OLIVER WYMAN

Financial Services

# COOPERATIVE BANKING

## LEVERAGING THE COOPERATIVE DIFFERENCE TO ADAPT TO A NEW ENVIRONMENT

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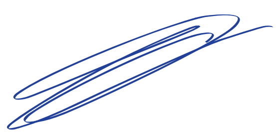
# FOREWORD FROM THE EACB

We would like to thank Oliver Wyman for their interest taken in the European co-operative banking sector. This third report is the follow up of two successful surveys on Cooperative Banks and it is a timely contribution to explain the nature, the role, the commitments and the challenges of co-operative banks. Co-operative banking represents a significant share, and in some countries the majority part, of the banking industry. The co-operative banking model has performed reasonably well since the crisis and cooperative banks are looking forward to continuing to help "build a better world". We welcome this report that analyses the present and looks at future opportunities and possible evolution for our sector. We are convinced that the co-operative model as a distinctive model of banks can be a driving force to a more sustainable society and economy.

CHRISTIAN TALGORN
European Association of Cooperative Banks
**President**



HERVÉ GUIDER
European Association of Cooperative Banks
**General Manager**

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# EXECUTIVE SUMMARY

In previous years we have examined how cooperative banks developed a distinctive banking proposition with their clients (Oliver Wyman, *Cooperative Bank: Customer Champion*, 2008) and how this contributes to the financial sector and the wider economy (Oliver Wyman, *Banking on values, building on agility*, 2012).

In this report we look at how the cooperative banking model is adapting to the current environment through two of its distinguishing characteristics: cooperative banks' relationships with their members and other clients and their contributions to local communities.

Throughout the financial crisis and in post-crisis years cooperative banks in Europe have taken advantage of their customer-centric values to differentiate themselves from shareholder-owned banks in a context where the sector has been struggling to regain the trust of consumers. Cooperative banks have simultaneously increased their number of customers and the proportion of their customers who are members.

Many cooperative banks have reinforced their "community role" by continuing to lend to their members and to local businesses when some shareholder banks have been prone to withdrawing from depressed markets in order to deleverage or re-allocate resources elsewhere. This has provided a lifeline to many areas, especially outside major cities.

Despite these trends, cooperative banks face three main challenges that may hinder their contribution to the "highly competitive social market economy" the European Commission seeks[1].

1. **Differentiation on values**. Cooperative banks risk losing some of their differentiation for being seen to put customers and local communities first. This is partly a consequence of their success. Some cooperative banks have grown well beyond their community of origin and now have many more customers than members. In these circumstances it is more difficult to sustain the defining member- and community-focused ethos. At the same time, shareholder-owned banks are increasingly evolving their own service models and brand positioning to mirror some of the historic strengths of cooperatives – in particular, trust and proximity to customers – in an attempt to restore the tarnished reputation of the sector. If these efforts succeed, cooperative banks may suffer dilution of one of their main competitive advantages.

2. **Technology and cost management**. As new technology emerges and customers' behaviour changes, banks must revisit the way they deliver services across the various channels (physical branches, internet, mobile, etc.). Cooperative banks have typically relied on dense branch networks and face-to-face interaction with customers. In an increasingly digital world, cooperatives risk falling into a cost, and therefore price, disadvantage, unless they are able to adequately manage their channel mix and serve those customers for whom face-to-face remains an essential channel.

3. **Economic context and regulation challenges given the specific governance of cooperative banks**. Basel III regulations require banks to hold higher levels of capital and liquidity. Cooperative banks cannot increase their capital as rapidly as shareholder-owned banks because they do not have the same access to financial markets, and cooperative banking groups do not have the same ability to quickly re-allocate capital across activities and entities. On top of this, the new "risk weights" of Basel III are particularly burdensome for lending to some of cooperative banks' key customer segments: namely small businesses and sub-sovereign local governments. Regulators are also increasing the operational costs of risk management, demanding more rigorous risk measurement, monitoring and reporting. Since this is largely a fixed cost per bank, it is more burdensome for smaller banks, which many cooperatives are, as well as for cooperative groups comprising many different legal entities. Due to their membership structures and underlying community ethos, cooperative banks need to balance a wider set of interests than shareholder owned banks. It also creates potential conflicts where commercial decisions have to be made around uneconomic products and services where there remains an underlying need to be addressed.

Cooperative banks should meet these challenges by preserving and building on their distinctive characteristics. They can do this in three main ways.

1. **Manage financial constraints to continue supporting local economies**. Despite the capital and cost pressures mentioned above, cooperatives must continue to support their defining communities, both through financing and through local presence. This will require them to become more sophisticated in their governance and decision making about the allocation of scarce financial resources and more disciplined in managing costs.
2. **Leverage their roots to emphasize the cooperative difference**. Membership is the defining characteristic of cooperative banks. They should try to increase the portion of customers who are members and increase the engagement of members in setting and delivering their guiding principles and business practices. Cooperative banks are also community banks. They should reinforce this fact, and the perception of it, by doing even more to help local communities and members, through making their branches available for community events, promoting new business associations, providing or arranging new sources of financing and, more generally being excellent "corporate citizens". Cooperative banks can advertise their social value by some form of "dual bottom line accounting", which shows not only financial performance but some numeric measure of social contribution.
3. **Use technology to rejuvenate the cooperative relationship**. Cooperative banks must build their own answers to the multi-channel conundrum, using technology to complement and revitalise physical branches, enhancing proximity, trust and the overall banking relationship. They can also use technology to improve the involvement of members in the bank's life. On both counts, technology offers opportunities for greater cost efficiency and increased quality.

# 1. INTRODUCTION

Most cooperative banks were founded by a collection of people within a community – be it professional, social or geographic – whose members lacked access to financial services. They formed entities that they jointly controlled with the aim of providing each other with banking services: usually credit in the first instance.

These origins explain the distinguishing features of the cooperative banking model. Cooperative banks tend to prioritise customer service and long-term stability ahead of maximising short term profits; they are strongly anchored in their communities; they are good "corporate citizens"; and members participate in governance.

Despite the dominance of the shareholder model, cooperative banks are a significant presence in European banking, with a combined share of the credit market above 20%. Indeed, the financial crisis and lack of trust in banks in general may favour cooperative banks, whose ownership structure and ethos have set them apart from shareholder-owned banks in the minds of many customers.

