# Cooperative banks' contribution to the future of europe

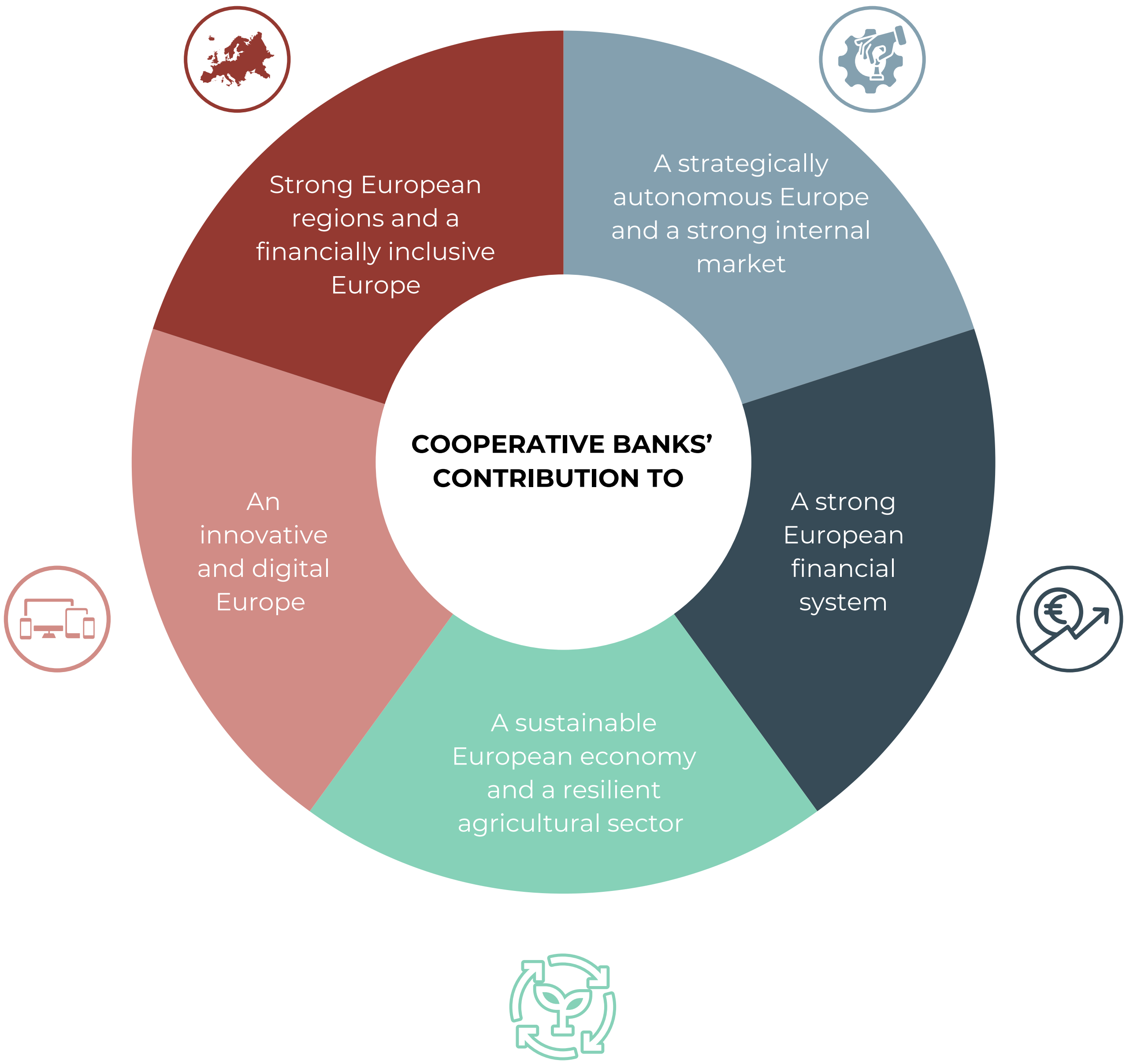
## Towards Single Market 2.0 and European Competitiveness

EUROPEAN ASSOCIATION
OF CO-OPERATIVE BANKS

# Executive summary

Cooperative banks play a vital role strengthening Europe's regional economies, enhancing its financial and capital markets, fortifying its strategic autonomy globally, and financing Europe's sustainable and digital objectives. As cooperatives, they are key agents of the EU Social Economy Action Plan.

