INTERVIEW WITH HERVÉ GUIDER, EUROPEAN ASSOCIATION OF CO-OOPERATIVE BANKS (EACB)

Co-operative banks defend their unique identity

By Pierre Lemoine

The European Association of Co-operative Banks (EACB) is holding its fourth convention, on 8 April in Brussels, just as a new legislative arsenal is being developed in the wake of the global financial crisis of 2008-2009. Co-operative banks like Rabobank, Crédit Agricole, Crédit Mutuel, Raiffeisenbanken, Volksbanken, Banco Popolare, BPCE, BCC and OP Phojola – which operate in 23 European Union countries and make up the densest banking network at local and regional level – are intent on securing recognition of their unique identity. Hervé Guider, general manager of EACB[1], tells Europolitics *why the association's members are campaigning for recognition of their status, decentralisation and very close involvement in the local economy, the specific but little known characteristics to which they attribute their solidity.*

Banks are in the sights of governments, the European Commission, the IMF and the G20. How do you see your situation?

One of the key problems today is mistrust. The public opinion is not separating the wheat from the chaff, so to speak. A distinction has to be made between retail banks and investment banks. Co-operative banks are retail banks, local banks. One of our latest studies shows that co-operative banks have been extremely resilient to the crisis in recent months. Rabobank has kept its 'triple A' rating, an outstanding performance with respect to its competitors. The first stage of the crisis, the liquidity crisis, affected co-operative banks less, but the second stage, the crisis of the real economy, will probably lead to an increase in payment incidents among borrowers.

In what way, for instance?

Essentially, this could be an impact on loan repayments, by both small and medium-sized enterprises and households. For SMEs, regardless of the intensity of the crisis, we have continued our banking business of lending to companies, because we consider it our role to provide support for them during this turbulent period. For households, payment incidents are mainly related to the rise in unemployment, over-indebtedness and borrowers' difficulty repaying loans. But here, too, for the past several years, co-operative banks have set up specific procedures for life's unforeseen events: unemployment, divorce or death. We have stood beside our customers because we have a long-term relationship with them, in good days and in bad.

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Hervé Guider

Are you concerned about plans for regulating the financial sector?

Indeed, banking regulators have taken up the road map developed by the G20 in Pittsburgh and are working on reinforcing prudential rules, increasing capital requirements and requiring higher quality capital. This is confirmed in the consultations of the Basel Committee [see box] and the latest publications by CEPS[2] and the European Commission.

The reference being used by the Basel Committee to define core tier one capital is the statute of the public limited liability company, namely shares. It has established 14 eligibility criteria that are problematical for us as unlisted banks, because the shares of co-operative banks have characteristics that differ from those of classic shares. For example, a member of a co-operative bank has no entitlement to net assets. Yet this is one of the Basel Committee's criteria. That said, however, the committee and regulators have acknowledged the relevance of a specific treatment adapted to institutions like ours. That's a first step but is not enough, because co-operative banks should not be treated as an exception. The stakes in terms of capital add up to around €40 billion, or in terms of lending, €500 billion. Since we finance one third of SMEs in Europe, it is easy to imagine the potential impact on such financing of regulations that fail to recognise shares as core tier one capital.

The other areas of concern are liquidity ratios, the treatment of interbank lending and deposit guarantee systems, which are now on the regulators' agenda. For each of these, co-operative banks have specific characteristics that have demonstrated their effectiveness throughout the crisis. So should they be rejected or serve as inspiration?

The Basel Committee also intends to revise bank governance.

Yes, its recommendations are also expected to apply to co-operative banks. Yet co-operative banks comply with very specific rules, particularly for the appointment of directors. The question of the independence of directors cannot apply

2010 legislative agenda

- Commission document on liquidity ratios
- Commission green paper on governance
- Start-up of Parliament's work on CRD IV Directive
- Establishment of a European systemic risk committee
- Debate on a European crisis management authority
- Discussion of directive on deposit guarantee system
- Impact studies requested by co-operative banks

to a co-operative company because being a member of the co-operative is a prerequisite for all directors. So the definition of independence has to be clarified to keep from penalising companies that have chosen this legal statute.
More generally, we think the new regulations should undergo very detailed impact assessments, with regard to both microeconomic and macroeconomic impact. The latter point is crucial to prevent new constraints on banks, particularly concerning capital, from hampering the slow recovery of the real economy.
I would also point out that the Basel II Agreement was preceded by no fewer than three impact studies. However, the timeframe set in Pittsburgh for Basel III, namely 2012 with implementation from 1 January 2013, seems very short in the light of the necessity of carrying out impact assessments.

