

IRU-Courier



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Editorial

Dear reader,

the IRU is approaching its 50th anniversary. With the preparations for the Jubilee 2018, we - the Presidium and the Secretariat General – initiated a process of modernization. We want to give the IRU a new momentum, raise awareness of the organization especially within the cooperative sector and provide members with interesting incentives. This also includes that you receive the current IRU-Courier for the first time as a PDF document instead of the print edition.

As part of the realignment, Ms Mandy Pampel joined the IRU as assistant of the General Secretariat in Bonn since 1st July 2016. She'll take care of the anniversary year 2018 as well as the redesign of the IRU's appearance and communication. Ms Pampel was previously working as assistant of the executive board for the German cooperative organizations BVR and DGRV in Berlin.

Odile Sot-Lanzrath, who was in charge of the needs of the IRU for more than 37 years, resigned on 30 June 2016. We thank her for the good and loyal cooperation.

In the last edition of the IRU-Courier, we had announced a detailed report of the 1st IRU Marketing Workshop about cooperative banks and member loyalty, which took place on 11 and 12 November 2015 in Zurich. Raiffeisen Switzerland who initiated the workshop kindly provided us with the report. We are pleased to publish the article in the current issue.

You will also find a summary of the study "The sustainability of cooperative banks - results of an empirical survey" which was carried out by the Institute for Cooperative Studies at the Westfälische Wilhelms-

University of Münster, Germany. The article emphasizes that it is indispensable for the cooperative banks to work ecologically, economically and socially sustainable in order to create a permanent member value.

And finally, a third article talks about a historical decision in the Dutch cooperative banking system: Rabobank took a big step into the future by merging its central institute with all 106 local member banks and thus introduced a new governance structure. The article describes the main bodies, the structural embedding of the cooperative idea and the interlinkage of the cooperative values with the banking business.

We would like to point out once again that the next IRU general meeting will take place in the morning of 14 September 2016 in Lucerne/Switzerland. In the afternoon, we invite you to our first "Raiffeisen Forum" discussing the topic of digitization as a new opportunity for cooperatives. Both events take place in the context of the International Conference on Cooperative Studies (ICCS 2016), to be held from 14 to 16 September 2016 on the subject of "identity and growth".

We hope to meet you very soon in Lucerne/Switzerland and wish you an interesting and enjoyable reading.

A handwritten signature in blue ink, reading 'Andreas Kappes', is positioned above the printed name and title.

Andreas Kappes
Secretary General



RECRUITING MEMBERS – FOR THE BENEFIT OF MEMBERS
- IRU Marketing Workshop November 11th/12th, 2015 –

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Cooperatives generate the greatest possible benefit for their members. What is the role of membership marketing in this context? This question was explored in great depth by Raiffeisen representatives from Europe and India in Zurich.

There is hardly any difference nowadays between the products of banks and other service providers. They copy each other. What cannot be copied, however, is the cooperative model. Can cooperatives develop a positive profile by means of their legal form to distinguish themselves from the competitors? This question comes easily to mind. It was discussed in Zurich on November 11th and 12th on invitation of Raiffeisen Switzerland within the framework of the 1st marketing workshop held by the International Raiffeisen Union (IRU).

It was a meeting of high-profile representatives. From many years of experience they knew: based on the principles of self-help, self-governance and self-responsibility, members of Raiffeisen cooperatives have a decisive role to play.

Marketing in a different context

In general, marketing is intended to boost corporate sales. In the context of cooperatives, this means to attract as many shareholders as possible through membership marketing. Once recruited, a member is

expected to contribute as much as possible to the success of the cooperative. However, joint-stock companies and cooperatives have different goals: while stock companies focus on profits for the shareholders, cooperatives aim at benefits for the members.

This is due to differences in ownership structure. Stock companies are owned by investors whose focus is a good return on their investment. Cooperatives are owned by their customers. And it is first and foremost the service rendered that counts for customers.

In other words, membership marketing by cooperatives is not primarily about higher profits. Membership marketing is a good idea if it contributes to better economies of scale. In banking, in particular, economies of scale are extremely important. The recruitment of members therefore increases the benefits for members.

Members as special customers

Customers who are also members take part in the decision-making. One member – one vote. In this respect, they enjoy a whole



range of advantages – as the Zurich workshop demonstrated. In practice, such benefits are becoming increasingly important because they improve customer loyalty. Yet it is not just cooperative benefit packages that make the difference. Other firms have launched schemes to increase customer loyalty as well.

