

EUROPEAN UNION CO-OPERATIVE BANK SYSTEM: THE SPANISH MODEL

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Abstract

In practically all European countries, co-operative credit societies have evolved towards a system which is comparable to other financial groups. The co-operative bank model has 4,662 local and regional banks, 58,225 branches, more than 44 million partners, 126 million customers, 674,305 employees and a 17% market share of deposits. The co-operative system has been developed fundamentally in France, Holland, Finland and Germany. The fact in these countries the co-operative bank has achieved clearly a significant markets share of deposits and credits. This paper explores the recent evolution of Spanish credit co-operatives and especially rural savings banks. The creation of "Group Caja Rural" in 1989, which 96% of rural savings banks belong to, has meant the greatest commitment to the integration of Spanish credit co-operatives in the face of the challenges of economic globalisation and the great changes in the national and international financial system. The running of this Group is through a vertebrate structure, in co-ordination and representation aspects as well as in operative functions. The effectiveness of the system of association is apparent in the yearly increase of its market share.

Key words: co-operative bank; credit system; European Union; financial groups; rural savings banks; Spain.

INTRODUCTION

Credit co-operatives are financial entities which have traditionally dealt with financing an important group of entities within the social economy. They have also been the motor for the co-operative sector in general and particularly for the agrarian sector. Such is the situation that occasionally the role played by credit co-operatives within their area of influence has exceeded the financial framework. According to Carrasco and Alvarez (2004), the co-operative character endows to credit co-operatives of a wider role in regional development than the rest of credit institutions.

The co-operative credit system is well established in Europe. We cannot forget that the roots of this system are to be found there, where it was first developed and at presents it represents a vital and dynamic reality.

As a consequence of the liberalisation phenomenon experienced within the European Union, there is high competitiveness in the banking sector. In order to confront this competitiveness, credit co-operatives have opted for integration strategies and interco-operation between entities in order to operate in the financial market, without losing the competitive advantage of personalisation, the key to their functioning, and combining universal banking and specialised banking principles.

According to Palomo (1999) a co-operative banking Group is an organised whole, interrelated, co-ordinated and formed by credit co-operative partnerships and other legal entities, which act under common and mutual principles. They adjust their behaviour to the policy of the banking group, which is based on the establishment of common guidelines and on respect for independence of decision by member entities of the group.

The co-operative bank, as a financial intermediary, competes in market conditions with any class of bank. The companies which constitute it base their activity on co-operative principles, democratic management and orientate their activity towards customers and partners. Banking activity requires a certain dimension which makes commercialisation of a group of products and services viable, which in turn require operative and advanced technical means in accordance with the level of customer demand.

The Main European Co-operative Banking Groups

In the majority of European countries, including Spain, the co-operative banking groups established are comparable to other financial groups. The level of development of each is not homogenous, since some have a greater tradition and others, as in the case of Spain, have been established more recently. The co-operative system has been developed fundamentally in France, Holland, Finland and Germany (Palomo, 1999). The co-operative bank is represented through various organisations among which we can highlight; the "Groupement", established in 1970, the "International Raiffeisen Union" (IRU), established in 1968, the "World Council of Credit Unions" (WOCCU), founded in 1970, and the "Confederaciones Internacionales del Crédito Agrario y del Crédito Popular" (CICA y CICP), the first credit co-operative was established in 1950.

The "Groupement", whose statistical figures for the most important member organisations are presented in detail in Table 1, dated 31 december 2003, is one of the most important representative organisations of the Economic and Monetary Union. Its basic mission is to promote the common interests of its members and to do so; it analyses the financial and monetary problems which affect co-operative banks, applies community

programs for financing different sectors, such as agriculture, fisheries, traditional customers of co-operative banks, exercises a representative function and defends the group's interests within a framework of the European financial area.

The co-operative bank model has 4,662 local and regional banks, 58,225 branches, more than 44 million partners, 126 million customers, 674,305 employees and a 17% market share of deposits (UNACC, 2004). In some countries the co-operative bank has achieved clearly a significant market share of deposits and credits, such as Holland with 38.0 and 26.0% respectively, Finland with 31.6 and 29.8%, Austria with 32.4 and 27.9%, France with 46.7 and 50.7%, Italy with 28.8 and 24.5%, and Germany with 21.1 and 16.7%. In other countries, like Spain, the relevance of the co-operative bank is much less, 4.9% market share for deposits and 5.2% for credits (Table 1).

The two countries which have the greatest concentration of European co-operative entities are Germany and France. Germany, in fact, has the greatest number of co-operative banks, 1,392, which comprise 34% of the members of the European banking co-operative, 23% of the customers, 26% of the branches, 29% of the employees. Its balance represents 27% of the consolidated total, while customers deposits and credits are 26 and 28% respectively.

