TILBURG UNIVERSITY

European cooperative banks in 2021: a concise assessment

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This snapshot paints a picture of the economic and financial impact of the Covid-19 crisis of 2020/2021 on 18 European cooperative banking groups on the one hand, and all their banking competitors on the other.[2] Unfortunately, this health crisis has seamlessly transitioned into another crisis with far-reaching economic and geopolitical consequences: the war in the centre of Europe. Using the 2021 data as a reference point, we will briefly look ahead to the likely implications of current economic realities for the 2022 data. In any case, cooperative banks posted remarkably good results in 2021. The membership base continued to grow as ever. The number of members increased by 1.4 per cent to 88 million in 2021. The domestic market shares stabilized at record levels. The average Tier 1 ratio even reached a new all-time high of 17.3. The cost-to-income ratio improved considerably by 2 percentage points to 62. The average return on equity of both co-operative banks and all other banks rose to the highest levels in years (i.e., 6.8% and 6.5%, respectively). The disparity in lending and deposit growth between cooperative banks and the collective banking sector is a structural phenomenon. Loan growth of cooperative banks accelerated sharply to 6.7%, i.e., the largest expansion since 2011. The whole banking sector increased its loan portfolio by 4.1%. The deposit base of cooperative banks and all other banks grew by 7% and 5.9%, respectively.

Background

In various respects, cooperative 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 cooperative and can play an active role in the governance at the local and/or central level. Cooperative banks are characterised by a dispersed ownership and they build their equity base primarily through retained earnings.

This document records aggregated financial data of cooperative 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 cooperative banks act. This enables us to compare the consolidated financial performance of cooperative 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.

Steady member growth

Most cooperative banking groups did not witness any specific impact of the Covid pandemic on member development in 2020/2021. In 2021, the collective member base increased by 1.3 million to 88 million. This represents a net rise of 1.4 percent. The average long-term expansion of the number of memberships lies around 2 per cent per year. The member-population ratio continued its upward long-term trend. In 2021, the ratio hit 21 for the first time. On average, more than 1 out of five inhabitants in the 13 European countries under review is a member of a cooperative bank.

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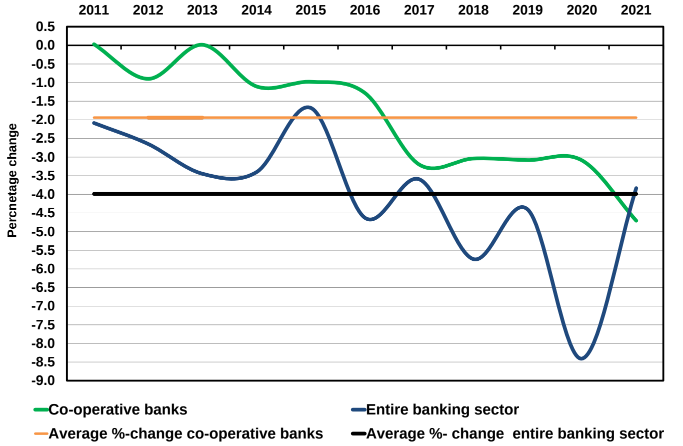
[2] Financial Group of the German Volks- und Raiffeisenbanken (Germany), Austrian Volksbanken Group (Austria), Raiffeisenbanken Group (Austria), Federazione Italiana delle Banche di Credito Co-operativo-Casse Rurali ed Artigiane (Italy), Unión Nacional de Co-operativas de Crédito (Spain), Banco de Crédito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

The long-term decline in the number of local or regional cooperative banks continued in the year under review with a drop of 3.6 per cent to around 2,575. Adjusted for the acquisition of a financial player by one cooperative bank, the number of full-time employees at cooperative banks showed an increase of 0.5 per cent. Employment at all other banks dropped considerably by 4 per cent.

The branch network of cooperative banks shrank by almost 5 per cent, compared to around 4 per cent at other banks. This is exceptional as branch closures are usually higher at other banks (Figure 1).The orange solid line shows that the average branch reduction at cooperative banks is close to 2 per cent since 2011. The solid black line demonstrates that all other banks on average close down 4 per cent of their branches every year. These figures illuminate important general banking trends, but also persistent differences between cooperative banks and other types of banks. Ongoing digitalization renders branch networks less important for the provision of standard financial services. Most cooperative banking groups assert that the Covid-19 crisis has affected their distribution channel strategy. The most pronounced change is an accelerated use of digital offerings. However, cooperative 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.

