

Using High-Transparency Banks to Reconnect Money and Meaning

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High-transparency banking is feasible and emerging. Public-interest accountability metrics can support a new crop of more trustworthy banks, highly-transparent as to their environmental and social impacts and corporate governance practices. To achieve scale, federal banking reform could include special charters and support for high-transparency banks, a new class of banks that develop and make publicly available the open technology standards needed to underwrite, incentivize and exchange transactions that produce positive environmental and social impacts.

Climate change and a frail banking system are both pivotal global crises.¹ So too, their solutions may be linked. Banking traditions, technology, regulatory framework and public trust defined banks in carbon-based economies. Today, banks must evolve to serve sustainable economies. Conditions are ripe for high-transparency banks to emerge.

This article discusses high-transparency banking, its information backbone, the design for one high-transparency bank, and how federal financial regulatory reform could encourage high-transparency banking.

Banking as Information Science

Banks use information to create money - where capital is, who needs to invest it and who needs to borrow and spend it. Information vital to banking includes split-second market prices for borrowed funds, corporate and municipal bond rates, currency and commodity prices and stock markets, as well as information flowing from customer accounts.

Banks access a vast array of data defining us as people, neighborhoods and groups.² Through credit reporting agencies and partnerships with government and retail organizations, they build data models predicting the lifestyle patterns of customers.³ These models let banks tailor everything from access to credit, to the interest rate each customer pays. Banks compete by aiming their data models at customers, targeting their zip codes and affinity groups, to handcraft weekly sales pitches for credit card, mortgage refinance, car loans and other services.

Yet, for all they spend knowing about us, the transparency is one-way. Banks provide meager tools to let customers see the environmental or social impacts of using bank-provided credit or bank-entrusted deposits. The information imbalance keeps customers in the dark so as to grow credit use by disconnecting meaning and money.

1 Other pervasive social crises derive from, contribute to or co-exist with these, including deforestation, malnutrition, sanitation, urban sprawl, public health and education.

2 Charles Duhigg, What Does Your Credit-Card Company Know About You? (New York Times May 12, 2009), http://www.nytimes.com/2009/05/17/magazine/17credit-t.html?_r=1&hp.

3 For example, Department of Motor Vehicle registrations are mined for prospects that need to buy, maintain or insure a new car or a fleet of cars.

Banking as Impacts-Opaque Financial Alchemy

As of June 24, 2009, commercial banks in the United States held \$936.5 billion in cash, some 7.8 percent of their total assets.⁴ The remaining \$11.1 trillion (92.2 percent) in assets represented claims for payment, either issued by other banks, the government or the private sector, in the form of promissory notes, consumer credit card debt, business borrowing or other forms of secured and unsecured credit. In reality, loans account for nearly all bank assets, and the U.S. dollar is not the primary currency of America: The banking system generates its own trusted forms of “negotiable currency,” nearly all in forms that hide community, environmental and social impact.⁵ The banking system assures financial markets can’t price the risks of impacts they don’t see.

Traditional, “Low-Transparency” Banking

The tools used by bank regulators and in turn the public and media, to oversee bank impacts are coarse, limited mainly to after-the-fact accountancy for financial health. The Federal Financial Institutions Examination Council (FFIEC)’s Uniform Bank Performance Report (UBPR)⁶ and the FDIC’s Statistics on Depository Institutions (SDI)⁷ provide individual bank financial performance warnings and assurances to regulators, whereby bank peer group benchmarks emerge and timely interventions can be taken.⁸ The FFIEC⁹ aggregates FDIC-insured banks Community Reinvestment Act (CRA) compliance.¹⁰ Banks and their customers, collateral and investments exist in and share a community’s environmental and social context.¹¹ CRA is a half measure, spreading credit without measuring environmental and social impacts of and on bank activities. Without better tools, regulators cannot monitor bank impacts for “safety and soundness.”

4 Federal Reserve Board of Governors, Assets and Liabilities of Commercial Banks in the United States Release H. 8 (May 8, 2009), <http://www.federalreserve.gov/releases/h8/Current/>.