Where will things be played out now?
Partly in the European Parliament. The upcoming discussions, particularly in the context of Basel III and CRD IV [Capital Requirements Directive], will probably be decisive for the coming stages.

Basel Committee
The Basel Committee on Banking Supervision (BCBS) is made up of representatives of the central banks and prudential supervision authorities of 27 countries, of which only seven EU members: Belgium, France, Germany, Italy, Luxembourg, the Netherlands and Spain. It has gradually introduced prudential supervision standards and best banking practices: Basel I in 1988, followed by Basel II between 2004 and 2008. These recommendations were transposed into EU law through the Capital Requirements Directive (CRD) and the Solvency II Directive adopted in 2009, which aims to equip insurance and reinsurance companies to cope with the risks of their activities (Basel III is planned for 2013).

Do you have the impression that the Commission and European Parliament take your views sufficiently into account?
The European Commission understands our views on shares. The European Parliament and the next rapporteur on CRD IV, Othmar Karas[3], have been informed of our concerns. However, the new regulations are being discussed in a global framework: the Basel Committee has only a few European members and the problem is to create awareness among non-European banking regulators, who are not necessarily familiar with co-operative banks. This challenge exists even in the European Union, because not all of the ten new member states have such co-operative banks. In some, like Slovenia, they are prohibited. Where they do exist, they can be subject to stricter rules than their competitors or have a reduced scope of activity.

The crisis brought to light the essential role of co-operative banks as stabilisers

Is the influence of co-operative banks underestimated?
Yes, we have the optimism of our determination. There are 4,200 co-operative banks in Europe out of a total of 7,000 banks. They have 60 million members and 180 million customers. In any case, the reform of banking regulations must not lead to a radical reform of the banking system. In Europe, 70% of businesses use banks as an intermediary, borrowing in particular from retail banks. In the United States, the opposite is true: 70% of businesses are financed on markets. In the G20 debates, it is understandable that the Americans have views that are in keeping with their economy but that cannot be transposed to Europe.

How is it that your specific identity has not been taken sufficiently into account in Europe so far?
Are regulators to blame? I think that for a long time they were unaware of the uniqueness of co-operative banks and the demutualisation of building societies in the United Kingdom in the 1980s did not work to our advantage. But we are now seeing a shift from a lack of knowledge to a threat to the continuity of a business model. The triggering event was the discussion in London of international standards on financial instruments and on the distinction between equities and liabilities. If our association had not intervened, shares would have been treated simply as liabilities. Other events then followed, including the report by DG Competition on retail banks in Europe, which raised questions about the co-operative model. Does the co-operative model hamper competition, particularly in areas served only by co-operative banks and neglected by commercial banks?

Has the issue not been settled?
It was Commissioner Charlie McCreevy's aim for Europe to have very large banks capable of playing in the 'Champions' League', to use his expression. So any banks that weren't big enough or that weren't listed were doomed to disappear. Apparently, for the previous Commission, co-operative banks were an outdated model, a living fossil. Since the co-operative structure is recognised in the treaty and confirmed by the European Cooperative Statute, it could not be challenged but legislation could become such as to make practicing an activity within a co-operative framework increasingly difficult. However, the crisis brought to light the essential role of co-operative banks as stabilisers. It remains to be seen what view will be taken by the new Commissioner, Michel Barnier. Yet the European Commission seems convinced today that the diversity of the banking industry, like the plurality of business forms, is a strong point for the European economy. This is a real reversal. Let's hope it lasts. ■

(1) www.eurocoopbanks.coop
(2) Centre for European Policy Studies, mandated to make recommendations to the Commission
(3) EPP, Austria