Cooperative Credit Banks and Account Holders: Focus on Italian Context

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Abstract

The aim of the article is to investigate about a particular category of bank: Italian Cooperative Credit Banks.Nowadays, during COVID period, banks and consumer behaviors are changing because of economic context and the crisis. So we want to investigate the state of Italian Cooperative Credit Banks in order to understand whether these banks were affected by this period. The idea is that account holders imagine that Cooperative Credit Banks are safer than competitors.

So we have to introduce a variable that define this: Common equity Tier 1 Ratio and analyzed it to understand the phenomenon and preliminarily understand this question: Italian Cooperative Credit Banks are safer than other ones?

Keywords: banks, cooperative banks, tier1, financial analysis

Introduction

From an ideological point of view, the thinking from which cooperatives are born takes its inspiration from the England of Robert Owen and the Rochdale Pioneers.

In France, the first experiments of cooperatives are among 1830 and 1840. In 1858 Louis Blanc presented to government a bill for the construction of laboratories managed in a cooperative form. Instead, the establishment of an early embryonic form of popular bank was also in 1848 on initiative of Pierre Joseph Proudhom. In the same period a similar experiment of cooperative bank was attempting in Belgium. It is also essential to remember the work of Charles Gide, founder of the Nimes School, who thought about a "Cooperative Republic" in which profit was completely banned from the economic system.

Around 1850, during an economic crisis, also Germany began to introduce the principles of cooperation. Hermann Schulze-Delitzsch's first attempts moved in the direction of setting up cooperatives between small entrepreneurs, in order to guarantee sickness and death insurance and make efficient the purchase of raw materials. His economic doctrine had a great feedback in the urban population. In 1859 there were 183 banks with 18 thousand members in Pomerania and Saxony. In the same year the first central office was established. This office had a coordination goal, respecting meanwhile the autonomy of the individual bank units. Modern Popular Banks were springing up. At the same time as Schulze's work, Friedrich Wilhelm Raiffeisen had also started his activity in the countryside, and he too, after a few years of activity based on solidarity and charitable foundations, was convinced to give life to real cooperatives of credit on the model proposed by Schulze. Thus the first Raiffeisen banking cooperative was born in Anhausen in 1862. However the spirit that animated the work of Raiffeisen was completely different. This different approach represent the origin of differences between Popular Banks and the Rural Banks. In fact Raiffeisen privileged ethical motivations of Christian inspiration to economic reasons. Giving life to credit unions was a precise dictation of divine will, since they were nothing more than a means to help men and women to put their material and spiritual goods to good use. Substantially, however, the Raiffeisen Rural Banks were not different from the Schulze-Delitzsch cooperatives: the principle of an open company, one vote for each member, and unlimited liability company. After an initial period of scarce diffusion, a rapid numerical growth of the Rural Banks began. In 1888, when Raiffeisen,died, Rural Banks were already 425. In the following years their diffusion grew at a much faster rate than the Popular ones. Shortly before First World War Rural Banks were 16,927 units, against 980 of the Schulze Cooperatives

Instead, in Italy the birth of the Cooperative Credit Banks dates back to the late 1800s as a new form of credit inspired by the model developed in Germany by Friedrich Wilhelm Raiffeisen.

Literature Review

Butzbach (2012) defines Cooperative Banks as credit institutions that belong to their members, like any cooperative enterprise. The author also focuses on the analysis of the particular governance model present in cooperative banks that is oriented towards stakeholders, or stakeholder-based governance.

Coco and Ferri (2010) show how the governance of Cooperative Banks influences stability of the directors of the bank. The result is a major stability and therefore a more stable management, more oriented towards long-term objectives.

Ayadi et al. (2009) talk about a double objective ("double bottom line") for Cooperative Banks. That means that even if Cooperative Banks need to achieve profits to survive the market, they do not have the goal of maximizing them, differently from other banks.

The focus on the performance and value creation of Cooperative Banks has always been a central topic in the academic world. There are several studies that try to understand which are the variables that have the greatest impact on the value and performance of Cooperative Institutes.

Wilson and Williams (2000) investigated the relationship between size and growth of Cooperative Banks in France, Germany, Italy and the United Kingdom. Conclusions point out that that in Italy small banks grow faster than large ones. Barron et al (1994) also arrive at the same conclusions, analyzing the economic data of the credit unions of New York City between 1920 and 1980. Results are the same: the smaller institutions grew faster than the larger ones.

So another theme of interest is to study the relationship between banking and corporate finance, because, banks influence borrowing and so the corporate finance. In this temporal context, one of the important elements is that of the solvency of the banks which has obvious consequences on operations of banks. Therefore a first preliminary analysis is on the solvency of these institutions, focusing on the Core Tier 1 ratio.

In fact Laiola (2015) identify Core Tier 1 ratio as one of the most important banking ratio that represents solvency. In this paper the author try to find correlative relationships between the market volatility of returns on equity and the fluctuations of Core Tier 1 ratio.

The effect of bank crisis, that should be represent by Core Tier 1 ratio, is clear. In fact Dewally and Shao (2014) show that in crisis periods banks limit their activity.

Another similar type of bank is Credit Union, that is present in USA.

McKillop and Wilson (2011) argue that the particular organizational structure of Cooperative Banks brings them closer not to credit cooperatives, the credit unions widespread in the Anglo-Saxon world, but to another type of non-profit bank present on the European market, Rural Banks. The main distinguishing feature between savings banks and cooperative banks instead lies in the ownership structure. In the case of the saving banks the property does not belong to its members (as in cooperative banks) but to private and or public institutions. Bauer (2007) says that unlike other US intermediaries, they operate with the aim of providing services/benefits to their shareholders: profits from banking are returned to the shareholders in the form of reinvestments in the Credit Union, dividends to the same shareholders and lower interest rates.

