GLS Gemeinschaftsbank e.G.

How does a cooperative bank operate within the broader banking system?

A comparisson between GLS‘ banking practice and the non-cooperative Alternative Bank Schweiz AG, contextualized within the Global Alliance for Banking Based on Values

ABS

GLS

GABV

ABS shares do not allow to realize large profits. And that makes us not attractive for those who simply want to make big profits. […] We have a very large number of shareholders who are our customers or probably almost all of them. We appeal to precisely the clientele that sees the sense in our business.

If you want to invest somewhere and maximize your return, then you probably won‘t come to ABS.

As a ethical bank, how does your impact stand out?

Ethical banks are characterized in particular by the fact that their statutes do not include that capital should be increased, but that it should be used where it has the greatest impact. […]
The economic consideration always comes second.

“purpose comes before profit”

We know that money is a means of shaping society; that we help to shape the society of the future through our investments. We have made oureselves aware of our own realm of influence by defining the basic human needs for each of the sectors that we finance. Beyond that, we do not finance. We have considered requirements for each sector to be able to say that this is a sensible investment. [...] This is how the majority of our impact comes into play.

The the critical issue was not the legal structure or the governance structure per se, but did they embed in their management practices a commitment to ethical banking? **What is relevant for both GLS and ABS is that they were both founded on a commitment to creating social value,** as opposed to creating exclusively monetary value for the equity shareholders. It's a culture of any bank that makes it a good bank or a bad bank.

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one share = one vote

A shareholder can hold a maximum of 5% of our shares

What influence does each individual member have?

It is our members who make it possible to operate by subscribing to cooperative shares. Cooperative banks obtain their equity from two main sources. One is through the members, who are prepared to provide liable capital and the other is through the retention of profits. This means that without our members, we would basically be up a creek.
In contrast to many other cooperative banks, we still hold a general meeting were **every member is invited and every member has the right to vote.** What is decided is laid down in the articles of association of each cooperative bank. At the same time the members elect the Supervisory Board. The Supervisory Board is relatively strong in a cooperative compared to a stock corporation. We also endeavor to maintain contact with our members on a more or less informal basis. There are always strategy rooms that are opened up, to which our members are cordially invited.

one member = one vote

The customer advisors make the risk calculations and submit a loan application based on these figures and the credit decision department then decides. And they are independent. Aside from this, what is also guranteed is the risk control part, which is of course above all else.

What's the process of decision-making regarding project financing?

In practice, you can imagine it like this: A loan application comes in and is not entirely clear within the framework of our financing principles - for a wind farm, it would now be relatively clear that we would finance it. Now you have the PV system on a pig farm. On the one hand, our positive criteria is that we are aiming for a 100% renewable energy supply, but at the same time we are not financing a pig farm, a large-scale operation, possibly a conventional farm. We are in a gray area here and for such requests there is a committee. The process can take a week or two, depending on how gray the gray area is.
And when we think it makes sense to support it, only then is the economic potential examined. In other words, are there uncertainties? Is it too risky? What is the capital viability, etc.? If it is not economically feasible, we don't do it or we try to find an alternative solution.
One example, which we have supported, was the new Sea Watch. That was quite a challenge because the business model is exclusively donation-based. You can't count on a lot of incoming cash flow. So you have to find a solution to still get it financed. How can you combine different qualities of money to get this ship out to sea.

[...] nobody wants to earn money with sea rescue. Nevertheless, they need a ship.

The model is geared towards everything, but not towards growth, precisely because no more people should need to be rescued. Nevertheless, it is a very sensible undertaking - how can it be financed? These are questions that we deal with on a daily basis.

In Europe and globally, people look at what the cost of an energy transformation is and say, we can't afford it - as if you could afford to have the problems that come if you don't do it. It's a bit stupid in my mind.

We have a very comprehensive sustainability report that takes into account both customer projects and operational sustainability, as well as our entire business model. […] We are a founding member of the GABV (Global Alliance for Banking and Values). There is the GABV scorecard, which shows very nicely how successful a bank is. And that is really the yardstick we use to measure ourselves.

How do you measure success?

We have set up structures and systems for this. we have integrated so-called impact targets and equated these impact targets with financial indicators. **So we not only want to generate a certain turnover per sector, but we also want to finance at least X kindergarten places, or put at least Y watts of renewable energy to the grid.** We are increasingly equating this with the financial perspective in terms of corporate management.

