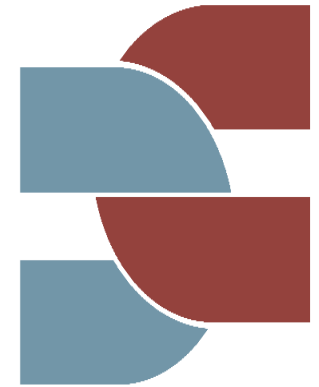


New Economic Thinking and regional mutual banks - *The benefits of cooperative banks*

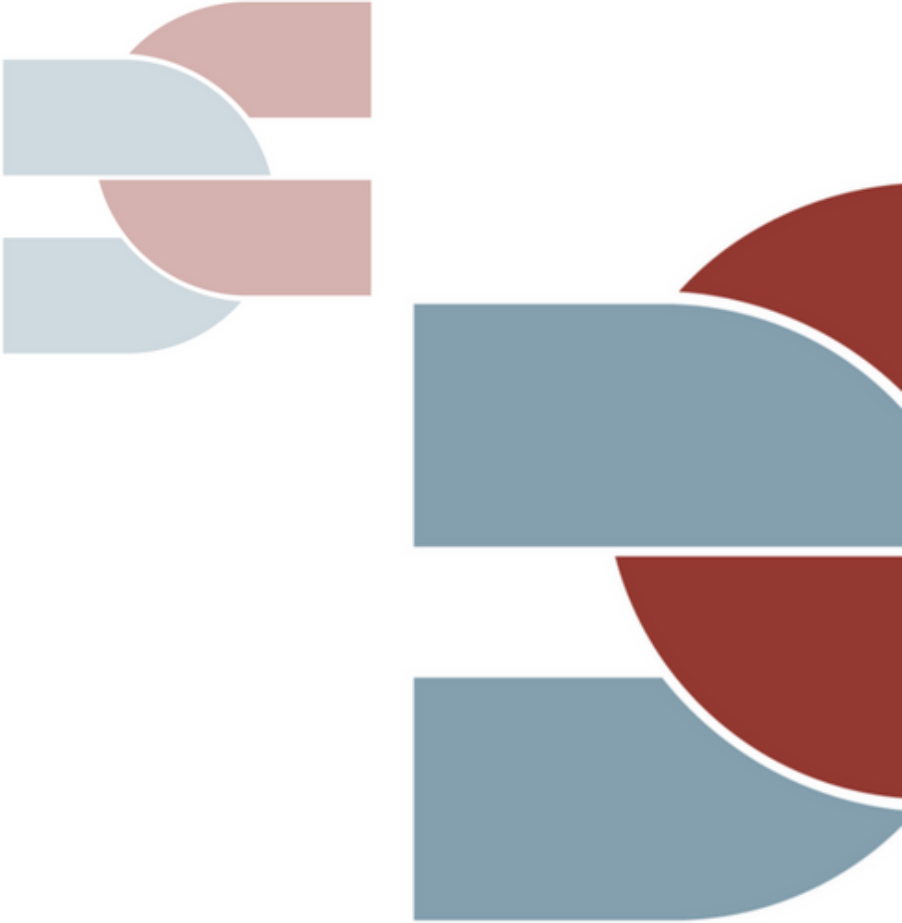
by Nina Schindler, Managing Director

*CCIN Annual conference,
February 15th, 2022*

The voice of **2.700** local and retail Banks | **85** million Members | **214** million Customers
www.eacb.coop



EUROPEAN ASSOCIATION
OF CO-OPERATIVE BANKS



EACB role – members & missions

EACB - Mission



EACB - Members

Full members

✓ National Associations



✓ Banks



Associated members



COMMON FEATURES

- Co-operative legal form and governance
- Inverted pyramid group structure

GROUPS WITH VARIOUS STRUCTURES

- Institutions with Institutional Protection Scheme (IPS)
- Affiliated groups (with varying degrees of centralisation)
- Consolidated banks

