

Christian banking and the new Quaker Bank

■ by John Lovatt



What might a Christian bank look like? That is, not a Faith Bank designed to cater for the needs of a specific faith group, but banking for people of all faiths or none according to the commands of Jesus? How could it be structured to preserve its integrity and yet prosper in today's climate? Should it use the power of money to set ethical conditions for the use of a loan? Should it follow biblical commands not to charge interest? If it follows the gospel commands to be merciful and forgive debts, how can it survive? A new Quaker bank which faces these and other thorny issues is being formed.

I have to state at the outset that although I am clerk of the Quakers & Business Quaker Bank Project, what follows are my own personal thoughts, and in no way reflect the views of Quakers and Business or the Working Group of the Quaker Bank Project, except where I specifically say so.

The modern background

Since 2008, there have been major changes in the banking world which are well known, but also a more gentle and subtle change in the culture even of the major banks¹. The long recession has had the effect all recessions have, of making conspicuous wealth unacceptable.² Perhaps it will stick this time. Wealthy investors and even pension funds now wish to be seen as providing finance also for 'social enterprise' rather than just maximum return.³ We even have now the Social Stock Exchange, which connects "Social Impact Businesses with investors looking to generate social or environmental change as well as financial return from their investment"⁴. The very low interest rates appear to have helped with this change in attitude: wealthy people may as well do some good with their money if they can only get 2-3% interest on their savings. This provides fertile ground for innovative banking with a social conscience. Hence the Quaker

Bank Project, the Charity Bank⁵, the initiatives of the Church of England⁶, and others. The Quaker Bank Project was started in 2010, and has reached the stage of being formed into a Community Interest Company, and hopes to start trading early 2014. Some of its characteristics are outlined below, as an example of a Christian bank.

But what might a specifically Christian Bank look like?

And how practicable could it be made to be in today's world?

We need to distinguish between what might be called a Faith Bank, that is, a bank designed to cater for the needs of a specific faith group, and a Christian bank, in the sense that it caters for people of all faiths or none, but does its banking according to what it perceives as the commands of Jesus. It is the latter that this article seeks to explore. As with all attempts to do business in accordance with the Christian gospel, there is doubt in many minds as to whether this is practicable, or just a recipe in today's world for early bankruptcy. This journal has a long and distinguished history of publishing authors who feel it is indeed practicable to run one's business by Christian principles. ▶▶



Bank Structure

You cannot serve God and mammon (Matt 6:24)



Making money for the shareholders is the standard excuse for heavy-handed business practices, whether in banks or other corporations. How can this temptation be removed? Quite simply, by having no shareholders. Quaker Bank cannot yet be called a bank, because it has not yet built up sufficient capital and other necessities of regulation, so it has been incorporated under the name Quaker Finance Trust CiC (QFT), until it can grow to be a bank. There are various forms of CiC (Community Interest Company), but QFT is limited by guarantee and has defined its Community as its borrowers, depositors, employees, the Executive Committee, the Quaker and Business Group, and its other customers and suppliers, each of whom have at least two seats on the board: it exists for the benefit of this Community, which is basically in the business of providing banking services to the Community. No dividends are paid, but instead any surplus remaining after adequate provision for reserves is handed over to a charitable trust (a statutory requirement for a CiC) which exists to provide benefits for the Community, especially its social, ethical and spiritual needs. Its assets are 'locked' such that it cannot be sold or taken over (a fate of some unfortunate Quaker companies).

However, to form a bank requires at least £5m capital (although discussions are ongoing to reduce this to £1m), so in the absence of shareholders,



loans or gifts have to be made, unless the bank slowly and steadily builds up its reserves to the necessary level by its lending and borrowing. QFT will probably choose the latter course, although it appears possible that sympathetic donors will come forward.

Bank Governance

Jesus said to them, *'The kings of the Gentiles lord it over them; and those in authority over them are called benefactors. But not so with you; rather the greatest among you must become like the youngest, and the leader like one who serves.'* (Luke 22:25).

