

REGULATION OF COOPERATIVE BANKING IN POLAND

Ewa Kania, Zofia Łekawa

PhDs, Adjuncts;

Wrocław University of Economics, Department of Banking

Komandorska 118/120, 53-345 Wrocław, Poland

Tel./fax +48 71 3680355

E-mail: Ewa.Kania@ue.wroc.pl; Zofia.Lekawa@ue.wroc.pl

Abstract. *The dual nature of cooperative banks is reflected by their formal and institutional solutions. They refer both to banking and to cooperative regulations, especially to those dedicated to relations between the two areas; hence, they result from considering their specialness and consistency.*

In addition to general cooperative principles which define membership rules in the first place, this paper focuses on codes ruling the coexistence of cooperative banks within a given domain and organizational solution. They include:

- *collaboration of cooperative banks within a federated structure as forms of association between cooperative (member) banks and the associating bank;*
- *regionalization which defines the framework of coexistence and is combined with the territoriality of operations, or the right to operate in a limited area as independent units with no competition among respective cooperative banks;*
- *subsidiarity which is tightly related to the division of functions between a primary level (cooperative banks) and a higher level (associating banks).*

This paper aims at identifying to what extent the regulations should be dedicated to cooperative banks or what real impact of cooperative specialness is on legal solutions. Thus, a diligent examination is necessary to identify those elements of cooperative banking which require dedicated solutions and those which are identical with commercial banking.

The solutions are significantly diversified, although there have been attempts to standardize them in some areas following the need to comply with the European standards and regulations, including recommendations issued by the National Union of Cooperative Banks and the European Associations of Cooperative Banks in the EU.

Key words: *cooperative banking, banking regulations, harmonization*

The essence and principles of cooperative banking

The fundamental normative act regulating the activities of cooperative banks in Poland is *Cooperative Banking Law* (2000). According to its art. 2, a cooperative bank is a bank which is also a cooperative, hence, the provisions of the *Cooperative*

Law (1995) are applied to it whenever *Cooperative Banking Law* or general *Banking Law* (1997) do not stipulate. According to the *Cooperative Law*, a cooperative is any association of unlimited number of persons, with a variable membership and variable shareholders capital, which pursues a common business activity in the interest of its members.

Table 1. General description of cooperative banks in Poland

Specification	June 2007	Dec. 2007	June 2008
Number of banks	584	581	579
Number of employees	29 446	30 105	30 808
Number of branches	1 421	1 457	1 479
Market share (%) in:			
Assets	6.2	6.2	6.0
Equity	7.6	7.2	7.6
Loans for nonfinancial sector	7.0	6.5	6.3
Deposits of nonfinancial sector	8.5	8.8	8.5

Source: *Informacja o sytuacji banków 2008–06* (2008).

The dual nature of cooperative banks is reflected by their formal and institutional solutions. They refer both to banking and to cooperative regulations, especially to those dedicated to relations between the two areas; hence, they result from considering their specialness and consistency. Quantitatively, cooperative banks have a minor share in Poland's banking sector, nevertheless, as local banks they play a significant role in the development of their regions. Table 1 contains main data on cooperative banks' size and market shares.

Following the evolution of cooperative values, some principles have emerged which apply to all cooperatives and also to cooperatives which are banks. The cooperative banking exploits the following principles (Szambelańczyk, 2006):

- **Voluntary and open membership.** Membership of a cooperative has to be voluntary and accessible without any restrictions to all persons who are able to use its services and willing to accept the responsibilities of membership. The principle of open membership has generated open cooperatives offering services to both members and non-members,

and also closed cooperatives in which membership is the condition of the access to their services. It is also possible to restrict a certain category of services to members whereas other services are available to all customers of a cooperative bank.

- **Democratic member control.** Cooperatives are democratic organizations controlled by their members who actively participate in setting their policies and decision making. In primary cooperatives members have equal voting rights (one member, one vote). At other levels cooperatives are also organized in a democratic manner.
- **Economic participation.** Members contribute equitably to the capital of their cooperative and democratically control it. A part of that capital is indivisible and is the common property of the cooperative. Members usually receive limited dividend, if any, on their shareholdings as a condition of membership. Balance-sheet surpluses are allocated for many purposes such as development of the cooperative and support to other activities approved by the members.