5 This discussion draws on the insights of Thomas Greco Jr., Ellen Brown, Bernard Lietaer and others who ask what “money” is and how it comes to be.

6 FDIC, Uniform Bank Performance Reports, <http://www.ffiec.gov/UBPR.htm>.

7 <http://www2.fdic.gov/sdi/index.asp>.

8 FDIC, Bank Data & Statistics, <http://www.fdic.gov/bank/statistical/index.html>.

9 FFIEC, <http://www.ffiec.gov/>.

10 FFIEC, Community Reinvestment Act Data Products, <http://www.ffiec.gov/cra/craproducts.htm>.

11 Rooted in 1930s Depression-Era common experience, federal regulatory formulas presumed bankers’ social commitment to prudently invest community wealth entrusted to them. Since the 1980s, Wall Street firms paid its top management large bonuses, guaranteed even during years of massive firm losses. Split incentives at two levels became the economic order: an individual manager’s wealth was not a function of bank profit, and bank profit was disconnected from social profit. The accountability voids let subprime lending and the structured products built on inflated real estate mortgage pools balloon out of control. Through campaign finance and other means, social accountability via regulatory oversight lagged the bank industry’s practices and impacts.

Information about Bank Impacts is Available but Scattered

Major commercial banks have environmental, social and governance (ESG) performance ratings.¹² Despite a bank's corporate ESG ratings, the environmental and social impacts of its business and personal loans (92 percent of bank assets) remain virtually hidden.¹³ Corporate governance, corporate social responsibility, ESG, the United Nations' Global Reporting Initiative, the Equator Principles¹⁴ and for financial institutions CRA represent a rising tide of annual ratings and reports through which banks' environmental and social performance can be measured within their industry, and compared to other industries.

Designing a High-Transparency Bank

Urban Logic[®] has designed a high-transparency bank.¹⁵ As envisioned, GoodBank[™] would let customers (i) see whether their money meets the individual's environmental and social impact goals and (ii) use affinity group banking to improve regional quality of life. Key design elements include:

1. **High-Transparency:** Instead of minimal transparency as regulatory burden, GoodBank designs transparency into all services, governance and other features.
2. **Underwriting, Risk Management & Corporate Governance:** Prudent bank operations and management are augmented by visualizing environmental and social impacts. Reliable data about how regions absorb and buffer needs, changes and shocks come together in a model to produce a financeable blended measure of quality of life challenges and strategies (sustainable resiliency[®]).
3. **Incentives:** Eighty-five percent of Americans carry a rewards card. Nearly half of all Americans, and 41 percent of conscious consumers carry three to five rewards cards.¹⁶ At GoodBank, the customer's banking relationship improves based on spending and non-spending (savings) in line with their chosen social impact goals. Consuming more mindfully becomes rewarding through cash-back rewards, more competitive interest rates and reduced fees.

12 Independent ESG rating service providers for the socially-responsible investment (SRI) mutual fund industry include ASSET4, Innovest, KLD and TruCost.

13 An exception, home lending, is partially documented as social impact finance.

14 Equator Principles for Project Finance, www.equator-principles.com/reporting.shtml. See also, BankTrack, Banks Lack Robust Framework for Minimizing Social Risks: Equator Principles fail to adequately address human rights (Washington 2008), www.banktrack.org/show/news/banks_lack_robust_framework_for_minimizing_social_risks.

15 Urban Logic, GoodBank Project Wiki, www.goodbank.info/w. GoodBank[™] is the design for a bank yet to be chartered, and therefore not yet in operation.

16 Consumer Reports, Points Mania (July 2008), www.consumerreports.org/cro/money/credit-loan/rewards-cards/overview/rewards-cards-ov.htm?resultPageIndex=2&resultIndex=12&searchTerm=reward percent20cards.

