

Cooperative banks in a digitized world

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Digitization has already changed our way of life and will continue to do so. The way we work, the way we shop, the way we manage our personal finances are some of the domains where changes are the most obvious to most of us. Digitization transforms existing business models in all industries and the banking sector will definitely not be spared. A report published in 2015 by Goldman Sachs for instance went as far as to label crowd-funding the “potentially most disruptive of all the new models of finance”. FinTechs are seen by many as a deadly threat to long-established banks. New specialised actors emerge every day and, without having to support and maintain a traditional banking infrastructure or legacy IT system, offer innovative financial services like mobile peer-to-peer payments or robo-advisory services. Game changers like PSD2 aim to foster competition between banks and open up the market for new entrants. These third party providers will try hard to interpose themselves between clients and their banks and possibly squeeze the latter out of business. Meanwhile, banks are downsizing their branch networks, reacting to changing consumer behaviour and an increasing pressure on results, as they witness, on one side, a dramatic increase of their costs which is mainly induced by a never ending avalanche of new banking regulations and decreasing revenues as a consequence of historically low interest rates.

So, was Bill Gates right when he stated: “Banking is necessary, banks are not.”? What about cooperative banks claiming that proximity to their customers and members is one of their main assets? Do customers still care for long-lasting and trust-based relationships when financial services can be found anywhere on the web without any geographical limitation? Is caring for the welfare of all stakeholders a viable business model in a digitized world?

Introducing Raiffeisen Luxembourg: a local bank acting in a somewhat particular market

The first Raiffeisen credit cooperatives were founded in Luxembourg in 1925. In early 1926, the exist-

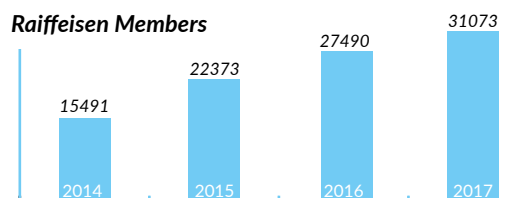
ing banks set up the ‘Centrale des Caisses Raiffeisen luxembourgeoises’, renamed in ‘Banque Raiffeisen’ in 2001.

The Raiffeisen model developed very quickly and by 1970, the network had 138 outlets across the country. New technologies led to the merger of many branches of the network which is now made up of 13 “Caisses”, each with several branches, plus 12 branches that report directly to Banque Raiffeisen.

Today, with a network of some 40 agencies, Raiffeisen serves retail, private banking and corporate clients. We assist private clients with their everyday banking transactions, finance their projects and manage their savings and investments. We also serve businesses and freelancers through a team of experienced specialists offering notably a bespoke service and advice in project financing. Finally, the Bank’s asset management specialists provide a professional service to savers and investors.

Since 1925 Raiffeisen has always been committed to solely working in the interests of its clients and members. We seek to forge long-lasting relationships that are built on trust and rewarding for both our customers and the bank. Year after year, surveys consistently have shown that Raiffeisen clients are those that are the most satisfied with their banking relations.

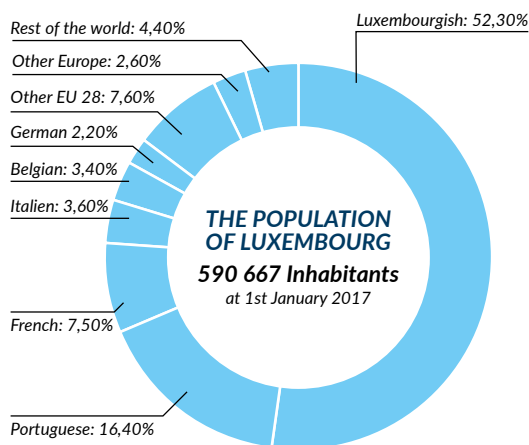
It is especially for our client-members that the “OPERA Advantages” program has been designed and we are more than pleased to have more than 30,000 members today compared to 10,000 members at the start of the program. Thanks to this program, Raiffeisen members have benefited from advantages of about one million Euros in 2017. We are proud to say that at Raiffeisen the client-members benefit directly from the result realised by their bank.



In terms of market, Raiffeisen Luxembourg is number three or four depending on which metric is used. Among the larger banks in Luxembourg, Raiffeisen is the only one that neither is state-owned nor belongs to a large international group, meaning that we are totally independent to take all our decisions and design our own strategies.

Raiffeisen Luxembourg focuses exclusively on the local market. Luxembourg is not only a renowned Financial Centre, but there are also a number of prestigious international corporates that have established their European headquarters in the country. The reasons are manifold: a central location providing easy access to a single market of 500 million inhabitants, a stable political, social and economic environment, a modern legal and regulatory framework and a qualified, multilingual workforce. Cross-border commuters represent more than 40% of domestic employment and are thus extremely important to Luxembourg's economy and labour market in general.

