

The History, the Current System and the Special Features of Savings Cooperatives in Hungary

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Abstract Recently 260 Savings and Credit Cooperatives existed and worked in Hungary, the number of its members was about two million. In our days about 110 Cooperatives are registered at the Hungarian Financial Supervisory Authority, 106 are Savings Cooperatives of them. What is the reason of decrease? What sort of internal and external reasons cause, that five Savings-Cooperatives leave off on the average a year? The dilemmas of the development alternatives also support the assumption, that in the future model of savings cooperatives, a reorganized and efficient integration collaboration has an important role to play. The purpose of this writing is the promotion of the collective thinking, and by the help of this the Savings Coop's will be successful and active participants of the sector.

1 The Establishment and Evolution

The political era following the failure of the revolution of 1848–1849 did not favour the unraveling of the cooperative movement. None of the forms of volunteer organizations were desirable for the Austrian authorities. For the reorganization of the economy, capital was needed, both in the industry and in the agriculture—which was in the process of change after the liberation of the serves—but the institutional system of this was not at hand. Although the economics in Hungary in the second half of the nineteenth century (general poverty, lack of capital, later the challenges of the capitalist development) was very much similar to the

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circumstances German farmers were at and which has generated the Raiffeisen movement, the chance for the establishment of credit institutions came to reality in that part of Transylvania which was mainly inhabited by Saxons who possessed over a relative large independence. This means that the first Hungarian credit institutions were the Transylvanian credit cooperatives, whose organizations was mainly based on nationality (Hungarian, Saxon). The Saxons established the first credit cooperative, being recognized by most people, in Beszterce in 1851.

Around the very same time of the formation of the Transylvanian credit cooperatives the credit cooperative in Győr (1864) and the First Hungarian General Officers' Society (1865)—which has also carried some features of cooperatives—came into existence.

The Hungarian credit cooperative movement followed the principles of Delitzsch mainly.

Antal Csengery has already urged by the time of the Austrian-Hungarian Compromise of 1867, the establishment of such a Raiffeisen-type credit cooperative system, where the cooperatives, operating in different villages and towns are held together by a kind of “Central Volksbank”. For the sake of the assurance of the wide range of agricultural loans, the Credit Cooperative of Pest County (Pestmegyei Hitelszövetkezet) came into existence in 1886 under the management of Count Sándor Károlyi. This cooperative followed the pattern of credit cooperatives which have been successfully operating in great cities of other Hungarian regions (Győr, Székesfehérvár, Debrecen), and it later gained national authority. Soon, as the result of the organization started in smaller towns and villages, by the year 1894 several credit cooperatives were operating in Hungary, 80 in Pest county and 72 nationwide, with about 300,000 members.

The legislation passed Act XXIII on the economic and industrial credit banks in 1898, this way the National Central Credit Cooperative (OKH) came into existence in the very same year, which harmonized with the ambitions of the Alliance of Smallholders (Gazdaszövetség). The credit and industrial cooperative movement started by count Sándor Károlyi merged in OKH.

For the establishment of OKH the state provided significant capital and ensured significant allowances. Its task was the organizing of the operation of credit cooperatives, the supervision, and the fulfillment of credit claims which were in connection with activities of rural agricultural and small-scale industry. It played a great role not only in the coordination and monitoring of credit cooperatives, but it also played an immense role in the execution of the agrarian reform in 1920, in the sale of agricultural crops, the spreading of the cooperative ideology and in the synchronization of the activity of various typed cooperatives.

While the OKH held 964 credit cooperatives together by the turn of the century, by the year 1917 this number grew to 2430. By the end of WW I, this number—thanked mainly to the Peace Treaty of Trianon—decreased to 1000 and it did not change until 1938. Between 1939 and 1942 this number increased significantly to about 1500. The number of members increased from 200,000, registered in 1900, to 635,000 by the year 1917. Although the number of members went back dramatically with more than 50 % in 1919, in 1942 the number of members came close to

approximately 800,000, and the financial services were in 4360 settlements available.

The OKH took an essential part in the extension of the Hungarian Cooperative Movement and it showed a good example of the positive role taking of the State. It was a rather unfortunate circumstance that the constant increase of the state influence until the end of WW II, which was due to the lack of capital, and the dictatorship following WW II, broke the pioneering role of OKH, as the Hungarian cooperative movement defined by great thinkers and creators.