4. **Individual Values:** As consumers use credit and savings to buy products and services aligned with their chosen environmental and social impact goals, the interest rate, cash back rewards and other features of their bank relationship shift, in recognition of their reliable, goal-driven behavior (using a mobile Web service, the Means Meter®).
5. **Business Banking:** As businesses set supply chain accountability, fair labor, environmental and other goals to grow “triple bottom lines” (profit, planet and people), their cost of capital and fees for merchant card services improve. The company’s sustainability data helps brand and market to conscious consumers.
6. **Social Sector Banking:** Non-profits, foundations, social entrepreneurs (including many graduating universities or shifting careers today) and faith-based organizations form the “social sector.”¹⁷ GoodBank takes quantifiable contributions to the community’s sustainable resiliency into account in setting interest rates.
7. **Procurement Visualization:** The bank will help local businesses see relevant corporate and government procurements and pre-qualify them for working capital and other loans needed to win contracts that revive local jobs and economic development.
8. **Growing Change:** Cash-back rewards become “complementary currency” that can be invested in micro- and social enterprises and other activities that augment sustainable resiliency as each customer believes best.
9. **A Change Agent’s Compass:** To leverage the bank’s role as change agent,¹⁸ we map the world’s needs, capacities and money, where needs are represented by sustainable resiliency®, capacities are an open Google Earth/Wikipedia-like mash-up of solutions available to address needs, and money relate to the government, corporate and private funding to connect needs and capacities. Through the 3 Layered Map, the bank and its customers better see tipping points¹⁹ that their ethical banking can leverage. For instance, if a conscious consumer or business believes that fair trade labor is an issue that could be influenced by purchasing from ethical sources, the Map would reveal advocacy arguments, marketing promotional content and sources of foreign assistance to address that cause, alongside using GoodBank’s affinity group tools to engage other customers in making change happen faster.
10. **Affinity Group Tools:** Bank customers who are motivated to address a cause, community or region of concern will be given the option to self-identify as affinity groups so

17 This is called the Third Sector in the United Kingdom, with its own national government programs. Cabinet Office: Office of the Third Sector, About Us (November 23, 2008), www.cabinetoffice.gov.uk/third_sector/about_us.aspx.

18 Neil Porter Brown, Change Agent: William Drayton promotes socially conscious entrepreneurs (Harvard Magazine March-April 2002), <http://harvardmagazine.com/2002/03/change-agent.html>.

19 Malcolm Gladwell, The Tipping Point : How Little Things Can Make a Difference (2000), http://en.wikipedia.org/wiki/The_Tipping_Point.

as to inform the bank of their unique knowledge, have authenticated data on the issue flow into bank underwriting (through sustainable resiliency metrics), and to invest their Means Meter cash back rewards in third party social entrepreneurs who innovate solutions that add to sustainable resiliency.

11. ***Social Financial Literacy:*** In bank branches and online, social financial literacy technologies will offer new options to learn, teach and discuss financial responsibility in terms of family, community and global impacts.
12. ***Incubate High-Transparency Bank Technologies:*** Instead of a large branch network, the bank will operate destination branches, and license social financial literacy technologies to other community banks and financial institutions seeking to become highly transparent, thus growing the asset classes and marketability of bank receivables.

A Practical Example

Imagine a consumer looking for sustainable toothpaste walks into their favorite supermarket, with an Apple iPhone or an Android phone.²⁰ Scanning her regular toothpaste's bar code with her phone, the consumer does three things: shop, compare and buy. She compares prices at neighborhood stores, and whether the toothpaste brand chosen and the store itself are the most sustainable, using preselected ratings data. In short order, she swipes the phone at the checkout counter to make the purchase, like a credit card. The phone also records and shares what she learned through applications for personal financial management (e.g., Mint and Wesabe) and social networking (e.g., Facebook).

Most of these applications exist today. What is missing is a bank that rewards the consumer who makes and keeps a commitment to sustainability (or any other) social impact principles. Through GoodBank, the consumer is rewarded for shopping consistent with her values, for keeping her word to herself. Mindless credit is turned into mindful credit. Web data about products transforms from manipulating ads into meaningful purpose at point of sale. Personal credit scores are managed in real time, not as breaches of commitments after the fact.

