

# Management Report **FBF 2011**



FEDERATION  
BANCAIRE  
FRANCAISE

# A CHANGING WORLD, WITH MANY FACETS

A new environment for banks. The lines are shifting; banking activities are evolving. At the core of society, banks are playing their role now more than ever: supporting all aspects of the economy to power growth and prosperity together. That is the meaning behind the graphical elements chosen for the 2011 management report.

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# FINANCING THE ECONOMY IS THE PRIORITY



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CHAIRMAN OF THE FBF

**2011 was steeped in a global investor crisis of confidence** in the euro zone due to the excessive debt of certain States, which grew worse over the summer with the struggle to find a solution for Greece. At its December 2011 meeting, the European Council agreed on measures to implement strict fiscal discipline and improve euro zone governance. Together with the ECB's subsequent measures, the door was opened to establishing sustainable solutions and restoring confidence. The financing of all euro zone players - governments, banks and companies alike - depends on it.

**For their part, French banks mobilised their efforts** in this challenging environment to

continue financing the French economy, despite having fallen victim to the sovereign debt crisis along with the rest of Europe's banks. According to the Banque de France, outstanding loans to the French economy rose by 5.3% in 2011, exceeding the average increase for the euro zone and significantly outperforming France's projected economic growth of less than 1%.

What's more, through their networks, banks will continue lending to individuals and companies (particularly SMEs/VSEs) in 2012; this is their top priority and the best contribution they can make to stimulating growth and getting out of this crisis. The Chairmen of the leading French banks underlined this point to the hundreds of CEOs of SMEs they met in various regions, at the initiative of the FBF's regional committees. The 400,000 employees of the French banking sector are committed to achieving this priority each and every day in the field.

**French banks are as determined as ever,** despite the heavy constraints on their activity imposed by the new rules. The regulator called for European banks to launch considerable efforts at an accelerated pace. French banks are solid: they are capable of increasing their capital to meet the capital adequacy ratio of 9% as of June 2012, primarily by allocating their profits to reserves,

without turning to either the market or public funds, and while continuing to finance the economy. However, the calibration of the proposed Basel liquidity ratios must be revised, failing which banks will no longer be able to fully play their role as deposit collectors and long-term lenders.

**The prudential reforms** are already poised to create major disruptions on several levels. The markets will end up playing a greater role in financing both the economy and the governments. It is therefore crucial to improve the transparency and security of their operation. French banks will need to adjust to this new environment, particularly in their CIB activities.

**Now more than ever, it is critical to maintain our financing independence,** and to this end, the French economy needs strong banks. This goes for market activities as well. Banks are going to find themselves up against huge challenges in the coming years. Not only is their role in global competition at stake, but also the very competitiveness of our economy.

31 JANUARY 2012

# THE FBF'S 2011

**JANUARY** **1.** The new European supervisory authorities are operational. **1.** The European legislation for the supervisory of remuneration policies comes into force (CRD3 Directive). **13.** The FBF calls for the EU to maintain an interchange mechanism for the development of the SEPA direct debit.

**FEBRUARY** **1.** The revised AERAS Agreement (Getting Insurance and Borrowing Money with an Aggravated Health Risk) in France is phased in between March and September 2011. **2.** The FBF responds to the European Commission's consultation on the planned review of the Markets in Financial Instruments Directive (MiFID).

**MARCH** **8.** The FBF updates the professional standard relating to governance and variable remuneration. **14.** The FBF responds to the Commission's consultation on the banking sector crisis resolutions. **31.** The banks send their shopkeeper customers an annual report of the sums collected in respect of the card acquiring service.

**APRIL** **1.** The new fee brochures are organised with a standardised table of contents and feature a standard extract of ten fees. **4.** The FBF signs the market agreement extending credit mediation for businesses until end-2012. **15.** For the FBF, the taxation of the financial sector envisaged by the European Commission is an inappropriate response.

**MAY** **1.** The latest provisions of the consumer credit reform are in force. **2.** The professional standard relating to bank/overindebted customer relations comes into force. **31.** The banking profession signs the Charter on credit access for limited liability individual entrepreneurs (EIRL).

**JUNE** **15.** The European banks involved in the Monnet project request clarifications from the European Commission. **16.** The CNIL (French Data Protection Authority) updates the unique authorisation concerning processing procedures implemented to combat money laundering and terrorist financing.

**JULY** **1.** The range of non-cheque payment alternatives (GPA) includes new services. The monthly fee summary appears on the bank account statement. **7.** Banks undertake to increase transparency on card tariffs for shopkeepers and to reduce fees. **15.** The results of European stress tests confirm the solidity of French banks. **20.** The European Commission publishes the CRD4 legislative proposal transposing "Basel 3" rules in the European Union. **21-22.** The French banks join in the private sector's voluntary contribution to support Greece.

# KEY EVENTS

**AUGUST** **1.** Publication of the list of third countries possessing equivalent standards to France in terms of combating money laundering and terrorist financing. **1.** The European Directive UCITS4 is transposed into French law by ordinance. **2.** For the FBF, certain recommendations by the Committee responsible for prefiguring the creation of a positive file are inappropriate and too complex.

**SEPTEMBER** **1.** Frédéric Oudéa, Chairman and Chief executive of Société Générale, succeeds François Pérol as Chairman of the FBF. **19.** France passes the second amended finance law for 2011 relating to procedures for the intervention of the European Financial Stability Fund (EFSF). **27.** The FBF signs an agreement on combined work experience/study training programme with the Minister for Apprenticeship and Vocational Training to help young people gain access to employment.

**OCTOBER** **20.** The European Commission submits proposals for the review of the Markets in Financial Instruments (MiFID) and Market Abuse directives. **20.** For the third time in 2011, the FBF publishes a collective communication "Let's talk about banks and let's get serious". **26.** The French banks welcome European Council decisions aimed at providing a solution to the euro zone crisis and restoring confidence.

**NOVEMBER** **3-4.** The G20 in Cannes decides on measures to continue with financial sector reform and enhance market integrity. **17.** The FBF participates in the National Conference on Long-Term Financing and signs the Call for Long-Term Investment in the European Union. **21.** According to the report by the Observatory on Banking Fees, the increase in prices for banking services in France is lower than inflation.

**DECEMBER** **7.** Members of the FBF Executive Committee embark on a new series of meetings with SME managers in ten or so towns in France. **8.** The EBA publishes the final results of European banks' recapitalisation plan aimed at restoring confidence in the banking sector. **13.** The National SEPA Committee reviews the progress of the migration to SEPA instruments in France. **31.** The new capital requirements resulting from the CRD3 Directive come into force.

# REFORM OF THE INTERNATIONAL AND EUROPEAN FINANCIAL SYSTEM

Beyond the exceptional measures taken to deal with the European sovereign debt crisis and handle the specific case posed by Greece, the reforms call for banks to make considerable capital and liquidity efforts. They are impacting the financing of the economy and leading banks to restructure some of their activities. The banking industry underlines the importance of reforming the financial markets in order to enhance their transparency and security.

## Restoring sustainable confidence

— The Member States are taking measures and supporting struggling countries in an effort to resolve the public debt crisis and restore confidence in the euro zone. French banks are adapting to the new rules and continuing to finance the economy.

### POLITICAL AGREEMENTS

The European agreement of 9 December 2011 marked an important step in the reinforcement of euro zone economic integration and the establishment of the strict fiscal discipline needed to maintain financial stability. This agreement was reached after a series of European summits held over the course of 2011 with the aim of finding a sustainable solution to the crisis, notably by shoring up Greece and equipping the euro zone with the necessary financial instruments: extension of the EFSF's role, set to be replaced by the European Stability Mechanism as of June 2012...



## BANKS VOLUNTARY SUPPORT

Despite the considerable instability of the markets, French banks are still solid. They are participating in the concerted effort to restore confidence in Europe. For example, the leading French banks have joined in, together with the voluntary participation of the private sector, to help Greece.

The situation of Greece must be considered as both unique and exceptional: the proposed measures involve a bond exchange, with a 50% nominal discount on notional Greek debt held by private investors, according to the terms of the European Council meeting of 26 October 2011. With overall exposure to Greece of about 0.12% on their balance sheets, French banks have the resources to meet this challenge.

