



CHANGE FINANCE

Towards more sustainability

Udo Philipp – January 2018

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Calestous Juma is named among the 100
Most Influential Africans for 2016.

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institut für finanzdienstleistungen e.V. (iff)



institut für
finanzdienstleistungen e.V.

Das institut für finanzdienstleistungen e.V. (**iff**) ist ein unabhängiger, international ausgerichteter gemeinnütziger Verein, der im Bereich nachhaltiger Finanzdienstleistungen forscht und berät. Das Institut erstellt EDV-Programme für die Finanzberatung der Verbraucher, gibt Publikationen

heraus, wirkt bei der Fortbildung mit und entwickelt Modelle für sozial verantwortliche Kredite, Anlagen, Zahlungsverkehrsmittel und Versicherungen.

Ziel seiner Arbeit ist es, insbesondere die Interessen von Verbrauchern, Anlegern, Kleinunternehmern und gemeinnützigen Unternehmen optimal und wirtschaftlich verantwortlich in der Beziehung zwischen Kunde und Finanzdienstleister aufzuzeigen und einzubringen.

iff aktuell

aktuell



Das war die **Int. Konferenz zu Finanzdienstleistungen 2016** in Hamburg

[mehr Informationen](#)

Der Termin der kommenden Konferenz: **11./12. Mai 2017**

Jan

1 1

Deutsche Bundesbank und iff starten Schülervorlesungen zum Thema Geld

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HERZLICH WILLKOMMEN
bei Europas führender
Nachhaltigkeitsbank.



Denn Geld kann so viel mehr.

oekom r|e|s|e|a|r|c|h

oekom
Impact Studie 2017



Giegold / Philipp / Schick

FINANZ *WENDE*

Den nächsten Crash
verhindern



Politik bei Wagenbach

Loss of confidence



Sudden Stop



A composite image featuring a red line graph that starts high on the left and trends downwards to the right, ending in a red arrow that points into a large pothole on a city street. In the background, a modern city skyline with several skyscrapers is visible under a cloudy sky. A green rectangular box is positioned in the upper right area of the image, containing text.

392 BN EUROS
Just in Germany



Will they fall?

