



RUE LA FAYETTE

# THE BANKING INDUSTRY IN 2018



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# Editorial

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**Marie-Anne Barbat-Layani**

Chief Executive Officer of the FBF



**Laurent Mignon**

FBF Chairman

2018 was a year unlike any other for both French banks and our country as a whole.

## INVOLVEMENT

In the challenging political and social environment in France at the end of the year, on 11 December the banking industry made an exceptional pledge not to raise fees for individual customers in 2019 and to cap payment incident fees for all financially vulnerable customers, representing 3.6 million people. This move, intended to boost customers' purchasing power, rounded out enhanced preventive measures such as the specific service offering for financially vulnerable customers. Banks also undertook to seek appropriate solutions for businesses impacted by the demonstrations.

## COMMITMENT

The banking industry was the first sector to take collective action to facilitate an end to the crisis. The measures were decided and implemented very quickly and were praised at the highest level of government. Banks showed their ability to listen and send out a strong signal, reaffirming their key role at the heart of society, be it via their work to increase banking inclusion, their role in financial education or their efforts to facilitate the professional integration of young people struggling to find work.

## LOCAL REGIONS

Guided by their customers' requirements and the engagement of their 366,200 employees, French banks strive to facilitate their customers' everyday lives and finance their future plans. Banks are aware of the importance of their local presence across the country.

## FINANCING

Financing the economy is French banks' priority. France stands out as an exception in the eurozone – with an increase of 5.7% in lending in 2018, financing for both businesses and individuals is much easier to obtain in France than in the rest of the zone. The French lending model is responsible, robust and very secure, allowing banks to finance their customers' projects while limiting the risks for both the borrower and the bank.

## ENVIRONMENT

French banks have adopted ambitious environmentally friendly policies to support the energy transition. They are meeting their climate commitments and their proposals should further boost financing for green energy solutions. For example, they offer preferential terms for loans to finance the purchase of eco-friendly vehicles or low-energy equipment for the home and have recommended assigning green assets favourable prudential treatment, etc.



*Banks responded  
to their customers'  
difficulties*

## INNOVATION

As key drivers of innovation, banks are reinventing customer relations both in branch and online, while guaranteeing the security of their customers' data and assets. The banking industry is experiencing a real digital revolution and cybersecurity is a key issue. The many innovations produced by banks and fintechs must be backed by an environment of trust and security, which are the cornerstones of customer relations. This requires a level playing field in terms of rules and competition between players and involves finding solutions to defend Europe's sovereignty in the strategic areas of payments and finance. These will be the main challenges for 2019, which will see the renewal of the European institutions.

Draft completed on 11 April 2019

# KEY FIGURES

## FOR THE FRENCH BANKING INDUSTRY

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**EUROPEAN LEADERS**

**4 OF EUROPE'S TOP 10 BANKS ARE FRENCH**

The Banker - July 2018



**340** BANKS  
**37,209** BRANCHES

ACPR 2019 - ECB 2017

**1,018**



**BILLION EUROS IN LOANS TO BUSINESSES**

Banque de France - end-December 2018



**2,416**

**BILLION EUROS IN LOANS TO THE ECONOMY**

Banque de France - end-December 2018



**555**

**BANK BRANCHES PER 1 MILLION INHABITANTS**

ECB - Eurostat 2017

**2.1%**

**THE BANKING SECTOR'S CONTRIBUTION**

**TO TOTAL ADDED VALUE IN FRANCE**

Insee 2017 - FBF

**97%**

**OF SMES OBTAIN ALL OR MORE THAN 75% OF THE INVESTMENT LOANS THEY REQUIRE**

Banque de France - 4th quarter 2018

# 366,200

EMPLOYEES FBF scope - 2017



# 42,200

PEOPLE HIRED IN 2017 FBF

# 1,010

BILLION EUROS IN OUTSTANDING HOME LOANS

Banque de France - end-December 2018

# 54,786

ATMS

GIE CB - 2018



NEARLY 8 IN 10 FRENCH PEOPLE CHECK THEIR BANK ACCOUNT ONLINE

BVA image survey of banks - 2017

# 2

BILLION CONTACTLESS TRANSACTIONS IN 2018 GIE CB

# 83

MILLION PAYMENT CARDS IN FRANCE

ECB - 2017





# THE FRENCH BANKING INDUSTRY

Banking is a major strength  
in our national economy.

- 01 AN INDUSTRY LEADER  
IN EUROPE
- 02 THE BANKING INDUSTRY'S  
PRIORITIES AND CHALLENGES





## AN INDUSTRY LEADER IN EUROPE

The local universal banking model specific to France once again proved its strengths in 2018.

### Confirmed strengths

Over the past ten years, banks have faced considerable regulatory changes. The creation of the Banking Union has given the eurozone an oversight system and a mechanism for preventing and managing banking crises unlike any other in the world. It has made the financial system more secure. Systemic banks have significantly strengthened their capital and reduced the risks carried on their balance sheets, while continuing to finance the economy. **The eurozone's leading banks (G-SIBs) carry 46% of loans to individuals and 40% of loans to businesses in their balance sheets**

(EBA, EU-wide stress testing).

### **Five French banks rank among the eurozone's top ten banks**

and among the top twenty worldwide (The Banker, July 2018). The aggregate net banking income of the four biggest French banks is robust, totalling €124.6 billion in 2018, compared with €122.9 billion in 2017 (an increase of +1.3%). By keeping a tight rein on costs (which fell by 6.9% in 2018), banks generated net income of €21.3 billion in 2018 (FBF calculations).

### A major role in local regions

The networks of branches and business banking centres spanning the country are an important strength for French banks. These networks allow the banks' advisors to be in close contact with all their customers (individuals, businesses, local authorities, non-

Finance has always contributed to our country's industrial, economic and political strength. A strong and powerful financial sector underlies each chapter in France's history.



**BRUNO LE MAIRE**

MINISTER OF THE ECONOMY AND FINANCE

New year's message to businesses

28 January 2019

profit associations, etc.) for both their everyday banking transactions and their larger projects.

**With 37,209 branches in 2017**, banks have a dense regional footprint. This local presence is the hallmark of the French banking model.

**55.5** BANK BRANCHES PER 100,000 PEOPLE IN FRANCE (vs 42.5 in the eurozone)

Source: ECB, FBF calculations - 2017



Fewer bank branches have been closed in France than in the eurozone's other major economies. While the number of bank branches fell by 2.9% in France between 2009 and 2017, it slumped by 21.1% in the eurozone, 17.6% in Germany and even 48.4% in the Netherlands (ECB, EU Structural Financial Indicators, August 2018, and Eurostat).

French banks' strong local presence is also reflected in the **coverage of the ATM network**. All card holders can withdraw cash from any ATM, regardless of their bank, thanks to interbank and interoperability agreements.

This local presence is enhanced by the **digitalisation of certain services**. Thanks to innovation – another key feature of the banking industry – customers now carry their bank in their pocket. Banking applications are **among the top three apps that French people check the most often**, after the weather and social networks (OpinionWay survey, May 2016). Customers can perform simple transactions themselves, while advisors are available to help them with bigger plans: they are at the centre of multi-channel customer relations.



**CASH WITHDRAWAL POINTS IN FRANCE INCLUDING 54,786 ATMS, OR TWICE AS MANY AS THE 35,416 TOWNS AND VILLAGES IN FRANCE**

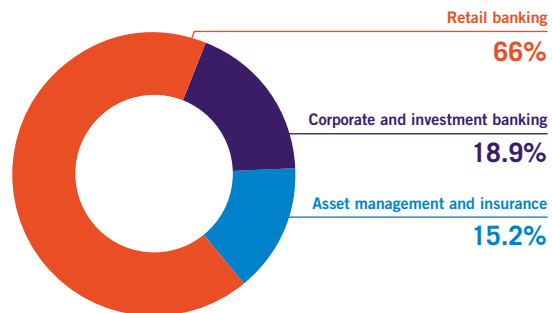
Source: GIE CB, banks - 2018

## A universal banking model that serves all customers

The universal banking model efficiently finances the economy on favourable terms. Under this model, a single bank offers a full range of services to meet the needs of all types of clients: individuals, professionals, SMEs, large corporations, financial institutions, local authorities, government entities, etc. The diversification of sources of revenue and risks offers security and stability.

## **BREAKDOWN OF NET BANKING INCOME BY BUSINESS LINE FOR THE BIGGEST FRENCH BANKING GROUPS IN 2017**

Source: ACPR



## Employment and training: strong momentum continues

**With 42,200 new hires in 2017** (+2.7% vs 2016), the French banking industry is a dynamic player on the local employment market. The 366,200 people who work in FBF member banks represent **1.9% of private sector employment in France**, with a large proportion of female employees, since **over half of bank employees are women**.

