



European Association of Co-operative Banks: Co-operative Banks - Looking Ahead to Drive Societal and Economic Growth (Novares Monitoring)

28 March 2017

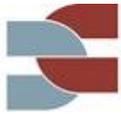
Key Points:

- **Proportionality:** Proportionality was a big theme of the conference, with Mark Weinmeister (Secretary of State for European Affairs of the State of Hessen) opening the conference by suggesting that proportionality of regulations was needed. In the first panel, Jukka Vesala (Director General, Microprudential Supervision, European Central Bank) said that the Single Supervisory Mechanism (SSM) was in favour of proportionality, and that he favours it in some individual regulations, but does not support having a separate framework for co-operative banks. Andrea Enria (Chair, European Banking Authority) agreed that proportionate rules were needed for certain banks, but he opposed carving out specific regulation frameworks for certain banks. Both Enria and Gerhard Hoffman (President, European Association of Co-operative Banks; Member of the Board, Bundesverband der Deutschen Volksbanken und Raiffeisenbanken, BVR) stressed that achieving proportionality would be difficult. In the third panel, ECON Chair Roberto Gualtieri suggested that the EU should work on the banking package, making sure to increase proportionality, while avoiding fragmentation in the banking sector. His co-panellist Sergio Gatti (CEO, Federcasse) wondered if they could move from case-by-case proportionality to a proportionality-structure.
- **Second Payment Services Directive:** The panel on digitalisation paid special attention to the Second Payment Services Directive (PSD2). Matthias Honisch (Head of Card Business Unit, National Association of German Co-operative Banks) suggested that PSD2 could be out of control, as all the burdens would be on the banks, and so better regulation was needed. Bruno de Saint Florent (Moderator, Partner, Oliver Wyman) said that PSD2 could create problems for co-operative banks, as new players would be able to position themselves between banks and their customers. Honisch agreed that PSD2 could be a game-changer, but he was more optimistic and declared that the banks should embrace the change. However, both he and Harri Nummela (Chief Digital Officer of OP Financial Group) highlighted that PSD2 could affect data protection. Honisch added that regulators and policymakers were moving too slowly on PSD2 for the likes of developers.
- **Economic and Monetary Union:** Both Gatti and André Sapir (Senior Fellow, Bruegel) suggested that the completion of the Economic and Monetary Union (EMU) was one of the most important tasks ahead. Gualtieri said the Rome Declaration committed to the completion of Banking Union and the EMU, and that he was disappointed that the Commission White Paper on the Future of Europe did not emphasise this issue. He also highlighted the completion of the EMU as an important priority. Wim Boonstra (Chief Economist, Rabobank) suggested that the EMU was not yet an optimal currency area, as they need cross-border labour immigration and a federal budget.
- **Brexit:** Almost all speakers and panellists referred to Brexit. Weinmeister raised the question of what Brexit would mean for the financial centres of London, Frankfurt, and of Europe, and he wondered what would happen to passporting and cross-border financial services, highlighting that the financial economy could not be separated between different countries. Enrico Letta (President, Jacques Delors Institute, Former Prime Minister of Italy (2013-2014)) suggested that Brexit and US President Donald Trump had led to discussions on the future of the EU, highlighting that the Europeans needed to be clear on what they wanted from the economy, trade, growth and security. Elmar Brok (Member, European Parliament) said that if more young people had voted, Brexit would not have happened, with Boonstra suggesting that it had not been a rational decision, as people had voted because of nostalgia even though they were the biggest client of the International Monetary Fund (IMF) in the 1970s. Sapir suggested that Brexit had made the Capital Markets Union (CMU) more vital. Etienne Pflimlin (Honorary President, Credit Mutuel) wondered if the UK would come back, and if they had ever really been part of the European project.

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Summary

Speech by Mark Weinmeister

Mark Weinmeister (Secretary of State for European Affairs of the State of Hessen) said that the State of Hessen is important for the financial sector and fintech. He believed it was important to ensure balance in the banking sector. Private banks are typical instruments in Europe. Public banks and co-operatives are also important. Regulations and insurance mechanisms discussed at EU level should not only be viewed from the perspective of larger EU banks, but also from the perspective of smaller structures, which should not be excessively burdened with regulations. Proportionality is needed.

Smaller structures, like co-operative banks, are relatively local and close to the customers. They need to do more, as the trend is towards people being able to do all their banking through a smartphone and a cash machine, will pose a challenge to provide all the services. What is restructuring? They need an examination of how all this can be implemented.

They have established a start-up centre in Hessen for fintech, and they will be working on fintech intensively.

Referring to the notification of Article 50, he wondered what will happen next, especially between the financial centres of London, Frankfurt, and of Europe? Will there be new rules? What about passports or offering financial services across borders, dealing with non-members such as the UK? How can they remain close? Will they need changes to structures? The financial economy cannot be separated between different countries.

Regarding agreements, whether they be at an EU or international level like Basel III or Basel IV, they need to talk about what will happen. There has not been much progress made towards new agreements, as US President Donald Trump is slowing things down. Weinmeister concluded that answers were needed.

Speech by Gerhard Hofmann

Gerhard Hoffman (President, European Association of Co-operative Banks; Member of the Board, Bundesverband der Deutschen Volksbanken und Raiffeisenbanken, BVR) made reference to the regional dimension of co-operative banks, as the banks are deeply rooted in local and regional communities. The destiny of regions and cooperative banks are closely linked. SMEs and local banks are among the engines of growth, needed to relaunch the economy, job creation and competitiveness.

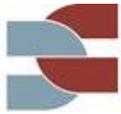
He quoted ECON Chair Roberto Gualtieri, who had previously stated that co-operative banks contribute to financial inclusion and social cohesion, as well as support the economy with long-term financing.

