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The Family of Financial Cooperatives

• Financial Cooperatives:

We call different names in different countries but they are the same in organizational character & business functions and they abide with the same cooperative principles.

The Family of ...

• Credit Unions & Credit Cooperatives:

In Thailand, we call credit unions under CULT and savings & credit cooperatives under FSCT. They are the same in structure & functions, but different in terms of “common bond” of membership.



The Family of...

- In Malaysia & the Philippines, we call “credit cooperatives,” but in Nepal, we call “savings & credit cooperative unions” under NEFSCUN.
- In India, they call urban cooperative banks and cooperative credit societies, and they differ in functions and focus of membership and market.



The Family of...

- The credit unions in Quebec province, Canada are called caisse populaire or “desjardins” for branding purposes.
- There are no credit unions in Europe . They are simply called banks like DZ bank, Raiffeisenbank & Volksbank in Germany; Rabobank in the Netherlands; Credit Agricole in France; Banque Coop in Switzerland; OKO in Finland, etc.



How big are these coop banks in Europe?

- DZ BANK is the fifth largest bank in Germany and is acting as central bank for approx. 1,000 cooperative banks (Volksbanken and Raiffeisenbanken). As a cooperative commercial bank DZ BANK is a well-known partner in Germany and abroad and can count on a long lasting business experience of almost 125 years.



DZ Bank...

- DZ BANK maintains branches, subsidiaries and representative offices in the key financial centers and the most important economic regions throughout the world.
- DZ BANK's own network of outposts is supplemented by equity partnerships, cooperation agreements with partner banks, and a network of correspondent banks which spans the globe.



- Both Standard & Poor's and FitchRatings awarded the German coop banking network the A+ rating (first-class, trustworthy, secure network)

Rabobank...

- **Rabobank** (*Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.*) is a financial services provider with offices worldwide; a global leader in Food and Agri financing; comprising 141 independent local Dutch Rabobanks; a central organization (Rabobank Nederland); and a large number of specialized international offices and subsidiaries.



Rabobank



Rabobank...

- The bank has a AAA credit rating from the rating agencies Moody's (since 1981), Standard & Poor's (since 1981) and DBRS (since 2001), which makes it the only private bank in the world with a triple-A rating. Global Finance currently ranks Rabobank 6th in its survey of "the world's safest banks".^[2]



Rebobank...

- Rabobank has assets of € 506 billion and a net profit of € 2.1 billion as of 31 December 2005, making it the world's 14th largest bank in terms of tier I capital.
- Rabobank announced that it acquired a ten percent interest in United Rural Cooperative Bank of Hangzhou (URCB) located in the capital of the Zhejiang Province, P.R.C.
- .

Rabobank...

- Rabobank Group signed an agreement today to acquire ownership of the holding companies that own two Indonesian banks, Bank Haga and Bank Hagakita, from individual shareholders (July 13, 2006)
- The two banks have a combined total of 1,537 employees and a network of 78 branches, sub-branches and cash offices located in Java, Bali and southern Sumatra. The two banks had total assets of Rp. 3.97 trillion as of 31 December 2005.

Other Nomenclatures (names)

- In some places, CUs are called by other names; for example in many African countries, they are called Savings & Credit Cooperative Organizations (SACCOS), to emphasize savings before credit.
- In Spanish-speaking countries, they are often called Cooperativas de Ahorro Credito.
- But in Mexico, they are called Caja Popular.



- French terms include Caisse Populaire and Banque Populaire.



- Afghan CUs are called Islamic Investment & Finance Cooperatives (IIFCs) to comply with Islamic lending policies.
- Vietnamese CUs are called People's Central Fund (PCFs)



- Generally, countries in Europe which are seen as the pioneers of credit unionism such as Germany, France, the Netherlands and Italy, called their credit unions simply as banks without distinctions of cooperative branding.



- They all belong to ONE BIG FAMILY OF FINANCIAL COOPERATIVES in the world affiliated with:
 - World Council of Credit Unions (WOCCU)
 - International Co-operative Banking Association (ICBA)
 - International Raiffeisen Union (IRU)
 - International Cooperative Alliance (ICA)
 - ACCU



What is a Cooperative Bank?