Figure 1: Branch development

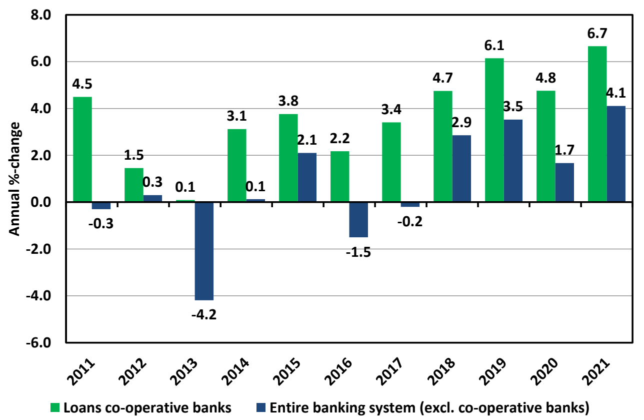


Source: Own calculations based on data from co-operative banking groups and statistical bureaus.

Robust loan and deposit growth

Limited economic damage from successive lockdowns and rebounding economies fuelled buoyant credit demand by both SMEs and households. Cooperative banks accommodated this credit demand to a greater extent than all other banks. The loan portfolio of cooperative banks grew substantially by 6.7% in 2021. This marks the highest credit growth since 2011 (Figure 2). All other banks extended their outstanding loan volume by 4.1%. The disparity in lending growth is a structural phenomenon. The green bars always tower over the blue ones. This reflects the divergent orientation of cooperative banks in banking. Since 2011, the cumulative lending growth of cooperative banks stands at 43 per cent. The credit volume of other banks was almost 9 per cent higher than in 2011.

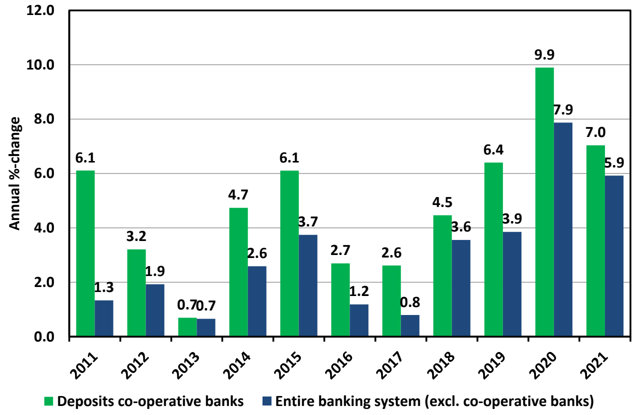
Figure 2: Loan development



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 deposits of both categories of banks decelerated compared to 2020. This is not surprising given increased consumer spending and private investment. Cooperative banks' deposits increased by 7%, while other banks experienced deposit growth of 5.9%. This is still the second highest rise in the last decade. Like the loan portfolio, the deposit base of cooperative banks has expanded much more rapidly since 2011. Over the period 2011-2021, the deposit base of cooperative banks increased by 59 per cent compared to 37 per cent of other banks. The described loan and deposit developments resulted in a slight reduction of the loan-to-deposit ratios to around 0.9 for both cooperative banks and all other banks.

Figure 3: Deposit development



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

Stable market shares

The average domestic market shares of cooperative banks remained at the record levels. The loan market share stabilized at 23.1, whereas cooperative banks slightly improved their market position in domestic loan markets to 22.3 (Table 1). After an exceptional rise in 2020, the branch market share fell slightly by 0.2 percentage points to 34.7, due to a relatively larger downsizing of their branch networks in 2021.

Table 1 Average domestic market shares of cooperative banking groups

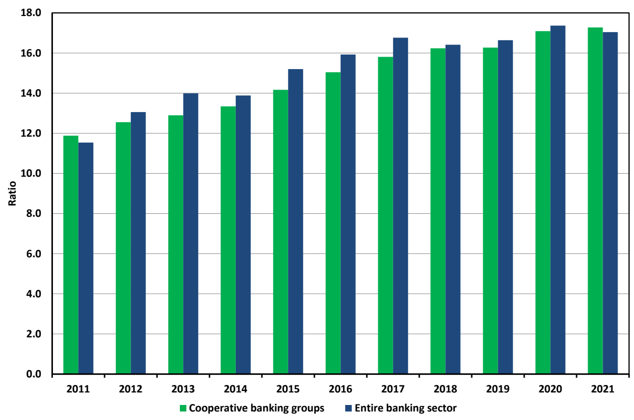
	2011	2013	2015	2017	2019	2021	Change in percentage points (2011-2021)
Loans	21.2	21.8	22.1	22.6	23.0	23.1	+ 1.9
Deposits	20.9	21.5	21.4	21.5	21.9	22.3	+ 1.4
Branches	28.9	30.4	31.2	32.1	33.2	34.7	+ 5.8