## 1.1. SCOPE OF THIS REPORT

This report concerns the position of the cooperative banking model in the current market environment, and the challenges and opportunities ahead.

First, we explore co-operative banks' relationships with their members and clients, and their contributions to their communities. Then, we look at the challenges that recent developments have created for cooperative banks. Finally, we suggest ways that cooperative banks can reinforce their differentiation and adapt to the evolving environment.

This report does not include analysis or commentary on the capital structure, liquidity position or financial stability of the cooperative sector or of any specific institution.

## 1.2. METHODOLOGY

This report draws on three main sources:

- A questionnaire distributed to a panel of eight cooperative banks (cf. list below)
- Interviews with senior managers at the cooperative banks participating in the panel
- Third-party sources, including interviews with members of political bodies and academics

### EXHIBIT 1: EIGHT COOPERATIVE BANKS FROM SIX COUNTRIES PARTICIPATED IN THE STUDY

| COUNTRY | COOPERATIVE BANKS |
|---|---|
| Finland | • OP Pohjola Group |
| France | • Crédit Agricole Group<br>• BPCE Group<br>• Crédit Mutuel Group |
| Germany | • Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR) |
| Italy | • Federazione italiana delle branche di credito cooperative (Federcasse) |
| Netherlands | • Rabobank |
| Switzerland | • Raiffeisen Switzerland |

Note Details of the methodology are available in the appendix

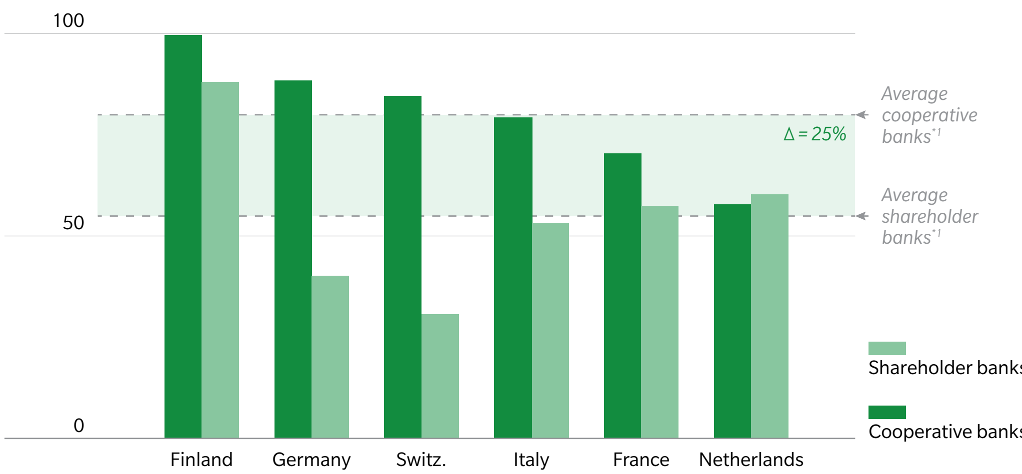
# 2. RELATIONSHIP WITH CLIENTS AND MEMBERS

## 2.1. CLIENT RELATIONSHIP

Historically, cooperative banks have been more focused on serving retail customers than have shareholder-owned banks. Most of their revenues are derived from personal, professional and SME banking activities.

EXHIBIT 2: COOPERATIVE BANKS' BUSINESS MODEL IS STRONGLY ANCHORED IN RETAIL BANKING

2012 RETAIL REVENUES/TOTAL REVENUES
IN PERCENTAGE



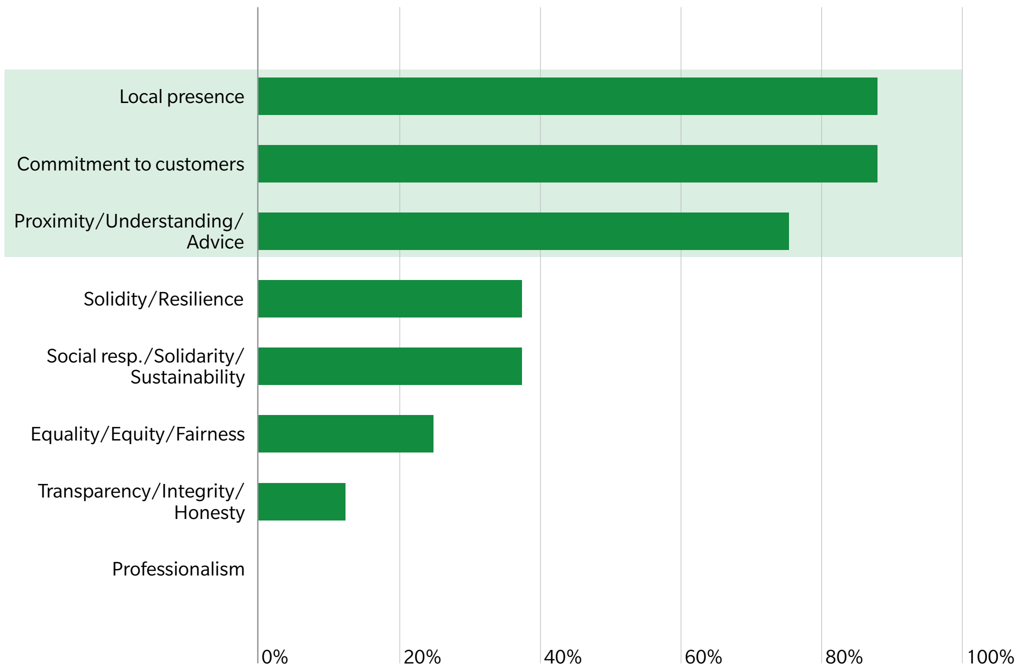

Source Annual reports, Oliver Wyman analysis

*1 Non-weighted averages

Cooperative banks pride themselves on their high level of customer service and long-term view of the client relationship. Combined with their typically dense branch networks and regional or local structure, this results in higher perceived proximity and trust from customers, as recurrently revealed by image surveys.