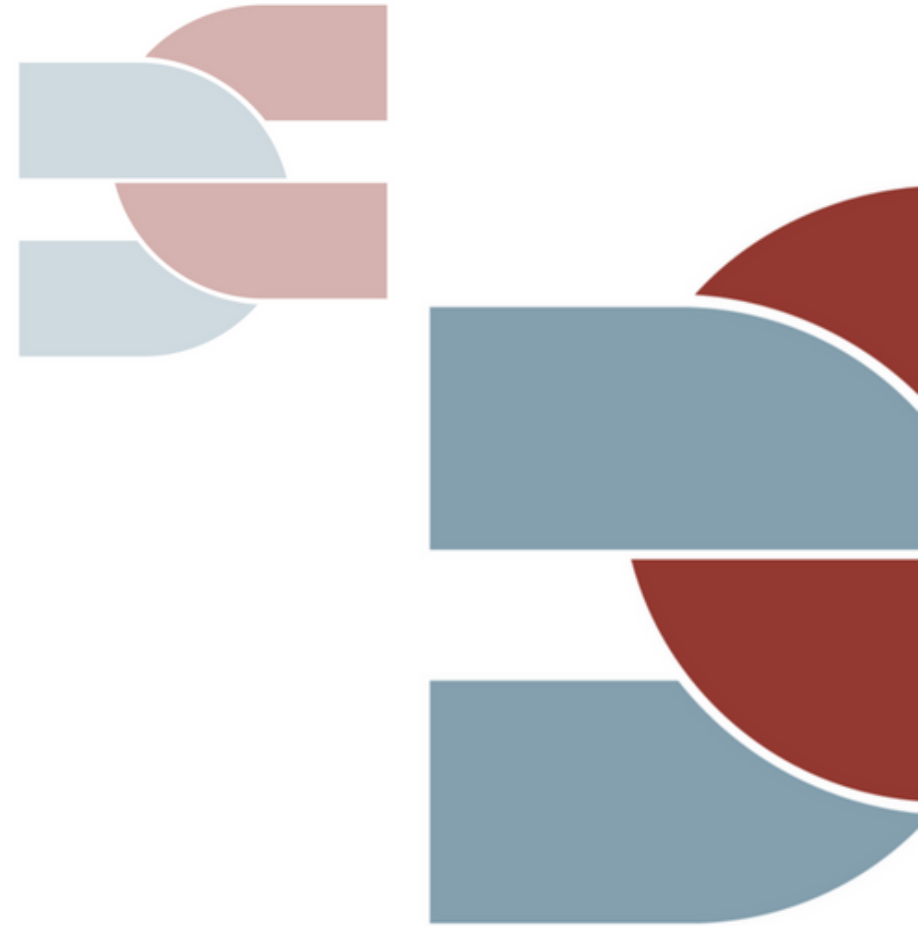
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Co-operative banking in the EU