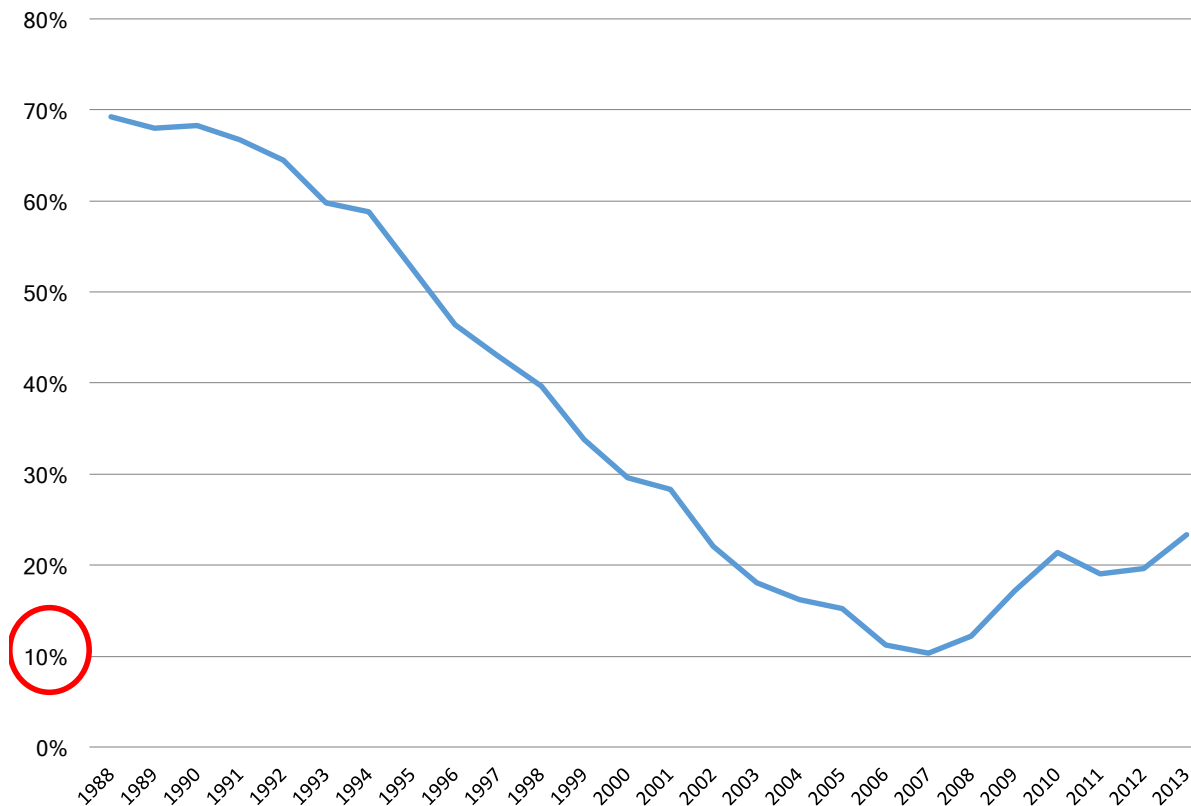
Banks have changed fundamentally

Banks have changed fundamentally

Loans as percentage of total balance sheet at Deutschen Bank

Banks have changed fundamentally

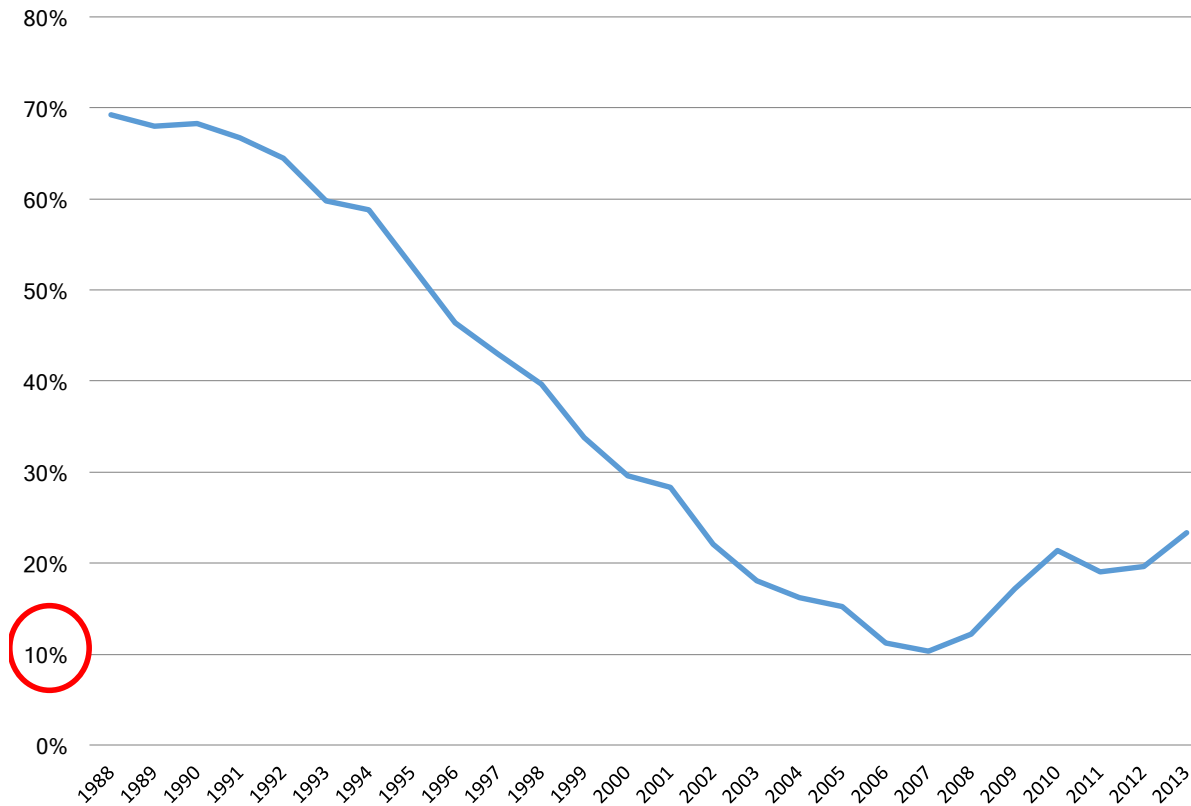
Loans as percentage of total balance sheet at Deutschen Bank



Quelle: Deutsche Bank, Geschäftsberichte 1989-2013. Eigene Darstellung.

Banks have changed fundamentally

Loans as percentage of total balance sheet at Deutschen Bank



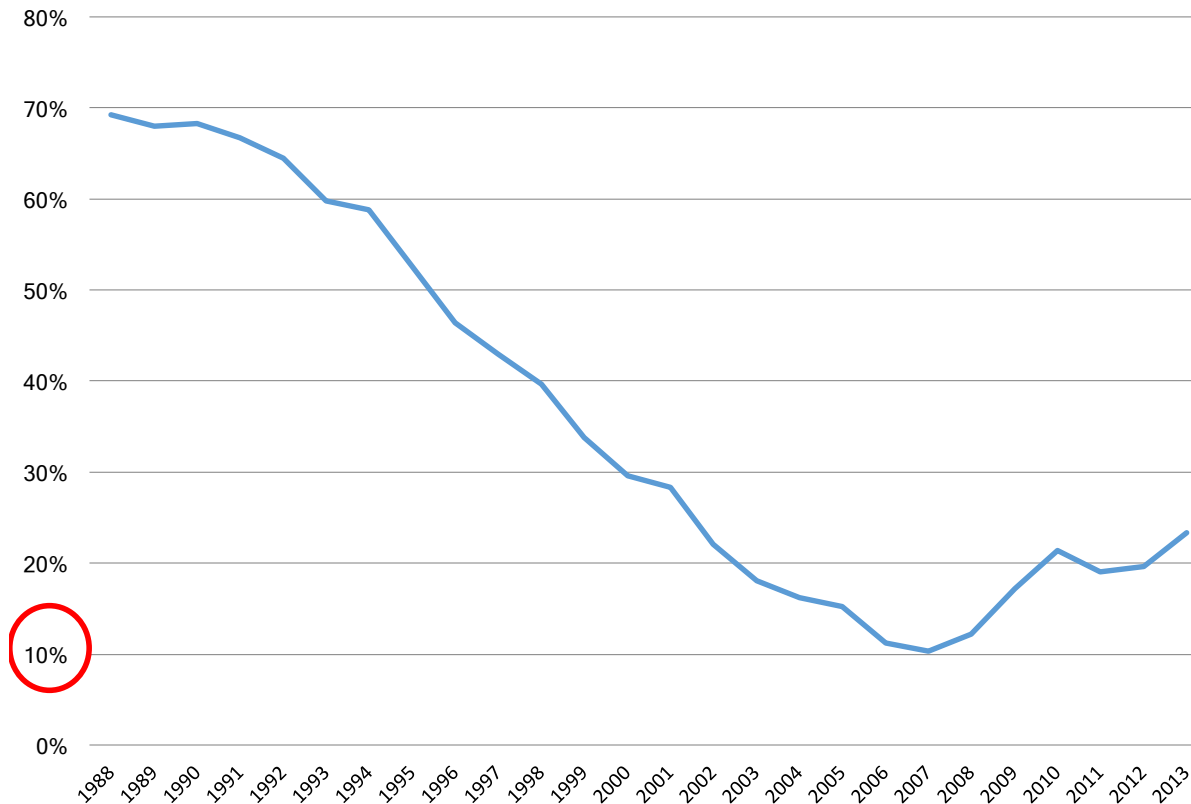
CAGR 1987-2007:
loans

3,6% = x 2

Quelle: Deutsche Bank, Geschäftsberichte 1989-2013. Eigene Darstellung.

Banks have changed fundamentally

Loans as percentage of total balance sheet at Deutschen Bank



CAGR 1987-2007:

