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Analysis of the economic behaviour of financial organisations

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Abstract: The general objective of this study is to highlight the differences in the economic behaviour of financial organisations and, in particular, in the structure and nature of financial services provided by institutions with different forms of ownership. We assume that their economic behaviour manifests itself through decisions about: selecting the type and scope of the functions performed for the real economy, determining the market segment (target customer group) for services provided and methods of and criteria for making decisions about the way to conduct financial activities. We try to determine the economic behaviour of financial entities belonging to the following ownership forms: public financial institutions, collectively-owned financial institutions and private financial institutions.

Key words:
economic behaviour, financial institutions, ownership forms

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Analysis of the economic behaviour of financial organisations (by forms of ownership)

Content :

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Analysis of the economic behaviour of financial organisations

1. Introduction

1.1 The concept and components of economic behaviour

The general objective of this study is to highlight differences in the economic behaviour of financial organisations and, in particular, in the structure and nature of financial services provided by institutions with different forms of ownership, and to show their role in performing the financial system's functions. Accomplishing this objective involves, first of all, clarifying the theoretical aspects of what will be understood here by economic entities' (particularly financial institutions') economic behaviour, as well as identifying the main criteria which enable us to describe this behaviour.

Discussing the behaviour of economic entities is associated with the development of behavioural economics, which negates economic sciences' classical paradigm of homo oeconomicus. It is replaced by an analysis of various – mainly psychological, sociological and institutional – determinants of economic decision-making. The focus of behavioural economics is, above all, to identify non-economic factors behind economic decision-making, factors which cannot be explained using the assumption of acting rationally to maximise personal gains.

On the other hand, the influence of rational (as the homo oeconomicus concept assumes), psychological, sociological, and possibly other factors behind decision-making results in decisions typical of certain situations and types of economic entities. A set of such decisions, typical of certain groups of economic entities, will be treated here as a manifestation of, and a basis for characterising, the economic behaviour of the groups (types) of economic entities under research. Thus, adopting behavioural economics' basic assumptions of the complex nature of decision-making factors, we will focus not so much on investigating the sources and mechanisms of decision-making as on demonstrating their consequences in the form of a kind of decisions taken, depending on existing psychological, social, economic and institutional determinants. At

the same time, we will assume here that the set of factors largely determining economic decisions is dependent, first of all, on the ownership status and only then on the organisational and legal status of an economic entity.

With regard to financial institutions with the forms of ownership identified here, we will assume that their economic behaviour manifests itself through decisions about:

- selecting the type and scope of the functions performed for the real economy, as reflected in the structure of the financial services provided. Basic decisions concerning the type of financial services are related to a particular financial institution's belonging to one of the three basic sectors of financial activity, which are the banking, insurance and investment-fund sectors. At present, a significant proportion of financial institutions operate as, or as part of, financial groups including entities active in all key sectors of financial activity. Thus, entities with the ownership forms that are the focus of our attention are present in all key sectors of financial activity. In this situation, a description of economic behaviour related to the selection of the structure of the financial services provided will be based, on the one hand, on the share of banking, insurance and investment funds in the total financial activities of entities with a particular ownership status, and, on the other hand, on the significance of entities with a particular ownership status for the functioning of the financial sector.

- determining the market segment (target customer group) for services provided by a particular type of institution. Within the classical approach to functions performed by the financial system, recipients of financial services usually include companies, the state, households, and abroad[1]. From the viewpoint of a description of the economic behaviour of entities with various forms of ownership, such a division seems highly inadequate. Especially in relation to companies, among recipients of financial services we should first of all distinguish real-economy companies from financial companies and institutions, and among real-economy companies we should separate services provided for large companies and multinational corporations from those provided for small, medium-sized and micro-enterprises. Also among households as recipients of financial

[1] See: F. S. Mishkin, *Ekonomika pieniądza, bankowości i rynków finansowych (The Economics of Money, Banking and Financial Markets)*, Wydawnictwo Naukowe PWN, Warsaw 2002, pp. 52 and 53.

services, in order to show differences in the economic behaviour of particular types of financial entities, we should distinguish households with different levels of affluence, particularly low-income households on the one hand, and those with significant financial resources on the other. However, from the viewpoint of economic behaviour analysis, the least important thing is identifying more specific groups of customers among public entities, although also here we can attempt to distinguish national-government institutions from local-government institutions and public entities of the real economy. The choice of the market segment to be targeted by a company (financial entity) is linked to the pricing policy and strategies used by financial entities. Generally speaking, it can be assumed that offering financial-services to standard and less wealthy customers will involve employing a policy of moderate financial-services prices and trying to reduce them.

- methods of and criteria for making decisions about the way to conduct financial activities (provide services), relating to such characteristics of business activity as profitability, levels and methods of risk protection, the related level of liquidity preference, and the time horizon of economic calculation.

The ownership status and the organisational and legal form in which a financial activity is carried out particularly strongly affect the nature of the basic criterion resulting from the objective pursued by a financial institution. Therefore, the basic criterion for decision-making could be seeking to increase profits from the company's activity. Depending on the organisational and legal form, it manifests itself in attempts to maximise profitability, maximise shareholder value, or increase the company's scale of operations and market importance (especially in financial corporations with dispersed owners, where a decisive role in decision-making is played by managers). The aim of financial institutions could be seeking to satisfy their customers' financial needs at the lowest possible cost while meeting the condition of providing services at a minimum level of profitability, necessary for an institution to function properly. Finally, some financial institutions satisfy demand for those kinds of financial services which are considered to be particularly important from the social and macroeconomic point of view. At the same time, depending on these institutions' formal status, methods of

activity, and mechanisms of raising funds for their activity, they can pursue these objectives with different levels of profitability or even deficit. Generally speaking, therefore, depending on the objectives pursued and the attitude towards profitability, we can distinguish commercial and non-commercial economic behaviour. The former focuses on maximising profitability, broadly understood, independently finances the accomplishment of its objectives, that is, it seeks to achieve a minimum level of profitability necessary to ensure the institution's operation. Non-commercial economic behaviour focuses on providing financial services regardless of the profitability level of one's activity. In the latter case, the sine qua non of stability of the institution's operation is that it gains stable external sources of funding.

Another element of decisions that determine the behaviour of economic entities operating as part of different ownership forms is their attitude towards risk and the methods they use to protect against it. This behaviour is closely related, on the one hand, to the attitude towards profitability (because, as part of rational behaviour, higher profitability generally involves an increased risk) and, on the other hand, to the importance attached to liquidity preference. Generally speaking, when choosing a method of risk protection, it is possible either to avoid actions burdened with too much risk, or to seek a way of quickly withdrawing one's funds from projects in which the risk materialises. In the case of depositing activity, the first method consists in investing funds in low-risk projects, and the other one in making high-liquidity deposits. In the case of lending activity, the first risk protection method would consist in conducting an in-depth analysis and setting stringent customer-creditworthiness criteria, and the other one in focusing on short-term loans. A second element of economic behaviour in relation to risk is the risk protection mechanisms used in a given financial institution. The main elements of these mechanisms are, on the one hand, internal reserve systems and existing prudence standards and, on the other hand, external security risk protection systems such as guarantee funds as well as an insurance and reinsurance system. It should also be noted that an important component of economic behaviour towards risk is the choice between limiting a financial institution's risk by shifting the

risk (if this is possible) to recipients of financial services and limiting the risk borne by these recipients by using appropriate tools to mitigate business risk.

An important component of economic behaviour is also the time horizon of the calculation used during the decision-making process. In general, as with most business activity, the calculation performed while determining financial institutions' behaviour may be long-term or short-term. This is related to a period in which outlays and results of one's activities should be balanced and, in particular, profitability requirements should be met. From the perspective of calculation, actions carried out in different time horizons can be made comparable by using a discount. Because of this, however, depending on the discount rate, actions exceeding a specific time horizon cease to be taken into account in decision-making. On the other hand, given that financial institutions' aim may be not only to maximise profitability but also to achieve other economic and social objectives, the time horizon taken into account in decision-making may be related not only to the period during which outlays and results will be balanced but also to the time of achieving non-commercial aims of financial institutions' activities.

1.2 Empirical bases for economic behaviour research

From the empirical perspective, the basic problem of economic behaviour research lies in identifying the available statistical and factual data that could constitute a basis for a description of the economic behaviour of the investigated ownership and organisational forms of financial institutions. Given the aims of the present paper, it would be desirable to obtain some information about characteristics that will allow us to determine the economic behaviour of financial entities belonging to the following ownership forms:

- public financial institutions which include, in particular, central banks, banks and other financial institutions which are wholly owned or controlled by the state, municipal and local-government banks and financial institutions, government and municipal funds and agencies;

- collectively-owned banks and other financial institutions which include, in particular, cooperative banks and financial institutions, cooperative credit unions, mutual insurance companies, as well as employee-owned or cooperative funds and foundations;
- private financial institutions, including commercial and non-commercial institutions.[2]

At the same time, owing to the possibility of the legal and organisational form having an impact on economic behaviour, among public financial institutions we should distinguish entities with the status of a private company, including in particular public companies (listed on the stock exchange), from financial institutions operating on the basis of a legal status unique to a public entity. In terms of the scope of and influence on a given institution's economic behaviour, we should also take into account the level of control exercised by the public owner. A classification of financial institutions using this criterion is proposed by Mathias Schmit, Laurent Gheeraert, Thierry Denuit and Cédric Warny, who distinguish:

- public company, subdivised in fully public, and strong public influence,
- company with public participation, subdivised in significant public participation, minor public participation and
- non-public company[3].

Similarly, with regard to collective ownership forms of financial institutions, we should distinguish entities with a diversified legal and organisational status, such as classical cooperatives, mutual institutions, as well as cooperative and employee-owned funds and foundations.

Unfortunately, in empirical research into the economic behaviour of financial institutions, the biggest difficulty is caused by the fact that the European statistical information system developed by Eurostat has no information allowing us to

[2] Por. Janusz J. Tomidajewicz, *Privatization and nationalization of financial sector institutions: an impact on performing the sector's functions towards national economy: business units and households*, FESSUD D8.03

[3]Por. M. Schmit, L. Gheeraert, T. Denuit, C. Warn, *Public Financial Institutions in Europe*, European Association of Public Banks A.I.S.B.L. (EAPB), 15 March 2011, p.43, http://www.eapb.eu/page?pge=index&page=Articles&orl=1&ssn=&acrid=&cry_id=&pryid=&are=5&mi=5&mi=13

characterise at least the three identified (as part of both ESA 1995 and ESA 2010) basic forms of ownership: (a) public financial corporations; (b) national private financial corporations; and (c) foreign-controlled financial corporations. Nor do official statistics provide information about the more detailed division of these financial institutions according to their organisational and legal form.

Consequently, further analyses will be based mainly on information accumulated by associations and organisations made up of special types of financial institutions distinguished according to their ownership or organisational and legal form, but sometimes according to the type of activity conducted by particular financial institutions. As far as public institutions are concerned, among these financial associations, organisations and institutions we should point, first of all, to the European Association of Public Banks, the Public Banking Institute, and to some extent to Long-Term Investors Club.

As for collective ownership forms of financial institutions, we should first of all mention the European Association of Co-operative Banks, the Mutual Savings and Loan Association, the Association of Mutual Insurers and Insurance Cooperatives in Europe, Centre Internationale du Credit Mutuel, and the Community Development Finance Association in the UK. An important source of information on financial institutions' unique economic behaviour could also be data collected by the European Savings Banks Group, which consists mostly of cooperative and public institutions, and the European Microfinance Network.

