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A Snapshot of European Co-operative Banking

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TILBURG UNIVERSITY
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Foreword from the EACB and TIAS

This publication presents a snapshot of recent performance of European co-operative banks. This document is prepared by TIAS School for Business and Society (henceforth TIAS), with support from the European Association of Co-operative Banks (EACB) based in Brussels. TIAS is the Business School of Tilburg University and Eindhoven University of Technology in the Netherlands, focusing on education and research for professionals employed in both profit and not-for-profit organisations. Founded in 1970, the EACB is a leading professional lobbying association in the banking industry. Today, the EACB represents, promotes and defends the common interests of its 31 member institutions with regard to banking as well as co-operative legislation at the European and international level.

Responses to last year’s edition generally pointed to the merits of having a concise document summarizing the main facts and figures of European co-operative banking groups. Such an overview is considered to complement periodic reflections by respected international organisations like the ECB, BIS and IMF on general developments in banking. In their latter publications, the effects of different organisational forms and/or business models on banking market structures remain relatively underexposed. We feel that it is important to acknowledge the benefits of organisational diversity for competition and, last but not least, stability in banking.

We sincerely hope that this factual publication will yield valuable insights for practitioners, policy makers and scholars. Furthermore, we strongly encourage academics to perform qualitative and quantitative research on different aspects of member-governed banks.

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Content

Executive summary

This publication reviews developments in the overall performance of fifteen co-operative banking groups in ten European countries[1], on the basis of a range of selected indicators and with a focus on the situation in 2014.[2] Their average performance is compared to that of the entire banking sector in the same countries.

The report finds that the longer term trend of an expanding member base continued in 2014; co-operative banking groups welcomed 1.3 million new members. The member-to-population ratio surpassed the value of 18 for the first time since 1997. Co-operative banks also benefitted from the modest economic recovery in 2014. After a historically exceptional contraction in total assets and loans in 2013, balance sheet and loan growth resumed in 2014. Since 2011, fluctuations in their total assets and loans have been moderate compared to those at all other banks. The composition of their balance sheet is structurally different from that of all other banks. Co-operative banks are primarily focused on retail banking, i.e. loans to and deposits from SMEs and households. They rely more on depositors as a source of financing, which is visible in the higher number of branches and employees in order to maintain or gain adequate access to current and new depositors. All remarks above underscore the different nature, business model and orientation of co-operative banks and their close ties to the real economy.

To verify whether these observations also hold over the latest business cycles, we have performed an extended analysis of the average return on equity (ROE) for the period 2002-2014. We conclude that the ROE of co-operative banks exhibits a more stable pattern over a longer time period. This might be due to the fact that co-operative banks are more involved in retail banking, which is normally associated with limited volatility in revenues. Collectively, all other banks are presumably faced with more volatile returns on their non-retail banking activities, like trading portfolios or investment banking, which constitute a considerable larger part of their total business.

Concerning the levels of ROE, one can conclude that the average ROE of co-operative banks was significantly lower than that of all other banks in the first part of the entire sample, which

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[1] Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (entire finance Group belonging to the German Volks- und Raiffeisenbanken), Austrian Volksbanken Group (Austria), Raiffeisenbanken Group (Austria), Associazione Nazionale fra le Banche Popolari (Italy), Federazione Italiana delle Banche di Credito Cooperativo-Casse Rurali ed Artigiane (Italy), Unión Nacional de Cooperativas de Crédito (Spain), Cajamar Group (Spain), Crédito Agricola Financial Group (Portugal), Rabobank (The Netherlands), Raiffeisen Switzerland (Switzerland), Nykredit (Denmark), Crédit Agricole Group (France), Crédit Mutuel Group (France), BPCE (France), OP Financial Group (Finland).

[2] This document is purely descriptive and does not provide an extensive overview of recent studies and/or policy reports on co-operative banks.

encompasses economically prosperous years. Since the onset of the Great Financial Crisis in 2007, the opposite was true. On average, co-operative banks outperformed all other banks in terms of ROE in every single year since 2008. An important take away from this analysis is that different banking models are apparently causing different reactions to economic upswings and recessions. This finding underscores the need for diversity in banking for the sake of stability.

In 2014, the average ROE of co-operative banks amounted to 4, whereas the ROE of all other banks equalled 1.6. A partial explanation for the higher ROE of co-operative banks is their lower average cost-income ratio, which decreased by more than 4 percentage points to just below 60 in 2014. The average cost-income ratio of other banks fell by 2 percentage points to 63 in 2014. In other words, co-operative banks were, on average, organisationally more efficient. Finally, the average tier 1 ratios of both banking groups equalled 12.6 in 2013. In 2014, the average tier 1 ratio of co-operative banks and all other banks stood at 13.1 and 12.7, respectively.

Similarities and differences

The co-operative banking groups under consideration have many unifying characteristics, which date back to the remote past. For instance, a customer of a local bank can become a member/owner of this bank. Consequently, co-operative banks are member-governed institutions. They apply an open membership policy and have direct or indirect representation of members at all levels of governance based on the democratic principle of ‘one member, one vote’. This is fundamentally different from the distribution of voting rights in joint-stock banks, in which shareholders have decision making power in proportion to their invested capital (‘one share, one vote’). Moreover, they operate within a network of affiliated banks (under the same brand) and are predominantly funded by retained earnings, member shares and retail deposits raised locally. 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. Finally, profits are not their ultimate goal, but a means to accumulate capital, to absorb shocks, to invest and innovate, among other things. Profits are also needed for the realization of societal and/or social goals for their members. In distinguished words, co-operative banks are ‘dual bottom line’ organisations.

Despite similar roots and basic principles, co-operative banking groups differ in many respects from each other. One of the reasons is that numerous contextual factors have shaped the governance structure, business model, level of integration and capital structure of individual co-operative banking groups over the course of time. They had to operate or still operate in diverging environments and encountered different challenges throughout their history. For instance, these aspects comprise the geography (size of the country), national banking market characteristics, consumer behaviour and preferences, and regulation and supervision. It also makes clear why the (international) focus and size of co-operative banking groups differ greatly. Hence, one cannot tar every co-operative banking group with the same brush, especially from a regulatory and supervisory perspective.

