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BOOK REVIEW

Marco Migliorelli (Ed.): New Cooperative Banking in Europe. Strategies for Adapting the Business Model Post Crisis

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This book edited by Marco Migliorelli is both important and timely. It is important because it tackles cooperative banking, a sector which has been at length under-researched. In spite of the large market segments they serve almost ubiquitously throughout Europe and beyond, cooperative banks are mostly ignored by scholars writing about banking. There are two main reasons behind this. First, being not purely profit seeking entities, the working and inner dynamics of cooperative banks fail to be understood by mainstream specialists. Second, scholars interested in promoting their publication records may find cooperative banks unattractive. Indeed, experience tells me that publishing studies on the cooperative banking sector in top field journals is very difficult, while the journals of the cooperative sector—which provide more friendly outlets for this research—generally lack a recognized impact factor. The two factors, then, concur to limit the group of scholars who venture into studying cooperative banks and trying to publish on the subject[1]. In turn, being

[1] A notable example supporting this argument is the following. In an attempt to revive the research on the sector, the European Association of Cooperative Banks (EACB) launched in 2013 a Prize for young researchers on cooperative banks. Although the Prize has been able to identify relevant contributions, the number of competitors in the various rounds of the Prize since it was launched has always been far from massive.

little known and little studied, the cooperative banking sector fails to be understood by the public opinion at large.

The book is also timely because, after the emergence of the Banking Union showed little able to recognize the virtues of banking diversity, a new phase may be opening up in which regulation and supervision could become less unfriendly to cooperative banking. Indeed, in recent years there had been three other books addressing cooperative banks in Europe, such as that by Boscia, Carretta and Schwizer (2009), that by Birchall (2013) and that by Karafolas (2016).

Something that distinguishes it from those other works is not only that Migliorelli's book is more recent—thus, benefiting from some hindsight—but also that it is more rigorously focused on the future of the cooperative banking sector. Namely, the book under review here addresses in a systematic way four major challenges facing European cooperative banks pertaining to: i) the macroeconomic adversities; ii) the regulatory challenge; iii) the internal governance issues; and iv) the consequences of the digital revolution. These four challenges concur to pose a big overarching question: Can Europe afford to do away with its cooperative banks—and also with a diminishing role of the other stakeholder-oriented banks—or should the old continent find a manner to safeguard these banks which are deeply rooted in its tradition?

Specifically, the four challenges are addressed in different parts of the book. The implications of the macroeconomic adversities for cooperative banks are the focus of Chapter 2 "The New Economic Scenario and its Impact on the Cooperative Banking Business Model", by Eric Meyer; and Chapter 3 "Cooperative Banks Lending During and After the Great Crisis", by Marco Migliorelli. In particular, Eric Meyer underlines the problems posed to cooperative banks by operating in a context of persistently low interest rates. As a result of the heterodox monetary policy (e.g., quantitative easing programs) carried out by the European Central Bank, nominal interest rates have been maintained close to zero for a prolonged number of years. And this builds a particular problem for the economic and financial sustainability of traditional banking intermediation, the preferred habitat for cooperative banks. In turn, in Chapter 3, Marco Migliorelli studies the lending behavior of cooperative banks vis-à-vis commercial and savings banks during and after the crisis. He finds that the traditional countercyclical attitude of cooperative banks' loan supply during downturns can be confirmed more recently only for the North-Eastern but not for the South-Western part of Europe. This seems to underscore that hasher surrounding macroeconomic circumstances may actually deviate cooperative banks from performing their traditional cushioning of loan provision to their customers based on long-term relationship lending liaisons[2].

[2] While Beck et al. (2017) confirm that relationship lending provided benefits to borrowers in terms of credit availability during the Great Crisis of 2008-2009, studying the deep crisis of Korea in 1998 Ferri, Kang and Kim (2001) also support the hypothesis that relationship lending had a positive value during the systemic financial crisis but find that the mentioned benefit disappeared for customers borrowing from foreclosed banks.

The regulatory challenge for cooperative banks is discussed in Chapter 4 "Cooperative Banks and Banking Regulation in the EU: Key Elements", by Marco Migliorelli; in Chapter 5 "National Initiatives to Drive the Evolution of the Cooperative Banking Sector", by Hans Groeneveld, Roberto Di Salvo, Juan Sergio Lopez, and Francesco Di Leo; and in Chapter 9 "The Cooperative Banks Today in the EU Perspective", by Giorgio Caselli. In Chapter 4, Marco Migliorelli addresses the main adaptations needed to the relevant regulation to accommodate the specificities of cooperative banking, considering as well the main impacts of regulation on the cooperative banking business model. On their part, the authors of Chapter 5 present the major reforms undertaken in various countries in the cooperative banking sector from the beginning of the Great Crisis, including the case of Rabobank in the Netherlands, the recent reforms occurred in Italy and in other European countries. In Chapter 9, Giorgio Caselli argues the benefits that may derive from a plurality of ownership types, business models and corporate objectives in the banking sector. However, he also stresses how the current regulatory framework in the European Union poses great challenges to the cooperative banking model, particularly by failing to abide by the proportionality principle (i.e., one-size-fits-all approach to banking regulation).

