

The system of cooperative banks in Europe. Governance, strategic structures and evolutionary trends.

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Introduction

The recent evolution of cooperative banks in Europe was marked by some factors common to all the different systems in most countries. This appears to be due to some extent to the origins of this peculiar model of banking intermediation, such as the spirit of solidarity and mutuality of the rural banks inspired by Wilhelm Raiffeisen and the rootedness in the local economies that implies the safeguarding of a number of features.

Despite deep and substantial differences across national regulations at the beginning of the harmonization process undertaken with the First European Banking Directive (1977), co-operative bank systems have been reorganized on the basis of some key trends which in turn can be put through some sort of classification.

An important role was played in this process by the emphasis on competitive drivers, which entailed a reorganization based on principles of cost-effectiveness and profitability. Later, the new prudential regulation has further complicated bank managing and the overall institutional setting. Both factors seem to have fostered the search for economies of scale within the cooperative banking industry, mainly achieved (but not exclusively) through the strengthening of the network organization and, where possible, safeguarding the limited geographical dimension and branching of local cooperative banks.

These strategic choices have been, to some extent, supported by original theoretical ideas aimed at enhancing, from an economic point of view, the structure of incentives which the cooperative banks are endowed with (*relationship banking*)². At this regard, many cooperative systems have entailed

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² We refer to the extensive literature on the subject. For a review see, in particular, Boot, A. W., "Relationship Banking: What Do We Know?" In *Journal of Financial Intermediation*, Vol 1, January 2000. With specific reference to the model of banking cooperation, see Boscia, V. and Di Salvo, R. "The Theory and Experience of Cooperative Banking", in the book "Cooperative Banking: Innovations and Developments", edited by Boscia, V., Carretta, A. and Schwizer, Palgrave MacMillan, 2009.

a strong and unsettled debate on the opportunity to dismiss or not the main assumptions of the model: a) the principle of economic democracy based on stakeholder representativeness (“one-vote one-head” and openness of membership); b) mutualism (acting in the interests of members and with them); c) the local rootedness and the safeguarding of competitive dynamics in different countries; d) the development of the second-tier banks within the cooperative systems in Europe³.

As the objective of this chapter is not to examine in detail the situation of each country and banking system, thus, it aims at evaluating the development pattern of different systems through a synopsis and some outlining work, trying to identify the common traits of this process and some key trends for the future.

First, the basic elements of the cooperative bank systems are singled out, by differentiating the experiences according to the original patterns that have marked the development in various countries.

Second, a concise review of the different strategic and organizational models in the major European countries is provided, with a focus on principles that have distinguished the most recent trends.

Finally, the issue of perspective evolutionary systems of cooperative banks in Europe is addressed, suggesting which may be the most likely change drivers in the near future.

1. The context of European cooperative banking.

It is appropriate to focus on Countries and Systems working within the European Union, both for the greater importance that they play, and to ascribe some analytical factors to the same evolutionary context, significantly influenced by the integration and harmonization policies of the EU. The relevance of similar non-EU systems, like the Canadian Desjardins Banks and the Norinchukin system in Japan, would have suggested widening the analysis to these Countries, however implying a substantial broadening of the field of investigation and institutional settings. Moreover, in some EU countries, particularly in the eastern area of the Union, the presence and role of cooperative banks are not as relevant as to justify any effort in extending the research scope. Furthermore, coop banking systems are not even present in some major countries, such as the United Kingdom and the Republic of Ireland⁴.

In light of this, the scope of the investigation herein is restricted to systems of cooperative banks in Germany (Popular Banks and Raiffeisen banks), France (Credit Agricole, Credit Mutuel and Banques Populaires), Italy (Popular Banks and Cooperative Credit Banks), Spain (Rural Banks), Netherlands (Rabobank), Austria (Popular Banks and Raiffeisen Banks), Portugal (Credito agricola) and Finland (Pohjola), all of which referable to the experience of Raiffeisen and that of Shultze-Delitzsch (with specific reference to Popular Banks).