WW II meant a very unfortunate turning point for the Hungarian cooperative movement from various aspects, this way in the development of credit cooperatives too. The war has destroyed a significant amount of personal staff and infrastructure, due to the reorganization of borders the number of credit cooperatives fell back to 943, whereas the number of members fell back to 548,832. Although 3860 new cooperatives has been established until 1948 (from which 26 were credit cooperatives), those economic organizations became inoperative due to the hyperinflation they had to go through.

There were some other damages, much larger than the economical problems; the cooperative movement had to go through. With the ideology of the new dictatorship the idea of cooperative autonomy and cooperative self-management based on private property, did not harmonize. The meanwhile established Constitution has acknowledged the cooperative property, but it made also clear, that the most efficient device in the hand of the executive power will be a state-owned bank system in order to reach their goals. The most important events of the liquidation of the credit cooperatives is the taking over and the liquidation of the management of central cooperatives, the appointment of governmental commissioners, the establishment of the Hungarian National Cooperative Center in the place of the formal centers, with state management and with the expropriation of their wealth. After the wealth has been taken away from the formal cooperatives, they all had been closed down. The process came in 1952 to an end, when the National Savings Bank (OTP) received an exclusive license for providing banking services for private individuals, this way credit cooperatives were forced to hand over the transactions of individuals to OTP. The systematic liquidation of credit cooperatives was by 1953 accomplished.

It became soon obvious, that OTP was not able to fulfill the role of credit cooperatives in rural regions. The possibility and necessity for the establishment of savings cooperatives has been first articulated in the Decree 1956/1091 of the Ministerial Council on the Development of *the agricultural cooperative movement*. The Decree contained regulations regarding the establishment, operation, its organizations, deposit collection of savings cooperatives. It also defined orders regarding the lending of money by savings cooperatives, and also orders about the management and supervision.

Savings cooperatives were strictly connected to villages. The savings cooperatives coming into existence with the special permission of the Minister of Finance, were allowed to collect deposits publicly (with state guarantee), but it was allowed to provide loans, similarly to current credit cooperatives, only to its members. The

savings cooperative was forced to keep the sums of money, which extended beyond the amount defined by the administrative regulations, at OTP. According to decree 23/1959 (X.15) of the Minister of Finance savings cooperatives were allowed to provide loan exclusively for agricultural purposes. The setup of membership was defined by strict central proportions. Savings cooperatives had a complete tax and duty exemption in the field of their basic activity. In 1958 there were cooperatives in 212 Hungarian settlements, a year later the number changed to 264. As the legislative barrier came to an end in 1959, savings cooperatives opened branches. This way, showing a constant growth, 1143 branches were ran by 388 cooperatives in year 1971, and the number of members reached 800,000, which was similar to year 1942 (881 people equated 20.6 % of the total population).

The number of savings cooperatives showed a decreasing tendency after Act III/1971 and decree 29/1971 (VII.23.) of the Minister of Finance came into force, which can be explained with the, this time occurring, mutually advantageous mergers. According to the Statutory rule 22/1978 (XI.29.) savings cooperatives have been allowed to collect deposits among private individuals.

The change in regime, the reorganization of the two-levelled banking system in 1987, and Act LXIX./1991 about the financial institutions and about the activities of financial institutions, has forced the savings cooperatives to face fundamentally new challenges. The economical environment, the conditions of the market and the fundamental changes in the regulation required faster decision making and a stronger representation of interests. By the time Law I/1992 came into force (20 January 1992) altogether 260 savings cooperatives in 1752 branches were providing a growing range of services (they possessed over a 5 % market share), and the number of its members was reaching the total amount of 1,780,000.

The economic liberalism, which has been strengthened politically, put a such weight on the bank system, for which banks could have not been prepared (e.g. they had to decide about the creditworthiness of small, inexperienced enterprises, in completely new fields, in a new market environment for the granting of credits whose interest has been state supported, and were meant to cure the situation caused by the general lack of capital). This general situation led directly to the necessity of bank and debtor consolidation of 1992–1993.¹ The savings cooperatives have also drawn their consolidation consequences. It became obvious that they are less and less able to suit the requirements of the competition independently, and it is necessary, as international practices have shown before, to centralize a certain part of tasks. They have recognized, that a shared product development, the establishment of a single image, the investments in information technology, the capital allocation, the handling of national and international accounting and financial tasks, the institution defense, and the enforcement of interest are such activities, which can be carried out in a form of collaboration more efficiently and with

¹ Following the establishment of the multi leveled bank system, an involvement of the state became important soon, for the consolidation of many banks and financial institutions and for their re-capitalization.

smaller costs. Due to this, certain integrative ambitions became stronger. The first success was reached in 1989, when Takarékbank (Bank of Hungarian Savings Co-operatives Co. Ltd.) was founded by the savings cooperatives. Takarékbank suffered through a significant capital loss in 1992.

