

## French cooperative banks across crisis, in the 1930s and in 2007-2010

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Our chapter will scrutinise the fate of that bunch of philanthropic banks when they were confronted to the crash then the depression of the 1930s – at times when about five hundred French banks failed, among which the fourth one and numerous regional and local ones –, then when they had to face the sharp crisis starting in 2006-2010. History will therefore be mobilised to draw comparisons between past and present, to raise arguments about the type of crisis borne by these banks. We claim that such a crisis was not only the consequence of the cyclical or depressive economic environment, but also a harsh crisis of the “business model” of these banks itself, because their strategic moves was not sustained by a managerial re-engineering of their operating methods, of their portfolio of skills, and of their ability of assessing risks. One could argue that both crises acted efficiently as levers to the modernisation of their management and to the building of a thoroughly refurbished portfolio of competence due to a new capital of experience. We first give a brief overview of the structure of the French banking system. Next we compare both periods about the mismanagement of risks by philanthropic banks; we third pretend that both crises were also fuelled by a crisis of their strategic business model, and, last, that deadlocks were met on both times because of failures in the governance of the new institutional frame itself; and we consider which conclusions were drawn from the various aspects of the crisis to avoid collapse and try successful innovative paths.

### 1. Philanthropic banks within the French banking system

Whilst “classical” capitalist joint-stock banks (*Crédit lyonnais*<sup>1</sup>, *Société générale*<sup>2</sup>, *Comptoir national d'escompte de Paris*<sup>3</sup>, *Banque nationale de crédit*<sup>4</sup>, *Crédit industriel et commercial*<sup>5</sup> as the five leading commercial banks; and Paribas<sup>6</sup> and *Banque de l'union parisienne*<sup>7</sup> as the two leading investment banks) followed the paths of the three successive “banking revolutions” and directly contributed to build the French banking architecture and system until today<sup>8</sup> (with two groups remaining now: BNP Paribas and *Société*

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<sup>1</sup> Bernard Desjardins, Michel Lescure, Roger Nougaret, Alain Plessis & André Straus (eds.), *Le Crédit lyonnais, 1863-1986. Études historiques*, Geneva, Droz, 2002.

<sup>2</sup> Hubert Bonin, *Histoire de la Société générale. I. 1864-1890. La naissance d'une banque*, Geneva, Droz, 2006.

<sup>3</sup> Hubert Bonin, “Une grande entreprise bancaire : le Comptoir national d'escompte de Paris dans l'entre-deux-guerres”, *Études & documents*, n°IV, Comité pour l'histoire économique & financière de la France, December 1992, p. 225-382.

<sup>4</sup> Hubert Bonin, *La Banque nationale de crédit. Histoire de la quatrième banque de dépôts française en 1913-1932*, PLAGE, Paris, 2002.

<sup>5</sup> Nicolas Stoskopf, *Histoire du Crédit industriel et commercial, 1859-2009*, Paris, to be published in 2009.

<sup>6</sup> Éric Bussière, *Paribas, l'Europe et le monde, 1872-1992*, Anvers, Fonds Mercator, 1992.

<sup>7</sup> Hubert Bonin, *La Banque de l'union parisienne. Histoire de la deuxième banque d'affaires française (1874/1904-1974)*, Paris, PLAGE, 2001.

<sup>8</sup> Hubert Bonin, “The challenged competitiveness of the Paris banking and finance markets, 1914-1958”, in Youssef Cassis & Éric Bussière (eds.), *London and Paris as international financial centres in the twentieth century*, Oxford, Oxford University Press, 2005, p. 183-204. Pierre-Cyrille Hautcoeur, “Chapitre 7. De nouvelles institutions bancaires”, in Pierre-Cyrille Hautcoeur (ed.), *Le marché financier au XIX<sup>e</sup> siècle*, Volume 1. *Récit*, Paris, Presses de la Sorbonne, 2007, p. 251-272. Michel Lescure, “The origins of universal banks in France during the nineteenth century”, in Douglas J. Forsyth & Daniel Verdier (eds.), *The Origins of National Financial Systems*, London & New York, Routledge, 2002. Hubert Bonin, *Le Monde des banquiers français au XX<sup>e</sup> siècle*, Brussels, Complexe, 2000. Maurice Lévy-Leboyer (ed.), *Les banques en Europe de l'Ouest de 1920 à nos jours*, Paris, Comité pour l'histoire économique & financière de la France, 1995. Maurice Lévy-Leboyer, “La spécialisation des établissements bancaires”, in Fernand Braudel & Ernest

*générale*), three other types of banks also took part to the move: historical merchant banks (*Haute Banque*), of which a few are still active as investment banks (Rothschild, Lazard), local and regional banks, which prospered from the mid-19th century till the crisis of the 1930s – when they were swept by collapses or bought out by Paris banks<sup>9</sup> –, and finally cooperative or mutual banks. Conversely with a large part of north-west, Rhenan and Danubian, and Mediterranean Europe (Italy and Spain), French non-classical banks did not become key players of money and credit markets, precisely because several thousands of local and regional banks<sup>10</sup> assumed the task of “banker of proximity” or “house bank”, and because Paris big banks set up large networks of branches and sub-branches all over the country as soon as the 1890-1910s and asserted themselves as strong “retail banks” helpful to middle bourgeois layers and middle-sized firms.

The room for manoeuvre left to philanthropic banks was therefore a meager one. First, they could not rely on a large cooperative industrial or commercial sector, conversely with the type of “social economy” developed in several parts of Europe (Germany, Belgium, The Netherlands or Denmark, for example) because ideological tradition among leftists had rejected the cooperative model<sup>11</sup>. This constrained philanthropic banks to prospect standard customers without dedicated markets or franchise – except for a few segments of wine, cereals, sugar or milk cooperatives or wholesale purchase cooperatives for the *Crédit agricole* group. Second, the public authorities for long limited the activities of philanthropic banks to petty producers and savers, along political and sociological schemes calling for the preservation of the relative homogeneity of “*la France des petits*” against *grande bourgeoisie* and capitalism, which constituted what was called then “the Republican model”<sup>12</sup> as the mindset was then based on the promotion of middle classes as leverage of social progress (and social pacification and harmony).

They were mainly considered, in a first stage, as tools of relieve for small peasants, through *Crédit agricole mutuel*, founded along successive laws in 1894, 1899, 1920 and 1926 and godfathered by the state in the name of Republican values against conservative catholic groups of influence<sup>13</sup>, especially through local mutual banks (*Caisses régionales de Crédit agricole mutuel*<sup>14</sup>). *Crédit agricole mutuel* was competed in a few areas by another mutual

Labrousse (eds.), *Histoire économique et sociale de la France*, Paris, PUF, III, volume 1, 1976.

<sup>9</sup> Hubert Bonin, *Les banques françaises de l'entre-deux-guerres*, Paris, PLAGE, 2000.

<sup>10</sup> Michel Lescure & Alain Plessis (eds.), *Banques locales et banques régionales en France au XIX<sup>e</sup> siècle*, Paris, Albin Michel, 1999. Michel Lescure & Alain Plessis (eds.), *Banques locales et banques régionales en Europe au XX<sup>e</sup> siècle*, Paris, Albin Michel, 2004.

<sup>11</sup> Hubert Bonin, “Non-state and non-capitalist enterprises in France in the 19th-20th centuries: The causes of a slow development”, in Susanna Fellman, Antti Kuusterä & Erro Vaara (eds.), *Historical Perspectives on Corporate Governance. Reflections on Ownership, Participation and Different Modes of Organizing*, Helsinki, The Finnish Society of Science and Letters, 2008, p. 65-88.

<sup>12</sup> Serge Berstein, “La politique sociale des Républicains”, in Serge Berstein & Odile Rudelle (eds.), *Le modèle républicain*, Paris, PUF, 1992, p. 189-208.

<sup>13</sup> André Gueslin, *Les origines du Crédit agricole (1841-1914)*, Nancy, Presses universitaires de Nancy, 1978. André Gueslin, *Histoire des Crédits agricoles. L'envol des caisses mutuelles (1910-1960)*, Paris, Économica, 1984. André Gueslin, “La construction des banques coopératives à réseaux en France”, *Revue des études coopératives, mutualistes et associatives*, 2<sup>e</sup> trimestre 1988, n°26, p. 29-37. Christian Bosseno, *Crédit agricole, un siècle au présent, 1894-1994. Tome 1 : des origines aux années 1950*, Paris, Hervas, 1994.