Cooperative Banks in Europe

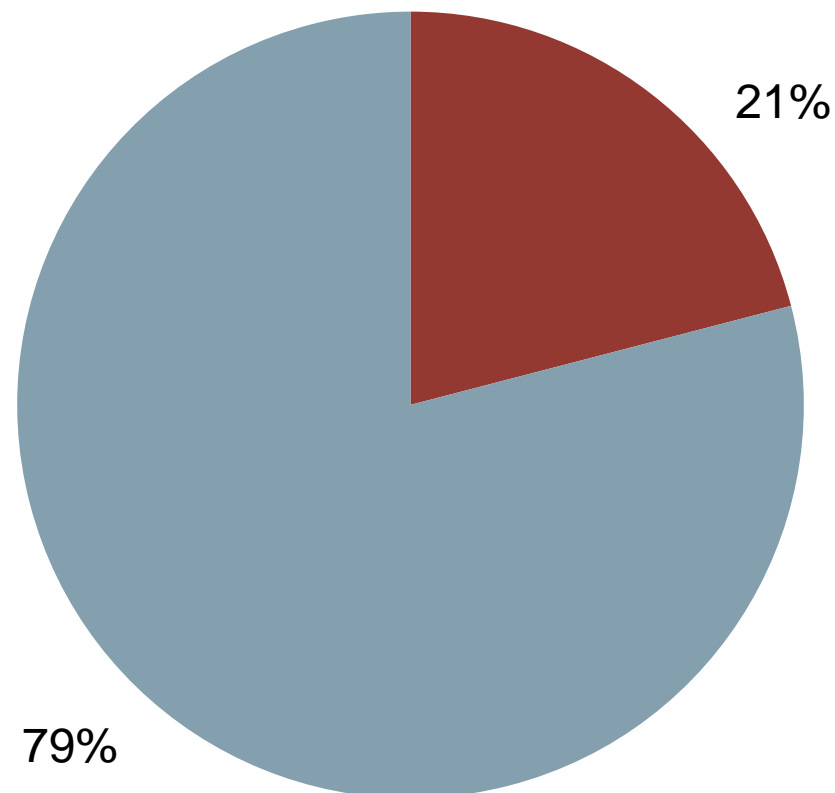
- ✓ **EACB: 21 coop banks/associations from 17 European countries**
- ✓ **2700 banks (EU)**
- ✓ **8.8 trillion total assets**
- ✓ **87 million members / 214 million customers**
- ✓ **700 000 employees**

- ✓ **Cooperative banks are usually “universal” banks and provide the full range of financial services (cards, accounts, loans, mortgages, savings, insurances, etc.)**

- ✓ **Major customers groups are private households and SMEs**

Total Assets/ Eurozone

■ EACB ■ Others



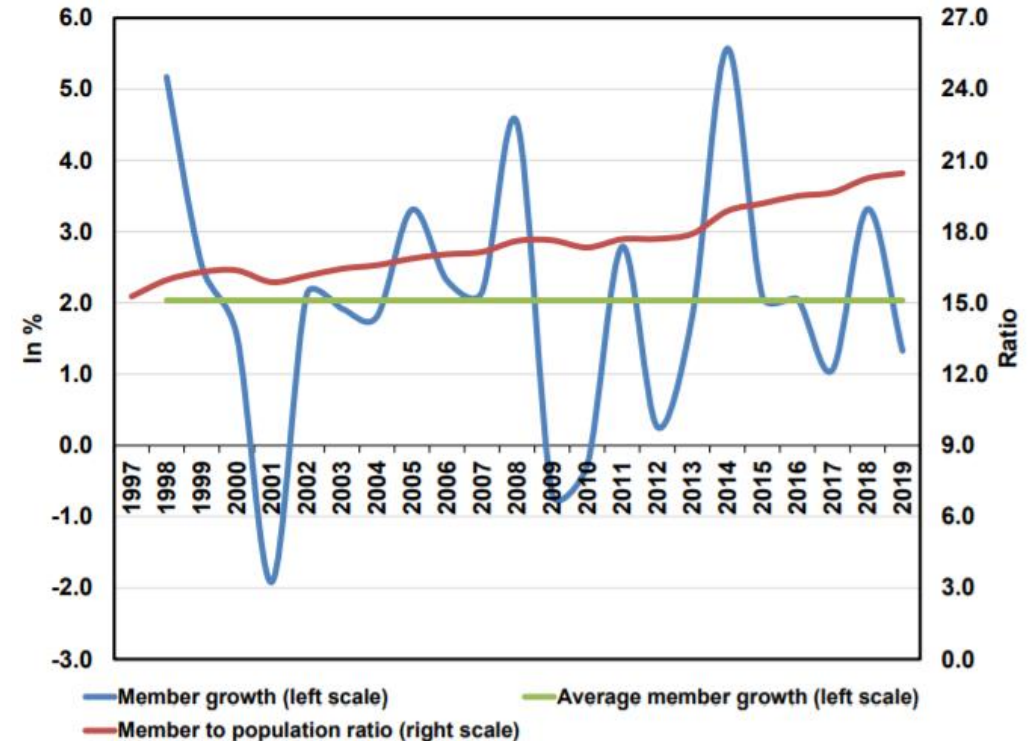


Co-operative Banks' Performance – Steady Member Growth

Almost **1 out of 5** inhabitants of the EU countries under review is currently a member of a **co-operative bank** !
The increase indicates customers' **trust and confidence** !

