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EUROPEAN ASSOCIATION OF CO-OPERATIVE BANKS

The Co-operative Difference : Sustainability, Proximity, Governance

EACB Newsletter

On February 15th, the UK's Cooperative Councils Innovation Network had organized a conference to debate different aspects of the economic recovery after the Covid crisis. One major session was dedicated to the topic "*New Economic Thinking – Regional community Banks*". EACB CEO Nina Schindler had been invited to share in a keynote speech her reflections on the co-operative banking sector in Europe, decentralised banking and the benefits for local communities. This version of the newsletter is taking up this issue and is focusing on the developments regarding regional banking in the UK.

Message from the CEO, Nina Schindler

In most European countries, regional banks with a strong focus on the financing of private households and SMEs present also outside larger cities are an established part of the national banking market. In many regions in Europe, in particular co-operative banks are an integral part, if not even the backbone, of the local economy. A decentralised approach to banking is an essential part of their mission to promote the economic interest of their members and support local communities. Nowadays, it is generally accepted that an adequate offer of financial services on site is essential for the endogenous development potential of a region. Certainly, digitalization, increasing costs and pressure on margins make a physical "brick-and-mortar"-presence a more and more challenging concept, but there is broad consensus among co-operative banks that the responsibility of their mandate remains valid and that a close contact to the local members/customers has to be maintained beside the investment in new channels in order to adequately service their financial needs.

During the conference of the Cooperative Councils Innovation Network it became evident that, an increased number of local politicians see an urgent need for regional banks in the UK which are focussed on the local economy, on financing local entrepreneurs and business ventures as well as on ensuring a financial flow within regions as an important condition for local development. Today, there are numerous initiatives in the UK, which aim to establish local mutual/community banks in various areas of the country. Many of those initiatives are particularly inspired by the co-operative networks and groups in continental Europe. From an

EACB perspective, this only seems to confirm that co-operative banking as practiced in continental Europe is a future-oriented concept, capable to stimulate effective allocation of financial resources and to build a robust economy across all parts of a country.

3 Questions to
Councillor Matthew Brown,
Leader of the City Council (Plungington Ward) Labour,
Preston City Council

Matthew Brown has been a Labour Councillor in Preston since 2002 and Leader since 2018. He is the driving force behind the 'Preston Model' of Community Wealth Building. Matthew led the way for Preston City Council to become accredited as a Living Wage employer and to commit to setting up a North West Regional Bank in partnership with Liverpool and Wirral Councils. Matthew has also been at the forefront of initiatives to develop the cooperative economy in Preston through the establishment of Preston's Cooperative Development Network (PCDN) in 2017 and by securing funding last year from the Open Society Foundation for a project to support cooperative development, in partnership with the University of Central Lancashire.

The UK is a country with a strong banking sector. Despite of this there are numerous initiatives to set up local co-operative or community-owned institutions. What is the reason for this development?

It is arguable the UK banking sector is 'strong' as it is currently one of the least diverse and many of the large retail banks have sizeable government stakes after the financial crisis 15 years ago required them to be bailed out by the general taxpayer.

The reality is there is a system problem with our current banking system delivering a reality on the ground in which large banks are withdrawing from our high streets and there continues to be a dearth of lending to local businesses and on some occasions individuals especially in less well off communities.

The growing support for establishing new regional co-operative banks comes from this reality and takes inspiration from best practice examples of how banking works well for communities most notably in Germany and elsewhere in Europe.

How advanced are those projects and what are their aims?

The new community banks are at various stages but what is particularly exciting is there are plans to ensure around one third of the UK will be covered by the initial tranche of them.

As Council Leader in Preston I have been involved in helping support the establishment of the North West Mutual. North West Mutual has a structured business plan and are registered as a co-operative. They established a board with banking experience and developed a 'test bed' of infrastructure including ATM's and virtual delivery of banking services.

Other banks are even further advanced. Banc Cambria is expected to formally launch next year across the whole of Wales and the Avon Mutual is at the challenger stage of applying for a license from the Financial Conduct Authority (FCA).

Each banks has a regional coverage of around 3 million people. It is envisaged, under cautious assumptions, the establishment of around 30 new branches in each region after an 8 year period and lending of between £600 million and £1.2 billion.

What are the difficulties and what approaches are envisaged?

One of the biggest difficulties is the economic culture in the UK which for decades has had quite neoliberal in mindset with little political support for a fairer and more democratic banking sector. However, in the last few years with austerity and some determined players regionally this has changed and support for community banks is now even receiving cross party interest.

