European Association of Co-operative Banks
The voice of 3.000 local and retail banks | 81 million members | 209 million customers

MANIFESTO

Co-operative banks' policy priorities for 2019 European Parliament elections and the new European Commission

The co-operative difference:

Diversity

Proximity

Democracy

Sustainability

Solidarity

Resilience

Executive summary

Co-operative banks renew their full support to Europe. We share the values of democracy, equality, solidarity, self-responsibility, being committed for a better, peaceful and free world.

Co-operative banks’ specificities, the resilience of their business and governance models are an asset for Europe and a catalyst for the real economy, the regions and social cohesion.

Co-operative banks believe that a more thriving economy and the improvement of the competitiveness of Europe will contribute to stability and prosperity and strengthen Europe's voice on the global stage.

Co-operative banks call for an appropriate legislative framework to stimulate investment and innovation that allows risk-taking, without which there can be no growth and therefore no employment. The legislation must be incentive-based and not punitive. The regulatory framework adopted over the past years has led to a tremendous increase of constraints in terms of capital, liquidity and administrative burdens. This has had negative effects on the financing of growth, on the competitiveness of the European economy and also on the profitability of banks, which determines their sustainability and resilience.

Co-operative banks' priorities

EUROPEAN ASSOCIATION OF CO-OPERATIVE BANKS

In the context of globalisation, following the financial crisis, the refugee crisis and the Brexit there is distrust and some criticism due to the dissatisfaction with EU decision making process democracy. However, Co-operative banks remain strongly committed and supportive of the initiatives aiming to make Europe stronger in a complex and an uncertain world. However, Europe shall remain close to the need of the citizens and businesses, support growth and not meddle in the everyday live by regulating every aspect in technocratic manner.

1 Strong support for economic growth in Europe

Co-operative banks are financing, investing, committing in a long-term perspective to help and to support citizens and businesses to coping with the radical structural transition in Europe's economies driven by digitalisation, environment, globalisation.

This dynamic policy pursued by co-operative banks requires a stable legislative environment to be able to have capital and liquidity for financing and not only to pile up regulatory buffers. Banks need to concentrate on businesses rather than on bureaucracy.

2 Climate: Green and Sustainable Finance

Co-operative banks call upon Europeans to take the lead in the global fight against climate change and to support the EU Sustainable Finance initiative. Indeed finance is an important tool among many others to reach sustainable development goals, since the transformation of our current economy requires huge investments. Measures related to sustainable finance should create incentives for the transition to a sustainable economy and not new regulatory constraints in an economy which is for the moment mainly based on fossil energy.

Considering the structure of the EU economy based on banks financing, co-operative banks underline the key role that they can play in making the energy transition possible at local level. Key "decentralised" activities – such as mortgages for energy efficiency, installation of solar panels, biomass power or households saving products linked to sustainability – can only be achieved via the mobilisation of and a favourable regime for local and regional banks.

But if co-operative banks are ready to take their share of responsibility for the energy transition, they stress that this energy transition is a societal issue involving a multitude of players. The difficulties in achieving the objectives of COP21 must be addressed within a broader framework than just the banking sector.

The « green supporting factor » may be a strong incentive to a low carbon economy. But there is for now a patchwork of classification systems for green/sustainable activities across the EU. This creates uncertainty for investors who want to invest with sustainability objectives in mind. Co-operative banks expect a uniform and harmonised classification system, a taxonomy on climate change activities including green bond standards.

It is extremely important to finalise the regulation on taxonomy as the cornerstone of all other Sustainable Finance initiatives. But the taxonomy package must stay in close connection to the real economy and real financing needs. If the taxonomy ends up being too complex or restrictive, it will affect the attractiveness of the green investments and green financing. The attractiveness and the easiness are key parts of the investment decision and if these two features are not met, the taxonomy regulation will not meet its objectives.

Moreover, co-operative banks regret that one crucial part of the sustainable classification system: i.e. the definition of metrics and thresholds, will be achieved via level 2 EU Commission's delegated acts, considering the strong economic and political implications of those criteria.

3 Protection

Co-operative banks consider that the European Union must ensure that the fundamental right to data protection, which is enshrined in the EU Charter of Fundamental Rights, is applied in a consistent manner by all players. The protection of personal data needs to be strengthened in the context of international relations, especially in a global society characterised by rapid technological change and the impact of the digitalisation.

Moreover, Europe's independence requires the Capital Markets Union. Without the CMU, Europe and the Euro cannot be a major player in the global economy. The CMU will stimulate the investments for the energy transition and the digitalisation of the economy and finally ensure an international role for the euro.