- ✓ Since 1997 the number of members has steadily increased
- ✓ In 2019, European co-operative banks welcomed more than 1.1 million new members

Member growth does not appear to differ significantly between years of strong economic growth and financial stability and years of economic slack and financial instability.

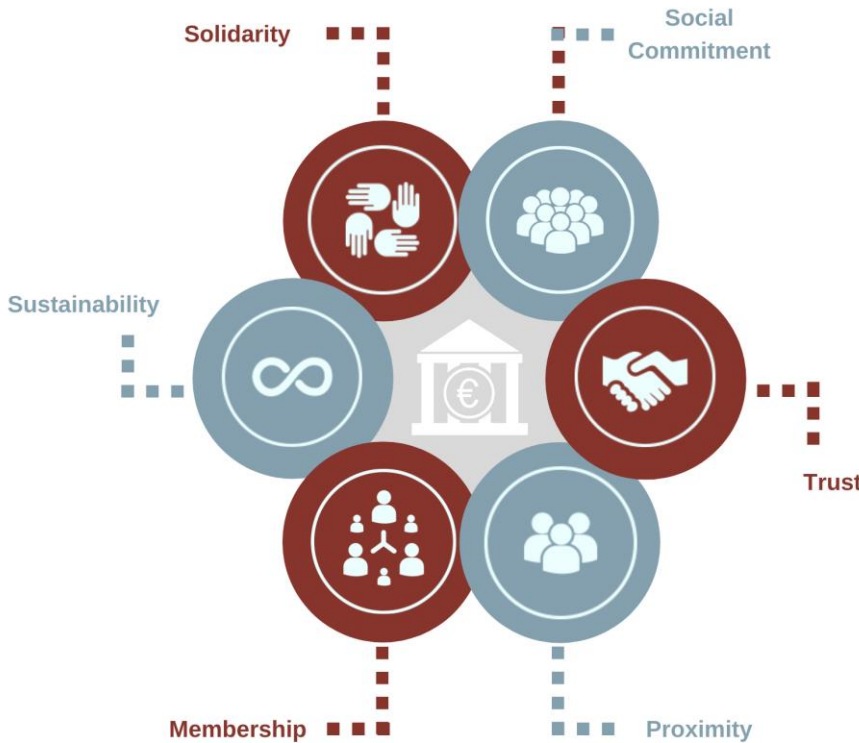


Source: Tilburg university publication, 2019

The Co-operative Difference

WHAT MAKES THE CO-OPERATIVE BANKING MODEL

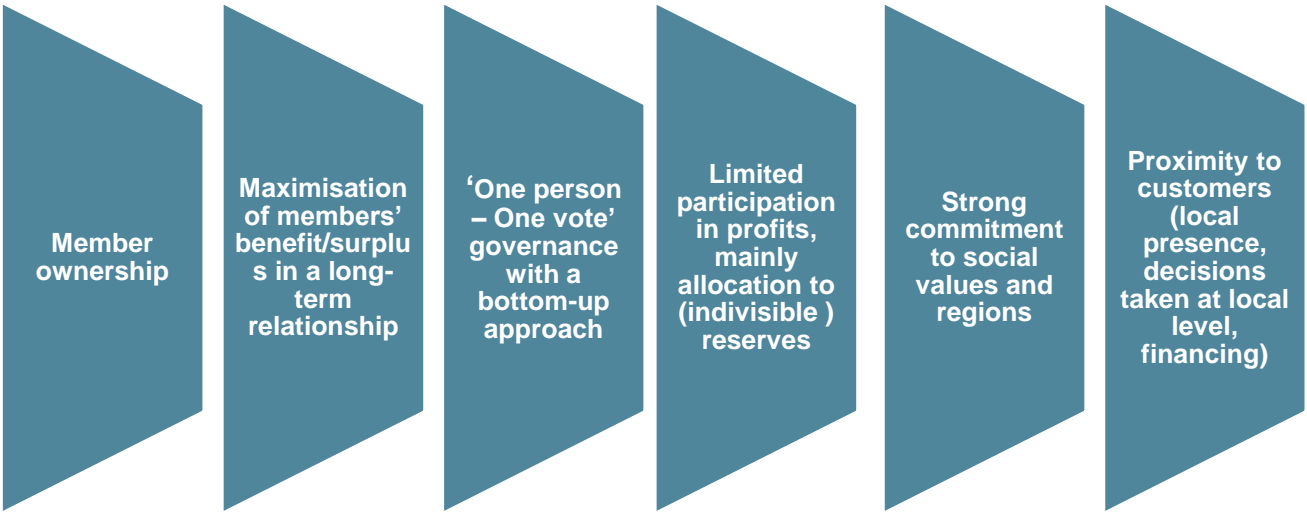
Different ?



