European co-operative banks in 2020: a concise assessment

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This snapshot offers a first, preliminary view of the economic and financial impact of the covid-19 crisis on 18 European co-operative banking groups on the one hand, and all their banking competitors on the other.[2] One take-away is that all categories of banks have – so far – weathered the pandemic rather well financially. However, there are differences in the extent to which and the way in which co-operative banks and all other banks were impacted. Before highlighting the financials, it is relevant to point out that the membership base grew by 1.2 per cent to 87 million in 2020. Measured by domestic market shares, co-operative banks further strengthened their market position in their home markets in 2020. The sharp rise in the branch market share stood out and was due to many branch closures by other banks (8.5%). The average Tier 1 ratio of co-operative banks jumped by 0.7 percentage point to a record level of 16.6. Their cost-to-income ratio remained unaltered at 64.2, whereas this metric decreased slightly to 62.4 for all other banks. The average return on equity of both co-operative banks and all other banks fell by 2.2 percentage points to 4% and 3.6, respectively. Also in the pandemic year, notable growth differences in both loans and deposits persisted between co-operative banks and the entire banking sector. Although loan growth of co-operative banks decelerated to 4.5%, it was still well above the long-term average loan growth of around 3.5% and exceeded loan expansion of the whole banking sector by almost 3 percentage points (1.7%) in 2020. Bank savings soared as a flipside to the downturn in consumption and investment. Co-operative banks and all other banks experienced deposit growth of almost 10% and 8%, respectively.

Background

In various respects, co-operative banks deviate from banks with other organisational structures. For instance, they do not have external shareholders. Customers of local banks can become members of the co-operative and can play an active role in the governance at the local and/or central level. Co-operative banks are characterised by a dispersed ownership and they build their equity base primarily through retained earnings.

This document records aggregated financial data of co-operative banking groups, which are manually collected from public sources or provided by individual banks. Simultaneously, identical indicators were gathered or constructed from various renowned databases for national banking systems in which these co-operative banks act. This enables us to compare the consolidated financial performance of co-operative banks to that of entire banking systems. For the non-euro countries in the sample, all figures were converted into euro at the exchange rate prevailing at the statement date. Note that this research letter does not comprise a comparative analysis of the equally important non-financial performance of banks and is descriptive in nature.

Steady member growth

Long-standing and common characteristics of co-operative banks are that their customers can become members of the co-operative. Members are users and act as owners, 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

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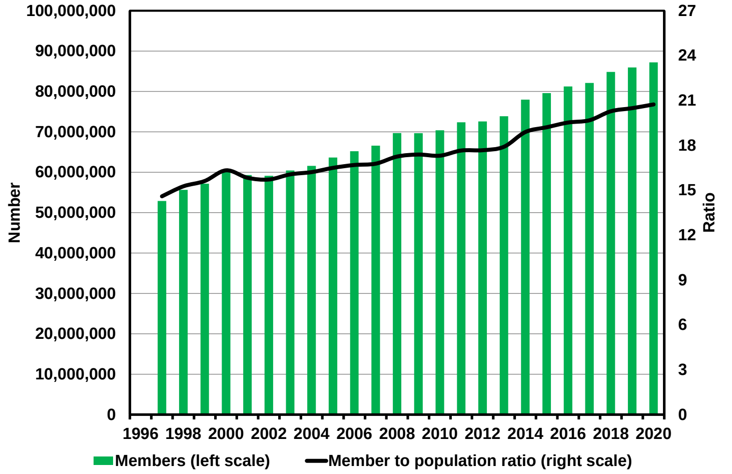
[2] Financial Group of the German Volks- und Raiffeisenbanken (Germany), Austrian Volksbanken Group (Austria), Raiffeisenbanken Group (Austria), Federazione Italiana delle Banche di Credito Co-operativo-Casse Rurali ed Artigiane (Italy), Unión Nacional de Co-operativas de Crédito (Spain), Banco de Crédito Co-operativo (Spain), Federação Nacional das Caixas de Crédito Agricola Mútuo (Portugal), Rabobank (The Netherlands), Banque Raiffeisen Luxembourg (Luxembourg), Raiffeisen Switzerland (Switzerland), Nykredit (Denmark), Crédit Agricole Group (France), Crédit Mutuel Group (France), BPCE (France), OP Financial Group (Finland), Building Societies (United Kingdom), BPS Group (Poland), and SGB Group (Poland).