³ See previous work by Di Salvo, R., "The Governance of Mutual and Cooperative Bank Systems in Europe", in *Cooperative Studies*, ECRA, Rome, 2003.

⁴ A single cooperative bank of average-large size (The Coop Bank) is operating in England, whereas Credit unions in Ireland basically run an experience that is closer to the U.S. than Europe.

The search for types of strategic and organizational models in order to trace back the experience of European cooperative banks may entail some degree of approximation, especially when taking into account the characteristics of individual countries and the importance of the institutional context in which any banking system has achieved its position and its specific role during a very long period of activity. However, we believe that, regardless of the Anglo-Saxon experience, characterized by a regulatory regime that substantially differs from continental European countries, it is possible to identify some basic patterns of cooperative bank with well-defined common features, and organizational forms referable to a limited number of different options.

A common background to most co-operative banks can easily be associated with the well-known “one head one vote” democratic principle and the “mutual” inspiration, which is normally expressed through operative constraints for the benefit of members and restrictions on profits distribution⁵.

The combination of these two constituent factors, distinctive of the Raiffeisen model, has resulted over time into different legal forms and organizational structures but is nowadays basically identifiable in all cooperative bank systems. The local feature and relatively small size of individual banks may be regarded as characteristics derived from this particular combination, thus, the actual fulfillment of how to operate as banking enterprises⁶. Since structural regulatory barriers have been considered as a key factor for preserving localism and small size, the deregulation process now allows us measuring to what extent these features are rooted into the model itself, despite the average size increase which has been experienced over the last decades and especially in the early stage of the structural deregulation process⁷. Generally speaking, cooperative banks keep a strong local character and have adapted their local dimension to the market. A remarkable distinction concerns the experience of coop banks in large urban areas which have gradually weakened,

⁵ Regarding the principles of the cooperative model, see the book *Making Membership Meaningful. Participation in Democracy in Co-operatives*, a large international and interdisciplinary study published by the Center for the Study of Co-operatives, University of Saskatchewan, Canada, 1995. In Italian, see the recent contribution of Zamagni, S. “Identità cooperativa e civilizzazione del mercato”, nel volume curato da Quadrio Curzio, A., *Le Banche popolari cooperative. Profili italiani ed europei*, Franco Angeli, 2009. With specific reference to the model of banking cooperation, see Boscia, V. and Di Salvo, R. “The Theory and Experience of Cooperative Banking”, in the Volume *Cooperative Banking: Innovations and Developments*, edited by Boscia, V., Carretta, A. and Schwizer, Palgrave MacMillan, 2009.

With reference to the specific mutual cooperative bank economy see also Ferri, G. and Di Salvo, R. “Il governo societario nelle banche di credito cooperativo: fondamenti teorici e riscontri empirici”, in Riolo, F., Masciandaro, D. (ed.), *Il governo delle banche in Italia*, Edibank, Milan, 1999.

⁶ A broad historical perspective, particularly referring to the Italian Cooperative Credit Banks, is available in Cafaro, P., “La solidarietà efficiente”, Editori Laterza, 2001.

⁷ For data about EU coop systems see the Statistical Appendix. With reference to scale economies and deregulation in banking industry see the work by Di Salvo, R., “Deregolamentazione ed economie di scala in banca”, Il Mulino, Bologna, 1995.

especially in Italy, their mutual inspiration and have grown to become large-sized, nation-wide banks, although maintaining a strong emphasis on local communities⁸.

We can show how the importance of maintaining the fundamental assumptions of the model conveyed by Raiffeisen and, to some extent, also the Schultze-Delitzsch model of the popular banks, is also relevant for the detection of strategic and organizational models of systems and groups of cooperative banks. In fact, the loosening of some assumptions has entailed the need for introducing more elements of the capitalist model (distribution of profits, size increase) which, in the case of Italian banks, then led some of them to be listed and develop a group pattern based on a single cooperative bank operating through subsidiaries. In Great Britain, during the '80's, the trend towards a streamlining process of the financial system, together with a lack in regulation on cooperative entities, implied also the de-mutualization of the *Building Societies* in favor of the capitalistic model in banking and financial business and the loss of a valuable mutual banking experience⁹.