Another significant result of the collaboration was the signing of the integration contract in 1993. This contract was signed by 246 savings cooperative from the 256. The tasks of the National Savings Co-operational Security Fund (which came into existence in 1991) were carried out by the National Saving Co-operative Institutional Representative Fund (OTIVA) following the signing of the contract, which provided first from the consolidation capital and later from the sums given by the savings cooperatives, support for its members. Those savings cooperatives which did not want to join the integration, created their own interest defense alliance and their own institution defense in 1993. In the previous years, a new strategically cooperating group was formed with the participation of six savings cooperatives and a commercial bank (which was actually established from a savings cooperative)². This group was built around a certain financial investor group. This way, the 3rd Hungarian institutional fund came into existence.

In spite of the establishment of collective organizations and the articulation of collective aims, savings cooperatives have had various reactions to the constantly changing external forces. This could have been the result of the differing features and the differing quality of the management. Due to the selection and polarization which is still happening, the number of savings cooperatives has decreased to 108 until 30 July 2015 (besides these there are two credit cooperatives), and this tendency could go on with the merges, unions and transformations into commercial banks.

2 The Previous Model (Until 2013)

2.1 The Cooperative Credit Bank System in Hungary Until 2013

The institutions of the cooperative credit bank system in Hungary are the following and they can be seen on Fig. 1:

1. Savings cooperatives
2. Credit cooperatives
3. Regional savings cooperative alliances
4. National interest representational alliances (OTSZ, TÉSZ)
5. Institutional defense funds (OTIVA, TAKIVA, REPIVA, HBA)
6. Central bank (Takarékbank Zrt.)

²These savings cooperatives also have an independent institution defense fund from 1994.

local level:	
1. <i>Savings cooperatives</i>	2. <i>Credit cooperatives</i>
regional level:	
3. <i>Regional savings cooperative alliances</i>	-
national level:	
4. <i>National associations</i> OTSZ, TЭСZ and outsiders (investor owners and independents)	-
5. <i>Institutional defense funds</i> OTIVA, TAKIVA, REPIVA	HBA
6. <i>TAKARÉKBANK Zrt</i> (central bank, commercial bank, investment bank – mostly for members of OTSZ)	

Fig. 1 The sector of co-operative banks in Hungary until 2013

2.1.1 Savings Cooperatives

Savings cooperatives are the dominant representational forms of the Hungarian cooperative credit bank system. They are legally independent credit banks which possess over an independent management and follow independent business policies, and have almost the same licenses and rights as commercial banks. In theory its fundamental principles are identical with the principles being published by the International Alliance of Cooperative Banks on 20 October 2008³, but the practical appearance of these is very variable and it often shows a contradictory picture. Originally savings cooperatives were created locally from 1956; this meant that they were each connected to village. The geographical separation and the inviolability of their territories were included in the integration contract. The minimum number of members should be 200 (from which at least 67 % has to be a natural person), the value of one share cannot be more than 10,000 HUF (app. 320 EUR), one member—one vote. One member can only represent one other member in the general assembly. Limiting and keeping the value of the share on a low level has been recently put in the chapter of Act on credit institutions and financial enterprises. The aim of this was to prevent the exclusion of traditional members with the increase of the par value of the share.

2.1.2 Credit Cooperatives

Until their political liquidation in 1953, credit cooperatives had been widely popular in Hungary. They not only possessed over a rich history and a large basis, but they also represented classical, traditional values.

³ International definition of Cooperative Banks adopted by the ICBA (International Co-operative Banking Association) general assembly of October 20th 2008.

The most significant difference between savings cooperatives and credit cooperatives is that the latter is only allowed to provide services for its members (except changing money).

2.1.3 Regional Savings Cooperative Alliances

These are organizations somewhere between the national and local level, spreading over more counties. They have an independent budget and independent tasks.

