EUROPEAN ASSOCIATION
OF CO-OPERATIVE BANKS

Publication of the European Association of Co-operative Banks
in collaboration with Tilburg University, The Netherlands,
to commemorate the 200th birthday of
Friedrich Wilhelm Raiffeisen (1818-1888).

# CO-OPERATIVE BANKS: AT THE SERVICE OF THEIR MEMBERS AND SOCIETY

**200 Years after Raiffeisen's birth**

The omnipresence and contemporary relevance
of Raiffeisen's principles in banking

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# FOREWORD

Gerhard Hofmann,
EACB President


Hervé Guider,
EACB General Manager

This year is a special year for the global co-operative movement. It is the 200th anniversary of the birth of an important co-operative pioneer: ***Friedrich Wilhelm Raiffeisen***. The European Association of Co-operative Banks based in Brussels plans to celebrate this milestone by publishing the views of leaders, inspired by Raiffeisen's values of solidarity and self-help, on the future of their institutions. Throughout the 20th Century, local and regional co-operative banks have gradually spread out across the banking landscape, offering local populations that were often ignored by traditional banks affordable basic banking products and services, thus giving them the means to carry out their personal and professional projects. Local and regional co-operative banks have made a longstanding contribution to the **financial inclusion** and **education** of millions of citizens who have chosen to become members of their bank by subscribing to a co-operative share. Equally important, **co-operative banks stand for a 'sharing economy' and sustainable banking**, ideas that have been rediscovered in recent years and are attractive to many. The social dividend provided by co-operative banks is unique in the financial industry. Neither economic and financial crises, nor wars and their repercussions, have impaired this movement that now has a universal reach. At the beginning of the 21st Century, co-operative banks continue to act together and in a united way through the EACB to address a range of new challenges. These institutions have proven their **ability to adapt to changing legal, political and economic environments.** Thanks to their capacity to overcome obstacles, co-operative banks continue to contribute to the socio-economic development of regions in Europe and on other continents. They will be able to further do so if the regulatory framework allows them, and doesn't restrict or even call into question the **specific characteristics** that have made them successful. It is the mission of the EACB to defend and promote this unique model that is more than ever in line with the expectations of people, households and **small and medium-sized enterprises.**

This publication presents specific and prospective testimonials on the determinants of the strength, **solidity** and **uniqueness** of co-operative banks. In 2016, the International Committee for the Conservation of the Intangible Cultural Heritage of **UNESCO** included the co-operative idea among such world heritage. There could not be a more appropriate tribute to Friedrich Wilhelm Raiffeisen.

**Gerhard Hofmann**
EACB President

**Hervé Guider**
EACB General Manager

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# PART 1:
# Timeless features and recent financial performance of European co-operative banks

TILBURG UNIVERSITY

Hans Groeneveld[1],
Professor Financial
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## Executive summary

On the 30th of March 1818, one of the founding fathers of the co-operative banking movement in Europe was born: Friedrich Wilhelm Raiffeisen (1818-1888). Raiffeisen's 200th birthday offers a good opportunity to put the spotlights on the specificities of the co-operative banking model in present times. We start this contribution with a concise description of the differentiating characteristics of co-operative banks.

Subsequently, we pay attention to the evolution of members, number of co-operative banks, branches and employees. The following sections present domestic market shares, balance sheet developments and a number of financial performance indicators. To put the performance of co-operative banks into perspective, their indicators are compared to those of the entire banking sector. Needless to say that bank performance cannot be judged solely by financial aspects, but a comparative assessment of non-financial performance indicators – like customer satisfaction, sustainability, etcetera – is beyond the scope of this contribution. The main conclusions are summarised below.

The banking sector incorporates a rich array of banks with diverse business models and ownership structures. Public, state, savings, co-operative, mutual and private banks co-exist in a diversified market. In policy reports and research publications, a particular distinction is made between Stakeholder Value (STV) banks (of which co-operative banks are a major component) and Shareholder Value (SHV) banks (of which listed banks are a major component). The distinction is ultimately about the banks' bottom line objectives and the extent to which profit maximisation is the central focus of their business models. STV banks can be categorised as 'dual-bottom line' institutions, i.e. they aim at both financial/economic goals and social objectives.

Co-operative banks share many basic principles, which sets them apart from

[1] Tilburg University, The Netherlands. The views expressed in this part are personal. For more information or clarification, please mail to j.m.groeneveld@tias.edu

banks with other organisational forms. All testimonials of co-operative banking groups in Part 2 of this publication clearly underline these differences. For example, co-operative banks are owned by members who are also customers of the bank and have equal voting power, do not aim at profit maximalisation, have multiple goals, apply a bottom-up decision making process, build their capital base primarily with retained earnings, and have an internal guarantee mechanism (e.g. an institutional protection scheme), etcetera. At the same time, differences exist in the practical way of operation in many other areas. There is a rich diversity in co-operative business models. Co-operative banks differ in size, organisational structures, membership policy, and non-core activities. Across Europe, co-operative banks compete with institutions which have different ownership, governance and capital structures and different business models, i.e. SHV and STV banks.

Recent data continue to evidence that the timeless features of co-operative banking have led to different strategic choices and deviating financial outcomes compared to banks with other ownership structures. The findings of the empirical analysis, conducted on a sample of 18 co-operative banking groups over the period 2011-2016[2], show that governance arrangements are partly responsible for their divergent business performance and, specifically, their ability to finance customers characterised by relatively low credit risks. As a corollary, co-operative banks contribute to diversity and, consequently, stability in banking. This message can never be overstated. Here, we have to emphasize that co-operative banking is neither better nor worse than other banking models. But it is different. Irrespective of the merits and drawbacks of different governance arrangements in co-operative banking and all other sectors in banking, we are convinced that diversity is an invaluable asset. No governance model is unambiguously superior and it needs to reflect the nature and ownership structure of different businesses. Moreover, recent experience in a number of countries demonstrates that diversity can be easily jeopardised, but is very difficult to regenerate. For the sake of a healthy, kaleidoscopic and competitive financial system, we hope that co-operative banking *can* remain a viable and parallel alternative to all other banking models until the end of time.

The word 'can' is deliberately typed in italics in the last sentence. Indeed, the expressed expectation is based on the pre-assumption that financial policy makers and regulators avoid applying a regulation tailored to listed banks to co-operative banks as well. On the whole, co-operative banks are neither as risky as joint-stock banks, nor similar in their governance, organization and business practices. At the same time, a differentiated regulatory and supervisory approach is warranted for individual co-operative groups. In sum, we trust that financial regulators and supervisors take into account the specifics of the co-operative banking model when designing, implementing and applying policy measures.

**2** The data and analysis pertain to European co-operative banks which make up more than 95 per cent of the entire sector: 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).

## Key characteristics of co-operative banks


To fully grasp the essence of co-operative banks, it is important to take note of their defining features and commonalities. Before briefly discussing the most elementary ones, it is relevant to accentuate that co-operative banks have a long history and share common principles. Many contemporaneous co-operative banks exist for more than a century. In German speaking countries, local credit co-operatives were set-up in the 19th century, based on the ideas and values of *Friedrich Wilhelm Raiffeisen (1818-1888)* or *Franz Hermann Schulze-Delitzsch (1808-1883).* Today, a large number of co-operative banking groups are either Raiffeisen banks or popular banks (see footnote 2).

**« Financial co-operatives have proven ability and capability to adapt to constantly changing circumstances and trends in society in the course of time. »**

Whether or not based on Raiffeisen's ideas, historical 'champions' of co-operative banking movements in other countries undertook similar initiatives. With a time lag, the co-operative concept for financial services spread to North America as well, particularly by the efforts of *Alphonse Desjardins (1854-1920)* in Canada and *Edward Filene (1860-1937)* in the USA. Both fervently believed in the potential of the co-operative idea. In short, co-operative pioneers around the globe aimed at enhancing the accessibility of affordable financial services for excluded population groups at that time. This brief historical narrative of co-operative banks implicitly underlines the proven ability and capability of financial co-operatives to adapt to constantly changing circumstances and trends in society in the course of time. Without this capacity to accommodate, they would certainly not be around anymore.

Given the scope of this publication, it is obvious that we cannot discuss all timeless features of co-operative banks comprehensively. We shall restrict ourselves to the key aspects. First and foremost, customers of local or regional co-operative have the opportunity to become members/owners of their bank. Membership is voluntary and open. Moreover, a multidimensional relationship between members and their co-operative bank exists. They are simultaneously owner, customer, supervisor and stakeholder (being member of the community).

[3] Raiffeisen was a social reformer and local mayor. He established the first rural credit co-operative (later co-operative banks) in 1864. Schulze-Delitzsch was a German social reformer, too. He invented a similar type of co-operative bank for townspeople, providing credits to enable artisans and small business people to come through turbulent economic times and frequent depressions that accompanied the industrial revolution.

**« The interests of members as depositors coincide with the interests of members as 'owners or shareholders': good quality products at fair prices on the basis of continuity and low risk.»**

Provided that effective governance arrangements are in place, the interests of members as depositors coincide with the interests of members as 'owners or shareholders': good quality products at fair prices on the basis of continuity and low risk. In listed banks, the interests of retail depositors are not automatically aligned with those of shareholders as owners. In other words, the enfranchisement of co-operative bank customers, as members, sets them apart from the customers of other banks.

With a few exceptions, a member has to buy at least one member share or certificate (with a relatively low nominal value), whereby the maximum number of shares owned by an individual member is capped. Since member shares are non-transferrable, members cannot accumulate votes through purchases of shares in a secondary market. Voting rights conferred by membership are based on the principle of 'one-member, one-vote' and are not proportional to the size of a member's stake in the bank. This is fundamentally different from the distribution of voting rights in joint-stock banks, in which anonymous shareholders have decision making power in proportion to their invested capital ('one share, one vote').

Co-operative banks are member-governed, private institutions with a dispersed ownership structure. Elected member representatives populate local and central governance bodies of co-operative banking groups, e.g. as non-executive directors or supervisors. Member representatives need to fulfil various requirements of banking supervisors and regulators. As a result, the presence of sound financial knowledge and practical expertise is guaranteed in local and central supervisory boards of most co-operative banks. In addition, the majority of co-operative banks have education programmes to equip members with the skills necessary to make the exercising of their ownership rights effective. This means that non-executive board members are able to monitor and discipline the banking professionals in the boards. Co-operative decision-making processes are characterised by a bottom-up nature. Also on this point, the governance arrangements of co-operative banks are inherently different from the practice in commercial banks which are generally managed in a top-down way.

Co-operative banks usually operate within a decentralised network of affiliated banks (under the same brand) and are predominantly funded by retained earnings, member shares and retail deposits raised locally. They are committed to local presence and accountable to local members. In most instances, local/regional co-operative local banks have collectively set up a group-level entity, being an association, a co-operative or a corporation. The tasks and responsibilities entrusted to these APEX bodies vary across co-operative banking groups. Besides, internal governance arrangements generally encapsulate institutional frameworks and solidarity mechanisms, such as Institutional Protection Schemes, which sustain the structural stability of co-operative banking groups.

**« Profits are neither the only nor the ultimate goal of co-operative banks. »**

Profits are neither the only nor the ultimate goal of co-operative banks, but a means to accumulate capital, to absorb shocks, to invest and innovate, among other things. Profits are also needed for the realization of additional objectives. For instance, stimulating the regional economy, financing local governments, or providing (non-)financial services to members. Because of this orientation, co-operative banks are usually qualified as 'dual-bottom line' institutions as they re-invest social dividend back into society.