The internal governance issues of cooperative banks are tackled in Chapter 6 "The Governance of Cooperative Banks: Main Features and New Challenges", by Eric Lamarque; and in Chapter 8 "The Way Forward for Cooperative Banks", by Silvio Goglio and Ivana Catturani. Eric Lamarque questions the specific impact of the Basel III provisions on the governance of cooperative banks, investigates the relevant existing governance structures and related challenges, and proposes a possible way to introduce innovation in governance models. In turn, Silvio Goglio and Ivana Catturani highlight the importance of reaffirming the role of membership, of leveraging the unique relationship with the clients and of evaluating the different concentration options for smaller-sized cooperative banks.

Finally, the consequences of the digital revolution are addressed in Chapter 7 "The New Paradigm of Digital Proximity for Cooperative Banks", by Tiphaine Gorlier, Géraldine Michel, and Valérie Zeitoun. The authors study how the concept of proximity must be revisited in the digital era. Indeed, they claim that digitalization can be a powerful lever to foster a solid relationship with members and clients and how the cooperative brands, engraved by unique values, can become a symbolic anchor to keep conveying a sentiment of proximity.

Besides its systematic framework, a further merit of the book is that it is corroborated with up to date information and data that are normally difficult to find.

In spite of its many merits, a commentator has to point out also what could possibly be improved. In this respect, I would like to mention four issues. The first two issues—the nexus between cooperative banks and sustainability and the profound implications of the digital revolution on cooperative banking—should have been tackled more in depth, while the other two issues—the consequences of the Capital Markets Union for cooperative banks and the founding role of the cooperative banking sector within the European variety of capitalism—seem to have been missed. I will discuss the four issues in the order.

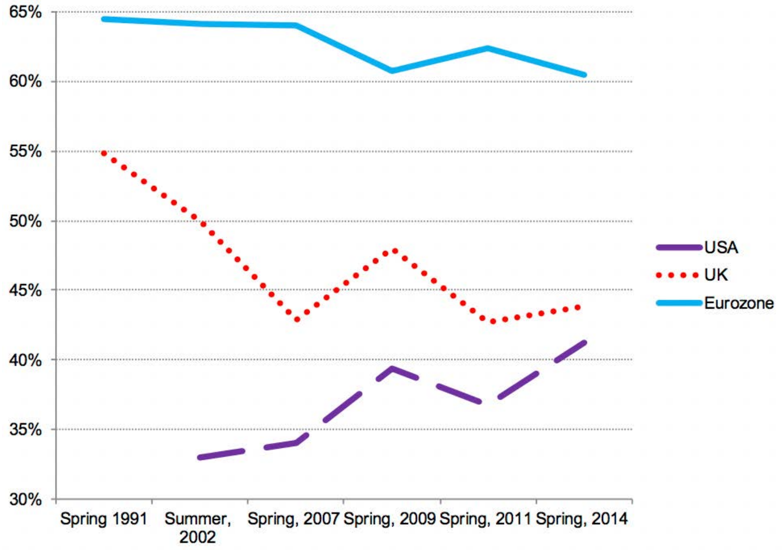
In general terms, finance has a dual relationship with sustainability. Both dimensions of the relationship need to be functional to achieve sustainability. The first type of relationship pertains to the sustainability of finance in itself. From being the most stable part of the economy, in recent decades the financial sector has become highly unstable. Indeed, the great recession at the turn of the latest decade originated from the global financial crisis of 2007-2009. If the financial sector is unstable, rather than supporting sustainability, it becomes a threat to sustainability in itself. With respect to this first relationship between finance and sustainability, one would have liked to see some discussion on whether and to what extent cooperative banks do make a difference. Besides, the second relationship between finance and sustainability may go under the title "finance for sustainability". In this dimension of the finance-sustainability nexus we should consider which forms of finance are appropriate to support sustainable development. Those forms of finance refer to the types of intermediaries and markets as well as to the instruments or contractual arrangements. To be sure, the concluding chapter includes some discussion on the specificity of cooperative banks in supporting sustainability. However, one would have liked the topic to be addressed in a specific chapter rather than through a set of tangential references at the end.

