

*Review Articles***THE ROLE OF CO-OPERATIVE BANKING SYSTEMS IN THE EUROPEAN UNION-27: AN ANALYSIS OF THE SPANISH CASE**

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*Abstract*

*Credit co-operatives are now a reality in the majority of European Union countries and play a significant role in the national banking system. The co-operative credit system in Europe has 4 414 local and regional banks, 62 328 branches, more than 45 million partners, 139 million customers, 722 361 employees and a 20% market share of deposits. The Spanish credit co-operatives form a cooperative banking system which is created as a model of a federate bank similar to other European systems, like France, Holland, Finland and Germany, countries where the co-operative system has been developed. In this paper we will focus on the recent evolution of Spanish credit co-operatives and especially rural savings banks with the creation of "Caja Rural Group" in 1989, which 95% of rural savings banks belong to.*

**Key words:** co-operative bank, credit system, European Union-27, financial groups, Spain

**INTRODUCTION**

It is widely recognized that credit co-operatives can play a key role in the developing of economic disadvantaged regions. Credit co-operatives are typically seen as filling a market niche consisting of low-income entrepreneurs, small businesspeople, or farmers who need credit but who have essentially no collateral with which to secure a loan (Cabo et al., 2006).

Therefore 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. In fact some studies show the role of credit institutions in rural poverty improvement (Singh et al., 2007) or how financial activity promotes the growth of cooperative (Gagliardi, 2007).

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. This role acts, at least, by three different ways: facilitating the creation of physical capital, of human capital and of social capital. First of all, as they are credit institutions with a strong regional installation, they avoid the drains of financial resources toward other regions. So, they favour the financing of local activity and they participate, therefore, in the creation of physical capital. On the other hand, they intervene in regional development facilitating the improvement of the productive factors, as labour, by the application of Formation and Cooperative Principles.

Also, the practice of inter-co-operation and the diffusion of Cooperative Principles and Values, allows the creation of companies and social nets that are a key element in the formation of the social capital.

Credit co-operatives are now a reality in the majority of European Union countries and affect the social and economic life of the various economic sectors (Karafolas, 2005, Palomo, 2002, Usai and Vannini, 2005). 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. In some countries play a significant role in the national banking system.

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 inter-co-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.

So, in the nineties of the last century, following the tendency of other European credit cooperative systems, the agricultural credit co-operatives engage in the creation of economic groups, and, simultaneously, a concentration process through mergers operations to achieve minimum efficient size.

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 CO-OPERATIVE BANKING SYSTEMS IN THE EUROPEAN UNION-27

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, 2005). 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 2007, 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 4 414 local and regional banks, 62 328 branches, more than 45 million partners, more than 139 million customers, 722 361 employees and a 20% market share of deposits (UNACC, 2007). In some countries the co-operative bank has achieved clearly a significant market share of deposits and credits, such as Holland with 39.0 and 25.5% respectively, Finland with 32.7 and 31.1%, Austria with 34.9 and 31.1%, France with 43.6 and 45.6%, Italy with 30.3 and 26.7%, and Germany with 15.8 and 11.7%. In other countries, like Spain, the

relevance of the co-operative bank is much less, 5.0% 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, 1,255, which comprise 35% of the members of the European banking co-operative, 22% of the customers, 23% of the branches, 26% of the employees. Its balance represents 21% of the consolidated total, while customers' deposits and credits are 23 and 21% respectively.

With regards to France, its 79 co-operative banks comprise 30% of the branches, 35% of the partners, 38% of the customers, and generate 35% of the employees. Its balance is 45% of the consolidated total, whereas deposits are 41% and credits 37%.

Spain, with a basis of 83 co-operatives, only 7.8% of the branches, 4.2% of the partners, 7.1% of the customers and 2.7% of the employees. While, its consolidated balance is 2.1% of the total, deposits 3.4% and credits comprise 3.3% 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 there 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 (Melián, 2004).

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 enlargement of European Union and the globalization, consolidation processes in the financial sector not only opens new possibilities for the development of credit unions, but also raises new threats and questions of the perspectives of these cooperative financial institutions (Kata, 2006). Hence is very important the mergers and association between entities to act on the changing and competitive banking system.