Rather paradoxically, there are almost no organisations or associations made up of fully private financial institutions. Clearly, this does not suggest that they do not participate in the activity of organisations and associations representing their interests. However, these are generally sectoral organisations, which often include also financial institutions with an ownership form other than fully private. In some European countries, however, as part of these sectoral organisations, groupings including private entities have formed. This is true of Luxembourg, Switzerland and Belgium – witness the Private Banking Group Luxembourg, the Association of Swiss Private Banks in the Swiss Bankers Association, and the Private Bankers Association Belgium. However,

only to a very limited extent can they constitute a source of information on the economic behaviour of private financial institutions. Therefore, our description of private institutions' activities will be based mostly on data about sectoral organisations such as the European Banking Federation, the European Federation of Leasing Company Associations – Leaseurope, Insurance Europe – the European Insurance and Reinsurance Federation, Le Comité européen des assurances, the European Funds and Asset Management Association, and the Federation of European Securities Exchanges (FESE). Private financial entities have majority stakes and play a decisive role in most of these organisations, which suggests that data describing the economic behaviour of these organisations' members can generally be regarded as reflecting the economic behaviour of private institutions.

2. The economic behaviour of collectively-owned financial institutions

2.1 The forms and significance of collectively-owned financial institutions

The category of collectively-owned financial institutions is generally not distinguished statistically, nor is it clearly defined in the literature. The very concept of collective ownership tends to be associated with the term *common ownership*. As it is pointed out, however, unlike "common ownership, which means that access to the property is open to anyone (...) in collective ownership, property is owned by a specific group of people."[4] For the purposes of the present study, we will assume that the primary distinguishing feature of collective ownership is separating resources property rights to which are obtained by a specific group of people, and these rights are enjoyed by this group as a whole rather than by its particular members. This means that the

[4] R. G. Halcombe, *Common Property in Anarcho-Capitalism* , JOURNAL OF LIBERTARIAN STUDIES, VOLUME 19, NO. 2 (SPRING 2005): 3–29, http://www.mises.org/journals/jls/19_2/19_2_1.pdf

resources (capital) owned collectively are indivisible (among the group's members). Furthermore, a basic reason for participating in collective ownership is making use of the results of the activity conducted, which is why this form of ownership is also referred to as a "user-owned or user-controlled business that distributes benefits on the basis of use".[5]

The most common forms of collective property are cooperatives, employee-owned enterprises, as well as funds and foundations established by organisations and institutions (generally non-profit ones) made up of people and/or legal entities seeking to achieve some social or economic aim. In Europe, the most popular forms of collective ownership of financial institutions are primarily cooperative financial institutions. In the UK and, outside Europe, mainly in the United States, a typical form of collective ownership of financial institutions is also Community Development Finance Institutions. Also some Savings Banks, and Savings and Loan Associations can operate as collectively-owned institutions.

The significance of collectively-owned financial institutions for the entire sector of financial institutions in Europe can be evaluated, on the one hand, on the basis of their financial potential and, on the other, on the basis of the number of clients served and financial operations performed (eg, deposits accepted and loans provided). Owing to the difficulty in obtaining data about these values for the whole sub-sector of collective ownerhip, its significance will be illustrated here mainly with data concerning cooperative banking and insurance institutions. Cooperative institutions are also present in the investment-fund sector, but the scale of this presence is small, and there is no information allowing us to evaluate the activities of cooperative investment funds in Europe.

The significance of cooperative banks for the functioning of the banking sector in selected European countries is presented in Table 1. Data showing cooperative banks' significance and participation in the financial system's performance of lending

[5] See: S. Deller, A. Hoyt, B. Hueth, R. Sundaram-Stukel, Research on the Economic Impact of Cooperatives, University of Wisconsin Center for Cooperatives June 19, 2009, p. 4, http://reic.uwcc.wisc.edu/sites/all/ REIC_ FINAL.pdf

(crediting) and depositing functions are shown in Table 2. As the data on cooperative banking institutions comes

Table 1 **Cooperative Banks – Market shares of assets 1994-2003 (as % of total banking system assets)**

	1994	1997	2000	2003
Austria	...	29.4	29.5	35.6
Finland	18.5	17.5	16.2	15.9
France 1/	28.4	27.9	28.1	24.1
Germany	14.3	12.4	9.8	10.3
Greece	...	0.2	0.3	0.6
Italy	...	17.0	16.8	14.9
Netherlands	...	21.2	29.0	26.7
Portugal	...	3.5	3.4	3.5
Spain	3.0	3.5	3.7	3.9

1/ Including savings banks, before and after their conversion to cooperative banks in 2000
Sources: OECD – Bank profitability report, and IMF staff calculations ,after: Wim Fonteyne , Cooperative Banks in Europe—Policy Issues, IMF Working Paper, WP/07/159, 2007 International Monetary Fund July 2007, https://www.imf.org/external/pubs/ft/wp/2007/wp07159.pdf

from the European Association of Co-operative Banks, they does not cover the whole cooperative sector in Europe. The reason is that some national cooperative financial organisations are not, or at some point were not, members of the Association. A good example is the fact that, throughout the whole period under study, Poland was represented at the EACB by the National Association of Cooperative Banks (KZBS), whereas another organisation important for the cooperative movement, namely the National Association of Cooperative Saving And Credit Unions (SKOK), which is a member of another international cooperative organisation, namely the International Cooperative Alliance (ICA), was not included in EACB statistics. Denmark, in turn, had been until 2010 represented at the EACB by Sammenslutningen Danske Andelskasser, and after 2011 by Nykredit, which caused a rapid change in the values characterising this sector. The data in Tables 1 and 2 should therefore be approached with great caution, especially if we intend to reach conclusions about the situation in particular countries or years. Nevertheless, on the one hand, the data presented in these tables demonstrate that the significance of the cooperative sector in particular countries' financial system is extremely diverse. On the other hand, they allow us to conclude that

in many countries, despite the relatively small share of the banking sector in the total economic potential (as measured by the share of the cooperative sector's assets in the banking sector's total assets), it plays a significant role in performing the financial sector's functions (as measured by a share in the deposit and credit market). It seems that we can also say about a significant role of the cooperative sector in satisfying the economy's financial needs across the whole EU. According to an EACB assessment, "Europe's co-operative banks represent 56 million members and 850,000 employees and have an average market share of about 20%"[6].

[6] About us: The Voice of Co-operative Banks, http://www.eacb.coop/eacb.php

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Table 2 Market share (deposits & credits) of European Association of Cooperative Banks, as%

		2004		2005		2006		2007		2008		2009		2010	2011		2012	
		dep	cred	dep	cred	dep	cred	dep	cred	dep	cred	dep	cred	share of ATM's	dep	cred	dep	cred
1.	Belgium	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a							
2.	Bulgaria	2.19	1.80	2.46	1.87	2.67	2.43	2.6	2.4	3.29	1.97	3.50	2.20	12.20	4.90	2.50	2.90	5.00
3.	Cyprus	26.27	26.06	22.96	26.37	22.81	21.70	20.00	22.00	19.00	16.00	22.00	19.50	n/a	2.64	19.53	21.60	19.20
4.	Denmark[5]	n/a	n/a	0.50	0.50	0.50[2]	0.50[2]	n/a	n/a	0.60	0.50	0.10	0.10	n/a	5.00	32.00	4.40	31.00
5.	Germany	18.50	11.60	18.30	11.70	15.80	11.80	18.30	16.00	18.60	16.00	19.30	16.80	35.50	19.40	17.50	19.80	18.30
6.	Ireland	7.00	7.00	n/a	n/a	n/a	n/a											
7.	Spain	5.00	5.30	5.15	5.44	5.03	5.24	5.00	5.20	5.00	5.20	6.62	5.26		6.78	5.46	6.70	5.80
8.	France	50.2	53.70	46.70	52.50	43.60	45.90	53.00	45.30	42.71	46.45	42.5	46.5	14.30[6]	32.80[4]	38.00[4]	38.40[4]	37.70[4]
9.	Greece	1.00	1.00	0.90	1.00	0.80	1.00	0.80	1.00	0.80	1.10	0.80[3]	1.10[3]		0.90	0.90	1.80	1.30
10.	Italy	29.10	25.90	28.90	26.50	30.30	26.70	33.70	32.50	34.30	30.30	33.30	30.80	38.20	33.90	31.70	34.30	31.8
11.	Luxembourg	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	11.00	11.00	15.00	n/a	n/a	n/a	n/a
12.	Lithuania	0.80	0.75	0.90	0.74	1.20	0.77	1.40	0.80	1.40	0.80	2.00	1.00		4.20	6.20	4.60	6.80
13.	Hungary	10.10	4.20	11.50	4.00	9.88	3.60	9.10	3.10	8.26	2.68	10.50	4.20	16.30	8.30	2.90	1.80	1.30
14.	Netherlands	39.00	25.00	39.00	23.00	39.00	25.50	41.00	28.00	43.00	30.00	40.00	30.00	37.4	39.00	32.00	39.00	31.00
15.	Austria	32.18	27.95	33.21	28.92	34.88	31.12	35.80	31.3	36.60	32.10	37.40	32.50	54.20	36.90	33.00	37.00	32.50
15.	Poland	9.44	8.83	10.55	8.58	12.28	8.23	8.80	6.50	8.80	6.50	8.20	5.80	17.00	6.00	4.00	9.40	7.70

16.	Portugal	5.00	3.00	5.00	3.00	5.00[2]	3.00[2]	5.50	3.20	4.80	2.70	4.70	3.00	10.00	4.10	3.20	4.50	3.70
17.	Romania	n/a	3.75	1.08	2.50	1.00	0.70	1.00	0.70	1.00	0.70	1.00	0.70	n/a	n/a	n/a	n/a	n/a
18.	Finland	32.30	30.50	32.00	30.50	32.70	31.10	32.30	32.10	33.80	32.00	33.20	32.70	n/a	34.40	32.90	34.10	33.40
19.	Slovenia					2.24	1.38	1.80	1.70	1.80	1.70	2.70	1.60		2.80	1.60	2.80	1.60
20.	Sweden	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a		n/a	n/a	n/a	n/a
21.	UK	2.00	2.00	1.10	0.70	1.00	0.85	1.00	3.00	1.00	3.00	1.30	1.40	3.4	n/a	1.60	n/a	3.00
22.	Switzerland	17.50	13.40	18.00	14.00	n/a	n/a	18.60	12.10	18.60	12.10				19.80	n/a	2.00	16.10
23.	**EU(25)**	**17.0[1]**	**15.0[1]**	**19.0[1]**	**15.0[1]**													
24	**EU (27)**					**20.0[1]**	**20.0[1]**	**21.00**	**18.00**			**18.8[1]**	**20.7[1]**					

Notes:

n/a - Not applicable, [1] Estimations, [2] 2005 figures, [3] 2007 Data, [4] without BPCE ,[5] 2004-2010 Sammenslutningen Danske Andelskasser from 2011 Nykredit,

[6] only Credit Mutuelle

Source : European Association of Co-operative Banks KEY STATISTICS, 2004-2012, http://www.eacb.coop/eacb.php.

As for the insurance sector, the significance of mutual and cooperative institutions is shown in Table 3.

