

THE ROLE OF CO-OPERATIVE BANK: Perspectives From Italian Model

Short Scientific Article

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The text deals with co-operative banks in Italy. The authors intend to highlight the role of co-operative banks, their functions and territorial specificities. The term “co-operative banks” implies two different types of credit intermediaries integrated in a system that has as its reference model the one of universal bank: the community banks and co-operative banks. While sharing some distinctive features, the two types of co-operative banks in Italy show significant differences for both the historical evolution of the respective institutional models and about the operation that in time characterized them. The co-operative banks combine the social and cultural growth of the territory to the economic, social and co-operative business partner-stockholders-clients and business partner-stockholders-employees. In the special chapter, was made a reference to the forms of co-operative credit in Serbia. In the final chapter was made the research proposal.

Key Words: Co-operative banks, community banks, mutuality, common good, Italy

Jel Classification: G21, J54

1. CO-OPERATIVE AND COMMUNITY BANKS IN LITERATURE

*T*HE BANKING COOPERATION WAS BORN IN Germany to promote the development of co-operative banks in the cities (Schulze Delitzsch, 1863) and rural areas (Raiffeisen, 1866).

The Schulze-Delitzsch model is imported in Italy by Luzzatti, starting from the second half of the nineteenth century, which strongly supported the social function of credit and the need to apply the co-operative banking model to promote the development of economic and industrial potentialities. Today the co-operative banks have spread geographically, have low levels of turnover of employees and management, and above they keep over time the underlying principles that guide them since they were born (Gatti, 2008; Quaglio, 2008; Bonfanti et al., 2012).

Although legally, especially for governance and controls, they have different characteristics and features at European level, they share the following principles with co-operative banks (Quadrio Curzio, 2013):

- Mutuality;
- Democracy, expressed through the use of one-vote;
- Transparency of information;
- Territorial closeness.

The co-operative banking model traditionally adopts a relational business model focused on the establishment of deep and lasting synergies with reference customers that: facilitate the achievement of information advantages in the assessment of creditworthiness, reduce the riskiness of loans, encourage the formulation of a coherent and effective financial offer with the actual needs of customers, limit credit rationing and the incidence of bad debts, facilitate the birth and growth of new innovative business initiatives that are predominantly oriented towards forms of sustainable entrepreneurship with respect to companies that have been active on the market (Hockerts, Wüstenhagen, 2010; Formisano et al., 2016; Fedele, 2016). The bank, at the cyclical role associates a sustainable banking model, which also includes organizations at risk of financial exclusion and new business initiatives. The latter, in particular, often have great difficulty to support, because of limited budget at their disposal, their business idea, while presenting a high level of innovation and potential measures to promote economic and social progress of the territorial context in which they operate. To deal with this issue, they also apply the microcredit tool, to all those individuals who are denied from access to normal credit channels because considered non-bankable (Formisano et al., 2016).

2. ITALIAN MODEL OF CO-OPERATIVE BANKS: THE COMMUNITY BANKS

Co-operative banks, within the Italian context, are lenders institutes usually made in the form of co-operatives, that the law has regulated in Chapter V of Title II of the Banking Act. The term “co-operative banks” implies two different types of credit intermediaries integrated in a system that has as its reference model the one of universal bank: the community banks and co-operative banks. While sharing some distinctive features, the two types of co-operative banks in Italy show significant differences for both the historical evolution of the respective institutional models and about the operation that in time characterized them.

The community banks, are also called regional banks (Castellani, 2013), because they invest in their territory the capital raised, thus supporting the economy and potentialities for development (Baccarani et al., 2013), facilitating the access to the credit of the weakest sectors of society. This determines a co-evolutionary condition and a reciprocal link: the territory is important for the bank, the bank is important for the territory (Rossi, 2015). To Trotta (1998) and Bonfanti (2009) these banks are identified by:

- Territorial and operational roots, through a physical presence, constant and continuous in time;
- The enhancement of customer relations, based on a relationship of a personal nature;
- The interdependence of banks and socio-economic communities in the settlement;
- The economic link between the bank and the market, allowing to easily find the savings and facilitate the financing.

To the economic development, co-operative banks combine the social and cultural growth of the territory to the economic, social and co-operative business partner-stockholders-clients and business partner-stockholders-employees.

The presence of the community banks accentuates the phenomenon of proximity (Bruni, 2014) to the traditional clients, the most vulnerable, to households and small business realities contributing to the development of the territory. This will facilitate both the acquisition of soft information, which are decisive for the assessment of credit standing in the granting and monitoring of loans, and the

reduction of information asymmetries also against SMEs, hardly provided with coded, complete and transparent information (Berger and Udell, 2002; 2006; Thakor, Quinn, 2013).