I believe this text has found its way into the modern Quaker Testimony to Equality⁷ which stems from the conviction that all people are of equal worth. This was reflected in the early days of Quakerism by the equal spiritual authority of women, and by the refusal to use forms of address that recognised social distinctions. Equality is also a fundamental characteristic of Quaker organisation and worship. It goes very deep, and unless you have experienced the effect of Equality thinking in Quaker circles it is difficult to understand. The Quaker Business Method⁸ is a system whereby for example all in a business meeting are treated equally; are listened to in silence and not interrupted (in fact silence for pondering what was said should follow a speech); speak only once; there is no Chair, only a clerk, and no voting; the clerk's job is to summarise 'the sense of the meeting' and produce a minute by agreement with all present. So Quaker Bank will have no Chairman, only a clerk, and this business method will be used for all meetings. There will be an executive, but the QFT Articles state that 'The General Manager should be mindful of the Testimony of Equality as outlined in particular in the

Quakers and Business Group's Business Principles, and although decisive must not behave imperiously, must seek consensus as far as practicable and be transparent in the decision-making process to those affected by the General



▶▶ Manager’s decisions.’(Art. 31.4) Again, those used to more authoritarian regimes in business might question whether QFT will ever get anything done. But this method has been used for centuries by Quakers in business, and their success rate is as good as any.

Day-to-day banking

The Spirit of the Lord is upon me, because he has anointed me to bring good news to the poor. He has sent me to proclaim release to the captives and recovery of sight to the blind, to let the oppressed go free, to proclaim the year of the Lord’s favour.’ (Luke 4:18-19)

‘The Trust will not oppress those to whom it lends. The vengeful, corrosive power of in effect permanently-resident debt in an individual or organisation’s affairs is recognised and will not be practised. It will never force a borrower into bankruptcy (although it may try to recover its losses



Bailiffs removing property from a house in Lincoln on behalf of a banking and insurance company

where others have forced bankruptcy). It will not require as security any assets except those purchased by the loan. It will not impose on borrowers at borrower’s expense any extra devices to reduce the Trust’s risk, such as key man insurance, business investigation teams, excessive daily reporting. In case of difficulty in meeting the targets for repayment, the Trust should offer assistance to the borrower at the Trust’s expense, for example from business advisers or seconded executives,

always respecting the borrower as an equal.’ (QFT Article 32.13) This is a practical outworking of the Christian mission outlined in Luke 4:18. It increases bank risk and costs, but this type of ‘gentle banking’ will be part of a package, outlined in the rest of this article, which we hope is characteristic of a Christian bank, and as such will encourage depositors to place their money here, not so much for the highest possible return but to take some risks in order to encourage good to come out of the banking world.

Profit-share not interest

You take both advance interest and accrued interest, and make gain of your neighbours by extortion; and you have forgotten me, says the Lord God. (Ezekiel 22:12)

There are a number of scriptural injunctions against charging interest⁹, for example Deut 23:19 ‘You shall not charge interest on loans to your brother, interest on money, interest on food, interest on anything that is lent for interest’, and the Western Church by a whole series of general councils¹⁰, the last of which was in 1311, forbade people to make money by lending at interest. Calvin, under pressure from the times¹¹, divided usury into different categories, but this has been questioned as ‘illegitimate’¹². Modern Christians might wish to follow Jesus’ reading of the Old Testament, where the spirit behind the Jewish law, rather than the letter, should be fulfilled. The oppression of the borrower, particularly the poor, is my reading of these texts. So if a business is prosperous and can afford to repay, and gladly does so because the loan enabled that prosperity, this is not oppression. However, if unexpectedly the business hits hard times, insistence on the monthly payment, with no leeway whatsoever, and threatening to foreclose, is oppression.

Interest payments linked to the profits of the company would seem to be the solution. Independent auditing of a business, using modern technology and state regulation, ▶▶

▶▶ means that payment of a share of the profits to a bank is now independently and quickly verifiable. In the past, these devices were not available to the banks. This overcomes the oppressive nature of a fixed interest payment each month, whether the business can afford it or not. 'The Trust will not charge interest on its loans, but will charge a percentage of the profits of the project for which the loan was made'. (QFT Article 32.8)

But what about loans to private individuals? There is no similar auditing regulatory structure available to verify an individual's monthly surplus. What follows is my own personal idea, and has not even been discussed by the Quaker Bank Working Group, let alone agreed. It would be that individuals would be invited to give a donation to Quaker Bank. This would be on the same basis as the arrangements with the businesses, i.e. an agreed amount, based on the individual's financial circumstances, to be paid each month, and if times are hard, postponed till



Judge not, that ye be not judged

better times, when we try and catch up. My suggestion is that it would only work if the individual were within a community which knows the person well: the obvious place would be a Quaker local meeting, where there is normally a strong sense of community, and they know each other well. If someone falls behind with their payments, the bank would contact the local meeting, to ask if all is well, and provide free advice if desired. In practice, too, there is a long tradition of Friends helping each other out in financial difficulty. This is not too distant from the microcredit banks, who normally ask for the local community to underwrite a loan to an

individual. But it is important that the arrangement does not become oppressive, which can happen if the local community exerts pressure, rather than helping out.

