The French Savings Banks from the 1990s: Issues, crisis, and challenges

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Despite a few managerial concerns and very few crisis of distrust, the French Savings Banks had enjoyed a stable growth under the protection of the State (guaranteeing deposits) and a public financial institution, *Caisse des dépôts et consignations* (CDC). The patronising high bourgeoisies and local authorities intended to entice "integrated" lower classes to insure themselves against risks of life (in parallel with mutual health and retirement institutions) thanks to "preventive" savings, and middle and upper classes to grant Savings Banks with part of their savings to broaden the financial stability and easiness of over-fragmented (about 400) little companies, all the more because such savings were prevented from tax on revenues. Such a social mission, somewhat philanthropic[1], had negative points: a rather low ceiling was put to deposit accounts; no credit operations were allowed; no cheques could be emitted; except the current reserves (which could be used for social sponsorship), all the collected funds had to be deposited in Paris at CDC, which used them to invest into State bonds, then also into social lodging (from the interwar period, and then mostly since the 1950s) and into loans to local authorities to develop collective equipments. This situation[2] prevailed till the 1970s, and it characterized the French Savings Banks against their sister companies in the Rhenan and Danubian area or in Spain.

Little incremental reforms took place in the 1970s-1980s (use of cheques for current accounts, cooperation between Savings Banks through regional institutions, distribution of life insurance products managed by *Caisse nationale de prévoyance*, supervised by CDC, assimilation of marketing and commercial practices, etc.). But growth and revenues were less depending from such moves that due to the formidable size reached by the living standards, which bolstered the dimension of savings, all the more after a second type of saving accounts were set up, with no tax exemption but without ceilings for the amounts. A revolution was still pending: we'll therefore focus on its aspects; then gauge the hurdles ("weaknesses", along a SWOT matrix[3]) met by the new banking strategy; and last enhance the "strengthes" still kept by a thoroughly new banking group.

1. Revolution at French Savings Banks

Under the pressure of French and European authorities and mindsets, in the name of fair competition, several successive laws little by little removed all distinctive marks inherited by SG from their socio-economic history. Liberalisation and privatisation prevailed (and the same for the *Crédit agricole* institutions), even if the lobbying forces (from the Savings

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[1] André Gueslin, « Aux origines de l'État-providence : la mise en place du modèle français des Caisses d'épargne », *Revue d'histoire moderne et contemporaine*, 1991, pp. 231-250. André Gueslin, « L'invention des Caisses d'épargne en France : une grande utopie libérale », *Revue historique*, 1989, pp. 391-409. Bernard Vogler (dir.), *L'histoire des Caisses d'épargnes européennes*. Tome 1 : *Les origines des Caisses d'épargne, 1815-1848*, Paris, 1991. Caisse nationale des Caisses d'épargne, *La Caisse d'épargne à tous les âges*, Paris, Les Éditions de l'épargne, 2002.

[2] See Hubert Bonin, "Histoires aquitaines de Caisses d'épargne : de la prévoyance à la banque", in Hubert Bonin & Christophe Lastécouères (eds.), *Les banques du grand Sud-Ouest. Système bancaire et gestion des risques (des années 1900 à nos jours)*, Paris, PLAGE, 2006, pp. 365-382. "Las estrategias de expansion de las cajas de ahorros francesas durante los siglos XIX y XX", *Papeles de Economia espanola*, 2005, 105/106, special issue *La historia economica de las cajas de ahorros : Raices profondas de una realidad pujante*, pp. 93-108. "Les Caisses d'épargne françaises (1914-1945) : une croissance mouvementée sans évolution stratégique", in *L'histoire des Caisses d'épargne européennes*. Tome 4. *Conjoncture & crises, 1914-1945*, Paris, Les Éditions de l'épargne, 1999, pp. 105-175.

[3] SWOT= "Threats, opportunities, weaknesses, strengthes".

Banks or from regional representatives) put brakes on the move. Along a firt European directive in 1977, a first law (1984) opened doors to “universal banking”, ending the “silos” isolating each type of bank, and mainly the “specialised” credit institutions, which could not but lead little by little to an overall opening all of the various species of banking, trading and financing institutions. Savings Banks felt the threat of losing their specificity and commenced a long-term process of “adaptation” to the new background of the Paris banking place[4].

In a nutshell, every bank might open non-tax exempted savings accounts for its customers, and even a mutualist group could open tax-exempted ones (*Crédit mutuel*). Savings Banks might now onwards deliver the whole range of credits for individual customers (for consuming goods and lodging), then also to local institutions and small and medium sized enterprises (SMEs). They adopted in fact the model of “universal banking”. And, from 4 August 2008, tax-exempted savings accounts (“*livret A*”) became available at every bank[5] – even if CDC still had to collect and manage most of the collected amount.