Co-operative banks are a major pillar of diversity in the European banking sector

⇒ Other than commercial banks, co-operative banks do not focus on maximising profits but on adding value for their members/customers

Special features:





The Benefits of local (co-operative) banks

- ✓ **Banks in general play a central role for the economy as hubs for the economic development**
Regional/local banks can deliver important impulses for the endogenous development potential of regions:
 - **solutions can be found at local level – local entrepreneurship**
 - **Pay taxes at local level**
 - **provide employment**

- ✓ **Cooperative/mutual banks help to mobilize local and regional resources due to their features:**
 - **focus on member benefit (mission to provide quality services at good prices)**
 - **allocation of major share of surplus to reserves (which are not accessible to members) leads to building up of local infrastructure in common property**
 - **“reasonable” profitability and long-term orientation in customer/member relationship**
 - **Usually broad member base implies involvement of a large number of members/customers in “their” bank**



The Benefits of local (cooperative) banks

- ✓ **(Continental) European cooperative banks are**
 - **“universal banks”, servicing mainly private households and SMEs with almost a complete range of products (loans, insurance, current accounts, etc.)**
 - **Anchored in local communities and closely involved in the local economy and social life; very often have very strong local market positions.**



The Benefits of local cooperative banks - Competitiveness

- ✓ While cooperative/mutual banking may very much appeal to many citizens, profitability and a solid market position require the ability to offer competitive products at competitive prices.
- ✓ Therefore, most continental cooperative banks have engaged in close cooperation in their countries; stand-alone cooperative banks on local banks are a very rare exception.
- ✓ Very often a very developed common infrastructure was built up over decades:
 - A central institution for access to capital markets, provision of liquidity, loan syndication, etc.
 - an institutional protection scheme ensuring the solvency and liquidity of affiliated banks
 - Data processing centres, providers of insurance, leasing, etc.

For example: even the smallest cooperative banks in Austria and Germany with around 10 employees can offer internet banking with a perfectly up-to-date app.

- Cooperation with partners seems to be essential to establish stable and competitive mutual institutions

