



EUROPEAN ASSOCIATION
OF CO-OPERATIVE BANKS



**The importance and significance of
membership in European
co-operative banks**

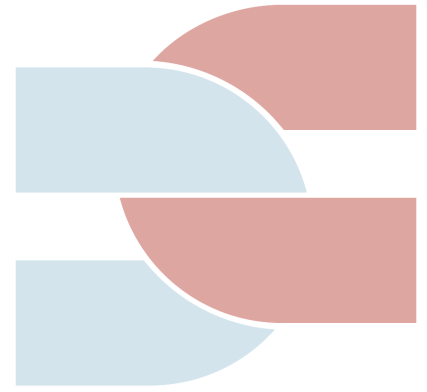
The voice of **2,700** local and retail Banks | **85** million Members | **214** million Customers

European Association of Co-operative Banks A.I.S.B.L.

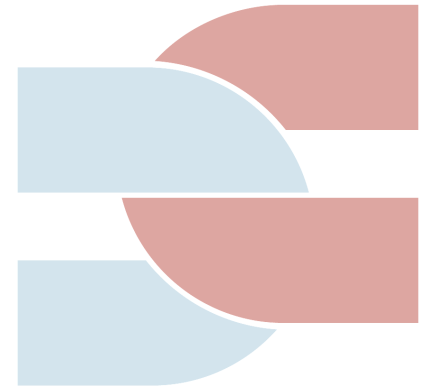
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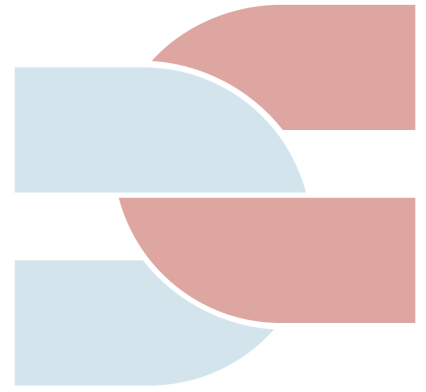
This publication reports the main findings of a survey carried out by the Task Force on Co-operative Affairs of the European Association of Co-operative Banks (EACB) on membership and governance in European co-operative banks. The EACB is grateful to Hans Groeneveld, chair of the task force, and Ryan van Hout, member of the task force, for analysing the survey results and writing this paper.



Executive summary

This paper aims to increase the awareness and familiarity of contemporary specifics of co-operative banks among a broad audience. It presents salient results of a survey among 16 co-operative banking groups on two interconnected aspects: (i) formal features of membership and (ii) statutory roles and responsibilities of members in the co-operative governance (1). The responses to the questionnaire reveal many similarities, but also differences between these groups. Important long-standing and common characteristics are that their customers can become members of the co-operative. Members are users and act as owners of co-operative banks, because they have purchased member shares yielding stable, moderate returns and/or have always decided, based on the Articles of Association approved by themselves, to add the largest part of net profits to the capital reserves. This differs from listed banks, where the owners (i.e. shareholders) are often not customers at the same time and usually receive a substantial part of the annual net profits as dividends on their shares. A divergent economic and social orientation and different internal democratic governance arrangements reflect these features of co-operative banks. The active role of members in the governance and in steering the strategic direction of co-operative banks represents a key distinguishing characteristic. Disparities between co-operative banks mainly pertain to (i) organizational and governance structures, (ii) the scope and depth of the statutory roles and responsibilities of member representatives at various levels within co-operative banking groups, (iii) the vibrancy of member involvement and interaction with their local and/or regional co-operative bank, and (iv) the monetary and immaterial advantages enjoyed by members.

(1) The Task Force on Co-operative Affairs of the European Association of Co-operative Banks (EACB) has carried out the survey. The following co-operative organisations are included in the survey results presented: Raiffeisen Banking Group (Austria), Forenet Kredit (Denmark), OP Financial Group (Finland), Crédit Agricole (France), Crédit Mutuel (France), Cooperative Financial Group (Germany), Association of Greek Cooperative Banks (Greece), BCC Federcasse (Italy), Banque Raiffeisen (Luxembourg), Rabobank (The Netherlands), Raiffeisen Switzerland (Switzerland), Building Societies Association (United Kingdom), KZBS (Poland), Credito Agricola (Portugal), Central Cooperative Bank CREDITCOOP (Romania), GCC Grupo Cooperativo Cajamar (Spain).



Background and methodology

This document summarizes the answers of 16 co-operative banks (henceforth CBs; see footnote 1) to an identical questionnaire. It deals with the current state of affairs regarding membership and governance features. In order to ensure uniformity and consistency in the survey answers, an explanation of the background and meaning of each question was included. We have successively analysed, classified and aggregated the received responses. The sample covers small, medium and large CBs (in terms of total assets) across Europe, thus satisfying the methodological criterion of representativeness. In line with the principle of 'one-member, one vote' in CBs, the replies from all banks carry the same weight in the total. This generates a robust picture of governance aspects, without domination of one particular CB group. Finally, we would like to stress that this document centres on statutory aspects and is descriptive in nature. How members perceive the benefits and rights attached to membership in reality is thus beyond the scope of this document. This also applies to the functioning of governance in practice, which may deviate from that on paper.