Data and methodology

As reported by Laiola (2015) the Core Tier 1 ratio is the most important index to investigate the liquidity of a bank. So we have collected data of Core Tier 1 ratio of European Banks in order to compare them with the same data of Italian Cooperative Banks. We have done this in order to understand if Cooperative Banks have more or less stability than European ones. In fact the idea is that account holders believe that Cooperative Banks are safer than others and the index which can represent synthetically, but not completely, this phenomenon is Core Tier 1 Ratio.

We have used statistical data warehouse of European Central Bank for European data and own elaboration from balance sheet for Italian Cooperative Banks data.

In particular, from ECB database we have used Supervisory and prudential statistics, Macroprudential Database, Bank sector variables with a focus on Capital. These consolidated banking data come from National Supervisory Authorities. They are annual data of 2018 and 2019 and the reference area is European Union. Sector coverage is "Domestic credit institutions - Foreign EU & non-EU and Foreign EA controlled subsidiaries and branches.

Data are the following:

Nation	2019	2018
Austria	15,31	15,17
Belgium	15,73	15,71
Bulgaria	17,66	18,28
Cyprus	17,02	14,38
Czech Republic	19,37	18,22
Germany	15,27	15,64
Denmark	17,89	17,65
Estonia	22,29	23,99
Spain	12,52	12,20
Finland	17,57	17,16
France	15,16	14,42
United Kingdom	15,32	15,13
Greece	15,92	15,31
Hrvatska	19,85	18,11
Hungary	15,35	16,45
Ireland	20,03	20,33
Italy	13,97	13,00
Lithuania	17,47	16,80
Luxembourg	19,75	20,36
Latvia	20,92	19,64
Malta	19,75	17,92
Netherlands	16,86	16,87
Poland	16,15	16,53
Portugal	14,05	13,07
Romania	18,73	17,05
Sweden	17,69	17,05
Slovenia	18,21	18,30
Slovakia	17,32	16,83
Average	*17,25*	*16,84*
Median	*17,40*	*16,85*

Source: ECB Database

As we can see the average value of Core Tier 1 ratio, in 2019 is 17,25. Italy shows a smaller value, both in 2018 and 2019, and it represents an hypothetical worse condition.

In 2019 the nation that have the highest value is Estonia (22,29), while Spain have the lower value (12,52) with a gap of 9,77.

Focusing on differences between 2018 and 2019 results are: 19 nations improve their ratio; 9 nations get worse their ratio. In particular Cyprus grow by 2,64, instead Estonia get off of 1,70, however remaining the best nations. Italy shows improvement. Also the average value and median value grows among 2018 and 2019. This represents a systemic growth of capital in banks.

Now we pay attention to Italian banks. We use Mediobanca database which gives information about Italian banks and their ratios.

In particular 343 banks in 2019 are registered while 344 banks in 2018. In 2019 we have 246 Cooperative Credit Banks and 27 Popular Banks. In 2018 the situation is not so different: 249 Cooperative Credit Banks and 28 Popular Banks. These data represent an important information: in Italy about 70% of the Banks are Cooperative Credit Banks. And if we add Popular Banks, that are similar to Cooperative Credit Banks, we reach almost 80%. Many account holders use these type of banks in Italy and thus the central point of the paper become more important.

Italian Cooperative Credit Banks	2019	2018
Core Tier 1 Ratio	20,80	19,37

Source: own elaboration on Mediobanca database

Results are mean of 246 banks in 2019 and of 249 banks in 2018. It is clear that Core Tier 1 Ratio of Cooperative Credit Banks is higher than Italian average available on Ecb database. That means that practically this category of bank in Italy is safer than other (if we consider only Core Tier 1 Ratio as evaluation element). Also this time we see an improvement from 2018 to 2018, like in Ecb database. We analyze also Italian Popular Banks in order to compare them to Cooperative Credit Banks

Italian Popular Banks	2019	2018
Core Tier 1 Ratio	17,29	19,37

Source: own elaboration on Mediobanca database

A worst condition compared to Cooperative Credit Banks emerges. Also in this case we find a betterment during the years. But definitely Popular Banks seem less safe than Cooperative ones.

Conclusions

The theme of bank and banking is always central, but in this period of health crisis (due to COVID) that has led to financial problem, both for consumer and companies, become more important.

In fact, the behavior of citizens and their relations with banks have an impact on the entire economic system and especially in crisis period. Indeed consumption is one of the first levers that influences the economic restart.

Nevertheless, consumption does not depend only on the availability of income but also on confidence in general and confidence in the banking sector. It is well known that Italy is a country of savers and the Italians consumers put their savings in bank. Therefore it is important to know the relationship of the Italians with the banks, because this trust could influence the economic recovery.

In Italy there are several types of banks and cooperative ones are widely used, as evidenced by the large number compared to the total of existing banks. This is due to the fact that Cooperative Credit Banks are often closer to account holders. And account holders probably think that this category is safer than others.

So we analyze the state of the banks, in Europe and in Italy. The underlying assumption is that an important indicator for this measurement is the Core Tier 1 Ratio. Evidence shows that Italian banks, on average, have worst ratios than European. But focusing the research on Cooperative Credit Banks we find that they have best values in Italian context, also if compared to Popular Banks, that are strictly similar to Cooperative Banks. So therefore the behaviors of Italian account holders seem to be correct.

However the analysis of this paper is restricted to a single factor, which cannot be explanatory of the whole phenomenon. It would be appropriate to extend the analysis to other variables and time horizons.

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