In Italy, the peculiarities that distinguish the community banks are:

- The principles of mutuality (Cesarini et al., 1997) which are based in:
 - Internal activity, carried out in the interest of the shareholder through the investment made enhancement, in addition to allowing the member to use under particularly advantageous terms services and bank products;
 - Outdoor activities, claiming to requests from the local context for economic, social and cultural development;
- Shareholding limit: each member may not exceed 0.5% of the share capital;
- One-vote: each member has the chance to express only one vote regardless of the number of shares held, so as to safeguard the property that is to be sure to all the community of reference;
- Approval clause to new shareholders.

However, as reported in a comparative study (Simmons, Nikolic, 2016) about credit co-operative systems in 23 European countries, co-operative banks, in such contexts, have an important role in financial, economic and social sharing of the spirit of cooperation and mutuality, but also offers features, history and different development.

3. THE CASE OF ITALIAN COMMUNITY BANKS SUCCESSFUL PERFORMANCE

In order to highlight the role of a small community banks for the growth and development of an area, it is useful to describe the characteristics of the Community Bank of Cassinate (BPC), whose corporate philosophy is based on the “common good” and a widespread presence in the context of reference. The Bank, in compliance with ethical principles, sustainability and social responsibility (Wempe, Kaptein, 2002), works with foresight, courage and prudence, taking decisions and generating positive consequences for the community. In a context of “virtual” relationships, while recognizing the validity, its focuses own mission on territorial proximity and especially on the centrality of the human dimension rather than on

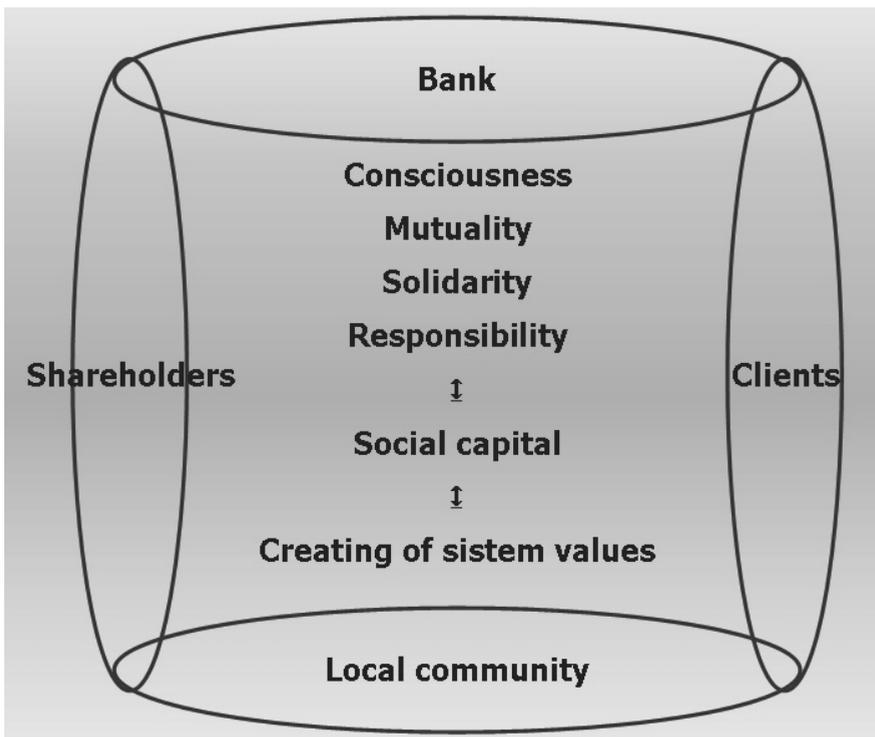
the client, by engaging in the exploitation and development of relational capital. The BPC distinguishes not only for its assets and the generated income, but for the relational capital, organizational flexibility, rapid decision-making, mutual, social and ethical goal, increasing the value created for all stakeholders (Formisano et al., 2016). The BPC has managed to create value by believing in the reference context, enhancing the excellence and supporting businesses in a qualified way, through the provision of concrete tools for the revitalization of the local economy. The deep knowledge allows the Bank to carry out deeper assessments than the competitors may do, thereby improving the allocation of credit and providing support to the local economy. His commitment, for example, is implemented over the ordinary operations through innovative services such as “First Idea” project, aimed at providing financial support for the creation and growth of new businesses that have original projects, highly innovative and value-creating content, about the protection and enhancement of the territory, the development of the knowledge economy and innovation, social inclusion and active citizenship. It promotes art, culture, sports, charities and solidarity. Another example is the philosophy called “A new way to make the Bank”, transforming the premises into living spaces, in terms of relax, communication, socialization, information and cultural, trade and artistic exchange. The Bank has invested in upgrading the communication beyond regulatory obligations ensuring the information symmetry and equality of rights, in a choice of social responsibility towards the community of reference. An effective and structured internal communication activities comes from knowing that employees informed and motivated, have a positive effect in the relationship with customers, business productivity, the sense of belonging and improving the internal climate. Formisano explains the role of cooperative banks in the socio-economic development of a territory (Formisano et al. 2016). The banks jointly pursuing economic and social objectives stated in the statute and contribute to the development of the social network of mutuality. The cooperative banks live the mutual purpose as an opportunity, according to a principle of reciprocity with the community of reference, which is beneficial for everyone (banks, citizens, other businesses, institutions). Speaking about the competitive advantages of local banks, Formisano says that the competitive advantage of local banks is based on the binominal information-reputation combination, at the base of the literature on asymmetric information that are reduced in the case of small and local banks

