Interest vs. Interest-Free: A Socially Responsible Option

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1. Abstract

Interest and Money-lending are as old as civilization itself, however, interest has often been vilified as exploitative and immoral. In fact, Islamic law ("sharia") still has explicit prohibitions against either charging or paying interest. However, interest-bearing instruments can also be used for social development aims, to help the poor. It is the aim of this paper to illustrate how interest has both been abused for nefarious, exploitative purposes as well as well as harnessed for positive socioeconomic development purposes.

The socially responsible banking industry can be broadly defined as an industry that doesn't count profit maximization as its top priority, but rather counts "capacity building (of sole proprietorships and very small businesses), employment generation, trust building, fostering entrepreneurial spirit, self-employment bootstrapping, disaster recovery, medical emergencies. In short, socially responsible banking puts socioeconomic development ahead of profits, and in doing so emphasizes a marketing mix of Product and Pricing

2. History of Banking

Money lenders have been around since the beginning of time, and, in essence, a bank is nothing but a collection of money lenders looking to make a living.

> "A bank is a financial institution whose primary activity is to act as a payment agent for customers, and to borrow, lend, and, in all modern banking systems, create money. . . . Banks borrow money by accepting funds deposited on current account, accepting term deposits and by issuing debt securities . . . [and] banks lend money by making advances to customers on current account, by making installment loans, and by investing in marketable debt securities and other forms of lending."[1]

[1] Wikipedia, "Bank"

Banking started somewhere around the 3rd Millennium BC in Babylon, and was later perfected by the Egyptians/Greeks (Ptolemy) and the Roman Empire. It emerged as a secondary function of the religious temples, as they were the safest, best guarded and constructed places to store wealth. The temples would accept deposits of grain, gold, or other forms of currency, and hold them for safe keeping. They also would have lent/exchanged these currencies to and for their people to facilitate trade and business (as well as to utilize much needed space).

In 330 BC, under the Ptolemaic Dynasty, Egypt organized all its granaries into the first state network of banks, with its central headquarters located in Alexandria. “This banking network functioned as a trade credit system in which payments were effected by transfer from one account to another without money passing.” (Ibid). During the rise of the Roman Empire, the Egyptian banking system quickly replaced the outdated cash transaction model used by the rest of the Mediterranean world. As the use of credit became more important, banks, in order to be competitive, began charging interest on loans and paying interest on deposits. Interest was not viewed as bad or immoral, and rates were often times fixed by the state (Ibid).

With the spread of Christianity, however, the taint that usury held under Judaism and Islam (discussed below) began to infect the Roman banking system. Charging interest became immoral and in some parts of the world, illegal.

3. Negative Aspects of Lending

3.1. Overview

The Islamic stance on lending, interest, and usury charges is focused on the negative aspects of financing. These views are expressed in the holy books of Islam as follows:

> "Those who charge usury are in the same position as those controlled by the devil's influence. This is because they claim that usury is the same as commerce. However, God permits

> commerce, and prohibits usury. Thus, whoever heeds this commandment from his Lord, and refrains from usury, he may keep his past earnings, and his judgment rests with God. As for those who persist in usury, they incur Hell, wherein they abide forever" (*Al-Baqarah 2:275*)
>
> "God condemns usury, and blesses charities. […] Oh you who believe, you shall observe God and refrain from all kinds of usury, if you are believers. If you do not, then expect a war from God and His messenger. But if you repent, you may keep your capitals, without inflicting injustice, or incurring injustice. If the debtor is unable to pay, wait for a better time. If you give up the loan as a charity, it would be better for you, if you only knew." (*Al-Baqarah 2:276-280*)
>
> "Oh you who believe, you shall not take usury, compounded over and over. Observe God, that you may succeed." (*Al-'Imran 3:130*)
>
> "And for practicing usury, which was forbidden, and for consuming the people's money illicitly, we have prepared for the disbelievers among them painful retribution." (*Al-Nisa 4:161*)
>
> "The usury that is practiced to increase some people's wealth, does not gain anything at God. But if people give to charity, seeking God's pleasure, these are the ones who receive their reward many fold." (*Ar-Rum 30:39*)

The practices of usurers are seen as at odds against charity, a virtue highly praised by many faiths. Usurers are seen as wolves preying on sheep, exploiting the vulnerabilities of those who lack the capacity to protect themselves.

