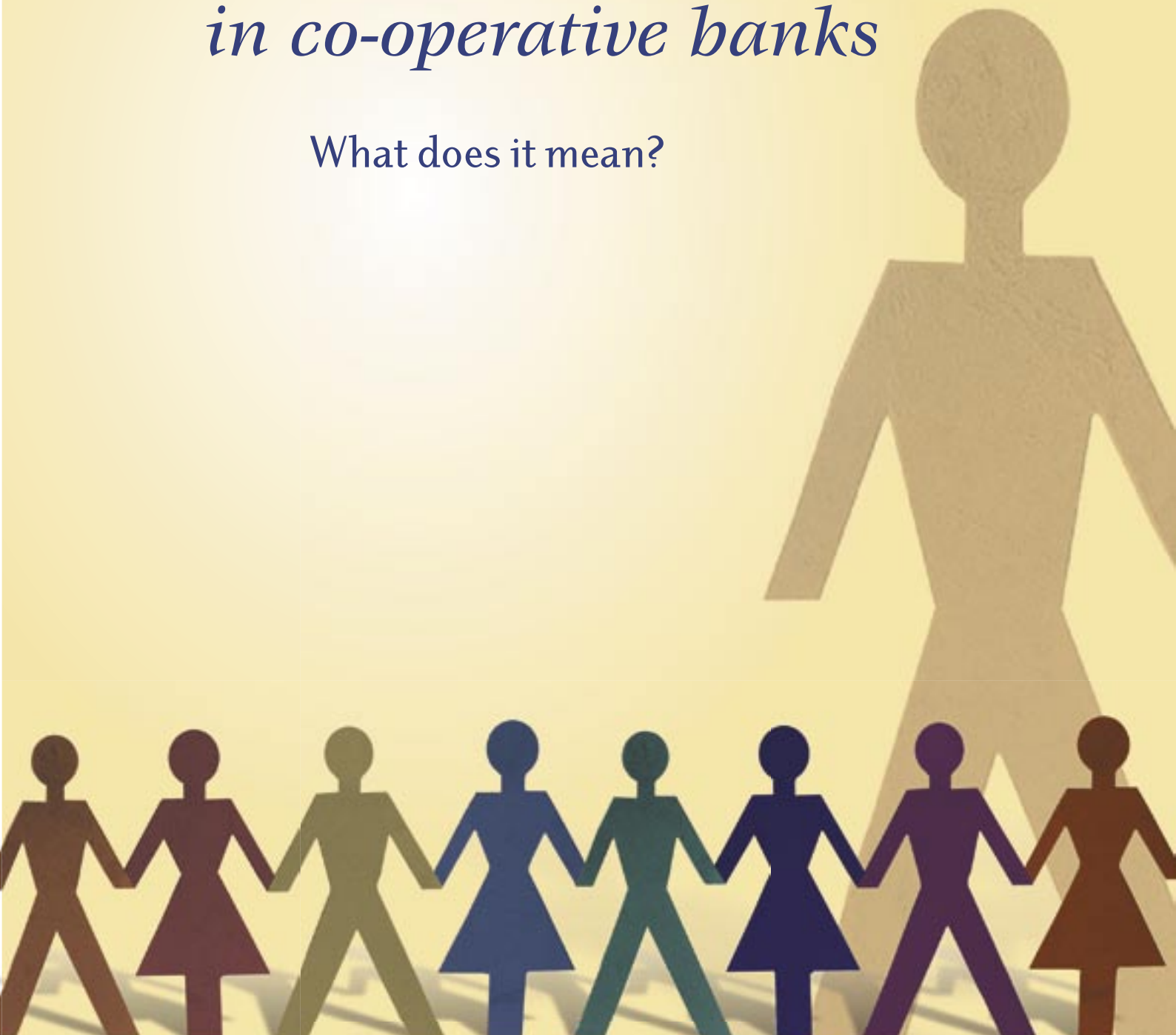


# *60 million members in co-operative banks*

What does it mean?



EUROPEAN ASSOCIATION OF CO-OPERATIVE BANKS  
GROUPEMENT EUROPÉEN DES BANQUES COOPÉRATIVES  
EUROPÄISCHE VEREINIGUNG DER GENOSSENSCHAFTSBANKEN



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# Background and Survey Methodology

The EACB has commissioned a Pan-European study as supporting document of the discussions on the 1st round table of the 2nd Convention focusing on '60 millions members in co-operative banks: what does it mean?'.<sup>1</sup>

The study is aimed at providing a basis and boosting the discussion at the Convention. Therefore, it is focusing on and evolving different aspects of membership in co-operative banks from various angles:

- Looking into the process to become a member
- Identifying and compare characteristics of members among the European Co-operative Banks
- Draw a common understanding on membership in co-operative banks

The study has been prepared on the basis of a questionnaire elaborated by the Preparatory Team of the 2nd Convention and has been implemented with the support of the working group 'Co-operative Affairs and Company Law', chaired by Étienne Pflimlin<sup>1</sup>.