EXHIBIT 3: COOPERATIVE BANKS DEFINE THEMSELVES BY A FOCUS ON LOCAL PRESENCE AND COMMITMENT TO CUSTOMERS

WHAT VALUES BEST DEFINE YOUR BANK?
IN PERCENTAGE OF RESPONDENTS

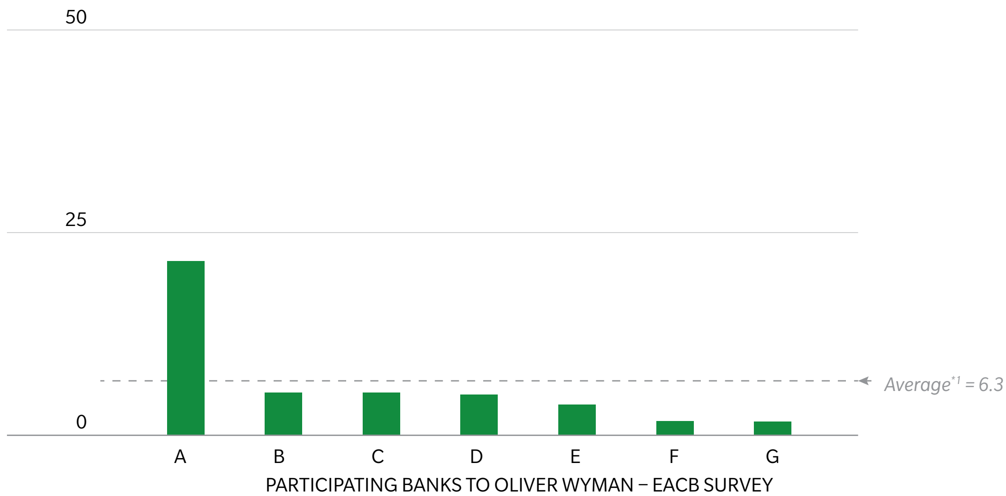



Source Interview data, Oliver Wyman analysis

Thanks to this favourable reputation, most cooperative banks have gone on increasing their client base during the crisis years when consumers' confidence in banks has generally declined. Cooperative groups also tend to rely on local experimentation and adaptation to local needs.

## EXHIBIT 4: CUSTOMER BASE GROWTH IN COOPERATIVE BANKS

IN PERCENTAGE, 2008-2012

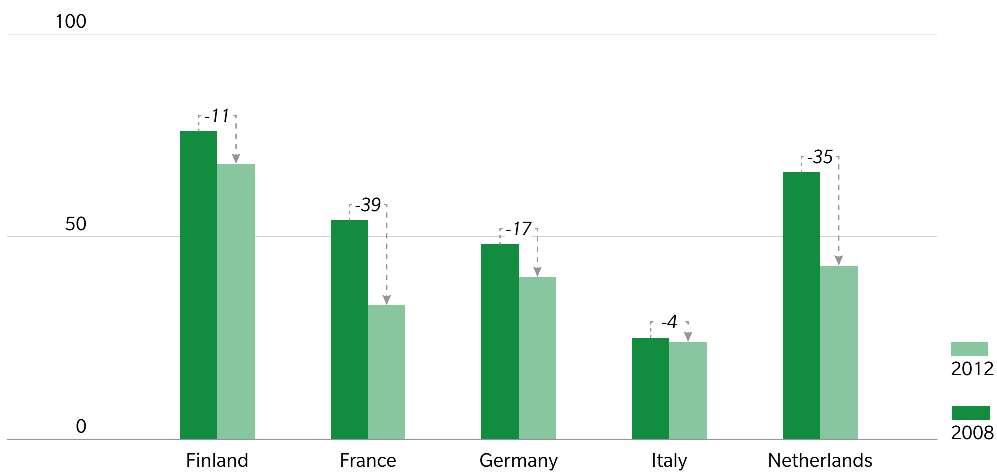



Source Annual reports, EACB, Oliver Wyman analysis

*1 Non-weighted average

## EXHIBIT 5: IN THIS COUNTRY, DO YOU HAVE CONFIDENCE IN BANKS AND FINANCIAL INSTITUTIONS?

IN PERCENTAGE OF YES




Source For 2008, based on 2008 Gallup research. For 2012, based on data from a survey done between March and July 2012, except for Germany (survey done between October and December 2011). Gallup survey methods: results are based on telephone and face-to-face interviews with approximately 1,000 adults, aged 15 and older, per country per year. Depending on the year, scope is EU25 or EU27

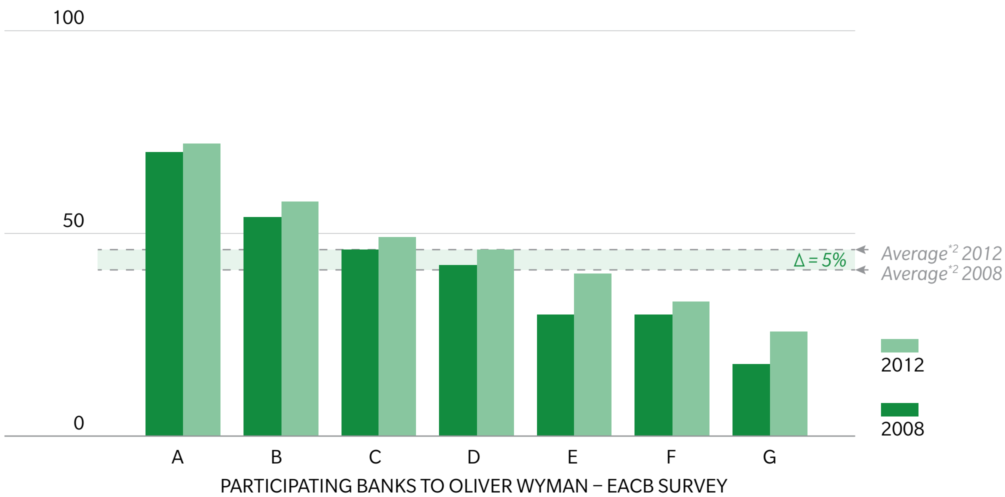
## 2.2. MEMBER RELATIONSHIP

Membership is the defining characteristic of cooperative banks.

Over the 2008-2012 period, the cooperative banks participating in the study have significantly increased the portion of their clients who are members. In most cases, this resulted from a deliberate plan to increase membership.