**Tab. 1:** The “Groupement”. Statistics for member organisations (31-12-07)

Member Organisations	Regional and local banks	Bank Branches	Partners	Customers (1)	Employees	Consolidated Balance millions €	Deposits in millions €	Credits in millions €	Market share deposits	Market share credits
<b>Belgium</b> Crédit Professionnel (a)	n/a	n/a	9	n/a	44	2 046	220	1 219	n/a	n/a
<b>Bulgaria</b> Central Co-Operative Bank	n/a	220	5 631	741 052	1.375	579	484	277	2.67	2.43
<b>Cypr</b> Co-operative Central Bank	293	473	535 000	600 000	2 250	9 739	9 048	6 756	22.81	21.70
<b>Denmark</b> Sammenslutningen Danske Andelskasser (a)	29	80	64 000	122 000	483	1 221	954	848	0.50	0.50
<b>Germany</b> BVR/ Deutsche Genossenschaftsbank	1 255	14 100	16 000 000	30 000 000	187 000	961 200	551 000	497 700	15.80	11.80
<b>Ireland</b> Irish Sea Fisheries Board (a)	1	1	n/a	15	94	7 393	0	1 165	n/a	n/a
<b>Spain</b> Unión Nacional Cooperativas de Crédito	83	4 822	1 912 287	9 878 047	19 334	96 208	82 466	77 219	5.03	5.24
<b>France</b> Crédit Agricole Crédit Mutuel Banques Populaires	41 18 20	11 000 5 065 2 880	5 700 000 6 900 000 3 200 000	31 000 000 14 500 000 7 000 000	157 000 58 380 34 994	1 381 000 482 676 204 000	483 100 422 800 92 000	544 600 220 000 109 000	25.00 12.40 6.20	20.90 16.80 8.20
<b>Greece</b> Association of Co-operative Banks of Greece	16	145	175 541	175 5417	974	2 570	2 135	1 935	0.80	1.00
<b>Italy</b> Asso. Nazionale fra le Banche Popolari FEDERCASSE	89 438	7 808 3 758	1 065 000 822 893	8 100 000 5 000 000	73 269 27 835	374 600 136 941	267 100 111 084	251 300 94 305	21.90 8.40	20.10 6.60
<b>Luxembourg</b> Banque Raiffeisen	13	55	5 560	120 000	460	3 695	3 086	2 123	10.00	10.00
<b>Lithuania</b> Association of Lithuanian credit unions	59	132	68 267	68 841	346	161	105	85	1.20	0.77
<b>Hungary</b> National Federation of Savings Co-operatives	143	1 664	250 000	1 000 000	7 909	4 470	3 940	1 900	9.88	3.60
<b>Holland</b> RABOBANK Nederland	188	1 402	1 641 000	9 000 000	56 209	556 455	215 899	324 100	39.00	25.50
<b>Austria</b> Österreichische Raiffeisenbanken Österreichischer Genossenschaftsverband	578 88	1 732 842	1 657 186 673 158	3 600 000 1 500 000	31 120 11 336	205 361 82 074	114 395 54 301	118 859 45 576	27.78 7.10	23.42 7.70
<b>Poland</b> Krajowy Związek Banków Spółdzielczych	584	3 790	2 500 000	10 500 000.	28 899	10 993	8 396	5 801	12.28	8.23
<b>Portugal</b> FENACAM (a)	111	665	300 000	1 200 000	3 677	9 365	8 146	6 864	5.00	3.00
<b>Romania</b> Creditcoop	124	811	760 000	1 103 851	2 562	159	82	116	1.00	1.00
<b>Finland</b> OKOBANK. OP-Pohjola Group	23	670	1 160 000	4 000 000	12 139	59 500	25 800	39 600	32.70	31.10
<b>Slovenia</b> Deželna Banka Slovenije d.d.	1	87	244	177 602	402	621	480	330	2.24	1.38
<b>Sweden</b> Landshypotek (b)	10	10	69 216	69 216	107	3 787	n/a	3 602	n/a	n/a
<b>United Kingdom</b> The Co-operative Bank (c)	n/a	116	n/a	n/a	4 163	19 368	14 465	12 349	1.00	0.65
<b>TOTAL EU 27</b>	<b>4 414</b>	<b>62 328</b>	<b>45 464 992</b>	<b>139 451 165</b>	<b>722 361</b>	<b>4 616 182</b>	<b>2 426 106</b>	<b>2 367 639</b>	<b>20<sup>(1)</sup></b>	<b>14<sup>(1)</sup></b>

Member Organisations	Regional and local banks	Bank Branches	Partners	Customers (1)	Employees	Consolidated Balance millions €	Deposits in millions €	Credits in millions €	Market share deposits	Market share credits
Associated Organisations										
<b>Switzerland</b>										
Schweizer Verband der Raiffeissenbanken	405	1 149	1 371 107	3 000 000	8 101	69 310	37 878	57 826	18.60	12.10
<b>TOTAL NON EU 27</b>	<b>405</b>	<b>1 149</b>	<b>1 371 107</b>	<b>3 000 000</b>	<b>8 101</b>	<b>69 310</b>	<b>37 878</b>	<b>57 826</b>	<b>18.60</b>	<b>12.10</b>

Source: UNACC, 2007; Review Banca Cooperativa, 39: 33; Monetary figures in millions of Euros

(a) Figures for 2005; (b) Figures for 2001; (1) Estimation; (n/a) Not available

The enlargement of European Union and the globalization, consolidation processes in the financial sector not only opens new possibilities for the development of credit unions, but also raises new threats and questions of the perspectives of these cooperative financial institutions (Kata, 2006). Hence is very important the mergers and association between entities to act on the changing and competitive banking system.

Moreover the European integration process and consolidation of financial markets, requires the financial sector to review their strategies and policies to adjust to changing environment (Cuevas and Fisher, 2006). The requirements to increase market value, influences financial institutions to review their role in the financial sector and to react to the processes of increasing competition orientating to the strengthening of the commercial advantages better than to provision of universal banking services.

