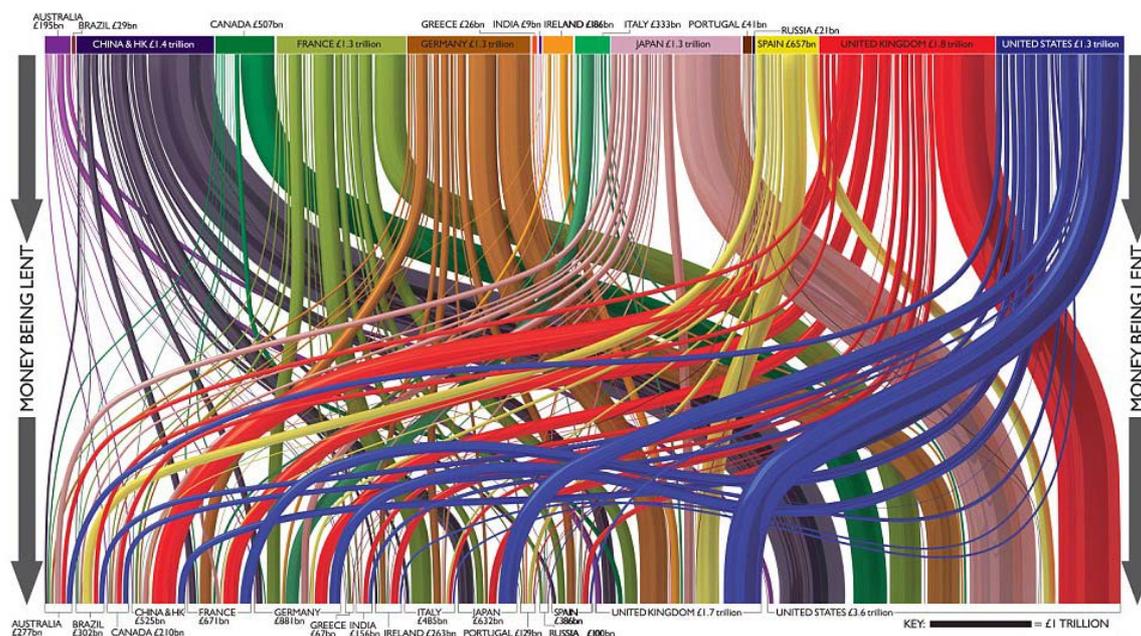


The Future of Personal Banking by William Franklin ¹

'There is,' explains E.C. Riegel in his promotional material for *Private Enterprise Money*, 'a treasure buried in your consciousness. If you will dig it up from the debris of superstition and fear that covers it you will gain a freedom and self-mastery that will lift your life to a higher plane.' Riegel was not extolling the principles of Buddhist karma but was writing about the power to create money with which to purchase wealth, health and happiness which lies dormant within everyone. Here is Riegel again.

'You have thought of the money power as something remote from you and beyond your grasp. You have dreamed of the good you could and would do if you had money power. You have blamed others for not accomplishing this good. You have blamed them for evil economic and political conditions; for unemployment, for poverty, for crime, for war. It is quite logical to blame these maladies upon the malfunction of the money power, but you have not suspected that the money power resides in you and because of your failure to exert it the world is afflicted with miseries.'



'The power and responsibility to banish poverty, unemployment, insecurity, misery and war rests entirely with you. In cooperation with other intelligent persons, you can drive economic and political evils further and further from the area of your life and ultimately they may be driven from the face of the earth. You can do this by the money power in you, expressed first in your own prosperity and happiness, and radiating to others.'

'You can do it and you must do it. There is no power outside of you that can bring these blessings to you. Petitioning the Government is like writing to Santa Claus. You need no laws - there is a law, a natural law that governs your money power. You need no government aid. You need only cooperation with and from persons who, like you, have resolved to exert the money power inherent in us all.'

'This power in each of us needs only the recognition and respect of our fellows to spring forth and exert its blessings. We need not petition *Congress* and we need not waste time denouncing bankers, for they can neither help nor hinder our natural right to extend credit to each other, and this is the perfect basis for a money system.'

In the final chapter of *The End of Money and the Future of Civilization*, Thomas H. Greco draws a sharp distinction, in principle, between the *exchange* function and the *finance* function. 'The exchange function,' Greco explains, 'requires *short-term* credit that bridges the gap between the delivery of goods to market and the sale of those goods, while the finance function requires *long-term* credit to enable the renewal or

¹ First published online as William Franklin's *Letter from Irvine* on 28 March 2012. The Tangled Web of Debt was drawn by Joshua Mowll who began his career as a graphic artist in 1994 with the *Mail on Sunday*. Mowll is the author of the trilogy: *Operation Red Jericho*, *Typhoon Shore* and *Storm City* and has drawn everything from space flights, medical procedures and aircraft crashes to ancient pyramid theories, invasions, SAS assaults and laser-guided weaponry.

expansion of the economy's production capacity.' Greco then concludes that 'capital investments should be financed out of savings rather than by the creation of new money'...and that borrowing to purchase consumer durables (consumer finance) should also be provided from savings.