<sup>14</sup> Alain Borderie, 1902-2002. *D'un siècle à l'autre. De la coopérative de crédit à la banque de plein exercice. Crédit agricole d'Ile-de-France*, Paris, Le Cherche-Midi, 2002. Hubert Bonin, *Cent ans de Crédit agricole mutuel en Lot-et-Garonne*, Crédit agricole d'Aquitaine, Bordeaux, 2002. Hubert Bonin, *Cent ans de Crédit agricole mutuel en Gironde*, Crédit agricole d'Aquitaine, Bordeaux, 2002. Stéphane Boyer, *Cent de Crédit agricole mutuel du Sud-Ouest*, Crédit agricole d'Aquitaine, Bordeaux, 2002. *Desseins partagés. Cent ans de Crédit agricole pour la Haute-Garonne*, éditions Privat, Toulouse, 2000. Jean-Michel Brenier, *Les quatre racines du Crédit agricole Centre-Est*, 1999. *90 ans... déjà ! Crédit agricole de l'Isère, 1904-1994. Cent ans de bon sens. Cent ans de Crédit agricole mutuel dans le Cher*, 1995. Jacques Gandebeuf, *Saga verte en Moselle. La mémoire vivante du Crédit agricole entre 1923 et 1993*, Metz, Serpenoise, 1993. Christophe

institution, dubbed “*Crédit libre*” (free credit)<sup>15</sup> because it proposed the same range of banking services but without advances from state institutions (*Banque de France* or the state Treasury) in the name of the independancy of social-christian trends from “secular” parties and state since the political conflicts of the 1870s-1900s. This ancestor of present *Crédit mutuel*<sup>16</sup> (structured under this very name in 1958) was active all over France, under the umbrella of two rival confederations in Paris (*Union centrale des syndicats agricoles*, with *Caisse centrale de Crédit agricole* since 1920; *Union des caisses rurales et ouvrières françaises*, since 1893). After WWII, it resisted only in a few regions, in particular Alsace, where a new *Crédit mutuel* institution had taken in charge in 1923 the *Reiffeisen* institution left behind by Germans; in western Atlantic areas<sup>17</sup>, and in the Northern region<sup>18</sup>, three areas where traditions sustained these social-christian institutions.

A second target for philanthropic forms of banking were craftsmen, shopkeepers, and half-wholesale traders, which benefitted from the confederation of regional *Banques populaires*<sup>19</sup>, founded in 1917. A third target for philanthropic financial relief was urban popular classes, to be helped by savings banks or *Caisses d'épargne et de prévoyance*<sup>20</sup>. But, in that last case, savers were not co-operators because local *Caisses d'épargne*<sup>21</sup> had in fact no legal owners: their capital was constituted by the margin of profit supplied by current operations, whilst the legal and financial guarantee of solvability was provided by municipalities and more and more by the state itself – which forced *Caisses d'épargne*, deprived of any peculiar national institution as a federative power, to send their whole liquid liabilities to Paris state *Caisse des dépôts* – itself lending to the state, to local institutions, or to social housing institutions<sup>22</sup>. Only in 1999 did the state sell the ownership of *Caisses d'épargne* to their customers, becoming all at sudden the owners of a new type of mutual institutions, and the fourth pillar of the cooperative banking community – whereas in parallel where active mutual insurance companies and mutual social security institutions. This explains that we have to use the “philanthropic” qualification to these banks rather than mere “cooperative” or “mutual”. And this explains too why these philanthropic banks played a significant

Lefèvre, *Histoire de la Caisse régionale. Crédit agricole de Haute-Normandie*, 1993. Hubert Bonin, *Le Crédit agricole de la Gironde. La passion d'une région, 1901-1991*, Bordeaux, L'Horizon chimérique, 1992. Paul Josse, *Le Crédit agricole de Loire-Atlantique a 80 ans, 1905-1985*, Nantes, 1986. Vicenzi Ernest, *Le Crédit agricole en Tarn-et-Garonne*, Montauban, 1977.

<sup>15</sup> André Gueslin, “Un autre modèle : Le Crédit libre (1913-1930) ?”, chapter 4 of *Histoire des Crédits agricoles. L'envol des caisses mutuelles (1910-1962)*, op.cit, p. 239-393. André Gueslin, “Les fondateurs de la banque coopérative en Europe”, *La Revue de l'économie sociale*, July-September 1985, n°5, p. 7-15. Bernard Sadoun, *Les origines du Crédit mutuel*. Strasbourg, Éditions COPRUR, 2005.

<sup>16</sup> André Gueslin, *Le Crédit mutuel. De la caisse rurale à la banque sociale*, Strasbourg, Éditions COPRUR, 1982.

<sup>17</sup> Alain Gérard & Véronique Tesson, *L'argent solidaire. Des caisses rurales au Crédit mutuel Océan. Vendée, Deux-Sèvres, Charente-Maritime, La Roche/Yon*, Centre vendéen de recherches historiques, 2000.

<sup>18</sup> Catherine Malaval, *L'avenir a cent ans. 1895-1995. Cent ans de Crédit mutuel au Nord de la France*, Lille, Crédit Mutuel Nord, 1996.

<sup>19</sup> Fernand Cousteaux, *Banque populaire Toulouse-Pyrénées. Le livre du centenaire, 1893-1993*, Toulouse, Éditions Daniel Briand, 1993. Élisabeth Albert, *Les Banques populaires en France (1917-1973)*, Paris, Economica, 1997. Pierre Dottelonde & Catherine Malaval (eds.), *Caisse centrale des Banques populaires, 1921-1996. 75 ans d'histoire*, Paris, 1996.

<sup>20</sup> Laure de Lamby, *Les métamorphoses de l'épargne*, Paris, Gallimard-Découvertes, 2003. Caisse nationale des Caisses d'épargne, *La Caisse d'épargne à tous les âges*, Paris, Les Éditions de l'épargne, 2002. “L'état de la recherche sur les Caisses d'épargne”, *Les cahiers pour l'histoire de l'épargne*, n°6, June 2002, Paris, Association pour l'histoire des Caisses d'épargne. Daniel Duet, *Les Caisses d'épargne*, Que Sais-Je?, Paris, Presses universitaires de France, 1991, reedition, 2000. Bernard Vogler (ed.), *L'histoire des Caisses d'épargne européennes. Tome 1: Les origines des Caisses d'épargne, 1815-1848*, Paris, Les Éditions de l'épargne, 1991. Hubert Bonin, “Las estrategias de expansion de las cajas de ahorros francesas durante los siglos XIX y XX”, *Papeles de Economía española*, 2005, 105/106, special issue *La historia economica de las cajas de ahorros : Raices profundas de una realidad pujante*, p. 93-108. 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, p. 365-382.

<sup>21</sup> Marcel Launay (et alii), *La Caisse d'épargne de Nantes, des origines à 1950. Caisse d'épargne Pays de la Loire*, 1998. Michel Cordier, *Les Caisses d'épargne en Bourgogne. Deux siècles au service de la collectivité*, Paris, Les Éditions de l'épargne, 1996. *La Caisse d'épargne de Midi-Pyrénées, 1830-1996*, 1996. *La Caisse d'épargne en Haute-Normandie, des origines à nos jours, 1820-1995*, 1995. *175 ans... La Caisse d'épargne en Haute-Normandie, des origines à nos jours, 1820-1995*, 1995. *150<sup>e</sup> anniversaire de la Caisse d'épargne de Strasbourg, 1834-1984*, Strasbourg, 1984.

<sup>22</sup> *La Caisse des dépôts et consignations, 175 ans*, special issue of *Revue d'économie financière*, Paris, Le Monde Éditions, Novembre 1991. Jean-Marie Thiveaud (ed.), *Du dépôt au dépositaire*, Caisse des dépôts et consignations, 1998. Jean-François Boudet, *La Caisse des dépôts et consignations. Histoire, statuts, fonction : contribution à l'étude de ses fondements juridiques*, Paris, 2006. Alya Aglan, Michel Margairaz & Philippe Verheyde (eds.), *La Caisse des dépôts et consignations, la Seconde Guerre mondiale et le xx<sup>e</sup> siècle*, Paris, Albin Michel, 2003.

part in French banking industry only after WWII and mainly after their diversification from the 1960s.

	Savings banks	Popular banks	Agricultural banks	Agricultural banks or agricultural and popular banks		
Head institution in Paris	<i>Caisse des dépôts</i> (state institution collecting savings banks' deposits)	<i>Caisse centrale des Banques populaires</i>	<i>Caisse nationale de Crédit agricole</i> (a state institution)	<i>Union des caisses rurales et ouvrières françaises</i>	<i>Caisse centrale de Crédit agricole</i>	<i>Crédit mutuel ex-Reiffeisen</i> in Alsace
Regional levels	/	/	One hundred regional mutual banks	Attempts at pluri-regional heads	Attempts at pluri-regional heads	Two federative banks in Strasbourg
Local levels	About 500 <i>Caissees d'épargne</i> in main cities	Hundred Regional <i>Banques populaires</i>	Several thousands mutual banks	Dozens of mutual banks	Dozens of mutual banks	Dozens of mutual banks

Our chapter will thus scrutinize the fate of that bunch of philanthropic banks when they were confronted to the crash then the depression of the 1930s – at times when about five hundred French banks failed, among which the fourth one and numerous regional and local ones –, then when they had to face the sharp crisis starting in 2006-2007. History will therefore be mobilised to draw comparisons between past and present, to raise arguments about the type of crisis borne by these banks. We shall claim that such a crisis was not only the consequence of the cyclical or depressive economic environment, but also a harsh crisis of the “business model” of these banks itself, because their strategic moves was not sustained by a managerial re-engineering of their operating methods, of their portfolio of skills, and of their ability of assessing risks. One could argue that both crisis acted efficiently as levers to the modernisation of their management and to the building of a thoroughly refurbished portfolio of competence due to a new capital of experience. We shall first compare both periods about the mismanagement of risks by philanthropic banks; second, we shall pretend that both crisis were also fuelled by a crisis of their strategic business model; third, that deadlocks were met on both times because of failures in the governance of the new institutional frame itself; and we shall consider which conclusions were drawn from the various aspects of the crisis to avoid collapse and try successful innovative paths.

