Resilience in a Downturn: the Power of Financial Cooperatives

By Johnston Birchall
International Labour Office, Geneva. 2013 ISBN 978-92-2-127030-0 (print), 978-92-2-127031-7 (download from www.ilo.org)

Following the banking crash of 2008 there was feeling was that the co-operative and mutual financial sector had done better than investor owned banks from the effects of the collapse of Lehman Brothers and all that followed. This impression was to some extent confirmed by Johnston Birchall and Ketilson's earlier paper for the ILO in 2009, *The Resilience of the Cooperative Business Model in Times of Crisis*.

After the demutualisation of the UK's Co-operative Bank and the effective nationalisation of the Co-operative Central Bank of Cyprus can we still make this case?

Are co-operative financial services are especially resilient in a downturn? Fortunately thanks again to the ILO, Johnston Birchall, provides us with significant contribution to the answer to this question.

He defines a financial co-operative as an institution with three elements, customer ownership, customer control, and customers benefit. What flows from these elements and has the potential to make them resilient in a crisis is that they make them "stable and risk averse".

This research shows that with a few exceptions this is indeed the case. The sector did perform well during the 2007-08 crisis and "have continued to provide banking services to people on low incomes, to stabilise the banking system and to regenerate local economies."

The report begins with a description of the development of financial co-operatives. With Germany as their spiritual home the author credits both Anton Bernhardi and Friedrich Raiffeisen as both making a contribution to the development of the concept. The key breakthrough was the combination of savings and loans.

"The genius of Schulze and Raiffeisen was to solve the persistent problems in banking for people on low incomes." The Raiffesen banks grew very fast by 1905 there where 13,000 of them with over a million members. And according to Wolf in 1893, in 43 years there had only been ten cases of fraud.

The sector grew and prospered through a succession of crises, they survived the First World War, the Great Depression, the Second World War and even the greatest threat of all the post war prosperity. By 2010, in Europe there where 3,874 local banks, with 181 million customers, of whom over 50 million where members, they had a 21 per cent market share of deposits and a 19 per cent share of loans and had €5,647 billion in assets.

The other element of co-operative finance the credit union movement also has a significant global presence. The difference between co-operative banks and credit unions is that credit unions can only do business with their members. At the time of this report credit unions were significant in 100 countries, where more than 51,000 unions had almost 200 million members. Their average market share was some 8 per cent but in North America alone they had up to 45% market share and 105 million members.

This survey of co-operative financial services does not include banks owned by other types of co-operatives nonetheless, “It is a dramatic story, made even more urgent by the way this business model has survived and prospered during the recent financial crisis.”

The evidence of the performance in the crisis is indeed encouraging showing that “co-operatives had comparable or slightly higher earnings than investor-owned banks, and achieved higher return on equity.” Before the crisis the co-operative sector was more stable than and just as efficient as their investor owned competitors.

Credit Unions too had a good start to the new millennium savings and therefore reserves and assets increased almost everywhere and there was a significant increase in market share.

So how did these institutions weather the crisis? Well they are not magical they do require good governance like all fianancial institutions but on the whole the European co-operative banks came out of the crisis well with seven of them in the top 50 safest banks in the world. There where banks that made poor investment decisions like the Austrian Volksbank after being exposed to deteriorating conditions in Central and Eastern Europe.

Considering the depths of the crisis and the extent and length of the downturn both co-operative banks and credit unions around the world did remarkably well. This is not to say that each and everyone did well but post crisis they are all growing again although not at the pre-crisis rate.

So why is this? The author examines the key issues in ownership, control and member benefit and also the important issue of federation. He goes onto assess the wider societal benefits of financial co-operatives these are more difficult to measure but they too are not insignificant.

In conclusion he looks at how in an era of greater banking regulation how policy can be shaped to help support the sector. On the whole this whole report is immensely encouraging. A key issue is the long term impact of incredibly low interest rates which has a crushing effect on margins in the savings and loans sector.

Whilst member owned businesses are always more challenging to establish they are also more sustainable. This report helps to explain why this is so and how we can ensure they continue, despite the odd failure, can continue to do so in the future.

The Reviewer

Nick Matthews is Chair of Co-operatives UK

The Resilience Imperative: Cooperative Transitions to a Steady-Stage Economy

By Michael Lewis and Pat Conaty
New Society Publishers, Canada. 2012. ISBN 978-0-86571-707-7 (print), 978-1-55092-505-0 (ebook)

As we slowly climb out of the Great Recession this book is timely rejoinder to those who want to return to business as usual. A recovery stoked by a re-inflated housing market, increasing consumer consumption and by extension debt, and the failure to rebalance the economy despite the evidence of intensifying climate change, is hardly likely to encourage faith in the long-term sustainability of the economy. This is the jumping-off point for Lewis and Conaty's handbook for an alternative economy. The chapters cover everything from affordable housing and energy, sustainable food, local economic development, economic democracy, communal ownership and building a global change coalition. Yet what stands behind is finance and particularly banking. They persuasively argue that unless we reimagine the financial sector and create new institutions and products we can't truly transition to a steady-state economy.