Thus, with exception of the Italian popular banks, which assume a specific connotation, all the other systems of cooperative banks in Europe have based their development on building up second-tier banks, other financial structures and technical departments within well-defined organizational models, maintaining the safeguard of the direct relationship with customers, members and communities in the local cooperative banks.

The second-tier structures have developed according to two main lines: 1) a banking-financial type, through the establishment of central institutions, banks and / or specialized financial entities controlled by the first-tier cooperative banks, 2) a technical type through the establishment of federations and companies responsible for the provision of technical functions (ICT, professional training, publishing, etc.). The decision to adopt and maintain corporate control of both central institutions and technical structures is common to all European countries and assumes a strategic feature, aimed at ensuring forms of self-discipline, while ensuring the maintenance of some income flows (or avoiding "external" costs) within the systems (*insourcing*)¹⁰.

In general, cooperative banking groups and systems have left the corporate control of the second and third-level structures with the first-tier cooperative banks, through their direct participation in the equity of central institutions and other companies. Usually, these are established as stock-owned companies; this option has turned out to be more appropriate to meet the need for the establishment of second-tier banks, with the exception of the Dutch Rabobank Group, that has preserved the cooperative pattern for the Central Institution itself.

⁸ An extensive discussion of the model and the experience of cooperative popular banks is conducted by Tarantola, A. "Le Banche popolari nel confronto competitivo: vocazione territoriale e profili di governance" and by Carlo Fratta Pasini, "Le banche popolari nel sistema economico italiano" in the book edited by Quadrio Curzio, A.

⁹ On this point, see studies by Llewellyn, D. drawn from the experience of de-mutualization of British Building Societies. Translated into Italian, see the article "The future for small financial mutual banks: a UK perspective", in *Cooperazione di Credito*, No 173-174, July-December 2001.

¹⁰ An examination of the issues of outsourcing / insourcing systems of cooperative banks is addressed in chapter edited by Carretta, A. "Outsourcing Strategies in Cooperative Banking" of the volume *Cooperative Banking: Innovations and Developments*, Palgrave, MacMillan, 2009.

In some cases, the option of listing the central institutions in order to enhance the possibility of tapping the capital market was taken into account. Both Credit Agricole in France and the Pohjola Bank of the Pohjola Group in Finland have in fact adopted such a strategy, while maintaining the control of ownership structure firmly in the hands of the cooperative system. In some other cases (Credit Mutuel and Banques Populaires in France) the decision was to increase the offer of financial products and services by gaining control of entire non-cooperative banking groups (respectively, CIC Group and Natixis Group), supplementing their operation with the central institutions already working within the two systems. In other cases, however, an enhanced range of products and services and the development of the internationalization processes have been achieved through a gradual increase of scope and size of the central institutions. In this regard, it is worth noting the experience of RZB, the Central Institution of the Austrian Raiffeisen banks that has embarked on a strategy of expansion in Eastern Europe and beyond Europe's borders through the direct acquisition of foreign banks. To date, RZB achieves about half of its turnover beyond the borders of Austria, while continuing to ensure its function as central institution for the Raiffeisen banks.

In general, the decision to go through a process of consolidation of the central institutions, which are direct embodiment of local cooperative banks, has led to an overall growth of cooperative bank systems. Particularly in the cases of the French Credit Agricole, the German DZ Bank and the Dutch Rabobank, the expansion process, also at international level, is reflected today in very complex organizational structures, asset volumes of great importance and relevant market shares, which place these second-tier banks among the major players in Europe (see Table 4). An exception are the second-tier institutions of Italian cooperative banks and the Banco Cooperativo of the Spanish rural banks, which have maintained a relative proportional dimension with the rest of the cooperative system, especially under the pressure of a strong local-rooted inspiration which is basically aimed at preserving the centrality of the system within the first-tier cooperative banks.