### 1. Mismanagement of banking risks through both crisis: from illiquidity to insolvency

Without originality, the philanthropic banks were involved in the dire years of cyclical crisis which choked numerous banking markets all over the country during both crisis considered.

#### A. Philanthropic banks and the 1930s crisis of lending

A commonplace banking crisis struck philanthropic banks in the first half of the 1930s, which apparently resulted of bad management and of the deflation of prices and outlets. These banks were involved in the global banking crisis which occurred everywhere in France and elsewhere. This first section might therefore look as mere “storytelling”, but it will further foster more stimulating analysis.

#### A cyclical banking crisis

Whilst joint-stock Paris or regional and local banks endured a harsh crisis in 1930-1935 because of the shortage of treasury of their industrial and commercial customers, philanthropic banks could not escape the global depression. As practitioners of commercial banking, they faced the crisis of treasury, the illiquidity and even the insolvency of their borrowers – all the more because, in 1929-1933, mutual banks reacted to the first stage of the crisis by providing peasants with large fresh treasury loans to help them cross what seemed then a short-term recession of prices. The 98 regional *Crédit agricole* banks were confronted to the deflation of sales and prices for agricultural commodities (FRF 151 one hundred kilos in 1929 to 55 in 1935): peasants from all social layers could not repay their seasonal loans; those who had borrowed on middle terms to modernize their farm (equipment, land) could no more bear their instalments; and the balance sheets of regional

banks were weighed down by outstanding debts, all the more because deadlines were extended by the state for peasants to avoid failure and property seizures. A severe crisis of illiquidity blocked the purchase power and moreover the evolution of French countryside for several years, till WWII – when inflation reduced the load of debts and when German purchases contributed to ease marked conditions. Intense arguments arose among the members of the boards of *Crédit agricole* banks, because their very electors and the owners of the institution were themselves angry at the pressure exerted on them as debt-ridden borrowers. The deposit basis itself had dwindled because of peasants' need for cash or because of a wave of distrust here and there towards mutual banks by wealthier countrymen, who either hoarded their savings or oriented them towards notary public cabinets (always opened to act as almost-bankers to well-eased land-owners) or the few solid Paris big banks in the nearest city.

Numerous *Crédit agricole* regional banks had to declare large bad loans on their balance sheet and broad deficits therefore. Several were on the verge of collapsing (Gironde<sup>23</sup>, Eure-et-Loire<sup>24</sup>, etc.), and, weren't they rescued by *Caisse nationale de Crédit agricole* (CNCA, the Paris confederal institution set up in 1920/26), they would have been led to fail, swallowing the shares of their mutualist members (as their capital). The few histories available all retraced such dire situation. In fact, with the support of political and state authorities, *Crédit agricole* regional banks had sustained an excessive rhythm of growth during the (in general) booming 1920s: for instance, the bank of Île-de-France (around Paris)<sup>25</sup> had extended its loans from a number of 8,500 and an amount of FRF 56m in 1927 to 13,850 and 158m (+282 percent) in 1931. Such a boom altogether reflected the participation to the cyclical move and some exhilaration of success from a junior institution which ceded to the temptation of (*ex post*, too much) rapid development. But the situation got worse when the distribution of fresh loans had to be halted – cutting into future revenues on interests – while the bulk of pending loans got immobilised.

Table 2. Evolution of <i>Crédit agricole</i> regional banks (millions) during the 1930s crisis		
CONSTANT FRANCS ALONGWITH WHOLESALE GOODS INDEX, THE DEFLATION EXPLAINING THE INCREASE OF THE BURDEN OF PENDING LOANS		
	Current amount of loans	Amounts of new loans granted each year
1930 basis	100	100
1931	121	123
1932	156	131
1933	188	72
1934	200	33
1935	214	29

In the meanwhile, *Banques populaires* were also stricken by a debt crisis. Independant urban middle classes (shopkeepers, craftsmen, owners of small and mid-sized firms) felt the contraction of outlets (especially for consumer goods and services to households) due to unemployment and cuts into wages. The decline of investment in housing contributed too to the crisis of goods suppliers to building companies and independant contractors. Several *Banques populaires* banks were condemned to reveal bad debts and losses on their balance sheets, and they were likewise on the brink of failing: “In 1932, among 91 regional banks, thirty were on the verge of collapse, thirty almost failing, twenty-five deeply crippled, and only six were on good health. Behind peasants, small industry and shopkeepers, the traditional customers of *Banques populaires*, were the most stricken by the economic crisis.”<sup>26</sup>

Last, a huge majority of *Crédit mutuel libre* local banks were deadly hurt by the bad debts crisis, all the more because their confederal institutions did not dispose of financial means to rescue them, because state institutions boycotted them, as part of the christian “non official” mutual banking system, and mainly because they were not equipped with any actual central organisation, being

<sup>23</sup> Hubert Bonin, “*Le Crédit agricole de la Gironde*, op.cit., p. 128-130

<sup>24</sup> C. Bosseno, *Crédit agricole, un siècle au présent*, op.cit., p. 102-104.

<sup>25</sup> A. Borderie, *1902-2002. D'un siècle à l'autre*, op.cit., p. 46.

<sup>26</sup> P. Dottelonde & C.Malaval (eds.), *Caisse centrale des Banques populaires, 1921-1996*, op.cit, p. 67.

only juxtapositions of local mutual banks, of which the very future was at stake indeed<sup>27</sup>. Several regional banks collapsed (Limoges, Reims, etc.). Then, one of the two Paris head institutions, *Caisse centrale de Crédit agricole*, failed in December 1931 because it could not recover its loans to its regional or local sister mutual banks<sup>28</sup>, which had jumped from FRF 5m in 1926 to 30m in 1930. In fact, among a total amount of 70m as assets, only 17m are liquid against only 23m as durable liabilities, which led to a run on deposits (45m). The other mutual group *Union des caisses rurales et ouvrières françaises* had to liquidate its central bank, *Caisse générale*, on October 1936, which reinforced its decentralised way of life.

### **From treasury deadlock to rescue refinancing**

The global mutual banking sector was thus in a deadlock, only a few decades after its birth (1890s for *Crédit agricole*, 1920s for *Banques populaires*). Only *Caisses d'épargne* benefitted from the crisis because they collected deposits coming out of untrusted classical banks as the state had stamped its guarantee on its deposits (those latter being limited to a ceiling anyway); they could thus earn more money because they levied a small interest on each collected amount before transferring it to *Caisse des dépôts*. And of course, as they were not allowed to distributed credit, they were exempt from bad debts... This revealed the need for public help. At *Crédit agricole*, the state fostered the coffers of the confederal head of the group through cash injections, which allowed it to redistribute the cash to regional banks, thus rescuing them as a lender of last resort. The same process took shape at *Banques populaires* group, where *Caisse centrale des Banques populaires* received cash from the state and could thus salvage the regional banks. Public authorities could not leave “free market” rules be applied to mutual banks: first, such a krach would have re-ignited the crisis of confidence which had choked the money markets since 1930-1931; second, the petty middle-class people which Republican parties (from center-right to center-left, even the Communist Party in 1935, which joined the Socialists into *Front populaire* (1936-1938) and promoted the interests of small peasants and craftsmen) focused as the basis of the regime, could not be deprived of banking institutions which constituted key parts of the (non-Christian) Republican “social system” – then threatened by far-rightists trying to lure weakened middle-classmen.

The support to mutual banks by the state accompanied thus numerous decisions in favour of middle classes (*Office du blé* as a guarantee fund for cereals, organization and rationalisation of wine production, fiscal and legal measures in favour of rural cooperatives, etc.; public loans to small and middle-sized firms). The official role of *Crédit agricole* banks was reinforced by several laws in 1934-1937: the discount of warrants pledged by crops was generalised; state advances to regional banks to finance cereals production were reinforced; subsidies to farmers by a national state fund had to be paid through *Crédit agricole* accounts, which led peasants to join massively the institution; the creation of agricultural cooperatives was encouraged, which became direct clients of *Crédit agricole* banks, either for cash needs, or, through “unions of cooperatives”, for long term investments (cellars, warehouses, etc.). Such comprehensive reforms allowed *Crédit agricole* to regain impetus, because the basis of customership was re-cemented (cooperatives, investing middle-sized peasants as middle-term borrowers) and confidence re-set among depositors. The part of overall banking credits reached by *Crédit agricole* group grew from 3 per cent in 1929 to 12 per cent in 1938 (also because the amount of credit stagnated by commercial banks and because local banks had been swept off market); and the number of “owners” (*sociétaires*) of shares of local *Crédit agricole* banks grew from 501,000 in 1931 to 586,000 in 1936 (from 11.3 per cent to 13.9 per cent of male agricultural working population. But, on the eve of WWII, still large layers of bad debts had been lagging for a few years, which revealed the intensity of the crisis.