- **Autonomy and independence.** Cooperatives are autonomous, self-help organizations controlled by their members. If they enter to agreements with other organizations or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.
- **Training and information.** Cooperatives provide education and training for their members, elected representatives, managers and employees, so they can effectively contribute to the development of their cooperatives. They inform the general public about the nature and benefits of membership in the cooperative movement.
- **Partnership among cooperatives.** Cooperatives should work together using any available forms on a local, national and international scale to better satisfy the needs of their members and communities.
- **Concern for community.** Cooperatives work for the sustainable development of their local communities through policies approved by their members.

In addition to the general cooperative principles which define membership rules in the first place, there are also the principles which constitute the coexistence of cooperative banks in a given area and the specific organizational solutions. The number of cooperative banks is usually large with respect to other entities in a banking sector; therefore, it is indispensable to develop some principles of coexistence and relationships which comply with their cooperative nature. All cooperative banks in Poland, except for one independ-

ent entity from Kraków, belong to one of the three associating banks.

A cooperative banking sector is founded on the principle of cooperative banks working together within association structures which present a form of confederation of cooperative banks (members) with a given associating entity. It results both from the mutual nature of cooperativeness and from the necessity to ensure the efficient mechanisms of operation to entities which are relatively smaller as regards the size and financial potential compared to commercial banks. Further, prudential regulations are also significant, especially with respect to the size of banking institutions, thus imposing consolidation measures. Therefore, we argue that a formula of association(s) is an intrinsic attribute of modern cooperative banking sectors and therefore, it can be characterized both by institutional solution (imposed by legal structures) as well as by functional solution (resulting from the needs of involved parties).

An association should provide member banks with functions of a central bank (apex function). Statutory activities of a central associating entity include those in favour of member (associated) banks following the association (or equitable) agreement. A central associating entity can function as a central bank for the association (the associating bank) or acquire services from another entity. Legal status of the central associating entity can be miscellaneous. In case of a classical associating bank, it is usually a stock exchange company, whereas a non-bank associating entity can be a cooperative.

The **regionalization principle** (Alińska, 2002) is a basis for the framework of coex-

istence (usually within an association or the entire sector of cooperative banking) and leads to the **territoriality principle** or the right to function in a relatively restricted area under legal and economic autonomy with exclusion of competition among respective cooperative banks (horizontal competition). This principle is typically supported by the restriction of the vertical competition, i.e., non-interference of regional or national associating banks with primary cooperative banks.

Subsidiarity is the third principle strictly defining the division of functions between primary level banks (member cooperative banks) and higher level banks (regional banks or national bank). This principle consists in performing by higher level banks only those tasks (satisfying needs of primary banks) which cannot be optimally performed at a lower level. The scope and the forms of such help can be diverse.

The above-presented conditions and principles influence the sector of cooperative banking and therefore, they are subject to legislative processes depending, among other things, on a model of cooperative banking that had historically evolved in a given country. However, despite cultural and economic diversity, there are some issues regulated by legal and / or branch-specific solutions which are, at least partly, close to standards or codes of behaviour, and also to internal bylaws in cooperative banking entities. The following regulation issues are of special importance:

- Defining a status of a member of a cooperative bank with special emphasis on corporate governance and the extent of benefits connected with membership; it is typically regulated at the level of bank's statute which complies with existing formal solutions provided by cooperative and banking laws.
- Creation and management of associations with special emphasis on functions and responsibilities of their members and solutions regarding financial consolidation; it is usually regulated at the level of dedicated solutions within banking law and of association agreement which reinforces and expands them.
- Coexistence and principles of collaboration among member entities of cooperative banking (including associations) with special emphasis on territoriality and competition; it is typically regulated by association agreement and by dedicated solutions provided by banking law.
- Efficient functioning of safety and guarantee mechanisms which allow to prevent and resolve distress problems of the sector; it is usually regulated by dedicated solutions within banking law and by association agreement which reinforces and expands them.
- Operation of institutions and organs representative for the cooperative banks' community.

