



European Co-operative Banking

“Co-operative banks stand by their clients in the good times and in the bad times” explained Hervé Guider, General Manager of the European Association of Co-operative Banks (EACB) to delegates from the Maltese Government and Koperattivi Malta during their visit to the EACB’s headquarters in Brussels in November.

The birth of co-operative banking is attributed to the work of Friedrich Wilhelm Raiffeisen and Hermann Schulze-Delitzsch, promoters of the values of the co-operative business model. Central to these values are the principles of democracy (one-person-one-vote), mutuality, proximity, ethical values, solidarity, social cohesion, corporate social responsibility and the promotion of the economic interest and value creation of the bank’s customers. Co-operative banks seek to widen the access to finance for co-operative members with limited access to finance from commercial banks.

In one of the worst financial crises since the Great Depression of the 1930s, co-operative banks in Europe today remain reliable partners for small and medium enterprises as they continue to supply credit facilities at affordable interest rates. The EACB, in its research paper entitled “European co-operative banks in the financial and economic turmoil” claims that the co-operative banks’ business model has proven to be sustainable and resilient to financial shocks, due to their unique characteristics, structure, financial solidity and customer proximity. Although co-operative banks may not

have been hit hard directly by the financial crisis they were not immune to the economic downturn that followed. However, it is reported that no European co-operative bank has as yet been included in the nationalisation programme or has been declared bankrupt.

Corporate governance in co-operative banks is unique because the owners of the bank are the customers themselves. The members/customers have a right to vote and express their opinion in the general assembly and automatically participate in the election of the bank’s management, regardless of the number of

“ Dan l-artiklu jiffoka fuq l-istorja tal-Banek Koperattivi, li huma strumentali biex jagħtu aċċess għall-finanzi lil nies li jkun diffiċli għalihom ikollhom aċċess għal finanzjament mill-banek kummerċjali. Minkejja l-kriżi finanzjarja, il-banek koperattivi fl-Ewropa baqgħu shab importanti u sostenibbli għal hafna intrapriżi zgħar u medji. Ġie ppruvat li s-sistema ta’ Bank Koperattiv hija waħda li hija aktar b’saħħitha minn forom oħra ta’ banek. Fil-fatt, l-ebda bank Koperattiv ma ġie nazzjonalizzat minhabba problemi finanzjarji, u l-ebda wiehed ma falla. Huwa importanti li ssir analiżi fuq jekk hemmx il-bżonn ta’ servizz bankarju koperattiv f’Malta u jekk hemmx l-ambjent politiku u ekonomiku meħtieġ biex mudell bħal dan ikun jista’ jopera fis-sistema lokali.

shares or the extent of the deposits held in the bank. The members/customers have a direct say in the business direction, facilitating a long-term relationship of trust with the bank. Co-operative banks are therefore committed to be proactive by offering tailored-made products which fit their customers' financial requirements, and are not constrained by dividend declarations and increasing share price. Notwithstanding all this, co-operative banks need to be profitable because they cannot survive if they operate below cost.

The shares of the members in a co-operative, and by inference in a co-operative bank, may be redeemed at the nominal value. This principle is incorporated in the statutes of the wide majority of co-operative banks throughout Europe. The distribution of dividends is also controlled because part of the annual surplus is used to build up the bank's reserves. In most cases across Europe these reserves are indivisible and are considered to be the common property of the owners, and therefore not distributable. This practice contributes to the high level of capitalisation of the co-operative banks. However co-operative banks are still subject to the same legal framework, directives, risk-management rules

and controls of supervisory authorities as are other commercial banks.

Across Europe, co-operative banks exceed the minimum legal capital ratio requirement of 8%, with an average ratio of 9%. Credit rating agencies recognise the financial stability of Co-operative Banks. Of note are the rankings of the Dutch Rabobank (Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.) that ranked 6th in the Global Finance magazine issue of September 2010 in a survey of the world's safest banks. The bank has an AAA from the credit rating agencies Moody's (since 1981), Standard & Poor's (since 1981) and Dominion Bond Rating Service-DBRS (since 2001).

According to statistics issued by the EACB, co-operative banks in Europe enjoy a market share of 20%. In Italy, France, Germany and the Netherlands the co-operative market share in loans ranges between 25% and 45%. Co-operative banks represent around 50 million members and employ 750,000 people, within approximately 65,000 outlets, serving around 140 million customers.

The European co-operative banking sector boasts strong national networks and local banks. Some examples are

the German Volksbanken and Raiffeisenbanken Group, DZ Bank and WGZ Bank, the French Crédit Agricole, Crédit Mutuel and BPCE, the Dutch Rabobank Group, the Finnish OP Pohjola Group, the Italian Banche di Credito Cooperativo and Banche Popolari, the Spanish Grupo cajas rurales, populares y profesionales, the Austrian RZB and in the UK, The Co-operative Bank.

In a European Parliament resolution of the 20th October 2010 on the financial, economic and social crisis the Parliament "deems it vital that the EU should take into account, in defining new rules, the need to maintain and expand the structural diversity of its financial sector, and believes that the European economy needs a sound network of regional and local banks, such as savings banks and cooperative banks, while recognising that different banks have different areas of expertise and core competencies; the Parliament notes that plurality has proved its worth in the financial crisis and has added to stability, and that uniformity can lead to systemic fragility".

The "Consultation Paper on Co-operative Societies 2010" presented by Koperattivi Malta to the Maltese

government on the 15th October 2010 included a recommendation to conduct the necessary studies in order to consider unblocking the legislative barrier which limits the business of banking solely to limited liability companies and therefore prohibits co-operative banking in Malta.

The local co-operative movement is eager to analyse the input from the general public, the constituted bodies and public entities, submitted to the Maltese government in the first phase of public consultation process on co-operatives. The second phase of the consultation process, which is expected to commence shortly, is to launch a transparent, open and extensive flow of information and opinion exchange between the stakeholders, policy-makers, academics, operators and practitioners. This debate should shed light as to whether there is a need for co-operative banking in Malta and whether there is the political will and a favourable economic climate that would open the doors to the alternative co-operative banking business model in the current local financial and banking system.

Disclaimer: All data in this article was correct as at November 2010.



Mr. Micallef Attard is Secretary General of Koperattivi Malta and trustee on the Central Co-operative Fund. He was an active Member of the Co-operatives Board between 1999 and 2007 and was responsible as co-legislator for the drafting of the Co-operative Societies Act in 2001. He also played an active role in the consultation process on the revisiting of the co-operative legislation. In 2010, Mr. Micallef Attard was elected Member of the European Audit and Control Committee in Cooperatives Europe.