Are cooperative benefit packages simply more lucrative than those of companies with a different legal form? This question is difficult to answer. For the Belgian CERA, the answer is therefore bonding, not “just” loyalty. Customer data is collected and analysed in order to serve the customers. To increase sales is not a priority.

How can such a bond be created? Bonding is unknown to the *homo oeconomicus*. Bonding, affinity is something emotional. It develops when a cooperative takes its members seriously. When it gives members a voice. And when a cooperative is really committed: either directly in social projects or by running a crowd donation platform. There are many and diverse opportunities. And increasingly more so in this era of digitalisation.

Membership as a selling tool?

The workshop demonstrated: membership may also be a selling tool. But that is not the main purpose. And monetary benefits for members are important but there is more to it. The cooperative mission goes beyond that. There was general agreement on this point in Zurich. And this impression is confirmed by science: a study

commissioned by the *IG Genossenschaftsunternehmen*¹ shows that it is above all long-term reliability, regional roots, solidarity and shared decision-making that come first for the public at large. In other words: cooperatives distinguish themselves from their competitors through active involvement and direct participation of members. When compared to stock companies, other differences are hardly noticed by the general public.

Unused potential

Let us come back to the initial question of the IRU workshop: how can cooperatives use their legal form successfully in marketing?

Product advantages and additional offers for members are certainly part of the answer. But there is much additional potential. The cooperative may become a focal point much more than hitherto. In practice, this includes shared decision-making and participation. And local involvement. And proximity by being present locally and digital offers. For the benefit of the members.

* * *

¹ gfs.berne (2011). Nachhaltig erarbeiteter Vertrauensbonus "Genossenschaft" (Sustainably generated extra confidence through "cooperative") Study commissioned by the *IG Genossenschaftsunternehmen*, chapter 2, 4. Membership and its advantages, p. 19-22



THE NEW GOVERNANCE OF THE COOPERATIVE RABOBANK

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After establishing the first cooperative bank in the Netherlands 120 years ago, Rabobank has taken a historic decision to change the governance structure. From 1 January 2016, all 106 local member banks and the cooperative central institution Rabobank Nederland form one cooperative, with one banking license, and one financial statement. After intensive and sometimes emotional discussions, Local Members' Councils, agreed unanimously to all the proposed governance changes on the 2nd of December 2015. One week later, the General Meeting also approved the merger into one cooperative. This article outlines the main bodies and features of the new governance model.

Main features of the new governance regime

Rabobank's governance is not static, but has changed continuously since its inception in 1895. Interrelated drivers for governance adjustments have always been strategic (re)considerations, developments in society and changes in banking regulation and supervision. This also holds for the recent governance transformation. The revision has been prepared by an internal Governance Committee which was inaugurated by the Executive Board in March 2014. The essential assignment of this

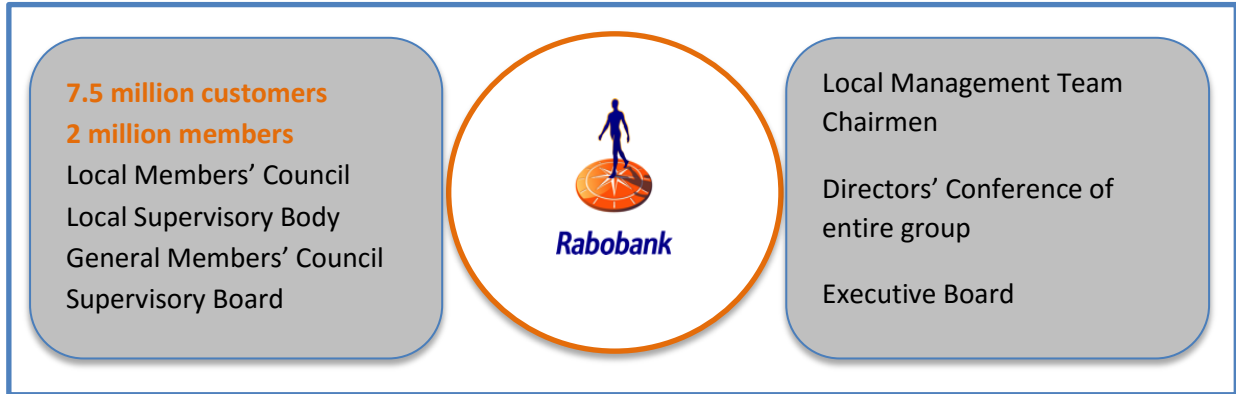
Committee was to establish a future-proof governance which would contribute to recovery and to the maintenance of trust and confidence among internal and external stakeholders in Rabobank. Stringent criteria for possible adjustments to governance were formulated. The redesign had to result into a better cooperative and a better bank. The proposals should fully abide by the central notion that the orientation and discipline of a cooperative enterprise can only come from its members.