2. The strategic organization and governance models in the main European countries.

As far as the strategic and organizational structure of cooperative systems is concerned, the development of large-sized and/or highly specialized "superstructures" may have influenced the process of re-arrangement and re-organization of these systems. It also seems plausible that the "political" relevance and importance of large central institutions may have contributed to a further centralization and "group" integration, although it is difficult to distinguish between causes and effects within complex evolutionary processes, influenced by many different elements, including political factors and the direct or indirect actions of some national Governments that have opted on several occasions in favor of "centralized" solutions. On the one hand, the experience of the French Credit Agricole recalls in fact the subsequent two government interventions of nationalization and re-privatization of the central institution in the 70s and 80s. On the other hand, the Rabobank case, which was induced to adopt the group structure in the late 70s seems to have reference to the need for meeting the competitive challenges of a small economy strongly exposed to international competition such as The Netherlands.

Thus, overall, the existing strategic-organizational models of co-operative banking systems are considered as the result of complex processes, determined by certain ideals, business decisions, competitive trends, government policies and exogenous economic factors that, to some extent, are distinguished among different Countries and systems (see Table 1)¹¹.

¹¹ We refer to the previously mentioned work by Di Salvo (2003).

Table 1 –Organizational structures of the cooperative Banks in some European countries

Countries / Systems	Strategic Structure	Organizational Structure	Regulatory and statutory constraints
Austria Raiffeisen	Regionalized integrated system	Local Banks Federations e Regional Banks national Federations central Institution RZB	Mandatory audit of the local banks by local federations National system of cross guarantee (not acknowledged)
Austria Volksbank	National integrated system	Local popular banks National federation Central Institution OVAG	Mandatory audit Institutional guarantee system as Art. 80.8 Directive 48-2006
France Credit Agricole	National group	Local and regional banks Credit Agricole S.A. (1) National federation (1) Nel 2001 the C.A. National Bankla Cassa nazionale became Credit Agricole S.A.	Consolidation at national level by means of cross-guarantee agreement between regional banks and Credit Agricole S.A. Prudential controls on local banks by regional banks
France Credit Mutuel	Regional groups National system	Local and regional banks Regional federations National banks CIC Group National federation	Consolidation at a regional level Prudential controls on the local banks by regional federations
France cooperative popular banks mutual savings banks	National group	Regional popular banks Mutual savings banks (CE) holding PBCE Natixis Group	Consolidation by the BPCE holding National system of cross guararantee (valid for consolidation)
Germany Raiffeisenkasse Volksbank	National integrated system	Local coop banks Regional associations National federation National DZ bank group Interregional WGZ Institution	Mandatory audit and adherence to the Institutional guarantee system as Art. 80.8 Directive 48-2006
Finland Pohjola Group	National Group	Local coop banks Pohjola Bank Central coop holding	Central cooperative consolidation System of cross guarantee (valid for consolidation)
Italy Popolar banks	Sistem	Popular banks National association	No constraints Limited centralization of functions and services
Italy BCC	Regionalized integrated system	BCC Local federations National federation National bank group 2 central provincial banks	Voluntary centralization of functions and services Mandatory Deposit Guarantee Fund within the system Institutional guarantee system as Art. 80.8 Directive 48-2006 (ongoing)
Netherlands Rabobank	National Group	Local banks Central Rabo Group (cooperative)	banking group acknowledged Legally
Portugal Credito Agricola	National Group	Local banks National bank National federation	Capital consolidation and cross guarantee system
Spain Rual banks	National integrated system	Local banks National federation National bank	No constraints Voluntary centralization of functions and services

However, the range of possible feasible options is rather limited, due to the constraints imposed by the European financial regulatory framework, which, since the 80s, has progressively provided a process of harmonization of banking laws and supervision across all Member States.

The strategic choice is thus referable to the greater or lesser degree of centralization, which was intended to provide "system" or "network" organizations with different forms of integration¹². In the case of Rabobank a legal banking group was established, according to the Dutch banking law and complying with the supervisory regulation¹³.

