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European co-operative banks in 2019: a concise assessment

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This research letter presents consolidated financial indicators of 18 co-operative banking groups in 13 European countries for 2019.[2] It is intended for co-operative bankers, policy makers, regulators and academics. The member base of all co-operative banks expanded by 1.3 percent to almost 86 million. The market shares in domestic retail banking stabilised at the record levels reached in 2018. In 2019, key banking ratios did not differ significantly between co-operative banking groups and the entire banking sector. The average Tier 1 ratio of co-operative banks remained at a record level of 15.9, while the same ratio for all other banks almost equalled this level by 15.6 in 2019. It is small consolation to observe that banks have entered the global health and economic crisis caused by covid-19 in 2020 at least with solid capital buffers. The average cost-to-income ratio of co-operative banks declined by one percentage point to 64.3, whereas this metric increased slightly to 62.1 for all other banks. Co-operative banks reported the same average return on equity as in 2018 (6.1%), whereas this ratio dropped by 0.6 percentage point to 5.7% for all other banks. Lending and deposit growth at co-operative banks accelerated. Both categories of banks closed down around 4% of their branches.

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 via 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 contain a comparative analysis of the equally important non-financial performance of banks and is descriptive in nature.

Steady member growth

Membership distinguishes co-operative banks from all other banks. Members are users and act as owners of co-operative banks. In the case of listed banks, the owners (i.e. shareholders) are often not customers at the same time. Besides, members do not have a financial claim on the accumulated value of their co-operative bank, whereas shareholders benefit from the full upside potential of the asset value of listed banks. These characteristics result in a divergent orientation and different internal governance arrangements of both types of banks. Banking professionals of local or regional co-operative banks are

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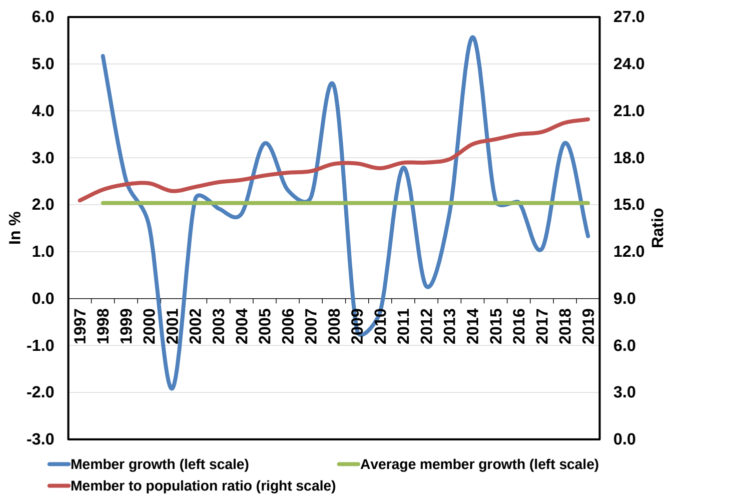
[2] Financial Group of the German Volks- und Raiffeisenbanken (Germany), Austrian Volksbanken Group (Austria), Raiffeisenbanken Group (Austria), Federazione Italiana delle Banche di Credito Co-operativo-Casse Rurali ed Artigiane (Italy), Unión Nacional de Co-operativas de Crédito (Spain), Banco de Crédito 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).

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 2019, on balance, more than 1.1 customers took the step of becoming members of their co-operative bank. This represents a net increase of 1.3 per cent (see the blue line in Figure 1) to 86 million members. The average long-term expansion of the number of memberships lies around 2 per cent per year (see straight green line). The red 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 now a member of a co-operative bank.

Figure 1: Member growth 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 4.6 per cent to around 2,765. In line with the entire banking industry, the branch network of co-operative banks shrank by 4 per cent. In 2019, headcount at co-operative banking groups contracted by 1.5 percent, while total bank employment dropped by 0.5 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 stabilize at record levels

Co-operative banks consolidated their average domestic market shares at the record level of 2018. The loan and deposit market share stabilized at 23 and 21.9, respectively (Table 1). The branch market share of co-operative banks climbed marginally to 33.2 and has always surpassed their loan and deposit market shares, but the difference has never been as pronounced as it is now. One could argue that a historical differentiator of cooperative banks is still visible: they operate with relatively dense branch networks. At the same time, co-operative banks are increasingly shifting from physical to virtual distribution channels for their products and services.

