Italian Credit Cooperative Banks

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Abstract Italian Credit Cooperative Banks (*Banche di credito cooperativo,* from here after CCBs) represent a significant part of the Italian banking system. Born in the second half of the nineteenth century, they have been able to grow and to adapt to new social, economic and legal environment. The Banking Law, which entered into force in 1993, has weakened the differences between CCBs and commercial banks with respect to the previous legislation, while preserving mutualism, democracy, localism and not-for profit goals. In this context CCBs, from being banks aimed at lending small credits to local farmers and handcrafts in rural areas where they were in most case the only banking institution, have become able to compete with commercial banks on wider areas. One of the main contribution to this evolution has been given by the second level networks—i.e. the banking and the association networks that help single cooperative banks to increase efficiency and to be competitive on the banking market. With respect to other European cooperative banks, however, the Italian system is at present among the least integrated. During the financial turmoil started in 2007, Italian CCBs kept on financing local economies, not without relevant costs, particularly in terms of non-performing loans; the number of CCBs under default procedure has increased. Today a debate is in place for a reform of the network, to give rise to a more integrated system, based on membership of banking groups.

1 Introductory Note

In Italy there are two categories of cooperative banks: *Banche di credito cooperativo* (Credit Cooperative Banks or Mutual Banks, hereafter CCBs) and *Banche popolari*. While closing this chapter (June 2015), they are both under reform. A recent law, entered into force in March 2015, has stated that *Banche*

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popolari with more than 8 billion euros of assets must be converted into limited companies. The cooperative governance, with the "one member—one vote" regime, is therefore maintained only by smaller ones. For CCBs a reform of the network is currently under debate. In what follows we concentrate on CCBs since *Banche popolari* cannot be considered mutualistic companies (*Banche popolari* will be briefly introduced and discussed at the end of Sect. 3).

2 The Establishment and Evolution of the Credit Cooperative System[1]

The first cooperative wave in Italy took place in the second half of the nineteenth century and was mainly inspired by the liberal thought. The cooperative form was implemented in order to organize both consumers' and producers' enterprises, especially in reaction to the agrarian crisis of 1882–1883. Following the model introduced by Friedrich W. Raiffeisen in Rhineland, the first "Cassa Rurale" (Rural Bank, hereafter RB) was established by Leone Wollemborg, together with 32 members, in a rural area close to Padua (Loreggia) in 1883. The RBs were closely linked to the local community since they hinged on ethical and solidarity principles. The number of RBs started rapidly to grow. In 1888, 51 RBs joined the "Federation of Rural Banks and Similar Enterprises" (FRBs).

An important input for the development of the movement came from the Catholic church. With his Encyclical "Rerum Novarum" (1892), Pope Leo XIII underlined the need to fight against what he called the *usura vorax* (the "devouring usury"), through social action and solidarity. After the encyclical the involvement of the clergy in the process of development of RBs resulted in a considerable expansion of RBs all over Italy (Zamagni 2006).

At the end of the nineteenth century, there were almost 900 RBs, 775 of which were of Catholic inspiration established especially in the North East, in Lombardy, in Piedmont and in Rome. In the South of Italy only the Sicilian provinces of Agrigento and Catania could be compared with the North in terms of RBs diffusion and this was largely due to the efforts of a priest, Don Luigi Sturzo. Even though those banks were spread over in the country, their development was affected both by their poor assets and by the small volume of their business. In 1917 the "National Federation of Rural Banks" (NFRB), established in 1909 as an evolution of the

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FRBs at the national level and supported by the Catholic movement, emerged as the promoter and supporter of the movement of RBs. In order to be more effective, it structured RBs into local federations. The NFRB can be seen as the predecessor of the present national Federation (Federcasse, see Sect. 3).

After the First World War, RBs were challenged by the liquidity shortage of both peasantries and Federation bodies. The structural limits of the cooperative financial industry surfaced when Italy had to face both economic and social problems, such as high inflation, unemployment, weakening of the liberal government, and internal divisions (Zamagni 2006).

The rise of fascism in 1922 had a strong impact on RBs, too. Fascism used the cooperative influence as a tool of control and propaganda by appointing representatives of the Fascist Party as cooperative managers. The violent actions of the fascists against people and against banks' officers prompted depositors to withdraw money from RBs. The decline in the number of the RBs could not be prevented by the introduction of the "Banking Law for Rural and Handcraft Banks" passed in 1937. From 1922 to 1947 RBs decreased, on average, by 3 % yearly. Meanwhile, the Banking Law passed in 1936 put all banks under the supervision of the Bank of Italy and, in the same year, the "National Board of the Rural Agrarian Banks" was established with the aim of supervising the technical coordination and of promoting the formation of new RBs. Moreover, before the end of the Second World War, the second level network of the RBs was dismantled.