My understanding is it has now become a little easier for new entrants to the banking sector including community banks. I feel very positive around their prospects of success commercially as there is a big gap in the market for lending to small, medium and micro businesses.

Finally, it is important to state this work is being done to expand democracy in the financial sector and not at the expense of existing building societies, credit unions and CDFI's Community Banks will be tasked to collaborate with. However, the reality is to bring much of what is needed to scale a licensed banking alternative has the flexibility and freedoms to expand that economic democracy.

Second Opinion from
Robin Fieth, Chief Executive of the UK Building Societies Association

Robin Fieth joined the Building Societies Association (BSA) as Chief Executive in December 2013. Previously he was Executive Director, Members and Operations at the Institute of Chartered Accountants in England and Wales (ICAEW). Robin originally joined the ICAEW in 2002 as Director of Finance. During his career, he has also held a number of other senior positions in the corporate sector, including Group Finance Director and Company Secretary at AIM listed Transacsys plc. He spent the first 10 years of his career with PwC. Robin is a fellow of the ICAEW, a non-executive director of Co-operatives UK, a member of the General Assembly of the European Association of Co-operative Banks, and Chair of the CBI's Trade Association Council.

The UK does not have a strong tradition of general purpose co-operative and mutual banking. As Nina Schindler said in her CCIN speech, even the Cooperative Bank was a public company limited by shares, but wholly owned by the Co-operative Group until its rescue in 2013.

The UK's mutual banking tradition was founded around 1775 through the building society movement – customer owned savings and loans organisations devoted to enabling their members to buy their own homes. The UK's credit union tradition is much newer, the earliest being just under 60 years old.

Arguably, the absence of UK co-operative banks focused on transactional and SME lending contributed to the lack of available small business finance in the aftermath of the 2008 Global Financial Crisis. At a time when the major UK banking groups were repairing their balance sheets and withdrawing lending from whole sections of the economy, building societies filled the gap in residential mortgage lending, but there was no one to fill the gap in SME lending. Many small businesses learnt to survive without access to loan finance, but almost certainly at the cost of pursuing lower growth strategies – individually the right thing to do in the circumstances, but collectively contributing to the UK's sluggish economic recovery from those dark days.

And hence, we see a good case in principle for new co-operative and community banks to enter the UK market alongside the 26 start-up challenger banks that have been a strong feature of the UK banking scene since the Prudential Regulation Authority (PRA) was encouraged by the government to facilitate new market entrants. Indeed, from informal discussions, it is clear that the PRA would welcome applications for new banking licences from co-operative and community banks, and from building societies too.

But, and there is quite a big "but", establishing and running a successful co-operative or community bank is every bit as challenging as running any other sort of bank, with some added dimensions. In essence, banking has to be profitable to succeed in the long term. The basic rules of finance dictate that loss-making businesses ultimately fail. Building societies know this well – and have long histories of achieving surpluses through world wars, global depressions, financial crises and most recently, global pandemics. As successful European co-operative banks have also demonstrated, it is primarily the accumulation of retained earnings over generations that provides the regulatory capital to sustain and grow the business.

Notwithstanding the PRA's excellent Strong & Simple initiative to deliver a far more proportionate prudential regime for smaller, simpler building societies and banks, we see two particular barriers to mobilising new mutual banks: access to appropriate start-up capital; and recruitment of experienced management teams with expertise in co-operative banking. In the community banking world, the second of these challenges may be less problematic, at least in the early days, if skilled professionals are willing to contribute their experience in giving back to their communities. Capital does look more problematic – potentially having to rely on philanthropy or (local) government funding. In short, sources of risk capital that seek only a bond like return, if any return at all.
One novel approach currently in train, and worth watching closely, is the Banc Cambria initiative led by Monmouthshire Building Society and supported by the Welsh Assembly.

It is still early days, but perhaps this joint initiative to develop community banking across Wales, points the way to the beginning of a new chapter in the UK's history of co-operative and community banking.

EACB latest publications:

- Conclusions from the Joint Workshop "Access to better technology for (Supervisory) Reporting"
- Joint Payments Industry Letter on the Final EDPB Guidelines on the Interplay between PSD2 and GDPR
- EACB comments on BCBS Principles for the effective management and supervision of climate-related financial risks
- EACB comments on EBA Discussion Paper on Machine Learning for IRB Models (EBA/DP/2021/04)
- "European co-operative banks in 2020: a concise assessment" by Tilburg University
- Key Statistics 2020 for Co-operative Banks are out !
- CALL FOR PAPERS | 10th EACB Award for Young Researchers on Co-operative Banks
- Press release - EACB honours the winners of the 9th EACB Award for Young Researchers on Co-operative Banks

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