

Influence of integration processes on transformation of cooperative banking sector in Europe

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Abstract

The goal of this elaboration is to determine extent of influence of integration processes on transformation of cooperative banking sector in European Union. Comparative analysis in this regard is limited to the greatest and the oldest cooperative groups, that designate paths of development of cooperative banking sector and as well are models for transforming cooperative banking sectors in new EU membership countries. Time range of the analysis covers years 2000-2004.

Key words: cooperative bank sector; consolidation processes; financial market; cooperative group; fusions and seizures.

1. Introduction

Integration processes are among the most essential factors of changes in social, economic and political structures of contemporary Europe. Still, those processes occur yet with different intensity and results. Also, European integration processes cover banking system and entire market of financial services. Their influence on adjustments and changes in banking system is carried out by means of legislative and market sphere.

The Communication of the Commission of the European Communities from 11 May 1999 on “Implementing the Framework for Financial Markets: Action Plan” included various goals to be reached in order to complete internal market of financial services. The bases of EU common financial market functioning are currently legislative acts, as directives enacted by the European Parliament and of the Council on 14 June 2006: 2006/49/EC on the capital adequacy of investment firms and credit institutions and 2006/49/EC on the capital adequacy of investment firms and credit institutions. It should be noted that the acts aim at unification in the field of financial market and banking sector.

The transformations in cooperative banking are the results of three fundamental processes:

- adapting to requirements controlling the UE,
- growth of competition and fast technological progress in banking,
- integrating the cooperative banking sector with international banking system.

The process of financial market globalization is firmly connected with integration that is with the process of “pouring together” domestic financial markets into a global market [5]. Capital and organizational consolidation as well as fusions and domestic or supranational

takeovers are essential elements of the globalization. Consequently, it should be mentioned that banks have to take into consideration not only the state or preventive supervision agencies as market regulators but also huge capital groups [6]. The influence of these integrational interactions on cooperative banking transformations showed mostly the acceleration of consolidation processes in the sector. We can identify two independent, firmly connected trends of consolidation processes:

- 1) joining processes (fusions and takeovers) of cooperative banks which are the examples of capital consolidation,
- 2) organizational consolidation processes of the whole cooperative banking sector on a national scale.

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2. Description of cooperative banking sectors in EU on the aspect of globalization and consolidation processes

In United Europe countries, cooperative banks act in the form of associations or bank groups in the confines of two or three level organizational structure. The growth in competitiveness on the bank service market as well as increasing needs of clients have made cooperative banks associate in regional and national structures. Such an organizational form results from characteristic features of this sector that is small bank subsidiaries that are incapable of providing financial services [4].

Globalizational tendencies in the economy cause that in the majority of banking systems in the European Union consolidating process are intensifying at a local and regional level [1]. As a result of the consolidating processes the decrease in the number of banks and their subsidiaries is observed but the thick chain of posts is a strong point of these organizations [2]. Furthermore, as a result of fusions and takeovers the size of cooperative banks is increasing and their capital or assets. The strong points of cooperative banks in Western Europe are taking care of quality and innovativeness of provided services as well as offered bank products.

The biggest cooperative banking groups in Europe such as: Credit Auricle, Raiffeisen Bank, Rabobank Nederland, DZ Bank and other having been associated since 1977 in the organization named Unico Banking Group (table 1). These groups are not only consisted of cooperative banks and associated banks but also of insurance and leasing institutions, mortgage factoring banks, investing funds, brokerage houses, consulting firms etc. Such development of a cooperative sector is characteristic for all of these groups that is why it is supposed that the development of a cooperative banking sector in Poland should aim at the same direction.

Currently, the cooperative groups in European Union countries are:

- 44 million shareholders
- 126 million customers,
- 674 thousand employed,
- 59 thousand posts,
- 3,7 billion euro assets,
- around 20% share in the banking market.

Almost all big cooperative banking groups in Europe have started their activity with agriculture and rural areas servicing as well as minor trade and craft. They are still the major bank organizations acting in this field of economy [3]. The broadening of their activity into the other fields of financial services was connected to strengthening their economic and market position. Currently, cooperative banks are becoming common and universal banks. They offer to their customers a rich and various package of financial services, however, unavailable services are transferred to associated banks.