Ethical Investment

1. *'Listen to another parable. There was a landowner who planted a vineyard, put a fence around it, dug a wine press in it, and built a watch-tower. Then he leased it to tenants and went to another country. When the harvest time had come, he sent his slaves to the tenants to collect his produce. But the tenants seized his slaves and beat one, killed another, and stoned another.'* (Matthew 21:33)

2. *Judge not, that ye be not judged.* (Matthew 7:1).

'The scribes and the Pharisees... tie up heavy burdens, hard to bear, and lay them on the shoulders of others; but they themselves are unwilling to lift a finger to move them.' (Matthew 23:1-4)

We may not like it, but God has entrusted us with power over others - and will require an account. The power banks have over others through money is frightening. St. Francis wouldn't touch it. QFT will have to give an account to God about the way they exercised power through lending money. And yet, by taking a judgement as to whether an investment is ethical or not, we are open to the charge of 'insufferable self-righteousness'¹³. Is there a way through this impossible situation (apart from abdicating all power and responsibility, and not starting a bank)?

True godliness does not turn men out of this world, but enables them to live better in it, and excites their endeavours to mend it. (William Penn, 1682)

'Responsible banking' is often associated with pressure on banks to refuse loans to people who can't afford it. I have had letters out of the blue from banks reducing my credit card limit (which caused me hardship) because they are 'responsible bankers'. I had been paying 'on the nail' and I was not asked about my ability to afford the payments. In reality, I think the bank was more interested in reducing its own risk, because it saw my high level of borrowing. ▶▶

▶▶ Similarly, ‘Ethical Investment’ appears to be a device whereby banks can capitalise on the ‘social conscience’ mentioned earlier, where often quite arbitrary lists of banned products, or indeed favoured products, are used to filter where the investment will go. However, I am sure that some of those selling alcohol would protest that Jesus partook of wine at the last supper, and a small tipple once a week is good for the health. ‘Green’ power generation from wind turbines has been criticised for spoiling the countryside, and damaging wildlife¹⁴.

So a Christian bank would have to be careful to examine its own conscience when deciding to ban or support certain products, to be sure that it was not selfish in reducing its own risks, or in capitalising on vulnerable investors, but was genuinely, in prayer, concerned to avoid, or support, certain products.

In the case of QFT, the products to be avoided, based on the long established Quaker conscience, are those associated with war, gambling, harmful drugs, alcohol and tobacco (Art. 32.3).

Ethical Audit

Who is the dependable and prudent manager that the owner puts in charge of his staff to feed them well and on time? (Luke 12:42, my translation)

However, in addition, would a Christian bank expect to be accountable to God to use its undoubted power to be truly godly and endeavour to ‘mend the world’, and not to bury its talents? (Matt25:25)

One obvious way would be to encourage those to whom it lends (and from whom it accepts deposits) to run their businesses in a godly way. But a Christian bank would not pontificate, or demand a set of rules in the loan contract, but would suggest, in the words of a meeting of Quaker elders at Balby in 1656: ‘Dearly beloved Friends, these things we do not lay upon you as a rule or form to walk by, but that all, with the measure of light which is pure and holy, may be guided; and so in the light walking and abiding, these may be fulfilled in the Spirit, not the letter, for the letter killeth, but the Spirit giveth life.’

The first requirement would be that the bank itself keeps to the highest ethical standards, and in this respect QFT has set out in its articles long sections on its day-to-day business behaviour, which is hopefully refreshing in the current banking context. Its Articles include non-aggressive selling, respect for all staff, paying bills on time, no tax avoidance, and an independent ethical audit. Not many company Articles include the word Love as a requirement, but these do.

So how would a Christian bank raise up the good in the people it does business with, without being self-righteous? “When I came into the silent assemblies of God’s people, I felt a secret power among them, which touched my heart; and as I gave unto it I found the evil weakening in me and the good raised up.” (Robert Barclay, 1648 - 1690, grandfather of David Barclay of Youngsbury, one of the founders of Barclays Bank)



Robert Barclay (1648 - 1690)

Ethical audit of borrowers would therefore be perhaps too intrusive, unless requested by the borrower. Instead, on negotiating a loan, the bank might ask specific questions, such as, ‘do you pay your suppliers on time according to their terms of business?’ or ‘what amount of short-term contracts do you have, compared with your industry? Would you consider making more permanent contracts?’ If the answer is no, the bank should listen to the customer, and then might explore with ▶▶

▶▶ them how the situation might be improved - perhaps by offering extra working capital to permit prompt payment of suppliers, or a gradual policy of reduction of short-term contracts. But in no way would the bank impose unilaterally any ethical conditions (apart from where unlawful practices are used) on the loan. It would be up to the business to decide, but if an improvement were agreed, perhaps the loan terms might be improved in response, on the basis that bank risk is thereby reduced (see below), and depositors willing to accept lower 'interest'.



