

## European co-operative banks in 2023: a concise assessment

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*This snapshot presents the performance of 18 European co-operative banking groups on the one hand, and all their banking competitors on the other.<sup>2</sup> In the first place, co-operative banks welcomed 1.4 million new members in 2023. Membership for these banking groups now stands at more than 90 million for the first time. Full-time employment at co-operative banks rose by 1.5 per cent in 2023, the strongest increase since 2011. At the same time, co-operative banks were able to substantially strengthen their market positions. Their average market shares in domestic retail banking markets hit new record highs. This can be attributed to stronger loan and deposit expansion. This is consistent with the long-standing pattern that co-operative banks traditionally have higher average loan and deposit growth than other banks. In addition, all financial ratios of co-operative banks included in this paper showed substantial changes in 2023 compared to 2022. The average return on equity of co-operative banks jumped by 2.5 percentage points to a double-digit figure (10.1). This is somewhat higher than the ROE of all other banks (9.7). The average CI-ratio of co-operative banks displayed a startling drop of 7 percentage points to 52.9, the lowest level in many years. Their average Tier 1 ratio surged by a full percentage point to 18.1, breaking the 2021 record by 0.6 percentage point. The continued favourable economic climate and the improvement in the interest margin in banking due to monetary policy tightening are important drivers behind these large movements in the ratios.*

### 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 through 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 comprise a comparative analysis of the equally important non-financial performance of banks and is descriptive in nature.

### Robust member growth

In 2023, the collective member base increased by 1.5 per cent and exceeded for the first time the 90 million for the banking groups mentioned in footnote 1. Consequently, the member-population ratio continued its upward long-term trend and reached its highest level ever in 2023 (21.2). On average, more than 1 out of five inhabitants in the 13 European countries under review is a member of a co-operative bank.

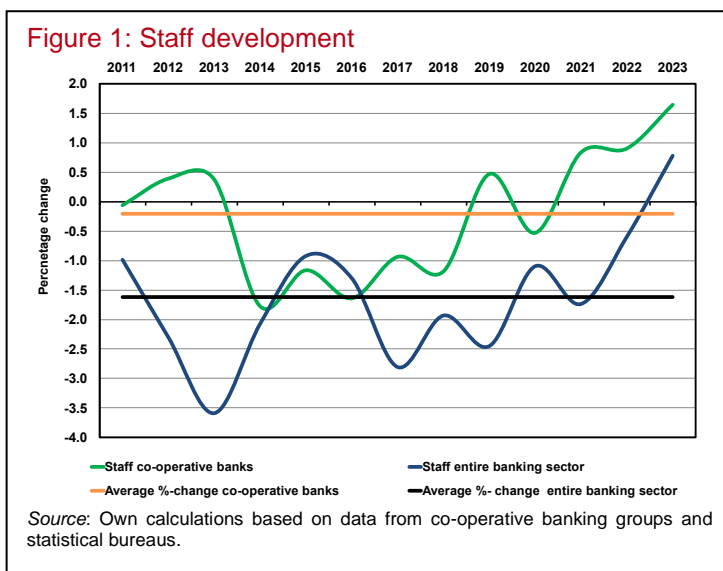
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An important note here is that membership has not been required to get financial services – such as a loan – for a long time in most co-operative banks. As said, customers can become members voluntarily. Obviously, this decision is only taken if customers are satisfied with financial services and products provided. If the latter prerequisite is met, customers also appear to choose membership because of particular benefits that ensue from the specific ownership and governance structure of co-operative banks. These co-operative benefits can be divided into four main categories: (i) direct member benefits, (ii) indirect member benefits, (iii) collective benefits for members' community, and (iv) benefits for society at large from the group's perspective. However, there are differences in the nature and number of advantages co-operative banks offer to their members and society at large.

The long-term decline in the number of local or regional co-operative banks continued in the year under review with a drop of 3.4% to 2,383. It is noteworthy that this consolidation has not been accompanied by a fall in bank employment. As in two previous years, full time employment at co-operative banks increased, but in 2023 by more than 1.5 per cent. (Figure 1). We would like to point out that this is an organic increase. Figure 1 also shows that employment in the entire banking sector has grown for the first time in the period displayed. Another notable aspect is that the average annual percentage decline in full time employment at co-operative banks has been virtually zero (-0.2%) in the period 2011-2023 (solid orange line). The annual average staff reduction at all other banks was almost 1.6% (solid black line) during this time span.