Hoffman questioned how co-operative banks could continue driving societal change.

The European Association of Co-operative Banks (EACB) is putting forward policy recommendations for the three topics the panels will discuss.

Co-operative banks are major players in the EU, with 4050 local retail banks, 59,000 outlets, and half of the EU population as customers. In 2016, there were 1.6 million new members in co-operative banks. They have a combined worth of 7 trillion euros of total assets, and contribute to the development of communities. Members drive decisions in a bottom-up approach, and the banks are long-term oriented, and so are not as subject to market volatility as other banks. He declared that co-operative banks are an anchor of stability through crises.

Co-operative banks stand out, in terms of growth, branch numbers and return on equity. Regulatory forces are pushing banks in the same direction, and prompting them to make similar choices regardless of their structures. He suggested that uniformity in banking could lead to financial fragility, and wondered if the regulatory and supervisory framework could lead to a homogenous market and changing co-operative governance and the co-operative model. Would this have an economic impact on SMEs, households,



financing and growth? The continuous motion of the regulatory landscape leads to higher costs and has complicated their ability to internally generate ability?

The co-operative banks need to engage with supervisors so they can understand them. Digital transformation is a challenge, but banks are embracing innovation and support the Digital Single Market, and are redesigning their proximity models to continue to engage with members. He asked if regulations are affecting digital transformation. Co-operative banks see digitalisation as an opportunity. He would like regulators to be more open to digitalisation in the regulatory and supervisory area.

He welcomed the Commission's White Paper on the future of the EU, and he looks forward to the forthcoming thematic papers and the next step. He wondered what the post-Brexit future will look like, and concluded that the EU needs a restart and the ability to reform itself.

Speech by Sylvie Goulard

Sylvie Goulard (ALDE) said that in this changing world, politicians and the EU have tried to put order in finance, after the financial crisis. The EU does not know what is happening with the new US administration on banking and trade. The Western world, free movement of capital and free trade might be in danger from the US, which could be a huge challenge for the EU. Finance is global, although banks are deeply rooted in local communities.

She referred to Russia, Turkey and Brexit as geopolitical challenges. The EU's main financial centre, the City of London, is going to be outside the EU, and Brexiteers have not yet realised what will happen, and neither has the EU.

The French Presidential campaign shows that many citizens distrust politicians and bankers. However, co-operative banks are still appreciated. To get people back on the side of finance, it is necessary to rebuild trust on the part of citizens. Populist parties are polling high and go against the work that EU is trying to do, that is to go beyond the national arena. Co-operative banks can provide some of the answers.

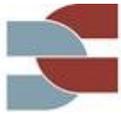
At the EU level, they are aware of the specificities of co-operative banks. Bio-diversity is good. They need to make sure that there is a fair level playing field, with all banks being able to provide services. The quality of governance provided by co-operative banks is important as human beings should be at the centre. Co-operative banks offer alternative models.

Efforts have been made to ensure a level playing field between different banks. These include the Bank Recovery and Resolution Directive (BRRD), the Total Loss Absorbing Capacity (TLAC) revision, and capital requirements for banks, as co-operatives can be competitors to big banks. Fintech is still unknown, and there is a need to make sure that the existence of platforms is not risking the stability of the system.

The idea that the Single Market will not be fragmented is an attractive but difficult one. They need global discussions and the EU needs to defend the way they finance the economy, especially regarding the Capital Markets Union (CMU).

A smaller amount of financing comes from markets in the EU than in the US. The one-size-fits-all approach does not work. The EU made a mistake by treating procedures and the real economy separately. There are challenges with the Economic and Monetary Union (EMU) and governance, and regulations on financial stability have been adopted. Regarding the Juncker investment plan, how can they boost real economy? They should put emphasis on businesses, SMEs and bigger companies. All regulations should provide stability and allow Europe to innovate and finance itself. They need to have such discussions with ordinary citizens.

The real competitors are in the US and Korea, for example, so the Member States should stop distrusting each other. They have recreated barriers in the Single Market, with the north and south distrusting each other. She wondered how they can make sure they have the right priorities, like stability. They need to look beyond the short-term and work together.



Moderator Jacki Davis intervened to ask about Goulard's comments on treating procedure and the real economy separately, asking what she would do differently. Goulard replied that she would focus on subsidiarity, with some measures taken at a national level and some at the EU level. Regarding national structural reforms, growth is lower where reforms were not fully implemented.

Unemployment is affecting political stability, and the EU cannot survive with such a high level of unemployment. The Single Market is not completed. The English press is blaming the Eurozone, but it is finance ministers who are not delivering the Single Market.

On banking regulations and the European Supervisory Authorities (ESAs), she said that Member States need to make an effort, with reforms and more ownership of what is happening at the EU level. National leaders have to deliver EU rules at the national level.

A member of the audience asked about legislative production, saying that lots of money is needed to implement regulations and that banks should instead be investing in new developments and services. Goulard responded that there was a lack of regulations before, and that it is possible that the EU has gone too far now.

Regarding the ESAs, she said that there should not be too many rules, but there should be good supervisors. She feared that there were too many rules and not enough discretionary powers for the supervisors.

After Brexit, the EU will need clarity between the Member States who are fully in and those who are fully out of the EU, as the differences between the Member States will not be as much as before. Only Denmark will have an opt-out, but she predicted that it will be the first to join the Banking Union.

Panel 1 - Co-operative Banks adapting to a changing regulatory and supervisory context

Speakers

Jacki Davis (Moderator, Leading commentator and analyst on EU affairs)

Andrea Enria (Chair, European Banking Authority)

Jukka Vesala (Director General, Microprudential Supervision, European Central Bank)

Klaus Wiedner (Head of Unit, Bank Regulation and Supervision, DG FISMA, European Commission)

Hoffman

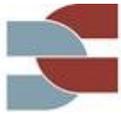
Summary

Davis said that there have been rapid transformations in markets, in the regulatory environment and in politics, but highlighted that Brexit is more significant for this sector than for many others.