Next, some specific formal solutions for the above-mentioned issues concerning the cooperative banking sector in Poland will be examined.

Specificity of cooperative banks' operation under the Cooperative Banking Law

The *Cooperative Banking Law* (2000) specifies organizational and legal principles for cooperative banks operation. We focus here on the obligatory membership of primary banks in an association and on association rules, as well as on regulations concerning subject and scope of operation of cooperative banks.

The essential difference between commercial and cooperative banks is their **obligatory operation within an association**. It is not obligatory for cooperative banks whose equity worth in terms of euro exceeds EUR5m.

In addition to banking operations and other operations in compliance with the Banking Law and other acts, an associating bank should primarily support the operation of member cooperative banks as stipulated by its bylaws. According to the Cooperative Banking Law, an associating bank:

- maintains current accounts for member cooperative banks where mandatory reserves are held and financial payments are performed;
- calculates and holds a mandatory reserve of primary cooperative banks on the central bank (NBP) account;
- conducts separate accounts for assets of cooperative banks which serve as coverage for the insurance fund of guaranteed funds;
- performs information duties in the name of its primary banks with regard to NBP and Banking Guarantee Fund;
- accepts time deposits from its primary cooperative banks;

- settles subventions to interest payments on preferential loans;
- examines compliance of primary cooperative banks operation with provisions of their association agreement and other legal acts;
- represents primary banks in external relations as stipulated by the association agreement;
- carries out marketing research and promotions, and implements new products;
- develops and provides framework patterns of statutes, bylaws, and procedures;
- organizes trainings for personnel of primary banks;
- helps to organize and implement modern banking information technologies;
- performs other activities as stipulated by the association agreement.

Besides, according to the demand from a primary bank, associating bank extends contractual deposits, loans and credits, accepts and extends loan commitments and guarantees, extends syndicated loans together with other primary banks.

Relationships between primary banks and associating banks are typically shaped by members of the association in the association agreement which has to be approved by the Financial Supervision Commission (KNF). It may deny approval if the association agreement conflicts with other laws, interest of customers or if it does not ensure safety of funds in association's banks. The agreement should favour the group interest over individual interest of members. The regulations provided by the agreement should promote the increase of operating efficiency of cooperative banks

through more rational activities and cost efficiency as well as the increase of their operational safety. The agreement also defines the principles of financial management, supervision of primary banks by the associating bank, self-help mechanisms functioning within the association, operation of the association's council, and the extension of relevant permits by the associating bank whenever it is entitled by the law to do so.

A cooperative bank is obliged to hold or to acquire at least one share in an associating bank; therefore, it has one vote per one share at annual general meeting. Each primary bank is entitled to receive periodic information on financial condition of the associating bank and of the entire association. At each financial year-end, primary banks send audited financial reports to their associating bank and receive its audited financial report. Associating banks are allowed to merge only with other associating banks through transfer of assets in exchange of shares.

The principles of collaboration provided by the association agreement are supposed to ensure adequate environment for the development of primary banks, regardless of their size and scope of activities. The membership in the association results in no obligation to meet the original capital requirements binding for other autonomous banks, nevertheless, the law calls for the increase of equity in cooperative banks¹, therefore adequate provisions in the association agreement should promote

¹ At the end of 2007 all primary cooperative banks in Poland have reached the capital standard of EUR500,000. They are obliged to increase their capital at least to the level of EUR1m by 31 December 2010.

the increase of capital by the association's members. Precise regulations of the principles to exercise control and assistance, to extend some permits by the associating bank (e.g., so as to widen the region of operation or the scope of activities) ensure the framework for the transparent and unbiased assessment of the shareholders by the associating bank.

The Cooperative Banking Law defines **topical scope** of activities by a cooperative bank. Bank activities which are not allowed may be performed by primary banks on behalf and in the interest of their associating bank. Thus, all customers of cooperative banks have access to all financial services provided by the *Banking Law* (2002) on condition that they are offered by the associating bank.