The other aspect that could have been better developed is how the digital revolution—and particularly social networks—interacts with the inner dynamics on which cooperative banks have entrusted their success. A major aspect in this respect seems to be whether and to what extent social media interactions are complements or substitutes for real personal interactions (Antoci, Sabatini and Sodini, 2015). The matter is not trivial here since according to many scholars one of the main specificities of cooperative banks is in their ability to build a relationship banking business model based on long-term personal interactions (Ferri, 2017).

Something missing entirely seems to be references to the second main driver of the architectural design of finance in Europe, namely the Capital Markets Union. Even though references are scant also to the twin driver of the Banking Union, there appears to be no reference in the book to the Capital Markets Union. This is problematic because the book is missing consideration of the hypothesis of the "double subjugation" of cooperative banks. Specifically, some scholars have argued that we currently live in a banking regulatory bubble whereby finance theory prevailed over banking intermediation theory in shaping banking regulation (Ferri and Neuberger, 2015). This contradiction provides the first subjugation of banking to finance. On top of that, failing to consider the merits of the cooperative—and, more generally, stakeholder-oriented—bank business model exposed cooperative banks to negative business and regulatory consequences, i.e., the already mentioned one-size-fits-all approach to banking regulation. This provides the grounds for the "second subjugation".

The final issue I wish to raise regards the failure of this book to represent the role of cooperative banks as one of the foundations characterizing the specific nature of continental Europe's variety of capitalism. In particular, differently from the US (and, in part, the UK), where the majority of citizens believe that each individual gets what he/she deserves, European peoples—irrespectively of their religious faith and/or of latitude and longitude—believe that in general it is not true that each individual gets what he/she deserves. Rather, Europeans view an individual's income and wealth to depend on factors largely outside their control (Figure 1).

Figure 1. Success is largely determined by forces outside our control (percentage of respondents who agree)



Source: our calculations on data drawn from Pew Research Center (2014).
Note: due to data availability, the Eurozone is approximated by the population-weighted average of France and Germany.

This leads to different inclinations to the free market, which delivers outcomes in line with each individual's effort in the US view but not in the European view, and so, different judgments on the need/opportunity to regulate markets in ways to avoid potential distortion building disadvantage for the weak as well as to intervene with mechanisms of solidarity to support them.

This argument nests on a fact: even after the fall of Communist regimes, contrary to what theorized in the early 1990s by Fukuyama (1992), Capitalism does not have a single, but multiple shapes—e.g., Hall and Soskice (2001).Therefore, if different varieties of capitalism exist, why do we have these differences? And do these differences result from historic and institutional sedimentation, which may be easily modified? Or, instead, do they correspond to peoples' founding values? Replies to these questions are not obvious. On the one hand, one might hold—a liberal thinker would certainly concur with this—that Europeans have little trust in the free market because they rarely tasted it, i.e. the very fact that markets are less free in Europe ends up generating Europeans skepticism in markets (like a dog biting its own tail). Also, along this view, values in support or against markets would be determined endogenously. On the other hand, however one can hold that values are in great part exogenous as they reflect culture, ethics and moral sediments, traditions of organizing society etc. Thus, if we believe in this second view, one needs to adapt markets and institutions to values. We cannot go the opposite way.

Then, if values are predetermined and European values are skeptical on the free market, we can easily identify as a grave error having entrusted the European unification exclusively to the logic of the free market. The above has strong implications for the way cooperative banks are treated in the EU. As part of the unification driven by the free market view, EU regulators/policy makers support the one-size-fits-all approach, where cooperative banks' specificities are disregarded, if not despised (that applies to all stakeholder banks).

In one of his most famous tale, *Heart of Stone (Cuore di pietra),* novelist Sebastiano Vassalli (1996) described the historical evolution of an unnamed city in Northern Italy across the 19th and 20th century as seen through "the eyes" of a palace. Among the most important steps in eliciting civil progress in its city at the turn between the two centuries, the palace witnessed how its fellow citizens managed to found a cooperative bank—a popular bank of the Volksbank type—which would then contribute to economic growth by favoring private savings and channeling them into investments. This was certainly not exclusive to the progress of that specific city, rather it was paradigmatic of how new productive forces were finding their ways to promote economic and social progress throughout Europe. Situations may have changed since then and cooperative banks might not be as vital today to societal wellbeing as they were a century ago. Also, cooperative banks of nowadays might suffer more severe governance problems than they were experiencing in the past. However, one would like to see that the possible decision to do away with cooperative banks were based on sound reasoning. Otherwise, we might be risking to throw the baby out with the dirty water.

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