Having to become “commonplace” banks, Savings Banks were imposed a revolution of their organisation and management, through a relatively rapid process, conversely with *Crédit agricole* which had started its evolution since the mid-1960s. Designing and practicing a new business model demanded to invent a fresh organisation of firms, against intense lobbying from regional managers, trade unions, and also regional representatives. Internecine struggles occurred within the Paris institution of Savings Banks, because some managers were more impatient than the majority of their colleagues to accelerate the process, as they were conscious of the challenges fixed to Savings Banks in front of an intensifying competition – the other banks modernising their way of business and structures in the meanwhile (=SWOT: “threats”). Even the CEO of the Paris head institution was toppled in the mid-1990s, facing stiff hostility to what was judged as a too rapid rhythm of change…

All in all anyway, Savings Banks had to merge into “regional” banks (17 of them), each one as a medium-sized company which had to develop the business model of universal banking, to train and refurbish its workforce, to diversify the strategic portfolio of activities towards SMEs (credits, risk capital, capital development, leasing, etc.) and local authorities; and last to provide a broad range of credit and asset management services to individual customers. Progressing “at the sound of cannon”, the chairmen, boards, and head managers had to assimilate “banking management”, marketing practices, the art of relationship with decision-makers at firms and local institutions, etc. A chance was that leftists and rightists (alternatively at power) did cling to such a strategy, which convinced the lobbies that the move was not reversible.

Even the leftists were committed to that process: they decided to “privatise” the Savings Banks group. Till then, nobody and no body was officially the owner of local Savings Banks; they existed, without capital, as mere systems of collecting and transferring deposits. Their permanent funds were fuelled only through a commission perceived on the

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[4] See Dominique Lacoue-Labarthe, chapter 15, “Le système bancaire en France : ouverture et crises”, in Frederic Mishkin, Christian Bordes, Pierre-Cyrille Hautcœur, Dominique Lacoue-Labarthe & Xavier Ragot, *Monnaie, banque et marchés financiers*, Paris, Pearson Éducation, 9e édition, 2010, pp. 461-500. Dominique Lacoue-Labarthe, *Les banques en France. Privatisation, restructuration, consolidation*, Paris, Économica, 2001. Dominique Plihon, Jézabel Couppey-Soubeyran & Dhafer Saïdane, *Les banques : acteurs de la globalisation financière,* Paris, La Documentation française, 2006. Dominique Plihon, *Les banques : nouveaux enjeux, nouvelles stratégies,* Notes et études documentaires, n°5078, Paris, La Documentation française, 1998.

[5] See “Audition of Charles Milhaud”, Minutes of the session of the Commission of Finances, General Economy and Plan, National Assembly, on 20 February 2007.

mass of deposits (commission for funds management), which had been piled up into thin layers of reserves. From 1999, mutualist members (about 3,7 million at that time) became the shareholders of 354 "local societies"; those so-called cooperative bodies became themselves the shareholders of the regional Savings Banks, which at their turn became the shareholders of CNCE – and a scale of elections of representatives (5,000 locally) crowned the reform. The State picked up about FRF 15 billion as some kind of "fee" opening doors to this step, as it argued that it had provided the Savings Banks with its guarantee since the mid-19th century… and what we might call a "racketeering" decision deprived the regional Savings Banks from funds which could have been useful later on!

An actual group was created in 1999 and structured[6]: 17 regional Savings Banks, a head company, *Caisse nationale des Caisses d'épargne* (CNCE, the result of the transformation of a non-executive body itself set up in 1983, the *Centre national des Caisses d'épargne*), and common "technical" subsidiaries. A whole range of national-sized companies were successively purchased:

- In 2001, CDC ceded its subsidiary earmarked to market and finance banking, CDC Ixis, to a common affiliate, Eulia, evolving towards a thorough control by the Savings Banks group in 2004, thus equipping the group with a wholesale banking body at the top.
- Feeling that Ixis lacked skills and scale, it was merged with an affiliate of another cooperative group evolving in parallel from specialised corners of the market to overall universal banking, the *Banques populaires* group (issued from some kind of *Raiffeisen* institutions dedicated to SMEs and petty shopkeepers and craftsmen, dating back to the interwar period). In 2006, just before the crisis, Ixis merged thus with Natexis, itself constituted by the aggregation of *Crédit national* (loans to middle-range companies) and *Banque française du commerce extérieur*, (loans to middle-sized and big companies for international trade). It resulted into the creation of a joint daughter company, Natixis, to be quoted on the Paris stock exchange (with a capitalisation of €22,1b on 29 August 2007, before the crisis).
- In 1995 on the field of mortgage, property and housing financing, *Crédit foncier de France* (dating back to 1852, privatised and then having collapsed in 1993), which also absorbed Entenial (the ex-*Comptoir des entrepreneurs*, financing real estate developers) in 2003.
- In 2003 on the field of SMEs, San Paolo France (an ex-merchant bank, Vernes, which had been bought by Italian San Paolo), giving birth to *Banque Palatine*.
- In 2007 on the field of financing real estate development, a big stake into Nexity, a recent but powerful specialist of property financement and management.