GoodBank's design takes a normal commercial bank, and adds enhanced information tools that help customers improve their money's impacts. The bank exchanges money and impacts information with its customers. Profitability is a function of reducing costs and adding new revenue sources. The bank pays financial and social returns, with the psychic returns being in some cases more meaningful and creating a more loyal customer base. Loyalty reduces the bank's costs to find and keep customers' business. Customer affinity goals reduce bank credit and liquidity risks, while improving the overall user experience and driving the mission of the bank. Loans tied to the customer's environmental or social goals

²⁰ Google/Open Handset Alliance, What is Android?, www.android.com/about.

create a new asset class of debt, socially responsive debt (SRD), that can be aggregated into bank-managed funds for mission-related investors, such as pension funds, to complement their socially responsible investments (SRIs). This SRD origination process reduces the bank's credit risks while adding new capital access. With the loyalty of conscious consumers, the bank can reward its triple bottom line business customers, while highlighting and financing non-profit and social sector entrepreneurs. As an incubator for social financial literacy technologies, the bank generates and provides an outlet to share new media content. It earns royalty revenue from licensing new technologies to peer banks, so as to reduce the technology development costs and risks.

As a high-transparency bank, GoodBank's design reattaches meaning to the money it creates through credit formation. As a demonstration project, GoodBank will leverage trends and systemic shifts described in the balance of this article.

Anticipating the Demand for Semantic Banking Services

The semantic web (sometimes called Web 2.0/3.0) promises to tag data in such a way as to create a virtual periodic table or Dewey decimal system of self-organizing knowledge. With the semantic web, Google-like product searches will retrieve trustworthy, actionable information for consumers in a Wikipedia-like taxonomy, along an ever expanding and deepening map of supply chains and their impacts.²¹ The semantic web will hold corporations, nonprofits, foundations and governments more accountable for environmental and social impacts.²² Researching product supply chain information on the web will become easier as an affinity group activity, leveraging each individual's curiosity, query or concern.

The semantic web will support transactions that leverage community impact. Imagine that a consumer wants to consciously support local living economies²³ by buying from local merchants, farmers and service providers. When the consumer pays by credit card, the interest rate, cash-back rewards and other features can take such conscious, social-impact choices into account. The banks issuing and honoring the credit card can serve as conduits for transacting environmental and social good.

The next decade (2010-2020) could moderate growth in consumer debt levels by a tiered credit system that rewards consumers who commit to incur debt for products and services that improve the world around them. Between 1998 and 2008, use of the Internet grew 167 percent, average online purchases grew 2,156 percent, average consumer debt grew

21 Bruce Cahan, Helping Consumers Buy Products that Reflect their Values (Google Tech Talk February 8, 2008), <http://www.youtube.com/watch?v=niGJCNN1FbA>.

22 UK banks operating through the traditional banking model are somewhat skittish about adopting semantic web features that let affinity groups "control" their brands. Finextra, Fears of brand damage scaring banks away from Web 2.0 (February 23, 2007), <http://www.finextra.com/fullstory.asp?id=16563>.

23 See, BALLE: Business Alliance for Local Living Economies, www.balle.org; Woody Tasch, Inquiries into the nature of Slow Money: Investing as if food, farms and fertility mattered (Slow Money Alliance 2008), <http://www.slowmoneyalliance.org/>; Michael Shuman, The Small-Mart Revolution (BALLE 2006), www.small-mart.org/.