She referred to the Commission's proposals of November on this issue, and pointed out that the Parliament was aware of the specificities of co-operative banks, but that there was a need for a level playing field.

Davis asked Enria about the importance of co-operative banks and where the issues of greatest concern in this new landscape were. Enria agreed that the co-operative banks are important, and said that their most important contribution is to add to the diversity of the European banking sector, on size and business focus, for example. On financial stability, he pointed out that banks react differently. In terms of the regulatory environment, he struggled with the huge tectonic shift in regulations, as the adjustment process is massive. In the EU, this has been accompanied by a shift from national rulebooks and supervision to the European level. One thing which is relevant is internal governance, because co-operatives are peculiar. Some concepts designed at the Basel level on fostering proper governance mechanisms need to be adjusted to reflect the realities of co-operatives.

Vesala said that on specificities and focus, he agrees that co-operative banks are central to the economy



and the banking sector, as they finance SMEs to a significant effect. The Single Supervisory Mechanism (SSM) has paid attention to business models and corporate models. The SSM values diversity, but co-operative banks need to look at the impact of technology. He suggested that the cost to income ratio is a key indicator. Co-operative banks are significant and systemic, playing an important role in finance and stability. Co-operative banks should not always be supervised as systemic institutions, as this depends on their corporate model. The SSM does not prefer one particular organisation or structure.

Regarding the Capital Requirements Regulation (CRR), the SSM is in favour of proportionality, especially in the context of the implementation of the rules. He places value on a single rulebook, as basic capital liquidity rules should be the same for all banks. Small banks can face a lot of risks and generate losses to unprotected creditors. He favours proportionality in some individual regulations, such as disclosure, but does not support having a separate framework. Reporting content should be discussed, but not frequency, as supervision should be more regular.

Davis asked if profitability could be a challenge in the area of low interest rates. Wiedner said that the co-operative banks are close to citizens, and are an anchor of change and stability, which is a feature recognised by legislation. The legislation covers the particularities of such banks. He agreed that more could be done on proportionality. Some co-operatives are very big, but some are even bigger. In the Commission Proposal to go forth with a targeted approach, on exposure for example, they did it topic by topic. It is difficult to define what a small bank is - is this a question of size or business model? What rules should be applied? He emphasised that a minimum level playing field and prudence are needed.

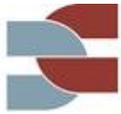
Hoffman praised supervisors for capital requirements regulations, for example, but warned them not to overdo the regulations. The increase in capital liquidity requirements has made the banking sector safer. Non-performing loans (NPLs) are not specific to the regulatory agenda, rather they are legacy issues which need to be solved. The achievement of making banks safer has had a high cost, and the efficiency of the regulatory programme is not high. How can prudential goals be achieved at the same time as the costs of the regulatory burdens are reduced? He suggested that a least-cost principle was needed. The cost-benefit ratio differs with banks. The Commission is heading in the right direction in reporting, for example, but there is room for improvement.

Davis asked what was driving mergers, to which Hoffman replied that it was market- and regulations-driven. It is difficult to distinguish between these two effects. In a low interest rate environment, maintaining profitability is a challenge. For smaller banks, regulatory costs can have an impact on their business models. He pointed out that the banking industry is the most heavily regulated in the world. Regulatory costs are fixed costs, so banks are more affected, and this affects consolidation.

Davis asked about diversity, which is the co-operative banks' greatest strength. Are the supervisors concerned that the new regulatory environment could affect diversity? Enria said that it was wrong to seek protections from regulations. Rules that work are needed in a way that is proportionate to co-operative banks. It is wrong to try and carve out specific regulation frameworks for certain banks, and thereby create fragmentation. The proportionate approach is not easy, but it is needed. Reporting is one of the biggest compliance costs. He suggested that they should not look at the single rulebook as a standardisation process, as it can accommodate diversity. The regulatory side can exploit technology and banks can create a tailor-made rulebook.

Vesala supported a single rulebook with proportionality in some parts of the regulations. This does not mean the supervisors do not understand the burdens. The economic environment is the biggest challenge, more so than compliance costs. The SSM favours a common European reporting framework, so that there would not be a national fragmentation of requirements. Ad hoc supervisory requirements could be costly. He wondered where they could simplify the scope of reporting requirements and pointed out they did not need a huge amount of data for small banks.

Asked about separate rules, Hoffman said that achieving proportionality was difficult. He pointed out that governance structures were important. Regulators recognise that co-operative banks have different governance structures, which should not be adjusted to regulations. Proven models should not be changed



by regulation supervision. Common sense is needed. It would be a nightmare for the Commission to redraft regulations for small banks. The question is, what is process and where are they heading? On the Basel III/IV issue, he does not know whether this will be successful. International cooperation is needed in the regulatory area to maintain a level playing field. Do all banks have to implement Basel IV, or just significant banks? He is in favour of proportional rules.

Regarding the application of Basel rules, Wiedner said they check the impact on banks before proposing rules. Next time, they will look at credit risks. If they can find a simpler, but equally prudent rule they would propose that, but they have not found it yet. It is difficult to see who will be in a small bank box, and what the rules would be. On proportionality and reporting, he favours frequent reporting. Some Member States find the disclosure requirements too high, while others find them too low.

Enria said that there is an impression that experts have made regulations too complex and they should be more simple. He was very surprised by this, and wondered which regulations should be changed. Proportionality is the right way forward, but there should not be shortcuts in proportionality. He pointed out that there was no such thing as Basel IV. He suggested that the objective was to reduce risks. All banks that use internal models should be subject to the same rules, should there be changes in their internal models. This is a proportionate approach.