In the meanwhile, CNCE asserted itself as a holding company, which intended either to broaden the strategic scope of the young group, or to supply the regional Savings Banks with technical bodies in favour of their clients. Expectations were raised that the legacy of "old-style" non-bank" institution could be overturned, that the "path dependency" weight could be vanquished, to create a big universal bank[7].

2. A structural crisis because of the (re-)organisation process

[6] See Daniel Duet, *Les Caisses d'épargne*, Que Sais-Je?, Paris, Presses universitaires de France, 1991, réédition, 2000. Jean-Louis Hébert & Laure de Llamby (avec Jean Borenstein), *60 ans de construction du Groupe Caisse d'épargne. Une histoire pour demain (1945-2005)*, Paris, Gallimard, Caisse nationale des Caisses d'épargne, 2006. *La métamorphose des Caisses d'épargne,* Les Éditions de l'épargne, Paris, 1986. Laure de Lamby, *Les métamorphoses de l'épargne*, Paris, Gallimard-Découvertes, 2003.

[7] See Renaud Belleville, "Les sauts de l'Écureuil. Comment transformer un dinosaure de l'épargne en grande banque universelle", *Les Échos*, 4 April 2007, p. 12.

Expectations were great among the stakeholders in the Savings Banks group that a promising banking firm was gathering momentum, that a portfolio of skills, an art of management, a code of good practices and compliance, and an entreprise culture or identity were in the offing. But what we have to take into consideration is that such a "baby firm" had only been recently designed and built, that it its capital of competence was still under construction – conversely with the big players of the Paris place (BNP-Paribas, *Société générale*). Sure a few other groups were also following the same way (*Crédit agricole, Banques populaires, Crédit mutuel*), as thhe French banking industry was living a deep revolution of structures, strategies, and skills, and this could explain some kind of frailty (=*SWOT: weaknesses*). The *Caisses d'épargne* group lacked anyway any "corporate culture", cohesiveness, and common habits of reporting, compliance, control, etc. It had been too recently designed and remained an aggregation of bodies, rich with talents and market shares, but living more or less their own life, under some almost "feodal" power from the center, itself actually either leaving room to internal or decentralised "fiefdoms", or lacking high-end education, culture and knowledge of several activities being introduced at the heart of the junior group (=*SWOT: weaknesses*).

A key point was the lack of profitability and efficiency on the level of retail banking. The more the group intended to diversify towards nationally-sized universal banking, the more it needed an extended production of cash flow. Conversly, the legacy of decades of local benign neglect (under the protection of stable decentralisation in favour of several dozens of local *Caisses d'épargne*) and the result of light layers of regional teams of "modern management" explained high costs of intermediation, and a high ratio of exploitation, among the highest at big banks.

Table 1. A few clues about the ratios of exploitation

	Ratio of exploitation			Ratio of current profit (return on assets, after tax)			Ratio of return on equity (ROE)		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
BNP Paribas	62.5	69.1	57.5	0.61	0.13	0.41	19.5	5.2	15.1
Crédit agricole	67.7	74.3	58.8	0.44	0.12	0.31	9.8	2.9	7.5
Société générale	68.1	73.2	70.2	0.57	0.28	0.09	20.2	9.7	2.4
Caisses d'épargne	88.1	98.7		0.15	-0.21		4	-6.5	
Natixis	87.8	176.6	BPCE 84.4	0.23	-0.63	BPCE -0.10	6.4	-19.8	BPCE -3.3
Banques populaires	79.3	86.7		0.32	-0.06		5.2	-1.2	
Crédit mutuel Centre-Est Europe	61.3	74.3	58.8	0.66	0.10	0.50	14.25	2.4	11.6

Source: table in Frederic Mishkin, Christian Bordes, Pierre-Cyrille Hautcœur, Dominique Lacoue-Labarthe & Xavier Ragot, *Monnaie, banque et marchés financiers, op.cit.*, p, 489, itself inspired by Fitch Ratings data

Factors of organisational crisis were first to be pondered (=*SWOT: weaknesses*): The building of the organisation, nationally and regionally, paved the way to intense "costs of execution". Firstly, the decentralisation which had prevailed until recently resulted in eight software platforms, which imposed to design a unified IT system, demanding years and investments, swallowing current liquidities, and causing deficits in some regional bodies (in Aquitaine, in 2008, for example).