70 percent, and the share of disposable household income spent on debt service increased 16.5 percent.²⁴ Viewed from this perspective, consumer debt financed the first decade of the Web's widespread adoption. Rethinking consumer debt for the U.S. economy means pivoting how consumers spend their 70 percent share of gross domestic product.²⁵

Today, credit cards are digital one-way mirrors: banks look in on us as credit users, but provide none of the tools for us to aim our values out at the world. Naturally, we consume both product and credit, unaware of impacts. Worse, the information gaps from manufacturers and banks, and the lack of credit incentives dull us to the point of associating branding with social impact, "green-washing" us with goodness.²⁶

SRI, Conscious Consumerism and "Green"/Sustainability Accounting Data

Socially responsible investment portfolios composed of each industry's ESG leaders

24 For U.S. population, see American Factfinder, Table T1: Population Estimates, 2008 Population Estimates (Washington, DC: U.S. Census Bureau, 2008), http://factfinder.census.gov/servlet/DTTable?_bm=y&-geo_id=01000US&-ds_name=PEP_2008_EST&-_lang=en&-mt_name=PEP_2008_EST_G2008_T001&-format=&-CONTEXT=dt. For internet use, see Internet World Stats, United States of America: Internet and Broadband Usage Rates, <http://www.internetworldstats.com/am/us.htm>; World Bank, Data and Statistics, Key Development Data and Statistics (Geneva: World Bank, n.d.), <http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20535285~menuPK:1192694~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html>; and Central Intelligence Agency, World Factbook: Internet Use in U.S. in 2008: Country Comparison, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2153rank.html>. For consumer debt, see Federal Reserve Board, Consumer Credit Outstanding (historical tables), http://www.federalreserve.gov/releases/g19/hist/cc_hist_sa.txt. For household debt service, see Federal Reserve Board, Statistical Release: Consumer Credit Release G.19 (Washington, DC: Federal Reserve Board, July 8, 2009), <http://www.federalreserve.gov/releases/g19/current/g19.htm>. For e-commerce, see U.S. Census Bureau, Table 3. Quarter Ending Retail Sales (Total) Retail Sales (E-Commerce) (Washington, DC: U.S. Census Bureau, March 2009), available at <http://www.census.gov/mrts/www/data/html/09Q1table3.html>.

25 U.S. Bureau of Economic Analysis, National Income and Product Accounts Table 1.1.5. Gross Domestic Product, <http://www.bea.gov/national/nipaweb/TableView.asp?SelectedTable=5&FirstYear=2008&LastYear=2009&Freq=Qtr>.

26 Natural Marketing Institute, 2007 LOHAS (Lifestyles of Health and Sustainability) Consumer Trends Database, as reviewed in Green Labels Positively Impact Purchase Behavior (Environmental Leader May 20, 2008), <http://www.environmentalleader.com/2008/05/20/green-labels-positively-impact-purchase-behavior/>. The 2007 LOHAS Database found that some sustainability certifications are more likely to impact consumer buying decisions. Nielsen finds that companies that enter the sustainability marketing space invite active blogger and therefore media oversight, and must be more accountable for sustainability claims than companies not participating in the "green economy." See Nielsen Online, Greenwashing: Who's Winning the Green Race Online? (April 2008), http://www.nielsen-online.com/emc/0803_wb/NielsenOnline_Sustainability_Webinar_April%202008_Clients.pdf. These trends suggest banks that feature "green" or "sustainability" as part of their brands will invite greater scrutiny for environmental and social impacts, thereby adding "millions of eyeballs" (webby speak for online traffic) to the resources of bank regulators. Were social impacts of credit a pervasive feature of bank reporting and management, subprime and other predations would not long survive in the marketplace.

appear to outperform ESG laggards.²⁷ In 2006, the movie *Inconvenient Truth*²⁸ featuring Vice President Al Gore galvanized a national commitment to spend less wastefully and reduce our carbon footprints. Causal campaigns like PRODUCT (RED)²⁹ to eradicate HIV/AIDS in Africa, and web services such as Coop/Green America³⁰ that rank the ESG impacts of everyday consumer products, use social impact brand identity and third-party ratings to drive market demand towards more ethical manufacturers. Affinity groups on social networks, such as Causes on Facebook,³¹ and influential blogs inform and define themselves regarding social causes, and represent the purchasing power and capital to shift market dynamics.