The preservation of the contributions that cooperative banks are able to offer will shape Europe's future. This **Manifesto** offers recommendations directed towards regulators and legislators, to foster an environment that will allow Europe's companies and citizens to reap the benefits of the cooperative banking model and contribute to a more competitive and resilient single market.



# Our recommendations to ensure cooperative banks' contribution to...

## Strong European regions and local communities and a financially inclusive Europe

- Promote a **diverse banking landscape** that allows both big European champions and **strong regional champions** to develop.

## A strategically autonomous Europe and a strong internal market

- **Curb financial legislation**, assess the combined impact of regulation, keep an eye on interactions, consistency, and consider the principle of proportionality.
- Translate the principle of **proportionality** into **concrete measures** enabling member-based banks, such as cooperative banks, to continue to bring value to their members even if they are regionally focused and smaller in size.
- **Balance market intervention and competitiveness**: scale back on price intervention tendencies (e. g. digital euro, retail investment strategy, FIDA, PSR, Consumer Credit Directive) to allow financial institutions to build long-term and sustainable business models for their individual operations.
- **Revisit the policy making process**: move away from detailed rule-based approaches towards more **principle-based**, less technocratic policies and legislation. Embrace a **"less is more"** philosophy, allow sandboxing for banks, and test new legislation based on its ability to enhance European **competitiveness**.

## A strong European financial system taking advantage of what Europe's banks and financial markets can offer

- Improve the current **EU Securitisation Framework** and explore the potential of **European Secured Notes.**
- Ensure **coherence between market objectives and prudential rules.**
- Enhance **tax incentives/ review withholding tax measures** to promote interest in Long-term Investment Instruments.
- Introduction of **cost sharing groups** for all kinds of services, in particular for financial services by amending Directive 2006/112/EG.

# Our recommendations to ensure cooperative banks' contribution to...

## A sustainable European economy and a resilient agricultural sector

- **Align** components of the **EU sustainable finance framework** to ensure their broad uptake and application.
- **Allow more flexibility in corporate sustainability reporting** for cooperative banks to measure their social impact and report on the benefits and performance specific to their business model.
- Adapt the **Supervisory framework** to facilitate the financing of green **transition** activities in banks' portfolios.

## An innovative, digital yet fair Europe

- **Delineate** clearly between the role of supervisors and market players.
- Ensure **data sharing** takes place in a **secure** and clear **framework** that guarantees consumer **consent**, leverages GDPR legal bases, supports **viable business models** for all participants in the data value chain, and adopts a **gradual approach**.
- Align future **AI guidelines** with existing **banking** practices and already **risk management** frameworks.
- Conduct an **in-depth assessment** of the **potential impact of the digital euro** on the financial system, banks, and the credit market.
- Adopt a **comprehensive approach to the fight against fraud**, addressing its root causes, involving all parties in the value chain, and supporting public-private partnerships and information exchange.

# Introductory comments

In the coming years, Europe will need massive investments to establish sustainable growth, support the green transition, drive digital transformation, and reinforce economic security and defence efforts. It is estimated[1] that approximately 1,5 trillion euros per year is needed to fund the clean transition alone. These amounts surpass the capacity of the public sector and must be met by the private sector through a combination of bank and capital market financing.

This requires strong and diverse banks capable of serving both pan-European and local projects. According to the 2023 report by the high-level Group on the future of Cohesion Policy, more than 60 million EU citizens live in regions with GDP per head lower than in 2000. An additional 75 million live in regions with near-zero growth. Collectively, about 135 million people, nearly one third of the EU population, live in areas that, over the last two decades, have slowly fallen behind. Beyond European banking champions, strong local and regional banks are essential to finance the needs of local communities.

