

## Reforms in banking system of France and their impact on banking operations development

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**Abstract.** The article examines the evolution of the modern banking system of France, which today is one of the most developed and stable in the world. It is shown that the reforms in the banking sector of France in the 1980s and 1990s, changes related to the economic and monetary integration of the EU, the global financial crisis of 2008, and the debt crisis of the EU had a strong impact on the structure, dynamics of development, and the stability of the modern banking system in France. As a result, today the banking system of France is characterized by a high level of concentration and efficiency; developed retail banking business; the largest French banks are in the TOP of the world's transnational banks, are global and systemically significant, form the fourth foreign banking network in the world.

**Keywords:** *banking system, reforms, financial system of France.*

**Introduction.** The French banking system is one of the oldest in the world. It has influenced the formation and development of the banking system of the United Kingdom, the United States, most European countries. There are 12 French banks among the 50 largest transnational banks in the world. And they share the second position in the world with Great Britain, after China (28 TNB). At the same time, France is one of many Western European countries, all banks of which have maintained their positions in Top 50 in recent years [1]. The French banks have shown significant stability in the context of the global financial crisis. The French overseas banking network is by far the fourth largest in the world after the banking networks of Japan, the United States, and the United Kingdom.

The French banking system has undergone a complex process of transformation and evolution, and today it is a complex, vertical, integrated system. The banking system of France is a system of "universal banks". While financial markets provide a larger share of funding for large companies, banks play an important role in financing households, small and medium-sized enterprises. The banking system in France is dominated by five banking groups that accumulate 47.6% of assets of all banks in the country [2]. Four of them - BNP Paribas, Groupe Cr dit Agricole, Groupe BPCE, Soci t  G n rale - are rated by the Financial Stability Board among global systemically significant banks [3]. According to Moody's, the outlook for the French banking system is stable, reflecting the banks' strengthened capital and liquidity and steady loan performance.

**Review of publications on this topic.** Features of the evolution of the banking system of France are studied both by scientists and national and international specialized institutions (Banque de France, ECB, OECD). Different aspects of the French banking system evolution are covered in C. Blot, S. Kremp [4], F. Labondance, I. Lomachynska [5], P. Sevestre, D. Schoenmaker, and others.

In 2014, the paper "Structural evolutions and reforms of the French banking and financial system from the 1980s: the relationship with the legal process of European integration" [6] was published, which summarizes that the modern banking system of France was formed as a result of a change in banking legislation in 1984 (Banking Act

of 1984), transformations in the context of European integration, changes in financial and banking regulation as a result of the global financial crisis of 2008. The authors also draw attention to the fact that subjects of the banking system of France are often participants in the political and institutional process and affect the financial system and economy regulation.

 douard Fernandez-Bollo [7] investigated the structural reform and supervision of the banking system in France after the global financial crisis and concluded that the reforms of the French banking system were coordinated preventive and curative measures that were legally established and which contributed to the sustainability of the French banking system.

**Purpose of study.** The aim of the study is to analyze the reforms in the banking sector of France and their impact on the development of modern banking in the country. This will make it possible to understand the changes taking place in the international banking market and to use the successful experience of transforming the banking system of France into developing countries.

**Materials of study and methods.** Methodological basis of the study is a set of methods and techniques of scientific knowledge. In carrying out the research, systematic, logical, comparative, historical methods of economic processes analysis, static analysis of the dynamics and structure of the development of the banking system of France are used.

**Results of study and their discussion.** The process of the modern transformation of the French banking system began in the 1980s, when the French financial system was relatively closed, strictly regulated and fragmented, and the state played a significant role in the organization and functioning of the system. This was facilitated by the following reasons. Firstly, the internationalization of the world economy and European economic integration required the openness of the national economy and the financial system of France. Secondly, the French banking system was characterized by inefficient structure and low profitability. Thirdly, it affected the French banking system negatively by raising interest rates in the United States, debt crises in developing countries, the Mexican crisis, and so on.