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

	2011	2013	2015	2017	2019	Change in percentage points (2011-2019)
Loans	21.2	21.8	22.1	22.6	23.0	+ 1.8
Deposits	20.9	21.5	21.4	21.5	21.9	+ 1.0
Branches	29.1	30.7	31.5	32.3	33.2	+ 4.1

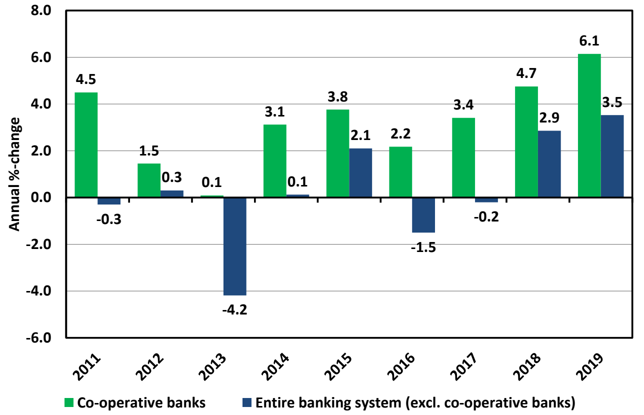
Source: Own calculations based on data from co-operative banks, the ECB and national supervisory authorities.

Viewed over a somewhat longer time-period, the market shares of co-operative banks appear to be constantly on the rise. Since 2011, all banks faced major turmoil in the euro zone, tightening capital and liquidity requirements, the switch from conventional to unconventional monetary policy, and an enormous digitization of financial services, among other things. In this constellation, co-operative banks seem to have responded adequately, as evidenced by the strengthening of their market positions. This is a sign of resilience and adaptability on the part of co-operative banks.

Strong loan and deposit growth

Strong economic growth and loose monetary policy contributed to a considerable acceleration in loan and deposit growth. Co-operative banks recorded the highest loan expansion since 2007 (6.1%; Figure 2). All other banks recorded an increase in their outstanding loan volume of 3.5 per cent, i.e. the highest growth rate since 2010. Figure 2 reveals that the credit growth of co-operative banks has always exceeded loan growth of all other banks. Other banks even had a contraction in their loan portfolio in various years. Since 2011, co-operative banks granted the non-financial private sector 28 per cent additional loans. The credit volume of other banks was just 3 per cent higher than in 2011.

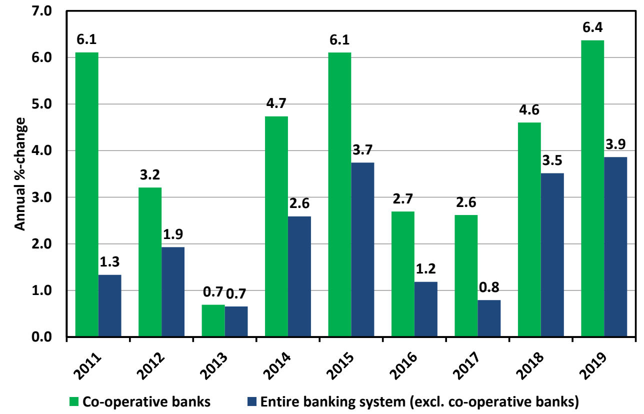
Figure 2: Loan development



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 the deposit base of both categories of banks just surpassed loan growth. It also reached its highest level in years. Cooperative banks' deposits increased by 6.4%, while other banks experienced deposit growth of 3.5%. Like the loan portfolio, the deposit base of co-operative banks has expanded much more rapidly since 2011. Over the period 2011-2019, the average annual deposit growth of co-operative banks amounted to 4.1% compared to 2.2% of other banks. The described loan and deposit developments resulted in a stabilization of the loan-to-deposit ratios just below 1 for both co-operative banks and all other banks in 2019.

Figure 3: Deposit development

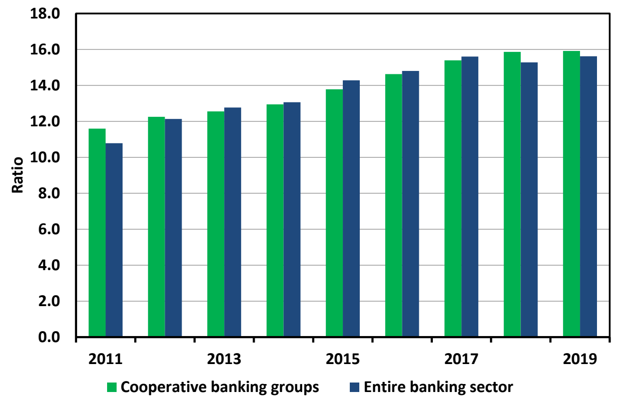


Source: Own calculations based on data from co-operative banking groups, national supervisory authorities and/or central banks. It concerns deposits from the non-financial private sector, excluding government.

Solid Tier 1 ratio

In 2019, the average Tier 1 ratio of co-operative banks remained at exactly the same high level as in 2018: 15.9. The Tier 1 ratio of all other banks increased to 0.3 percentage point to 15.6. Over a somewhat longer time span, a significant improvement in the stability of many individual banks has taken place (see Figure 4) because of stricter regulatory requirements and a cyclical upturn in the economy. These factors have also led to a close convergence of the Tier 1 ratios across banks.

