Rabobank through the years
In the footsteps of Raiffeisen

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In the footsteps of Raiffeisen
Rabobank as we know it today was created on 1 January 2016 through the legal merger of 106 local cooperative Rabobanks and the central Rabobank (known as Rabobank Nederland). It was a special moment in the 120-year existence of the largest cooperative bank in the Netherlands, which grew out of a diverse collection of local initiatives eager to improve the future of agriculture and horticulture through a credit cooperative. From 1895 onwards several banks were set up in different parts of the Netherlands based on the Raiffeisen system.

What follows is the story of Rabobank Group – its development, its cooperative roots, how it expanded its banking activities first in the Netherlands and then abroad, before extending its geographical reach and becoming a modern, international provider of comprehensive financial services.
The Raiffeisen model

Raiffeisenbank emerged from the Raiffeisenbank and the Boerenleenbank, two banks modelled on an agricultural credit cooperative established by rural German mayor Friedrich Wilhelm Raiffeisen (1818-1888). Around 1850, Raiffeisen began looking for ways to assist struggling farmers and craftsmen in Germany’s depressed Westerwald region. His Darlehnskassen-Verein became the model for a type of credit union which used the savings of the local community to meet that community’s credit requirements under favourable conditions. The organisational model was based on self-help, taking individual and mutual responsibility, and the involvement of all stakeholders. Raiffeisen believed that credit cooperatives could structurally improve the daily lives of rural people and bring an end to suffocating usurious practices.

Raiffeisen intended these organisations to have a social function too. Like many of his contemporaries, Raiffeisen emphasised the importance of schooling and education, and in 1866 he published Die Darlehnskassen-Vereine. This book contains the blueprint for an agricultural credit cooperative. In later editions he integrated the effects of new German laws and regulations on his idea philosophy, which was influential in many countries throughout the world. The Raiffeisen idea
was also adopted in the Netherlands, where a new Dutch word was coined for the new type of agricultural credit cooperatives modelled on the Raiffeisen system: boerenleenbanken.

The emergence of Raiffeisen-style agricultural credit cooperatives in the Netherlands is closely connected to the modernisation of the agriculture sector between 1880 and 1914 and with faltering credit provision in some regions. Farmers and horticulturalists needed capital to make technological improvements in their operations and to adapt their businesses. But securing the necessary funding was often a problem. Contemporary observers noted that the lack of lending in rural areas was a structural problem. In 1866, a government committee (Staatscommissie) also concluded the same from its investigation of the agriculture sector, and maintained that credit cooperatives like Raiffeisen’s could offer a solution.
1895: In the footsteps of Raiffeisen

The agricultural crisis (ca. 1880-1900) came to an end, and society was largely supportive of better lending options in rural areas. Cooperative credit and savings banks structured on the Raiffeisen model were established in different places from 1895, with the support of dignitaries, farming associations, farmers unions, and the Church (in Catholic areas). In line with the Raiffeisen model members of the bank shared responsibility for managing and operating these cooperative agricultural banks, and elected from their midst members to perform these tasks on a management committee and a supervision committee. Those members were not paid for carrying out these duties. Only the bookkeeper received a modest compensation for keeping the accounts and records. In many cases, these newly established banks were in the bookkeeper’s home and were only ‘open’ a few hours a week. To ensure proper functioning, the banks served only a limited geographical area. The members were mostly local farmers, horticulturalists, and small, local agricultural cooperatives. In principle, they were the only people eligible for a loan. They were also required to pay a personal guarantee.

The savings collected by the cooperative banks funded loans to their members. The banks’ own creditworthiness depended on the member’s joint unlimited liability for their bank’s obligations. Any profits were added to the annual reserves to compensate any losses without having to rely on the members’ unlimited liability.

The Raiffeisen model quickly took root in the Netherlands thanks to the efforts of many people. By 1910, more than 600 agricultural credit cooperatives were affiliated with a central bank, and ten years later, their number had grown to 1148, with a total combined membership of approximately 144,000 (see Figure 1). In 1930, every municipality had at least one credit cooperative, which in some cases also had a dual function as a trade association. This structure resulted in a close-knit network of autonomous agricultural credit cooperatives.