On the other hand, we need deep and liquid capital markets that attract and retain European retail investors. The latter is particularly important as Europe tends to export its savings to the United States and Asia rather than investing them in its own capital markets.[2]

Europe's ambitions for sustainable growth, the green and digital transitions, and strategic autonomy call for a policy environment that fosters the competitiveness of its economy and financial players, including banks. This necessitates a single market that supports new businesses, allows European companies to be profitable and grow into champions, whether in industry or finance, and values the strength of the local economy. European champions will only emerge from a fabric of thriving and innovative companies of all sizes.

Over the past decade, the EU has become world champion in regulation. In the next decade, Europe must become the world champion in competitiveness. Achieving this requires revisiting the current accumulation of regulation.

"***Our response [to CHINA and the US] has been constrained because our organi-sation, decision-making, and financing are designed for the world of yesterday***"

"***But we need a European Union that is fit for today's and tomorrow's world. What I'm proposing... is radical change.***"

"***Most of the investment gaps will have to be covered by private investments***".

M. Draghi at a conference on European social rights in La Hulpe, Belgium, on April 16, 2024.

**The following pages outline how cooperative banks can contribute to achieving Europe's ambitions and the key measures necessary for them to deliver their contributions.**

# Cooperative banks' contribution to strong European regions and local communities and a financially inclusive Europe

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Europe hosts a wide range of economic activities that **extend beyond its capitals** and multinational corporations. According to the latest census, about 40% of Europe's population lives in cities, while 30% reside in rural areas[3]. Although many major economic players are concentrated in urban centres, Mr Letta's recent report revealed that 78% of EU GDP actually originates outside large core cities[4]. Therefore, **regional economies are a vital part of Europe's economic landscape**. When they are not strengthened, the entire economy is at loss.

The same holds true for **SMEs**, which make up an overwhelming 99% of all EU businesses[5], employ almost two-thirds of the EU workforce, and contribute over half of its value-added[6]. SMEs are crucial for fostering a **social market economy** that prioritises people, enhancing regional social cohesion. They are also key drivers of **innovation**, disseminating solutions across businesses, communities and economies. **Ensuring the financing of SMEs is essential for addressing future challenges, such as climate change.**

To provide adequate financial services to its regions and SMEs, Europe needs not only pan-European financial champions but also regionally rooted **financial institutions and banks specialising in consumer and SME finance**. Regionally oriented banks are better at understanding local needs and social dynamics, supporting regional development objectives and ensuring sustainable growth in the long term.

But the benefits of a diverse banking landscape extend beyond regional boundaries. A diverse banking sector, with strong regional banks, leads to **a more stable financial system due to different business models and approaches, such as mitigating risk from stock market fluctuations**. Diversification enhances the financial systems' resilience to shocks, providing economic stability. Compared to more homogeneous banking systems, a diversified banking market demonstrates greater adaptability and robustness. Finally, a diverse banking system contributes to European sovereignty by ensuring that financial markets operate efficiently and independently.

The social benefits are also invaluable. **Amid the ongoing digital shift, it is crucial that citizens and businesses in even the most remote areas have access to financial services and human interaction when so desired**. Cooperative banks remain responsive to local needs, promote financial literacy, and provide effective support to customers in their green and digital initiatives. They also want to continue offering extra assistance to those less comfortable with technology or who prefer traditional methods. While the digitalisation objective is important, the journey toward it must prioritise these enduring values.

Cooperative banks are ideally positioned to ensure that the benefits of the global economy are distributed equitably to regions and communities as they progress.

## Recommendations:

- For Europe to grow stronger, it's imperative to ensure that every corner of Europe can partake in its economic growth potential. To achieve this, we need to **promote a diverse banking landscape** that allows **both big European champions and strong regional champions to develop**.