Indeed, the First European Banking Directive in 1977 allowed the possibility of establishing a banking group not only through a holding which directly centralizes the equity control of other banks and financial institutions but also on the basis of "bottom-up" equity ties typical of cooperative systems. However, the control principle requires a strict control action by a second-tier bank or holding on first-tier banks and other companies included in the group.

In that phase, the Rabobank system, in fact, undertook that strategic decision, and in 1978 was constituted as a group, so that the article of the mentioned Directive was called "Rabobank Provision", as specifically defined to allow this form of aggregation¹⁴. As part of the Rabobank Group, therefore, the Central holding has assumed major responsibility for direction and control on local member banks, which could still maintain some considerable degree of autonomy. Each "rabo" bank in fact has its own board of directors and well-defined decision-making powers as far as lending (with limits) and the offer of products and services to its members and clients. The Group is to date the only national formal grouping of cooperative banks, fully recognized by the national primary and secondary legislation, thus for both statutory and supervisory aims. Therefore, the Central Rabobank, through a strict mechanism of "cross guarantees", consolidates the capital of all the "Rabo" member banks and meets the capital *ratios* on a consolidated basis.

Subsequently, other systems of co-operative banks have availed themselves of the so-called "Rabobank Provision", albeit through less urgent forms than those adopted by the Dutch system. In particular, both the current Finnish Pohjola Group and the Portuguese Credito Agricola Mutuo have undertaken a strategy of centralization, in terms of leadership and control of the member local cooperative banks, thus obtaining the acknowledgement of specific regulatory processes by Supervision Authorities, such as the possibility to comply with capital ratios on a consolidated basis and also to exercise supervision and auditing powers on the sound and prudent management of the participating banks. However, official cross-guarantee mechanisms were deemed necessary in both systems in order make the capital consolidation of the member banks effective¹⁵.

¹² For a definition of "network system" and a broad examination of its structure, see the Proceedings of the XII National Conference of the Cooperative Credit held in Riva del Garda in 1999, published in *Cooperazione di Credito* n. 167-168, January-June 2000.

¹³ For a systematic and updated discussion on the European cooperative banking systems of continental Europe see the volume edited by Boscia, V., Carretta, A., and Schwizer, P., *Cooperative Banking in Europe*, Palgrave Macmillan Studies in Banking and Financial Institutions, England, 2010.

¹⁴ When writing this chapter, Article 3 of Directive 48/2006 (Basel 2), which incorporates the aforementioned legal provisions of the previous banking directives is still in the process of redefinition. In fact, the so-called "Rabobank provision" should be updated and made applicable to the generality of the network systems that intends to use it.

¹⁵ In Portugal, since the early 90s, the Caixa Central of the Credito Agricola Mutuo and individual local cooperative banks have embarked on a route that led to the establishment of a consolidated cooperative group called SICAM (Sistema Integrado de Caixas Agricola Mutuo), which is based on the solidarity mechanism of the Guarantee Fund established since 1987.

A somewhat different situation, on the other hand, occurred in France, where the "group" combination has been achieved on a regional basis of the Credit Mutuel, and with different characteristics at a national level in the case of the Credit Agricole and popular banks (Banques populaires). However, while, in the case of Credit Agricole, the regional central banks took the function of leadership and control over local cooperative banks, consequently consolidating assets, liabilities and capital with the S.A Credit Agricole at national level, on the other hand, the choice of the Credit Mutuel was in favor of a more decentralized solution: the regional federations provide for sound and prudent management control functions with respect to local participating banks, whereas the regional central banks may account for balance sheet consolidation at regional level. In both cases, however, the autonomy of first-level banks is significantly limited and the decision process is primarily based on the relationship between the regional central banks and, respectively, the S.A Credit Agricole and the Confédération Nationale of the Credit Mutuel,