Figure 1
Number of Rabobanks and total members, 1898-2016
Source: CCRB, CCB, Rabobank Nederland and Rabobank Group, Annual Reports.
The young cooperative agricultural banks matured into attractive savings banks. Because they had low operating costs, such banks could offer low-cost loans. Their conservative approach to banking helped the cooperative agricultural banks to survive the economic crisis of the 1920s and 1930s relatively unscathed. Within just a few decades, these cooperative agricultural banks they had become the epitome of rural banking.

Guidelines for starting a cooperative boerenleenbank by C.F.G.W. van den Hurk (ca. 1900).
The disadvantages that came with small-scale banking, combined with a desire to work together, led to the founding in 1898 of the Coöperatieve Centrale Raiffeisen-Bank, (CCRB) in Utrecht, and just a few months later, the Coöperatieve Centrale Boerenleenbank (CCB) in Eindhoven. Two umbrella organisations were created instead of one due to business and personal differences. One fundamental area of dispute was the legal form the member banks would take. The CCRB only accepted banks that had been established according to the Cooperative Associations Act of 1876, which the Utrecht organisation considered to provide a more solid basis. The board of the CCRB disagreed in this respect with the influential Father Gerlacus van den Elsen O. Praem. and the farmers associations of Limburg and Brabant, who preferred the less expensive form of association provided for by the Freedom of Association and Assembly Act of 1855.

The CCB accepted either form of association. Other differences existed too. From its creation, the CCB had a clear confessional, Catholic structure. Its member banks were located to the south of the large rivers, an area traditionally associated with Catholicism in the Netherlands. The banks affiliated with the CCRB were mainly situated to the north of the large rivers. In practice, the CCRB developed as a non-confessional organisation and was by far the larger of the two organisations. This remained the typical pattern of association until the 1960s.

Not all banks were affiliated with a central organisation. Some banks only affiliated at a much later date. In 1955, the number of member banks reached 1324, a record. The number then declined as local banks merged for economic reasons. During the 1950-1972 period, 324 banks were involved in 155 mergers, and others merged with local savings banks too.

The central cooperative banking organisations fulfilled a variety of roles for their member banks. Not only did they represent members’ interests, they also served as a knowledge centre, as the bank’s bank, the giro office, the central investment institute and, last but not least, the supervisory body. In addition to providing local supervision, the nature and frequency of which were determined at local level, the central organisation carried out regular inspections to monitor the member banks’ management and administration. This situation was a result of the double cooperative structure and statutory obligations.

Both central organisations also became the primary bank of large (and central) agricultural cooperatives, which were usually
too big to have their needs met by a small local bank. To continue to meet these large organisations’ growing capital requirements, in 1918 the NV Landbouwbank was founded in Amsterdam (known as the Nederlandsche Credietbank from 1946) with CCB backing. In 1927, the CRB helped to establish the Coöperatieve Grondkapitaalbank voor den Landbouw in Utrecht. During this time, throughout the agricultural sector, cooperative organisation had taken hold throughout the entire chain: purchasing, production, processing and sales. By then, every village had its own cooperatively organised purchasing association, dairy plant, slaughterhouse, and so on.
When the wage packet began to be replaced by direct deposit in the 1960s, the banks acquired many new private clients who wanted to open an account at a Raiffeisenbank or Boerenleenbank. More and more employers were changing the way they paid wages or salaries. Cash payments made way for direct deposit to a bank or giro account. This was the start of a new era of different types of services and products.

In response to automation, and guided by the common goal of limiting the costs of payments, Dutch banks increased their cooperation. For example, in 1967, the Bankgirocentrale N.V. was established, an organisation which took care of giro payments for the customers of 3,700 bank branches in the Netherlands.

The bank giro represented a considerable cost saving for the Boerenleenbanks and Raiffeisenbanks. It was also better suited to companies’ administrative needs where the automation of bank details was concerned. The cooperative efforts in domestic banking described above led to the development of a variety of new payment instruments from 1967, including the bank-guaranteed cheque, the giro collection form and the PIN card.

These experiences and the effects of new laws and regulations were partly responsible for the initiation of a process of professionalisation in the 1950s and 1960s. Part-time bookkeepers made way for fulltime directors, who often worked with small teams of staff. This expansion saw many banks move from the bookkeeper’s home to a separate building. For the most part, banks preferred to set up their offices in the heart of the village, which increased their visibility among local businesses. This enabled them to expand their customer base by providing loans to small- and medium-sized businesses, municipal institutions and utility companies. Branches in larger cities brought in more customers from outside the agriculture sector.