After the Second World War, RBs faced a period of re-organization. In 1946 the Catholic movement re-established the "Confederation of Italian Cooperatives" and in 1950 the NFRB was rebuilt. Between the 1960s and the 1980s, the RBs movement garnered a growing role in the Italian credit market due to an effort to reaffirm the inspiring principles of the cooperation and to strengthen the internal linkages. The local Federations were also re-founded and empowered with the role of representation, protection and technical assistance, both at regional and interregional level. The structuring of the Federation on local basis was completed in the period 1964–1975 (Cafaro 2001). In 1963 Badioli, the president of Federcasse, was authorized to create a central institute for the credit cooperative system (*Istituto di credito delle casse rurali e artigiane,* nowadays ICCREA), that is a reference institute for the provision of financial services to RBs. In the same period, the process of democratization and of managerial integration had started, involving the second level network. Moreover, the "Central Guarantee Fund" was established as the main safeguard tool for the RBs.

In the second half of the 1970s and during the 1980s, RBs faced a period of slow decline, mainly due to the fading role of farmers (the main owners of rural banks) and to the public subsidies to farming, which transformed farmers from being net depositors to net borrowers.

In 1980 the Federation together with numerous RBs joined the Italian Banking Association.

The new Banking Law passed in 1993 represented a turning point for RBs, since, among other things, it relaxed their previous limits to credit specialization and extended the geographical area of business. *Banche di credito cooperativo* (Credit

Cooperative Banks, this is the new name established by the law[2]) were basically allowed to offer all types of financial services and products. After this law CCBs underwent a profound restructuring, whereby some of them were liquidated, others were converted into commercials banks, and others merged or got acquired. CCBs improved their general performance and started growing in size mostly thanks to M&A that reduced them in number.

In 1997 the Deposits Guarantee Fund of Cooperative Banks substituted the Central Guarantee Fund (see Sect. 3). In 1999 the CCBs' movement signed the "Charter of Values of the Cooperative Credit" during the XII National Congress. 6 years later, during the XIII Congress, the movement approved the "network system" project for CCBs, together with the "Charter of cohesion", which involved creating a form of cross-safeguard to protect the customers of CCBs (the "Institutional Guarantee Fund"), that has not been implemented.

3 The Current Model

Italian CCBs are subject to the same banking legislation and supervisory regulation as other banks, with some additional restrictions. The Civil Code provisions on cooperatives apply to CCBs only when they complement the banking legislation or are not in conflict with it. In other words, at least from a legislative point of view, CCBs are firstly banks, and secondly cooperatives. Differently from other banks, their Statute plays a crucial role, since it translates into internal rules the supervisory regulation of the Bank of Italy.

The Banking Law of 1993 (D.Lgs. 385/1993, "Testo Unico delle Leggi in materia bancaria e creditizia", hereafter BL) weakened the differences between CCBs and commercial banks compared to the 1937 legislation, by imposing, among other things, limited liability, by allowing product diversification, and by deregulating the establishment of branches.[3] The BL has, however, preserved mutualism, localism, democracy and the non-profit aim.

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[2] By changing the name, the legislator wanted to put the accent on the "cooperative" character of this type of banks, instead of stressing the sectors with which they were allowed to work, as it was with the previous name ("Casse rurali e artigiane"—Rural and Handcrafts Banks). According to the 1937 legislation, 80 % of members had to be farmers or craftsmen. Moreover, body corporates could not become members.

[3] The establishment of a new branch is liberalised in the sense that, like for the other categories of banks, it no longer requires a Bank of Italy's authorization. The intention to open a new branch must be communicated to the Supervisory Authority and the branch can be opened unless the Bank of Italy prevents it within 60 days from the communication. The opening of a new branch can be stopped when the Bank of Italy considers the organization of the bank not adequate, or because of its economic, capital o financial situation. The local character of CCBs implies however that a new branch can be opened only in municipalities that are included in the "competence area" (see below in this Section). An exception to this rule is the case of a "secondary headquarter", which can be opened under stricter conditions (see, "Istruzioni di Vigilanza per le Banche", Title VII, Chap. I).

CCBs are mutual in the sense that they have to lend mainly to members (art. 35 BL).[4] The Statute establishes the exact percentage, but, according to the Bank of Italy's regulation,[5] the legal requirement is fulfilled if at least 50 % of total risky assets are devoted to members or invested in government bonds (or in other assets with a zero-weighting coefficient according to Basel rules).[6] In practise, the actual amount of loans to members (over total loans) differs among CCBs.[7] Moreover credit conditions tend to be generally more favourable for members with respect to non-members (Piersante and Stefani 2012).

Italian CCBs are local since they can operate only in municipalities where they have branches and in neighbouring ones, with geographical continuity[8] (the "competence area").[9] Moreover members must live or operate on a continuous basis in that area. Finally, the name of the bank must explicitly mention the competence area.

CCBs' democratic structure is mainly based on three elements. First, the social basis must be widespread in order to have local interests sufficiently represented (the minimum number of members is 200; art. 34 BL; see Table 1). Second, the company capital consists of nominative shares and the law sets the maximum capital share that each member can hold.[10] As for cooperative in general, shares are not freely tradable on the market, since new subscribers are subject to the approval by old cooperative members. Third, regardless of the number of shares, each member has only one vote in meetings, that is the "one member—one vote" principle applies. This principle implies that "ownership rights" only stem from membership, while they are unrelated with the amount of shares. Therefore, besides the provision of a maximum threshold for the acquisition of shares, members do not have any incentive in buying more than one share, since they would not acquire

[4] The 2003 Company Law Reform (Law 6/2003) introduced the distinction between "mutualism prevailing cooperatives" and "non-mutualism prevailing cooperatives" and allowed, among other things, a favourable tax treatment only to the former. Because of the compulsory "mutuality" requirement, all CCBs are by law "mutualism prevailing cooperatives". As the other cooperatives of the same kind, they are under the supervision of a special authority for cooperatives, whose aims are different from the ones of the Bank of Italy and cannot be in contrast with them.