The "mutualisation" of technical means absorbed too lines of funds. The key part played by trade unions throughout the process of broadening the networks of outlets and the regional headquarters had led to some unbalanced balance of power within each body, resulting in high running costs of exploitation, resulting in a far above that of the big banks. Several years of harsh social relations but also of deeper and patient negotiations were necessary to "adapt" the structures and daily *modus operandi* to commercial needs, that is to change the "administrative culture" into a real "enterprise culture", concerned by operating costs, the reduction of the intermediation cost, and the production of cash flow.

The funds needed to refurbish, complement, diversify, structure, and develop the head group and its armed bodies exceeded what had been scheduled. *Crédit foncier* had to be deeply reorganised to be more inventive and reactive. Natixis lacked efficiency, connections, and fire power.

But the group chose to accelerate the development of this investment and corporate banking company, to try and compete with its competitors at *Société générale* and BNP Paribas, with the American subsidiaries in Paris (Goldman Sachs, Merril Lynch, Morgan Stanley, etc.). High managers were seduced by such a fad, that each bank had to assert itself as a big player on that field – and their counterparts at *Crédit agricole* were practicing the same herdism with *Crédit agricole-Indosuez*, then Calyon. That meant recruiting high-flying financiers, investment bankers, analysts, lawyers, etc., to achieve in less than a decade what the main institutions had fostered in several decades (think of Paribas, dating back to 1872 and merged into BNP in 2000). Disproportionate programmes of expenses were conceived, still being implemented on the verge of the crisis. It was a permanent "crisis of development", sure a commonplace process in every firm, but far from reaching its overstretched objectives in 2007/2008.

Last (but not least, as history would reveal...), either at Natixis or even at CNCE, trading platforms were set up, to respond to the common needs of the group (FOREX, swaps, trading on financial assets, etc.). A very light capital of competence had been transmitted by CDC Ixis; it had to be extended far more, and the progress, there too, was just being concretised in the mid-2000s – which explains that the krach bited into assets and profits, and those losses were to be impaired. The same unfortunate events occured at CNCE, where managers deared to practice "trading for own account" through a somewhat small (but brillant) unit: high-flying financiers and traders seemed to connect that junior bank into big markets and the financial revolution. In that case, consultancies (Equinox Consulting, BCG, etc.) had provided the head managers with thick books of critical analysis and "propositions", which revealed the size and deepness of the gaps in management (*=SWOT: "weaknesses"*).

Moreover, reports from inspectors of the banking regulation authority, at that time the *Commission bancaire*, had underlined the gaps and "black holes" in the management of risks and the organisation of these bodies in a report dating from 2006... But the implementation of reforms had lagged behind, action had been postponed because no actual "high authority" within the group either could understand the activities of these units, or feared that missing such opportunities of "market" or "finances" activities could seem "outfashioned". Lucidity was gravely missing in the upper layers of the group[8], but also reactivity, that is a spirit of reforms to adapt structures and processes to strategies.

Rotten branches had grown far beyond the reach of the communities of interests involved in the construction of the group. The very cause was the absence of "contestability" from stakeholders and therefore of any "accountability" from the head managers. Local cooperative bodies, the regional banks, the Board of CNCE were altogether committed to check up compliance, goods practices and management; but at the end, nobody was actually in charge of "controlling the controllers". Those latter, in fact, were all the more protected from internal inquiries that they had built "circles of chariots", thanks to political, inter-regional, and even franc-maçon, networks of influence and power. The

[8] See Hubert Bonin, *Des banquiers lucides dans le boum et la tempête ? (2004-2010*), Paris, Textuel, 2011.

chairman of the group, Charles Milhaud, epitomised such a position; he had successfully and pushingly contributed to cementing the new group, and his legitimacy had been built at the head of the Provence-Côte d'Azur regional Savings Bank; and he had established a strong knot of connections within the State financial apparatus and among politicians at the Parliament or at the government; he had federated an array of co-heads of regional Saving Banks and members of the national Boards which helped him neutralising sources of criticism. In a nutshell, experts concluded that the top management lacked "professionalism", an actual understanding of what "banking industry" meant in terms of risk management, management control, audit of organisations, all the more because of the constraints more and more imposed by regulation (*Basel II/III*, the European directive on financial markets, etc.) about rations of liquidity and solvability. The key issue of the allocation of resources along with clear-cut strategic priorities seems to have been badly tackled – despite so many assertions of self-confidence at the start of the crisis.

