Mutual banks between solidarity and development

Alberto Quadrio Curzio
Editor

with the essays of
Giovanni Ferri, Alberto Quadrio Curzio,
Fabrizio Saccomanni e Stefano Zamagni
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Foreword
by Alberto Quadrio Curzio
President of Center for Research in Economic Analysis (CRANEC) – Catholic University, Milan

This book is a collection of select works presented (in a rather informal editing) at the 28th Congress of the International Confederation of Mutual Banks held in Marrakesh on 21-23 October 2012 and is the result of the collaboration between Center for Research in Economic Analysis (CRANEC) of Catholic University in Milan and Gruppo Credito Valtellinese, which was later extended for some initiatives to Istituto Centrale delle Banche Popolari Italiane (ICBPI).

In particular, the volume presents a selection of some of the most significant contributions from the annual conferences organized (since 2009) by Istituto Centrale delle Banche Popolari Italiane (ICBPI) – whose President (G. De Censi) wrote the preface – and the Italian Association of Mutual Banks (ANBP).

The first part of the book is devoted to the “general principles” that characterize mutual banks. The essays of leading scholars outline the principles underlying the functioning of mutual banks by identifying the fundamental paradigms of subsidiarity and solidarity for development (A. Quadrio Curzio, also editor of the volume); by highlighting the importance of the co-operative identity (S. Zamagni) and the virtuous features that allow Italian banks to face the current economic and financial crisis (G. Ferri). The significant contribution of the Director General of the Bank of Italy (F. Saccomanni) on the challenges for banks in the new regulatory scenario concludes this part. As editor of this volume I thank very much these prestigious economists for having granted their permission to publish here their essays.

The second part focuses on the “international scenarios” (at Italian, European and global levels) and collects several contributions (including case studies) by representatives of the banking industry. We draw the attention on two essays: one on the model of mutual banks in Italy and Europe (H. Guider) and the other one on the co-operative form of mutual banks as a stability and security element (H. Juvin).
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PREFACE
USEFULLY DIFFERENT AND UNITED

Giovanni De Censi
President of Istituto Centrale delle Banche Popolari Italiane (ICBPI)

On the occasion of the 28th Congress of the International Confederation of Mutual Banks (CIBP) we are pleased to present a selection of some of the most significant contributions from the annual conferences organised under the aegis of Istituto Centrale delle Banche Popolari Italiane (ICBPI) and the Italian Association of Mutual Banks (ANBP).

These contributions unveil a complex, yet consistent scenario showing the mutual banks’ distinctive role on the Italian and international banking scene: “players among players” of a local (but not with a narrow perspective) nature, banks promoting economic and social development of local areas, key players making the overall system smooth and efficient also in terms of subsidiarity and solidarity. The concept of “social capital” – i.e. maximising benefits of the so-called “relational assets” – and genuine attention to the vast range of stakeholders, notably member-customers, are the current identifying features on the Italian market of 85 banks, which are part of the group of mutual banks. The latter, in turn, forms the Brussels-based International Confederation of Mutual Banks (CIBP).

The reader will find a series of preliminary introductory papers – including, besides the analysis of the editor, Prof. Alberto Quadrio Curzio (Deputy Chairman of Accademia Nazionale dei Lincei and Emeritus Professor of Catholic University), notably those of Prof. Stefano Zamagni (one of the leading international experts in civil economy), Dr. Fabrizio Saccomanni (Director General of the Bank of Italy) and Prof. Giovanni Ferri (one of the leading academics on the analysis of mutual banks’ performance). These contributions are followed by the more institutional report made by Mr Hervé Guider (General Manager of the European Association of Co-operative Banks) and Mr Hervé Juvin (Chairman of the Eurogroup Institute) and finally by the application of the “mutual credit model” to various countries: Italy (Mr Carlo Fratta Pasini, Chairman of the Italian Association of Mutual Banks), France (Mr Yves de la Porte du Theil, General Manager of Banques Populaires of
Groupe BPCE), Germany (Mr Wolfgang Kirsch, Chief Executive Officer of DZ Bank AG), Canada (Mr Alban D’Amours, Honorary Chairman of Groupe Caisse Desjardins and President of CIBP), Brazil (Mr Marco Aurelio Borges de Almada, Chairman of Bancoob), China (Mr Du Benwei, Chairman of the Liaoning Rural Credit Union), India (Mr Bhima Subrahmanyam, Managing Director of the National Federation of State Co-operative Banks) and Morocco (Mr Mohamed Belghazi, General Manager of Banque Populaire du Maroc). These papers were selected based on their shared approach of “being different together”.

We are confident that these contributions provide a wide-ranging, exhaustive and faithful view of co-operative banks as a means to enable families and SMEs to access banking products and services with a plus: the idea, and not only the ideal, of real co-operation serving the community.

Editor’s note:

This essay collection reproduces previously published works. Each reference is made in a footnote at the beginning of each essay.
The English translations were not reviewed by the authors of the essays.
The editor thanks the authors of the essays, Stefano Zamagni, Giovanni Ferri and Fabrizio Saccomanni, for their kindness.
Thanks are also due to Andrea Sartori and, for the second part of this book, to Paolo Baroli and Andrea Matiz.
Part one

Mutual banks and solidarity
between efficiency and stakeholders:
general principles
1. The reason to look at general principles

[...] Though aware that general principles are often theoretical and give way to operational rules – which sometimes even become law under the pressure of specific events – we deem it necessary to indicate the principles which may represent the raison d’être of mutual co-operative banks at the beginning of the 21st century. It is known that the history of mutual co-operative banks in Italy started in the second half of the nineteenth century, when Luigi Luzzatti founded them inspired by the ideas and initiatives of Franz Hermann Schulze, the founding father of Germany’s mutual banks (Volksbanken).

We do not intend to retrace these noble origins; rather, we wish to point out, first of all, that despite huge economic and financial changes, the mutual...
banks are still widespread in developed countries today. But, for the very reason that the situation at the beginning of the 21st century is very different from that in the second half of the 19th century, we deem it expedient to reframe mutual co-operative banks in a context of principles which, albeit ancient, enjoy newfound popularity.

These are the principles of subsidiarity, solidarity, and development\(^2\), to which we will refer as defined by Alberto Quadrio Curzio\(^3\), who has revised well-known economic, social, and political doctrines by applying them to various situations relating to Italy and Europe in order to outline an economic democracy where institutions, society, and the market interact within their respective roles. Quadrio Curzio has thus outlined the paradigm of social liberalism as an expression of horizontal subsidiarity\(^4\).

The “subsidiarity, solidarity and development” paradigm has been, and may be, applied to various contexts. Here, we will apply it to mutual co-operative banks to provide an interpretation we will briefly refer to by mentioning more exhaustive studies\(^5\).

A central point is that mutual banks are not just for-profit institutions, be-

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\(^2\) Translator’s note: in Italian sussidiarietà, solidarietà e sviluppo, known as “3s”.


\(^4\) Reference is made, among the most well-known and cited fundamental works, to that of Johannes Althusius, Politica methodice digesta atque exemplis sacris et profanis illustrata (1603) and to Pope Pius XI’s encyclical Quadragesimo Anno (1931), which has also become a reference for lay people. The catholic social doctrine has focused a lot on these major principles in other subsequent social encyclicals and, lately, in Centesimus annus (1991), a fundamental and innovative contribution from Pope John Paul II to the development of the Christian thinking on political, social, and economic issues.

cause they are halfway between society and market, and therefore they must produce social as well as economic assets. This is a daunting task, and indeed the very reason why the paradigm, either not understood or implemented, has recently been facing growing criticism in Italy: critics argue that mutual banks benefit from a specific legal regime not to be halfway between society and market, but rather to avoid the market. It is therefore contended that this regime should be changed because of the unwarranted privileges it allegedly gives to mutual banks. Before examining these criticisms, we will outline the peculiar characteristics of mutual co-operative banks.

2. Economic assets and social assets in the case of mutual banks

It is relatively easy to measure economic assets with reference to the bank (profit and growth indicators), less so with reference to their operations in the community, whose development is paramount. To make an example, how would you measure the caution with which a mutual bank, well rooted in a given territory, tries to avoid the collapse, and indeed fosters the revival, of a struggling company, which generates employment and growth in a given province?

Measuring social assets, including identity, cooperation, cohesion, and development, is even harder. Terminology and concepts used for this purpose abound: “social capital” is increasingly popular. However, to measure social assets it is also necessary to apply qualitative criteria, knowing that these are often criticised. In our opinion, the general reference framework that can be tentatively applied to mutual banks is represented in figure 1.

Fig. 1. Subsidiarity and assets in brief

<table>
<thead>
<tr>
<th>Mutual banks</th>
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<tr>
<td><strong>HALFWAY BETWEEN THE MARKET AND SOCIETY, THEY PRODUCE</strong></td>
</tr>
<tr>
<td><strong>SOCIAL ASSETS</strong></td>
</tr>
<tr>
<td>(Identity + Cooperation + Cohesion + Development)</td>
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To explain this paradigm, we choose (among the many ways to do this) to focus on the link between production and banking systems in local development. The fact that operators and people acknowledge to be all part of a community and have the ability to work together for a common purpose, internal to the community but also outward-oriented, represents an important factor for development. In economic literature, this is one of the variants of “social capital”, a definition which has recently taken hold.

In Italy, this definition fits in two contexts, the production and the banking ones, based on empirical evidence: the Italian production and banking system has proved that open localism can compete in Europe and in international markets.

Open production localism has been the result of the entrepreneurial talent and initiatives which have also given rise to “Italy’s districts and territorial systems”. Localism has not meant closure, but rather innovative spontaneity at first and organisation later, eventually giving rise to the term “district capitalism”: we are not fond of it, and prefer “district co-operativism”.

Open banking localism, in turn, has been the result of a combination of many factors: the spontaneous banking initiative of groups, intermediate communities, and local associations connected by an informal co-operative relationship and which then turned into formal co-operative partners. The local community element has been present since the beginning and was later embodied by mutual banks’ stakeholders, who wanted such banks to generate both economic and social assets.

Studies on the connection between mutual banks (or local banks) and local development abound and may be grouped in at least two categories. The first

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7 The industrial district is an agglomeration of enterprises, generally small and medium enterprises (SMEs), situated in a limited, historically defined territory, which specialise in one or more production phases integrated through a complex network of economic and social relations. Reference is made to: Quadrio Curzio, A. and Fortis, M. (ed.) (2006) *Industria e Distretti. Un Paradigma di perdurante competitività italiana*, Collana della Fondazione Edison, no. 9, Bologna: Il Mulino.
(see Alessandrini⁸) examines relations according to traditional administrative subdivisions (provinces, regions, and macro-areas such as north-south). The second (see Barca⁹, Signorini¹⁰, Fortis¹¹) refers to the industrial district as the unit of analysis. We limit ourselves to illustrating some findings¹²:

1) Existence of a positive relation between banking specialisation at provincial level (calculated as the average amount of lending by sector for every local bank with reference to single business units), bank efficiency (calculated as the ratio of operating costs to loans), and level of the provincial income per capita¹³. It appears that the specialisation of banks’ lending in select industrial sectors is thus materially associated with positive results not only for banks, but also for the entire reference area. Existence of a positive relation between micro-economic efficiency (higher in the North-East, average in the North-West, lower in the South) of banks and real growth of the regional economic system¹⁴. On the one hand, this result seems to confirm what is known on the economic development divide between North and South; on the other hand, it emphasises the role of the financial system as efficient allocator of financial resources and driver of the performances of SME systems, which constitute the hallmark of the “third Italy”.

2) Existence of a positive relation between the districtualisation of a municipality and the presence and activity of local banks. The number of district municipalities with bank branches always exceeds the number of non-district municipalities at both provincial and regional level¹⁵. Therefore, the role of

¹² For more details, see Quadrio Curzio, A. (2003) Sussidiarietà e cooperazione per lo sviluppo del territorio op. cit., pp. 9-34.
local banks appears to have been crucial not only in creating the conditions for the development of local district production systems, but also in supporting the recent performance of “made-in-Italy” sectors.

3) Existence of advantages for the bank and the borrowers, including: a privileged relationship between district businesses and the banking system in terms of reduced interest expense and credit rationing. The most significant finding of this empirical analysis is that being part of a district production system seems to make access to bank lending easier; there are also advantages associated with the availability of information on customers’ creditworthiness, which for local banks, and especially co-operative credit banks, translates into reduced credit risks, non-performing loans and need to use credit rationing.


It seems that management stability ensures the bank achieves positive results, although mutual banks’ model of corporate governance appears to be well suited to small- and medium-sized local banks, less so to larger banks.

5) Relevance not only of the operational proximity between the bank and the company (that is, between bank branches and the companies’ offices), but also of the functional proximity, given by the distance between a bank’s headquarters and the localisation of its customers. Where there are territorial imbalances, a positive relation is found between geographical proximity and, above all, economic-social proximity between banks and local companies (measured as the number of bank branches in a given province, weighted by the physical or cultural distance – in terms of social capital – from their bank’s registered office) as well as between the availability of credit for busi-

nesses and the ability to introduce innovations\textsuperscript{20}.

6) Relations existing in Italy between local banks, districts, and SMEs\textsuperscript{21}. It is demonstrated that the role of local banks (mutual banks, co-operative credit banks and savings banks) has historically been crucial in fostering Italy’s growth after the II World War, especially in the most dynamic manufacturing provinces as well as in industrial districts, where mutual banks have been, and continue to be, important. In particular, data from a sample of 42 industrial districts shows that a mutual bank is always the first or second reference bank in approximately three out of four districts, even after the recent 29 business combinations involving major national banking groups. In 21 out of 42 cases, a mutual bank was the leader in the number of branches. […]

The above findings should serve to refute the opinion that the local nature of banks could magnify and prolong the effects of a negative sector shock affecting a specialised local system through the following causal chain: shock of the economic system, deterioration of creditors’ financial position, deterioration of local banks’ balance-sheets, adoption of more restrictive lending policies, deterioration of the economic situation of local companies. The problem may exist, but it seems to have no practical effect in Italy.

3. The reference parties for mutual banks and subsidiarity-cum-solidarity

The other criterion, complementary to the previous one, to understand and assess a mutual co-operative bank – always in its double role as a producer of social and economic assets – is to consider its “reference parties”, represented (using well-known English terminology) by stakeholders (parties of the reference community) and shareholders (members and shareholders). Figure 2 outlines, in a simplified way, a structure in which all single “parties” co-operate in order to contribute to the business, economic, and social success of the mutual co-operative bank.


We have already touched upon the fact that there is a current of thought which argues that mutual co-operative banks should relinquish their characteristics, because only the maximisation of profits – under the pressure of demanding shareholders – fosters competition, which rewards the best banks and the customers, reducing costs and prices. This argument, which we oversimplified, cannot be applied to every case, because different types of banks can co-exist and because there are economic and social areas for which mutual co-operative banks are specifically suited. These are areas where SMEs are particularly successful, where there is considerable territorial cohesion, where stakeholders and shareholders largely coincide and prefer a co-operative approach, which reduces transaction costs and increases stability in the medium-long run. Competition between banks does not replace a co-operative approach within the relationship between one single bank and territorial systems, where the parties prefer medium-long term stability, also for the relevant community, rather than immediate or individual advantages.

The elements a mutual bank should take into account to determine its strategy are listed below.

Governing and executive bodies: in mutual banks, such bodies must be able to manage ordinary business functions as well as other ones, such as, for example, relations with the social-civil environment of settlement, with members, and with the economic and productive fabric.

Social-civil environment of settlement: here relations are complex and often hinge on the ability to gently persuade others. For mutual banks, more than for the other banks, this means getting involved not only in those cir-
cumstances which appear to be economically relevant, but also in those that forge identities. Obviously, it is not a matter of turning a mutual bank into a charity, and initiatives must be in line with the two purposes the bank pursues (identity and consent), making them compatible with profitability.

Structural and permanent members: it seems strange to talk about this because, with a one-head one-vote system, in theory nobody has any particular sway. In fact, there are members able to coalesce support, which has nothing to do with “cronyism” nor shareholders’ agreements, because they contribute to the local economic and civil development. Certain economic operators based in the relevant area, as well as professionals, often have considerable status. They often sit on boards of directors as representatives of the socio-economic community, without conflicts of interest or hidden agenda.

Economic-productive fabric: relations with borrowers are governed by banking rules, but in certain areas where it is strongly rooted, the mutual bank may promote new initiatives. The capacity of a mutual bank or local system of mutual banks to understand a community may exceed that of any other operator, for the very reason that such banks qualify as system operators.

To conclude, the co-operative banking model (with its well-known characteristics including one-head one-vote, shareholding limits, acceptance clause, minimum but open number of shareholders, and proxy restrictions) privileges personal participation and the role of stakeholders, i.e. representatives of interests (employees, depositors, and borrowers) who are always also shareholders and constitute a community with an identity, performing also an explicit role for the local economy and society.

The above arguments have led us to define the reference parties of mutual co-operative banks as representatives of “subsidiarity-cum-solidarity”, as they connect the bank to the local society and economy.

We deem it important to include here an assessment on co-operative credit banks by a prominent academic and banking expert, Francesco Cesarini, because, in our opinion, it identifies several traits that, notwithstanding the legal diversity, also characterise mutual banks.

[Co-operative credit banks] have developed over time together with their areas of settlement, thus contributing to their economic success and taking advantage of that in terms of operations [...]. “Proximity” to customers can certainly be regarded as their competitive edge (as it makes relations easier and more informed), along with their deep local roots, made stronger by the co-operative form and the co-existence of customers, members, and directors: this makes the co-operative bank more sensitive to the needs of the community and makes the choice to operate as a local bank more effective. Co-ope-
rative credit banks may be considered as real community banks [...] and they foster the development of the areas they serve, [...] as development seems now to depend largely on the abilities and initiatives of SMEs, and that large banking groups will inevitably be less capable of keeping close relationships with individual local areas and SMEs; on the other hand, in their relationships with local businesses and initiatives, co-operative credit banks may adopt an approach that, while not based on the long run, is much less conditioned by the pressure of the return on equity affecting major listed banks and which may occasionally distort their behaviour. Cultural homogeneity, as well as public interest and social purposes, characterise the historical tradition of co-operative credit banks; it seems, however, that the homogeneity and purposes have been lost in the concentration processes involving banks with different traditions: in my opinion, they should be reconstructed in the large banking groups also on the basis of values other than the strictly short-term economic ones22.

4. Mutual banks’ model: strength and criticisms

At this point, we reckon that many elements have been provided on the strength of the mutual banks’ model, which is also confirmed by the fact that it is widespread in Italy, Europe and the world. Now, in order to steer clear of flattery, it is time to mention in more detail the objections (which sometimes are actual criticisms) levelled at mutual co-operative banks.