Lastly, in France, a special case consists of popular banks and the former mutual savings banks (casse d'épargne), that meanwhile have changed into cooperative banks, which gave rise in 2009 to a mere cooperative group based on a regional dimension, represented by banks operating at local level, and on a national tier formed by a holding controlled by both the popular banks and cooperative savings banks (BPCE), a sort of holding that carries out strategic management and control functions of the member banks and that makes use of an official and acknowledged cross-guarantee mechanism in order to meet the *capital* ratios on a consolidated basis¹⁶. Furthermore, the group is also functionally integrated by a large commercial bank (Natixis) to support the activity of the member cooperative banks. It is worth noting that the system of the French popular banks, even before the integration with the savings banks, had begun to strengthen the network, in a somewhat new manner similar to the Finnish cooperative Group, which is strongly focused on its role of leadership and control of a shared holding and the mechanism of cross guarantees.

Further important European experiences, such as the cooperative banks in Germany and Austria, have undertaken, to some extent, different routes, by leaving a substantial degree of autonomy with the local cooperative banks, while significantly strengthening the central institutions and the control and auditing systems at the central level of the network. This decision process has developed not so much with the aim to consolidate the capital at the central level and to centralize a portion of the banking functions, but rather with the dual objective to strengthen the second-tier institutions and ensure the compliance with the principles of sound and prudent management of local cooperative banks for the benefit of the "safety net" of the system as a whole.

The alternative of a "group" choice has, therefore, been fulfilled, both in the German volksbank-raiffeisenkasse (which gathers popular and raiffeisen banks) and in two separate systems of the Austrian volksbank (popular banks) and raiffeisen banks, through a considerable, dimensional and operational strengthening process of the central institutions (respectively, DZ Bank in Germany, the OeVAG in the Austrian popular banks and the RZB in the Austrian raiffeisen system) and a gradual refining of the mechanisms for both the prudential control system and safety net within the network organization. In the German experience, in fact, a key role was played by the associative structures of cooperative banks, which, traditionally, has carried out an auditing and control function, which is required by law, which has over time strengthened the mechanisms for supervision and control of the member banks¹⁷. In parallel, the control function were supported by guarantee schemes which,

¹⁶ We point out in this regard the presence of the Board of Directors of the holding of two representatives of France and the two independent advisors.

¹⁷ On this point see Biasin, M., "La funzione di revisione contabile delle Federazioni delle Raiffeisenbanken e Volksbanken" in Cooperazione di Credito, No. 201, September-December 2008.

though not always expressed in formal structures and acknowledged by cross guarantees, have led to the virtuous processes of self-discipline and self-control, contributing significantly to the strengthening of stability of the systems and to the significant improvement in the overall reputation and quality level of cooperative banks and their central institutions in these countries¹⁸.

Finally, the experience of the Italian cooperative banks and rural banks in Spain, although falling within the scope of the network systems, is different from the systems of Germany and Austria due to a lower level of integration, either in terms of delegated monitoring over local cooperative banks or in terms of the enforcement of the safety net. In Italy, a balance between deeply rooted values of autonomy and the need for nation-wide coordination has implied the development of a very complex network system, with important functions provided at a regional and / or inter-regional level, while strategic system management mechanisms and safety net functions have been assigned to the national level.

The growth in size of the central institutions and their operational expansion, both in Spain and in Italy, have, to some extent, complied with the need for strengthening the presence and role of local banks in their reference areas. Regarding the Italian Bcc, this mainly occurred through the extensive network of branches of individual banks in limited geographical areas, which has implied a large number of independent local banks (around 420) of small or average dimension. The Central Institution (ICCREA) reorganized as a multi-functional group, has significantly increased its overall business volume over time, but has maintained a strong focus on a service function strictly addressed to the BCC and to the domestic market.

In the case of Spanish rural banks, the possibility for individual banks to open branches in every area of the Country has led to a remarkable size increase and operational development of individual banks; some of them have lost their traditional local attitude, by assuming importance at a national level. Furthermore, the prevalence of province-wide operating has ensured that the number of rural banks is below one hundred, fostering a policy of centralization of some functions at a national level (eg. ICT and Internal Audit). Very recently, in a negative economic situation that has marked the entire Country and the banking system as a whole, some rural banks in Spain have opted for tighter forms of integration, gaining recognition from the Central Bank as a consolidated cooperative group (Cajamar Cooperative Group), consisting of seven rural banks at present, that, on the whole, merges about a thousand branches, 5,000 employees and sums up the total assets of approximately 28 million EUROS (about one quarter of the whole system of rural banks in Spain).