### **B. Philanthropic banks and the 2007-2009 crisis**

The recent crisis did not strike French mutual banks – conversely with several German or Dutch ones. Surely losses were admitted: The head of *Caisses d'épargne* felt victim of a speculative

<sup>27</sup> See “Le Crédit libre en difficulté (1930-1939)”, chapter 5 in A. Gueslin, *Histoire des Crédits agricoles*, op.cit., p. 347-393.

<sup>28</sup> *Ibidem*, p. 355.

property trading operation (€ 750m); *Caisses d'épargne* and *Banques populaires* common affiliate Natixis was almost swallowed by a whole range of bad investments, either in the US because a subsidiary (CIFG) had insured or pledged too many credit default swaps and subprime credits, or on the globalised money market because of immense losses on various trading operations. All in all, it had to explicit € 3,9 billion assets in the first half of 2008, but *Crédit agricole SA* also declared losses of € 5,5b (versus profits for *Société générale*: € 4,9b and BNP-Paribas € 2,3b) because of the errors of its affiliate Calyon, the French recordman for banking losses in 2007-2008; it had to reveal net loss of €1,992m for the fourth 2007 term and final net loss of € 904m for the year – against a profit of €1,6b in 2006), while *Crédit agricole* group completed € 3,2b losses on its global assets in 2007 – still preserving its profits for this year, at 4b. These shocks required recapitalisation efforts of € 5,9b at *Crédit agricole* and € 3,7b at Natixis. Even *Crédit mutuel Centre-Europe* group declared a few similar losses (€ 150m in 2004, € 500m in 2005 on structured products), whilst its *Crédit mutuel Arkea* brother group showed on its balance sheet gross losses of about € 206m (bad debts, losing trading operations), light against its € 1,232m net banking return.

The mutual banks seem to have resisted to the crisis with resiliency: they had handled their portfolio of credit and trading risks with more acumen, they had avoided large cross-border mergers & acquisitions projects, they were less involved in the life of US market places, and last they were more oriented towards retail banking and commercial banking to small & middle-sized companies than to investment banking and corporate banking. Of course they commenced to feel the effects of the slump, with defaults on many loans from individuals, professionals, companies, and of the recession of property markets: more provisions on damaged assets, less returns on operations, etc. But no “crisis” seems to be scheduled and to jeopardize French mutual banking system. In fact, it had suffered more during the previous recessions, in 1993-1995 and 2001-2003, when the upsurge of bad debts had cut into profits and even capital of several regional mutual banks: some *Crédit agricole* and *Crédit mutuel* institutions had to be rescued by their group, the management had to be reinforced, processes of credit risk assessment had to be refurbished, etc. And such reforms could have prevented retail banking from big errors through the booming 2003/4-2006/7 years.

## 2. Business models twice questioned

Beyond the short term effects of cyclical crisis on the monthly results of operations and on yearly balance sheets and beyond mere storytelling, both crisis can be scrutinised as landmarks for a structural crisis of the organisation itself of philanthropic banks. Their “business model” was questioned by what was not only bad management of risks but by the perception that the growth and diversification of the portfolio of activities had not been accompanied by a thorough revolution of the “organisational/managerial architecture” of the groups. We can thus follow André Gueslin’s title: “model of crisis, crisis of the model”<sup>29</sup>. They seemed like mere “aggregations” of teams, banks, financial circuits, and they were deprived of any common “business culture” and of common rules of management. On both periods, the crisis acted as a pointer to the structural foibles of these mutual banks, and they had to react to preserve their existence and afterwards their competitive edge.

### A. Philanthropic banks yearning for mutualisation and rationalisation through the 1930s crisis

For all lending mutual banks, the very issue was liquidity and refinancing: the locking up of their bad loans highlighted the lack of regular and sufficient means of fueling daily lending duties. The fragmentation of *Crédit agricole* and *Banques populaires* local and regional banks, and their very dependance on specialised and cyclical rural, industrial or commercial activities, led to a phenomenon of cash bottleneck: each isolated bank could not finance by itself its needs.

### Confederal architecture questioned at *Crédit agricole*

<sup>29</sup> “Le Crédit agricole (1930-1938) : modèle de crise, crise du modèle ?”, title of chapter 6 of A. Gueslin, *Histoire des Crédits agricoles*, op.cit., p. 395.

Parish-pump local patriotism (“*esprit de clocher*”) and internal competition between local banks within regional banks, internecine struggles of influence – with even competing *Crédit agricole* regional banks overlapping one another in a few areas (Seine-et-Oise and Île-de-France banks, around Paris; *Caisse du Sud-Est* and several regional ones, around Lyon, for example) – narrowed the possibility of “mutualising” availabilities of treasury and monthly needs between regional banks. The whole “machinery” of mutual banking missed an actual “banking system” and the rationalisation of its functioning. In the meanwhile, a majority of regional mutual banks had strongly extended their middle-term loans because numerous middle-sized farms and firms<sup>30</sup> demanded such type of credits, whereas they did not get enough middle-term resources, either from their own capital (always a meager one) or from yearly advances from the state and *Banque de France* central bank. On a slightly different level, the very *modus operandi* of the *Crédit agricole* group was at stake: in fact, it had rather become a “one-way machine” distributing cash from Paris (state advances, or *Banque de France* ones) than a “pump” collecting cash and redistributing it to credit-thirsty local banks. *Crédit agricole* collected for instance only FRF 999m in 1930 whereas it lent 2,338m (771m on short term, 604m on middle term and 944m on long term). It depended upon the advances of public money (or even from rediscounting from big commercial banks, like *Société générale* and *Crédit lyonnais*), and direly lacked resources (from deposits or savings).

### **Confederal architecture questioned at *Banques populaires***

The same path was followed by the *Banques populaires* group. Surely a central organ had been set up in 1921, *Caisse centrale des Banques populaires*, as some kind of common tool to meditate about convergent banking and organisation policies, but also as the embryo for mutualised functions (signature for rediscounting at *Banque de France*, guarantee to export credits, central inspection, etc.)<sup>31</sup>. But the fierce independence of each regional bank (a hundred ones with 265 outlets) hindered the assertion of such a Paris supervisor and animator, which, with only 70 employees in 1924, privileged the clearing and cashing of bills and the securities department for the account of its mother regional banks (each one being one part-shareholder). Even rationalised methods of management were assimilated only through voluntary decision<sup>32</sup>. An attentive look at the evolution of the group proves that it felt a first stage of crisis as soon as 1928, some terms before the banking crisis occurred in 1930-1931. “The crisis of growth was ineluctable [...]. In 1928, losses were considerable. A few *Banques populaires* – thirty-two against hundred – were showing a deficit. Some others, since the publishing of the balance sheet of *Caisse centrale* for 1927, with a deficit larger than one million francs and fifteen million as immobilisations through advances on term to *Banques populaires*, had lost trust in their *Caisse centrale*.”<sup>33</sup> Another study<sup>34</sup> fixed at forty-two the number of near collapsing regional banks in 1929, with nineteen having rubbed off their capital and nine having consumed the advances from the state because of bad loans. And a global amount of FRF 70m would have been swallowed by such inner crisis of bad management and blind risk assessment.

### **Federal and centralised architecture prevailing**

The excessive fragmentation of both groups led in fact to a deadlock. The issue laid between leaving the confederal way of life be preserved with the risk of leaving the whole mutual organisations drifting out of control and collapsing on one side, and imposing a drastic control by the state on the other side. A subtle balance had to be reached to avoid some kind of “communist state-led” organisation for small and middle producers and intermediaries, as which was proposed by the experts of the National Economic Council in 1938, calling for a merger of all mutualist banking institutions, but which was repelled by a huge majority of parties, still attached to a social-liberal frame of French economy. This explains the deep but balanced reforms (by the rightists in 1934-1936 or the leftists in 1936-1938) which took shape as a reaction to the crisis of the 1930s. This latter stirred first an acute collective perception of the defaults of the confederal groups, swallowing traditional trends to autonomy; then a move of self persuasion and resignation to accept rationalisation and mutualisation. The state imposed (laws of September 1935 and September

<sup>30</sup> See Michel Lescure, *PME et croissance économique. L'expérience française des années 1920*, Paris, Économica, 1996.

<sup>31</sup> P. Dottelonde & C. Malaval (eds.), *Caisse centrale des Banques populaires*, op.cit., p. 30-33.

<sup>32</sup> *Ibidem*, p. 40-41.

<sup>33</sup> *Ibidem*, p. 55.

<sup>34</sup> Élisabeth Albert, *Les Banques populaires*, op.cit., p. 122.



