



EUROPEAN ASSOCIATION  
OF CO-OPERATIVE BANKS

# 7th Convention on Co-operative Banks

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

28 March 2017 - Brussels

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## Newsletter 1

Monday, 13th February 2017

3 questions to Mr. Hervé Guider,  
Managing Director of the EACB



Dear Mr. Guider, as the Managing Director of the EACB, you have successfully hosted 6 editions of the Convention on Co-operative Banks, that has now become a milestone event for the sector. What will be this year's focus ? What are the main topics of this 7th edition ?

Indeed, the International Convention on Co-operative banks is a unique opportunity for leaders of co-operative banks to debate with policy makers and rule makers in charge of the design of the legislative framework. This event is also a platform for sharing good practices and experiences among co-operative banks and by this way to show the unbelievable capacity of co-operative banks to innovate and in many cases to be the front runners on their local markets. Co-operative banks are a community of men and women committed to serve the general good . All of them are aware that Europe is in danger and many questions about its functioning, its mains and finally its future are in question. In this context, the main topics of the 7th Convention will consider the impact of the regulation on the business models, the perspective of the digitalisation of the financial industry and last but not least, the future of Europe."

Why is it important for the EACB and the Co-operative Banks to hold such an event ? What are your expectations?

When we have announced to hold a convention on co-operative banks, many observers were skeptics. Co-operative banks were seen as an "old fashion business model" from the 19th century and not "able to play in the top league". We have made a lot of efforts to communicate on co-operative banks . The convention became more attractive and with the crisis there is more and more interest to hear the messages and the concerns of co-operative banks. The legislative agenda and the numerous position papers of the EACB have also raised the awareness of experts, rule makers on the specificities of co-operative banks. The aim of the Convention is to point out that co-operative banks are one of the key engine to finance the economy subject that their specificities are recognised by the legislator. We are not alone ! We are member of a large family and the cooperative sector is a strength for Europe. Proximity, ethics, behavior, solidarity are our values. That will be reminded in the course of the Convention.

**In a few words, why should delegates attend the 7th EACB Convention on 28 March in Brussels ?**

Cooperative banks know their members, know their client. To attend the Convention is to know your regulators, know your peers, know your Association. Is it not an exciting moment ?

## 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 co-operative 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, they 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.

## Newsletter 3

Monday, 27th February 2017

3 questions to Mr. Martin Merlin,  
Director of Regulation & prudential supervision of financial  
institutions - European Commission



**Dear Mr. Merlin, the European Commission is in the driving seat for defining the regulatory frontier. Which further developments you think could be expected, for instance for the macroprudential framework?**

The current EU macro-prudential framework has been established over time in a step-by-step approach, shortly after the outburst of the financial crisis, but preceding the establishment of the Banking Union. Therefore, to complement the CRR/CRD4 review, a review of the EU macro-prudential policy framework has been launched last year with a public consultation that lasted until October. The objective was to collect views of the different stakeholders on the functioning of the current framework in banking and beyond banking, the interaction between the different existing macro-prudential instruments and the way to further clarify and enhance the governance of the existing framework. A public hearing has been organized in early November and the responses to the consultation have been published in December. The existing macro-prudential framework is currently being evaluated and relevant areas are being impact assessed, which has to be done prior to any possible European Commission proposal or initiative. A possible proposal will need to maintain the right balance between national flexibility and EU coordination and control, to ensure the functioning of the Single Market.'

**In the recent CRR/CRD review package, the Commission introduced many elements to ensure more proportionality in the regulatory landscape. Which further steps the Commission has in mind, for instance in terms of a business model approach?**

Proportionality is at the core of the European Commission proposal on CRR and CRD4 published last November. The package provides measures that will reduce the administrative and compliance burden of smaller banks, which was the most important issue raised by banks in the Call for Evidence of 2015.



or very small banks, some of the current reporting or disclosure requirements did not appear fully justified from a prudential point of view. We have therefore proposed lighter disclosure and reporting only once a year for the smallest credit institutions.

The same is true for some requirements related to trading-book activities, which are often designed for banks with large trading activities, and not for small retail institutions. In such cases where we propose new, more complex methods to calculate capital requirements, we have made sure to provide simpler alternatives for banks that cannot cope with the new methods (derogation for banks with limited trading activities and use of a simplified method for banks with medium-sized trading activities).

Finally, our proposal also lightens remuneration rules for smaller banks, again with the aim to strike the right balance between alleviating the compliance burden and capturing within the rules those institutions which are relevant from a prudential perspective.

In the longer term, we also want to explore the possibility of introducing a distinct set of rules for smaller, less complex banks. But we have to keep in mind that simplifying the rules carries an important trade-off: simpler rules are usually less risk sensitive, and might therefore be calibrated more conservatively.