With regards to France, its 84 co-operative banks comprise 28% of the branches, 32% of the partners and customers, and generate 35% of the employees. Its balance is 40% of the consolidated total, whereas deposits are 35% and credits 37%.

Spain, with a basis of 83 co-operatives, only 7.8% of the branches, 3.5% of the partners, 7.2% of the customers and 2.5% of the employees. While, its consolidated balance is 1.5% of the total, deposits and credits comprise 2.4% of the European banking co-operative. Obviously, the significance of this in absolute and relative terms is not so important, but they are entities which have an important role in the rural area and which are gradually becoming more secure, expanding their activity to new and different sectors, which are not so traditional.

The dimension of the branches (business volume) is not very high, but high fragmentation, to a certain extent, guarantees their continuity, since their extensive network of branches established in rural areas gives them a competitive advantage, and at the same time serves as an entry barrier for their main competitors.

The specialisation which characterises credit co-op movement in Spain is apparent in the type of entities it is made up of. There are three types: rural savings banks, popular savings banks and professional savings banks, depending on whether the principal orientation of activity is directed towards one particular sector or another. Rural savings banks have been closely linked to the agricultural sector, although they are expanding their activities to other sectors.

Spanish rural saving banks, professional saving banks and the general savings banks are all members of the "Unión Nacional de Cooperativas de Crédito" (UNACC) (National Union Co-operative Credit) which is committed to its institutional representation on a national and international level. The UNACC is a fully recognised member of the European Group of Banking Co-operatives.

The Co-operative Credit System in Spain :The Rural Savings Bank Group

There are three entities which make up the finance system in Spain, banks, which are legally established as a limited company, savings banks which are foundations and credit co-operatives which are legally established as co-operative companies. The latter are the least significant with regards to importance per institution, but they have achieved a greater increase in their activity, taking market share from the banks (Bank of Spain, 2005).

Credit co-operatives in Spain have achieved the level of activity of their European homologues, but the process of bank homogenisation means that they act more frequently in sectors which are complementary to the traditional sectors. We cannot forget that their origins can be found in the agricultural unions in rural areas and guilds in the service and industrial sectors. It also points out the importance of the rural savings banks in the whole of the credit co-operative sector, which at present represents 93% of entities.

The finance Group "Caja Rural" (Rural Savings Bank Group) was created in Spain in 1989 by 24 rural savings banks. The aim was to establish strong links between credit co-operatives, allowing for an improvement in the structures, the running and organisation of the banking system.

At present Spanish rural savings banks form a co-operative banking system which is formed as a model of a federate bank similar to other European systems. From the time it was established until now the intercooperation strategy has become consolidated. At this moment, there is no question that Group Caja Rural in Spain is one of the most important Spanish banking groups.

Thanks to the Group, entities work through mixed organisational formulas, keeping individual structures for traditional business and developing the federate banking model at a Group level. The basic characteristics of this model of federate bank are based on fulfilling principles of decentralisation, subsidiarity, solidarity, intercooperation and territorial (Palomo, 2002).

Credit co-operative partnerships which are the basis of European co-operative banking systems participate in the decision making of central co-operative banks through their representatives. To be exact, in Spain, rural savings bank own 85% of the share capital of the "Spanish Co-operative Bank" (Banco Cooperativo Español, SA, (BCE)) in proportion to the its volume of

assets. The remaining 15% belongs to the Deutsche Zentral-Genossenschaftsbank (DZ Bank), the German central co-operative bank.

Central co-operative banks in the main developed countries are partnerships through shares, which have are legally established as mainly limited companies, whose shareholders are credit co-operatives which form each respective system of co-operative banking.

On the other hand, European co-operative banking systems consist of specialised institutions which offer centralised banking and parabanking services to credit co-operatives, such as insurance, funds management, infrastructure and logistics as well as centralised processing of information. Thanks to economies of scale in the management of a volume of operations, this permits the profitability of such processes and a decrease in the excess of cost of offering these services individually. The "Spanish Co-operative Bank" offers centralised banking services to entities of the Group. In some way a combination of representative functions and other operative functions is established with a greater technological component.

The "Spanish Co-operative Bank" was created in 1990, joining to the above mentioned Group. Two other companies also joined "Seguros RGA" and "Rural Servicios Informáticos" (RSI), both established in 1986. Although the "Spanish Co-operative Bank" follows the same line as its European homologues, it stands out among them for its youth and the fact that part of its share capital belongs to a central entity of another nationality.

The institutional framework of the group is the following (Ibarrondo, 2002):

- 1) The "Asociación Española de Cajas Rurales" (AECR), constitutes the instrument for coordinating and representing the Group which rural savings banks are linked to. Through this association the Group fixes its objectives, strategies and exact lines of action.
- 2) The "Spanish Co-operative Bank", (BCE) as mentioned above, is the banking centre for member rural savings banks. It co-ordinates the financial policies of the rural savings banks, acts as an agent in some operations and supplies specific financial services.
- 3) "Rural Servicios Informáticos" (RSI) is the company in charge of defining and establishing an automatised system for dealing with information. It has one central office for IT services for all entities.
- 4) "Seguros RGA" is the insurance entity for all the rural savings banks. It was created with the aim of expanding the range of products offered by these entities and introduced them into the field of insurance.

