

RELATIONS BETWEEN BANKING INSTITUTIONS AND THEIR CUSTOMERS

2002 was first and foremost the year of the euro, which enabled banks to play a "supporting role" for their customers. 2002 also marked a turning point in relations between banks and their customers with the implementation of the charter on deposit account agreements.

THE CULMINATION OF THE EURO PROJECT

Between midnight on January 1st and 6.00 p.m. on January 2nd, EUR 405 million was distributed through automatic teller machines [ATMs]

For banks, the euro's arrival into the daily lives of the French population on January 1st 2002 represented the culmination of the extraordinary project that began to take shape at the end of 1997. The switchover to the single currency on the capital markets on January 1st 1999, the development of the book-entry euro in the second half of 2001 and the changeover of nearly

all ATMs during the night of December 31st of the same year were unquestionable successes. At the dawn of 2002, however, banks still had two technical and logistical challenges to face: exchanging French francs into euros within a six-week period; managing the inflow of 1.4 billion notes and, in particular, 7-8 billion coins denominated in francs.

The challenges

■ Ensuring customer service during an exceptionally busy period

In preparation for the flood of customers into their branches, banks hired 50,000 temporary workers, representing a 12.5% increase in total staff. However, during the first few days of January actual customer numbers exceeded all estimates, with 8 to 10 times more customers visiting bank branches. Most of the transactions were nonetheless carried out smoothly and exceedingly quickly.

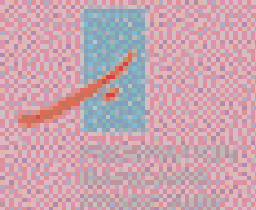
■ Guaranteeing the safety of customers and staff

The transport and storage in branches of an unprecedented volume of French franc coins and notes required exceptional measures. The "euro-security" plan implemented by the authorities, at the request and with the help of the banks, proved effective and dissuasive.



Un billet à trous
ça ne vaut plus rien du tout *

Votre banque perfore les billets en francs **
pour la sécurité de tous.



* Hole-punched bank note, it's now worth nothing at all
** Your bank hole-punched French franc notes for everyone's safety

Involvement of the banking sector

In order to manage the influx of customers into branches, banks launched a number of communication campaigns. A series of advertisements appeared in the written press, on the radio and in various media published by banks to remind the French population that they had time, to encourage them to make appointments to exchange their francs for euros under optimum conditions of safety and convenience, and to dissuade them from using large notes in stores.

The 7-8 billion French franc coins to be returned to the Banque de France weighed some 30,000 tonnes.



Over the first 12 days of January, 32 million withdrawals were made from ATMs for a total amount of EUR 2.190 billion.

At the same time, for reasons of general security, the banking industry designed and implemented a system to cancel French franc notes by hole-punching them before returning them to the Banque de France. The FBF took charge of the manufacture and distribution of the hole-punching machines, representing an investment of EUR 5.2 millions. Aware that for this system to be dissuasive, it also had to be visible, the FBF initiated a advertising campaign aimed at the general public, highlighting how hole-punched notes were worthless.

A FEW FIGURES ON BANKS AND THE EURO

A considerable financial and human investment

- Nearly EUR 5 billion invested by banks in the introduction of the single currency.
- 300,000 employees were trained in the changeover to the euro from the end of 1998, with regular "refresher courses".

An operation acclaimed by the French population*

- Nearly 9 out of 10 French citizens believe that "banks were successful in the changeover to the euro".
- A high proportion (88%) believe that "the conversion of francs into euros in bank branches went smoothly".

* Ireq Survey – July 2002 – sample of 1,000 people.

DEPOSIT ACCOUNT AGREEMENTS

In response to the request made on November 25th 2002 by the Minister of the Economy, Finance and Industry, a charter on deposit account agreements was signed by the banking profession. This charter is based on the outcome of discussions on the Murcef Law between banks and consumer associations,

within the framework of the Consultative Committee of Users, which enjoyed a vast consensus. In particular, it binds banks and their customers in a contractual relationship based on trust and responsibility.

The three commitments of banks

■ Formalise deposit account agreements with individual customers

Banks undertake to formalise contractual relations with their customers by offering them "account agreements" which describe the day-to-day functioning of the deposit account:

- the procedures for opening, transferring and closing a deposit account;
- the products and services offered to customers, namely means of payment and authorised overdraft facilities;
- the procedures for processing incidents and their billing.

■ Enhance price transparency

- Banks undertake to send their customers a list of prices applicable to the products and services described in the agreement.
- Upon request, customers may close their account free of charge where they are opposed to a substantive amendment to the agreement.
- Lastly, the banks undertake to inform their customers of any price changes three months prior to application. Customers have a two-month period to send a written opposition to these prices.