To elaborate a little more on the latter remark, all co-operative banking groups objectively stand out from all other banks thanks to their distinctive characteristics. This means that financial policy makers and regulators should 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 organization and business practices. At the same time, regulators should differentiate between co-operative banking groups. Some internationally active co-operative banking groups are systemically important in their home countries, whereas other co-operative banking groups are smaller and have a predominant domestic orientation.

Data description

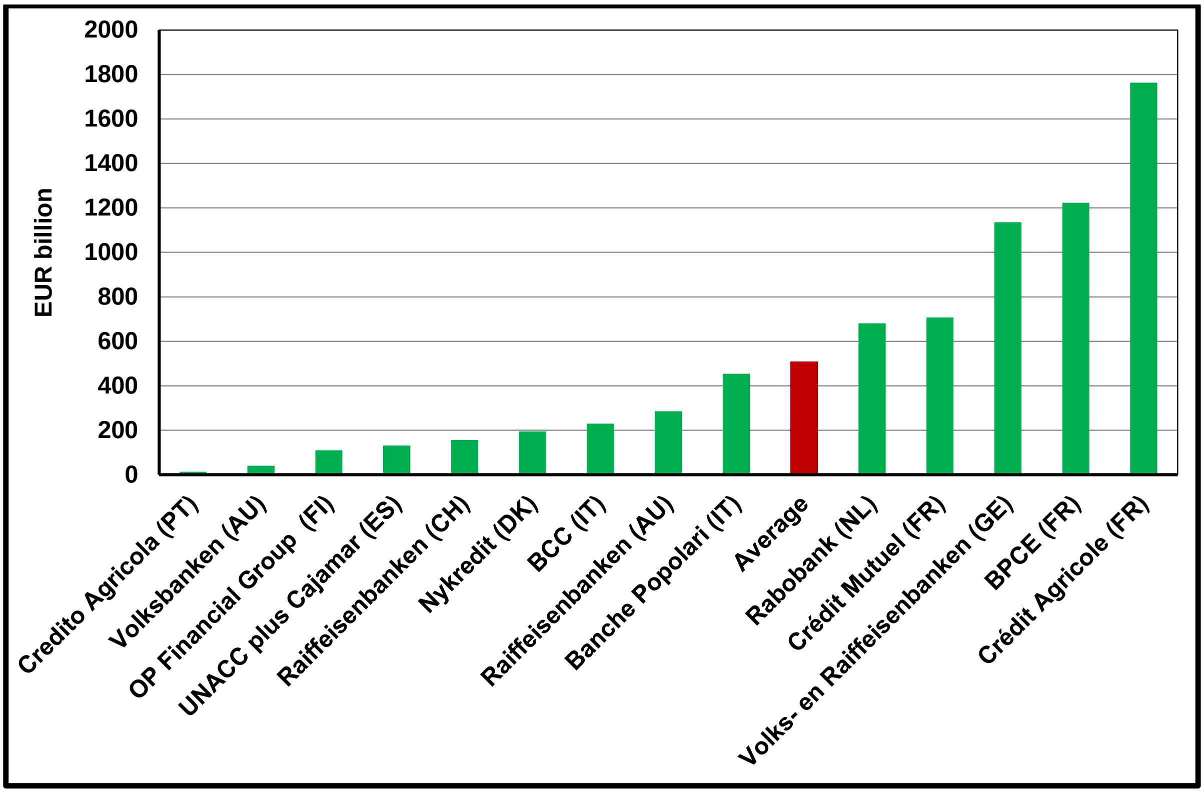
Consolidated and/or aggregated data for key co-operative and financial indicators of individual co-operative banking groups are collected by TIAS.[3] In most cases, individual figures are either derived from public sources or composed upon request by co-operative banks for TIAS. For some co-operative banking groups, TIAS approximated particular indicators based on a combination of data sources. Furthermore, judgment was required to categorize the various balance sheet items (e.g. loans, deposits, equity) in order to obtain comparable data for European co-operative banking groups. Indeed, accounting conventions and terminologies as well as the detail of disclosure seem to differ somewhat across co-operative banks. For each individual indicator, TIAS applied the same source, methodology and definition for each year. Hence, a consistent time series for each variable is used. The collected comparable data are subsequently employed to calculate averages for all co-operative banks together.

The focus on the aggregated co-operative banking sector means that we won't elaborate on individual co-operative banking groups. When appropriate, their consolidated data are contrasted with aggregated data for entire banking sectors in these ten European countries. The latter figures are collected from national supervisory authorities as well as the European Central Bank (ECB) using similar definitions.

[3] For the non-euro countries in the sample, all items were converted into euro at the exchange rate prevailing at the statement date.

Figure 1 illustrates one aspect of the large diversity in European co-operative banking. It concerns total assets of the fifteen co-operative banking groups included in this publication. The red bar denotes the average balance sheet total of these groups. In terms of total assets, the ratio of the largest co-operative banking group to the smallest is around 130, which signifies large differences in size. The average balance sheet total amounted to EUR 509 billion in 2014, which is 4.3 per cent higher than in 2013.

Figure 1 Total assets of European co-operative banking groups (2014)



Source: data collection by TIAS and EACB.

Note: the data pertain to entire co-operative banking groups. Apart from local/regional co-operative banks, the balance sheet total thus comprises domestic subsidiaries, central institutions and foreign activities (if any).

In this report, the emphasis lies on quantifiable performance indicators, which are relatively easy to collect or estimate. However, the performance of any co-operative bank cannot be assessed by looking solely at quantitative indicators or hard data. Due to their ‘dual bottom line’ approach, it is also inappropriate to use only financial variables to compare co-operative banks with other banks. Indeed, financial data mask the realisation of societal goals. Aside from these qualifications, the concept of ‘performance’ has many dimensions: the degree of customer satisfaction, customers’ perception that the bank acts in their interests, the access offered to networks and knowledge of the bank, the stability/duration of relationships, the perceived attention/concern for the environment and local communities, et cetera.