Hundreds of “goodness” ratings – everything from organic kosher or halal foods to LEED certified building materials, from Energy Star electric devices to fair trade coffee and clean fish – are proliferating. The cacophony of consumer product ratings denotes a new market segment (conscious consumerism). Ironically, each industry and its regulators promote insular sustainability ratings, not comparable across industries or within common in-home settings. The ratings cacophony has led large retailers (such as Home Depot³² and WalMart³³) to brand their own meta-ratings of sustainability.

Location-aware (geospatial) data, printed documents and financial reports once represented digital Towers of Babel. Now they are published and shared in robust interoperable formats, with the semantics for portable use already tagged.³⁴

When prompted by advantageous access and terms from global credit markets, an open standard format for interoperably sharing of ESG ratings data will emerge as lightweight, simple, pedigreed and archival.

27 SAM Sustainable Asset Management AG and Pricewaterhouse Coopers, *The Sustainability Yearbook 2009* (2009), http://www.sam-group.com/yearbook/download/yearbook_current.pdf, at page 11. SAM’s Yearbook found that over a ten-year period ESG leaders outperformed ESG laggards by a cumulative 15 percent. Some of ESG leaders’ higher stock valuations are consistent with an increasing percentage of corporate market capitalization being attributable to “intangibles” (e.g., corporate brand value and reputation). Id., at p. 8. Another study found an annualized improvement in portfolio return of 3 percent by choosing environmental leaders over laggards. See Innovest, *Carbon Beta and Equity Performance: An Empirical Analysis Moving from Disclosure to Performance* (October 2007), <http://innovestgroup.com/images/pdf/carbonbetaequityperformance-delivered.pdf>.

28 Participant Media, *An Inconvenient Truth* Movie, <http://www.climatecrisis.net/>.

29 The Persuaders, *Product(RED)*, <http://www.joinred.com/Home.aspx>.

30 Green America, <http://www.coopamerica.org/>.

31 Project Agape, *Causes*, <http://apps.facebook.com/causes/about>.

32 SCS Scientific Certification Systems, *The Home Depot Eco Options*, www.scs-certified.com/lcs/eco_options.php.

33 Walmart, *Global Sustainability Report*, <http://walmartstores.com/Sustainability/7951.aspx>. Rosabeth Moss Kanter, *Wal-Mart’s Environmental Game Changer* (*Harvard Business Review* July 16, 2009), <http://blogs.harvardbusiness.org/kanter/2009/07/walmarts-environmental-gamecha.html>.

34 Geospatial content from thousands of sources is now found semantically through the Open Geospatial Consortium’s KML standard. Geodata is accessed through Google Earth, GPS navigation units and other web services. Semantically-tagged content in documents online is shared as HTML format on millions of websites. Mike Wesch, *Web 2.0: Digital ethnography, the machine is us/ing us*, www.youtube.com/watch?v=NLIgopyXT_g&feature=channel. Corporate financial reporting data filed with the FFIEC and SEC can be mined in eXtensible Business Reporting Language (XBRL) format.

E-Commerce Businesses Justify Updating Bank Models

High-transparency banking also serves business customers. E-commerce between businesses (business-to-business, or B2B), accounts for 93 percent of all e-commerce transactions.³⁵ Retail sales negotiated electronically (business-to-consumer, or B2C) represent the balance of e-commerce activity, and less than 4 percent of all retail sales.³⁶ The environmental and social impacts of B2B e-commerce can be seen through authenticated supply-chain ordering, and could be reported in such standardized formats as GRI's template using XBRL.³⁷ Despite the predominance of business e-commerce, banks have yet to seek and leverage environmental and social information about B2B exchanges.

Another example

Assume a local grocer sells organic foods. To verify wholesomeness, its suppliers provide supply chain data about the labor, ingredients and carbon footprint used to bring the food from farm field to the grocer's shelf. The grocer pays the extra data costs to attract and retain conscious consumers. Through a high-transparency bank, the grocer earns more favorable working capital, credit card and other terms by providing the sustainability data that the bank's depositors need to achieve their ethical goals. Thus, the grocer's B2B supply chain data captures more loyal customers and better bank rates.