3. Savings Banks struggling to resist to the recent crisis

Two "crisis" converged which can explain how far the *Caisses d'épargne* group was struck by the 2007-2010 international shock, which bit severely into its weakened structures.

A. A risk-taking policy

When the crisis blasted, it revealed a high-voltage policy of risk takings: the *Caisses d'épargne* group was being revealed as facing a critical "leverage" effect, because its permanent funds had not followed the growth of its assets or of those of its common affiliate Natixis. Sure, the other big groups had also showed risk-taking attitudes, but, as a majority, they were not of such recent emergence as the *Caisses d'épargne* group and could all in all rely on a broader capital of experience:

<table>
<tr><th colspan="10">Table 2. A few clues about the leverage effect (billions euros)</th></tr>
<tr><td></td><td colspan="3">Assets</td><td colspan="3">Own capital funds</td><td colspan="3">Financial leverage ratio</td></tr>
<tr><td></td><td>2007</td><td>2008</td><td>2009</td><td>2007</td><td>2008</td><td>2009</td><td>2007</td><td>2008</td><td>2009</td></tr>
<tr><td>BNP Paribas</td><td>1 695</td><td>2 076</td><td>2058</td><td>50,3</td><td>46,2</td><td>70,1</td><td>33,7%</td><td>44,9%</td><td>29,3%</td></tr>
<tr><td>Crédit agricole</td><td>1 541</td><td>1 784</td><td>1 694</td><td>69,9</td><td>69</td><td>74,7</td><td>22</td><td>25,8</td><td>22,7</td></tr>
<tr><td>Société générale</td><td>1 072</td><td>1 130</td><td>1 024</td><td>26,9</td><td>33,9</td><td>38,9</td><td>39,8</td><td>33,7</td><td>26,3</td></tr>
<tr><td>Caisses d'épargne</td><td>602</td><td>650</td><td rowspan="3">BPCE
1 029</td><td>22,4</td><td>18,7</td><td rowspan="3">BPCE
36,6</td><td>26,8</td><td>34,7</td><td rowspan="3">BPCE
28,2</td></tr>
<tr><td>Natixis</td><td>520</td><td>556</td><td>17,5</td><td>16,7</td><td>29,7</td><td>33,3</td></tr>
<tr><td>Banques populaires</td><td>349</td><td>?</td><td>20,8</td><td>17,7</td><td>16,8</td><td>?</td></tr>
<tr><td>Crédit mutuel Centre-Est Europe</td><td>413</td><td>441</td><td>434</td><td>18,7</td><td>17 ,5</td><td>21,9</td><td>22</td><td>?</td><td>19,8</td></tr>
<tr><td colspan="10">Source: table in Frederic Mishkin, Christian Bordes, Pierre-Cyrille Hautcœur, Dominique Lacoue-Labarthe & Xavier Ragot, Monnaie, banque et marchés financiers, op.cit., p, 490, itself inspired by Fitch Ratings data</td></tr>
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The *Caisses d'épargne* group had fixed tactical choices as if some childish move guided its paths to discover new games/banking and financial fields, rushing to discover or extend new activities (=*SWOT: opportunities*) to follow the herdist path of the transatlantic boom. On one side, it left its parent company developing a unit of market finance which ought to have been put within the affiliate Natixis. Conversely, under the guidance of a brilliant head of finance, the trading platform grew in size and risks – till a €751m loss in October 2008 (caused by bad positions on the market for derivatives on equity). Even the banking authority imposed a €20m fine to CNCE in the name of bad management of risks, which "had not respected the official rules fixed for controlling market trading"…

Beyond the mere fact, such torrid event proves the patent fault in the architecture of the group: as CNCE was the parent company of the group, owned mainly by the regional

Savings Banks, it ought to have focused its activity to the guidance of the technical subsidiaries of the group, instead of putting in direct its permanent funds at risk. The financiers were dismissed, reforms were implemented, but one could still pretend that "trading for own account" ought not to be the mission of such a head mother[9].

Second, instead of devoting all its resources to the development of its bodies serving the overall philosophy of regional banking, the group wasted energy and funds into financial investments in the US, as if it were a big player in investment banking… Natixis thus revealed that it kept within its grip a company, CIFG (*Caisse des dépôts-Ixis-Financial Guaranty)* which it had inherited from CDC Ixis, and which had invested funds into the (now famous) insurance products CDS intended to guarantee loans granted to investors in the US (mainly on the mortgage market). Breaking with the "path of dependency", the group ought to have pared into such legacy.