After intense deliberations, it was finally decided to merge all 106 local cooperative banks (LCBs) and Rabobank Nederland (RN) into one cooperative bank. The merger implied that members, customers and employees of the former LCBs became members, customers and employees of one Rabobank. It operates with a decentralised organisation of local banks and is characterised by local and central countervailing powers exercised by member representatives. These checks and balances are firmly anchored in the new articles of association and internal rules.

Figure 1 shows the governance bodies in the new set-up. The left part of this figure represents the cooperative pillar. The right part refers to the banking pillar. The orange circle symbolizes the unity of cooper-

ative and bank. The new governance bodies are broadly discussed below.

Figure 1 New governance structure: unity of cooperative and bank



Cooperative pillar

Customers of local banks in the Netherlands have the option to become a member of the cooperative. Members are still linked to their own local bank² on the basis of the rights and obligations prevailing before 2016. Members are categorized into Delegates' Election Assemblies which elect the members of the Local Members' Councils (henceforth LMCs), consisting of 30-50 members. The actual functioning of LMCs scarcely differs from the old situation. LMCs are 'the eyes and ears' of Local Management Teams (signalling function), act as sparring partner, and, last but not least, have a number of formal tasks and responsibilities, e.g. deciding on a merger or division of local banks; the recommen-

ation, appointment, suspension and resignation of members of the Local Supervisory Body (henceforth LSB). LMCs have a say in defining the social role of LCBs in local societies and in the allocation of cooperative funds.

The LSB consists of 3 to 7 members and is part of the corresponding Department. It is not a legal but a statutory body (see footnote 2). Local supervisors are appointed by and accountable to their LMC. The local supervisors have to be members of the cooperative. The functions and position of the chairman of the LSB have altered fundamentally compared to the previous situation. The chairman has a governance role in the LMC. In the former governance regime, he just acted as a 'technical' chairman of the LMC. Second, every LSB chairman represents the members of its local bank in the General Members' Council (henceforth GMC), the highest decision making body in the new governance. This implies that all local banks and their members are represented in the GMC. It is important to note that the chairman partici-

² The use of this terminology may be somewhat confusing. Under the new governance regime, local banks are no longer independent legal entities. Hence, Departments of Members, Local Members' Councils, Local Supervisory Bodies and Local Management Team Chairmen have no formal, legal status according to Dutch corporate law. However, these bodies do have a statutory status, i.e. internal rules and regulations describe their tasks and responsibilities.



pates without instruction and consultation in the GMC. He will surely take into account the standpoints of his grass roots, but cannot be forced to have a certain opinion.

LSBs have important tasks and responsibilities, including a supervisory role, to secure the decentralised or local focus. This is achieved via the delegation of specific local governance powers to LSBs by the Executive Board. For example, the functional employer's role for the Local Management Team Chairman is delegated to LSBs. The main rights of approval of LSBs encompass (i) the appointment, suspension and resignation of other members in the Local Management Team, (ii) specific Board decisions, (iii) Annual Plan/Budget, and (iv) Membership Policy.

LSBs monitor the execution of the strategy and policy plans by the Management Team Chairman. This concerns an evaluation of the degree to which the local bank complies with external laws and regulations, the articles of association, and other rules and decisions of Rabobank. The LSB and Local Management Team are expected to aim at alignment of locally formulated targets and the achievement of these goals with collectively agreed ambitions and objectives by the GMC. Moreover, local supervisors actively assess whether the provision of products and services satisfies the needs of customers and members. They also monitor to what extent the Management Team Chairman lives up to his local responsibility to focus on customers' long term interests and to contribute to a sustainable development of the local working area.