# Cooperative banks' contribution to a strategically autonomous Europe and a strong internal market

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**Cooperative banks** have long **invested** in Europe's single market, by systematically **implementing** financial legislation but also by **voluntarily** working towards standardisation of business processes required to lay the groundworks to improve European payments and investment services[7]. More recently, cooperative banks were involved in the launch of the European Payments Initiative (EPI), which aims to develop a home grown European payment champion. And they want to continue to do so. But their experience with **regulation**, especially in the last 15 years or so, has been **overwhelming** with **constantly increasing, ever extending, ever more detailed legislation encroaching upon the commercial freedom.** This leads them to think Europe needs considerable **changes to its approach** on policy development.

The current European regulatory landscape aims to make Europe stable, secure, on the forefront of innovation and protective of its citizens. On the other hand, it can also be perceived as very risk adverse, highly prescriptive, invasive, costly and heavy. This has significant implications for Europe's competitiveness, strategic objectives and financial needs.

### A need to curb financial regulation

Ensuring a sound financial system that promotes EU growth is crucial. But it's equally vital to assess how the regulatory reforms of the past decade have shaped and will shape our economy. **Coherent evaluation** of the numerous **capital and liquidity rules** enacted since the great financial crisis is essential to avoid duplications, inconsistencies, procyclical and contradictory elements. Continuous **assessment** of **reporting regulation** in number and quality would be meaningful.

Moreover, the **combined impact** of legislative initiatives[8] that directly intervene in the product development, business processes and innovation capacity of banks must be evaluated. It's important to realise that, together, they heavily impact commercial freedom and strain companies resources.

Regulation should be less complex and adequately adapted to all types and sizes of banks to respect the principle of **proportionality**. It should not create an administrative burden that drives especially smaller cooperative banks out of the market thereby compromising diversity. Nor should it force larger banks to comply with overly complex standards where unnecessary (e.g. de minimis). A more diverse approach to regulation and supervision, ensuring a level playing-field for banks of different sectors and sizes, should be considered (e.g. „simple but strong"). Avoiding a 'one size fits all' approach is crucial.

Adopting a **holistic approach to European financial regulation** is then essential, assessing it's impact on the diversity and competitiveness of the banking landscape.

This evaluation should also include how these changes influence financing for Europe's transitions, regions and households, as higher credit costs will particularly affect lower income citizens.

### Balancing market intervention and competitiveness

Recent proposals emphasise cost efficiency but also include interventions in the market that could be viewed as a form of **price regulation**. For example, the Retail Investment Strategy limits the ability to pool costs and cross-subsidise services across different client profiles, and continue to offer certain services to all. Instead encouraging cherry picking. Other proposals, such as the Payment Services Regulation, Financial Data Access, and the digital euro, limit the possibility to get a proper return on investment.

Striking the right **balance** between regulatory **intervention, regulating innovation and ensuring a level playing field is crucial**. We must ensure that all actors in the financial sector remain competitive while meeting diverse financial needs. **Competitiveness without profitability is not sustainable**.

### Level playing field

Applying comparable obligations to both **banks and non-bank financial service providers** is important to maintain a level playing field. These obligations should cover aspects like financial inclusion, access to cash, paper-based services, and branch availability. Alternatively, fair compensation should be ensured, especially for essential public services provided.

### Revisit the policy-making process

Recent European legislative proposals often focus on specific conduct or practices, employing a rule-based approach that specifies detailed actions for banks and adopts an increasingly technocratic and bureaucratic stance. However, policymakers must carefully consider the impact of these proposals on innovation, flexibility and long-term effectiveness. Policy design should allow both regulators and management sufficient time to address the most critical tasks and risks, favouring a return to a **more principle-based approach**. Principle-based regulation empowers banks to navigate complexity, adapt to changing environments, and prioritise outcomes that benefit both the sector and society at large . This approach should be complemented with regulatory sandboxes, allowing banks to experiment with new approaches, technologies and innovations.

Incorporating a **competitiveness check** is crucial to guide legislative proposals. This check should evaluate factors such as cost, price, international competitiveness, innovation capacity, SME impact and other social values. Importantly, it should cover a wide spectrum of areas, including legislative initiatives, level 2 regulations, strategies, programs and international agreements. Ensuring representation of the business community in competitiveness assessments is also important to avoid complacency.