Although the total headcount has fallen (-1.2% in 2017, compared with -3.3% in the eurozone according to the ECB), the sector offers lasting, qualified positions: 2 out of 3 new jobs were permanent contracts, compared with an average of 2 out of 10 at national level. In addition, 2 out of 3 new hires had management level status.

**The job profile is becoming increasingly specialised**, and this is raising the level of qualification of new hires. This is one of the key trends in the sector. Post-graduate qualifications account for half of new recruits. Local jobs serving customers also account for a significant proportion of new hires (over 1 in 3 in 2017), along with positions in IT (15%), risk management and compliance (9%).

Investing in employee qualifications and skills is a key issue for French banks, which devote **significant resources to training: 4.5% of its payroll in 2017** (AFB-member banks) compared with an average of 2.6% in French companies.

Banks also place high importance on professional integration, especially through work-study programmes that provide many young people with on-the-job training as they pursue their studies. Banks recruit **6,500 students** with apprenticeship or professionalisation contracts each year.



**65% OF WORK-STUDY PROGRAMME STUDENTS ARE EMPLOYED WITHIN 6 MONTHS OF GRADUATING**

Source: AFB - 2017

## THE OBSERVATORY OF BANKING ACTIVITIES

The Observatory of Banking Activities is a jointly-run body that performs forward-looking research into changes in the sector's activities and expertise and produces data on employment and training in banking.

At a conference held on 6 December 2018, the Observatory and five trade union bodies representative of AFB-member banks published a report entitled **"New skills, transforming banking activities through to 2025 – how to successfully manage change"**.

This report identifies the major trends that will directly impact banks' flagship activities, namely digital, blockchain, artificial intelligence, process automation, regulatory change, new expectations among employees, new ways of working and changing consumer habits. As well as reviewing the skills needed in each type of activity, the report recommends solutions to accompany these changes.



[www.observatoire-metiers-banque.fr](http://www.observatoire-metiers-banque.fr)



## THE BANKING INDUSTRY'S PRIORITIES AND CHALLENGES

The banking industry faces a number of challenges in 2019, including the French G7 presidency, the renewal of the European institutions, the consequences of Brexit, regulatory constraints, cybersecurity, increasing competition and low interest rates.

### The challenge of profitability and the tax burden

Low interest rates are continuing to penalise retail banks by compressing their net interest income. Higher fees are not fully offsetting this decline. Return on equity (ROE) stood at 6.3% in 2017, well below pre-crisis levels, which saw ROE of more than 10% in 2007 (source: ACPFR).

Taxes are weighing heavily on the banking industry's competitiveness and on its ability to finance the economy. French banks paid **€15.4 billion in taxes and contributions for 2018** (excluding social security charges). Between 2010 and 2017, the total increase in additional charges incurred by banks (social security contributions, taxes, contributions to the resolution fund) amounted to €14.5 billion. **French banks pay 3.4 times more income tax than the added value they create** (source FBF).

### Brexit - an opportunity for Paris

French banks are ready for the United Kingdom's withdrawal from the European Union. Paris has undeniable strengths that will allow it **to become a major financial centre** as the European financial landscape becomes increasingly specialised by areas of expertise. Our capital city is one of the only financial centres in continental Europe with a comprehensive ecosystem comprising major

financial players, large issuers, a highly-diversified range of financial activities and recognised centres of expertise, in particular in asset management, corporate and investment banking, private equity, fintech, market infrastructures and green financing. The European Banking Authority's decision to move to Paris sent out an extremely powerful signal.



**FRENCH BANKS  
AMONG THE  
EUROZONE'S TOP 10  
BANKS**

Source: The Banker -  
July 2018

### A new political landscape in Europe

2019 will see elections to the European Parliament and a new European Commission. Over the past five years, 50% of new legislation has concerned financial services and the banking profession is now calling for more stability to allow banks and their clients to adapt and develop their activities in the new regulatory framework. The challenge for the new European institutions as the United Kingdom prepares to leave the European Union is to allow banks to **finance Europe's current and future needs more securely and more independently**.

## Economic sovereignty and the challenge of digital

French banks' top strategic priority is to finance the economy, and businesses in particular. It is therefore crucial that they are not held back by additional regulatory or economic constraints or by **unfair competition from other players**. This question of a level playing field applies both to non-European players, especially digital providers, and European non-banking businesses that offer the same services while observing simplified rules.

Although the French banking industry is facing many challenges, it is ready to rise to them all, as it always has done. This is a matter of **sovereignty for France and Europe**.

Another of the major challenges facing the banking industry is the question of **security intrinsic to the digital transformation of its activities**. Banks are investing huge sums to protect their clients' personal data and ensure the integrity of the financial system as a whole.

Given the reality of cyber threats, security is critical. French banks will never compromise on the security of their clients' assets and personal data and the digital vision they embrace reflects their values. Europe must safeguard its lead in terms of protecting personal data. Security must be an integral part of all forms of innovation.

## Meeting the G7's expectations in society

**French banks are major drivers of the energy transition.** They have kept the promises made since the COP 21 climate conference and will continue to do so. All banks are developing solutions to help French people navigate the transition to a low carbon society. The goal is to ramp up financing for the ecological transition and boost investments to protect the climate. To advance in this direction, the profession has recommended introducing a prudential bonus for green assets.

France holds the G7 presidency in 2019. The priorities identified by the French President – in particular reducing inequality and furthering sustainable development and digital – meet with the banking industry's concerns. This presidency will give banks the opportunity **to reaffirm their commitment to society**, which is evident in their proactive approach to social and professional inclusion, which extends well beyond their primary role of facilitating banking inclusion.



# FINANCING

French banks lend  
massively and responsibly

01 BUSINESSES

02 INDIVIDUALS



## BUSINESSES

Providing funding for businesses, and particularly VSEs/SMEs, is the top strategic priority for French banks.

### Dynamic lending activity

Lending is strong and growing steadily in France, with outstanding loans to business and individual customers up 5.7% to **€2,416 billion** in 2018 (Banque de France - December 2018).

Loans to businesses amounted to **€1,018 billion** (Banque de France, loans to non-financial companies at end-December 2018), representing an increase of **5.9% over one year**, while growth in the eurozone stood at just 2.8% (European Central Bank, at end-December 2018). Loan origination came to **an average of €26 billion** per month (Banque de France, at year-end 2018).

**Lending is very secure in France:** French banks' non-performing loan (NPL) ratio is much lower than the average of eurozone banks, at 2.87% versus 4.17% in the third quarter of 2018 (ECB, 2019).

With their unique universal banking model, French banks are able to offer **a full range**

**of services to meet businesses'** financing requirements.

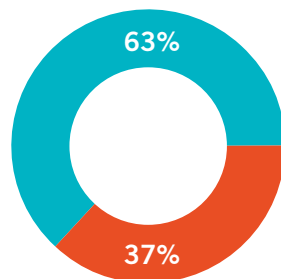
### Interest rates remain favourable for SMEs

**Over 1.1 million SMEs** in France are financed by bank loans and they benefit from favourable lending terms. Interest rates on new loans to SMEs have been low in France since 2008, at 1.70%, 27 basis points lower than the eurozone average of 1.97% (ECB, statistics on interest rates on new loans for less than €1 million with a fixed rate lock-in period of less than one year, at year-end 2018).

SMEs continue to enjoy easy access to investment loans: **97% of SMEs** obtain all or more than 75% of the loans they require. Short-term credit facilities are also easily available: **88% of SMEs** obtain all or the majority of the loans they request (Banque de France, 4th quarter 2018, survey of 4,000 SMEs and 2,500 VSEs).

### SOURCES OF FUNDING FOR BUSINESSES

Source: Banque de France - December 2018



**€1,018 bn** from bank credit

**€591 bn** from the market

We are counting on considerable support from our profession to ensure that this new electronic service is a success from the very start and so it becomes a natural reflex for accountants seeking to help their clients find funding. We all know that bank loans are one of the main ways that companies can expand and remain in business.



**CHARLES-RENÉ TANDÉ**  
CHAIRMAN OF THE ORDRE  
DES EXPERTS-COMPTABLES  
4 July 2018

### An online platform to facilitate loan applications by VSEs and SMEs

To simplify and further facilitate access to funding for VSEs and SMES, in particular for loans of less than €50,000, the Ordre des Experts Comptables (French Institute of Chartered Accountants) and the FBF launched an online platform named **“Dispositif Crédit 50 K€”** on 4 July 2018.