Table 1

The biggest cooperative groups in European Union countries
(according to state on the end of 2004)

Cooperative banking group	Regional /local banks	Other bank agency	Number of staff (thousand)	Shareholder (mln)	Number of customers (mln)
Credit Agricole/ France	43	9.057	135,5	5,5	21
Banco Cooperativo Español/ Spain	74	4.100	14,5	1,4	7,5
Austrian Raiffeisen Banking Group/ Austria	581	1.712	39,2	1,7	2,7
ICCREA Banca Spa/ Italy	339	3.478	26,2	-	4
Rabobank Group/ the Netherlands	288	1.587	57,1	0,8	9
DZ Bank and BVR/ Germany	1.335	14.554	189,7	15,1	30
OKO Bank /Finland	241	677	9,1	1,0	3,1
Cooperative banking sector in Poland	596	2.789	27,6	2,6	10

Source: Financial report of Unico Banking Group, www.unico.nl, 2004 and analytic data of NBP, Warsaw 2005.

In European Union countries, cooperative banks successfully compete with commercial banks on the financial markets not only at a local level but also, as a member of cooperative group at a regional or domestic level. Some of the biggest cooperative groups transformed into international financial institutions and are highly placed among worldwide banking institutions.

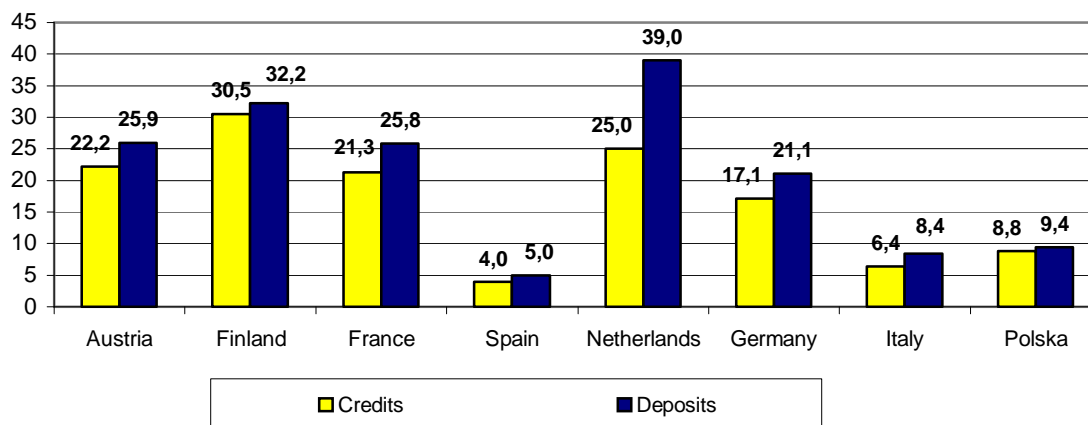
Cooperative banking sector is highly developed in the Netherlands, France and Germany. German cooperative banking serves 30 million clients, in France only Credit Agricole Group itself owns 22 millions of clients and the other two groups (Credit Mutuel i Banques Populaires) serve 20 millions clients. Yet, Dutch Raboabnk Nederland Group serves 9 millions clients. Among the new membership countries, cooperative banking sector is the most developed in Poland (it is constituted of 3 cooperative banking groups) and Hungary. Polish cooperative sector covers about 10 millions of clients, whereas in Hungary about 1 million.

The important measure indicating the position of a cooperative banking sector on the financial market is its share in the overall volume of credit and deposit services (graph 1). Among the analyzed European Union countries in 2004, the lowest share in both of these financial market segments had the Spanish and Italian cooperative banking sector. The share of the Polish sector (three cooperative groups) amounted to: 8,8% on the credit market and 9,4% on the deposit market. This share after the decline in 5,5 % in 1998, has started increasing and is a positive phenomenon, especially in terms of growing competition on the banking market and entering foreign capital. It should be added that the biggest share (15%) in credit and deposit market has Hungary among the newly admitted countries to the United Europe. However, in the former European Union fifteen this share was strongly higher than in Poland extending form 17 to 39%. The biggest shares in credit and deposit market have cooperative banking sectors in Holland, Finland and France. As compared to year 2000, a share of cooperative banking groups on the credit services market increased in such countries

as France (2,7%), Italy (1,8%) and Austria (1,1%), in other countries it stayed unchanged. On deposit market, on the other hand, a share of cooperative banks increased in Austria (2,5%), Italy (1,9%) and Finland (1%), in the other countries it revealed results similar to year 2000.

Graph 1

Participation of cooperative bank sector on financial market in 2004 (%)



Source: Financial report of Unico Banking Group, www.unico.nl, 2004 and analytic data of NBP, Warsaw 2005.