Table 3 Numbers and market shares of mutual and cooperative insurers in Europe

	Number of mutual/ cooperative insurers [1]	Mutual/cooperative market share (definition 1 & 2), 2008 in %			Mutual/cooperative market share (definition 1 & 2) change 2004-2008 in percentage points			*Mutual/cooperative market share (definition 1-3), 2008 in %*		
		Total	Life	Non-life	**Total**	Life	Non-life	***Total***	*Life*	*Non-life*
Austria	59	**4,0**	2,4	5,3	**-0,1**	-0,3	+0,1	***61***	*59*	*63*
Belgium	57	**7,9**	5,4	13,1	**-12,6**	-13,8	-11,1 [2]	***19***	*10*	*37*
Bulgaria	2	**2,3**	6,3	1,5	**n.a.**	n.a.	n.a.	***29***	*37*	*27*
Cyprus	0	**0,0**	0,0	0,0	**-**	-	-	***4***	*6*	*2*
Czech Republic	1	**0,3**	0,0	0,4	**+0,1**	-	+0,2	***28***	*22*	*34*
Denmark	87	**19,6**	19,5	19,9	**-1,1**	-1,5	-0,5	***45***	*56*	*21*
Estonia	0	**0,0**	0,0	0,0	**-12,9**	-9,8	-13,9 [2]	***4***	*9*	*3*
Finland	97	**32,5**	16,9	46,6 [4]	**-3,4**	-12,4	+4,1	***33***	*17*	*47*
France	716	**31,6**	15,7	59,9	**-0,4**	-0,6	+0,6	***32***	*16*	*60*
Germany	1,120	**33,8**	29,4	37,8	**+2,5**	+3,0	+2,4	***40***	*37*	*44*
Greece	47	**3,7**	2,6	4,8	**n.a.**	n.a.	n.a.	***11***	*7*	*15*
Hungary	31	**7,2**	8,3	6,1	**+2,2**	+1,6	2,3	***20***	*22*	*18*
Ireland	1	**2,1**	1,8	3,0	**-6,0**	-6,4	-5,0 [2]	***4***	*5*	*3*
Italy	5	**9,3**	7,5	11,9	**+1,2**	+1,3	+0,3	***18***	*15*	*21*
Latvia	1	**14,4**	0,0	15,3	**+10,7**	-17,7	+12,6	***16***	*20*	*15*
Lithuania	0	**0,0**	0,0	0,0	**-1,5**	-1,0	-1,7	***56***	*1*	*7*
Luxembourg	4	**9,4**	6,7	21,8	**-5,1**	-5,8	-6,3	***16***	*15*	*21*
Malta	0	**0,0**	0,0	0,0	**-**	-	-	***0***	*0*	*0*
Netherlands	104	**18,9**	1,5	27,8	**+10,6**	+1,0	+10,9 [5]	***47***	*29*	*56*
Poland	9	**3,1**	0,7	7,7	**1,6**	-2,7	+6,8	***12***	*7*	*23*
Portugal	1	**1,9**	1,1	4,0	**-0,0**	-0,4	+1,3	***5***	*2*	*14*
Romania	0 [6]	**11,3**	6,4	12,5	**n.a.**	n.a.	n.a.	***39***	*18*	*45*
Slovenia	1	**12,3**	0,0	17,0	**-5,3**	-	-5,9	***17***	*12*	*18*
Slovakia	0 [6]	**0,7**	0,1	1,4	**+0,7**	+0,1	+1,4	***38***	*31*	*46*
Spain	488 [3]	**11,9**	5,0	17,5	**-14,3**	-9,8	-17,0 [2]	***27***	*14*	*38*
Sweden	296	**35,3**	33,5	39,1	**-1,9**	+3,4	-12,0	***41***	*34*	*55*
United Kingdom	205	**5,4**	3,6	11,2	**-6,8**	-8,8	-0,3 [2]	***6***	*5*	*12*
European Union	**3,332**	**18,3**	**11,1**	**29,2**	**-2,0**	**-3,3**	**+0,3**	***26***	***17***	***40***

Notes:

1 Does not include the subsidiaries and sub-subsidiaries of mutual/cooperative insurers. In Europe, there are more than 300 of these.

2 The main reason for the decline is that some insurers fell outside the scope of the study (definitions 1 & 2), generally due to demutualisation. Some of these insurers are, however, included in the figures for definitions 1-3.

3 Includes mutual provident societies whose number was (optimistically) estimated at about 400. Their figures are not included in market and market share data.

4 If the statutory pensions business had been included in both overall market data and data for the mutual sector, the mutual market share in life insurance (including statutory pensions) would have been close to 80%.

5 The main reason for the increase is the privatisation of health insurance in 2005; mutuals obtained a significant share of that market.

6 Subsidiaries of foreign mutual/cooperative insurers were, however, active in the market.

Definition 1 insurers are insurance undertakings in the legal form of a mutual or cooperative.
Definition 2 insurers are subsidiaries (and sub-subsidiaries etc) of mutual and cooperative insurers.
Definition 3 insurers are insurers that are controlled by mutuals or cooperatives, that are in another way controlled or influenced by their clients, or that are inspired by mutualist and/or cooperative ideas, and/or are structured in such a way that they are not controlled by outside capital interests.
Source: *Facts and figures. Mutual and cooperative insurance in Europe*, Association of Mutual Insurers and Insurance Cooperatives in Europe, Brussels, March 2012, http://www.amice-eu.org/publications/studies_reports.aspx

The data contained in Table 3 demonstrate that also in the insurance sector the cooperative form of ownership plays a significant role in the EU, with an 18-26% share in the insurance market, depending on the definition adopted.

2.2 Characteristics of the economic behaviour of collectively-owned financial institutions

One of the basic characteristics of economic behaviour is the choice of a business sector for one's activity and of the market segments to which financial services are offered. From this point of view, financial activities conducted in the form of collective ownership, in particular cooperative institutions, are characterised by the focus on lending and savings activities and on insurance activities (mainly in the form of mutual insurance), and by a very limited presence of this form of ownership in the investment-fund sector. In the latter case, the cooperative approach is present mainly through investment funds that have the status of commercial-law companies and were established to manage funds transferred by basic cooperative institutions, which generally maintain the ability to control these funds' activities. An example of such funds is the Co-operative Asset Management (TCAM), which is now part of the UK's Royal London Group, and Union Asset Management Holding AG in Germany.

More typical of cooperative financial institutions than the choice of a generally understood business sector is the choice of the market sector (group of target customers) to which financial services are offered. From this point of view, it should be first of all emphasised that, in the statement of their mission and declared directions of their activity, the majority of cooperative financial institutions emphasise concentrating

their offer on meeting the financial needs of entities (households, companies, and local communities) that have financial problems and experience difficulty in obtaining access to financial services provided by commercial (usually private) financial entities.

A traditionally unique feature of cooperative financial institutions was also targeting their offer mainly at members of these organisations, who are their co-owners and managers. At present, this focus on offering financial services to one's own members is being limited. On the one hand, this is a result of legislative changes, requiring that cooperatives equally treat customers who are or are not members of the cooperative. On the other hand, a tendency to extend the offer to customers who are not members of the cooperative is a consequence of efforts to increase the scope of its activity and improve its economic performance. As a result, the increased importance of recipients of financial services who are not members of the cooperative can be treated as a unique indicator of cooperative institutions' commercialisation.

A significant measure of cooperative financial institutions' orientation towards meeting the financial needs of entities that could have difficulty receiving services from commercial banking institutions can also be the share of services provided for SMEs. Data showing the directions of the activity of EACB-affiliated cooperative banks in 2007-2012 are presented in Tables 4-9. The data demonstrate that – as with the assessment of cooperative institutions' general significance – also in the case of assessing the degree of cooperative banks' concentration on satisfying the needs of customers who are a declared target group, the situation in particular countries and cooperative organisations is extremely diverse, ranging from countries and organisations in which the proportion of members among their customers is very high to organisations which have been considerably commercialised. On the one hand, therefore, there is the French Crédit Mutuel with a 71% share of its members among its clients (in 2011); on the other, Luxembourg's Banque Raiffeisen, where the share in the same year was only 6.9%. Similarly diverse is the degree of concentration on meeting the financial needs of SMEs – from a 49.8% share of loans given to SMEs in the activity of Hungary's National

Federation of Saving Co-operatives and a 42% share of the Dutch Rabobank Nederland in total loans granted to SMEs, to a 0.7% share of loans given to SMEs in both meeting these enterprises' borrowing needs and in the entire lending activity of the UK's Co-operative Bank.

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Tables 4 – 9 Governance & SME's financing by Co-operative banks (2004 – 2012)

European Association of Co-operative Banks - Groupement Européen des Banques Coopératives - Europäische Vereinigung der Genossenschaftsbanken

KEY STATISTICS as on 31-12-07 (Cooperative Indicators)

(When not specified figures refer to the domestic / local banks)

	Governance	Employment		SME's financing		Territory coverage	
Full Member Organisations (a)	Members / clients ratio	Nr. of New employees hired this year	Expenses staff training / payroll	% of SMEs loans on total loans	Market share of loans to SME (%)	Nr. of clients / Nr. branches	Market share of ATM's (%)
Austria							
Österreichische Raiffeisenbanken	47%	500	n.a	n.a	n.a	1.569	39%
Österreichischer Genossenschaftsverband	87%	371	2%	n.a	n.a	1.302	11%
Bulgaria							
Central Co-operative Bank	1%	286	2%	17%	n.a	3.511	14%
Finland							
OP-Pohjola Group	38%	332	3%	n.a	n.a	6.486	n.a
France							
Crédit Agricole	29%	4.640	6%	27%	28%	2.847	25%
Crédit Mutuel	65%	1.070	6%	25%	16%	2.894	14%
Banques Populaires	42%	2.700	7%	46%	8%	2.655	9%
Germany							
BVR/DZ BANK	54%	-399	2%	27%	25%	2.201	34%
Hungary							
National Federation of Savings Co-operatives	23%	n.a.	1%	50%	4%	668	15%
Italy							
Assoc. Nazionale fra le Banche Popolari	11%	2.240	1%	49%	23%	1.018	26%
FEDERCASSE	17%	1.223	1%	29%	17%	1.299	10%
Luxemburg							
Banque Raiffeisen	5%	59	0%	17%	6%	1.963	16%
Lithuania							
Association of Lithuanian credit unions	99%	42	n.a.	42%	n.a.	539	n.a.
Netherlands							
Rabobank Nederland	18%	n.a	3%	19%	38%	7.765	33%
Poland							
Krajowy Zwiazek Banków Spóldzielczych	24%	1201	n.a.	20%	13%	2.611	17%
Portugal							
Crédito Agricola	15%	362	0,4%	n.a	n.a	3.011	10%
Slovenia							
Dezelna Banka Slovenije d.d.	n.a	34	2%	40%	n.a	85.215	2%
Spain							
Union Nacional de Cooperativas de Crédito	19%	1.034	n.a	n.a	n.a	207	8%
United Kingdom							
The Co-operative Bank	50%	-1.789	5%	0%	2%	28.440	4%
AVERAGE (EU 27)	37%	2.124	4%	29%	25%	3.068	25%

Associate Member Organisations (a)	Members / clients ratio	Nr. of New employees hired this year	Expenses staff training / payroll	% of SMEs loans on total loans	Market share of loans to SME (%)	Nr. of clients / Nr. branches	Market share of ATM's (%)
Japan							
The Norinchukin Bank/JA Bank Group	19%	n.a	n.a	n.a	n.a	5.021	9%

a) selected members whose data are available

Tables 4-9 sources: EACB – Key statistics 2004 – 2012, European Association of Co-operative Banks, Brussels, http://www.eacb.coop/eacb.php

European Association of Co-operative Banks - Groupement Européen des Banques Coopératives - Europäische Vereinigung der Genossenschaftsbanken

KEY STATISTICS as on 31-12-08 (Cooperative Indicators)

(When not specified figures refer to the domestic / local banks)