An international currency relies on a strong and integrated financial market.

European enterprises and banks are in competition with enterprises and credit institutions from all over the world. In order to remain independent and competitive, Europe needs strong enterprises and a strong financial sector to finance them. Therefore all necessary steps should be taken to incentivize banks to lend or invest in European enterprises. This would lead to more opportunities for these enterprises to fund themselves at the most efficient manner resulting in the most optimal economic situation for European business to compete with companies in other worldwide jurisdictions.

4 Looking Forward - the legislative framework

Regulatory Stability and Reliability

A more dynamic European banking sector that provides easier access to financial services for consumers and SME's is essential to supporting more robust GDP growth. Improperly tailored capital, liquidity, and leverage requirements, as well as a tremendous increase in activities-based regulation (investments services, lending, payments), can undermine the ability of banks to deliver high quality services, to grant credit in sufficient quantity to meet the needs of their customers and beyond to the local economy.

Co-operative banks urge EU institutions for a regulatory stability and reliability, allowing banks to fully adjust to the new framework and have a stronger focus on market developments. During the last decade the regulatory framework for banks was completely overhauled and substantially extended; the quality of banking supervision significantly intensified. But financial stability should not remain the only goal. Growth and competitiveness should become the top priorities.

Co-operative Banks are concerned about the intensified "delegation" of aspects into delegated legal acts. Co-operative banks want to underline that questions of political relevance and of significant impact need to be subject to a full legal process. This is essential in a democracy.

Simple – Coherent - Feasible

Co-operative banks call for making regulation efficient, effective, and capable of fostering economic growth;

They strongly support the principle of regulation proportionate to risk. We also ask for a reduction of the administrative burden for small and simple institutions with limited risks.

It is urgent to stop adding requirements in legislative texts that place a disproportionate burden. Local and regional co-operative banks are confronted with a vast array of regulatory requirements, putting a substantial burden on financial and human capital. The regulatory overload has been particularly intense in the EU resulting in some areas in unintended side effects such as for example an oversupply in customer information which in many cases causes irritations for consumers. For instance, MIFID II includes around 2000 pages of regulation to enhance customer protection. At the opposite end, with "one click" the customer gives the possibility of third-party service providers having access to payment accounts. We however see risk from the PSD2 regulation that can harm the position of customers, that on the other hand is not sufficiently covered in EU law.

They reiterate their strong support to the principle of proportionality meaning that any actions must not exceed what is necessary to achieve the objectives being sought. We fully support the Better Regulation principle and EU Commission approach stated in its Communication in October 2018 : *Any financial or administrative burdens which fall on the Union, national governments, local and regional authorities, and economic operators must be minimised and be commensurate with the objectives to be achieved. For the Commission, this means delivering our ambitious policies in the simplest, least costly way and avoiding unnecessary red-tape.*

Assessing the cost and benefit of regulation

Co-operative banks call for thorough and analytical cost-benefit rigorous assessment for quantifying the economic impact of any potential regulatory initiatives before putting them in place. Moreover, we recommend a continuous ex post assessment via retrospective cost-benefit analysis and a review scheme to assess whether regulatory elements meet the expectations and provide a (measurable) benefit that exceeds the burden it creates for banks. Without a thorough assessment, there is a danger that any new proposal and regulations just keep piling up and losing sight of the overall objective.

Co-operative banks encourage rule makers to carefully consider the adverse effect of too much alignment towards the same business model in banking. The diversity of banking business models contributes to the stability through better risk diversification and allows more freedom of choice for consumers. We believe that a strong alignment of business models, leads to marginalisation of biodiversity with detrimental impact on competition and stability, but also exclusion of certain customer and economic segments of society.

Co--operative banks ask for establishing a Regulatory Reform Task Force to develop a comprehensive review of the European regulation. Indeed, the G-20's financial regulatory reform agenda and the development of international financial regulatory standards by as the Basel Committee on Banking Supervision (Basel Committee) and the Financial Stability Board (FSB) is transposed in the EU jurisdiction. For this reason, the impact of international standards requires thoughtful review by the EU institutions (Commission, EBA) before any transposition. We need better regulation, and we need EU institutions' willingness to change things for the better. The current regulatory framework has been developed under great time pressure, and there is definitively room for improvement in terms of costs and benefits of the new rules.

In addition, it is necessary to check the consistency between the many different regulations submitted by the Council and Parliament as well as the ESA's. The most obvious example is NPL where the ECB, EBA and the Council/Parliament issued legislation with the same objective but where definitions are not aligned making implementing this framework very expensive.