Upon reading *The Resilience Imperative* I was struck by the difficulty of placing it within the utopian firmament. Yes, it seeks to be a user manual to help those seeking to create an eco-co-operative society but the word 'transitions' in the title tells us its primary objective. On a cursory glance this book is in the Owenite co-operative tradition. By all means it is utopian but it is the rationale and practical approach to constructing a society based on co-operative principles and ethos. Yet at the same time it has an ambiguous relationship with science and technology. While Owen embraced the Industrial Revolution and its potential to build a better society, Lewis and Conaty rarely make the case for the contribution science and technology could make to building the society they desire. This is somewhat baffling given their reliance on Climate Change science to justify the need for transition. In this they are much closer to Owen's French peer, Charles Fourier, though fortunately they avoid his obsession with sex. Perhaps a more appropriate utopian philosophy is that of William Morris. Certainly Morris rejects capitalism and argues for an environmental socialism, which chimes with the authors' central argument for greater local self-reliance and economic activity. Where they differ from Morris is how we transit from our society to their ideal. It could be argued that Lewis and Conaty are both more idealistic than Morris, but also more pragmatic. It is a self-confessed micro-side of transition. Here there is no recommendation for a violent overthrow of the established order, the authors' hope they can nudge through change by example.

This is a book full of case studies and evidence of firms and groups engaged in transforming themselves and their communities. It is hard not to get swept along by the breadth and depth of the examples. We travel from Yorkshire to Japan, via the Americas, Scandinavia and Spain. We move across time, exploring the historical creation of the of the cooperative class and how this most dangerous idea fell foul of politicians from the left, right and nervous central bankers. Though the authors never lose sight of their central premise: that a steady state economy improves not just the quality of life, but the financial position of families. They do this through a fictional family known as the Hartwick's. In each relevant chapter they show the net effect of adopting the current best practice, which over a 25 year period produces a saving of $286,969, despite food costs rising by almost $75,000. The big savings are the move from interest based mortgages to JAK's fee-based system for the loan, and negating the need to buy land for housing if a home is purchased through a community land trust. In an era where politicians are arguing about the cost of living around energy and utility bills, the authors' evidence shows that housing costs and particularly interest on mortgages are the main source of potential savings.

Charging interest has had a long and troubled role in human history. In many faiths it is declared usury and for Dante usurers would be found in the third ring in the seventh circle of hell. Although more acceptable today in much of the world it is still eyed with suspicion. Witness the furore around the interest rates charged by payday lenders and the recent controversy in Andhra Pradesh about aggressive microcredit. Policymakers seem unwilling or unable to challenge the power of the financial sector, which results in a disconnect between public and their leaders. Lewis and Conaty use the example of Sweden's JAK Bank's to demonstrate that cheaper fee-based loans are commercially available and appear to work just as well as a conventional mortgage. It begs the question: if we don't need interest to run a profitable bank, why do we allow it to continue? It is prompting this type of Socratic questioning that gives the book its intellectual strength and moves it beyond a detailed handbook for action.

What Lewis and Conaty have achieved is to write a book that outlines the practical steps we can take through adopting existing experiential learning. But its much more than that. By deliberately focusing on micro-activity it avoids grand narratives, yet it poses questions for our existing ideologies. Instead it offers us a sustainable society arrived at via a positive transition by incremental steps. Truly a utopia of the small platoons.

The Reviewer

Professor Karl Dayson is Executive Director of Community Finance Solutions at the University of Salford, UK.

The Development of the Modern US Credit Union Movement 1970-2010

By Paul Thompson
The Author. 2012. Available in paperback or as an epub from www.lulu.com.

Paul Thompson has written a terrific account of how the US credit unions transformed themselves from 1970 onwards into exceptionally strong, full-service providers of financial services to 99 million Americans. Now better capitalised and with far better consumer ratings than commercial banks, the 6,800 American credit unions offer their members a complete range of personal banking services.

The book is a must-read for anyone with an interest in how credit unions can, without losing their volunteer and co-operative ethos, evolve successfully beyond being limited-service financial co-operatives having only a relatively marginal impact on society.

For example, one of the author's key insights is how the US movement built its own supporting ecosystem of "second tier" shared services organisations, most of them credit union-owned. This is the reason why even small US credit unions (surprisingly, 3,200 have less than US$20 million in assets) can offer current accounts, credit/debit/ATM cards, secured auto loans, and home mortgages, and why they can do so with better rates and terms than their for-profit competitors.

Other histories of the American movement end at about the point when the movement there really took off. Mr Thompson's book ably summarises the story up to 1970 and then comprehensively completes it through to the aftermath of the global financial crisis (which, incidentally, left US credit unions relatively unscathed).

Originally a journalist and now a certified Credit Union Development Educator, the author was awarded the 2013 Individual Achievement Award of the DE programme of the National Credit Union Foundation for writing this book. He was a writer and researcher at the US trade body Credit Union National Association (CUNA) during the period he chronicles and was a witness to some of the events he describes.

Mr Thompson is also a skilled academic-grade researcher. He started compiling his notes for the book over a decade ago, when he retired from CUNA but was allowed access to dig deep into CUNA's archives. He also started collecting oral histories and interviews from scores of credit union people, ranging from loan officers, tellers and volunteer directors to national leaders.

Although suitably footnoted with sources clearly documented, the book is actually a very good, easy read, and it is spiced with colourful inside anecdotes about events and credit union personalities. A nice bonus results from Mr Thompson effectively relating the credit union story to its social and economic context. Hence, the book doubles as an excellent brief reference on US economic and political history, social conditions, and the overall financial sector from 1970 onwards.

My only complaint is that, while the handsomely produced hard copy edition has a very helpful table of contents, it lacks an index. For that, readers should also buy the eBook (ePub format) version, which is truly a bargain and lets you search the whole text by any word or name.

The Reviewer

Ralph Swoboda is Managing Director of CUFA Ltd (Dublin, Ireland) and a long-time credit union activist and advisor internationally.