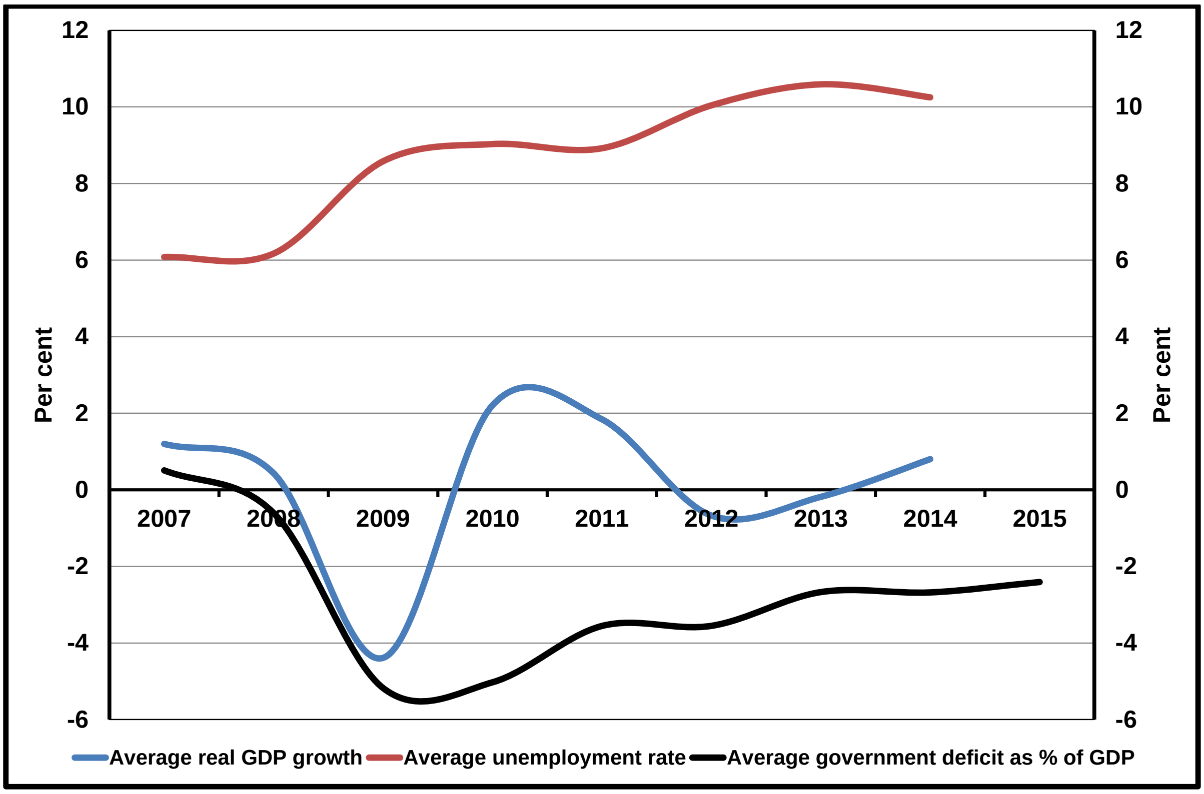
Bearing these qualifications in mind, a number of core performance indicators will feature in this report. Given the wide range of potential indicators, we had to make a selection. After a brief and general discussion of core macroeconomic variables, we first focus on a key co-operative indicator: the evolution of the member base. The following section deals with the number of local/regional co-operative banks, domestic branches and employees. Thereafter, balance sheet characteristics of European co-operative banks are contrasted with those of all other banks. Movements in domestic market shares are logically associated with these balance sheet developments. Subsequently, profitability, capitalisation and efficiency measures for co-operative banks will be reviewed and compared with those of the entire banking sector.

General external environment

For an adequate and accurate interpretation of recent developments in co-operative banking, one has to take the overall economic situation into consideration. Figure 2 displays the average real GDP growth, the unemployment rate and the government deficit as a percentage of GDP in the countries under review. The year 2014 was characterized by a moderate economic growth of almost 1 per cent, following two recessionary years. The economic recovery can be partly ascribed to ultra-expansionary monetary policy by the European Central Bank, resulting in a very low interest rate environment. Economic growth was accompanied by a slight drop in average unemployment and some improvement in government budgets. These average figures mask large dispersions between individual countries, though. For example, the unemployment rate stood at almost 24 per cent in Spain, whereas the German unemployment rate was just slightly above 5 per cent. Deviations between national government deficits were pronounced as well. The Danish government realized a surplus of 1.5 per cent, but the Portuguese government was confronted with a deficit of 7.3 per cent of GDP. Hence, national banking systems were faced with divergent economic conditions.

In our analysis, we account for these economic differences per country by assessing the performance of all European co-operative banks in relative terms. In other words, their aggregated and averaged key indicators are compared to those of all other banks in their respective home countries. This yields a ‘clean’ comparison on an aggregated level. The comparative approach allows us to explore whether the entire European co-operative banking sector performed significantly different from banks with other organizational forms or not.

Figure 2 Development of key economic variables in ten European countries (average)



Source: Calculations by TIAS based on data from Eurostat and the European Commission. The lines symbolize the average values of the displayed variables in ten European countries.