Vesala said that a risk-based approach is key. US supervision is quite intrusive, and EU supervision is more proportional. He is happy to hear that the EU is going back to quarterly reporting for smaller banks. Regarding proportionality for less significant institutions (LSIs) supervision, they start from the European Banking Authority (EBA) and SSM requirements. Hoffman said that the frequency of reporting is not that big a deal.

A BBC journalist asked what the panellists thought about the ex-ante assessments of directors for regional banks. He also asked about better regulations and consequences.

A member of the audience asked about the revision of the Capital Requirements Directive (CRD) and if it was the right moment to go further with the Banking Union, with capital and liquidity waivers.

A member of the audience asked about proportionality and fintech. They said that there was an idea in Brussels that there should be lightweight regulation for fintech, but this was a problem of the level playing field for co-operative banks, as this would be competition from the newcomers, and they may provide the same services with the same risks. The concept should be similar risks, similar business models and similar supervision.

A member of the audience asked about level playing fields and competition, and if the regulatory system could be tweaked to reflect the balance sheets of banks.

Wiedner said that on better regulations, they are not always happy with Basel. They consult widely and they measure the impacts before they propose anything, which can be quite difficult. On capital and liquidity waivers, big groups should be able to benefit from eurozone, which is why they have proposed waivers. Small Member States are not happy with the Proposals, but in the longer-term, this is the way to go.

Hoffman said that on better regulations, the Commission is in favour of Quantitative Impact Studies (QISs), but one should not assume that the regulatory programme has been a perfect framework. He wondered if this was the right time for the Commission to engage in a general review of regulations, not to make the sector less safe, but to have a CRR review as right now it is technical. Looking at the cumulative impact, regulations are a tool to increase the functioning of banking sector. If they have reached the peak of the regulatory programme, then what are regulatory bodies doing?

Vesala said that the SSM is working on the licencing and supervisory criteria for fintech. He pointed out that LSIs are a national responsibility and that the European Central Bank's (ECB) policy was on systemically important banks (SIBs).



Enria said that fintech is an issue of proportionality. The regulatory framework needs to have a gradual approach. If fintechs are competing with banks and providing the same functions, they should be under the same regulations. On the Second Payment Services Directive (PSD2), competition between banks and non-bank providers of payment services will be delicate. He suggested that there was an opportunity to rethink the concept of traditional banks. The perimeter of banking has changed a lot. Non-banking banks provide banking services without a licence. They need the fintech debate to rethink the banking licence. On the ex-ante assessment, there is a wide variety of approaches. It is controversial in the industry and in the EBA. There has been a Proposal to move towards a harmonised approach. On Better Regulation, they need to make sure the Single Market benefits are more visible, for all the participants. At this point in the Single Market and the euro area, they should move away from the ringfencing measures introduced in crisis. Now is the time to make sure that capital and liquidity could be moved more easily, otherwise only the burdens, but not the benefits of the Single Market, will be obvious.

Regarding evidence-based legislation, Wiedner said that with the call for evidence, the Commission wanted to see if there were problems in the cumulative package of financial regulations. There were lots of comments on Basel IV, but only a few on effects from one single legislation. He wondered if there should be changes to the Markets in Financial Instruments Directive (MiFID).

Enria said that on the point of regulations and the Single Market, feedback to the Commission consultation was on the overall impact of reforms. Reporting was the clear complaint, linked to requests done by authorities in excess of the harmonisation requirement. They need to interpret the maximum harmonisation legislation of the Single Market. Regarding specialised mortgage institutions, they need a risk-based approach, with a leverage ratio as the backstop. Institutions specialising in low-risk businesses should be reflected in regulations.

Hoffman said that he is pleased about discussions on how to improve the Single Market. Regarding the announcements of the US Government, what the EU is doing makes sense, but there is an outside impulse where they want to deregulate the banking system in US. Will this lead to a need to rethink the EU regulatory framework? This should not reduce capital requirements for the banking sector, because US banks are already better capitalised than European banks, but he wondered about a least-cost well-functioning Single Market. Vesala said that they need to look at the benefits of the Single Market.

Hoffman was asked which issue would be most important to address to regulators, in order to ensure that the co-operative sector can continue the important role. He said they want co-operative differences to be reflected in regulations and an improvement of the functioning of the Single Market, with Brexit highlighting how much of an achievement it is. He does not want regulations to continue as they are.

Wiedner was asked about the priorities for the balance of proportionality and level playing fields, and he said that the priority was to get proportionality right. They will get new ideas from the Parliament. He will not want a specific regime for co-operative banks, as they need a level playing field.

Vesala said they are happy to continue the dialogue with the industry. The SSM's work has only just started, and regarding co-operative banks and internal governance, that is important. They will want well-functioning controls.

Enria said that there should be no single rule, as the most important issue for co-operative banks is internal governance. They need to reflect the specificities of the co-operative banking structure in the internal governance legislation.

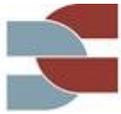
Panel II - Designing new proximity models in the era of digitalization

Speakers

Bruno de Saint Florent (Moderator, Partner, Oliver Wyman)

Chadi Habib (Executive Vice-President of Information Technology, Desjardins Group)

Harri Nummela (Chief Digital Officer of OP Financial Group)



Franco Taisch (Member of the Board, Raiffeisen Suisse)

Matthias Honisch (Head of Card Business Unit, National Association of German Co-operative Banks)

Summary

De Saint Florent said that co-operative banks are well-known for proximity, which is geographical, with a denser branch network than their competitors. It is a set-up where the local and regional play a significant role, allowing for proximity of decisions and relationship with members. In the digital age, there are new standards. Proximity does not mean an exclusively geographical concept. There are expectations of speed and liquidity. How can they leverage characteristics of the new digital era in a co-operative banking approach?