[5] The Bank of Italy's supervisory regulation concerning CCBs is contained in the *Circolare* n. 229 "Istruzioni di Vigilanza per le Banche", Title VII, Chap. I.

[6] No mutual requirement is set for the funding activity or the provision of financial services.

[7] Considering the 15 areas which coincide with the competence of local Federations, over the 2004–2011 period, loans to members have been on average over the 50 % requirement only in Alto Adige, Abruzzo-Molise, Tuscany, Piedmont-Valle d'Aosta-Liguria and Trentino, while in the other areas the supervisory requirement have been on average fulfilled thanks to investments in government bonds.

[8] A "discontinuous" competence area is allowed when CCBs merge with other CCBs whose reference area is not contiguous and in the case of a "secondary headquarter" (see footnote 3).

[9] The amount of business activity referring to outside the competence area cannot exceed 5 % of total.

[10] The present maximum value is 50,000 of euros, according to Bank of Italy's regulation.

more voting power[11] and residual rights to control. The "one member—one vote" principle separates proprietorship from control and makes takeover not possible. An external investor who, for instance, thinks a given cooperative is poorly managed cannot make a tender offer and get the control of it. This "separation problem" is somewhat softened since directors in the boards must be members themselves, and because the *peer monitoring* mechanism, besides reducing information asymmetries in screening and monitoring customers, could also prevent directors from behaving against members' interests.

The non-profit aim is assured by two conditions: first, banks reserves (both compulsory and statutory-based and those decided by the general meeting) can never be distributed to members and, second, there are legal constraints on profit distribution. As regards the former provision, in case of withdrawal or exclusion of a member and in case of bank liquidation, members cannot be reimbursed more than the share price. Moreover, upon liquidation of the CCB, its capital (net of the share price paid back to members according to the above mentioned rule) must be devoted to "Mutual Funds for the Promotion and Development of Cooperation". The obligation not to distribute reserves is the crucial difference between CCBs and other categories of banks. In order to avoid infringements to this rule, mergers involving the transformation of a CCB into a bank of a different institutional nature (that is a limited company or a *Banca popolare*) must be authorized by the Bank of Italy. This authorization is possible only when the merger is required in order either to preserve the "creditors' interests" or to guarantee the "bank stability". These two conditions imply a situation of crisis and are stricter than the general "healthy and cautious management" principle that applies to other bank mergers.

As regards the second provision, the non-profit aim is also ensured by the compulsory destination of 70 % of net annual profits to legal reserve and an additional 3 % to Mutual funds[12] (art. 37 BL). In exchange for that, due to their social role, CCBs benefit from a favourable tax treatment.

CCBs are fully independent banks, and they are connected to each other, on a voluntary basis, through a network made up of two components: an association network (namely, the national and the local Federations) for the provision of non-financial services, and a second level banking structure for the provision of financial products and services (see Fig. 1). The aim of the network is to develop and exploit scale- and scope- economies so to improve the strength of the cooperative movement to enhance product differentiation, economic efficiency and thus

[11] Moreover, as members do not receive any dividend (see below in this Section), the only plausible reason to hold more than one share is to support the existence of the cooperative bank.

[12] In case of distribution to members of remaining profits, according to art. 2514 of the Italian Civil Code, CCBs cannot distribute dividends superior to the maximum interest on postal bonds increased by 2.5 %. In practice, CCB profit distribution policies, beyond mandatory reserves, devote an additional fraction of profits to charity so that in most cases members do not receive any profit. Membership is therefore not motivated by profit earning, but rather by expectation of better credit conditions, less costly financial services and higher credit availability (Di Salvo and Schena 1998).