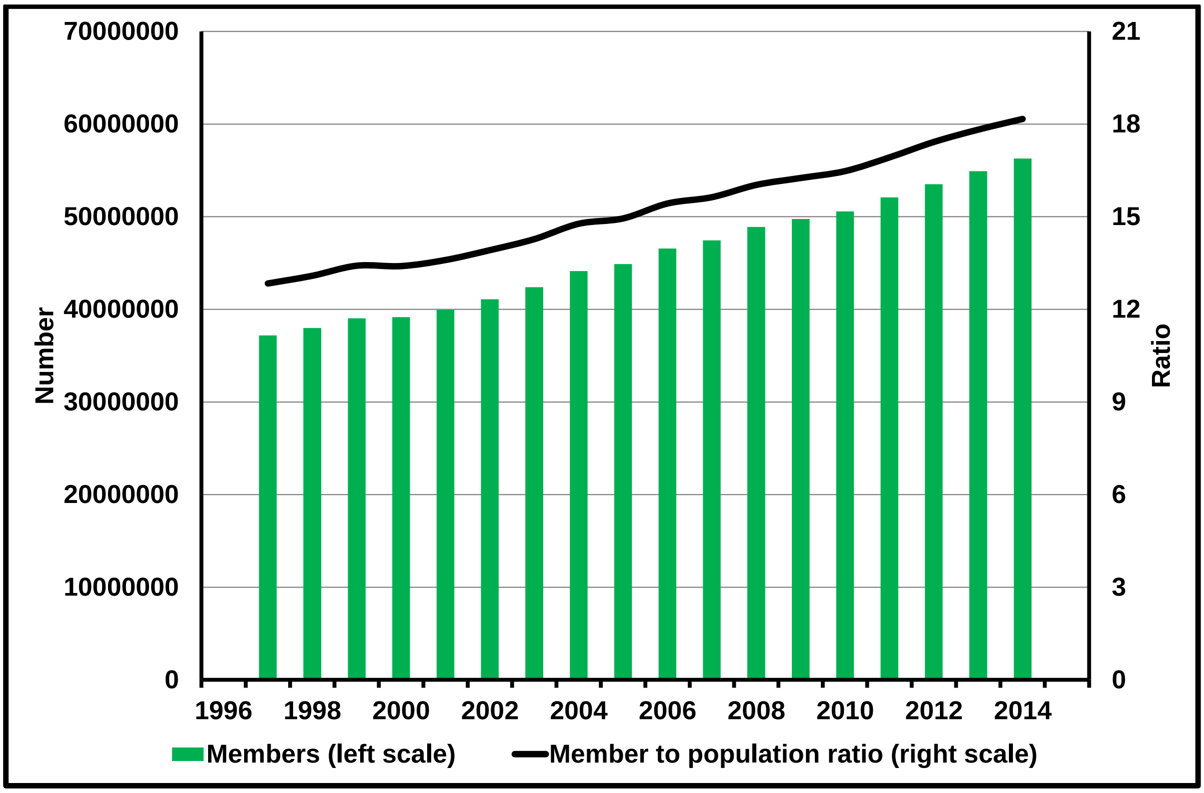
At the time of writing, we know that economic recovery and financial tranquility were contested throughout 2015. During the latter year, Europe, and the Eurozone in particular, witnessed considerable economic and geopolitical turbulences. Some analysts even speculated about the exit of Greece from the Eurozone. After some very hectic months, the latter risk did not materialize. Another important development concerned the transfer of banking supervision of systematically important banks in the Eurozone from national supervisory authorities towards the European Central Bank in November 2014. This change took place as part of the European Banking Union. This transfer also applied to a number of co-operative banking groups in Figure 1. It can be expected that the latter developments as well as the persistent low interest rate environment have left their marks on the performance of co-operative banks in 2015.

Members

Members and their elected representatives are an essential asset and actually embody the legitimacy for co-operative banks. Mainly due to trends in society, compulsory membership has been abolished many years ago. Nowadays, co-operative banks also serve large numbers of non-members. This means that the development of the member base can be interpreted as an implicit indication for the attractiveness and popularity of co-operative banks.

Figure 3 shows the development of the number of members and the member-population ratio since 1997. On average, the member base expanded by 2.5 per cent each year. The total number of members rose from around 37 million in 1997 to more than 56 million in 2014. In 2014, European co-operative banks welcomed 1.3 million new members.

Figure 3 Number of members and member to population ratio



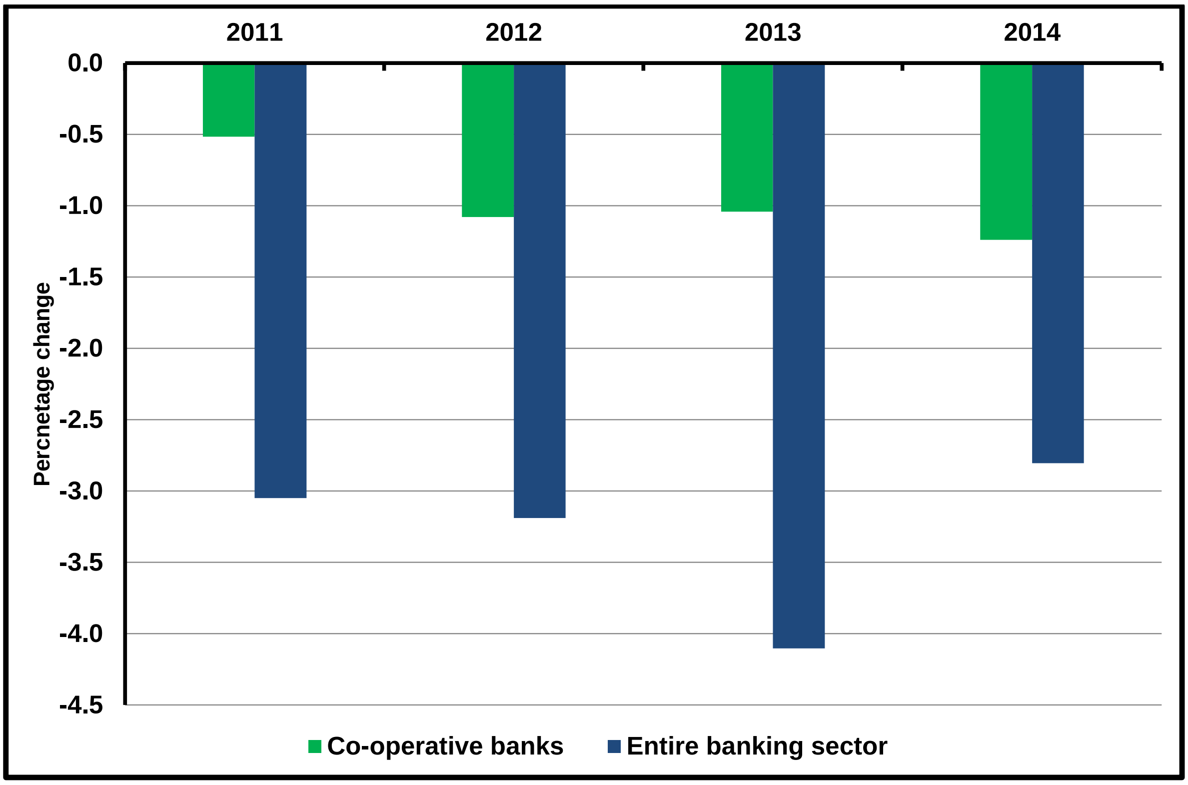
Source: Calculations by TIAS based on data from co-operative banking groups and national demographic statistics.