1937) the creation of a national guarantee fund managed by CNCA<sup>35</sup> to mutualise the preservation of deposits at *Crédit agricole* banks; CNCA became thus a clearing institution, all the more because its function of re-discounting bills issued by *Crédit agricole* regional banks was admitted and developed, in parallel with *Banque de France*. It still broadened its functions when, as a way to refinance more easily its regional sister banks, it asserted itself as an important issuer of bonds on the financial market, through bonds – the first operation taking place in November 1933 for FRF 200m; 200m in August 1934; then a jump to two billion in 1935, successfully underwritten<sup>36</sup> – before launching a new financial products, five-year notes in 1943 (*Bons de la CNCA*), called to become a starring investment for rural savers after WWII and a key counterpart on the balance sheet to middle term credits. We can thus pretend that the crisis contributed to accelerate the ineluctable process of building a new architecture for the *Crédit agricole mutuel* group, even if CNCA remained a small company, with only a few hundred employees.

At *Banques populaires*, a thorough reengineering of the group was necessary: as soon as February 1928 a new manager was installed in Paris to launch a program of rationalisation and reorganisation. Each regional bank would have to send monthly documents to Paris *Caisse centrale* about its figures and operations; controls were set up; after hesitations among the leaders of the mutual group and public authorities. In March 1934 a law definitely proclaimed the rights and power of *Caisse centrale des Banques populaires* over regional banks about day to day management, controls, rationalisation of banking documents, accounts, and processes. This paved the way, for example, to a pioneering program of developing a mutualised system of electro-mechanical accounting system, which contributed to enhance productivity and accuracy<sup>37</sup>. *Caisse centrale* onwards could gather the available treasury of regional banks and mutualise its use in favour of a “group spirit”.

## B. Renewing the portfolio of skills through the recent crisis

Fifty years later, issues of business model regained momentum among French mutual banks. It seems useful to remind beforehand of the revolution which they followed from the mid-1980s. Mainly confined to local retail banking and to a few related activities, they were thrown all at sudden into competition and universal banking. World business fashion about the “universal bank model”, European Union trends in favour of a unified market and the unbundling of every market to foster more competing practices, and French moods towards the end of *chasses gardées* to help the economy going out of the big crisis of the 1974-1994 decades, converged. They inspired banking laws (notably 1983, 1984, 1991) about deregulation (“*libéralisation*”, but with the preservation of a regulatory system), the unicity of statutes and functions among banks (“*banalisation*”), whilst the wave of privatisations starting in 1986-1987 was completed. A thorough reshuffling of French banking industry occurred<sup>38</sup>. Mutual banks reconsidered their strategy: they were losing their “privileges”: the distribution of specialised credits, for agriculture at *Crédit agricole*<sup>39</sup>, for professionals and small companies at *Banques populaires*, and last in 2009 the distribution of special savings books (*livrets A*) at *Caisses d'épargne* and *Crédit mutuel*.

First, they benefited from the dismantlement of the state sector or of the Suez financial group to still reinforce their retail banking industry, either through organic growth (new outlets, new

<sup>35</sup> See “La longue naissance du Fonds commun de garantie (1935-1944)”, in Christian Bosseno, *Crédit agricole, un siècle au présent*, op.cit., p. 106.

<sup>36</sup> C. Bosseno, *Crédit agricole, un siècle au présent*, op.cit., p. 110.

<sup>37</sup> P. Dottelonde & C. Malaval (eds.), *Caisse centrale des Banques populaires, 1921-1996*, op.cit. Hubert Bonin, “The development of accounting machines in French banks from the 1920s to the 1960s”, *Accounting, Business & Financial History*, 14-3, November 2004, p. 257-276.

<sup>38</sup> Hervé de Carmoy, *La banque du XXI<sup>e</sup> siècle. États-Unis, Grande-Bretagne, Japon, France*, Paris, Éditions Odile Jacob, 1995. Hubert Bonin, *La crise bancaire mondiale & française*, Paris, Paris, Presses universitaires de France, 1997.

Dominique Plihon, *Les banques : nouveaux enjeux, nouvelles stratégies*, Notes et études documentaires, n°5078, Paris, La Documentation française, 1998. Dominique Lacoue-Labarthe, *Les banques en France. Privatisation, restructuration, consolidation*, Paris, Économica, 2001. Esther Jeffers & Olivier Pastré, *La TGBE : la très grande bagarre bancaire européenne*, Paris, Économica, 2005. Dominique Plihon, Jézabel Couppey-Soubeyran & Dhafer Saïdane, *Les banques : acteurs de la globalisation financière*, Paris, La Documentation française, 2006. Olivier Pastré, Esther Jeffers, Hans Blommestein, & Gaël de Pontbriand (dir.), *The New Banking Economy*, Cheltenham, Edward Elgar, 2007.

<sup>39</sup> André Gueslin, *Le Crédit agricole*, Paris, La Découverte, 1985.

commercial policies, distribution of insurance, private banking, etc.), or through external growth. In 2003 *Crédit agricole* bought commercial bank *Crédit lyonnais*<sup>40</sup>, after it had almost failed and, being rescued, was put on sale by the state, Sofinco (consumer credit)<sup>41</sup> and Indosuez (corporate and investment banking) in 1996 – both sold by Suez<sup>42</sup> –, and it merged Indosuez and *Crédit lyonnais* corporate banking activities into Calyon, promised to challenge *Société générale* and BNP-Paribas. *Caisses d'épargne*<sup>43</sup> seized *Crédit foncier* (credit to house purchasers and real estate developers) in 1999 after its almost collapse and rescue by the state, CDC-Ixis (credit to local authorities, trading of equities), ceded by state *Caisse des dépôts* which gave up banking because of its refocus on its core missions, and Vernes-San Paolo, dedicated to middle sized companies, left by Italian San Paolo and transformed into *Banque Palatine*. *Banques populaires* took over *Crédit national* (loans to middle size companies, middle term credit) and *Banque française du commerce extérieur* (credit to export), both privatised, before welcoming the retail banking regional affiliates of HSBC in 2008. *Crédit mutuel Centre-Europe* (from Strasbourg) won the state tender of *Crédit industriel & commercial-CIC* with its group of regional banks in 1997, and extended then its retail banking power to the whole country, all the more because it went on integrating a few regional banks (Sud-Est, Savoie-Mont-Blanc, Île-de-France, etc.). An ultimate merger led *Caisses d'épargne* and *Banques populaires* to join Ixis and *Crédit national-BFCE* into a single joint venture, Natixis, in 2006, oriented towards corporate, investment, and trading banking.

Table 4. Rough vision of French mutual banks in the second half of the 2000s

	<i>Crédit agricole</i>		<i>Banques populaires</i>	<i>Caisses d'épargne</i>	<i>Crédit mutuel</i>		
	Regional banks	LCL (network of ex- <i>Crédit lyonnais</i> )			<i>Crédit mutuel Centre-Europe</i> (Strasbourg)	<i>Crédit mutuel Nord-Europe</i> (Lille)	<i>Crédit mutuel Arkea</i> (Brest)
Retail banking (in France)	Regional banks	LCL (network of ex- <i>Crédit lyonnais</i> )	Regional banks	Regional banks, <i>Banque palatine</i> and <i>Compagnie financière 1818</i> bank	Regional banks (Midi-Atlantique, Savoie-Mont Blanc, Île-de-France, Sud-Est, Centre-Est) & CIC group	Regional banks	Regional banks (Britanny, Sud-Ouest, Massif central)
Internal clearing and supervision of the group	<i>Crédit agricole SA-CASA</i>		<i>Banque fédérale des Banques populaires</i>	<i>Caisse nationale des Caisses d'épargne-CNCE</i>	<i>Caisse interfédérale CFCMCEE &amp; Banque fédérative du Crédit mutuel</i>		<i>Compagnie financière du Crédit mutuel</i>
National institutions representing mutualists	<i>Fédération nationale du Crédit agricole</i>		<i>Chambre syndicale des banques populaires</i>	<i>Fédération nationale des Caisses d'épargne</i>	<i>Caisse interfédérale CFCMCEE</i>	<i>syndicale des</i>	<i>Caisse interfédérale de Crédit mutuel</i>
			<i>Confédération du Crédit mutuel</i>				
Corporate banking and investment banking	Calyon		Natixis			BCMNE	BCME
Equity and investment funds (for middle sized firms)	UI Regional funds		Various regional funds (Galia, etc.)				
Banks for specialised credits	Sofinco Eurofactor CA Leasing			<i>Crédit foncier</i>	CM-CIC		
Insurance companies	Predica Pacifica			<i>Caisse nationale de prévoyance</i>	ACM (Assurances du Crédit)		Suravenir

<sup>40</sup> Jean-Philippe Mocchi & Bernard Sirven, *Crédit agricole-Crédit lyonnais, un mariage d'orgueil. L'histoire secrète de la fusion*, Paris, Éditions du carquois, 2003.

<sup>41</sup> Catherine Malaval, *Sofinco, 1951-2001*, Paris, 2001.

<sup>42</sup> Hubert Bonin, "Suez, de la finance aux services collectifs : analyse du redéploiement stratégique des années 1990", in *Marché(s) & hiérarchie(s)*, Toulouse, Presses de l'Université des sciences sociales de Toulouse 1, 2000, p. 389-403.

<sup>43</sup> Jean-Louis Hébert, Jean Borestein & Laure de Llambay (eds.), *Soixante ans de construction du groupe Caisses d'épargne. Une histoire pour demain*, Paris, Caisse nationale des Caisses d'épargne-Association pour l'histoire des Caisses d'épargne-Gallimard, 2006. Renaud Belleville, "Comment transformer un dinosaure de l'épargne en grande banque universelle. Les sauts de l'Écureuil", *Les Échos*, 4 April 2007, p. 12.

