Are Social Banks Really Different? Evidence from Europe

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IAP day

Financial crisis and the quest for alternative banking

- Excessive risk taking and insufficient capitalization widely seen as background factors for the financial crisis => connected to profit maximization
- Interest towards organizational structures that lead into other goals than profit-maximization has increased after the crisis
- This includes research for instance on cooperative banks, religious banks, and **social banks**

How are social banks similar to and different from cooperative banks?

- **Similarities:**
- Presence of social values in their operations, not only profit maximization
- Rejection of speculative transaction, focus on intermediation of funds and interest income
- Transparency of operations (?)
- Selectivity and screening in lending
- Relationship lending
- **Differences:**
- Social banks lend primarily to social enterprises
- Depositors and borrowers are distinct groups in social banks
- Differences in ways how depositors are remunerated

How can social banks survive in the marketplace?

- Must be self-sustaining, no soft budget constraints
- Presumably lower profitability, but also lower risk (Karl, 2015); in this way rather comparable to cooperative banks (Hesse and Cihak, 2007)
- Investors are willing to make sacrifices in returns to equity and also debt (deposits)
- When are these sacrifices made? Need of transparency and demonstration of social values

What social need do social banks fulfill?

- Evaluation of social benefits created by social enterprises may necessitate specialized intermediaries, which can evaluate the social value created by these firms (Cornée and Szafarz, 2014)
- Mainstream banks are specialized in evaluating value creation from financial perspective only

Why mainstream banks may be unwilling to lend to social enterprises

- SE:s have other goals than maximizing profits
- The governance structure of SE:s may be perceived as vague
- Unconventional business lines (e.g. welfare services, environmental protection)
- Key role of relational capital
- All these may increase informational asymmetries between mainstream banks and SE:s, leading to poorer credit access of SE:s

Previous studies

- GABV (2012) contrasts SB:s with globally important systematic banks (GISB) in 2009-2011
- Not surprisingly, finds that SB:s are more involved in traditional intermediation than GISB:s, but more surprisingly, that they are better capitalized and more profitable
- Karl (2015) studied financial stability of social banks, and finds them to be more stable than comparison groups
- Cornée, Kalmi and Szafarz (2016) find that social banks have higher deposit / asset ratios and higher share of interest income of all income. These are consistent with greater role in screening and transparency. However, they also find a liquidity gap: social banks take in more deposits than they give out as loans

Conceptual framework

- Compare conventional banks and social banks
- In the presence of market competition and absence of continuous subsidization, you would not expect one group to dominate the other in all aspects, so that
- $ROA(SB) + DEP(SB) - INT(SB) + COST(SB)$
- $= ROA(MB) + DEP(MB) - INT(MB) + COST(MB)$
- We focus on four variables: profitability, lending rates, deposit rates, and cost ratio

Predictions

- $\Delta\, ROA < 0 \Leftrightarrow ROA(SB) < ROA(MB)$
- $\Delta\, DEP < 0 \Leftrightarrow DEP(SB) < DEP(MB)$
- $\Delta\, INT < 0 \Leftrightarrow INT(SB) < INT\,(MB)$
- $\Delta\, COST > 0 \Leftrightarrow COST(SB) > COST\,(MB)$

Data and methods

- Some key issues:
- How to identify social banks?
- What kind of comparison sample to use?

Identification of social banks

- We start from 20 countries identified as ”Western Europe” in Bankscope
- Membership lists of FEBEA and GABV
- Previous literature (e.g. San José et al., 2011)
- Internet searches on ”social” and ”ethical” banking in various languages
- Comparing with the list of Karl (2015)
- Reviewing the internet pages to ensure that the focus in on social banks
- In the first instance, we identify 48 candidates for social banks
- Of these, 28 banks enter our ”core” list of social banks