In 2000-2004, economic potential of cooperative banks sector in Europe, measured by means of basic balance parameters displayed high nominal dynamics of growth (table 2). Apart from particular exceptions, i.e. decrease in clients deposits in Credit Agricole or decrease in credits and deposits in German cooperative group, in the rest of analyzed sectors there was an increase in all basic balance parameters (table 2). Generally, these data indicate that the greatest cooperative groups in Europe develop and they expand at the same rate. In Poland, in the scope of balance sum, client credits, client deposits and own funds, cooperative banks achieved higher dynamics in the period of researching than private banks. The gap in economic potential between leading cooperative groups in Western Europe and cooperative sector in Poland is huge. Making up for at least a bit this gap requires higher growth dynamism than is noticeable by western European partners.

Table 2

Dynamics of chosen balance parameters in 2000 – 2004 (%)

Specification	Dynamics 2004/2000 (%)				
	Balance sum	Credits for clients	Clients' deposits	Own funds	Total profit
Credit Agricole/ France	170,4	161,5	71,9	177,9	234,0
Banco Cooperativo Español/ Spain	181,0	188,7	166,5	169,6	160,5
Austrian Raiffeisen Banking Group/ Austria	149,2	167,4	208,1	146,9	222,0
ICCREA Banca Spa/ Italy	155,8	175,6	165,9	129,5	92,9
Rabobank Group/ the Netherlands	138,6	141,3	130,9	147,8	208,8
DZ Bank and BVR/ Germany	94,4	75,6	80,7	159,9	200,2
OKO Bank/Finland	141,0	152,7	133,3	169,6	100,0
Cooperative banking sector in Poland	159,2	164,7	158,1	182,1	157,1

Source: Financial report of Unico Banking Group, www.unico.nl, 2004 and analytic data of NBP, Warsaw 2005.

The effect of consolidation processes in cooperative banking in researched European countries is the decrease in number of banks, however at the same time, as a result of fusions and seizures, their economic potential increased. It is measured by results in institutions network and employment, as well as assets and capital value. It all is proved by balance parameters of banks per capita (table 3). As a result of the situation, there occurs an increase in effectiveness and competitiveness of cooperative banking sector on the market of financial services. E.g. since 1998 Polish cooperative banks have accomplished better effective parameters (profitability index), better quality of credit portfolio and lower level of costs than private banks [7]. Data included in table 3 indicate how much Polish cooperative sector gives way in the field of economic potential, market potential, to the most profitable cooperative sectors in Europe, especially in countries like the Netherlands and Germany.

Table 3

Chosen economic parameters of cooperative bank sectors in European Union per capita (euro)

EU member	Balance sum		Deposits		Credits		Own funds	
	2000	2004	2000	2004	2000	2004	2000	2004
Austria	11.870	17.744	6.958	14.488	7.775	13.024	597,2	878,0
Finland	5.233	7.490	3.304	4.471	3.922	6.078	444,4	764,7
France	9.097	15.494	8.925	6.418	4.310	6.961	475,5	846,5
Spain	727	1.252	628	873	518	937	57,8	88,4
the Netherlands	21.622	29.881	9.250	12.082	11.295	15.912	11.33,5	1.673,0
Germany	11.423	10.790	7.753	6.259	7.635	5.776	417,8	667,1
Italy	1.304	2.031	993	1.647	760	1.333	165,8	214,7
Poland*	165	249	77	127	78	119	11,9	22,0

*1 EUR = 4,04 PLN

Source: Calculation on basis of financial report of Unico Banking Group, 2004 and data of NBP, Warsaw 2000-2004.

3. Conclusions

1. In the last years, cooperative banks sector has transformed, accompanied by organizational and regulating changes. The essential elements of the transformation were consolidation processes, which resulted in significant decrease in number of cooperative banks and union banks, yet economic potential of banks increased and, what follows, their competitiveness as well.
2. Integrational tendencies in cooperative banking are visible so in the countries of the former European Union as in Poland. It is shown in cooperative bank consolidations and cooperative banking sector reorganizations. Each of the leading cooperative banking groups aims at creating the uniform and coherent system of mutually completing companies to be seen as a whole unit.
3. In the globalization environment and conditions of tumultuous development of new techniques and banking technologies, integration processes in cooperative banking sector, nationwide and internationally, become a condition of effective competitiveness on the financial market and a foundation of this sector development. It should be emphasized that, in case of leading cooperative groups in Europe their development is based on the following principals: subsidiarity, regionalization and solidarity.
4. The basis of success in cooperative banking systems in Germany, Holland, France and other countries were the organizational solutions allowing them not only to protect their traditional local markets but also expand their interests on the other areas where compete effectively with commercial banks. Skillful use of their experiences can considerably

accelerate the development of cooperative bank sector in the EU new membership countries, such as Poland.

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