Member growth has continuously surpassed population growth as evidenced by the upward trend in the member to population ratio. This ratio rose from 12.9 in 1997 to 18.1 in 2014. To put it another way, almost one out of five inhabitants of the ten European countries under review is currently 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.

Number of local banks, branches and employees

In line with developments relating to the overall banking market structure, the co-operative banking sector continued its consolidation process. The driving factors are increasing pressure for cost containment, deleveraging and restructuring. The number of independent local or regional co-operative banks diminished by around 180 to 2,870 in 2014 (i.e. minus 3.3 per cent). Compared to 2013, the number of domestic branches of co-operative banks fell by 1.2 per cent to 58,775. However, co-operative banks have reduced their physical presence in local societies at a much slower pace than all other banks in every single year (Figure 4). Since 2011, co-operative banks closed down around approximately 3.3 per cent of their branches, whereas all other banks reduced their banking outlets by almost 10 per cent. This partly reflects a business orientation and distribution philosophy which result from their specific governance. Proximity to members and customers is deemed to be essential for maintaining and strengthening close relationships with and a firm anchoring in local communities.

Figure 4 Percentage change in number of branches (2011-2014)



Source: Calculations by TIAS based on figures from co-operative banks, ECB and the Swiss National Bank.

Compared to previous years, the employment drop at co-operative banks exceeded the employment decline in the entire banking sector in 2014 (3 and 2 per cent, respectively). Since the break-out of the Great Financial Crisis in 2008, the accumulated employment loss at co-operative banks was 4.6 per cent, which is less than half of the accumulated employment decline in the entire banking sector of 10.3 per cent. Several co-operative banking groups stated that increasing competition and virtualisation of product offerings have prompted them to cut back in employment in the last year. Some co-operative banking groups also reduced their international activities or sold some subsidiaries, which also partly explained the relatively large fall in employment. Employment has been reduced by three quarters of the co-operative banks in the sample.

Balance sheet developments

Balance sheet data for co-operative banks and the entire banking sector (excluding co-operative banks) are provided in table 1. Balance sheet developments of co-operative banks and all other banks are clearly shaped by cyclical and structural factors. In 2012, total assets of co-operative banks still showed a moderate increase of around 0.5 per cent, while total banking sector assets (on a consolidated basis) contracted by 1.3 per cent. In 2013, co-operative banking assets decreased as well, which is quite exceptional from a historic perspective. However, this decline was rather modest compared to the plunge in total banking sector assets of almost 10 per cent. The latter development was partly the result of bank restructuring and resolution processes in some countries as well as reconsiderations of business models by a number of banks.

Table 1 Total assets, loans and deposits of co-operative banking groups and the entire banking sector

		2012		**2013**		**2014**	
		COOP	***EBS***	***COOP***	***EBS***	***COOP***	***EBS***
Total assets	EUR billion	7,019	22,064	6,807	19,909	7,116	21,381
	%-change	0.6%	*-1.3%*	*-3.0%*	*-9,8%*	4.5%	7.4%
Loans	EUR billion	3,530	8,141	3,507	7,821	3,538	7,909
	%-change	1.1%	*-0.5%*	*-0.7%*	*-3.9%*	0.9%	1.1%
Retail deposits	EUR billion	3,218	7,887	3,234	8,011	3,307	8,271
	%-change	2.0%	1.4%	0.5%	1.6%	2.2%	3.2%

Source: Calculations by TIAS based on data from co-operative banks, the ECB and the Swiss National Bank.

Note: *COOP* and *EBS* stand for co-operative banking groups and the Entire Banking Sector in ten European countries, respectively (see footnote 1). *EBS* data do not comprise *COOP* data. Loans refer to total loans and advances to the non-financial private sector. Retail deposits refer to all deposits and savings from the non-financial private sector. Upon close inspection of balance sheet items, we have tried to use comparable definitions for 'loans' and 'deposits' of individual co-operative banks and entire banking systems. Since we have used the same definitions every year, data consistency is guaranteed.

Our analysis shows that growth in total assets resumed for co-operative banking groups and the entire banking sector in 2014. Total assets of co-operative banks grew by 4.5 per cent, whereas the balance sheet total of all other banks surged by 7.4 per cent. Hence, the swings in total assets are more pronounced at all other banks. Put differently, the peaks and troughs in co-operative assets have been relatively moderate in recent years. This observation is also proof of the specific nature of co-operative banks.

Regarding outstanding loans as well as loan growth of co-operative banks versus the entire banking sector, a similar pattern emerges. The extension of credit to the economy by co-operative banks differed significantly from that by the entire banking sector in 2012 and 2013. While co-operative banks still extended loans in 2012, the size of the loan book of all other banks declined slightly. Co-operative banks could not escape from the successive economic and financial turbulences as mirrored in the small reduction in their lending activity in 2013. However, loan contraction at all other banks was significantly higher in the latter year. In 2014, growth has also resumed in loans, although at a slow pace of around 1 per cent.

Deposit growth was significantly higher at co-operative banks in 2012, whereas the opposite was true in 2013 and 2014. It can also be concluded that the funding of loans has shifted towards deposit financing for all banks. In every year recorded in the table, deposit growth surpassed loan expansion (contraction). Positive developments in retail deposits and only moderate extension of credit to the economy has led to a decrease in the loan-to-deposit ratio for co-operative banks and the entire banking sector.