			(one fifth) and GCE-Ecureuil Assurances	<i>mutuel</i>		
Property group		Foncia	Nexity			
Assets management	Merger of its affiliate with that of <i>Société générale</i> in 2009	Natixis				Fortuneo, etc.

Diversified mutual groups were thus constituted, which started challenging big Paris banks (*Société générale*; BNP-Paribas, merged in 2000) or their foreign competitors active in France (HSBC-ex-CCF, Morgan Stanley, for instance). The state supported such a course because it favoured using mutual banks as a tool to lodge privatised or weakened banks instead of leaving them under threatening foreign control. Mutual banks were inscribed with a strategy of “economic patriotism” which intended to develop Paris market place<sup>44</sup> in front of London, Frankfurt or in front of emerging Italian and Spanish banks or of Citigroup – all the more because a few of them commenced an international offensive, essentially *Crédit agricole* (in Italy, Greece, Poland) and *Crédit mutuel* (Germany).

	Contribution to net banking return (€ millions)	Contribution to net profit		Allocation of permanent funds	
				Per cent	€ billions
Retail and proximity banking	6,314	Regional banks	778	13.9%	4.4
		LCL	553	9.3	3
		International retail banking	460	10.7	3.4
Specialised banking, finance and insurance activities	7,283	Specialised banking	595	10.5	3.3
		Assets management, insurance, private banking	1,899	24.4	7,8
Investment and corporate banking	2,781	Investment and corporate banking	-904	31.2	10
		Varia and property trading	663		
		Total	4,044		31.9 (only for activities departments)

As it is well known in business history and in corporate management, a rapid diversification ever leads to the crisis of the “business model” inherited from such a swift and broad strategic offensive: mergers and acquisitions are followed by un-economies of scale, the portfolios of skills do not fit the portfolios of strategic activities, corporate cultures do not succeed in converging, best managers fly away or internecine struggles arise, etc. Mutual banks did not escape such challenges and crisis. Almost all the losses and failed operations they endured resulted from misfits between quick growth and the actual ability of risk assessment. All the teams of consultants called since 2006-2007 to check the operating processes drew the same conclusions: the new top companies set up from the 1990s were ill-managed, badly organised and led, the portfolio of skills were not cemented and adapted enough<sup>45</sup>, due diligence and compliance processes were blurred, the chains of control reporting (from daily to monthly) had loopholes, etc. One striking fact is that, in a few cases, acute consulting cabinets piled up contracts even before crisis outburst, but their panels of reform proposals were put aside by blinded managers who still had rather rushing into operations instead of curbing them altogether and fixing rules of stricter management. And these cabinets were called back to extend and apply their proposals afterwards, but hundred millions euros had been lost or provisioned (because of immobilisations) in the meanwhile.

At *Crédit agricole* the investment and corporate banking affiliate Calyon did not succeed in becoming efficient, reactive, durably profitable, and coherent: for years, internecine fighting about

<sup>44</sup> See Youssef Cassis & Éric Bussière (eds.), *London and Paris as international financial centres in the twentieth century*, Oxford, Oxford University Press, 2005.

<sup>45</sup> On this topic, see G. Eliasson, “The firm as a competent team”, *Journal of Economic Behavior and Organization*, volume 13, 1990, p. 275-298. S.G. Winter, “Knowledge and competence as strategic assets”, in D.J. Teece (ed.), *The Competitive Challenge*, Cambridge-Mass., Ballinger, 1987, p. 159-184.

spheres of influence, about the sharing out of power between managers coming from prestigious *Crédit lyonnais*, international-minded Indosuez, and low-key but experienced in agro-business people from *Crédit agricole*, arguments about internationalisation, considerations about the fate of key poles of trading inherited from Indosuez (in Geneva, for example, for commodities), and the flight of experts to join other banks during the booming years 2003-2005, all in all led to some erosion of competitiveness – despite strongholds in merchant banking, for instance – and moreover explained a lack of cohesiveness. Processes of risks controls at all level missed accuracy anyway, and the results were losses declared in 2008. Even the holding CASA (*Crédit agricole SA*), having kept some operations in direct (to manage the treasury of the group as a clearing instrument for regional banks and various subsidiaries) lagged in building strong means of management of risks, and also faced losses.

The same events occurred at the holding of *Caisses d'épargne* group, CNCE (*Caisse nationale des Caisses d'épargne*). But “records” were hit at the common affiliate of *Caisses d'épargne* and *Banques populaires*, Natixis. Nobody seemed to hold the helm of management there, and processes of control, reporting, compliance, due diligence were retrospectively falling apart – even if secrecy still preserves “historians” to challenge the knowledge of banking authorities (*Commission bancaire, Banque de France*) over such managerial slides. And the decision to diversify the group from banking (with credit to housing and real estate development) to property development through the control of Nexity group awakened concerns about the risk of immobilising huge amounts of money and remembering souvenirs about property crisis which engulfed too much vertically integrated groups in the recession of 1992-1994...

In both cases, beyond gaps in management, what was actually at stake was the “*banque à-tout-faire*” strategy: how could such “junior” banks dispose of a capital of experience and skills strong enough to confront competition? Such recent banks might seem retrospectively as just-born “aggregates” of divisions and skills, without cohesion and more importantly just at the start of the (famous) curb of experience<sup>46</sup>, and the cyclical crisis gravely emphasized the crisis of knowledge management within such junior firms. Could they grow rapidly along such a diversified path whilst struggling to keep, recruit, unify and train expert teams? Obviously and although both banks did not yet dispatch publicly deep analysis – which weakens our case study, depending on press articles and economists’ reports –, managers could not exert a firm and lucid command simultaneously over a “construction site” – building a new corporate and investment bank – and develop competitive operations against the offensive of both French leaders and of US “invaders” on the Paris market.

To salvage Natixis and Calyon, the regional banks which are the key owners of the Paris holdings (CNCE, *Banques populaires*, CASA) were called for rescue: they drew capital from their reserves and fuelled the recapitalisation of the holdings, themselves re-financing the ailing affiliates. Basic mutual shareholders, employees, directors and managers of regional banks grumbled setbacks in Paris, which gnawed at the financial ability of the group to develop more rapidly its investment in retail banking all over Europe or to finance more intensively the programs of rejuvenating the network of branches and the “back office machine”. Time, money, reputation were lost through this crisis. Only the three main *Crédit mutuel* groups seem to have escape such troubles.

	<i>Caisses d'épargne</i>	<i>Banques populaires</i>	<i>Crédit agricole</i>	<i>Crédit mutuel (Strasbourg)</i>	<i>Crédit mutuel Arkea</i>	<i>Crédit mutuel Nord-Europe</i>	Three <i>Crédit mutuel</i> institutions
Branches	4,770	3,340			570	240	3,550
Employees	51,000	47,000			7,200	4,000	59,000
Customers	27m	8,2m		7,7m	2,8m	1,1m	14,9m
Net banking product	9,8	7,4	16,8 (CASA holding)	7,3	1,2		
			29,6 (group)				
Permanent funds ratio (tier 1) (30)	8.35%	9.6%	8.3%	9.3%			

<sup>46</sup> See G. Eliasson, "The firm as a competent team", *International Library of Critical Writings in Economics*, 70, 1996, p. 203-226.

June 2008)							
Part of the market of credit to local authorities	22%		16%				

### 3. Successive arguments about the governance of philanthropic banks

Besides issues of organisation, business models, and rationalisation, the key flaws of the mutual banks laid with their blurred mode of governance – and both crisis stirred the same argument. Processes of mutual democracy were either too democratic and thus weighed in disfavour of managerial efficiency and responsibility<sup>47</sup>, thus paving the way to bad assessment of risks. Or, in the meanwhile, within these democratic exercise of power, a lack of transparency in the actual process of ultimate decision resulted from the existence of untold and discreet circles of influence, which hindered relevant choices of managers and a thorough effort of rationalisation, which could have threatened the durability of feudalities or baronies.

#### A. The crisis of governance in the 1930s

On local and regional levels, the ultimate influence of the boards on the process of decision – mainly about to grant a loan or not, or to extend its maturity –, which had been part of the historical mutual chart, contributed to deepen the crisis of numerous mutual institutions. Because of the pressure of farmers, or city small and middle businessmen, on both *Crédit agricole* and *Banques populaires* regional banks, credits were attributed, broadened or extended, first in 1928-1930 because the value of commodities started to drift slightly sooner than the start of the global recession itself, second and essentially during the initial terms of the bust, in the name of supporting “popular classes” against “capitalist crisis”, of preserving the political and social “pact” between the Republic and those small and middle-sized producers which had been established in the 1870s-1890s and cemented through national union in WWI. Managers were thoroughly submitted to the boards, which opened doors to demagogical acceptance of risky loans – thus leading local and regional mutual banks to illiquidity, then to insolvency. Such a drift from the balance between financial support and responsibility was a cause of blindness in risk assessment and of final irresponsibility – as the failure of a large minority of bad debtors fostered the ruin of the whole local or regional mutual institution. The basic precepts of “mutualism of responsibility” were thus forgotten, and mutualism drifted from philanthropic generosity to managerial blindness<sup>48</sup>. But it met no obstacle from the Paris head institution: first, this one was not entitled to exert a real power and control over the regional and local sister institutions; second, they were often themselves submitted to circles of influence: social christian ones, for *Crédit libre*; center-left (from *Parti radical*, then the leading French party) or center-right, or even free-masonry at *Crédit agricole mutuel* or *Banques populaires*. No strong and legitimate central managerial power had yet gathered momentum at the top of mutual banking systems.