3.2. Predatory Lending

Today, the manifestation of these practices are commonly referred to by the overarching term "Predatory Lending". There is no single, authoritative definition of predatory lending, but it is easily and commonly understood as credit or loans extended to those with poor ability to handle financing. These borrowers are a higher risk to lenders and any financial textbook will explain that higher risk requires higher returns for the venture to be of worth to investors. Therefore, a higher interest rate is charged to the borrower, either in the form of fees, security deposits, or a higher APR. These borrowers, however, are known to not effectively handle standard rates, but lenders find no problem in extending these loans to them if they will be paid.

3.3. Subprime Loans

The following excerpt is taken from Dollars and Sense, the Magazine of Economic Justice:

> "Predatory lending is any unfair credit practice that harms the borrower or supports a credit system that promotes inequality and poverty. One of the most common predatory practices is placing borrowers into higher interest rate loans than their credit risk would call for. Although they may be eligible for a loan in the so-called "prime" market, they are channeled into more expensive and fee-padded loans in the "sub-prime" market supposedly just for credit risks.
>
> Predatory lending is becoming more of a problem as the home mortgage market undergoes rapid change. Banks — the sector of financial services that control the lower interest "prime" market — are issuing a declining share of home mortgages, and the subprime market is booming.." [2]

The article continues by describing a particular type of predatory lending that has become a major issue. Subprime mortgage lending is damaging the entire economy. As people with credit issues who need money continue to borrow against their homes and fail to make their payments, they reduce equity in their homes which eventually leads to foreclosure. Cleveland Metro News describes these events as fraud, outright, and publishes the view of Anthony Accetta, a former federal prosecutor. Consider the following selection:

> One of the biggest crime waves in the last decade had nothing to do with guns or drugs or gangs. The criminal tools were houses and lousy loans.----- This was actual fraud at the highest levels, said Anthony Accetta, a former federal prosecutor. It wasn't an accident. It was not a failure of oversight. It was actual fraud, and we're not doing anything about it.
> Eric Forster, a Los Angeles-based consultant for mortgage fraud litigation, said the entire subprime mortgage industry was "fraught with fraud."[3]

Eric Forster's statement "fraught with fraud" is made in the same spirit as the above Islamic verses. His words, and Accetta's, were stated keeping in mind the abilities of these lenders to see the damage they were causing and assuming they chose to ignore it, as if they were not responsible. It is almost certain that these lenders rationalize their actions by the fact that they do not force anyone to sign their contracts. Capitalizing on those who know no better seems like crime enough to many, even if no arms were being twisted. In the past, credit was reserved only for only a "gilded gentry" as Dayana Yochim wrote in her article for The Motley Fool, and continued to describe the consequences of the exploitation of subprime borrowers as follows:

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[2] "Predatory Lending", Jeanette Bradley and Peter Skillern
[3] "The subprime house of cards", Mark Gillespie

> "In the 1990s, the subprime category emerged. It gave access to a line of credit to consumers with credit scores in the 500s, little or no credit history, those emerging from bankruptcy and anyone with a recent spotty history of managing credit.
> " [4]

3.4. Predatory Lending

Predatory lending issues are gaining presence and raising fears in the federal government. The government has taken measures to protect its own protectors by capping the exorbitant interest rates that many strained military service personal have to pay to predatory lenders. These men and women take out payday loans amounting to their next paycheck, which is done by many Americans short for cash. These payday loans usually range between $100 and $400 and mature in about two weeks. Lenders charge as much as $30 per $100 lent, with fees, which amounts to about 400% in APR. A clear definition and perspective is provided by CNN Money in the following excerpt:

> "A payday loan is a small-dollar, short-term loan with fees that can add up to interest rates of almost 400 percent. They're generally taken out when the borrower is caught short on cash and promises to pay the balance back next payday.
> If it sounds like legal loan-sharking, it's not. "Loan sharks are actually cheaper," said Bill Faith, a leader of the Ohio Coalition for Responsible Lending.
> The term is usually two weeks, "Most people believe they're just going to borrow the one time," said Faith. Instead, when the two weeks goes by, they often go back to the shop and roll it over for another two weeks. To do that, they pay another $45 in fees.
> "It's not a two-week loan," said Uriah King, of the CRL. "Most loans are rolled over 10, 12 or 13 times. That's the business model even though the industry says it's not." [5]

This is what has been happening to many Americans, including the aforementioned military personnel. The entire paycheck is used to pay off the loan, with nothing remaining to live on until the next check, forcing the borrower to take out another loan. The following selection from USA Today was posted on October 17, 2006 by William M. Welch.