### EXHIBIT 6: EVOLUTION OF MEMBER/CLIENT RATIO*1

IN PERCENTAGE, 2008-2012




Source EACB, Annual reports, Oliver Wyman analysis

*1 Only banks from sample considered – EACB data or annual reports data when EACB data unavailable

*2 Non-weighted average

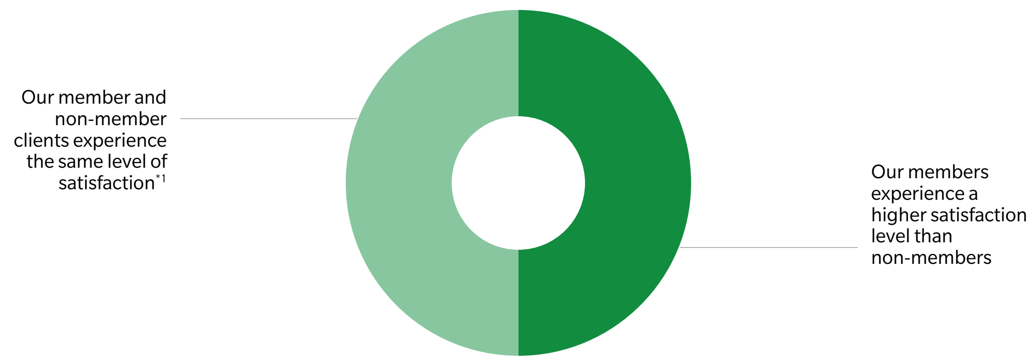
Members receive three benefits. They participate in the bank's governance. They receive part of the bank's profits through their social shares. And they may be entitled to additional benefits, such as improved banking conditions.

As clients, members' loyalty and satisfaction tend to be higher than non-member clients'. Because members are also clients of the bank, they are inclined to push for greater differentiation in the treatment of clients and members. However, some cooperatives make a point of not offering better banking conditions to members.

Besides these "contractual" elements, cooperative banks are generally attentive to their members, keeping them informed about what the bank is doing and seeking feedback. This can affect the behaviour of employees and improve interactions between Relationship Managers and member clients.

## EXHIBIT 7: COOPERATIVE BANKS' MEMBERS TEND TO EXPERIENCE A HIGHER SATISFACTION LEVEL THAN NON-MEMBER CUSTOMERS

IN PERCENTAGE OF RESPONDENTS



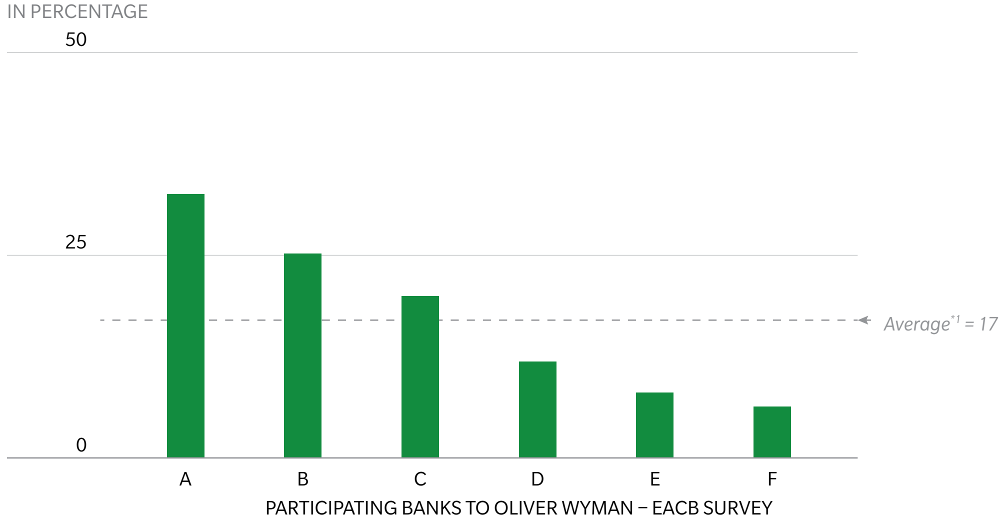

Source Interview data on bank sample

*1 Answer given also when the interviewed bank has not quantitatively nor qualitatively measured the satisfaction level of its members versus its non-member clients

As owners, members can take part in the banks' governance through Annual Meetings and General Assemblies, and the election of Board members. On average, 17% of members vote in their local banks' General Assemblies. The size of the membership of most cooperative banks makes this involvement challenging, from both a logistical and information standpoint. Cooperative banks also have to ensure that following a democratic process enables them to find fit and proper Board members.

## EXHIBIT 8: SHARE OF MEMBERS WHO VOTE DURING GENERAL ASSEMBLIES

IN PERCENTAGE




Source Interview data, Oliver Wyman analysis

*1 Non-weighted average

# 3. CONTRIBUTION TO THE COMMUNITY

Cooperative banks pride themselves on contributing to their local communities. This contribution is a natural result of the fact that the client-members who own the bank are also members of the community the bank serves. Cooperative banks serve their local communities is three main ways:

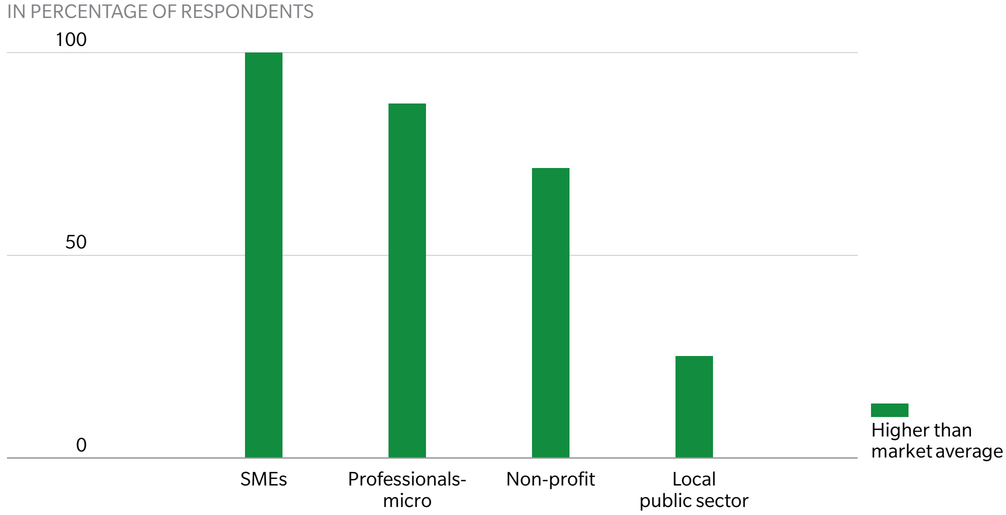
- Financing the local economy
- Assisting people facing temporary difficulties
- Being good corporate citizens

## 3.1. FINANCING THE LOCAL ECONOMY

Cooperative banks have a disproportionate market share in the Professional, SME and non-profit segments.