## SHORED-UP CAPITAL

At its meeting of 26 October 2011, the European Council decided to temporarily increase the capital adequacy ratio of European banks to 9% by the end of June 2012, after creating an additional capital buffer for sovereign debt exposure. According to the European Banking Authority, the top four French banks would need capital of EUR

7.3 billion to meet this ratio, out of a total of nearly EUR 115 billion for all European banks combined.

This level of capital surpasses the level established by "Basel 3", which is currently being adapted into European law (see page 8). By allocating their profits to reserves and transforming their business model, French banks will be ready to meet these requirements without the need for public funds.

## BANK FINANCING MADE EASIER

In December 2011, the ECB launched 3-year LTROs for European banks, thus facilitating their refinancing and encouraging their lending activity. Therefore, despite the regulatory constraints imposed on them, French banks are continuing to finance the economy. In 2011, outstanding loans to SMEs rose by 4.3% year-on-year, i.e. one of the best performances of the euro zone.

## Significant prudential reforms

— After establishing the new banking and financial supervisory authorities in early 2011, the European Union furthered its reform programme with the addition of new prudential rules. The stakes are very high for banking activities and financing the economy.

### IMPROVING THE LIQUIDITY RATIO: A PRIORITY

The European Commission's legislative proposals of 20 July 2011 (known as Capital Requirements Directive – CRD4) transposed the international "Basel 3" rules for the prudential supervision of financial institutions into European law.

French banks support this reform, which should make the European banking sector more resilient, mainly by shoring up bank capital and implementing harmonised liquidity ratios. However, the industry has highlighted the need to maintain the capacity of banks to finance the economy under good conditions and to ensure the harmonised application of rules at the international level.

- Regarding the capital adequacy ratio, the minimum ratio is raised to 7% as from January 2019: French banks will comply with this measure by allocating a share of their earnings to reserves. In accordance with the European agreement of 26 October 2011, European banks are asked to achieve a ratio of 9% as from June 2012.

- The banking industry approves the principle of harmonised liquidity supervision by measuring the capacity of banks to meet their obligations. The proposed short-term liquidity ratio should be changed, however: the narrow definition of liquid assets, which is very nearly limited to government bonds, is liable to have a heavy impact on the funding of businesses and local authorities, without necessarily enhancing the security of the financial system. The Commission's proposal does not immediately use the long-term ratio provided for by "Basel 3", pending further analysis.
- There is also a new ratio aimed at limiting leverage. The banking industry believes this ratio should merely serve as an indicator because it does not take risks into account and depends significantly on accounting conventions.

### INADEQUATE MEASURES FOR SYSTEMIC RISK

Over the course of 2011, international initiatives were conducted on the prevention of systemic risk, the results of which were presented at the G20 Summit on 4 November. The Financial Stability Board (FSB) published a preliminary list of financial institutions of systemic importance - including four major French banks - which will be subject to closer supervision: starting in 2016, additional requirements are considered by the Basel Committee, which could raise the required Tier 1 capital ratio as high as 10.5%, depending on the bank.

The FSB does not consider this additional capital requirement likely to prevent crisis and ensure financial stability. In fact, it could prove harmful in terms of funding the economy. Systemic risk cannot be controlled with a high level of capital, but rather through solid risk management, close supervision of all players and better regulation of the markets.

## TAXING FINANCIAL TRANSACTIONS: A MISGUIDED SOLUTION

The establishment of a financial transaction tax, under consideration by the European Commission in a September 2011 proposal, is not an appropriate response to prevent crisis and reinforce financial stability.

From the banking industry's point of view, the effectiveness of such a tax has not been proved. On the contrary, it could have serious consequences on the competitiveness of European companies, and thus on growth and employment. What's more, the banking sector already contributes largely to public finances. This kind of tax would only work on a global scale to prevent artificial business relocations. It would discourage companies from turning to the market for funding.

## COORDINATING CRISIS MANAGEMENT MECHANISMS

The financial crisis highlighted the need to set up mechanisms for handling bank failures, particularly for cross-border groups. The banking industry supports an initiative along this line and in early 2011 took part in the Commission's first consultation on the issue, believing the implementation of a framework for crisis prevention and resolution is crucial to addressing systemic risk. To this end, the European mechanism must be able to give the group supervisor the power to intervene quickly and effectively to prevent a crisis affecting a given bank from spreading.

The FBF would point out, however, the need to coordinate this initiative with the reforms in progress (CRD4, directive on Deposit Guarantee Schemes) and the FSB's proposals.

## Conglomerates: keeping the legal framework

Financial conglomerates are subject to special regulation and supervision in Europe. This legal framework, revised by the Financial Conglomerates Directive of 16 November 2011 aimed at improving its effectiveness, organised comprehensive supervision of groups, which must globally hold the necessary capital to cover the risks incurred by their various activities.

French banks stress that the possibility of using this method should be maintained in the CRD4. "Basel 3", on the other hand, calls for banking groups to deduct from their own capital any capital invested in the group's insurance entities, which could undermine France's widespread bancassurance model.

# Enhancing market transparency and security

— In periods of high financial instability such as these, legislative initiatives must define a new European framework for more solid and efficient markets. Priority must be given to greater transparency and improved market structure.

## REVISION OF MIFID: A MAJOR CHALLENGE

The revision of the Markets in Financial Instruments Directive (MiFID), initiated by the European Commission on 20 October 2011, represents a major legislative challenge. The financial crisis accentuated the importance of a clear, secure market structure as a key component of financial stability. Furthermore, market developments, advances in technology and the globalisation of infrastructures have demonstrated the need to amend the rules of operation defined by the directive in force since 2007.

The Commission is considering expanding the scope of the directive to include all traditional financial instruments (stocks and bonds) as well as derivatives and commodities, regardless of how they are traded (organised markets or OTC). Faced with the increasing complexity of the markets and the growing number of trading platforms, the revision also redefines the hierarchy of infrastructures by creating a new category of trading platforms, namely organised trading facilities (OTF), which will be subject to obligations of transparency.

From the banking industry's standpoint, this new regulatory framework must define the structure of secure, transparent markets involving clearing houses for more security, in order to ensure the funding of the economy and restore investor confidence. It is vital to correct what doesn't work today (market fragmentation, lack of transparency, regulatory lapses, etc.) and improve the activities of market operators and financial instrument distributors in the interest of:

- greater transparency,
- greater liquidity,
- controlled market volatility.

In this respect, the banking industry believes there are changes to be made, particularly to ensure that rules of fair competition are implemented between geographic regions.

## IMPROVING MARKET INTEGRITY

While busy revising the MiFID, the European Commission also proposes to amend the directive on Market Abuse to cover new technologies and new realities on the financial markets.

French banks have always fought against abuses and manipulation of the markets, setting up adequate procedures and structures to meet their obligations to declare suspicious transactions. The banking industry shares the Commission's determination to reinforce European rules by expanding the scope of the directive to include all trading platforms and all instruments, including commodity derivatives.

However, regarding the expansion of the directive to cover "attempted market manipulation", the industry would like to see this concept and the conditions for its implementation clearly defined. The industry supports the European harmonisation of the sanctions regimes and increased powers of investigation for the regulators.

## REGULATED SHORT-SELLING

After a year's worth of talks, the European Council and European Parliament adopted a regulation on short-selling and credit default swaps (CDS). The banking industry approves the new regulation, which provides for greater transparency on such transactions and creates a harmonised European framework. It thus provides the regulators with the powers to take coordinated action, if necessary. The specific risk of "naked" short-selling is limited, particularly for sovereign securities. <sup>01</sup>

This regulation is scheduled to take effect by the end of 2012, replacing the provisions of the French Banking and Financial Regulation Act which anticipated these European rules in France through the supervision of short-selling and the strengthening of the AMF's powers in the event of market abuses. A new short-selling transparency scheme was also implemented in France in February 2011.

## LIMITING SYSTEMIC RISK FOR DERIVATIVES

French banks support the European regulation under adoption, aimed at supervising derivatives activities by establishing centralised clearing houses. The execution of derivatives transactions by clearing houses should reduce systemic risk by limiting the impact of a given intermediary's default on this market.

Transparency on the derivative markets will also improve with the recording of transactions in trade repositories. The role of the European Securities and Markets Authority (ESMA) in supervising these activities still needs to be defined. The European Commission would like to see the regulation take effect by the end of 2012.

<sup>01</sup> **Short-selling** consists in selling a security that was borrowed at the time of sale (or without having the security in the case of "naked" short-selling), with the intention of buying it back later at a lower price, prior to the delivery date.