A more personal relationship is likely to reduce bank risk

But the main tenor of the bank's policy in raising up the good would be to support and affirm those businesses which already are exemplary in their high standard of business practice, although it is exciting that depositors might see an improvement in business practice. The current idea at QFT is that businesses are given a rating and a logo, in a similar way to other quality schemes, which would show their suppliers and customers their high standards in doing business.

A Christian bank might take the view that businesses which conduct themselves to a high ethical standard are a lower risk to the bank. From even a cynical point of view, it means they can afford to do so, and must be well run and organised in order to survive. Consequently, lower profit-share percentages and other loan contract 'soft' conditions would be in order. Conversely, low standard ethics imply a higher risk to the bank, and more

stringent loan conditions. However, here we are treading on the dreaded 'self-righteous' path, and the bank would need to listen to the customer and be gentle.

Survival

Be ye therefore wise as serpents, and harmless as doves (Matthew 10:16)

How would a Christian bank with such 'soft' banking survive? (Given that it is not shareholder-value driven, it still has to accumulate reserves for the security of its depositors.)

If it does not use draconian methods to make people pay their monthly payments, won't the default level be high? If it never bankrupts clients, won't this result in clients simply refusing to pay?

For one thing, legislation is on the way to prevent banks being draconian, and for another, we can obey Jesus' command to be wise as serpents but harmless as doves. The initial selection of business clients on the basis of their high ethical standard implies lower risk to the bank, in that businesses run by high ethical standards are also likely to maintain their monthly payments. In addition, the old-style more personal relationship (which is also now being practised by the new local banks) together with the 'soft' approach of helping a struggling business at bank expense, is likely to result in the business feeling obliged to keep up payments, thus reducing bank risk. This is in contrast to the bitter relationship which I myself have witnessed as a result of bankers being high-handed and has resulted in many businesses feeling no moral obligation at all to the bank. In fact I have known of cases of client dishonesty with the bank. This increases bank risk.

Secondly, all the administrative systems available can still be used to make sure payments are made regularly, and warnings issued rapidly to the bank in case payments reduce or cease. So rather than 'pay when you can', the bank sets up standing orders as usual, which can only be cancelled by the bank, and ▶▶

▶▶ payment ‘holidays’ are arranged mutually rather than unilaterally by the client. This is in fact not very different from normal existing arrangements with banks. So, on the surface, the arrangements are the same as if interest were charged. However, whereas in my experience a normal bank will not tell you they would arrange payment ‘holidays’ etc in case of need, because they want to keep the pressure up, Quaker Bank would be quite transparent about it, and this should enhance the business relationship.

As for foreclosing, resulting in the bankruptcy of the client, in my experience it is more often HMRC who forces a client into bankruptcy rather than the bank. In practice, if a business has got into such difficulties that it has no hope of paying its outstanding VAT or PAYE, HMRC has a statutory duty to act. When that happens, Quaker Bank will take its place in the queue of creditors. However, it is not oppressive to the client to make the arrangement that, like other banks, Quaker Bank is a preferential creditor and has first call on the assets. It may be considered oppressive on the unsecured creditors, but theirs is such a normal and accepted trade risk that surely they are aware of their risk when they do business, and unlike the Bank, they can control how much credit they allow the customer on a monthly basis.

Accordingly, such ‘soft’ banking is not as risky as might be imagined, and in fact there is a case for it being less risky, due to selection of clients with high integrity and a friendly relationship with them.

Additionally, one would hope that other Christians and like-minded depositors would be glad to take extra risk, in the knowledge that the bank is trying to raise up the good. These risks will be as transparent as possible: “As part of the Outreach and to fulfill the Trust’s transparency requirements, the loan document for each project, and the contracts with depositors, will be clearly published in the public domain, including the Trust’s website, such that all other depositors and borrowers and the general public can easily see the information.”(Art. 32.12)

It goes without saying (and is a statutory requirement for a banking licence) that the management of the Bank would be of the highest competence and experience. However, we would expect that given the refreshing difference of attitude at Quaker Bank, many of the most talented bankers would wish to join us. In fact, we have already been approached by many experienced banking executives who wish to do so. We expect to be well run. And we already have three people each with many years’ banking experience on the Quaker bank Working Group of six persons.

