

INVESTIGATING DIVERSITY IN THE BANKING SECTOR IN EUROPE

**KEY DEVELOPMENTS, PERFORMANCE AND ROLE
OF COOPERATIVE BANKS**

Rym Ayadi
David T. Llewellyn
Reinhard H. Schmidt
Emrah Arbak
Willem Pieter De Groen

**CENTRE FOR EUROPEAN POLICY STUDIES
BRUSSELS**

The Centre for European Policy Studies (CEPS) is an independent policy research institute in Brussels. Its mission is to produce sound policy research leading to constructive solutions to the challenges facing Europe. The views expressed are entirely those of the authors.

This book is the result of a two-year research project designed by the Financial Institutions and Prudential Policy (FIPP) unit of CEPS and led by Rym Ayadi. The project's Scientific Committee includes Rym Ayadi, Senior Research Fellow and Head of FIPP at CEPS, David T. Llewellyn, Loughborough University, CASS Business School and the Vienna University of Economics and Business Administration, and Reinhard H. Schmidt, Professor at the University of Frankfurt. The research team is composed of the members of the Scientific Committee and researchers from CEPS, Emrah Arbak, Researcher, and Willem Pieter De Groen, Research Assistant. This study completes earlier research that was published in 2009 on the same topic with a focus on savings banks in Europe. Support was received from the European Association of Cooperative Banks (EACB).

Cover photo: *Acropora* coral garden with giant clam, taken by Richard Ling at Raging Horn, Osprey Reef, Coral Sea, August 2005.

ISBN 978-94-6138-042-5

© Copyright 2010, Centre for European Policy Studies.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means – electronic, mechanical, photocopying, recording or otherwise – without the prior permission of the Centre for European Policy Studies.

Centre for European Policy Studies
Place du Congrès 1, B-1000 Brussels
Tel: (32.2) 229.39.11 Fax: (32.2) 219.41.51
E-mail: info@ceps.eu

EXECUTIVE SUMMARY

The objective of the theoretical and empirical research in this study has been to examine the role of cooperative banks in Europe as a contribution to be derived from diversity in the European banking sector. In addition to analysing the nature of the cooperative bank model and its implications, empirical analysis has been conducted of cooperative banks in seven countries (Austria, Finland, France, Germany, Italy, the Netherlands and Spain) mainly with respect to the performance of such banks, their stability characteristics, their role in terms of competition, and the contribution these institutions make to regional development.

The context is that European banking is a mix of many different types of banks: public, state, cooperative, mutual and private banks. A particular distinction is made between Stakeholder Value (STV) banks (of which cooperative banks are a major component) and Shareholder Value (SHV) banks. The distinction is ultimately about the banks' bottom line objectives and the extent to which profit maximisation is the central focus of business models. As with savings banks, cooperative banks can be categorised as 'dual-bottom line' institutions.

Cooperative banks have long been an integral and well-established part of the financial system in many European countries. They are an important part of the diversity and plurality in European banking and have their own characteristic business models, ownership and governance structures. A particular feature of European cooperative banking is that there is no single universal model that, in all its detail, is common to every cooperative bank. This means that there is no completely homogeneous set of cooperative banks across Europe. Whilst there is diversity in many dimensions (both within some countries and, most especially, between countries), there are also several key common features of cooperative banks. There is a rich diversity in precise business models, structure and

governance. The European cooperative banking sector can, therefore, be characterised as *Commonality with Diversity*.

Cooperative banks have evolved from their origins in the second half of the 19th century, and many have evolved over time into full-service universal banks or have entered into activities that do not correspond to their traditional core business. In several cases, these institutions appear to be almost indistinguishable from their commercial bank competitors, being active in non-retail activities and expanding across domestic frontiers. Although its rationale is different from when cooperative banks were first established as a response to various forms of market failure, the cooperative bank model remains a strong and viable business model.

Indeed, empirical evidence in this study suggests that no radical differences exist between cooperative banks and their peers in terms of performance and efficiency. More important, there are economic, systemic and welfare benefits to be derived from a successful cooperative sector in the banking systems in Europe. A financial system populated by a diversity of ownership and governance structures, and alternative business models, is likely to be more competitive, systemically less risky and conducive to more regional growth than one populated by a single model.

A central conclusion of the analysis is that it is systemically beneficial to have STV banks in general, and cooperatives in particular, in a financial system. In many respects it is the mix of different types of institutions that is important (the biodiversity argument) as much (if not more so) than the merits of any particular ownership structure or business model.

This has important public policy implications. The debate particularly emphasises the expected role of different types of financial institutions to finance the real economy, to contribute to systemic stability and to promote inclusion. This raises the role of dual-bottom line or STV institutions to fulfil other equally important objectives than mere shareholder value creation. This suggests that financial performance and economic efficiency are neither the only nor the ultimate standard of assessment. These are indisputably important but they are not sufficient to assess the contributions of STV institutions to the economy. Allowing for new standards of assessment that take into consideration the variety of objectives of STV institutions would emphasise the value of diversity in the European banking sector. Beyond such assessment, the functional implications of diversity (such as regulation, financial stability and liquidity creation...) merit further investigation.