EXHIBIT 9: WEIGHT IN THE FOUR MAIN SECTORS OF LOCAL ECONOMY*1 COMPARED TO MARKET

IN PERCENTAGE OF RESPONDENTS

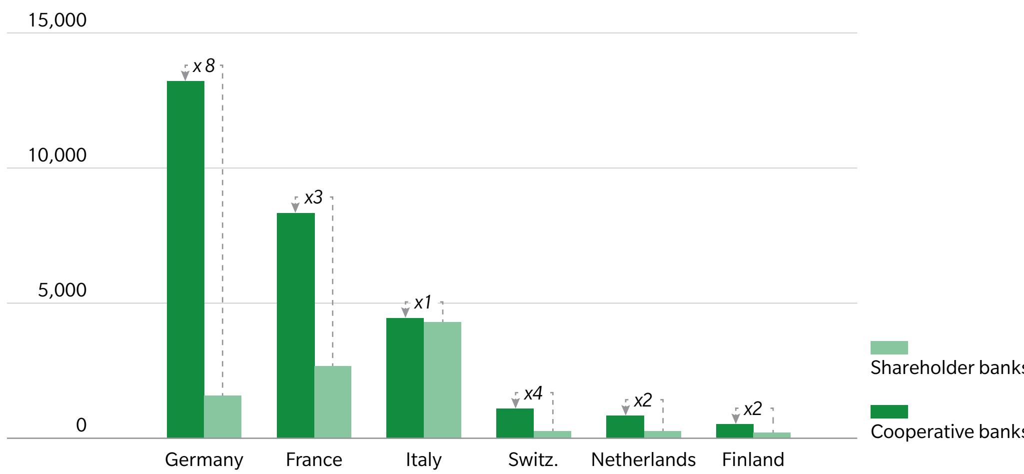



Source Interview data on bank sample – Data being the net difference between the percentage of respondents having answered higher or much higher than market average and the percentage of respondents having answered lower or much lower than market average

*1 In terms of assets

Cooperative banks' disproportionate share of these retail segments is associated with the high density of their branch networks and their historical roots in local or professional communities. These strengths are especially important outside of the big urban areas.

EXHIBIT 10: AVERAGE*1 NUMBER OF BRANCHES PER COUNTRY FOR MAIN COOPERATIVE BANKS VERSUS MAIN SHAREHOLDER BANKS

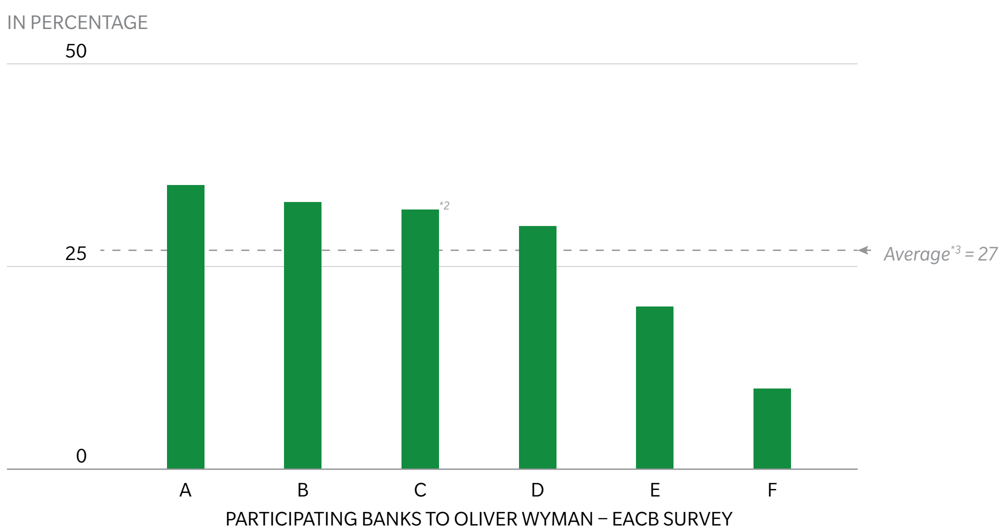



Source Annual reports, Oliver Wyman analysis

*1 Non-weighted average

Most of the cooperative banks participating in our study have implemented special programmes to finance start-up companies and young professionals. Two-thirds also partner with micro-finance players to help provide finance for professionals and private individuals.

EXHIBIT 11: PENETRATION RATE FOR START-UPS AND "YOUNG" PROFESSIONALS*1 IN BANKS' RESPECTIVE COUNTRIES




Source Interview data on bank sample – six out of eight banks have provided an answer

*1 For businesses established since less than two years

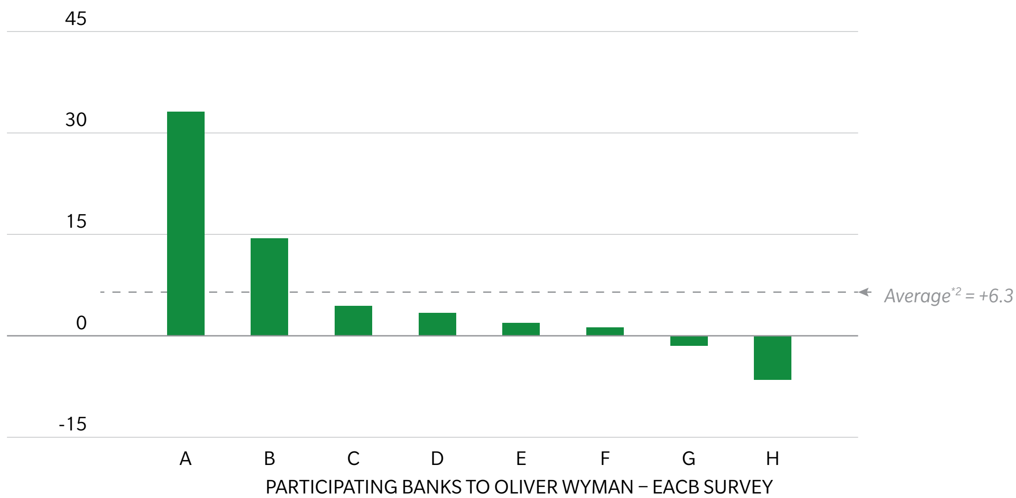
*2 For small businesses established since less than three years

*3 Non-weighted average

Cooperative banks reinvest most of their resources in their local areas. Theoretically, this may lead to a sub-optimal capital allocation. However, it helps to sustain economic activity in less-favoured areas[2]. This has been especially true during the crisis years. While shareholder-owned banks have pulled out of some troubled segments and regions, most cooperative banks have kept on lending and increased their share of the credit market between 2008 and 2012.