Finally, concerns arise regarding the **proliferation of level 2 acts.** While some increase is inherent to the regulatory process, which foresees different levels of legislation, authorities at times overstep their mandate, giving rise to increasing difficulties in managing implementation.

We encourage co-legislators to adopt a **"less is more"** approach, demonstrating the European Union's commitment to eliminating unnecessary bureaucracy and inefficiencies, reducing overlaps and designing policies that effectively serve their purpose. It will be key to reduce fragmentation of the Single Market and ring-fencing if we want to improve competitiveness.

## Recommendations:

- **Curb financial legislation**, assess its combined regulatory impact, keep an eye on interactions, consistency, and consider proportionality.
- **Translate the principle of proportionality into concrete measures** enabling member-based banks, such as cooperative banks, to continue to bring value to their members despite being regionally focused and smaller in size.
- **Balance market intervention and competitiveness**: scale back on price intervention tendencies (e. g. digital euro, retail investment strategy, FIDA, PSR, Consumer Credit Directive) to allow financial institutions to build long-term and sustainable business models for their individual operations.
- **Revisit the policy making**: move away from detailed rule-based approaches towards principle-based, less technocratic policies and legislation. Embrace a "less is more" philosophy, allow sandboxing for banks, and test new legislation based on its ability to enhance European competitiveness.

# Cooperative banks' contribution to a strong European financial system that takes advantage of what Europe's banks and financial markets can offer

# Cooperative banks' contribution to

## ...a strong European financial system that takes advantage of what Europe's banks and financial markets can offer

A deep and liquid European capital market, complementing traditional credit financing with a diverse banking sector, are crucial to attract the investments needed to finance its defence, the digital and green transitions, to help small and innovative companies grow, and to keep European savings invested in Europe. Despite many initiatives to bolster European capital markets, **Europe's global market share has declined to 10%**. The share of European funds in the overall funds market fell to 22%, compared to 70% of the US. Looking at the banking sector, we observe that US corporate banks dominate the European market with nearly 50%, while European banks hold only 35%. Conversely, European banks have a only marginal market share in the US.

This indicates that we need a radical **change in approach.** Cooperative banks propose to:

1. Focus on **increasing the capacity of European companies, financial institutions and capital market participants to compete globally.** This should translate into a change in legislative process as described in the previous chapter.

2. Conduct a **bottom-up assessment** of impediments to cross-border flow of capital in and out of Europe. We believe it is important to remove **concrete obstacles** complicating the movement of capital and financial activities across borders, based on a renewed inventory drawing insights from capital market participants and **practical market observations**.

3. Look at actions that could present **quick wins, such as**:

### Improving the current EU Securitisation Framework

Building on the Eurogroup's recommendations[9], we propose revisiting the EU securitisation framework and in addition exploring the potential of European Secured Note (ESN).

Since the financial crisis induced decline in SME Asset-Backed Securities, smaller banks with a retail focus find themselves with a substantial portion of assets lacking suitable refinancing avenues. The **ESN, which mirrors Covered Bond instruments but with SME loans as underlying assets, could serve as a valuable refinancing tool, especially for cooperative banks.** Furthermore, the introduction of ESNs could represent an opportunity for European savers and investors.

### Ensuring coherence between market objectives and prudential rules

The criteria for granting **capital and liquidity waivers** for cross-border activities of banking groups must be **streamlined and operationalised** to ensure a more efficient and productive allocation of capital and liquidity resources within European banking groups. This would allow EU banks to incentivise and **boost intra-EU cross border activity** and to develop economies of scale Europe-wide.

Looking at possibilities to **boost equity finance**, the capital requirements for equity financing established under Basel IV/CRR 3 will increasingly discourage direct equity injections. These requirements should be reconsidered, as direct equity finance could open the possibility for profitable market placements as companies grow.