In December 2006, the questionnaire had been worked out and sent out to ten EACB member organisations from six Member States (Austria, France, Finland, Germany, Italy, the Netherlands), which contributed to the study. As there can be more than one responding organisation for a single country (e.g. France), accordingly, the study might show certain differences in the answers of one country, which have to be taken into account by the reader.

<sup>1</sup> Étienne Pflimlin is Chairman of the Confédération nationale du Crédit Mutuel (France). He is also a member of the EACB Executive Committee.



# Executive Summary

## Members and elected members are an essential asset for the co-operative banks

Members and elected members are an essential asset for the co-operative banks: they carry co-operative values and are thus central to their original and democratic governance model. In short, they are the legitimacy of co-operative banks.

Membership in co-operative banks is a key challenge for the near future. It is open to everyone (though under conditions: 'regular customer', territoriality rule, legal capacity...).

Membership is in tune with the contemporary needs: far from being anonymous clients, members are 'partners' and committed in their local bank. They gather regularly and take decisions that have an impact on

their local (or regional) environment (e.g. local development projects, patronage). Through their elected representatives, members control the whole of the organization.

When asked about the reasons to become a member (cf page 10), respondents mention first or foremost 'participation to democratic life' and 'contribution to the development of the local community'. These motives significantly differ from the ones of shareholders of public limited companies. Social interaction and conviviality are also amongst the distinctive features of membership of co-operative banks (see table below).

## Key differences between members and shareholders

Member of a co-operative bank	Shareholder of a public limited company
<ul style="list-style-type: none"> <li>• Double capacity, member and client › stakeholder value<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Clear-cut separation between the shareholder and the client › shareholder value</li> </ul>
<ul style="list-style-type: none"> <li>• One person, one vote (the member is considered for what he is, not what he financially represents)</li> </ul>	<ul style="list-style-type: none"> <li>• One share, one vote when applied (the shareholder is considered for what he financially represents)</li> </ul>
<ul style="list-style-type: none"> <li>• Motive amongst others: 'co-operative dividend' (social interactions and conviviality) beyond financial interest</li> </ul>	<ul style="list-style-type: none"> <li>• Motive: financial dividend (individual financial interest)</li> </ul>
<ul style="list-style-type: none"> <li>• Seek high quality products at a convenient price, in a long-term relationship with the bank</li> </ul>	<ul style="list-style-type: none"> <li>• Seek short-term return on the shares (possible conflict with the clients)</li> </ul>
<ul style="list-style-type: none"> <li>• Involved at several levels of the organisation: local, regional, national</li> </ul>	<ul style="list-style-type: none"> <li>• Involved in case of significant shareholding, at the central level (Board)</li> </ul>
<ul style="list-style-type: none"> <li>• No claim on net assets<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Claim on net assets</li> </ul>
<ul style="list-style-type: none"> <li>• Remuneration of cooperative shares : stable over time</li> </ul>	<ul style="list-style-type: none"> <li>• Return of listed shares : (more or less) volatile</li> </ul>
<ul style="list-style-type: none"> <li>• Specific benefits for members (products, services, events...)</li> </ul>	<ul style="list-style-type: none"> <li>• No specific benefits<sup>3</sup></li> </ul>

<sup>1</sup> Thus, there is no ground for a conflict of interests between shareholders and clients.

<sup>2</sup> Italian Banche Popolari provide their members a proportional claim to the net assets, as appropriation of operating profit to reserves is subject to company income tax.

<sup>3</sup> French Crédit Agricole S.A. provides specific benefits for shareholders.