Our list of 28 banks

Name of the Bank	Country	Name of the Bank	Country
Alternative Bank Schweiz ABS	Switzerland	Charity Bank Limited (The)	UK
Freie Gemeinschaftsbank BCL	Switzerland	Co-operative Bank Plc (The)	UK
Bank für Sozialwirtschaft Aktiengesellschaft	Germany	Ecology Building Society (The)	UK
GLS Gemeinschaftsbank eG	Germany	Reliance Bank Limited	UK
IntegraBank eG München	Germany	Banca Popolare Etica SPA	Italy
Ökobank eG	Germany	Cassa Padana Banca di Credito	Italy
Steyler Bank GmbH	Germany	Eticredito-Banca Etica Adriatica SpA	Italy
UmweltBank AG	Germany	APS Bank Limited	Malta
Andelskassen OIKOS	Denmark	Algemene Spaarbank voor Nederland - ASN Bank NV	Netherlands
Folkesparekassen	Denmark	Triodos Bank NV	Netherlands
Merkur - Den Almennyttige Andelskasse	Denmark	Cultura Sparebank	Norway
Crédit Coopératif	France	Ekobanken medlemsbank	Sweden
La Nef	France	Caja Laboral Popular Coop. de Credito	Spain
CAF Bank Ltd	UK	Colonya, Caixa d'Estalvis de Pollença	Spain

Comparison sample

- 1) Use all available conventional banks for comparison: because Bankscope is very representative, this amounts to comparing social banks to the population of banks: helps to position social banks into the big picture
- 2) Make the comparison sample more homogenous by matching techniques

Data

- Unconsolidated data from 1998-2013
- Almost all social banks have only unconsolidated data
- The comparison group includes around 5,000 conventional banks

Our key measures

- Deposit rates: Interest expenses over all liabilities (interest expenses over deposits as an alternative, but is missing for two-thirds of the sample)
- Loan rates: Interest income over all assets (again, more widely available as interest over loans)
- Profitability: ROA
- Cost: Operating costs / Total income

Control variables

- Bank size (log of assets)
- Country dummies
- Year dummies
- Deposit / asset ratio (in assessing deposit rates)
- Loan / asset ratio (in assessing lending rates)
- Stakeholder status (in robustness checks)
- In addition, bank age (missing from 2/3 of conventional banks)

Results (entire sample, 28 SBs, w/o stakeholder dummies)

	Deposit rate	Loan rate	ROA	CIR
Social Bank	-0.31*** (0.11)	-0.28*** (0.11)	-0.23*** (0.07)	2.74 (2.80)
Log (assets)	0.08*** (0.01)	-0.06*** (0.01)	-0.02*** (0.003)	-1.57 (0.11)
D / A // L / A	-1.19*** (0.07)	1.51*** (0.07)		

Results (matched sample, 28 SBs, w/o stakeholder dummies)

	Deposit rate	Loan rate	ROA	CIR
Social Bank	-0.45*** (0.11)	-0.44*** (0.14)	-0.22*** (0.07)	2.40 (2.67)
Log (assets)	0.10** (0.04)	-0.08 (0.06)	-0.033* (0.019)	-2.33*** (0.80)
D / A // L / A	-0.53 (0.38)	1.60*** (0.48)		

Results (entire sample, 28 SBs, with stakeholder dummies)

	Deposit rate	Loan rate	ROA	CIR
Social Bank	-0.31*** (0.12)	-0.27** (0.11)	-0.22*** (0.07)	2.84 (2.89)
Log (assets)	0.08*** (0.005)	-0.06*** (0.007)	-0.03*** (0.003)	-1.64*** (0.11)
Stakeholder	0.13*** (0.03)	-0.07 (0.05)	-0.28*** (0.02)	-2.67*** (0.62)
D / A // L / A	-1.26*** (0.07)	1.55*** (0.07)		

Results (entire sample, 48 SBs, w/o stakeholder dummies)

	Deposit rate	Loan rate	ROA	CIR
Social Bank	0.04 (0.12)	-0.28*** (0.08)	-0.19*** (0.04)	-1.81 (2.41)
Log (assets)	0.08*** (0.005)	-0.06*** (0.007)	-0.02*** (0.003)	-1.56*** (0.11)
D / A // L / A	-1.19*** (0.07)	1.50*** (0.07)		

Conclusions

- We define social banks as banks that specialize in lending to social enterprises
- Fulfill a market niche and socially useful role
- SBs are private banks that need to be self-sufficient
- When looking at financial data, do they differ from conventional banks and especially of stakeholder banks?

Conclusions

- Yes, they do differ
- An interesting phenomenon are the financial sacrifices made by investors and depositors
- Lower deposit rates => related to greater transparency
- Lending rates are also quite lucrative compared to mainstream banks
- Lower profitability
- However, costs not significantly higher

Conclusions

- Together with other studies, this study will give a broader perspective on social banks
- Karl (2015) shows that social banks are less risky
- Cornée, Kalmi and Szafarz (2016) show that they are more inclined to traditional intermediation
- However, they point out the liquidity gap as a potential problem in their operations