Furthermore, safeguarding existing prudential rules that allow **conglomerates (bank and insurance) to operate under an efficient capital** allocation regime is essential. This regime allows risk and revenue diversification, facilitating the development of tailored and convenient financial products for EU citizens.

### Tackle tax related barriers

- **Enhancing tax incentives and reviewing withholding tax measures to promote interest in Long-term Investment Instruments**

The current complexities in withholding tax procedures contribute to increased costs for both investors and firms, ultimately hindering economic growth and capital formation in the EU. Implementing a **standardised EU-wide system of withholding tax** "relief at source", as proposed in the European Commission's initiative on Faster and Safer Relief of Excess Withholding Taxes, should lead to more efficient and less burdensome procedures for both customers and banks.

Additionally, Member States's review of **tax treatment rules** with a focus on long term investments and capital gains may help alleviate the situation. Lower tax rates after a specified holding period could, for instance, incentivise retail investors to increase their interest in equity instruments.

- **Completion of the revision of VAT-rules for financial and insurance services and introduction of cost-sharing groups for all kinds of services**

The review of the provisions of directive 2006/112/EG regarding VAT rules for financial and insurance services should be finalised. An important aspect of enhancing competitiveness would involve extending the rules for **cost sharing groups** to the financial industry. Therefore, Directive 2006/112/EG needs to be amended to include the financial industry in cost-sharing provisions.

## Recommendations:

- Improve the current **EU Securitisation Framework** and explore the potential of **European Secured Notes**
- Ensure **coherence between market objectives and prudential rules**
- Enhance **tax incentives/review withholding tax** measures to promote interest in Long-term Investment Instruments
- Introduction of **cost sharing** groups for all kinds of services, in particular for financial services by amending Directive 2006/112/EG

# Cooperative banks’ contribution to a sustainable European economy and a resilient agricultural sector

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## ...a sustainable European economy and a resilient agricultural sector

Cooperative banks are deeply **committed** to building a sustainable future. They are fully supportive of developing economic systems that are economically, socially and environmentally viable, and recognise the key role of finance in this respect.

Cooperative banks play a **significant role in fostering social sustainability through lending decisions**. By providing financing and financial services in less developed regions, cooperative banks serve as catalysts for regional economic development, promoting inclusive growth and advancing sustainable development agendas. They contribute to a truly social economy.

To steer the economy more efficiently **toward more sustainable models**, cooperative banks offer a number of recommendations:

- Banks would greatly benefit from a **coherent, workable and stable sustainable finance framework**. As its various components begin to apply, it is crucial that they become increasingly aligned, to ensure their broad uptake and application. For instance, **terminology** used in **European Sustainable Reporting Standards and the Taxonomy** should be fully consistent and, where relevant, identical. The calculation methodologies underlying various indicators should also be consistent throughout, ensuring greater practicability, transparency and comparability. The same applies to the implementation of the **Sustainable Finance Disclosure Regulation**. As the framework is being implemented on the ground, there is an opportunity to clarify key concepts and definitions and adapt to the needs of relevant stakeholders Additionally, banks' obligations should also be reviewed in light of the **inefficiencies** observed in practice, for example when it comes to **communicating with clients on sustainability preferences** or when assessing risk throughout the portfolio. Increased coherence and streamlined transparency requirements may also help prevent undue greenwashing accusations.

- European **Sustainability Reporting Standards** under the Corporate Sustainability Reporting Directive should provide **more flexibility** for cooperative banks to **measure their social impact** and report on the benefits and performance that are specific to their business model. By advocating for transparent and comprehensive sustainability reporting, cooperative banks can drive positive change, promote responsible banking practices, and contribute to the achievement of overarching sustainability goals.

- The supervisory framework should be adapted to **facilitate financing transition activities** in banks' portfolios, particularly in agriculture. Cooperative banks are historically tied to farms and agricultural exploitations and are among their main sources of financing. The agricultural sector, which is fundamental to human health and food security, is facing severe challenges due to climate change, global competition, and a complex, sometimes inconsistent, regulatory framework. While there is a **dire need for the agricultural sector to transition** to more climate and environmentally friendly modes of production, the **regulatory landscape does not encourage such financing**. A pragmatic and forward-looking approach taking into account time realities is needed to secure and finance the transition. Enhanced dialogue with institutional actors may also help build these much needed financing solutions.