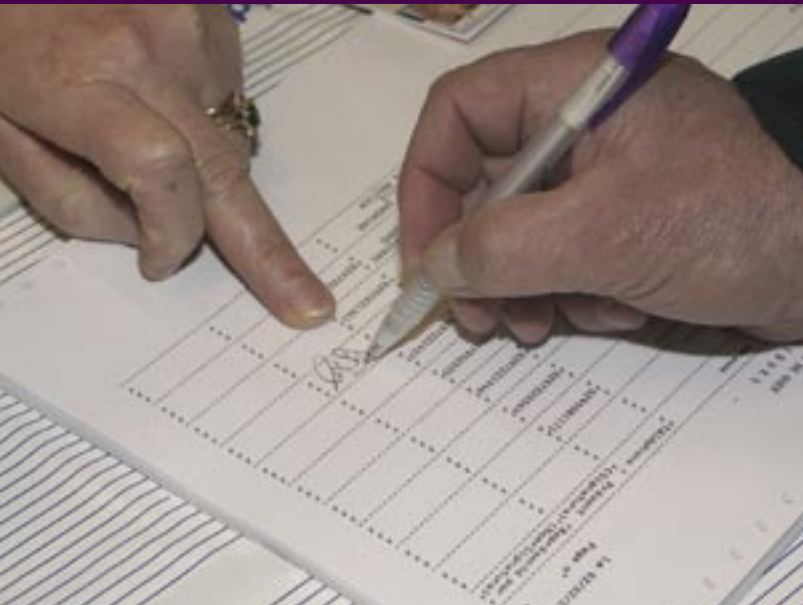
Local democracy is an area of good practices in European co-operative banks: the annual general assembly (where the one-person, one-vote principle applies), as well as less formal meetings, are organized in order to attract and involve as many members as possible. Examples of good practices: 'open day annual general assemblies', 'regional tours' to meet the members where they live, 'member councils' with fewer members so as to address more efficiently the bank's issues.

As regards the benefits of membership, apart from the search for the best possible products at the best prices, the non-materialistic (or non-consumerist) motives - such as the involvement with social development of the community to which the member belongs to - come to the fore, as well as the search for specific services or discounts on loans. Nevertheless, quality service for all remains a key benefit of co-operative banks: this includes convenient branch location (proximity to the member, including rural areas, problem areas...), high quality of the day-to-day service for all from any banking channel (branch, phone, Internet, ATMs...), as well as a more intensive dialogue between the bank and its members and a long-term relationship based on mutual trust.

Throughout Europe, co-operative banks designed specific policies to develop membership, with goals in figures and measures to achieve them. As membership carries co-operative values, it is of utmost importance to increase it as a proportion of total customers. Areas of action include for example: improvement of information policy towards members (dedicated websites and newsletters, magazines), honours granted for long-time membership, price incentives, specific services, privileged access to the shares of the group's listed entity (if relevant).



# Survey Results



## Admission to membership of a co-operative bank: open to everyone, under transparent conditions

Co-operative banks practice the concept of open membership. Every customer can become a member. However, certain conditions may have to be met:

- The applicant shall be a regular customer in the local area where the bank is active. The definition of a 'regular customer' varies between organisations ;
- The applicant shall have legal capacity (i.e. be capable of legally commit and accept obligations, e.g. minimum age 18 year-old...);
- The applicant shall have his residence, work or family ties within the operating area of the co-operative (Rabobank, Crédit Mutuel...), under the 'territoriality rule';
- Less often, some co-operative banks require that the applicant shall not work as an employee of the bank. However, this rule applies mostly for members submitting application for the election of administrators of the Board (and/or Supervisory Board) of the bank.

The admission to the co-operative follows a transparent admission process, which is either laid down in the law or stipulated by the statutes of the co-operative bank. Generally, the client hands in a written application to the Board of the (local/regional) bank, which decides on the application within a certain period of time. The Board (or someone who is mandated) may set additional requirements, or reject application. In case the approval is denied, some banks (e.g. Italian Banche Popolari) provide an 'arbitration committee' to which applicants may appeal for reconsideration of their application. Other banks require that the Board give a justification in case of negative opinion (e.g. Italian BCC).



## Usually, the acquisition of a co-operative share is materialising membership

In most organisations, membership is materialized by the ‘co-operative share’. In general, acquiring one co-operative share is sufficient to acquire membership and thereby to be entitled to vote and put forward as a candidate at the elections of the local/regional bank, usually ruled by the one-person one-vote principle.

However, in Rabobank (the Netherlands), the acquisition of co-operative shares is no precondition for the acquisition of membership as the co-operative law is more based on the association model than on the company model. Until the 1980s, a Dutch co-operative enterprise was legally classified as a ‘co-operative association’. Later on, the law changed in such a way that the co-operative enterprise became a complete independent legal structure, but the legacy of the membership rule remains. This implies that the client of a local Rabobank, who wants to become a member, just has to apply and wait for the decision of the Board.