Member base

Since members constitute the legitimacy of CBs, we first look at recent developments in the member base over the period 2007-2018. Since 2007, the collective member base of the CBs under review increased by almost 19 per cent from 62.7 to 74.4 million. Three-quarters of the banks succeeded in significantly expanding their membership base, while 13 per cent of all banks experienced a marked reduction in the number of members. For the remaining 13 per cent of CB groups, the member base remained stable. As an important addition, CB groups collectively report a 25 per cent drop in the number of local cooperative banks since 2007, mainly resulting from mergers.

Membership policy

There are many possible explanations for the stabilization, increase or decrease in memberships. In this respect, a first important question is whether banks apply membership requirements. It appears that a large majority of banks have abolished the requirement to become a member when applying for a loan/credit and/or opening a savings account a long time ago (81%; see Table 1). A similar picture emerges with regard to the minimum number or volumes of products a customer must have purchased in order to be eligible for membership at all; around 80 per cent of CBs does not apply this criterion. These survey results indicate that the motives for membership must mainly lie in other spheres.

Table 1: Key membership features

<i>Survey question</i>	Yes	No
Do customers have to become a member if they want to apply for a loan, mort-	19%	81%
Do customers have to buy a minimal number of or some specific financial services	19%	81%
Does a member have to buy – at least – one member share?	81%	19%
Are the policy and criteria regarding membership identical across local or regional	40%	60%

Note: the percentages represent the answers of 16 CB groups as mentioned in footnote 1.

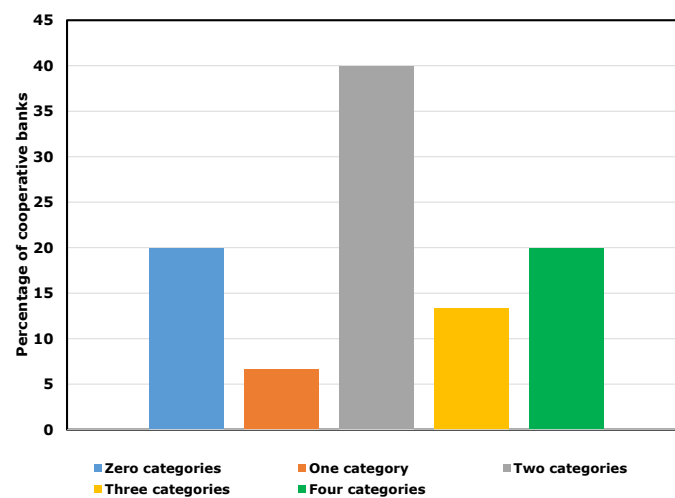
Eighty per cent of the CB groups require the purchase of at least one member share, which is non-transferrable. The nominal value of such a share varies between € 8 and € 500 and its intrinsic value is fixed. Almost all of these CB groups cap the number of shares a member can buy. However, each member has only one vote, irrespective of the number of member shares it holds. Apart from this direct capitalization by members, members also capitalize their CBs indirectly, namely via retained earnings. In most instances, the Articles of Association stipulate that the lion's share of net surpluses must be added to the reserves or capital. Members are not entitled to reserves. This principle has long been enshrined in the statutes of CBs and is one of their key distinguishing features. It is because of this direct and indirect financing that members fulfil their ownership role over the CBs under review.

The situation is more ambiguous with regard to the uniformity of membership guidelines within CB groups. In forty per cent of the cases, the membership criteria and policy are identical across CBs belonging to a particular group. Sixty per cent of the CB groups says that these aspects differ between individual CBs. Apart from formal guidelines, it is also relevant whether CBs pursue an active or passive membership policy. Sixty per cent of the interviewed CB groups indicate that the affiliated local or regional CBs stimulate member participation or bring membership actively under the attention of customers. In these instances, so-called membership policy plans express this ambition. In 20 per cent of the cases, CBs belonging to the respective co-operative banking group are following a neutral membership policy. The remaining 20 per cent reported that – the majority of – affiliated CBs are taking a passive stance on membership policy, i.e. they don't actively seek an expansion of the member base and/or co-operative interactions with existing members.

Members benefits

We think it is fair to assume that satisfaction with the quality, innovativeness, distribution channels and pricing of financial products and services is a necessary condition for customers to become and stay a member. If customers are content with these 'hygiene' factors, they may be inclined to apply for membership. However, they will only do so if this entails individual and/or collective benefits.