## Recommendations:

- **Align components of the EU sustainable finance framework** to ensure their broad uptake and application.
- Allow more flexibility in corporate sustainability reporting for **cooperative banks to measure their social impact and report on the benefits and performance** specific to their business model.
- Supervisory framework should be adapted **to facilitate the financing of green transition** activities in banks' portfolios.

# Cooperative banks' contribution to an innovative, digital yet fair Europe

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# ...an innovative, digital yet fair Europe

Over the last 15 years, the landscape of financial services providers has **dramatically changed**. Non-European financial and digital players have been able to create scale, capacity, and models that give them far more opportunities than European innovative companies to benefit from the **opening of the European payment, finance and data markets**. These players strategically target the more lucrative European customers or their assets located outside Europe, prioritising short-term profit goals over providing essential products and services necessary for securing the long-term financial well-being of Europeans, a role often fulfilled by cooperative banks.

Cooperative banks counterbalance this trend and the loss of human interaction caused by digitalisation, as cooperative banks have strong incentives to reconcile social responsibility and digitalisation. However, this **equilibrium is threatened** by several factors, including far-reaching legislative proposals that impede European banks from offering services at fair prices and relegate them to a utility provider role, weakening their capacity to compete.

Cooperative banks have a number of recommendations to overcome this:

### Stimulating innovation and ensuring fair competition

To stimulate innovation and ensure fair competition, regulators and supervisors should **act as facilitator**, define the rules of the game; ensure a level playing field, supervise and facilitate increased collaboration, and foresee **a liability and responsibility** framework that allocates responsibilities to the **actors that control the relevant part of the value chain**. Market players need regulatory and legal certainty to develop successful pan-European payment solutions on top of existing and new payment services.

### Data and Finance

Cooperative banks support data sharing as long as it takes place on a level playing field, within a secure and clear framework that ensures **consumer consent** and also leverages on GDPR legal bases. Sharing of data should allow all actors in the data value chain a **business case**, take a **gradual approach** to opening up various data type, that allows **managing the risk** of opening all kinds of data up at the same time without having tested the consequences.

## AI and finance

Europe can be proud to be the first jurisdiction in the world to have established an AI framework covering areas like transparency, use of AI in public spaces, and high-risk systems. It is with regard to the latter that the EACB welcomes the development of **specific guidelines for the financial sector** as this sector already has an extensive **risk framework**. This guidance should allow a seamless integration of the AI framework in the banking context.

## Payments and digital euro

The EU payments market is **dynamic, secure and well-functioning**[10]. Additionally, there have been significant market developments in the past few years aimed at enhancing market standards, competition, consumer choice and EU strategic autonomy. Examples are the work of the European Payments Council, the European Payments Initiative (EPI) and the Euro Retail Payments Board. But It is also a **heavily regulated sector** with a large amount of regulation having been issued in the last 5 years, implementation of which is still ongoing.

Regulatory intervention in the payments space should **pause** to allow the many ongoing initiatives to be digested and **sort their effects** in the market. This pause should extend to the proposal to launch a digital euro as it adds little value to the payment solutions already on the market and rather takes investment capacity away from market initiatives that seek to grow pan-European. It could on the other hand have a significant negative impact on the financing of the economy and stability of the financial sector if deposits flow from bank accounts to the digital euro.

An **in-depth assessment** of the potential **impact of the digital euro** on the financial system, banks and the credit market, should be conducted taking into account different business models such as cooperative banks (size, composition of portfolio, funding sources etc.) in order to guarantee that the digital euro does not jeopardise financial stability.