The table points to two other remarkable characteristics of co-operative banking groups. Their asset structure is dominated by loans to the non-financial private sector (more than 50 percent). The ratio of total loans relative to total assets of all other banks amounts to 37 percent. On the liability side, we observe a similar feature. Overall, co-operative banks are funded to a larger extent by retail deposits and to a lesser extent by wholesale funding in comparison with all other banks. This finding indicates that co-operative banks have persistently applied business models which are more geared towards retail banking activities. Indeed, the balance sheet composition is usually a reflection of a longer-term strategy and cannot be adjusted overnight. Our figures clearly support the observed trend towards a more traditional banking business model for all other banks. The ECB (2015) asserts that this strategic shift will be – as least partly – incentivised through recent regulation. Consequently, co-operative banks are likely to be confronted with increasing competition in retail banking in the near future.

Domestic market shares

Since 2011, the average domestic market shares of co-operative banks in retail loans and retail savings increased by 0.9 and 0.7, respectively. Collectively, co-operative banks serve more than one quarter of the retail banking markets in their home countries. The underlying data show that the gain in loan market shares was broadly based across co-operative banking groups. This remark does not hold for deposit market shares; three co-operative banking groups lost some deposit market share in the period under review. The slight decrease in the aggregated deposit market share in 2014 can presumably be partly ascribed to the recent reorientation of many banks towards retail banking.

Table 2 Average domestic market shares of co-operative banking groups

	2011	**2012**	**2013**	**2014**	**Change in percentage points (2011-2014)**
Loans	26.3	26.6	27.0	27.2	0.9
Deposits	25.7	26.3	26.5	26.4	0.7
Branches	35.8	36.6	37.7	38.3	2.5

Source: Calculations by TIAS based on data from co-operative banks, the ECB and the Swiss National Bank.

In addition, table 2 illustrates that co-operative banks have maintained extensive branch networks to support the links to their members and local communities. Despite closures of branches, the average branch market share displays a fierce increase from 35.8 in 2011 to 38.3 in 2014. As depicted in Figure 4, the reduction in branch networks has been much larger at other banking groups in recent years.

Financial indicators

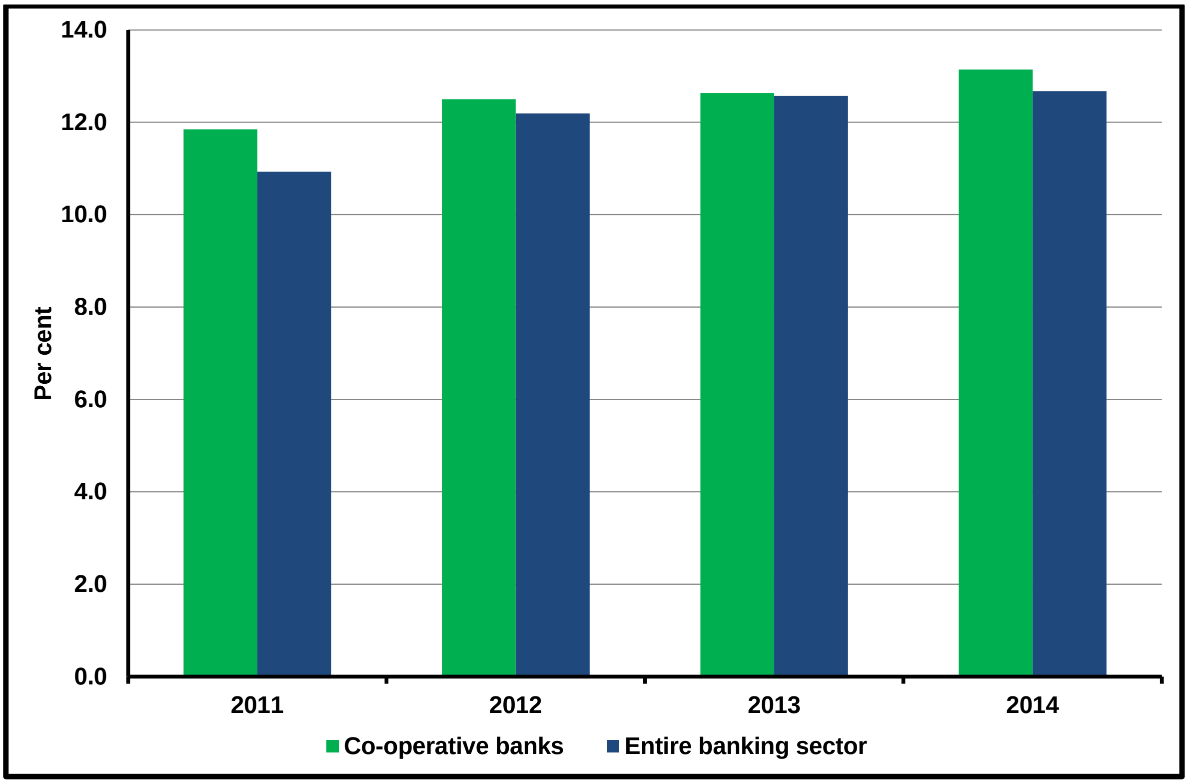
This section assesses three commonly used indicators for the financial performance of banks. These variables are clearly interrelated as will be discussed below.

Capitalization

The regulatory capital ratios of co-operative banks and the entire banking system continued to improve in 2014 (Figure 5). Hence, the resilience of all banks to possible future shocks has ameliorated. The improved capital ratios resulted from capital increases. The implementation of the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR) as of January 2014 required banks to raise capital to comply with the new rules and the resulting higher average risk-weighted assets. In addition, some banks finalised capital raisings during the year to address capital shortfalls identified in the ECB's comprehensive assessment exercise. In every year depicted, co-operative banks operated with a – slightly – higher average capitalization. In 2014, the gap between the average tier 1 ratio of co-operative banks and the entire banking sector has widened to 0.4 percentage point in favour of the former.

It should be pointed out that the composition and generating process of capital or equity at co-operative banks differ from listed banks in particular. The equity of listed banks consists for the greater part of floating stocks, whereas co-operative banks have to rely primarily on member shares and retained profits for their capitalisation.

Figure 5 Average tier-1 ratio of co-operative banking groups and the entire banking sector



Source: calculations by TIAS based on data from co-operative banking groups, the ECB and Swiss National Bank.