Habib said there were three important ingredients, the first of which was agile operational excellence. The customer needs change quite fast. The number one challenge is to figure out how to be operationally excellent and to be quick. He suggested that fintech and regtech were not threats. In North America, they have zero customers. In the short-term, they are not threats or competitors, but opportunities to work together. The second ingredient is real customer centricity. They need to go beyond local proximity, to encompass a combination of local, physical, virtual, national and international communities. Business models change, so the enterprise architecture should change as well. Co-operatives are well positioned to capitalise on the sharing economy. How does one modernise this for 2017,2018 and/or 2019?

Taisch said transparency, flexibility to challenges and 24/7 services were needed. The differentiation of products is necessary. It is not a question of technology, but of business models. Differentiation is community building. Communities need proximity, which leads to trust. In banking, trust is everything. Digitalisation supports this model, more than it endangers it. Local roots can be transferred to the digital world. Employees, members and clients can be involved in the development of products and services. Co-operatives have the identities of clients, members, employees and providers, which creates a special approach to innovation. Digitalisation is an instrument to strengthen this. Members can be encouraged to make decisions as a community. Self-support is an element of the co-operative model, as they enable people to help themselves. There is a complementarity of digitalisation and proximity. Physical services are important. The co-operative model has to combine both . On-site presence must be combined intelligently with digital tools. Pursuing an omnichannel strategy by combining digital and analogue gives a new experience. The must-haves in the digital banking world are security, simplicity, speed and customer security.

Honisch said that 50 per cent of customers pay with cash, so digitalisation is a long-term marathon, not a sprint. The payments industry digitalises the payment process. Payment is pioneering in this area. Digitalisation is not for free. They need good and appropriate regulations in place. German co-operative banks were the first to introduce digital payments, followed by savings banks. They need to invest a lot of money in the association of banks, and they need a shift in the mindset. Digitalisation is a complete mindset-shift, breaking payments apart and reinstalling them. PSD2 can be out of control, because all the burdens are on the banks. They need to share the investments and benefits of the new ecosystem, and so they need better regulations. The idea is that all benefits are for the third-party provider, not for banks or their clients.

Nummela said they interact with customers through mobile and online banking, but mobile is increasing and online is decreasing. 99 per cent of interactions take place on digital channels. They are under pressure from changes in digitalisation, supervision, customer behaviour, low interest rates, weak economic growth, as well as from not being competitive enough. During the next 10 to 15 years, the financial services industry will change more than it has over the last 50 years. The biggest challenge is the disruption of current earnings. During the next 5 to 10 years, 30 to 40 per cent of earnings will disappear because of declining prices and an increase in competition. Where do they get new sources of earnings if they want to retain their current profitability? This the key question on table. The major part may come from sources not currently in existence. If they continue as normal, they would fade away, so they need a new direction. Customers no longer want services based on product structure, but rather on their real needs. They have more needs than to just buy and insure homes. Banking services in the future will be



sold in larger entities based on customer needs, not on product structures. They need to recognise how technology has changed the behaviour of customers, who now have different values and behaviour models. When the younger generation becomes customers and employees, the financial services industry will need a new DNA.

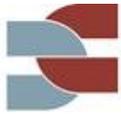
De Saint Florent said that co-operative banks were initially founded to serve communities, and asked how this concept has changed in the digitalisation era, and how banks could adapt. Habib said that communities are no longer only local. They should defend, simplify and optimise local communities, but modernise support for virtual communities or the national community. They have to support multiple levels of communities. Taisch said that it starts with local and national communities, but he agrees with Habib that community building in analogue is different from digital, as there are more opportunities in digital. They need to support the common interests of different client groups, and link them to financial businesses. Honisch said communities do not have to be local. More and more co-operative banks are thinking about origins and investing in ecosystems more than in banks. Regarding how one can approach communities, Nummela said that co-operatives have a duty to ask if customers' needs are changing. Do they have the capabilities to fulfil their needs? Co-operatives should follow customers.

De Saint Florent said that on proximity, there is a risk in having other players who can position themselves between the banks and customers, through a digital platform. With the introduction of PSD2, new players can practically position themselves in this way. Honisch said that PSD2 could be a game-changer, but they should embrace the change. They are product providers and providers of infrastructure. On Better Regulations and the approach to liabilities with PSD2, they need a better approach and regulations, and banks need to be more courageous. It is not necessary to have Payment Service Providers (PSPs). They can get rid of card schemes or modify their role. Habib said that regarding disintermediation, it is very disruptive. By the end of the year, two French financial institutions will allow day-to-day interactions with banks through Facebook Messenger, which means that Facebook will have data. Google already has data, and is monetising the data, and is coming into their industry. Aggregators are also an issue. All three of these things will keep the banks up at night. Intelligent chat boxes are a big challenge for co-operatives. They should go beyond simple transactions and build communities. Co-operatives will not make money on day-to-day transactions, and so should partner with each other. Big life events, such as acquiring a home, can be influenced by co-operatives. They can focus on a whole suite of services to bring value. To really master the challenge of digitalisation, co-operative banks should transform the way they offer the services, as it is not just about pushing products. Co-operatives need to be cooperative. There is no reason why they cannot work together on international payments. They need to be fully customer-centric.

Nummela said that some competitors are opening interfaces far more than they should because of PSD2. Do they focus on being a product and balance sheet company or do they need to target the customer interface? Honisch agreed that the data issue was important. Data protection is necessary and is based on trust. Co-operatives protect data, which is why they are liked. Customers should have the freedom to decide to share data. If data could be sold, there should be a market for this, and then customers can decide to give data or not, depending on the price tag. PSD2 should just be the letterbox key, with a third party accessing the letterbox, as with screen scraping, they can access everything. Taisch said people are concerned about access to data. Marketing should focus more on the idea that members of co-operatives control the boxes.