**In the EU regulatory framework cooperative banks have seen recognised many specificities reflecting the functioning of their well performing capital and liquidity structures. This approach is beneficial for the role of cooperatives as an element of financial stability. Do you see this regulatory approach as a steady point also for the future?**

The European Commission has always been very much aware of the need to preserve the diversity of the European banking landscape, and therefore paid much attention to take into account the specificities of the cooperative banks when transposing the Basel 3 agreements.

It is particularly true regarding the definition of own funds and the liquidity requirements. Indeed, cooperatives shares have been fully recognized as the highest quality of capital. In the LCR rules, specific treatments have been granted to cooperative groups. Our recent proposal on CRR includes similar provisions for the NSFR. The European Commission does not intend to take a step back on its approach towards cooperative banks. We will continue to ensure their peculiar business model is accommodated, as long as it does not mean lowering the prudential standards which apply to them.

## Newsletter 4

Monday, 6th March 2017

3 questions to Bruno de Saint-Florent,  
Partner, Oliver Wyman



**Dear Mr. de Saint-Florent, as Partner at Oliver Wyman you have produced several studies and analyses on the technological developments in the financial sector. Which developments do you see as the most disruptive in their effect on the European cooperative banks?**

Banks are proud to have built strong relationships with their clients. It is particularly true for cooperative banks as the relationship with their members is their very purpose.

#### **Four key developments have started to impact these relationships:**

- **Technology:** this includes the extension of digital access thanks to smartphones but also the development of APIs (Application Program Interfaces), which enable to connect information systems in a faster and effective way and to provide more relevant applications and services to the customers.
- **Customer behaviour:** the way customers interact with their banks and with peers both regarding transactions and regarding needs for advice is changing, along with the development of digital standards.
- **Regulation:** some key regulations, often with a customer protection angle, like MiFID or DSP2, are driving the development of new services
- **Fintechs and non-banks:** the competitive set is more diverse. Fintechs, like for instance accounts aggregators, but also digital players are leveraging all of the above trends to develop new services and position themselves between the banks and their clients.

Winning the battle of the relationship in this context is key. Cooperative banks have a particular angle to win that battle.

#### **What can cooperative banks learn from other industries that have been impacted by digitalisation ?**

Other industries with digital services (travel and hotel industries, music...) have already been transformed in a major way.

These industries are different in nature and less regulated than banking. Still, at least two key learnings can be transposed to banking:

- **The importance of keeping the relationship with the customer,** as hotel chains have experienced with the rise of booking.com. That might mean changing the customer promise (e.g. we will find the best solution for you even if it is not with our product) and articulating in a more distinct way the production and distribution activities.
- **The importance of having a customer experience in line with Digital standards:** simple, fast, relevant customer journeys. That can include the help of peers in identifying good solutions (something which echoes the cooperative bank legacy).

#### **What opportunities can cooperative banks draw from digitalisation keeping in mind their distinctive features (membership/proximity)?**

For most cooperative banks, proximity has meant geographic proximity. Most cooperative banks have local or regional banks, although some have organised around other dimensions like professions (e.g. teachers...).

The digital age opens the notion of proximity and community to new dimensions around any affinity groups but also in terms of common needs at a specific point in time (financial needs, needs relating to a personal project which include financial and non-financial dimensions: e.g. starting an independent professional practice for a doctor or expanding into e-commerce for a traditional shop keeper). This can be a way to expand the cooperative promise but requires to customize offers and to partner with third parties to expand services beyond pure financial services.

# Newsletter 5

Monday, 13th March 2017



## 3 questions to Wim Boonstra, Chief Economist, Rabobank

**Dear Mr. Boonstra, you are Chief Economist of Rabobank and author of numerous authoritative articles on banking, financial markets, international economics, business cycles and European Integration. What are your views on the current economical and political situation in Europe?**

Short term growth perspectives are slowly improving, but economic growth is not enough to create enough jobs and bring perspectives in Southern countries. Many member states, including Italy and France, lag behind in the implementation of economic reforms, which are necessary to improve economic conditions. And the political situation is highly uncertain. There are many elections on the agenda and the EU is rather unpopular. This is a dangerous mix.

**How do you see the evolution in the near future?**

The outcome of the elections in some European countries will be crucial. Just as important is the strengthening of the cooperation between Germany and France, aiming at a stronger European Union.

**What are your recommendations to policy makers and to co-operative banks leaders in this context?**

First and most important: stop abusing the EU as scapegoat for unpopular policies. Reforms are necessary in themselves, not because 'Europe' prescribes them. Second: improve the working of the European Union and make sure the population see the advantages. Third: this is not the time for grand political visions about the future of Europe. The political reality is that today the EU is highly unpopular and the most important mission therefore is damage control. So, redefine subsidiarity, strengthen cooperation where necessary and, don't build halfway houses (if you start something, finish it), end the Greek debt saga, and once there is political agreement about policy, live after them.

## CO-OPERATIVE BANKS AT A GLANCE

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CUSTOMERS



79<sup>Millions</sup>  
MEMBERS

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REGIONAL &  
LOCAL BANKS



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