

The strategy of the Rabobank and the role of international cooperation

The world is changing at top speed. The global economy shifts increasingly to Asia and South America and Europe opens up to Eastern Europe and Turkey. In a number of years, the eurozone will be expanded eastwards and the euro may develop as a real challenge for the US dollar. The European banking sector is consolidating and competition is increasing. European markets liberalise and barriers for cross border mergers are diminishing. At the same time we are faced with increasingly more laws and regulations. Much of this regulation originates in Brussels. In many countries, the consolidation process of the banking industry still has a long way to go.

Consolidation in the Netherlands completed

In most smaller countries, such as the Netherlands, however, the consolidation process is more or less completed. In the Dutch market, consolidation, innovation and migration of the agricultural sector impact the business as a "food and agri" bank. Also increased competition in the retail market for financial services, urbanisation, the aging of generations and changes in social security systems are important developments.

So far, Rabobank has dealt with these developments rather effectively. In the future, it will continue to do so. Given the high concentration rate and the maturity of the Dutch market, much of the bank's future growth will have to come from international expansion. European partnerships are thereby important in Rabobank's strategy. In specific, much value will be attached to the partnerships with the co-operative banks in the Unico group and the European Association of Co-operative Banks.

Rabobank will remain a co-operative bank, although this may be different for subsidiaries. Subsidiaries of the Group may merge with other financial services providers, e.g. European parties. The Group's co-operative mission, which it shares with its European co-operative partners, is to provide customer value. Rabobank is going to underscore the unique character of the co-operative more forcefully both internally and externally in the years ahead.

The bank shares its co-operative identity and history with its co-operative partners in the EU, such as the German DZ Bank,

the French co-operative banks Credit Agricole and Credit Mutuel, the Finnish OKO Bank and the Italian Banca Popolare and Credito Cooperativo. It also faces some of the same challenges, e.g. consolidation in the respective home markets, competition from new players, and the need to make its organisation more efficient without rendering its strong position with a dense local branch network and high quality personal advice.

The cross border cooperation in Unico can help member-banks to remain strong and competitive in the new European banking landscape. Examples of successful cooperation include the mutual servicing of clients, the international Uni-Cash program – a cash management service – and the joint trading activities with the partner banks. Also the efforts of the European Association of Co-operative Banks are of significant importance. The EACB represents, promotes and defends the common interests of its members and the co-operative Banks in the European Community.

In addition to its guiding principle, Rabobank has the ambition to retain its AAA status. This requires an approximate ten to twelve percent annual profit growth and ten percent solvency. These preconditions provide the necessary financial discipline to survive in today's competitive market environment.

The way forward

Rabobank is rooted in the agriculture, retail and small and medium enterprise (SME) sectors. These still are the basis for market leadership in the Dutch market and increasingly for international expansion. The bank aims for autonomous international growth, which means no sale or unequal merger.

Bert Heemskerck, Chairman of the Executive Board, Rabobank Nederland, Utrecht

Die Rabobank wird auch in Zukunft ein rein genossenschaftliches Institut bleiben. Dies steht für den Autor außer Frage. Ob selbiges allerdings auch für alle Konzerntöchter gelten kann, sei offen. Denn im Zuge eines zusammenwachsenden Europas spielt für ihn auch die Zusammenarbeit über die Grenzen hinweg, insbesondere zwischen den „Kooperativen“, eine entscheidende Rolle – nicht zuletzt weil diese in den jeweiligen Ländern meist gleichgerichteten Herausforderungen gegenüberstehen. Erste gemeinsame Schritte wurden durch die Unico-Bankengruppe oder die European Association of Co-operative Banks (EACB) getan. Weil er den Heimatmarkt im Retail- und KMU-Geschäft als weitestgehend konsolidiert ansieht, will er sein Haus auf der dort marktführenden Stellung zur weltgrößten „Lebensmittel- und Agrarbank“ aufbauen. Entsprechendes Wachstum soll dabei neben den Private-Banking- und Versicherungssegmenten insbesondere im Ausland generiert werden. Das bestehende AAA-Rating, auf das er sichtlich stolz ist, gelte es dabei unbedingt aufrechtzuerhalten. (Red.)

The strategy for the years ahead will be to strengthen the position as the market leader in the Netherlands, achieve further domestic and international growth, and to attain the targeted position as the world's leading food & agricultural bank.

Remaining market leader in the Netherlands: In the Netherlands, Rabobank strives for "Allfinanz" market leadership. This gives it the strength to operate in a goal-oriented and cost-conscious manner and allows it to improve its value for customers. Over the next few years the bank will concentrate on defending its strong position in retail and SME banking. Another challenge is to increase the market share in private insurance. This market share is about ten percent and thus lower than Rabobank's share of 25 to 40 percent in the market for retail products.

Unique positioning of local banks: Not only is every customer different, each local situation is different too. Local strategies must consequently also be differentiated. Local Rabobanks are uniquely positioned in their individual markets, to optimize the strategy for local circumstances. Banks with a strong, stable market position concentrate first and foremost on maintenance. In contrast, banks in the larger cities pursue a growth strategy, as there still is lot of upward potential for them in the urbanized regions. All local Rabobanks are supported by the umbrella organisation, Rabobank Nederland. This support is aligned more and more closely to the specific needs of the local member bank. Rabobank's "Large Cities Policy" is a prime example of this.

Nearby also with direct channels: A growing number of customers handle a large part of their banking business through direct channels such as the internet, telephone and mail. This development places the traditional elaboration of the bank's "nearby approach" under pressure. It demands new and innovative solutions. If local banks succeed in extending their entrepreneurship to the virtual realm, they will continue to be distinctively "nearby". And they will be able to present customers with the right offer at the right time – and via the right channel. Rabobank is the Dutch market leader in internet banking. It will consequently make major investments in its direct channels for transactions and communications in the years ahead.