- It is a bank because it has a license from government authorities to engage in banking services, and is governed according to banking prudential standards and regulated/supervised by central bank authorities (South Korea, India, Philippines, Malaysia, etc.)



- It is a cooperative because it is collectively owned and governed according to cooperative principles such as “one person, one vote” for primary cooperative banks (urban coop bank in India), except that voting in the secondary coop banks is based on paid-up shares (Philippines).



Cooperative Banks vs. Credit Unions

- In Asia, Cooperative Banks exist side-by-side with Credit Unions, except in Thailand, Hong Kong, Myanmar, Vietnam and other few countries where there are no cooperative banks.
- In the Philippines, they compete in the retail lending and deposit generation.
- Secondary coop banks also compete with federations in generating shares and deposits.

- In India and Malaysia including Japan, cooperative banks serve as wholesale lenders to credit cooperatives and agricultural cooperatives.
- In Sri Lanka, Sanasa Bank lends to primary cooperatives but also lends to individuals for the microfinance program.

Prominent Coop Banks in Asia

• Norinchukin Bank of Japan

- One of the largest lenders specializing in loans to agricultural, fishery & forestry coops.
- Acts as de facto central bank for more than 1,100 farm banks nationwide, with 35 branches.
- Most of the bank's deposits come from agricultural & fishery coops.
- Has foreign offices in Beijing, London, New York & Singapore.
- Formed in 1923 as a quasi-government bank, it is now private but retains close ties to the government.

農林中央金庫
The Norinchukin Bank



• The NACF Bank of South Korea

- The banking arm of the National Agricultural Cooperative Federation .
- NACF, an apex organization of 1,387 farmer-owned agricultural coops.
- NACF's coop banking business was introduced as a pilot scheme in 1969.
- Engaged in commercial banking (for member coops) and retail banking (for consumers & individuals)



- The **Cooperative Bank of Indonesia** is a private bank with less than 20% share of cooperatives.

• Malaysia

- **Bank Persatuan** is a coop banking entity based in Penang, with 14 branches. Established in 1950, the bank is the result of merger of over 21 village cooperatives. In 1971, it opened its membership to both individuals and cooperatives.



- The country's largest coop bank is Bank Rakyat



- Angkasa, the national cooperative organization of Malaysia, plans to establish Islamic Cooperative Bank with 560 credit coops nationwide as sub-branches



Philippines

- Coop banks were initiated by government in the 1970s and owned by village coops with strong government subsidy.
- After the Martial Law Regime, more coop banks were established, totaling 53 with some credit coops joining the banks.
- As many coop banks were under-capitalized, many more credit coops were enticed to join as investors and rehabilitate ailing coop banks.
- Best performing coops banks are those capitalized by credit coops and with good management.



Sri Lanka

- Two parallel systems of coop banking

- Rural banks operate like multipurpose coops, obtaining funds from People's Bank providing fund to district union, who in turn provides credit to members of union. People's Bank operate like coop banks keeping private sector identity.



Sri Lanka

- SANASA Development Bank (SDB)

- Established in 1997 & 100% owned by SANASA Primaries & SANASA Federation, SDB is a bank of cooperative microfinance.
- SDB functions as the financial apex institution for the SANASA movement .
- Has 45 branches and 27 extension centers and delivers microfinance loans to SANASA primaries who can then lend to their members.
- It also provide loans to private clients & local organizations.



India

- Coop banking structure is divided into 4 components: primary coop credit society, district coop bank, state coop bank and land development banks
- Primary coop banks, popularly called urban coop banks (1,721 UCBs with 7,500 branches across India, over 20 million members.)
- Cooperative credit societies may be allowed to convert into UCBs.



India...

- Mahesh Urban Cooperative Bank has finally become a member of National Electronic Funds Transfer (NEFT) system of the Reserve Bank of India (RBI). Now customers of the bank will be able to enjoy fund transfer facilities to any location in any bank.
- This will enable customers to transfer their funds, even small amounts across India instantaneously.

Nepal

- Established in 2003, the National Cooperative Bank Limited (NCPL) is an umbrella institution to provide banking and financial service to all its member cooperatives.
- Engaged in wholesale lending/deposit mobilization servicing 2,540 member coops in 64 districts (out of 75)



Taiwan

- Fully owned by government
- Founded in 1946 during the Japanese occupation to foster the country's burgeoning cooperative system with focus on farming & fishing sectors
- **Mauritius**
 - Mauritius Post and Cooperative Bank Ltd (MPCB), government-owned.