The "Spanish Co-operative Bank" joined the "UNICO Banking Group" in 1998. This Group was created in 1977 and is made up of the central entities of the most important European banking groups. The members of this group, whose legal set up is as an "Group of

Economic Interests", are the DZ Bank (Germany), the Raiffeisen Zentralbank (RZB) (Austria), the Group KBC for banking and insurance (Belgium), the OKOBANK (Finland), the Caisse Nationale de Crédit Agricole (CNCA) (France), the RABOBANK (Holland), the Unión Suiza de Bancos Raiffesisen (Switzerland) and the Instituto di Credito delle Banche di Crédito Cooperativo (Italy). Its aim is to achieve international co-operation of the European co-operative bank.

The "Group Caja Rural" includes 96% of the Spanish rural savings banks (74 of 77). Only three entities (rural savings banks) have not joined the Group. The popular and professional savings banks (6 in Spain alone) operate without any stable relationship with each other or with the system of rural savings banks.

Therefore, in Spain there are two types of associations between credit co-operatives, as previously studied. On the one hand, the "Unión Nacional de Cooperativas de Crédito" (UNACC) (Co-operative Credit National Union) her organisation of the sector, around which the rural savings banks, the popular savings banks and the professional savings form a federate structure, that is to say, all credit co-operatives. And on the other hand, the "Asociación Española de Cajas Rurales" (AECR) (Rural Savings banks Spanish Association), created in 1989 as a private association which acts as a constitutional framework for associated rural savings banks.

Table 2 gives a detailed evolution of the principal magnitudes of "Group Caja Rural" in the last seven years, as well as the relative importance which it has had in all credit co-operatives. The fact that the number of entities which belong to the group decreases is due to fusion processes and absorption which the sector has experienced in this period. However, the volume of business has grown and the Group's balance of total assets on the 31 December 2004 is 48,360 million euros, doubling the figure of 1998, the start of the period under study. The customer credits or credit investment rises to 37,645 million euros, almost triple the figure in 1998, while the total for deposits achieved is 39,474 million euros also double at the start of the studied period. Subscribed capital is triple and reserves double. Profits have increased by 45%.

The group concentrates 97% total assets of rural savings banks and credits, 95% deposits, 99% subscribed capital and 92% reserves, also representing 96% total profit. With regard to credit co-operatives, rural savings banks and popular and professional savings banks as a whole, the volume of activity of the Group is 76% total assets, 77% credit, 74% deposits, 74% capital, 72% reserves and 72 %profit.

CONCLUSIONS

The Spanish financial system, as in the majority of developed countries is made up of banks, savings banks and credit co-operatives. The latter, which are legally established as a co-operative society, are classified

according to traditional specialisation as in rural savings banks, popular and professional savings banks. The rural savings banks are more established at all levels in Spain, territorial presence, number of entities and volume of business.

In this way, in practically all European countries, co-operative credit societies have evolved towards a system which is comparable to other financial groups.

Spanish credit co-operatives do not achieve the market share of other countries, where this system is very important, such as in Germany, France, Finland or Holland, with figures of 21, 47, 32 and 38 % of the market of deposits, in fact, they only reach 5%. This percentage in itself, which is not very significant quantitatively, is of particular importance as it grows every year, winning the market share from the rest of the financial entities which they are in competition with, banks and savings banks.

In Spain alone rural savings banks have constituted a co-operative banking system. The "Group Caja Rural" carries out co-ordination between the entities which have adopted this system of federate banking. This Group presents traits common to its European homologues, although it has not reached such a strong level of cohesion as in other countries such as France and Holland.

The creation of "Group Caja Rural" in 1989, which 96% of rural savings banks belong to, has meant the greatest commitment to the integration of Spanish credit co-operatives in the face of the challenges of economic globalisation and the great changes in the national and international financial system. The Group carries out the task of co-ordinating individual interests and common interests, which makes the Group more aware. The running of this Group is through a vertebrate structure, in co-ordination and representation aspects as well as in operative functions. The Spanish co-operative banking system materialised through the "Group Caja Rural" is similar to that of the principal European co-operative banking systems. The

functions of co-ordination and representation correspond to the "Asociación Española de Cajas Rurales" and the operative functions to the "Spanish Co-operative Bank" and other specialised entities which offer central banking services such as insurances and informatics.

The main European co-operative groups, are linked to the financial Group UNICO, the top exponent of the European co-operative banking system. "Group Caja Rural" through the "Spanish Co-operative Bank", where it owns 85% of the share capital, is among these groups.

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