> "Consumer loans to service members will be limited to 36% annual interest next year under a law President Bush signed Tuesday that is aimed at store-front lenders clustered around military bases.
> The law is a response to "payday advance" stores that market short-term loans, typically charging $15 or $20 per $100 loan for periods of up to two weeks or a borrowers' next payday.

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[4] "Need a Loan? No Problem", Dayana Yochim
5 "A low, low interest rate of 396 percent.", Les Christie

> Borrowers generally renew loans several times before paying them off, and the fees result in effective annual interest rates of 400% or more, a Defense Department study concluded.
> Military officers pushed for the law, saying the loans saddled low-paid enlisted men and women with debts that ruined their finances, jeopardized security clearances and left them unable to deploy to Iraq or other assignments.
> "It means that we're going to protect our servicemen and women from this kind of abuse," he said." [6]

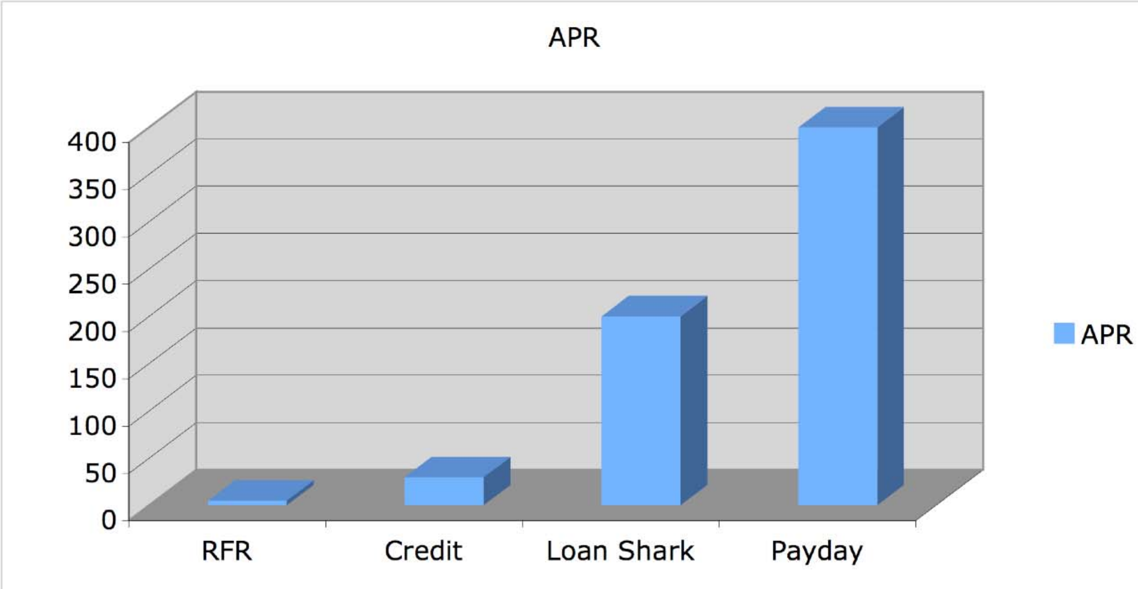
This is recognition and acknowledgement by the government that payday lending is something that people need protection from, something wrong. If the public, and thus the government, was to see fraud rather than lending when observing these transactions, the economy would find some relief from the threats of a credit crisis which we are suffering from now.

Clint Reilly criticizes the fact that thee lenders require no background checks, only weak evidence that borrowers will have money to pay their debts, and how they mitigate their risks by selling bonds, showing only concern for themselves and no regard for their customers. It is a return to the attitude and conclusions of Islam after looking at the problems of the present. He writes:

> "The credit crisis has revealed the dark side of a system in which incomes are fabricated not by borrowers, but by lenders. Anxious to earn fees, these lenders avoided responsibility for their own lax lending procedures by selling off the newly processed loans as bonds. It is a meritocracy of greed rather than brains. "[7]

[6] "Law caps interest on 'payday advances'", William M. Welch

[7] "Capitalism Without Values", Clint Reilly



Approx interest rates for common loans 1

However, despite religious prohibitions, long-held cultural aversions to interest and the greedy exploitation of the poor by some unscrupulous bankers, there are positive aspects of interest and the finance industry. Interest-free loans are being marketed to Islamic populations, and interest-bearing loans are being used to foster socioeconomic development goals that help the poor.