Recognition of the co-operative legal form of enterprise

We stress the need to ensure consistency between supervision, recovery and resolution. In this trilogy, the legal status of co-operative form of enterprise, which is enshrined in the European Treaties and reflected in the Statute for a European Co-operative Society, must not be called into question by the authorities. Internal safeguard and various solidarity mechanisms have proved their effectiveness in the past and seem to be underestimated, leading co-operative groups to become more centralized, even though the very essence of their success and resilience is based on a decentralized organization. Regulation should not try to change proven models.

Level playing field

Co-operative Banks stress that the level playing field shall remain an important goal for the rule makers :

- This is also the case with the shadow banking. The shadow banking system is the network of financial intermediaries that conduct maturity, credit, and liquidity transformation without being subject to banking regulation. The FSB has estimated that, globally, the shadow banking system represents on average 25% of financial system asset
- This is the case especially within the payment area where there are more and more new players which do not comply with the same rules that traditional banks leading to strong distortion of competition.

Co-operative Banks call for an implementation of the current and future EU prudential regulations only on the condition that all players on the global level are committed to do so. Global regulatory convergence cannot be decoupled from tailoring to the specificities of the local economies and markets

Co-operative Banks consider other initiatives aiming to enhance the single market, such as those regarding digitalisation of the economy, Open Banking, should be focused on putting European interests first to avoid competitive disadvantages vis-à-vis big technology enterprises entering European markets.

Contact:

Hervé GUIDER
EACB General Manager
Tel.: +32 (0)2 286 98 41
h.guider@eacb.coop

Elisa BEVILACQUA
Head of Communication &
Sustainable finance department
Tel.: +32 (0)2 286 98 42
e.bevilacqua@eacb.coop

Who we are: Co-operative banks at a glance

The EACB represents, defends and promotes co-operative banks at European and international level.

In Europe, **1 out of 2 banks is a co-operative bank**, 2 out of 3 citizens are customers of a co-operative bank and 1 out of 5 citizens is owner of a co-operative bank. They are very often the main employer locally with 800.000 employees. With 3.000 credit institutions, Co-operative banks are the main credit providers to household citizens in terms of mortgage credit and consumer credit. Co-operative banks are one of the largest lenders to SME's, in good times and in bad times as illustrated during the financial turmoil. Some co-operative groups are also among the largest banks in Europe, able to service also large corporates and to provide investment banking services.

Considering the European elections which are crucial for the future of Europe and the new mandates of the EU Commissioners, the **European Association of Co-operative Banks (EACB)** has drawn up a Manifesto to express the Co-operative banks' concerns and expectations.

CO-OPERATIVE BANKS AT A GLANCE

209 Million CUSTOMERS

81 Million MEMBERS

3 000 REGIONAL & LOCAL BANKS

719 Thousand EMPLOYEES

7.2 Trillion BANKING ASSETS

Co-operative banks are private institutions. They are owned by their **80 million members**, who are also their customers, e.g. local entrepreneurs, crafts men, farmers and households.

Co-operative banks facilitate the channelling of funds to **support local investment and development** and are an anchor to prudential and financial stability. Indeed, co-operative banks have provided a liquidity and stability anchor to the market and in particular to S**MEs** throughout the financial crisis.

The co-operative legal form is enshrined in the European Treaties and is reflected in the Statute for a European Co-operative Society.

Co-operative banks have specific characteristics compared to other banks:

- A focus on **a stable deposit** and **customer basis**;
- High capital buffers and conditioned profit distribution;
- **A prudent risk policy** as the objective is not the maximisation of profits but customer benefit;
- Specific **solidarity mechanisms** and joint liability systems;
- **A prudent governance based on the democratic principle 'one person – one vote'** which empowers customers and members, proximity, social and sustainable commitment. Diversity brought through member ownership entails a consensus-driven approach and prevents blocking holdings in the decision process

Co-operative banks actively support the **sustainable growth** of their regions by reinvesting a large portion of profits back into the community. They create **social and territorial cohesion** at a local level on a long-term perspective.

Co-operative banks are determined to continue being a driving force for economic and societal growth, and **a support to the European project**.

We believe that, if the policies outlined in this Manifesto are taken into account, consumers and businesses will get a much better deal from a more diverse, responsive and sustainable financial services sector.

The voice of 3.000 local and retail banks | 81 million members | 209 million customers

EACB AISBL – Secretariat - Rue de l'Industrie 26-38 - B-1040 Brussels
Tel: (+32 2) 230 11 24 - Fax (+32 2) 230 06 49
Enterprise 0896.081.149 - Lobbying register 4172526951-19
www.eacb.coop - e-mail : secretariat@eacb.coop