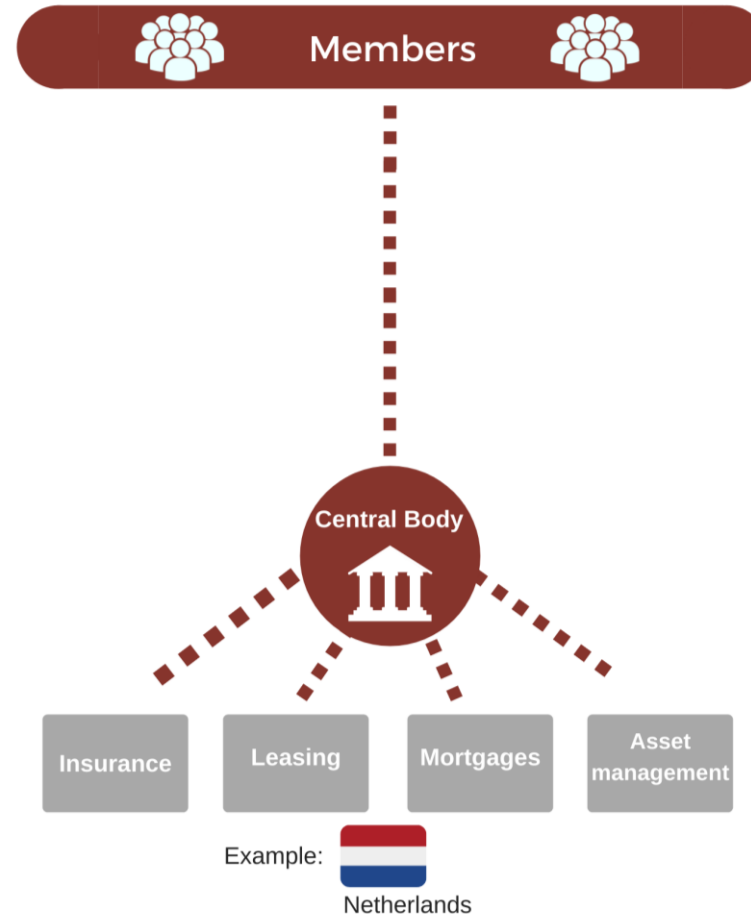
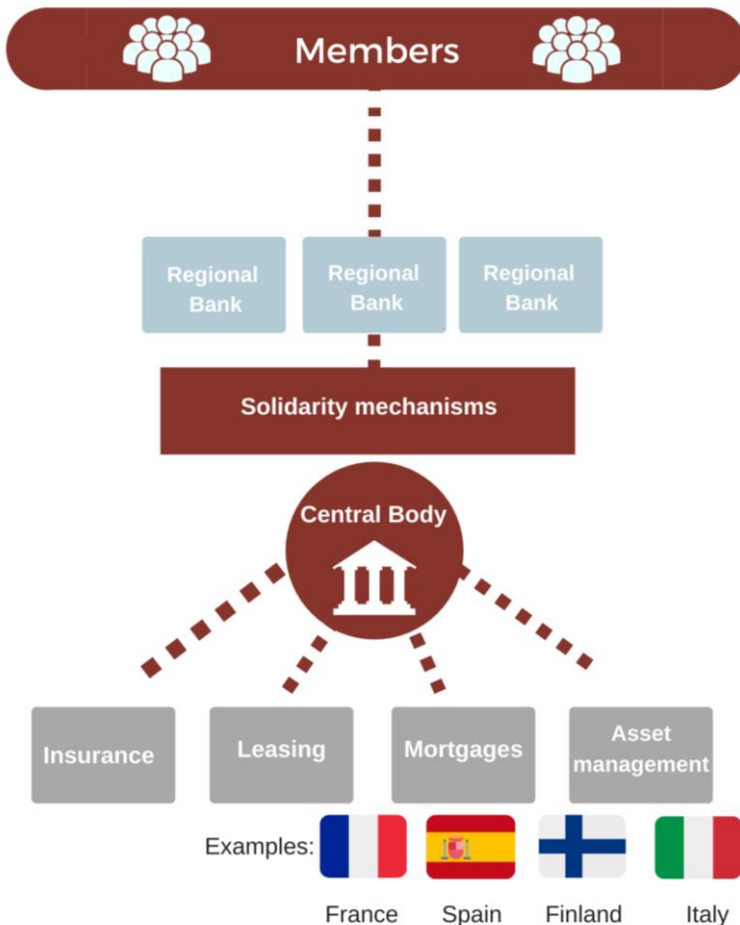
Structure of European Co-operative Banks



Consolidated groups

With cross-guarantee scheme

Co-operative bank (through mergers)



Nobody is alone!

