

PARTICULARITIES OF THE FRENCH BANKING SYSTEM'S EVOLUTION

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Abstract : During its evolution, the French banking system registered the passing from a bank under the absolute control of the state to a bank that meets the customers' needs. In this work, we try to emphasize the switch from the extreme specialization of the banking activities which characterized the universal bank during the period precursory to WWII, as the modern bank is in a continuous adaptation to the market's needs.

Keywords : specialization, resettlement, universal bank.

1. Banking specialization – Characteristic of the French post-war banking system

A dominant characteristic of the French post-war banking system is the strict specialization. The reorganizing of the French banking system, inherent to the WWII, oriented itself to the promotion of the state control of the banking system. Therefore, through the banking law issued on the 2nd of December 1945, the nationalization of the Bank of France (created by Napoleon Bonaparte in 1800) has been decided, as well as the nationalization of the deposit banks that dominated the French banking market: Credit Lyonnais, Societe Generale, The National Bank for Commerce and Industry respectively Comptoir d'Escompte de Paris. The nationalized banks devoted themselves to the collecting of the short term savings, supported the emissions of the treasury and actively participated in the financing of the rebuilding and the modernization of the French economy. Actually, at the root of the decision of nationalizing from the French banking system was the necessity of a rapid restoration of the French economy, respectively of the French banking system affected by war.

By the same law, the banks are classified as:

- business banks – banks which can have industry shares, but cannot collect deposits from the population, respectively call accounts
- deposit banks - may collect deposits from the population, but are not allowed to have industry shares

Through the same law are established the limits between the deposit banks and the business banks which avoided nationalization and which could carry long term commitments.

The specialized banking dominated the French financing system until the beginning of the eighties, even if it proved to create more problems than the one it resolved. Beneficent for the French economy immediately after the war, it became a brake in the way of financing the industry. This was the reason for which the sixties are the years when the resettlement process, respectively of giving up the strict banking specialization started.

The first stage of the resettlement of the French banking system was constituted by the de-specialization initiated with the “Debre-Haberer” reforms between 1966-1969, reforms which led to the changes of the legal framework of the French banking system. These reforms followed three main targets:

- the attenuation of the restraints linked to banking specialization;
- the stimulation of the competition between the banks, by granting the right to open new offices depending on their strategies to all the banks;
- the improvement of the techniques of managing the banking risk.

Besides, by promoting these reforms inside the structure of the French banking system, a modification of the classification manner of the banks of the system appeared. Therefore the deposit banks (which are said to be specialized in short term riskless operations) and business banks (which have industry shares and mobilize firm resources or personal resources) keep up, but on the market also appear the so called medium and long term credit banks, which base their credit operations on the savings they attracted. This classification was based on the duration of the operation which these crediting institution were able to carry out. The purpose was the framing of the credit banking activities in a well defined category, respectively achieving the control of the monetary creation and orientation of the savings in the context of keeping the inflation under control and satisfying the investments needs.

Giving up the strict specialization aims at the modality of resources constitution and their distribution (allocation) as well, bringing into being an important step, we could say even decisive, towards the “bank does it all”(banque a tout faire), namely what we call „universal bank”.

Until the beginning of the eighties, there was a strict delimitation between the financial intermediate carried out by banks, respectively the one effected on the stock market , plus a delimitation of the intermediate inside the banking system. This way, there could be observed a special legislation for the mutual banks, different from the one for the deposit of business banks, as well as there was a distinct law for the savings banks. In spite of the fragmentation of juridical nature the French banking system had a fast evolution. The structural harmonization, respectively a sole juridical framework for all the French credit institutions was created by the Banking Law from the 24th of January 1984. Only the Treasury, the Bank of France, the Savings House the and the financial services of the Mail Post remained outside of the applying field of this law. According to this law, the credit institutions are classified as follows :

- banks members of the French Banking Association – called certificated or listed banks because they appeared on a special list. In this category entered all the banks emerged before 1984;
- mutual banks – popular banks, cooperative credit associations;
- other credit institutions – Saving Houses, Credit Houses;
- other financial institutions – mutual funds, specialized financial institutions.

As a matter of fact, this law eliminated the division between business banks and deposit banks.

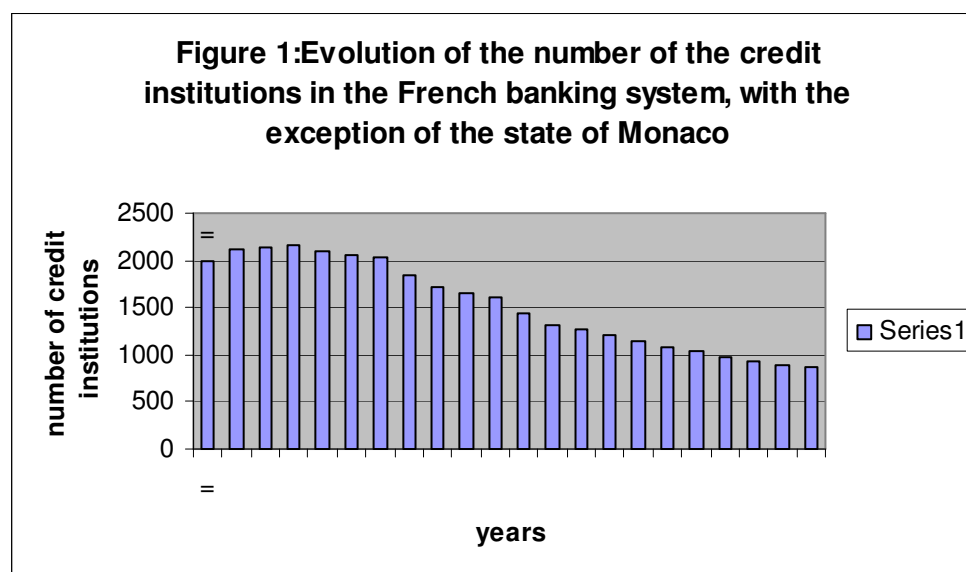
2. The diminution of the involvement of the State in the banking activity