The new GMC has about 100 member representatives. On behalf of the members, the GMC acts as the owner of Rabobank to safeguard continuity and as the custodian of collective values. It determines the development of the cooperative and the decentralised organisation and ensures adherence to the articles of association. The GMC evaluates the governance and the banking business on the basis of commonly agreed strategic principles.

The GMC has several formal roles and responsibilities. It has the power to amend the statutes or change the legal status of Rabobank. It adopts the financial statements of the Group and has the right of approval for major decisions by the Executive Board. For instance, the GMC determines the strategy of the entire Rabobank Group. The GMC focuses on the social importance and impact of the bank. It concerns the bank's contribution to socio-economic development and the fulfilment of its public functions in society.

The Supervisory Board of Rabobank is appointed by and accountable for its monitoring role of the Executive Board to the GMC. The chairman of the Supervisory Board is also chairman of the GMC. As a result of the merger into one cooperative bank, the responsibility of the Supervisory Board has broadened. Local banks are also within its scope now. Finally, the Supervisory Board appoints the members of the Executive Board, who are accountable to the GMC regarding the execution of the overall strategy.

Banking pillar

An important outcome of the governance discussion was the decision to separate policy preparation and decision making about strategic-policy and cooperative issues from those related to operational banking issues. The former topics are particularly relevant for member representatives, who need to be able to exert influence and have a disciplining impact on the strategic and cooperative course of Rabobank. This focal point of member influence differs from the question how the banking business can be organised optimally so that adequate customer servicing and efficiency targets can be achieved. To find solutions for problems and challenges in these areas, the GMC is not the appropriate body. Therefore, operational banking issues will be predominantly addressed in the new Director's Conference.

The Director's Conference is composed of Local Management Team Chairmen, directors of divisions which support local banks, and the Executive Board. This body functions as a preparatory, informative and advisory organ for proposals and policies concerning local banks. The Director's Conference also constitutes a linking pin between the highest echelons of the bank and the task of safeguarding customers' interests. This body has a statutory basis, but is not a decision-making body.

The Executive Board governs Rabobank. The major change is that the scope of the Executive Board has widened. The Executive Board is now fully responsible for the overall banking business, including that of

all local banks. In the new situation, the Executive Board has the ultimate responsibility for the compliance of local banks with external regulations. Moreover, the Executive Board formulates proposals for the strategy of the Group and is responsible for all group subsidiaries.

To preserve local orientation and local entrepreneurship as distinguishing features of local banks, the Executive Board has granted the Local Management Team Chairmen a number of authorisations. Consequently, these chairmen are able to perform their tasks locally and to take responsibility for their bank. The chairman has additional responsibilities for the members who are linked to its local bank. Another delegated task concerns his role as local employer, also with respect to the other directors on the board. In exceptional circumstances, the Executive Board can partly or fully withdraw the authorisations granted to an individual local bank.

Concluding remarks

The fundamental governance reform was triggered by internal and external factors, which pertained specifically to Rabobank and were closely related to previous organisational and governance steps. Since all other cooperative banks have followed different evolutionary paths, it would be inappropriate if regulators and/or supervisors would consider the 'new Rabobank model' as a blueprint for these banks. Rabobank genuinely believes that the governance revision strengthens its cooperative characteristics. For instance, various perceived anomalies in both the local and cen-



tral governance are rectified. Furthermore, the reform offers room for improvements in the (cost) efficiency of the Group, which enhances the reservation capacity to meet higher capital requirements. At the same time, the decentralised organisational structure is well-preserved in the new articles of association. All these aspects actually accord with Raiffeisen's long standing principles of sober management, local

character and capital formation via retained earnings.

This article is an edited version of the publication 'The Road Towards One Cooperative Rabobank'.

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COOPERATIVE BANKS AND SUSTAINABILITY AS A MISSION STATEMENT

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The concept of sustainability

The original idea of sustainability goes back to forest management in the 18th century, i.e. of never cutting more trees than could regrow over the same period or, in simpler terms, living on interest rather than on the capital itself. Given the increasing number of ecological problems which evolved during the 20th century, the principle of sustainability has attracted international attention. Milestones of this development include the Brundtland Report and the Agenda 21 – both leaving their mark on the way we understand sustainability today. The concept of sustainability is made up of an ecological, economic and social dimension. According to the Brundtland Report, a development is defined as sustainable if the needs of the current generation are met without compromising those of future generations.