2.1.4 Institutional Defense Funds

The compulsory participation in institution defense came to an end in 2003, but many of the cooperatives supported the restoration of the compulsoriness, because outsiders carry a great reputational risk regarding the whole sector. Independently from the abolition of the compulsoriness, cooperative credit banks were members of an institution defense fund. Each fund has been built up around the interest representational organizations.

2.1.5 Central Bank

The largest owner and business basis of Takarékbank was formed by the members of OTSZ integration, but a large portion of the other savings cooperatives were owners too, respectively they use the services of Takarékbank. For example the members of TÉSZ group decided on cooperation in 2011, in terms of shared bank cards and ATM (POS) machines.

Takarékbank manages the accounts of most savings cooperatives, and they carry out a strong cooperation in every field of business. For example: shared product development, allocation of sources on savings, through consortium loans and foreign exchange activities, a complete cooperation in bank card business, in the field of information technology, national and international money transfers, providing cash etc.

Moreover an economic cooperation was launched in 2008 (Takarékpont network), with the participation of Takarékbank 21 savings cooperatives from different parts of the country and with two banks which formally have been savings cooperatives. Although the members have kept their legal independence, they have established a stronger and more efficient form of cooperation. They offer the same products; they have a single image and marketing policy.

3 Internal Operation, Management

The most important internal organs of savings cooperatives are the general assemblies, which are very often held in the form of partial general meetings, because of the large number of members. The partial meetings are held according to territorial principles, usually based on the members of one or two branches. It is even more usual the calling of a general assembly with a minimum of 50 members together, because practically all important decisions regarding the normal management can be handed over to this staff due to the authority of the general assembly. There are certain other things which are excluded from this authority, such as the definition of the authority of the general assembly. Actual decisions (the acceptance of the balance, the election of officials) are made by the meetings of delegates. This means that those general assemblies are rather formal, only giving out some information.

The board of directors of savings cooperatives has to consist of at least three members, and it has at least one fully employed, manager member (internal member.) The chairman is elected by the general assembly (the meeting of delegates) for the maximum of 5 years. This is similar to the election of members. The supervisory committee should also have at least three members. There is a minimum of a double management. The managers has to fulfill the professional requirements (education, experience, good reputation) defined in law.

4 Membership Policies

The theory which lasted until the first part of the 1990's was obviously inaccurate. It stated that more and more member should join the cooperative as a stipulation for selling the products. This was reached by agitation and this way a large mass basis has been created. Raising the number of members has appeared in the yearly agenda of cooperatives as a general cooperative aim. Savings cooperatives have really gained a large number of new members this way, without these having any practical advantage. In contrary, the untreatable number of members was not only for the new members formal, who treated their symbolic financial contributions as some kind of credit fee and with the discontinuance of the business relation their genuine relationship with the cooperative has come to an end, but also for the "real" members, whose authority gained through their membership and their influence became insignificant with the large amount of members. Beside this, the management had to face itself with a large amount of administrative duties. For dealing with these a number of makeshift arrangements came into existence which also decreased the cooperative nature of ownership. As the orders of cooperative policies (together with the cooperative policy) have faded away, the downsizing of the cooperative basis has started to take place.

In the first place, with the increase of the minimal amount of cooperative shares, most savings cooperatives were able to decrease the number of their membership, very often to the minimum number defined by the legislation of the time. This had actually various advantages: on the one hand the administrative duties of cooperatives have decreased immensely, the organization became efficient again, on the other hand the membership of the cooperative comprised of such members more and more, who have taken greater financial risk than just a symbolic amount and due to this they started to behave as real owners.

At the same time with the decrease of membership the capital supplement ability of the cooperative has also decreased. The legislative authorities have evaluated this process rather negative, and in order to avoid an extremely strong owner concentration, have very soon increased the necessary minimum number of members to 200 people.

5 Business Policy

Savings cooperatives provide an almost full scale of banking services, their risk taking opportunities are at the same time limited, this means that besides the retail, micro and small enterprises, respectively more and more local governments form the client basis of savings cooperatives characteristically. Savings cooperatives make their business decision completely on their own, for their decisions they are responsible with their whole wealth. In case of insolvency, institute defense funds help their members. This worked differently in the various funds. For example there was a fund where an aid fund has been reserved with the constant payments of the members, and there are funds where only in case of insolvency were some decisions made regarding involvement (for example providing subordinated loan capital).