	Governance	Employment		SME's financing		Territory coverage	
Full Member Organisations (a)	Members / clients ratio	Nr. of New employees hired this year	Expenses staff training / payroll	% of SMEs loans on total loans	Market share of loans to SME (%)	Nr. of clients / Nr. branches	Market share of ATM's (%)
Austria							
Österreichische Raiffeisenbanken	46,00%	458	1,80%	n.a	38%	1.559	38,40%
Österreichischer Genossenschaftsverband [b]	87%	371	1,71%	n.a	n.a	1.302	11%
Bulgaria							
Central Co-operative Bank	0,62%	225	0,21%	14,92%		3.842	13,16%
Cyprus							
Co-operative Central Bank [b]	50,00%	14	0,70%	56,00%	20,00%	n.a	20,00%
Denmark							
Sammenslutningen Danske Andelskasser	0,54%	2	39,30%	55,00%	0,4	n.a	n.a
Finland							
OP-Pohjola Group	30,00%	281	2,00%	n.a	n.a	6.859	n.a
France							
Crédit Agricole	30,00%	4.570	6,10%	23,60%	35,00%	2.821	22,50%
Crédit Mutuel	70,00%	1.655	5,70%	n.a	n.a	3.300	n.a
BPCE [b]	42%	2.700	6,80%	46%	8,18%	2.655	8,58%
Germany							
BVR/DZ BANK	54,00%	N.A.	2% (c	27% (c	25% (c	2.201 (c	34% (c
Hungary							
National Federation of Savings Co-operatives	14,00%	380	1,00%	53,00%	4,00%	681	15,00%
Italy							
Assoc. Nazionale fra le Banche Popolari	12,20%	3.250	1,00%	49,00%	25,00%	998	27,00%
FEDERCASSE	17,30%	1.363	1,00%			1.376	9,30%
Luxemburg							
Banque Raiffeisen	4,30%	59	1,50%	26,90%	6,00%	2.477	14,70%
Lithuania							
Association of Lithuanian credit unions [b]	99,10%	42	n.a.	42,10%	n.a.	539	n.a.
Netherlands							
Rabobank Nederland	17,90%	5.794	3,00%	13,63%	39,00%	8.543	36,00%
Poland							
Krajowy Zwiazek Banków Spóldzielczych	23,80%	1.162	n.a	20,00%	13,00%	2.500	17,00%
Portugal							
Crédito Agrícola	25,00%	119	0,60%	n.a	n.a	2.005	10,00%
Slovenia							
Dezelna Banka Slovenije d.d. [b]	n.a	34	1,87%	40%	n.a	85.215	1,65%
Spain							
Unión Nacional de Cooperativas de Crédito	20,00%	572	n.a	n.a	n.a	204	8,00%
United Kingdom							
The Co-operative Bank	25,00%	n.a.	4,00%	22,00%	2,00%	26.055	3,40%

Associate Member Organisations [b]	Members / clients ratio	Nr. of New employees hired this year	Expenses staff training / payroll	% of SMEs loans on total loans	Market share of loans to SME (%)	Nr. of clients / Nr. branches	Market share of ATM's (%)
Canada							
Desjardins Group		852 (d)	3,70%	n.a	n.a	n.a.	n.a.
Japan							
The Norinchukin Bank/JA Bank Group [b]	19%	n.a	n.a	n.a	n.a	5.021	9,00%

a) selected members whose co-operative data are available b) In 2008, 115 cooperative credit societies established affiliation with the CCB, although they continue to be separate legal entities c) Figures 2007 d) physical persons

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European Association of Co-operative Banks - Groupement Européen des Banques Coopératives - Europäische Vereinigung der Genossenschaftsbanken

KEY STATISTICS as on 31-12-09 (Cooperative Indicators)

(When not specified figures refer to the domestic / local banks)

	Governance	Employment		SME's financing		Territory coverage	
Full Member Organisations (a)	Members / clients ratio	Nr. of New employees hired this year	Expenses staff training / payroll (%)	SMEs loans on total loans (%)	Market share of loans to SME (%)	Nr. of clients / Nr. branches	Market share of ATM's (%)
Austria							
Österreichische Raiffeisenbanken	46%	106	2.1%	n.a.	39.0%	1,611	42.0%
Österreichischer Genossenschaftsverband	87%	n.a.	n.a.	32.0%	7.6%	1,465	10.7%
Bulgaria							
Central Co-operative Bank	63%	433	0.3%	15.0%	n.a.	4,270	12.9%
Cyprus							
Co-operative Central Bank	86%	158	n.a.	12.9%	n.a.	1,651	26.0%
Denmark							
Sammenslutningen Danske Andelskasser	53%	5	51.0%	62.0%	0.1%	1,666	n.a.
Finland							
OP-Pohjola Group	31%	-248	2.4%	n.a.	n.a.	7,091	n.a.
France							
Crédit Agricole	n.a.	2,905	5.6%	10.1% [c]	36.0%	2,605	29.0%
Crédit Mutuel	66%	2,622	n.a.	n.a	n.a	3,996	14.3%
BPCE [b]	42%	2,700	6.8%	46.0%	8.2%	2,655	8.6%
Germany							
BVR/DZ BANK	55%	240 [c]	1.9%	26.4%	27.1%	2,182	36.5%
Hungary							
National Federation of Savings Co-operatives	11%	310	1.0%	31.8%	5.2%	705	16.1%
Italy							
Assoc. Nazionale fra le Banche Popolari	12%	1,150	1.0%	49.0%	26.3%	998	28.0%
FEDERCASSE	18%	538	n.a.	n/a	n.a.	1,344	n.a.
Lithuania							
Association of Lithuanian credit unions	99%	32	n.a.	11.4%	n.a.	613	0.0%
Luxembourg							
Banque Raiffeisen	5%	6	1.4%	19.3%	8.0%	2,519	14.7%
Netherlands							
Rabobank Nederland	23%	4,800	2.5%	14.1%	41.0%	7,444	35.0%
Poland							
Krajowy Zwiazek Banków Spółdzielczych	n.a.	423	n.a.	22.0%	13.0%	n.a.	17.0%
Portugal							
Crédito Agrícola	35%	50	0.5%	n.a.	n.a.	1,666	10.5%
Slovenia							
Dezelna Banka Slovenije d.d.	n.a.	16	0.7%	64.7%	1.6%	869	2.1%
Spain							
Unión Nacional de Cooperativas de Crédito	21%	-218	n.a.	n.a.	n.a.	2,130	3.8%
United Kingdom							
The Co-operative Bank	38%	979	n.a.	0.6% [d]	2.0% [d]	15,219	3.5%

Associate Member Organisations [a]	Members / clients ratio	Nr. of New employees hired this	Expenses staff training / payroll	% of SMEs loans on total loans	Market share of loans to SME	Nr. of clients / Nr. branches	Market share of ATM's (%)
Canada							
Desjardins Group	100%	2,183	2.7%	6.3%	n.a.	4,195	n.a.

a) Selected members whose co-operative data are available b) 2007 Data c) Group Data d) Using the BBA definition of SMEs

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European Association of Co-operative Banks - Groupement Européen des Banques Coopératives - Europäische Vereinigung der Genossenschaftsbanken

KEY STATISTICS as on 31-12-10 (Cooperative Indicators)

(When not specified figures refer to the domestic / local banks)

	Governance	Employment		SME's financing		Territory coverage	
Full Member Organisations [a]	Members / clients ratio (%)	Nr. of New employees hired this year	Expenses staff training / payroll (%)	SMEs loans on total loans (%)	Market share of loans to SME (%)	Nr. of clients / Nr. branches	Market share of ATM's (%)
Austria							
Österreichische Raiffeisenbanken	47,0	n.a	1,5	n.a.	39,0	2,071	43,9
Österreichischer Genossenschaftsverband	88,0	134[b]	n.a.	32,0	7,4	1,468	10,3
Bulgaria							
Central Co-operative Bank	0,57	-116	0,1	14,1	n.a.	4,590	12,2
Cyprus							
Co-operative Central Bank	84,8	54	n.a.	n.a.	n.a.	6,727	n.a
Denmark							
Sammenslutningen Danske Andelskasser [b]	50,0	14	1,2	62,0	0,5	2,450	n.a.
Finland							
OP-Pohjola Group	31,0	0	2,0	n.a.	n.a.	7,460	n.a. [d]
France							
Crédit Agricole	30,0	n.a.	n.a.	n.a.	25,0	n.a.	n.a.
Crédit Mutuel [b]	71,0	10,990	5,0	25,0	15,8	5,000	14,3
Germany							
BVR/DZ BANK	55,6	577 [b]	2,0	26,1	27,9	2,227	36,5
Hungary							
National federation of Savings Co-operatives	11,0	-364	n.a.	50,3	7,8	724	16,3
Italy							
Assoc. Nazionale fra le Banche Popolari	12,6	3,830	1,1	48,0	27,4	1,008	28,3
FEDERCASSE	19,0	515	n.a.	n.a	n.a.	1,302	10,2
Luxembourg							
Banque Raiffeisen	6,0	29	6,4	18,8	8,0	2,594	15,0
Netherlands							
Rabobank Nederland	23,8	-597	2,5	14,0	43,0	8,306	37,4
Poland							
Krajowy Zwiazek Banków Spółdzielczych	n.a.	212	n.a.	20,0	14,0	n.a.	17,0
Portugal							
Crédito Agrícola	33,2	150	0,3	36,9	5,0	1,710	10,0
Romania							
Central Cooperatist Bank Creditcoop	62,6	131	0,1	1,0	n.a.	1,385	n.a.
United Kingdom							
The Co-operative Bank	39	615	n.a.	0,7 [c]	0,6 [c]	14,944	3,4

Associate Member Organisations [a]	Members / clients ratio	Nr. of New employees hired this	Expenses staff training / payroll	% of SMEs loans on total loans	Market share of loans to SME	Nr. of clients / Nr. branches	Market share of ATM's (%)
Canada							
Desjardins Group	100	2,099	2,5	6,0	n.a.	4,218	2,7
Japan							
The Norinchukin Bank	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	7

[a] Selected members whose co-operative data are available
[b] Group Data, Members to Clients ratio: domestic
[c] Using the BBA definition of SMEs
[d] Atm network in Finland jointly owned

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European Association of Co-operative Banks - Groupement Européen des Banques Coopératives - Europäische Vereinigung der Genossenschaftsbanken

KEY STATISTICS as on 31-12-11(Cooperative Indicators)

(When not specified figures refer to the domestic / local banks)

	Governance	Employment		SME's financing		Territory coverage	
Full Member Organisations [a]	Members / clients ratio (%)	Nr. of New employees hired this year	Expenses staff training / payroll (%)	SMEs loans on total loans (%)	Market share of loans to SME (%)	Nr. of clients / Nr. branches	Market share of ATM's (%)
Austria							
Österreichische Raiffeisenbanken	48%	n.a	1,74%	n.a.	37.0%	2,142	40,1%
Bulgaria							
Central Co-operative Bank	n.a.	149	0,5%	13,14%	n.a.	n.a.	6,3%
Cyprus							
Co-operative Central Bank	69,37%	41	n.a.	13,57%	n.a.	2,099	31,03%
Denmark							
Nykredit	27%	113	n.a.	4.0%	5-15%	718	0.02
Finland							
OP-Pohjola Group	40,0%	1015	2,5%	n.a.	n.a.	7,781	n.a.
France							
Crédit Agricole	32,3%	4,070	5,7%	n.a.	28.0%	4,655	n.a.
Crédit Mutuel	71,0	13,374	5.0%	n.a.	9,1%	n.a.	0.25
Germany							
BVR/DZ BANK	56,7%	50	2,1%	26,2%	29,0%	2,247	32,2%
Greece							
Association of co-operative banks of Greece	54%	n.a.	n.a.	n.a.	15.0%	2,075	n.a.
Hungary							
National federation of Savings Co-operatives	7,5%	n.a.	n.a.	49,8%	8,8%	740	0.2
Italy							
FEDERCASSE	n.a.	n.a.	n.a.	n.a	n.a.	1,360	11,4%
Lithuania							
Lithuanian Central Credit Union	100%	44	0,5%	18,68%	n.a.	2,006	n.a.
Luxembourg							
Banque Raiffeissen	6,9%	n.a.	n.a.	21,7%	n.a.	2,297	n.a.
Netherlands							
Rabobank Nederland	24,5%	956	2,6%	14.0%	42.0%	11,467	n.a.
Poland							
Krajowi Ziazek Bankow Spółdzielczych	n.a.	n.a.	n.a.	40.0%	20.0%	n.a.	n.a.
Portugal							
Crédito Agrícola	34%	99	0,3%	34,6%	4,7%	1,685	0.1
Romania							
Central Cooperatist Bank Creditcoop	61,52%	209	0,11%	0,25%	n.a.	1,398	n.a.
Slovenia							
Deželna Banka Slovenije	n.a.	1	1,16%	36.0%	n.a.	992	2,23%
United Kingdom							
The Co-operative Bank	46	645	n.a.	0,7%	0,7%	14,388	0.04