4. Alternative Kinds of Finance

4.1. Overview

Perhaps the best illustration of alternative banking / finance products are the areas of Religious finance (specifically, Islamic “sharia” finance) and “social responsibility” lending such as micro-finance & micro-credit. The strong recent growth in such industries (as well as the interest of major US & EU banks) shows that there is still vast untapped potential in these markets. One major hurdle for western companies is to figure out how best to market these products in a way that doesn’t go against their spirit or against their intentions.

A major hurdle banks are finding when they try to service the Islamic community is the sharia (Islamic Law) ban on the charging of usury (interest). Many creative solutions have been proposed to this problem that have been endorsed by Islamic scholars. It goes without saying that such a radically different financial instrument will need to be marketed differently in the west than traditional financial services.

Additionally, microcredit is another area of finance that focuses less on profit maximization than on social responsibility and socioeconomic development. The guiding theory behind microcredit is that lending money to a person at very low interest rates in order to help that person build capacity and grow the business – in the long run – will benefit the lender, borrower, and society as a whole more than if the person is given. It is a modern financial equivalent of the old "teach a man to fish" proverb, and from all indicators, it is doing very well.

Religious finance and microcredit are products that fall far outside of the Western world-view of what finance is or should be, and they both face unique challenges for western marketers & firms. Adjustments must be made to the way marketers reach customers. This paper will endeavor to explain further what these two kinds of finance are about, some of the hurdles and challenges that face these financial instruments, and how markers are overcoming them in order to satisfy the needs of clients around the world.

4.2. Socially Responsible Finance

The socially responsible banking industry can be broadly defined as an industry that doesn't count profit maximization as its top priority, but rather counts "capacity building (of sole proprietorships and very small businesses), employment generation, trust building, fostering entrepreneurial spirit, self-employment bootstrapping, disaster recovery, medical emergencies" [8]. In short, socially responsible banking puts socioeconomic development ahead of profits, and in doing so emphasizes a marketing mix of Product and Pricing.

Professor Muhammad Yunus pioneered microfinance as it is known today. While teaching

[8] Wikipedia, "Microcredit"

economics at a college in Bangladesh, he had become involved in poverty reduction after the famine of 1974[9] and was interested in ways that economics could be harnessed to help the less fortunate. When a group of 42 poor women craftsmen came to him asking for a small loan, he lent them $27 and charged them $0.02 each in interest (which is approximately equal to an APR of 3.1%). Yunus immediately saw the huge, untapped market potential for providing financial services to the working poor. He started Grameen Bank later that year [10].

> "Today, Yunus runs Bangladesh's Grameen Bank, a leading advocate for the world's poor that has lent more than $5.1 billion to 5.3 million people. The bank is built on Yunus' conviction that poor people can be both reliable borrowers and avid entrepreneurs. It even includes a project called Struggling Members Program that serves 55,000 beggars. Under Yunus, Grameen has spread the idea of microcredit throughout Bangladesh, Southern Asia, and the rest of the developing world."[11]

To help further illustrate the radical departure that Grameen Bank took from previous ways financial services had previously been operated and marketed, Peter Goldmark (former president of Rockefeller Foundation) said: "As I watched, I could see something else. I could see the smashing of ancient rules, the shattering of a traditional cannon. I could see subversion."[12]

4.3. Microcredit

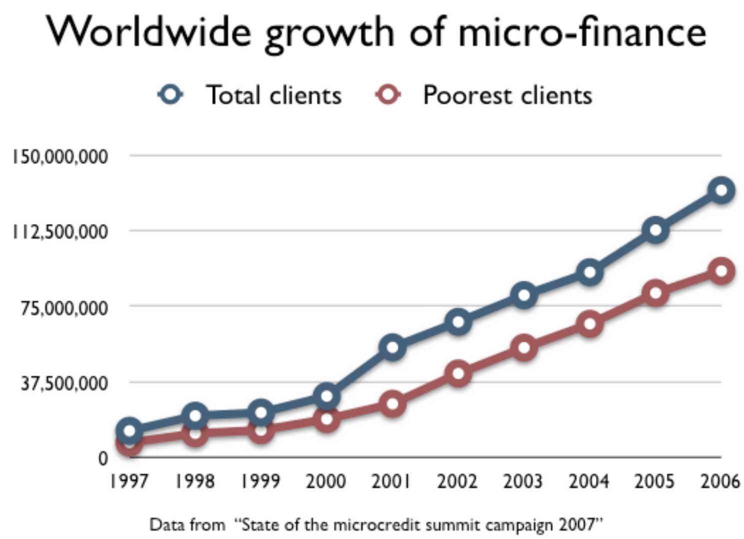
However, even though microcredit has been very successful in lifting many people out of poverty, there has been some criticism of the industry stating that microfinance has grown too comfortable with its success. Charges are leveled that some of the larger microfinance providers are now only concentrating on the most desirable, creditworthy customers – as opposed to the riskier clients that arguably need the credit more, and are arguably the proper focus of any socially responsible microcredit venture.