■ Facilitate the Ombuds process

With regard any dispute arising from the application of the agreement, customers are entitled to the services of an Ombudsman, made available by the bank free of charge. The Ombudsman's contact

details are given in the new agreements and on account statements.

The new agreements were sent to all new customers by February 28th 2003 at the latest – and as of April 30th 2003 at the latest to any existing customers upon request.

TIED SALES/PREMIUM SALES

Tied sales: as stipulated by the Murcef Law (Article L.312-1-2), tied sales were prohibited as of December 14th 2002, with two exceptions:

- where the products and/or services in the packaged offer can be purchased separately;
- where the products and/or services are inseparable.

Banks have consequently restructured their offers where necessary. For bank cards offered with services that were deemed inseparable in light of international standards during the parliamentary debates, banks ensure that they offer their customers a basic payment/debit card. At the same time, customers can still choose between various cards, featuring collective insurance policies or special services, which correspond to normal customer needs and which are included in the service offerings of the major international card networks.

Premium sales: the law stipulates new provisions for premium sales, which are to be set out in an order. The order was in the process of being drawn up at the end of 2002.

WIDE-SPREAD ADOPTION OF THE OMBUDS PROCESS

Since the end of 2002, each bank has an Ombudsman. The Ombuds process is not intended to take the place of companies' systems for dealing with complaints. In a society where the use of legal action to resolve disputes is on the rise, the Ombuds process aims to offer a means of last recourse for reaching an amicable solution free of charge, once the two first levels of dialogue between the bank and its customer (bank branch and customer service department) have been exhausted. A mini guide, published by

the FBF's Banking Information Centre, explains how this systems works (Mini Guide No. 3, Resolving disputes with your bank). The French Banking Federation has decided to offer a mediation service for banks that do not wish to appoint their own Ombudsman. To date, over one hundred banks have opted for this service. Under the responsibility of an independent Ombudsman, Benoît Jolivet, this service conforms with a charter, which outlines the main principles of mediation (see below).

Ombudsman's Charter proposed by the French Banking Federation (FBF)

- 1 The FBF offers a mediation service to those members that have not appointed an Ombudsman within their own establishment..
- 2 To this end, it appoints an Ombudsman for a renewable two-year term who acts independently and impartially on behalf of member banks that have expressly designated the Ombudsman for this purpose. The Ombudsman is bound by the conventions of confidentiality and professional secrecy.
- 3 The Ombudsman's role is to recommend solutions to any disputes between banks and their customers.
- 4 Individual complaints can be referred to the Ombudsman in respect of those cases provided for by the Murcef Law: account agreements and tied and premium sales. Banks that apply this charter may nevertheless extend the scope of competence of the Ombudsman to complaints made by individual customers holding a demand deposit account which involve matters other than those referred to in the preceding paragraph, with the exception of issues concerning loan transactions. Requests must be submitted in writing on the condition that the customer has exhausted all other paths of recourse (complaint, conciliation, customer service department, etc.) or if there has been no reply to a written request within a two-month period. The matter may not be referred to the Ombudsman where any prior or simultaneous legal proceedings have been initiated, unless otherwise agreed by the bank and its customer.
- 5 The Ombudsman is required to rule on issues within two months of the date of the request, which suspends the limitation of action for the duration of this period. The Ombudsman contacts the bank in question, which is obliged to furnish the elements required to accomplish the mission. Mediation is free of charge for the customer.
- 6 Recommendations can be made by the Ombudsman at law or in equity and are presented in writing with due justification. In the event of disagreement, the bank or the customer is free to refer the matter to the courts. In accordance with the law, any reports and/or statements gathered by the Ombudsman may not be subsequently used in any legal proceedings without the prior approval of the parties involved.
- 7 The Ombudsman draws up an annual activity report, which is made available to the public.

BORROWER'S INSURANCE: THE BELORGEY AGREEMENT

The Belorgey Agreement was effectively implemented in 2002, once the immense project to change over to the euro was completed.

Signed on September 19th 2001, it marked the outcome of two years of negotiation between sector professionals (bankers, insurers), consumer and patient associations and the public authorities (Ministry of the Economy and Ministry of Health).

The Belorgey Agreement is intended to address a strong social demand in terms of the confidentiality of personal data and access to insurance and credit.

- The main provisions of the agreement:
- reinforce the confidentiality of medical records;
 - eliminate the medical questionnaire for the death insurance required when taking out a loan (with limitative terms);
 - provide easier access to insurance for people with serious health risks.