In 1984, the Banking Act was adopted and the banking system of France was subjected to deregulation, which

caused a significant transformation of the banking system as a whole. The Banking Act of 1984 was aimed at creating a single currency and financial market, strengthening competition in the market of banking services, streamlining and improving the efficiency of the banking system as a whole. As a result, 36 deposit banks and 2 investment banks were nationalized; specialized banking institutions were transformed into universal ones and got the right to provide all customers without limitations with any operations that are characteristic of banking; most of the differences between commercial banks and trade banks were removed, which united most financial institutions into a single supervisory system; created conditions for the emergence of new financial markets and instruments (for example, certificates of deposits, markets for futures and for options).

The law also identified four types of credit institutions: 1) banks belonging to the Fédération Bancaire Française (FBF) (Banque Nationale de Paris (BNP), Paribas, Société Générale); 2) mutual aid banks or cooperative banks (Crédit Agricole); 3) financial companies; 4) specialized financial institutions. The first two types of credit institutions received the right to accept demand deposits for at least 2 years from individuals and legal entities, to issue loans, to provide broad-based banking services. The main purpose of the other two types of credit institutions was to provide specialized loans to households, enterprises and other groups of people.

In the years 1982-1986, the nationalization of banking institutions took place as well as the acceleration of the concentration of bank capital in order to save problem banks, restructuring and strengthening the banking system of France, increasing its productivity and competitiveness in the international market.

In 1986, the first 4 banks were privatized. The privatization of the banking sector was also insisted on by the policy of the European Union. At the beginning of the 1990s most of the banking institutions were privatized, which also contributed to the reduction of France's public debt owing to privatization proceeds. As a result of the rapid concentration of banking in France, a sector was formed where several institutions prevailed. In 1992, 106 out of 462 banks belonged to one of 7 banking groups (BNP, Crédit Lyonnais, Société Générale, Compagnie de Paribas, Compagnie de Suez, Compagnie financière du CIC Et de l'Union européenne, Crédit Commercial de France).

The reform of the EU directives: on the liberalization of the movement of capital (1988), on cross-border competition and on the definition of permitted activities (1989 and 1993), on capital requirements (1989), on deposit guarantees (1994) and on crisis management schemes (2001) played an important role in modernizing the banking system of France.

The growing relationship between banking and insurance activities – «bancassurance» became an important stage in the transformation of banking in France. This strategy of banking diversification first appeared in France in the early 1980s and was carried out in one of two ways: 1) providing banks with insurance services in their networks; 2) the acquisition or creation of insurance subsidiaries. This contributed to the fact that banks conducted a more aggressive, autonomous, risky policy and

were engaged in non-traditional banking operations (life insurance, property and accidents). As a result, numerous mergers took place between banks and insurance companies (Crédit Agricole i Prédica, Société Générale, Sogécap etc.) or cross shareholding (direct holdings between BNP and UAP, CIC and GAN) began to spread. As a result, the 5 largest insurance banks in France are among the 10 largest insurance companies in the country today. Crédit Agricole Assurances, the largest insurance bank, was established in 2009 as a result of the Pacifica, Predica, CACI insurance companies merger with international affiliated companies. Today, Crédit Agricole Assurances is the largest European insurer and the second insurance company in France [2].

After the 2008 crisis, the Basel-III requirements forced some banks to repatriate capital from the insurance sector to increase the bank capital. Another way out was mergers and acquisitions – in 2014, the CNP Assurance insurance company acquired 51% of the shares of the subsidiary insurance company of the Spanish bank Banco Santander. But insurance is still a profitable business for banks. In addition, the risk of the insurance sector is much lower than that of the credit, which increases the financial stability of the bank as a whole.

On the whole, the 1990s marked the internationalization of financial markets and participants, namely, the acceleration of cross-border activities of financial institutions, financial innovations and the creation of financial conglomerates. Under the influence of liberalization, the financial market of France was fully integrated into the world market by the end of the 1990s, also due to elimination of currency controls and strengthening of the French stock exchange positions. The attractiveness of Paris for international investors increased, and the rules governing the access of foreign banks to the French market were significantly weakened. This greatly increased the number of market participants: in 1996, the investment of foreign banks in France amounted to 14.9% of all FDI in the country [6].