In Hungary the average amount of members in cooperatives has shown a decreasing tendency in recent years, which can be also brought back to the fact, that the low par value of shares became disproportionately tiny compared to the decades long reserved wealth of cooperatives (*intergenerational endowment*)⁴. The individual wealth responsibility of members is not significant compared to the amount of wealth their put at stake with their decisions. This has caused the increase of the par value of fundamental shares, which resulted in the decrease of the number of members. At the same time the wealth interest transforming from formal to real, has enlarged the desire of members for a larger amount of dividend. This way we can make the assumption, that the business policy is more and more defined by profit orientation. At the same time, the total par value of shares owned by the members only means a tiny proportion of the cooperative wealth, and of the own equity capital of the cooperative.

⁴ See Fonteyne 2007.

Saving cooperatives are characteristically deposit makers in inter-bank markets, their sources coming from clients is much larger than the loans they provide for their clients. The loan/deposit proportion of the sector was, on 31 December 2014, 38 %, which means they possessed almost three times as much deposits as loans given to their clients. A significant part of their sources covering loans are put in Hungarian government securities and in inter-bank deposits. They do not have a relationship to the stock market.

6 Cooperative Principles in Savings Cooperatives

Hungarian savings cooperatives have followed that practice, stemming from the roots of credit cooperatives, where they prescribed for their new clients to become members of the given cooperative. This has been compulsory for every new client. This practice, according to our view, has not only violated the fundamental principle of volunteerism, but it has not reached its original aim either. Due to the fact that the membership has been formed this way, it remained formal, there was no content it, and it has not gone beyond a simple bank-client relationship. The management seeks the establishment of such membership consciously, with whom they can reach their aims more easily. This way they try to limit the phenomenon of open membership (for example in order to exclude investors with bad intentions) to an extent. This is possible according to the legislation being in force. The “directed” setup of membership has decreased the efficiency of member supervision based on internal democracy.

In connection with this, the phenomenon “entrenching” of the management is neither typically cooperative nor Hungarian. The directed membership and the low member participation, respectively the lack of direct involvement, enables top leaders of cooperatives to be elected periodically (characteristically in every 5 years) without having any other candidate at hand. This is also strengthened by the non-defined termination of the appointed management. Bonding the management this manner is far away from the traditional values of cooperatives and it can harm the competitiveness of the cooperative.

Another characteristic feature of classical cooperatives is that members take active part in the economic activities of the cooperative. These so called “partnerships” features has been less dominant from the beginning (compared to other, e.g. agricultural cooperatives) in case of credit cooperatives, because banking activities are, due to their nature, capital unifying. In today’s saving cooperatives the personal involvement is carried out by those workers who are at the same time members. This only means a tiny part of the membership. Carrying out banking activities is not only a field which requires special training, but it is also true that the reachable profit cannot be efficient with the increase of the amount of members. *The above findings result in the fact, that a participation of a wide range of members in the management is not possible.*

Care and social risk taking, having been regarded as cooperative values, can be interpreted in the relationship among the members or in the relationship between the member and the community. In classical examples it was still possible to find an active, real care between the members and their families, but for modern cooperatives a rather financial care is characteristic. For example they establish a community fund, for the support of certain, earlier defined aims (social, sport, cultural etc.). Due to the fact that this fund can be created from the profit, it, *mutatis mutandis*, decreases the assets of the cooperative; it harms its efficiency and profitability. This means the management, if it is really profit oriented, can put these activities in the background.

According to the above written, it has to be admitted, that in case of savings cooperatives the cooperative principles are very often violated. This can put the cooperative values to the background, those values which actually make them different from other financial organizations operating in other forms, especially from joint stock companies.

7 Changes in the External Regulation

Hungarian Parliament has accepted a new, general regulation regarding savings and credit cooperatives and some banks with cooperative identity (hereafter *cooperative credit institutions*, short for CCI's) in 2013. The Act X/2006 on Cooperatives (hereafter Coop Law) has been changed; some of its main elements have been regulated newly in Act V/2013 (Civil Code), a new Act on Credit Institutions (CCXXXVII/2013, hereafter *Credit Institution Law*) has come into force and most importantly Act CXXXV/2013, the so called Law on Integration of Savings Cooperatives (hereafter *Integration Law*) has been published which has a tremendous impact on savings and credit cooperatives in Hungary. The Civil Code has modified a bit the definition of cooperative and included obligatory and liability of the members as parts of it. According to the new regulations, the cooperative is an organisation with legal entity which is established with the members' share-note equity and operating according the principles of open membership and variable capital; the objective of the organisation is to promote meeting the economic and other societal (cultural, educational, social and health care) needs of the members, whereas the obligations of a member include providing equity investment for the cooperative and "personal contribution" regulated by the by-law (founding document) as well. Members have limited liability regarding obligations of the cooperative.