Associate Member Organisations [a]	Members / clients ratio	Nr. of New employees hired this year	Expenses staff training / payroll (%)	% of SMEs loans on total loans	Market share of loans to SME (%)	Nr. of clients / Nr. branches	Market share of ATM's (%)
Canada							
Desjardins Group	100	2,984	2,51%	n.a.	n.a.	4,288	47% [b]

[a] Selected members whose co-operative data are available (b) in Québec

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European Association of Co-operative Banks - Groupement Européen des Banques Coopératives - Europäische Vereinigung der Genossenschaftsbanken

KEY STATISTICS as on 31-12-12 (Cooperative Indicators)

(When not specified figures refer to the domestic / local banks)

	Governance	Employment		SME's financing		Territory coverage	
Full Member Organisations	Members / clients ratio (%)	Nr. of New employees hired this year	Expenses staff training / payroll (%)	SMEs loans on total loans (%)	Market share of loans to SME (%)	Nr. of clients / Nr. branches	Market share of ATM's (%)
Austria							
Österreichische Raiffeisenbanken	48.0	n.a.	1.6	n.a.	37.0	2,050	37.5
Österreichischer Volksbanken	76.4	-249	n.a.	32.0	6.5	1,714	10.0
Bulgaria							
Central Co-operative Bank	0.5	244	9.0	8.7	n.a.	5,141	5.9
Cyprus							
Co-operative Central Bank	62.9	135	n.a.	15.5	n.a.	2,355	33.4
Denmark							
Nykredit	27.0	-24	n.a.	4.0	5-15%	736	2.0
Finland							
OP-Pohjola Group	40.0	102	2.5	n.a.	n.a.	8,112	n.a.
France							
Crédit Agricole	33.0	3,010	6.3	n.a.	26.4	3,000	21.7
Crédit Mutuel	72.0	11,412	5.7	18.3	14.5	3,280	20.0
Germany							
BVR/DZ Bank	57.7	1,839	5.6	26.6	30.3	2,270	32.6
Greece							
Association of co-operative banks of Greece	47.8	6	n.a.	70. 0	15.0	2,445	n.a.
Hungary							
National federation of Savings Co-operatives	7.3	n.a.	n.a.	50.72	8.7	775	20.0
Italy							
FEDERCASSE	n.a.	n.a.	n.a.	60.0	15.0	n.a.	12.1
Lithuania							
Lithuanian Central Credit Union	100.0	35	0.4	21.3	n.a.	734	n.a.
Luxembourg							
Banque Raiffeissen	6.6	25.2	0.8	6.5	n.a.	2,649	n.a.
Netherlands							
Rabobank Nederland	25.9	-42	2.5	13.9	43.0	8,959	n.a.
Poland							
Krajowi Ziazek Bankow Spółdzielczych	n.a.	+0.7	n.a.	30.0	n.a.	n.a.	n.a.
Portugal							
Crédito Agrícola	34.0	79	0.05	41.4	5.5	1,659	10.6
Romania							
Central Cooperatist Bank Creditcoop	60,8	251	0. 1	0. 6	n.a.	1,409	n.a.
Slovenia							
Deželna Banka Slovenije [a]	0,3	1	1. 2	36.0	n.a.	992	2.2
Spain							
Unión Nacional de Cooperativas de Crédito	23.3	-362	n.a.	n.a.	n.a.	2,267	n.a.
United Kingdom							
The Co-operative Bank	42.6	1,071	n.a.	1.2	0.4	13,823	4.0

Associate Member Organisations	Members / clients ratio	Nr. of New employees hired this year	Expenses staff training / payroll (%)	% of SMEs loans on total loans	Market share of loans to SME (%)	Nr. of clients / Nr. branches	Market share of ATM's (%)
Canada							
Desjardins Group	100	2,800	2.4	85,0	45,0	4,032	46.0
Japan							
The Norinchukin Bank / JA Bank Group	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.7
Switzerland							
Raffeisen Schweiz	49.2	770	n.a.	n.a.	n.a.	3,363	n.a.

(a) 2011 Data

* in Québec

Generally, it could be concluded that cooperative institutions' declared concentration on meeting the financial needs of economically weaker entities is actually limited and extremely varied in particular countries and cooperative organisations.

Let us now turn to methods and criteria for deciding how to conduct activity, as reflected in such characteristics of business activity as profitability, levels and methods of risk protection, the related level of liquidity preference, and the time horizon of economic calculation.

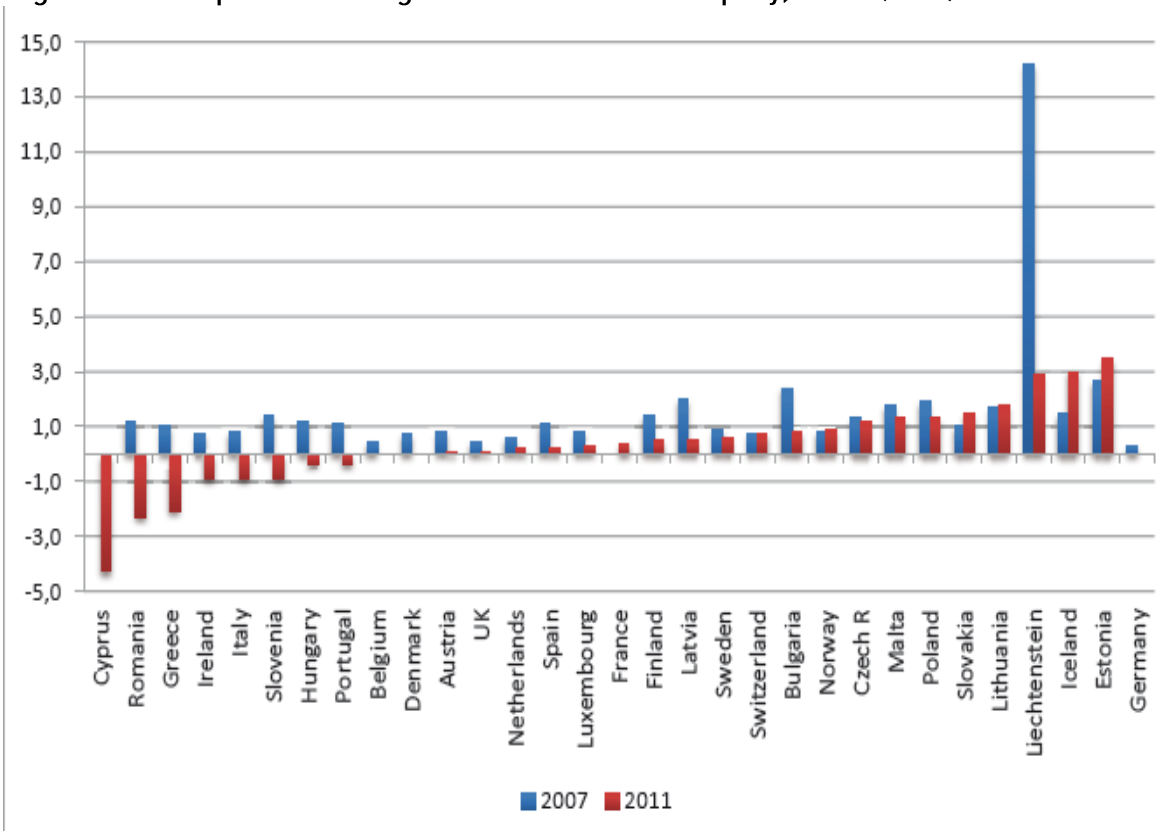
The theoretical literature, legal definitions (formulated in order to formally and/or fiscally separate collectively-owned institutions), as well as the statutes and mission statements of collectively-owned financial institutions emphasise that the aim of their activity is not to make or maximise a profit but to meet the financial needs of their members or a specific customer group. At the same time, it should be noted that in cooperative organisations providing services mostly for non-members of cooperatives, any surpluses generated by this part of activity can be used to increase the benefits of cooperative members, which makes these cooperatives interested in increasing profits from their activity. Also financial organisations established by cooperatives which very often have a limited company status start seeking to maximise profits. Such a tendency appears very clearly in situations where large financial organisations controlled by cooperatives carry out an international expansion, and their foreign affiliates or subsidiaries are registered as regular limited companies. The nature of foreign subsidiaries' activity is then similar to the activity of typical commercial banks. An example is the foreign operations of France's Credit Agricole or Austria's Österreichische Raiffeisenbanken. The data contained in Table 10 and in Figure 1 allow us to compare the profitability of cooperative banks with the values characterising the entire banking sector.

These data suggest that, with various countries' very diverse profitability levels for both the whole banking sector and cooperative banks, no clear trend can be seen towards cooperative banks' lower level of profitability.

Table 10 EACB -Profitability indicators on 31-12-11

Full Member Organisations	ROA (%)	ROE (%)	Cost/Income (%)
Austria			
Österreichische Raiffeisenbanken	0.60	5.54	68.19
Österreichischer Genossenschaftsverband [b]	0,3	5,1	62,5
Bulgaria			
Central Co-operative Bank [d]	0.48	4.34	79.32
Cyprus			
Co-operative Central Bank	0.01	0.11	48,47
Denmark			
Nykredit	0.10	2.00	62.10
Finland			
OP-Pohjola Group	0.49	6.50	63.00
France			
Crédit Agricole	n.a.	n.a.	61.60
Crédit Mutuel	0.36	7.95	67.84
BPCE [c]	n.a.	n.a.	n.a.
Germany			
BVR/DZ Bank	0,54	8,91	71,2
Greece			
Association of Cooperative Banks of Greece	0.01	0.09	n.a.
Hungary			
National Federation of Savings Co-operatives	0.44	5.66	69.87
Italy			
Assoc. Nazionale fra le Banche Popolari [b]	0,70	5,10	57,6
FEDERCASSE	0.20	1.70	69.80
Lithuania			
Association of Lithuanian credit unions	-0.24	-2.01	105.04
Luxembourg			
Banque Raiffeissen	0.28	7.60	74.00
Netherlands			
Rabobank Nederland	0.38	7.60	65.20
Poland			
Krajowy Zwiazek Bankow Spółdzielczych	1,24	11,88	67,4
Portugal			
Crédito Agrícola	0.40	5.10	64.70
Romania			
Creditcoop	1.02	4.75	95.68
Slovenia			
Dezelna Banka Slovenije d.d.	0.99	11.63	82.95
Spain			
Unión Nacional de Cooperativas de Crédito	n.a.	n.a.	n.a.
Sweden			
Landshypotek [a]	n.a.	n.a.	n.a.
United Kingdom			
The Co-operative Bank	0.11	2.48	60.70

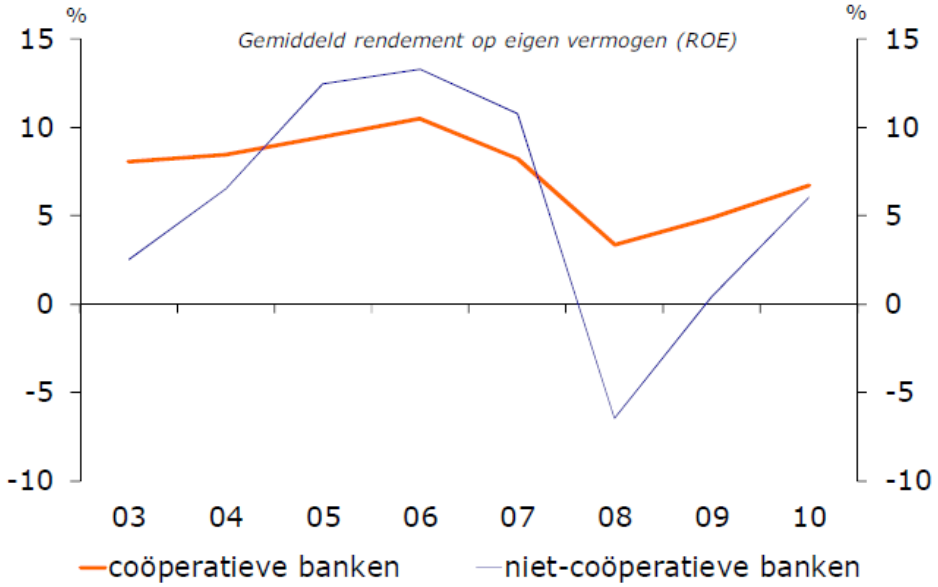
Figure 1 European banking sector. Return on Equity, as % (IMF)



Source: European Banking sector. Facts and figures 2012, European Banking Federation, Brussels October 2012, http://www.ebf-fbe.eu/wp-content/uploads/2014/03/FF20121.pdf

The above observations are also confirmed by a study presented in the Rabobank report. Its results are shown in Figure 2.