Accountants mandated by their clients can log on to the **Conseil Sup’ Network platform** and complete an online loan application using a standard template. They can then send the application to up to three banks simultaneously. Meanwhile, an option allows the entrepreneur to contact a mutual guarantee organisation if necessary. The loan application, which may not exceed €50,000, may be topped up if necessary by a Bpifrance loan to finance intangible assets.

The FBF is drawing on its network of regional committees to promote this platform, thereby reinforcing their relationship with accountants’ representatives at the local level.



Marie-Anne Barbat-Layani, CEO of the FBF and Charles-René Tandé, Chairman of the Ordre des Experts-Comptables at the launch of the **“Dispositif Crédit 50 K€”** platform on 4 July 2018.



## A draft law for Business Growth and Transformation

Ahead of the draft law launching an Action Plan for Business Growth and Transformation (the PACTE law), the FBF contributed to the work completed by the government and parliament and actively took part in the “**Grand rendez-vous de l’investissement productif**” (major meeting for productive investment) held at the French National Assembly on 22 January 2018.

In February 2018, the FBF responded to the government consultation and published 17 proposals for ways to better channel savings towards financing for businesses.

In May, the FBF published and posted online a new **mini guide on “How to use your savings to invest in businesses”**. This guide marks the conclusion of work carried out with the Member of Parliament Amélie de Montchalin and her team to present products that allow savers to invest in small businesses. Banks are encouraged to circulate the guide widely among their customers.

## Renewal of the agreement on the business credit mediation process

The industry-wide agreement signed in July 2018 extends the business credit mediation process until 31 December 2020. The significant reduction in the number of referrals demonstrates the success of this process: just over 2,300 referrals were made in 2017, a decline of 17% over one year, and a decrease of 86% since the process was launched in late 2008 (Business Lending Ombudsman, 2017 report). Banks have been active partners of the business credit mediation process for 10 years.



### **How to use your savings to invest in businesses**

a mini guide published by the FBF in June 2018.



To mark International Women’s Day on 8 March, the FBF hosted a conference entitled “**Women and growth initiatives: women committed to financing the economy**”. This event was co-organised with the Business & Professional Women network (BPW France), chaired by Agnès Bricard, to showcase the key role played by women in financing the economy. Olivia Grégoire, Member of Parliament for the 12th constituency of Paris and Member of the National Assembly’s Finance Committee, spoke at the conference, which was attended by 175 participants.



## INDIVIDUALS

Banks finance individuals. One in two loans are issued to individual customers to finance their homes or consumption requirements.

### Banks finance individuals' plans

Banks finance individuals' housing and consumption plans and lend more than banks in the eurozone as a whole.

Outstandings loans to individuals total **€1,225 billion**, up **5.9% over one year**. This represents **just over half of total outstanding loans in France**. Each month, banks grant more than **€20 billion in new loans** to individuals (Banque de France - at end-December 2018).

After the rebound seen in 2017, the percentage of households with loans stabilised at 47.8% in 2018, with **nearly 8.5 million households having taken out a new loan during the year**, according to the latest report by the Observatory of Household Loans published in January 2019.



**BILLION EUROS IN OUTSTANDING HOME LOANS, +5.8% IN ONE YEAR.**

Source: Banque de France, loans to individuals, end-December 2018.

### Increase in home loans

Home loans remained solid, with outstanding loans totalling **€1,010 billion at the end of 2018, representing over 80% of loans to individual customers** (Banque de France, lending to individuals, December 2018).

**France has the strongest home loan market in the eurozone**, with an increase of +6.3% in France compared with +3.3% for the eurozone as a whole (ECB, end-December 2018). Growth is being sustained by **particularly low interest rates, with an average of 1.49%** (Banque de France, new long-term fixed rate home loans, all amounts, at end-December 2018). The average interest rate on new loans has more than halved since 2012, positively impacting families' purchasing power. The fall in interest rates over the past six years has cut borrowing costs by 59%.

The percentage of households with home loans continued to rise, and stood at **31.4%** in 2018 (versus 30.8% in 2017), under the combined effect of strong demand and extremely favourable lending conditions.

The number of households buying their first home is rising sharply and reached 23.6%, one of the highest levels seen since the early 2000s.

Households' opinions of the amount of their loan repayments are close to the average levels seen over the past ten years. The number of households intending to take out a home loan is falling in relation to those intending to take out a consumer loan (report of the Observatory of Household Loans - January 2019).

## Financing for energy efficiency renovations

Various support mechanisms such as tax credits or loans allow homeowners to **make their homes more energy efficient** - households can choose the solution the best suited to their specific requirements.

Banks help individual customers finance their energy transition on a daily basis. They maintain constructive dialogue with the government so they can meet their clients' requirements as best they can.

For example, to facilitate energy efficiency renovations for private homes, the banking industry considers it is important for the **new interest-free eco-loan scheme (eco-PTZ)**, which is currently being finalised, to be as simple as possible.

In December, in response to the “gilets jaunes” (yellow vests) protests, banks made a commitment before the French President to offer **preferential lending terms** to make it easier for individuals to finance the purchase of an eco-friendly new or used vehicle or low-energy equipment for the home (see chapter 3).



### OF HOME LOANS ARE FOR FIRST-TIME BUYERS

Source: report of the Observatory of Household Loans - January 2019.





# DAY-TO-DAY BANKING

Banks have a strong regional presence and are close to their customers. They make a positive contribution to banking inclusion.

01

BANKS' MAJOR  
COMMITMENTS

02

EASIER ACCESS TO BANKING  
SERVICES



## BANKS' MAJOR COMMITMENTS

Banks' announcements were praised at the highest level of government.

### Support for financially vulnerable customers

Banks actively contribute to the work of the CCSF (Financial Sector Consultative Committee) and the OIB (Banking Inclusion Observatory) on customers identified as being financially vulnerable. In early September they reaffirmed their full commitment to support financially vulnerable customers with the following promises:

- **to promote and further distribute among eligible customers the specific range of services for vulnerable customers** required by law, which caps fees at €3 per month. This will further boost the distribution of these services, which saw a 40% increase in the number of beneficiaries in 2017, according to a report by the OIB;
- **to improve the content of this specific range with an overall limit on fees for payment incidents** and account management difficulties. This overall limit, which is set by each bank under the principle of competition, significantly reduces the fees charged to individuals entitled to these specific services.

These undertakings take effect from January 2019 for application by June 2019 at the latest.

At the same time, banks offer all their customers **information and notification services** (by text message, app notifications, etc.) intended to help them avoid payment incidents. They will promote these services

among their customers each year. Similar services are also included in the specific range of products for vulnerable customers.

Banks are working with interested parties to find a way to identify repeat presentations of direct debit instructions. Along with banks, the CCSF recommends establishing dialogue between the customer and their advisors (account manager, associations) as soon as possible when problems arise in order to avoid a succession of payment incidents and the resulting consequences.

In accordance with the conclusions of the Financial Education Strategic Committee held on 3 July 2018, banks once again reiterated the need to improve prevention by **promoting education in budget management**, in particular through local initiatives and via their “Les clés de la banque” (“Keys to Banking”) programme, which is available to government entities and associations.



**Managing your account if you face payment incidents – the special range of products:** a mini guide published by the FBF in September 2018.

**Measures to boost purchasing power**

In December, banks made four additional promises before the French President, which they will implement in line with the principle of fair competition:

- **no increase in fees for banking services for individual customers in 2019.** The Bank Fees Observatory confirmed that this promise had been kept in its report published in January 2019;
- **a cap on payment incident fees for all customers eligible for the specific range of products.** According to the Banque de France, this could represent €600 million in additional purchasing power for 3.6 million people each year;
- **an individual review of the situation of artisans, retailers and businesses affected by the demonstrations and efforts to find appropriate solutions;**
- **loans with preferential terms to finance the purchase of eco-friendly vehicles or low-energy equipment for the home.**

Banks also announced they would take part in the consultations held as part of the "Great National Debate".



**THE PORTION OF HOUSEHOLD SPENDING ON FINANCIAL SERVICES**



0.4% Financial services

47.7% Services (other than financial services)

25.9% Manufactured products

16.3% Food

7.8% Energy

1.9% Tobacco

Source: Insee - 2018

**BANK FEES: PROMISE KEPT!**

In a report published in February 2019, the Bank Fees Observatory (OTB) confirmed that banks had kept their promise not to raise fees for banking services for individual customers in 2019. The announced reductions were also upheld as half of the fees tracked by the OTB were lowered.

### A record decline in over-indebtedness

The number of cases referred to over-indebtedness commissions has been falling sharply and steadily for several years. According to the Banque de France, 162,936 cases were submitted in mainland France in 2018, **down 10% on the previous year, and down 29% against 2014**. Nearly 91% of claims, representing 147,853 cases, were accepted.