Lift the Black Box that Hides Banks Impacts

The current commercial bank is a black box that shuns impacts analysis.³⁸ Since January 1, 2008, the lack of impacts transparency in banking has proved unaffordably quaint by every measure: the failure of 81 banks (through July 10, 2009);³⁹ \$700 billion to stabilize the biggest banks, car companies and their credit companies and financial re-insurer AIG;⁴⁰ \$440 billion to rescue Fannie Mae and Freddie Mac;⁴¹ a 60 percent drop in share prices for major

35 U.S. Census Bureau, E-Stats on E-Commerce through 2007 (May 28, 2009), www.census.gov/eos/www/2007/2007reportfinal.pdf, at p. 2.

36 U.S. Census Bureau, Table 3. Quarter Ending Retail Sales (Total) Retail Sales (E-Commerce) (Washington, DC, March 2009), available at <http://www.census.gov/mrts/www/data/html/09Q1table3.html>.

37 Global Reporting Initiative, <http://www.globalreporting.org/ReportingFramework/G3Guidelines/XBRL/>.

38 Wikipedia, Black Box, http://en.wikipedia.org/wiki/Black_box.

39 FDIC Failed Bank List, www.fdic.gov/bank/individual/failed/banklist.html.

40 The Troubled Asset Relief Program (TARP) under the Emergency Economic Stabilization Act of 2008., <http://thomas.loc.gov/cgi-bin/bdquery/z?d110:HR01424:@@L&summ2=m&>.

41 Preferred stock investments under the Housing and Economic Recovery Act of 2008, <http://thomas.loc.gov/cgi-bin/bdquery/z?d110:HR03221:@@L&summ2=m&>.

banks;⁴² a 23 percent drop in home prices⁴³; the irony that 60 percent of TARP aid went to banks with “Outstanding” CRA ratings;⁴⁴ and the expectation that banks will lose or write down another \$470 billion in 2009-10.⁴⁵

This article leaves it to others to explain in charts, regression statistics, financial analytics and legislative histories the underlying causes of America’s banking system ills.⁴⁶ Looking backward is not the point taken up here. Rather, the view forward deserves exploration to evolve more stable, less predatory banking models.

High-Transparency Banking as Part of Federal Bank Regulatory Reform

Americans have earned the right to bank at high-transparency banks, through massive direct subsidy and net operating loss carry-forwards in the hands of TARP recipients,

If we faced a new national pandemic, government research and development dollars would not be invested in deploying existing vaccinations and inoculations. If we faced a cyber threat, resiliency investments would not be sequestered amongst a small group of government vendors. We are a nation of innovators, building new models for old capacities that demand updating and improvement. Banking is just such an opportunity to create new capacities through high-transparency banks.

The charter for a high-transparency bank should recognize its special characteristics and public purposes:

- **Mutual/Two-Way Transparency:** Transparency would be an enterprise-wide revenue strategy, not just a compliance or marketing matter. This would more directly empower customers with a 360° view of their own individual and affinity group financial reach, risk and impacts.
- **Hybrid Profit Management:** Clear corporate charter and governance provisions would permit bank management to prefer quantifiable social return over financial return,

42 For the decline in one widely-used bank stocks index, see Standard & Poor’s 500 Banks Index, www.bloomberg.com/apps/quote?ticker=S5BANKX percent3AIND.

43 For home price declines, see Standard & Poor’s/Case Shiller Home Price Index, http://www2.standardandpoors.com/spf/pdf/index/CS_HomePrice_History_063055.xls.

44 For TARP recipients’ CRA ratings, see, <http://www.ffiec.gov/craratings/default.aspx> and <http://www.ustreas.gov/initiatives/eesa/transactions.shtml>. In most cases, TARP recipient’s CRA ratings filings or exam data is more than two years old, and in some cases much older. It would appear that TARP recipients were not required to update their CRA ratings as a precondition of funding. Non-banks (such as AIG, Chrysler and General Motors) were not previously subject to CRA filing requirements, and therefore no CRA data is available for those recipients. For purposes of calculating the footnoted statistic, where a TARP recipient (such as Goldman Sachs) had a subsidiary with a CRA rating, that rating was attributed to the parent entity, absent a parent’s CRA filing. A bank holding company (such as CIT Group) does not provide CRA ratings.