Figure 1: Distribution of banks by number of banking product categories with financial member advantages



Note: CBs specified whether they offer their members financial advantages over non-members in four different areas, namely (i) higher interest rates on savings, (ii) lower interest rates on loans, (iii) discounts on commissions and/or provisions paid for financial products and services and (iv) other financial benefits. If a bank answered these questions twice in the affirmative and twice in the negative, it is part of the grey bar (i.e. the cluster of banks offering advantages in two categories).

The survey contained queries about the presence or absence of different categories of individual member benefits. Sixty per cent of the responding CBs with member shares state that they usually pay a stable and moderate dividend on these shares (typically ranging between 1 to 3 per cent of the nominal value), provided their financial position and capitalisation are sound. In addition, CBs had to specify whether they offer members financial advantages over non-members in four different areas, namely (i) higher interest rates on savings, (ii) lower interest rates on loans, (iii) discounts on commissions and/or provisions paid for financial products and services and (iv) other financial benefits (2). Figure 1 depicts the distribution of CBs according to the number of categories in which their members enjoy financial benefits compared to non-members. Twenty per cent of CBs do not grant material benefits to individual members in any cluster. Banks with financial member benefits in two clusters are in the majority (i.e. 40 per cent), followed by CBs offering financial benefits to members in all four identified areas over non-members (approximately 20 per cent). However, many CBs note that the interest rate benefits for members have been very limited in recent years. Apart from financial benefits, the overwhelming majority of CBs, including those without any individual financial member benefits, report a wide spectrum of intangible member benefits, like access to information, networks, mentoring programs for SMEs, free admission to events, as well as contributions to improving the liveability of local communities as a whole.

(2) Unfortunately, even approximate quantification of total or average financial member benefits is not possible. Such a calculation would require CB groups to supply data on the differences in savings and loan interest rates, commissions, and provisions between members and non-members. It turns out that they do not keep such data in internal financial systems either.

Rights and responsibilities of members in the governance

We acknowledge that the organisational and governance structure of CB groups differs in many respects, but here we just focus on the number of layers. In three cases, the CB group counts one layer, either a number of independent local entities or one organisation. Almost half of the CB groups operates with two layers, i.e. (i) independent entities and (ii) a central institution or an umbrella national federation or association. The remaining forty per cent of the groups consists of a three-layered structure, i.e. (i) local institutions, (ii) regional organisations/assemblies/federations and (iii) a central organisation or an umbrella national federation, or association. Either a one tier or two-tier board governs half of the local entities of all CB groups. This choice between a one or tier board partly depends on national jurisdiction.

In the survey, CB groups had to indicate which important formal rights and responsibilities (R&Rs) members have in accordance with the Articles of Association at each relevant level. The information collection yielded eleven statutory R&Rs of members in the *first or only* layer. These R&Rs are usually exercised through a multi-tiered representative structure, i.e. via member councils, representative assemblies and/or non-executive board members (supervisory bodies) elected by grass-root members.

The statutory R&Rs for grass root members or their representatives have a cooperative or banking dimension. Moreover, some local R&Rs are much more common than others are. Regarding cooperative R&Rs, members have the power to initiate, approve or reject changes to the statutes and to appoint non-executive board members (supervisors) in all cases. These non-executive board members usually have the authority on behalf of the members to initiate and approve any amendments to the local banking statutes at either local or central level of CB groups. Banking executives do not have the formal right to modify the articles of association. Hence, members are in a strong position, at least on paper, to safeguard the legal cooperative character. In about three

quarters of the groups, members' cooperative impact is reinforced by their formal influence on local membership policy and the spending of cooperative funds. As far as banking R&Rs are concerned, members have the power to appoint, suspend or even dismiss the general manager of the bank in eighty per cent of all cases. Members are also generally required to approve mergers between local banks (93%). Of all the statutory R&Rs, contributing to local product and business development is the least common (31%), followed by the right of approval for closing bank offices (56%). An additional survey question revealed that CB groups inform members in various ways and with great differences in intensity and transparency about their R&Rs (3).

Members exert their statutory R&Rs in formal governance bodies as laid down in the Articles of Association and/or by-laws of each CB group. The groups do not always use the same names for the member bodies, but enquiries revealed that in practice they usually mean the same thing. The survey shows that the following bodies with member representatives in local entities or the first – and only – layer exist: General Assembly, Representative Member Council, Board of Directors, and Supervisory Board. At the same time, the survey finds that members do not always possess a formal voice at the regional or central/national levels of the respective groups. In some instances, members' representatives have little or no influence on the development and strategy of the central institution/bank or APEX organization. Bearing these considerations in mind, the number of formal members' forums understandably differs between CB groups. Almost forty per cent of the groups has two decision-making bodies with members. Thirteen per cent of CB groups operate with three member-based bodies. Four or more formal member bodies are present in half of the groups.

(3) One can think of information packages when opening an account, local members' magazine, annual meeting, (digital) letters, references to the Articles of Association, information on websites, brochures, local press, documentation when buying member shares, information panels in bank branches, et cetera.



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