Figure 2 Profitability of European banks



Source: Economic Research Department calculations (annual reports, OECD data) in: Cooperative banks in the spotlights, Rabobank, Special Report 2011/12, https://economics.rabobank.com/PageFiles/5573/53_SR1112nsm%20Cooperative%20banks%20in%20the%20spotlights_tcm64-152449.pdf

When describing the activity of cooperative financial institutions, it is also emphasised that "The co-operative banks are characterized by strong capitalization (high solvency ratio), by moderate risk levels, and stable profit levels, as emphasized in the reports by Standards & Poor's, Fitch and by FMI. The FMI report in particular points out that co-operative banks act as a buffer against any crisis in the banking system. The S&P report equally highlights their regulatory function: co-operative banks have demonstrated their capacity to consistently produce operational results, (...) such a capacity being linked to their minimum involvement in more volatile transactions."[7]

3. The economic behaviour of public financial institutions

3.1. Public financial institutions in the economic system

[7] *Co-operative Banks in Europe: values and priactices to promote development*, European Association of Co-operative Banks, p.8, www.eurocoopbanks.coop , see also: Belaisch, A.; Kodres, L.; Levy, J.; Ubide A., *Euro-Area Banking at the crossroads*, IMF Working paper, WP/01/28, 2001, https://www.imf.org/external/pubs/ft/wp/2001/wp0128.pdf, p. 54.

Within the financial sector, public institutions conduct (in addition to central banking, which is not discussed here) activities mainly in the banking sector and as public institutions which have the nature of special funds. After M. Schmit et al, we will assume here that "the term 'bank' may be defined as an entity subject to supervision by the national banking supervisor of one of the countries". However, among non-banking public financial institutions we distinguish three types of funding agencies: a) national and regional reconstruction and development agency, b) export credit and guarantee agency, and c) municipal credit agency.[8]

In terms of the scope of activity and the type of the public owner of these institutions, we can distinguish among public financial institutions, on the one hand, financial institutions owned by government-controlled or central (national) public institutions and, on the other, institutions related – through ownership and institutionally – to local or regional institutions of public administration. Finally, in terms of legal status, among public financial institutions we can distinguish, on the one hand, those operating as private companies and, on the other, those operating on the basis of their special status (different in particular countries) as a public institution.

In our description of the economic behaviour of public financial institutions, the main source of information on these institutions' activities will be data and analyses made available by the European Association of Public Banks and Funding Agencies A.I.S.B.L. (EAPB). The EAPB's membership structure is heterogeneous, as member institutions vary from universal banks to promotional banks and agencies with banking functions to export-import banks to local credit providers as well as to associations. Despite their diverse nature, all member institutions share a common basis: all member institutions have a kind of public ownership (of differing degrees) and all act within the economic sector as crucial actors in the public interest. Over 200 public financial institutions are present in Europe. They are providers of financial services and of funding for projects that support sustainable economic and social development with, amongst others, activities ranging from the

[8] See M. Schmit, L. Gheeraert, T. Denuit, C. Warn, *Public Financial Institutions in Europe* ..., op. cit., p. 38.

funding of companies and the promotion of a greener economy to the financing of social housing, health care, education and public infrastructure at national, regional and local level.[9] The number and significance of Europe's public financial institutions are presented in Table 10.

The data presented here give no information about public entities' engagement in the insurance sector. This does not mean, however, that public entities are completely absent from this sector. First of all, depending on particular countries' health-care and pension systems, public social-security institutions may sometimes play a very important, or even key, role in them. One example is institutions such as France's les Caisses Nationales de la Securite Sociale (CNAM, CNAF, CNAMTS, etc.) or Poland's National Health-Care Fund (NFOZ) and Social Insurance Fund (ZUS). In addition, public financial institutions are also present in the sector of non-life or general insurance. Examples include GAN in France and PZU in Poland. Unfortunately, no data are available that would allow us to assess the participation of public insurance companies in this sector in the whole of Europe or in particular European countries.

[9] EAPB - Who we are, http://www.eapb.eu

Table 10 Public financial institutions in the financial sector in Europe

Country	Coverage rate (%) (1)	Total assets (€bn) (2)	Public company						Company with public participation					
			Fully public company (5)			Company subject to strong public influence (5)			Significant public participation (5)			Minor public participation (5)		
			No. of banks (3)	No. of FA (4)	Mkt share (%) (6)	No. of banks (3)	No. of FA (4)	Mkt share (%) (6)	No. of banks (3)	No. of FA (4)	Mkt share (%) (6)	No. of banks (3)	No. of FA (4)	Mkt share (%) (6)
Austria	>80	1.083	9	1	6,9	6	0	2,6	2	0	0,2	0	0	0,0
Belgium	>90	1.291	1	5	0,1	1	1	0,6	1	1	19,7	0	0	0,0
Bulgaria	>90	37	1	1	1,8	1	0	1,3	0	0	0,0	0	0	0,0
Croatia	>90	57	2	2	14,6	1	0	3,4	1	0	0,7	1	0	0,3
Cyprus	>90	124	0	0	0,0	0	0	0,0	0	0	0,0	0	0	0,0
Czech Republic	>80	156	1	1	1,2	1	0	1,5	0	0	0,0	1	0	1,1
Denmark	>90	1.066	0	2	1,9	0	0	0,0	0	1	1,1	2	0	2,2
Estonia	>90	22	0	1	0,9	0	0	0,0	0	0	0,0	0	0	0,0
Finland	>90	426	1	2	9,2	0	0	0,0	0	0	0,0	0	0	0,0
France	>80	8.102	21	2	4,2	3	0	0,0	0	0	0,0	1	0	15,3
Germany	>80	8.562	39	5	23,9	3	0	9,0	1	0	0,0	1	0	0,0
Greece	>90	459	0	1	n.a.	2	0	8,3	1	0	3,9	0	0	0,0
Hungary	>90	127	0	3	4,0	1	0	7,1	0	0	0,0	0	0	0,0
Ireland	>90	1.755	6	0	11,7	1	0	10,7	0	0	0,0	0	0	0,0
Italy	>70	3.933	0	14	6,0	2	8	0,1	1	0	0,0	0	0	0,0
Latvia	>90	32	1	0	3,9	0	0	0,0	0	0	0,0	0	0	0,0
Lithuania	>90	26	0	0	0,0	0	0	0,0	0	0	0,0	0	0	0,0
Luxembourg	>90	1.259	4	0	5,7	0	0	0,0	2	0	7,5	0	0	0,0
Macedonia	>90	5	1	0	1,0	0	0	0,0	2	0	4,3	1	0	4,0
Malta	>90	44	0	0	0,0	0	0	0,0	1	0	14,0	0	0	0,0
Netherlands	>90	2.310	2	1	6,9	0	0	0,0	0	0	0,0	0	0	0,0
Norway	>90	499	0	5	5,6	1	0	5,7	1	0	35,4	0	1	5,4
Poland	>80	252	3	1	3,3	2	0	16,0	2	0	2,9	0	0	0,0
Portugal	>90	484	3	0	23,5	0	0	0,0	0	0	0,0	0	0	0,0
Romania	>90	83	1	0	5,9	2	0	1,4	0	0	0,0	0	0	0,0
Slovakia	>90	57	1	3	1,6	0	0	0,0	0	0	0,0	0	0	0,0
Slovenia	>90	50	3	9	8,7	1	0	9,1	2	0	40,2	0	0	0,0
Spain	>80	3.425	1	5	1,9	0	1	n.a.	24	0	32,9	0	0	0,0
Sweden	>90	923	3	2	5,9	0	0	0,0	1	0	12,8	0	0	0,0
Switzerland	>70	818	19	1	22,5	12	0	11,6	1	0	1,2	0	0	0,0
Turkey	>90	330	4	0	34,3	3	0	9,6	0	0	0,0	0	0	0,0
United Kingdom	>80	9.264	0	1	0,0	0	0	0,0	1	0	16,7	0	0	0,0
Total		47.060	127	68	8,1	43	10	2,7	44	2	7,2	7	1	2,7

Notes:

1. 'Coverage rate' is the ratio of the assets of the banks surveyed to constitute our initial database divided by total assets of the financial sector per country
2. 'Assets' means total banking assets for that country, whether held by public or non-public entities
3. 'Banks' are entities with a banking license in the country
4. 'FA' stands for 'Funding Agencies. The definition of funding agencies used in the present study is mission-based, thus potentially encompassing entities with articles of association and/or legal forms that may differ substantially.
5. Under the control approach, the label 'Fully public company' applies to financial institutions 100% under public control; 'Company subject to strong public influence' means 50-100% public control; 'Significant public participation' means 20-50% public control; Minor public participation' means 5-20% public control; 'No public involvement' means 0-5%
6. 'Market share' is the ratio of assets under a given degree of public influence divided by total assets of the financial sector per country

Source: M. Schmit, L. Gheeraert, T. Denuit, C. Warn, *Public Financial Institutions in Europe*, op. cit., p. 52

3.2 Main features of the economic behaviour of public financial institutions

As above, we will begin describing the economic behaviour of public financial institutions by identifying the sector and the market segments where their activities are concentrated. The data presented in Table 10 suggest that the activities of public financial institutions are concentrated mainly in the banking sector and in the sector of Funding Agencies, which can be regarded as part of the investment-fund sector, broadly defined. At the same time, it should be emphasised that, unlike classical (private) investment funds, the Funding Agencies indicated here play in the financial system not so much the deposit function of enabling an effective use of surplus savings as the function of providing funds (in the form of loans given on preferential terms, and sometimes also in the form of investment in share of supported activities) to real-economy entities that have difficulty obtaining finance from commercial financial entities. It seems that public financial institutions operating in the insurance sector are less significant, although in some insurance sectors – particularly life, health-care and old-age insurance – they may even play a decisive role.

The unique features of the economic behaviour of public financial institutions can be seen much more clearly while determining the market sector at which these institutions' offer is targeted than while choosing a business sector. From this point of view, it should be noted that, depending on the adopted geographic scope of activity and the purposes for which particular institutions were established, we can point to a very wide range of entities to which their services are offered. On the one hand, public banks acting as savings banks focus their activities on a large group of low- and middle-income customers. On the other hand, public agencies and development funds offer access to finance for major long-term development projects. On the basis of an analysis of declarations presented in mission statements published by the financial institutions under study, the following target stakeholders in public financial institutions' services have been identified: the general public as customers, the general public as stakeholders, shareholders, SMEs, public entities, other banks and employees[10]. At the same time, it should be emphasised that,

[10] M. Schmit, L. Gheeraert, T. Denuit, C. Warn, *Public Financial Institutions in Europe*, op. cit., p. 75

depending on the type of institution, the customer groups identified here were indicated as directions of activity at various frequency, and various significance was attached to them. The activity orientation most often indicated as important was the general public as customers as well as SMEs and public entities, whereas the least importance was attached to an orientation towards shareholders and employees.