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 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. Banking professionals of local or regional co-operative banks are accountable to their grass root members who they meet on a daily basis, either physically or virtually. A strong member basis is the cornerstone of co-operative banks.

In 2020, the member base of co-operative banks under review increased by 1.2 million to 87 million (Figure 1). This represents a net increase of 1.5 percent. The average long-term expansion of the number of memberships lies around 2 per cent per year. The black line represents the member-population ratio. This ratio exhibits an upward long-term trend. On average, more than 1 out of five inhabitants in the 13 European countries under review is a member of a co-operative bank.

Figure 1: Members and member-population ratio



Source: Own calculations based on data from co-operative banking groups and statistical bureaus.

The number of local or regional co-operative banks dropped by 3.4 per cent to around 2,671. The branch network of co-operative banks shrank by about 3 per cent. In 2020, headcount at co-operative banking groups contracted by 1.3 percent, while total bank employment dropped by 1 per cent. These downward trends have been manifesting themselves for decades by interrelated factors: governance adjustments, stricter regulations, competitive pressure, need to cut costs, etcetera.

Market shares climb further

The average domestic market shares of co-operative banks hit new records in 2020. The loan market share only increased by 0.1 percentage point, but reached its highest level ever. The strengthening of the market position in domestic deposit markets was stronger and more pronounced at 0.3 percentage points to 22.2 (Table 1). The branch market share showed an unprecedented jump of 2 percentage points to 35.2. This was because all other banks downsized their branch networks by almost 8.5 per cent, while co-operative banks closed almost 3 per cent of their bank branches. The business orientation resulting from the member-based governance structure most likely attributed to this large difference. This does not imply that co-operative banks do not take great strides in the digitalisation and virtualisation of their financial services.

Table 1 Average domestic market shares of co-operative banking groups

	2011	2013	2015	2017	2019	2020	Change in percentage points (2011-2020)
Loans	21.2	21.8	22.1	22.6	23.0	23.1	+ 1.9
Deposits	20.9	21.5	21.4	21.5	21.9	22.2	+ 1.3
Branches	28.9	30.4	31.2	32.1	33.2	35.2	+ 6.3

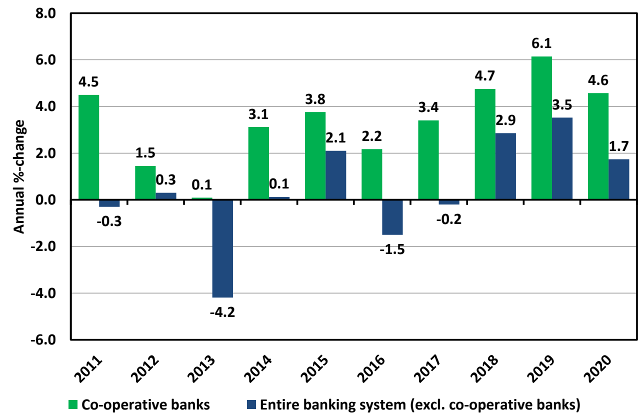
Source: Own calculations based on data from co-operative banks, the ECB, and national supervisory authorities.

Like the evolution of the member base, changes in market shares are important indications of the attractiveness of co-operative banks in the eyes of members and customers. Rising member numbers and increasing market shares reflect to a large extent satisfaction with the quality, and pricing of financial services as well as with the social orientation of co-operative banks (and vice versa).

Divergent loan and deposit growth

During several full or partial economic lockdowns in 2020, co-operative banks continued to supply the real economy with new loans. In fact, their loan portfolio grew quite substantially by 4.6 per cent in 2020, following record growth in 2019 (Figure 2). All other banks recorded an increase in their outstanding loan volume of 1.7 per cent. The gap in lending growth is again remarkable and points to the specific business orientation of co-operative banks. In these challenging times, the latter were inclined and able to offer their private and corporate customers greater access to loans. Since 2011, co-operative banks granted the non-financial private sector 33 per cent additional loans. The credit volume of other banks was almost 5 per cent higher than in 2011.