**« The co-operative banking sector can be characterized as 'commonality with diversity'. »**

Despite similar roots and unifying governance aspects, a particular feature of European co-operative banking is that there is no single model that applies to every single co-operative bank. The co-operative banking sector can be characterized as 'commonality with diversity'. There are important differences in sizes, levels of integration, organizational frameworks, governance models, capital structures, membership policies, and (inter)national activities outside the co-operative part of the organization. These dissimilarities can be explained by many factors. One of the reasons is that numerous contextual circumstances have shaped individual co-operative banking groups throughout their history. It concerns the geography (size of the country), national banking market characteristics, consumer behaviour and preferences, and regulatory and supervisory regimes.

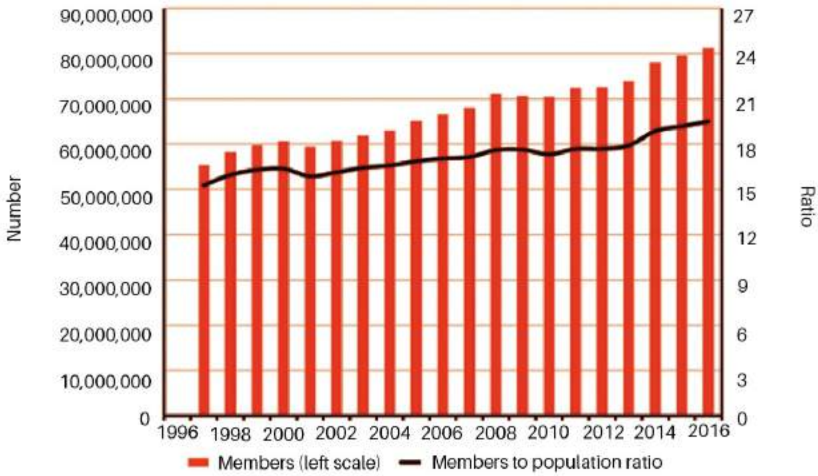
To sum up, the co-operative ownership structure is expected to have an impact on the orientation, business model, capitalisation strategy and financial performance. In the next sections, we assess whether the governance and organisational features highlighted above are visible in key financial performance indicators relative to those of all other banks in recent years.

## Members

Co-operatives are distinguished by the fact that **customers can become members**, and members give co-operatives legitimacy. Members and their elected representatives are an essential asset for co-operative banks. Mainly due to trends in society, compulsory membership has been abolished many years ago, except for UK building societies. Nowadays, most co-operative banks also serve large numbers of non-members. Surging number of members may be due to countless factors: financial benefits, immaterial advantages, affinity with the brand, satisfaction with products and services, social goals, co-operative donations, etcetera. In fact, it is all about the **'perceived member value'** that members derive or experience from their membership.

In 2016, co-operative banks welcomed around 1.6 million new members. Compared to 2015, the member base grew by more than 2 per cent to **81.2 million members**. This percentage increase is identical to the long term average expansion of the number of memberships. In relative terms, one can observe an upward trend. The member-population ratio displays an almost continuous rise. This ratio climbed from 15.7 in 1997 to 19.5 in 2016. **Nowadays, almost one out of five inhabitants of the European countries under review is a member of a co-operative bank.** The increase signals trust and confidence of customers in co-operative banks. Indeed, clients are presumably not very eager to become and stay a member of local co-operative banks if the level of trust and satisfaction would be low.

**Figure 1 Number of members and member to population ratio**




**Source:** Own calculations based on data from co-operative banking groups and national statistics.

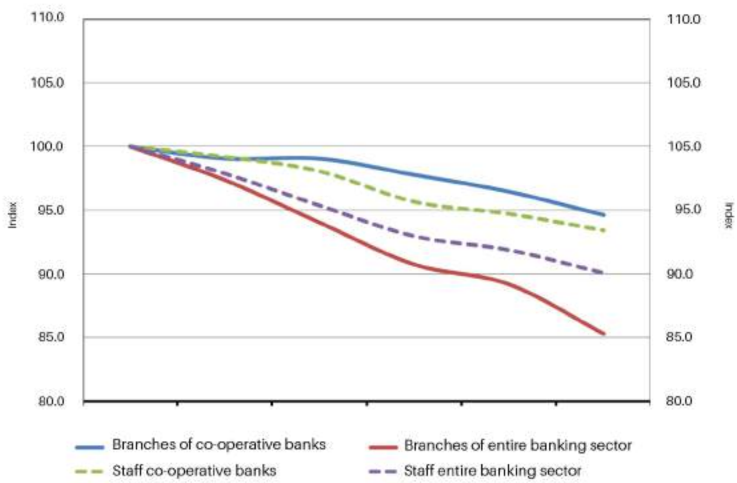
## Number of local banks, branches and employees

In 2016, the number of independent local or regional co-operative banks continued its year-long decline, dropping 5.3 per cent to 3,168. The consolidation among co-operative banks speeded up in 2016. This acceleration is largely caused by the need to create efficiency gains, to curb (regulatory and compliance) costs and the simultaneous shift towards digitalization and virtualization of financial products and services. In line with this development, the number of branches fell by almost 2 per cent to about 54,200 in 2016. Figure 2 shows that co-operative banks reduced their physical presence in local societies at a more moderate pace than all other banks in recent years. Since 2011, co-operative banks shut down around 5.5 per cent of their branches, whereas all other banks closed down banking outlets by almost 15 per cent.

In line with the cuts in branch networks, headcount at co-operative banks contracted by 1.4 per cent in 2016. The number of staff in the entire banking sector fell by 2 per cent. Over the last few years, a divergent employment pattern is discernible in the broken lines. Cumulatively, all other banks shed staff by almost 10 per cent since 2011. Employment at co-operative banking groups dropped by 6.5 per cent. The downward trend in bank employment is likely to persist – and we believe it will actually intensify over time – due to many interacting forces.

Co-operative banks have contributed to the capacity reduction in European banking. However, they have been reticent to diminish their physical presence proportionally. Their reluctance to curb branches and staff as substantially and rapidly as other banks

**Figure 2 Domestic branches and total employment (2011 = 100)**




**Source:** own calculations based on figures from co-operative banks, supervisory authorities and central banks

can be partly explained by their ownership structure. While listed companies are subject to the influence of their shareholders, they are less subject to the influence of their customers than are many financial co-operatives. In some instances, members as owner-users of co-operative banks opposed to branch closure programmes and/or proposed to seek alternatives to control costs. This example merely illustrates that member preferences play an important role in decision making processes and cause specific dynamics. Besides, co-operative banks recognize that the trend towards less local presence poses challenges for retaining a sufficient degree of member engagement, commitment and involvement and the ability to participate in local networks by employees.

This acknowledgement has triggered various initiatives to uphold and strengthen interactions with members and local communities in new ways. Hence, the consolidation and capacity evolution of co-operative banks in their home countries is inextricably linked with their ownership structure, which deviates considerably from that of other players in the banking industry.

## Domestic market shares

In 2016, **co-operative banks solidified their market position.** They gained approximately 0.2 and 0.4 percentage point loan and deposit market share, respectively (Table 1). The former is currently almost 0.7 percentage point higher than the market share deposits. Five years ago, both market shares were almost similar. Hence, the loan market share has increased steadily since 2011, whereas the deposit share hovered around 21.4 between 2012 - 2015. The rise in market shares is an important demonstration of trust in these financial institutions.

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

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Change in % points (2011-2016) |
|---|---|---|---|---|---|---|---|
| Loans | 21.2 | 21.5 | 21.9 | 22.1 | 22.2 | 22.5 | + 1.3 |
| Deposits | 20.9 | 21.3 | 21.5 | 21.4 | 21.4 | 21.8 | + 0.9 |
| Branches | 29.1 | 29.6 | 30.7 | 31.4 | 31.5 | 32.3 | + 3.1 |

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

The branch market share has always surpassed the loan and deposit market share. This reflects a distinct feature of co-operative banks: they operate with relatively dense branch networks and **are physically close to their members**. Due to the sizeable branch closures by all other banks, the share of branches owned by co-operative banks increased significantly in recent years. Their branch market share amounted to 32.3, which is more than 3 percentage points higher than in 2011. This rise masks the fact that co-operative banks are increasingly shifting from physical to virtual distribution channels for their products and services. Hence, **they invest heavily in IT technologies** to offer their customers and members attractive and innovative products and services.

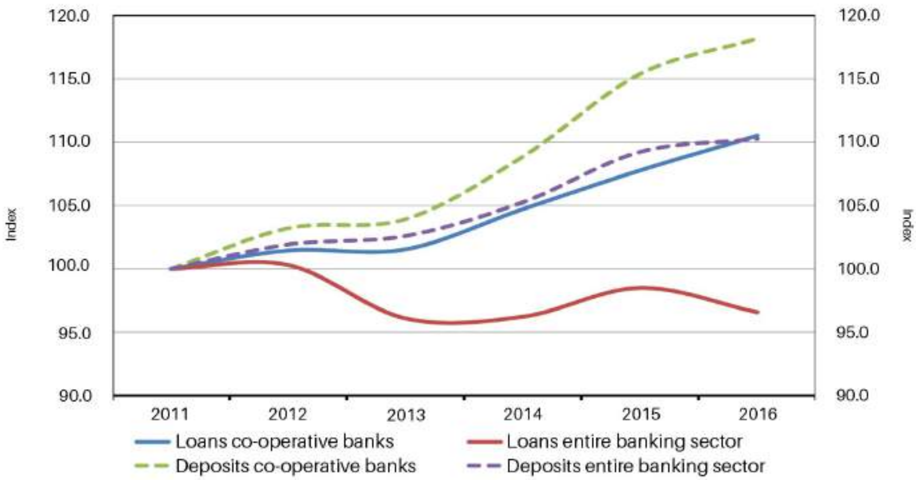
## Balance sheet developments

The rising market shares are reflected in dissimilar balance sheet developments between co-operative banks and all other banks in 2016 (Figure 3). On balance, the former granted sizeable amounts of new loans to the non-financial private sector (+2.5%), while the loan portfolio of the entire banking system contracted by almost 2 per cent. Figure 3 also reveals a divergent loan growth pattern over the past five years. This period started with economic recessions or slowdowns which were followed by modest economic recovery in many European countries. From the Figure, it can be inferred that, on average, **co-operative banks have continuously supplied the real economy with new loans**, albeit very modestly in 2012-2013. Cumulatively, the loan volume at co-operative banks is more than 10 percentage points higher than in 2011, while the loan portfolio of other banks shrunk by more than 3 percentage points during this time span. Hence, **lending behaviour by co-operative banks was more stable than that of the entire national banking system.** This statistical finding can probably be ascribed to differences in business models and strategic orientations stemming from their member-based governance.

[4] It appears that both growth figures are suppressed by the fall of the British pound after the Brexit referendum in June 2016. When the British building societies and the collective U.K. banking sector are removed from the sample, the loan growth dispersion between co-operative banks and all other banks remains significant.

For deposit growth, analogous conclusions can be drawn. In 2016, co-operative banks attracted a larger volume of new deposits (+2.4%) compared to their competitors (+0.9%). Furthermore, **the deposit base of co-operative banks increased much stronger since 2011.** This is evidenced by the widening gap between the two broken lines in Figure 3. Obviously, co-operative banks needed more deposits to fund the expanding loan portfolio. Nevertheless, their deposit growth significantly outpaced the rise in loans.

**Figure 3 Loan and deposit development (2011 = 100)**




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

**Note:** Loans concern loans and advances to the non-financial private sector, excluding government. Deposits pertain to all deposits and savings of the non-financial private sector, excluding government, placed a t banks.