EXHIBIT 12: GROWTH RATE IN CREDIT MARKET SHARES FOR EACH BANK IN THEIR COUNTRY*1

IN PERCENTAGE, 2008-2012




Source EACB, Oliver Wyman analysis
*1 Only countries from sample considered
*2 Non-weighted average

Moreover, with more than 800,000 employees across Europe, cooperative banks are significant employers, especially outside the major cities, thus sustaining local spending and consumption.

## 3.2. ASSISTANCE TO PEOPLE FACING TEMPORARY DIFFICULTIES

Two-thirds of the cooperative banks participating in the study have initiatives to help less-favoured client segments. Such help includes:

- Providing alternative repayment schemes
- Extending small loans to help those facing temporary financial difficulty
- Educating clients about personal finance and money management
- Helping clients navigate through a life event with adverse monetary consequences (such as a lay-off, divorce or death of the main earner in the family relative), often cooperating with social services
- Dedicating branches to restoring the financial health of customers in financial distress

## 3.3. GOOD CORPORATE CITIZENSHIP

Although figures vary from bank to bank, on average cooperative banks donate to social action three times more than their shareholder-owned counterparts (as a share of revenues).

### EXHIBIT 13: COOPERATIVE BANKS TEND TO DONATE MORE AS PERCENTAGE OF THEIR REVENUES THAN SHAREHOLDER BANKS AND TO PREFER LOCAL AND REGIONAL PROJECTS

| | AVERAGE DONATION 2012*1 | TYPE OF PROJECTS SUPPORTED |
|---|---|---|
| SHAREHOLDER BANKS | 0.12% | • Mainly national and international initiatives<br>• Partnership with worldwide known charities (for example, UNICEF, etc.) |
| COOPERATIVE BANKS | 0.47% | • Mainly local and regional initiatives |

Source Annual reports, CSR reports, Oliver Wyman analysis

*1 Percentage of total revenue

Cooperative banks tend to undertake many small local social projects, such as supporting schools, hospitals or sports and cultural clubs. This contrasts with shareholder-owned banks, which tend to fund a limited number of national or even sometimes international initiatives. This means that cooperative banks tend to have a strong voice in the local media, whereas shareholder banks feature in the national media.

# 4. CHALLENGES TO COOPERATIVE BANKS

In this section we look at the challenges faced by cooperative banks in Europe. Some of these challenges are common to all banks operating in Europe. However, because cooperative banks are owned by (some of) their customers, the proper response of cooperative banks facing these challenges may differ from the response of shareholder-owned banks. For example, they might arrive at different answers about the optimal trade-off between returns on their scarce financial resources and extending credit to the local economy or about the best balance between controlling branch network costs and ensuring vital services are maintained for customers.

## 4.1. DEMOGRAPHY OF CLIENT BASE

As a consequence of their network density, cooperative banks are over-represented in low-growth or decreasing areas whose populations are growing slowly or even declining, which are often rural.

EXHIBIT 14: STRONGER PRESENCE OF COOPERATIVE BANKS VS. SHAREHOLDER BANKS IN REGIONS WITH LOW POPULATION DENSITY

CASE STUDY: FRANCE

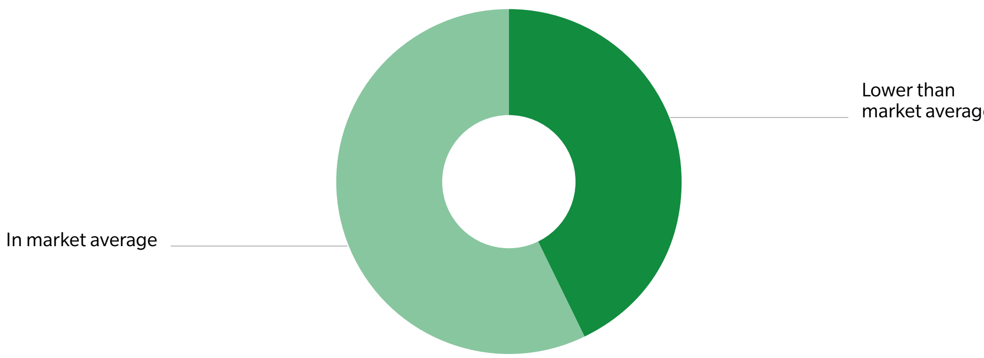
| **DEPARTMENTS DENSITY** HAB. BY SQUARE KM | **AVERAGE OF COOPERATIVE BANKS BRANCHES** |
|---|---|
| x>20,000 | 24% |
| 10,000>x>5,000 | 32% |
| 1,000>x>800 | 37% |
| 800>x>600 | 43% |
| 600>x>400 | 52% |
| 400>x>200 | 61% |
| 200>x>100 | 63% |
| x<100 | 70% |

Source Insee 2009, Insee 2012, Banque de France (31.12.2010 data)

Half of the cooperative banks participating in our survey also believe they are under-represented in the younger customer segment.

EXHIBIT 15: WEIGHT IN THE "YOUNG"*1 SEGMENT*2 COMPARED TO MARKET

IN PERCENTAGE OF RESPONDENTS




Source Interview data on bank sample

*1 The "Young" customer segment refers to customers aged less than 29

*2 In terms of assets

Taken together, these demographic facts suggest a declining natural customer base for cooperative banks.

## 4.2. DIFFERENTIATION ON VALUES

The image or reputational advantage of cooperative banks may come under pressure.