Consolidated groups with cross-guarantee scheme
Countries: France, Spain, Finland, Italy

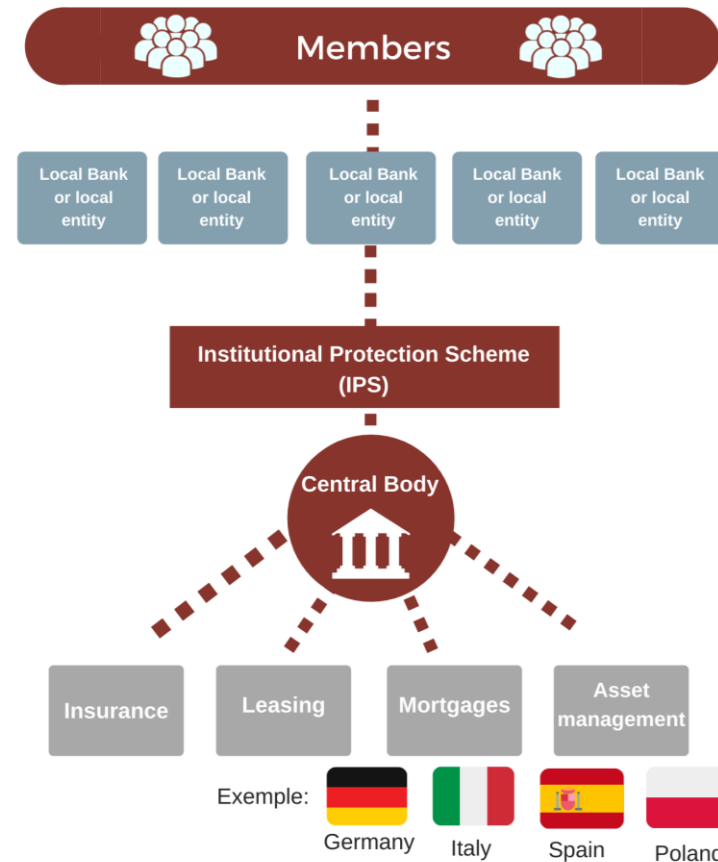
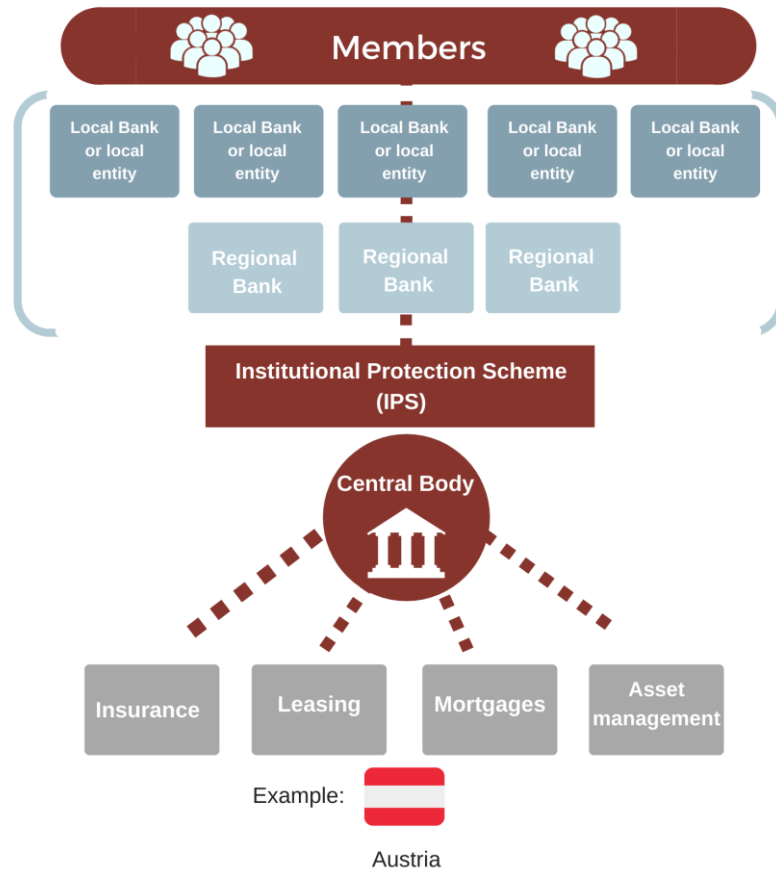
Single merged entity
Country: Netherlands

The benefits of local Co-operative Banks



Non-consolidating network models

Groups with institutional protection scheme (IPS)



Nobody is alone!