Unreported data over a longer time horizon signify that the plotted lines in Figure 3 are influenced by regulatory measures implemented after the Great Financial Crisis (GFC). First, regulators took various steps to mitigate the credit overhang within in the banking system. They incentivised banks to realise a positive dispersion between deposit growth and loan growth. Our computations show that the loan-to-deposit ratios (LTD) have trend-like decreased since 2011. The contrary movement of deposit and loan volumes of the entire banking sector led to a substantial drop in its average LTD-ratio. On the other hand, all non-co-operative banks used to operate with much higher LTD-ratios one decade ago. Just before the outbreak of the GFC, private savings covered around 80 percent of the private loan portfolio of the entire banking sector, whereas co-operative banks had a ‘deposit gap’ of 3 per cent. Over the past few years, the former fiercely reduced their reliance on wholesale funding. At the same time, they limited lending growth which also helped bringing down their average LTD-ratio. Consequently, all other banks now make more use of stable deposit funding. From an organisational perspective, the implementation of new regulatory rules has fostered to some extent an alignment between the business models of co-operative banks and all other banks.

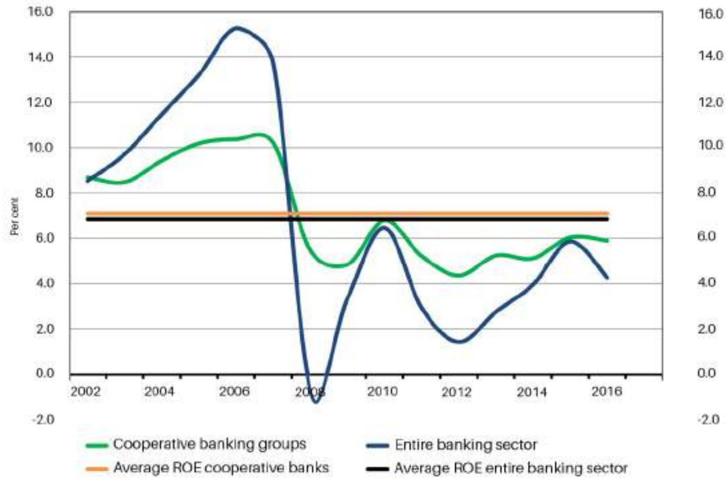
## Capitalisation

Co-operative banks boosted their capital ratios relatively fierce compared to other banks. The average Tier 1 ratio of co-operative banks rose by 1 percentage point to 15.5, whereas this ratio for the entire banking industry improved by 0.6 percentage point to 14.9. Since 2011, banking stability has clearly advanced as a consequence of stricter regulatory requirements and a cyclical upturn in the economy. Movements in capital ratios are caused by changes in the nominator, i.e. size of the capital buffers, and the denominator, i.e. volume of risk weighted assets (RWAs). Underlying data suggest that the tier 1 rise of all other banks was to a greater extent caused by a reduction of RWAs in comparison to the increase in the equity base. For co-operative banks, growth in capital and reserves seemed to have exceeded the increase in RWAs. The latter observation suggests that co-operative banks are engaged in retail banking activities with moderate risks, as the continued growth of their loan portfolio has not led to proportionately higher RWAs. Implementation of the current proposals of **Basel IV** by the EU to raise the risk weights for mortgages and SME loans would, therefore, exert downward pressure on tier 1 ratios of European co-operative banks and **might encourage them to change their business model**, probably against the will of their member owners. It cannot be excluded that loans to certain customer, business or economic segments will be rationed and/or become more expensive.

## Return on equity

After a period of gradual convergence, the average return on equity (ROE) of both banking groups diverged again in 2016. The average ROE of co-operative banks ($ROE_{COOP}$) remained at the same level as in 2015 (6%), while this indicator dropped from around 6 per cent to around 4.3 per cent for all other banks ($ROE_{EBS}$; Figure 4). Within the context of a cyclical recovery and low interest environment, the increase in capital and reserves equaled the growth of net income at co-operative banks. For the entire banking system, the growth of net income lagged behind the rise in equity. Since the beginning of the GFC in 2008, $ROE_{EBS}$ has been structurally lower than $ROE_{COOP}$. Over the entire depicted time span, the average $ROE_{COOP}$ and $ROE_{EBS}$ amounted to 7.1% and 6.8%, respectively. Figure 4 also visualizes the lower volatility of $ROE_{COOP}$ compared to that of $ROE_{EBS}$, which is in fact confirmed by formal statistical tests. It can be safely said that this finding corroborates earlier remarks about the different nature of co-operative banks.

**Figure 4 Return on Equity of co-operative banking groups and the entire banking sector**




**Source:** Own calculations based on data from co-operative banking groups, national supervisory authorities, the ECB and World bank.

**Note:** The orange and black lines represent the average return on equity of respectively co-operative banks and the entire banking sector over the time period 2002-2016.

## Efficiency

The average cost-income ratios increased in 2016. The CI-ratio of co-operative banks went up by almost 3 percentage points to 64. All other banks experienced an increase in this indicator of 2 percentage points to 63. It is not easy to pinpoint the causes for the observed decline in efficiency levels, since this ratio is influenced by many factors. However, one can conclude that the ratios have hardly deviated from each other since 2012; both banking groups operate equally (in)efficient. The relatively dense branch networks of co-operative banks do not translate into a substantial higher CI-ratio.

# PART 2:
# Testimonials of co-operative banking groups

The second part of this publication contains contributions from individual co-operative banking groups which are all based on and/or linked to Raiffeisen's original principles. Each contributor was asked to formulate concise answers to four identical and relevant questions:

1. **Could you briefly describe the origins and historical milestones in the development of your co-operative banking group?**
2. **Could you briefly elaborate on the mission and vision of your co-operative banking group?**
3. **What are the key features with respect to membership and governance?**
4. **Looking ahead, what do you consider to be opportunities and challenges for your co-operative banking group?**

The 'testimonials' provide the reader a glimpse of the long and rich history of the respective co-operative banking groups. The answers point to many similarities, but also some differences between co-operative banking groups. It underscores the diversity in co-operative banking. The contributions also show that these banks have frequently adjusted their organisation and governance to tackle all kinds of trends and changing circumstances. At the same time, one can plainly observe constant factors that were already mentioned in Part 1. The final question addresses the current opportunities and challenges for co-operative banking groups. These answers reveal major topics of discussion with policy makers and regulators.

The co-operative banking groups are included in alphabetical order of their home country name.

# Austria
## Raiffeisen Banking Group

Johannes Rehulka,
Executive Director

**Could you briefly describe the origins and historical milestones in the development of your co-operative banking group?**

The first credit co-operative in the territory of today's Austria was founded in 1886 in a small village not far from Vienna. From then onwards, numerous more came into existence and proved valuable institutions to support socially acceptable structural change in rural regions all over the former Habsburg Empire.

In order to strengthen the Raiffeisen sector, its first central banks at provincial level – today's Raiffeisen Regional Banks – were founded in the 1890s. However, the position of Raiffeisen within the total Austrian credit sector remained relatively modest.

The economic damage inflicted by World War I, the collapse of the Austro-Hungarian Monarchy in 1918, and the following hyperinflation necessitated a reconstruction of the organisation. With the establishment of the later **RZB** – todays **Raiffeisen Bank International (RBI)** – a nation-wide central institute for the co-operative credit business became reality in 1927. Thus the three-tier development of the **Austrian Raiffeisen Banking Group (RBG)**, consisting of locally active Raiffeisensbanks, Raiffeisen Regional Banks and one nation-wide central institute, had been completed.

Between 1938 and 1945, during the time of the German occupation, the Austrian Raiffeisen organisation lost its independence, but after World War II and a modest new beginning, RBG managed to turn itself into a powerful universal banking system, became efficient provider of financial services in rural areas and also proved to be able to penetrate urban centres.

Currently, RBG consists of more than 400 local banks, 8 Regional Banks and RBI. With around 2,000 outlets in total, it has the best developed network of bank branches in Austria. **4 Million people – almost 50 percent of all Austrians** – are customers, so that RBG is Austria's largest banking group with consolidated total assets of about

€280 billion. The name Raiffeisen and the gable cross symbol that represents the organisation in Austria, is one of the country's best known brands.

In addition to its significant role in its home market, Raiffeisen Austria is characterized by its economic commitment in CEE. In 1918 the collapse of the monarchy led to a disintegration of the former central European network of Raiffeisen co-operatives. But as early as 1986 – that was well before the fall of the Iron Curtain – new activities of former RZB, todays RBI in central Europe were resumed with the founding of a subsidiary in Budapest. Thus, Raiffeisen Austria played a pioneering role in preparing economic co-operation with CEE countries, helping their transformation into market economies at the end of the socialist era. RZB/RBI was the first western banking group to succeed, within a short period of time, in establishing a dense network of commercial banks in the reform countries. By doing so RZB/RBI managed to position itself as one of the leading banking groups in central and eastern Europe. Today **RBI Group employs more than 50,000 people** in CEE and operates a dense network of more than 2,400 branches with **16.5 million clients** throughout the region. On account of these activities, Raiffeisen Austria accompanied the economic transformation in central and eastern Europe from the very beginning.

## Could you briefly elaborate on the mission and vision of your co-operative banking group?

The Austrian Raiffeisen Banking Group combines basic principles from its early history – self-help, self-administration and self-reliance – with modern banking know-how.


Down to this day and true to these principles, Austrian Raiffeisen Banks are characterised by features like **customer orientation, local integration, social commitment and solidarity within the group**, combined with the strength of a large and modern financial services provider. Today as yesterday, the first aim is to increase the market power of its co-operative's members and to improve their economic position.

However, this applies to the financial sector as well as to all others in which the around 1,500 Austrian Raiffeisen co-operatives operate: Raiffeisen in Austria, besides banking, stands for innovative and **ecological agriculture** as well as for **strengthening the middle-class economy**. For industrial holdings to secure domestic jobs as well as for modern media. For international engagement as well as local patriotism and **solidarity.**

> **« Solidarity within this group makes close co-operation for the benefit and the security of Raiffeisen customers possible »**

## What are the key features with respect to membership and governance?

The Austrian Raiffeisen Banking Group has preserved its historically grown three-tier structure until today: just over 400 local and independent Raiffeisen banks are owned by 1.6 million members. Around 5,000 elected and voluntary officials represent the members interests towards the employed management. All local Raiffeisen banks together jointly own the respective Raiffeisen Regional Bank in their federal state. And these 8 Regional Banks together are with a collective stake of about 59 per cent the principal shareholders of RBG's central institution – the listed Raiffeisen Bank International.

Solidarity within this group makes close co-operation for the benefit and the security of Raiffeisen customers possible. Due to certain liability agreements, deposits in the Raiffeisen Banking Group are secured up to 100 per cent and therefore far beyond the minimum levels prescribed by Austrian law.

## Looking ahead, what do you consider to be opportunities and challenges for your co-operative banking group?

In times of growing anonymization and globalization, today's people are increasingly looking for traditional **values such as personal responsibility, solidarity and regionalism** – expectations, which would be well covered in small-scale co-operative banks. But while especially these are struggling with increasing and often disproportionate regulatory pressures, with the challenges of digitization, and not least with a somewhat old-fashioned image, many of their potential customers are turning to new trends such as sharing economy or digital crowdfunding platforms.

Against this background Raiffeisen Austria celebrates the jubilee year on the 200th anniversary of its name – and idea – provider ***Friedrich Wilhelm Raiffeisen*** under the motto: **'Raiffeisen - The Power of Idea'**. Be aware: co-operatives have a bright future, because co-operative values are gaining in importance again. But also in the knowledge: co-operatives not only have to communicate these values, they also have to live them – what requires a daily check in practice.