The issue is complex and at time conditioned by contingent and certainly serious events which may influence judgement (which returns to normal in calmer conditions). We are referring, in particular, to limited cases of bank embezzlement occurred in Italy.

Sometimes it is contended that the points made in the above paragraphs are rather arguable, as they mix the pragmatical business micro-economy with social macro-economy. Several criticisms based on this assumption have been levelled at mutual banks: they are listed below.

The first criticism is that any bank is required to maximise profits (and dividends) expressed, first of all, by ROE – notwithstanding its fluctuation over time depending on growth policies. Nobody denies it, but a co-operative bank must also take into account the effect of its choices on the reference local eco-

nomic system, because this also affects its ROE in the medium to long term.

The second criticism is that the corporate governance model of mutual banks does not ensure the protection of minorities. Apart from the current rules that ensure a certain representation of “minorities”, the question is whether the problem is correctly framed: in mutual banks, with their one-head one-vote system, it is difficult to define minorities and majorities, although these could emerge during meetings. The mutual bank is a particular form of public company. And in all public companies, management plays an important role, and may even be removed in the case of failure or inefficiency. This is the real problem: replacing management.

The third criticism is that mutual banks penalise shareholders. Besides the problems in demonstrating this statement empirically, the most general answer is that in a free market system, if mutual banks’ shareholders confirm their investment decisions, it is because of convenience and conviction. This is even truer for listed banks, because the liquidity of their shares is certain. Let us stress this again: convenience and conviction. Convenience is easy to quantify, as it is given by the profit distributed to shareholders and the comparison between share prices; conviction is much more a qualitative perception of the shareholder, often based on fidelity.

The fourth criticism is that the type of limited shareholding and the associated one-head one-vote system makes bidding for mutual banks almost impossible, with the consequence that market pressure on “efficiency” and on the creation of value for shareholders is almost inexistent. Moreover, this would prevent the banks from growing in size. Actually, these remarks have already been refuted with facts: following combinations, two mutual banks now rank among the first five Italian banking groups.

The fifth criticism concerns the lack of accountability of the management of mutual banks, as it report to no one but itself. The problem may exist but, in general, the history of Italian mutual banks demonstrates that it has not been prominent. It should be admitted, however, that in some cases shareholders’ agreements have taken over the bank’s governance.

We could list other criticisms and answers but, to conclude, we do not deem it appropriate to compare the “co-operative” model of mutual banks with the “lucrative” model of joint-stock companies and state that the former is less efficient than the latter.

Our argument is that the comparison between the two models should not be strictly limited to the business aspect, (and, by the way, no comparative inefficiency of mutual banks is demonstrated); instead, the comparison should be combined with a full assessment of the economic-financial system of Italian provinces and of the whole country, where two models may well co-
exist. The co-operative banking model has a complex function: the multiple or joint maximisation of “profit”, since it combines the (essential) business element with the cooperative, economic-social, and community ones.

The above criticisms, however, should not be underestimated, so as to avoid (among other things) covering up lack of accountability and inefficiencies with social purposes. We believe, nonetheless, that in general it is possible to prove the critics wrong with facts and arguments from the past and from the present.

The past is a long economic-institutional history which identifies the mutual bank as an original corporate structure where the model of mutual benefit entities now combines with more dynamic rules, which make such companies more similar to for-profit institutions, thus creating a specific model. […]

5. Communitarian liberalism in Europe

[…] In our comment below, we will try to explain the reason why mutual co-operative banks and other entities are important, perhaps even crucial, for communitarian liberalism.

As we are strongly pro-European, we think that Europe is the starting point to fully understand the role of mutual banks, as well as the role of other forms of banking organisations, including those that in Italy have banking “foundations” as shareholders.

Europe has developed its own model of democracy, or Eurodemocracy, with a peculiar component that makes it different from all the other very respectable models of market democracy. Art. 2 of the EU reform treaty, also known as Lisbon Treaty, in force from 1 January 2010, states that “[the European Union] shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance”.

In our opinion, the focal point in this article is that the European Union is characterised by a social market economy. This characteristic comes from a long history of European construction and from the ideas of political and economic thinkers.

But what is a social market economy? First of all, we would say that it is something to which politicians and social scientists have been referring rather
frequently in Italy since the crisis started in 2008. All, or perhaps too many people, now talk about social market economy, which has become a sort of mantra to get out of the crisis, without – however – having a very clear idea of what it is. In order to avoid confusion, we think that it is appropriate to start by ruling one thing out: a social market economy has nothing to do with free-market economies, which could perhaps work well in other cultural contexts but not in Europe. It is instead a modern concept of *liberal-social economy* or *liberal-communitarian economy* which cannot be limited to protecting competition and liberalising while adding a dose of welfare.

The crisis that has affected the whole world, starting with the great American democracy, was born largely from the belief that the market was almost all-powerful, as well as always virtuous. Modern economics too contributed to this distorted view. Centuries of economics had taught us that the economy has three essential components: a historical one, taking into account the long period which teaches lessons that no technicality could substitute for; an analytical-formal one, which provides the tools for daily operations; and a political component, with frames the economy in a much more complex political-institutional system. The crisis arrived when the technical component prevailed over the historical and the political ones. As a matter of fact, the technical component is crucial, but not sufficient.

Understanding what social market economy (or better, in our opinion, the more modern communitarian liberalism) is means understanding how history, economics and politics should combine. To do this, we must go back to the very foundations of European democracy: to find our way in the 21st century, we must draw on the history of the European Union of the 20th century. Two major aspects characterise Eurodemocracy in principle.

The first aspect is that democracy is based on three elements: institutions, society, and the market. We have placed society at the centre to make clear that it is not a secondary entity that exists because institutions and the market allow it to do so.

Society is an entity that, in the context of the European cultural, economic, and political tradition, stands on its own and is the core of the life of a community and of a democracy.

When Ordoliberals created the doctrine of the social market economy in the second half of the nineteenth century and the early twentieth century, the major coercive systems had already took hold: Communism, Fascism, nor Nazism liked the market, but Fascism and Nazism accepted it. Ordoliberals
created the doctrine of social market economy to explain that, within constitutional democratic rules, the market had to be framed and regulated, but also free and linked with society’s life. Considering the social market economy to be just the market economy with some social corrective measures is a misunderstanding of the Ordo-liberals’ doctrine.

The social or communitarian liberalism we propose moves from Ordo-liberals, adding that if we exceed in emphasising the role of institutions and regulating the spontaneous initiative of society, we will inevitably end up with dirigisme; likewise, if we exceed in emphasising the role of the market in society, we will inevitably end up with free-market capitalism. Communitarian liberalism acknowledges and appreciates the spontaneous initiative of social parties, who are halfway between institutions and the market. Also the economy, which should not be identified with welfare or institutions, and the institutions, which should not be identified with welfare or the market, should maintain their autonomy.

The second aspect regards the complementarity between representative democracy, participatory democracy, and economic democracy.

Representative democracy is expressed through electoral systems and it has, obviously, two main characteristics: the power to rule, exercised through the rule of law, and the power to enforce the law, to make sure it is respected.

Participatory democracy, which unfortunately some confuse with voting (i.e. with representative democracy) materialises in social activities, which have two characteristics: the conviction of being part of a community and the cohesion of this community.

To recall the meaning of conviction and cohesion, it would suffice to mention the endless number of social parties that operate in almost all European countries. In Italy, there are an estimated 250 thousand to 300 thousand social associations operating in various sectors to provide priceless but valuable proximity services.

Finally, economic democracy works mostly on the market, through the mechanisms of competition and convenience. Speaking of the market, the question is whether the economy can be reduced exclusively to it. According to economic theory, the economy is composed of production, income distribution, and trade. From this perspective, we would do well to avoid the caricature of the citizen-consumer popularised in recent years.

As a matter of fact, there are three main categories of citizens: the citizen-worker, who is not only someone who works, but anyone who finds satisfaction in his/her job. Self-realisation through work is not limited to remuneration: there is something more. Then we have the citizen-saver, who
allocates his/her income to consumption and saving, to the present and the future. Finally, there is the citizen-consumer, who wants to maximise the utility of present and future consumption.

Without referring to any specific country, we know that the emphasis on the citizen-consumer has led to pathological levels of household debt, with dramatic consequences in terms of subsequent impoverishment. In some countries, household debt largely exceeds 100 per cent of GDP and home mortgage debt amounts to 80 per cent of GDP. In Italy, home mortgage debt is lower than 20 per cent of GDP.

Finally, there are citizens-socialisers, who have a relationship of mutual trust with the community they belong to.

6. Promoting communitarian liberalism with mutual co-operative banks

From communitarian liberalism, we arrive at mutual co-operative banks, and we start with a paradox. If we do not take into account what we have said, the reference for the banking system are the consumers associations, not the local community in which the bank operates, the stakeholders of the bank or the banking system, the shareholders, or the companies the bank lends to.

Mutual co-operative banks have social and economic purposes, and within their scope – which is limited in a democracy – they can pursue multiple purposes typical of communitarian liberalism.

This means that they must produce economic assets (profit, growth, accumulation), but also social assets, which in my opinion are not only the bank’s donations to the reference communities and to the needy. Social assets are provided also when actions are taken to make entrepreneurs trust the reference banking system. The trust-based relationship is a social asset to which local banks must pay utmost attention, even by sacrificing profit to some extent, in order to create these strong local identities also, perhaps above all, in the business sector.

A bank produces social assets when it accepts some risks, without prejudicing the rights of its shareholders or savers, in order to favour the development of one or more business entities over time, patiently enduring troubles that other banks would avoid.

We could tell you several stories we have heard from successful entrepreneurs in various parts of Italy - we like to visit companies who say that they would have never achieved certain results had a local bank not be willing to support them for five, ten or even fifteen years, until they succeeded, at times even at
international level, with rewarding profits for both banks and companies. Therefore, producing social assets is more complex than simply supporting the less well-off.

7. Final remarks on mutual banks: between solidarity and complementarity

From this viewpoint, we would like to pose a question and a challenge to mutual banks, the same we have repeatedly posed also to those in charge of the national economic policy through newspaper articles. How can we prevent the closure of many small or very small companies due to this dramatic crisis?

Our proposals concern the support that economic and fiscal policies should give, also through specific agreements with the banking system, in order to foster business combinations, so as to ensure the preservation of Italy’s extraordinary entrepreneurial talent through the growth in size of stronger companies.

We would like to summarize in two figures the most striking Italian case. The manufacturing sector in Italy includes about 500,000 companies, 5,000 of which (the so-called “fourth capitalism”23) account for 40% of the turnover of the Italian manufacturing industry in terms of direct operations and related activities. Even the revenues of the largest “fourth capitalism” companies do not exceed 3 billion euro, whereas the smallest ones start from revenues of 100 million euro.

The problem is how to reduce the excessive number of 500 thousand companies without wasting the extraordinary entrepreneurial capital constituted by small and very small businesses.

Obviously, banks cannot rescue these companies alone, but they can play a very important role: making companies talk to each other, knowing that Italian entrepreneurs are often characterised by a strong sense of identity, which one could even define as strong individualism, making business combinations

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23 The fourth capitalism is represented by medium-sized companies, i.e. companies which are neither large nor small, generally characterised by an international presence and that can be partly referred to local production systems. For more details on the Italian industrial system, reference is made to: Quadrio Curzi, O. A. and Fortis, M. (ed.) (2012) L’industria nei 150 anni dell’Unità d’Italia. Paradigmi e protagonisti, Collana della Fondazione Edison, no. 20, Bologna: Il Mulino.
hard to pull off. But maybe mutual banks, because of their social purposes, can do a lot.

To conclude: mutual banks, to be really such, must build up and promote economic as well as social capital, which rely on confidence, professional competence, entrepreneurhip, and support for the less well-off. [...] We believe that the Italian banking system, which has demonstrated an extraordinary resilience during this crisis, is a model of mutually complementary businesses. We believe that thanks to this complementarity, under the watchful eye of the Bank of Italy, which – among other things – has always considered political economy as a combination of history, analysis, and politics, and never as a mere technical matter, this model can continue to thrive in the context of communitarian liberalism and of the European civilisation.
1. Alternative approaches to studying the co-operative phenomenon

Two main approaches to studying the co-operative phenomenon come to the attention of anyone wishing to attempt to answer questions such as “Why do co-operative enterprises exist?” And once their existence and (generally speaking) sound economic performance have been acknowledged, where is the element that ultimately sets the co-operative status of an enterprise apart from a capitalist one to be found? According to the demand-side approach, co-operatives arise in response to the inability of private corporations and public enterprises to meet certain social needs, or resolve certain crisis situations. Co-operatives are viewed as a remedy, either temporary or durable, for the familiar market failures and government failures, albeit always as a second-best remedy. This is still the prevailing stance today, shared above all


2 Translator’s note: in translating this document, reference was made to:

by scholars on economic and legal issues. For them, a co-operative belongs to
the list of exceptions to the rule. Anyone carefully reading the majority of busi-
ness literature on the subject would not take long to discover that, according
to these authors, once we have managed to eliminate (or at least alleviate) the
unwanted effects associated with the various cases of externality, imbalanced
information, insufficient contractual obligations, etc., there is no longer the
need for co-operation. In other words, a market of perfect competition does
not need co-operatives.

The supply-side approach turns this vision upside down. The co-opera-
tive is formed and kept alive by the resources and passion of people who put
positive liberty – that is to say, freedom to or rather libertas electionis – at
the top of their scale of values. Unlike freedom from, absence of constraint
or libertas indifferentiae, freedom to is liberty with a view to an end: in this
instance, the power to exercise control over business activities. Employees
of a capitalist firm enjoy freedom from – insofar as in a market economy,
nobody is compelled to take a job – but they do not have freedom to exercise
full autonomy. What underlies the formation of co-operatives, then, is the
irrepressible yearning for positive liberty, whether or not there are unsatisfied
social needs or situations of special economic uncertainty.

I myself support this second approach, which – may I point out – in no
way excludes the idea that the passion for freedom to can be combined and
bolstered by other aims, such as intergenerational solidarity, fairness and eco-
nomic democracy. Rather, the supply-side approach basically says that the
cooporative way is today the more advanced way of regarding human labour
as an opportunity for self-realization – and not just simply a factor of the pro-
duction. Alfred Marshall’s “substitution principle” clearly suggested that la-
bour is a high peculiar input because it is, at the same time, the means of pro-
duction of goods and the means of production of human personality. So much
so that anyone choosing to work in a co-operative also chooses, implicitly,
to forge his own character in a certain way, rather than in another way. Yet
the abundant economic literature comparing capitalist and co-operative en-
terprise never considers this aspect: work is only a form of input, an element
that enables production to proceed. So it can come as no surprise at all, then,
that the conclusions generated by these models – technically sophisticated
as they may be – are almost always in favour of a capitalist enterprise by the
standards of comparative efficiency. Indeed, notoriously, Pareto’s notion of
efficiency does not include the formation of human character. Only a reducti-
ve vision of work, in fact, can see labour-as-toil (typical of the employee) as
equivalent to labour-as-action (typical of the co-operative member-worker).

And yet, looking through the history of economic theories concerning co-
operatives up until the early 20th century, it will be seen how grand theorists such as the English pair John Stuart Mill and Alfred Marshall and the Italians Ruben, Cushman and others still viewed co-operation as the rule, and not the exception, when it comes to the way of doing business.

The peculiar characteristic of civilized beings is the capacity of co-operation; and this, like other faculties, tends to improve by practice, and becomes capable of assuming a constantly wider sphere of action (Mill 1848; Book IV.1.6). I

The cultural movement launched by 19th century scholars did not think of co-operation as a group of enterprises, in which mutuality was practised in opposition to the dominant and pervasive profit motive, but rather to view and interpret the market economy as a place for working together, before considering it a place that is home to conflicts of interest. Only if this point is clear in one’s mind can Mill’s famous prediction be understood: “accordingly there is no more certain incident of the progressive change taking place in society, than the continual growth of the principle and practice of co-operation” (Mill 1848; Book IV.1.7.). Marshall writes along these same lines when writing, in his essay Co-operation (1889):

In a co-operative, the worker does not produce for others but for himself, which unleashes an enormous capacity for diligent, high-quality work that capitalism suppresses. There is one ruined product, in the history of the world, so much greater in importance than all the others that it can truly be called the Wasted Product – the best working capacities of most of the labouring classes.

It is interesting to note how Marshall’s criticism of the capitalist enterprise is thus founded on the notion of waste: the capitalist form does not allow all, but only some of, the potential of human labour to be taken into account. Marx’s central criticism lay instead – as known – in the notion of exploitation.

It would be interesting to examine the reasons why, as early as the early 20th century, this approach was abandoned for the one defined as “demand-side”. One of the architects of this intellectual change certainly was Maffeo Pantaleoni, who, in a number of sectors of the Italian co-operative movement, is even indicated as the co-operation theorist of reference. To the best of knowledge, such an examination of the history of ideas has yet to be carried out. Going ahead with such an examination is an urgent requirement, if we are (among other things) to disentangle a considerable number of the
threads underlying the current cultural-scientific deadlock on the issue of co-operation. In the meantime, however, it is advisable to put under the spotlight two key consequences of this U-turn in thought. The first concerns the political and cultural of the 20th century and which heavily affected legislation. The essence of this compromise is that the Italian state does offer economic incentives to co-operative enterprises, in the form of tax allowances or non-repayable funds but on condition that they accept a niche role with respect to capitalistic and state-owned corporations. The unstated objective, made however explicit in documents and various statements, is for co-operative enterprises not to hamper the growth trend of the other types of enterprise – the only ones responsible for the fate of Italy’s economic development.

And in this explains why more than a few segments within Italy’s co-operative movement still suffer from what psychologist call the “Peter Pan’s syndrome”: the idea that the co-operative identity can be preserved and strengthened only on a small scale. Suffice it to look through legislation relating to co-operatives, up to and beyond the “Basevi Law”, in order to find confirmation of the existence of that compromise: the clauses that co-operatives are required to adhere to in order for them to benefit from tax allowances were such to prevent them from fully developing their true economic potential. This is based on the pre-analysis (since it was never further discussed) according to which the actual space of a co-operative should have been social and not economic. (Only with Law 904/77 – the so-called “Pandolfi Law” – is something starting to change on this front.)