This agreement is in effect until December 31st 2003 and is renewable by tacit agreement. A Committee has been appointed to monitor the implementation of the agreement on a regular basis. The FBF has launched a number of initiatives to increase banks' awareness and provide information on the subject. The Banking Information Centre has published a mini guide (Mini Guide n° 1) with over a million copies distributed by the centre itself, the FBF's regional and local committees, banking networks and a number of consumer associations.

BANK BALANCE EXEMPT FROM SEIZURE: IN EFFECT SINCE DECEMBER 1ST 2002

The principle of a bank balance exempt from seizure is designed to make an amount equivalent to the legal minimum income in France (EUR 405.62) immediately available to customers whose account has been seized, within the limit of the credit balance on the day the customer's request is received. The aim is to provide obligors with a minimum level of funds. The terms and conditions have been defined by decree*: it is incumbent on the obligor to make the request, by means of an application form that complies with the joint order from the Ministry of Finance and the Chancellery, published concomitantly with the decree.

The obligor may submit only one request per seizure for a given account held with a given bank. The request must be submitted within 15 days following the sequestration. The funds are immediately made available in a lump sum at the branch. Around 2 million individuals have their bank accounts sequestered in France every year.

52.9% OF HOUSEHOLDS HELD A LOAN AT THE END OF 2001

At the end of 2001, 52.9% of French households had at least one outstanding loan, compared with 51.8% at the end of 2000, according to a survey taken by the Observatoire de l'endettement des ménages**. This is the highest rate seen since 1989 (52.8%), compared with the record low in 1995 (49.1%).

The type of loans taken out by the French population has changed. The proportion of mortgage loans has stagnated in the past few years (29.1% in 2001 versus 33.6% in 1989), while households are making increasing use of short-term credit facilities, representing 35.4% at the end of 2001 versus 32.1% in 1989.

The cost of debt has improved, as the proportion of households that believe the cost of their loans is "manageable" or "easily manageable" has increased: 59.1% in 2001 compared with 58.5% in 2000 and 57.9% in 1989. The proportion of those that believe the cost of debt to be much too high has remained relatively stable at 3.9%.

* French Decree 2002-1150 published in the Official Journal of Legal Bulletins on September 13th.

** Annual survey of 12,000 people taken by SOFRES for the Observatoire de l'endettement des ménages.

CONSUMER INFORMATION: MINI BANKING GUIDES

Launched in September 2002, this collection of informative guides offered to the general public contains concise and practical information on banking products and services in a convenient, easy-to-read format.

These mini guides are distributed via the Banking Information Centre*, FBF's regional committees, banking networks, consumer associations, etc. About ten guides are published every year.

Already in print:

- n° 1 : Borrower's insurance -
The Belorgey Agreement
- n° 2 : Annual Percentage Rate (APR)
- n° 3 : Resolving disputes with your bank
- n° 4 : Online banking: a guide to best practices
- n° 5 : Account agreements
- n° 6 : What protection
for your bank deposits?

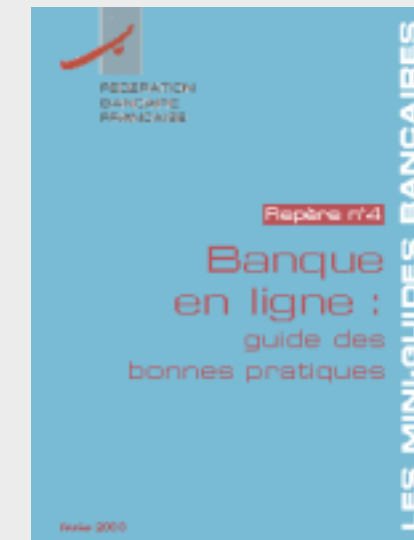
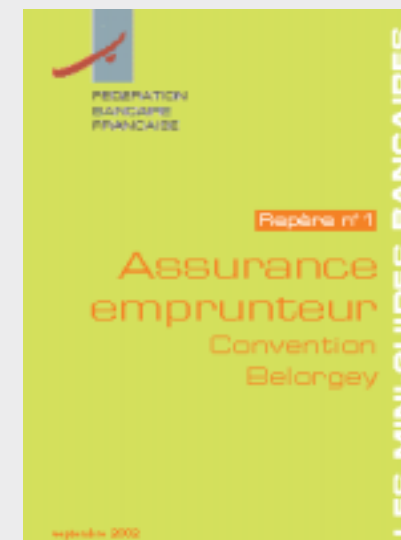
Plus a 48-page special edition on "Banking businesses".