Co-operative Bank

How are the mighty fallen! (2 Samuel 1:27)

However, in the long term, what is to prevent a high-minded bank not going the way of the Co-operative Bank, where many years of conservative idealism quite suddenly ended up with the bank over-reaching itself, and the disgrace of its Chairman? To be honest, the answer is, it can happen. However, there are



Paul Flowers, disgraced chairman of Co-operative Bank

some safeguards. The bank structure outlined above is very different from the Co-operative bank, and in addition it is hoped that it will also preserve the ethos of the bank (which in the case of the Co-operative Bank seems to have become eroded over the years). This is because the Articles themselves set out in some detail the day-to-day banking practices, as well as the overall philosophy, and in case of perceived erosion of principles the general public can challenge the bank that it is not doing business in accordance with its Articles. If you are interested, the Articles (leaving out the boring statutory stuff) can be found on the Quakers and Business website¹⁵. ▶▶



Where next?

For he will command his angels concerning you to guard you in all your ways. On their hands they will bear you up, so that you will not dash your foot against a stone. (Psalm 91:11-12)

The situation at the time of going to press is that the Working Group is in process of preparing the Feasibility Study for the first phase, which will probably be a very small deposit-taking institution, hoping to reach £1m deposits, and place them in two to six businesses within six months of startup. We expect the startup costs to be £5,000-£50,000, and to have little trouble in raising that, in which case we would hope to be in business by Spring 2014. The intention is to grow organically, maintaining our independence by not taking on outside loans, and slowly building up our reserves until we reach the level necessary for a banking licence. We plan to build experience and grow slowly during the first year or two, but we may surprise ourselves and the public by growing rather faster than anticipated.

However, with no shareholders to satisfy, and only God to be accountable to if we do not spread the good news of a different kind of banking quickly enough, we can afford to be measured in our growth.

Conclusion

But seek ye first the kingdom of God, and his righteousness; and all these things shall be added unto you. (Matthew 6:33)

The social and economic conditions are right, and the technology is available, for the formation of Christian banks, not in the sense of Faith Banks, but in following Christian principles in obedience to the commands of Jesus to bring the kingdom of God on earth. The enthusiasm for this project from all quarters - Friends themselves, including the trustees of the Religious Society of Friends (Quakers), ordinary account holders, and those also in the financial services industry - has been remarkable. As one City Banker said: 'Quaker Bank' - what a brand! ■

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- 1 For example, Barclays' *Transform Programme* includes a revised remuneration policy based on Respect: We respect and value those we work with, and the contribution that they make. Integrity: We act fairly, ethically and openly in all we do. Service: We put our clients and customers at the centre of what we do. Excellence: We use our energy, skills and resources to deliver the best, sustainable results. Stewardship: We are passionate about leaving things better than we found them.
- 2 In American Public Media's Marketplace Morning Report for 4.10.13, the luxury builder Jeffrey Colle said \$40 million, 20,000-square-foot mansions are falling out of fashion in the Hamptons—while more modest homes in the \$8 million to \$10 million range, or even in the \$4 million to \$6 million range, are becoming more popular. The report states the reason is not that Wall Streeters cannot afford eight-figure estates—but that “conspicuous wealth” is increasingly considered in bad taste. “Honestly, I think people want to be more respectful of what’s going on in the economy,” Colle told APM. “People are struggling. I don’t think people want to push that in someone’s face. That there’s this vast difference in the way people live.”
- 3 ‘The concept of socially responsible investment (SRI) is for pension funds to seek a good return on investments and at the same

- time use their influence to increase social and economic welfare... As one would expect, larger funds have taken the lead – in the UK, this includes the BT Pension Scheme and the Universities Superannuation Scheme (USS). From the www.uss.co.uk website, but only accessible by googling “pension funds SRI”.
- 4 <http://www.socialstockexchange.com/>
- 5 www.charitybank.org
- 6 See for example the new proposed Anglican Mutual Credit Union www.amcu.info.
- 7 www.quaker.org.uk/testimonies
- 8 qandb.org/quaker-business-method.html
- 9 <http://www.tentmaker.org/lists/UsuryScriptureList.html>
- 10 <http://www.newadvent.org/cathen/15235c.htm>
- 11 For a more detailed account of the history of interest see Richard Higginson, *Faith, Hope & the Global Economy*, IVP, 2012, pp. 97-104.
- 12 See Peter Dominy's book *Decoding Mammon* p.31. This book was reviewed in FiBQ16.1.
- 13 The Friend, 1 February 2013, p8.
- 14 An estimated 600,000 bats were killed in the United States by wind turbines in 2012. <http://www.bbc.co.uk/news/blogs-magazine-monitor-24865448>
- 15 <http://qandb.org/downloads/Public/Quaker-Finance-Trust-highlights-of-Articles-for-QBC13/>