**THE SPANISH MODEL: THE RURAL SAVINGS BANK GROUP AT PRESENT**

The Spanish finance system distinguishes three types of institutions: banks, savings banks and credit co-operatives. Banks are legally established as a limited company, savings banks are foundations and credit co-operatives 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, 2008).

The legal birth of credit co-operatives in Spain occurs in 1906. The earliest of them were linked to the local agricultural syndicate and could not run outside its domains. The majority of them were of small size and membership consisted of small farmers with low incomes. However the micro financing services provided by the earliest credit co-operatives was not totally unsuccessful. In some regions they obtain relatively good results regarding territorial coverage and sustainability, which allowed them to supply financial services (lending) to low income clients (Martinez-Soto, 2003). Credit co-operatives in Spain do not 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 Spanish credit co-operatives form a cooperative banking system which is formed as a model of a federate bank similar to other European systems. The finance “Caja Rural Group” (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 (Palomo and Carrasco, 2001).

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 (the fifth). According to Palomo (2002) the basic characteristics of this model of federate bank are based on fulfilling principles of decentralisation, subsidiarity, solidarity, intercooperation and territorial.

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. The associated rural savings banks has mixed organizational structures, maintaining their individual structures for the traditional business but developing the banking federation model at the group level.

In 1989, 24 Spanish rural savings bank found the “Asociación Española de Cajas Rurales” AECR (Rural Savings Bank Spanish Association), which will be the foundation of the financial *Caja Rural* Group, to establish strong bonds between the credit co-operatives, to improve their structures, functioning and organization within the bank system (Melián, 2005). The AECR is the institution that coordinates and represents the Group which credit co-operatives are linked to.

To support the *Caja Rural* Group activities, other companies were created, like the “*Banco Cooperativo*



*Español*” BCE, (Spanish Cooperative Bank), in 1990, an informatics firm: “*Rural Servicios Informáticos*” RSI, and an insurance firm: “*Seguros RGA*”, both in 1986.

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.

The BCE is the central bank for the associated rural saving bank. It coordinates its financial policies, acts as a rural saving bank agent in some operations and supplies specific financial services. Although the BCE follows the same line as its European homologous, it stands out among them for the fact that part of its share capital belongs to a central entity of another nationality. To be exact, in Spain, Rural savings bank own 85% of the share capital of the “Spanish Co-operative Bank” (BCE)) in proportion to its volume of assets. The remaining 15% belongs to the Deutsche Zentral-Genossenschaftsbank (DZ Bank), the German central co-operative bank.

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 rises and the excess of cost of offering these services individually decreases. 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 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.

In 1998, the BCE “Spanish Co-operative Bank” joined the “UNICO Banking Group”. This Group created in 1977, is made up of the central entities of the most important European banking groups, as the German DZ Bank, the Austrian Raiffeisen Zentralbank (RZB), the Belgian KBC Group, the OKOBANK of Finland, the Caisse Nationale de Crédit Agricole (CNCA) of France, the Dutch RABOBANK, the Union Switzerland de Bancos Raiffesisen of Switzerland and the Italian Instituto di Credito delle Banche di Crédito Cooperativo. Its aim is to achieve international co-operation of the European co-operative bank.

The “*Caja Rural Group*” includes 95% of the Spanish rural savings banks (73 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 con-stitutional framework for associated rural savings banks.

The evolution of the principal magnitudes of “*Caja Rural Group*” in the last ten years, as well as the relative importance which it has had in all credit co-operatives are listed below. The fact that the number of entities which belong to the group decreases (83 in 1998 and 73 in 2007) is due to merger processes and absorption which the sector has experienced in the last ten years. However, the volume of business has grown and the Group’s balance of total assets on the 31 December 2007 is 59 019 million euros, two and a half time the figure of 1998 (23 364 million Euros) the start of the period under study. The customer credits or credit investment rises to 53 882 million Euros, almost quadruple the figure in 1998 (14 119 million Euros), while the total for deposits achieved is 47 943 million euros also two and a half time at the start of the studied period (19 286 million euros). Subscribed capital is almost triple, reserves more than double and profits almost double in ten years (342, 1 288 and 250 million euros respectively).

## CONCLUSIONS

In most of developed countries, the financial system 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.

Credit co-operatives are now a reality in the majority of European Union countries. Co-operative credit societies have evolved towards a system which is comparable to other financial groups and they play a significant role in the national banking system.

Credit co-operatives in Spain do not have achieved the level of activity of their European homologues, where this system is very important, such as in Germany, France, Finland or Holland, with figures of 16, 44, 33 and 39% 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.

The Spanish rural savings banks form a cooperative banking system which is formed as a model of a federate bank similar to other European systems. The "Caja Rural Group" 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 associated rural savings banks has mixed organizational structures, maintaining their individual structures for the traditional business but developing the banking federation model at the group level. The creation of "Caja Rural Group" in 1989, which 95% 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 "Caja Rural Group" 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. "Caja Rural Group" through the "Spanish Co-operative Bank", where it owns 85% of the share capital, is among these groups.

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