This decline in the number of cases of over-indebtedness reflects a significant change in the structure of debt. The portion of consumer credit in relation to total debt of over-indebted households contracted from 54% in 2012 to 37.8% in 2018, while total outstanding consumer loans and home loans have risen sharply and steadily since 2014. In contrast, arrears on everyday expenses and other debt have increased to account for 25% of total debt, compared with 18% in 2011 (Banque de France - 2018 typology survey on household debt).

These trends show that **over-indebtedness is primarily a reflection of social fragility**. It is essentially caused by a deterioration in the economic or family situation (caused by job loss or separation, for example) of individuals who initially incurred debt responsibly and based on their repayment capacity at the time of taking out the loan. The situation of over-indebted individuals has changed radically between the time they took out the loan and the time the over-indebtedness protection claim is filed.

- 29%

### DECLINE IN THE NUMBER OF OVER-INDEBTEDNESS CASES SUBMITTED IN 2018 VERSUS 2014

Source: Banque de France, Typology survey on household debt - January 2019



**Managing your debt:**  
a mini guide published by the FBF.



## EASIER ACCESS TO BANKING SERVICES

Several changes are being made to simplify banking services and enhance competition.

### Switching bank accounts: the new process is working

A year after the introduction of the process to make it easier to switch banks, the CCSF (Financial Sector Consultative Committee) published its first review of the system in July 2018, which showed that nearly 7 in 10 French people were aware of this service offered by the new bank.

**85% of customers having used the service were fully satisfied.** They were particularly satisfied with the efficiency and speed of the service and the information made available throughout the process. **92% of users would recommend the bank account switching service.**

### A common framework for borrower's insurance

In June, the banking industry published a **"Professional best practice"** guide to make it easier for banks to apply the new requirement to allow borrowers to cancel home loan borrower's insurance policies contracted before 1 January 2018 on an annual basis. The goal was to streamline the process and allow banks to serve customers faster and more effectively. On 27 November, the CCSF recommended that from the second half of 2019, banks should use the **date of signing the loan offer as the anniversary date of all borrower's insurance policies.**

### Regulated savings accounts remain popular

Net inflows into Livret A savings accounts totalled €10.08 billion in 2018, nearly matching the amount recorded in 2017. For the LDDS savings account, net inflows amounted to €2.62 billion over the year, slightly higher than in 2017 (€2.16 billion).

Total savings held in these two products amounted to **€391.4 billion at end-December 2018**, confirming French people's interest in guaranteed, risk-free, tax-exempt savings accounts.

The AMF's first annual survey of savings and investment corroborated this preference for guaranteed investments, although nearly one in two French people now believes that equities are the best long-term investment solution.



### THE HOUSEHOLD SAVING RATE

Source: Banque de France - 2nd quarter 2018



## MiFID II - new investor protection rules

The second Markets in Financial Instruments Directive (MiFID II), which entered into force on 3 January 2018, increases protection for individual investors by reinforcing the principle set out in the original MiFID that professionals must sell **the right product to the right customer at the right time**. The suitability of investments in terms of the customer's profile is measured by interviews between the investor and their advisor and **more detailed know your customer questionnaires**.

To explain what this means for customers, the FBF published a document entitled "A-propos" and produced a video tutorial.



## Withholding tax, a new process

Withholding tax is a simple way of paying tax immediately when the income is received. Payslips clearly show the amount of an employee's salary before the withholding tax deduction. The withholding tax does not affect the maximum borrowing capacity, which banks calculate on an individual basis before granting a loan. It has **no impact on the repayment capacity of individuals** wishing to take out a home loan. The FBF has produced **a video tutorial** to answer companies' questions on this subject.



## REGULATING CRYPTO ASSETS

Banks believe that the sale of crypto assets should be prohibited in banking products intended for retail clients for the sake of protection. They also consider that a licence should be required to issue such products and for secondary market trading platforms. And finally, they are calling for these activities to be subject to anti-money laundering and counter terrorist financing rules.

## WHAT IS CASHBACK?

Retailers can choose to offer their customers a cashback service. The transaction is not considered a cash withdrawal. A customer who makes a purchase for €20, for example, can request up to €60 in cashback. The card payment transaction will be for a total of €80. The card issuer charges the cardholder no fees for these transactions.

**99.73% OF FRENCH PEOPLE ARE LESS THAN 15 KM FROM A CASH MACHINE.**

Source: Banque de France

# RESPONSIBLE BANKING

French banks' commitment to society is reflected in their various initiatives to facilitate inclusion, financial education and the energy transition. They are also heavily involved in the fight against money laundering and terrorist financing.

- 01 INCLUSION
- 02 FINANCIAL EDUCATION
- 03 ENERGY TRANSITION
- 04 PREVENTING MONEY LAUNDERING AND TERRORIST FINANCING



## INCLUSION

Banks are extremely involved in facilitating the professional integration of young people through employment and entrepreneurship.

### Banking & Inclusion: a strong commitment

On 13 September 2018, the FBF brought together different parties involved in facilitating the integration of young people through employment or entrepreneurship, including banks, entrepreneurs, local associations, politicians and young people. The event was co-organised with the associations APELS (Agency for Education through Sport) and Les Déterminés with the aim of working together to rapidly find **new ways to foster successful professional and social inclusion in France**. Banks organise many tangible initiatives, for example by providing funding and support to hundreds of associations and organisations focused on inclusion, through their employment policies, and through the personal investment of thousands of their employees.



The FBF published a document entitled “**Banking & Inclusion**” to illustrate banks’ commitment to social and professional inclusion. This document includes articles written by the leaders of French banking groups - Jean-Laurent Bonnafé, Philippe Brassac, Kyril Courboin, Laurent Mignon, Frédéric Oudéa, Nicolas Théry and Rémy Weber - as well as by representatives from associations and young people.

### Ongoing support for entrepreneurs

The FBF supports a number of associations such as **Les Déterminés**, which encourages entrepreneurship in poorer suburbs and rural areas. Each year, a class of future entrepreneurs receives wide-ranging support with training and practical workshops run by experts. The 8th class attended a seminar based on the “Les clés de la banque” (Keys to Banking) and “Aveclespme” (Helping SMEs) initiatives, held at the FBF on 30 January 2018. Over 60% of participants in the Les Déterminés initiative since its launch in 2015 are women.

In June, the FBF hosted the nationwide final of the **Les Entrep’** awards. This association provides free training in starting a business to school-leavers and is open to all young people to help them find their entrepreneurial talent.

In November, the “Femmes Osez Tout Entreprendre” (Women, Show your Spirit of Enterprise) forum organised by the **Action’elles** network was held at the FBF. Action’elles is a network of nearly 600 women entrepreneurs providing support to women wanting to start their own business and to women business leaders seeking to develop their business, their skills and their network.

## Apprenticeships – a pathway to excellence



The FBF firmly believes that **apprenticeships are a pathway to excellence**, that they create jobs and add value, and it supported a campaign organised by the Medef employers' organisation in April 2018. The campaign entitled, "Les Taffeurs" (At Work), aims to promote apprenticeships and break down certain stereotypes. Robin Solvignon, an apprentice in banking, was one of five finalists selected to be the campaign's ambassadors and to star in a music video with Lisandro Cuxi, winner of The Voice 2017.



Lisandro Cuxi and the winners of the "Les Taffeurs" competition, at the award ceremony held by the Medef on 4 June 2018.

### The banking industry is a major participant in the employment market,

hiring over 42,000 people in 2017. Banks' dynamic employment policies include apprenticeships and the sector boasts a network of 23 apprentice training centres. Apprenticeships allow banks to observe young people at work and to recruit employees whose skills match their requirements, facilitating the integration of new hires thanks to their initial experience.

Apprenticeships have always been an important means of integrating young people into the workplace. Each year, over 10,000 young people receive training under professionalisation or apprenticeship contracts with the banking sector.



MARIE-ANNE BARBAT-LAYANI  
CHIEF EXECUTIVE OFFICER OF THE FBF  
25 April 2018

## Professional integration for refugees

The FBF is involved in the **employment integration scheme for highly qualified refugees**, in partnership with the Medef employers' organisation, the Wintegreat association and the CFPB, a vocational training school for the banking industry. Refugees can find it difficult to find work because their qualifications are not recognised, they have no professional network, and they know little about potential employers. This scheme enhances the banking industry by providing access to candidates with vast professional experience, new skills and an insight into different markets. By contributing to refugees' professional integration, **banks are making a clear contribution to society**.



## FINANCIAL EDUCATION

Financial education is crucial to allow everyone to better manage their personal spending and to understand the economy and finance. Banks have been extremely active in this area for many years.

