make a banking venture, possibly in association with others, more possible now than at any time in the last fifty years.

What would a Quaker bank look like?
The objective of a Quaker bank would be to provide straightforward financial services to families and small and medium size businesses adopting the principles that would be applied by the certification scheme proposed in 1).

A mission statement might look like this:
"Quaker Bank will serve its chosen customers efficiently with straightforward banking and insurance products designed to meet customers' short and long-term needs at reasonable cost. Quaker Bank will act honestly and openly with its customers and will expect the same level of openness and honesty from its customers. Staff will be selected and trained accordingly. The Bank's approach to risk will be conservative and based upon a need to consistently derive sufficient profit retained for business growth, as a cushion against risk and to provide a fair return to investors and to reward staff. The bank will seek to be a model for similar institutions worldwide."

The business plan for Quaker Bank will set-out how the bank will differentiate itself from most of the other high street financial institutions.
The plan will highlight the integrity of the bank but also the integrity expected of the Bank's customers. (New customers of Grameen Bank are expected to agree to a code of behaviour). To emphasise the expectation of honesty expected of customer and bank, both sides would complete a formal statement of intent when a new customer commenced business with the Quaker Bank – see under 'Customers'.

The plan might look like this:

- The bank will offer the general public saving and deposit facilities in all the usual formats (savings accounts, ISAs, bonds etc), paying rates competitive in the market.
- The bank will eschew reliance on money market funds except to cover short-term liquidity, normally overnight only.
- *Lending* would be targeted at three markets:
  - Short-term overdrafts;
  - Mortgages for families to purchase the home in which they will live. These will be at market competitive rates but for realistic income multiples. The bank's mortgages will be based on the principle that repossession will be sought only in extreme cases. Where repayment becomes impossible, the bank will arrange for the property to be transferred to a housing trust with the family continuing to live there and pay rent.
  - Small and medium-size businesses. This lending operation should be the outlet for at least half of the savings placed with the bank because Quaker Bank would recognise that it is through enterprise, especially young and new enterprise, from which incomes are generated for the community, employment provided and taxes paid. Business customers would be expected, however, to show commitment and risk sharing, recognising that the bank's return on money lent will be at an interest rate only whilst the business owner stands to reap a significant reward if his/her business thrives with Quaker Bank's help.
  - The bank will be resource efficient in its own operations and encourage resource efficiency in its business customers.
  - Long-term investment products, such as pensions, will be sourced from providers whose fee structure does not have a serious adverse effect on the compounded returns to customers.

How would the capital be raised?
Raising sufficient capital would be a major challenge. A bank such as Co-operative Bank has about £100 of capital per customer (6.5million customers and £616million of total shareholder funds).
Sources of capital could include:

- The 18,000 UK-based Quakers putting-up, *on average,* £1,000 could provide the capital to start the ball rolling and *demonstrate commitment.*
- Other investors would want to invest in a Quaker bank venture; seeing the possibilities for a new model financial institution having wide customer appeal. With say £18m raised or pledged by Friends (as above), a prospectus could be produced to invite

other investors to either take-up shares, if a limited company structure was established, or to invest in interest-bearing bonds if some other structure was chosen; always with The Friends retaining overall control of policy and practices rather than outside investors. But, naturally, such investors would be treated fairly both in terms of return upon their investment and information from, and representation at, the decision-making level.

- Employees should be encouraged to take a stake and management above a pre-determined level made to do so.
- Customers could be asked to participate. One possibility would be a joining fee, say £50, being half the average capital required per customer. This fee would be repayable when the customer left the institution.

If the capital markets and other 'stakeholders' funds raised the total capital to £50million, then one would be looking at some ½ million customers as the five-year from launch objective.

One of the issues that gave rise to the crisis in British banking was the competition for capital. Institutional investors (insurance companies, pension funds etc) placed their money with the publicly-quoted banks able to offer the highest apparent and reported returns. Risk was insufficiently taken account of and under-priced when comparing one institution with another. **Therefore Quaker Bank would always want to retain sufficient Quaker control so that the bank's senior management was not under constant pressure from the financial markets to drive for higher and higher unsustainable profits.**

How might the difficulty of raising sufficient capital be reduced?
Raising capital, as indicated above, will inevitably be very difficult. But with partners willing to share Quaker values and Quaker Bank's business model, this difficulty could be mitigated. A partner or partners with greater access to capital might be willing to work with Quaker Bank on the basis of the qualities that Quaker Bank would bring to the venture.
The joint venture might purchase an existing business and **2010 may offer the best opportunity in years to acquire a ready-made network and/or respected trading name.** The Government is obliged by European competition rules to divest itself of all or parts of those institutions recently taken into public ownership or control. Once-famous names such as Williams Deacon's and Glyn-Mills and Co, now part RBS as Williams and Glyn's Bank, could be resurrected. The TSB, Cheltenham and Gloucester and Northern Rock are all well-known names that may soon be sold.
Alternatively the joint venture might purchase all of, or a share in, a business that has retained in recent years business principles consistent with Quaker objectives, but is in need of further capital for

expansion. Such an institution could be one of the remaining mutual building societies – the Building Societies Association lists over 50 members from well-known names, such as Britannia, to smaller local institutions.
Other clear advantages of the joint venture approach are that Quaker Bank would have bought into operating systems and licences without having to establish those from scratch and would have acquired an established customer base. Whilst some customers of mutual institutions may have a little difficulty in working within Quaker Bank's relationship expectations, most of the customers will fit the required profile, having remained with a local mutual despite advertising from more thrusting competitors.