By contrast, in the Italian BCC system, the safety net mechanisms based on Guarantee Funds have been significantly strengthened (the Depositor Guarantee Fund for the protection of depositors of the Bcc, required by Italian Banking law; and the Bondholders Guarantee Fund to safeguard the underwriters of bonds issued by BCC, established on a voluntary basis), to protect the stability of individual member banks and the network system as a whole. Although the Guarantee Funds do not comply with the principles of the cross guarantee forms, typical of more integrated patterns (Rabobank, Credit Agricole Group, Pohjola Group, Austrian cooperative banks), the guarantee Funds of the Italian BCC, being further strengthened, have allowed a good degree of self-discipline

¹⁸ In Germany and Austria, respectively, the system of cooperative banks and of Volksbank have obtained approval for their guarantee funds in accordance with Article 80 paragraph 8 of the Directive Basel 2 (institutional protection funds). The Austrian Raiffeisen Banks, on the other hand, adopted a stricter requirement of cross guarantees which, however, did not allow recognition of the protection system for the CRD.

and to improve the overall reliability of the Cooperative Credit system over time, increasingly viewed as a true "network system" of national relevance¹⁹.

3. Evolutionary perspectives and the role of guarantee schemes in the new regulatory framework.

It is known that, following the international financial crisis of 2008-2009, the regulatory framework regarding the functioning of the financial system is redefined with the objective of strengthening both the control systems on banks and on the efficiency of other intermediaries, and the ability of individual operators and the system as a whole to deal with distressed situations. The redefinition of the role and scheme of European and international Authorities, the tightening of capital requirements (Basilea3) and the measures envisaged by the new Directive proposed on deposit guarantees are the cornerstone. In particular, the entire European regulatory system, renewed according to some changes planned before the crisis in 2008, seems increasingly based on the hypothesis that the internal market is fully achieved and the credit and financial system of each member State is by now to be considered as a single risk unit. In this context, the aim is also to minimize the "areas" of regulation avoidance, increasing in prospect the level of competition on traditional market segments and products.

On the one hand, European cooperative banks and the systems and groups they represent appear to have been affected to a lesser extent by the financial crisis of 2008-2009, mainly due to the greater bias in favor of more traditional business areas²⁰, and are now relatively successful in terms of the role they played and continue to play in supporting the real economy and SMEs, with a countercyclical approach²¹. On the other hand, even this part of European banking industry certainly cannot avoid transposing the new rules to safeguard a greater stability of the intermediaries and the financial system as a whole, although it has undoubtedly helped to offset the factors of instability mainly produced by some parts of the financial system.

In this process, the function of the guarantee schemes of the cooperative *networks* appears as one of the supporting elements of the "safety measures" mechanism of the individual components of such *networks*, since it is closely interrelated with the ability and possibility to practice monitoring actions and ensure the sound and prudent management of the member banks. A more or less

¹⁹ See Caleffi, F. "Metodologie, strumenti e struttura adottati dal Fondo di Garanzia dei Depositanti: migliori pratiche ed evoluzione verso il Fondo di garanzia istituzionale", Di Salvo, R. "Estensione della protezione e problemi di stabilità. Il caso degli schemi di tutela istituzionale nei network bancari", in Cooperazione di Credito, No. 198, October-December 2007; Caleffi, F., Di Salvo, R

Lopez, J.S. "L'istituzione del Fondo di Garanzia degli Obbligazionisti delle Bcc. Presupposti e implicazioni" in Cooperazione di Credito, No. 185, July-September 2004.

²⁰ Regarding this issue, refer to the work of the European Association of Cooperative Banks, "Discussion Paper: European Co-operative Banks in the Financial and Economic turmoil" in Italian on Cooperazione di Credito, No. 204.