B. Delving into the crisis

When the crisis burst out, the Savings Banks group at to impair losses on several lines of assets (bonds tied to commercial loans, credit derivatives, guarantees to CDS, CDOs, etc.), for 2,4b in 2008 and 3,6b in 2009. On its own side, Natixis was shaken by the swirling international crisis, and declared huge losses (€2,8b in 2008 and 1,6b for the last quarter; €1,839b for the sole first quarter 2009). Its capitalisation fell from €22,1b on 29 August 2007 to 8,9b on 30 June 2008. Sure, such petty amount might seem of no importance in comparison with the infernal losses of RBS, ABN-Amro, Lehman, Citicorp or else. But they questioned the global philosophy of the Savings Banks group: was it to rush behind the big players (=*SWOT: opportunities*) or (for instance like Rabobank, a Dutch cooperative group) to conceive its own strategy and connect it with the "regional banking" priority (=*SWOT: strengthes*)? The very strategic matrix of the group might appear retrospectively as "blurred" or void of judgment able to distinguish between the competitive advantages and the potholes of far-fetching paths.

Table 3. Crisis of the Savings Banks group and of Natixis

	Savings Bank group		Natixis co-affiliate	
	2007	2008	2007	2008
Net banking product	9,768	8,409	6,043	2,934
Net returns (part of the group)	1,367	-2,015	1,101	-2,799
Cost of risk (provisions and bad debts)	-259	-1,441	-244	-1,817

Source: Réjane Reibaud, and Guillaume Maujean, "Sur fond de pertes record, les Banques populaires et les Caisses d'épargne officialisent leur union", *Les Échos*, 27 February 2009, p. 27.

The crisis of the French Savings Banks group resulted in financial losses, in the questioning of its managerial methods, in the shaking up of "trust" nationally. Cuts into the availabilities had to be completed to rub off the losses and provisions; the regional Savings Banks had to supply CNCE with fresh funds, themselves collected through the basic cooperative shareholders. Consultancies were called for drilling into bad practices and for setting up frameworks of compliance, goods practices, and accountability. Members of the Board, the chairman, head managers, and teams of market and investment banking were dismissed.

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[9] See Guillaume Maujean, "Groupe Caisse d'épargne : Milhaud et Mérindol sur la sellette après une lourde perte de trading", *Les Échos*, 20 October 2008, p. 32.

Moreover, the State intervened in direct[10], from the Presidency of the Republic (to break into feudal baronies within the Caisses d'épargne group and impulse the consolidation of the French banking industry) to the ministry of Finance (to allay fears of systematic tensions and moreover to appease concerned saviers, a key social basis at regional *Caisses d'épargne*), the supervision authority, the *Commission bancaire* (to weigh in ratios), and lastly the Council for fair competition (to agree to the merger). Let us also say that the European institutions kept a close overlook on the process (the General Direction of competition, the European Commission) to avoid the risk of unfair advantages to the banks involved[11]. The deputy general secretary of the French Presidency himself, François Pérol, was sent to head the Savings Banks group on 2 March 2009; and a new CEO, Alain Lemaire (the chairman of the *Provence-Alpes-Corse Caisse d'épargne*) replaced (October 2008) his dismissed predecessor, Nicolas Mérindol (financial head-manager in 1996, CEO since September 2006). They managed first a rescue operation in 2008-2009: €3b were granted by the State as "preferred shares without voting rights", then raised to €6,6b – to be repaid till 2013. An €2b issue of bonds was completed by the bank, with a public guarantee. And one supplementary €3b was raised in June 2010 among the regional Savings Banks (1,8b) and *Banques populaires*, as the mutual stake-holders (7 million for both networks) subscribed to the increase of the equity. In the meanwhile, Natixis had to be rescued on its side: fresh funds were brought during the first half 2008 (€3,7b of loans from its two big shareholders, among which €1,3b by the *Caisses d'épargne* group, before an issue of equity in September 2008 on the stock exchange), and later on Spring 2009 (€3,5b through advances and bonds from its two mother houses).

Against such rescue funds and guarantees, the State imposed the merger of the *Caisses d'épargne* group with the *Banques populaires* group, already considered by both firms since the Fall 2008 but lagging because of manoeuvres for power. The decision occurred in October 2008, when the leaders of the *Caisses d'épargne* group were toppled and replaced by a new team. The Finance minister urged them to accelerate the process, which was at last officialised[12] on February 2009, and was completed on July 2009. The head company *Banques populaires-Caisses d'épargne* (BPCE) was born and absorbed CNCE, which rubbed off the word "Caisses d'épargne" from apparent denomination.