Fortunately, things are changing today, and quickly – even if the effects of hysteresis continue to leave their mark. Stating that the identity of a business concern such as a co-operative is preserved better when small would be like maintaining that a country with several inhabitants cannot be completely democratic because the typical methods of the Greek agora cannot be implemented. Rather, the opposite is true: the bigger the co-operative enterprise, the more its identity strengthens and the more it is able to infiltrate the market. Any co-operative opting for the stationary state would end up creating an obvious pragmatic contradiction. (Of course, growth in size poses new and sensitive issues on the identity front: issues that I will come to later). This is why discussing the alternative between the diffusion and concentration of co-operative enterprises does not make sense. For too long, people have been debating, within the Italy’s co-operative movement, as to whether there is greater development when the number of enterprises increases (or when the areas influenced by the co-operative form of enterprise increase), or when existing co-operatives grow in size. This is a false dilemma, which recalls the one in vogue at the time of the Industrial Revolution, between the widening
and deepening of capital. That is to say, for capitalist development purposes, it is preferable to favour the “widening” of capital, or its “deepening” in production processes. For some time, economic theory has been freed from these useless disputes. There are no specific economies or diseconomies of scale relative to the institutional form of enterprise, and so statements of the variety “the co-operative enterprise, only because as such, cannot aspire to becoming big” are without foundation. Instead, it is the historical conditions of the market and productive technology that determine whether a firm should be large or small. Certainly its legal or institutional form cannot lay down a rule of conduct.

The second consequence of what I mentioned above is that the inferiority complex of which the Italian co-operative movement was a victim for a large part of the 20th century gives reason for a twofold circumstance. On the one hand, economists never granted more than passing attention to the co-operative form of enterprise. In fact the very first formal theoretical model concerning the co-operative enterprise was developed by an American scholar – Benjamin Ward – and it did not come until 1958! On the other hand, in management science too there has never been systematic or adequate investment in co-operative management. As I demonstrated in Zamagni (2005), management science considers the co-operative in terms of the difference to the capitalist enterprise, which is assumed as the ideal with regard to which the co-operative’s management and governance rules should be “adjusted”. This explains the isophormism, which is often found in the real world, between the modus agendi of the respective executive management teams of a capitalist enterprise and a co-operative enterprise. The very absence of an organic and exhaustive literature on organisational thought specifically designed for the co-operative form of enterprise caused the degenerations that, from time to time, have been found in reality. Transferring the organisational systems and governance rules that are effective for a capital enterprise to a co-operative enterprise means misrepresenting the latter’s very identity and ordering its gradual disappearance. Anything but size and business sector!

To end on this note, take a look at Italy’s cultural panorama: our co-operative movement, one of the most advanced and strongest in the world, has not, in over five hundred years of history and success stories, yet managed to create a university centre dedicated to the production of a both theoretical and practical line of thought. Of course, training centres – that is to say, centres for the distribution of knowledge - have been created. However, what is not produced cannot be distributed. The Italian education-university system has always overlooked – except on rare and laudable occasions – the co-operative phenomenon, despite the explicit requirement set forth in this
respect in Article 45 of the Constitution. (It was only in 1996 that, for the very first time, academic qualifications specifically dedicated to topics regarding co-operatives were introduced in the Italian university system.) Is it therefore any wonder that there is still no conformity between the economic and social power of the co-operative movement and its recognition – in the Hegelian sense of the word – at a public level?

2. Mutual exchange as a form of reciprocity

One way – but certainly not the only one – of testing the value of the supply-side approach is to start with the notion of competition and reflect on its constituent parts. As we know, competition is closely related to the market economy: the market cannot exist without competition, albeit the opposite is not true. In a competitive economy, the outcome of the economic process is not the result of the will of some governing body (as is the case in planned economies, where the prices for goods and services, their quantities, employment levels, etc. are politically decided beforehand), but rather of the free interaction of several different parties, each of which rationally pursues his/her own goal, under an established set of rules. Let us try to grasp the meaning of these four keywords.

Saying that interaction must be free means that no agent can be made to engage in it, either by force or necessity, taking away his freedom to decide. Therefore, a person reduced to slavery, a completely uninformed subject or an absolute poor does not satisfy the condition of willingness, which is instead required by the competitive mechanism. Saying “rationally pursues” assumes the economic subject has the ability to calculate, that is both to evaluate the costs and benefits of the options concerned and to adopt a criterion for making a decision. However, it should be noted that – contrary to what we might read or hear - this criterion does not necessarily have to be profit. It is therefore false that market competition necessarily assumes accepting the rationale of profit, according to which the annual profits of enterprises must only be distributed to shareholders proportional to their investment.

This leads us to specify the meaning of the third keyword. The goal that the participants in the competitive game pursue may be self-interested or altruistic, ideal or material, short- or long-term. What matters is that everyone has a clear goal that he intends to pursue, otherwise the condition of rationality would not be satisfied. Finally, competition requires an established set of rules, known to all participants and that can be enforced by any authority above competition. It may be the State, a supranational entity, or the civil
society itself equipped for the task at hand. There are two fundamental rules. On the one hand, the rule that prevents power from being concentrated in the hands of one or few business entities: this is the purpose of antitrust laws. (The first of such laws was the Sherman Act in the US, passed back in 1891, that attempted to draw, at least in part, on the teachings of A. Smith against the trade policies of the governments of his era, whose only purpose was to entrench the existing economic power system.) On the other hand, there is the rule against fraud and deceit. This is the aim of those rulings (either legislative or administrative) that require transparency in business dealings and govern corporate governance within enterprises.

Of course, in reality, rules are not always complied with or enforced, which explains why there are so many competitive models in practice and different outcomes in terms of social welfare, which is fostered by competition. With regard to the first point, we have “perfect competition” when no agent has market power, i.e. the power to influence directly significant economic variables. Otherwise, we have “imperfect competition”, which comes in several levels of imperfection: monopolistic competition, oligopoly, monopoly.

With regard to the second point, one of the best known (and most abused) propositions of economics is the so called “invisible hand theory” attributed to Adam Smith, even though G. Vico, in New Science (1725) and F. Galiani, in On Money (1750), had already reached the same conclusion – albeit in a less direct and clear manner. The theory shows how, in a perfectly competitive context, individuals, each pursuing his/her own goal, by interacting with one another in compliance with the above rules, end up generating results that are mutually beneficial and that nobody had foreseen, and which were therefore unintended.

This is a well-known case of the mechanism of the (beneficial) unintended consequences of human actions: the so called “heterogenesis of ends”. All this is widely known, but it is normally overlooked that competition generates results with varying benefits depending on the types of agents taking part in it. Indeed, one thing is the competition that only capitalist enterprises engage in, another entirely different is the competition in market contexts in which co-operative and/or social enterprises operate alongside capitalist ones. In both cases, there is competition, but the outcomes will be substantially different, as I will explain shortly.

The question arises: the criterion for judging the “soundness” of outcomes has to be efficiency, has it not? And if at a certain time in history we see that the market is being dominated by capitalist enterprises, this means they have proven to be more efficient than co-operatives, does it not? The argument is a subtle one, and cannot be adequately addressed here. I will just
point out the two main reasons (although they are not the only ones) why the answer to both questions is “no”. The first reason is that the notion of efficiency as applied in economics is not a primitive notion, since it stems from Bentham’s utilitarian principle, which is certainly not an economic principle, but rather an ethical one. It cannot be said, therefore, that the efficiency criterion is value-neutral and therefore objective – a criterion for assessing the functioning of the market. It should be remembered that the market economy existed long before moral utilitarian philosophy – in both act and rule utilitarianism – was part of economic discussions. We should bear this in mind today, with utilitarianism struggling in modern philosophy.

The second reason is that in calculating efficiency, the social externalities (be they positive or negative, depending on the situation) of economic activity are never taken into account. Consider those situations (that are far from rare) in which the goal of efficiency conflicts with that of fairness. If in order to increase efficiency, fairness were considerably sacrificed, what would guarantee the sustainability of the market as an institution over time? To be fair, an economist may not take those negative externalities into account over the short term. This would, however, mean being afflicted by short-termism, since economic development is the outcome of factors which are not purely economic. Durkheim already warned that society’s values are not simple means to the purpose of economic calculation, because society is always capable of forcing or compelling its members to act in such a way as to neutralise the advice drawn from said calculation.

It is for this very reason that the “big trade-off” debate – quoting the title of Arthur Okun’s famous 1975 book – between efficiency and fairness can never provide a satisfactory solution as long as we remain within a social order founded on the sole principles of equivalent exchange (which supports efficiency) and redistribution (which promotes fairness). The famous State-market dichotomy stems from this model of social order: the market is required to be efficient, i.e. to produce as much wealth as possible with a given amount of resources. The State is instead responsible for seeing that wealth is redistributed, in order to guarantee socially acceptable levels of fairness. Consider the following questions: is it better to expand the reach of the equivalent-exchange principle, or to give more powers of intervention to the State, so that it improves the distribution of wealth? Furthermore: how much efficiency must be sacrificed in order to improve fairness? And so on. Such questions have dominated (and continue to dominate) the agenda of groups of economists and social scientists, with fairly modest results, actually. This is certainly not due to scarce empirical data or inadequate analytical tools. Rather, the reason is that these scholars have forgotten the principle of recipro-
city, that is the principle whose very purpose is to put the culture of mutuality into practice. They forgot that a human society in which the principle of cooperation is eliminated and everything is reduced, on the one hand, to improving transactions based on equivalent exchange, and on the other hand, to increasing welfare transfers from public bodies, is not sustainable: this is why, despite the talented scholars involved, a credible solution to that trade-off has still not been reached. This is why neither the liberal-individualist view of the world, whereby everything (or almost everything) is based on exchange, nor the State-centric view of society, whereby everything (or almost everything) is based on duty, offer us a credible way out of the sticky patch our societies are going through: the endemic and systematic rise in inequality.

How, you may ask, could the adequate presence in the market of co-operative enterprises help resolve the trade-off we are talking about? The answer is both simple and crucial: the chief characteristic of the co-operative form of enterprise is that it reconciles production and the distribution of wealth. Indeed, as we know, co-operative members have needs – of co-entrepreneurship (in the case of production and labour co-operatives), or of democratic freedom (in the case of the consumption co-operative) – which must be satisfied through and during business; neither before, nor after. This implies that doing business is consubstantial to being a member of the co-operative. The capitalist enterprise presents us with a radically different framework: they have members who are interested in maximising their return on the capital they have invested. As we know, the latter is the sum of two main components: the profit arising from business operations, and the capital gain of the stock: a gain that also depends on the enterprise’s speculative activities or the ups and downs of the capital markets. Now, it may happen – as at this present time in history – that these two components diverge. It may even happen that, in order to boost shareholder value, long-term profit end up being sacrificed, if this serves to increase capital gains. In such situations, the shareholder of a capitalist enterprise is left in no doubt as to the rational choice to be made or favoured. However, the member of a co-operative could never behave in the same way without contradicting himself.

The above leads to a plausible explanation as to why the areas or regions in which there is a heavier presence of co-operatives are also those in which – other things being equal – inequality indicators are far lower. The cases of Italian regions such as Emilia Romagna, Tuscany and Triveneto speak volumes in this regard. Let us move on to a conclusion. These days, it is widely acknowledged that the rise in inequality is one of the most powerful factors holding back development, as well as a serious threat to democracy and peace. It is also known that the redistribution of wealth by the State, through
fiscal and tax policies, is no longer sufficient – if it ever was. And yet, nobody is willing to realise that the most effective and cheapest antidote to reduce inequality is allowing, until the critical mass threshold is reached, co-operative and/or social enterprises into the market. The mainstream economic thinking – focused as it is on separating the laws of production from the laws of distribution – has a clear and serious responsibility for this short-sightedness.

3. On the co-operative form of enterprise

I will now move on to the second question raised at the beginning: where to place the fundamentum divisionis (ultimate discriminant) between the co-operative and capitalist enterprise? By now, we are familiar with the factors characterising the co-operative business model: democratic governance, mutual exchange, unavailability of indivisible reserves to individual members, the open door principle, external cooperation, and more. But where do these factors come from? What is – a philosopher would say – the a priori summary principle from which these particular characteristics spring?

Let us begin from the observation that any kind of economic action is always a common action, “an action, that is, which in order to be undertaken requires the deliberate participation of two or more persons” (Viola, 2004, p. 14). The fact is that the division of labour itself makes all economic action a common action. So a market economy, necessarily based on division of labour, is a world densely populated with common actions. According to Viola, three features define the common action. First, all participants must be aware of what they are doing: the mere co-presence of a number of different individuals is not sufficient. Second, each participant is responsible, accountable, for what he/she does. This is what distinguishes common from collective action: in the latter the individual and his/her identity vanish, and with them so does his/her personal responsibility for his/her action. Third, there must be a joint effort on the part of the participants to achieve the same objective. The interaction of a number of persons in a given context is not, in and of itself, common action if they are pursuing different, not to say conflicting, ends. Thus the economic enterprise, which possesses all three attributes, definitely constitutes a common action.

There are various types of common action, depending on what is held in common, which may be the means or the end. If it is the means, the enterprise

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4 I have expanded upon the matter discussed in this paragraph in Zamagni (2005)
will be of the capitalist type, and interpersonal relations will typically take the form of the contract. In a contract, of course, the parties do work in common for its realisation, but each pursues his/her own ends, which may perfectly well conflict. Think, for instance, of the contract between vendor and purchaser, or labour contract itself. When what is in common is the end, the enterprise is co-operative. The essential difference is between a situation in which it is agreed that each party is to pursue his/her own end (as in the capitalist firm) and one in which a common end is shared. This is the same difference as that between a common good and a local public good: in one case the benefit that each person draws from use cannot be separated from that drawn by others. In other words, the interest of each one is realised together with that of each other, not against as it is the case with private goods or regardless as it is the case with public goods. Essentially, while public is opposed to private, common is opposed to one’s own. What is common is not solely one’s own nor indistinctly everyone’s. Ultimately, a co-operative enterprise is such whenever the relationships it consists of are between parties that are mutually oriented towards each other based on a specific intention.

What is the consequence of this distinction, from the economic point of view? That when the “common” action is limited to means alone, the basic problem to be solved is the co-ordination of the actions of many agents. This is what management science has done, at least since the pioneering work of F.W. Taylor (Principles of Scientific Management, 1911) and, after the Second World War, of Herbert Simon. But when “common” also covers the ends, the problem is how to achieve co-operation among the people involved. To avoid misunderstanding, let us specify that our concept of co-operation here must not be confused with the concept employed in game theory. A game is defined as “co-operative” when there is some enforcement mechanism to ensure that players do not renege on their commitments, but obviously each has his/her own aim, which typically differs from the others’. In formal terms, a problem of co-ordination arises from the strategic interdependence of a number of persons; one of co-operation arises from their axiological interdependence. This is tantamount to saying that according to our concept of co-operation inter-subjectivity is a value, whereas in game theory it is a mere circumstance.

Notwithstanding what agency theorists seem to believe, the co-ordination of decisions within the firm is based on non-market mechanisms. Almost never are prices used within a firm to coordinate the division of labour. So one simply cannot concur with Alchian and Demsetz (1972) that “telling an employee to type this letter rather than to file that document is like telling my grocer to sell me this brand of tuna rather than that brand of bread”. This for the simple reason that it is utterly unrealistic to conceive of the firm as a sort
of market *sui generis*, because the people who work within a firm are guided not only by orders but also by informal rules of conduct that make up the enterprise’s specific culture. It does not take any great amount of acumen to see that the effects of these norms on human behaviour are vastly different from the effects of the prices that govern market relationships.

The way a consumer reacts to a change in the price of a product he/she intends to buy is certainly different from the way a worker reacts to the positional competition that the firm triggers. Price changes affect my purchasing decisions, not my model of behaviour; but the informal rules within the firm that I work for create a habit of life, definite expectations of rights and duties. As Schlicht (2003) shows, the fundamental problem for a business organisation is “psychological consistency” between social norms and work styles on the one hand, and orders and formal rules on the other. If a manager’s orders are perceived as inconsistent with the informal norms, you get organisational chaos. That is, whereas a command to a machine does not affect the machine’s response to other commands, with people every order creates a precedent, the expectation that in the future similar situations will be handled in like fashion. And if they are not, workers will react by shirking or refusing to put their tacit knowledge at the service of the firm.

It can be shown that the co-ordination model does not avoid the risk of psychological inconsistency, and consequently that of organisational inefficiency (see, among others, Dassein and Santos, 2003). But the model of co-operation does, because it gives workers the decision-making discretion needed to adapt to local circumstances. For adaptation always requires local information associated with a given task, information that is held only by the worker assigned to it. It is common knowledge by now that the present technological trajectory is such that a key problem for modern enterprise is mutual adaptation between organisation and productive structure to exploit potential resource complementarity to the hilt (Trento and Warglien, 2001). In this respect, co-operation is definitely superior to co-ordination.

4. The co-operation problem

The question, then, is what to do to positively resolve the problem of co-operation. A convincing answer, to my mind, is that suggested by Bratman (1999), setting forth three conditions. First is the condition of mutual responsiveness: every participant in the common action believes that the intentions of the others are important, that they deserve respect, and knows that this belief is reciprocated. That is, it is not enough that the members intend
to undertake the same action; they must also want to do it together. Second, each commits to a joint activity – albeit for different reasons – and knows that the others intend to do the same. It is commitment to the joint activity, which means that it is impossible, in practice, to measure the specific contribution of each to the joint product. Third, finally, is commitment to mutual support, whereby each engages to help the others in their efforts to attain the best possible final result. Note that this mutual support must come in the course of the joint activity, not apart from or after it. So this commitment is not to be confused either with self-interest or with disinterested altruism. There being a joining of interests, in helping the others each is also pursuing his/her own self-interest. In other words, it is precisely because of his/her concern for his/her own welfare that the co-operative member is concerned for that of the other members (Dworkin, 1992). This is the cooperative enterprise’s particular interpretation of the principle of reciprocity. Let me recall that the principle runs like this: I do something for you (or give something to you) under the expectation that you in turn can do something for (or give something to) others or, possibly, me. By contrast, the principle of exchange of equivalents that underlies capitalist action runs: I give something to you under the condition you will give me something of equivalent value. The principle of philanthropy or pure altruism runs: I give you something on condition that you give me nothing; in fact, I don’t even want to know who you are.

What does a co-operative have to do to satisfy these conditions? First, it must facilitate communication among members through a deliberative process. At the same time it must practice equity, avoiding both subjection and exploitation (Viola, 2004). Let me explain, starting with the first requirement. Communication is not the same thing as information. While full information is all that is needed for the co-ordination of decisions, co-operation presupposes the practice of a special form of deliberative democracy: the exercise between members of the “voice” option. For the key distinction between “voice” and “exit” option, we are indebted to A.O. Hirschman, who went on to say that while the ideal-typical field of application of the former is the economy, that of the latter is politics. Well, the proper significance of co-operative action is that of extending the “voice” option to the sphere of economic relations. As we know, the process of deliberation posits the possibility of self-correction, hence that each person admits, at the outset, the possibility of changing his/

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5 It should be noted that while philanthropy is completely compatible with capitalist action, the principle of reciprocity is excluded from the latter. For more details on the matter and an analysis of the consequences the three principles lead to, see Zamagni (2002).
her own preference in the light of the arguments of others. This means that the deliberative method excludes all those who declare, in the name of hierarchy, that they are impermeable to the reasons of others (Zamagni, 2004). With this in mind, then, deliberation necessarily presupposes communication. According to Joshua Cohen (1989), cooperation is based on “deliberation focusing on the common good”, in which all participants are willing to question their initial preferences, because “the relevant preferences and beliefs are those that emerge from or are confirmed by the deliberation”.