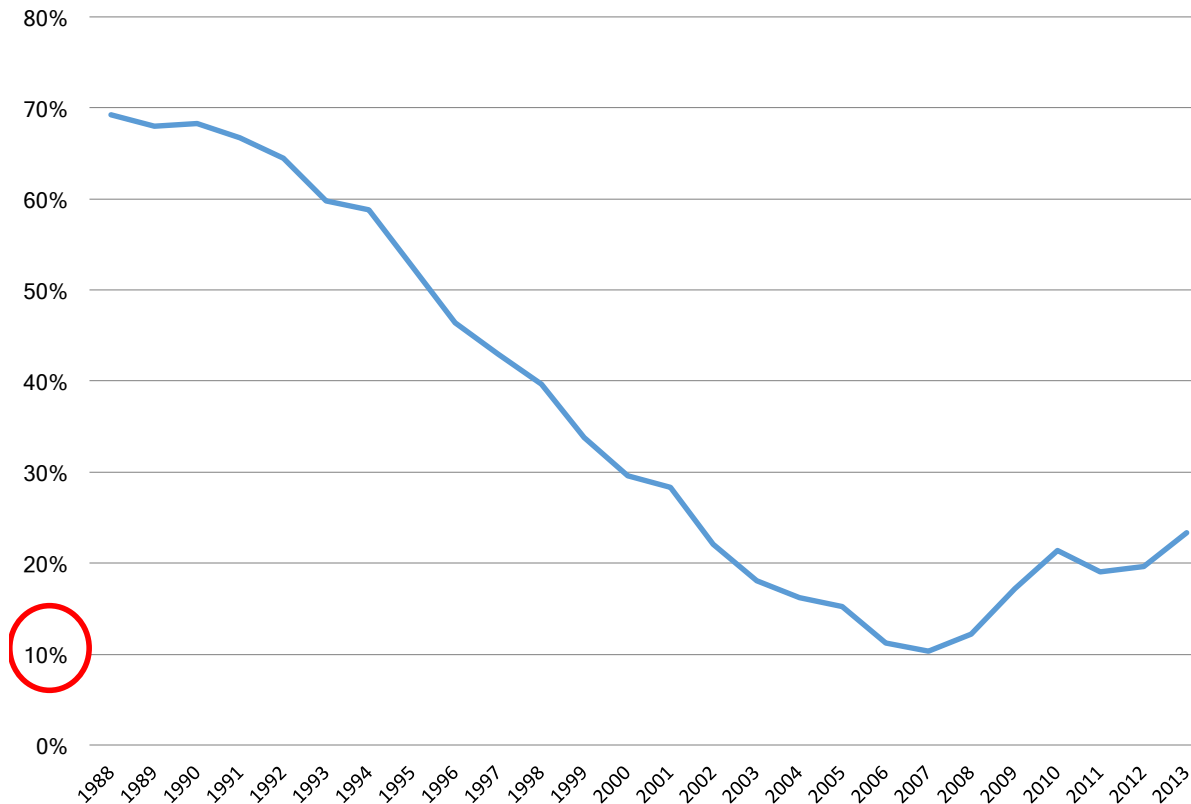
loans 3,6% = x 2

Balance sheet 14,4% = x15

Quelle: Deutsche Bank, Geschäftsberichte 1989-2013. Eigene Darstellung.

Banks have changed fundamentally

Loans as percentage of total balance sheet at Deutschen Bank



Quelle: Deutsche Bank, Geschäftsberichte 1989-2013. Eigene Darstellung.

CAGR 1987-2007:

loans 3,6% = x 2

Balance sheet 14,4% = x15

assets

- trading book
- derivatives

liabilities

- *wholesale financing*
- Repos

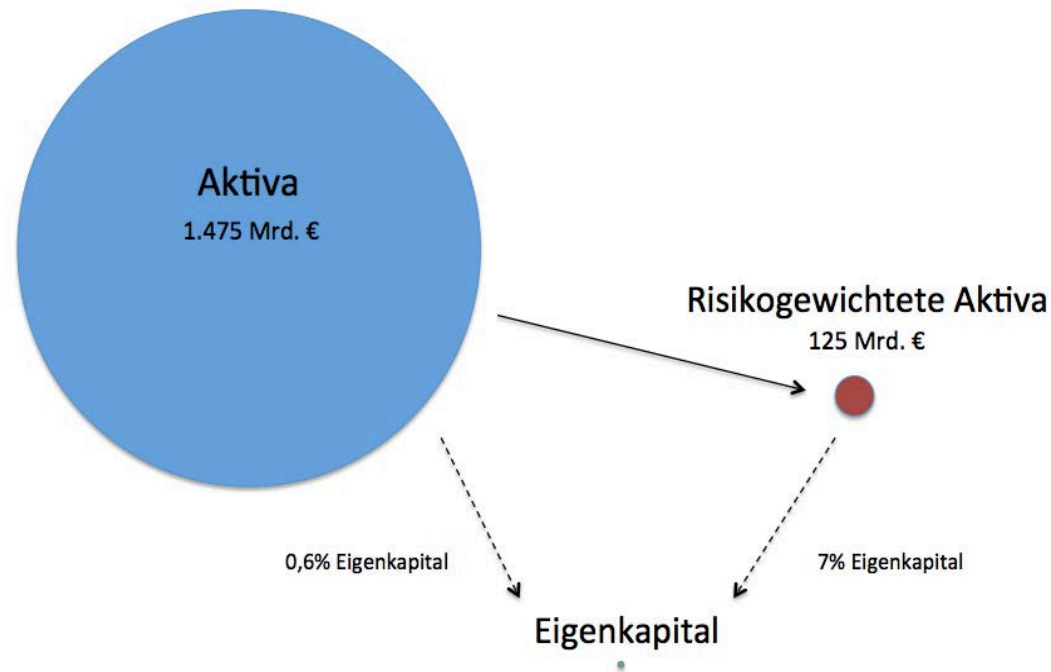
Also Goldman Sachs got only 10% of income from IPOs

Banks: extremely levered hedgefonds

Regulatory capital requirement

Banks: extremely levered hedgefonds

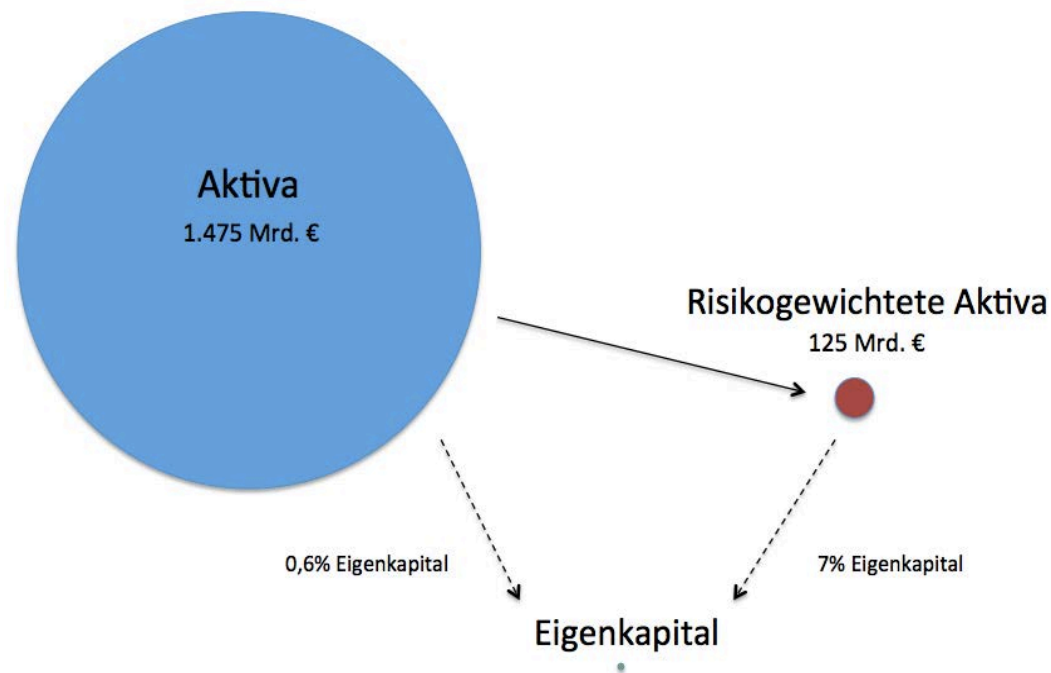
Regulatory capital requirement



Quelle: Deutsche Bank, Geschäftsberichte 2012. Eigene Darstellung.