**A credit default swap or CDS** is a hedging instrument used by the buyer to protect against the default of a given debtor or credit instrument.

## New initiatives for retail banking in Europe

— In light of the diversity of property loan markets in Europe, French banks question the goal of harmonising and integrating these markets.

### RESTORING CONFIDENCE IN THE PROPERTY LOAN MARKET

The draft directive published on 31 March 2011 aimed at restoring confidence in the property loan market in Europe, where impacted by the crisis, and harmonising practices on this market. The French banking industry approves this overall objective and the provisions designed to ensure a high level of consumer protection. To this end, requiring lenders to provide personalised information to borrowers and to evaluate their solvency is a step in the right direction.

However, French banks have a reservation as to the appropriateness of integrating the housing loan markets in Europe, which are very diversified from one country to the next and are above all very local markets. In most Member States, confidence was maintained during the crisis and the legal frameworks are already very comprehensive and protective of consumers, or have been adapted. In France, the market was especially resilient due to the responsible lending policy adopted by the banks (predominantly fixed-rate loans backed by appropriate guarantees), based on the borrower's repayment capacity.

### COMMON PRINCIPLES FOR PRICING TRANSPARENCY

In response to the European Commission's request, the European Banking Industry Committee (EBIC) developed common principles to improve the transparency and comparability of bank fees. These principles, which require to be deployed by each country according to its own rules, were submitted to the Commission on 9 September 2011 for an official position.

French banks have already applied a very comprehensive framework on pricing transparency, with new measures added in 2011 (see pages 20-21).

## The FBF's actions in Europe and around the world

— The FBF maintains close relations with European institutions on matters affecting the banking industry. It also shares its views on the international stage in conjunction with foreign banking associations.

### NUMEROUS MEETINGS FROM STRASBOURG TO BRUSSELS...

Throughout the year, the French banking industry has many occasions to meet with European members of Parliament and representatives of the European Commission. In March 2011 for example, several members of the FBF's Executive Committee met with a group of European

deputies in Strasbourg to discuss current banking issues. The Executive Committee met twice with Commissioner Barnier. Meetings are also held with permanent representatives in Brussels, not only the representatives of France, but also Hungary, Poland and Denmark during their presidency of the European Council in 2011 or in the future.

At these meetings, the FBF explains the concerns of the French banking industry regarding the main current topics and legislative initiatives: CRD4, financial transaction tax, SEPA, MiFID revision, etc.

### ...AND ABROAD

The FBF regularly communicates with foreign banking federations outside the EU, in the United States and in French-speaking countries. It also represents the French banking industry at meetings of the International Banking Federation (IBFed)<sup>(1)</sup>.

In 2011, the FBF took part in the project to create a French-speaking Banking Union, via a Steering Committee combining the banking associations of several countries: Belgium, Benin, Cameroon, Canada, Côte d'Ivoire, France, Lebanon, Luxembourg, Mauritania, Morocco and Switzerland. This Union should be established in 2012.

### INCREASED RESPONSES TO CONSULTATIONS

Each year, the FBF responds to an increasing number of consultations. In 2011, of the **more than 70 consultations** to which it responded, **75%** were issued by the European authorities (European Commission, ESMA, EPC, etc.) or international organisations (FSB, FATF, Basel Committee, IASB, etc.). These consultations cover capital requirements, the resolution of banking crisis, systemic institutions, financial market supervision rules, etc.

**Ariane Obolensky, Chief Executive of the FBF, chaired the Executive Committee of the European Banking Federation (EBF) in 2011**, for the third year in a row. In this role, she participates in a number of meetings addressing key European issues. The EBF represents the 5,000 commercial banks operating in the European Union.

**The French banking sector** is very open to international players. **204 foreign credit institutions** had established operations in France as at end-2010. Most of these institutions (61%) are European (UK, Germany, Netherlands and Italy) and over 16% are US banks.

> ACP, 2011

### 2014: deadline for SEPA migration

See "Payment Instruments" chapter, pages 28-29.

<sup>(1)</sup> IBFed comprises the EBF and the banking associations of Australia, Canada, the United States, Japan, South Africa, China, Korea, India and Russia.



# BANKING INDUSTRY HIGHLIGHTS

## The reality of banking in France: the FBF communicates

— On several occasions, the banking profession issued collective communications aimed at explaining banks' role in the French economy and the conditions in which they carry out their business.

Despite a challenging economic environment related to the euro zone crisis, the banks continued to finance the economy and the projects of both individuals and the corporate sector. In order to underline the reality of this situation and respond to the issues raised through concrete facts, the FBF issued several collective communications by the banking profession signed "Let's talk about banks and let's get serious" as it did for the first time in December 2010. Three pages were therefore distributed in the national and regional daily press during 2011.



15 February

The FBF communication highlighted the increase in loans to households and the corporate sector in 2010. This growth, achieved thanks to the mobilisation of retail banking networks on the ground, is among the strongest in Europe.



28 July

The FBF recalled, with the help of figures, that the banks did not ask individuals and companies to wait until the end of the crisis in order to finance their projects.





## 20 and 21 October

The communication re-established several truths about French banks: they do their job and finance the economy, they do not play with their customers' money, they do not speculate on Greek debt...

## BANKS IMAGE

In 2011, **58%** of French people say they have a good image of banks (+6 points vs. 2010) in general: this is the highest level since the beginning of the crisis in 2008. The image of their own bank has also risen to the high level of **75%**<sup>(1)</sup>.

<sup>(1)</sup> IFOP survey, June 2011

## Banking in France: key figures

- **400** banks
- **Nearly 39,000** branches<sup>(2)</sup>
- **More than 370,000** employees, or one of the leading private employers in France
- **More than 30,000** hirings per year
- **More than 73 million** current accounts
- **EUR 2,275 billion** in loans<sup>(3)</sup>
- **EUR 1,790 billion** in deposits<sup>(3)</sup>
- **17 billion** payment transactions processed per year
- **56,243** cash machines and ATMs
- **Nearly 3%** of French GDP for 10 years

<sup>(2)</sup> Including La Banque Postale points of sale

<sup>(3)</sup> At end-September 2011 (loans and deposits of resident customers)

## Constant efforts to ensure the solidity of the banking sector

— The banking profession applies the European rules in terms of solvency and the supervision of variable remuneration. It has continued with its efforts to combat money laundering and terrorist financing.

### THE STANDARD ON VARIABLE REMUNERATION HAS BEEN UPDATED

The provisions relating to the supervisory of remuneration policies resulting from the CRD3 Directive came into force on 1 January 2011. The banking profession has updated its professional standard in order to clarify the conditions for application of the text and ensure risk is fully taken into account in remuneration policies.

As a result, the rules apply to any employee whose activity is likely to have a negative impact on the company's risk profile, and to executive members. In particular, they provide for the deferred payment of at least 40% of the variable remuneration - and up to a minimum of 60% in the case of the highest pay - over a minimum period of three years and subject to profits.

Variable remuneration is also subject to a transparency obligation: in order to increase the readability of variable remuneration, the professional standard provides for a harmonised framework for the annual publication of this information. This standard framework has been developed by the banking profession in conjunction with the Prudential Control Authority (ACP) and the Treasury Department.

These new rules apply from 2011 in the case of variable remuneration allocated in respect of the 2010 financial year. The ACP oversees their implementation.

The French banks were the first to supervise variable remuneration practices. According to Michel Camdessus' report submitted to the Minister of the Economy at end-January 2011, the professional standard has resulted in numerous progresses. The French banks reduced the budget for bonuses distributed in respect of 2009 by around EUR 800 million. In 2011, they allocated more than 60% of bonuses in respect of 2010 in deferred form, a level that exceeds the requirements of the European directive<sup>(1)</sup>.

### NEW SOLVENCY RULES

The French banks apply the prudential provisions laid down by the CRD3 Directive relating to the strengthening of capital. Transposed into French law by the decree of 23 November 2011, these measures provide notably for an increase in capital requirements for complex securitisation transactions and financial products in the trading portfolio. The text also increases transparency obligations regarding securitisation exposure in the trading portfolio. These measures, which are based on the so-called "Basel 2.5" international rules, came into force on 31 December 2011.