Greco also argues that '...it is a necessary feature of any organized economy to have a set of mechanisms that provide for financial security. This is a particular concern in countries where the traditional social fabric, with its built-in family and tribal supports, has been eroded'. He then points out that '...the increasing concentration of power and the appropriation of resources by the centralized government/banking/corporate nexus has rendered traditional social units economically impotent.'

There then follows a discussion of the liberation of the exchange process. However, according to Greco, '...concurrent with the liberation of the exchange process, we are also seeing developments that attempt to liberate savings and investment by bypassing the banks in their role of *depositories*. This is a form of *disintermediation* in which people with surplus cash can lend it directly to those who need it by making private arrangements.'

'This approach,' Greco explains, 'has been widely practiced historically by particular ethnic groups and immigrant communities and has recently become a more general phenomenon with the emergence of web-based peer-to-peer lending intermediaries...'

Greco was writing at the end of 2008 and reporting a very recent development. He was sensibly cautious about how far this development would get.



At much the same time, in September 2008, I was giving a 20-minute presentation at the *Everyday Digital Money* workshop organized by the *Anthropology Department* at the *University of California at Irvine*.

One of my themes was deconstructing the existing monetary infrastructure...a task I argued would require a constitutional amendment against usury based on the principles of the usury laws of sixteenth century England.

Without it, American governments would be unable to deliver the level playing field required for a sane humane ecological monetary infrastructure to emerge for the 22nd century.

Also attending the workshop was a founder of an online English financial company called *Zopa* who was concerned not with the old structures but with the new savings and investment structures that would be needing the protection of government and a *Doctrine of Usury* similar to the *Tudor Usury Act of 1571* with which I was concerned.

Zopa was one of two organizations...the other was the American-based *Prosper*...that Greco chose to highlight as examples of the emerging 'social lending' movement. However I did not feel the need to share Greco's caution and in my workshop report to my own colleagues I praised the *Zopa* presentation as far and away the most significant event of the two-day workshop.

Zopa is licensed in the UK by *The Office of Fair Trading* and is backed by the same investors that backed *eBay* and *Skype*. Over the past three years *Zopa* has gone from strength to strength having been voted *Moneywise's* 'Most Trusted Personal Lender' two years running.

Zopa presents itself as a marketplace for money where people who have spare money lend it directly to people who want to borrow. 'There are no banks in the middle, no huge overheads and no sneaky fees, meaning everyone gets better rates.'

The minimum loan is £1,000 over 3 years...though with no penalties for early repayment, in principle it is possible to clear the balance on your £34 per month £1,000 minimum loan after a year. Assuming an APR of 15% the amount of credit is £1,130 and the repayable sum £1,230 at £34 per month per £1,000.

In *The End of Money* Greco explains how social lending ought to work. Ideally, when someone applies for a loan, the system authenticates their identity, obtains a credit history report,² gives the loan a risk rating and then posts the request online as an offer to prospective lenders who can offer some amount of their choosing to that particular request.

The risk of default is spread among many lenders, with each lender deciding how much of their money they wish to risk on any particular loan.

In *Zopa's* case, borrowers specify the maximum interest they are willing to pay, while lenders specify the minimum rate of return they will accept. The online system in an automated auction-type process then matches up lenders and borrowers in a way that is most advantageous to the parties involved.

Compared to banks, these peer-to-peer arrangements typically provide savers with a higher rate of return on their savings, while enabling borrowers to obtain capital at lower rates of interest.

According to Greco, the terms and conditions of the lender's application are rather lengthy and contain a number of restrictions based on UK laws. But one clause makes the role of *Zopa* clear: '*Zopa Limited* is not a party to any *Loan Contracts* between *Lenders* and *Borrowers*. Our function is to operate the *Lending Platform*'. The *Zopa* process approaches the Greco ideal. Three questions:

1. How long before English wage-earners pay off their credit card balances and replace them with a fixed monthly transfer to *Zopa*.
2. How long before there is a 'slow-run' on the high street banks and building societies as English pensioners remove surplus balances from 'indecently-low-interest-bearing' accounts and invest in *Zopa Derivatives*.
3. How long before ordinary people assert their money power and organize themselves to exchange value without using either banks or national currencies?



² This should not come from the high street bank credit agencies, but as with *Amazon* and *eBay*, from the experience of other users of the money market place. Large corporate utilities and financial companies routinely use credit records to blackmail ordinary people into paying even when an invoice is in dispute. This originates in the one-sided nature of the arrangement whereby only the lender can place (and remove) adverse marks from the credit record.