The associating bank may agree to the extension of allowed bank activities so that cooperative banks could buy and sell foreign currencies, and act as intermediary for financial transfers and foreign exchange settlements. Primary banks with more than EUR1m equity may widen their activities by issuance of electronic money. Those restrictions in the operation of cooperative banks do not result from their legal form but from their sizes. Self-sufficient cooperative banks, i.e., those whose capital exceeds EUR5m and which are not associated with any apex bank are not restricted in their operations at all.

The *Cooperative Banking Law* (2000) also defines a **subject-matter scope** of bank activities and all operations available to cooperative banks. Granting loans, extending and confirming bank guarantees may be offered by cooperative banks to individual customers who dwell or have their

businesses in the area of banks' operation or to legal persons and entities who are not legal persons but have full capacity and are situated in the area of banks' operation. Moreover, extending and confirming bank guarantees may be performed by cooperative banks in a scope and way approved by the associating bank. Those restrictions stem from the local character of a cooperative bank and aim at reducing risks of activities which require efficient monitoring of the financial condition of customers.

The **area of cooperative bank's operation** also depends on the amount of its capital. According to the *Cooperative Banking Law* (2000), a primary cooperative:

- with capital under EUR1m is allowed to operate in a district where it is located and in districts where it had its bank branches on the day when the *Cooperative Banking Law* was passed;
- with capital greater than EUR1m but smaller than EUR5m is allowed to operate in a province where it is located and in districts where its branches are located;
- with capital over EUR5m is allowed to operate on a national scale.

Operation of a cooperative bank in neighbouring districts is possible on condition of approval by the associating bank. Further widening of the operation area on non-adjacent districts requires the consent of KNF. Cooperative banks are not allowed to operate beyond the borders of Poland.

Activities of cooperative banks under the Banking Law

Due to the explicit regulations of cooperative banks by the *Cooperative Banking Law* (2000), the *Banking Law* (2002) only

stipulates a few rules specific for the functioning of cooperative banks.

They regard:

- potential execution of institutional internal control in primary banks by associating bank,
- reduction of minimum original capital to EUR1m for cooperative banks whose initiators declare their willingness to sign an association agreement,
- increase of limits for aggregate loans, advances, and bank guarantees for internal persons (members of management and statutory bodies including persons linked with them in terms of capital or organization) to 25% of core capital,
- duty to present data concerning the scope of operation and the name of the associating bank in location, where the services are offered, in a generally accessible manner (in addition to information disclosure required from all other banks),
- structure of capital and possibility to include a part of additional amount of liability,
- potential notification that premises have been fulfilled which justify the termination of activity of a primary bank and the associating bank may file for its bankruptcy,
- schedule for increase of core capital by primary banks in their associations.

Those rules influence the manner in which supervision of cooperative banks is accomplished, especially as regards the structure and levels of their core capital. Within **regulatory activity** of banking supervision there is one regulation concerning solely cooperative banks. It stipulates

levels and conditions of including a certain amount of members' liability to core capital of a cooperative bank. Financial Supervision Commission may approve up to 50% of this amount to be included into supplementary capital of a cooperative bank.

Other supervisory regulations are applied to cooperative banks in the same manner as to banks acting as joint stock companies. Some technical differences resulting from the legal form, bank's size or mandatory membership in an association influence the regulations so that appropriate variants are necessary when devising and adjusting universal solutions. One example of such approach is given by the manner in which requirements have been prepared for cooperative banks as regards new Basel capital agreement. The regulators have become aware of significant diversity of financial institutions with respect to their sizes, scope of operation and innovativeness of their products. Due to that variability, a need has been emphasized to apply risk-based methods of capital adequacy determination linked to the activities of particular entities. Hence, the capital directive to determine new capital standards also by means of own, bank-internal, risk-based procedures acknowledges the proportionality principle. According to that principle, unsophisticated banks willing to apply standardized credit risk approach and basic indicator method for operational risk are allowed to assume simplified internal methods to assess their capital adequacy.

The regulatory activity of banking supervision is not differentiated according to the legal form of banking institutions,

especially with regard to regulatory environment of banks. That conforms to the principle of equal opportunities for all entities of a banking system. Whenever a simplified approach is adopted with some regulations, it is not based on a legal form of ownership, but on bank's size and scope of operations.