The first threat comes from the success of cooperative banks. As they grow it becomes more difficult to maintain a sense of community and proximity. A cooperative bank that expands into non-retail business or increases its geographical scope far beyond its original territory may find it difficult to sustain its members' engagement. Even fewer than the one-in-five members (on average) who now participate in their bank's governance may do so in future.

And as the portion of customers who are not members grows, the economic relationship between customers and owners (that is, members) may come to more closely resemble the relationship between owners and customers on the shareholder model. The bank will increasingly focus on the needs of the non-member customers, while the members will begin to seek more differentiation between the treatment of member and non-member customers.

The second threat to cooperative banks' reputational advantage comes from their shareholder-owned competition. Under commercial and regulatory pressure, these banks are increasingly evolving their service models and brand positioning to mirror some of the historic strengths of cooperatives: namely, trust and proximity to customers.

More specifically, shareholder banks have become more concerned with consumer protection, learning more about their customers through big data, communicating better with them via websites and video conferencing and developing virtual communities through social networks and loyalty programmes. And many are promoting the positive role they play in society and in the lives of their customers in their advertising. If these efforts succeed in changing the image of shareholder banks, cooperatives will lose an important advantage. Even if they do not, it will be harder for cooperatives to stand out against a backdrop of shareholder owned banks trying to enter what was previously less occupied space.

These challenges are exacerbated by cooperative banks' limitations in communicating the magnitude of the social value they create for their stakeholders beyond the financial value they create as banks. This is a lost opportunity, especially when the European Commission is trying to promote a "highly competitive social market economy" and the general public increasingly demands corporate social responsibility.

## 4.3. TECHNOLOGY AND COST MANAGEMENT

In an increasingly digital world, the way in which customers interact with their banks is changing. Internet and mobile banking, self-service and engagement through means other than face-to-face are all increasing rapidly. Banks of all types need to adapt their models to meet the new paradigm of customer interaction and revisit the way they deliver services across the various channels (physical branches, internet, mobile, etc.).

Cooperative banks have typically relied on dense branch networks and face-to-face interaction with customers. As shareholder-owned banks are actively migrating customer interactions from branches to remote channels, cooperatives run two risks: first, falling into a cost (and therefore price) disadvantage and, second, seeing their differentiation eroded as customer preferences move towards remote channels and self-service. To succeed, cooperatives will need to sharpen their focus on areas where they can compete successfully with a branch-heavy model, and invest in other channels to maintain the engagement with their customers as their needs and preferences change.

## 4.4. RESPONDING TO ECONOMIC CONTEXT AND REGULATION CHALLENGES GIVEN THE SPECIFIC GOVERNANCE OF COOPERATIVE BANKS

Through Basel III and CRD IV, regulators have taken measures to stabilise the financial system – most notably by increasing capital and liquidity requirements. This creates special challenges for cooperative banks.

Cooperative banks cannot increase their capital as rapidly as shareholder-owned banks because they do not have the same access to financial markets (except in the case of hybrid organizations), and cooperative banking groups do not have the same ability to quickly re-allocate capital across activities. Member involvement in decision-making can also impede decisions to restructure or tighten risk policies and procedures in order to deleverage the balance sheet. The new risk-weights in Basel III also increase the capital requirements for lending to SMEs and local authorities, key activities of cooperative banks. As shareholder-owned banks have reduced their exposure to these segments, cooperative banks have partially filled the gap. But their ability to continue doing so will be restricted by the new risk weights.

On top of these increased capital and liquidity requirements, regulators are pushing for more formalized and professional risk management, controlling and reporting systems. Banks must invest in skilled staff, tools and new governance structures to meet these standards. Because these are largely fixed costs, absorbing them is an issue for smaller banks, including a number of cooperatives. For cooperative banking networks and groups, the extra demands raise the additional question of what is managed at which "level" (local, regional or central) and how these levels are coordinated. A cooperative group can also face a multiplication of costs because it must pay for teams, tools and governance in each of its banks (which are separate legal entities), while a shareholder group need only pay for them once.

In addition to the changes in solvency and liquidity related regulation, the agenda for consumer protection has also gathered pace through Europe over recent years. While in general cooperative banks have a good reputation for customer proximity, understanding and fairness, their more local model can make it difficult to impose uniform conduct standards and controls, leading to issues of inconsistency even where both the institution and the front-line staff had good intentions.

Due to their membership structures and underlying community ethos, cooperative banks need to balance a wider set of interests than shareholder owned banks. This can create potential conflicts where, under changing market conditions and regulation, commercial decisions have to be made about uneconomic products and services where there remains an underlying need to be addressed. Clear decision making processes are needed to strike the right balance between these factors. For example, should a cooperative bank continue to offer a loss-making product, which benefits some customers and communities, at the expense of member profit-sharing or by charging other customers higher prices? Or should it take corrective actions on the loss-making product, such as re-pricing, reducing service levels or removing the product altogether?

# 5. SUGGESTIONS FOR REINFORCING DIFFERENTIATION AND ADAPTING TO THE NEW ENVIRONMENT

Recent developments in the economic environment, regulation, customers' expectations and technology are putting traditional banking business models under pressure. At the same time, cooperative banks are finding their traditional differentiation as customer champions coming under pressure.

Cooperative banks need to find a way of taking advantage of their distinctive characteristics in a new business model that can thrive in this new environment. This will require three things of cooperative banks:

- Finding ways of prudently managing financial and regulatory constraints to continue supporting their local economies
- Strengthening their roots to emphasize their cooperative difference
- Using technology to rejuvenate the cooperative relationship with members and clients

In the rest of this section, we try to explain how. Our suggestions draw on established practices or experiments we have observed in some cooperative banks and on our wider knowledge of the banking sector and of other industries.

Given the diversity of cooperative banks, these levers should not be seen as firm prescriptions. Rather, they are a menu of initiatives to be considered by the various cooperative banks in the light of their specific environment, challenges and goals.

## 5.1. MANAGE FINANCIAL CONSTRAINTS TO CONTINUE SUPPORTING LOCAL ECONOMIES

To meet the needs of their local economies, cooperative banks will need to improve the management of their scarce financial and operational resources and ensure their governance structures are fit for purpose and satisfy higher regulatory standards.

The new Basel III rules will drive up the capital and liquidity consumption of lending to the traditional SME and local government customer base of most cooperative banks. If they do not make good decisions about the allocation of their scarce risk capital and liquidity, they will significantly reduce the consumer surplus they create for their intended beneficiaries.