A co-operative that ignored this specific trait and, in the name of efficiency, aped the *modus operandi* of the capitalist firm – where by definition there is no place for a deliberative process – would be suicidal. Especially since co-ops are quite a bit better equipped than their capitalist sisters to exploit the potential of the network as an endogenous form of organisation that allows its users to benefit from dynamic externalities, strategic complementarities and cumulative gains. True enough, constructing a network requires co-ordination, but it is equally true that the network structures provide their greatest benefits when Bratman’s three conditions are satisfied (Bratman, 1999). Well, I am of the opinion that Italy’s co-operative movement is today in a position to adopt the deliberative model for the purposes of achieving internal democracy within large enterprises, encouraging the creation of real *deliberative forums* organised by area. While I refer you to the literature on this matter (see Baccaro, 2004) for more details on the rules governing the functioning of deliberative forums and, more generally, for a discussion of the main challenges related to their implementation, I wish to outline here a number of specific reasons that support my recommendation.

The first reason concerns the fact that co-operation is, by its very nature, the principal locus of identity pluralism; that is to say, the one capable of hosting subjects who identify with different identities (cultural, religious, or ethnic). Now, while the crisis of the forms of traditional representation (either political or union representation) is to be traced back mainly to multiple belonging, this very same phenomenon represents a strength for co-operation. This is easily explained. “Fordist” representation, as it is geared to protect interests, needs to join forces in order to boost negotiating power – “united we stand, divided we fall”, they used to said – but in order to join forces, there needs to be a certain homogeneity of individual preference functions between the parties represented. (To put it into more technical terms, the average and median of the distribution of individual preferences must not diverge too much.) Co-operation is instead basically a representation of identity and values, and as a result the multiple belonging of the participants in deliberative forums not only is not an obstacle, but it actually is a factor of comparative
advantage. Indeed, when the most serious problems to be solved are those concerning the sense of acting and, above all, those regarding the choice of ends – and not the choice of means best suited to achieve a given end – multiple belonging helps find the way out.

There is a second reason in support of the adoption of the deliberative model to achieve business democracy. This concerns the fact that said model constitutes the best antidote to the danger that co-operative subjects may get “caught” in the mesh of the political system as a result of the lure of the parties’ increasing influence. In short: one of the most significant and striking trends seen in advanced Western democracies is the fact that party coalitions use the social networks of civil society to rally support for their electoral platforms. The crisis of the institution of the party – exposed by the massive fall in members – leads, so to speak, the parties to seek the support needed to win elections within the organised civil society. Clearly, these social networks are the most effective tool for the purpose. In return, they receive from politics not only funds for their activities, but also and above all the inclusion of at least some of their proposals and principles in the political programmes. Everyone sees the risks for the very idea of democracy in those “dangerous liaisons” between the political and civil society. Well, deliberative forums are the most effective antidote to the risk that the democratic principle may degenerate. On the other hand, what use would there be in a kind of co-operation that instead of striving to establish and institutionalise the civil aspect, “contented itself” with sustaining the political aspect through tools typical of collateralism?

The other prerequisite mentioned is the commitment to internal equity. The prime reason that motivates the members to come freely together to form the co-op is to banish subjection and exploitation. The precept of co-operation is set apart from co-ordination by the fact that it posits not hierarchy, but the equal dignity of persons and of the areas in which they work. As John Rawls observes, cooperation is much more demanding than coordination, as it is based on rules and procedures that have to be agreed to by all participants. To be sure, every common action, hence every enterprise, needs someone to exercise the command function to get the wills of the different individuals to converge. But whereas in a capitalist firm command flows from the power hierarchy, which may be more or less authoritarian as a matter of personal style, in the co-operative command depends on authority in a way that makes it impossible for anyone to impose his/her own concept of the common action on the others. In short, a co-operative whose governance followed the hierarchical model rather than that of authority would deprive itself of its best chance to capitalise on its own specific identity. Let me explain.
Besley and Ghatak (2005) define a “mission” as a set of attributes of a project such that the persons involved value its success more highly than the money income they earn from it. In this sense a co-operative is a mission-oriented organisation whose strength springs from the motivation of the agents. A motivated agent is one who pursues a given end because he knows that doing a certain thing or acting in a certain way carries an intrinsic benefit. Clearly if having a mission reduces the need to negotiate pecuniary incentive schemes, it increases the importance of the non-monetary features of organisation in optimising the agents’ efforts.

In symbolic terms, this means positing, for a generic $i$-th agent, a utility function of the type $U_i = a w_i + (1 - a) m_i$, where $w_i$ denotes monetary compensation, $m_i$ the intrinsic motivation, and $a$ ($0 < a < 1$) the weight assigned to the first component and $(1-a)$ that assigned to the second. Now as intrinsic motivations will differ from person to person, there is a drastic alternative. Either a mission-oriented enterprise such as a co-op succeeds in organising this diversity and consequently achieving substantial gains in productivity, or it fails and is paralysed by internal conflict. That is why the co-operative manager must be as “capable” as his capitalist counterpart and must also be capable of something else, namely getting the right mix of $w$ and $m$, that is material and relational incentives. If the co-op manager is seized by the mania for emulation and a sense of inferiority and stresses $w$ only, in the end he/she will provoke the crowding-out effect discussed by Frey (1997), in which the intrinsic motivations are “narcotised” by the extrinsic. In another context, Gibbons (1998) absolutely does not rule this contingency out, observing:

A worrying possibility is that management practices based on [traditional] economic models may reduce or destroy non-economic facts like intrinsic motivations and social relations.

What an irony it would be if just now, when the most authoritative studies of capitalist corporate organisation are beginning to discover that economic sustainability cannot be ensured by controls and monetary incentives alone, the leaders of the co-operative movement let slip the chance to use their specific form of enterprise to attain objectives that mere co-ordination cannot.

7. In lieu of a conclusion

W. Goethe wrote that all thoughts have been thought already, and we must only try to think them over again. This maxim is well suited for inter-
preting the situation of cultural crisis – that is, of transition – the co-operative movement is now in. While its economic and social importance are both growing, it does not appear to be capable of giving an exhaustive answer to the following question: in the context of market economies as we know them today, is it possible that organisations founding their modus operandi on the principle of reciprocity succeed not only in emerging but also enduring in time? In other words, what space can co-operative enterprises carve out for themselves in the economic context, where the push for impersonality and the loss of significance in inter-subjective relations is not only strong, but is actually considered a condition for properly doing business? We know the answer of those who identify themselves with authors such as Polanyi-Hirschman-Hirsch-Hollis, to name the more representative writers. Their central idea is that economic agents who intervene in a market governed by the principle of the exchange of equivalents are induced to exclusively adopt self-interested forms of behaviour. With the passing of time, they will tend to transfer these forms to other social environments, including those in which virtuous acts are needed in order to achieve the public’s interest. (An act is virtuous not only when it is in the public interest, but when it is carried out because it is in the public interest.) This is the thesis of contagiousness that is so dear to K. Polanyi: “The market advances upon the desertification of society”.

Hirschman (1982) differs somewhat, but his conclusion is the same as Polanyi’s. Like Aristotle, he believes virtue depends on an individual’s acquired habits; virtue is a good act repeated many times and its value increases with use. It follows that by privileging those institutions (not only economic) that tend to economise citizens’ virtues, a society will decrease its capital of virtues and will find its reconstruction difficult. Without use, virtue atrophies in the same way muscles do. Along the same line, Brennan and Hamlin (1995) speak of the “moral muscle” thesis. By economising the use of virtues, the system crowds out the possibility of producing virtues. Therefore, to the extent a society entrusts itself to institutions functioning on the basis of the principle of exchange of equivalents, by that same measure will its cultural traits and social norms become more and more congruent with that principle. Martin Hollis’ (1998) conclusion is analogous, even if a bit more sophisticated. With specific reference to his “paradox of trust” he writes: “The stronger the bond of trust, the more a society can progress; the more it progresses, the more rational its members become and hence the more instrumental in their dealings with one another; the more instrumental their relations, the less trustworthy they are. So the progress of reason erodes the bonds which made it possible and which it continues to need”.

If these writers were correct, there would be little hope of finding a posi-
tive answer to the question raised above. But fortunately, the situation is not as desperate as it may appear. In the first place, the argument supporting the line of thought under discussion here would be valid if a causal relationship could be shown to exist between dispositions and institutions that economise virtues. The relationship would have to be strong enough to ensure the agents operating in the capitalist market would over time acquire, by means of contagion, an individualistic attitude (self-interest plus instrumental rationality). Apart from the circumstance that such a relationship has never been demonstrated, the fact is that people with virtuous dispositions, working in institutional contexts where the rules of the game presuppose self-interested (and rational) behaviour only, tend to obtain better results than subjects moved by egocentric dispositions. The game of prisoner’s dilemma is a good example of this. A suboptimal equilibrium is reached when the game is played by non-virtuous subjects, in the sense indicated above. When the same game is played by subjects that give an intrinsic, i.e. not only instrumental, value to what they do, it leads to the optimal solution. Generalising, the point is that the virtuous agent “flourishes” in the market that functions only on the basis of the principle of exchange of equivalents because he/she does what the market prizes and values, even though that is not his/her motive. In this sense, the prize reinforces the interior disposition, because it makes exercising virtue less “costly”.

Secondly, in order for the thesis of Polanyi and the other scholars to be valid, the virtuous dispositions have to follow behaviours, while in fact the exact opposite is true. Not even the fiercest behaviourist would dare to argue that behaviour is a priori over the dispositions of mind. On the other hand, if the thesis were correct, it would be difficult to explain the unprecedented flourishing of third sector organisations taking place in the current historical conditions, characterised by the dominance of institutions that “economise on virtues”. It is relevant to understand the nature of what induces an agent to behave in a virtuous way. It makes a huge difference to know whether or not it is the fear of sanctions (legal or social) that induces a subject to behave in a virtuous way or if it is from his/her own intrinsic motivation.

We have thus come to the central issue: in a context in which the dominant economic institutions are based on the exchange-of-equivalents principle, who can manifest the possibility of a virtuous action - in the sense of civic virtues - that is capable of generating optimal results in a way that can trigger the mechanism of dispositional choice we just mentioned? My answer is: the co-operative enterprise. The strategic and great role of subjects who base their own action on the principle of reciprocity is exactly that they make it possible for the contagion to break out. It’s the flip side of Gresham’s law:
the good currency attracts the bad! The purpose of the social enterprise today is opening the market, expanding its reach and, above all, its sustainability. Indeed, we shall never forget that what “erodes” social ties is not the market as such, but the market completely reduced to instrumental exchanges; not the civil market, but, as the 15th century humanists knew well, the market that is “uncivil” because it is not built on fraternity as a civil virtue.

This is why the expansion of the co-operative form of enterprise equates to promoting a more perfect freedom of choice in the economic context. Indeed, bear in mind that in order to affirm the principle of economic freedom, pluralism in economic institutions is not enough: what is also needed is the pluralism of the institutions themselves. That is to say that true competition exists not when many enterprises of the same nature operate (and do not take a dominant position) in the market, but rather when there are several enterprises differing in nature. This implies that the next entry of social enterprises into the Italian market should be disruptive, rather than incremental. In other words, the entry of social enterprises shall not be limited to adding functions on top of those that other players have long been carrying out, but shall force us to think and question again the relations between all economic agents.

In a sense, it is ironical that co-operation spawned a lot more culture, that is to say thinking thought, during the nineteenth century than during the twentieth, when it was unable to resist the lure and temptation of calculating thought. It has certainly not been a mistake to dedicate so much attention (and investment) to the management training of managers in order to equip them with the most sophisticated management and organisation techniques. If anything, the (epistemological) mistake was failing to understand that managerial disciplines are not neutral to the institutional form of enterprise they are to be applied to. Management science was created and developed to meet the specific requirements of the capitalist enterprise. How could we think that the same content and framework could work equally well for a co-operative enterprise? Misinterpreting a phenomenon always leads to the failure to correctly identify the problems that need to be tackled, and to actions that generate adverse consequences. The Italian co-operative movement must today urgently find the ways – which certainly exist – of marrying roots and wings: because if it holds true that nurturing one’s roots without looking after one’s wings leads to conservatism and self-referential closure, it is equally true that looking only after one’s wings and severing ties with one’s roots leads first to the loss of identity, and then to certain death. This is what co-operation must concern itself with and worry about.
Bibliography

FROM THE FINANCE OF SHAREHOLDERS TO THE FINANCE OF STAKEHOLDERS: THE IMPACT OF THE CRISIS

by Giovanni Ferri
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1. Introduction

After the global crisis that broke out in the United States (due to the collapse of the structured finance segment built on subprime mortgages) has deeply shaken the global financial system, governments, authorities, experts, and public opinions in general are wondering what finance will look like after the disruptions caused by the 2007-09 financial earthquake. Perhaps it takes a wizard to give an accurate answer: however, it is useful to make some reasoned considerations on the future based on the problems exposed by the crisis. This is the aim of this short contribution.

In particular, we will examine the financial crisis from the peculiar perspective that opposes the banks aiming at the maximisation of value for shareholders (call them “shareholder value banks”), united in their focus on the share price, and the banks aiming at the maximisation of value for a wider, more varied group of parties (call them “stakeholder value banks”), which represent several interests. Basically, the former can be identified with commercial and investment banks, joint-stock corporations whose priority or exclusive purpose is making profit. Stakeholder value banks, conversely, are

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represented by co-operative banks and other mutual intermediaries, for which profit maximisation is neither the sole purpose nor a priority.

Actually, in our opinion, the emphasis on short-term profits in the case of commercial banks and the widespread transformation of stakeholder value banks into shareholder value banks (for example, through “demutualisation” processes) have been two determinant causes of the problems that led to the financial crisis.

In short, these issues have three major implications. First of all, the banking business model has changed. Moreover, as indicated above, banking systems have substantially demutualised, with several mutual or co-operative institutions turned into shareholder value banks. Finally, the perception that credit risk could be segmented made many overlook – or at least underestimate – the extent to which breaking complex financial relations into segmented contracts would weaken the banks’ ability to assess and control risk. To be fair, the prevalent economic theory and banking regulations contributed to spread this wrong view.

Paragraph 2 of this contribution focuses on the double subjection of stakeholder value banks: as the other banks, they succumbed to the logic of financial markets; moreover, they also caved in to the prevailing argument that they too had to become joint-stock corporations. Paragraph 3 argues that the financial crisis has generated greater instability for shareholder value banks as compared to stakeholder value banks. Paragraph 4 outlines the main lessons to learn from the crisis on this matter and draws some conclusions.

2. The theoretical perspective: the double subjection of stakeholder value banks

2.1. Subjection of the bank to financial markets

There are mainly two theories applicable to financial systems: the financial market theory and the bank theory. On the one hand, the financial market theory, even if in various forms and to various degrees, assumes the existence of complete markets and perfect information3. In particular, if the efficient-

3 This in spite of the fact that a growing part of the literature has questioned the efficiency of financial markets in general terms (for example, Grossman and Stiglitz, 1980) or by moving from the assumption that ill-informed agents (so-called noise traders) operate in the market (for example, Delong et al., 1990; Shleifer and Summers, 1990).
market hypothesis is true, asset prices should reflect all publicly available information (Fama, 1970). The fair value of financial assets is represented by the discounted present value of expected future cash flows based on available information; in an efficient market, the market price should be equal to this value. In general, when economists talk about the efficiency of capital markets, they consider the prices of, and returns on, assets as a result of the law of supply and demand in a competitive market populated by rational agents. Such agents rapidly acquire the information relevant for pricing the assets and adjust prices depending on the information available to them. If current and past information is immediately factored in current prices, then only new information could cause a change in prices, which always refer to the law of supply and demand.

On the other hand, the bank theory is based on the assumption of incomplete markets and imperfect information. From the original intuition of Stiglitz and Weiss (1981), showing the existence of quantitative credit rationing equilibria, the theory of intermediaries evolved towards the monitoring of debtors, delegated to the banks by savers/depositors (Diamond, 1984). The consequence is that banks play a fundamental role in remedying credit market failures, as by gathering information on debtors they can reduce the level of information asymmetry and give the latter appropriate incentives, thus mitigating the problems of adverse selection and moral hazard.

As a consequence, it seems that there is a missing link between the two theories: the bank theory – according to which banks exist to remedy a market failure – and the financial market theory – which assumes the absence of market failures. Although some authors (for example, Allen and Gale, 2000) have worked to build this link, concluding that banks and markets are strongly complementary, rather than fungible, much has still to be done, and banking practices and regulations have still not taken this into account (at least up until the crisis).

Thus, a fundamental theoretical arose when, following deregulation and financial liberalisation, banking practices and regulations progressively moved towards operating methods typical of financial markets. The fact that banks are increasingly engaged in financial activities, and encouraged to increase their profitability by diversifying away from traditional credit towards structured finance; the fact that banking regulations are increasingly informed by the logic of mark-to-market accounting, a pillar of International Accounting Standards (IAS) and Basel 2 – this is the result of the subjection of banks to financial markets.

Thus, the evolutionary view proposed by Raymond W. Goldsmith (1966, 1969) prevailed. He spent his whole life arguing that the passage from bank-
based financial systems to market-based ones was a sort of “natural evolution”. However, the keystone of this approach was a “transactional” view of finance, according to which transaction costs would have been minimised by multilateral markets, something beyond the reach of banks. Of course, the evolutionary theory neglects the fact that the modern bank theory is based on the information asymmetry approach, rather than on a transactional view.

The most striking evidence of the subjection of the bank to financial markets is the theory – promoted by Bryan (1988), a rather influential person, as he was the director of McKinsey Consulting at the time – that it is necessary to move from the outdated, traditional “originate to hold” (OTH) banking model to the new “originate to distribute” (OTD) model, i.e. originate the loan and sell it to financial markets. In the OTH model, the bank originated the loan and then holds it to maturity, whereas in the OTD model, as soon as the loan is originated, the bank sells it immediately through securitisation.