Co-operative shares are, for the most part, non-tradable. Italian Banche Popolari make it possible to trade their shares; some of them are listed on a regulated market. If listed, their shares are traded at the prices quoted on the regulated market. Buying shares of a Banca Popolare on the market does not automatically imply that the buyer becomes a member; it is necessary to follow the usual procedure described above. The quotation of shares adds subsequent obligations for co-operative Banche Popolari relating to the protection of the market and savings, but this does not impair the co-operative structure of the company, which remains the same as that of Banche Popolari not quoted on a stock exchange, as the European Commission recently recognised.

## Other financial instruments issued by co-operative banks

In half cases, members have a privileged access to other financial instruments issued by the bank:

- Investment certificates exclusively issued to the members: these certificates, which are not tradable on the stock market and carry no voting rights, grant an attractive interest payment provided the bank realises a profit. Among these are Rabobank’s ‘membership certificates’ (I to III), Crédit Agricole’s ‘certificats coopératifs d’associés’ (CCA), Crédit Mutuel’s ‘parts B’, German Raiffeisenbanken and Volksbanken ‘profit shares’, Italian co-operatives ‘non-participative financial instruments’. It has to be underlined that Crédit Agricole’s CCA are the only investment certificates which do not grant voting rights to the holder, but give a proportional right on the net assets of the relevant bank (Caisse régionale);
- Investment certificates open to any investor: few organisations issue these certificates, which are generally tradable on the stock market and grant no voting rights, but an attractive interest payment. Crédit Agricole’s ‘certificats coopératifs d’investissement’ belong to these certificates;
- Tradable shares of the group’s listed entity: rarely, organisations grant their members a privileged access to tradable shares issued by their listed entity, when applicable. The French Banques Populaires and Caisses d’Épargne distributed to their members 60% of securities issued to individuals by their common listed subsidiary Natixis.

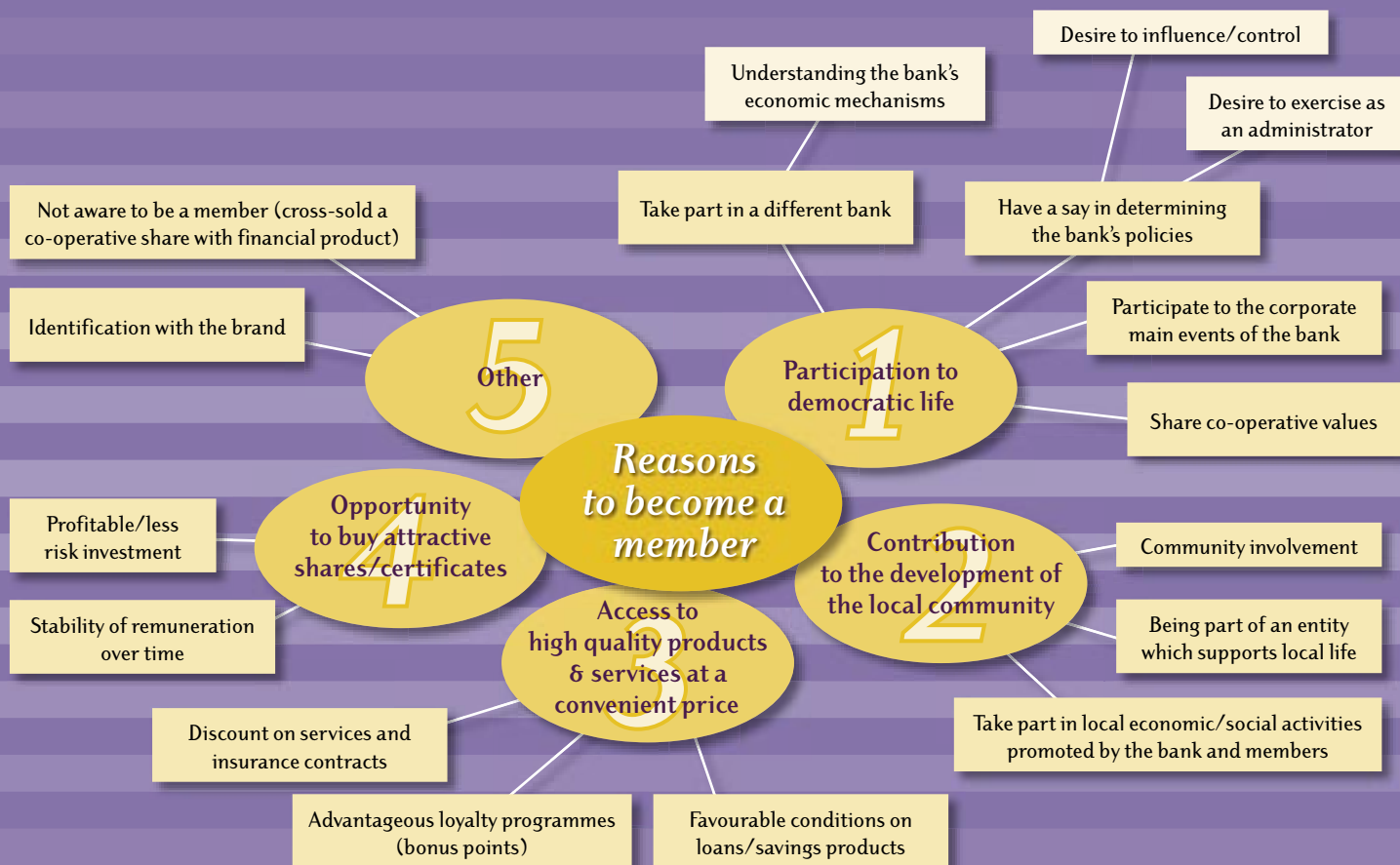
## The reasons to become a member: a striking convergence among European co-operative banks