Banks: extremely levered hedgefonds

Regulatory capital requirement



Quelle: Deutsche Bank, Geschäftsberichte 2012. Eigene Darstellung.

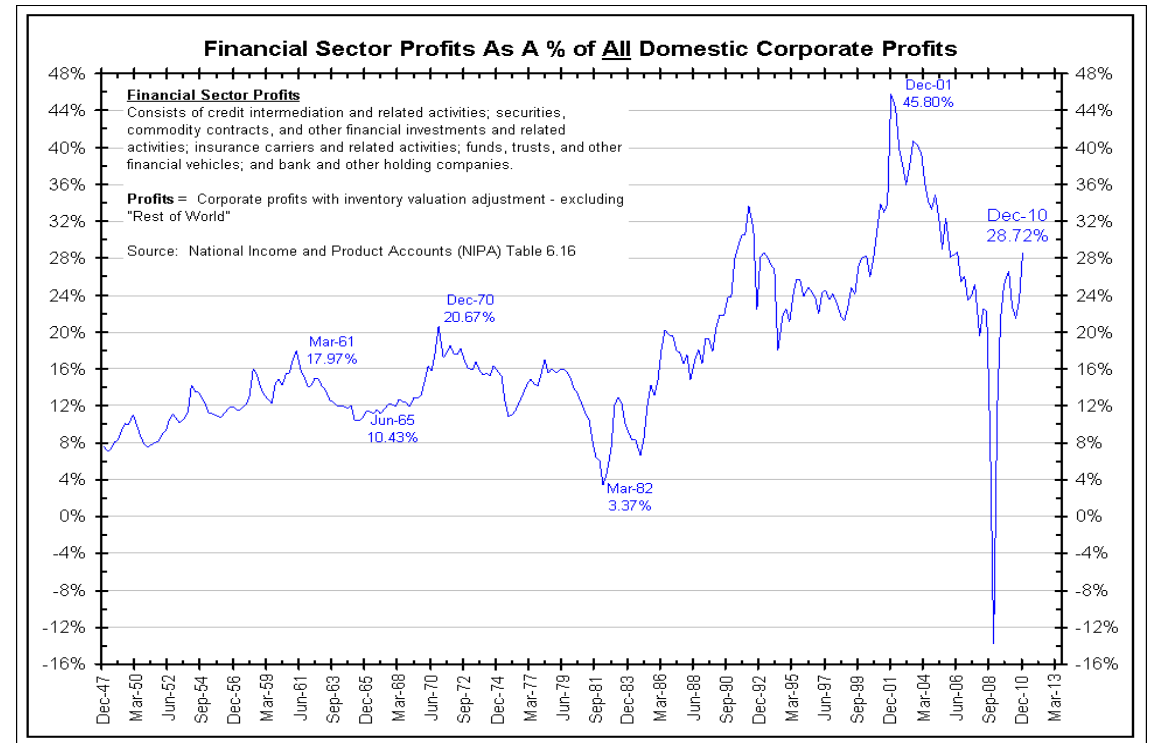
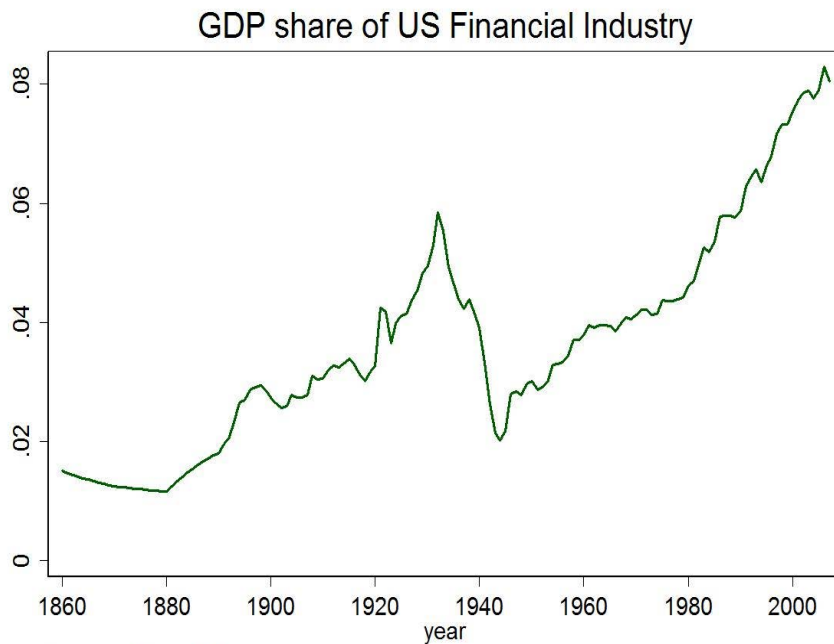
HypoRealEstate in 2007 had capital
of only

0,08%

Quelle: Udo Philipp, Untersuchungsausschuss HypoRealEstate, Juli 2015,
S. 4
<http://udo-philipp.de/wp-content/uploads/2016/08/HypoRealEstate.pdf>

Cf also:
Anat Admati und Martin Hellwig,
Bankers new clothes

Exploding finance



Cf. recent books:

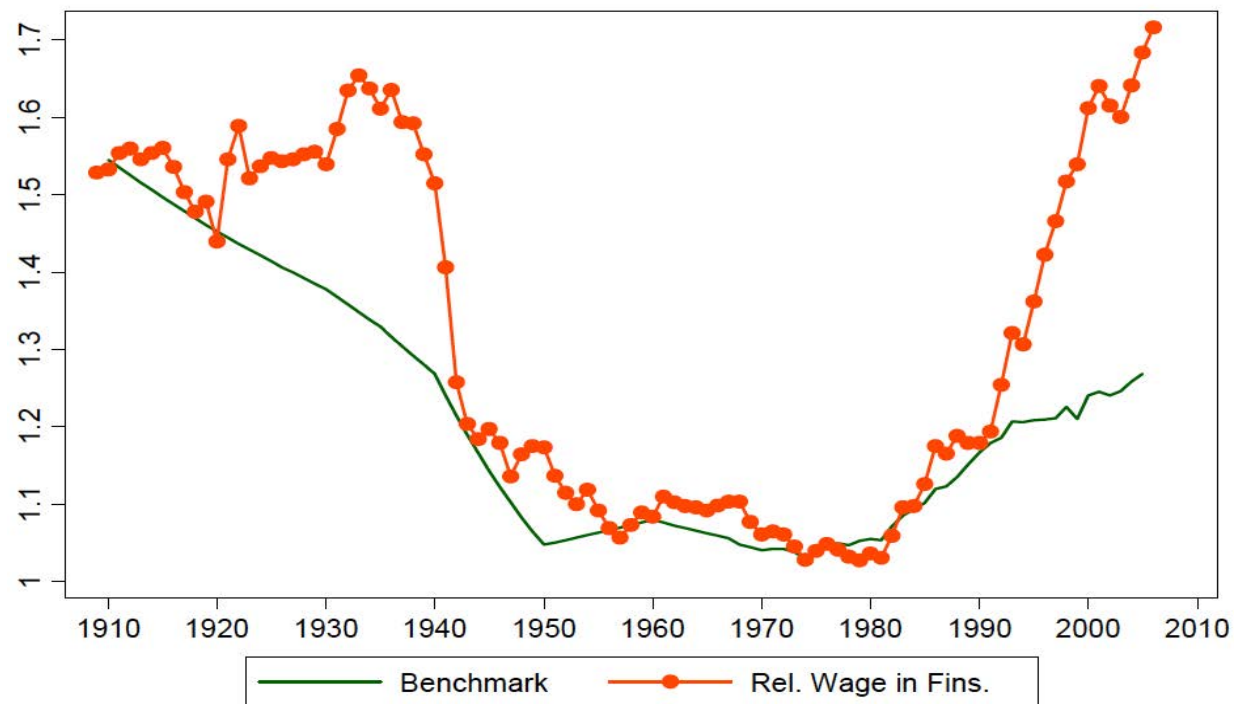
John Kay, Other People's Money – Masters of the universe or servants of the people?

Adair Turner, Between Debt and the Devil – Money, credit and fixing Global Finance

Martin Wolf, The Shifts and the Shocks – What we've learned and have still to learn from the financial crisis

Exploding compensation

Figure 10: Actual and Benchmark Relative Wages in the Financial Industry



source: Philippon&Reshef (2009), Wages and Human Capital in the U.S. Financial Industry, 1909-2006

Scandals

- Libor
 - Rate fixing
 - Libor is benchmark rate for almost all credit contracts
 - Major banks had to pay billions of fines
- Foreign exchange fixing
 - Traders rigged fx market to make profit
 - Banks paid billions in fines
- London Whale
 - 6.2 bn USD trading loss for JPMorgan

Scandals 2

- Mis-selling of payment protection insurance
- Mis-selling interest rate swaps
- Mis-selling credit card theft insurance
- Mis-selling of mortgage-backed securities
- Mis-selling of municipal bond investment strategies
- Mis-selling of structured deposit investments
- Mis-selling of foreign exchange products
- Fraud related to the packaging and selling of mortgage-backed securities that institutions knew to be “toxic waste”
- Misleading statements to investors involving capital-raising rights issue
- Misleading investors in the sale of collateralised debt obligations
- Abusive small business lending practices
- Predatory mortgage practices
- Abusive or in inappropriate foreclosure practices (Wells Fargo among others:
- Abusive imposition of unwarranted fees and charges
- Conducting false appraisals and charging customers for them
- Aiding and abetting tax evasion
- Aiding and abetting money laundering for violent drug cartels
- Violations of rogue-regime sanctions
- Manipulation of Libor
- Manipulation of Euribor
- Manipulation of FX markets
- Manipulation of gold fixing (London)
- Manipulation of commodity markets via metals warehousing practices
- Manipulation of electricity markets (California)
- Manipulation of the swaps market benchmark index (Isdafx)
- Collusion relating to credit default swap market dealing in violation of US anti-trust laws (“settlement” reached with authorities to resolve allegations)
- Filing false statements with the SEC (London Whale)
- Keeping false books and records (London Whale)
-

Source:

BETTER MARKETS:

<https://www.bettermarkets.com/sites/default/files/Speech%20Berlin%20Financial%20Stability%20Conf%20Nov%202016.pdf>

Scandals 3

- Reporting failures relating to Madoff
- Withholding of critical information from Italian regulators
- Bribing civil service employees in Japan
- Mis-reporting related to Barclays emergency capital raising
- Stealing confidential regulatory information by a banker
- Collusion with Greek authorities to mislead EU policy makers on meeting Euro criteria
- Financial engineering with the aim of moving Italian debt off-balance sheet
- Manipulation of risk models with the aim of minimizing reported Risk Weighted Assets / capital requirements
- Electronic FX trading related market manipulation
- Process and control failures with respect to dealings with the ultra-wealthy/ "politically exposed persons". (*Elephant Deal* - Barclays 11/'15)
- Failure to prevent bribery of African officials (Standard Chartered)
- Peddling complex tax avoidance strategies to corporate clients (Deutsche)
- Improperly providing information about a Japanese company to its clients (Deutsche)
- Abuses relating to dark pool trading platforms (Barclays)
- Failure to disclose conflict of interests to wealth management clients (JPM)
- Misleading investors with wrong / incomplete information (JPM London Whale losses)
- Conspiracy to commit multi-million dollar securities fraud (RBS:
- Overcharging customers for FX transactions (Barclays: Times / Oct 30, 2015)
- Failure to meet the terms of the 2013 Mortgage foreclosure abuses settlement (JPM)
- Repeated violation of federal laws connected with sourcing securities for client shorting (GS)
- Manipulation of Korean stock market
- Unfairly jumping the creditor queue to secure (confiscate?) collateral relating to Lehman
- Publishing research and trading in the shares of a company it was advising (Goldman Sachs)
- Other mortgage related abuses including: failing to accurately track payments by borrowers; charging unauthorised fees; and providing false and misleading information in response to complaints by customers. (HSBC)
- Use of minority owned non consolidated subsidiaries to arbitrage capital requirements
- Investment bank analysts altering stock research recommendations to curry favour with companies they were researching. (Deutsche Bank / Feb17)
- Use of illegal offshore schemes to avoid paying income tax on bonuses (Deutsche/UBS)
- Ex Federal Reserve employee working at Goldman conspired with former Central Bank colleague to leak confidential information