Improving such decision making will require cooperative banks to invest in material improvements to their risk and finance functions, supporting capabilities (e.g. analytics) and governance models. Alternative financing solutions, such as peer-to-peer or crowd-funding, may play a role in helping cooperative banks continue to meet the financing needs of local communities without taking the risks onto their own balance sheets. Cooperatives may instead offer risk management support to those involved in such initiatives.

Disciplined management of operational costs is also required to protect the interests of the member base and ensure that competitive pricing can be offered to customers. Cost control initiatives should typically include:

- Simplification of the product set and de-duplication of supporting business structures and operational infrastructure
- Re-engineering of core processes to be more cost effective and straightforward for customers and staff
- "Flexing" the branch network by understanding the patterns of customer demand and allocating resources more scientifically
- Streamlining head office functions and supporting infrastructure and premises

Group operational costs can be further reduced by pooling non-client-facing resources – technology, purchasing, possibly back-offices, etc. – across legal entities. For the smaller cooperative banks, merging with neighbouring banks may prove necessary.

## 5.2. LEVERAGE THEIR ROOTS TO EMPHASIZE THE COOPERATIVE DIFFERENCE

Cooperative banks need to remind consumers of what makes them special: namely, that they are owned by their members and are dedicated to their communities.

They can promote membership in three main ways. First, they might increase the advantages of membership (assuming they are willing to differentiate between member and non-member clients), by offering exclusive products, services, pricing or rewards to members.

Second, they could encourage members to become more engaged in setting their guiding principles and business practices. This could be achieved by educating members so they can make more considered decisions in General Assemblies, consulting them on more decisions (especially regarding product development, risk appetite and contributions to the community) or increasing their say in the governance of central structures and subsidiaries. All of the above needs to be done in a way that reinforces and enhances, rather than undermines, the professional prudential management of the bank.

Third, they could promote membership to prospective and non-member clients, both as a differentiating factor and as a way to strengthen the bank's foundation.

Cooperatives can reinforce their reputation as important contributors to their communities by a combination of increased activity and better communication. For example, they might

- Use branches as focal points for local community initiatives (personal finance and budget management education, information on fiscal developments, etc.)
- Develop community banking offers, perhaps targeting certain professions or age groups
- Help business clients to do better, perhaps by providing introductions to potential business partners, e-market places for local products or export information
- Support client segments with limited access to banking through education and special offers

Cooperative banks can also develop frameworks to measure the social value they create. Although this value is generally recognized by members and other stakeholders, there is currently no commonly accepted way of measuring it, though academic research is beginning to tackle the issue[3]. Some sort of dual bottom line accounting – with financial on one side and social impact on the other – would promote the recognition of cooperative banks' distinctive qualities and role in society.

## 5.3. USE TECHNOLOGY TO REJUVENATE THE COOPERATIVE RELATIONSHIP

Cooperative banks can use technology to provide a seamless multi-channel experience to their clients, thereby enhancing the experience of proximity provided by their dense branch networks.

Easy access is not the only basis for this feeling of closeness. Knowledge is another. Cooperative banks can significantly improve their use of "big data" to better understand their customers. Specifically, they might:

- Develop multi-channel promotions through real time behaviour analysis
- Improve targeting or prospect identification through segment analysis
- Reduce costs by shifting clients to less costly channels (for relevant interactions, based on clients' preferences)

Cooperative banks can also strengthen customer communities by gathering feedback via social media, and thereby helping customers to contribute to their communities' overall financial well-being. This can also be an opportunity to guide the development of new approaches to finance that are popping up in the digital era, such as crowd-funding. These initiatives share the spirit of cooperation but, without proper risk skills, can turn sour.

More straightforwardly, cooperatives can use technology to enhance members' participation in the bank's life and scale up existing initiatives. For example, technology can be used to reduce the cost of informing members about what is going on in the bank (social networks, e-newsletter, e-forums, etc.); educating members about the business of banking can be done by e-training; and members' participation in governance can be made easier and cheaper by e-voting.

# CONCLUSION

As cooperative banks adapt to the new environment, they must be guided by the distinctive mission of cooperative banking. This means:

- Putting the cooperative values of membership and community contribution high on the agenda when dealing with change initiatives such as digitalization or the financing model.
- Ensuring client-facing personnel embody and communicate the cooperative difference in their interactions with customers. This is a question of culture but also of supporting processes, such as sales management
- Marketing their cooperative specificities and benefits more actively towards all stakeholders
- Reinforcing cooperative banking representation to regulators and legislative bodies, making them sensitive to the specificities of the cooperative banking model. This will help ensure that regulations do not penalize cooperative banking or the segments of customers that rely on it

# APPENDIX: METHODOLOGY

This report was compiled through a combination of three major sources:

- Research and analysis of third party sources conducted by the Oliver Wyman project team, including interviews with members of the political bodies and academics whose research focuses on the cooperative model.
- A questionnaire distributed to a sample of cooperative banks and covering a range of topics including general positioning, customer and member relationship, contribution to local communities.
- A series of senior level interviews with the cooperative banks participating in this study. We also received feedback on key messages from a task force of cooperative bank representatives, including the EACB

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## DATA SOURCES

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- Eurostat
- BankScope
- Fitch
- Gallup Research
- EACB
- EBF
- Annual & CSR reports
- Investor presentations

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## BANK PANEL

We took a sample dataset for comparison between cooperative and shareholder banks. This dataset consisted of the cooperative banks participating in the study, to which we added comparable shareholder banks located in the same countries.

In addition, to add a non-European perspective, the Oliver Wyman project team interviewed the Desjardins Group.

| COUNTRY | COOPERATIVE BANKS | SHAREHOLDER BANKS |
|---|---|---|
| Finland | • OP Pohjola Group | • Nordea Bank |
| France | • Crédit Agricole Group<br>• BPCE Group<br>• Crédit Mutuel Group | • BNP Paribas<br>• Société Générale |
| Germany | • Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR) | • Deutsche Bank<br>• Commerzbank |
| Italy | • Federazione italiana delle banche di credito cooperative (Federcasse) | • UniCredit SpA |
| Netherlands | • Rabobank | • ING Group |
| Switzerland | • Raiffeisen Switzerland | • UBS<br>• Crédit Suisse Group |
| Canada | • Desjardins Group | |

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