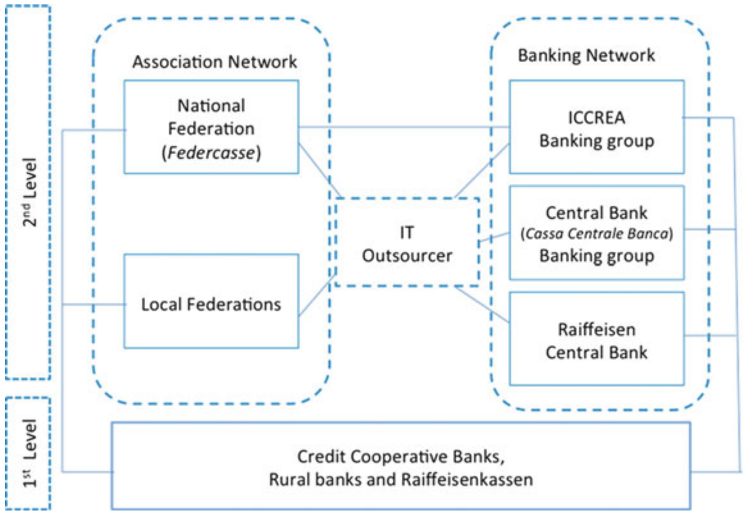

Fig. 1 The Italian Credit Cooperative System

competitiveness. More precisely, from an association point of view, CCBs are organised into 15 local Federations that are, in turn, affiliated to the national Federation ("Federcasse"). The Federations provide non-financial services. The extent of these services varies amongst them, with almost all Federations provide internal audit, compliance and anti-money laundering services, while only a few have extended their offer to governance and strategy (Tarantola 2011). Moreover they provide information technology systems that are however not homogenous over the territory. From a banking point of view, the second level structure consists of three Central Cooperative Banks,[13] which provide single CCBs with a range of financial services that CCBs (that is the first level of the network) cannot economically produce by their own, given their small scale. These services include payment system services, financial and insurance product provision, portfolio management, securization, in-pool operations, leasing and factoring.

CCBs adhere on a compulsory basis to the "Fondo di garanzia dei depositanti del credito cooperativo" (Deposit Guarantee for Cooperative Banks), set in 1997, following the European directive n. 19/1994.[14] Moreover, the credit cooperative system

[13] The three Central Cooperative Banks are ICCREA (whose headquarter is in Rome), Cassa Centrale Banca—Credito Cooperativo del Nord Est (whose headquarter is in Trento) and Cassa Centrale Raiffeisen dell'Alto Adige (established in Bolzano). All three banks are limited companies which offer financial services to CCBs, directly or through companies of their groups. ICCREA, in particular, is a holding company—owned by the cooperative banks, the national Federation (Federcasse), the regional Federations, the Central Banks of Trento and of Bolzano—which operates through its members' companies: ICCREA Bank spa (the central Institute built in 1963 with its six branches), Agrileasing created in 1977, Aureo Gestioni spa, IMMICRA spa, Simcasse spa, Assimoco spa and Assimoco Vita spa, Ciscra spa, and SEF srl.

[14] An analogous fund therefore exists for the other Italian banks.

has established its own “Fondo di garanzia degli obbligazionisti” (Bondholder Guarantee Fund for the Credit Cooperative Banks) that intervenes in case of default by a bond issuer; the participation to the Fund is voluntary. In December 2011 the Bank of Italy approved the Statute of a “Fondo di garanzia istituzionale” (Institutional Guarantee Fund) of CCBs, a cross-guarantee system that has not been implemented.

Compared to other European cooperative banks, Italian CCBs, as single banks, share the basic characteristics and remain under several aspects more loyal to the original roots. As a system, they are less integrated: by measuring integration through the extent of mutual support, the cross-guarantee schemes is based on the coverage provided by the compulsory and supplementary deposit insurance schemes and bond insurance mechanisms that are in place; the support is limited to paid-up funds (Ayadi et al. 2010).

While closing this chapter, a debate is in place in Italy on a reform of CCBs to enhance efficiency and balance sheet equilibria through a higher integration, based on membership of banking groups, in order to be able continue to support local markets and preserving their mutualistic nature (Banca d’Italia 2015).

CCBs are not the only kind of cooperative banks in Italy, the second type being *Banche popolari*, which however have not a prevailing mutual character according to the Banking law.[15] As a matter of fact, before the recent reform,[16] they could be divided into two categories (Rossi 2015). The first group is composed by little banks which operate in a limited geographical area; the second is formed by big banking groups, which result in general from merging processes, whose parent company is in most cases listed. Their legal discipline has recently been reformed, by restricting the bunch of *Banche popolari* which can maintain the cooperative nature to the ones with not more than 8 billion euros of assets (in case of banking groups, assets are calculated in consolidated terms). *Banche popolari* above this threshold must transform into limited companies within 18 months.[17] The law has introduced some new rules also for *Banche popolari* that do not need to transform,[18] which, according to the Banking law, share with CCBs the “one member—one vote” principle, a constraint on the maximum amount of shares that each member can hold, a compulsory

[15] Italian *Banche popolari* are the only case of cooperative banks in Europe that does not have cross-guarantee schemes beyond the compulsory deposit insurance schemes (Ayadi et al. 2010).

[16] See the Law 24.3.2015, n. 33.

[17] This term is valid for *Banche popolari* having more than 8 billion euros of assets at the moment when the law entered into force; for future cases of *Banche popolari* overpassing the threshold term for transformation is 12 months. Majorities for the decision are the ones described in the following footnote.

[18] The maximum number of proxies in meetings that Statutes have to fix must be increased: it must be a number in between 10 and 20. Moreover, according to the new discipline, Statutes have to be revised also as for the number of members required for the validity of meetings deciding on the transformation of a *Banca popolare* into a limited company: more precisely the new law requires that meetings are legally valid if one tenth of members are present at the first call (instead of one third). For the second call no quorum has to be achieved. In both calls a decision is reached with the majority of two thirds of the members who are present.

net profit destination to legal reserves higher than the ordinary one (but much lower than the one of CCBs; see Table 2), the variable capital.

However, differently from CCBs, *Banche popolari* are in any case not subject to any constraints concerning the "prevailing mutualism" principle. Moreover, they do not have to devote part of their profits to mutual funds. Their capital can be distributed and *Banche popolari* are not subject to any restrictions when they intend to transform into limited companies (see Table 1).[19] Given this possibility, they cannot be considered "mutualistic" from a substantial point of view.