The recovery of the Dutch economy was high on the agenda in the years following the Second World War. Not long after the liberation of the Netherlands, Dutch Minister for Finance Lieftinck announced a national Money Purge (Geldzuivering) in 1945. The additional work this created was extremely demanding for local bookkeepers. Government measures virtually required every Dutch family to open a bank account, which brought in many new customers for the agricultural credit cooperatives throughout the Netherlands.
Rabobank created by merger in 1972

In the first few decades of their existence, the CCRB and the CCB scarcely communicated with each other. The German occupation during the Second World War and the talks this necessitated with the government changed their relationship though. After the war, both organisations were closely involved in the Dutch government’s reconstruction plans for the Netherlands, beginning with monetary reform.

The CCRB and the CCB were also instrumental in the new supervisory legislation. The 1952 Act on the Supervision of the Credit System named de Nederlandsche Bank (DNB) the national supervisory authority for the banking system. DNB charged both CCRB and CCB with central supervisory tasks over member banks (so-called delegated supervision), and monitored CCB and CCRB’s compliance with the supervision rules. The central organisations and, later, Rabobank Nederland fell under the direct supervision of DNB and the Netherlands Authority for the Financial Markets (AFM). This dual management structure – in which the member banks owned the central organisation, which in turn had been granted supervisory authority by the state financial regulator – remained unchanged until 2016.

For agricultural credit cooperatives, structural changes in the Dutch economy during the 1950s and 1960s redefined the relative importance of the agriculture sector to their traditional area of operation. A great many mergers were taking place in the Netherlands, causing the business capital requirements to soar. These changes impacted the field in which the CCRB and CCB worked, the way they were organised, and the way they did business. The combination of the banks’ having begun to provide loans to customers outside the agriculture sector and the diversification of their services logically led both organisations towards several acquisitions, and to establish subsidiary companies. In 1965, the CCB acquired the Amsterdam-based firm N.V. Effectenkantoor Schretlen & Co (1911); in 1966, the CCRB decided to start the Raiffeisen-hypotheek Bank N.V, a separate mortgage bank (the CCB’s Boerenhypotheekbank had fulfilled a similar function since 1908). Financing company De Lage Landen N.V. (DLL) was established by N.V. Landbouwkrediet-verzekering ‘Eindhoven’, a CCB subsidiary, and the insurance company Interpolis.

Sector overlap and the overall growth of the banks’ network of branches stimulated competition between the two cooperative banking organisations. This was true in rural areas as well in the cities, where both cooperatives had established a considerable presence. It was not uncommon for both Boerenleenbank and Raiffeisenbank to have branches in the
same place. As their differences blurred, the idea of a merger between the two parties began to seem inevitable. After two years of preparations, in May 1972, the member banks of both organisations voted in favour of a merger.

On 1 December 1972, the CCRB and the CCB officially became the Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., known as Rabobank. The new central organisation would be known as Rabobank Nederland from 1980 to 2015. The member banks also decided to use the Rabobank name. Mergers in places where both Raiffeisenbank and Boerenleenbank had branches swiftly reduced the total number of member banks (see Figure 1). However, what the numbers do not show is that in 1976, a new bank was founded in the newly created Flevopolders area. Rabobank Almere was the last bank to join the central organisation.

Many of the central organisation’s subsidiary companies subsequently also merged. At the same time, the number of subsidiaries and participating interests gradually increased, with the aim of expanding services for both business and private customers both domestically and internationally. Some activities were subsequently divested.
Cooperative discussions

The merger of 1972 had left the cooperative structure intact. But the shift to becoming a general bank, combined with several societal developments, led to a variety of adjustments. In 1980, for example, the new ‘cross-guarantee’ scheme linked the assets of the local banks, Rabobank Nederland and several subsidiaries. This scheme ensured that if one participating institution had insufficient funds, their obligations would be covered by the other participants. No claim has ever been made on the scheme. More regulations and processes for the internal distribution of assets within the Group were drawn up later. Consequently, obligatory local membership and the original member liability at local banks were phased out. From 1980, its private customers were no longer had to become members. For its business members, the bank reduced the per-member liability to a maximum of 5,000 Dutch guilders. These developments were accompanied by a reconsideration of what cooperative identity meant to Rabobank. To reinforce the bank’s cooperative identity, Rabobank started its own project fund, Projectenfonds (1984), and its own guarantee fund, Stichting Garantiefonds Rabobanken (1985).

