EUROPEAN ASSOCIATION OF CO-OPERATIVE BANKS

FIRST EACB AWARD

FOR YOUNG RESEARCHERS ON CO-OPERATIVE BANKS

LA BIBLIOTHÈQUE SOLVAY, BRUSSELS

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2012, United Nations International Year of Co-operatives

Co-operative enterprises build a better world

First Prize

Mónica López-Puertas Lamy

Commercial banks versus Stakeholder banks: Same business, same risks, same rules?

Mónica López-Puertas Lamy is a researcher at the Unicredit Research Department and at the University of Bologna, Department of Management. Previously, she held a Post Doctoral position at Carlos III University (Madrid), Department of Business Administration.

She holds a Ph.D. in Business Economics, a MSc. in Economics, Management and Organizations from the Autonomous University of Barcelona (Spain), a PgCert in Quantitative Economics from the European University Institute (EUI) in Florence and a MSc. in Financial Audit and Higher Accountancy from the University of Malaga.

Her main research interests lie in the area of retail banking, corporate governance, financial stability and corporate finance.

Executive Summary

Is bank risk-taking independent of the entity's organizational form, and of the organizational form of its competitors? And is the influence of regulation and competition on bank risk-taking contingent on the organizational form?

This study addresses these issues. Using a country-level panel dataset for the period 1993-2007, we show that savings banks and co-operative banks (stakeholder banks) are more stable than commercial banks, and the stability of commercial banks decrease in financial systems with a high presence of co-operatives and savings banks.

We also show that the effect of competition and bank regulation (in terms of capital regulations, deposit insurance, and activity restrictions) on bank stability is contingent upon the bank ownership type.

Specifically, we find that:

a) The effect of competition on stability is significantly more negative for commercial banks compared to stakeholder banks, as well as for any bank operating in systems with a higher proportion of stakeholder banks.

b) Stringent capital regulatory measures decrease the stability of commercial banks, but have no effect upon the stability of stakeholder banks. In addition, we show that capital requirements increase bank stability in economies with a high proportion of stakeholder banks.

c) The effect of activity restrictions on bank stability is negative for stakeholder banks, but positive for commercial banks.

Consequently, we also find that the negative effect of activity restrictions on bank stability increases with the proportion of stakeholder banks in an economy. Finally, we show that deposit insurance has a negative impact on bank stability, and that this effect is strongest for commercial banks.

Overall, our findings suggest that it is important to consider the bank ownership structure when analysing bank stability. This result may have important implications for academics and policy makers, as it indicates that ignoring bank ownership structure can lead to erroneous conclusions about the effects of competition and of banking regulations on bank stability.

Second Prize

Angelo Leogrande

Co-operative Banks Versus Financial Crisis

Angelo Leogrande is a Ph.D. student at the University of Bari Aldo Moro. He holds a Bachelor's Degree in Economics from the University of Bari Aldo Moro.

He studied Economics and Finance at the University of Naples Federico II (MEF 2008-2009), Econometrics at the University of Rome Tor Vergata (MEI 2009-2010) and International Financial Economics at the University of Glasgow (IFE 2010-2011).

His doctoral thesis is entitled "From shareholder to stakeholder finance: the impact on the crisis".

Executive Summary

The Great Financial Crisis of 2007-09 makes an interesting case study to test the shareholder vs. stakeholder debate in banking and finance. The hegemony of shareholder value maximization in the financial community showed its weaknesses when it became a factor in the destruction of the common good of financial stability.

While shareholder value maximizing (SHV) organisations appear to have greatly contributed to the financial crisis, stakeholder value maximizing (STV) ones seem to have continued to assure credit, mortgages, financial services and financial sustainability to communities.

In this paper we use probit and tobit models to test whether the probability of a country being in crisis in 2008 and the associated costs were related to the extent of the presence of co-operative banks – taken as a proxy of STV organizations – in the country. We start with the model of Caprio et al. (2010) introducing a new variable, that is the percentage of the total assets of co-operative banks on the total assets of the national banking system.

The database that we constructed from Bankscope features 83 countries containing data for 20,000 banks among commercial banks, co-operative banks, bank holding companies, investment banks and savings banks.

We find that the higher the percentage of co-operative banks' total assets, the lower the probability of crisis. Through the tobit estimates, we also show that the costs of the crisis negatively relate to the extent of co-operative banks' assets.

Thus, co-operative banks appear to have reduced both the probability of suffering from the crisis and, in the event, its consequences. This is in line with the virtues of biodiversity in banking.

Third Prize

Diana Lima

Forecasting and explaining bank insolvencies of Portuguese Co-operative Banks

Diana Lima graduated in Economics from the University of Minho, Portugal in 2003. She was awarded a Masters Degree in Economics in 2009 from the Faculty of Economics of University of Porto, Portugal.

In 2004, she joined the Bank of Portugal, where she worked for the Mutual Agricultural Credit Guarantee Fund.

Diana is currently pursuing her Ph.D. at the University of Surrey, United Kingdom, and her research interests focus on banking supervision institutional arrangements and, in particular, how they should interact with monetary policy.