2.2. Subjection of the stakeholder value banking model to the shareholder value model

The evolutionary theory has a premise that regards the bank’s corporate model. It is increasingly believed that the most appropriate corporate model to foster financial development is that of the shareholder value bank. It is argued that this model, by aiming at the maximisation of short-term profit, would be more suited for seizing the opportunities arising from the passage from the OTH to the OTD model of banking. Therefore, the model of the co-operative bank (the prototype of the stakeholder value bank) is presented as outdated. This model allows for the representation of a wider group of stakeholders in the bank, by giving value (also) to purposes other than the maximisation of short-term profit and by giving to all shareholders, including minority shareholders, the same “weight” (at least on paper) – especially through the “one-head, one-vote” principle, regardless of their shareholding.

The corporate governance of co-operative banks is often questioned, as it would allegedly contribute to make it all but impossible to remove the management who, therefore, runs the risk of lacking accountability. Although this problem is real, perhaps it is an inevitable price to be paid in order to allow the stakeholders to be represented. In this regard, it should be noted that co-operative banks, thanks to the stability of their management, can set and pursue

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4 The classification is attributable to Rybczynski (1974).
longer-term goals. In particular, these intermediaries pursue a long-term business model, which is strongly locally-oriented and focused on SMEs (De Bruyn and Ferri, 2005). Moreover, it has been demonstrated that the lower volatility of the profits of co-operative banks – confirmed also by various IMF studies (Fonteyne, 2007; Hesse and Čihák, 2007) – is associated with the greater stability of their management, and not with reduced diversification (i.e. with a lower portion of non-interest income; Bongini and Ferri, 2008). Therefore, the co-operative banks governance model appears to be the reason for their lower profit volatility. This is due to the ability of these banks to set longer-term goals, and makes it more sustainable for them to operate on the basis of a banking model which is not only OTH, but is also characterised by a strong reliance on relationships with customers (the so-called relationship banking).

As a consequence, as stakeholder value banks focus more on relationship banking and are therefore more capable of reducing information asymmetries vis-à-vis debtors, they would be the best at remedying market failures, which is the reason for banks to exist. But, far from acknowledging this, lawmakers have long disfavoured such banks. This has caused stakeholder value banks to have a double subjection: just as shareholder value banks, they were increasingly subjected to financial markets, but they were also subjected to shareholder value banks in terms of corporate model.

As evidence of the actual effects of the approach that has subjected the stakeholder value banking model to the shareholder value one, the transformation of co-operative and mutual banks – the so-called demutualisation – spread widely, especially in the US and in the United Kingdom. In the US, the Thrift Institutions – Savings Banks and Savings and Loans Banks – all but turned completely into commercial banks (in the form of joint-stock corporations) starting from the 1980s. The same happened to almost all Building Societies in the United Kingdom. Moreover, there were cases of transformation even in Continental Europe (for example, some former Banche Popolari in Italy), although demutualisation there was less intense. Everywhere, this transformation has profoundly changed the incentives for the directors of those banks. In general, the result has been a focus on shorter-term objectives, and perhaps even a more limited business model.

3. The financial crisis: greater instability for shareholder value banks

The financial crisis has affected banking systems throughout the world. But the most relevant aspect here is that the impact has been more limited on
the very banks that had adapted less to the subjection mentioned in the previous paragraph. Analysing the stockmarket performance of 226 listed banks, it emerges that there is a negative and statistically material correlation between size and average abnormal returns (at $t$ and at $t + 1$) on the banks’ stocks in two crucial events of the crisis (fig. 1): on 9 August 2007, the day on which the world’s main Central Banks were forced to intervene in order to provide an unprecedented amount of liquidity to avoid the collapse of the interbank market following the outburst of the subprime mortgage crisis; and on 15 September 2008, when Lehman Brothers’ bankruptcy caused a second negative shock at global level. Moreover, we believe it is even more interesting to note that the market impact on listed banks in terms of abnormal returns has been greater for the banks that had moved farther away from the OTH and towards the OTD model.

Figure 1 – Average abnormal return ($T$ and $T + 1$) and size: events of 9 August 2007 and 15 September 2008

The data reported here have been calculated through the event study technique by Bongini et al. (2009) for all 226 listed banks for which it was possible to find relevant information. The group includes 4 banks from the Baltic/Scandinavian region, 2 from Belgium, 7 from France, 8 from Germany, 15 from Italy, 91 from Japan, 2 from The Netherlands, 9 from Spain, 6 from the UK, and 82 from the US.
Although measuring this phenomenon is complex, a proxy for it is represented by the ratio between two income statement items: interest income and total income. Given that the gap between the two tends to grow as net non-banking income increase, the higher the value, the more the bank has moved towards the OTD model and, vice-versa, the lower the value, the closer the bank has remained to the OTH model.

As shown in Figure 2, there is a positive and statistically material correlation (even in a multivariate regression) between average abnormal returns and the interest income/total income ratio. This seems to confirm that in the decisive moments of the crisis, the markets hit harder the banks that had moved more towards the OTD model and less the banks that had remained closer to the OTH model. In other words, financial markets seemingly rewarded relationship banking, clearly contrary to the trend of subjection of banks to financial markets that had been prevalent during the previous decades.

*Figure 2 – Average abnormal return (T and T + 1) and proxy OTH: events on 9 August 2007 and 15 September 2008*

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y = -0.0205x - 0.0135 \\
R^2 = 0.0289
\]
It is not by chance that, considering the average values per country (for countries with at least 5 listed banks) weighted by the size of the assets of individual banks, the impact in terms of abnormal returns has been minimum for Italy and Spain – countries for which the interest income/total income ratio indicated they had moved less far from the OTH model – and much higher for France and Germany, where listed banks, conversely, had moved closer to the OTD business model (fig. 3)*.

The above methodology is unfit to explain how the markets have reacted to the second subjection, i.e. the subjection of stakeholder value banks to shareholder value banks. As a matter of fact, most of the former banks are not listed. However, the fact in Italy various mutual banks are listed allows us to make some observations. In this case, it is noted that there is a more

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* This indication, however, is not confirmed for Japan, probably because of that country’s specific effects: there, the banking system has long suffered a deflationary crisis that began in the early 1990s.
limited impact on mutual banks as compared to those incorporated as joint-stock companies when taking into account average data (weighted by the size of individual banks): taking 31 July 2008 as a basis, already prior to Lehman Brothers’ collapse the share prices of joint-stock companies dropped by approximately 37 per cent, whiles those of mutual banks by 23 per cent; then, the situation deteriorated for all, but differences remained: the former fell by 70 per cent (considering the prices at the end of January 2009, again compared to those at the end of July), whereas the mutual banks by 50 per cent (fig. 4).

Figure 4 – Performance of share prices of Italian listed banks (basis: 31 December 2008, percentage values)

Therefore, also for the second subjection, the available data appear to contradict the consensus in the years before the crisis.

As a further confirmation of this finding, it should also be remembered that co-operative banks have been almost everywhere the recipient of a sort of “search for trust” on the part of depositors, which, especially after the collapse of Lehman Brothers, have massively channelled huge quantities of deposits into stakeholder value banks. Finally, it should be noted that, perhaps not by chance, some of the most remarkable cases of bankruptcy of financial intermediaries involved demutualised banks: for example, Northern Rock and Halifax Bank of Scotland in the United Kingdom, and Washington Mutual in the US, to cite only the most well-known.
4. Lessons from the crisis and conclusions

The model based on relationship banking, which is typical, but not exclusive, of co-operative banks, emerged as the real winner from the deep financial instability of 2007-2009. Actually, as mentioned, the evolution of Anglo-American financial intermediaries over the last twenty years had resulted in the widespread adoption of the new OTD banking model. In hindsight, it is clear that this has been one of the fundamental causes of the moral hazard on the part of the banks. In particular, it is quite logical that, when the bank knows beforehand that the loans it is ready to grant will be immediately sold through securitisation, there are no longer incentives for it to duly screen and monitor borrowers. Therefore, credit standards are very likely to deteriorate across the board. This phenomenon is especially worrying where the risk of borrower default is very high, as in the case of subprime mortgages. But, as argued, the crisis is also the consequence of deeper theoretical mistakes.

The evolution of information technology had contributed to the perception that risks could be segmented; this formed the basis for securitisation, but it also involved many other parts of the credit market. This however ignored the problem that, if complex financial relations are broken down into segmented contracts, this is very likely to weaken the ability of intermediaries to assess and govern the overall size of the relevant risks. As a matter of fact, if a debtor deals with only one bank, that bank could have access to soft information, whereas this would not happen if that customer dealt with several different banks, not to mention the case in which the loans granted to the debtor were securitised on financial markets. At the same time, within a single banking relation, the bank has appropriate incentives to screen and monitor debtors, thus acquiring personal information on them. It is true that, further to the hold-up problem, an individual banking partner could try to profit from debtors. This could be an acceptable price to be paid in order to avoid a situation in which no intermediary takes responsibility for appropriately screening and monitoring borrowers. Theory and regulation have contributed to spread the mistaken view that individual risks could be separated. Perhaps the most telling example is represented by CDS (Credit Default Swaps), introduced to shield investors against borrower default. If these contracts are entered into between experts for large and well-known listed companies, they can play a positive role. But what is the true value of a CDS on a tranche of securitised loans? And to what extent does this value depend on the screening and monitoring of the underlying debtors?

Regulation, on its part, has contributed to the development of a less safe banking system, for example through IAS and Basel 2, which have introduced
a regulatory incentive to use rating/scoring technologies. We limit ourselves to considering the pro-cyclical patterns potentially determined by the spread of credit scoring and applied to capital ratios through the banks’ internal rating models. This can be labelled as the “dark side” of credit scoring (Ferri, 2001). Credit scoring is a largely mechanical method to decide whether to give credit on the basis of standardised information gathered on those who request it. The method relies on statistical models to classify applicants beforehand according to the level of risk and determine the threshold values to accept or refuse requests for credit. As such, credit scoring is a powerful tool that reduces the administrative/management cost of loans to a considerable extent, so much so that, according to some authors, it can reduce information asymmetries and financial restrictions (Petersen and Rajan, 2002). In our opinion, however, the adoption of credit scoring is not exempt from material defects. It is widely acknowledged that actually the main role of banks lies in their ability to develop relationship banking with debtors, this being a special situation that may facilitate a Pareto-improving exchange of information between the debtor and the bank. And relationship banking crucially depends on the collection of proprietary information on debtors by the lender, and on the occurrence of multiple interactions between the two parties (Boot, 2000). This way, credit scoring reduces the banks’ ability to gather “soft” information on debtors, which is often crucial to overcome information asymmetries between the bank and the debtor. Indeed, credit scoring implies complete confidence in standardised data and automatic mechanisms, whereas “soft” information cannot be reduced to standard formats and requires relationships rather than mechanical tools. From this perspective, as credit scoring is connected to the current situation rather than to future prospects, it can cause procyclical fluctuations in the cost and availability of credit, which may magnify fluctuations in the supply of credit and, therefore, in economic activity. Similar considerations also apply to rating and, therefore, concern also Basel 2.

The crisis points to the need to reconsider the (previously) negative bias against stakeholder value banks, which – not by chance – have performed better than shareholder value banks. In particular, let us repeat that the former appear keener on pursuing longer-term business models and, therefore, more suitable to reinforce relationship banking and thus foster responsible behaviours, as compared to the moral hazard that caused the crisis.

The task is daunting, because it requires to correct several mistaken beliefs, but it is not impossible and, above all, it is important.
Bibliography


THE CHALLENGES FOR MUTUAL BANKS IN THE NEW REGULATORY SCENARIO

Fabrizio Saccomanni
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1. The development of the crisis

The tensions triggered by the “subprime-Lehman” crisis of 2007-8 continue to influence, albeit less dramatically, the global economy performance and the sentiment of international financial markets. The recovery is underway: it is sustained in emerging countries (including in Eastern Europe), but overall modest and fragile in developed countries, especially in Europe. In the Eurozone, private and official analysts have forecast a slight acceleration in growth of 1 to 1.5% in 2010-11, essentially driven by the foreign demand, in a context of persistent unemployment and stagnation in consumption and private investment. No inflation risks are expected to arise in the medium term.

On financial markets, general conditions have largely improved compared to a year ago, despite phases of high volatility in interest and exchange rates, share prices and spreads still remain. Markets are still coping with the uncertainty about the sustainability of the financial recovery within a context of a persistently weak real economy. This can create fertile conditions for speculation to develop.

Huge monetary and fiscal policies implemented in the aftermath of the crisis are still in force. The gradual removal of some of the unconventional monetary measures adopted at the peak of the crisis, and no longer necessary, does not mitigate the intensity of the economic stimulus measures.


The data and information in this essay refer to 26 February 2010, when the Conference Banche Popolari e sviluppo solidale: sfide e opportunità was held in Verona.
However, there is no doubt that the exceptional support provided must be gradually removed. As recently noted by ECB President Mario Draghi, in terms of monetary policy, the exit must not be premature, in order not to hinder the recovery, but neither delayed in order not to compromise price stability and fuel new speculative bubbles on the financial markets. As for budgets, credible paths for normalisation should be forged immediately in order to guarantee that markets regularly finance sovereign states. The commitment of the Eurozone countries to undertake decisive and co-ordinated actions to ensure the area’s financial stability is also important.

2. Review of prudential regulation proposed by the Basel Committee

The review of financial regulation started at an international level in the aftermath of the crisis shows the political and specialist authorities’ firm intent to restore faith in the markets, strengthen the stability of the global financial system, ensure effective enforcement of the laws, and, ultimately, encourage the efficient allocation of resources within the economic system.

The Heads of State and Government of the G20 countries – top political organisation for international co-operation – have mandated the Financial Stability Board (FSB) to make specific recommendations and asked relevant sector committees to translate the recommendations into concrete measures. The action plan has been developed through many areas: reviewing prudential regulation, extending the regulation scope and supervision, improving the intermediaries’ governance, enhancing transparency and market disclosure, boosting cooperation among authorities, both in normal economic periods and during crises.

Significant progress is also being made in the field of institutional supervision, mainly in Europe. The crisis has made clear that supervision on a national basis is no longer adequate for the proliferating challenges confronting increasingly integrated markets characterised by the presence of large intermediaries that operate in a number of countries in the area.

The new EU supervisory architecture will be based on two pillars: a European Systemic Risk Board (ESRB) and a European System for Financial Supervision (ESFS). The latter will consist of three supervisory authorities focusing on banks, insurance and securities bringing together, for the respective sectors, the heads of the EU countries’ supervisory authorities. Overall, the agreement reached so far on the reform is an important step forward and lays the groundwork for real consistency in the supervisory rules and practi-
ces and for effective risk management.

As for regulation, in December 2010 the Basel Committee on Banking Supervision issued a consultative document including a detailed series of proposals on bank capital and liquidity. Some aspects are still under discussion, notably the way of dealing with systemically important institutions, and will be the subject of specific proposals during 2011.

The new standards should be effective at the end of 2012, but they will be introduced on a gradual basis, also through transitional provisions in the course of a sufficiently long period. It will also be essential to guarantee their standard implementation across the different jurisdictions, thus avoiding that “competition in laxity”, which contributed to the crisis. The FSB will rigorously monitor the methods used by each individual jurisdiction to apply the new rules.

The key elements of the Basel Committee’s proposal are: increasing the quality of regulatory capital, by also reviewing minimum requirements; extending the hedging of risks to which banks are exposed, in particular by strengthening the capital requirements against counterparty risk; containing the system leveraging degree, by the introduction of a leverage ratio to prevent an excessive development of assets during periods of strong economic growth; reducing the pro-cyclical nature of regulation, making compulsory for banks to set aside resources in periods of growth so that they can be used during crises; and, finally, adopting quantitative rules to reduce the liquidity risk.

The Committee’s proposal is not discussed in detail here. This paper will focus on two of the main points of the regulatory review – the new definition of capital and the rules on the liquidity risk. Their enforcement will have effects on all Italian banks, including mutual banks.

2.1. The new definition of capital

Regulatory capital is the basis of the prudential regulation of banks; it is the parameter on which the whole system of controls on intermediaries hinges and based on which the market assesses their solidity. Capital in fact represents the first line of defence in covering losses; it enables growth opportunities to be exploited and the demand for loans from households and business to be satisfied.

The need to change the current capital definition dating back to the 1988 Capital Accord (Basel I) had been clear to the international authorities for some time.
The Basel Committee’s proposals seek to raise the quality of capital, by making banks better ready to face crises and absorb losses. The Authority’s stance aims to ensure that the dominant component of core capital is limited to ordinary shares and profit reserves (common equity). The new criteria also take account of the specific nature of co-operative banks; on this point the guidelines issued for consultation by the Committee of European Banking Supervisors (CEBS) in December 2010 provide precise indications.

One of the most important lessons we can learn from the crisis is that guaranteeing an effective level playing field between different jurisdictions is particularly important for capital, where national authorities must no longer have any unnecessary flexibility.

Deductions – i.e. elements that must be eliminated in calculating capital – must be rigorously harmonised and generally applied to the highest quality component of capital. The current minimum capital ratios relating to total and core capital will be complemented by a common equity requirement. Finally, more stringent rules will be introduced to include hybrid and subordinated debt in the supplementary capital.

The decision which the Committee is required to take at the end of the consultation period must also take account of capital instruments that have already been issued, so as to allow a gradual orderly adoption of the new rules (grandfathering approach), with a positive impact not only on the level of banks’ capital adequacy and cost of funding, but also on the ability of the financial system to support the economic recovery.

2.2. The rules on liquidity risk

The financial crisis has shown how quickly and dramatically liquidity risk can arise on the financial markets and which impact it can have – by interacting with other risks – on the stability of intermediaries and the entire system. It has also shown the need to establish precise rules on liquidity at an international level.

As early as 2008 the Basel Committee and the CEBS issued two documents containing organisational principles for the management and supervision of the liquidity risk. In complementing these indications, the document published by the Basel Committee in December 2010 introduced two quantitative standards. The first one (the Liquidity Coverage Ratio) is aimed at ensuring that banks have sufficient liquid assets to survive a protracted stress scenario; the second one (the Net Stable Funding Ratio) has a time horizon of one year and has been developed to provide a sustainable maturity structure
of assets and liabilities. The two standards are closely related: careful management of liquidity avoids significant imbalances in the short term.

Of the two standards, the first one has been fully discussed at an international level – the results of the impact study will provide important indications on the effect of the different options available.

Reference is here notably made to the composition of the liquidity buffer. During the finalization stage, it will be crucial to find the right balance between the need for intermediaries to have sufficiently prudent liquidity levels and the need not to hinder the transformation of maturities which is typical of the banking system and thus avoid the new requirements resulting in higher costs and less liquidity available to customers.

3. The impact of the new regulatory scenario on Italian banks

The solutions issued for consultation are the starting-point for further improvement and possible revisions. To this end, the Basel Committee has just started a detailed impact study and a similar study on European banks, which will take account of the specific nature of the European Union’s financial system and regulation, is co-ordinated by the CEBS.