45 Moody’s, <http://seekingalpha.com/article/141219-u-s-banks-to-lose-or-write-down-470b-through-2010-moody-s?source=feed>.

46 See, e.g., U.S. Treasury, www.FinancialStability.gov and Financial Regulatory Reform, www.financialstability.gov/docs/regs/FinalReport_web.pdf. Ellen Brown, *Web of Debt* (3rd Edition – December 2008), <http://www.webofdebt.com/>.

provided “safety and soundness” are not compromised or put at unreasonable market risk.⁴⁷ “Social return” would be maximized both inside and outside of the primary geography of the bank’s branch network. Just as Community Development Financial Institutions (CDFIs) address local concerns, high-transparency banks would in effect globalize bank social context, concern and performance.

- ***Interoperability Standards Leadership:*** Membership in existing or new ISO-compliant information technology standards consortia would develop shared, functional open interoperable data formats (including, but not limited to, spatially-aware XBRL) for portraying the environmental, social and other impacts achieved through high-transparency banking.
- ***Open Impact & Exchange Metrics Integration:*** Mandatory collaboration through such consortia would develop a common open exchange format for complementary currencies (cash-back rewards, time donations and other non-dollarized transactions) that serve to empower communities. The consortia’s standards would extend systems for seeing how such alternative currencies address environmental and social issues.
- ***CDFI Status:*** The functional equivalent of CDFI status would encourage investment and implementation by high-transparency banks (using the adopted open standards) to spur quantifiable social returns in domestic or foreign settings of special concern.

What to include in a high-transparency bank charter merits public debate. Systemically, growing a group of highly semantic, impacts-aware banks would demonstrate the technical potential – the higher watermark - for commercially feasible bank transparency, prototyping what traditional commercial banks could achieve with appropriate regulatory incentive and review. Open standards developed by high-transparency banks would augment options for regulatory oversight and intervention based upon earlier detection of adverse environmental, economic and social impacts.

Conclusion

An era of high-transparency banking is on the horizon. Perhaps in response to the 2008-9 Credit Crisis, perhaps leveraging the semantic web, perhaps in response to climate change, global poverty, public health or social concerns, such banks will become a new force for restoring trust and confidence in America’s bankers. They will redefine the industry’s brand image and legacy.

The shift towards high-transparency, social impacts banking has already begun. High-transparency has roots and precedent in Europe’s “ethical banks” and the long term thinking of innovators like Triodos Bank in the Netherlands, Co-Operative Bank in the United Kingdom,

⁴⁷ A similar social profit charter option is developing for ordinary (non-bank) organizations. See, B Corporations, <http://www.bcorporation.net/> and Vermont’s Low-Profit Limited Liability Company, http://www.sec.state.vt.us/corps/dobiz/llc/llc_13c.htm.

Banca Etica in Italy and Banco Real in Brazil.⁴⁸ Early precedent in the United States includes community banks like Shorebank in Chicago and Wainwright Bank in Boston, and “green” banks in the Pacific Northwest like Shorebank of the Pacific.

Out of necessity or opportunity, new models for high-transparency, trustworthy banks are emerging, including GoodBank. With increasingly robust social impact ratings systems and encouragement from an updated bank regulatory framework, high-transparency banks will prosper, grow, and acquire market share from high-camouflage, traditional banks.

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48 Rosabeth Moss Kanter & Ricardo Reisen De Pinho, Banco Real: Banking on Sustainability (Harvard Business Case April 13, 2005), <http://harvardbusiness.org/product/banco-real-banking-on-sustainability/an/305100-PDF-ENG?Ntt=Rosabeth%2520Moss%2520Kanter#>.