In contrast to regulatory activities, the **licensing function** of banking supervision depends heavily on the specialness of cooperative banks. It results mostly from the special principles of setting admissible subject and scope of activities by cooperative banks. In case of primary banks acting in associations, there are additional rulings necessary before the final granting of the licence, which concern the level of original capital, thus defining the scope of prerogatives for a given cooperative bank.

The main differences between capital requirements when licensing a cooperative bank and a bank as a joint stock company relate to initiators and minimum equity. According to art. 13 para. 2 of the *Banking Law* (2002), only natural persons (at least 10 people) may take up a cooperative bank. Art. 31 para. 1 and 2 of the *Banking Law* and the *Cooperative Banking Law* stipulate the level of primary capital equal to EUR1m in cooperative banks acting in an association. A cooperative bank willing to act autonomously is required to have the original capital at the level of EUR5m, same as a bank in the form of a joint stock company.

KNF does not differentiate its approach to **bank supervision** as regards cooperative banks. However, the detailed scope of examination is practically adjusted to the scale and nature of a bank, as well as to its

product offer and to risk profile. Examiners carrying out inspection in cooperative banks take into account the peculiarities of that segment compared to commercial banks activities. That reflects among other things the following issues (*Banki spółdzielcze w Polsce*, 2006):

- different organization of internal control as institutional control may be exercised in cooperative banks by their associating bank in compliance with the *Banking Law* (2002),
- necessity to consider the impact of an associating bank on the liquidity risk of the bank under examination,
- necessity to consider idiosyncratic features of share capital (including its volatility),
- scope of outsourcing and potential services delivered for a cooperative bank by its associating bank.

Due to the local character of cooperative banks, their offer conforms to the peculiarities of their respective areas of activity and the needs of customers located in those areas, thus influencing the scope and course of examination. Mostly, cooperative banks offer their services to agriculture. In such banks there is a special assessment of exposures generating credit risk which should account for the financial and economic standing of borrowers, but farmers do not produce financial reports and banks need to use other sources of information, e.g., documents from local government bodies or agricultural advisory centres. However, those documents are not sufficient, and many local banks use informal sources of data about the standing of their borrowers. Even if resulting conclusions lead to good lending decisions taken

by management of those banks, there is no adequate formal documentation which would validate the obtained ratings or monitoring of borrowers.

Close relations of a cooperative bank with local communities may create many internal links. Therefore, examiners should pay particular attention to this type of connections as they often generate significant risks for a bank. Complexity and amount of the risk taken in cooperative banks are usually smaller than in commercial banks, therefore risk management tools are also less sophisticated. Examiners typically point at one issue of the quality of assets portfolios, i.e., extremely diversified loan portfolio with many preferential loans.

Asset size and number of outlets are highly dispersed; therefore examination and rating distinguish two major classes: small banks with assets below PLN100m and banks with assets over PLN100m. The latter group is increasingly approached by examiners in the same manner as commercial banks are.

Examination in a small cooperative bank always concerns bank organization. The number of cooperative bank employees which is adequate for its efficient operation from the viewpoint of its scope and scale of activities, is usually too small from the viewpoint of KNF's prudent operation recommendations. Personnel deficit complicates the creation of committees indispensable for managing bank risks and ensuring required autonomy of entities which perform transactions, settle them and monitor their risks. Hence, smaller cooperative banks find it extremely difficult to separate front office from back office functions. In addition, few staff and mini-

mal organizational structure (often with one person responsible for several areas of bank activities) contribute to technical problems for time-efficient bank examination.

Cooperative banking framework under the Cooperative Law

The *Cooperative Law* (1995) emphasizes in particular the role of the **equity capital in cooperative banks**. Their own funds are extremely volatile due to the open character of a cooperative which causes random entries and exits of ownership equity. At any time, a bank member may additionally declare and pay more shares. However, any withdrawal of shares may occur after final auditing of a given financial year's statement, thus providing the function of share capital as a risk cushion. The definition of ownership equity within total own funds makes a cooperative a corporation of persons, not a corporation of capital.

