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EACB Answer

to the European Commission targeted stakeholders consultation on the proposal for a Council Recommendation on developing social economy framework conditions (note for the attention of the Social Partners)

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The **European Association of Co-operative Banks** (EACB) is the voice of the co-operative banks in Europe. It represents, promotes, and defends the common interests of its 28 member institutions and of co-operative banks in general. Co-operative banks form decentralised networks which are subject to banking as well as co-operative legislation. Democracy, transparency, and proximity are the three key characteristics of the co-operative banks' business model. With 4,050 locally operating banks and 58,000 outlets co-operative banks are widely represented throughout the enlarged European Union, playing a major role in the financial and economic system. They have a long tradition in serving 223 million customers, mainly consumers, retailers, and communities. The co-operative banks in Europe represent 87 million members and 749,000 employees and have a total average market share of about 20%.

For further details, please visit www.eacb.coop

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Introduction

The EACB welcomes the opportunity to participate in the Commission's targeted consultation on the proposal for a Council Recommendation on developing social economy framework conditions. Cooperative Banks with about 87 million member, 223 million customers and 749,000 employees s stand for one of the strongest cooperative sectors in the EU.

While not all of our members would understand themselves as a part of an economy they would call "social", they all strongly support and adhere to the cooperative principles.

For cooperative banks, one of the priorities of the Council Recommendation on developing social economy framework conditions should be to enhance the visibility of cooperatives operating in the EU banking sector, as well as to develop the understanding of their specific features, identity, business model and regulatory particularities.

The Council Recommendation shall be aimed to raise awareness among national authorities, specifically including the banking regulators and supervisors, of the specificities of the mutualist model and the possibilities for reducing the administrative burden.

An important element would be to ensure that the legal form of a cooperative is historically proved as sustainably efficient and as such accepted (as fully equivalent to other forms of companies. As regulated entities cooperative banks see themselves again and again in a struggle for the acceptance of cooperative particularities and for adjusted rules. As the knowledge about cooperatives, especially its social usefulness is not so common, hardly anybody takes into account the specifics of cooperatives when new rules are made. Lack of knowledge is here *de facto* a discrimination factor. In particular, it must be ensured that the Single European Rulebook as the foundation of the Banking Union does not promote *de facto* a single business form (ltd companies) and a cooperative one as supplement corporate governance model.

Questions

1. Do you agree with the challenges presented in section 2?

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2. What are the most important recommendations that should be made to the Member States in the area of social economy framework conditions? Do the policy areas presented in section 4 cover all the relevant topics, or should some further topics be added?

1. Recognition of the banking sector with social economy entities

Cooperative banks in the EU which fall under the definition of the social economy entities have not yet been fully recognized as such and still facing challenges due to a regulatory framework that risk squeezing their identity and their business model.

The Commission Communication to the Parliament and the Council on "Building an economy that works for people: an action plan for the social economy" rightly acknowledges that "*Developing* *coherent frameworks for the social economy entails considering its specific nature and needs with regard to numerous horizontal and sectoral policies and provisions such as those relating to taxation, public procurement, competition, social and labour market, education, skills and training, healthcare and care services, Small and Medium-sized Enterprise (SME) support, circular economy, etc.*"

Regrettably, access to finance and financial services are not explicitly listed among sectors where a coherent and consistent framework is needed. Taking only the supply side of the equation, it should be noted and underlined that: some banks by the legal form and by the business model they operate, can be considered as social economy entities, consistently with the characteristics and fundamental common principles defined in the Commission's Action plan. Beyond the terms used to name them, there are banks where there is a clear primacy of "purpose over profit" and mutualistic goals established by national laws and a clear "not-for-private/individual profit nature". Some banks stand out from the traditional banking system because they are the first finance providers to other social economy entities.

Those facts alone should allow to state that banking regulation and supervision too should be addressed in order to achieve in that sector the "enabling policy and legal environment which in turn would help in untapping the full potential of the social economy. The Commission's commitment to *"raise awareness among national authorities of the specificities of the mutualist model and the possibilities for reducing the administrative burden"* should be extended to banking regulators and supervisors. Bearing in mind that is the Member State's parliaments or EU Parliament that are passing the law, all respective law should have references to cooperative differences as mentioned above

2. Misalignment between the social economy policy framework under development and the banking prudential framework

There is a misalignment between the social economy policy framework under development and the banking prudential framework. Social economy entities operating in the banking sector are not fully recognized for what they are. Thus, the misalignment between those two relevant Union policy areas determines that banks belonging to the social economy ecosystem may remain "children of a lesser god", whether considered from a purely banking perspective or from the social economy one. Fully acknowledging them as social economy entities should help bridging the EU policy and regulatory gap/inconsistency between the banking prudential framework and the social economy perspective. This development may contribute to: enhancing banking regulation by making it more sensitive and coherent to diversity and proportionality within the banking system, improving the overall access to funding for social economy entities, and consequently revitalise the rural areas and proximity to the local communities, favouring the green and digital transition and the creation of job, overcome the one-size-fits all approach of banking regulation and supervision and therefore, stop the "proximity deconstruction" that has been somehow incentivized.

3. Proposal

In order for the foreseen Recommendation to be credible and consistent across sectors, EU institutions should lead by example, acting where they have a prevailing competence, i.e., banking sector. EU institutions should take advantage of the review underway of the banking

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package to introduce also in the banking sector, the recognition of social economy entities as such.

In the EU, number of co-operative banks fill all the boxes defining social economy entities as outlined in the Commission Communication.

By legal form, these banks are cooperatives and by law, must operate under a strict mutualist model (strict rules regarding exposures, capitalisation, supervision, business purpose, regionality, long-term vision). Please see annex for details about the Cooperative Banking Model and long-term orientation. Under that model, activities are carried out mainly with members.

Cooperative banks business model and what they represent to local communities to which they belong are under a significant strain as the EU banking regulation and supervision has not so far fully recognized for what they are and has not the perception of their nature as social economy entities.

The undermining approaches of policy makers, regulators and supervisors shall be eliminated thoroughly and throughout the sectors. The policies and laws in the Union should be applied consistently, by taking into account all elements of the legal form of their addressees, and with respect to the well founded national cooperative laws and traditions.

3. *How can social dialogue be promoted to improve working conditions in social economy organisations? How can the visibility of the social economy in social dialogue be enhanced? How can the Recommendation contribute to these objectives?*

The mentioned dialogue could focus on the idea of sustainability which is now playing a role of universal definition of not only environmental issues but also economic, social and even ethical.

4. In which ways can social partners concretely support the implementation of the planned Council Recommendation?

The awareness in society regarding the values and socially positive effects of cooperatives is crucial. In this respect, more auto-promotion is needed. Importantly, less formal scepticism from authorities' side would be conducive.

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- 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.

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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.

Contact:

The EACB trusts that its comments will be taken into account.

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