For decades the organisational structure of RBG – with its voluntary and enhanced co-operation at all levels – made it possible to combine the strength and potential synergies of a large financial institute with the proximity to its customers and the flexibility characteristic of small, community based co-operatives.
Both the constant adaptation of this structure and the strong rooting in the co-operative DNA will remain RBGs unique selling point. Also tomorrow.

# Belgium
# Cera


Matthieu Vanhove,
Executive Director

Franky Depickere,
Chief Executive Officer

## Could you briefly describe the origins and historical milestones in the development of your co-operative banking group?

Cera's roots go back to 1892, when the first Raiffeisenkas was set up in Rillaar by ***Jacob Ferdinand Mellaerts (1845-1925)***. Back then, the organisation's articles of association were by and large a translation of those published earlier by ***Friedrich Wilhelm Raiffeisen (1818 - 1888)***. In this manner, Cera became an important link in spreading the Raiffeisen concept outside Germany.

What began as a small, local savings guild would grow to become one of the biggest financial institutions in Belgium. More precisely, from an agricultural savings and credit institution, Cera developed into a general bank with activities in retail, SMEs, the corporate sector and community services. It provided a full range of banking products and services, including mortgage loans, savings, payments, investment funds, asset management and corporate finance.

In 1998, Cera's banking activities were incorporated into KBC, a newly-established integrated banking and insurance group. On that occasion, the federation of 207 local banks with a co-operative structure were absorbed by Cera Head Office. All members of these local banks then became direct members of Cera, thereby establishing one single strong co-operative. Also, through this transaction Cera became a major shareholder of KBC.

Today, Cera and its subsidiary KBC Ancora are the largest shareholders of KBC Group, together owning 21.2% of KBC. KBC is a bancassurer with 5 core markets, 1,600 bank branches, more than 40,000 employees and holds approximately €275 billion in total assets.

## Could you briefly elaborate on the mission and vision of your co-operative banking group?

Together with around 400,000 members, Cera invests in communities and works to build a strong co-operative. By joining forces with its members and partners, **Cera generates economic and social added value in three areas:**

- As a principal shareholder, Cera ensures a solid base for KBC Group;
- Cera generates a positive impact in our communities;
- Members of Cera qualify for unique benefits.

Raiffeisen's values of co-operation, solidarity and respect for all have been underpinning Cera's entrepreneurial approach for 125 years now.

With its baseline of **'Cera. Deep roots, broad presence'**, the co-operative emphasises its rich history and strong base as well as its wide-ranging and diverse activities in the financial, economic, social and societal spheres.

## What are the key features with respect to membership and governance?

Cera has around 400,000 members, with each one investing a minimum of €1,250 (25 shares of €50) and a maximum of €5,000 (100 shares of €50) in the company.

The Management Board has 20 members, 14 of whom are elected from the membership base. The chairman and the two vice -chairmen of the Management Board are elected from among these 14 members. There are six other directors, including two managing directors, three external directors who have been appointed for their specific, complementary expertise and one director who is also a member of the management committee. The majority of these directors are also members.

**The multi-stage representative structure is as follows:**

- **The General Meeting** to which all Cera members are invited. This draws around 1,500 attendees each year.
- **45 Regional Advisory Councils**, each with 15 to 25 members and just under 1,000 members in total. The advisory councils cover all of Belgium and include Dutch, French and German-speaking members.
- **The National Advisory Council**, which has four representatives from each of the Regional Advisory Councils (chairman, vice-chairman and two member representatives), plus the 14 directors from the membership base and the two managing directors. Together this comes to 196 members.
- **The Management Board**, which has 20 members in total.

Members and their representatives who are members of the Regional and National Advisory Councils also regularly participate in steering and sounding-board groups and other consultative bodies. Members are regularly informed about what's going on at Cera via the CeraScope and CeraSelect magazines, e-zines and also messages published on the website. This ensures good top-down, as well as bottom-up information flows. As such, consultation and participation are firmly established within the structures and operation of the co-operative group.

## Looking ahead, what do you consider to be opportunities and challenges for your co-operative banking group?

The zeitgeist is beneficial for organisations like Cera, since the co-operative is helping to create **a more sustainable society** with its values of co-operation, solidarity and mutual respect. Continuous awareness of the need to broaden and rejuvenate the membership base is an essential condition for ensuring a dynamic co-operative structure over the longer term. An extensive membership base gives Cera legitimacy and the strength to fulfil its role in the economy and society in general.

To start with, there is the contribution made towards developing the strategy of KBC and the bancassurer's supervision. Together with the other stable shareholders, Cera supports KBC in its role as a benchmark bancassurer and also in having **a positive influence on society.**

Involvement and the active engagement of members must also be given a contemporary and future-oriented interpretation. Direct human contact – such as with the operation of the advisory councils or taking part in member benefit activities – will go hand in hand with the use of **new media** and **communications technology.**

In the future, members will also be able to benefit from attractive and wide-ranging discounts on products and services. After all, the power of collective purchasing has traditionally been one of the great advantages enjoyed by co-operatives such as Cera. These discounts have proven to be a very tangible and appreciated benefit among Cera members. Moreover, Cera also endeavours to distribute **an attractive annual dividend** as financial compensation in return for members' investments.

By way of periodical strategic reflection and on-going consultations with all stakeholders, Cera keeps its finger on the pulse with respect to **social developments**. With the support of the membership base and the efforts of many volunteers, Cera will continue to initiate, support and supervise social projects over the forthcoming period. This is carried out at local, national or international levels in the following areas:

- Poverty reduction and social inclusion
- The arts and culture
- Agricultural and horticultural
- Co-operative enterprise
- Healthcare in society
- Local initiatives in education and youth work
- Supporting microfinance and micro-insurance together in the South

### Cera AT A GLANCE

**400 000** members

**1.600** bank branches

**275** billion consolidated total assets

# France
## Crédit Mutuel

Étienne Pflimlin,
Honorary President

### Could you briefly describe the origins and historical milestones in the development of your co-operative banking group?

After a few attempts at creating mutual support funds and mutual credit funds in the middle of the 19th century, the success of the innovative Christian model defined by ***Friedrich Wilhelm Raiffeisen*** in the Rhine region inspired a few pragmatic utopian theorists and French clergymen wishing to help people break away from the 'poverty, dependency, poverty' cycle. The genuine starting point of the French mutual bank model is thus to be found in the region of Westerwald and in the relevance of the economic and social success of the first German Raiffeisen banks. This success allowed for the replication of the model in France, first in the Alsace-Moselle region (which at the time was annexed by Germany), and then throughout the rest of France, where the development of co-operative banks was much more fragmented because of the action of multiple players: farmers' unions, agronomic societies and Government authorities. In this complex environment, ***Louis Durand*** and ***Ludovic de Besse*** supported the creation of rural lending funds and popular lending funds in France. These funds sometimes managed to join forces, but were also sometimes at odds with each other, in particular as regards issues such as religious neutrality and relationships with the State.

**The development of French co-operative banks was marked by three phases:**

1. the first phase (from the end of the nineteenth century until the economic crisis of the nineteen thirties): emergence and regulated development;
2. the second phase (from 1945 until the beginning of the 1980s): national structuring, strong territorial growth and strengthened regulations;
3. from the 1980s until the present time: the specific features and operational restrictions of co-operative banks disappeared gradually after the enactment of the

1984 Banking Act, which converted co-operative banks into universal banks, which incrementally became major national players by acquiring other banks. In an increasingly globalized environment marked by European financial and regulatory harmonisation, Crédit Mutuel is strengthening its ratios (CET1 equal to 15.7%) in order to become one of Europe's most solvent banks.

The success of Raiffeisen's ideas throughout the 20th century is explained by the convergence of ethics and economics in corporate actions, deposits and loans, but also and most importantly by the co-operative bank's ability to respond to people's needs and expectations by adapting its policies. Crédit Mutuel was able to do this by developing its products and services, the banking insurance sector and additional services (electronic money, telephony, remote monitoring, etc.), while remaining faithful to its original co-operative model and founding values.

## Could you briefly elaborate on the mission and vision of your co-operative banking group?

While asserting its resolve to enjoy managed growth outside its boundaries, Crédit Mutuel primarily remains a national retail bank wishing to offer high-quality service to its **7.7 million members** and its **31 million clients**. The Group's deep regional roots and its participation in the financing of regional economies are reflected by the fact that more than 91% of its loans are mobilized in France, a ratio very markedly exceeding that observed with other large French banks.

Our permanent objective consists in offering to our clients/members high-quality diversified services adapted to each client, while always protecting the absolute confidentiality of computerized data.

Retail banking – the Group's core business – accounts for 72% of our Net Banking Income and confirms the relevance of a development model in which co-operative proximity, technology and our ability to listen to clients play a pivotal role in the success of our bank, which does not pay any commissions on sales: the proposed advice and solutions are designed in our clients' interest. Bolstered by its strong commitments, Crédit Mutuel has developed on-line offers, but also aims at assisting clients who are financially weakened. Also, we have supported social micro-credit initiatives.

Thanks to their involvement and expertise, all of our **82,000 employees** and **24,000 elected officials** strengthen our Group's financial solidity, by making it secure and lasting, by actively contributing to the increase in the proportion of French households with a bank account, while increasing democratic governance modes throughout the country.

The Group's results have been hailed as highly remarkable, and for more than 10 years Crédit Mutuel has become the favourite brand of the French people, thus bearing testimony to the strong trust relationship existing between Crédit Mutuel and its clients/members.

## What are the key features with respect to membership and governance?

Crédit Mutuel's **2,107 local banks**, **18 regional federations** and **6 federal or inter-federal banks** hold their general meeting each year. Such meetings thus enable nearly **500,000**

**members** of Crédit Mutuel to elect 24,000 volunteer officials representing our 7.7 million clients/members. During such **democratic gatherings**, and in particular during the renewal of the local or regional boards, Crédit Mutuel fosters diversified and balanced representation by our elected officials. Regional federations also encourage a more active representation of women and prompt the youngest citizens to become involved in the life of their local bank. Elected officials are made aware of generational changes (age limit, limitation of the joint holding of corporate offices).

The efforts made in order to appoint a larger number of women as elected officials are bearing fruit. Indeed, during the latest board renewal, **gender equality** was nearly achieved during the elections made at general meetings.

Numerous **training programs** are offered to the 24,000 volunteer officials so that they may fully fulfil their duties. Within the Group as a whole, the training of volunteer officials represents more than 120,000 hours per year, and each official assumes the moral obligation to participate in one training program per year.

Also, a genuine reflection focused on the concept of **Mutual and Social Responsibility (MSR)** was initiated in numerous regional federations and now makes it possible for each local bank to prepare a mutual action plan.

## Looking ahead, what do you consider to be opportunities and challenges for your co-operative banking group?

Crédit Mutuel is proud of its co-operative and mutual development, which is resolutely modern. Such modernity can be defined as the ability **to combine technology and responsibility,** so as to offer diversified services. Crédit Mutuel's policy is clear: to ensure that local banks become the center of the physical, telephone and digital relationships with clients, as innovation and employment, investment and service, whether virtual or real, go hand-in-glove.

The Group has already long been digitized and implements internal digital solutions in order to facilitate, even more, all forms of local decision-making. Indeed, retail banks must **ensure that technology serves human relationships.** They must redefine themselves in a more open world where competitors may emerge from outside of the banking community.

To that end, our already complete and innovative offer of banking, electronic payment systems and insurance services must be enhanced by additional products: telephony, residential security monitoring, lease-purchase of vehicles, real estate service, connected objects, etc.

A bank's business activity consists in fostering economic development by assuming the management of certain risks (credit, interest rates, liquidity, etc.). The future of retail co-operative banks depends on their ability to meet three requirements: to integrate new technologies into their distribution model, to manage new risks and to meet the expectations of clients/members and local communities by allowing for the development of new forms of economic activity. Because of their role as **proximity** co-operatives, local banks have a formidable asset: as grassroots financial operators, they best know the **local economy** and are best able to select risks and to finance them. This is truly **a model geared towards the future**.

