Banking and Insurance

Cooperatives provide financial services in the interests of customers, not capital

What is the Issue?

• The decades leading up to 2008 were marked by a gravitation away from mutual ownership toward a shareholder based model of private business

• This was particularly true in the banking and insurance sectors, which saw the rise of a monolithic business culture which largely prioritised short term profit over long term sustainability

Why is this a problem?

• The dominance of listed firms meant that companies in the sector took greater risks, which played a key role in causing the financial crisis

• The over reliance of economies across Europe on this business model ultimately meant that taxpayers paid for the failings of these firms through large scale bail-outs

• The pressures placed on public services by years of austerity are a direct consequence of this market failure

• In this way, the financial crisis stems in part from a lack of corporate diversity in the banking and insurance sectors

• Governments across Europe have taken steps to protect their economies from similar shocks through more robust regulation of the financial sector, but have failed to address the structural danger posed by the continued existence of shareholder owned firms as the dominant business model

• Whilst stakeholder owned companies are free to offer insurance in any EU member state, mutuals are prevented from doing so in four countries (Cyprus, Estonia, Lithuania, and Malta), and limited to certain lines of provision in three more (Bulgaria, Ireland, and Greece)

• In addition to this, the mutual or cooperative insurance industry is practically absent in Croatia, Czech Republic, Latvia and Romania

How can a Cooperative approach help?

• A strong cooperative and mutual banking presence in the banking and insurance sectors has the potential to act as an effective counterbalance to shareholder owned businesses

• Owned by their customers, coops and mutual banks are not driven by the need to generate maximum profits over a short period of time, and can therefore shape their service to meet the demands of ordinary people

• This gives them inherent advantages over listed companies, as profits can be used to provide better services and lower prices, allowing more people to benefit from their success

• It also allows them to take a longer-term view of business, allowing them to manage risk in a way that is beneficial to the interests of their customers, which is particularly valued in the banking and insurance sectors

• Since the financial crash, co-operatives and mutuals have proven themselves to be a more stable, responsible business model, less vulnerable to boom and bust

• Cooperative Banks have outperformed their shareholder owned counterparts, providing a significantly better return on equity since 2008

• In contrast to increasingly distant multinationals, they can provide a locally focused service tailored to communities and individuals that consumers can trust

• By providing quality services, coops and mutuals can even benefit the customers of shareholder firms, by driving competition right into the heart of the financial sector by offering better value savings, loans, and insurance products

• There are already numerous examples of co-operative and mutual success in the banking and insurance sector, such as Rabobank in the Netherlands, the Raiffeisenbanks in Germany, and the P & V Group in Belgium, all of whom hold a significant market share in their respective countries