



EUROPEAN ASSOCIATION
OF CO-OPERATIVE BANKS

7th Convention on Co-operative Banks

Co-operative Banks: looking ahead to drive societal and economic growth

Tuesday, 28th March 2017 - Brussels

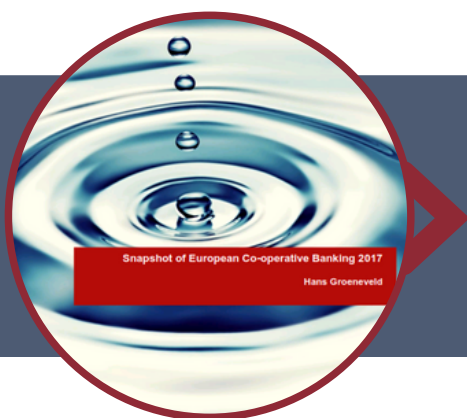
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Newsletter 2

Monday, 20th February 2017



3 questions to Prof. Hans Groeneveld, Professor at TIAS (Tilburg University)



Dear Prof. Groeneveld, you are the author of the new edition of the "Snapshot of European Co-operative Banking 2017" - to be distributed at the forthcoming EACB 7th Convention. According to your analysis, what is the performance of the sector today?

"In the Snapshot, I mainly focus on the average and relative financial performance of 18 European cooperative banking groups in 13 different countries in recent times. It is striking that the number of members has increased continuously over time. In 2015, cooperative banks welcomed 1.6 million new members. To date, 20 per cent of the population in 13 European countries is member of a cooperative bank. The last five years the average market shares on domestic banking retail markets have risen. I also conclude that their performance has almost always differed from that of entire banking systems. Overall, the indicators of cooperative banks are significantly less volatile. Their return on equity (ROE) shows a smoother development. In recent years, their ROE was higher than that of other banks. Despite the fact that cooperative banks operate with relatively dense branch networks, their average cost-to-income ratio does diverge much from that of all other banks and has come down considerably over the last few years. Whereas the loan portfolio of all other banks shrunk on balance during the same time span, the loan volume of cooperative banks increased. The latter findings point to the close connection of cooperative banks to the real economy. They are also less dependent on wholesale funding than other banks."

The publication has now reached its 3rd edition. The first one was published in 2014. What are the trends that emerge in those three years, what are the main changes and what is in your views the outlook for the future?



"On average, cooperative banks have shown a relatively strong performance. However, one can also clearly observe changes in their business models and range of activities. They have closed down branches, albeit to a lesser extent than other banks. They embarked upon cost efficiency programs, shed staff, and reduced or discontinued activities outside the cooperative core of their organization. At the same time, digitalization of distribution channels has accelerated. Other banks have reconsidered their business model and are more strongly focusing on retail banking. Hence, competition has increased for cooperative banks. This change in orientation is also stimulated by regulatory and supervisory measures. A few years ago, cooperative banks were definitely better capitalized than all other banks. In recent years, the tier 1 ratios of cooperative banks as well as entire banking sectors improved considerably. Hence, the resilience of banks to future shocks has ameliorated substantially. However, the tier 1 ratios of cooperative banks and entire banking sectors have converged. This holds for many financial indicators."



What are your key conclusions and what are your recommendations both to policy makers and to the co-operative banking sector?

"The ownership structure of banks influences the internal dynamics and business orientation of a bank. If member representatives are able and capable to exert a disciplinary effect on managers of cooperative banks and to determine the strategic course, their external orientation and market performance can be expected to deviate from those of banks with other ownership structures. It is important to realize that different ownership structures prevent the banking landscape of becoming monotonic. Too much uniformity in banking renders the sector vulnerable to shocks affecting all banks in the same way and to the same degree. Policy-makers and supervisors should, therefore, refrain from measures that eventually yield a strong convergence of business models, governance structures and scale of banks. This requires genuine interest in and an unbiased attitude towards different categories of banks."

- For **more info** about the 7th Convention,
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