To be published in 2003 **

- How to settle your purchases abroad?
- How to avoid overindebtedness?
- Rubber cheques
- How to use cheques
- How to use bank cards
- Right to a current account and basic banking services
- Consumer credit
- Sequestration of bank accounts
- Cash withdrawals and ATMs
- Standing orders

* Part of the FBF, the Banking Information Centre is responsible for providing the general public with information on banking practices, handling relations with consumer organisations and promoting quality in banking services.

** Provisional timetable.



MEANS OF PAYMENT

As one of the most concrete and frequently used banking services, means of payment play a central role in the bank/customer relationship: speed, efficiency and cost are essential in meeting the expectations of different customer segments.

Highlights in 2002:

- The creation of the European Payments Council in June 2002 reflected the efforts made by banks across Europe to establish a Single Euro Payment Area. The FBF chairs the Council and coordinates initiatives between French participants;
- The implementation of the European regulation on July 1st 2002 brought the cost of card payments and withdrawals in the euro zone into line with prices for domestic transactions;
- The work carried out within the CFONB (Centre Français d'Organisation et de Normalisation Bancaires) led to the standardisation of BIC (1) and IBAN (2) codes, which represent a standardised format for identifying bank accounts recognised across Europe;
- The SIT (Système Interbancaire de Télécompensation – remote interbank clearing system) continued to grow, recording 11 billion transactions and handling volumes linked to the interbank dematerialised cheque clearing system;
- The slow decline in the use of cheques continued with the number of cheque transactions dropping below that of bank card transactions for the first time;
- The CRI (Centrale des Règlements Interbancaires – French Interbank Settlement Centre) demonstrated its efficiency in handling large amounts;
- Lastly, the range of means of payment on offer was extended with the roll-out of "Moneo", the electronic purse, which was available to 60% of the country, had 800,000 users and could be used in 80,000 points of sale as at the end of 2002.

⁽¹⁾ Bank Identifier Code

⁽²⁾ International Bank Account Number

BANKS AND SMES: PROPOSALS TO PROMOTE THE CREATION OF NEW BUSINESSES

In June 2002, French banks stressed the importance of creating new businesses before the Prime Minister and highlighted a few priority measures to be taken.

Upon entering office, the government announced its intention to raise the number of new businesses over the next five years to one million. According to INSEE, new companies created 533,836 jobs in 2001.

As far back as 1995, the banking sector demonstrated its commitment to new businesses through its partnership with the Assembly of French Chambers of Commerce and Industry to found the association "Entreprendre en France" (Entrepreneurship in France). However, France

lags behind other countries, such as the United Kingdom, in this area.

Moreover, the number of new businesses is falling, standing at 270,564 (including 177,000 start-ups) in 2001 versus 272,072 in 2000 (figures include start-ups, reactivations and buyouts). Economic reasons notwithstanding, the causes have often been analysed: insufficient support for new businesses, lack of clarity in the various grant schemes, precarious social position of entrepreneurs.

In an effort to remedy this situation, the banking sector is promoting several measures, some of which have been incorporated into governmental projects.

Simplifying administrative red tape for entrepreneurs

The administrative formalities to set up a company (in terms of taxation, social security contributions, labour law, etc.) are too heavy and overly complex for entrepreneurs. Furthermore, over the years a large number of measures or schemes to encourage the creation of new businesses have been introduced and have overlapped, making the whole process confusing for entrepreneurs.

Financing new businesses by differentiating between investing and lending

The creation of new business requires start-up capital. This process can be made easier by mechanisms that facilitate capital or quasi-capital investment, encouraging the development of love money. Loans should be kept to cover working capital requirements and to finance investments. The raising of the ceiling on Codevi (industrial development savings accounts), with total deposits amounting to EUR 38.3 billion at the end of 2001, should increase the total volume of loans available to SMEs.

As loans to entrepreneurs present a greater risk than working capital credit, the lender should be able to ask for a collateral guarantee. To this end, banks would like to improve the Sofaris guarantee system and are in favour of a relaxation of legislation on maximum interest rates – this mechanism is practically unique in the European Union as it caps interest rates on loans by law – in order to earn a fair return on the risk taken and avoid depriving fast-growing businesses of access to credit.

Creating a favourable legal and social environment

In order to facilitate the creation of businesses by employees, unemployment benefits could be paid to the employees who resign to set up their own com-

pany. Another possibility would be for the employees to continue to benefit from social cover in the event of failure.

Implementing support measures

The bankruptcy rate among businesses in the first few years of existence is very high (30% in the first three years is often cited). In order to remedy this situation and strengthen young companies, entrepreneurs should benefit from advice and ongoing support. A number of organisations aim to meet this need (Entreprendre en France, France active, etc.) with the backing of banks through agreements that complement the entrepreneurial support with related banking services.

In 2001,
new businesses
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