(Ibid). According to Formisano, relationship banking in the cooperative banks is based on:

- Trust that is established between the shareholder and the bank
- Generation of social capital – Participation, association and capital relationship
- Civil sense and moral standards

The chart 1 shows how Formisano understands the local network of mutuality

Chart 1. Local network of mutuality



Source: Formisano et al. 2016

4. THE CO-OPERATIVE CREDIT AND THE BANKING SYSTEM IN SERBIA

With regard to the context in Serbia (Simmons, Nikolic, 2016), it was shown that a transition process led to co-operative credit dissolution in 2005. Since the
 48 end of '800 it was born the first form of "Co-operative for mutual help and saving",

in a context dominated by the presence of mainly small family businesses, in most of cases highly in debt. After the second world war, the development of co-operative forms of intermediation, experienced an up-down trend until it completely solved in 2008. The decline began in 1993, with the approval of a new law on banks and other financial organizations, which actually ascribe the management of co-operative credit only to the state authorities. The last chance of survival for the forms of co-operative credit was eliminated with the Banking Law of 2005, which required any financial organization incorporated as a co-operative bank to become a bank, to merge with a bank or to cease working within one year. In literature, the main opinions claim that the activities of these co-operatives has been deleted because of unfavorable laws; however it should be noted that the co-operative credit institutions, have never been active to challenge this logic, suffering passively the supra-system decisions. In this context and with the advent of the financial crisis that began in 2008, the Serbian economy went even more under stress, especially because small businesses have experienced the greatest difficulties in accessing credit, since the intermediaries perceived the higher risk, considering them less attractive. Today, the banking system in Serbia is characterized by a strong presence of several foreign groups (Greek, French, German, Slovenian, Italian, etc.). The banks authorized by the National Bank of Serbia to act in this context are 31: of these, 20 are controlled by governance and foreign ownership (Austria and Greece 4 each, France 3, Italy 2, 7 others), 4 are controlled by private Serbian parties, 8 are national banks and then state-owned.

5. CONCLUSIONS: THE RELEVANCE OF THE MODEL FOR DEVELOPMENT OF SERBIAN BANKING SYSTEM

In the European scenario, economic and entrepreneurial attitude seem to favor the development of SMEs and entrepreneurship in general. These trends could be encouraged by flexible lenders, close to the territories and people; the model of co-operative banks appears to satisfy the above requirements. Serbia seems to have a regulatory system that does not encourage co-operative banks, while in Italy and in Europe, this model seems to have some success, particularly for the dynamics illustrated. It emerges, therefore, the opportunity to start a search on the applicability of co-operative bank model in Serbia, with particular reference to

the Italian community banks model. Based on the above considerations, the study should address the following issues:

- Analysis of the business environment, with a focus on Serbian small and medium enterprises;
- Analysis of the socio-economic environment of Serbia;
- Analysis of the banking sector of Serbia;
- Analysis of regulatory constraints, in Serbia, in relation to the banking sector;
- Compatibility analysis of the Italian model in the Serbian context.

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Rezime:

Uloga zadružnih banaka: perspektiva italijanskog modela

U tekstu se govori o zadružnim bankama u Italiji. Autori nastoje da istaknu ulogu zadružnih banaka, njihovu funkciju i teritorijalne specifičnosti. Termin "zadružne banke" nagoveštava dva različita tipa kreditnih posrednika integrisanih u sistem koji za referentni model ima univerzalnu banku: kamunitarne banke i zadružne banke. Deleći neke osobene karakteristike, dva tipa zadružnih banaka i Italiji pokazuju značajne razlike u pogledu istorijske evolucije respektivnih institucionalnih modela i operacija koje ih karakterišu. Zadružne banke kombinuju društveni i kulturni rast teritorije sa ekonomskim, socijalnim

i zadružnim poslovnim partnerom-stockholderima-klijentima kao i poslovnim partnerom-stockholderima-zaposlenima. U posebnom poglavlju, pomenuti su oblici zadružnog kreditiranja u Srbiji. U posljednjem poglavlju rada, predložen je nacrt za buduće istraživanje.

Ključne reči: zadružne banke, komunitarne banke, uzajamnost, zajedničko dobro, Italija

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