Thus, the Savings Banks group avoided the "black hole" of thorough disappearance, the shock lived by the American Savings Banks in the 1980s, by the Spanish Savings Banks since 2007, or the ordeal of the German *Landesbanken*. Like the Austrian *Erste Bank*, it could be rescued, refuelled with permanent funds and cash, regain trust on the market for liquidities, etc. But its very nature had changed: on a national level, the legacy of Savings Banks had been broken up. Regional Savings Banks bad failed to build a mother institution in Paris: the whole process had to be restarted, and it is still in the making.

4. A legacy preserved: Capital of skills, trust and brand image

[10] See Elsa Conesa, Réjane Reibaud, and Guillaume Maujean, "Inquiet de la santé de Natixis, l'État veut prendre en main la fusion Écureuil-Banque populaire", *Les Échos*, 9 February 2009, p. 30. Réjane Reibaud, and Guillaume Maujean, "Banque populaire-Caisse d'épargne : l'irruption de l'État suscite des remous", *Les Échos*, 26 February 2009, p. 26. Guillaume Maujean, "Banque populaire-Écureuil: « Je t'aime, moi non plus »", *Les Échos*, 26 February 2009, p. 11.

[11] See Frederic Mishkin, Christian Bordes, Pierre-Cyrille Hautcœur, Dominique Lacoue-Labarthe & Xavier Ragot, *Monnaie, banque et marchés financiers, op.cit.*, pp. 448 and 495 (especially footnote 45, quoting reports from the French *Cour des comptes*).

[12] Réjane Reibaud, and Guillaume Maujean, "Sur fond de pertes record, les Banques populaires et les Caisses d'épargne officialisent leur union", *Les Échos*, 27 February 2009, p. 27. Line Cousteau & Benjamin Masse-Stamberger, "Banques populaires-Caisses d'épargne. Les noces rebelles", *L'Express, 12 July* 2009, pp. 47-50.

Thanks to the creation of BPCE, the permanence of a French body of Savings Banks had been preserved indeed. BPCE could still therefore assume its mission to be part of the French policy which promoted “national champions”, either in insurance or in banking, thanks to amalgamation moves (BNP + Paribas; *Société générale* + *Crédit du Nord* + *Société marseillaise de crédit*; *Crédit mutuel* + CIC; *Crédit agricole* + *Crédit lyonnais*) and to the consolidation of the capital of competence. Like at *Erste Bank* in Austria, the State clung to the project of protecting somehow the legacy of the Savings Banks. A large group was constituted, rich with 7,700 outlets for retail banking (in two main networks), and 110,000 employees. The recent events have somewhat blurred the legacy of almost two centuries of history; and the ranking of BPCE by the agencies might seem worrying, as it is graded on mid-September 2011 as “C-“, which can hinder the perception of the institution (among shareholders, investors, etc.) and mainly increase the cost of its refinancements on the market.

The new team has fixed objectives to increase the mobility and reactivity of the group and its three basis (one in Paris and the two networks). The portfolio of strategic activities is being drilled and several affiliates are to be sold or reduced in size. The investment and corporate banking body Natixis was submitted to drastic reforms to improve reliability, compliance, accountability, etc. Expectations are that it will fill the mission to supply the BPCE group and regional banks with efficient, innovative, mutualised financial products and processes (=*SWOT: opportunities*). The process of rationalisation, mutualisation and IT modernisation is being intensified, to cut into the exploitation ratio and alleviate overheads: the sole *Caisses d’épargne* network ought to cut into expenses or 35 per cent of the amount of €1b imposed as cost-savings in 2001-2013; and its exploitation cost ought to be entailed by seven points, from 74 per cent in 2011. In parallel with the move within the *Banques populaires* group, a few regional banks ought to enter a new stage of mergers.

A. The prospection of new markets

Far from the low-key historical missions of *Banques populaires* and *Caisses d’épargne*, the group couldn’t but emphasized its strategy of universal banking, far from focusing only on retail banking. The new head of commercial banking since 2010, Olivier Klein, was the former chairman of *Caisse d’épargne Rhône-Alpes* (since 2007 – after being the executive chairman of *Caisse d’épargne Ile-de-France Ouest* since 2000) and he has to relaunch a commercial strategy of both networks, and to spur osmosis between them and between regional managers.