"Microfinance is a promising way to get credit to parts of the economy that are starved of

[9] Wikipedia, "Muhammad Yunus"
[10] Grameen Bank, A Short History
[11] BusinessWeek, Muhammad Yunus: Microcredit Missionary
[12] Microcredit Summit Campaign Report 2007

capital. So it is a pity that all these lenders are competing to support the same, small group of microfinance institutions that cater to the most creditworthy borrowers. It would be better for the poor if the IFIs and donors left the best credit risks to profit-seeking lenders and concentrated instead on those still stuck outside the system."[13]

Criticisms aside, data shows that growth of poor clients has kept pace exceptionally well with growth in the total client base of microcredit lenders, especially considering that the industry has experienced over 500% growth between 1997 and 2006 (computed from the data set shown in the figure below).



4.4. Marketing of Microcredit

Microcredit is currently perceived in much of the western world as a philanthropic gesture more akin to giving aid than as a legitimate business transaction intended to foster socioeconomic development. There are two companies working to change that perception as well as trying to side-step the established capital markets and instead form a grass-roots person-to-person lending network via the internet.

One such example is Kiva.com. Kiva enables members to deposit money into a virtual lender account. Members are then encouraged to browse through listings of potential borrowers from around the world and are able to hand-pick whom they would like to lend funds to. Local middlemen

[13] Economist, "Time to take the credit"

affiliated with Kiva act as intermediaries. The middlemen are responsible for face-to-face contact with the borrowers (since virtually none of them have a computer or know how to use one), disbursing funds as well as collecting on loans as they come due. Middlemen often provide additional information about the borrowers and projects, so that potential lenders have some idea of the probability of success of the project that their funds will be used for. Kiva.com and the middleman split the modest interest payments they receive from borrowers. Lenders do not get a cut. Because of this lack of return on capital, Kiva pursues a focused segment marketing strategy, because they targeting a very specific segment of people that have spare capital, are willing to invest in microcredit as a philanthropic & humanitarian gesture, and don't demand any return on their investment. Admittedly, this is a limited market.

MicroPlace.com – founded by eBay – seeks to enter nearly the same market as Kiva, with one important difference. "The big difference between MicroPlace and Kiva is that MicroPlace loans will be packaged up as securities (and therefore be tradeable), and lenders will earn interest. Unlike Kiva, lenders on MicroPlace invest in microcredit by purchasing securities. Funds generated by these sales are then invested in microcredit institutions around the world."[14]. Because MicroPlace pays investors a return on their loan, it expands its range of potential customers to include people that demand compensation for the use of their money. However, there are no loans on MicroPlace's website that would earn an investor more than 3% per year. So even though MicroPlace expands its potential market by paying lenders interest, the rates are low enough to keep the market restricted to people who are more motivated by humanitarian aims than profit seeking.

PRINCIPLES OF ISLAMIC BANKING

Source: BBC.co.uk

- All money must be invested in purely ethical industries
- The giving or receiving of interest is forbidden
- Money cannot be simply traded for money
- Money can be used to buy goods or services, which can then be sold for a profit

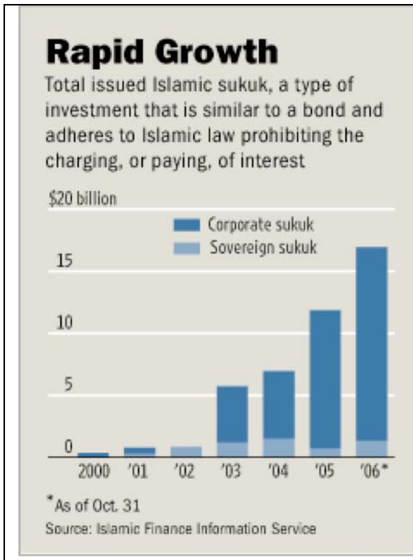
4.5. History of Islamic Finance

"The first modern experiment with Islamic banking was

[14] Wikipedia, "Microcredit"

undertaken in Egypt under cover, without projecting an Islamic image, for fear of being seen as a manifestation of Islamic fundamentalism which was anathema to the political regime. The pioneering effort, led by Ahmad El Najjar, took the form of a savings bank based on profit-sharing in the Egyptian town of Mit Ghamr in l963.”[15]

The concepts of banking and interest are familiar, accepted and well established in most in the Western world. However, in the Islamic world, religious law (“sharia”) bans the charging or paying of interest (“riba”), and the banking industry is still in relative infancy. Although sharia-compliant banking has been around since 1963, it has been undergoing a rapid expansion over the past 10 years.