Simultaneously with the promulgation of the Banking Law in 1984, the French banking environment became more unitary, even if some of its institutions still had particularities. Besides, the progressive liberality and modernization of the capital market in the mid-eighties favored the increasing competition generated by the emergence and development of the non-banking societies (OPCVM and insurance companies), respectively of the intermediating societies on the stock market field. The possibility of emitting negotiable debt titles starting with 1985 offered new financing forms, leading to the broadening of the financing mechanism available to those interested.

If we follow the evolution of the number of active crediting institutions in the French banking system, we notice the decrease of their number as a result resorganizing of the shareholding. This decreasing resulted either as a consequence of the activity ceasing of the credit institutions left without development perspectives because of the harsh competition, or as a result of their restructure by mergers or acquisitions, or after the reorganizations of the banking system. If in 1998 there were 2106 credit institutions, in 2005 their number had decreased to 874.

Table 1: Evolution of the number of the credit institutions in the French banking system, with the exception of the state of Monaco

Year	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05
Credit institutions	2001	2004	2011	2022	2036	2063	2077	2087	2091	2096	2100	2104	2106	2106	2106	2106	2106	2106	2106	2106	2106	2106



From the point of view of the crediting activities, we have observed that the share of the first 20 institutions passed from 65,1% in 1988 to 78,4 in 2006 and together the first five French banking groups cover more than 64% of the given credits and more than 75% of the constituted deposits. We see the concentration of the banking activities at the level of banking groups, the trend on the French banking market being similar to the world-wide manifested tendencies. Overall it has been stated that the first ten world banking groups control more than 85% of the banking activities in France.

During the past fifteen years, the structure of the French banking system underwent a permanent transformation process, this mainly taking place in the shareholding structure. It has been recorded a decrease of the State involvement in the banking activity, the number of banks where the State has shares diminishing visibly. In fact, this is the effect of the repeated privatization waves which started in the mid-eighties, more precisely between 1986-1987, followed by another wave in the mid-nineties (1993). These privatizations led to the exiting of the majority of the crediting institutions from the public sector.

3. The Diversification in the French Banking System

The recomposing of the French banking landscape at the end of the nineties had as a common denominator the merger and acquisition operations which, even if led to the diminution of the number of credit institutions in the French banking system, didn't induce a decrease of the banking offer. We may say that the effect was one of maintaining and even multiplication of the banking offer, the mergers and acquisitions leading to the increment of the power of the new banks emerged „overnight”. It is a phenomenon we started to face at the level of the Romanian banking system, but in our case we are only at its beginning.

Table 2: Number of mergers and acquisitions made in France between 1996 and 2003

Year	Mergers		Acquisitions	
	Number of mergers	Number of involved institutions	Number of acquisitions	Number of involved institutions
1996	29	67	37	115
1997	24	51	28	110
1998	26	57	34	149

1999	39	90	22	115
2000	32	70	29	98
2001	28	63	22	63
2002	32	69	18	43
2003	24	51	15	54

Source: Banking Board, www.banque-france.fr

Thus, after these operations which led to the reorganization of the French banking system, nowadays the French banking market is being dominated by eight groups : BNP – Paribas, Credit Agricole, Societe Generale, Credit Lyonnais, CCF –HSBC, Banques Populaires, Caisses d’Epargne, Credit Mutuel – CIC. The constancy of the number of offices spread all over France, respectively the modernization of the services and products offered to the customers is one of the base characteristics of the contemporary French banking system.

Another characteristic is the diversification of the French banking activities, respectively the development of their activities at international level. This penetration on the international market was a normal response to the increasing competition. It is not a new phenomenon. The wish to expand the banking activities abroad goes a long way back, we can already speak of a thirty years old history. There were years when the French banks systematically tried to conquer the Middle East, South-Eastern Asia, North America and not last the other European countries. An element which favoured the expansion of French banks in Europe was the process of European integration, process which is in full development.

4. Conclusions

The French banking system from the beginning of the XXIst century is completely different from the one which worked in the sixties. Its structure has been profoundly modified, the range of activities it unfolds is more wide and the administration of the banking risks doesn’t look at all like the one used years ago.

The French banks, the big French banking groups penetrated on the Asian, American and European credit markets, the internationalization of business having a high rank on their agenda. From this point of view, the French banking system follows the globalization trend which nowadays leads the entire financial world.

The French credit institutions became very attentive at the way of administration of costs, the main characteristic being the development and improvement of the monitoring and administration methods of the performances of their activity and even more of the risks it faces. The implementation of the provisions of the Basel Agreement confirms the care of these institutions for the improvement of their performance.

In conclusion, the French banking system is being characterized by dynamics, a continuous diversification of the performed activities, which makes it a role-model for the entire international banking community.

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