Turning to other characteristics of the economic behaviour of public financial institutions, we should first of all point to the importance of profit and their attitude towards the profitability of their activities. From this perspective, public financial institutions are heterogeneous, and their attitude towards the issue of profitability is dependent on their legal and economic status. If they operate as private companies and, in particular, if public entities do not exercise full control over them, then, from the viewpoint of non-public shareholders' interests, generating profits and obtaining other benefits for non-public co-owners assumes a greater, or sometimes even ultimate, significance for them. At the opposite end, however, at entities operating as specially separated funds performing public functions, achieving profitability is of secondary importance. Generally, it seems that, as public control over these institutions grows, their interest in achieving high profitability decreases, but their focus on achieving other economic and/or social objectives increases.

In terms of the aims formulated in the mission statements of public financial institutions, M. Schmit et al have identified four types of their missions, namely promotional missions, general-interest missions, geographically focused missions and general mission[11]. Such an orientation of public financial institutions also results in a unique way of making decisions concerning the risk and the time horizon of economic calculation. As for risk, it can be pointed out that these institutions, on the one hand, avoid excessive risk, especially if it was intended to increase the businesses' profitability, but on the other, they are inclined to fund projects unattractive to private financial institutions owing to too high a risk or the absence of adequate financial security. This is true in particular of funding innovative projects and SMEs. A general comparison of the risk

[11] Ibidem, p. 73

involved in public banks' activity with the risk run by analogous private institutions is presented in the work of Giuliano Iannotta et al, who conclude that, "on average, government-owned banks have a lower default risk – as reflected in better issuer ratings – than their private counterparts. However, this lower default risk does not derive from a lower operating risk – as would be reflected in better economic and financial conditions – but, rather, from governmental support. Thanks to this government protection mechanism, GOBs are likely to benefit from a lower cost of funding when issuing debt securities in capital markets. In addition, government protection shields GOBs from the effects of market discipline and provides them with an incentive to increase risk taking. Indeed, despite their lower default risk, GOBs have a higher operating risk – as reflected in their worse economic and financial conditions – compared to POBs."[12]

A unique feature of public financial institutions is also their relatively high involvement in the funding of projects characterised by a long payback period. It is pointed out that one of the current financial system's weaknesses which led to the recent crisis was an excessive focus on projects promising a rapid return on investment, with inadequate funds being allocated to long-term investment projects. In connection with the OECD's 2012 "Project on Institutional Investors and Long-term Investment", it was indicated that "The main institutional investors in the OECD - pension funds, insurance companies and mutual funds - held over US$65 trillion at the end of 2009. (...) The long-term nature of these investors' liabilities should, in theory at least, encourage them to invest with a long-term perspective in mind. (...) Despite the potential benefits of long-term investment, institutional investors are often being labelled as 'short-term' – as evidenced by declining investment holding periods, growing allocations to high-turnover investment vehicles and insufficient engagement in terms of corporate governance."[13]

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[12] G. Iannotta, G. Nocerab,, A. Sironi, *The Impact of Government Ownership on Bank Risk,* http://www.unibocconi .it/wps/wcm/connect/320d3d70-60bb41ec95ae970d67ca9929/JFI_5r_19oct12%2528Final%2529.pdf? MOD= AJPERES

[13] *Institutional Investors and Long Term Investment,* OECD Directorate for Financial and Enterprise Affairs, http://www.ltic.org/IMG/pdf/OECD_project_on_long_term_investment.pdf

Consequently, the funding of long-term projects is largely undertaken by public financial institutions. All European members of the Long-term Investors Club, an organisation of long-term investors, are fully-public or publicly-controlled institutions[14].

To recapitulate, the most important characteristics of the economic behavior of public financial institutions seem to be:

- a limited focus on achieving high profitability,

- services offered largely to economically weaker entities which may encounter difficulty obtaining finance from private commercial institutions,

- a strong focus on supporting development projects on both a local and an international scale,

- long-term economic calculation,

- as far as risk is concerned, on the one hand an inclination to fund high-risk projects if this produces attractive development or social results, and on the other an aversion to classical market risk.

At this point it should be noted, however, that the above description of the economic behaviour of public financial entities is largely based on an analysis of the tasks they are faced with and the declared ways they work. What the description omits is issues related to the effectiveness of managing these entities and to the influence exerted on the actual implementation of the officially declared aims and directions of activity by internal mechanisms of managing these institutions and the impact on the decisions to be taken exerted by management staff's interests and employee pressure groups. Nor does the description take into account any consequences of possible external influences both from political pressure groups and from possible instances of corruption. From the theoretical perspective, these problems are dealt with as part of public choice theory. However, to assess the practical significance of these phenomena, it would be crucial to have much more detailed data than those universally available, which would enable us to verify public entities' actual economic behaviour. Studies conducted in this area have tended to

[14] The Long-term Investors Club – Members, http://www.ltic.org/-Members-.html

compare classical indices of economic performance; they suggest that, in many cases, public banks have lower profitability and higher operating costs than private banks do. However, this does not necessarily spell a poorer achievement of social and developmental aims. As A. Micho et al have put it, "The paper finds that in the case of industrial countries there is no correlation between bank ownership and bank performance, but that there is a strong correlation between bank ownership and bank performance in developing countries. In particular, we find that state-owned banks located in developing countries tend to be characterized by lower profitability, higher overhead costs, and higher non-performing loans than their private counterparts.(...) We are not able to test whether the lower profitability of public banks is due to mismanagement or a development mandate and hence we cannot express any value judgment on the desirability of having state-owned banks."[15]

On the basis of qualitative assessment and opinions expressed about public entities' economic behaviour, it seems that we can basically assume that working towards the aims and directions declared by public entities can be clearly seen in their functioning. However, the impact of internal and external interest groups may interfere with these actions or reduce their effectiveness, but without changing the fundamental characteristics of the economic behaviour of public financial entities.

4. The economic behaviour of private financial institutions

4.1 The role and significance of private financial institutions in the financial system

The private financial institutions discussed here include institutions generally operating as companies and sometimes also as enterprises owned directly by individuals or private entities established in order to make a profit for their owners. The focus of our attention, therefore, is basically only private financial institutions operating on a commercial basis. We are not analysing here the economic behaviour of private and non-

[15] A. Micho, U. Panizza, M. Yañez, *Bank Ownership and Performance*,, Inter-American Development Bank, November 2004, pp. 31-32, http://publications.iadb.org/bitstream/handle/11319/1544/Bank%20Ownership%20and %20Performance.pdf;jsessionid=E25E1ED38604803B59FE12A68F9EAE2A?sequence=1

profit financial institutions, which are the subject of a separate study. (See D8.04 – A paper on the role of private non-profit financial institutions ...).

As already mentioned, private financial institutions, probably because of being treated as a basic component of the financial system, are, as a rule, not distinguished in financial sector statistics. Nor, with very few exceptions, do they form separate organisations representing their interests and collecting data about their activities. As a result, describing and assessing the importance of these entities' activity and economic behaviour encounters the barrier of lack of separate information regarding this form of ownership, and as such will have to rely on random, incomplete and largely approximate data. In view of the fact that, with reference to some of the values describing the financial system, it was possible to obtain data and information on other forms of ownership, we will assume here that the private sector is equal to the difference between the value for the entire financial sector and the volume of business conducted as part of non-private forms of ownership.

In most European countries, the private financial sector plays a crucial role in the operation of financial institutions, and it is this sector that determines the way the financial system behaves. As indicated by earlier analyses, according to data for 2012, the countries where public or cooperative institutions (as well as others, classified here as collective property) play a significant role (as measured by a share in the deposits and/or loans market) are: Cyprus, Denmark, France, Italy, the Netherlands, Austria and Finland, where the share exceeds 20%. The countries with developed collective ownership also include Germany, where the share is close to 20% (see data presented in Table 2). However, the EU countries where a significant role (more than a 10% market share) is played by public financial institutions (ie those that are under full and/or significant control of public entities) are: Belgium, Croatia, Germany, Malta, Portugal, Slovenia, Spain and Sweden (see data presented in Table 10). In total, with a few exceptions, the financial-market share of entities not classified as private ownership does not exceed about 25-30%. The exceptions include Germany, with a 23% market share of public entities and less than a 20% market share of collective-ownership entities; France, Denmark, Italy, the Netherlands, Austria and Finland, where the share of cooperative entities exceeds 30%; as well as Slovenia,

Spain and Sweden, where public institutions have more than a 30% market share. This means, therefore, that in the other countries, constituting the overwhelming majority of the EU, private commercial entities cover with their operations from 70 to more than 90% of the financial services market, thus constituting a key element of the financial system.

4.2 Characteristics of the economic behaviour of private financial institutions

Regarding private financial institutions, as in the other cases, the choice of a sector of financial activity does not constitute a basis for determining the distinguishing characteristics of this form of financial activity. This is because private financial institutions operate in the banking, insurance, and investment-fund sectors. However, we can identify certain characteristic features of the directions of activity undertaken within these sectors.

As for the banking sector, private financial institutions concentrate on serving large and medium-sized companies, devoting a substantial part of their activity to operations as part of the financial market and to transactions between various financial entities. An indicator of the latter could be the level of funds (loans and deposits) engaged in interbank transactions. Consequently, private commercial banks' activity is characterised by their lesser involvement in the development of widely available retail activity and their limited presence in the activities of banks and savings banks.

Within the insurance sector, private financial institutions' activity concentrates primarily on offering non-life, or general, insurance, where non-private forms of ownership are limited. However, the share of private entities in the life insurance, health-insurance and pension sectors is strongly dependent on a given country's adopted model of financing these needs by public and/or cooperative institutions. It can be generally assumed that private insurance entities play only a supplementary role in these areas.

As for the investment-fund sector, private funds predominate in the activities of both open and closed funds, which invest mainly in financial markets. To a much lesser extent, they are engaged in the activities of development funds and in regular investment in projects with low liquidity and/or short-term solvency.

What particularly distinguishes the economic behaviour of private financial institutions is the basic criteria for and aims of their activities. Because of the very nature of private ownership, these institutions serve their owners' interests. Given that the dominant legal form of private financial institutions is a limited company, whose owners can change relatively easily, the aim of its activity is to maximise short-term profits and/or shareholder value. From the viewpoint of clarity and transparency of decision-making, these criteria have many advantages because they allow for a relatively quick and easy evaluation of efficiency. They are also treated as a universally employed measure of financial institutions' efficiency.

This does not mean that private institutions' efforts to increase (or achieve at least the required level of) profit or shareholder value may be treated as fully accounting for their behaviour. The behaviour of private financial institutions is also influenced by other stakeholders' (especially managerial staff's) preferences. However, as with the assessment of various interest groups' impact on decision-making in public institutions, our initial assumption will be that the fundamental characteristics of private institutions' economic behaviour are the result of their effort to maximise profits, while other factors merely distort this regularity[16]. (However, it should be emphasised here that, among other things, the experiences of the recent crisis have shown that distortions resulting from the lack of adequate control over managerial staff can have a very serious impact on private financial institutions' behaviour, and consequently on the functioning of the whole financial system. In the literature, we can even find the view that inadequate control over and management of financial institutions as well as managerial personnel's "excessive greed" were among the major causes of the crisis.)