### FIGHT AGAINST MONEY LAUNDERING: THE BANKS ARE STILL MOBILISED

The banking profession is very much involved in the European and international work aimed at strengthening the system for combating money laundering and terrorist financing. During 2011, it responded to several FATF consultations on the review of its Recommendations. It also contributed to the discussions launched by the European Commission with the purpose of reviewing the 3<sup>rd</sup> Directive: these projects aim to take into account firstly the legislative changes made necessary by the

review of FATF recommendations, and secondly the changes that appear necessary in light of the implementation of the 3<sup>rd</sup> Directive.

The banks are also adapting the personal data processing systems being rolled out as part of their policy to combat money laundering and terrorist financing, to the new measures adopted by the CNIL (French Data Protection Authority) on 16 June 2011. The CNIL has modified the AU-003 unique authorisation to take into account the system for combating money laundering and terrorist financing resulting from the 3<sup>rd</sup> Directive. The banks are required to comply before 7 July 2012.

The increase in notifications of suspicion to TRACFIN, as well as FATF's generally positive assessment of France, testify to the vigilance of banks in order to combat money laundering and terrorist financing. In 2010, TRACFIN recorded **20,252** notifications of suspicion, up 12% vs. 2009. The banking sector remains the main contributor in this respect, with **73%** of notifications of suspicion made by banks<sup>(2)</sup>.

## Branches security: key figures

The continued decline in the number of bank branch hold-ups testifies to the still strict application of preventive procedures in terms of bank security, whether this involves customers, employees or sites. In 2011, the number of assaults and armed robberies in bank branches totalled 71 (vs. 92 in 2010) including 56 robberies with firearms, representing **a decline of 22%**<sup>(3)</sup>. Moreover, the number of attacks on ATM suppliers totalled 50 (37 in 2010). <sup>01</sup>

(1) Ministry of Finances, press release, May 2011

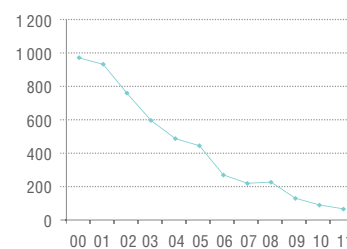
(2) TRACFIN, annual report, August 2011

(3) This figure is provisional. It is likely to be adjusted once the data have been consolidated.

### During the National Conference on Long-Term Financing

which, on 17 November 2011, brought together all the French economic players, the FBF highlighted the issues of long-term financing in order to support growth and employment. It is also an issue of independence for France and Europe. For transport infrastructure alone, the estimated needs amount to EUR 166 billion in France over the next 20 to 30 years. At European level, they total EUR 1,600 billion between now and 2020. The "Call for Long-Term Investment in the European Union" signed at the conference appeals for the provision of a positive European framework.

### 01 Trend in the number of hold-ups from 2000 to 2011



> FBF, 2012

## Social dialogue in the banking industry in 2011

— The dialogue between the AFB (French Bankers Association) and the unions was very proactive in 2011, with the signature of six main collective agreements against the backdrop of the setting up of OPCABAIA, the new body for fundraising and financing of vocational training.

In January 2011, the AFB and three unions signed a collective **agreement on wages** which came into force on 1 April 2011. In particular, the agreement raises collective minimum wages and creates new minimum wages linked to length of service. Other measures cover equal opportunities for men and women. With the target rate of 40% of female managers in 2010 having been achieved, the professional division is looking to increase this figure to 44% by end-2014.

The AFB and three unions adopted a new **agreement on the security of employees and property in bank branches**, in April 2011. This agreement establishes the minimum security rules that must be implemented, and replaces the 2006 agreement. It includes significant changes, notably the expansion of the scope of application to include all types of armed and unarmed assaults.

On 17 June 2011, and following on from the agreement on incivility and violence in commercial relations with customers, the AFB and four unions signed **the first collective agreement on harassment and violence in the workplace**. As in the case of incivility, the AFB will produce a brochure to provide information to employees.

The AFB and all the unions concluded an **agreement on vocational training**, on 10 June 2011. It replaces the 2005 agreement. Efforts by the profession in terms of training are stable: 4% of the industry's wages bill is devoted to these initiatives. Five employee categories are designated as a priority to enable them to gain access to banking jobs or remain in employment.

On 4 July 2011, banking and insurance's social partners signed the **agreement setting up OPCABAIA**: this body enables the fundraising and financing of vocational training initiatives for banks, insurance and mutual insurance companies, general insurance agents and assistance companies. OPCABAIA started to carry out its activities in January 2012. 01

The **agreement on forward-looking jobs and skills management** signed by the AFB and three unions in November 2011 came into force in January 2012. It is aimed at more effectively anticipating, understanding and managing changes in banks' human resources.

## Jobs in banks

— Banking remains one of the leading private employers with more than 370,000 employees and increased recruitment in 2010. Future recruitment will focus on retail banking.

With more than 30,000 people recruited in banks, the recruitment rate rose **8,3%** in 2010. The total headcount remained stable at end-2010: more than 370,000 people work in the banking sector overall.

## Mainly young and qualified people recruited

Those under 30 years of age accounted for two-thirds of people recruited and executives for 44% of all posts filled in 2010. Higher education graduates were also largely in the majority: 45% held a Bac+4 degree or more, and 43% a Bac+2/3 degree. Approximately 12% of recruits have only the Bac high school diploma or Bac+1 degree.

## A wide range of jobs

Approximately 70% of employees work in retail banking. Sales force jobs (client reception, CRMs, wealth management adviser, etc.) predominate: they represent 52% of the workforce and 59% of hirings. Management and support functions (control, marketing, legal, etc.) amount to 22% of the workforce. However, transaction processing jobs are down: they involve a quarter of the workforce vs. one-third twelve years ago.

## A strong commitment to combined work experience/study training programmes

The French banks have continued with their efforts in terms of combined work experience/study training programmes, an important mean of helping young people gain access to employment. At end-2010, they had **8,500 work experience/study students** with qualifications ranging from a Bac high school diploma to Bac+4 degree. In September 2011, Frédéric Oudéa, Chairman of the FBF, strengthened this commitment by signing an agreement for the development of combined work experience/study training programmes with the Minister responsible for Apprenticeship and Vocational Training on behalf of the banking profession.

## OUTLOOK FOR BANKING JOBS

Detail banking, which remains at the heart of French banking activities, will continue to recruit at high levels. However, under pressure from regulatory changes ("Basel 3") and tighter dollar financing, the banks have been forced to reorganise some of their activities that are high capital and liquidity consumers. This restructuring will primarily affect the corporate and investment banking workforce in France and especially outside France.

### 01 OPCABAIA in figures:

- **8,517** member companies
  - Approximately **358,000 employees** concerned
  - **EUR 113 million** fundraising
- > FFSA (FRENCH FEDERATION OF INSURANCE COMPANIES), DECEMBER 2011



**The FBF updated its Guide to Banking Jobs** in January 2011. This describes more than 20 jobs accessible with different profiles. For each job, it provides a description and details of the environment. Around 15,000 copies have been distributed since the first publishing.

# BANKS & THEIR CUSTOMERS

## New customer-focused measures

— In 2011, banks set up numerous provisions aimed at their individual customers. These include special measures tailored specifically to the most vulnerable households.

### BANK FEES: MORE TRANSPARENT INFORMATION...

The set of measures, adopted by the banking profession in 2010 to make it easier to understand and compare fees, were gradually implemented in 2011.

These efforts at transparency concern the indication of total monthly fees, which now appear on each monthly bank account statement. Customers also receive a new version of price leaflets for bank fees coming into effect on 1 April. These leaflets are

structured with a standardised table of contents used across the industry, and contain a standard list of fees for ten popular products or services, appearing on the first few pages. This standard list has appeared on bank websites since 1 January 2011. It is becoming very easy to find and compare the fees for a transaction. <sup>01</sup>

### ... AND SERVICES DESIGNED FOR VULNERABLE CUSTOMERS

France has one of the highest rates of bank account holders in Europe, mainly because of the right to a bank account. 99% of French people over 18 have a bank account, and 99% of households below poverty level have at least one deposit account <sup>(1)</sup>.

