

Cooperatives and the crisis: “Our customers are also our owners”

Cooperatives have been more resilient to the deepening global economic and jobs crisis than other sectors. Andrew Bibby reports from Sweden.

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cooperatives

MALMÖ – Another call is coming in from a customer to a modern call centre in Malmö in southern Sweden. The caller wants to discuss insurance, and the call centre agent, sitting at a computer terminal and speaking through a head-set, begins to explain the terms of the policies available. The conversation progresses, the sale is made.

The transaction takes place not in the Swedish language, however, but in Kurdish. The Swedish cooperative insurer Folksam first piloted the idea of a multilingual call centre more than ten years ago, and its Malmö base can now handle calls in seventeen languages, including Somali, Farsi, Arabic and Polish. In a country where almost one in five of the population is from a migrant community, it's a sensible business service to offer and according to Folksam attracts 100,000 calls a year. As a direct consequence, Folksam now claims the lion's share of the insurance market of Sweden's immigrant communities.

It's the sort of idea that, you'd think, a bright new start-up company might come up with. But Folksam is no such thing: it is something of a venerable presence in the Swedish world of finance, having been offering Swedish people insurance for 102 years.

Reconciling economic and social values

Its chief executive Anders Sundström argues that Folksam's business success can be attributed to its social values. Originally set up to meet the needs of Sweden's early social and trade union movements, it has maintained its difference from other insurers, not least in its company structure. It operates without shareholders, as one of the global family of cooperative and mutual financial institutions. As the company's website puts it, “Our customers are also our owners. The profit doesn't go to shareholders, it stays within the company and benefits us all.”

Cooperative banks and insurers have, historically, tended to avoid the headlines. They can operate without concern about their share prices and therefore without the day-to-day attention from business media and analysts which businesses with share capital tend to attract. Between them, however, their market share is a significant one.

Significant market share of cooperative businesses

According to the International Cooperative and Mutual Insurance Federation (ICMIF), for example, about 24 per cent of the global insurance market is in the hands of cooperative insurers. ICMIF's largest member is the giant Japanese insurance cooperative Zenkyoren which dominates the country's agricultural sector and attracts annual premium income of around 4,700 billion yen (or approaching US\$50 billion). Another ICMIF member, the Colombian cooperative La Equidad and the linked health-care insurer Saludcoop, occupies a similarly dominant position in its own country.

In banking, there is a similar story in many countries. In the Netherlands half the population is with Rabobank, whilst in Germany cooperative banks collectively have thirty million customers. One recent study gave cooperative banks 20 per cent of the European retail market.

The worldwide network of member-owned savings and credit cooperatives (known variously as credit unions and SACCOs) is also significant. It provides, according to the World Council of Credit Unions,

177 million members in 96 countries (many of them developing countries) with an easy and safe way to save and borrow.

The financial crisis which has transformed the financial world for the past three years is bringing some unaccustomed attention to this diverse family of businesses, which share the common feature that they operate to bring benefits to their members/customers rather than to investor shareholders. The business magazine *The Economist*, for example, earlier this year reported that cooperative banks had been steadily increasing their market share in Europe in recent years. Customers, it seemed, were seeking security and reassurance. A recent study by the German Central Bank (Bundesbank) found coop banks more financially stable and less likely to fail than shareholder-owned institutions.

Cooperatives are represented internationally by the International Cooperative Alliance (ICA), which is also the body responsible for establishing the agreed statement on cooperative values and the seven guiding principles by which cooperative businesses undertake to put their values into practice. The ICA and the ILO share the same definition of a cooperative as “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise”. Among the agreed principles is that of open membership, without gender, social, racial, political or religious discrimination, as well as that of equal voting rights, on the basis of one member, one vote.

The ILO Recommendation No. 193 refers to the cooperative laws and principles in its call for the promotion of cooperatives “as one of the pillars of national and international economic and social development”. It says, among other things:

“Cooperatives should be treated in accordance with national law and practice and on terms no less favourable than those accorded to other forms of enterprise and social organization. Governments should introduce support measures, where appropriate, for the activities of cooperatives that meet specific social and public policy outcomes, such as employment promotion or the development of activities benefiting disadvantaged groups or regions.”

Cooperatives more resilient to crisis

It is a view which has been repeated in other studies, and one which the ILO's Hagen Henry endorses. As chief of the ILO Cooperative Branch, he knows the cooperative sector better than most and suggests that it is the underlying structure of these financial institutions which helps explain their robustness. “Available evidence suggests that, with few exceptions, cooperative enterprises across all sectors and regions are relatively more resilient to the current market shocks than their capital-centred counterparts,” he says.