Scandals 4

- Overcharging custody clients through the use of undisclosed or secret mark-ups on foreign exchange transactions in contradiction of its promise to clients of “best execution rates.” [State Street settles allegations for \$530mio. – July 28]
- Mis-selling of loans to small business customers under the UK’s Enterprise Finance scheme [RBS]
- Offers to procure prostitutes to curry favour with SWF clients [GS/Libyan SWF]
- “Manufactured euros 7.2 billion euros of deposits by sham transactions to inflate reported deposit base during the crisis [Ireland]
- Predatory practices connected with the issuance of banking debit cards
- Supervisory failures connected with Chicago Mercantile related exchange and clearing fee processing which in turn involved overcharging of customers [Merrill Lynch and Barclays Capital US/CFTC fines]
- Falsifying accounts (manipulating mark-to-market pricing of derivatives positions) to reduce reported unrealised losses [Deutsche]
- Dismissal of whistle-blower who complained about the above [Deutsche]
- Creation of fake client accounts and making unauthorised transfers to achieve bonus driven sales targets - involving *some 2 million clients* and no less than 5000 employee offenders over some 5 years (Wells Fargo)
- Misleading investors via misclassification of private client asset accounts with a view to inflate reported Net New Assets for the bank. *And currently under investigation...*
- Manipulation of precious metals markets (gold/silver/platinum/palladium - Switzerland)
- Manipulation / collusion of the US Treasury Market auction/client sales
- Manipulation of energy markets
- Short changing clients a second time in not paying settlements in full
- Violations connected with emergency fund raisings
- Falsifying customer data and records
- Misleading shareholders ahead of RBS rights issue
- Misleading shareholder information with respect to Lloyds takeover of HBOS
- Conspiracy to force small businesses into bankruptcy to the benefit of the lender
- Insertion of illegal rate floors in Spanish mortgage lending
- Faking customer files to justify predatory foreclosure practices
- Misleading profit and capital statements based on questionable accounting practices
- Bribing (“Improper payments”) officials in connection with license applications in Saudi Arabia
- Hiring sons and daughters of senior officials in return for favours
- Fabricating complaint letters after the fact to justify dismissal of a whistle-blower who raised alarms over possible mis-selling of mutual funds.
- “Mis-informing” (lying) to 4500 people over existence of dormant accounts
- Use of “mirror trades” (\$10 billions worth) to circumvent Russian related sanctions (Deutsche)
- Overcharging customers who are past due on their credit cards (HSBC: 14 Dec / Times)

Scandals 5

- Market rigging of Gilt trading (Lloyds/CS)
- Hiding failed Loans in its commercial real estate portfolio in 2009. 2010 at a time of issuing new stock to repay government bail-out money. Wilmington Trust, Delaware.
- Non transparent and excess charges for FX transfers by major UK banks to small businesses in the UK:
- Manipulating shareholdings around dividend payment dates to trigger dishonestly acquired tax reimbursements. (DB/Barclays/BNP/GS/UBS)
- Manipulation of the Australian “bank bill swap rates”
- Manipulation of the government sponsored bond market (supranational, sub-sovereign and government agency debt or “SSA market.”)
- Use of secret / undisclosed payments of circa \$500mio connected with emergency capital funding. (Barclays)
- Knowingly acquiring “dirty debt” (a loan used as part of a multi-million pound embezzlement scheme) and using it to demand compensation from an African government (Standard Chartered)
- Conspiracy with borrower to falsify work estimates totally \$400 million of fraudulent accounts receivable: (Citibank)
- Facilitating fraudulent activity by customers via use of import advance payments (Barclays)
- “Spoofing” in trading of US government bonds (Barclays)
- Laundering the proceeds of Petrobras related corruption (HSBC)
- Mis-selling of “lobo” loans to UK Local Councils
- Fraud and Criminal mismanagement in connection with account management for the former prime minister of Georgia (Credit Suisse Geneva)
- Forcing customers to switch from variable (“tracker”) mortgages into fixed rate mortgages – in a falling / low rate environment. [Ulster Bank-RBS]
- Mis-selling expensive life insurance products to little old ladies in France (Barclays France)
- Facilitating African money laundering on a grand scale (Barclays France)
- Misleading Libor submissions with the aim of boosting confidence in the bank’s perceived credit worthiness (Citi)
- Conspiring to facilitate VAT evasion through manipulative carbon trading transactions (RBS 6/2016)
- Misleading inexperienced officials in nascent Libyan SWF into complex and ultimately loss making derivative trades (Goldman Sachs)
- Mishandling of the proceeds of securities offerings for a state investment fund (Goldman Sachs/IMDB)
- Offering for use, false and misleading valuation opinions on M&A transactions to curry favour with wealth management clients (Goldman Sachs)
- Abusive practices in handling mortgage arrears (Lloyds / 29 July)
- Errors and abuses connected with reverse mortgages and related foreclosures in NY State [NY DFS investigation of Reversed Mortgage Solutions and Champion Mortgage]
- Manipulation of Australian Bank Bill Swap Rate – BBSW. [Lloyds/RBS/HSBC/JPM/MS/UBS/DB/others]
- Forging client signatures to create unwanted credit card account and then harassing the individual for non payment of charges relating to a card never applied for (Wells Fargo)
- Dismissing employees who failed to make their sales targets through fraudulent behaviour [Wells Fargo]
- Forcing distressed banking clients to hire a turn-around consultant who recommended expensive new lending facilities and from whom the banker received personal kickbacks
- Collusion to falsify accounts of Italy’s third largest bank.