For the most vulnerable households, banks offer customised services. Since July 2011, they offer a range of non-cheque payment alternatives (gamme de moyens de paiement alternatifs au chèque - GPA), with new services for their beneficiaries. These GPA are particularly well-suited for customers with a tight budget. At the end of June 2010, more than 82% of customers prohibited from using cheques were using modern payment instruments (GPA, systematic authorisation cards, etc.) <sup>(2)</sup>. <sup>02</sup>

## EASIER BANKING MOBILITY

In 2011, the bank account switching service is operational:

- nearly 100% of people with a bank account in France can use the bank account switching service, developed from the ground up by most banks within less than two years;
- the leading French banks have gone beyond their commitments by offering this service free of charge, with many of them offering additional free services, such as a summary of recurrent transactions;
- banking networks provide easily accessible information on switching banks, information that is also available on FBF websites;
- customer relationship managers have also been trained on the service.

French banks are the first in Europe to have made bank account switching available, as of 1 November 2009. This mobility service aims at helping the transfer of all recurrent direct debits and transfers to the new bank on behalf of the customer.

### 01 Price changes affecting banking services

- which represent 0.6% of household budgets – are very moderate and below the rate of inflation. Some prices are even dropping, such as online account management subscriptions (-15%) and direct debit setup fees (-8%).

This is shown in the first report on bank fees, published at the initiative of the Comité Consultatif du Secteur Financier (CCSF) in November 2011.

### 02 Measures implemented in 2011:

**1 January:** The standard list of fees for ten banking products or services is available on bank websites.

**1 April:** Price leaflets are set up with a standard table of contents and present the standard list of ten common banking products or services.

**1 July:** The total monthly fees and the overdraft authorisation amount appear on the monthly bank account statement.

**1 July:** The range of non-cheque payment alternatives (GPA) are expanded to include two new services, namely a minimum number of account balance alerts and incident fees reduced to a modest amount, with a limit per day and/or per month.

(1) CREDOC survey, April 2010

(2) CCSF, annual report 2010-2011



## Banks are financing household projects

— Banks are continuing their responsible lending policy and their microcredit efforts in order to support start-up projects and social integration. The industry signed the amended AERAS convention and adopted a professional standard to support its over-indebted customers.

### CONSUMER CREDIT: NEWLY APPLICABLE REFORM

The provisions of the law of 1 July 2010 reforming consumer credit, apply on 1 May 2011:

- the loans ranging from EUR 21,500 to EUR 75,000 are covered under the French Consumer Code and the withdrawal period on consumer credit is extended from 7 to 14 days;
- new measures provide supervision for revolving credit, particularly the repayment period, which is set based on the amount borrowed;
- for loans issued on local or remote points of sale, sellers must work with the customer to complete a dialogue and information record. For loans of more than EUR 1,000, the seller must also provide a traditional redeemable loan as an alternative to a revolving credit;
- the Individual Credit Repayment Incident Register (Fichier des Incidents de remboursement des Crédits aux Particuliers - FICP) must be checked before a loan is granted. French banks that base their decision on whether to grant a loan on the analysis of the borrower's solvency already consult this database.

There are other measures still under development, such as changes to the usury threshold values that eliminate the distinction between different types of consumer loans. The reform will be completed in 2013. As such, it will only become fully effective in the months and years to come.

### MICROCREDIT CONTINUES TO GROW STEADILY

The growth of microcredit is continuing in several forms:

- assisted personal microcredits, provided by banks as part of formal partnerships with social support networks, were up **43%** in 2010<sup>(1)</sup>. Generally in amounts of less than EUR 3,000, these loans are used to finance social and professional integration projects for individuals. In accordance with the commitments made by the FBF, they are available throughout France;
- professional microcredits are up **22%**<sup>(2)</sup>. In amounts of less than EUR 25,000, these loans finance business start-up projects for people experiencing difficulty finding employment and currently receiving support. Microcredits guaranteed by France Active, an FBF partner, have grown by **56%**<sup>(3)</sup>.

FBF further contributes to the development of microcredit through official bodies (COSEF, work by the CNIS)<sup>(4)</sup>, and through a regular presence among banks, associations, and regional communities. The "Keys to Banking" educational programme increases the banking and money management skills of borrowers.

### THE AERAS CONVENTION IS REVISED

On 1 February 2011, patient and consumer associations, banking and insurance professionals, and governments signed a new version of the



AERAS Convention<sup>(5)</sup> that enters into effect gradually between March and September 2011. The agreement is intended to improve access to insurance for people with aggravated health risks, by providing:

- extended disability coverage;
- higher limits for property and consumer loans;
- enhanced communication to increase knowledge of the Convention, with a redesign of the [www.aeras-infos.fr](http://www.aeras-infos.fr) website.

All future borrowers automatically benefit from AERAS, without even having to apply for it. In 2010, 94% of applications from individuals with aggravated health risks received an insurance offer<sup>(6)</sup>.

## BANKS MOBILISED TO FIGHT EXCESSIVE DEBT

The banking industry has long been part of the fight against excessive debt, especially by providing classes on finance and money and through responsible lending. In 2011, it adopted a professional standard aimed at ensuring the continuity of bank services for deeply indebted customers. As part of this, more appropriate payment instruments can be offered. This standard entered into effect on 1 May 2011.

To help prevent excessive debt, the banking profession also favours reforming the FICP in order to improve its content and use. On the other hand, creating a "positive record" would be complicated and expensive without its effectiveness in fighting against excessive debt to be demonstrated. The committee responsible for prefiguring such a record worked to define the operational specifications for such a tool. The cost is estimated at several hundred million euros for implementation alone.

## Outstanding loans to households grew

at a steady rate in 2011. Growing at a rate of **6%** in one year, it reached EUR 1,106.8 billion at the end of December. The annual increase in housing loans also remained high (**+6.8%**), and outstanding consumer loans increased by 1.8%. The average property loan rate was **3.93%** in December 2011.

> BANQUE DE FRANCE, OBSERVATOIRE CRÉDIT LOGEMENT/CSA, JANUARY 2012

## Zero-interest loans amended in 2012

As of 1 January 2012, access help to home ownership through zero-interest loans (PTZ+) is limited to consumers purchasing a new-build property and is subject to income resources, under the 2012 Finance Act. Applicable thresholds are also reviewed.

(1+2) Observatory of Microfinance, December 2011

(3) FBF - France Active, February 2011

(4) Comité d'Orientation et de Suivi de l'Emploi des Fonds (COSEF) for the Social Cohesion Fund; Conseil National de l'Information Statistique (CNIS)

(5) s'Assurer et Emprunter avec un Risque Aggravé de Santé (Getting Insurance and Borrowing with an Aggravated Health Risk)

(6) FFSA, 2011

## VSEs and SMEs: heavily involved banking networks

— Banks are helping to finance the economy through continued local action. VSEs and SMEs are their priorities, at a time of slow growth on a European and national level. Banking networks remain heavily involved with their SME customers throughout France.

### LARGELY POSITIVE INCREASE IN LOANS DESPITE THE TURBULENT BACKDROP

For 2011, there was a **5.3%** increase in outstanding credits to the economy, reaching **EUR 1,921.6 billion** at the end of December (for EUR 1,527 billion in deposits<sup>(4)</sup>). This increase is well above economic growth, although there was a pullback at the end of the year due to uncertainties on an international level. Banks use French people deposits to finance individual and SME projects.

Outstanding loans to VSEs and SMEs increased by **4.3%**, reaching EUR 267 billion. Short-term loans represented the greatest growth, with an annual increase of 5%<sup>(2)</sup>.

In general, France's increase in lending remains steadily above the European average. For three consecutive half-years, nearly **eight out of ten SMEs** in France estimate having received all the loans for which they applied, one of the highest levels in Europe<sup>(3)</sup>.

### STRONG SUPPORT FOR VSES

Since September 2011, banks have contributed to a new quarterly indicator developed and distributed by the Banque de France. It provides an improved understanding of the financing of the smallest companies. More than **75%** of loans to SMEs are granted to VSEs<sup>(4)</sup>, who have received more than EUR 210 billion in bank loans. In Q4 2011, banks granted more than EUR 17 billion in new loans to VSEs, 29% of which were short-term loans<sup>(5)</sup>.

### A DIALOGUE BETWEEN BANKS AND SMES FOR LASTING TRUST

From December 2011 to January 2012, leaders from the major French banks separately met with more than 1,100 SMEs throughout France. These meetings were held by FBF committees in a number of locations, including Orléans, Dijon, Lille, Evry, Lyon, and Rungis.

After the first two rounds of meetings in 2009 and 2010, these new local meetings succeeded in building lasting trust. Although the context offers little business visibility, the CEOs of SMEs and bankers discuss advancements in their relationship (dialogue, communication, etc.) and the changing economic outlook.