### A record year for the “Invite a banker to class” initiative



In 2018, over 14,000 school children learned about how to manage a budget in the fourth edition of the “Invite a banker to class” initiative. This is more than participated in the first three editions combined. The educational initiative was held in over 570 classes of 9-11 year-olds throughout France. Since its launch in 2015, nearly 25,000 children have learned about managing a budget, payment security, savings, loans, etc.

An independent assessment performed by Ansa (a non-profit organisation) confirmed the success of the initiative. The game-based approach has a positive impact and helps children better grasp payment systems while answering their questions on budget management, irrespective of their academic level.

This FBF initiative is an important part of the national Financial Education Strategy launched by the government in 2016, which recommends that children receive financial education at school at an early age.

### “Les Clés de la Banque”, recognised success

For the past 15 years, the FBF’s financial education programme, “Les Clés de la Banque” (Keys to Banking), has made available a wide range of **educational material** to explain everyday banking. The programme is **available for free to a wide audience** – individuals, entrepreneurs and social workers:

- a website, [lesclesdelabanque.com](http://lesclesdelabanque.com), which attracts nearly 4 million visits each year,
- a collection of 80 mini guides, nearly 500,000 copies of which are printed each year, and which are now also included in the educational library of the INC (French National Consumer Institute),
- dozens of letter templates, budget management tables, etc.

The “PiloteBudget” mobile app was launched in February 2018. This app was co-built with 9 public and private sector participants and is aimed at young people and social workers and associations working in the field. It is managed by the non-profit organisation Ansa and allows users to manage their budget and visualise what money they have to spare each month or each week.

On 20 June 2018, Marie-Anne Barbat-Layani, CEO of the FBF, handed over the diversity award at the final of the CAP’ITAL awards as part of the **EducapCity citizens’ challenge race**.





## ENERGY TRANSITION

Banks are playing a proactive role in financing the energy transition. They have kept the promises they have made since the COP 21 climate conference.

### Supporting the ecological transition

Banks have ambitious environmentally friendly policies, including high quality environmental performance reporting and serious commitments to financing the energy transition. By providing financing, they are facilitating the transition to the economy of the future by offering individuals and businesses innovative financing solutions for all types of environmentally friendly projects.

In 2018, banks pledged to offer **loans with preferential terms** to enable their customers to finance the purchase of an eco-friendly vehicle or low-energy equipment for the home. For the purchase of a clean vehicle, they will offer financing for the entire transaction, including an advance to cover the amount of the incentive bonus until the customer receives the payment from the government.

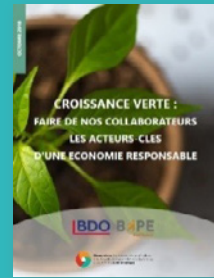
For home renovations, the eco-PTZ (interest-free eco-loan) scheme has been extended until **2021** with simplified terms applicable from **1 July 2019**.

FRENCH BANKS ARE THE LEADERS IN GREEN BONDS WITH **OF GLOBAL ISSUES IN 2017.**

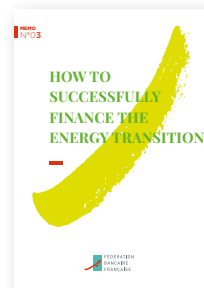
25%

Source: CA-CIB

Developing the green economy is the second critical challenge in terms of businesses' transformation, alongside digital. Two-thirds of banking sector employees will see their skills significantly impacted by green business, according to a survey published by the Observatory of Banking Activities on 11 October 2018.



### Accelerating funding for the ecological transition



For several years, the banking profession has recommended introducing a prudential bonus for green assets. This would accelerate funding for the ecological transition and boost green investment by reducing the capital charge and climate risk in banks' balance sheets. It would apply to bank loans granted to all types of customers, for example individuals buying low-emission vehicle, SMEs involved in the construction of green buildings, businesses working to build solar or wind power infrastructure, and governments through green bonds. This proposal must be explained clearly to those involved.



## PREVENTING MONEY LAUNDERING AND TERRORIST FINANCING

The banking industry is fully invested in the fight against money laundering and terrorist financing.

### A significant contribution by French banks

Preventing the use of the financial system for money laundering or terrorist financing is an integral part of the fight against organised crime and terrorism. French banks filed 46,882 out of a total of 68,661 suspicious activity reports made to the financial intelligence unit, Tracfin, in 2017, once again confirming their strong support for this initiative in the public interest.

NEARLY  
70%  
OF SUSPICIOUS TRANSACTION REPORTS  
TO TRACFIN ARE MADE BY BANKS.

Source: Tracfin 2017 Annual Report

### Transparency and cooperation: the new watchwords

The European anti-money laundering directives adopted on 20 May 2015 (4<sup>th</sup> AML Directive) and 30 May 2018 (5<sup>th</sup> AML Directive) include a number of measures to enhance the transparency of both transactions and legal structures. These measures include the creation of a register of ultimate beneficial owners and a register of trusts, meeting a demand made by the banking profession. These registers will be even more effective once they are interconnected, which is scheduled for the first quarter of 2020.


The 5<sup>th</sup> AML Directive takes into account the transnational nature of money laundering and terrorist financing activities and removes the barriers to European cooperation between national financial intelligence units.

Other hurdles still remain to be overcome before anti-money laundering and counter terrorist financing measures take on a new dimension and become even more effective. The banking profession is confident that the commitments to transparency and cooperation adopted by over 70 countries, international organisations and national authorities at the No Money for Terror conference hosted by France in April 2018 will be applied.

### Harmonisation of national monitoring practices across Europe

The European Anti-Money Laundering Directives seek to harmonise regulations applicable to efforts to combat money laundering and terrorist financing. In practice, different member states can implement and monitor compliance with the regulation differently.

A new and important step forward will soon be made with the reform of the European supervisory authorities, which will give the European Banking Authority (EBA) a leading role in the prevention of money laundering and terrorist financing.



# INNOVATION & SECURITY

The French banking industry boasts a digital and human presence. It innovates to serve its customers ever better, and is extremely cautious on matters of security.

- 01 THE DIGITAL ACCELERATION
- 02 EFFICIENT AND SECURE MEANS OF PAYMENT
- 03 SECURITY AND SOVEREIGNTY





## THE DIGITAL ACCELERATION

Banks maintain close relationships with their customers both in person and online. These relationships derive from the innovative, relevant products and services they offer.

### Banks are central to innovation and a driving force.

The changes in society brought about by the digital revolution are considerable, wide-reaching and lasting, and the pace of change is phenomenal.



Against this backdrop, the FBF published a report entitled “Banks & Innovation” in March 2018. This report shows that banking networks are central to innovation as well as being a driving force. The report covers the wide range of services on offer, changing consumer habits, new ways of working and the data and security revolution and provides a 360° view of the progress brought by digital and how banks are making real use of its potential.

Customers can connect with their bank from wherever they are, whenever they choose, and using different channels. Payments can be made effectively and securely and customer relations are constantly improving... **Banks are agile, connected and close to their customers.** Banks’ innovation is boosted by their partnerships with fintechs – startups hosted in incubators that are further accelerating the transformation.

French banks are **leaders in the digital financial ecosystem**. 72% of French people believe that banks are looking to the future, an increase of 10 percentage points over one year (BVA 2017 image survey of banks).

## Digital is reinventing customer relations

**French people carry their banks in their pockets:** the only apps they check more frequently than their bank apps are the weather and social networks. **63% of customers use bank apps to keep track of their balance** and 56% to manage their budget and their spending. Over two thirds of French people log onto their bank's website at least once a week for the same reasons.

These new habits are allowing banks to **reinvent close relations with their customers.** Nearly 8 in 10 French people have a positive opinion of the new services offered by banks. 85% have a good impression of their advisor (IFOP survey of French people, their bank and their expectations, 2018).

## Cognitive technologies to deliver new services

To adapt their services to their customers' requirements, banks are investing massively in **cognitive technologies.** **Artificial intelligence (AI)** has many areas of application in this field: enhancing knowledge of customers (KYC), improving products and services, making banking products easier to understand by clients, assistance for financial advisors, cybersecurity, customer data protection, fraud prevention, anti-money laundering and counter terrorist financing, etc. The development of AI is being facilitated by the diversity of available data, the maturity and performance of technological solutions and methods, consumer expectations and their growing trust in new technology.

Banks are taking part in French and European work on AI:

- the FBF was consulted as part of an **assignment entrusted to Cédric Villani**, who published a report on the development of artificial intelligence in March 2018;
- participation in the **ACPR Task Force** which published a discussion document on the issues facing the financial sector in December 2018;
- contribution to the **Finance Innovation Cluster white paper** on "Artificial intelligence, blockchain and quantum technology serving finance for the future", published in early 2019;
- work by the European Commission including **matters relating to ethics.**

These initiatives aim to identify and encourage innovation and the development possibilities associated with AI as well as to analyse potential risks in terms of data security, information transparency, the explainability of decisions, reputational risk, the risk of a technology lag arising from technological and/or regulatory barriers, acceptability by customers. Most of these risks are not new, but it is important to protect against them.