The branch network of co-operative banks shrank by less than 1%, while other banks closed 3 per cent of their bank branches in 2023. For years, co-operative banks have been downsizing their branch network at a much slower pace than all other banks. Data on bank closures illuminate important general banking trends, but also persistent differences between co-operative banks and other types of banks. Ongoing digitalization renders branch networks less important for the provision of standard financial services. However, co-operative banks also consider the on-site business to remain important to cater to members' and customers' needs and to ensure embeddedness in society as is evidenced by their high branch market shares.

### Robust loan and deposit growth

Mainly due to higher interest rates, credit demand by both SMEs and households weakened to some extent in 2023. Consequently, the total loan portfolio of co-operative banks grew by a moderate 2.6% in 2023 (4.9 per cent in 2022). Nevertheless, they still provided the real economy with fresh loans. This cannot be said of all other banks. Their outstanding loans contracted on average by 1.7 per cent, i.e., redemptions exceeded new lending. The disparity in lending developments is a structural phenomenon (see Figure 2) and signifies differences in bank business models and orientation, which are in turn connected to dissimilarities in governance and ownership structures of both type of banks. The solid blue line towers over the red one. During the 2011-2023 period, average annual lending growth of co-operative banks equals 3.7 per cent, which contrasts sharply with the average loan expansion of other banks of 0.8 per cent.

Divergent developments were also present in the deposit base in 2023. It is true that deposit growth at co-operative banks more than halved compared to last year (2.1%), but deposits actually decreased by

1 per cent in volume at all other banks. This is probably related to the diminished scope to save due to the sharply increased cost of living and rising product costs for businesses.

Developments in 2023 are in line with the long-term picture of stronger loan and deposit growth at cooperative banks. Like the loan portfolio, the deposit base of co-operative banks has expanded much more rapidly since 2011. The distance between the green dotted line and the purple dotted line also continued to increase in 2023.

The described loan and deposit developments have resulted in a

stabilization of the loan-deposit rate in recent years. For both categories of banks, this ratio currently hovers around 1, which is considerably lower than in 2011. This reflects the reduction in the proportion of typically riskier wholesale funding in the funding mix deemed necessary by regulators.

### Substantial rise in market shares to record levels

Due to higher loan and deposit growth, co-operative banks strengthened their market position in domestic retail banking markets. Loan market share increased by 0.3 percentage point to 23.6, whereas the deposit market share rose by as much as 0.5 percentage point to 22.8 (Table 1). The overall market strengthening is remarkable, as new record levels of market shares in key retail banking markets were reached for the third year in a row. The branch market share climbed by no less than 0.7 percentage point to 35.8. For years, co-operative banks have been downsizing their branch network at a much slower pace than all other banks.

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

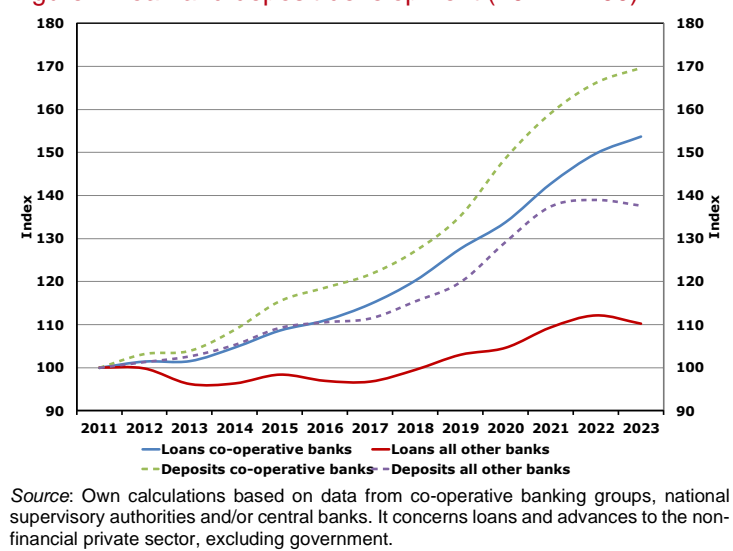
	2011	2015	2019	2021	2023	Change in percentage points (2011-2023)
Loans	21.2	22.1	23.0	23.1	23.6	+ 2.4
Deposits	20.9	21.4	21.9	22.2	22.8	+ 1.9
Branches	28.9	31.2	33.2	34.7	35.8	+ 6.9