### LOCAL INITIATIVES AND RELATIONSHIPS

Through the network of banking committees, the FBF is continually involved at the ground level with local economic players: prefectures, the Banque de France, chambers of commerce and industry, chambers of trade, MEDEF (French business federation) and CGPME (French federation of SMEs), professional associations, etc. In all, more than 350 bankers participate in departmental commissions on financing the economy, along with prefectures and company representatives.

On 4 April 2011, the banks signed an agreement to extend credit mediation for businesses until the end of 2012. Since the system's creation in November 2008, close cooperation between bank correspondents and Banque de France teams made it possible to find capital and financing solutions in two out of three cases (and for 96% of VSEs). In 2011, there was a drop in requests for mediation, averaging 300 per month, compared to 600 the previous year (and 900-1000 in 2009) <sup>(6)</sup>.

## NEW ACTIONS FOR ENTREPRENEURS AND PROFESSIONALS

The FBF provided solid support to start-up groups. Through a national partnership between FBF and France Active, three new regional agreements were established in 2011 in Ile-de-France, Pays de la Loire, and Centre. **In total, nearly EUR 150 million** were invested in the form of bank loans to businesses that were created by job seekers <sup>(7)</sup>.

Relaying the FBF's "Keys to Banking – Professionals" programme, banking committees carried out various actions to provide information and training to entrepreneurs and professionals:

- in the autumn, about 60 informational meetings were held by banking committees to benefit craftsmen and professionals, with additional support from the Banque de France and local chambers of trade;
- in addition, the Gironde Banking Committee joined the CGPME, the region, and accounting experts to provide a training course called "Let's Talk Banking" for more than 120 VSE leaders in 2011.

In total, banking committees distributed more than 20,000 "Keys to Banking" professional guides during instructional meetings, trade shows, and other events.

(1) Non-financial customer deposits, according to the Banque de France, at end-September 2011

(2) Banque de France, 2012

(3) ECB Survey, December 2011

(4) VSEs are SMEs with revenues of less than EUR 2 million. They include individual entrepreneurs.

(5) Banque de France, 2012

(6) Credit Mediation for Businesses, Annual Report 2010-2011

(7) FBF - France Active, February 2011

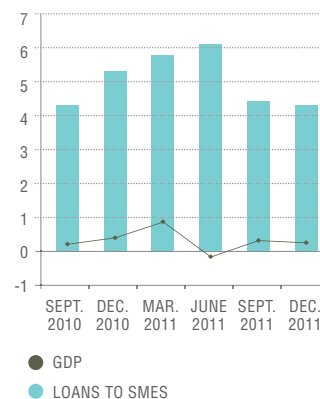


**"Banque - PME: pour une relation de confiance",**  
FBF leaflet for business leaders



**Frédéric Oudéa**, Chairman of the FBF, meeting with SME leaders in Rungis

## GDP and Loans to SMEs (in %)



## Key figures: bank/ customer relationship

### BANKING SERVICES FOR ALL

**99%** of French people over 18 years of age have a bank account, one of the highest rates in Europe.

> CREDOC SURVEY, APRIL 2010

France totalled **nearly 39,000 bank branches** at the end of 2010 (including La Banque Postale points of sale).

> ECB, OCTOBER 2011

**More than 73 million** bank accounts for businesses and individuals.

> BANQUE DE FRANCE, OCTOBER 2011

Bank cards accepted at **1.34 million** locations (stores, automated payment systems, online sales, etc.), including 56,243 ATMs in 2010.

> GIE CB, 2011

### SPECIAL ATTENTION FOR VULNERABLE HOUSEHOLDS

**99%** of households below poverty level have a deposit account, and **81%** of them have a payment card (compared to 39% in 2000).

> CREDOC SURVEY, APRIL 2010

**EUR 3/month** is the average price for the range of non-cheque payment alternatives (gamme de moyens de paiement alternatifs au chèque – GPA), which has held steady between 2009 and 2011.

> OBSERVATORY OF BANKING FEES, NOVEMBER 2011

### THE FRENCH TRUST THEIR BANKS

**Three out of four French people** have a positive image of their bank (+1 point since 2010), and 58% have a positive image of French banks in general (+6 points in one year).

**71%** of French people are satisfied with their customer relationship manager.

**60%** of French people think that the French banking model weathered the economic crisis better than banks in other countries.

> IFOP SURVEY, JUNE 2011

### TRANSPARENCY EFFORTS BY BANKS ARE WELL PERCEIVED

**75%** of customers believe that they are well-informed about the day-to-day management of their bank account, and 74% on the use of their bank card.

For **six out of ten French people**, it is easy to find out the cost of a particular banking service.

**56%** of French people remember receiving an annual summary of bank fees several months later.

> IFOP SURVEY, JUNE 2011

### CUSTOMERS ARE AWARE OF THEIR OPTION TO CHOOSE THEIR PROPERTY LOAN INSURANCE

**88%** of French non-owners with plans to buy property intend to compare prices before buying property loan insurance.

> IFOP SURVEY FOR MACIF, JUNE 2011

### MODERATE BANK RATES

Banking services represent **0.6%** of household budgets and are rising at a slower rate than inflation and the overall cost of services.

> INSEE, 2011

In all (loans, savings, and day-to-day banking), bank service fees in France are among the least expensive in Europe.

> BAIN & COMPANY STUDY, SEPTEMBER 2010

## MORE WIDESPREAD USE OF ONLINE BANKING

Although **89%** of French people visit their local bank branch, an increasing number of them are using their bank's website: **four out of five** logged into their bank's website in 2011 and **one out of ten customers** checks it every day.

**44%** of internet users make online transfers, 11% apply for savings or investment products, 11% apply for a consumer loan, and 10% use it for stock orders.

> IFOP SURVEY, JUNE 2011

## THE LEVEL OF FRENCH SAVINGS REMAINS HIGH

The savings rate was **17.1%** in Q3 2011. That is Europe's third highest rate, after Germany and Belgium.

> INSEE, EUROSTAT, 2011

**92%** of households living in France had financial products in 2010, and 85% of French people had a savings account.

The 2008 financial crisis has had an impact on who owns securities: **19%** of households owned some in 2010, compared to 24% in 2004. Also, more people owned life insurance: **42%** in 2010 compared to 35% in 2004. <sup>01</sup>

> INSEE, ASSETS SURVEY, MAY 2011

## ONE IN TWO HOUSEHOLDS HAS A LOAN

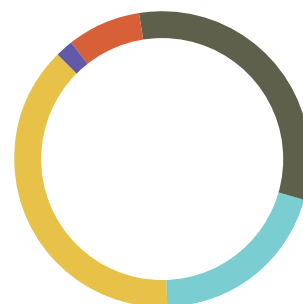
In 2011, the percentage of households with a loan was stable:

**49.4%** of households have at least one loan,

**31%** have a property loan, and **30.2%** have a consumer loan.

> HOUSEHOLD CREDIT OBSERVATORY, JANUARY 2012

<sup>01</sup> Financial investments by French households (end-December 2010, as % of total)



- 32% LIQUID DEPOSITS
- 20% EQUITIES
- 38% LIFE INSURANCE PRODUCTS AND PENSION FUNDS
- 2% DEBT SECURITIES
- 8% UCITS SHARES

> BANQUE DE FRANCE, OCTOBER 2011

# PAYMENT INSTRUMENTS

## 2014: deadline for SEPA migration

— The swift adoption of the European regulation setting a date for completion of the migration to SEPA is essential for the mobilisation of all players. In France, the proportion of SEPA instruments is slowly increasing.

### A SINGLE END DATE FOR THE MIGRATION TO SEPA

The draft European regulation establishing dates for the end of migration to SEPA has focused on the definition of a single date for the abandonment of national transfer and direct debit schemes in favour of SEPA instruments. This single date has been set for 1 February 2014. Specific national payment instruments (such as the "TIP" bank giro payment and the "télèrèglement" electronic payment order in France) are expected to disappear by February 2016.

The regulation, which is expected to be adopted in H1 2012, also imposes new technical and pricing requirements for SEPA transfers and direct debits. The French banks regret the introduction of these measures while SEPA payment instruments have already been launched. In particular, these decisions undermine a system based on interoperability, whose effectiveness and security require the banks to make continuous and costly investments which justify a remuneration for the service provided.