Wave of mergers among local banks:

There were a total of 216 local member banks in mid-2006 and this number is set to decrease further in the years ahead to approximately 150 local banks. The challenge is to combine scale and efficiency by pooling the group's strengths, in order to deliver excellent service and to reach customer advocacy. The up-scaling of local banks also has consequences for the support of Rabobank Nederland for the local banks. It therefore also adapts its own organisation.

Scope for growth: The scope for growth in the national market is found primarily at the top of the retail and business market: Private Banking and Large Businesses. Rabobank seeks to become market leader in these areas as well. There are also growth opportunities in the urban areas. And we are going to strengthen the bank's position in the segments of the future: career starters, immigrants and young people. Furthermore working together with Eureko/Achmea in the coming years, based on a strong and growing strategic alliance, will contribute to obtain a strong position in the insurance market in the Netherlands as well.

More synergy in the Group

The local member banks, the affiliated institutions, Rabobank Nederland and the international network – together they form the Rabobank Group. The divisions within the group hold leading positions within their markets. And they all share one goal: to help their customers realise their ambitions. The group will develop initiatives over the next few years that will enable it to leverage the group's collective development and distribution strength more effectively. It is open to new alliances and even open to a (partial) flotation of affiliated institutions, although it aims to retain a controlling interest. It is the bank's firm belief that it is vitally important that the affiliated institutions remain fully controlled divisions of the Rabobank Group. This reflects the indispensable value of synergy within the Group.

The bank's subsidiaries already play an important role in realizing the Group's ambitions in the Netherlands. For example, the cooperation with Achmea increases the market share in the insurance business and a stronger positioning of Robeco will re-

store its top position among the most profitable investment funds. The focus will be on specialized products and an increase of sales volume via Rabobank private banking units. Also third party distribution in selected countries will be developed further.

Another example concerns leasing. New international vendor lease partnerships and distribution via banking channels in markets where Rabobank is developing retail activities should enable growth of twelve percent per year in the area of leasing. Also co-operation with Unico partners in Unico Lease can contribute to reaching this target. To conclude, intensive cooperation between FGH, Rabo Real Estate, Bouwfonds and local Rabobanks will open new attractive market segments, such as greenfield residential projects, commercial real estate and urban redevelopment.

Targeted position as the world's leading "food & agri" bank

Internationally Rabobank aims to be the global "food & agri" bank. This corresponds with its co-operative identity and agricultural roots. The bank has already established a strong foundation in these sectors worldwide. This has been brought about in part by working intensively with financial institutions in China and by acquiring banks in Poland, the U. S. and Ireland. It will now continue to strive for further growth in the years ahead. The opportunities are there: the global food & agri sector is expected to continue to grow rapidly in

the coming years because of global population growth.

International growth is important for the Group for various reasons. Firstly, modern business customers are becoming more and more active abroad and Rabobank wants to provide them a good service abroad. One that matches its standards in the Netherlands. Secondly, international growth enables the bank to attract funding and know-how. Thirdly, it is necessary to play a role in the European consolidation process. Finally, international growth is necessary to remain an attractive employer.

Besides food & agri, Rabobank offers local retail banking services in countries in which growth is possible and in which Rabobank can provide added value. The focus is on three market areas. Firstly, the bank invests in the traditional agricultural countries that are stable and have a developed and structurally attractive agricultural sector. These are, for instance, the US, Australia and Canada. Secondly, there is a focus on the Central and Eastern European countries with a growing agricultural sector, such as Poland, Romania and Turkey. Thirdly, investments will – to a lesser degree – be made in the rapidly growing emerging countries with a substantial agricultural sector. Countries that come to mind are Brazil, India, Indonesia and China as well as East Africa and some countries in Latin America.

The bank's wholesale activities are focused primarily on the Dutch wholesale and in-

ternational food & agri customers. These customers will be served through its international network of branch offices in 35 countries. Also Rabobank will continue to leverage its Triple-A status in selected product/market combinations in international professional markets such as interest swap markets, securitization and origination.

The objectives of the strategy are translated into an average net profit growth target of twelve percent per year. The aim is to achieve half of the international profit from retail activities within a number of years. This growth will be realised partially through acquisitions. The current rating provides the bank with substantial financial advantages, and paramount value is being consequently attached to maintaining it.

Prospects for co-operative banking

Rabobank firmly believes that co-operative banks have a major role to play in tomorrow's banking industry. 4 500 co-operative institutions with 60 000 bank branches ensure proximity to customers as well as product diversity. Furthermore co-operative banks have 140 million customers, particularly among private customers and small and mid-sized enterprises, 60 million members and 720 000 employees. They hold an average market share of nearly 20 percent. This is a strong point of departure. Also Rabobank's position in the Netherlands is good. Despite the pressure on margins and the increased competition the bank expects to be able to defend its market position and to meet the financial targets.

As has been demonstrated, internationally Rabobank focuses on "food & agri", country banking in designated countries and wholesale banking in a number of market segments. This international network is complemented with strategic alliances and partnerships with co-operative partners such as with Unico. However, one of the challenges will be to fully realise the potential of international cooperation. Service Level Agreements, which are already used with Uni-Cash, are a good way to achieve this. Rabobank is fully confident that the European co-operative banks will succeed in this and will reap the benefits of the integration of the European Internal Market.

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Abbildung: "The Netherlands-based global food & agri bank"