According to the responses of the questionnaire (see below a synthetic presentation), it is striking that the majority of European co-operative banks mention the same motivations to become a member, which are (in decreasing order of replies):

- participation to democratic life (mentioned by 9 respondents);
- contribution to the development of the local community (7 respondents);
- access to high quality products and services at a convenient price (6 respondents);
- opportunity to buy attractive shares/certificates (2 respondents).

The synthetic presentation (see below) emphasizes non-materialistic (or non-consumerist) motives to become a member, with 'access to high quality products' only at the third place.

Other incentives to become a member include the specific identification with the brand (mentioned by Austrian Volksbanken and Raiffeisenbanken).



Source: EACB questionnaire on membership of co-operative banks (December 2006)

## Who are the members? From professions to a wide range of clients

Most organisations open membership to a wide range of customers:

- Individuals;
- Professionals (non-salaried workers);
- Legal entities (including co-operative enterprises, which sometimes represent the bulk of elected members in some local banks);
- and, marginally, local public authorities (German BVR, French Crédit Agricole, Italian BCC, Austrian Volksbanken).

Historically though, membership of co-operative banks was more focused on members of specific professions which had difficult access to affordable credit:

- Farmers: Dutch Rabobank, French Crédit Agricole and Crédit Mutuel, German Raiffeisenbanken (today merged with Volksbanken), Austrian Raiffeisenbanken,
- Traders and craftsmen: Italian Banche Popolari, French Banques Populaires, German Volksbanken [today merged with Raiffeisenbanken], Austrian Volksbanken.



At present, for some local co-operative banks, specific ownership still depends on a professional affiliation ('niche'): craftsmen, pharmacists, parishes (German BVR), teachers (French Casden Banque Populaire, Crédit Mutuel Enseignant), doctors (one Austrian Volksbank: Bank für Ärzte und Freie Berufe AG, Crédit Mutuel des Professions de Santé), co-operatives and mutuals (French Crédit Coopératif), railwaymen (two Austrian Volksbanken: Sparda Bank Villach/Innsbruck, Sparda Bank Linz), farmers (French Crédit Agricole Ile-de-France), the army (one local bank of Crédit Mutuel).

## The annual general assembly of members: not the only 'agora' to express opinion

Co-operative banks in Europe show to a high extent differences in the level of members' participation in the annual general assemblies of the local/regional banks.

A general rule explaining these differences may derive from the following: it is often easier to attract more members to the annual general assembly if the number of members per local bank (or regional bank) is lower. German BVR confirms: 'Participation rate is anti-proportional to the size of the bank'. However, in absolute terms, the number of members attending a single general assembly can be very high, sometimes over 5,000 in the major Italian Banche Popolari.

Indeed, other factors account for differences between organisations, particularly the local/regional level of the annual general assembly: in the French Banques Populaires, members gather at the level of their regional Banque Populaire annual general assembly, which may explain sometimes the rather low percentage of participation (distance to home is a key factor, as well as the number of elected members).

Good practices for a higher degree of flexibility of the organisation are for example:

- some local banks of larger size split their annual assembly in several meetings (the same day) to attract more members (e.g. Italian BCC di Alba Langhe e Roero, located in the Piemonte region);
- other arrange 'open days' on the occasion of annual general assemblies (e.g. French Crédit Mutuel 'AG Portes ouvertes'), taking place during a whole day, so as to leave time for everyone to come;
- French Banques Populaires and some regional banks of French Crédit Agricole organize a 'regional tour' to get closer to the members.