### STILL LOW USE FOR THE NEW PAYMENT INSTRUMENTS

In France, the National SEPA Committee, chaired by the Banque de France and the FBF, regularly reviews the progress of the migration of national instruments to the SEPA transfer and direct debit schemes.

- The volume of SEPA transfers has risen due to the gradual migration of government offices. However, at end-2011, it was still relatively low with **24.7%** of transfers carried out in SEPA format, a similar rate to that for SEPA transfers in Europe (23.7%).
- More than one year after it was made available by the banks, the number of SEPA direct debits

remains insignificant: it represents **less than 0.2%** of all direct debits, both in France and in Europe.

The National Committee would remind the European authorities that swift adoption of the European regulation is essential for the mobilisation of all players. Publishing the regulation in the summer 2012 will actually leave companies only 18 months to finalise their migration to SEPA instruments.

In light of the future termination of the "TIP" and "télèrèglement" schemes, the National Committee supports the development of innovative alternative payment instruments meeting the needs of users.

The Committee is also campaigning among all the players to encourage them to step up their SEPA migration efforts and to ensure they are able to meet the European deadline. In 2012, and once the regulation has been adopted, it intends to organise regional communication initiatives: these will help raise the awareness of SME and VSE owners in particular.

**The environmental footprint of payments** by card and by cheque is small according to an initial study carried out on the subject: in one year, the CO<sub>2</sub> emissions associated with the use of these payment instruments represent **0.01%** of the annual emissions of French people. Card payments have the smallest footprint, followed by cheque payments and then payments in cash. This impact is expressed in CO<sub>2</sub> equivalent grams.

> ERNST & YOUNG AND BIO INTELLIGENCE SERVICES, 2011



# Innovation, transparency and security of payment instruments

— The French banks are permanently innovating in order to adapt their offerings to changes in the market. They use the best technologies to ensure the smooth operation of payment and online banking transactions.

## EVER MORE INNOVATIVE PAYMENT SERVICES

In order to meet the expectations of their customers, the banks are constantly innovating and offer numerous services and payment instruments that are secure, effective and simple to use. This is testified by the numerous initiatives in terms of technological offering: contactless card or mobile phone payments, online payments, etc.

One year after the large-scale launch of contactless payments in Nice (more than 210,000 cards issued and approximately 1,800 shopkeepers equipped at end-May 2011), the banks are participating in the Minister of Industry's request for project proposals with regard to the rollout of contactless mobile services in ten or so major French towns: Bordeaux, Caen, Strasbourg, etc.

## CARD ACQUIRING SERVICES: ENHANCED TRANSPARENCY...

At the beginning of 2011, the French banks, in order to increase the fee information provided to shopkeepers on card acquiring services, made an initial report of the sums collected in 2010 available to their shopkeeper clients.

In July 2011, they supplemented this best professional practice in order to respond to the proposals of the

report on card payments produced by Mrs. Branget and Messrs. Debré and Mallié delivered to the Minister of the Economy.

A more detailed and harmonised Card Acquiring Fees Annual Report will therefore be sent to shopkeepers during Q1 2012. It will make it easier to compare the costs of these services in a highly competitive market.

## ... AND SUBSTANTIALLY REDUCED FEES FOR SHOPKEEPERS

The banks are also involved in considerably reducing the fees paid by shopkeepers for these card acquiring services. This decline should help encourage card use for all customers, especially for purchases involving small amounts, and the expansion of contactless card payments. Accordingly, the banks are developing their payment services in order to offer their customers:

- an economical and attractive card acquiring offering for small shopkeepers, very small enterprises or some professionals,
- a fee offering suited to the payment of small amounts (less than EUR 15).

The banks are also taking measures to reduce the costs associated with the telecommunication fees necessary for card transactions. They are supporting the move in shopkeepers' terminals towards "contactless" technology.

These measures are being phased in during H1 2012. They testify to the substantial efforts by the banks, which are investing on a regular basis in order to facilitate the use of modern payment services meeting the needs of their customers, while at the same time ensuring the security of transactions.

## ONLINE BANKING AND INTERNET PAYMENTS: SECURITY A PRIORITY

The banks are continually increasing the security of payment systems and online banking sites. For online card payments in particular, the banks have brought strong authentication measures into general use. Their effectiveness is widely recognised by users: for **96% of online purchasers**, authentication



techniques with a non-reusable code (a unique code sent by SMS, generated by a calculator) increase the security of online card payments<sup>(1)</sup>. The banks have been equipping their card-holding customers with these security techniques since 2010. They also necessitate the involvement of shopkeepers, which are taking up these solutions in ever greater numbers, and the involvement of customers in order to activate the systems.

This confidence in the security of bank systems has accompanied the rapid expansion of internet banking use: **80% of internet users** consult their bank's site (75% in 2010) and 43% log on one or several times a week. Logging on to an online banking service is considered to be secure by **75% of internet users** (+4 points year-on-year)<sup>(2)</sup>.

## CARD FRAUD: VERY LOW RATE AND WIDE DISPARITIES

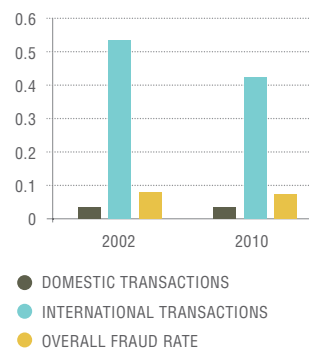
The fraud rate<sup>(3)</sup> for card payments amounted to **0.074%** in 2010 for a total of EUR 369 million. This rate conceals divergences: it is 0.036% for domestic payments and 0.423% for international payments. Moreover, the fraud rate on international transactions carried out in Europe (SEPA area) is lower than the rate on international transactions made outside Europe. <sup>01</sup>

The banks' ongoing investments in terms of security and in particular the widespread use of the EMV smart card are starting to bear fruit. Having been completed in France, the migration to the EMV standard continues at international level<sup>(4)</sup>.

## A private label for the management of digital identities

The banks are supporting the government in the examination of conditions for the implementation of a digital identity label. This IDeNum label is designed to enable the authentication of any user in the area of online services in the private and public sector, thanks to a practical and secure digital certificate system. The French banks are calling for consistency with the development of the Digital National ID Card and the definition of an appropriate economic model within the framework of free competition.

### 01 Trend in the card fraud rate



> OBSERVATORY FOR PAYMENT CARD SECURITY, JULY 2011

(1) Observatory for Payment Card Security, July 2011

(2) IFOP survey, June 2011

(3) Fraud amount in relation to the total amount of transactions.

(4) Observatory for Payment Card Security, July 2011

## Key figures: payment instruments in France...

### 17 BILLION PAYMENTS IN 2010

Individuals and companies carried out 17.053 billion transactions in 2010 (excluding cash payments), representing a **3.9% increase** compared with 2009.

> BANQUE DE FRANCE, OCTOBER 2011

### THE CARD IS THE MOST WIDELY USED PAYMENT INSTRUMENT

The card (interbank or private) remains the favourite payment instrument: it accounts for more than **43%** of the total number of transactions.

> BANQUE DE FRANCE, OCTOBER 2011

In 2010, there were an estimated **88.6 million cards** (interbank or store card) in circulation in France, including:

- **64.1 million** "interbank" cards (CB, Visa and Mastercard). They represented a total transaction value (payments and withdrawals) of EUR 453.4 billion;
- **24.4 million** "private" cards representing a total transaction value of EUR 19.1 billion.

> OBSERVATORY FOR PAYMENT CARD SECURITY, JULY 2011

### THE CHEQUE CONTINUES TO DECLINE

The cheque continued to decline in 2010 in favour mainly of the transfer and direct debit: whereas the cheque only represented 18% of transactions (-5.4% year-on-year), the transfer was used in 17.5% of transactions (up 7.2% in one year) and the direct debit in around 20% of transactions (+4.5% vs. 2009). The "TIP" represented only 0.7% of transactions.

> BANQUE DE FRANCE, OCTOBER 2011

Although the cheque has experienced a continuous decline in the last 10 years, it still continues to be widely used in France with **3 billion payments per year**. The public sector - particularly local authorities - accounts for 63% of cheque collections.