4 The Importance of the Credit Cooperative System in the National Banking Market

In terms of number of intermediaries, Credit Cooperative Banks are the largest category among Italian banks.[20] At the end of 2014 they accounted for 376 banks throughout the country (56.6 % of total banks) with a network of 4,432 branches (the 14.4 % of total branches; see Table 2). CCBs exist in one third of Italian municipalities and in more than 500 municipalities they represent the only financial institution. Their presence is heterogeneous: most of the CCBs have their headquarter and their branches established in the North Eastern regions (39.8 % of the total number), with a 15 branches per 10,000 inhabitants and also the highest incidence of branches over total branches (see Fig. 2).

From the nineties the number of CCBs has gradually decreased, mostly due to mergers, and their reduction has been higher than the one registered by total banks[21] (see Fig. 3). The consolidation process has been particularly marked in the period 1995–2005, when CCBs reduced by about one third. Even though mergers has risen the market concentration, so that 20 BCCs hold one quarter of the overall BCCs' assets, the presence of small size CCBs remains very high (Visco 2012). Despite of a declining number of banks, the network of CCBs branches has increased more than the one of the total banking industry.[22] This expansion has led to a wider

[19] Actually, as mentioned, this transformation has been made easier by the recent law that has reduced the quorum required for this decision by the general assembly.

[20] According to the BL, Italian banks can be divided into four legal forms: (1) *Banche spa* (Limited Company Banks); (2) *Banche popolari*; (3) *Banche di credito cooperativo* (Credit Cooperative Banks, also called Mutual Banks); and (4) *Filiali di banche estere* (Branches of Foreign Banks). At the end of 2014 the Italian banking industry accounted for 171 Limited Company Banks, 37 *Banche popolari*, 376 Credit Cooperative Banks and 80 Branches of Foreign Banks (Banca d'Italia, *online statistics*, 2015).

[21] From 1999 to 2014 the number of CCBs decreased by 29.2 %, while the total number of banks decreased by 24.1 %.

[22] In particular, from 1999 to 2014 the number of CCBs branches has increased by 54.8 %, against a rise by 13.2 % of total banks. The number of CCBs' branches increased also during the crisis (13 %) while the total number of bank branch decreased (−7.5%).

presence of CCBs outside the rural area, namely in towns and urban areas. In the same period the number of members significantly increased, more than doubling from 1999 to 2014 when it reached 1.2 million.

While the number of employees for CCBs has increased by 42 %, it has decreased by about 13 % for the whole banking system from 1999 to 2014.[23] Consequently, the structure of CCBs has deeply changed: in 1999 the average CCB had five branches and 42 employees; in 2014 these figures have increased to about 12 branches (the mode is 5; it was 3 in 1999) and 84 employees.

As for the market share on loans, at the end of 2014 CCBs accounted for about 10 % of the lending to Italian households and firms.[24] This proportion has steadily increased from the end of the nineties (when it was around 6 %) until the first wave of the financial crisis (2008–2009; see Fig. 4). The market share of CCBs is higher towards small and medium enterprises[25] (SMEs) which represent their traditional customers (this market share was 19.7 % at the end of 2014; 13 % at the end of 1999). The CCBs have also increased their market share on loans to larger firms from 3.1 in 1999 to 7.6 % (see Fig. 5).

The increase in the market share between the end of the nineties and the first half of the following decade has been affected by the process of formation and re-organization of Italian large banking groups. Large banks might have focused less on certain categories of clients, such as small borrowers (households and small firms), leaving room for CCBs to intervene. According to Bonaccorsi di Patti et al. (2005), the consolidation of the banking system would help explaining the growing market share of CCBs (and of small banks in general) more than other possible causes, such as sector and geographical specialisation, better liquidity and capitalisation indexes, and the price policies. These findings do not exclude that the positive performance of small banks could have been the result of a transitory phenomenon that should have ceased after the restructuring process of large banks. A further study by Bongini et al. (2007), covering the period from 1998 to 2004, has stressed the role of CCBs' comparative advantages due to localism and relationship lending that is to the peculiarities of their lending technology.

5 The Recent Trends

As mentioned, CCBs' market share increased also during the international financial crisis (2008–2009), when they continued to accommodate the financial needs of their traditional customers and gained further market shares in financing local

[23] The number of CCBs' employees increased also during the crisis, by 8.2 % between the end of 2007 and the end of 2014 while in the same period the number of employees of the banking system decreased.

[24] Data on market shares on loans include the three Central Banks of the credit cooperative system.

[25] In this paper the expression SMEs refers to either sole-proprietorships or firms (different from limited companies) with less than 20 employees, according to the definition followed in the Bank of Italy's Supervisory Reports.

economies, at the expenses of large banks, that faced more severe constrains in funding (Draghi 2009; Tarantola 2011; see Fig. 4). CCBs are in fact less internationalised and their funding structure is mainly based on direct funding, that is on deposits and bonds subscribed by customers, while the inter-banking funding provision is less relevant than for other types of banks.[26]

During the following debt sovereign crisis, and particularly in 2011, CCBs adopted tighter lending policies, mostly due to the liquidity shortage that they experienced in that period.