Source: Wall Street Journal

Two major marketing hurdles stand in the way of the Islamic banking industry’s future growth and long-term vitality. However, clever marketing and branding strategies have helped Islamic finance to easily clear both such hurdles.

The first hurdle is the relative infancy and weak financial infrastructure of the capital markets in many Islamic countries. Without customers and investors, no company can survive for very long. By targeting its financial products at large companies involved in capital-intensive projects (e.g. building shopping centers, water treatment plants, airports), Islamic banks have created a niche market for issuing *sukuk* (a financial instrument similar to a traditional bond) to fund large-scale development projects all across the Islamic world. Data from the Wall Street Journal (seen at the right) shows fast growth for the *sukuk* market in the period between 2000-2006. “Sukuk (or Islamic bonds) are the fastest-growing segment of the Islamic finance market, which has seen phenomenal growth in the past six years. Global volume up to 2007 reached $97.3 billion”[16]. “Although sharia-compliant products have been around for decades, there are several reasons why the market has taken off in the past few years. First is the sheer wealth in

[15] USC Compendium of Muslim Texts, "Islamic Banking"
[16] Research Recap (Moody’s), "Oil Wealth is fuelling Islamic Finance"

parts of the Middle East where oil—and petrodollars—gush. Rich Muslims have long parked much of their money abroad, and continue to do so. Mr Abdi says about one-third of investors in countries where there is a Muslim majority are seeking sharia-compliant products"[17] The explosive growth in shaira-compliant financial instruments is almost certainly going to continue into the near future as oil-rich (and predominantly Islamic) countries plow their sudden windfalls into large capital-intensive development projects.

The second – albeit, smaller – hurdle is the sharia ban on the interest. Islamic scholars and Islamic authorities have condoned a wide range of sharia-compliant products that serve as exact replicas of most of the major Western financial products: mortgages, savings accounts, car loans, etc… However, due to the industry's youth, the Islamic ban on interest may yet rear its head in the future if a financial slowdown shook people's confidence in the sector and led to a backlash against financiers.

4.6. Diversifying Islamic Banking

Diversifying into different product offerings and geographical markets will help Islamic banks mitigate the risks that these two potential hurdles pose, as well as grow their markets and increase their bottom lines. In fact, many Islamic banks are doing just that: "Flush with oil wealth, the Gulf states, too, are spying profitable opportunities among the hundreds of millions of Muslims who live just a hop across the Red Sea. Africa's economies are growing fast, thanks in large part to the commodities boom. Although many people on the continent do not have a bank account, the banking systems in some countries are growing increasingly sophisticated. Bankers from the Gulf hope that the middle class, particularly in the Muslim north, will turn to Islamic finance, and that firms will raise money through Islamic bonds, known as sukuk. Moody's, a credit-rating agency, reckons that although Islamic finance was worth a puny $18 billion at the end of last year, its potential is close to $235 billion—about half

[17] Economist, "Calling the Faithful"

what it estimates as the GDP of Africa's Muslim population."[18]

5. The Future of Interest-Free Financing

5.1. Overview

While the Islamic banking model forbids charging interest for social and religious reasons, there is also a viable economic argument against interest: specifically, that interest leads to unsustainable economic growth. According to Oscar Kjellberg, CEO of the Swedish JAK Members Bank,

> "[i]nterest causes unemployment, inflation and environmental destruction. Every hike in interest rates means that business has to pay more to service their loans. To counteract this financial strain they must either cut their labor costs, which worsens unemployment; or raise prices, causing inflation; or re-engineer their work to increase output, which leads to increased use of natural resources."[19]

In response to this problem, the Swedish JAK Medlemsbank ("JAK") came up with its own form of interest-free banking using a Savings Points System, an overview of which is explained below.