Figure 4: Average Tier 1 ratios



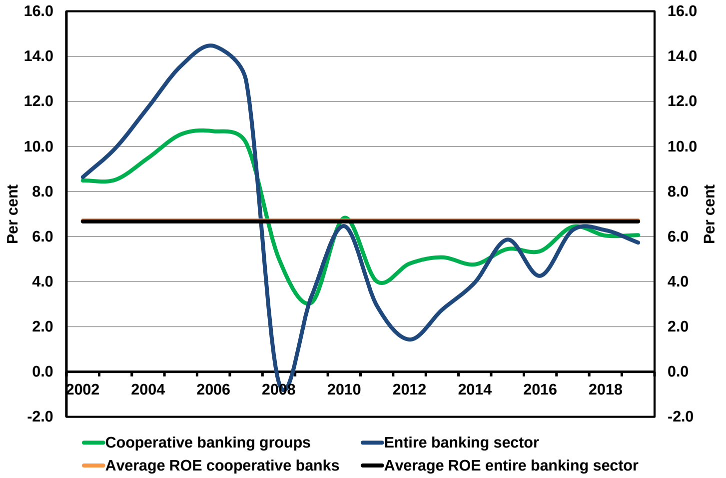
Source: Own calculations based on data from co-operative banking groups, national supervisory authorities and/or central banks.

Figure 4 suggests that the whole banking sector entered the covid-19 pandemic of 2020 with a solid capital buffer. Fortunately, banks are now much more robust than they were just before the outbreak of the Great Financial Crisis of 2007/8. They seem to be able to withstand fierce shocks. It is with great interest that we look forward to the 2020 data, which will give a first indication of the financial consequences of this global health, social and economic crisis for banks.

Stable return on equity

Over the last few years, the average return on equity for both co-operative banks and entire banking sectors has been remarkably stable around 6%. This level is just slightly below the long-term average over the period 2002-2019 (6.7%) as illustrated by the coinciding horizontal lines in Figure 5. The actual pattern of both ROEs highlights a much lower volatility of co-operative banks' returns.

Figure 5: Average return on equity

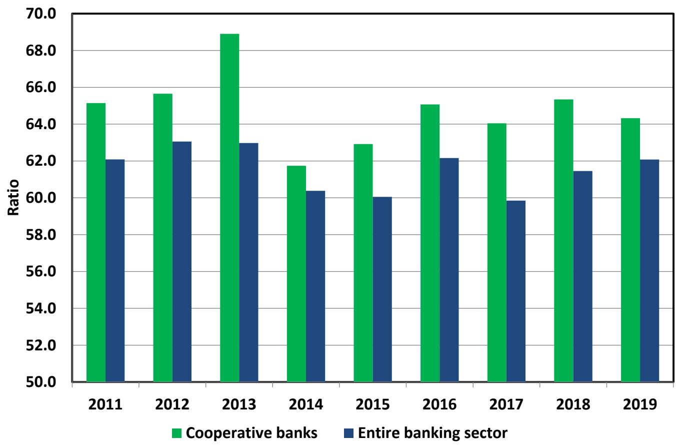


Source: Own calculations based on data from co-operative banking groups, national supervisory authorities, the ECB and World Bank.
Note: The orange and black lines represent the average return on equity of respectively co-operative banks and the entire banking sector over the time-period 2002-2019.

A closer look at the profit and loss accounts of co-operative banks yields interesting insights into the factors that caused the ROE to stay close to 6%. Due to their retail banking focus, co-operative banks are highly dependent on net interest income. It is abundantly clear that unconventional monetary policy, with negative official interest rates, has exerted a strong downward impact on their revenue side. Expressed in terms of total assets, net interest revenues dropped below 1.2 percentage point, i.e. the lowest value in 20 years. However, the combined effect of a rise in 'other operating income' and a decline in 'operating expenses' as a percentage of total assets exactly offset the drop in interest revenues. Falling operational costs partly reflect the closure of offices and reduction of employment. At the same time, the cost of risk remained at very low level, which helped to maintain this ROE. This P&L item will almost certainly increase significantly in 2020 because of unavoidable credit losses stemming from lockdowns of national economies to contain the spread of the corona virus.

Decreasing cost-income ratio

Figure 6: Average cost-income ratio



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

The cost-income ratio (CI-ratio) reflects the aforementioned changes in operating income and costs. It appears that the average CI-ratio for all co-operative banks decreased by 1 percentage point. On average, all other banks experienced a modest increase in their CI-ratio. This contrary development has rendered the discrepancy between the ratios of the two categories of banks statistically negligible. This shows that the co-operative structure in itself is not associated with a higher cost burden. Besides, co-operative banks may consider this ratio as a residual item. In that case, this indicator plays a limited role in their business decisions, as long as, for instance, customers are satisfied with the financial services offered and sufficient net surpluses are generated to solidify capital buffers.