During the two crises, however, CCBs maintained in general higher rate of growth of loans to firms and households with respect to other banks (Banca d'Italia 2014; Stefani, Vacca et al. 2016; see Figs. 6 and 7). In the second half of 2012 the rate of growth of CCBs' loans to firms stopped its positive trends, following the low credit demand in a context of long-lasting crisis and tighter supply conditions also induced by the deep credit quality deterioration. The net flow of new defaulted (bad) loans to total outstanding loans has grown from 1.5 % at the end of 2008 to 2.8 at the end of 2012 (see Fig. 8). Since the second half of 2012 the rate of variation of CCBs' loans to firms has been negative, while that to households remained slightly positive. In the meantime the flow of new bad loans continued to worsen: from the end of 2013 to the end of 2014 it raised from 3.6 to 3.9 %, while the same indicator for the rest of the banking industry was slightly improving.

Various causes may have played a role in this credit worsening: this is partly connected with the expansion of credit during the crisis that, to some extent, led to an increase in the financing of non traditional customers, namely larger firms. Moreover loans to construction and real estate sectors (two industries that have been particularly hit by the crisis) represent more than one third of the credit portfolio of CCBs, a higher share than the average banking system (around 35 % and 30 % respectively in 2014).

During the crisis CCBs' profitability margins have shrunk, mainly as a consequence of credit devaluations and lower growth of assets in a context of a rigid cost structure and a high dependence on the interest rate margin. The latter are the two main fragilities of the CCBs structure that the crisis has exacerbated (Visco 2012). From December 2011 to June 2014 operating costs have risen by 2.6 % while they have decreased for the rest of the banking system (Barbagallo 2015).

Due to the legal restriction on profit distribution, namely the compulsory destination of 70 % to legal reserve, CCBs have been traditionally better capitalised than other categories of banks. This advantage on average remains: at the end of 2014 their CET1 (Common equity tier1 ratio) was 16.1 % compared to 11.8 % of the remaining banking industry (Banca d'Italia 2015). There is however a large heterogeneity among CCBs: in June 2014 about 70 CCBs presented capital ratios below the first quartile of the distribution of banks according to the CET1 ratio (Barbagallo 2015). Profit and credit worsening may significantly erode average capital ratios in the future, especially in a scenario of persisting unfavourable economic conditions.

[26] Banca d'Italia, *Annual Report*, *Statistical Appendix*, various years.

From 2007 the number of bank crisis situations involving CCBs has dramatically risen: about 30 CCBs were under default procedures from the outbreak of the financial turmoil to end 2014 (Stefani, Vacca et al. 2016). Two main causes derive from the crises: a negative conditioning of the territory (bank capture) on the decision to finance a firm; the expansion of their business towards customers different from the traditional ones, namely bigger firms or firms located in less known areas (Barbagallo 2015).

The current context puts CCBs in front of important challenges in terms of risk control, efficiency and corporate governance. In many cases the growth in scale has not been followed by an organizational adjustment, so that CCBs appear, on average, more fragile in a context where the risk is increasing. In comparison with European cooperative banks, the Italian credit cooperative system is weakly integrated: the enhancement of the network dimension, based on membership of banking groups, can represent the way to better tackle the new challenges and to gain efficiency.

Appendix: Tables and Figures

Table 1 Comparison between Credit Cooperative Banks and *Banche popolari*

		Credit Cooperative Banks	*Banche popolari*
Minimum required capital		5 million of euros	10 million of euros
Maximum assets		–	8 billion
Nominal shares value		From 25 to 500 €	2 €
Members	Requirements	To reside, to have the headquarter or to operate with continuity in the competence area of the CCB.	–
	Minimum number	200	200
Limits to the ownership		50,000 € (nominal value)	0.5 %[a]
Profits' allocation		70 % to legal reserve 3 % to Mutual funds for the promotion and development of the cooperation Remainder – Shares' revaluation – Other reserves or funds – Dividends to shareholders – Charity/mutuality	10 % to legal reserve Remainder – Legal reserve – Other reserves – Other allocations either Statutory-based or not – Charity or assistance's purposes – Dividends to shareholders
Voting mechanism		One member—one vote	One member—one vote
Geographical limits		Competence area: it includes the municipalities in which the CCB has either its head office or its branches and neighboring ones in order to guarantee territorial contiguity	–
Mutualistic requirement		At least 50 % of total risky assets must be addressed to either loans to members or to Treasury Bonds (or other assets with a weighted coefficient equal to zero according to Basel rules)	–
Mergers implying a transformation of the bank's nature		Mergers implying the transformation of a CCB into an other type of bank must be authorized by the Bank of Italy and have to be justified only by "creditors' interests" or "stability reasons"	Mergers implying transformation into limited companies are approved by the Assembly with quorum that are recently reduced (march 2015)

[a]The limit does not apply to undertakings by Institutional investors

Table 2 The Credit Cooperative System in Italy (1999–2014)[a]