Luxembourg is proud of its multinational and multilingual society. About half of the roughly 600.000 inhabitants are foreign nationals with different cultural backgrounds, part of them living in Luxembourg for a few years only while others are coming to stay. This makes without doubt Luxembourg very unique but also difficult and costly for local businesses to design their strategies, offers and services.



Source : Statec

Foreigners coming to Luxembourg find also in their country of adoption most of the brands they have been familiar with at home while local producers, brands and banks struggle to become an alternative for this part of the population. E-commerce is still adding another layer of competition, especially since most of the new arrivals are very well educated millennials used to and looking for a high quality digital service offer and experience.

Digitization, a one-way path?

Digitization is just at its very beginning, but it seems to go hand in hand with some paradoxes. Studies show that Digital natives still seem to be sensitive to local brands and willing to choose local points of sales, provided they offer at least the same level of convenience than online platforms. While continuing to chase the products, services or offers that satisfy best their own interests, more and more millennials begin to care about how firms and especially banks manage their business, stakeholders and environment.

That is exactly where cooperative values could make the difference. However, studies show that a lot of people are not aware of these values and even have no clue about the characteristics that differentiate cooperative banks from other business models.

It proves that cooperative banks have to continuously sensitize their ecosystem to their essential messages: focus on members' interests, i.e. member value instead of shareholder value, responsible banking, care for the welfare of all stakeholders.

However, cooperative values alone will not be sufficient to make the difference.

Go Phygital

There is no doubt that a state of the art digital customer experience is a must for all banks, be they financial institutions driven by shareholder value or cooperative banks driven by member value.

But we do not think that all customers will be totally satisfied by an online-only banking ser-

vice. Part of them will continue to privilege using the branch and even clients who are managing their finances essentially online find themselves from time to time in a situation where they need their branch for a basic transaction.

We are convinced that the need for a real person to discuss with will not disappear and that a lot of customers will continue to seek personal advice, especially for more involving projects, such as investments or financing their new home.

As a cooperative bank which aims to work solely in the interest of its clients, we should grant access to our offer through all channels, be they digital or physical. We believe that it is up to our members to decide to what extent they want to use available technologies and it is up to them to choose the moment they want to switch from one channel to another. That is why, besides investing in digitization, we are pursuing investments in our local branches and we are even offering our members to visit them at home outside business hours. This is not about sticking to the past as long as possible. The end of the bank branch has been announced many times. Nevertheless we see today that branches are more than ever alive and kicking. Of course their role has changed. The traditional teller activity has been replaced by ever more sophisticated counselling, integrating new digital features in order to perfectly serve the interests of the customer. Even Amazon, the e-commerce pioneer and up to now the purest embodiment of an online-only shop seems to foresee a phigital future: Its first real bricks outlet just opened in Seattle.

Being a local co-operative bank, whose first ambition is not to maximize its revenues, remains one of our biggest strengths in that context. While others have to reduce their service level in order to generate a maximum profitability asked for by the owners, our business model enables us to offer premium quality services through all channels, which is the best way to ensure high levels of long-lasting loyalty.

Cultivate member satisfaction

Studies show that in Luxembourg Raiffeisen customers are those who are the most satisfied with their bank. We think we owe this recognition not only to the product offer and service quality, but mainly to one simple but essential fact: We always try to act in the best interest of our members. Even if we need to develop our business, as a responsible bank we make a point of not selling products our members do not need or understand, or which present a risk that is difficult to appreciate correctly. Our remuneration scheme is not sales performance driven and does definitely not foster irresponsible and pushy selling. This might sound obvious, but just have a look around you and you will find a lot of quite opposite practices.

One of the main purposes of the first cooperative banks was to provide financial services to those who for different reasons did not have access to such resources and to allow them to build up an existence and provide for their families. By working together they could improve their living conditions. Things have changed since then: Today, virtually everyone has access to at least basic financial services and competition among banks is fiercer than ever. What is then a cooperative bank's USP (unique selling point) in a digitized world? We do not believe it is the best technology or the fanciest app, even if cooperative banks have to keep up with their present and future competitors in terms of user experience, available functionalities and service quality. No more than caring for the welfare of their ecosystem, which is a highly respectable goal, but does not make cooperative banks unique. We are convinced that the main asset of cooperative banks is just as it was 200 years ago: They act exclusively in the best interests of their members and clients. This goes far beyond being client-centric. The tobacco industry is for sure very client-centric too, but are they finally acting in their clients' best interest? By committing to and proving day after day their unconditional respect of this guiding principle, cooperative banks can create an amount of emotional trust that algorithms, robots or block chain technology will have problems to compete with.