On the question of how co-operatives deal with regulatory constraints, Honisch said that they have to educate regulators on the consequences. On PSD2, infrastructure needs to change, and investments in this are needed, as are more clarity and speed. Hundreds of thousands of developers want to start on the implementation of PSD2, but negotiations are still going on regarding a different flavour of PSD2. Habib said that in North America, regulation can destroy value for the consumer. The pendulum of regulation will rebalance, but not as much as the US will want it to. Regulation of data in North America will be key. How can they create a co-operative of the data of members? North America is opening up the market, with less sensitivity to data protection, and consumers do not mind consenting to large players. A different co-operative model around data will be good.

Nummela was asked about opportunities brought by digital and the richness of data and extended



services. How can one approach this question, to focus on a specific set of business areas? Nummela said that they go to the business areas where they are already involved through co-operative banking and insurance products.

A member of the audience asked about monetising the data of clients with PSD2, as co-operatives have to open their income pools for free to competitors. Honisch said that PSD2 says payment accounts need to be opened, but there is no information on loans and other accounts. PSD2 requires data to be given for free to other parties. Co-operative banks can be an account information service provider as well. They can be more active on the other side, and not just on infrastructure.

A member of the audience asked about proximity to customers, saying that if members have a bigger stake in an organisation, this should help with understanding customers. With digitalisation, how does one use the knowledge of the customer to create what they want? Nummela said it is hard to cooperate with customers in the development process. Habib said that with customer centricity, the number one challenge was that organisations have been building and pushing products. The internal culture has to change. In North America, they are still product-oriented, and fintech is changing the experience, not inventing new products.

Panel III: The future of Europe

Speakers

Davis (Moderator)

Enrico Letta (President, Jacques Delors Institute, Former Prime Minister of Italy (2013-2014))

Wim Boonstra (Chief Economist, Rabobank)

Elmar Brok (Member, European Parliament)

Sergio Gatti (CEO, Federcasse)

Roberto Gualtieri (Chairman, Committee on Economic and Monetary Affairs, European Parliament)

Etienne Pflimlin (Honorary President, Credit Mutuel)

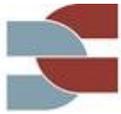
André Sapir (Senior Fellow, Bruegel)

Summary

In a video statement, Letta said 2017 is an exciting year, with change for the better coming for Europe. Brexit and Trump shook Europe and have led to discussions on the future of the EU. These trends have led to a situation in which the EU understands and is becoming aware of the idea that Europe can die. Multi-speed Europe is important, as 27 countries have different experiences, and these differences have to be managed flexibly. Cohesion of the Member States of the Eurozone is necessary. Defence and security can also take on the multi-speed approach, which can allow for more effective solutions. Brexit and Trump have shown that the Europeans need to be adults and say what they want to do on the economy, trade, growth and security, all of which are issues that Trump is trying to change. It is possible for the EU to be influential in the world of today and tomorrow, but it needs to be aware of its strengths and its needs to reform itself. He does not like the way Europe is going, with its timid integration and unsatisfied citizens. 2017 will be very exciting for future of EU.

Davis said that they need to change for the better. This is the first time they are contemplating what will happen if the project unravels.

Brok was asked about the European Parliament resolution on the future of the EU, and his emphasis on using the EU's tools available. As the EU celebrates 60 years, is it in a position where it can withstand the crises, or is the EU facing a moment of decline? Brok said that on 25 March, the European politicians took stock of what they have achieved. It is the most successful example of international cooperation. There can be deep splits in a country, but in the EU if there is a disagreement with one country, there can be a huge split. Most crises come from the outside: financial crisis, migration, terrorism, climate change, and the EU is not ready to deal with this. They will only change when there are crises. None of these crises can be solved by the nation state. The Dutch and Austrian elections and the pro-EU marches have shown that young people do not want to destroy the EU. If young people had gone to vote in the Referendum, there



would not have been Brexit. Trump is pushing the EU together.

Davis said that the EU sells itself short. Gualtieri responded that the challenges are enormous and scary, but he agrees with Brok that one should not forget what the EU has achieved. The construction is imperfect, but it has shown an incredible level of resilience against shocks. Journalists are always predicting the end of the EU and the euro. This will be a difficult electoral year, with dramatic political challenges, but the Dutch result is encouraging. The media can exaggerate challenges. The electoral year can show that there is more political space for pro-EU forces.

Davis said Brexit has led to an increase in pro-EU support. Are they in danger of overestimating a trend following the Dutch result? Boonstra said that in the Rabobank report, they developed four storylines. In the first everything goes wrong and in the second everything is amazing. The other two scenarios involve muddling through and disintegration, and then they explained the triggers and effects. The trigger was Dutch politician Geert Wilder's Party for Freedom saying that they can leave the EU without any costs. Many political parties are not against Europe, but they do not have the courage to speak out in favour of the EU. He agrees that the EU is a big success, but many young people do not have any memories of the war, and so the debates can become irrational. If the British had made a rational decision, they would not have voted for Brexit. The French elections are the most crucial of the year. Asked which scenario was most likely, he said that they will have a multi-speed in Europe, as momentum of further integration is necessary, but it is not wise to enter the euro for example, if a country is not ready.

Asked about most important message for EU, Gatti said that they should be aware that they have achieved a lot. The EU is a cultural project first, then a political construction, and then a legal and a regulatory framework. They should listen to the citizens. The citizens should be convinced that Europe is convenient and that it works. The completion of EMU is one of the important tasks ahead. Erasmus is a wonderful construction.