# Germany
## National Association of German Co-operative Banks

Gerhard Hofmann,
Member of the Board
of Directors

### Could you briefly describe the origins and historical milestones in the development of your co-operative banking group?

The first local co-operative banks worldwide were established during the mid-19th century in Germany. In 1843, 50 citizens of Öhringen in Württemberg founded the first local co-operative bank (Öhringer Privatspar - und Leihkasse) that is the predecessor of the today's local co-operative bank called Volksbank Hohenlohe. In the following decade, the judge and Prussian politician ***Hermann Schulze-Delitzsch*** and the mayor ***Friedrich Wilhelm Raiffeisen*** established independently loan associations in their local regions under the names Volksbanken and Raiffeisenbanken. Out of this, both developed central guidelines for how to set up a co-operative bank that became general trademarks for co-operative banking in Germany and later worldwide. Both wanted to support the poor and very small businesses that had often no chance to improve their living conditions since they were not able to fund themselves. In the following decades many new co-operative banks and central institutions for interbank liquidity management were founded and, thanks to Schulze-Delitzsch, the banks could hold up their private and democratic character. In 1920 the number of co-operative banks rose to more than twenty thousand in Germany.

In the aftermath of the German economic crisis in the 1920s and the Great Depression in 1929, the first institutional protection scheme (as a means to safeguard customers' deposits) for the local co-operative banks was set up in 1934. This original institutional protection scheme is still in use today; it is indeed the world's oldest exclusively privately financed deposit guarantee mechanism for banks. The years under the NS-regime and the Second World War had been a huge material and immaterial burden for German co-operative banks. However, after the Second World War the co-operative banking system established itself as one of the three banking pillars in Western Germany.

In the second half of the 20th century two main events should be mentioned. First, Volksbanken and Raiffeisenbanken merged under one umbrella institution in 1972, the **National Association of German Co-operative Banks (BVR)**. Second, in 1990, West German local co-operative banks signed partnership agreements with East German co-operative banks (former GDR). Finally, in 2016, the **UNESCO** honored the German co-operative idea by adding the co-operative principle to the Representative List of the Intangible Cultural Heritage of Humanity. This has been Germany's first contribution to the list and a great honor for the co-operative idea worldwide.

**« The interests of members are higher valued than short term profit maximization »**

## Could you briefly elaborate on the mission and vision of your co-operative banking group?

The central goal of co-operative banks in Germany is to support their members. The interests of members are higher valued than short term profit maximization since the German co-operative banks consider themselves to be communities with shared values whose objectives extend beyond those of purely business-driven organizations. The traditional co-operative values include community spirit, a sense of belonging, cohesion, partnership, trust, fairness, and responsibility. The work of the local co-operative banks is based on these values with the goal to create tangible value for its members and customers.

The principles of self-help, self-management, and self-responsibility – guided by the aforementioned fundamental values – are what make co-operatives unique organizations. Right from the beginning of the history of this movement local co-operative banks were driven by these liberal ideals to empower their members (private households and businesses) to help and manage themselves. Today, these principles are still highly appreciated in the co-operative banking network of Germany (Genossenschaftliche FinanzGruppe). These principles also mean that the individual co-operative banks are independent and do business independently for, with, and in their region. They are organized in the form of a network which promotes financial stability through the common institutional protection scheme and represents close co-operation between local banks and the central institution (DZ Bank). All typical financial services as well as insurance products are being offered by the local banks due to the cohesion of the network and the use of products from DZ Bank Group. One of the characteristics and goals of local co-operative banks is their closeness to the region and its people. Usually co-operative banks are an integral part of their village, town or region.

## What are the key features with respect to membership and governance?

German co-operative banks are privately owned SME like entities. They are based on the general identity principles which say that a co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise. Customers of the bank may apply for membership at the Board of Managing Directors. It is only possible to become a member of a co-operative bank by becoming a customer of the bank. Membership makes co-operative banks different from all other banks in Germany. Indeed, membership is the USP (Unique Selling Proposition) of co-operative banks. No other banks offer this benefit.

According to its core principles members are responsible for directing and monitoring their co-operative bank. They also decide who takes on these management and supervisory roles. German co-operative banks had introduced basic democratic principles long before Germany became a democracy. Each member has always had one vote, irrespective of how many shares he or she holds in the bank (one member one vote principle, not one Euro one vote). It was not without reason that the German chancellor and monarchist Otto von Bismarck called co-operatives the war chests of the democratic idea during his years in government. The principle of equality represents one of the main differences to the common shareholder principles.

> **« Shares in co-operatives are not listed on a stock exchange and thus not exposed to changes in prices. »**

There is another difference to common shareholder enterprises: Shares in co-operatives are not listed on a stock exchange and thus not exposed to changes in prices. When a member leaves the co-operation, the unchanged par value of the shares is repaid. The return for shareholders takes the form of annual profit distribution. The co-operatives undoubtedly support their members, but they also expect long-term support from them. This means that members cannot simply sell their shares whenever they want. Usually, there exists a notice period in the articles of association that is defined by its members, often the time until the next General Assembly Meeting. Moreover, the managing board and the supervisory board of a bank may restrict the redemption of co-operative share. This ensures that the co-operative banks have a stable capital base, also in more difficult times.

> **« The institutional protection scheme of German co-operative banks has never failed since it was set up in 1934. »**

The co-operative principles also hold for the many local co-operative banks in the co-operative banking group. With regard to safety and stability issues, in particular, each co-operative bank in Germany has to meet the guidelines of the institutional protection schemes, that are run and organized by the BVR (Institutssicherung GmbH and the BVR Sicherungseinrichtung). The aim is to ensure maximum safety by preventing financial difficulties at the affiliated banks. The institutional protection scheme of German co-operative banks has never failed since it was set up in 1934.

## Looking ahead, what do you consider to be opportunities and challenges for your co-operative banking group?

The opportunities and challenges are manifold nowadays. The co-operative banking group in Germany (Genossenschaftliche FinanzGruppe) has shown a strong resilience to financial market shocks. In the past ten years, local co-operative banks have proved themselves as a strong and reliable partner of retail customers as well as small and medium sized enterprises in Germany. Subsequently, market shares of co-operative banks have slightly risen on the German banking market since 2008.

**« Local co-operative banks have proved themselves as a strong and reliable partner of retail customers as well as SMEs »**

However, co-operative banks in Germany face severe challenges. They arise mainly from three areas: First, the regulation of banks and financial markets creates special challenges for small and medium sizes co-operative banks and - of course - all other banks through increasing capital, liquidity and informational requirements. While German co-operative banks are well capitalized and have ample liquidity at their disposal, the administrative costs of regulation and supervision have become enormous. Furthermore, new rules and guidelines introduced by regulators and supervisors directly and indirectly affect the governance of banks. In particular, the co-operative banking group have to put forward good arguments for a regulation that fully observes the principle of proportionality.

Second, the expansive monetary policies worldwide pushed interest rates massively down to artificially low levels close to or below zero. This leads to shrinking interest income in classical banking and increased interest rate risks.

Third, the digitalization is changing our lives and banking business as well. The interaction between the bank and its customers has to be adapted to the new possibilities and expectations of clients. The technological changes have encouraged new competitors to enter the banking market such as FinTech companies. However, the aforementioned challenges will be also great business opportunities if the co-operative banking group is able to handle those challenges successfully. Looking at the history of German co-operative banks over the last 175 years, one of our strength has been the ability to successfully adjust to changing environments, even if these adjustments have never been easy.

# Italy
## Banche di Credito Co-operativo

Augusto dell'Erba,
Chairman of Federcasse

### Could you briefly describe the origins and historical milestones in the development of your co-operative banking group?

Co-operative banking has a long history in Italy. Its development is hinged on two different types of co-operative banks, the **Banche Popolari (BPs)** and the **Banche di Credito Co-operativo BCCs)**, previously named as Casse rurali. The first BP was established in Lodi in 1864, following the example of the German Volksbanken whose model was introduced in Italy through the writings of the economist Luigi Luzzatti. The first Rural Bank (RB) was set up in Loreggia (close to Padova) in 1883 by ***Leone Wollemborg*** which took as a model the German Raiffeisen experience. Since then, co-operative banking has experienced a long period of growth and strengthening, becoming a relevant part of the Italian banking sector.

Both BPs and RBs have been structured as tiered networks with independent banks at the local level and centralized functions and bodies at the upper tiers. RBs were reformed in 1993 to be fully compliant with the universal banking model introduced by the Second Banking Directive. They were also renamed as Banche di Credito Co-operativo (BCCs).[5]

Despite a different inspiration, both types of co-operative banks have been endowed with the common governance feature which is known as the **'one head one vote'** principle, largely shared with many other co-operative banks in Europe. Nevertheless, relevant differences in their legal framework have influenced the organizational structure and evolution of the two co-operative sectors in Italy.

[5] Change of name was not strictly compulsory and the 'Rural' and 'Raiffeisen' terms were kept respectively in the Province of Trento and in the Province of Bolzano

Over the past decades, the BCCs have supported the economic and social growth of their communities becoming a relevant player in financing households, small and micro enterprises. Since the mid-nineties, BCCs activity has experienced a steady growth which favored mostly their typical customers: small enterprises and households. In 2017, 9.5 per cent of the total loans granted to Italian enterprises have been issued by a BCC-CR. The percentage rises significantly if referred to small enterprises. Also the share of financing to households has reached a significant level (8,5 per cent of the total banking industry).


**« Their presence insure a true diversification and competition within the Italian Banking industry. »**

The process of consolidation that has affected the Italian banking industry brings about a relevant and progressive disappearing of many local banks through mergers and acquisitions. Nowadays, BCCs represent the greatest majority of local banks. In many areas of the country they are the sole local banking reality. Their presence insure a true diversification and competition within the Italian Banking industry.

At the end of 2017 there were 300 BCCs with 4,256 branches (15.2 per cent of the total banking industry) operating in 2,651 municipalities. These are mostly small-medium sized urban centers. Members were more than 1.27 million. Total loans to clients reached €130.7 billion in 2017; total funding from clients €157 billion.

Finally, major institutional changes were introduced in 2015 with the transformation of largest BPs into stock company status[6] and in 2016 with the Reform of BCCs,[7] which is the result of a constructive dialogue between the National Federation of BCCs, competent Authorities and Italian Government. **The BCC Reform Law** was issued in April 2016 after several months of consultations. At the time of writing this paper, it is still on going and expected to be fully implemented by the end of 2018.

## Could you briefly elaborate on the mission and vision of your co-operative banking group?

The article 2 of the BCCs statute states: *'The main purpose of the Society is to support the and to assist the members belonging to the local communities with the transactions and the bank's services, aiming to improve*

[6] Law n. 33, 24 March 2015
[7] Law n. 49, 8 April 2016.

*the moral, cultural and economic conditions of the members and promoting the development of the co-operation, the importance of the saving security, the social cohesion and the sustainable growing of the territory in which the bank operates'*. In order to fulfill this aim BCCs have developed a strong focus on traditional intermediation, based on the originate-to-hold model and on long-lasting fiduciary relationships with members and other customers, even though lending to non-member clients is legally limited. Therefore, the mutualistic nature of BCCs is significantly assured by law and regulation and has been maintained over time. Furthermore, the local character is also enforced by law, with specific restrictions concerning their operational areas.

So far, the BCC system has been endowed with the functioning of a tiered banking network, with independent local banks, regional federations, and other bodies at national level, including the guarantee funds. The independent character of each BCC has not only been a legal feature but also a fundamental value of this co-operative banking form.