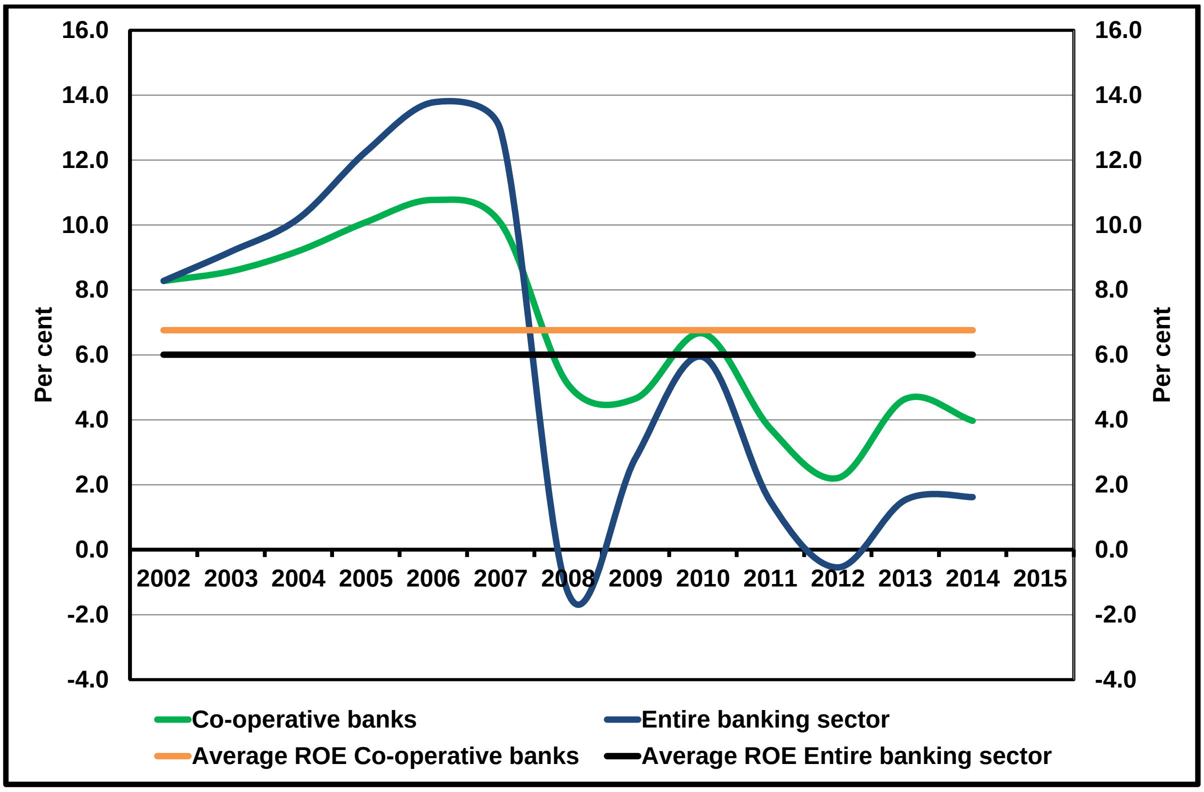
Note: we have used the total capital ratio for the Spanish co-operative banking group and entire banking sector, because the former does not report a Tier 1 ratio for the group.

Return on equity

The return on equity (henceforth ROE) is used as a standard measure of the return on shareholder funds (and hence actually somewhat illogical to apply for co-operative banks because their capital and reserves are not composed of shareholders' equity). Since external shareholders logically require a regular return on their investments in the form of dividends, joint-stock banks probably aim at a higher ROE than co-operative banks. The latter are not subject to the pressure from investors for frequent returns, and can consequently apply a longer-term perspective.

The section on capitalization and the previous paragraph contain two implicit hypotheses that can be tested empirically. The first one is that the variance of the ROE of the entire banking sector (ROE_{EBS}) is expected to be higher than that of co-operative banks (ROE_{COOP}). The second assertion is that the ROE_{EBS} (encompassing listed banks) is likely to exceed ROE_{COOP} in the medium to long-term. To verify both expectations, longer and consistent time series of net profits and equity (capital and reserves) for all co-operative banking groups and national banking sectors are obviously needed. To this end, TIAS undertook a complicated endeavour to construct both time series for the last 13 years (2002-2014). This time span covers a period of economic prosperity and financial stability as well as years of economic slack and financial distress.

Figure 6 Return on Equity of co-operative banking groups and entire banking sector



Source: calculations by TIAS based on data from co-operative banking groups, the European Central Bank and the Swiss National 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 span 2002-2014.

The annual average ROE_{COOP} and ROE_{EBS} are plotted in Figure 6. The average values of both ROEs over the entire time span are inserted as straight lines. A number of interesting conclusions can be inferred from this figure. First, the average ROE_{COOP} is 6.8 per cent, which is 0.8 percentage point higher than ROE_{EBS}. This result is caused by a significantly higher ROE_{COOP} in the second part of the sample, which coincidentally starts in the first year of the Great Financial Crisis (2008) and includes major recessions in many countries. In 2008 and 2012, ROE_{EBS} was even negative, whereas the aggregated co-operative banking sector still realized net profits. Before 2008, the entire banking sector booked somewhat higher profits than co-operative banks. This period was characterised by substantially higher economic growth rates and a stable financial environment. In economically prosperous times, all non-co-operative banks in the sample have demonstrably reached higher profits, but the associated risks of their commercial activities and investments were larger as well. This became apparent when the credit crisis broke out and quite some large non-co-operative banks were confronted with sizeable losses and/or write downs.