The French banking system did not avoid the crisis that arose as a result of the transition from a highly regulated, stable system to a liberalized, competitive, open, efficient, and innovative system. Competition between banks, as well as between banks and securities markets in the struggle for monetary resources, led to a change in the interest margin in lending and losses: in 1993 reserves and losses on bad loans reached 127 billion francs, and in 1994, net bank revenues declined for the first time in history [6].

Since 1997, French banks began to regain their competitiveness and profitability. Banks developed their international activities, expanding their presence abroad. In addition, their cost-control policy allowed them to adapt to the transition to the euro in relatively good conditions.

The appearance of euro accelerated the trend towards concentration and consolidation, especially in the field of investment banking. There were national mergers (acquisition of Société Générale by Crédit du Nord, purchase of Caisse centrale des banques populaires for about 25% of Natixis shares) as well as foreign ones (acquisition of Société Générale by the British bank Hambros and the American investment bank Cowen Securities). The mergers provided France with powerful world-class universal banks. Increasing the size of the potential market resulted

in considerable saving in order to ensure a high level of profitability.

In addition, modernization and liberalization of capital movements resulted in increased competition in the French market, which led to the diversification of French banks in other regions and large foreign financial centers. With the single economic space in the EU, euro was a catalyst for interbank competition. Internationalization and europeanization of the French financial system were also facilitated by the merger and clustering of European stock markets (mainly Euronext) and joining the "wholesale" payment system TARGET2.

The consolidation and concentration of French banking capital took place quickly. If in 2000 the French banking system had 1.9 thousand banks and 25.4 thousand branches, in 2006 the corresponding figures were 829 and 39.5 thousand, in 2015 – 467 and 37.5 thousand respectively. In total the number of credit institutions decreased by 42.2% for 15 years. The concentration of the French banking system grew rapidly during 2000-2006. Five of French largest banks reported their share of total assets from 46.8% to 52.3%, but the crisis reduced their share to 47.2% in 2015. As a result, a number of powerful global universal banks such as BNP Paribas (BNPP), BPCE Group (formed in 2009 by the CNCE and BFBP mergers), Groupe Crédit Agricole, Group Crédit Mutuel (a hybrid formed from a cooperative bank and commercial subsidiary Crédit Industriel et Commercial) and Societe Generale appeared in France. The "big five" had 85% of the assets of the national banking system [8]. 4 out of 9 largest banks in Europe were French. The contribution of the banks to France's GDP was 2.7%. According to the FBF in 2016, 9 out of the 10 small and medium-sized enterprises received the desired loan, and 46.4% of the French housing has an outstanding loan. 99% of French people over 18 have a bank account, they use seven banking products on average, and the savings rate is 15% [9].

Following the conversion to euro, French banks demonstrated resilience in severe international economic and financial conditions. Despite the geopolitical and sectoral problems of the early 2000s (the crisis of dotcoms, the difficulties in key areas for telecoms, transport and energy in France, the decline in demand for lending), French banks demonstrated their ability to withstand the deterioration of the economic situation. The reasons for this were the high diversification of French banks, the careful selection of risks and increased operating profitability, which reduced the overall impact of cyclical risks. At the end of 2004, 50 French banks worked in 85 countries or regions, while foreign branches of the three main groups accounted for 17% to 25% of their total assets. In 2005, the largest banking groups had Tier 1 capital well above the regulatory minimum, total credit risk decreased by 4.8%, and market risks calculated at the French commission rate fell by 11%. Consequently, by 2008 there was a steady increase in the business of French banks.

The 2008 financial crisis and the EU debt crisis have had a negative impact on the banking system of France, although there was no major upheaval. The French government supported the country's banking sector so that the crisis did not affect the national economy negatively, there was no bankruptcy of financial institutions. Particular attention was paid to mitigating liquidity risk, capitali-

zation of the banking system, improving the quality of the bank balances, and improving the risk management system.