The scorecard is one of the market standards. At the same time, the budget concept: when you report on sustainability or impact it always needs to be contextualized to the available budgets. So not “How much CO2 do I emit?”, but “Is my business activity in line with the Paris Climate Agreement?” Or not “How much water do I use in absolute terms?”, but “Is it in line with the water budget we still have?”
At the same time, we try to operate in a socially ecological way. This means that we also try to ensure that the energy we bring into the grid is in the hands of citizens and not in the hands of large corporations, but decentralized. That the taxes generated by the project go to the municipality and are not externalized. These are points that are not covered by these scorecards.

What we attempted to do with the scorecard is to create a series of criteria where we could look at measures and discuss things, both quantitative and qualitative, that would provide evidence of the bank's commitment to values based banking. And it is an imperfect way of trying to capture a non quantitative measure of what's the bank's culture. […]

GLS had a much more holistic view. So they sometimes had objections to issues of the scorecard because they were too mechanistic and they said they're not capturing the full story. **And that is the difference between those two organizations. GLS is very holistic. ABS is also by the way, but GLS lives the holistic in a different way than ABS.**

We have customers to whom we offer conditions, we have shareholders who are our financiers, who are our owners, and we have employees who earn wages. This triangle must somehow be in harmony. So there has to be a feeling that it's fair for everyone […]. And simply keeping this triangle somewhere in balance is what is meant by this community of solidarity.

How does the coopoerative principle allow investment in community oriented projects?

From a regulatory perspective we have to prove that the financing we enter into is economically viable. Financing that is not self-sustaining can be made viable by, for example, our foundation investing in it with donations. This simply increases the equity share. Or that we ourselves take on a higher risk rate.
The beauty of the cooperative principle is that our goal is not to maximize returns for our members. This year we paid a dividend of 2.5% on our member shares. Other Volksbanks were sometimes at 4 or 5%. **Our members are foregoing money which means that we can offer much more attractive conditions for projects that we consider useful,** such as strengthening social initiatives or reducing the cost of capital for the expansion of renewable energies or organic farming. In this respect, the cooperative principle definitely helps us.

We know that if we don't want to stay in this niche, we have to grow. So how fast can we grow, how fast do we even want to grow? How can we do this while still maintaining our structures, processes and culture? We are simply constantly faced with dilemmas, because on the one hand we have to weigh up our business model, but we also want to weigh up growth.

What role does the size of your bank play?

We have now passed the 10 billion euro balance sheet mark and thus, we are much more closely in the focus of the supervisory authorities. The supervisory authorities, the BaFin and the Bundesbank, struggled to understand our business model. So a classic argument was “Hey, you're now investing 30% in renewable energies. You have huge cluster risks because you are exclusively involved in the area of sustainability.”
We need to diversify more. And the bigger we've become, the worse it is from a supervisory perspective. Explaining how our business model works.

I am inherently skeptical of the ability of any government to understand how to do value based banking, because in all countries that I'm aware of, the regulatory structures and **the political structures are tend to be captives of the largest banks**, because that's who has the money and the power.

Personally, I strongly believe that this form of distributed management, as we are now introducing it, is a sustainable model for growth.

How do you see the future?

In recent years many cooperative banks are merging. This is because it is becoming increasingly difficult for such banks to obtain equity capital, that they also need to grow. And it is challenging for a cooperative bank to take over a share-based private bank.
In Germany, we have the GLS Bank as the largest bank, closely followed by Tomorrow, the Umweltbank, the Triodos, the Ethikbank and various church banks, which all vie for the same members. They are encouraged to set themselves apart from each other in order to simply survive.

I assume that there should be some kind of market consolidation in order to put the principle of ethical banking in Germany on a solid footing in the long term. I assume that will come.

When I look at the press conferences I don't actually see any consolidation efforts at the moment, but rather a tendency to look again at how the individual institutions can survive in the long term on their own.

I think the question for cooperative banks is how do they maintain their capabilities in the banking world, which is becoming more scale driven without the sources of capital that would exist for a non-cooperative bank, which would be new share issues, merging, and so forth.
There's not a lot of entities that GLS could merge with. It's much more difficult to make a consolidation plan if you are a cooperative in Europe than in other locations. In the German market, other banks like GLS, do find ways to do shared services to cover some of the more costly IT things that need to be done. So there are alternatives to merger.
In general, **the German financial system is much more diverse, and I think that's healthy. That's why I'm fairly positive about the long term potential for GLS.**

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