Pflimlin said the situation is contradictory, the debate has never been so intense, and he is surprised that there are more anti-EU than pro-EU voices in France, the latter of which are quite shy. 40 percent of the electorate supports anti-EU politicians but 75 per cent of citizens support the EU - this is contradictory. They have never needed the EU as much, especially on security and defence, as no country can solve these problems on their own. He raised two ideas, that Europe is the region of the world where you can live best and it is a guarantor of peace. War would return with the disintegration of EU within a generation or two. Politicians say that Europe needs to speak as one, but there has been no progress on this. They need to overcome the contradiction between the collective media of Europe, which is highly critical, and the reality of the situation. Part of the problem comes from Member States, which need to unite again.

Sapir said that the achievements have been huge, but it is not easy to convey this message to the younger generation. They need this framework of peace and cooperation, which is essential to the global wellbeing. He is optimistic because this achievement is so big compared to other achievements. Crises have been overcome, and they are losing sight of what is happening outside Europe, as they are very euro-centric. The global economy and politics are changing, and so the EU needs to take the great transformation seriously, which is affecting all advanced economies. The advanced economies are in relative decline and are not managing affairs well, which has led to the financial crisis. The crisis did not come from outside these advanced countries. He agreed with the moderator that the sub-prime mortgage crisis and financial excesses and debt in advanced countries were triggers. Emerging countries are improving, but this is proving difficult for European citizens. They need to get back to the big picture.

The panellists were then asked about the Commission's White Paper on the future of the EU, and the five scenarios laid out of muddling along, focusing on the Single Market, multi-speed Europe, doing less but doing it efficiently, or doing much more together. Sapir said he agrees more with the last scenario. Politically, multi-speed is needed. Multi-speed is not new, as Schengen and the euro are multi-speed constructs. Pflimlin said Juncker should put forward strategies not scenarios. The most likely is scenario 3, which is reinforced cooperation open to countries not part of the cooperation from beginning. Davis said it should be two-speed, not two-tier. Gualtieri said that the most desirable is number 5, but that a combination of the five scenarios, with number 5 being the basic scenario, will be most likely. Scenario 1



should not be underestimated, because the basis of the Lisbon Treaty should not be underestimated. The difference of integration is already in treaties, but it should not disrupt institutions. They might need a budget for the fiscal capacity of euro area. The principle of attribution and proportionality or subsidiarity is important. They do not need to overregulate some areas. Gatti said that this is not the right time for Scenario 5, although that is best, and the only realistic scenario is the multi-speed one. Davis referred to Brok's Parliament Resolution, in which he had highlighted that the Lisbon Treaty had essential potential, and asked if he preferred numbers 1 and 3? Brok disagreed, saying that Europe can go forward positively with the Lisbon Treaty, and a treaty change will take too long. The Lisbon Treaty can solve a lot of problems. They need a mixture of these scenarios. If Juncker had made one proposal, there would have been criticisms. In this way, everyone is invited to make their proposals, and it is right that Juncker does not highlight which one he prefers.

Davis asked Boonstra about the EU retreating in some areas. He said that every scenario has benefits and costs. The disorderly scenario of disintegrating has costs, but even economist Joseph Stiglitz's idea of giving up the euro in an orderly way is costly. The EU and the euro are scapegoats for ineffective national policies. Ireland and Greece had major crises. Ireland did what it had to do, and is now the best reforming economy among Portugal, Italy, Ireland, Greece and Spain (PIIGS), but Greece is still in crisis. This shows that the euro cannot be blamed, but nevertheless, this is the most popular option. Europe is a scapegoat. He hopes that much more, and much better can be done, with the culmination in a United States of Europe, but he does not think it will happen. They will carry on as they are. They need to finish halfway houses such as the Banking Union and learn lessons, and in the end there will be multi-speed Europe and then a United States of Europe.

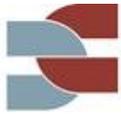
Davis said that after Brexit, British politicians may have to blame themselves. She asked Gualtieri about the completion of the EMU, and how this debate would affect the EMU and the Banking Union. She asked if there is commitment to continuing this. Gualtieri said the Rome Declaration committed to the completion of Banking Union and the EMU. The White Paper did not have much on the EMU, which was disappointing. They need to complete legislative work on the European deposit insurance scheme (EDIS), especially on specificity and the backstop. He believed that they should not give up on the broader context of the Single Market with a single rulebook. It is important for the EU to work on the banking package, reducing risk but giving incentives to growth, with increased proportionality. They could do more on proportionality, while avoiding a fragmentation on national lines in the banking sector. A strong banking union is achievable. Brexit, which is a disaster, can be an opportunity, with the possibility to build on a more meaningful CMU and an opportunity to review the role of the ESAs.

Sapir said that on the banking side, they have had a huge amount of progress, but legacy is an issue, especially in Italy. All elements that are needed are in place, and they need to continue with deposit insurance. The CMU is equally important, but not much progress has been made. It is all words, but not much action. He wondered if Brexit could unlock that. Brexit makes it essential that the EU makes progress, and it serves as the impetus needed for such an exercise. Completing the CMU for EU27 is no mean feat, but it is necessary, with the funding of system needing to be diversified. They should not just create the markets without the supervisor. The European Securities and Markets Authority (ESMA) has to play a role and should be the driver with the Commission in the CMU.

Boonstra said the EMU is not an optimal currency area, as they need cross-border labour immigration, a federal budget, which is not on the table and conditional euro-bonds. They need to solve these issues first.

Pflimlin said they do not know what the consequences of Brexit would be. He asked if Brexit will lead to Europe being stronger and the UK coming back. He wondered if the UK has even been part of the EU all along. Companies are financed by banks such as co-operative banks in Europe, as opposed to in the US, where they are financed by capital markets. The aim is the real economy, and it is up to co-operative banks to work on that.