## Digitalisation and fraud

The increasing digitalisation of the financial value chain comes with an increasing number of parties taking a role in this value chain. This, combined with the many new and emerging fraud types that digitalisation make possible, requires a **comprehensive approach to the fight against fraud**. This approach should address the root causes of fraud, involve all parties in the value chain in taking responsibility for tackling these root causes and support public-private partnerships and information exchange to be able to spot trends and take pre-emptive action.

The **constraints** that the General Data Protection Regulation (GDPR) and national data protection legal frameworks pose to establishing effective and practical rules on information sharing in different sectors, such as in the Anti-money Laundering systems and in retail payments anti-fraud activities should **be mitigated**.

## Recommendations:

- Stimulate innovation and ensure competition by **clearly delineating the role supervisors and market players should play respectively**.
- **Ensure data sharing takes place in a secure and clear framework on a level playing field**, that ensures consumer consent and also leverages on GDPR legal bases, allows all actors in the data value chain a business case, and takes a gradual approach.
- Align future AI guidelines with existing banking practices and already risk management frameworks.
- Take a regulatory pause in the area of payments and conduct an **in-depth assessment of the potential impact of the digital euro** on the financial system, banks and the credit market.
- Adopt **a comprehensive approach to the fight against fraud**, addressing its root causes, involving all parties in the value chain, and support public-private partnerships and information exchange.

# About cooperative banks

Cooperative banks are **key actors in the European financial sector**. They hold an average market share of 22 percent in deposits and 23 percent in loans, mainly to private households (mortgage) and SMEs. Since 2011, the cumulative lending growth of cooperative banks stands at 49% and was maintained also during difficult times. This makes cooperative banks a major pillar of the European Economy.

Cooperative banks provide **access to finance at local level** and are widespread even in **remote areas** of the continent. Their share in banking branches is 34%. More than 36.500 outlets offer close and unique relationships with customers. This wide-ranging networks often make them the main employers and taxpayers in their own regions. Employment in cooperative banks even increased over the last decade. Today 712,000 people work for cooperative banks in Europe.

Cooperative banks generally have a high level of capitalisation, which is on average higher than in other banks. They generate stable incomes from retail and SME business, which has steadily increased over the years. Their return on equity is higher than of the average of their competitors.

Credit ratings reflect this very well; ranging between AA and AAA for the largest cooperative banking groups in Western Europe. Stakeholder banks are able to face the challenges of the new post-crisis environment because their business model responds to current needs and expectations. Their strong capital base and profitability make cooperative banks highly stable and resilient in crises.

These strong features have their roots in a specific cooperative approach to business:

- The core **mission** of cooperative banks is to **promote the economic interests of their members** and thus value creation for members based on a **long-term relationship of trust**.

- Clients can become members/owners of cooperative banks with relatively small investments. As a result, they have a direct say in the business and are involved in the governance, strategy and risk management processes. The governance is democratic and follows the principle of one person – one vote.

- Generally the **biggest part of the annual profit is kept as retained earnings and increases the bank's capital base.** Those retained earning remain the common property of the members, but are out of reach for the individual member. Member shares do not participate in this regular increase, but are always valued at face value.

- Cooperative banks foster **self-help**, **responsibility** and **solidarity**. They emphasise the common good of society. They were historically founded to improve access to finance for their members, who would otherwise have had limited access to finance at reasonable rates.

This unique governance and capital model, which distinguishes cooperatives from other economic agents needs to be properly reflected in all regulation affecting cooperative banks. The EACB therefore demands a consistent and efficient legislative framework on the European level, which reflects and respects the particularities of cooperative banks. For the **EACB diversity is no luxury**. It is a central feature of the European banking landscape which increases the stability of the banking market and ensures that all needs are serviced. We have seen repeatedly that in economic and financial crises economies with a strong cooperative sector were less affected. And also in the current situation, characterised by important geopolitical uncertainties in the entire world, cooperative banks with their regional and member-focused approach ensure stability and confidence. That is what our people need now.

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EUROPEAN ASSOCIATION
OF CO-OPERATIVE BANKS

The voice of **2.500** cooperative banks,
**89** million members, and **225** million customers.

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