As a general rule, the 'one-person, one-vote' principle applies to the annual general assembly for all organisations. To a low extent, the statutes of some local/regional banks may foresee deviations from this principle:

- a proportionality right (limited or unlimited), for instance in the statutes of Austrian Volksbanken;
- a special treatment for specific categories of members: in some regional banks of French Crédit Agricole, statutes provide that legal entities may have not only one vote, but in addition another vote for each hundred shares they hold, provided that the maximum number of such additional votes does not exceed 5 votes.

In any case, the annual general assembly is not the only place for members to voice their opinion. Apart from the 'legal' general assembly, other forms of local democracy are very active and take place in various forms: e.g. Dutch Rabobank's 'member councils' (with a statutory basis and formal powers), meetings with members (e.g. French Crédit Mutuel's 'réunions clarté', or French Crédit Agricole's 'reunions thématiques'). The aim of these meetings is to address the bank's issues efficiently and more frequently than just in the annual general assembly.



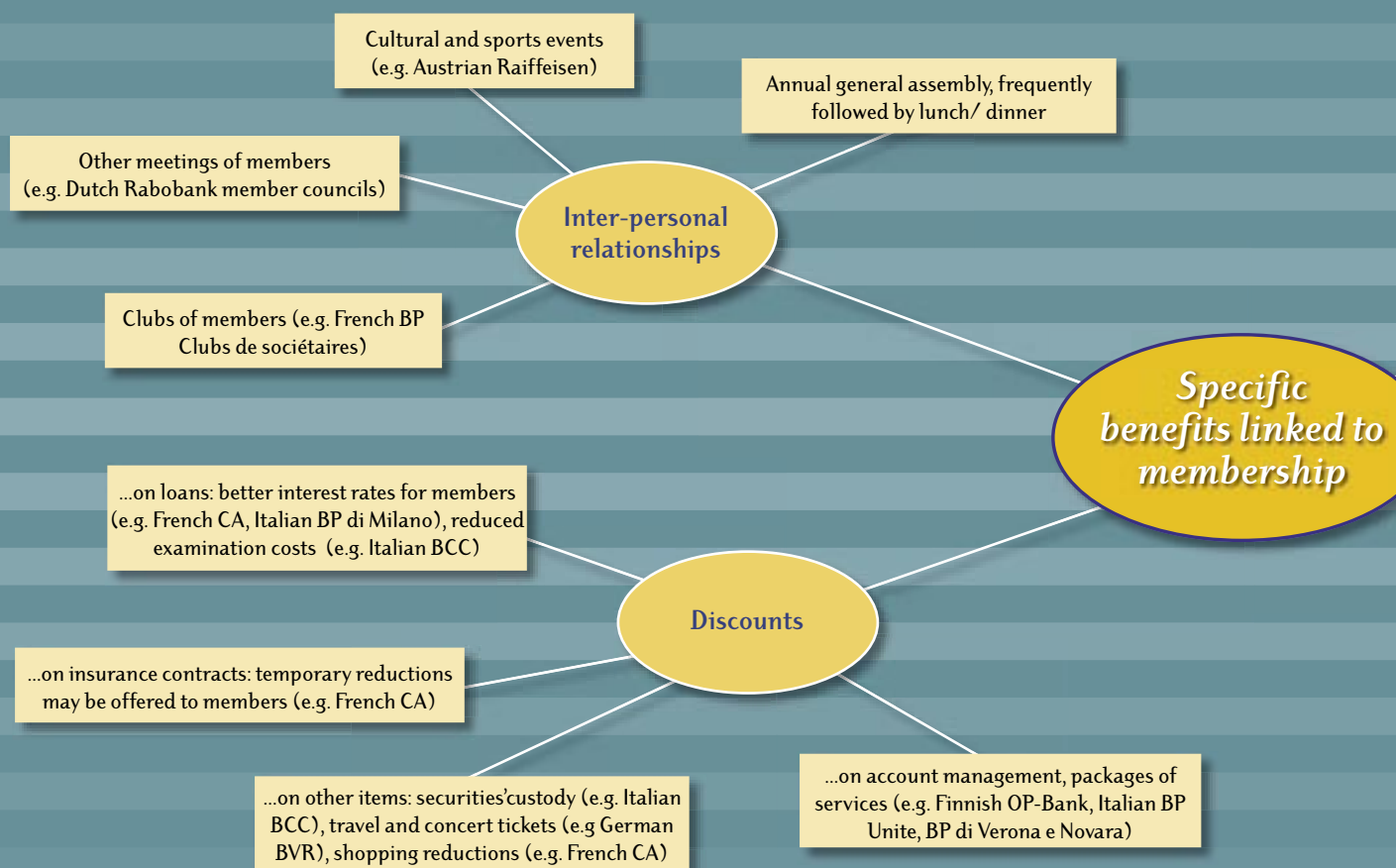
## Specific benefits linked to membership: non-tangible benefits are essential