Some of the available evidence he refers to comes from a recent study (**Note 1**) for the ILO by two university academics, Johnston Birchall from the United Kingdom and Lou Hammond Ketilson from Canada. Their study confirms the view that cooperative institutions have come through the recent crisis rather better than investor-owned businesses. It also suggests some reasons why this may have been the case, directly linked to cooperatives' ownership structures: “The recent massive public bail-out of private, investor-owned banks has underlined the virtues of a customer-owned cooperative banking system that is more risk-averse and less driven by the need to make profits for investors and bonuses for managers,” Birchall and Hammond Ketilson write.

In other words, some of this resilience comes from the fact that cooperatives are not under the same pressures to increase investor returns. The International Co-operative Banking Association points particularly to the long-term perspective which cooperative financial institutions can practise: "Cooperative banks don't have an obligation to maximize short-term profit to distribute it to their shareholders but can have a long-term strategy," the Association's chairman Jean-Louis Bancel says.

However, not all cooperative businesses have escaped from the financial crisis unscathed. In Germany, the central cooperative bank DZ suffered a one billion Euro loss in 2008 as a consequence of high-risk investments. Cooperatives elsewhere have also had to cope with trading difficulties, particularly from unwise investment decisions.

Unglamorous business model

Nevertheless, there is at present within the cooperative sector a certain sense of satisfaction that – a little, perhaps, like the Aesop fable of the prudent ant in contrast to the flighty grasshopper – their apparently unglamorous business model has proved its worth and sustainability in difficult times. In some cases, for the first time in many years cooperatives are strongly marketing their member-owned structures to potential customers, and emphasizing their distinctiveness and probity.

For many cooperatives, this is linked with an emphasis on ethical banking and insurance practice. In the United Kingdom, for example, Cooperative Financial Services (part of the large multi-sectoral Co-operative Group) has been stressing its strongly ethical approach to lending and investment under the slogan "good with money". Folksam is another business with a strong commitment to the investment of its insurance funds ethically. The Swedish firm took a lead role in advising the United Nations on the Principles for Responsible Investment adopted four years ago.

The cooperative movement points out that its commitment to social values (reflected in the principles of self-help, self-responsibility, democracy, equality, equity and solidarity formally endorsed as "cooperative values" by the International Cooperative Alliance) does not prevent cooperative businesses from being profitable at the same time. For Hagen Henry, these values link well with ILO concerns with the creation of decent jobs and decent work. "Cooperatives are close to a democratic, people-centred economy which cares for the environment whilst promoting economic growth, social justice and fair globalization. Cooperatives play an increasingly important role in balancing economic, social and environmental concerns, as well as in contributing to poverty prevention and reduction," he says.

The role of ILO Recommendation No. 193

The ILO has long taken an interest in cooperatives, but the ILO Promotion of Cooperatives Recommendation adopted by the International Labour Conference in 2002 (No. 193), has a particularly important role to play in helping governments worldwide create the laws, administrative systems and policies needed to enable cooperatives to develop in the coming century. Recommendation No. 193 helps to ensure that cooperatives have the modern legal frameworks they need. Its adoption also marked a renewed emphasis internationally on the importance of protecting cooperatives' internal democratic practices after a period when, in some countries, some "cooperatives" were effectively little more than state-managed enterprises.

The need for appropriate cooperative legal structures may need to be reasserted in the aftermath of the global financial crisis, according to Hagen Henry. He points to moves in a number of countries to harmonize cooperative laws and regulatory regimes with those that apply to capital-centred companies, a process which he says can bring benefits but also dangers. "The homogenization of cooperative law with company law helps cooperatives to become more competitive in the narrow economic sense. However, this homogenization transforms cooperative enterprises, being based on transaction relationships with their members, into enterprises that are based on investment

relationships with their investors,” he points out. “It weakens the associative character of the specific governance structures of cooperatives.”

ILO Recommendation No. 193 specifically calls on governments to provide supportive policy and legal frameworks appropriate for the particular ownership structures and social values of cooperative businesses. Before the financial crisis, this could perhaps have seemed a fairly marginal area of activity. Today, however, the value of cooperatives can be more readily appreciated. “Capital-centred enterprises must not be the yardstick by which all enterprise types are compared and assessed,” Hagen Henry says.

A chance for cooperatives to reassert their position in the global economy may come shortly: the United Nations has recently resolved that 2012 will be declared the International Year of Cooperatives.

Note 1: Birchall, J.; Hammond Ketilson, L.: *Resilience of the cooperative business model in times of crisis*. Geneva, ILO, 2009.