

**Co-operation and Mutuality Scotland
Submission to the Economy, Energy and Tourism Committee
The Scottish Parliament**

The Way forward for Scotland's banking, building society and financial services sector

Co-operation and Mutuality Scotland (CMS) is a membership organisation with a clear and focused purpose and vision. Our purpose is to develop and extend co-operation and mutuality in Scotland's communities. Our vision is to be a strategic voice for co-operation and mutuality; to be a partner, with government and others, in the development and support of new and existing co-operatives and mutual enterprises, and to be an effective forum for co-operative and mutual enterprise.

CMS is the main umbrella organisation for the co-operative and mutual sector in Scotland; it was launched in June 2003. CMS covers the full range of co-operative and mutual enterprises – namely worker co-ops, employee owned businesses, housing co-ops, credit unions, other financial services, agriculture, fishing community businesses and consumer co-ops.

The co-operative and mutual sector has been in existence for nearly 200 years. It employs ten of thousands of people and contributes millions to the UK economy every year.

Co-operatives hold to co-operative principles, CMS believes that there is much in the co-operative principles that could usefully be applied to the financial sector. The co-operative principles are listed below:

Principles

The co-operative principles are guidelines by which co-operatives put their values into practice.

1st Principle: Voluntary and Open Membership

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities

of membership, without gender, social, racial, political or religious discrimination.

2nd Principle: Democratic Member Control

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

3rd Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter to agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5th Principle: Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

6th Principle: Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7th Principle: Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

CMS welcomes the opportunity to offer our views on the financial services sector. We believe that there are many co-operative and mutual solutions which could make a major contribution to the future of Scotland's economy. There are other organisations which it would be beneficial to listen to on these

issues such as the Association of British Credit Unions (ABCUL) or the Building Societies Association.

CMS believes that the current financial crisis demonstrates that the widespread demutualisation of building societies and mutual insurers was a mistaken policy and that to some extent the current financial crisis is a direct result of this failed policy.

Many of the problems in the financial sector have been caused by the imperative to chase quick profits. We would argue that financial mutuals are better given that they put the interests of members first. We think that the Scottish Government should consider the ways in which it can promote financial co-operatives and mutuals.

The benefits of mutuality should be recognised. Co-operatives and mutual financial organisations differ from their plc competitors in one crucial respect; they exist to provide a service rather than to generate profits for shareholders. This means that profits are shared amongst the members (consumers) rather than external shareholders. The Building Societies' Association has estimated, this provides mutual organisations with a cost saving of approximately 35%, which is distributed straight back to the members – through the provision of low cost borrowing, high returns on savings and dividends.

Financial mutuals operate using democratic voting systems, on a one-member-one-vote basis, this means that there are no conflicts of interest between the claims of consumers and owners; this leaves no incentive to exploit customers for short term gain.

We believe that the UK Government should mutualise those banks which have been 'nationalised' during the financial crisis. This would have a major impact in Scotland. We believe that some of the rescued financial institutions are too big. Consideration should be given to the break up of the Lloyds

Group. In the Scottish context the infrastructure of the old TSB is virtually still intact it could be revived as a new customer-owned financial institution.

We believe that by promoting a different model for the financial sector in Scotland there is scope for Scotland to become a leader through promoting mutual solutions. It is clear that mutual financial institutions operate differently and that these differences could have made a difference in the financial crisis.

Many of the problems in the financial market were caused by financial institutions putting short-term gain first. CMS believes that it is time to think differently and we believe the Scottish Parliament, the Scottish Government and indeed the UK Government should give serious consideration to what more it can to promote co-operative and mutual financial solutions.

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