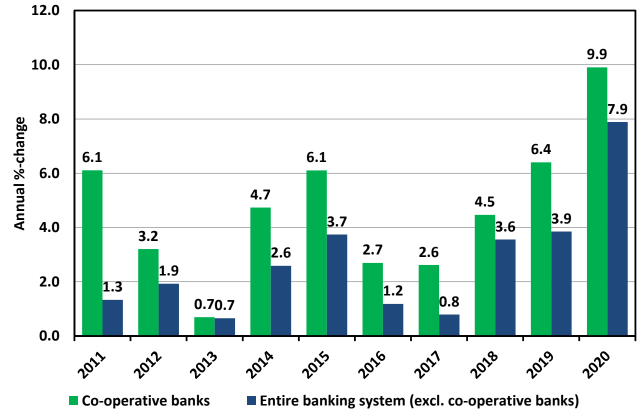
Figure 2: Loan development



Source: Own calculations based on data from co-operative banking groups, national supervisory authorities and/or central banks. It concerns loans and advances to the non-financial private sector, excluding government.

The growth of deposits of both categories of banks accelerated sharply compared to 2019. This is not surprising given the subdued consumer spending and private investment due to working from home, lockdowns, and travel restrictions to prevent the spread of the coronavirus. Co-operative banks' deposits increased by almost 10%, while other banks experienced deposit growth of about 8%. This is the highest rise in the last decade. Like the loan portfolio, the deposit base of co-operative banks has expanded much more rapidly since 2011. Over the period 2011-2020, the deposit base of co-operative banks increased by 48 percent compared to 29 percent of other banks. The described loan and deposit developments resulted in a slight reduction of the loan-to-deposit ratios to around 0.9 for both co-operative banks and all other banks.

Figure 3: Deposit development

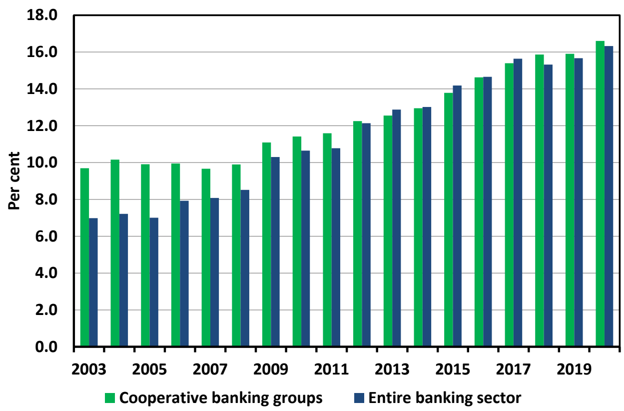


Source: Own calculations based on data from co-operative banking groups, national supervisory authorities and/or central banks. It concerns deposits from the non-financial private sector, excluding government.

Tier 1 ratio record

The whole banking sector entered the covid-19 pandemic of 2020 with a solid capital buffer. As it turns out, this global health crisis has not prevented banks from further strengthening their capital cushion. The average Tier 1 ratio of co-operative banks reached a record level of 16.6, while the Tier 1 ratio of all other banks peaked at 16.3. Over a longer timespan, the stability of many individual banks has improved considerably and steadily (see Figure 4) because of stricter regulatory requirements and quite a few economically prosperous years in the past decade. These factors have also led to a close convergence of the Tier 1 ratios across banks.