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

Tier 1 ratio record

In first Covid-19 pandemic year, the whole banking sector was able to strengthen its capitalisation. In 2021, the average Tier 1 ratio of cooperative rose even further to a record level of 17.3, while this ratio at all other banks fell by 0.4 percentage points to 17 (see Figure 4). These opposite developments can be largely explained by differences in equity growth. Net equity building by cooperative banks amounted to 6.2%, while the collective banking sector expanded its equity base by 4%. Nevertheless, the ratios of both type of banks on balance improved over the Covid-19 years, reflecting enhanced stability and resilience in banking. The capitalisation of banks has thus not come under pressure as the initially expected credit losses did not materialise due to extensive government support for companies. Moreover, the longer-standing picture of convergence of ratios at high levels remained intact. This fact also means banks have strong capital buffers to cope

Figure 4: Average Tier 1 ratios

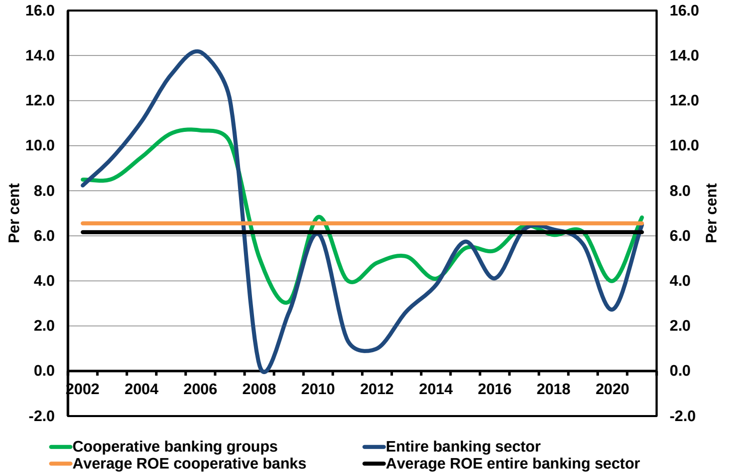


Source: Own calculations based on data from cooperative banking groups, national supervisory authorities and/or central banks.

with the economic headwinds caused by the war in Ukraine and the sharp tightening of monetary policy to curb the massive inflation caused by this war in the coming years.

Rebound of return on equity

Figure 5: Average return on equity



Source: Own calculations based on data from cooperative banking groups, national supervisory authorities, the ECB, IMF and World Bank.
Note: The orange and black lines represent the average return on equity of respectively cooperative banks and the entire banking sector over the time-period 2002-2021.

The rebound of economies due to strong catch-up consumer demand and better-than-expected performance of companies translated into a jump in bank profitability after a decline in 2020 (Figure 5). The return on equity of cooperative banks (ROE_{COOP}) increased from 4% to 6.8%, thus exceeding the long-term average ROE of 6.6% for the first time since 2011. The average ROE for the collective banking sector (ROE_{EBS}) recovered even stronger from 2.7% in 2020 to 6.5% in 2021. In fact, ROE_{EBS} reached its highest level since the Great Financial Crisis. Figure 5 underscores three other noteworthy facts. First, ROE_{COOP} displays systematically smaller fluctuations than ROE_{EBS}. This can be largely attributed to the cooperative banks' predominant orientation towards retail business lines, generating milder revenue swings. The second eye-catcher is the synchronicity of ROE_{COOP} and ROE_{EBS} as from 2014. This hints at a – partly banking regulation-induced – convergence in business orientation and risk appetite in recent years. The third salient point is that ROE_{COOP} has almost always surpassed ROE_{EBS} since 2008. This explains why the solid orange line (average ROE_{COOP}) lies slightly above the solid black line (average ROE_{EBS}).

The main explanation for the uptick in the ROE_{COOP} can be derived from the aggregated profit and loss account (P&L) of cooperative banks as their equity base expanded sharply as previously mentioned. It appears that loan impairments as a percentage of total assets dropped from 0.24 in 2020 to 0.10 in 2021, thereby boosting net surpluses in ROE's nominator. In the first Covid-19 year, cooperative banks prepared for sizeable loan losses as a result of various economic lockdowns. The envisaged surge in non-performing loans did not materialise in 2021, partly due to generous state support in many countries. As impairment expectations abated, some cooperative banks reversed a considerable portion of these loan provisions in 2021. At the same time, cooperative banks acknowledged that some (SME-)firms or economic sectors may have only survived as a result of government intervention but could in fact be 'zombie firms', i.e., financially or economically inviable businesses. This risk has been heightened by the anticipated economic recession caused by the war in Ukraine and soaring food and energy prices. Therefore, for 2022, a decline in profitability and ROE is predicted.

Sharp fall in cost-income ratio

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&L). Specifically, the CI-ratio is calculated by dividing net operating expenses by net operating income. The average CI-ratio of both cooperative banks and all other banks fell by more than 2 percentage points in 2021. The aggregated cooperative banks' P&L reveals that a moderate drop in operating expenses and a slight increase in operating revenues caused a fall in the CI-ratio of co-operative banks to 62, i.e., the lowest level since 2014. The average CI-ratio of entire banking systems was around 2 percentage points lower (60.2), i.e., the lowest level since 2010.