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EACB comments on the European Commission Roadmap on European action plan for social economy

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Annex to the EACB comments on the European Commission Roadmap on European action plan for social economy

- The Cooperative Banking Model and long-term orientation -

The cooperative business model is a developed and established company model. Cooperatives are mentioned in Article 54 of the Treaty. Council Regulation (EC) No 1435/2003 on the Statute for a European Cooperative Society (SCE) even provides a specific European company statute for cooperatives. The SCE-regulation points out that *"Cooperatives are … legal entities with particular operating principles that are different from those of other economic agents."* The regulation, as well as national cooperative law lay down the basic operating principles.

These operating principles ensure a specific, sustainable economic approach. This implies the following for Europe's cooperative banks:

1. The principal object of a cooperative is the satisfaction of its members' needs and/or the development of their economic activities.
2. The cooperative model provides a tool for citizens to join forces in order to find solutions for the improvement of their economic, social or cultural situation under their own responsibility (self-help, self-governance, and self-responsibility) "Achieving one's goals better together than alone" has always been the fundamental idea of every cooperative.
3. The generation of profit is a basis – like for any other undertaking - but not the primary purpose.
4. Membership is normally open to all citizens living in the business area of the cooperative bank. Cooperative banks count about 60 Million members of cooperative banks in the EU. The aim (and often the reality) is a life-long relationship of the

member/customer with his bank. Typically, cooperative banks are deeply rooted in their local communities. A delocalisation of a cooperative is hardly possible.

5. Members vote in the general meeting on the major matters related to the cooperative, generally on the basis of the democratic principle (one member, one vote) and independent of the capital distribution. There are no "lead shareholders" that drive the policy, but the policy is determined by the community of member/customers.
6. Via member representatives in governance bodies, cooperative banks possess precious and valuable networks in society. This social capital differentiates cooperative banks from banks with other ownership structures. With sufficient member participation in democratic processes, cooperative banks create loyalty in society and legitimacy of aiming at social purposes.
7. In most cases, membership requires the acquisition of a (limited) amount of cooperative capital. This amount is relatively moderate in most cases. By consequence, the shareholder structure of cooperatives is characterized by a very high number of micro-holdings of capital.
8. Most cooperative banks practice "open membership" so that any citizen can join.
9. Remuneration of capital is limited: members receive dividends for their shares, which in some jurisdictions are even subject to a cap. Generally, dividend payments are moderate and stable over long periods. However, usually the biggest part of the profit is transferred to the reserves of the cooperative bank (retained earnings) to enhance the capital base.
10. Members acquire shares at face value and (when leaving the cooperative) never get more than the face value back (even less in the case of serious losses). Thus, share prices remain unchanged over decades, what excludes any speculation with cooperative shares. At the same time, since losses affect retained earnings in the first place, members of cooperatives do not have to fear for their (usually moderate) investments, when the economic environment becomes more difficult. Thus, during the financial crisis, there was no sell-off of the shares of cooperative banks as this was the case for other banks.

The aforementioned factors, everyone for itself, but especially in their interaction, provide for a governance structure that favours a long-term orientation and a (long-term) customer-focus (customer relationship) of cooperative banks.

Open membership, broad membership and democratic vote also ensure to involve a broad base of stakeholders (as shareholders) in the decision process of the cooperative bank.

Cooperative banks cannot simply change their business policy or product range or drop certain customer categories without due consideration of the long-term impact of such choices on their (wide) membership base.

They are not driven by investors to maximize profit, but have to ensure a stable, long-term profitability and high-quality services for a large number of owners at reasonable prices in order to ensure their mission. This certainly is in strong contrast to the pressure on public companies from financial markets to maximize short-term results.

The performance of cooperative bank-managers can hardly be measured by the share price (which never changes) and thus they are not under the pressure to increase the share value.

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