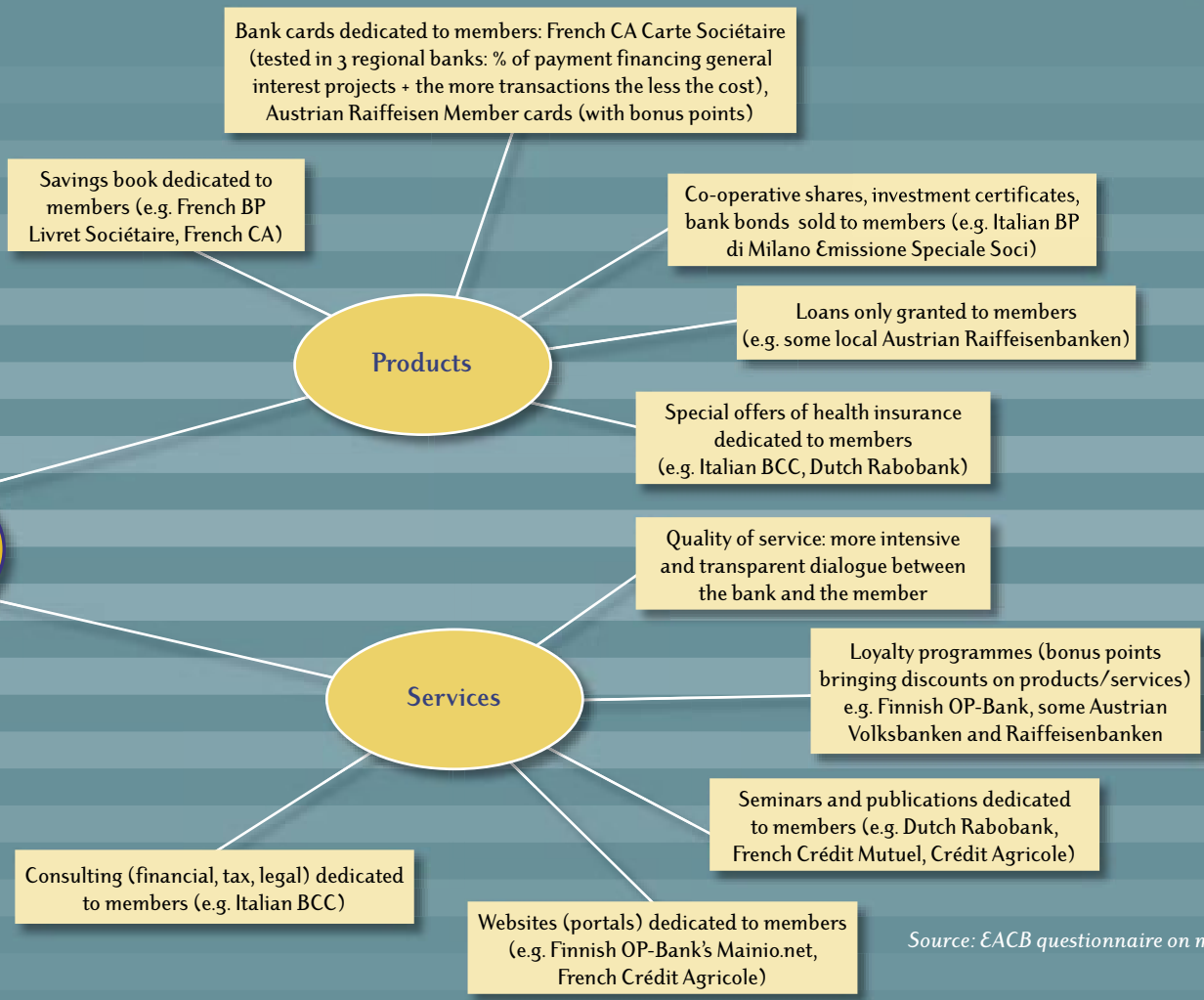
The basic economic idea of membership is that locally and regionally organized and nationally (or even internationally) united co-operative banks provide economic benefits for members - benefits that the latter would not get acting alone. In retail banking, such benefits are for instance price discounts on loans and services, quality of service for all - including convenient branch location, high quality day-to-day service for all from any banking channel (branch, phone, Internet, ATMs...), as well as an intensive dialogue between the bank and the members. As can be seen below (mapping of specific benefits), the range of specific benefits for members is quite broad.