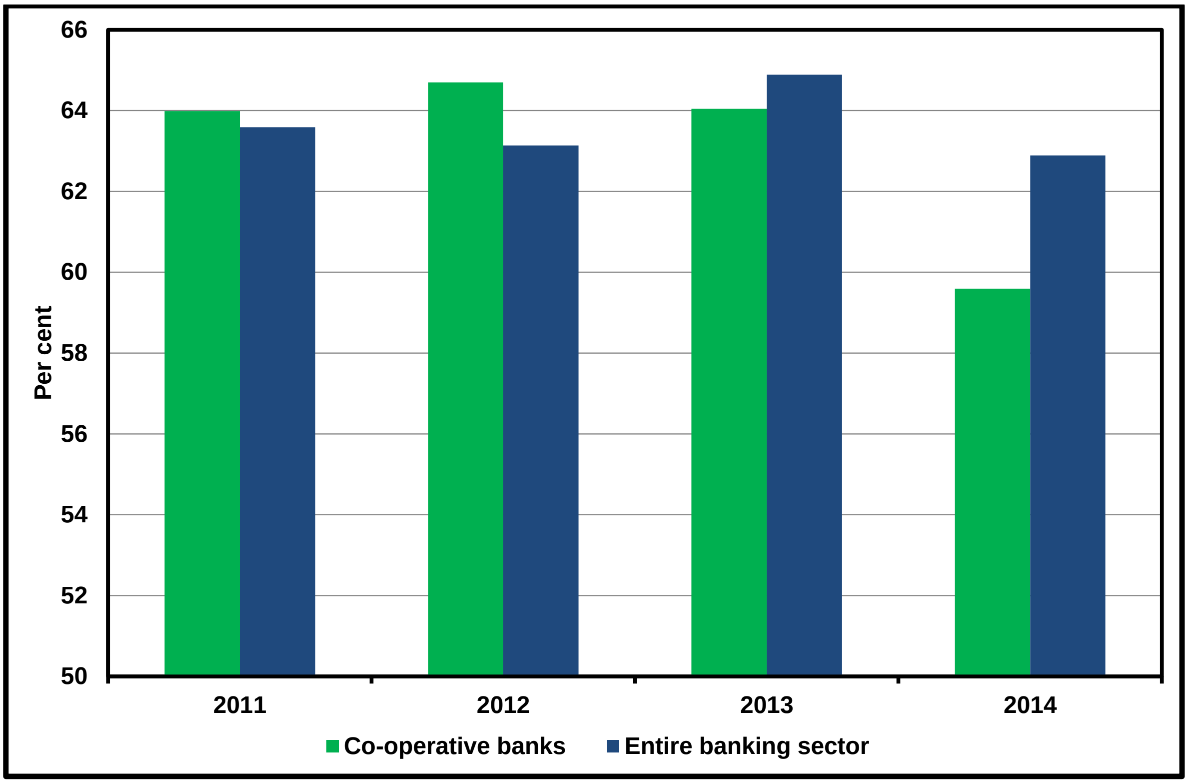
The peaks and troughs of the green and blue bars in Figure 6 point to a much lower volatility of ROE_{COOP} vis-à-vis ROE_{EBS}. Formal statistical tests confirm this visual observation. The more stable pattern of ROE_{COOP} corresponds with their balance sheet structure discussed earlier. Their focus on retail banking activities translates into more stable revenues and profits.

The relatively good performance of co-operative banking groups in recent years is no reason for complacency, though. The chart unambiguously pinpoints that the situation in banking has changed radically since 2007. The average ROE_{COOP} equalled 9.5 per cent in 2002-2007, but dropped to an average of 4.4 per cent in 2008-2014. It is generally expected that banking profitability will remain subdued in the years to come. More banks are returning to retail banking in a low interest rate environment. Regulatory and compliance costs have surged as well, apart from rising banking taxes. Since co-operative banks predominantly depend on retained profits to meet higher capital requirements, the pressure to achieve efficiency gains or to cut back on the number of branches is likely to increase considerably.

Efficiency

An often used proxy for banks' efficiency is the cost-income ratio, defined as net operational costs divided by net operating income. Figure 7 shows the average cost-to-income ratios for co-operative banks and entire banking sectors for the period 2011-2014. In the first three years, the CI ratio did not vary significantly between co-operative banks and the entire banking sector. In 2014, both bank categories improved their efficiency substantially. But co-operative banks realised a significantly higher reduction of the average ratio, from 64 in 2013 to less than 60 in 2014. This improvement is obviously linked to financial developments discussed earlier, i.e. a higher return on equity which was partly caused by a decrease in operating costs owing to a considerable reduction in staff costs. Anyway, the result suggests that co-operative banking groups are on average organisationally more efficient. It must be noted, though, that organizational efficiency is a complex phenomenon that cannot be studied by cost/income ratio alone.

Figure 7 Average cost-income ratio of co-operative banking groups and the entire banking sector



Source: calculations by TIAS based on data from co-operative banking groups, the European Central Bank and the Swiss National Bank.

Concluding considerations

The general picture emerging from this snapshot is in conformity with the main findings of the previous edition from March 2015. Overall, variables measuring the financial performance of co-operative banks are less volatile than those of the entire banking sector. Co-operative banks engage in fewer and more stable business segments which secures stability in their performance metrics. This result further enhances the robustness of the conclusion that the co-operative banking movement has made an unrivalled contribution to indispensable diversity in banking.

This observation involves significant policy implications and justifies to reiterate the reflection that the impact of (new) banking regulations varies across banks with different ownership structures. Proposals for new rules, regulations and governance principles urge co-operative banks to explain their specific (governance) features in a convincing, credible and transparent way. It would affect co-operative banks and the entire financial sector if these characteristics would be ignored or misunderstood. Regulatory measures should not enforce convergence of business models and/or the introduction of aspects of listed banks into well-capitalized co-operative banks with viable business models. The implementation of all proposals should be commensurate with the size, complexity, structure, economic significance, risk profile and business of each bank.

To conclude, the essence, roots and design of co-operative banks are notably different from those of non-cooperative banks. The main challenge is to find out how co-operative banks can capitalize on these differentiators in the future. It will certainly not be easy and their specific governance and business models are definitely not superior to those of other banks. Besides, they are not guaranteeing good performance in the future. Co-operative banks have to be agile, flexible and adept in meeting changing needs of its members and local communities. If co-operative banks continue to be efficient, profitable and participatory organisations that embody co-operative values and principles, they hold strong trump cards in the new banking environment. In this respect, it is crucial that member representatives remain able and capable to determine the outcomes and values that guide co-operative banks, and the systems put in place for involvement in the collective decision making.

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