

CO-OPERATIVE BANKS: looking ahead to drive societal and economic growth



EUROPEAN ASSOCIATION
OF CO-OPERATIVE BANKS

CO-OPERATIVE BANKS DECLARATION: THE WAY FORWARD

THE CO-OPERATIVE BANKING DIFFERENCE

The **EACB** represents, defends and promotes co-operative banks at European and international level.

- Co-operative banks account for about **20% of the market share** of EU banks deposits and loans and so are a major feature of the sector(1). They are a main lender to Europeans **SMEs** and their presence is especially relevant in less urbanized areas.
- Co-operative banks are private institutions. They are **owned by their members**, who are also their customers, e.g. local entrepreneurs, craftsmen, farmers and households. They facilitate the channeling of funds to support local investment and development and are **an anchor to prudential and financial stability**.
- The **co-operative banks' form** of enterprise is enshrined in the European Treaties and is reflected in the Statute for a European Co-operative Society.

➤ Evidence(2) shows that co-operative banks are less fragile than other banks as they have :

- ✓ A stable deposit and customer basis focus;
- ✓ High capital and restricted conditions for profit distribution;
- ✓ A prudent risk policy because they do not maximise profits but customer surplus;
- ✓ A governance based on the principle 'one person – one vote'. Diversity brought through member ownership entails a consensus-driven approach and prevents block holder in the decision process.

➤ Thanks to the above characteristics, co-operative banks have provided a **liquidity and stability anchor** to the market and in particular to SMEs throughout the financial crisis.

➤ Their key values are: **trust** between the bank and its members/clients; democratic and prudent **governance**; **resilience** to adverse market developments; close **proximity** to customers; **social commitment**; **solidarity and reliance** on joint liability systems.

➤ Co-operative Banks actively support the **sustainable development** of their regions by reinvesting a large portion of profits back into the community – in some cases, engaging with the local members to select the projects that should receive the co-operative dividend.

➤ Co-operative banks are resolutely determined to continue being a driving force for **economic and societal growth**. For that purpose we would like to put forward the **following**:

Views and Expectations

1. As key actors at local level with 4.050 regional banks in Europe, co-operative banks are **major players in the EMU and European Banking Union**.

2. Co-operative banks are **strongly committed to the European project and its values** (i.e. democracy and solidarity) that we support since the foundation. Thus we welcome the initiatives of the European Parliament, the EU Council and the EU Commission, with its White Paper, to launch a debate on the "Future of Europe". We encourage and look forward to the further thematic papers and next steps.

3. In the reflection of the future of Europe, we emphasize the importance of the **subsidiarity and proportionality** principles in the EU decision making process - in line with the co-operative banks model. Operating with a bottom up approach in decentralised networks, co-operative banks are accountable to local members and committed to local presence.

4. The principle of **diversity** is also key. Diversity lowers the risk of market disruption. Therefore the construction of Europe shall reach the right balance between more harmonisation and market purpose or needs. Normalisation is not a goal per se.

5. Policy makers shall carefully consider the adverse effect of one-size-fits all approach towards the banking sector. **Too much emphasis on standardization** in areas of business models, governance and scale - as well as **consolidation** of the sector - may lead to marginalisation of co-operative banking institutions with adverse and threatening effects on eco diversity, with detrimental impact on competition and stability, but also exclusion of certain customer and economic segments of society.

6. We call regulators to reflect the **particularities of the co-operative banking model** and its governance in the EU and international regulations. Moreover when implementing Basel Committee's reforms and other international regulatory initiatives, EU decision makers shall remain mindful of the specificities and strengths of EU retail banks and markets, in order to avoid distortions to competition and negative impact on EU financial stability and growth.

7. In the context of the Banking Union, the role played and benefits produced by the solid and strong **Institutional Protection Schemes** and solidarity mechanisms of co-operative banks must remain central. In the Single Resolution Mechanism, recovery and resolution tools should remain mindful of the different legal and ownership structures.

8. Co-operative banks call for thorough **cost-benefit analysis** for quantifying the cumulative impact of regulatory initiatives on co-operative banks. Quantitative impact on real economy and end-user such as consumers and SMEs shall also be included. If regulation leads to reduced local presence and communities unserved by co-operative banks, with shadow **societal effects** and broad **economic costs**, that shall be seriously taken into account. Moreover, we recommend a continuous **ex post assessment** via retrospective cost-benefit analysis.

9. The growing complexity of the current regulatory landscape and its continued motion lead to **disproportionate implementation and compliance costs**. Paradoxically, rising regulatory costs are complicating the internal capital generation capacity of co-operative banks, since they heavily rely on retained surpluses. (2) Thus co-operative banks ask for a simplified approach that takes into account the nature, risk profile and scale of operations of the institutions including their human and IT resources.

10. Co-operative banks embrace **technological innovation** and support the *Digital Single Market*. They are **re-designing their proximity models** making use of the opportunities offered by digitalisation while putting members and customers and their economic and social empowerment first. In order to support the digital transformation we believe that the regulatory environment, with a view to issues mentioned above, plays an important role, and that – in particular for customer data - a levelplaying field with other digital financial services providers is necessary.

Brussels, March 2017

(1) Olivier Wyman report, "The outlook for co-operative banking in Europe in 2012- banking on values, building on agility", December 2012.

(2) Tias Report, "A Snapshot of European Co-operative Banking, 2016 and 2017. Elaboration.

CO-OPERATIVE BANKS AT A GLANCE

210^{Millions}
CUSTOMERS



79^{Millions}
MEMBERS

4 050
REGIONAL &
LOCAL BANKS



749^{Thousands}
EMPLOYEES

7^{Trillions}
BANKING ASSETS



The voice of 4.050 local and retail banks | 79 million members | 210 million customers

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