Figure 4: Average Tier 1 ratios

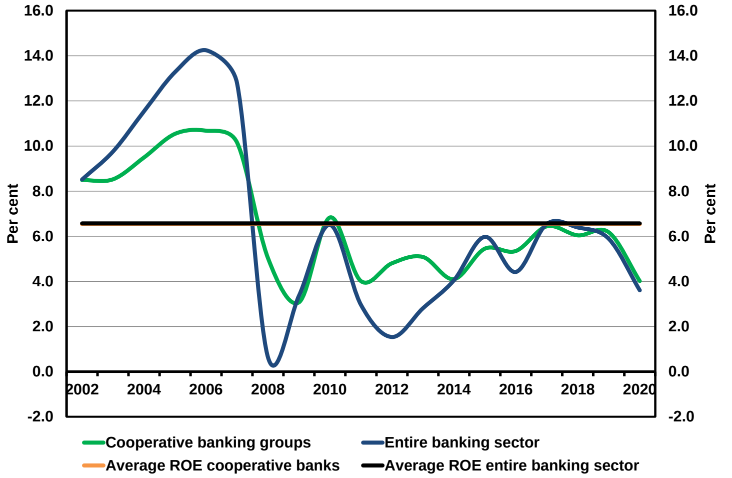


Source: Own calculations based on data from co-operative banking groups, national supervisory authorities and/or central banks.

Drop in return on equity

As expected, the global corona outbreak put pressure on bank profitability in 2020. The average ROE fell by 2.3 percentage points for both co-operative banks and all other banks (Figure 5). However, at 4% on average, the average ROE for co-operative banks was almost 0.5 percentage point higher than for the collective banking sector. Since 2017, the average ROE of both groups of banks has been almost identical and shows a completely synchronous pattern. Prior to that, their ROEs had been subject to large level and fluctuation differences. Yet their average ROE over the depicted time span has been exactly the same: 6.6%.

Figure 5: Average return on equity



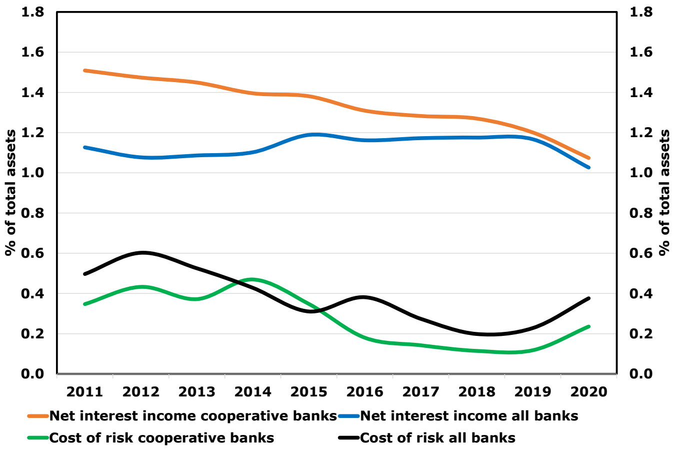
Source: Own calculations based on data from co-operative banking groups, national supervisory authorities, the ECB, IMF and World Bank.
Note: The orange and black lines represent the average return on equity of respectively co-operative banks and the entire banking sector over the time-period 2002-2020.

Changes in ROE are the outcome of movements in the numerator (net profits) and denominator (equity). Regarding the former, the profit and loss accounts (P&L) of co-operative banks yield interesting insights. First, unconventional monetary policy, with negative official interest rates, has particularly strained net interest revenues from retail banking, the core business of co-operative banks. Expressed as a percentage of total assets, this income source fell from almost 1.6% in 2011 to just over 1% in 2020. It now equals net interest income of all other banks (Figure 6). The effects of the pandemic are also clearly reflected in the increase in the P&L item *'cost of risk*'. However, this surge was relatively moderate for co-operative banks. In addition, Figure 6 demonstrates that co-operative banks' risk costs are generally below those of all other banks. This points to a relatively good quality of their exposures and loan portfolio. Finally, the fall in ROE can be partly attributed to a positive denominator effect: the strengthening of co-operative banks' equity by 4%.

Stable cost-income ratio

The cost-income ratio (CI-ratio) reflects the changes in operating income and costs. The average CI-ratio of co-operative banks remained stable at 64.2. This suggests that they have almost fully compensated declining income and loan impairments by operational cost reductions. On average, all other banks experienced a modest decrease in their CI-ratio to 62.4. Underlying data show that their costs have fallen more sharply than their revenues, which is partly attributable to the previously mentioned major cuts in their branch networks.

Figure 6: Net interest income and cost of risk (as % of total assets)



Source: Own calculations based on data from co-operative banking groups, national supervisory authorities, the ECB, Bank of England and Swiss National Bank.