The study aims to assess the quantitative impact of the changes proposed on banks’ financial statements and to collect all the information that can help “calibrate” the final level of capital and liquidity that intermediaries must hold in coming years. Similarly to the simulations carried out for Basel II, this assessment will be based on the data provided by the banks to national authorities and will benefit from close interaction between banks and supervisors. The broad sample of Italian intermediaries which the Bank of Italy has planned to involve (22 banks, including 9 mutual banks) may provide useful indications on the effects of these proposals on the Italian system.

Pending more precise indications from the impact study, nonetheless we think it is already possible to identify the regulation areas which may have a greater impact on the Italian banking system.

In terms of capital, Italian banks seem in better shape than those in many other countries, which, however, seemed better capitalised before the crisis. Consolidated figures indicated an overall capital improvement in June 2009 compared to the first half of 2008. The total system ratio rose from 10.4% to 11.3% , while that relating to core capital went from 7.4% to 8.1E; the core Tier 1 ratio rose from 6.8% to 7.5% . A very similar trend was experienced by mutual banks.

Nonetheless, some important aspects of the regulatory proposal which
could have significant consequences for Italian intermediaries are still open.

This is the case of deferred tax assets; their amount is very important due to national restrictions on tax deductibility of losses on bad debts. On this issue, the impact study will enable the assessment of alternative options, such as that of deducting deferred tax assets only for the amount exceeding a set threshold, so as to avoid differences in national tax arrangements creating excessive disparities in terms of competition.

Any full deduction of minority interests and banking, financial and insurance investments from Tier 1 could also have far from negligible effects on our system. Significant minority interests are largely due to the merger and acquisition process experienced by the Italian system in recent years. This also involves mutual banks which are characterised by complex a group structure. We believe that the alternative proposal of only taking partial account of them, up to an amount commensurate with the risks of the individual subsidiaries facing such minority interests, is technically justified.

As for the rules on liquidity, the effect will also depend on the final decision regarding the features of the two quantitative standards. The liquidity of Italian banks, also thanks to the enhanced monitoring activity launched in 2007 by the Bank of Italy, is solid but largely relies on instruments that have to be refinanced by the central bank.

Since the new rules will focus on instruments allowing banks to handle strong liquidity shocks without necessarily being more supported by the central bank, it is necessary for Italian banks to gradually boost the volume of instruments that can be quickly turned into liquidity on the market.

The limited operations in innovative finance and in the trading of structured credit products make it possible to forecast a generally limited impact from further tightening of capital requirements on the trading book. The introduction of the leverage ratio ought not to have any particularly significant consequences, too. The financial leverage of the Italian banking system – measured as the ratio between total assets and core capital – is low if compared internationally: in June 2010 the main European banks’ leverage amounted to 34%, while that of the main Italian groups was 24%, and of mutual banks 18%.

4. Co-operative banks: growth and risks

In the last ten years the weight of co-operative banks in the Italian banking system has grown considerably. The share of domestic loans issued by mutual and co-operative banks increased from 21% at the end of the 1990s to appro-
The strong expansion of recent years was experienced by both types of co-operative bank: since 2000, the annual average growth rate for loans to non-banking counterparts has been 10.2% for mutual banks and 11.9% for co-operative banks, compared to an average of 6.6% for all banks.

Mutual banks, especially in recent years, have largely grown externally. They have been among the most active players in the consolidation of the national banking system. Mergers and acquisitions have also involved banks which were previously outside the co-operative sphere. The result has been a significant concentration: the top five groups now represent 75% of the assets of intermediaries controlled by a mutual bank, compared to 56% ten years ago.

During this process of growth, the structure of portfolios has developed in a way similar to that of traditional banks, in particular for the largest intermediaries. In the alignment process some features of mutual banks have, however, disappeared – notably the weight of loans to business. The predominance among borrowers of small and medium-sized enterprises is reflected in lower portfolio concentration levels than the average for the Italian banking system.

The growth in market shares has sped up recently. In 2009, while growth rates for loans supplied by the main banking groups turned negative, mutual banks increased their penetration in all segments, as did co-operative banks. In the last 24 months the growth rate in loans issued by mutual banks has been 6.5%, compared to a 1% increase recorded by other banking intermediaries. The trend is particularly marked in relation to loans to non-finance companies and notably to households.

Mutual bank lending has strongly supported key customers during the crisis, also thanks to a business model capable of reducing or delaying the impact of financial turbulence. The weight on the core business of retail banking, which is the distinguishing element of the Italian banking system, is particularly outstanding for mutual banks. The loan to asset ratio is 77%, compared to 72% as the Italian average; payables due to customers are equal to 54% of funding, compared to the average of 45%.

Nonetheless, strong growth also entails risks. The expansion in lending makes it urgent for mutual banks to pay more attention to the “traditional” risks of financial intermediation. If, on the one hand, the recession has had a negative impact on the quality of lending for most banks in the system, on the other hand, mutual banks’ exposure seems particularly high. In the last two years, the level of new non-performing loans adjusted in relation to the amount of performing loans has been above the average of the whole system; approximately 31% at the end of 2010. Bank offices account for 40% of the total.
the accumulation of this rapidly growing flow is starting to impact on stocks.

5. The governance of mutual banks

The legal and entrepreneurial model of mutual banks has enabled them to face the market as solid businesses, with positive returns for shareholders and benefits for the local economy. However, the legislative framework, which originally targeted smaller, local banks, no longer seems to completely meet the needs of banks that have opened up to the official markets and which, also due to mergers, have reached systemic dimensions.

The current regulation – characterised by the firm one-head one-vote principle, shareholding limits, acceptance clause, non-application of proxy solicitation envisaged for listed companies – could be a limitation, especially during crisis, on obtaining risk capital. Multiple ownership does not make it easy to control management’s activities; the governance structure may become inflexible and there may be a lack of accountability for the corporate bodies – in the past, this has occasionally caused significant corporate troubles.

The regulation development must safeguard the strengths of the mutual banking model, above all the one-head one-vote principle. Some rigid aspects of the model must be made more flexible, also on account of foreign co-operative banks’ experience. The strategic support to local economies must be confirmed by lending to local businesses and households and allocating part of the profits to social activities.

It is necessary to find a balance between maintaining the specific nature of co-operatives and the need to eliminate, above all for the largest entities, the obstacles to open and dynamic governance that can promptly adapt to external changes and effectively direct and coordinate highly-developed and complex group structures.

Some restrictions can be removed, or at least mitigated, in accordance with the provisions on corporate governance issued by the Bank of Italy in 2008 and the subsequent clarification note of 2009.

Regular interaction with intermediaries took place during the assessment by the Bank of Italy of the changes concerning governing documents. As regards mutual banks, in relation to the particular nature of shareholders and their governance, adjustments to governing documents were put forward in order to guarantee sufficient representation for shareholders within corporate bodies and to encourage a more active shareholders’ participation in meetings.

The sector provided the first concrete responses to the Bank of Italy’s
recommendations. At some listed banks the number of representatives who can be elected by minority shareholders has increased; some unlisted banks introduced voting systems, as alternatives to lists, which may potentially allow minority interests to be represented; most mutual banks increased voting proxies, albeit in differing degrees.

Further steps can be taken. As provided for by the Civil Code, mutual banks can reserve to particular categories of shareholders (for example, mutual investment funds) one or more Board director positions. For some banks which adopt the list voting system, the number of candidates who can be elected by minority shareholders can be further increased and, preferably, be linked to the results achieved in the shareholders’ meeting. The quorums for the presentation of lists and for valid voting can be reduced.

Mechanisms to allow minority shareholders to be represented, as alternatives to a list voting system, are appropriate for intermediaries operating in particular local areas; the list voting system must be gradually extended to other unlisted mutual banks. There is further significant scope, in compliance with statutory regulation, to extend voting proxies. Video conferencing must be further extended to shareholders’ meetings of mutual banks whose shareholders are particularly numerous and live in a number of distant locations.

There is no prejudice to the fact that, in any case, the list with the broadest support must be able to enjoy a solid majority in the strategic supervisory body, in order to guarantee a single management approach.

The governance revision through self-regulation has achieved – and may still achieve – significant improvements. However, there is still a need for broader legislative reform, as proven by numerous draft laws submitted to the Parliament by a number of parties, including during this Government.

The current stringent limits on shareholdings, also by institutional entities, no longer seem to be consistent with the situation that has emerged from the merger processes. The raising of these limits, which should occur based on duly flexible governing documents and taking account of the ownership structure of each bank, would reduce any restrictions – previously mentioned – on sourcing risk capital, in line with the International Monetary Fund’s guidelines. Greater investments in capital must correspond to an adequate representation in corporate bodies, especially for those categories of investors who stimulate and control management’s activities.

The endorsement of Directive 2007/36/EC on shareholders’ rights entailed the exclusion of co-operatives from the scope of all the innovations introduced in the Consolidated Law on Finance regarding not only voting proxies but also meeting convening, pre-meeting disclosure, rights to speak and vote at meetings, and disclosure to the public. The regulatory gap between mutual
banks and other listed companies will increase rather than reduce. In an open and competitive equity market, negative market assessment on the quality of the laws protecting investors can translate into a competitive disadvantage.

The envisaged delegation of legislative powers should be used to take corrective action. It will be necessary that the protection levels provided to shareholders of listed mutual banks are not lower than those introduced for investors in other listed companies; it will be necessary to identify solutions to encourage the effective participation of shareholders in the bank’s life, without opening the way to indiscriminate proxy solicitation.

6. Mutual banks in the savings sector

The mutual banks’ ability to create value from their local relations and to offer competitive services to customers will also be measured in the savings segment, where the role of the network system typical of co-operative banks must be better defined.

Mutual banks operate in the collective asset management sector both through their own management companies and through consortia. In December 2010, total open-ended mutual funds managed by subsidiaries of co-operative banks totalled around 67 billion euro – a 15.7% market share. Mutual banks are medium-sized in terms of structures and assets under management. They are in an intermediate category between the largest groups and numerous small asset management companies, which are largely independent and operate in alternative sectors (closed-end real estate and equity funds).

The mutual banks’ asset management companies are affected by the well-known problems of the Italian savings industry, i.e. a traditional product range that has limited appeal (products lacking in innovation which tend to passively seek to replicate benchmarks), the strong link with group distribution networks and limited economic and strategic independence in regard to the groups they belong to.

These weaknesses have been worsened by the crisis which, by constraining volumes, has intensified the problems of profitability and efficiency in savings management, with a greater impact on medium-sized entities with no particular differentiation in terms of their product range. In addition, we may note increasingly marked competition from large foreign management groups which may be further increased in the future following the endorsement of the UCITS IV Directive and the introduction of the European passport.

It seems necessary for mutual banks to make a clear and coherent change to their sector strategies, deciding whether to keep product creation in-house
– making the necessary investments to increase quality and their level of competitiveness – or to focus on distribution, thus maximising the advantages from their widespread local presence. In this context, an essential aspect is the choice of the most suitable means to create value from consortia initiatives in the sector.

7. Conclusions

The co-operative credit system is a strength of the Italian banking system; it has so far proven to be a valuable resource for the country’s economic development. Within this system, mutual banks are an important element in terms of volumes, local penetration and market support.

The crisis which has hit international financial markets in the last two years has shown that the Italian banking system is generally stable, both due to a set of less indulgent rules and more incisive supervision compared to other countries, and to operations which are usually far from the riskier business models that were at the origin of the crisis.

The new regulatory scenario, which is emerging in light of the recent Basel Committee’s proposals, will require banks to raise the quality of capital for supervisory purposes, to keep financial leveraging at a limited level, and to pay more attention to the management of liquidity risk. The Bank of Italy is aware that some aspects of the proposal on capital and liquidity could have a significant impact for Italian banks, including mutual banks. Therefore we are working to calibrate the regulatory requirements to the specific nature of the Italian system.

The adjustment to the new rules will be gradual. Nonetheless, it is essential for banks to immediately strengthen their core capital through all the operational levers available. It is necessary to improve the control of risks, especially those linked to lending. The low growth rate at which the Italian economy is emerging from the crisis makes this need more pressing. This is true in particular for co-operative banks which have seen their loan portfolio grow in recent years at very sustained rates. They now have to enhance their risk management and governance in order to continue to support the economic and social parties that they reflect.
Part two

The Italian, European and international scenarios
Ladies and Gentleman, Dear Executives of Mutual Banks and Dear Friends.

It is a great honour for me to be with you today and have the privilege of taking the floor in a conference that I am following with great attention.

The financial crisis we are facing is shaking our economy, as the President of the United States recently said. The collapse of Bear Stearns, Lehman Brothers, and Washington Mutual has sparked a storm that has affected Europe, with Fortis and Dexia being the first casualties.

Let us examine what is happening in the United Kingdom: dismissals, mega-mergers, emergency bail-out plans; struggling Building Societies such as Bradford & Bingley, as well as institutions such as HBOS and HSBC; the Royal Bank of Scotland all but nationalised; unfortunately, the list is long.

Financial crisis up to 15 September 2008, liquidity crisis after Lehman’s collapse, and then, economic crisis. The outlook is very pessimistic, and risks are building up. Those who knew have not taken any action; those who knew did not realise the seriousness of this crisis.

I have not come to Sicily to bring bad news, but the financial crisis we are going through today will probably lead to a complete overhaul of the financial system. Requests for more regulation are mounting, and there is increasing pressure for more effective supervision. The agenda to be discussed at the G20 meeting to be held in London on 2 April 2009 is particularly burdensome, but what counts are facts, not only intentions.

Are we better “equipped” than our competitors? Do we have specific

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peculiarities that protect us? Can the co-operative banking model survive this crisis? These are questions to be raised and answered without any taboos.

Co-operative banks are “stable and strong” for the following reasons:
- capital structure;
- credit quality;
- management quality.

1. Capital

It is acknowledged that co-operative banks do have, generally, more own funds than the so-called “commercial” banks. This is no small advantage at a time of crisis. But we should stay “alert”, as regulators will surely require credit institutions to bolster their own funds through capital increases. This will be a challenge for co-operative banks in Europe and for banks in general. As a matter of fact, we will have to prove capable of persuading private investors that subscribing for bonds – securities issued to bolster banks – is in their own interest. This potential crowding-out effect should not be underestimated.

2. Risks

The deep knowledge of the local economic fabric is crucial to the assessment of the investment risk. The 4,200 European co-operative banks have a strong presence, with their 60,000 branches. Mutual banks in Italy thoroughly know the areas they operate in and their customers, especially small and medium companies. As a side note, it should be remembered that nowadays, in the midst of the financial storm, co-operative banks support their customers, the SMEs, regardless of their size and business.

Finally, being co-operative banks, they pay particular attention the financial education of their customers/Members in order to avoid any risk of over-indebtedness.

3. Management

The third characteristic of co-operative banks is the quality of their management.

Management’s competence and personnel’s professionalism contribute to the good performance of the bank. We constantly commit to training our
staff, because we reckon that human capital, i.e. the personnel, is one of our best assets, and I know that you agree with this statement.

Another strength of co-operative banks is their long-term vision. Management is not short-term. The pressure on the part of our Member, the owners, is not for us to seek immediate profit; they do not require us to take excessive risks to maximise profitability.

Risk and profitability are two characteristics of joint-stock companies. Higher returns cannot be earned without taking higher risks. And in this case, risks are more likely to materialise.

A co-operative bank operates under the control of its Members, who share the same values of solidarity and mutual aid, and who have accepted to pool their resources in order to allow everyone to realise their projects.

Therefore, co-operative banks are not subject to the pressure of financial markets. There is no speculative fever.

However, profitability is a necessary condition to provide our Members and customers with a high value-added service, as well as to maintain a strong presence.

Some time ago, this atypical position or situation of co-operative banks raised some problems for the European Commission and, in particular, for antitrust authorities. I cannot ignore that for months co-operative banks have been investigated to make sure that they were not distorting competition.

The media covered such investigations by making the public believe that co-operative banks benefit from privileges that distort competition. It would have been more legitimate to emphasise the role of co-operative banks in strengthening social cohesion, in supporting artisans and SMEs, and in creating employment in depressed areas. On the contrary, we have been persecuted, because suspected to alter the proper functioning of the banking market in Europe.

Prior to the crisis, the current European Commission had but one belief and one banking model. The belief was simple: more competition between increasingly large actors is necessary, in order to push the price of banking products and services down.

Pushing for the consolidation of the banking industry so that actors are capable of playing in the “Champions League”, as EU Commissioner Charlie McCreevy said, implies a different regulatory framework to the detriment of small and medium banks such as co-operative banks.

But the wind has changed. The “too big to fail” principle has been proved wrong by facts. Let us consider Royal Bank of Scotland, Fortis, Ing, and other intermediaries. Everyone has realised the extent of this drift and of the risk associated with the concentration of the banking system, with consequences
in terms of economic and financial stability.

The liberal approach, based on a “leave it to the market” philosophy, is now being replaced by a more dirigiste approach. The principle of self-regulation has prevailed for a long time. Now, a large majority call for more regulation.

Co-operative banks, however, denounce this regulatory activism! We think that first of all it is necessary to fully understand the causes of the crisis, so as not to take the wrong measures at the wrong time.

Most co-operative banks are not, in principle, in favour of a European banking watchdog. We support strengthening already existing committees, to which more powers should be given. It seems to us that a board of supervisors is the best solution today. A better coordination of national supervisors is to be preferred.

Co-operative banks are not for a two-speed “supervisory system”. A system for the large, cross-border banks, such as Unicredit in Italy, and one for “domestic” banks such as mutual banks and co-operative credit banks.

Finally, we warn against the misuse of state interventions. Is it normal that a partially or totally nationalised bank competes with co-operative banks – which are private – by offering banking products with very attractive returns, knowing that there are underlying public interests?

The European Association of Cooperative Banks I have the privilege of directing in Brussels, and which is your representative, will take action, as it already has in the past, in order to make the European lawmakers consider your peculiarities before deciding and adopting new directives. Failing to acknowledge, to admit, the differences and the plurality in the banking industry would be indecent and wrong.

I take this kind of actions in close cooperation with the executives of Italian mutual banks, which participate very actively in the work we do in Brussels. Their contribution and expertise are crucial to our lobbying actions.

Co-operative banks now have a fantastic opportunity. These are banks that give a sense to their actions and operate according to a simple model, which is that of the deposit bank. They are responsible banks; they are responsible towards their customers as well as their reference area.

Sense, simplicity, responsibility: this is a “model of future”. Co-operative banks “bring future” because their values are universal.

Our specific business model is not “over-aged”, it is not outdated. This model, founded more than one century ago to help the victims of liberalisation, has not experienced any material failure over the course of the twentieth century.

This model of co-operative banks has met the needs of people, artisans,
and entrepreneurs by providing finance in line with their needs.