What business structure could be established?
Quakers will need to form a business vehicle such as a trust or company that can issue shares or bonds. The possible structures include:

- A Trust
- A Public Limited Company Quoted on the Stock Market
- A Private Limited Company
- An Unlimited Company such as Hoare and Co
- A Co-operative
- A Partnership
- A Partnership with Limited Partners and/or some partners having insurance against losses over a certain sum.

There are advantages and disadvantages to each of these structures and the model selected should be based on professional advice taking account of legal and taxation issues beyond the scope of this essay to expand upon.
But *from a purely ethical point of view* there is a significant benefit in choosing a structure that leaves some risk with the directors and managers of the business. For example, were a co-operative structure selected where everybody, including customers, had an ownership stake in the business, there would be the potential for some loss in the event that the business foundered due to reckless or incompetent management. Even a potential loss of only a few hundred pounds would encourage each participant to take an interest in the progress of their business.

Customers
As indicated already, it would be a key component of Quaker Bank's business model that customers would come to share in a mutually honest and beneficial relationship.
Many new customers, schooled in the environment of recent consumer financial services history, will be either hesitant to accept immediately Quaker Bank's ethical stance, or will come to the

relationship with the prevalent attitude that financial institutions can afford to take losses.
Therefore a mutual statement of intent, signed by both the new customer and the bank, would be required to establish at the outset that a new basis for a relationship is envisaged.
This would be completed alongside the normal bank mandate and, in summary, could look like this:
"We John Doe and Mary Roe, subscribe to Quaker Bank principles of honesty in business dealings. We will;

- provide complete relevant information concerning our circumstance (financial and personal) when requesting financial facilities or insurance services,
- update the bank should those circumstances change,
- not accept facilities unless we understand what is being offered and are clear as to the consequences of our actions,
- immediately inform Quaker Bank in the event of our facing financial difficulty and work with the bank to provide the best possible solution for both sides.

Quaker Bank will:

- keep accurate records of all of our financial dealings and provide information about these dealings on request,
- endeavour to provide clear and accurate information about its products and services and will only provide facilities or insurances to customers whom it is satisfied understand the benefits, limitations, costs and obligations of their commitments,
- ensure that charges, fees and interest will be applied fairly and advance notice given,
- provide polite and knowledgeable staff to serve its customers."

Distribution
How will Quaker Bank reach and communicate with its potential and existing customers?
There are four possible alternatives:

1. The old way; as used by the Quakers who founded banks more than 200 years ago. Banks then were local affairs with a range confined to one town or county. The advantage of local knowledge, particularly important when lending to small businesses, was offset, often fatally, by a concentration of risk: a large local business failing would affect almost every other local business. The successful banks, such as Barclays, grew, partly by acquisition from these local bases.
2. By forming a joint venture with, or acquiring an existing business, Quaker Bank may acquire a ready-made branch network and/or agencies such as those placed in estate agents.
3. By entering into an agreement with another organisation with widespread outlets, such as the arrangement several banks currently have with the Post Office. However it may now be more difficult to find a suitably-widespread organisation that is

not already capitalising on its opportunities. The major supermarkets already offer financial services with the advantage of a respected name, footfall and parking. Nonetheless, this approach should not be discounted without further research.

4. Modern communications certainly offer distribution channels: the internet and phone banking are widespread; less expensive to set-up and run than a branch network but give no opportunity for face-to-face contact which could be a serious drawback for Quaker Bank's business model. It may be that this drawback could be overcome.
   Quaker Bank could establish local 'panels' to visit new customers, customers seeking loans or more complex savings products. Such visits would normally be to the customer's home where, in the more relaxed setting, the bank's visitor could gain a good insight into the customer's financial position and needs. Many insurance companies used to operate in this way through accredited agents. Visitors could refer lending decisions to the local panel, rather in the way that credit unions operate.

The distribution described in 4. is attractive for an institution with no branch network or only a few outlets. This concept makes use of modern technology for low-cost distribution and for routine operations but introduces a personal touch when required.

Customers will expect a card service: debit or credit card. Existing card services providers should be approached to provide a cost-effective service as they do for existing branded cards such as the National Trust card. Credit decisions about who is to be offered a card, and with what limit, would remain with Quaker Bank.

Senior Management

Selection of management, as with any institution, will be crucial to success.

Directors would, at the outset, be men and women fully committed to, and versed in, the principles and objectives. The team of directors and senior management would also need to have within it the necessary expertise in banking and risk management to provide both direction and day-to-day management. This would require a careful search, probably through an appropriately-briefed agency. Many former senior bank staff have left the industry, these people have a wealth of experience, but may have found that the business climate in which they were expected to operate unacceptable to them. Tempting them back into the industry will be a challenge, but not insurmountable, should prospective senior staff be shown the necessary enthusiasm for the project.