#### From crisis to reorganisation at *Banques populaires*

The crisis, starting more or less early, fuelled a reaction towards true and rationalised management and towards mutual responsibility. At *Banques populaires* group was instituted by the law of July-August 1929 a transparent, democratic, representative and legitimate collective head, *Chambre syndicale des Banques populaires*. Because it was established by regional *Banques populaires*, it could act in their name and, reciprocally, convince them to follow the same managerial path – all the more that laws of March 1934, June 1935, August 1936, and December 1936 reinforced the centralisation mode of governance of the group (in exchange with fresh advances from the state Treasury). It could therefore enhance the national legitimacy of *Caisse centrale des Banques populaires*, its managerial branch, over which it asserted its power of impulsion, control, and decision after a thorough reorganisation in 1929-1930. From a process starting by a collective reflection in October 1928 and leading to strong reforms, both Paris institutions were thus entitled

<sup>47</sup> André Gueslin, “Dynamisme et lenteurs d’un secteur abrité : les banques mutualistes au xx<sup>e</sup> siècle”, in Patrick Fridenson & André Straus (eds.), *Le capitalisme français, XIX<sup>e</sup>-XX<sup>e</sup> siècles. Blocages et dynamisme d’une croissance*, Paris, Fayard, 1987, p. 211-223.

<sup>48</sup> See Hubert Bonin, “Le mutualisme entre générosité et aveuglement”, in *Le Crédit agricole de la Gironde*, op.cit., p. 128-130.

to impose a nation-wide reengineering of the accounting system, of the control over risk assessment processes, of the choice of Paris and regional managers along with criteria of competence. Numerous managers of regional banks were dismissed (thirty-two in 1928-1929 only, against a total of one hundred<sup>49</sup>), as a first stage of rationalisation; boards were reshuffled to eliminate representative of overdebted mutualists. And new rules imposed to entrust a special committee of credits in Paris to decide over loans to be attributed to directors of regional boards, to avoid misuse of influence to cover bad debts granted because of practices of non-separation of powers.

A few regional banks were even dissolved by the head institution because their governance and management were too much rotten or inefficient to allow a mere recovery plan – thus explaining a cut in the number of regional banks from 100 to 92 from 1927 to 1934 – before mergers were imposed here and there in 1934-1939 to twenty-six banks: the number of *Banques populaires* regional banks fell from 100 in 1929 to 62 in 1939 (with 286 permanent branches and 538 outlets with weekly offices). As a cornerstone, *Chambre syndicale des Banques populaires* set up a mutual fund which collected the whole available treasuries of regional banks and could thus refinance them through an inner little money and clearing market. The two successive crisis (inner crisis in 1928-1929; global 1930s crisis) contributed to provide the group with managerial homogeneity and with a culture of responsibility<sup>50</sup> – and the ministry of Finance, in charge with the supervision of specialised credit institutions since March 1934, became the supervisor of due diligence and compliance processes at *Banques populaires*.

### **From crisis to reorganisation at *Crédit agricole***

The same with the *Crédit agricole mutuel* group. The state (as the expression of the consensus between the successive political majorities of center-right and center-left in 1934-1938) invested *Caisse nationale de Crédit agricole*-CNCA with the power of rationalising the mode of governance of the mutual group, through successive laws (mainly in September 1935) and reforms<sup>51</sup>. Everywhere, reforms of statutes by general assemblies were necessary to transpose the rules fixed by Paris institutions<sup>52</sup>. First, CNCA might onwards impose the change of regional managers and give its agreement to the selection of new ones, in the name of competence and experience. Second, it promoted drastic changes in risk assessment methods and in accounting accuracy. Third, it demanded a merger of local mutual banks (around “cantonal banks”, each regional bank – in fact active in one French administrative unit called *département* – being thus composed of a dozen to a twenty district banks) to mutualise management and reduce the control of wealthy farmers or of directors acting along with political minds on too much small boards<sup>53</sup>. A few regional banks protested against such move towards “centralisation” and even “Paris dictatorship”.

But several regional banks were on the brink of being dissolved and refounded, and that occurred too for several local banks, when obstruction paralysed their life: a wind of “discipline” blew over the *Crédit agricole* group, which could thus reach WWII without collapsing. *Caisses régionales* had to exert a strict control over the credit policy of *caisses locales*, and from Paris CNCA itself oversaw *Caisses régionales*. A subtle but strict balance between philanthropic mutualism and the requirements of banking management had to be drawn up in the midst of the 1930s to extract *Crédit agricole* from its financial crisis and from its crisis of governance. Becoming larger and actual banks instead of mere “caisses” processing records of credits with benevolence, *Crédit agricole* regional banks had to change their mode of governance and management altogether, and to reduce the weight of “politics” – that is the influence of the elected boards and tacit agreement to maintain doors opened to any application to credit. The mutualist spirit and mission (coming from the 567,000 *sociétaires* or shareholders of 5,718 *caisses locales* in 1938 – instead of 6,195 in 1933) had to be applied to advice to farmers, to check that money be used only in favour of rural areas, without interfering in the day to day scoring of credit files. Coming out of the crisis, the levels of

<sup>49</sup> Élisabeth Albert, *Les Banques populaires*, op.cit., p. 122-126.

<sup>50</sup> See Élisabeth Albert, *Les Banques populaires*, op.cit., p. 139-231.

<sup>51</sup> C. Bosseno, *Crédit agricole, un siècle au présent*, op.cit., p. 105.

<sup>52</sup> For example : Alain Borderie, *1902-2002. D'un siècle à l'autre*, op.cit., p. 54.

<sup>53</sup> C. Bosseno, *Crédit agricole, un siècle au présent*, op.cit., p. 95. About the case of *Crédit agricole de Seine-et-Oise* : Alain Borderie, *1902-2002. D'un siècle à l'autre*, op.cit., p. 59.

respective accountability had been therefore precised, all along the chain of *Credit agricole* institutions.

But the other mutual institutions missed their rendez-vous with history as they did not take profit of the crisis and their inner crisis to reinvent themselves and create national bodies able to supervise, rationalise, and mutualise the management of the various groups. The local and regional mutual banks of *Crédit libre* which survived to the 1930s crisis had to wait till the 1960s-1970s to draw the lines of actual pluregional groups – without a head in Paris, but in a few regional capitals (Strasbourg, Lille, Nantes, etc.). It was due to the next crisis, of present times, to stir lucidity and rationalisation. And the same of *Caisses d'épargne*, but their stability under the umbrella of the state, municipalities and *Caisse des dépôts* prevented them to think of unification.

## **B. The crisis of governance in 2006-2009**

The crisis of a few institutions owned by mutual banks stirred intense debates about the governance of the groups, a starker issue at mutual banks than in classical ones<sup>54</sup> because of their democratic and electoral process. We have firstly to tell that *Caisses d'épargne* joined mutual banks because the state decided to “privatise” them in 1999, that is to transform their self-controlled capital (built through the yearly benefits of operations) into equity, in order to get a competitive company. A new mutual banking group was born – joining the French statute of cooperatives which had been prevailing since a 1947 law –, owned by 3,7 million mutualist *sociétaires* gathered in 354 *sociétés locales d'épargne*, themselves owning seventeen regional *Caisses d'épargne*, those latter controlling Paris CNCE. It imitated therefore *Crédit agricole* the strength of which relies on its 33,400 members of the boards of 2,570 local mutual banks controlling 39 regional banks.

Conversely with the 1930s crisis, rationalisation was not everywhere at stake, because the rebuilding of *Caisses d'épargne*, *Banques populaires* and *Crédit agricole* had already gathered momentum from the 1990s, with mergers on a regional level – with *Caisses d'épargne* dwindling from 200 at the turn of the 1990s to 31 in 1999 and 17 in 2009 –, adoption of mutualised back office systems (software, etc.), definition of common commercial products and policy, etc. Retail banking structures were therefore well defined, rationalised and reshuffled, which explains in fact that the profitability of mutual regional banks and retail banking (as a cash cow) helped Paris holdings to absorb their losses. And in Paris, a whole range of affiliates or divisions tackled the broad banking and finance business, like at *Caisse centrale des Banques populaires*, which had been reorganised as soon as 1986 to face adaptation<sup>55</sup> (with about 2,000 employees).