In 2016, the Reform of BCCs started by law the process toward the establishment of co-operative banking groups within the network. Although legal independence of BCCs is preserved, the group form to be adopted is not different from those of other European co-operative groups and is expected to reduce the degree of freedom at the local bank level through centralization of processes and internal controls. Despite the radical change of the organizational form, the mission of the BCCs remains the service on behalf of members and local communities.

## What are the key features with respect to membership and governance?

**The main legal aspects specifically referring to BCCs are the followings:**

a. Each member has **one vote** in the general assembly regardless of the number of shares owned;

b. **share capital:** each member may own more than one share, but the overall nominal value of the shares owned may not exceed €100,000;

c. **members composition:** they must have their domicile and/or continuative business within the territory where the bank operates;

d. **mutualism:** at least 51% of the risk activitymust be carried out with members;

e. **territorial ties:** 95% of the lending must be in the catchment area (defined by the municipalities where the BCC has a branch and the neighboring municipalities);

f. **profit distribution:** at least 70% of profit must be put to legal reserve. A further 3 per cent must be paid into a national fund for the development of co-operation. Reserves cannot be distributed to members (even in case of liquidation).

All these legal provisions will be maintained in the new legal framework following the 2016 reform.

## Looking ahead, what do you consider to be opportunities and challenges for your co-operative banking group?

The banking sector is undergoing important changes: new competitors are entering the market, the technology is transforming the field and regulation is narrowing the degrees of freedom in organizational and governance choices.

> « Adapting to the environment has always been a comparative advantage of the co-operative banks. »

The radical transformation of the BCCs from one common voluntary network to three centralized banking groups entails opportunities and challenges.

The group structure should enable the BCCs to better deal with the rapid evolution of the banking sector in the following terms:

- cost rationalization and better capital allocation;
- investment opportunities by pooling resources;
- diversification of the business model;
- streamlining the decision making process.

Nevertheless, the group structuring is a challenge as well: the complexity of setting up and running such type of group with a large number of banks of different size and geographical location should not be underestimated. Moreover, partitioning the BCC network into three co-operative groups, two of them with nation-wide extent, brings about restructuring a relevant number of common network entities which have been set up over time. It is worth noting at this regard that, in many EU countries, the evolution from bank networks to centralized groups has developed over a long period of time, usually under the oversight of the national supervisors and governments.

Finally, a further challenge for the future BCC Groups is to find the right equilibrium between the joint stock form of the group and the mutual co-operative aim that should guide the strategies of the same group. Reconciling the BCC vocation to support members and local business with the strategies defined by the parent company (and the constraint stemming from the European supervision) may not be a smooth task; the crucial factor will probably be the real practice of the new group governance that will be set up in order to manage processes and decisions. If well implemented, the new organizational structure will allow the nascent co-operative banking groups to fulfill even more than in the past their role of local bankers in compliance of globalized standards.

# Japan
## The Norinchukin Bank

NORINCHUKIN

Yoshio Kono,
President and Chief
Executive Officer

### Could you briefly describe the origins and historical milestones in the development of your co-operative banking group?

Firstly, I would like to express my sincere appreciation to the 200th anniversary of Friedrich Wilhelm Raiffeisen. Readers may wonder why a Japanese co-operative banking group celebrates the father of European credit co-operatives. In fact, the rise of Japanese agriculture co-operatives has close connections to the German agriculture co-operative system that stemmed from the idea of Mr. Raiffeisen.

The notion of co-operatives has been developed naturally and simultaneously across the globe. In Japan, advocated by practice leaders such as ***Yugaku Ohara*** and ***Sontoku Ninomiya***, the prototypes of co-operative systems such as Senzo-kabu-kumiai and Go-jo-ko were developed and the spirit of mutual assistance was fostered across village communities in early 19th century. Based on such background, gouvernement officials who studied in Germany led drafting ***'Co-operatives Act'*** enacted in 1900, which formed the foundation of Japanese agriculture co-operative system today.

The Norinchukin Bank (the Bank) was established as the national federation for such Japanese agriculture, fishery and forestry co-operatives in 1923. Since its inception, the Bank has maintained the spirit of **'one for all, all for one'**, while adjusted its role and business models corresponding to the needs of members and society. The Bank initially played the role financing the regions of insufficient funds, but as deposits at Japanese Agriculture co-operatives (JAs) increased nationwide, the Bank shifted its role to the institutional investor in 1970s. In 1990s the Bank has focused on sophistication of its globally diversified investment strategy and on enhancement of the financial services and soundness of JAs' banking business through the integrated operation as **'JA Bank Group'.** In 2016, the Bank defined 'Food and Agriculture Business' as the new major business domain and declared to create and offer added values to turn Japanese agriculture, fishery and forestry industries into growth industries.

Today, JA Bank Group has established itself as the major Japanese retail banking group that consists of 687 banks (654 JAs, 32 Shinno-rens or prefecture-level federations, and the Norinchukin Bank), over 10 million individual co-operative members with deposit totaling approximately 100 trillion JPY.

## Could you briefly elaborate on the mission and vision of your co-operative banking group?

The Norinchukin Bank has responded to the trust and needs of its members and the society since its inception through its foundational mission to '*contribute to the development of the agriculture, fishery and forestry industries and to national economic prosperity by facilitating access to financial resources,*' as stated in the Article 1 of the Norinchukin Bank Act.

As the environment surrounding the industries changes over time, however, JA Bank Group receives even bigger expectations to address the societal need to increase income of producers and workers in the industries and to revitalize rural areas through developing its platforms that support JAs and offer financial services that bridge agriculture and the communities.

Therefore, the Bank declared its future vision in 2016 to become '*a leading bank that supports the agriculture, fishery and forestry industries, food production and consumption, and the daily lives of local communities*' toward its 100th anniversary in 2023. The Bank is developing various initiatives to further strengthen financial network system of JA Bank Group and offer solutions to contribute to the development of the industries and local communities.

Also, the Bank created its corporate statement '*dedicated to sustaining all life*' in 2017, reflecting the voices of the Bank's all employees. Agriculture, fishery and forestry industries, after all, produce and nurture life as a legacy for future generations, despite facing overwhelming natural disasters from time to time. All of the Bank's employees unitedly supported the devastated Tohoku regions both financially and non-financially to recover from damages by the Great East Japan Earthquake and Tsunami that struck in 2011. We believe it is our unchanging mission to make the chain of life that connects us more bounteous and more certain by utilizing our financial knowledge from the view of the field of the industries.

## What are the key features with respect to membership and governance?

The Norinchukin Bank is the national-level banking federation for the three-tier network that comprises local-level co-operatives namely JAs, Japanese Fishery co-operatives (JFs) and Japanese Forestry co-operatives (JForests), prefecture-level federations such as Shin-no-ren, and the Norinchukin Bank.

One unique feature of JA is its comprehensive business structure that conducts not only banking business but also a broad range of businesses such as guidance (e.g. on management and production for farmers, fishermen and foresters), economy (e.g. sales of produce and supply of production materials), mutual aid, and health and welfare, among others, to respond to members and local community's needs.

JAs, Shin-no-rens, and the Norinchukin Bank, while maintaining their independence, form JA Bank Group to operate integrally under one rule.

## Looking ahead, what do you consider to be opportunities and challenges for your co-operative banking group?

Japanese agriculture, fishery, and forestry industries – the foundation of the Norinchukin Bank – face macroeconomic environmental challenges such as the aging and shrinking population both nationwide and regionally, which impact membership base of co-operatives. From the perspectives of financial institutions, we also perceive the tougher and drastically changing business environment, such as long-lasting negative interest rates, compliance to various enhanced regulations, competing with new industry entrants such as fintech companies, and adapting to rapidly evolving digital technologies. Fulfilling the needs of members and society with the co-operative spirit of mutual assistance despite such environmental changes is the enormous but unavoidable challenge.

**« the Bank is determined to contribute to the revitalization and sustainable development of the regions »**

On the other hand, a noteworthy opportunity is that Japanese government for the first time positioned Japanese agriculture, fishery and forestry industries as growth industries with strong support under Abenomics policy, and Japanese society's interest and expectation to the industries has risen to all-time high. Pursuing this key opportunity, the Bank added 'Food and Agriculture Business' as the new main business domain under the Bank's mid-term management plan. We aim be the bank that people call on first in this field, by providing the broad range of financial and non-financial services to increase value added across the entire food value chain.

Mr. Raiffeisen established the agriculture co-operative to promote self-help and recovery of farmers facing severe economic environment. As Japanese rural areas face challenges today, the Bank is determined to contribute to the revitalization and sustainable development of the regions by conquering these challenges and growing the industries ahead.

# Luxembourg
## Banque Raiffeisen

Guy Hoffmann,
CEO Raiffeisen
Luxembourg

### Could you briefly describe the origins and historical milestones in the development of your co-operative banking group?

The first Raiffeisen credit co-operatives were founded in Luxembourg in 1925. In early 1926, the existing banks set up the **'Centrale des Caisses Raiffeisen luxembourgeoises'**, renamed in **'Banque Raiffeisen'** in 2001.

The Raiffeisen model developed very quickly and by 1970, the network had 138 outlets across the country. New technologies, namely payment cards, self-service and online banking changed the habits of the customers and led to the merger of many branches of the network which is now made up of **13 'Caisses'**, each with several branches, plus **12 branches** that report directly to Banque Raiffeisen.

Today, with a network of some 40 agencies, Raiffeisen serves retail, private banking and corporate clients. We assist private clients with their everyday banking transactions, finance their projects and manage their savings and investments. We also serve businesses and freelancers through a team of specialists offering notably a bespoke service and advice in project financing. Finally, the bank's asset management specialists provide a professional service to savers and investors.

Since 1925, Raiffeisen has always been committed to solely working in the interests of its clients and members. Today Raiffeisen has some **30.000 members**. Year after year, surveys consistently showed that Raiffeisen clients are those that are the most satisfied with their banking relations.

### Could you briefly elaborate on the mission and vision of your co-operative banking group?

As an independent co-operative bank, Banque Raiffeisen provides banking services to clients living or working in Luxembourg.

« We seek to forge long-lasting relationships that are built on trust and rewarding for both our customers and the bank. »

Using efficient processes, Raiffeisen offers premium solutions to meet the clients' needs at key moments of their life, through whichever channel they choose. We seek to forge long-lasting relationships that are built on trust and rewarding for both our customers and the bank. We aim at being the clients' natural choice for their main bank in Luxembourg.

We undertake to respect, apply and share the company's longstanding values day after day:

- **Respect** - esteem and long-lasting relationships
- **Ambition** - the best of ourselves to achieve success and customer satisfaction
- **Proximity** - local actions and cordial relations
- **Passion** - enthusiasm as we strive for excellence

## What are the key features with respect to membership and governance?

Responsible banking is in our DNA. As an independent co-operative bank, one of our guiding principles is the responsibility we have for the welfare of all of our stakeholders. We put emphasis on our prudent commercial approach and serve above all the interests of our members and clients.

Each customer can easily become a Raiffeisen member. Members are both owners and clients of their local bank, they are entitled to attend the general assembly and can themselves be elected as member of the board of directors.

It is especially for our client-members that the **'OPERA Advantages'** program has been designed and we are more than pleased to have over 30,000 members today compared to 10,000 members at the start of the program. Thanks to this program, they have benefited from advantages of about one million euros in 2017. We are proud to say that at Raiffeisen, the client-members benefit directly from the result realised by their bank.