That peculiarity of a cooperative has its advantages. The principle *one member – one vote*, regardless of the capital commitment in a cooperative, encourages dispersion of share capital, thus enhancing its stability.

However, there are some banks where this rule does not work. They are entities which have repeatedly increasing the required level of share unit and thus the number of their members was reduced to several hundred or even, extremely, to several tens of persons. There also occur some cases of significant concentration of share capital with just several persons owning well over a half of total funds. Although those persons have still one vote each in the annual general meeting and are not spe-

cially privileged, such situation generates liquidity risk, if they decide to withdraw their funds. Repayable shares, especially when they represent a major part of total capital, generate additional threats.

Nevertheless, an open character of cooperatives and volatility of share capital have often allowed banks to quickly raise new capital in critical moments.

The *Cooperative Law* (1995) also stipulates **control** of cooperative banks. As provided by art. 91 para. 1 of this act, any cooperative bank's legality, performance and reliability have to be examined at least once every three years, and every year in course of liquidation. Inspection aims at delivering reliable information about cooperative to its members, as some of them may lack adequate knowledge to effectively assess the activities by cooperative's statutory organs. It is performed by individual cooperative audit committees, whereas autonomous cooperatives are examined by a selected audit committee or by National Cooperative Council.

Impact of community organizations on cooperative banking regulation

Cooperative banks naturally tend towards creation of community organizations which offer many opportunities for the exchange of experience and for the integration fuelled by common values and interests. The trend conforms to recommended principle of cooperative alliances both at local and national levels.

In 1991, the **National Union of Cooperative Banks (KZBS)** was created by 130 Polish cooperative banks in order to represent cooperative banking interests

Table 2. *Capital adequacy and performance ratios at Polish banks*

Specification	Cooperative banks			Banking sector		
	June 2007	Dec. 2007	June 2008	June 2007	Dec. 2007	June 2008
Capital adequacy ratio	14.1	13.8	13.8	12.4	12.1	10.8
Net interest margin	4.5	4.8	5.1	3.2	3.3	3.4
Cost/income ratio	67.9	69.2	63.5	54.1	56.3	52.0
ROA	1.6	1.5	1.9	2.0	1.7	2.1
ROE	17.8	17.2	21.8	27.5	22.5	27.3

Source: *Informacja o sytuacji banków 2008–06* (2008).

nation-wide and abroad. Its statutory goals include activities promoting cooperative banking. Among other things, it:

- represents primary banks in any external relations;
- promotes the development of cooperative banking sector focusing on its capital strength;
- communicates with other institutions relevant for finance and banking;
- creates a positive and modern image of cooperative banking in Poland.

The KZBS is active world-wide representing Polish cooperative banks in many global organizations, e.g., in the European Association of Cooperative Banks, in the International Cooperative Banking Association, and in the International Cooperative Alliance.

The **European Association of Cooperative Banks** (EACB) has been particularly active lobbying in the interest of entire community in many European institutions (*Cooperative banks' contribution to the Commission green paper*, 2005):

- **Capital adequacy requirements.** The EACB influenced the redefinition of own funds to comply with cooperative banking specialness. It has also been

closely cooperating with the Committee of European Banking Supervisors, granted observer status.

- **Corporate governance.** The exclusion of cooperative banks from certain clauses of the directive on shareholders' rights was endorsed so as to prevent conflicts in approving the structure of own funds by supervisory institutions.
- **Financial Sector Assessment Program.** The EACB was engaged in a new project of the consumer credit law and supported the European Parliament with economic expertise.
- **Harmonization.** With respect to the European Commission's green paper, the EACB fosters targeted harmonization which should help primary banks to preserve their local character and benefit from the specialness of their local markets.

Sector organizations are necessary for the benefit of cooperative banks. On one hand, they highlight uniqueness of the sector, on the other, they follow current trends and efforts in general banking and so they provide cooperative banks with state-of-the-art solutions. As regards capital adequacy and performance measures, cooperative

banks in Poland fare reasonably well in comparison with the entire banking sector, except for much worse cost-to-income ratio. The main ratios are given in Table 2.