The FSA, as regulator, will certainly expect to see an appropriately qualified and experienced senior team in place before allowing business operations to start. The FSA will also expect the Bank's senior management to have drawn-up their operating procedures and have secure operating systems in place.

Middle Management and Staff

With the appropriate brief, an agency will be able to build a staff team for the bank. The main issue will be the training programme for new recruits at all levels.

Not only will new recruits need induction into operating procedures but will have to rapidly become versed in the bank's principles. It will be necessary to take a tough line with those staff that find it difficult to stick to these principles.

Competition

There is no shortage of competition in the UK financial services industry. In fact, it may be argued that excess competition, driving down prices and risk constraints, contributed to the recent crisis.

However, competition is good for any business, keeping it alert and focussed on the current needs of its customers and Quaker Bank will welcome fair competition.

The Bank's competitive 'offer', to use the current jargon, will be very different in 'tone' from its competitors and aimed at that large section of the public who are unhappy with the nature of their relationship with their existing financial service providers. Such people may be concerned about the World around them now and the World into which their children will grow. They may support 'Fairtrade' and 'Organic' products and attempt to minimise their environmental impact. Initial marketing efforts could be directed at this group.

The Bank will position itself against its competitors by offering a long-term, trust-based relationship with fairly-priced services rather than the cheapest. But, in particular, the Bank will seek to offer amongst the best returns, over time, for long-term investment products such as pensions, based upon a low fee structure.

The fourth distribution option, described under the heading 'Distribution', does offer a particular way for Quaker Bank to differentiate itself from the competition with the convenience of the internet for the routine coupled with personal contact when required.

The cost of getting this message across to the general public will be an important consideration when deciding how much capital will be required.

Licences

Opening a bank today is no simple undertaking and licences will be required from the FSA and a credit licence from the OFT. Obtaining licences will require, at least, proof of capital, appropriate directors and senior staff recruited and a realistic and costed business plan.

CONCLUSIONS

The 'credit crunch' has shown that the lack of straightforward, ethical and prudent financial services businesses, coupled with weak public ethics, excess consumption and poor Government leadership and policies, has led to near financial disaster with serious consequences for individuals and society at large.

And to repeat Barry Riley; *"The world has been accumulating more wealth but it has run out of trust"*

Quakers can now show us how to address the problems we have created; problems that many people are actually now beginning to face-up to.

Quakers have a long record of involvement in ethical business operations run on sound commercial lines.

This essay offers three alternative but not mutually exclusive approaches: there could be evolution from a simpler project to a more complex joint venture or wholly-owned banking business.

A certification scheme based upon Quaker principles would enable financial institutions able to satisfy the terms of the scheme, a chance to differentiate themselves from competitors' subject only to the universal rules of FSA regulation. Customers of institutions accredited under the scheme would see a returning confidence that their business relationship with the accredited institution would be conducted fairly and honourably.

A financial services business, established on Quaker principles, could be established and, given Quaker energy and adventurousness, a Quaker bank would become a reality.

Such an institution would become a 'pattern' for others to follow both in the UK and, in time, overseas where less-developed countries have even greater need for ethically-run financial services businesses.

Quaker financial institutions would be of great benefit to customers, the wider society and to Quakers themselves.

The pendulum is swinging your way so be adventurous, follow the example of Quakers in the past and take a big step that could make a real difference to individual lives and to the wider society. Do not eschew the hard work and commitment in energy and financial terms that will be required.

2010 is the year of opportunity for new banking ventures.

Appendix

The 2007-9 credit crunch has complex origins:

- The massive balance of payments deficit that the USA has had with China and other countries, leaving huge dollar sums in foreign hands looking for borrowers.
- The Federal Reserve Board lowering interest rates to very low levels in response to the economic crisis of 2000 and then raising them again sharply in 2007.
- The US Government's policy of expanding home ownership and removing restrictions on mortgage guarantors such as Fannie Mae.
- The massive growth of securitization – such as 'Asset Backed Securities' (ABS) that led to risks not being understood and, ultimately, to a liquidity crisis.
- Increasing awareness of the risks, particularly of sub-prime lending, exposed by higher interest rates and falling US house prices. The real risk of many asset-backed securities became apparent, but nobody knew how much each bank was exposed to, causing the money market to seize-up as banks found it difficult to assess counterparty risks.
- A very competitive banking market where banks were aggressively seeking to increase market share and profits: profits that determined the bonuses of senior executives.
- The risks inherent in more complex financial instruments were not fully understood by bank directors, particularly the non-executive directors responsible for their shareholders' interests: the shareholders being indirectly the general public through their pensions, unit trusts and insurance policies.
- Competition that led to lower and lower credit standards: loans to higher-risk borrowers.
- A public willingness to accept higher levels of personal debt.
- A failure by regulators such as the Financial Services Authority to understand and monitor liquidity risks in a situation where banks had massively increased their reliance on the money market and asset-backed securities to finance the growth in lending.