Only *Crédit mutuel* had to go on rethinking its way of life because it is still divided into a few competing pluriregional federations. Even if *Crédit mutuel Centre-Europe* (from Strasbourg) controls about a half of *Crédit mutuel* activities in France, it has to respect its “brothers” which still resists national amalgamation. *Crédit mutuel du Nord*, *Crédit mutuel ARKEA* (West, South-West, Centre) do challenge the hegemony of their partner – even if they all share the same commercial policy. *Crédit mutuel Centre-Europe* controls *CIC* regional banks, of which some are active in the very territory of the other *Crédit mutuel* banks... Such lagging sense of unity causes foibles (lack of economies of scale, leeway left to some regional banks, which consumed their capital and had to be rescued by the three leading *Crédit mutuel* banks, etc.) and prevents the groups to pile up cash enough to develop in common an international strategy.

The three other groups' governance suffered from the war lodged between representatives of regional banks and the little groups of influential leaders in Paris, either from the technostructure of the federative institutions (long term directors and managers, like the general secretary of the *Fédération nationale de Crédit agricole*, the expression of regional boards)<sup>56</sup>. Who did exert power through the 1990s-2000s? Delays in strategic decisions, refusal to set up drastic modes of control

<sup>54</sup> See Benton Gup (ed.), *Corporate Governance in Banking. A Global Perspective*, Cheltenham, Edward Elgar, 2007.

<sup>55</sup> P. Dottelonde & C. Malaval (eds.), *Caisse centrale des Banques populaires*, op.cit., p. 173, 175, 178-188.

<sup>56</sup> Libie Cousteau & Anne Feitz, “Crédit agricole. Fissures dans la maison mutualiste”, *Enjeux-Les Échos*, September 2008, p. 48-52.

over the Paris activities, were recurrent signs of inner tensions, and could have contributed to less entrepreneurial spirit on a national or international level in face of a few opportunities – and clashes occurred at *Caisses d'épargne*, the chairman being changed earlier than scheduled because he resisted somehow at the acceleration of mutualisation and rationalisation. But on the other side, too many regional banks (at *Crédit agricole*, mainly, and sometimes at *Crédit mutuel* – in Marseille, then in Bordeaux-Pessac, for example) benefitted from a too much lasting autonomy, because of their independance in strategy and use of their own financial reserves, and they sometimes displayed risky investments into regional firms, for instance (either immobilised credits or even equity control), with a few losses or concerns.

Trouble brewing reforms were often tried throughout the 1990s-2000s to reach a consensual balance between regional banks (their boards, their CEOs) and the Paris institutions; complex structures were drawn, which were questioned, then rebuilt, in particular at *Caisses d'épargne* group<sup>57</sup>. Unease was increased when the issue of the very ownership of the Paris institutions was raised: because the cornerstones of commercial and corporate banking has been floated on the Paris (then Euronext) stock exchange, which left only a majority of control to regional banks over their “sister” bank, and because complex schemes preserved some part of the national institutions to the capital of their “daughter banks”, confusion was sometimes prevailing. If everybody controls everybody, nobody seems able to actually control anybody, which could explain the few cases of ill-management in a few regional banks and moreover in the Paris investment and corporate banking affiliates. And arguments are still going on sometimes, even if firefighting imposed to give priority to drastic managerial reforms and contributed somewhat to reinstate a powerful oversee by regional banks over their “sister/daughter/mother” Paris banks. For instance, in the fall 2008, the chairman and the CEO of CNCE were ousted by the board thanks to a *coup d'État*, which ended the superpower of chairman Charles Milhaud, in the name of the “corporate culture” of the group and against too much capitalist modus operandi and speculation (through trading or else) – whereas an attempt of dismissing the chairman and CEO of CASA failed.

Such arguments within the teams of both *Banques populaires* and *Caisses d'épargne* and their dire consequences on the effectiveness and momentum of the processes of risk assessment – because of an excessive dilution of responsibilities (who in charge? What about long shuttles between structures to reach agreements?) induced the groups to consider an actual merger of their top institutions; and the project is being set up from the start of 2009, but it will require surely a somewhat long time, first to assess the values of assets for the breakdown of equity – and negotiations took shape with the intermediation of Banque de France in the winter 2009 –, second because the basis of power and decision will have to be drawn up to balance teams, breeding grounds, etc.

## Conclusion

In France, the cooperative sector did not get deeply embedded in daily economic and social life because social-christian trends were contained by the Republicans from the 1870s, and because the leftists did not assimilate socialism and cooperatism, conversely with Germany or Belgium<sup>58</sup>. This explains the “backwardness” of mutual banking, which could not reach strong positions before the 1960s and remained limited to specific customerships and areas. The 1930s crisis almost condemned important parts of it, because of bad management and governance, because local and regional mutual banks had over-extended their credits and were too much independant from mutualist central institutions, and because of lack of internal refinancing and clearing processes. But, in the meanwhile, it did contribute to reinforce it globally because it had to react to the threatening collapse, rationalise its structures, define better means of management, of governance and of risks assessment. Paris institutions took shape and/or gained power for *Banques populaires* and *Crédit agricole*. And that latter could even somewhat “defeat” its archrival social-christian

<sup>57</sup> Jean-Louis Hébert (*et alii.*), *Soixante ans de construction du groupe Caisses d'épargne*, op.cit.

<sup>58</sup> Hubert Bonin, “Non-state and non-capitalist enterprises in France in the 19th-20th centuries: The causes of a slow development”, in Susanna Fellman, Antti Kuusterä & Erro Vaara (eds.), *Historical Perspectives on Corporate Governance. Reflections on Ownership, Participation and Different Modes of Organizing*, Helsinki, The Finnish Society of Science and Letters, 2008, p. 65-88.



*Crédit libre*, of which several institutions failed, whilst *Caisses d'épargne* lured deposits from savors concerned by the difficulties of commercial banks.

A quarter of a century later, the effects of the cyclical crisis were far lighter, and mutual banks were submitted to commonplace setbacks on bad loans and depreciated assets (mainly from property trading operations or bad investments on US risky and then “toxic” products). The processes of risks assesment of French mutual and “philanthropic” banks appeared far better managed in front of the huge losses and the fractal crisis endured by German *Sparkassen* and their regional federal institutions, or in front of a few other European banks which had been coming out of mutualist spheres. “Islands” of weakness were in fact the “junior” federal banks of *Crédit agricole*, *Banques populaires* and *Caisses d'épargne*, Calyon and Natixis, because their business model had not been firmly delimited and had been extended far beyond control; a crisis of knowledge and competence concluded then this over-stretched diversification, as a classical case study of strategy micro-economics. The evolution from “philanthropic” heritage of specialised activities and customerships to universal banking competitiveness had not been well tackled indeed. Such investment and corporate banking activities and such trading activities had been stretched without imposing a pace of growth compatible with the meager teams and capital of experience available, also without investing enough into strategies, organisations, relevant structures of control: such junior banks rushed to compete with the “elder” and wiser ones, without taking into account the famous “curb of experience” and because un-trained high managers of the groups gave leeway to investment and trading head bankers who had been often recruited expensively from other banks and were too much independant. Mutualism was questioned on that level because central organs drifted out of control from mutualist federal institutions and played risks with the centralised liquidities of mutual regional banks, which had lost their grip on the Paris mother companies.

The negative effects could be brakes put on the European developments (conversly with the Austrian *Raiffeisen*, for instance<sup>59</sup>, much active all over Central Europa); but, like in the 1930s, positive effets will be drastic strategic refocus and the tightening of risk assessment processes – through the advices of packs of consultants! – on one side, and the acceleration of the move towards more rationalisation, mutualisation of back office, and more transparency and power balance in the governance of both mutualist federal institutions and they banking central institutions on the other side. Anyway, globally, French mutual banks, rich with their powerful and profitable retail banking basis, followed the path of their “capitalist” counterparts *Société générale* and BNP-Paribas, and they avoided the speculative choices of US, Belgian, Scottish and Swiss banks and reckless M&A projects, which prevented them from reconsidering the legitimacy of their business model towards universal banking in front of their mutualist members and boards, which only argued about the exercise of power at the top of the groups.

Table 6. The balance of power in retail and corporate banking in France in 2010 (€billions)
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Source: Les Échos, 21 March 2011
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<sup>59</sup> See *Raiffeisen International. Success in 15 Languages, Annual Report 2007*, Vienna, 2008.

## French philanthropic banks across crisis, in the 1930s and in 2007-2009

1. Mismanagement of banking risks through both crisis: from illiquidity to unsolvency
    - A. Philanthropic banks and the 1930s crisis of lending
      - A cyclical banking crisis
      - From treasury deadlock to rescue refinancing
    - B. Philanthropic banks and the 2007-2009 crisis
  2. Business models twice questioned
    - A. Philanthropic banks yearning for mutualisation and rationalisation through the 1930s crisis
      - Confederal architecture questioned at *Crédit agricole*
      - Confederal architecture questioned at *Banques populaires*
      - Federal and centralised architecture prevailing
    - B. Renewing the portfolio of skills through the recent crisis
  3. Successive arguments about the governance of philanthropic banks
    - A. The crisis of governance in the 1930s
      - From crisis to reorganisation at *Banques populaires*
      - From crisis to reorganisation at *Crédit agricole*
    - B. The crisis of governance in 2006-2009
- Conclusion