Co-operative banks’ executives have not committed any excess, have not received any exorbitant bonus, nor have they disastrously managed institutions.

Our governance and participatory democracy, based on the “one-head one-vote” principle, has proved to be effective and limit any abuses.

In this troubled, turbulent, and chaotic period, Italy and Europe have stable, strong banks which are based on ethics and values, and which are socially responsible.

The co-operative model is a “prophetic” model: it puts man, rather than the market, at its core. It is our identity. We shall be proud of it!

As one of the founding fathers of Europe, Jean Monnet, wrote, we shall be neither pessimist nor optimist: we shall be determined.

Determined to defend and promote co-operative banks: this is my mission, my commitment, and I know that we share the same ambition.

Thank you.
THE CO-OPERATIVE FORM AND MUTUAL BANKS. OBSERVATIONS

by Hervé Juvin

The search for a more stable banking and financial system is of paramount importance to recover from the crisis. Governments, regulators and supervisory bodies are committed to a common purpose: developing and managing sustainable banking and financial systems, by controlling their risks and liabilities and by funding projects which can influence the real economy.

Within this framework it is worth highlighting the topical nature of the co-operative banking model and the distinctive features of mutual banks.

1. The co-operative legal form: a stability and security element

The banking and financial crisis is the result of a political crisis. Based on a global, “non-national” approach, far from local communities, the dominant economic model denies the diversity of cultures, of societies and their autonomy – i.e. their being able to independently decide their own destiny.

The opening up of markets has created a weird dependence, generating a sort of “internal colonisation” by financial intermediaries, investment funds, and market products. Only now is Europe starting to pay the price for this approach with the decline of its middle class.

Through the introduction of a single model – i.e. joint-stock companies – capitalism in general and the banking system in particular run a systemic risk similar to the one which lead to the Soviet Union’s collapse.

The diversity of co-operatives lies in their governing document, which

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establishes their identity and fundamental difference with joint-stock companies in terms of financial stability:

- shareholders contributing share capital are not owners enjoying the *usus et abusus* right;
- reserves are undistributable – this helps building and maintaining an intergenerational connection; each member has the right of “usufruct” and helps enhancing the instrument received by making it flourish;
- co-operatives are linked to a local community and to defined and “limited” social and professional backgrounds. The presence of direct or indirect personal interests, the ability to go beyond the confines of one’s own profession or community are limited by way of principle; any action undertaken must be directly useful to the area or community of origin;
- co-operatives are based on participation; minority shareholders of a joint-stock company without representation in the Board can only keep or sell their shares; co-operative members, on the other hand, can make their views heard, put forward petitions or submit candidates. These differences provided for by the governing documents have considerable consequences on the concepts of proximity, local responsibility, collective commitment, etc. Systemic consequences are also important, despite they are less frequently mentioned;
- different interests produce, or should produce, different strategies. Co-operatives are different and represent a beacon of stability for the markets;
- operational decisions and risk management are at least partly decentralised. The reference organisation is a regional bank – this limits risks and avoids excessive concentration;
- constraints, as per law or governing documents, on the remuneration of stakes must guarantee long-term stability. Co-operative banks do not necessarily need to achieve maximum profit targets on invested capital, and can focus on the benefits they really provide to their customers, who are also their members, and to their employees;
- the very structure of the regional bank entails the existence of some basic link between deposits and employment. It is an exacting, protected connection, linked to the community and constraining activities outside it. Co-operative banks know their boundaries and they do not overcome them;
- for customers, as for members, co-operative banks represent a different way to be involved while using banking products and services. This diversity generates comparison and competition between the two models (joint-stock companies and co-operatives) and boosts innovation and progress.
Co-operative banks know their own limits and ponder the benefits for the community in which they are based. The current crisis has made the specific nature of co-operative banks topical, necessary and useful, considering it as an element of stability and prevention of systemic risks. Its particular nature is topical and relevant in a context where boundaries and separation are once again considered as the security and stability elements as they are, and at the same time, as a condition for autonomy.

2. The collective action of mutual banks

Mutual banks are one of those organisations that have contributed to improve the society in which they operate, throughout Europe and beyond (in Morocco, too). Their uniqueness compared to their competitors – i.e. bank incorporated as joint-stock companies – but also to the other co-operative banks, allow them to play their significant role in the medium term. European societies are facing four main challenges:

1. growing power of regions, which varies depending on the different history, culture and level of centralisation – very marked in Italy, Spain, Great Britain, etc.;
2. impoverishment of the middle class, due to public debt, payment of interest on debt and persistently low interest rates which no longer favour cash savings;
3. new industrial revolution caused by the scarcity of natural resources and the stress of surviving – a revolution that must be organised, financed and promoted;
4. tailoring of approaches aimed at creating wealth, wellbeing and welfare services and insufficient collective intermediation to provide reference parameters and simple, robust and coherent facilities aimed at helping individuals, households, businesses and the community make proper choices.

This challenge concerns the internal unity of societies in light of their global interest. Mutual banks are one of the places where individual and collective spheres meet: deposits become the loans provided to the community from which they come and the regional and local savings finance local and regional economy. Within this framework three points need to be examined:

1. a bank of business people and project managers: the mutual bank’s mission is to finance the forthcoming industrial revolution – a prerequisite for the economic development of the community, the related quality of
life and thus its real performance; it makes a useful contribution to satisfying the needs of its members;

2. a bank consisting of those who decide at a regional level: the mutual bank’s mission is to consider its customers – private individuals, professionals or businesses – as decision-makers who can choose, manage and judge what will be increasingly less available from public systems; mutual banks act as an intermediary of collective progress and individual advancement of their stakeholders;

3. a bank in connection to the local community: mutual banks – through their economic initiatives – are one of the key players in rebuilding the link between the individual and the community spheres.

Real business, real co-operative, the particular nature of the mutual bank lies in providing the opportunity to act to all economic parties who, at all levels and in all conditions, find themselves in a disadvantaged position.

In this regard, besides the contribution to the stability of the banking and financial system and their basic economic function, mutual banks have a reason to exist and promote projects. Indeed, they “put together” separate spheres, give a sense to the lending business and reconcile the banking and financial economy with the real economy and society through their products and services which are perceived to be more useful.
Note about the following part

Here below are some abstracts of the reports presented at the annual conferences¹ of ICBPI and ANBP and edited by Mr Paolo Baroli and Mr Andrea Matiz. These abstracts were not reviewed by the authors of the reports who are therefore not liable for any error or omission. They consist of contributions from leading Italian and foreign names from the world of mutual banks. The unabridged and original version of the documents is included in the conference proceedings, which are published by Franco Angeli, edited by Mr Quadrio Curzio and cited in the relevant notes.

The purpose of these abstracts is twofold:
1. show appreciation to the conference participants;
2. highlight the constant attention paid by Italian mutual banks to the European and international scenario.

The analysis of the Italian scenario starts from three premises of a historical nature:

1. many cases have shown that the excessive application of the “originate to distribute” model to the management of credit risk has generated serious consequences for business;

2. mutual banks represent a stabilising factor thanks to their distinctive feature (co-operation) which enables better knowledge of small business customers and their related creditworthiness;

3. Intrinsic topicality in the co-operative banking model for SMEs (small and medium enterprises) and households “explains its widespread international presence and the firm fight against past attempts overturning legislation on mutual banks”.

In a macroeconomic environment characterised by the crisis of international finance – which is exacerbating the recession – it seems clear that Italian credit intermediaries have been affected to a lesser extent by unfavourable circumstances since they are not generally inclined to undertake structured finance transactions and they largely operate as retail banks broadly based on deposits. Furthermore, the inherent fragility of the supervisory system and international accounting rules is also noted by the ANBP Chairman.

The awakening from a world of stability and certainty was nothing if not rude. It coincided with the will and need to take into account the concept of sustainable debt in relation to assets (with due safeguards) and with the need to recognise the importance of the business model relevant to mutual banks: retail banks characterised by a long-term relationship with customers.

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1 Le banche popolari cooperative. Profili italiani ed europei (2009), Franco Angeli, pp. 30-44.
2 Chairman of ANBP.
Based on three studies by the International Monetary Fund published in 2007 to 2008, the author highlights the significant and rising weight of banking co-operatives on the national market and their role in the financial and economic system («they nurture long-term relationships with households, from which they take deposits, and with small and medium size enterprises, to which they allocate most of their loans to the business system»). They are also anti-cyclical therefore contributing to the stability of the macroeconomic scenario.

Democratic governance, retail lending and close relations with the local community ("proximity") are the essential identifying features of mutual banks. They allocate funds not only to their members but to the much wider audience of stakeholders, they comply with the principle of subsidiarity, are local in nature and act as "community banks" that can also provide a "collective dividend" in the form of "social goods".

Mr Fratta Pasini then mentions the governance reform proposals and reiterates the absolute need not to tamper with the key features of the legislation currently in force in Italy.

Moving on to analyze the trend of the Italian mutual lending system over the last decade, the author describes finally, and extensively, the parallel success of SMEs and mutual banks, which is a typical element of the Italian economy.

The report emphasises the parallel, in terms of structure and numbers, between small businesses and mutual banks and specifies some strengths of the segment intermediaries that can be summarised as follows:

- local banks contribute to create social cohesion;
- on loans not exceeding 1 million euro interest rates applied are on average 20 bp lower than the average for Italian banks;
- there is no, and there will be no, decrease in lending activities to business customers facing temporary difficulties due to tough economic times;
- in general, as also recognised by the European Commission, co-operative banks have a better knowledge of the world of SMEs due to their inherent features, local presence, ability to build personal relationships and attitude to "taking on risks which other banks tend to refuse".

The analysis concludes by asserting the notable dynamism and good efficiency of mutual banks which, also thanks to traditional lending systems, have improved their standing on the domestic market. The model, with a long history, contains all the prerequisites to also enjoy a long future. This will

3 See p. 34.
happen if mutual banks maintain their vital local mission and firmly support the small and medium size enterprises deserving their trust.
MUTUAL BANKS AND THE BPCE CO-OPERATIVE BANKING GROUP IN FRANCE

Yves de la Porte du Theil

Abstract

In the face of the current crisis the advantages held by co-operative banks can be summarised as follows:
- “excess” of markets vs. “well balanced” principles of co-operatives;
- co-operative banks contribute to financial stability;
- co-operative banks are sound;
- consensus and decision-making ability: main results of the co-operative organisations;
- sharp focus on the current Basel and CEBS consultations on equity instruments and liquidity.

The new French co-operative banking group (BPCE, Banque Populaire et Caisse d’Epargne) is a strong central body serving networks and subsidiaries, with a simplified corporate governance structure and a clear organisation of the group and branches. Its enhanced supervisory and control role allows the creation of a multi-business co-operative network and multi-brand banking group targeting households, business and institutions through three core business segments:
1. retail banking services;
2. corporate and investment banking, asset management;
3. financial services, property assets;

2 General Manager of the French BPCE group.

BPCE (http://www.bpce.fr/en/the-group/group-profile) was established in 2009 from the merger of Caisses d’épargne and Banque fédérale des Banques populaires. It is the common central body, while the two brands continue to exist. BPCE is the second largest French bank and, through its subsidiaries, it provides banking and financial services as well as property lending to almost 40 million customers.
- Retail Banking services: two complementary co-operative networks which provide retail banking and insurance services, with an organisation that is close to its customers and can boast successful brands: Banque Populaire and Caisse d’Epargne. Retail banking services generate 63% of net banking income and 55% of risk weighted assets;

- Corporate and investment banking, asset management and financial services: Natixis, refocusing its three main activities, closely cooperates with the networks of Banque Populaire and Caisse d’Epargne. Its services include corporate and investment banking services; investment solutions (asset management, private banking, and insurance) and, finally, specialist financial services. It generates 26% of net banking income and 33% of risk weighted assets;

- Real Estate: an important player in property lending, development and management, real estate services with Crédit Foncier, Foncia, and Nexity. It generates 11% of net banking income and 12% of risk weighted assets.

The BPCE group therefore operates through its two main brands, Banque Populaire and Caisse d’Epargne, which are strongly positioned in complementary areas on the French market. As a matter of fact, Banque Populaire is no. 1 in the French SME market with 37% market penetration and second in the French market targeting professionals with 17% market penetration. At the same time Caisse d’Epargne is second on the French market with 18% penetration of the household savings market and third for home mortgages with a 15% market share. In addition, it is second in relation to local authorities with a 26% market share. These two brands are supported by a range of complementary brands including Crédit Maritime, Société Marseillaise de Crédit, Banque Chaix, Crédit commercial du Sud Ouest, Banque de Savoie, banking institutions in the Océor network, and Banque Palatine.

BPCE is therefore a new central body with prerogatives enhanced by French law. It serves the networks of Banques Populaires and Caisses d’Epargne as well as of other affiliates (including Natixis). Its aims are:

- establishment of strategic policies and guidance;
- coordination of the network commercial policy also in terms of liquidity and capital adequacy requirements of the Group and its networks;
- principles and conditions of the internal control organisation;
- policies, constraints and principles for risk management;
- management of holdings;
- relations with regulatory authorities;
- as an employer, support of common rights and interests;
- approval of institutions that are statutorily affiliated;
- approval of senior management of subsidiaries.
MUTUAL BANKS AND
THE DZ BANK GROUP IN GERMANY

Wolfgang Kirsch

Abstract

The German banking system is based on three competing pillars: private, co-operative and public banks. These three parties have handled and reacted to the crisis in different ways. As a matter of fact, during the financial crisis, the German Government provided financial support of over 260 billion euro – approximately 150 billion to private banks and over 110 billion to public banks – in order to bring stability to the banking system.

Conversely, co-operative banks, sticking to the principle of helping those who help themselves, have managed to overcome the crisis without any Government support and without losses on bad debt.

These differences are also reflected in the consolidation of the German banking market. The private sector has been experiencing a growing integration for several years, while the consolidation in the public sector has not occurred yet despite a lengthy debate.

The co-operative financial sector, has conversely, made great progress in terms of integration. For instance, DZ BANK is the result of a series of mergers undertaken since 1970.

Today, the co-operative sector faces three challenges due to the dynamic and highly competitive context in which we live:


2 CEO of DZ Bank AG.

The DZ BANK Group was established in 2001 following the merger of GZ-Bank and DG Bank. It is one of the largest private German organisations operating in the financial sector. DZ Bank operates both as a central institution and as a co-operative and investment bank.

1. The impact of the financial crisis – among the consequences of the crisis is the increasing aversion of private customers to larger banks and their moving towards those they feel closer. For this reason, relations with local banks are regaining importance, since customers mainly seek greater simplicity and transparency in banking products and are moving from speculative to safer investment.

2. Demographic developments and the change in social values – the constant increase in life expectancy entails that supplementary pensions have become the main reason for savings. In addition, due to the demographic change, the over-50 target group is becoming increasingly important. For banks this means first of all a lower level of customer loyalty and a change in behaviour on the part of customers. This is reflected above all in unstable consumption, with an increasing number of banking relations per individual household, the parallel use of direct banks and banks which offer premium products and the demand for easy-to-understand consulting services and transparent products.

3. The adjustment of business models – the aforementioned factors entail a resetting or adjustment of banks’ business models since they are no longer sustainable in the long term.

The DZ Bank Group, within its organization, has decided to address these three challenges and make its priority managing existing customers rather than acquiring new ones. Loyalty and continuity are therefore the keywords which underpin our activities.

History shows that some aspects are common to long-standing businesses: they always react flexibly to the operational context; employees and customers share a common vision of the future and a sense of identity and every action is mainly driven by prudent financial management. These are the values on which we intend to rely also in the future.

The positive results of this decision are clear. The DZ BANK Group operates in the following three business areas: a) Retail Banking, b) Transaction Banking and c) Corporate e Investment Banking. Its main tasks are the development of banking and insurance products, offering products for the equity market and the securities settlement and transactions for local co-operative banks. In Germany the co-operative financial network is number one in the segment of equity-backed securities (AKZENT Invest), household savings (Schwäbisch Hall), payments (Equens), securities settlement (DWP BANK) and equities research (DZ BANK). It is also one of the top three players in the segments of life insurance (R + V), leasing (VR Leasing), investment fun-
ds (Union Investment) and consumer credit (Team! Bank). During the 2009 financial crisis, the DZ BANK Group recorded solid results and returned to profit after the losses incurred in the previous year. Thanks to the positive operating performance of the DZ BANK Group and of DZ BANK AG and to the co-operation with co-operative banks, the net result under IFRS totalled 836 million euro.

In line with the motto “network first”, the Group’s strategic focus remains on co-operative banks and their customers. They intend to strengthen net assets and profits for greater capitalisation, thus paving the way for sustainable growth in the core business. The possibilities for further cost containment initiatives are not yet exhausted; in fact considerable economies of scale can be achieved by cooperating on the financial network. Another important area is the reduction of complementary activities that are outside the financial network, such as structured loans, major customers, treasury management or business abroad.
CO-OPERATIVE BANKS:
NATURE AND DEVELOPMENT
OF A DISTINCTIVE ECONOMIC MODEL

Alban D’Amours

Abstract

The economic and financial crisis of recent years is a unique and perhaps unrivalled opportunity for the co-operative model to affirm itself. History teaches us that leaving capitalism behind is unrealistic; reforming it is our responsibility. The challenge is great and the path will be littered with setbacks. Reformism will have to face the problem of conceiving a global economic and social model to integrating the real and financial economy. The different kinds of ownership in capitalism must set the base for a new economic order: the co-operative model acts as a counterbalance towards a new equilibrium. The uniqueness of the co-operative model must be given more space in a market economy characterized by rules for greater morality, fairer trade and healthy competition.

The particular features of the model are attracting ever more attention, since our world is increasingly looking for values. People, citizens, and the average man on the street are moving away from visions based on irresponsibility, greed, ethically dubious behaviour and the tyranny of money over people. They are increasingly attracted by those who promote different, quite opposite values such as co-operatives.


2 President of CIBP and former Chairman of the Caisse Desjardins Group. The Desjardins Group (http://www.desjardins.com/en/a_propos/index.jsp?accueil=apropos) is the largest co-operative credit association in North America. It mainly operates in Québec, Ontario, Manitoba and New Brunswick and consists of 536 local Caisse Desjardins serving 5,800,000 members. The whole system is grouped into 11 regional federations.
Co-operative banks are based on a set of values that are opposite to those set out above. They measure their performance differently. They are modern, free from the tyranny of quarterly reports, belong to owners who use their services, are strongly rooted in their community, and inspire confidence.

Therefore, there is an historic opportunity for the co-operative model as a source of inspiration for those who want more democracy, more human values in doing business, greater consumer protection, greater social cohesion, and broader awareness of the needs of sustainable development.