## EFFICIENT AND SECURE MEANS OF PAYMENT

It has never been easier to make a payment thanks to the innovative new services developed by banks.

### French people have embraced contactless payments

A new record was set in 2018 with **2 billion contactless payments** made, versus 1.2 billion the previous year.

French people appreciate this payment method which involves simply placing the card on the payment terminal. It allows easy, fast, secure payments for purchases up to €30.



### Instant credit transfers are rolled out in Europe

**New pan-European interbank infrastructure** launched in 2018 allows citizens of the 34 SEPA countries to make and receive SEPA transfers instantly. This new type of transfer in euros for amounts up to €15,000 is available 24/7. Transactions are processed in less than 10 seconds and cannot be cancelled.

In France, banks are adding the **first SEPA instant transfer functionalities** to their product range, for example for compensation payments for insurance claims, which will be made almost immediately.

French banks are continuing to roll out their offering, allowing clients to make instant transfers from different banking channels (online, via mobile apps, or in branches). In 2019, users of the “Paylib between friends” service will enjoy the advantages of the SEPA instant transfer.

### Banks support the national strategy for non-cash payments

Banks support the key principles of the national payments strategy put forward by the CNPS (national non-cash payments committee), namely:

- to pursue efforts to promote secure electronic payments, to benefit society,
- to boost innovation through security and security through innovation,
- to contribute to the European aim of furthering the single payments market.

To this end, the banking profession is prioritising work to implement the SEPA instant transfer and develop electronic invoicing.



## SECURITY AND SOVEREIGNTY

The banking industry is experiencing a real digital revolution and cybersecurity is a key issue and a critical part of banks' strategy.

### A strong commitment to cybersecurity

As trusted-third parties, banks are in the best position to guarantee the security of their clients' data. To enhance this trust even as cybercrime is on the rise, banks are investing massively in cybersecurity and in the rollout of solutions to guarantee data security (high performance systems, specialist teams). They are actively raising clients' awareness of these issues.

Banks were extremely active throughout **European cybersecurity month**, which is held in around twenty European countries each year, taking part in a joint campaign with Europol and the French police to raise public awareness of cyber risks.

The FBF was involved in **drafting the campaign material and promoting the campaign on social media**.



It published new mini guides on good habits for cybersecurity and a video on how to protect online banking user names and passwords. A free e-learning course was produced in partnership with the French police to inform companies about fraud involving fake IBANs.



The authorities regularly organise stress tests with all relevant parties to make banking systems and infrastructure more resilient.

On 28 June 2018, the Eurosystem market infrastructure and payments committee organised a **market-wide crisis communications exercise**.

The hypothetical scenario was based on a cyberattack on key financial market infrastructure, financial infrastructure and services providers, compromising data integrity.

In France, on 9 October 2018, the Banque de France's industry-wide robustness group (GPR) held a **test simulating a cyberattack on the financial system**, involving over 350 participants.

## PSD2 a year later

The second Payment Services Directive (PSD2) took effect on 13 January 2018. The Regulatory Technical Standards (RTS) for **strong authentication of clients and secure communications** between payment service providers will enter into force in September 2019. Account-holding banks will have to provide Account Information Service Providers (aggregators) and Payment Initiation Service Providers with **an API (application programming interface) allowing access to their customers' payment account details**.

The banking profession has always supported APIs as the only solution that can deliver real security in response to increasingly frequent cyberattacks. French banks have been working on **an industry-wide API**, which is one of the most advanced solutions in Europe, since 2017. It will allow banks to facilitate convergence towards a European standard.



A memo published by the FBF on “PSD2 and security issues”.

## The critical matter of data security

### **The General Data Protection Regulation took effect on 25 May 2018.**

It introduces a set of standard rules adapted to the digital era. As collecting and using customers' personal data is the basis of banking, banks are directly concerned by this regulation and are complying with the new obligations, in particular in terms of communications. They have updated their personal data processing charters and communicated widely with their customers via marketing material and their distribution channels (websites and mobile apps).

These strict data protection rules **are specific to the European Union**, and must be preserved. To do this, a level playing field is needed for all players. The fast pace of innovation by banks and fintechs provides an opportunity to develop new services that simplify customers' everyday lives. But this digital transformation must not come at the expense of security. This is why the banking profession is actively calling for a digital level playing field that must apply to all digital players from both inside and outside Europe. **French banks will never compromise on their duty to ensure security, which is the cornerstone of the relationship of trust they share with their clients.**

## **ELECTRONIC IDENTITY (E-ID)**

Banks use authentication systems to secure access to their customers' assets and data.

As part of a drive to continually improve their services, banks are contributing to work by the French government to create a **single electronic identity**, via the France Connect system, for example.

Banks are also participating in European work concerning the interoperability of identities notified by government authorities (eIDAS Regulation).



# REGULATION & SUPERVISION

Over the past ten years, banks have faced unprecedented regulatory reforms that have shored up the European banking system and improved financial stability on the markets and among players. Europe must now relaunch a real financing union to protect its sovereignty and establish an environment conducive to economic growth.

01 FINALISING POST-CRISIS REFORMS

02 DEVELOPING EUROPE'S CAPITAL MARKETS



## FINALISING POST-CRISIS REFORMS

The EU is finalising its review of prudential rules and is preparing the transposition of the final Basel accord. There are considerable implications for the banking profession in terms of preserving the European financing model and ensuring fair competition.

### An important step: transposing the Basel accord

The European Union (EU) is finalising the rules of the Banking Union with the approval of a comprehensive legislative package aimed at reducing risks in the EU banking sector.

The European political agreement endorsing these texts on 4 December 2018 marks a significant step forward for financial stability.

Three major regulatory issues kept the banking profession busy in 2018:

- the transposition of the Basel III standards drafted after the financial crisis led to a **review of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD)** in particular regarding the leverage ratio and the net stable funding ratio (NSFR);
- **in terms of bank resolution** (review of the Bank Recovery and Resolution Directive, BRRD), the package transposes into European law the Total Loss Absorbing Capacity (TLAC) standard issued by the Financial Stability Board (FSB). This standard sets requirements in terms of own funds and debt convertible into capital to ensure that large banks can cope with large losses. The agreement also lays down the main principles of a backstop for the Single Resolution Fund (SRF) to be used by failing banks, which is funded by contributions from the banking sector;
- on **non-performing loans**, a regulation adopted in December 2018 sets minimum prudential loss provisioning requirements for these exposures (see page 38).

Banks are also closely watching preliminary work to transpose the Basel III agreement of December 2017 into EU law. The European Banking Authority will first complete a **quantitative impact statement (QIS)** to inform the European Commission, which will prepare the legal texts. **It is crucial that the instructions given by the European political authorities not to significantly increase banks' capital requirements are followed.**

The publication of the results of the QIS in 2019 will allow an assessment of the need to adapt the international principles to the European Union's specific situation and sound financing practices, for example in real estate financing, specialised financing and financing for non-rated companies. These activities are not recognised in the Basel accord and are heavily penalised by it.

This work will continue in 2019, alongside the **transposition of international market risk standards in the Fundamental Review of the Trading Book (FRTB)** published by the Basel Committee in January 2019.

## Finalisation of the Banking Union

The Banking Union has given the eurozone an unrivalled oversight system and a unique mechanism for preventing and resolving banking crises. These unique supervisory and resolution mechanisms ensure banking rules are applied consistently and impartially across the eurozone and make the banking market more transparent, more unified and more secure.

As we reach the final stages in the transposition of the post-crisis regulatory agenda, the banking sector reiterates the need for consistent transposition based on **the logic of the Single Rule Book: the same activities incur the same risks and must observe the same rules.**

For the FBF, the way in which contributions to the resolution mechanism are calculated must be revised to ensure they are distributed more fairly across Europe.

**In terms of deposit guarantee schemes,** banks are in favour of a European reinsurance fund that can provide the liquidity needed

in national deposit insurance schemes. Its introduction must be preceded by an asset quality review (AQR), and only institutions subject to banking regulations should be eligible to benefit from the system. Banks' contributions to these schemes should reflect the likelihood that they will use the fund, and should therefore be inversely proportionate to their contribution to the SRF.

## The application of accounting standard IFRS 9

**IFRS 9 on financial instruments applies to reporting periods beginning as of 1 January 2018.** It has three components: the classification and measurement of financial instruments, impairment and hedge accounting.

IFRS 9 is part of the finalisation of post-crisis reforms. The interpretation and implementation of this standard involved considerable work for banks.