The special role of credit institutions

As regards sustainable development, credit institutions have a special role to play. On the one hand, they have a direct impact on sustainable development because, like any other business, they need special resources for doing business. Sustainability in this context means the saving of energy, water and paper, for example. On the other hand, credit institutions affect sustainability indi-

rectly by granting and administering financial resources and can actively influence sustainable development as a result. Credit institutions themselves are therefore often called upon to act in an ecologically, economically and socially sustainable manner, and to support this with regard to other enterprises as well. A sustainability focus of credit institutions is therefore in the interest of society – even more so than with other types of enterprises.

Opportunities for cooperative banks

Addressing the subject of sustainability appears the right thing to do for cooperative banks as well, one reason being their customers' existing high expectations regarding sustainable orientation, not least since the crisis on the financial markets. Another reason has to do with the value potential that cooperative banks may generate as a result. The volume of financial investment with a sustainability focus has been constantly increasing for years, for example. Above all, cooperative banks are among the small group of credit institutions that can make a credible case for sustainability. Long-term orientation, transparency, member orientation, regionalism, cooperative values – they all prove to the customer that sustainability is already being practised by cooperative banks at this very moment.

Member value and sustainability

Cooperative banks generate values for their members (member value). This is their core competence and distinctive feature (unique selling point) by law, and should therefore be a point of orientation in their strategy. In fact, the concept of sustainability may be integrated into such a member-value strategy because ecologically, economically and socially sustainable practices are absolutely indispensable if member value is to be generated over the long term. It can therefore be safely assumed that cooperative banks are already practising sustainability in a comprehensive manner although not necessarily under the specific heading of “sustainability”. Integration into the strategy would therefore be a logical conclusion.

Sustainability study of the Münster Institute for Cooperative Research (IfG)

In order to establish the kind of ecological, economic and social sustainability practised by cooperative banks and where they see a need for further action to ensure “sustainability” in future, the Institute for Cooperative Research at Münster University conducted a nationwide survey among Volksbanks and Raiffeisenbanks in 2015. In total, 235 institutions of the cooperative *FinanzGruppe* took part in it, including some 87% board members. Sustainability is increasingly becoming more relevant for the latter: while 92% of those participating in the survey consider sustainability to be significant or very significant for their cooperative bank at present, 85% anticipate an even greater role in future. This means

that every bank ought to initiate an intensive discussion about its own concept of sustainability.

Sustainable practices by cooperative banks

Results of the survey show that sustainability is only partly practised in a purposeful manner: it is rarely incorporated explicitly in the strategy, goals or the organisation of cooperative banks. Yet such practices could be identified with regard to all three dimensions of sustainability. Ecologically, an average level of sustainable performance was observed for both operational ecology and for ecological activities in the region. In contrast, a significantly higher level of sustainability was identified at the economic level. Those who have taken part in the interviews associate cooperative banks with long-term orientation, transparent business policy and a high level of member and customer orientation. In the direct contact with customers, sustainability is reflected in person-to-person advice, comprehensive lending business and responsible investment advice. Sustainability is also practised extensively at the social level. With regard to staff members, it is expressed in terms of job security, adequate remuneration and the offer of advanced education and training. The banks’ social involvement in the region, which has traditionally formed a major part of the cooperative business model, becomes visible through their comprehensive support of clubs, foundations and parishes, in particular.



Specific areas of action

Yet a need for further action aimed at maintaining current levels of sustainability could also be identified, including a clear focus on using the online channel in all its facets to start with. However, the active practice of sustainability in business operations is also given high priority by the interviewees: sustainability is to be incorporated into the organisational structure of the banks, existing sustainable practices to be clearly communicated and the offer of financial investment with a sustainability focus expanded. To this end, best-practice cases already exist within the cooperative *FinanzGruppe* and are currently being studied by the Institute for Cooperative Research. Not least the existing average

levels of ecological sustainability are to be expanded. Considering the importance attributed to the ecological dimension by retail customers, this is no great surprise.

(published in PerspektivePraxis, DGRV technical report for cooperative enterprises, issue No 1/2016)

The complete study “Sustainability of cooperative banks – results of an empirical survey” (Die Nachhaltigkeit von Genossenschaftsbanken – Ergebnisse einer empirischen Erhebung) is available for free under www.ifg-muenster.de (section Forschung/Arbeitspapiere/N° 155).

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