Vietnam

- The People's Credit Fund (PCF) and the Central Credit Fund (CCF) will be converted into a cooperative bank by 2011-2012 according to Rabobank Development.
- This strategy will enable the PCF/CCF network to transform into one-tier organization and to operate on one banking license, one balance sheet and one IT platform.



Vietnam...

- PCFs are commune-based entities, jointly owned, operated and managed by their members to provide savings and credit services.
- PCFs are modeled on the Caisse Populaires credit union system.
- PCFs collect deposits from both members and non-members. However, loans are only provided to members.

Vietnam...

- The Central Credit Fund, and the network of PCFs, are cooperative credit institutions with legal status (under the Cooperative Law, 1997), regulated and supervised by the State Bank of Vietnam (SBV).

What are the Commonalities & Differences?

- Cooperative banking is retail and commercial banking organized on a cooperative basis (Except Taiwan, Mauritius, and those with government ownership like in India).
- Like CUs, coop banking institutions take deposits and lend money, except that coop banks perform banking functions like commercial banks and extend services to both members and non-members.



- CUs and coop banks are collectively owned by their members through contribution of share capital, and follow the principle of “one person, one vote” (in the case of a primary coop bank).
- In the case of a federated coop bank like in the Philippines, this principle doesn’t apply because voting is based on shares/equity contribution.

- CU members are usually required to share a common bond, such as locality, employer, religion or profession, but this is not applied to coop banks as they operate on a border-less market.
- CUs are usually funded entirely by member deposits and avoid outside borrowing (except in some countries), but coop banks have easy access to state central banks and government agencies.

- CUs are typically (though not exclusively) the smaller form of cooperative banking institutions.
- Larger coop banks (like Raiffiesen, Rabobank, Credit Agricole, etc.) are tightly integrated federations of credit unions (ex. urban coop banks of India)



- In Asia, coop banks are supervised and controlled by banking authorities (government central banks) and have to respect prudential banking regulations.
- Depending on countries, this control and supervision can be implemented directly by government agencies or delegated to a cooperative federation or central body (Ex. European coop banks).

- Unlike CUs, coop banks are often regulated under both banking and cooperative laws.
- Many coop banks are traded on public stock markets. This means coop banks are partly owned by non-members.
- Except in the Philippines and some countries, member control is diluted by outside capital contribution or equity, so they may be regarded as semi cooperative.

- Unlike in Europe, Coop banks in Asia are perhaps most government-sponsored, government-supported and government-subsidized, particularly in India, Taiwan and Mauritius.

- Coop banking systems are usually more integrated than credit union systems.
- Local branches of coop banks elect their own board of directors and manage their own operations, but most strategic decisions require approval from a central office.

- CUs usually retain strategic decision-making at a local level, though they share back-office functions, such as access to the global payments system through their federations (Canada, US, Europe)
- Generally, CUs were formed to provide financial services on the basis of “common bond” of membership, while rural economy and farming are a natural base for cooperative banks.

What are the Challenges?

- Generally in Asia, CUs are not part of banking system, not integrated with national and international financial markets and respect rules of safety.
- Cooperative banks in Asia are mainstreamed into the banking system, except cooperative banks in the Philippines, wherein the central bank imposes certain banking restrictions.



Challenges...

- The need to introduce solutions to banking law which interfere with specific character of cooperative banking.
- Cooperative banks which were promoted by government as intermediaries to help farmers and the poor are dependent on government support for concessional fund flow, subsidy and equity participation.

Challenges...

- The Asian financial sector is changing rapidly due to global competition and evolving banking trends, even in the field of microfinance. Coop banks may be able to adapt to stay competitive, but not CUs.
- CUs have to change to face the changing financial landscape brought about by global competition to survive but remain locally rooted financial institutions.

Challenges...

- Our CUs in Asia are not mainstreamed to the banking system because we are not banks.
- The DZ bank, Rabobank, Credit Agricole, etc. in Europe are cooperative banks and therefore, they are part of the banking system. They are globally competitive like the NACF Bank, Norinchukin Bank, Bank Rakyat, etc. in Asia.

Challenges...