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

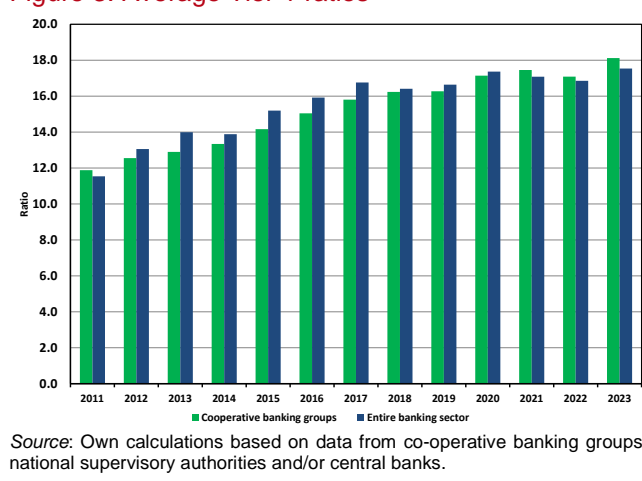
### Record Tier 1 ratio

The Tier 1 ratio compares the Tier 1 capital with the total of the risk-weighted assets (RWA) of banks. The average Tier 1 ratio of co-operative banks made a jump of a full percentage point to 18.1, breaking the 2021 record by 0.6 percentage point (see Figure 3). Other banks' ratio rose by 0.6 percentage point, also to a record of 17.5. The strong increase in the ratios was primarily caused by a robust spiralling of Tier 1 capital of more than 8% in co-operative banks and nearly 6% in other banks, respectively. This obviously reflects good economic performance and the high returns in 2023.

**Figure 2 Loan and deposit development (2011 = 100)**

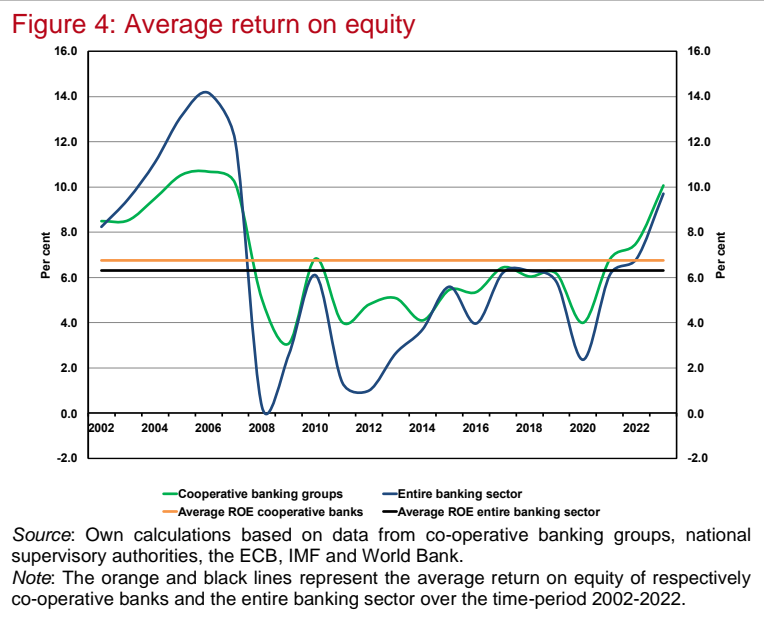


**Figure 3: Average Tier 1 ratios**



## Jump in return on equity

The average return on equity of co-operative banks ( $ROE_{COOP}$ ) increased by more than 2.5 percentage points to 10.1. As the chart shows, they realized a double-digit  $ROE_{COOP}$  for the first time since 2007, i.e. around the start of the Great Financial Crisis. The return on equity of the other banks ( $ROE_{EBS}$ ) also surged, but remained with 9.7 narrowly behind that of co-operative banks. The continued favourable economic climate and the improvement in the interest margin in banking due to monetary policy tightening are the main explanations for these higher returns. At any rate, the substantial rise in  $ROE_{COOP}$  was dominated by the numerator (i.e., net income) as the denominator (i.e., equity) increased by about 9%.



## Plunging cost-to-income ratios

Like movements in the numerator of the ROE (net profits), fluctuations in the cost-income ratio (CI-ratio) are linked to developments in profit and loss accounts (P&Ls). Specifically, the CI-ratio is calculated by dividing net operating expenses by net operating income. Due to economic and monetary circumstances described earlier, the average CI-ratio of both co-operative banks and all other banks showed its largest drop since 2011 (see figure 5). For co-operative banks, the ratio dropped by 7 percentage points to respectively 52.9. The average ratio of other banks turned out even slightly lower at 51.6. It appears that the increase in revenues was the largest contributor to this decrease, but operating costs were also slightly lower on average. The fact that the cost-benefit ratios do not significantly differ is noteworthy given the different business models and servicing concepts of co-operative banks versus other banks. Especially when one considers that they operate with a denser branch network and have increased the number of staff in recent years.