34.019 PAGES
of regulation since 2010

SIMPLE BUT TOUGH RULES

So that also small banks can survive

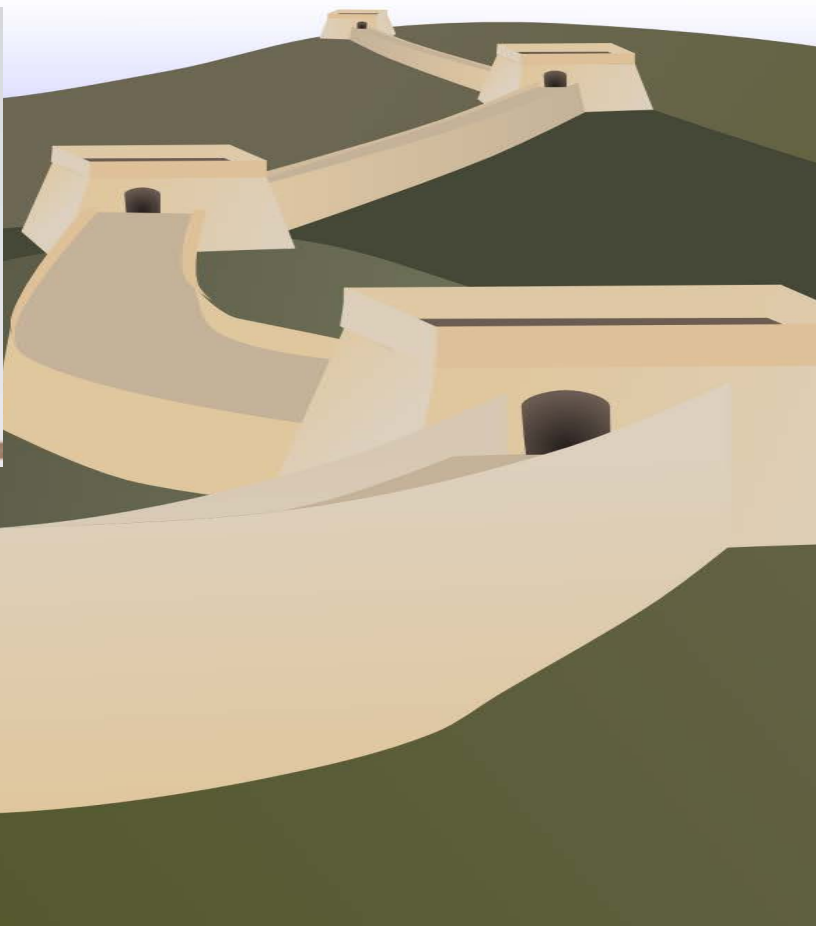




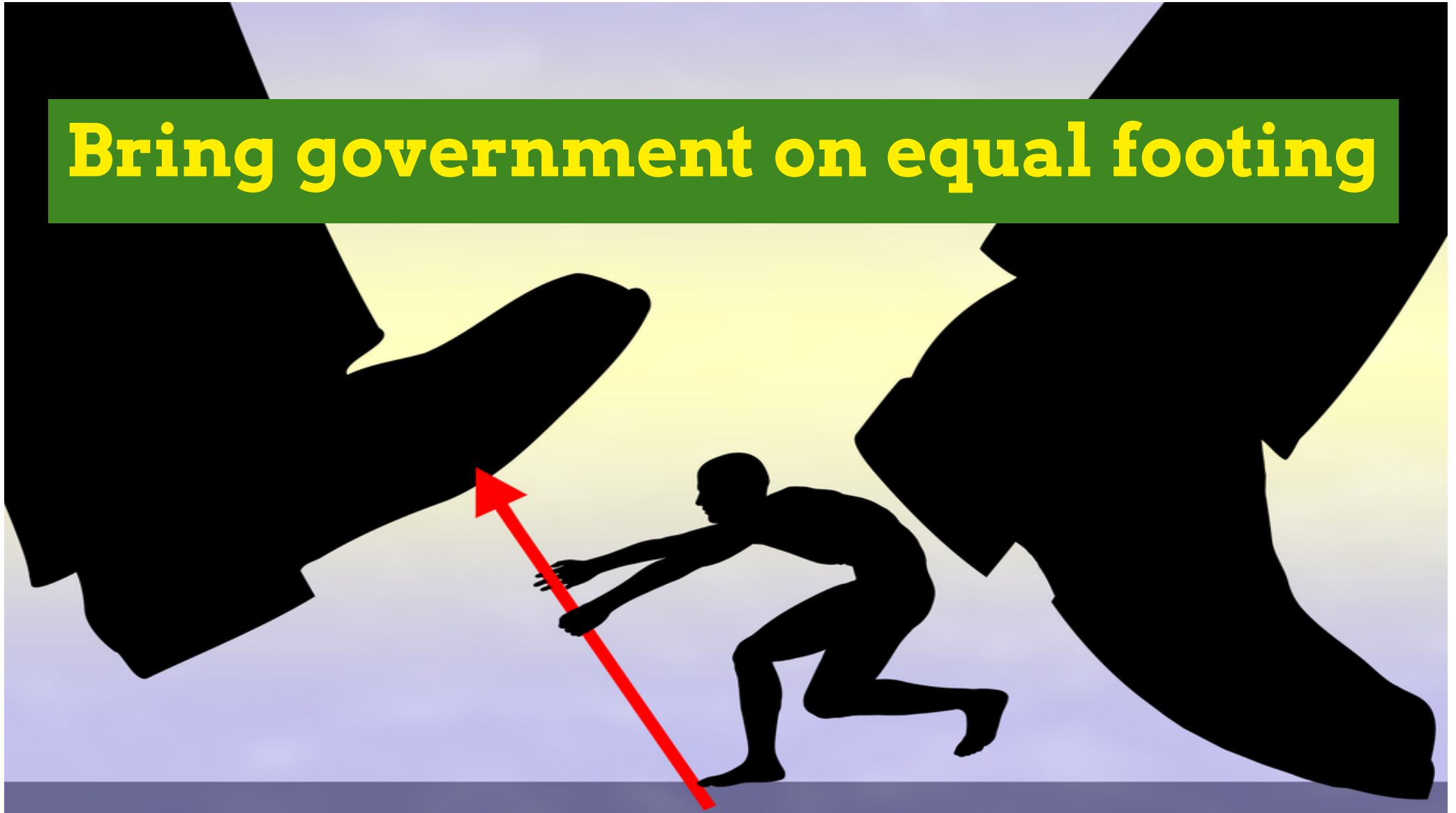
The magic of debt and limited liability



Structural Reform



Bring government on equal footing





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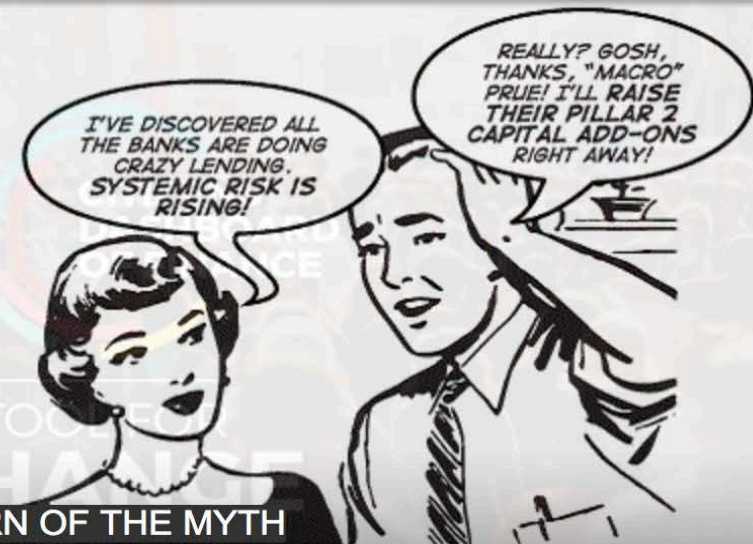
We need your support
to change finance

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> UNDERSTAND

BANK CAPITAL: THE RETURN OF THE MYTH



Failing or likely to fail?