## Looking ahead, what do you consider to be opportunities and challenges for your co-operative banking group?

The high implementation costs of ever-increasing regulatory requirements are particularly challenging for a bank like ours. We operate in a country that has less than 600,000 inhabitants. Its multilingual society, with about half of the inhabitants being foreign nationals with different cultural backgrounds, part of them living in Luxembourg for a few years only while others are coming to stay, makes it difficult and costly for companies to design their strategies, offers and services. **We are thus facing dramatically rising costs, at a time when low interest rates are putting more and more pressure on banks revenues.**

Digitization is changing our lives and is challenging some if not most of our traditional co-operative values. But **digitization also offers new opportunities**. There is no doubt that a state of the art digital customer experience is a must for all banks, be they financial institutions driven by shareholder value or co-operative banks driven by member value. But we don’t think that all of our customers will be satisfied by an online-only banking service. We believe that part of them will continue to privilege using the branch and that the need for a real person to discuss with will not disappear. We are convinced that a lot of customers will continue to seek personal advice for more involving projects such as investments or financing their new home. Being a local co-operative bank, whose first ambition is not to maximize its revenues, remains one of our biggest strengths in that context. It enables us to offer premium quality services through all channels, which is the best way to ensure high levels of long-lasting loyalty and customer satisfaction.

# The Netherlands
## Rabobank Group

Wiebe Draijer,
Chairman of the
Managing Board

### Could you briefly describe the origins and historical milestones in the development of your co-operative banking group?

It is a challenge to pinpoint the most salient developments in the long and rich history of Rabobank in a few words. Basically, the common thread since its inception is to offer financial solutions for economic needs and social issues. In practice, Rabobank has frequently reoriented its strategy, business model and governance structure in anticipation of or in response to shifting trends in society, technology, competition, banking regulation and supervision, etcetera.

Poor economic conditions in the Dutch agricultural sector in the late 19th century triggered people's initiatives to establish local co-operative banks (LBs) in their village communities, i.e. self-help in Raiffeisen's words. After the foundation of the first LBs in the years 1895-1897, two central organisations were created in 1898. During the next decades, LBs of both co-operative banking groups, i.e. Raiffeisenbanken and Farmers' banks (Boerenleenbanken), spread rapidly throughout The Netherlands. They provided their farmer and horticulturist-members access to affordable loans which were primarily funded by local savings. Members of the LBs decided to reserve the largest part of the realised annual surplus, while a modest part was reinvested in local societies. This capitalisation and reinvestment policy has been pursued ever since and has been recorded in all subsequent articles of association. Each LB initially applied **the principle of solidarity between its members.** Since the 1960s, LBs also serve non-members.

The central banks of the LBs were not only helpful in overcoming the disadvantages of the local banks' limited scale and fostering their development by performing the coordinating role of a 'banker's bank'; they also served as internal control or audit institutions as well as knowledge centres for LBs. In

1972, the central organisations of Raiffeisenbanken and Boerenleenbanken merged into Rabobank Nederland (RN). RN 'inherited' the responsibility to exert delegated supervision over LBs and to ensure compliance of LBs with the prevailing capital adequacy and liquidity regulations. From the 1980's onwards, the domestic and international activities expanded gradually. A recent milestone concerns the merger of all LBs and RN into one co-operative bank in 2016 as will be explained below. In short, Rabobank has always operated as **a strongly integrated co-operative banking group**, which partly explains the high credit ratings provided by international rating agencies.

> **« Rabobank commits itself to achieving progress in society and in the Sustainable Development Goals defined by the United Nations. »**

## Could you briefly elaborate on the mission and vision of your co-operative banking group?

Being a co-operative, **profit maximalisation has never been our overriding purpose**, but profits are necessary for meeting capital requirements, continuity and the pursuit of our social goals. Of course, entrepreneurship, cost-effective distribution concepts and innovative financial concepts at fair prices are prerequisites for every financial co-operative. In Raiffeisen's spirit, Rabobank stays faithful to the 'dual-bottom line' approach. Through its **'Banking for The Netherlands'** and **'Banking for Food'**, Rabobank commits itself to achieving progress in society and in the Sustainable Development Goals defined by the United Nations. 'Banking for The Netherlands' is closely linked with our social agenda which was formulated in co-operation with our member representatives. In accordance with its Dutch roots, the international strategy centres around 'Banking for Food'. Rabobank intends to **contribute to resolving the food issue worldwide** in view of the predicted increase in world population, formulated in our mission: **"Growing a better world together"**. Both the domestic and international mission encapsulate the core values of the co-operative and are firmly anchored in the infrastructure and governance of the organisation. These features have safeguarded Rabobank's special position in the financial sector, its long-standing focus on servicing the real economy and, last but not least, its ambition to serve the interests of **local sustainable development**.

## What are the key features with respect to membership and governance?

Members give co-operatives legitimacy. Currently, around 1.9 million, or 25 per cent, of our Dutch customers are members of a local Rabobank. Members are represented in local and collective governance bodies and exert an important 'bottom-up' influence on the course of the local Rabobank as well as the entire organisation. Members have access to knowledge, information and networks of Rabobank. Members don't receive individual financial benefits, but Local Members' Councils determine how the largest part of co-operative funds, amounting to around 3-4 per cent of net annual results, is spent locally. The remaining part is used to support rural co-operatives in developing and emerging economies via Rabobank Foundation. Since it is crucial that membership remains meaningful and attractive in this digitalising and virtualising era, enhancing member involvement, commitment and engagement is high on our agenda.

In January 2016, Rabobank adopted a new governance structure. In the Netherlands, all LBs and RN now operate as one co-operative bank with one banking licence and one set of financial statements. Delegated supervision by RN ceased to exist. The key features of the **member-based governance** have never changed, though. These include the bottom-up decision-making process, the associated focus on retail banking with its relatively stable income streams and retained earnings as the primary source of capital building. Moreover, a defining aspect of the governance is that the co-operative part is linked with the tactical and operational banking business. The bank is governed by mechanisms and rules connected with its co-operative ownership structure.

## Looking ahead, what do you consider to be opportunities and challenges for your co-operative banking group?

The co-operative organisational form has great merits. Therefore, this initiative by the EACB to seize Raiffeisen's 200th birthday to showcase the specificities of the co-operative banking model to a broad European audience is very much welcomed. As a core feature of the co-operative governance, membership has always led to divergent internal dynamics and a different – strategic – orientation compared to other major financial institutions. Rabobank is indisputably different and has a 'presence value' in Dutch society and banking. Local autonomy of LBs and active participation of our employees in local networks and communities are cherished as distinguishing characteristics of our co-operative bank. There is a distinctive place for a co-operative customer-oriented bank that provides relevant knowledge, networks and financial solutions nearby.

**« the new capital proposals pose a serious threat for co-operative banks »**

Concerning major challenges, Rabobank strongly argues in favour of a **stabilisation of the legislative framework**. Its outlines and contents are constantly changing, which adds to uncertainty and high adaptation costs. Moreover, the new capital proposals pose a serious threat for co-operative banks with a low risk profile due to a loan portfolio secured by strong collateral. These proposals do not take proper account of collateralisation and differences in markets and legal systems between countries. The result may be less lending, or more expensive lending. This would hamper employment and economic growth throughout the Eurozone

# Poland
## Krajowy Związek Banków Spółdzielczych

Michal Krakowiak,
Vice – President of the
Management Board

### Could you briefly describe the origins and historical milestones in the development of your co-operative banking group?

Polish co-operative banking emerged in the second half of the 19th century. The quickly developing movement based on bright ideas by Friedrich Wilhelm Raiffeisen was spreading across the whole Polish territory. Main activists and organizers were ***Dr. Franciszek Stefczyk, Reverend Piotr Wawrzyniak***, and ***Augustyn Szamarzewski***. By 1914, there were approximately 1,500 associations and credit co-operatives as well as savings and loan unions with nearly 650,000 members, enjoying substantial popularity. After 1918, savings and loan local financial institutions based on Raiffeisen's idea were strengthened in their legal form, emphasizing members' rights and obligations. The cooperative model in banking enjoyed the greatest popularity across the entire country.

The Polish co-operative business model in 2018 is the successor of the life-changing period of the turn of the end of 19th and whole turbulent 20th century internalizing Raiffeisen's key ethical values and democratic principles of governance and combining them with the latest developments in prudential, supervision and remedial dimensions.

### Could you briefly elaborate on the mission and vision of your co-operative banking group?

The aim of the credit co-operatives was to provide aid to weaker and economically excluded social classes, in particular farmers, in meeting their financial needs, mainly by granting them access to loans, as well as strive to increase the level of culture and morality of their members, as well as patriotism. They were self-aid institutions based on the **principle of co-operation and responsibility**. At present, the cooperative sector includes 551 local banks associated in two groups structured in the forms of inverted pyramid. Their main goal is to serve as much as possible services for their members and customers from a holistic perspective. To be attractive and useful for young generations in their search for innovative services in modern times is a main goal.

## What are the key features with respect to membership and governance?

In the couple of last decades, co-operative banks in Poland have won trust of more than million members and nearly eight million clients across the country. The current business model applies Raiffeisen's traditions as key ethical values and modern **democratic principles of governance** including the check&balance rule together with live-long relationships with local communities. The continuous perfecting of governance rules and practices is one of the key aspirations of the whole sector.

## Looking ahead, what do you consider to be opportunities and challenges for your co-operative banking group?

Co-operative traditional advantages like **proximity** and direct contact and relations will be tested by new era challenges, i.e. mainly **digitalization** and behavioural changes on members/customers side. We envisage opportunities in eagerness of our banks to become agile and responsive to new customer needs, while endorsing principal values of locality, democracy and primacy of ordinary people. Such values and principles have been key for co-operative banking to this day. They remain unchanged and exceptionally important. However, they must be emphasised anew in a strong manner. In the heyday of large corporations, unrestrained technological progress and digitisation of consumer relations, co-operative banking needs to return to its ethical roots and skilfully advertise them in its local and pan-European surroundings twice as much. They constitute a great counterbalance to the processes of atomisation of post-modern societies and may constitute an invaluable hint on how to combine **modernity**, **sustainable growth** and **responsibility** in the 21st-century banking.

# Portugal
## Crédito Agrícola

Licínio Pina,
Chairman of The
Executive Board
of Directors

### Could you briefly describe the origins and historical milestones in the development of your co-operative banking group?

In 1896, a royal decree created the first agricultural co-operative credit legal framework in order to serve farmers seeking funds. However, it was in 1911 that Crédito Agrícola (hereinafter, CA Group) was formally created in Portugal, under a co-operative structure by means of a new law published by the recently-formed republican government. Despite the increase of local banks in the 1920s, during the crisis of 1930 and for political reasons, control over agricultural loans was transferred to a State-owned bank until 1982.

The creation, in 1978, of FENACAM[8], aimed to represent the local banks (CCAM) at institutional level and, in 1984, of Caixa Central as the Group's financial head, were two important milestones to cement CA Group as an entity of national relevance. Moreover, in 1991 and under a new legal framework (RJCAM), Caixa Central was mandated by the national supervisory authority to supervise and to provide financial and management guidance to SICAM.[9]

In 1994, Caixa Central has broadened its scope of activities and invested in businesses beyond retail banking to provide an universal offer (e.g. life and non-life insurances) to everyone. The insurance companies are both success stories. After celebrating its centenary, in 2013, the Group started a reorganization process as part of its corporate strategy.

[8] National Federation of Agricultural Co-Operative Credit Institutions in Portugal
[9] SICAM - a co-responsibility perimeter comprising CCAM and Caixa Central, altogether ruled by RJCAM.

Nowadays, in the financial and insurance Portuguese industries, CA Group is the sole financial group with all equity shares (securities) held by Portuguese people[10]. Moreover, CA Group has one of the largest network of branches in Portugal (as of December 31st 2017, 669 branches managed by 81 local banks), when compared with other banks, post offices and even some public services, serving more than a million customers (individuals and companies).