²¹ See two works carried out by researchers from the International Monetary Fund: Hesse, H. and Cihak, M, "Cooperative Banks and Financial Stability", IMF Working Papers, 02-2007; Fonteyne, W., "Cooperative Banks in Europe. Policy Issues ", IMF Working Paper, 159-2007. For an analysis referring to the Italian BCC, see the work by Coluzzi, C., Di Salvo, R., Lopez, JS "La politica del credito durante la crisi finanziaria: evidenze dal sistema delle banche di credito cooperativo", published in the XV Report on Italian Financial System "*Nuovi Equilibri in Finanza: Banche, Imprese e Governi*", by Bracchi, G. and Masciandaro, D., Fondazione Rosselli, Edibank, Milan, 2010.

effective safety net (up to the maximum established by a full cross guarantee among member banks) will thus entail the level of integration and cohesion among the cooperative banks.

The corollary of these assumptions may have important implications for the structure of cooperative banking systems and groups, particularly those operating in the European Union.

Considering what has been pointed out in the two previous paragraphs, we can therefore assume that the evolutionary trends of cooperative banks in the upcoming years may significantly be influenced by the revised (ongoing) regulatory framework and the competitive pressures that will arise, particularly in traditional business areas. The degree to which these drivers will affect cooperative banking will also be depending on the strategic and organizational structures of the cooperative systems themselves. Furthermore, it is also necessary consider the growing need for reputation and accountability on the markets that the central institutions of the systems and cooperative groups should be able to gain in order to carry out financial intermediation in support of member banks and / or selling financial products to investors and clients. From this point of view, for example, strengthening the level of system integration, and the robustness of internal insurance schemes and safety net instruments, within models of *governance* consistent with these assumptions, usually bring about good evaluations by both Rating Agencies and institutional investors, significantly improving the conditions of access to markets.

Firstly, we can assume that the systems of cooperative banks that are still strongly decentralized (e.g. Italian Bcc, Spanish rural banks) will converge towards more integrated organizational models, through an overall strengthening of self-discipline and safety net enforcement, induced by both the re-regulation process and financial needs on the markets. In particular, in order to ensure autonomy of the cooperative banks associated with the *network*, the required strong coordination of the system should benefit from proper tools for the sound and prudent management of member banks, in compliance with increasingly stricter regulations. In parallel, it will be necessary to strengthen and formalize the constraints within the internal guarantee and solidarity mechanisms, in order to either maximize the benefits from the stability of local coop banks and markets or foster the use of coop bank equity on a consolidated basis, as already achieved in most European cooperative bank systems.

Secondly, it seems plausible that the most integrated cooperative groups, especially those established and / or which are authorized to consolidate the capital of member banks according to cross guarantee schemes, might be encouraged to promote a progressive strengthening of the capital and dimension through a greater use of market capital, as is already occurring to some extent with stock exchange listing of some central institutions and large banks within some cooperative systems (e.g. Credit Agricole S.A, the Natixis group of the French popular Banks, the CIC Group of Credit Mutuel, the Finnish Pohjola Bank). This could lead, on the one hand, to a weakening in the cooperative and mutual features of these groups, and, on the other hand, enhance competitive pressures on systems of cooperative banks that do not have that capability, considering a probable greater focus of banks and of cooperative systems on traditional intermediation sectors.

Finally, there is a possibility of a new wave of aggregation processes, both at national and *cross-border* level, including mergers or strategic alliances among cooperative groups to strengthen the relationship model and the local presence in a dimensional and broad-scale operational perspective, strongly influenced by the competition level in the markets.

However, in this evolutionary context, consistent with the perspective to access directly and significantly to the capital market, we must note that there is a clear risk of distortion of the original

model, that the introduction of capitalist mechanisms might progressively reduce the nature of solidarity and mutual feature of cooperative banks.

In summary, although prospects are positive thanks to the action of cooperative banks in the international financial crisis and during the following recession, the perspectives for further development of cooperative banking systems do not rule out potential hazards which may arise from weakening the coop model itself.