Barely a year after its launch, a new European law that was supposed to put an end to bank bail-outs looks set to be failing already.



Four fixes to make shadow banking a little bit safer

Finance Watch suggest four initiatives that the European Commission could take to fill in the gaps, and so improve financial stability for the EU's banks, citizens and taxpayers.

Regulate shadow banks



A close-up photograph of two people in business attire sitting at a desk. One person's hand is pointing at a document, while the other's hand holds a pen, ready to sign. The background is blurred, showing office shelves.

Re-introduce liability

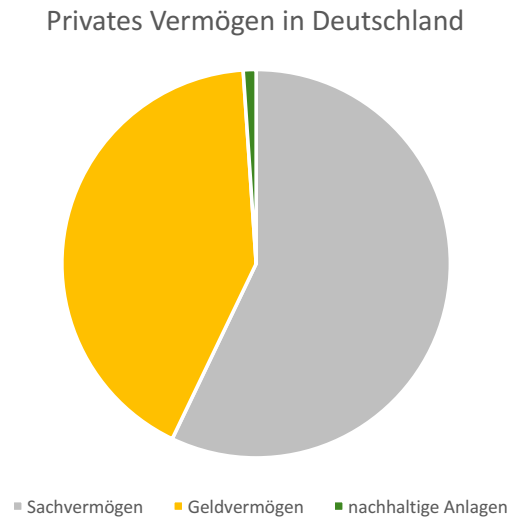


Start at the source

Divest – Reinvest



Tiny market for sustainable investment



12.831 BN Euro total wealth
5.503 BN Euro financial wealth
137 BN Euro sustainable (2,5%)
21 BN Euro private households

source: Forum Nachhaltige Geldanlagen 2016 and Bundesbankstatistik

Market share sustainable banks

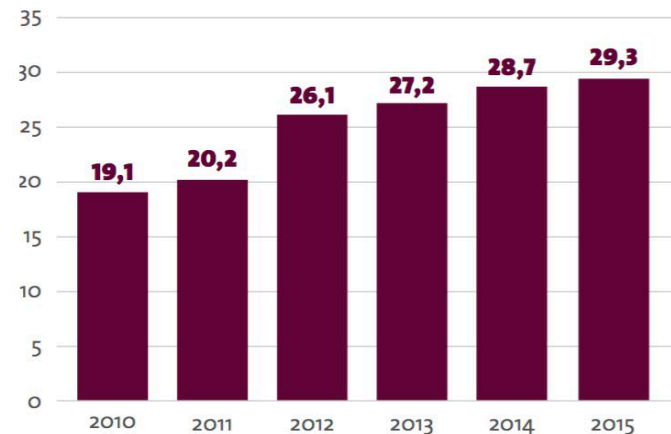
SPEZIALBANKEN MIT NACHHALTIGKEITSFOKUS

Wie auch im letzten Jahr wurden folgende Institute als Spezialbanken mit Nachhaltigkeitsfokus berücksichtigt (in alphabetischer Reihenfolge):⁵³

1. Bank für Kirche und Caritas eG
2. Bank für Kirche und Diakonie
3. Bank für Orden und Mission
(Zweigniederlassung der vrbank Untertaunus eG)
4. BANK IM BISTUM ESSEN eG
5. DKM Darlehnskasse Münster eG
6. EthikBank
7. Evangelische Bank eG
8. GLS Bank
9. Pax-Bank eG
10. ProCredit Bank AG
11. Steyler Bank GmbH
12. Triodos Bank N.V. Deutschland
13. UmweltBank AG

source: Forum Nachhaltige Geldanlagen 2016

GRAFIK 3.12: Kundeneinlagen der Spezialbanken mit Nachhaltigkeitsfokus (in Milliarden Euro)



Daten: Forum Nachhaltige Geldanlagen

To compare:
8.6 BN Euro
Balance sheet of all German banks n

→ appx. 0.4% market share

Lower returns?



Small banks are more attractive

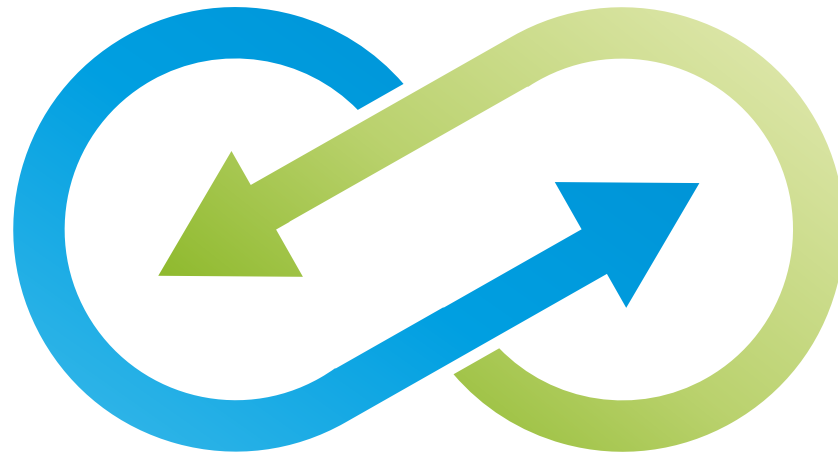


Return on equity of different types of banks in Germany

	RoE	StdAbw	Sharpe Ratio	EK Quote
Alle Banken	7.8%	6.1%	1.28	4.0%
Großbanken	6.5%	14.8%	0.44	3.4%
Regionalbanken	7.9%	4.3%	1.82	4.7%
Landesbanken	3.6%	6.5%	0.56	3.1%
Sparkassen	13.4%	6.0%	2.23	4.7%
Sparkassengruppe	8.8%	5.9%	1.49	
Gen Zentralinstitute	7.4%	7.4%	1.00	3.6%
Kreditgenossenschaften	12.3%	3.8%	3.21	5.1%
GenoGruppe	11.2%	4.1%	2.72	

source: Bundesbankstatistik

Robust financial markets



Sustainable economy

Giegold / Philipp / Schick

FINANZ *WENDE*

Den nächsten Crash
verhindern



Politik bei Wagenbach