The scope of the global co-operative system must make us feel confident and reassure us of our ability to play an important role in looking for a new economic order. There are 800 million co-operative members worldwide; the 300 largest co-operatives have cumulative production equal to that of Canada. The solidarity which underpins our united forces and the democracy which makes our governance exemplary are values which dominate our “architecture”.

In order to succeed we must be able to influence political leaders and regulators looking for new regulatory arrangements, so that through the increased presence of the co-operative model greater plurality can be achieved in the continuing efforts to “humanise” capitalism.

The Desjardins group which I represent can boast 110 years of history with over 5.5 million members/users, more than 40,000 employees, 6,500 elected executives, 14% capitalisation and 160 billion Canadian dollars in total assets. It is the largest co-operative financial group in Canada, the 8th in the “Global 300” ACI list, the 26th of the 50 “safest” banks in the world in 2009, and among the best financial intermediaries by rating.

Besides the numbers, Desjardins is an active, pragmatic and daring co-operative considering the reforms made necessary by the unwieldliness of the decision-making process, its limited effectiveness and lack of democracy due to the asymmetry of powers.

Part of the same mission is the desire to contribute to the wellbeing of people and the community within the scope of its business activities and to create better understanding of the economy, independence, solidarity and democracy. Its business is therefore part of an idea of a service which during all these years: has inspired its development; has developed an unparalleled ability to adapt; is the source of all technological and other innovations; has increased solidarity; has become a synonym for proximity and accessibility; has invited people to take part, share and think; and, finally, has put money at the service of people and never the other way round.

This has also been possible due to the fact that its main advantage is in
the very nature of the co-operative model. Thanks to this it has guaranteed a global and lasting performance in order to achieve its mission by meeting the needs of its members; it has managed to combine financial performance and being a co-operative.

All this proves that the co-operative model has all the prerequisites to address the challenge which the current crisis presents us with.
MUTUAL BANKS, BANCOOB AND SICOOB, IN BRAZIL

Marco Aurelio Borges de Almada

Abstract

My report focuses on some macroeconomic indicators in Brazil and on the development of the co-operative system in my country and specifically of the Bancoob and Sicoob system of which I am part.

Brazil is going through a very promising and interesting period in terms of economic development. We have experienced over a decade of stagnation and now, as you can see, we are going through a significant growth stage. For the first time the middle class in Brazil accounts for 52% of the overall population. Up to 10 years ago it was 30%; this means that today around 67% of Brazilians can allow themselves cars, computers, domestic appliances and a whole series of non-food consumer goods which until recently were accessible to less than 40% of the population. For Brazil this is an unprecedented experience. Some of the factors contributing to our development and economic growth are linked to the financial sector, above all in terms of access to credit. For many years Brazil has experienced a very high inflation, and even hyperinflation, between the end of the 1980s and the start of the 1990s. Today, however, all the credit sectors have reached maturity except for mortgages which represent just 6% of GDP – a fairly small figure compared with more developed economies (in Europe and North America).

The co-operative banking system in Brazil consists of 1,370 credit cooperatives, essentially organised in 4 groups: Sicoob; Sicred; Unicred; Anco-

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2 Marco Aurelio Borges de Almada is Chairman of Bancoob, Brazil. Banca Cooperativa del Brasile S/A (Bancoob) - http://www.sicoob.com.br/site/conteudo/sistema_sicoob/bancoob/ (Portuguese version) - is a private commercial bank whose majority stake belongs to SICOOB, the central co-operative credit institution.
There are also around 300 co-operatives that are not part of any co-operative group. The first co-operative was established in 1902 within a German migrant community and from 1902 to 1964 cooperatives flourished, above all in German and Italian communities. Indeed, we have inherited much of the Italian co-operative system. In 1964 the Brazil’s Central Bank was established, which applied a restrictive policy to the financial co-operative system: co-operatives were compulsorily “incorporated” into traditional banks, reducing the number of “pure” co-operatives to a mere few. In the 1960s and 1970s, consequently, the Brazilian co-operative system was almost completely dead. Only in 1980 did the Brazilian authorities restart the process which subsequently enabled the development of the co-operative banking sector to its current levels. The key event was the foundation of the first central co-operative which made it possible to create the first regional group of co-operatives which, subsequently, gave rise to groups on a national scale. The first Central Bank directive on credit co-operatives was issued in 1992, though it had still a very restrictive approach to the co-operative sector. Constraints were imposed in terms of members – essentially limited to rural producers, professionals, and employees of public and private companies, while corporations, retailers and small businesses could not take part in our co-operatives.

In 1995 the Central Bank allowed the creation of real co-operative banks, which were essential in order to develop the broadened sector of co-operatives: in order to be able to provide services to their members, co-operatives were in fact forced to make agreements with banks, but as from 1995 this was made possible directly through co-operative-owned banks. In 2002 the Central Bank allowed small retailers and small businesses to become members of co-operatives and in 2003 we finally gained permission for the free membership. Since then co-operatives, subject to Central Bank authorisation, were open to people and companies.

In 2009 we managed to include in a federal and constitutional law all the regulatory “advances” achieved from 1992 to 2009, with the related regulation allowing co-operatives to organise into groups defined “co-operative systems”. From 2000 onwards the number of members has grown considerably: from 1.5 million to 4 million in the 4 co-operative groups mentioned before and over 500,000 members in independent co-operatives. Therefore, from 2000 onward, the co-operative system in Brazil has experienced a sustained growth in terms of the number of members. Furthermore, this sector is also very young: most Brazilian co-operatives have been operating for 20-25 years, unlike Italy where some co-operatives were established over 100 years ago. In Brazil, among our 1,300 co-operatives, only one was founded 101 years ago – most (I repeat) were set up 20 to 25 years ago.
More generally, Brazilian current stage is not different from that of other developed countries. We have discussed the new Basel III regulations with the Central Bank, raising our and your concerns with regard to various areas. Some challenges relevant to our sector also persist.

A lot has still to be done, in particular concerning the development of mortgages, blocked by four main factors:

1. Legal uncertainty – in Brazil it is very difficult to become owner of a mortgaged property. Recently, new laws have been approved to change this situation, but, since they have only been in force for two or three years, the market must still learn to apply them.
2. Slow legal system – there is much talk of a judiciary reform to resolve this problem.
3. 25 to 30% annual interest rates – very high levels which risk becoming unsustainable for mortgages lasting 25-30 years.
4. Fear of a resurgence of inflation.

Furthermore, the completion of the regulation on co-operative groups’ operations – above all as regards the consolidation of all the cooperatives’ financial statements – and the internal audit processes starting from the Central Bank’s recommendations, which, in their turn, are based on Basel rules, represent the two other major external challenges ahead of us.

Then there are the internal challenges within our banks. We must arrange training for approximately 15,000 employees so that they can work in this new and more complex environment. At the same time we are creating an insurance company for the Sicoob system so as to operate in the simplest branches – such as car and life insurance – which are another way to improve the capitalisation of Bancoob, of which I am Chairman.
CO-OPERATIVE BANKS
AND THE CHINA FINANCIAL CERTIFICATION AUTHORITY (CFCA)¹

Du Benwei²
Abstract

China’s future development, including that of the banking sector, depends on the countryside. China needs to maintain stability in the countryside and to continue to build and enhance this development process at this rhythm. This implies that it is necessary to reduce the main frictions between the countryside and the city; it is necessary to create the conditions for rural economy to develop.

In depressed agricultural areas it is still difficult to develop a new mental attitude, based on modernisation and transformation of agricultural production and the use of agricultural lending facilities. However, despite these challenging issues, an efficient coordination between local and central governments has allowed satisfactory solutions to be achieved: in a context of growing overall demand for agricultural lending, we are trying to instil a new co-operative spirit in the sector by fixing competitive prices, seeking to build a strong community, introducing reforms that liaise between tradition and modernity.

In order to boost such modernisation process and create assembly lines in various sectors, we are making significant investments in small and medium-sized agricultural enterprises. We are also trying to transfer the value of modern co-operation to the countryside by focusing on innovation. Since there are still numerous differences between the city and the countryside in China,


² Chairman of the Liaoning Rural Credit Union and Deputy Chairman of Chinese Banks. Liaoning Rural Credit Union (LNRCU) is the main financial cooperative player in the Liaoning region.
we are promoting the production of local Chinese goods having a registered designation of origin, and creating a market for female employment as well as developing a mental attitude willing to seek bank loans in its various forms. That is not all: throughout China we are trying to coordinate the various services linked to bonds/shares, information management, and lending in many areas of China.

In terms of the number of services and their quality, we are trying to lower the risks and provide new products: only in this way confidence can be re-established in the countryside and total coverage of lending services in rural China can be achieved.

Currently, the overall Chinese co-operative banking system accounts for 34.4% of all branches in the country, with around 73,000 employees. A database including information on each of the approximately 100 million farmers has been set up. In addition, since 75% of our companies are small and medium-sized, they play a very active role in terms of creating employment and demand, and they need to enhance their production cycle and meet their financing needs. The 349 Chinese agricultural banks have sought to find a new level of accountability to address an ever-changing situation. Furthermore coordination has been implemented between organisations, the CFCA and central bodies in such a way that, at a global level, a systematic guidance on agricultural lending for both traditional and new instruments is provided.

Likewise, we also have to face external problems. Last year, due to excessive inflation and other contingent risks, we asked the central Government to reduce the minimum level of initial capitalisation; we have kept entry levels low for farmers wishing to access credit.

We are trying to support the national strategy aiming at encouraging agricultural lending. In line with this we are also managing to make current instruments more efficient and broader. As for the international scenario, co-operation with European colleagues is taken into account in order to develop financial co-operation between the Chinese countryside, banks and the European agricultural system. We are paying close attention to this kind of strategic co-operation. We welcome it and try to attract new investment through our reforms.
CO-OPERATIVE BANKS IN INDIA

Bhima Subrahmanyam

Abstract

The Indian co-operative system is the largest in the world in terms of members: 30 million, i.e. 71% of households in the countryside. Different levels of co-operation exist in India – at state, district, and central Government level.

The first law on co-operatives, the “Co-operative Credit Societies Act”, was issued in 1904 in order to set up credit co-operatives. In 1912 another law was passed to facilitate the organisation of those already operating and give them legal status. The 1919 law on co-operatives transferred the primary responsibility for and supervision over co-operatives to regional governments, but it was only in 1942 that a law was passed on multi-unit co-operative societies – to encourage the establishment, management and operation of co-operatives, whose business scope goes beyond the borders of a single state.

In 1984 this law was replaced by another and then by another again in 2002 in order to facilitate the voluntary creation and democratic operation of co-operatives as institutions consisting of individuals. Subsequently some amendments were passed to limit the 2002 law. In 2010 a draft law was submitted to the Parliament to change this regulation, specifically aiming at making managers of co-operatives more responsible towards the members, through the adoption of some compulsory measures. This draft law also put forward the adoption of measures to make co-operatives more self-sufficient,


2 Managing Director of the National Federation of State Co-operative Banks (http://www.nafscob.org/about_f.htm). The National Federation of State Co-operative Banks of India was founded in 1964 in order to facilitate the operations of national co-operative banks.
democratic, professional, efficient and transparent. In consideration of the need to reform various state laws on co-operatives, changes to the Constitution must be made so as to protect co-operatives from pointless external interference, and to guarantee their autonomous organisational set-up and democratic structure.

For this reason the draft constitutional law no. 111 of 2009 was discussed by the Indian Parliament.

The institutional rural lending system includes co-operative short or long-term lending, banking institutions, commercial banks, rural and regional banks, the National Bank for Agriculture and Development and, of course, the Reserve Bank of India. The system of rural co-operative branches includes commercial banks, urban co-operative banks and urban credit co-operatives. The structure of co-operative banks includes both rural co-operatives and banks and urban co-operative banks.

24 of the 31 state co-operative banks hold a licence; 16 of these are registered at the Reserve Bank of India. On the other hand, 208 of the 372 District Co-operative Banks hold a licence but none of them is registered at the Reserve Bank of India. 70% of district banks are run by democratically elected management. Similarly, 75% of Primary Agricultural Credit Societies are managed by democratically elected management. In 2009 the Financial Assessment Committee stressed the need to draw up a program to ensure that only banks holding a licence operate in the co-operative sector. Such Committee also recommended the adoption of a road map aiming at blocking all business for lenders which do not acquire a licence by the end of 2012. This recommendation aims to accelerate the consolidation process and to eliminate the dead wood in the co-operative sector.

State and district co-operative banks are required to maintain a reserve ratio not exceeding 3% if they are unregistered banks and 6% if they are registered banks (performance indicators). In 2008-2009 the social capital paid by the Government in terms of comprehensive crop insurance scheme was approximately 40%, but only 11% were State banks, 22% were district banks and 9% primary agriculture credit societies. This trend seems to be continuing despite a memorandum of understanding signed by the Government which prescribes that the capital paid must be 25% in terms of comprehensive crop insurance scheme, in order to guarantee co-operatives autonomy.

Let us move on to the prudential provisions: some, such as for example
income recognition, asset classification and provisioning, have been made compulsory for rural co-operative banks, before any recapitalisation. The capital adequacy laws have not been made obligatory for those banks. Nonetheless, it has been recommended that the capital to risk asset ratio be applied to co-operatives initially with a 7% capitalisation, then with 9% in the three subsequent years and 12% in the two following years. Urban co-operative banks, despite their compliance with Basel II (1998) in terms of risk capital requirements, have not implemented capital increase against market risk pursuant to the amendment to the first agreement on capital of 1996.

How did our banks survive the global crisis? It seems in a better shape since India has demonstrated an ability to recover from the recession more speedily thanks to the prudent approach of the Reserve Bank of India in the last two to three years when it advised banks to move cautiously in terms of exposure to sensitive sectors and also thanks to the foresight shown by the Supervisory Authority which managed to see signs of danger well in advance.

The other reasons for our survival are in the added value of co-operatives, their intrinsic role, the support at the central, district and state Government level. The added value of co-operatives and their active role in development-related issues have added value in financial inclusion and social responsibility areas. In addition, the Indian co-operative system has followed the co-operation principles of the co-operatives’ international movement: self-sufficiency, accepting responsibility, democracy, equality, equity and solidarity.

The ethical values are based on honesty, openness, social responsibility and attention to others. Indian co-operative banks can boast over 100 years of history and sufficient experience to support and help new co-operatives in many aspects – from enhancing co-operative integrity to services for members, to the promotion of equal opportunities, management of social alliances, adoption of new technologies, and the introduction of credit supply channels. However, we face issues linked to the challenges of co-operative lending which impact on the areas of the fund management, recovery and human resources. These challenges could require the development of strategies to rebuild trust in co-operative lending, to recapitalise and restructure co-operatives and rediscover their mission.
In Morocco the first mutual banks were created in 1926 but it was only in 1943 that the first legislation on regulation and organisation of banking was passed.

After the country’s independence, since there were no private companies, the Government took control of the Morocco’s economic and financial destiny and although aiming at liberalising the economy, it created public bodies operating in specific economic fields:

- OCE, *Office de Commercialisation et d'Exportation* (Office of Trade and Exports);
- ONEP, *Office National de l’eau potable* (National Office of Drinking Water);
- ONP, *Office National des Pêches* (National Office for Fishing);
- ONT, *Office National des Transports* (National Office for Transport);

At the same time, on the financial front, it created specialist bodies that supported existing private banks in order to boost the country’s economic development. Specifically:

- BNDE: medium/long-term financing of industrial investment projects;
- CIH: loans for the property and hotel sectors;

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2 General Manager of Groupe Banque Populaire du Maroc.

Groupe Banque Populaire du Maroc is a co-operative banking group formed by Banque Centrale Populaire and eleven Banques Populaires Régionales.

http://www.gbp.ma/Presentation/Pages/Visions.aspx (French version)
- Crédit Agricole: loans for agriculture;
- BMCE: loans for foreign trade;
- reform of Groupe Banque Populaire (GBP), Dahir of 2 February 1961;
- development of handicraft business and SMEs.

In recent years, in order to comply with international standards after the Basel II regulations and the adoption of the international financial and reporting standards (IFRS), the Moroccan banking system has been subject to a deregulation and de-specialization process in order to redefine the legislative framework of banking regulations within the reorganization of public banks, subject to compliance with all the monetary and prudential rules – as for intermediaries in the private sector.

This has generated the current scenario which consists of three types of institutions:
1. traditional deposit banks: 8 in total, 3 of which are major banks which represent over 2/3 of bank deposits and distribute over 61% of loans to the economy: GBP, ATTIJARI WAFABANK and BMCE;
2. the traditional financial organisations that specialize in financing the private individuals’ activities: CIH and CAM;
3. other banks with a specific mission: Bank Al Amal, FEC, etc.
4. GBP has a particular structure and is headed by an Executive Committee. This is the Group’s management body and is composed of 5 representatives of regional banks and 5 of Banque Centrale Populaire. It has specific competence in:

- defining the GBP’s general guidelines;
- providing administrative, technical and financial control over the Group’s organisation and management;
- organising the Group’s solidarity and cohesion;
- collectively representing GBP’s bodies;
- defining and controlling GBP’s common operating rules;
- proposing to the Ministry of Finance the establishment and development of BPRs (Banques Populaires Régionales, regional mutual banks) through mergers and acquisitions;
- approving the internal regulations issued by GBP’s bodies and any relevant amendment;
- managing funds supporting GBP.

Second in importance is Banque Centrale Populaire, which is a credit in-
stitution organised in the form of a corporation with fixed capital that is at least 51% held by the regional mutual banks and by the State. It is managed by a Board of Directors. BCP is qualified to undertake all banking transactions (deposits, lending to big companies, financial packages, market transactions, etc.). There is also the BPR’s central banking body charged with:

- settling the transactions of GBP’s banks;
- centralising all reports to BAM, administration and professional bodies;
- preparing the Group’s consolidated financial statements;
- managing, in accordance with the rules established by the Executive Committee, the BCP-BPR financial dealings (treasury management, IT services and support funds);
- planning and introducing innovation concerning financial issues and assistance and creation of significant financial packages.

In addition to the central body, there are 11 regional mutual banks with variable capital held almost in its entirety by the 477,000 customer-members.

Main strategic guidelines (2010-2012 development plan):
- strengthening the banking hub in Casablanca created from the merger of BCP and BP Casablanca (the market share will rise from 11% to over 20%) and developing the region’s co-operative bank (market share between 30% and 65%);
- consolidating the Group leadership in retail banking, especially as far as deposits are concerned;
- developing the Group’s positioning on the market;
- pursuing external growth with a 25% market share target to be achieved by the Group’s subsidiaries;
- focusing on front-offices and optimising the management of back-offices (offshore prospects);
- enhancing the Bank’s mission of serving citizens.
Mutual banks between solidarity and development

Alberto Quadrio Curzio
Editor

with the essays of
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