In 1998, the local banks became so-called open cooperatives. This entailed that, in principle, every customer could become a member, a decision that came out of what was known as the ‘Cooperative Discussion’ (1995-1997). Since the bank had been founded a century earlier, the number of members had declined, and the sense of what it meant to be a cooperative had become diluted. This second, fundamental discussion initiated a phase for the banking organisation and the governance, given the fast-changing market circumstances of the digital age. The internal economies of scale these changes brought about more than halved the number of local banks, bringing the total to 150. Also, further professionalisation of local management boards was set in motion. However, members retained their primacy through the local boards of supervisors.
Expansion of services

Against the backdrop of the mass market for retail banking services that had emerged, the agricultural credit cooperatives gradually became general banks serving businesses and private customers alike. During the years that the shift to direct deposit of wages and salaries was taking place, the number of Rabobank account holders increased rapidly, from 165,000 in 1968 to approximately 1.3 million in 1972. Within just a few years, Rabobank had gained approximately a 25 percent share of the retail payments market. In the 1960s and 1970s, the banks added more services for this new group of customers, such as insurance and securities brokerage. Furthermore, lending in the form of home mortgages soared as ever-more Dutch people were able to afford their own homes. The number of subsidiaries and participating interests also grew in tandem with these developments and the expansion of other domestic activities. Sales of package holidays introduced the banks to an entirely new domain between 1969 and 2003. The bank also sold the necessary foreign currency, but of course these sales declined after the launch of the euro in 2002. Following a period of explosive growth in the number of cash withdrawals, the PIN card was introduced, and people became used to using ATMs. Soon after, payment terminals followed as well. These innovations steadily decreased the number of visits to the bank. From 1995, the virtual Rabobank began to take shape, first in the Netherlands and later, in other countries too. Not only can customers now pay and save online, but they can also take out mortgages, loans and insurance policies. The arrival of apps for smartphones and tablets has made the bank accessible 24/7 literally at customers’ fingertips. The progressive virtualisation of services was partly motivated by the bank’s desire to serve customers faster, but also by the need to reduce staffing and other costs in times of sluggish profits, especially when the financial crisis hit in 2007-08. These factors contributed to a decline in aggregate cash withdrawals, and it was only a matter of time before several branches closed and many ATMs disappeared. At the end of 2016, there were 103 local Rabobanks in the Netherlands, with 475 branches and more than 2,100 ATMs (see Figure 2).

Figure 2
Rabobank ATMs and branches in the Netherlands, 1985-2016
Source: Rabobank, Annual Reports.
The Dutch savings market in the 1980s was constantly changing. New, specialist parties emerged, like asset management company Robeco’s own Roparco savings bank. They could offer a relatively high interest rate on savings because of their highly cost-effective business model. Savings alternatives also came onto the market, such as investment and insurance products with favourable expected returns. Once the government adjusted ‘structural policy’ (1990), mergers between banks and insurance companies became permitted on certain conditions, but a complete, legal merger remained prohibited.

In response to these developments, Rabobank and other financial institutions introduced the Allfinanz concept around 1990. This effectively made them financial one-stop-shops, where customers could obtain a total package of payment, savings, investment, insurance, financing, and advisory services and products. The organisation accommodated this variety of services by expanding specialised subsidiaries and participating interests, domestically and internationally, and in 1999, became known as Rabobank Group.

In 1996, Rabobank’s international business consolidated under Rabobank International, an ambitious, new entity with a large degree of independence. Soon, however, it became clear that London investment banking did not sit well with the cooperative foundations once laid across the North Sea. The management decided to scale back the international activities to a cost level and risk profile more befitting to Rabobank’s cooperative roots and the type of customer focus that this demands.