Limitation of liability of the member is closely connected to the new definition, which can be found in a separate chapter on liability circumstances in the Coop Law. According to the new legislation member has no obligation to fulfil the cooperative's commitment, his or her liability is limited to the amount of his or her cooperative share based on the old regulation. Since the cooperative share is

part of the coop equity and can be involved to settling its obligation, the new legislation makes no real difference, it only emphasise the limited liability.

Obligatory elements of by-laws can be found among joint regulations concerning legal entities in Civil Code⁵ as well as in 3:321§ which part strictly concerns cooperatives only. The latter one left out the detailed description of membership legal relations and contents of the organisation like can be found in Coop Law. Representative rules are regulated by the Law (3:29§–3:31§) and not by inner specification given usually in the by-laws. However, indication of names of founding members and their seat addresses is mandatory rule, as well as the possible forms of personal contributions of members; regulations regarding services can be carried out from the mutual found and terms of rules of conflict of interest regarding members and officials of the cooperative.

Regarding organisational regulation significant modification only concerned terms of references of the general meeting. Exclusion of a member and the review of resolution of exclusion, starting sue for damages caused by leader officials of the cooperative, the decision about membership in an association of cooperatives, acceptance of membership of investor members, changes in the nominal value of cooperative shares and the date of payment of share premium are no longer in the scope of authority of the general meeting.

While the obligatory minimum number of founding members did not change, there is a significant alteration in the composite of membership according to the new regulation. In the past the only limit was that legal persons and companies without legal entities could not exceed the half of membership, according to the regulation in the new Civil Code demands more requirements to fulfil. One most important one is that the number non-natural persons (not taking into account legal persons working in cooperative form, but only legal persons and companies without legal entities) cannot exceed 1/5th of the membership. Also, members with personal contribution should reach at least 4/5th of the membership. There is a restriction on the equity provided by a single member, it could not exceed the 15 % of the capital, in case of legal persons the maximum share is 1/3.

The Coop Law restricted the share of solely investment property in 30 % of cooperative share capital and the number of “investor members” in 10 % of the (total) membership. The Coop Law left the principles (like “investor members”, members with personal contribution etc. named in the law) of allocation of profit (surplus) in scope of authority of general assembly, however according Civil Code⁶ half of the profit (surplus) has to be distributed among members according to their personal contributions. While Coop Law declares the concrete forms of personal contributions, the new regulation refers the decision about what can accepted as personal contribution to terms of reference of general meeting. An interesting feature of Civil Code that protection of minorities has a separate title (Title XIX)

⁵ 3:5§ of Act V/2013 (Civil Code).

⁶ 3:356§ (2).

and it declares that members with 5 % of votes can initiate of getting together the general assembly or one-off financial audit.

Important feature of the Coop Law that it has lower emphasis on the regulation of associations of cooperatives (as a pressure group organisation) which is can be seen clearly from the fact that there is only one paragraph and not a full chapter devoted to this topic and more importantly it has no reference to the legal status of the above mentioned associations. It is even more important change that former elements of guarantee (see 97§ in the former regulation) allocated appraisal and legislative initiative rights for association of cooperatives while they disappeared from the recent legislation.

One of the relevant changes of Credit Institution Law regarding CCI's is the legal requirement of establishing them as private limited companies apart from cooperative form. The other important change is that unlike 8§ (Sect. 6) of Credit Institution Law, new legislation allows CCI's to carry out a wide variety of activities; however 17/B§ of the Integration Law limits the possible actions.

After Credit Institution Law come into force the minimum founding equity requirement is higher (HUF 300 million) compared to the previous minimum equity of HUF 250 million.