Executive Summary

The analysis of solvency conditions of co-operative banks is scarce, compared with the number of studies dedicated to commercial banks. However, the lack of empirical studies contrasts with the importance of co-operative banks as part of the banking systems. Having these facts into consideration, this paper aims to contribute to filling this gap in the literature, by studying, in particular, the insolvency risk factors of Portuguese co-operative banks.

There is scarce knowledge about the default risk of Portuguese co-operative banks, since situations of financial distress are usually dealt within their own organization. The dataset was provided by the Central Bank of Portugal exclusively for this project and comprises a quarterly panel of 148 co-operative banks and the time period ranges from March 31, 1999 to December 31, 2006.

The objectives of the paper are twofold. First, the paper aims at measuring the effect of bank specific financial indicators on the probability of failure of co-operative banks. A default prediction model (logit) is estimated for this purpose.

The estimation results suggest that risk indicators related to asset quality, liquidity and earnings are significant predictors of failure among Portuguese co-operative banks. In addition, local economic conditions, measured by GDP per region, are also good indicators of failure likelihood.

The second goal is to identify the risk factors determining the Portuguese co-operative banks' solvency conditions (measured by the equity to assets ratio) by the estimation of a fixed effects model. The regression analysis suggests that the solvency conditions are mainly determined by the quality of credit portfolio and quality of management.

Moreover, the results show that local economic conditions have an impact on the solvency ratio. For example, the increase of the unemployment rate in a certain region affects negatively the solvency ratios of co-operative banks operating in that region.

More interestingly, the gross value added in agriculture by region has a positive impact (although very small) in the solvency conditions of Portuguese co-operative banks.

Third Prize ex aequo

Salvatore Mare

Predicting small bank failures using macroeconomic factors

Davide Salvatore Mare is Lecturer in Business Economics at The University of Edinburgh Business School and a member of the Credit Research Centre.

He is also Research Fellow at the Institute for Competitiveness (I-Com).

He has previously gained extensive professional experience in risk management practices through his work as a financial consultant for top European banks in Italy, Spain and the UK.

Executive Summary

The research presents an innovative study related to the analysis of the determinants of risk of failure for Italian co-operative banks (CB).

The investigation assesses the dynamic influence of the economic environment on the occurrence of financial distress in a sample of Italian co-operative banks. Using an unbalanced panel model, the study suggests that when small rural banks are exposed to local shocks, the occurrence of failure is more likely.

The issue is relevant for the CB socio-economic role in Italian rural and local markets and for the lack of research on the subject. Thus, the analysis fills the void through the development of a default predictive model using the panel data technique.

The study shows that the default of Italian CB is statistically related to macroeconomic variables and to bank-level fundamentals. The focus is on Italian co-operative banks since this case is particularly interesting to analyse the interconnection between small banks and the local economic environment.

The banks are followed in the period 1999-2006. Bank failure is associated with public intervention (Extraordinary Administration and the Liquidation Procedure). The model predicts the likelihood that a bank, currently considered safe and sound, enters default in the following 12-24 months.

The contribution of the study is three-fold. First, the research provides a comprehensive analysis of the main determinants of risk for Italian co-operative banks.

Second, it gives new fundamental evidence of the causes of bank failures and it allows to formulate related policies in order to head off the potential financial crises or limit the associated direct and indirect costs.

Third, from a micro-prudential regulation perspective, using a wider set of variables eventually lessens the dependency of off-site monitoring on accounting data, thus improving the supervisory toolbox to anticipate banking crisis.

FIRST EACB AWARD

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The EACB and its members are very proud of having launched this year for the first time the award for young researchers on co-operative banks. The purpose of this award is to stimulate research on co-operative banks and highlight the vital role they play in the economy.

The co-operative bank business model has been much neglected by mainstream research, with only 1% of existing economic research in Europe being devoted to co-operative banks[1]. However, they play a key role in the European financial and banking systems. Half of all existing banks in Europe belong to the decentralised network of co-operative banks while their market share in the enlarged EU is about 20%. In some countries, the market share on deposits lies well above this figure, as is the case in Austria, Germany, Finland, France, Italy and the Netherlands.

In December 2011 the EACB issued, in collaboration with its European think tank on co-operative banks, a Call for Papers to attract young researchers on co-operative banks. The EACB received a number of applications, from various countries and on a broad array of subjects related to co-operative banks such as regulatory challenges of co-operative banks, co-operative banks and financial stability or social and environmental responsibility of co-operative banks.

We are very thankful to the scientific committee composed by

- **Panu Kalmi,** University of Vaasa, Finland
- **Rym Ayadi,** Center for European Policy Studies
- **Giovanni Ferri,** University of Bari, Italy
- **Hans Groeneveld,** Radboud University Nijmegen & Rabobank Nederland
- **David Llewellyn,** University of Loughborough, UK & Vienna University of Economics and Business, Austria

They carefully assessed and selected the papers. Without their dedication and commitment, the research award would have not been possible. We are very honoured to celebrate the winners today. We wish them lots of success in their future researches and careers.

We hope that this is just the first of many prizes that the EACB will award in the future years to young talents with the aim to pave the way for a shift in mindsets and the full recognition of the importance of the co-operative banks model.

Christian Talgorn
President, EACB

Hervé Guider
General Manager, EACB

[1] As pointed out by the IMF Working paper "Co-operative Banks in Europe: Policy Issues" of July 2007

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