Year	CCBs	Branches	Members (thousands)	Employees (thousands)	Total assets (billion)
1999	531	2,863	558	22.1	77,084
2000	499	2,954	586	22.7	82,327
2001	474	3,044	616	23.6	93,712
2002	461	3,191	649	24.6	104,904
2003	445	3,323	686	25.3	116,404
2004	439	3,465	729	26.3	127,873
2005	439	3,605	776	26.9	139,691
2006	436	3,752	823	27.8	152,568
2007	440	3,922	885	29.1	167,207
2008	432	4,109	939	30.4	164,577
2009	421	4,243	995	31.1	177,616
2010	415	4,373	1,052	31.5	185,620
2011	411	4,427	1,097	31.7	194,507
2012	394	4,445	1,135	31.7	215,976
2013	385	4,449	1,173	31.7	227,426
2014	376	4,432	1,200	31.5	240,296

Source: Bank of Italy, Supervisory reports
[a]Data refers to the end of the year

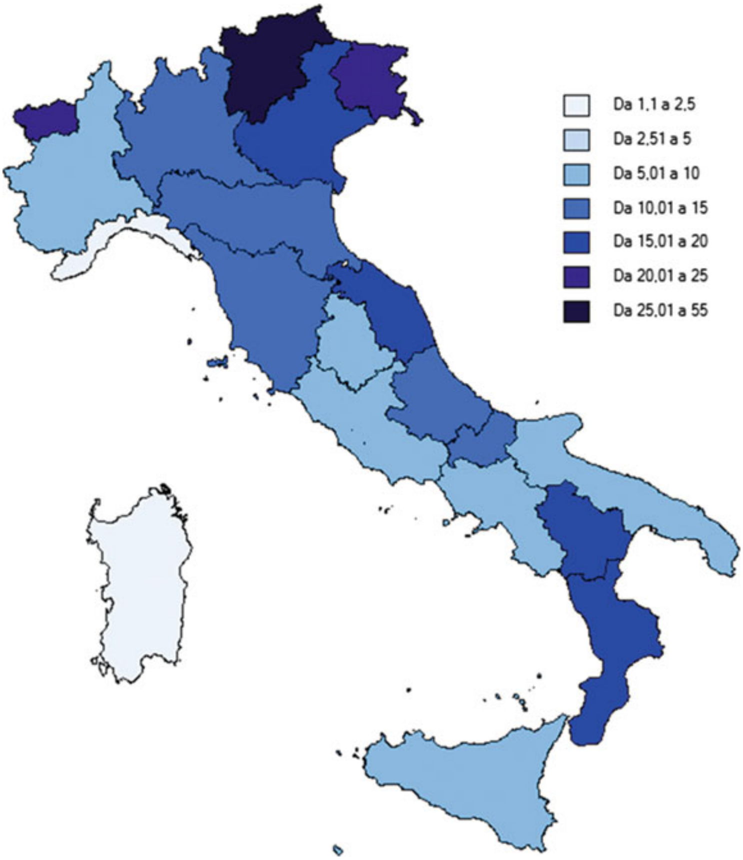

Fig. 2 Credit Cooperative Banks' branches by region (Ratio between the number of branches of Credit Cooperative Banks in the region and total bank branches) (percentage values). *Source*: Bank of Italy, online statistics

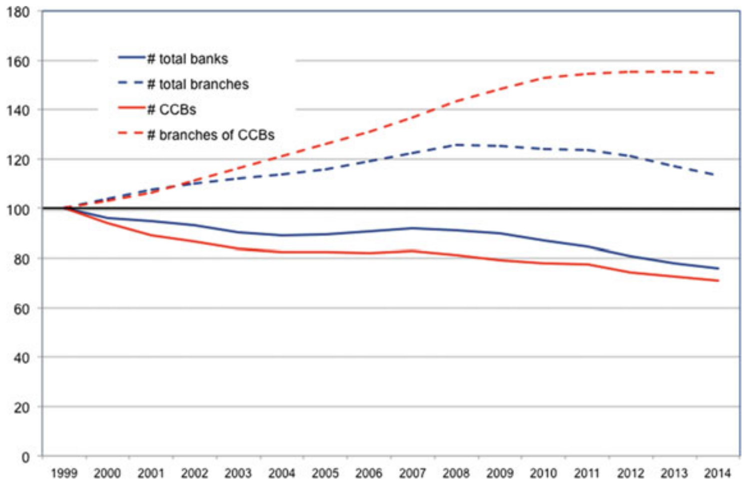

Fig. 3 Banks and branches (1999–2014) (index numbers; 1999 = 100). *Source*: Bank of Italy

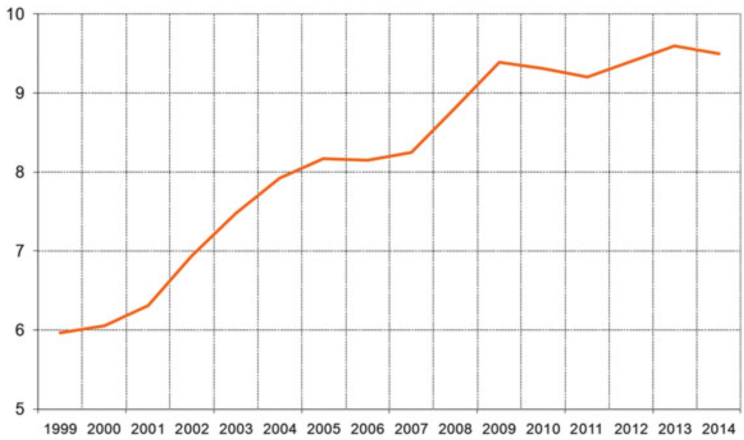

Fig. 4 Credit Cooperative Banks' market share on loans to households and firms (1999–2014) (The market share is computed on loans including non-performing loans) (percentage values). *Source*: Bank of Italy, Supervisory reports

