Customer-owned banks are safer in a crisis, says professor

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(Phys.org) —Financial co-operatives fared better than investor-owned banks during the global recession, according to a recent report by a University of Stirling academic.

The International Labour Organization (ILO) report, entitled "Resilience in a downturn: the power of financial co-operatives," was written by Stirling's Johnston Birchall, Professor of Social Policy.

The report examines why financial cooperatives weathered the storm of the global economic crisis while many investor-owned banks struggled for survival. It concludes that financial co-operatives are more sustainable businesses than other banks because stability and aversion to risk are built into their structure.

The report also explains how financial co-operatives help to prevent the danger of monopolistic supply by moneylenders, thereby correcting market failure.

According to Professor Birchall, the banking crisis proved financial co-operatives were less likely to risk as much as PLC banks particularly because their managers did not receive a share of the profits.

He said: "The success of financial cooperatives during the global financial crisis posits a credible alternative to the investment-owned banking system. Whilst financial co-operatives do not have the same 'ups' as other banks, they do not have the same 'downs' either.

"The investor-owned banks are driven by a need to maximise profits which leads them to take much bigger investment risks - the scenario which triggered the 2007-08 global banking crisis."

Professor Birchall's report details how co-operative bank assets grew by ten per cent between 2007 and 2010 and co-operative bank customers grew by 14 per cent. Most of the financial co-operative losses were made up within a year or two.

Co-operative banks in Europe have come out of the crisis without being severely affected. According to the report, seven of them are in the top 50 safest banks in the world, and across Europe, they exceed the minimum legal capital ratio requirement of eight per cent, with an average ratio of about nine per cent.

Professor Birchall said: "Most came through without needing government bailouts, without ceasing to lend to individuals and businesses and with the admiration of a growing number of people disillusioned with 'casino capitalism'.

"Countries with a strong co-operative banking model have proved to be less affected by the crisis than countries where the model is absent."

Financial co-operatives invest in local economies, lend to SMEs, provide banking services to people with low incomes and bring diversity to the banking industry. Additionally, they prevent conflict of interest between owners and customers because the business is owned by the customers.

Professor Birchall will be launching the report at the European Parliament in May. His new book, *Finance in an Age of Austerity: the Power of Customer-owned Banks*, will be published by Edward Elgar on 30 April 2013.

More information: www.ilo.org/empent/Publications/WCMS_207768/lang—en/index.htm

Provided by University of Stirling