Conclusions

The most essential issue for the cooperative community is how associations are regulated and how they act. The analysis of Poland's cooperative associations demonstrates their significance so as to remove the barriers which restrain local primary banks. The membership in an association should be mandatory for the sake of stability and the level of own funds. When there are more associations, the choice should be free in order to promote greater efficiency of apex banks. However, some geographical, historical and systemic conditions may reduce such competitive potential.

The number of associations is an open issue. The rationale calls for optimum ensuring efficient service and economies of scale. The same applies to potential consolidation of the sector: whether it should be forced by regulation or result from internal processes and market conditions. Unfortunately, the model of Poland's cooperative banking is subject to ideological and political issues as evidenced by public discussion so far.

Financial consolidation of banking associations practiced by mature structures in West Europe at the level of financial reports has been received in Poland either with resistance or with indifference. The efforts by legislators to amend the Cooperative Banking Law in this area have failed due to negative response by the community. The fears concern mainly the potential effects of soli-

dary liability and the necessary prerogatives of apex banks which guarantee the financial safety of the entire consolidated structure (Borzęcki, Mazur-Włodarczyk, 2007).

Next issue is competition. How should the principle of territoriality be sanctioned? The literal approach constraints the development of primary banks, though the principle belongs to foundations of cooperative movement and thus must be observed. Its acceptance, however, among banks being members of different associations may be difficult.

The competitive environment with regard to primary banks and its apex bank is also important. It corresponds to the type of the association model depending on whether commercial banking services by apex bank are allowed.

The exertion of control over the entire group by the associating bank has always been controversial in Polish regulations (Bańka, 2007) implying paradoxically that bank has power over its owners. Therefore, it is argued that such control is possible if required by the financial supervision institution in case of formal complaint by a customer as regards a given primary bank. Other proposals follow the German solution, with inspection activities performed by cooperative banking audit unions. More suggestions include:

- issuance of bonds (recognized as own funds) by primary banks with capital worth at least EUR1m;
- endorsement by an associating bank for dismissing a chairman of a primary bank;
- limitation of activities by an associating bank to financial, payment and control functions;

- right to issue electronic money equal to that of commercial banks.

The cooperative banks' community in Poland puts forward many proposals with respect to actual form of binding regulations, especially on the roles and functions of their apex banks. They expect attention and appreciation from regulators and leg-

islators in view of potential impact of the recent *Directive 2006/48/EC* (2006) relating to the taking up and pursuit of the business of credit institutions in the European Union which shall not apply to cooperative banks' competitors in Poland, i.e., to Stefczyk Saving and Loan Cooperatives (SKOK).

REFERENCES

1. *Activities Report 2005*. (2006). EACB, March.
2. Alińska, A. (2002). *Bankowość spółdzielcza w krajach Unii Europejskiej* [Cooperative banking in the European Union countries]. Warszawa, Twigger.
3. *Banki spółdzielcze w Polsce*. (2006). [Cooperative banks in Poland]. Warszawa, Banking Supervision Committee.
4. *Banking Law*. (2002). „Journal of Laws”. No 72, with further amendments.
5. Bańka, J. (2007). *Konstytucja banków* [Constitution of banks]. „Nowoczesny Bank Spółdzielczy”, No 11.
6. Borzęcki, M., I. Mazur-Włodarczyk. (2007). *Skonsolidowane sprawozdania finansowe w sektorze bankowości spółdzielczej* [Consolidated financial reports in cooperative banking sector]. www.bs.net.pl
7. *Cooperative Banking Law*. (2000). “Journal of Laws”. No 119, with further amendments.
8. *Cooperative banks' contribution to the Commission green paper*. (2005). EACB, July.
9. *Cooperative Law*. (1995). “Journal of Laws”, No 54, with further amendments.
10. *Directive 2006/48/EC*. (2006). “Official Journal of the European Union”. L. 177, 30.6.2006.
11. *Informacja o sytuacji banków 2008–06* [Information on banks' condition 2008–06] (2008). Financial Supervision Commission, Warszawa.
12. Szambelańczyk, J. (2006). *Banki spółdzielcze w Polsce w procesach zmian systemowych* [Cooperative banks in Poland during systemic transition processes]. Poznań, University of Economics.