The BPCE group enhanced one key priority to develop, in common with the regional banks, a large range of banking products in favour of SMEs and big-middle companies. A classical array of credits, of leasing products, of treasury management, of transaction banking, etc. tries to be competitive against the rivals. But several regional banks accentuate their skills in development capital and start-up capital, in order to promote innovative SMEs, to accompany them through their growth and to bolster them thanks to layers of permanent funds and financial facilities (=*SWOT: opportunities*). The south-western Savings Banks, for example, *Caisse d’épargne Aquitaine-Poitou-Charente*, can rely on an investment company which it had purchased in the 1990s (Expanso) and on a body, Gallia, which sets up medium-sized investment funds to prop up start-ups. The comparative edge of the new BPCE seems strong, because it has inherited from the portfolio of skills and subsidiaries built by the two previous groups and their regional banks.

A parallel strategy had been oriented towards the support of local authorities (for loans, treasury facilities and management, public-private finance projects on a low scale – thanks to the recent expertise piled up by Natixis, etc.), of the social housing regional institutions (either public or private), and of the social institutions (dedicated to social insertion, health-care and age-care bodies, etc.). This segment of market is gathering momentum and offers paths to growth (=*SWOT: opportunities*).

B. Retail banking for individuals

The very comparative advantages of BPCE result from its retail banking networks (rich with 4,770 outlets, 27m customers, and a huge majority of the 51,000 employees inherited from the previous group), and therefore of the regional legacy of the Savings Banks. A broad portfolio of skills has been kept alive through the crisis (=*SWOT: strengthes*), and they were mobilised in favour of "core activities".

The first one might be "brand management", to rekindle a already "strong" brand, with its red color, its squirrel, its vocabulary which expresses, through flyers and ads, the values of "the bank of proximity". The fresh offensive of institutional advertisement in 2011 is a clue of such commercial feeling.

Second, priority has been given to "customer relationship management", to bolster the market shares and fighting commercial spirit of the regional outlets and teams – despite the stiff competition. One might presume that progress in commercial banking is being supported by the retirement of the layers of "old style" employees (more oriented towards the administrative treatment of files) in favour of "commercial-spirited" juniors and experts. But, as everywhere, the mastership of "scoring" paved the way to a far more fine-tuned commercial offer alongside wealth, evolution in professional and family life, style of life, etc.

Third, commercial offer includes an asset management unit and an important stake in *Caisse nationale de prévoyance*, the products of which were distributed by the retailing network – CNP being co-owned by CNCE, CDC and *La Poste* (afterwards, *La Banque postale*). The outlets can therefore offer a broad range of assets management dedicated to individuals (life insurance, etc.).

Last, even wealth management did took momentum at the Savings Banks, through a specialised affiliate, *Compagnie 1818* (evoking the date of the first *Caisses d'épargne*), but also through experts of the regional *Caisses d'épargne*.

Conclusion

The project conceived since the 1980s/1990s to transform the regional Savings Banks into reactive and "agile" universal banks, and to insert them within a big national group, was rich with positive purposes. The reforms which it fostered almost succeeded, as energies, locally or in Paris, were mobilised, at the management or at the basis levels, to undertake such a metamorphosis. But the process drifted from its original chart, because of huge gaps in the governance of the group, in the management of the national units (at Natixis or CNCE), and in the day to day completion of far-fetched operations. An actual discrepancy occurred therefore between the philosophy of building a group earmarked to territorial and social developments on one side, and bad practices of governance (despite thick reports from the regulation authorities or consultancies) or amazing errors of management on the other side. The discrepancy also reached the design of the new enterprise culture, with in Paris several departments dedicated to high-flying market operations for the sake of immediate returns, and in the regions the Savings Banks struggling to preserve or conquer markets shares in retail banking or on the field of territorial and social institutions, and SMEs. Some experts and academics even questioned the issue of "ethics"[13].

Happily, the losses were not so huge (in comparison of collapsed groups on both side of the Atlantic) to imperil the group, which lost a few billions and had to face a crisis of confidence, whilst it ratios of solvability (along *Basel II*) were at stake. The State and the regulation authorities intervened harshly, as life-guards and risk-guards. The new BPCE group can thus entertain the legacy of old (but thoroughly rejuvenated) Savings Banks, which even allows now onwards this recent universal bank to fare better than many Spanish Saving Banks or German *Landesbanken*. The crisis of the Savings Banks group was not caused by stupid bets on diversification and risk, as had been the case in the US in the 1980s. And the regional "basis" of *Caisses d'épargne* itself remained all in all "sound" – despite a lack of profitability – as the causes of the crisis were well circumvented in a few departments or bodies in Paris[14].

[13] See Denis Malherbe, "La crise financière, révélateur d'une dérive éthique dans la gouvernance des groupes bancaires mutualistes français ? Les Caisses d'épargne et Banques populaires face aux pertes de leur filiale Natixis", working paper, Tours University & ESCEM School, 2010.

[14] We thank Michel Salvaing and Dominique Lacoue-Labarthe for their useful suggestions about our text.