5.2. Savings Points System

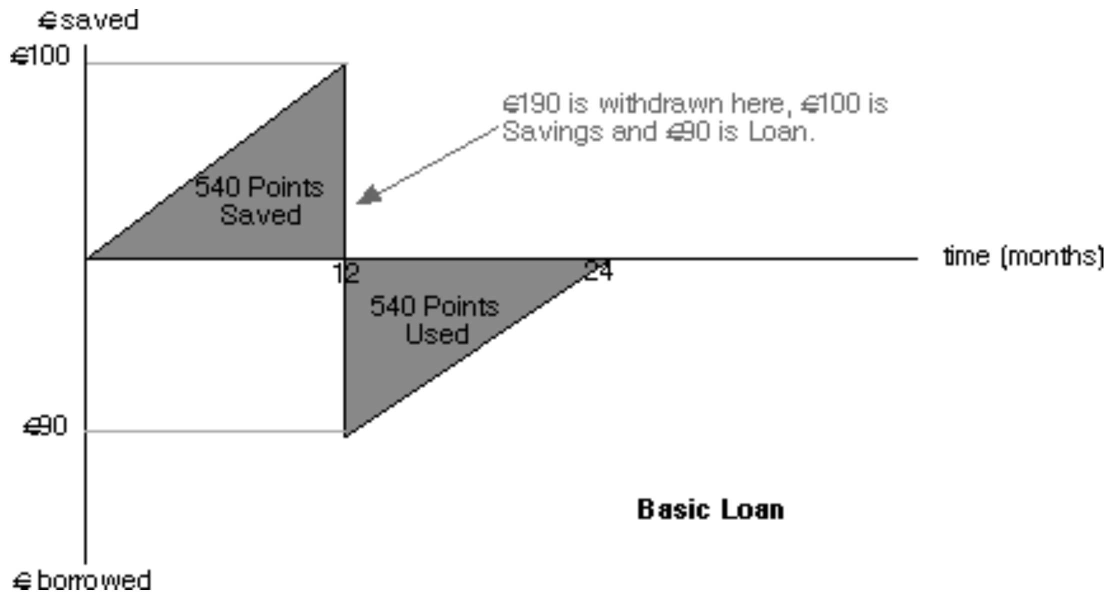
The Swedish JAK Medlemsbank is a cooperative, member owned interest-free bank. Its 30,000 members are its shareholders, with equal voting rights and equal responsibility, who use their resources and wealth to invest in each other and in their community and thereby create greater value for themselves.

In contrast to most traditional banks, the JAK bank more closely resembles a not-for-profit enterprise. It operates near the break-even point; the membership and loan fees it charges cover approximately 90% of its administrative costs.[20] JAK's structure works because it has no active branches and only 26 paid employees, thus it is able to keep its administrative costs at a minimum. All transactions are conducted by telephone, internet and traditional mail from its headquarters in Skovde;

[18] Economist, "Turning towards Mecca"
19 Anielski, Mark. "An Assessment of Sweden's No-Interest Bank."
20 Ibid.

local branches are maintained only to promote and disseminate information among its members.

JAK uses a point system instead of charging or paying interest. As members deposit money in the bank (for a minimum of six months), they earn savings points which they can then apply towards a loan. If a member wants to take out more money than he has accumulated in points, he is required to continue depositing a certain amount into his savings account during the life of the loan, thereby earning the required points to cover the loan. Savings Points are calculated as the amount saved, times the number of months saved, times the Savings Factor (the factor varies by type of savings account). For example, if a member chooses a savings account from which money can be withdrawn at any point in time, then the Savings Factor is lower.[21]



Although no interest is charged on loans, 6% of the total value of the loan must be placed in savings for the duration of the loan and a loan fee must be paid. In this way, JAK ensures the amount of money flowing out is covered by the amount coming in. The bank also holds a small amount of Swedish Treasury bills as a safety reserve against members savings, and the interest earned on these

21 JAK Medlemsbank

covers the remaining 10% of its operating costs.[22] In fact, in 2002, the total amount in savings at the bank (member savings plus the treasury bills) was approximately one and one fifth times the amount lent out, leaving the bank with a small, but necessary cushion should one of its loans default.