Since 2008, the deterioration of the financial situation and its impact on the real economy have been seriously marked on the French banking system. The shocks created a more complex operating environment for banks, which, moreover, faced a general crisis of confidence. The financial crisis has also revealed fundamental weaknesses in the functioning and regulation of the banking system of the country, namely:

1) Establishing international standards prompts credit institutions to hide risks. In particular, solvency requirements and risk management have led banks to bear the significant share of securitization risks that have spread in France since 1980. The risk was reduced from the point of view of accounting, since the risk after securitization of an asset is no longer considered as a credit one, but as a market one. The problem is that capital requirements to cover market risk are lower than the requirements required to cover credit risks.

2) International standards neglected the existence of a liquidity risk, which led to the bankruptcy of many banks. In France, the last liquidity regulation was adopted in 1988.

Under the influence of international harmonization carried out by the Basel Committee, the prudential rules and methods of banks control are similar in developed countries. On the basis of international standards, the EU set up its own legislation, which the French authorities adopted taking into account national characteristics. In 2010, the French authorities actively supported the European regulatory reform and proposed a series of steps, namely: strengthening supervision of the banking system; harmonization of normative base; joint control of cross-border banks and insurance companies; increase of transparency and supervision of the unregulated market.

The main supervisor for the banking and insurance sectors is the Prudential Supervisory Authority and the ACPR (Autorité de Contrôle Prudentiel et de Résolution), a member of the Bank of France. ACPR provides banking licenses, applies for stress tests, controls compliance with regulatory restrictions, etc.

In general, the international and European contexts have profoundly changed the regulatory framework of France since the 1980s: French legislation has both international (Basel III) and European sources (the only EU directives). Thus, if supervisors are national, then the applicable rules and regulations derive from international norms and practices. With regard to development, within the framework of European integration, the French banking sector has managed to adapt to the new conditions and to establish its international competitiveness, allowing itself to fully continue the process of consolidation of French services at European and world level.

French banks today have a number of unique features, including the experience in project financing. For example, according to IJGlobal, three French banks, Crédit Agricole, BNP Paribas and Société Générale, are among the ten leading banks in financing projects around the world. France is the only European country with a majority (60%) of deposits and loans managed by cooperative banks, that is, those belonging to their clients. The French

financial and credit system is integrated into the international one: large companies and banks usually have access to international markets. French banks are among the largest counterparties in international markets of derivative financial instruments.

**Conclusions.** Thus, in the process of transformation, a powerful banking system of France, which is the leader of the world banking market, has been formed. The French banking system creates conditions for the development of the national economy, which ranks second in the EU. The universal model of the French banking system combines different directions of financial and banking business lines within a single institution. This allows banks to provide all financial services needed by private individuals, business entities, institutional investors and diversifying the structure and sources of income.

The banking system of France isn't ideal, it faces various problems, but qualitative reforms have allowed to

build a modern powerful and efficient banking system. In France, there were 37 567 bank branches in 2015, and this was the most dense banking network in the EU. As a result, there was a high level of availability of banking services for small and medium-sized businesses, households. The concentration of banking activity led to economies of scale, optimizing the structure of the banking sector, diversifying the activities of French banking institutions in the local market, other regions and financial centres of the world. This provided the leading position of the French banking system in the global banking market.

However, further development of the French banking system is associated with the ability to solve a number of problems: increasingly regulatory restrictions, shadow banking, low interest rates, digital conversion. This should be the basis for further research on the transformation of the banking system of France and its impact on international banking activities.

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#### Реформы в банковской системе Франции и их влияние на развитие банковских операций

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**Аннотация.** В статье рассматривается эволюция современной банковской системы Франции, которая сегодня является одной из самых развитых и стабильных в мире. Показано, что реформы в банковском секторе Франции в 1980-х и 1990-х годах, связанные с экономической и денежной интеграцией ЕС, глобальным финансовым кризисом 2008 года и долговым кризисом ЕС оказали сильное влияние на структуру, динамику развития и стабильность современной банковской системы Франции. В результате сегодня банковская система Франции характеризуется высоким уровнем концентрации и эффективности; развитие розничного банковского бизнеса; крупнейшие французские банки находятся в верхней части транснациональных банков мира, являются глобальными и системно значимыми, образуют четвертую международную банковскую сеть в мире.

**Ключевые слова:** банковская система, реформы, финансовая система Франции.