In 2006, the considerable amount of strategic independence initially given to Rabobank International was reined back and responsibility for international strategy was reincorporated into the overall group. In 2013, the international entity became fully integrated with Rabobank Nederland.
International expansion

After Rabobank was created by merger in 1972, it grew enormously and, from 1980, gradually developed into an important international player. Internationalisation occurred gradually with international policy undergoing several adjustments in the process. At first, the bank opted for cooperation with different European cooperative banks. Then, the business expanded its international presence by launching foreign branches: one opened in Frankfurt in 1980, and another in New York in 1981. A condition of entering the United States market was that Rabobank had to undergo the scrutiny of the credit rating bureaus. The bank was awarded a triple A rating, the highest according to the system then in place. New branches opened on other continents at a steady tempo. In 1994, Rabobank acquired the Primary Industry Bank of Australia (PIBA), a specialist in financing agriculture companies in Australia and New Zealand. The number of branches in this region increased rapidly and in 2003, the bank decided to merge its wholesale activities with the Sydney office, which established the Rabobank Australia brand.

At the same time, Rabobank was hard at work rolling out international direct banking for private customers, agriculture companies and SMEs. In 2002, Rabobank launched its first internet bank in Belgium. In the wake of its success, other internet banks soon opened in Ireland (2005), New Zealand (2006) and Australia (2007). Within a few decades, Rabobank had matured into a large international institution that provided financial services to domestic and international customers and was also a globally operating F&A bank. In 2006, Rabobank had operations in 42 countries. In just ten years, the number of international branches had trebled to 330. In 2013, that number rose to 769. Starting in 2010, the number of subsidiaries and participating interests in the Netherlands and worldwide was reduced. This change in direction was one result of the financial crisis in 2007-08. Among others, asset management companies Orbay, Robeco and Sarasin were sold. In 2014, the sale of Polish Bank BGZ was completed. Earlier, the Irish subsidiary ACC Bank, which had sailed into rough waters during the 2007-08 financial crisis, was forced to surrender its banking licence to Irish regulators. The integration of other parts of the group continued between 2014 and 2016, including Schretlen & Co and FGH bank. By 2016, total subsidiaries and participating interests had been brought down to 382, spread throughout 40 countries.

Since the financial crisis, the banking sector has faced criticism all over the world. This response has in part led to stricter capital requirements and tightened financial regulations. Rabobank survived the crisis without a state bail-out, but was
impacted by the aftermath and, of course, the consequences of the Libor affair. This affair was cause for outcry both within the bank and beyond, and several organisational changes followed to address it. In October 2013, the bank announced it had reached a settlement of EUR 774 million with financial market regulators. In addition, Rabobank introduced a broad package of measures to strengthen compliance, reduce risk, and improve the company culture. Several changes to the organisation began to take shape: the slimming down of the Group discussed above, through the sale of different subsidiaries, as well as the centralisation of Rabobank International and Rabobank Nederland. International requirements led to the formation of the European banking union, whereby the large European systemically important banks (SIBs), Rabobank and others, fall under the supervisory authority of a European Central Bank (ECB) Joint Supervisory Team (JFT). New regulations under Basel IV are now also being implemented, which will make capital requirements for financial institutions even stricter.
2016: Towards one cooperative Rabobank

The appointment of an internal Governance Committee in March 2014 marked the beginning of the largest merger in Rabobank history. The cooperative organisation had undergone changes in response to laws, regulations and social developments many times before, and the time to chart a new course had come again. But this time, a fundamental reconsideration of corporate governance was deemed necessary. In earlier years, the member banks had given up some of their independence, but always remained independent entities with their own banking licence. Under the Financial Supervision Act 2007 (Wet financieel toezicht (Wft)), Rabobank Nederland had been assigned with supervisory authority over its member banks, but new and more complex regulatory legislation meant that this relatively unique system of delegated supervision was no longer tenable. Another complicating factor was the duality of the cooperative management structure described above. The new financial regulations, the governance requirements, along with changing customer needs and continuing virtualisation – these key factors dominated the agenda of the fundamental review of Rabobank’s existing governance structure.

The Governance Committee laid the preparations for the review. This committee, named by Rabobank Nederland’s Executive Board, consisted of representatives from the local cooperative banks and the central organisation. It was assigned the task of formulating a future-proof governance structure. What followed was an intensive process of comprehensive dialogues with many stakeholders about the required transformation. The committee proposed a merger between the 106 local banks and Rabobank Nederland, and the local members’ councils of all 106 Rabobanks unanimously approved it on 2 December 2015. A week later, on 9 December, the local cooperative banks gave their unanimous consent for the merger too. On 1 January 2016, the legal merger and the new governance structure of Rabobank became effective, opening yet another chapter in the bank’s 120-year history.
References and further reading