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Accepting the above assumption we can conclude, therefore, that seeking to maximise profits and/or shareholder value becomes the main criterion for determining the behaviour of private financial institutions in terms of such issues as selection of the target recipients of the services offered, attitude towards risk, and time horizon of economic calculation.

As for selecting the target recipients of financial services, the pursuit of profit maximisation encourages private financial institutions to focus on customers who have (in the case of deposits) or obtain (in the case of loans) substantial funds, because this ensures economies of scale. To make a business highly profitable, it is also important to ensure appropriate security for the services provided, which means concentrating on customers whose financial situation is stable. In effect, a significant role in the structure of financial services is assumed by other financial institutions; in the real economy, in the case of companies, by large and medium-sized companies; and in the case of households, by those in a good financial situation. The structure of depositing financial services in the euro zone in 2013 is presented in Table 11. The table demonstrates that over 50% of deposits came from the broadly-understood financial sector including MFIs, ICPFs and OFIs, which shows the scale of the financial sector's concentration (it seems that mainly under the influence of private commercial entities) on activities that do not directly serve the real economy's financial needs. Unfortunately, these data do not allow us to examine the internal structure of households' and companies' deposits, and cannot confirm the hypothesis of private entities' concentration on clients who carry out big transactions and are in good financial condition.

Table 11. Euro Area MFI deposits counterparties:
(breakdown by types of deposits, in Euro million, June 2013)

Counterparty / deposit type	Total deposits	*Share of each counterparty in total*	Breakdown by type of deposit			
			Overnight deposits	Deposits with agreed maturity	Deposits redeemable at notice	Repurchase agreements
NFC	1,763,134	*10%*	1,152,787	505,827	94,047	10,473
HH	6,208,910	*36%*	2,445,421	1,699,112	2,058,159	6,218
ICPF	678,583	*4%*	104,123	557,360	8,197	8,904
OFI	2,123,334	*12%*	455,156	1,225,119	17,089	425,969
Sub-total: non-MFI	***10,773,961***	***63%***	***4,157,487***	***3,987,418***	***2,177,492***	***451,564***
Share of deposit type in sub-total, %			*39%*	*37%*	*20%*	*4%*
CG	209,011	*1%*				
MFI	6,132,460	*36%*				
TOTAL	**17,115,432**	**100%**				

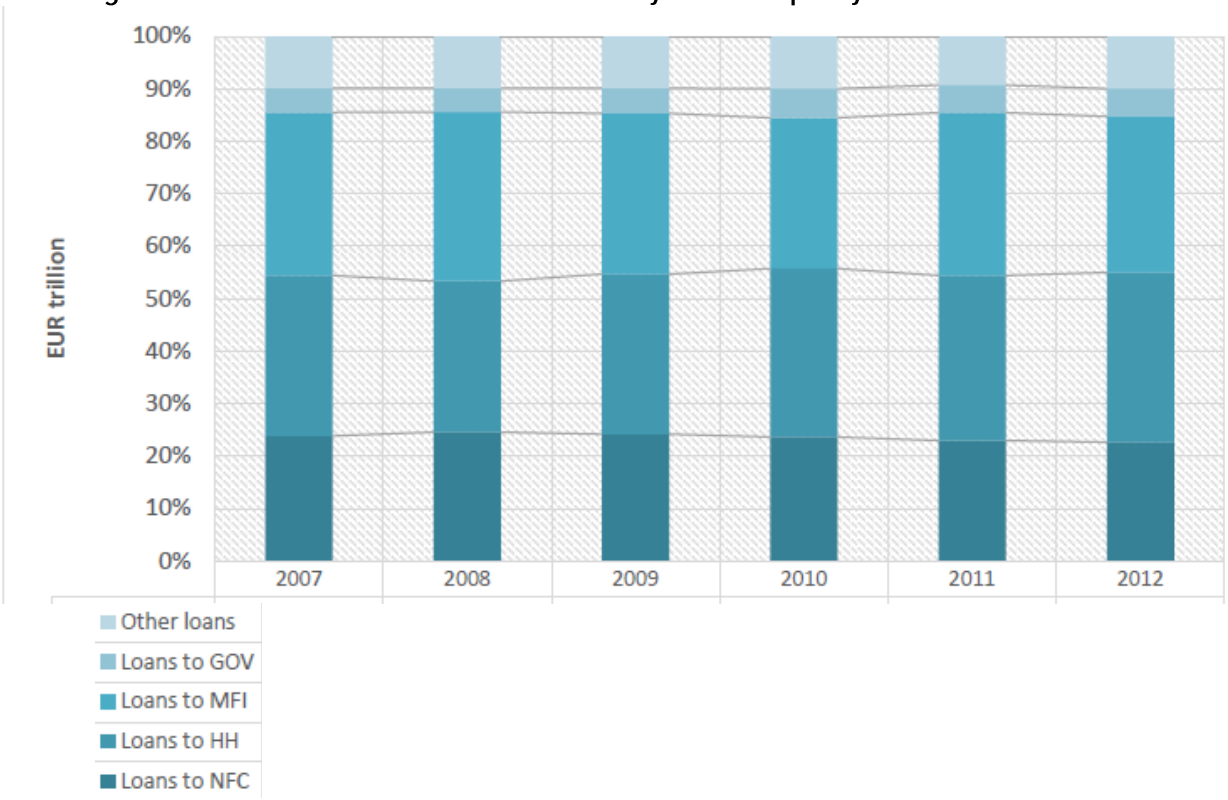
Where: governments (CG), monetary financial institutions (MFI), businesses (NFC), households (HH), insurance corporations and pension funds (ICPF), other financial institutions (OFI).
Source: ECB,EFB calculations, after: European Banking Sector, Facts & Figures 2013, European Banking Federation, Brussels 2013, http://www.ebf-fbe.eu/publications/statistics/

With regard to the second basic function of the financial system, ie lending, the behaviour of European financial institutions is shown in Figure 3.

Although, in the case of the credit function, the data available are even less accurate than those for deposits, they seem to confirm the identified trends in depositing activities. Private entities' tendency to provide financial services for both private and corporate entities that are in a good financial situation is, to some extent, confirmed by the fact that the range of services provided by private banks includes serving and managing the assets of individual clients (gestion de patrimoine), a service offered to owners of large fortunes[17].

[17] See: Les banques privées luxembourgeoises à la croisée des chemins, http://www.abbl.lu/en/a-propos/nos-groupements/private-banking-group

Figure 3 EU 27 MFI loan breakdown by counterparty



Source: European Banking Sector, Facts & Figures 2013, op. cit. p. 11

Turning to the behaviour of private financial entities with regard to issues such as attitude to risk and time horizon of economic calculation, it should be stated that, to achieve high profitability, these institutions on the one hand seek to limit the risk associated with the loans granted; and on the other, they seek to increase the profitability of the deposits made, even at the cost of an increase in their risk. Clearly, this type of activity is possible especially in institutions that do not take on risk from their clients (as is the case with the majority of investment funds, where the client bears the risk of failed deposits – investments made by a financial institution). In this situation, to limit their business risk, private financial institutions show a strong inclination to seek high-liquidity deposits and investments, which allow them to quickly withdraw funds from projects that might end in failure. This, in turn, results in the dominance of short-term economic calculation while making investment decisions, and concentration on highly liquid investments in financial and capital markets, with a decreased interest in directly serving the real economy.

5. Conclusions

The above analyses of the economic behaviour of financial institutions differing in terms of ownership form and organizational and legal status seem to confirm the initial thesis that both the ownership form and the formal and legal status have an impact on the type of financial institutions' economic behaviour. Generally this influence manifests itself in selecting the type and scope of the functions performed for the real economy, determining the market segment (target customer group) for services provided, and methods of and criteria for making decisions about the way to conduct financial activities.

Generally speaking, it can be concluded that the relatively smallest differences in the economic behaviour of financial institutions belonging to different forms of ownership can be found in the choice of functions performed for the real economy. Today's financial system is characterized by an increasing universalization of financial institutions' activities, by integrated financial groups conducting both traditional banking activities and, related to them, insurance activities, and by investment funds being established as part of these groups. This phenomenon applies to the majority of large financial groups, irrespective of their form of ownership. To some extent, the traditional division into types of financial activities conducted by particular financial institutions continues to be relevant to small financial entities operating mainly within the cooperative sector. Also in this case, however, these entities integrate their activities as part of larger financial groups which are already undergoing universalization processes. In consequence, it is hard to speak today of significant differences in economic behaviour concerning the choice of the line of business (and therefore the functions performed for the real economy), depending on financial institutions' form of ownership.

We can observe much clearer differences in the economic behaviour of financial institutions of various ownership types in the case of the choice of the market segment and, in particular, the target audience for financial services.

With some simplification, it can be assumed that collectively-owned financial institutions offer their services primarily to small and medium-sized business entities and to low-income social groups characterized by low creditworthiness. Public institutions, however – in addition to targeting their activities at small and medium-sized entities of the real sector (this is especially true of financial institutions linked through ownership to local and regional authorities) – provide services that meet financial needs associated with the implementation of large, long-term development projects.

Finally, private financial institutions concentrate on serving large and medium-sized companies, devoting a substantial part of their activity to operations as part of the financial market and to transactions between various financial entities. Consequently, private commercial banks' activity is characterized by their lesser involvement in the development of widely available retail activity and their limited presence in the activities of banks and savings banks. As for the investment-fund sector, private funds predominate in the activities of both open and closed funds, which invest mainly in financial markets. To a much lesser extent, they are engaged in the activities of development funds and in regular investment in projects with low liquidity and/or short-term solvency.

Very clear differences in financial institutions' economic behaviour can also be seen in terms of criteria and methods of making decisions.

With regard to collectively-owned institutions, it is pointed out that the aim of their activity is not to make or maximize a profit but to meet the financial needs of their members or a specific customer group. Their activity is characterized by strong capitalization (high solvency ratio), by moderate risk levels, and by stable profit levels.

Public financial institutions are heterogeneous from point of view of their attitude towards the issue of profitability, but generally, it seems that, as public control over these institutions grows, their interest in achieving high profitability decreases, but their focus on achieving other economic and/or social objectives increases. As for risk, it can be pointed out that these institutions, on the one hand, avoid excessive risk, especially if it was intended to increase the businesses' profitability, but on the other, they are inclined to fund projects unattractive to private financial institutions owing to too high a risk or the absence

of adequate financial security. A unique feature of public financial institutions is also their relatively high involvement in the funding of projects characterized by a long payback period.

Finally, with regard to private financial institutions it should be observed that to achieve high profitability, these institutions on the one hand seek to limit the risk associated with the loans granted; and on the other, they seek to increase the profitability of the deposits made, even at the cost of an increase in their risk. to achieve high profitability, these institutions on the one hand seek to limit the risk associated with the loans granted; and on the other, they seek to increase the profitability of the deposits made, even at the cost of an increase in their risk. This, in turn, results in the dominance of short-term economic calculation while making investment decisions, and concentration on highly liquid investments in financial and capital markets, with a decreased interest in directly serving the real economy.

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THE ABSTRACT OF THE PROJECT IS:

The research programme will integrate diverse levels, methods and disciplinary traditions with the aim of developing a comprehensive policy agenda for changing the role of the financial system to help achieve a future which is sustainable in environmental, social and economic terms. The programme involves an integrated and balanced consortium involving partners from 14 countries that has unsurpassed experience of deploying diverse perspectives both within economics and across disciplines inclusive of economics. The programme is distinctively pluralistic, and aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. The central issues addressed are the ways in which the growth and performance of economies in the last 30 years have been dependent on the characteristics of the processes of financialisation; how has financialisation impacted on the achievement of specific economic, social, and environmental objectives?; the nature of the relationship between financialisation and the sustainability of the financial system, economic development and the environment?; the lessons to be drawn from the crisis about the nature and impacts of financialisation? ; what are the requisites of a financial system able to support a process of sustainable development, broadly conceived?'

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