Less visible than products and services, non-tangible benefits are essential, particularly inter-personal relationships. The pleasure to

participate in social initiatives, debate and manage projects complements 'material' benefits. It is worth mentioning that the local bank's annual general assembly 'festivities' are frequently the main event of the year in some remote locations. Social interaction and conviviality are distinctive features of the co-operative banks' membership.

The 'patronage allocations' on banking services were not mentioned as a specific benefit for members by any respondent. However, in other industries, patronage allocations are an important motive to be part of a co-operative. A rare example of patronage allocation in a co-operative bank comes from the Québécois Caisses Desjardins, where a patronage allocation is paid to the members at the end of the year, if the bank operated profitably.





Source: EACB questionnaire on membership (December 2006)



## Members' privileged access to the non-cooperative (listed) entity of the group: only in very rare occurrences

Throughout Europe, co-operative banks' central entities or specialized subsidiaries (investment banking, holding company, asset manager...) take frequently the form of public-limited companies, sometimes partially listed on the stock market. Examples of groups with listed entities include:

- French Banques Populaires (+ Caisses d'Épargne) and their listed subsidiary Natixis ;
- Austrian Raiffeisenbanken and their listed subsidiary Raiffeisen International;
- French Crédit Mutuel and its listed subsidiary CIC;
- Finnish OP-Bank and its listed subsidiary OKO Bank plc;
- French Crédit Agricole and its listed subsidiary Crédit Agricole S.A.

As a general rule, members have no privileged access to these entities, neither for legal (principal of equal treatment of shareholders) nor for organisational reasons (members own their local or regional banks, which in turn own the central entity and/or subsidiaries).

Nevertheless, three exceptions should be mentioned:

- as indicated above, during the initial public offering (IPO) of Natixis in 2006, the French Banques Populaires and Caisses d'Épargne privileged their members in case of securities' booking. As a result, 60% of Natixis shares issued to individuals were distributed to members of the two co-operative banks;
- on the occasion of the IPO of its subsidiary Raiffeisen International in 2005, Austrian Raiffeisenbanken granted privileged securities' booking for their members and customers;
- on the occasion of the IPO of Crédit Agricole S.A. in 2001, French Crédit Agricole privileged its members as regarding the timeframe and volume of securities' booking.



## Termination of membership: variable conditions and restrictions among banks

According to the statutes of co-operative banks, the termination of membership is possible for all co-operative banks all over Europe, but requirements vary:

- limited conditions: Dutch Rabobank and Finnish OP-Bank simply ask the member to notify his/her cancellation in written form. No authorization is needed (the Board confirms cancellation via a letter back to the member);
- strict/severe conditions: as for the members of the majority of co-operative banks, it is possible to terminate membership by calling for the redemption of shares (at nominal value, except one organisation), subject to prior agreement in general by the Board of the bank (who can refuse redemption unconditionally or conditionally) and following account closure.

For more information about conditions on the redemption of shares: EACB 'Survey on cooperative shares and certificates' (2007).



## Specific policies to develop membership: mostly designed at local/regional level

All respondents to the questionnaire, except one, declared that a specific policy has been specified to develop membership. Some organisations have determined concrete goals for the whole group in figures:

- French Crédit Mutuel set up the goal of 100% of clients being members (in the year 2005, 63% of clients were already members);
- Austrian Volksbanken set up the aim of 1 million customers by 2010, mostly members as well. In 10 years time, the number of members should increase by 10%. Measures to achieve this goal include: price incentives for members, improvements to the cooperative share, honours granted for long-time membership (5 years, 10 years...), improvement of information policy towards members (Direct-Mail, newsletter...);
- French Crédit Agricole set up the objective to reach, in the mid-term, a ratio of 1 member for 2 clients;
- Likewise, French Banques Populaires target a ratio of at least 1 member for 2 clients.

In contrast to the last four examples, some respondents to the survey suggested policies developing membership are defined at the local or regional level, rather than the national/central level. This is in line with the decentralized governance of co-operative banks.

Besides increasing membership base, other networks stress the importance of involving more existing members (more intensive dialogue, cross-selling): following a determined policy, in the last 7 years, Rabobank increased the number of its members from 500,000 to 1.6 million. Now the bank wants to offer special banking and non-banking products and services, so as to involve more members.

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