- How can we stay locally rooted as CUs but can be globally competitive at par with or better than universal banks (Ex. stocks-based banks)?
- To increase CUs' competitiveness, that is directly linked to the banking system, they may be allowed to own banks as an option (India, Philippines, Sri Lanka, Canada, Malaysia, etc.)

Challenges...

- Through coop banks, CUs will have access to payment, clearing and settlement systems.
- Through coop banks, CUs will have access to the central bank's liquidity window.
- Coop banks have access to deposit insurance systems but not CUs.
- Coop banks have the ability to issue alternative forms of capital in markets but not CUs.

What are the Coop Bank Models?

• Three Cooperative bank Models:

- Individual bank model, or CUs converted into banks (Urban coop bank of India; local Rabobank & Central RaboBank; Raiffeisenbank)
- Federated model – a group of CUs owning a coop bank (Philippines, India, Malaysia)
- Subsidiary model – a federation establishing a separate bank (SANASA, NACF)



Coop bank models...

- While cooperative banks do not follow a single model, they do share some common features.
- Ownership and democratic control by members is the most important.
- Members of local Rabobanks in the Netherlands are private individuals and entrepreneurs from the community.
- At the central level the Rabobank member banks exercise control through what is known as the Central Delegates Assembly.

- In the Philippines, cooperative banks are secondary cooperatives whose members are primary credit cooperatives.
- They accept deposits from members and the public.
- They lend money to members and the public.

- In Malaysia, Bank Persatuan is open to cooperatives and individual members.
- In India, the cooperative banks are structured as:
 - Primary coop bank (urban coop bank)
 - Secondary coop bank (district central)
 - Tertiary coop bank (state central)

Why not go for a coop bank model?

- ONE, the need to foster greater competition in the domestic market while ensuring access to services at the community level (Ex. conversion of primary credit societies into urban coop banks in India; conversion of the Canadian credit unions into coop banks - Canadian consultation paper, April 2002)

- ...Vancity Credit Union
 - Founded in 1946, Vancity is the largest credit union in English speaking Canada, with \$14.1 billion in assets, over 400,000 members, and 59 branches throughout Metro Vancouver, Victoria and Squamish. Vancity owns Citizens Bank of Canada, serving members across the country by telephone, ATM, and the Internet.

- TWO, the need for the credit union system to have its own “legal banking window” (Ex. SANASA Bank, NACF Bank, Koperasi Bank Persatuan, Philippine Coop Banks, etc.)
- THREE, the need for a central bank for cooperatives and credit unions (Ex. State Coop banks and District Coop banks in India, coop banks model in Europe, etc.)

- FOUR, the need for a “national image” to gain public confidence
- FIVE, the key principles that shall be considered in the establishment of coop banks are:
 - Improving the cost structure of the CU movement

- Addressing restrictions in territorial coverage and financial services
- The problem of safety and soundness of the CU system, particularly liquidity
- Respecting cooperative principles for the protection of member rights, member shares, and the prohibition of control

NATCCO Experience in Coop Banking in the Philippines

- NATCCO is one of the investors of three cooperative banks.
- As investors, we sit in the board of board of directors of the coop banks.
- As officers of the banks, we have better understanding and training in banking and investments.



NATCCO in coop banking...

- NATCCO now is seen as a strategic partner in the consolidation and merger of coop banks
- With NATCCO's involvement in the coop banking sector, it is expected to gain more affiliates from the primaries and enhance its business activities, such as IT, ATM, training, and wholesale lending.



NATCCO in coop banking...

- A shift from competition to complementation of services between credit unions and coop banks is taking place because now we are together in defining our market niche.



NATCCO in coop banking...

- While our credit unions are in touch with local communities, our consolidated coop banks will serve as our “legal banking window” for domestic and international financial services which are beyond the capacities of NATCCO and its members.
- Our participation in coop banking is a “business decision” to enable us to penetrate the banking sector.

Strategic direction...

- Eventually, NATCCO & its member-cooperatives will become the “leading group” of the largest cooperative bank in the Philippines.
- This cooperative bank will graduate into a “thrift/savings” bank as a step towards the first commercial bank owned by the cooperatives.
- To make this possible, we will invite “equity participation” from foreign cooperative banks like BIBE, DZ Bank, Rabobank, Credit Agricole, etc.



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