## Could you briefly elaborate on the mission and vision of your co-operative banking group?

CA Group mission can be described as aiming to develop the local communities through the fulfilment of customers' financial and protection aspirations and projects, through a **customer-centric** multichannel approach. CA Group's vision includes to be recognized as the **'Best Financial Group'** in its markets.

**« soundness, proximity, simplicity, sustainability and trust »**

According to its business value proposition, CA Group rules its activities by the principles of soundness, proximity, simplicity, sustainability and trust. Its widespread network of branches and ATM, together with its more than 4,000 employees, are the key success factors for its **'act local' strategy**.

As a co-operative based Group, CA is not subject to capital markets' pressure to obtain financial results or to pay periodic dividends. In fact, CA Group's strategy relies on **reinvesting the generated income in the local communities**, both to improve its long term value and to foster the well-being of Portuguese regions (e.g. customers, partners, employees, suppliers, public entities).

## What are the key features with respect to membership and governance?

Local banks (CCAM) are co-operatives ruled by the principle **'one man-one vote'**, each one having its own 'Board', 'Audit Council' and 'General Meeting' of members. General Meeting approves the statutory accounts of Y-1 in March and Budget for Y+1 until December. Each local bank has its independent chartered auditor. Local banks' confined geographical area may be one municipality or several contiguous municipalities.

Customers may become local bank's members by underwriting a minimum of 100 equity shares with an unitary value of €5, as long as they live or develop economic activities in the region where the local bank is located, noting that restrictions on the percentage of businesses non-related with primary sector still apply.

Caixa Central is a higher-order co-operative and its members are the local banks themselves. By law, no local bank holds more than 10% of the equity capital of Caixa Central. The governance model of Caixa Central follows the so-called German model: 'Supervisory Board', 'Executive Board' and the 'General Meeting'. Caixa Central has an independent chartered auditor, at present PWC, which certifies the accounts of Caixa Central on an individual basis as well as the consolidated accounts and procedures of CA

[10] In this case, local banks' members (individuals and companies).

Group, having in mind that the supervisory banking prudential rules apply both to Caixa Central on an individual basis and to the Group as a whole on consolidated terms. All the Group's companies are either directly held by Caixa Central and/or CCAM, or indirectly held by a fully owned SPV (the holding 'CA SGPS').

## Looking ahead, what do you consider to be opportunities and challenges for your co-operative banking group?

Besides the challenges affecting all traditional banks[11], some specific issues can be identified. Although **regulations on prudential requirements** (namely Directive CRD IV/CRR and Regulation EU nº 575/2013 of 26th June) defend the **principle of proportionality**, co-operative banking groups classified as **LSI**[12], as is the case of CA Group, face **additional complexity to proceed with the implementation of measures to ensure compliance with guidelines on internal governance** (EBA GL44) and to safeguard the financial sustainability required to comply with its corporate mission, having in mind the new regulatory environment and the **more demanding capital and liquidity requirements** (ex. MIFID II, IFRS9, GDPR, AML, CCR II/CRD V, MREL, Solvency II).

After the crisis, the confidence of the general public in Group CA stands at a high point, which has been contributing to a steady increase in the flow of customer deposits from competitors with lower NPS[13] to CA Group (local banks and Caixa Central). This enabled the exploitation of commercial opportunities, but putting further pressure on the loans to deposits ratio[14].

CA Group has been increasing its business through enlarging its customer base, taking advantage of its **recognized financial stability** (e.g. adequate equity, comfortable liquidity), as well as its unique knowledge of the markets where local banks operate. As a result, the Group has been steadily growing. CA Group is focused on **investing on a digital strategy** to offer simple, relevant, fair, 24x7, safe and secure services; capturing younger generations living on growing urban areas; and retaining the higher worth customers with binding value propositions. To succeed, CA Group will have to keep on focusing on growth, intensify its actions to improve cost efficiency and bring negotiations with third parties (e.g. Fintechs) to a good end.

Thanks to its recognition, CA Group has the opportunity to leverage its local knowledge and autonomy and complement it with innovative services that comply with its low risk appetite and contribute to enhance its strategic positioning in a changing competitive arena.

[11] For instance, improving revenues in an unprecedented low interest rate environment and under the consumer associations' pressure; divesting NPE and foreclosed assets, removing friction from customer journeys; embracing PSD2 and open API banking; navigating through compliance and regulatory changes; competing with digital banks / GAFA and expanding the use of advanced analytics; adapt to blockchain and other advanced technologies.

[12] LSI – less significant institutions according to SSM Framework Regulation (ECB).

[13] NPS – customer net promoter scores.

[14] L2D ratio is quite low due to the CA Group's traditionally conservative approach to fund its lending business entirely with customer deposits.

# Switzerland
## Raiffeisen Schweiz

Hilmar Gernet,
Director, Delegate for
Policy, Co-operative
and History

### Could you briefly describe the origins and historical milestones in the development of your co-operative banking group?

Following the example of Friedrich Wilhelm Raiffeisen, ***Reverend Johann E. Traber (1854 - 1930)***, son of a joiner, created the Spar- und Darlehenskassenverein Bichelsee-Balterswil in Canton Thurgau in Eastern Switzerland in 1899. The first Swiss Raiffeisen institute aimed to increase wellbeing in the community by self-help. In 1902, Reverend Traber founded the **Swiss Federation of Raiffeisen co-operatives**, which was joined by ten institutes. In 1936, the Federation settled in St. Gallen, where it is still located today. Thanks to the important growth of mortgage lending, Raiffeisen was transformed in the 1960s from an agriculturally-based institute into a retail bank that now also granted consumer credit. In order to reduce the bank's dependency on interest margin business, the first diversification strategy was launched in the 1980s, and Raiffeisen thus became the principal bank of the broad middle class. The number of independent Raiffeisen co-operatives peaked in 1986 with 1,229 institutes – from then on, the bank's areas of business circles were expanded and banks began to merge.

For the first time in Raiffeisen's history, about 11,000 staff and board members convened in Basle on 26 September 2015. Together, they set out the new fundamental strategy based on a five-year process. According to this, the heart of the Raiffeisen co-operative group has been **the values of 'closeness', 'reliability', 'sustainability' as well as 'entrepreneurship'.**

As the leading Swiss retail bank and 'third force' in the Swiss banking market, Raiffeisen today has 1.9 million members and 3.7 million clients. Assets amount to 228 billion Swiss francs.

## Could you briefly elaborate on the mission and vision of your co-operative banking group?

The new business principles on the future orientation of the Raiffeisen co-operative group will be submitted to the 2018 assembly of delegates. They include the following vision and mission:

- **Vision:** Raiffeisen – THE Swiss partner for living, working, assets and entrepreneurship
- **Mission:** We open up the future.

## What are the key features with respect to membership and governance?

Participation and co-determination are at the heart of membership and governance at Raiffeisen. Each of Raiffeisen's current 255 banks is an independent co-operative with self-selected banking authorities. Each Raiffeisen bank is carried by its members. Their share certificates make the members co-owners of their Raiffeisen bank in the same measure.

Members participate in the general assembly with their voting rights (one member – one vote) and thus represent their Raiffeisen bank's supreme body. They elect the board and auditors, vote on changes to the articles of incorporation, approve the annual accounts, issue discharge to the board and make other decisions such as, for example, on mergers with other Raiffeisen banks or modifying the branch network.

Based on its co-operative model, each Raiffeisen bank's economic policy is geared towards the sustainable funding of its members, who thus benefit from attractive interest on their shares, better terms for banking services and price reductions on leisure activities. **Closeness to the customer** is based both ideally as well as geographically on this business philosophy. In many cases, bank managers and staff know their members and clients personally. Each Raiffeisen bank has its own clearly defined geographical business area.

Raiffeisen banks are members of the Raiffeisen Switzerland Co-operative, which is responsible for the strategic management of the group and provides central services for the banks. The Raiffeisen group is a mutually supportive, joint-liability community. This mutual responsibility between Raiffeisen banks as well as with Raiffeisen Switzerland signifies a high level of security for its members and clients thanks to a well-endowed solidarity fund. Concerning governance, stability is provided by mutual controls and 'checks and balances' between the bodies of the co-operative group.

## Looking ahead, what do you consider the opportunities and challenges for your co-operative banking group?

**The greatest challenges faced by the Raiffeisen group are:**

- **Digitalisation:**

**Closeness to the clients:** the many branches are frequented less and less and transactions are increasingly made online. The challenge is to ensure the bank's closeness to its members and clients with fewer branches and larger banks. Such efforts are already supported today by local, digital communication channels that each Raiffeisen bank operates for its members and clients, as well as the local public.

**Flexibility and complexity:** clients want more flexibility from their banks in terms of time and place. However, there is still a demand for personal advice, especially on more complex subjects. The challenges faced by customer advisors continue to increase.

- **Competition & growth and regulation:**

competition for the internal Swiss market, which has been rediscovered by major banks UBS and Crédit Suisse, continues to increase. Competitors from outside the field, i.e. pension funds and insurance companies as mortgage providers, must be added to these. Navigating national and international regulations is also becoming increasingly more complex and time-consuming. As a co-operative, Raiffeisen is not looking for growth at any cost. Prudent credit policies, restrictive risk control and non-participation in price wars are paramount for Raiffeisen.

**The greatest opportunities for the Raiffeisen group are:**

- **Social and political commitment:**

as a co-operative, Raiffeisen focuses on its members' benefits. Major importance is placed on social and political commitment. Specifically, this can be seen in members' reductions for sports' and cultural events, progressive working conditions, the promotion of sustainable investments and in the Raiffeisen Forum, the first permanent meeting place for the economy, politics and society in Switzerland. In this innovative and transparent political agora, new ideas or further proposals are introduced to the political debate to contribute to the shaping of the Swiss political landscape. Raiffeisen thus contributes transparently to the democratic competition for political concepts and ideas for the benefit of society.

- **Co-operative model:**

as a member of the IG Genossenschaftsunternehmen, the interest group for Swiss co-operative enterprises, Raiffeisen contributes to the promotion and contemporary development of the co-operative business model in Switzerland. Through its local co-operative banks, Raiffeisen maintains its closeness to its members. This is the purpose of the Raiffeisen Community: members can thus participate to an even greater degree and, especially, digitally. Together with the bank's staff, they will be included in the (further) development of products. Their participation will increase and their trust in Raiffeisen as a lifelong, locally-based partner in financial issues will be durably strengthened.

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# CO-OPERATIVE BANKING IN EUROPEAN UNION

Facts and figures 2016

EUROPEAN ASSOCIATION OF CO-OPERATIVE BANKS

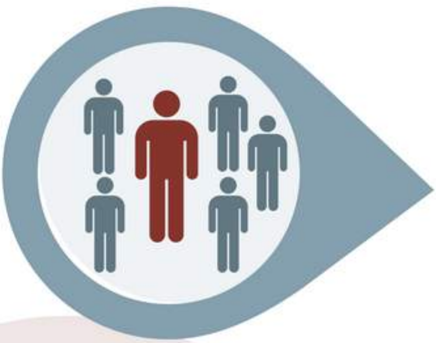
**Owned by members to finance the local & regional economy**

**1 out of 6 European citizens is member of a co-operative bank!**

**209 024 394 customers**

**3 135 banks in the EU**

**80 572 857 members**



**57 597**
branches

**3 611 185 (mio)**
deposits

**7 120 915 (mio)**
assets

**In some countries, Co-operative Banks market share for SMEs financing is way above 30% !***

**European Co-operative Banks represent 20% market share**