One can state that new Civil Code and its new regulation on cooperatives together with the Credit Institution Law which come into force recently established a solid and adequate base for the reform. The main elements of the Integration Law:

The Law establishes and regulates the Organisation of Integration (hereafter Organisation) which is legal person and unlike the voluntary funds in the past it is an obligatory institutional protection organisation with (legally obliged) membership of every CCI which existed at the date the Law come into force, as well as memberships of Takarékbank Zrt. (private limited company), Hungarian Development Bank Zrt. (hereafter HDB) and all persons and organisations (had been) accepted as members of the Organisation. Operating licence terminates if a CCI put an end to its membership in the Organisation or it is no longer owner of preferred share (stock).

The equity of Organisation consists of contribution of HDB (HUF 1 billion), membership fees and the equity of former institutional defense funds which had ceased to exist according to the Law. The above assets together with equities of Takarékbank Zrt. and CCI's are parts of the consolidated prudential own funds. The Organisation is partly responsible of the solvency and equity allocation of Takarékbank Zrt. and cooperative credit organisations and in special cases—in order to maintain them—it could acquire property in above organisations; however it has to be alienated in 2 years.

Takarékbank Zrt. as central bank of the integration accepts obligatory regulation (containing for example detailed rules of risk management concerning overall operation, business policy to follow, joint marketing activities, unified information technology system etc.) regarding CCI's, control their activities and it can give them instructions in order to maintain their adequate operation. The Law determines consequences regarding implementation of instruction(s) as well as

concerning possible disoperation of CCI's (e.g. not following legal rules and regulation).

Board of Directors of Takarékbank Zrt. can make decisions about suspension of charges of leader officials of CCI as well it can initiate suspension of integration membership or exclusion from the membership regarding the CCI (Similarly the Organisation can make the same decisions as can read above).

If according to Board of Directors of Takarékbank Zrt. the CCI is in crisis then it can make decisions about the suspension of charges of managing leaders of the institution, determine new temporary charges of officers or it can initiate suspension of integration membership or exclusion from the membership regarding the cooperative (Exclusion from the integration membership regarding the CCI is also a right of the Organisation).

CCI's are obliged to hold their bank and securities accounts at Takarékbank Zrt. and they can only use their free financial resources to invest into assets provided by Takarékbank Zrt. The Law made compulsory the implementation of unified information technology system for Takarékbank Zrt. and CCI's as well from 1 July 2016.

Prior approval of Takarékbank Zrt. is needed to accept of the accounting report, to appoint leader officers and to carry out acquisition in or to sell assets of other business organisations (or legal entities) as well⁷.

There is a prior and ex-post obligation to provide information on behalf of the cooperative credit institution towards to Takarékbank Zrt. regarding many issues like sending invitation to the meetings and setting up the agenda of them; as well as reporting about general and other meeting meetings with the possible risk of loosing validity of the decisions made there if they would not meet with above requirements. Representative of Takarékbank Zrt. has the right of consultation in general meeting of the CCI.

The most important rules regarding CCI's are the backbones of the regulation concerning them. Important rule of capital requirements is that the minimum level of requested prudential own funds is determined by the Organisation individually and if it sinks below it the Organisation can determine selling non-banking operational assets of CCI, can set other individual capital requirement or other operational measures like setting up the maximum of the interest to be paid, forbidding business among owners and CCI as well paying out deposits and other financial resources. The Organisation has the right to call together the general meeting and it also has license to direct attention of the board of directors or the general assembly to make decisions about certain issues and it can call upon bigger owners (with more influence like higher share of votes than 5 % and owners with qualifying holding) to carry out certain measures.

According to the Law CCI can only be established by an approved sample by-law determined by Takarékbank Zrt. (and the Organisation) and only in legal forms as credit cooperative, savings cooperative and public limited liability

⁷ If it exceeds the 0.1 % of the consolidated own funds of the integration.

company. In case of choosing cooperative form it can only operate as a member of the Organisation with minimum number of 200 members and the maximum number of legal entities has to be less than 1/3 of the total membership.

The Law contains regulation on the legal entity (with membership in it of Takarékbank Zrt., CCI's and the Organisation) who has joint liability for any debts. To pay out members or in any other cases of reduction of the subscribed capital, apart from the decisions of the relevant decision body of the cooperative, prior approval of Takarékbank Zrt. is needed. It can only refuse the approval if paying interest undermines the solvency of the cooperative, it hampers the fulfilment of the business plan or it can jeopardise reaching the level of unique prudential own funds.