## **A NEW REGULATORY FRAMEWORK FOR NON-PERFORMING LOANS**

Either due to the financial and economic crisis or because of inappropriate risk management policies, some banks in certain European Union member states incurred particularly high levels of non-performing loans.

In response to this situation, the European institutions began a legislative and regulatory process to introduce a standard European framework for managing these loans.

In European debates, the French banking profession emphasised the importance of not introducing regulations that would significantly impact how trustworthy banks manage their non-performing loans or affect their lending terms.

Contrary to the industry's opinion, the NPL regulation approved in December 2018 favours guaranteed loans over loans with a higher risk of default (consumer loans, loans to SMEs). Banks facing difficulties will be encouraged to sell their non-performing loans or enforce their rights to collateral, which is also contrary to traditional best practice in terms of loan collection.





## DEVELOPING CAPITAL MARKETS IN EUROPE

Over and above a regulatory based approach, an ambitious, consistent, global strategy that reflects European values is needed to develop Europe's capital markets.

### Removing the barriers to a real financing union

Europe must enable itself to reap the rewards of its post-crisis reforms by moving away from its supervisory role to become a real **financing union**. It must remove the barriers to the free circulation of cash and capital flows in the banking union so the **eurozone economy can benefit from stronger, uniform financing solutions**.

The first barriers that must be removed are those that prevent or hinder the circulation of cash and capital flows in Europe. Despite the existence of a single supervisory authority and more harmonised rules, the European banking market remains fragmented. In 2017, 86% of bank loans to businesses and individuals in the eurozone were domestic transactions (source ECB, 2018).

This fragmentation hinders cross-border trade. It is crucial to increase cross-border lending, which recently dropped to record low levels. Further efforts are needed to take full advantage of an integrated market that ensures the **successful transmission of monetary policy in the eurozone, better distributes risks and improves macroeconomic stability across the zone**.

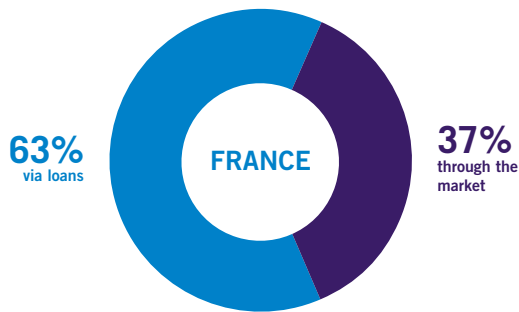
### Encouraging market financing

As new prudential requirements are weighing on bank lending, the capital markets are set to play an increasing role in financing Europe's economy. The long-term future of bank lending, which is essential for SMEs and individuals, must also be secured by allowing the development of securitisation.

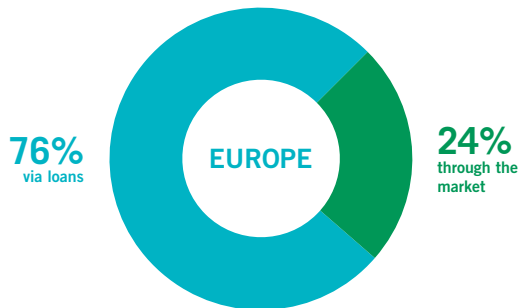
**The Capital Markets Union (CMU)**, launched by the European Commission in 2015, is critical to facilitate access to market financing for all types of businesses in the European Union (large corporations, small and mid-caps, startups, fintechs, etc.), by offering an effective alternative to bank lending, which remains predominant in Europe.

The development of a solid base of European investors will make the European financial markets more resilient in the event of a financial crisis, and is therefore a matter of sovereignty and financial stability.

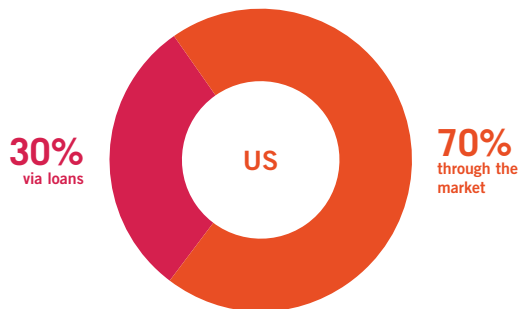
## SOURCES OF FUNDING FOR BUSINESSES IN 2017



Source: Banque de France



Source: ECB



Source: Federal Reserve

### New European initiatives

The banking profession has always supported the Capital Markets Union (CMU), which **must allow the development of a real financing and investment union in Europe. The CMU must also ensure that European savings - which are considerable - are used to finance the economy via appropriate high-performance players and channels.**

Further to its communication on “Completing the Capital Markets Union by 2019”, the European Commission proposed **new legislative measures in 2018** intended to:

- introduce common rules for covered bonds;
- remove obstacles to the cross-border distribution of investment funds;
- facilitate the financing of small businesses on the capital markets;
- develop sustainable financing.

### **Work is continuing on all initiatives,**

in particular:

- the Prospectus and Securitisation Regulations: the FBF is taking part in consultations on their implementation;
- the proposed Covered Bonds Directive: the FBF advocates maintaining the French model;
- the reform of the European supervisory authorities (ESAs): banks are in favour of giving these authorities additional powers.

### Concrete proposals by the FBF

The FBF believes that the proposed European action plan and the legislative measures taken to date have only partially achieved their goals. For this reason, the banking profession is proposing a more strategic and less regulatory approach with the creation of a Committee of Experts tasked with setting the main guidelines for relaunching the CMU. Additionally, it makes the following concrete proposals:

- **to foster the development of a pan-European securitisation market** and review the Securitisation Regulation;
- **to encourage the channelling of savings towards investments in businesses** and to introduce more flexible marketing rules for certain financial products;
- **to accelerate financing for the energy transition** with appropriate prudential treatment for green assets.



**Developing capital markets in Europe**  
a FBF memo

### Maintaining fair competition

The banking profession emphasises that European corporate and investment banks (CIB) and the universal banking model must be preserved, as these are essential to facilitating client financing on the markets. Close attention must be paid to prevent any distortions of competition:

- **from non-European corporate and investment banks:** this issue is even more relevant with Brexit, since there is a real risk of unfair competition from the United Kingdom after it leaves the European Union;
- **from investment funds:** European (and national) legislation is increasingly allowing certain types of funds to grant loans. For these activities, investment funds should be subject to the same requirements as lending institutions;
- **from investment firms:** the proposed regulation setting prudential rules for investment firms is currently being adopted by the European Union, with the final vote due to be held in 2019. The banking profession remains attentive to ensure there is a level playing field between systemic investment firms from third countries and their European counterparts.

### REVIEW OF THE EMIR

The European Market Infrastructure Regulation (EMIR) made progress towards a more robust and transparent market for derivatives, in particular with the clearing obligation for standard OTC derivatives transactions, margin requirements for uncleared derivatives transactions and the reporting of transactions to a central trade repository.

This regulation is under review to improve the functioning of clearing houses in the EU (EMIR CCP regulation) and to further increase transparency on the derivatives market (EMIR Refit proposal). Agreement on the EMIR Refit was reached in early 2019.



# THE FBF

The French Banking Federation (FBF) is the professional body representing all banks operating in France.

01 PRESENTATION

02 INFLUENCE

03 ORGANISATION

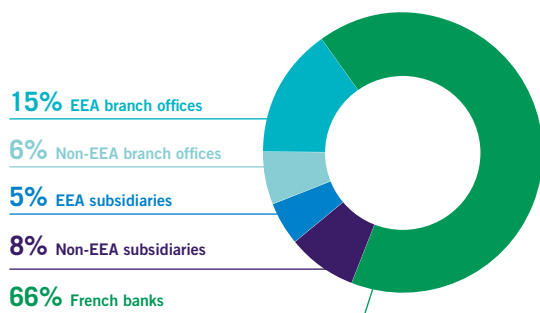


## PRESENTATION

The FBF's mission is to promote the banking and financial industry in France, in Europe and around the world. It determines the profession's positions and makes proposals to public authorities and economic and financial authorities.

### 340 member banks

The FBF represents 340 banks, including 115 foreign banks<sup>(1)</sup>. Regardless of their size or their legal form, credit institutions licensed as banks and the branch offices of credit institutions in the European Economic Area can, if they wish, become full members of the FBF, which then becomes their professional body. The central bodies of cooperative or mutual banking groups and the AFB<sup>(2)</sup> can also become full members.



### A staff of 113 employees

113 permanent employees work at the FBF and the AFB, in conjunction with more than 400 bankers who take part in commissions and committees. These bodies meet regularly to formulate positions and to launch initiatives. Decision-making relies on preparatory work by experts from the FBF, technical committees or 80 ad hoc working groups. Discussions with members are also central to the Federation's work.