Brok said that everything needs to be rule-based. The EU is not seen as important for the fate of the future. When it makes mistakes, people get disillusioned. The global environment cannot be solved by a Member State alone. They are relying on the EU. Young people, who are demonstrating, will be the first to



understand that this is their fate. The older generation has also understood this. The generation in-between sees the EU as only an economic project.

Regarding trust in bankers and politicians, Davis asked if the co-operative sector is an example of how to keep the trust. What lessons can be learnt? Gatti said that looking at the Rome Declaration through the perspective of co-operative banks, ideas such as prosperity, social development and stronger co-operative banks come through, and show that firstly it is a cultural movement. The most precious raw material is trust. They can give a new life to trust, especially among young people.

A member of the audience said that since the inception of the financial crisis, there has been a process of impoverishment, as with freedom of movement, people can leave for other Member States, leaving others behind. He highlighted that capital is fleeing, which exacerbates impoverishment. Davis agreed that convergence was the central plank of the EU until the crisis, but now they have gone the other way.

A member of the audience asked what kind of partnership would the panellists want to have with the UK in the future.

A member of the audience said that in Austrian towns, right-wing candidates were voted for. From an open-borders economic point of view, the rural regions have benefitted from the EU, but the residents are profoundly anti-EU. He asked how the EU could win over hearts and minds.

Gualtieri said that the 1957 Rome Treaty had outlined convergence as a guiding principle. He highlighted that the EU needs more instruments to address market failures. He lamented that there was no budget for the single currency to develop a shock absorption function. He raised the idea of having convergence guidelines with a fiscal capacity. He believed that the Juncker investment plan could address these issues. He suggested that small, tailored banks could help, rather than having just a one-size-fits-all approach.

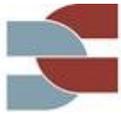
Regarding the partnership with the UK, Brok said that the Brits do not want to be part of the Single Market and the Customs Union, so a free trade agreement (FTA) is the best option, but they will need more years to achieve this. Regarding impoverishment, he was not convinced that the Southern European countries would have fared better during the financial crisis without the EU or the euro. Rural areas used to have it much worse. If governments, such as former UK Prime Minister David Cameron's Government, always complain about the EU, then the people will believe them. These situations can only be overcome if governments tell the truth.

Pflimlin said he was surprised that a lot of farmers in France are anti-EU, as they would not earn any money without European grants. Regarding the social dimension, the EU can introduce measures that will benefit everyone. Last year's consultation on pillar of social rights is crucial.

Boonstra said that people voted for Brexit because of nostalgia, even though it was the biggest client of the International Monetary Fund (IMF) in the 1970s. He hopes that May will wake up and push for a new referendum asking the people if they are sure.

Davis asked for their one priority needed to ensure that the EU can meet the crisis, and for a piece of advice for co-operative banks.

Sapir said that the most important priority is the EMU, because it is the most likely to produce an existential crisis. He would advise co-operative banks to tell politicians to get on with the job. Pflimlin said that youth employment is the priority, as it is the only way to motivate people and create solidarity. His advice is to listen to customers as always, and not be overwhelmed by regulations. Gualtieri said they need to secure the EMU. Co-operative banks can be a crucial actor, because they are close to people and can help generate respect of diversity and cooperation. Gatti suggested that growth, jobs, the achievement of prudential goals and the respect of diversity were priorities. He wondered if there is room to pass from a single rule book to a single book, with adequate rules, or to be more specific, from case-by-case proportionality to a proportionality-structure. Gualtieri said Basel IV is about a small banking box, so they are open to discussing proportionality. The current banking package can be an opportunity.



Brok said that the banks should be optimistic and show optimism. Talking about crises will lead to crises. Europe is a success story, but it needs to be improved. Youth unemployment is an important question, and more funds should be directed to tackle this. He pointed out that vocational policies are Member States' competencies, and so the EU should not be blamed for youth unemployment. Structural changes are needed in the Member States.

Boonstra said that co-operative banks should tell the story, explaining how important Europe is for them.

Speech by Hoffman

Hoffman referred to Goulard's earlier comments on not destroying systems or models. It seems that the co-operative model is not well understood. He agreed with Goulard that biodiversity is important, and diversity is an element they have stressed. It is encouraging that politicians have picked up this point. He agreed with Goulard that rules should allow Europe to innovate. The link between the real economy and procedures is essential.

He agreed with Gualtieri that co-operative banks are valid contribution. He agreed that they can address impoverishment with proportionality and he shared her view on the role of the co-operative banks in the real economy. Implementation is very important.

Regarding digitalisation and its challenges and opportunities, the takeaway message is that co-operative banks are not afraid of digitalisation. They are not leaders in fintech, but their digital agenda has more sustainability behind it, as compared to the agendas of the fintechs. Co-operative banks have clear advantages in this field, as although they are not as fast as fintechs, they have the trust of the clients. Fintechs cannot generate such trust in a short time, and so co-operative banks have more staying power.

Digitalisation allows more closer focus on what clients need. The co-operative banks should provide agile operational excellence. When asked about the chances of making the most of opportunities, he said he was impressed by the panel. Gualtieri had said that Europe was facing huge challenges, but Letta had said that Europe can die, which was shocking and sobering. It was more optimistic when Brok talked about taking stock of Europe. There were both positive and critical remarks in Panel 3. The more critical undertone is realistic, and will help with the future of EU. He is optimistic that the EU will serve the people, and that co-operative banks will support this. Youth unemployment and economic growth need to be looked at, because if these are solved, then there will be political stability. He is not a politician, so he can only look at the fields he can influence, and co-operative banks are here to support the EU and economic growth.

Regards,

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