The Law obliged already operating CCI's to accept the new by-law determined by the Organisation in 45 days and it obligated Takarékbank Zrt. to review assets and liabilities of the above institutions in 1 year and propose exclusion from the integration membership if it is necessary. Finally the Law sets up the rules of exiting from the integration membership, securing the rule that the liability of quitting organisation lasts only until day of exit.

8 The Current Model

The institutions of the cooperative credit bank system in Hungary are the following and they can be seen on Fig. 2:

1. Savings cooperatives
2. Credit cooperatives
3. Banks within integration
4. Regional savings cooperative alliances
5. National associations (SZHISZ, OTSZ, TÉSZ)
6. Common Capital Cover Fund (TFKA)
7. Central bank (Takarékbank Zrt.)

9 The Importance of the Cooperative Sector in Hungary⁸

Savings cooperatives shared 1448 billion HUF from the 32,866 billion HUF balance sheet total in year 2014 and possessed 7.6 % (1213 billion HUF) of all bank (16,045 billion HUF) deposits. The amount of loans (462 billion HUF) given by cooperatives was 2.9 % of the bank sector⁹. This proportions were 10.5 and

⁸ On 31 December 2014, Source: MAGYAR NEMZETI BANK (The Central Bank of Hungary), http://felugyelet.mnb.hu/bal_menu/jelentesek_statisztikak/statisztikak/bankszektor

⁹ Without Takarékbank and other Cooperative Banks which are members of integration.

local level:

1. *Savings cooperatives*
 2. *Credit cooperatives*
 3. *Banks*
- (Together: Cooperative Credit Institutions)

regional level:

4. *Regional savings cooperative alliances* (minimal or formal role)

national level:

5. *National associations*

SZHISZ – Integration Organisation of Cooperative Credit Institutions
(members: Takarékbank Zrt., Hungarian Development Bank Zrt. and CCI's)
OTSZ, TЭСZ (minimal or formal role)

6. *Institutional defense funds*

TFKA – Common Capital Cover Fund of Cooperative Credit Institutions
(members: Takarékbank Zrt., SZHISZ and CCI's)

7. *TAKARÉKBANK Zrt.*

(central-, commercial-, investment bank whit regulatory and supervisory functions)

Fig. 2 The sector of co-operative banks in Hungary

3.5 % in 2010. Savings cooperatives run 1486 branches (48 % of the total number of branches bank), in every 3rd settlement only they offer services, employ more than 6800 people, which means the 18 % of the whole banking sector. They possessed over a 105 billion HUF large capital in average (3.5 % of the sector) their average, annual capital equivalence indicator was 19.5 %. By the end of the 1980s, the amount of the members of cooperative credit institutions has reached two billion, however this amount of members has decreased to about 150,000 people until today. About 15 % of the population of Hungary is client of one of the savings cooperative.

10 Summary

The collective European thinking puts a great emphasis on savings cooperatives in the process of the elimination of social and economical differences.

Thanks to its conservative business policies, the savings cooperative sector remained stable and liquid, even during the time of crisis. In spite of the fact that the amount of their shares has not grown significantly, their business, social, and political judgment, their popularity and good reputation has grown rapidly since the end of 2008.

Although the search for a solution has speeded up in the past few years, and there has been some attempts carried out for the reformation of cooperative integration, they have not brought any breakthrough due to the lack of a unified view of the future and the lack of the particular aims. Putting and emphasis on the possibility of a distinctive role played the management, which is rather strange for savings cooperatives, has not helped to define the common strategic aims. This is even the dead-end of collaboration and it is against international trends.

The present government has articulated a few times, that it intends an important role for the sector in the execution of programs which aim the stimulation of the economy. They have defined a total amount of 10–15 % share from the market in the long run.

Birth of the Integration Law was almost necessary according to the processes analysed above. The Law aimed to strengthen the cooperative network and not to cut back member institutions or change them to commercial bank offices. Therefore only aspects which serve the above aim can be enforceable during the reconstruction of the network. It would be a big mistake to reconstruct the sector in a way (and it is not a derivable solution from the Law) to classify present cooperatives and its branch offices as only bank offices belonging Takarékbank Zrt. holding formal settings but distracting the contents of a legal entity like competences, sources, financial results etc.

Members of the integration are very much depending on each other and the success or failure of the model is based on their collaboration.

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