### Influence in France, Europe and around the world

The FBF is located in Paris and also maintains offices in Brussels and Frankfurt. It is also present throughout France via a network of 103 regional and departmental committees. This network draws on the services of over 2,500 bankers who regularly meet with local business and government representatives and convey the industry's positions.

The FBF is a member of the European Banking Federation (EBF).

(1) At 1 January 2019.

(2) The French Banking Association (AFB), representing 190 banks, sits on the FBF's executive committee. It is the professional body representing commercial banks for employee-related matters (bank collective labour agreement).

# INFLUENCE

-  **FBF head office** in Paris
-  **FBF offices** in Brussels and Frankfurt
-  **12 regional bank committees**
-  **91 departmental or local bank committees**



**25000** BANKERS  
IN TERRITORIAL  
COMMITTEES



## ORGANISATION

At 1 April 2019



**Laurent Mignon**  
Chair of the FBF  
Chairman of the Management Board of BPCE Group



**Frédéric Oudéa**  
Vice-Chair of the FBF  
Chief Executive Officer of Société Générale



**Nicolas Théry**  
Treasurer of the FBF  
Chair of Confédération Nationale du Crédit Mutuel



**Jean-Laurent Bonnafé**  
Director & Chief Executive Officer of BNP Paribas



**Philippe Brassac**  
Chief Executive Officer of Crédit Agricole S.A.



**Rémy Weber**  
Vice Chair of the AFB  
Chair of the Executive Board of La Banque Postale

### EXECUTIVE COMMITTEE



**Marie-Anne Barbat-Layani**  
Chief Executive Officer of the FBF  
@BarbatLayani



**Christian Lothion**  
Security Adviser

### GENERAL MANAGEMENT BOARD



**Benoît de La Chapelle Bizot**  
Director General Delegate



**Solenne Lepage**  
Deputy Chief Executive Officer



**Ermelina Debacq**  
Deputy Chief Executive Officer



**André-Guy Turoche**  
Director of Social Affairs

### FBF COMMISSIONS AND COMMITTEES

**FORWARD-LOOKING COMMISSION**

**RETAIL BANKING AND REMOTE BANKING COMMISSION  
INVESTMENT BANKING AND MARKETS COMMISSION  
CONTROL AND PRUDENTIAL SUPERVISION COMMISSION**

**ACCOUNTING COMMITTEE  
COMPLIANCE AND CONDUCT COMMITTEE  
TAX COMMITTEE  
LEGAL COMMITTEE  
MEANS OF PAYMENT STEERING COMMITTEE  
MAJOR RISKS AND SECURITY COMMITTEE**

# Significant

## JANUARY

- 01 Application of IFRS 9 on financial instruments.
- 03 Application of MiFID II and MiFIR, enhancing investor protection and transparency on the financial markets.
- 13 The revised Payment Services Directive (PSD2) took effect.
- 22 The FBF took part in the major meeting for productive investment at the French National Assembly.
- 30 The FBF organised a training day for the “Les Déterminés” association’s 8th class.

## FEBRUARY

- 05 The FBF contributed to the government’s consultation on the draft law on business growth and transformation (PACTE law).
- 14 FBF testimony to the Senate on the transposition of PSD2.

## MARCH

- 08 FBF / BPW France conference: Women & growth initiatives: women committed to financing the economy.
- 12 Record success for the fourth edition of the “Invite a banker to class” initiative as part of European Money Week.

15 The FBF published “Banking & Innovation”.

19 Brexit: start of negotiations on the future relationship between the EU and the United Kingdom.

21 The FBF and the Italian Banking Association (ABI) announced their support for the European Commission action plan on sustainable finance.

28 Publication of the Villani report on the development of artificial intelligence for a meaningful national and European strategy.

## APRIL

01 Entry into force of the ministerial order of 4 October 2017 on the use of electronic contracts in the financial sector.

25-26 No Money for Terror international conference held in Paris.

26 Government plan for energy efficiency renovations in buildings to accelerate efforts to protect the climate.

27 Launch of the digital identity conference.

## MAY

17 The ACPR launched a task force on artificial intelligence in the financial sector.

24 The European Commission proposed concrete action to develop green finance.

25 Application of the European General Data Protection Regulation (GDPR).

30 Adoption of the fifth European Anti-Money Laundering Directive.

## JUNE

06 Launch of the Perceval online service to report payment card fraud.

13 AFB press conference on employment in banking: banks in France hired more than 42,000 people in 2017.

18 Presentation of the PACTE draft law to the Council of Ministers.

19 The FBF published a mini guide on “How to use your savings to invest in businesses”.

20 The FBF is a passing point in the EducapCity citizen’s challenge race at the Cap’Ital final in Paris.

21 Publication of the new French data protection act updated in accordance with the GDPR.

## JULY

05 The Landau report on cryptocurrencies was submitted to the French Ministry of Economy and Finance.



# events in 2018

16 Renewal of the industry agreement on the business credit mediation process until December 2020.

16 AERAS agreement and the right to forget certain illnesses: publication of a new reference table to facilitate access to insurance and loans.

## AUGUST

05 Publication of the law ratifying the ministerial order transposing PSD2.

## SEPTEMBER

03 Banks pledged to cap payment incident fees for customers eligible for specific services for vulnerable customers.

12 The FBF published “Banking & Inclusion” on banks’ commitment to the integration of young people.

13 FBF conference on “Employment and entrepreneurship: engaging with all young people”, in partnership with the associations APELS and Les Déterminés.

14 The FBF published a memo on “Developing Europe’s capital markets”.

18 ACPR conference on financial supervision and the role of national authorities in Europe.

29 The eIDAS regulation took effect for the mutual recognition of national electronic identification systems across the EU.

## OCTOBER

01 Launch of European cybersecurity month.

15 The FBF partnered with France Num to help VSEs and SMEs in their digital transformation.

17 FBF was a partner of the Europol-EBF campaign on online financial scams #CyberScams.

31 Application of the decree of 5 September 2018 introducing standard names for the main banking fees and services.

## NOVEMBER

02 Publication of the EBA’s 2018 stress test results reaffirming the resilience of European banks.

14 The CNPS (national non-cash payments committee) approved the key principles of a new national strategy through to 2024.

24 Publication of the ELAN act on housing, planning and digital technology.

26 “Gilets jaunes” demonstrations: banks pledge to review the situation of affected businesses on a case-by-case basis.

26 Climate Finance Day: 28 global banks and the United Nations launched the Principles for Responsible Banking.

30 The ECB’s pan-European instant transfer service is operational.

## DECEMBER

04 European agreement on a package of measures to reduce risks in the banking sector.

06 The Observatory of Banking Activities published “New skills, transforming banking activities through to 2025 – how to successfully manage change”.

07 The European Commission presented a coordinated plan on the development of artificial intelligence.

11 French banks pledge to freeze bank fees in 2019, to cap payment incident fees for all vulnerable customers and to offer green financing solutions on preferential terms.

12 Launch of the Great Debate across France.

18 European political agreement on banks’ capital requirements for non-performing loans.

19 Brexit: the European Commission published a no-deal contingency action plan.

26 Publication of a decree authorising cashback transactions.

# Glossary

**AFECEI** Association Française des Etablissements de Crédit et des Entreprises d'Investissement - French Association of Credit Institutions and Investment Firms

**API** Application Programming Interface - a standardised, open, secure interface

**BRRD** Bank Recovery and Resolution Directive

**CCP** Central Counterparties

**CMU** Capital Markets Union

**CRD** Capital Requirements Directive

**CRR** Capital Requirements Regulation

**EBA** European Banking Authority

**EBF** European Banking Federation

**EMIR** European Market Infrastructure Regulation, covering OTC derivatives, central counterparties and trade repositories

**ESA** European Supervisory Authorities

**FRTB** Fundamental Review of the Trading Book

**GDPR** General Data Protection Regulation

**G-SIBs** Global Systemically Important Banks

**IFRS 9** International Financial Reporting Standard on financial instruments

**MiFID** Markets in Financial Instruments Directive

**MiFIR** Markets in Financial Instruments Regulation

**NSFR** Net Stable Funding Ratio

**PACTE** Action Plan for Business Growth and Transformation

**PSD 2** Second Payment Services Directive

**Refit** Regulatory Fitness and Performance Programme

**SRF** Single Resolution Fund

**RTS** Regulatory Technical Standards

**SEPA** Single Euro Payments Area

**TLAC** Total Loss Absorbing Capacity



# THE FBF'S PRESENCE

The FBF represents the banking industry in public organisations:



... and many national, European and international organisations:



It is the partner of several French and international authorities, associations and other bodies:



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