- Local banks are usually part of a 2 or 3 level group
- Inverted pyramid: local banks own regional/national central bodies
- Central bodies provide services for the group and ensure liquidity

- **Institutional protection scheme (IPS):** Protects affiliated institutions and guarantee their liquidity and solvency in order to avoid bankruptcy where necessary. Countries: AU, DE, IT, ES, PL

The Benefits of local cooperative banks - Financing



Continental Europe

- ✓ Capital was built over decades (the biggest part of the capital are retained earnings, not shares.)
- ✓ High granularity of capital in cooperative banks (a single member may inject not more than 50 or 100 Euro) -> creation of new cooperative banks complicated if only based on the contributions of individuals (minimum regulatory capital for a bank: 5 000 000 €)
- ✓ High contributions by individuals would also raise conduct/ethical issues (too much money in one box of risk capital for an ordinary citizens)

UK

- ✓ Legislation does not allow to establish a credit institution with withdrawable capital (coop shares are normally not traded but given back to the coop at face value)
- ✓ The (normal) minimum nominal amount of Core Capital Deferred Shares (CCDS) of Building Societies is 25000 £.
- ✓ At present, it does not seem possible to establish a bank in the form of a cooperative in the UK; other rules seem to make it very difficult that “normal” citizens hold mutual capital instruments.

The Benefits of local cooperative banks - Financing

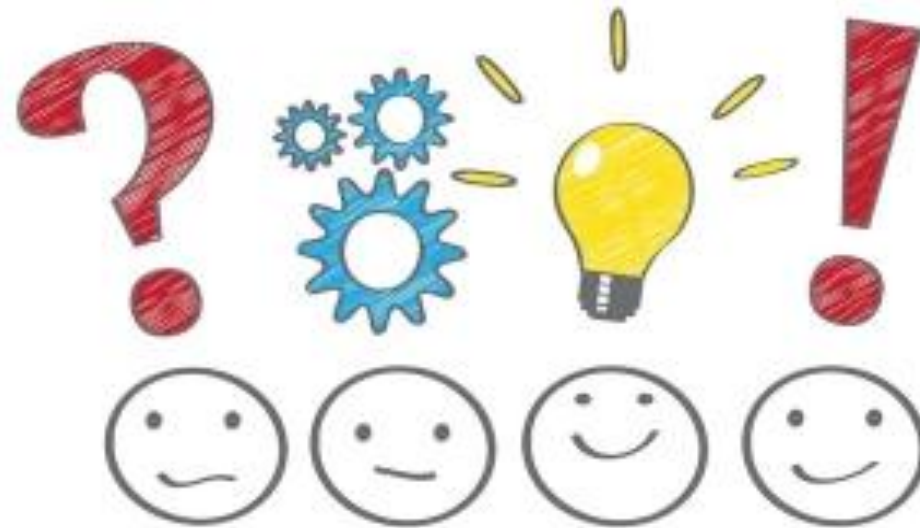


Options:

- ✓ **The recently created “NewB” cooperative bank in Belgium, may provide an inspiration of how to raise the necessary funds in a “mixed” approach”:**

3 types of members: A, B, C.

- **A: societal organisations and initiatives (minimum 2000 €, today 348 A members)**
 - **B: citizens (minimum 20 € , today 116351 members)**
 - **C: Investor organisations (minimum 200000, today 11)**
- **This approach leads to a broad involvement of citizens and societal organisations and is open at the same time to “investor members”**
 - **The possibility of investment vehicles that engage in a broad investment in mutual societies could be explored.**





Thank you for your attention

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