Because JAK finances all loans with its members' savings, members are essentially lending to each other.[23] And because each member knows that ultimately his/her savings will end up in the hands of another member, in the same way that that other member's savings is in his/her hands, default on repayment of a loan happens infrequently. The table below, taken from Anielski Management Inc.'s assessment of the JAK Members Bank, shows some of the major differences between the traditional banking system and the JAK Savings Points system.[24]

Key Attributes	**JAK Members Bank**	**Conventional Banks**
Clients	A members-based, cooperative enterprise; one share, one vote.	Conventional corporate model with major shareholders and client-based.
Bank System	100% reserve system. Loans are lent out on the bases of the total liquidity (savings) in the system, thus loans are 100% supported by member savings and liquid assets. All money is fully secured.	Fractional reserve system: Whenever a loan is issued, new money is created through two simple bookkeeping entries. The loan is largely unsupported by other member savings; only a small fraction of the loan needs to be secured by the private bank, under law, with the Central Bank. The reserve requirement of the US private banks is currently a mere 0-3% on checking accounts.
Loans	Loans are issued on the basis of bank liquidity and the member's income capacity to both save and repay the loan; loan repayment is ONLY the principle of the loan.	Loans are issued on the basis of credit worthiness (assets that support the loan); loan repayments include principle plus interest charges.
Interest on Loans	Does not charge interest on loans but does recover operating	Charges interest on all loans and credit.

22 Anielski, Mark. "An Assessment of Sweden's No-Interest Bank."
23 Wikipedia, "JAK Members Bank"
24 Anielski, Mark. "An Assessment of Sweden's No-Interest Bank."

	costs through an administrative loan fee.	
Interest on Savings	Does not pay interest on savings but does provide a means of earning savings points which are like interest income.	Pays interest on savings, but at current low interest rates these are minimal.
Returns to Investors	JAK operates like a not-for-profit bank enterprise, with it's members as "careholders" whose "returns" include interest cost savings on all loans.	Private banks have shareholders who receive returns in the form of share value and dividends that result from profits earned from interest rate spreads, user fees and other bank profits.

Comparison of point system 1

6. Recommendations / Conclusions

"JAK [...] exists in part to educate its members against the negative effects on individual and community well-being of the prevailing interest-bearing monetary system."[25] Marketing for the bank is done by word of mouth – its 380 volunteers, as well as its existing members, recruit new members and spread JAK's philosophy. In addition, it publishes a quarterly newsletter called Grus & Guld to educate and promote the bank members' philosophy, and maintains a website at http://www.jak.se.

JAK's target market is the average Swedish consumer. The majority of its membership is comprised of home buyers and those looking to refinance a mortgage; small businesses and commercial enterprises only amount to 10% of the total membership.[26] And while anyone can become a member and deposit money within the bank, members must be a resident of Sweden to obtain a loan from the bank, a policy that may be a contributing factor to the bank's lack of commercial membership. Another drawback to the JAK system is that it does not provide one-stop-shop banking: members must have an account with another bank where they can conduct their daily withdrawals and deposits.[27]

Although the premise of interest-free banking under the Islamic Code has its appeal, marketing

25 Anielski, Mark. "The JAK Members Bank – An Assessment of Sweden's No-Interest Bank."
[26] Ibid, pg. 8.
[27] Carrie, Ana. "How Interest-Free Banking Works: The Case of JAK."

this idea may prove challenging in this day and age. The plethora of religious beliefs (as well as those that don't believe in any one religion at all) make Islamic banking unapproachable to most. In contrast, the JAK banking system could serve as a model of socially and economically responsible banking to the entire international banking community. Its lack of religious overtones, coupled with a heavy emphasis on the economic benefits of interest-free banking make it more credible globally than Islamic banking, and thus more easily marketable to a wide variety of customers.

Education of both consumers on the perils of charging interest and banking executives on the viability of interest-free banking is the key to penetrating the international market. And while at this time JAK does not appear to have any interest in expanding outside of Sweden, it does participate in international discussions and panels on monetary reform and has indicated a willingness to help other countries set up their own co-operative system. JAK members are beginning to look beyond the economic interest and in the direction of ethical banking by making their interest-free loans available for projects in the Third World.[28] And perhaps if more countries had had a system such as the JAK's in place, where loans/mortgages were given based on ability to save instead of over-inflated asset values (real estate), the credit crisis we are experiencing right now might not have been as severe.

Through a review of the available literature, the author has attempted to highlight both negative, predatory aspects of interest as well as some of the positive, socially responsible uses of it, too. Researcher belief is that interest is much like any other tool… it is not inherently good or evil, but it can be used by others for good or evil purposes. Interest can be used as a way to further impoverish and take advantage of the poor, or as a way to help them improve their lot in life and become more productive members of society.

[28] Anielski, Mark. "An Assessment of Sweden's No-Interest Bank.", pg. 32.

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