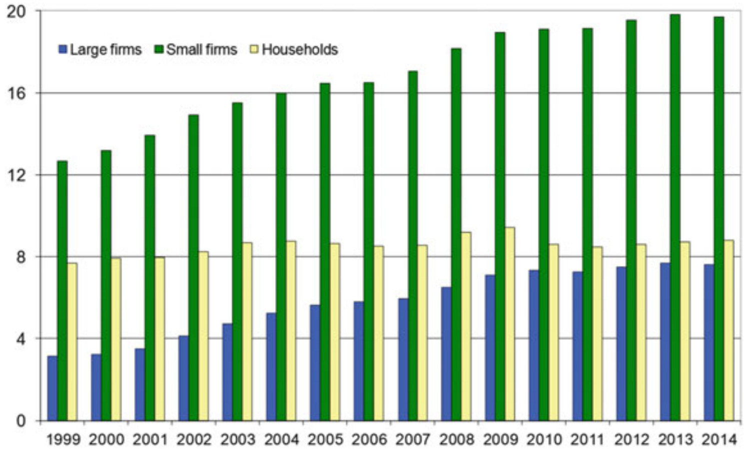

Fig. 5 Credit cooperative banks' market shares by sectors (1999–2014) (The market share is computed on loans including non-performing loans) (percentage values). *Source*: Bank of Italy, Supervisory reports

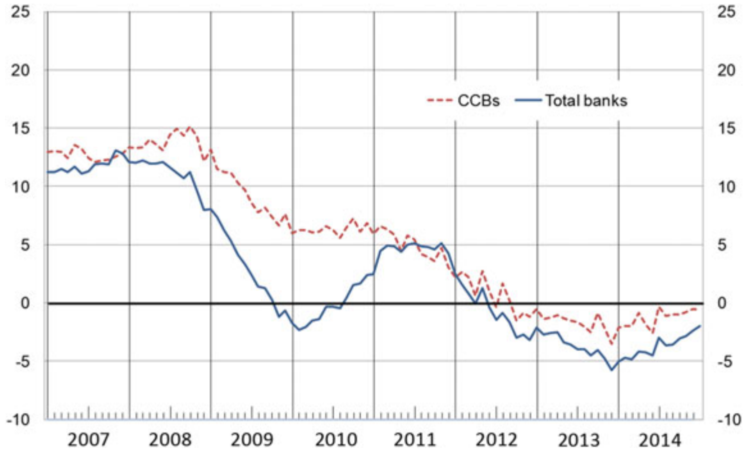

Fig. 6 Loans to firms (Loans include non-performing loans) (monthly rate of growth on yearly basis; percentage values). *Source*: Bank of Italy, Supervisory reports

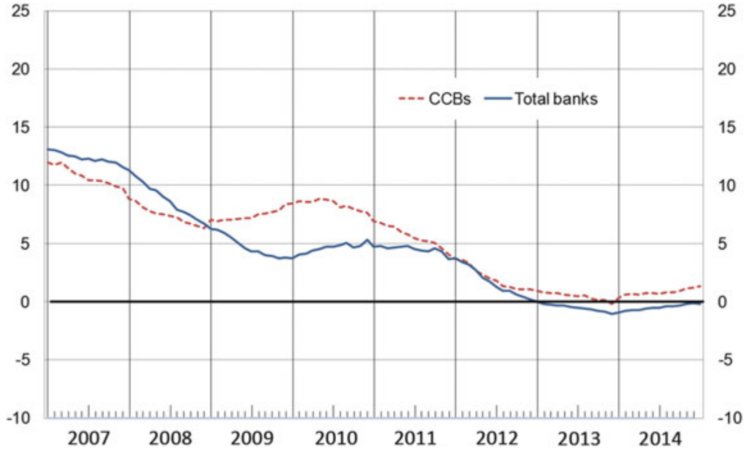

Fig. 7 Loans to households (Loans include non-performing loans) (monthly rate of growth on yearly basis; percentage values). *Source*: Bank of Italy, Supervisory reports

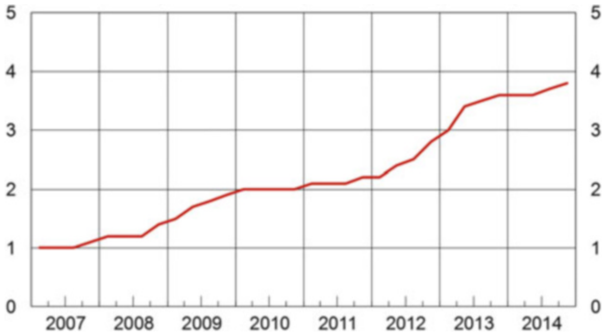

Fig. 8 Credit cooperative banks: new defaulted loans (Ratio between the flow of new defaulted (bad) total loans over outstanding loans) (monthly data; percentage values). *Source*: Bank of Italy, Supervisory reports

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