> EDGAR DUN & COMPANY, MARCH 2011 (2009 FIGURES)

### MORE THAN EUR 25,000 BILLION EXCHANGED

Payments totalled nearly EUR 25,070 billion in 2010, an increase of around 3.9% year-on-year. This amount represents approximately 13 times French GDP in 2010. Transfers alone represented **more than 85%** of this amount. The breakdown of other payment instruments in relation to the total amount of transactions is as follows: 7.2% for cheques, 4.4% for direct debits and 1.4% for card payments.

> BANQUE DE FRANCE, OCTOBER 2011

The average amount for a payment transaction is:

- **EUR 6,083** for a transfer,
- **EUR 586** for a cheque,
- **EUR 331** for a direct debit,
- **EUR 49** for a card payment. <sup>01</sup>

> ECB, OCTOBER 2011

## ... and in Europe

### 86.7 BILLION NON-CASH PAYMENTS

were made in the European Union in 2010, up 5.6% year-on-year. Card payments represented more than **39%** of all transactions, followed by transfers (28% of payments) and direct debits (25%). French people carried out 20% of total transactions. <sup>02</sup>

> ECB, OCTOBER 2011

## INCREASE IN CARD PAYMENTS

With 34 billion transactions, card use has risen **8%**. In 2010, a European citizen made on average **68** card payments, vs. 63 in 2009. The same European citizen also made:

- **48** transfers,
- **44** direct debits,
- **10** cheque payments.

However, practices vary: a Dane makes more than 196 card payments per year, a French person 114, a German 33 and a Bulgarian less than 3.

The total number of payment cards in the European Union amounted to **727 millions** at end-2010 (all types of card taken into account), or 1.45 cards per European citizen.

> ECB, OCTOBER 2011

## 8% FEWER CHEQUES

The use of cheques is increasingly rare with **5.8%** of the transactions carried out in Europe in 2010, a decline of approximately 8% year-on-year. French people remain the major users of this payment instrument: **62%** of cheque payments issued in Europe are made in France. Conversely, the cheque has virtually disappeared in many countries (less than one cheque per year and per inhabitant in Germany, Belgium, Finland, Poland, etc.).

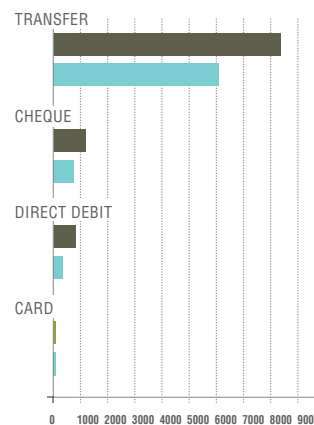
> ECB, OCTOBER 2011

## A TOTAL AMOUNT OF EUR 226,000 BILLION

Payments made in Europe totalled EUR 226,480 billion in 2010. Transfers represented **89%** of this amount, with the remainder divided essentially between direct debits (7%), cheques (3%) and cards (less than 1%).

> ECB, OCTOBER 2011

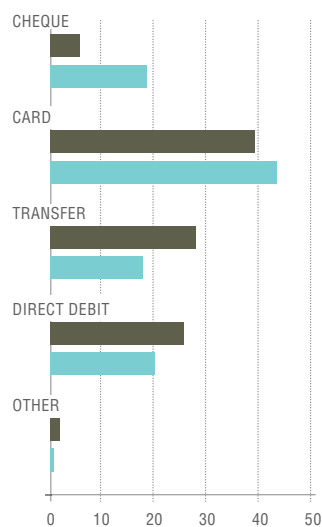
### 01 Average amount of a payment transaction in 2010 (in euros)



● EUROPE  
● FRANCE

> ECB, OCTOBER 2011

### 02 Breakdown of payment instruments in France and in Europe in volume, in 2010



● EUROPE, EN %  
● FRANCE, EN %

> ECB, OCTOBER 2011

# THE FRENCH BANKING FEDERATION

## The FBF's missions...

The French Banking Federation (FBF) promotes the banking and financial services industries in the French, European and international markets, and sets out the industry's positions and proposals to officials and regulatory authorities in the fields of business and finance. The FBF also issues professional standards, best practices and recommendations, and makes its experience available to its members. Its mission also includes keeping members among French banks informed of anything that may concern their activities.

## ...and organisation

To fulfil its mandate, the FBF is structured around three departments:

### BANKING AND FINANCIAL ACTIVITIES AND RESEARCH

This department offers a full range of banking expertise, and oversees the FBF's commissions and committees in areas including retail banking

and direct banking, investment banking and capital markets, risk control and capital adequacy requirements, payment systems and instruments, and legal and tax issues. It also negotiates and works with various French and European government and regulatory authorities.

### INFORMATION AND EXTERNAL RELATIONS

The role of this department is to anticipate changes in the political, economic and social environment, promote the role of the banking sector in society and keep the general public informed. It is responsible for public affairs, including relations with government officials, the media, consumers, young people and teachers. It makes sure that banks are kept informed, and organises the activity of the FBF's regional committees.

### EUROPEAN AND INTERNATIONAL AFFAIRS

This department, part of which is based in Brussels, handles relations with EU institutions and the various bodies representing the banking and financial services industries in Europe. It monitors international issues and relations with global banking associations, and deals with issues that specifically concern foreign banks operating in France.

## The FBF's members

The FBF represents French banks and foreign banks that have set up subsidiaries or branches in France, whether they are from Europe or elsewhere.

Credit institutions that are authorised to operate as banks in France and branches of credit institutions based in the European Economic Area are fully entitled to become members of the FBF, which is their professional body<sup>(1)</sup>. Other ipso facto members include the central bodies of cooperative and mutual banking groups and the AFB.

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**400 banks belong to the FBF**, including universal banks, online banks, investment banks, private banks, local banks, etc. The list of FBF members is available at: [www.fbf.fr](http://www.fbf.fr) / La Fédération Bancaire Française/ Adhérents FBF

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<sup>(1)</sup> The French Monetary and Financial Code stipulates that all credit institutions must belong to either a "professional body" or a "central body". These bodies are affiliated with the AFECEI, which represents credit institutions and investment firms with the government.

# The FBF's statutory bodies

(AS AT 31 DECEMBER 2011)

## THE FBF EXECUTIVE COMMITTEE

The founding members of the FBF are ex-officio members of the Executive Committee. They are represented by an individual who must be either the Chairman or the Chief Executive Officer. Each year, the Executive Committee appoints one of its members to act as the FBF's Chairman.



**FRÉDÉRIC OUDÉA**  
FBF Chairman  
Chairman and Chief  
Executive, Société Générale



**JEAN-PAUL CHIFFLET**  
FBF Vice Chairman  
Chief Executive Officer,  
Crédit Agricole S.A.



**MICHEL LUCAS**  
FBF Treasurer  
Chairman, Confédération  
nationale du Crédit Mutuel



**JEAN-LAURENT BONNAFÉ**  
Director and Chief  
Executive, BNP Paribas

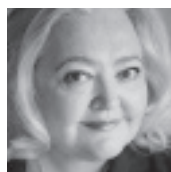


**PIERRE MARIANI**  
AFB Vice-Chairman  
Chief Executive Officer  
and Chairman of the  
Management Board of  
Dexia S.A.



**FRANÇOIS PÉROL**  
Chairman, Groupe BPCE

**BAUDOUIN PROT**  
(till 30 November 2011)  
Director and Chief  
Executive, BNP Paribas



**ARIANE OBOLENSKY**  
FBF Chief Executive

## COMMISSIONS AND COMMITTEES

The Executive Committee has formed three commissions and five committees, and appoints their chairman. Their role is to review various technical issues that affect the banking industry and make proposals. When these proposals concern the banking industry as a whole, they are submitted to the Executive Committee for review. The commissions and committees are made up of about twenty members from different banks.



**Retail Banking and Direct  
Banking Commission**  
Chairman:  
**JEAN-PAUL CHIFFLET**  
Chief Executive Officer,  
Crédit Agricole S.A.



**Risk Control and  
Prudential Banking  
Commission**  
Chairman:  
**FRANÇOIS PÉROL**  
Chairman, Groupe BPCE



**Investment Banking  
and Capital Markets  
Commission**  
Chairman:  
**MICHEL PÉBEREAU**  
Chairman, BNP Paribas



**Accounting Committee**  
Chairman:  
**GÉRARD GIL**  
Chief Accounting Officer,  
BNP Paribas



**Tax Committee**  
Chairman:  
**PATRICK SUET**  
Corporate Secretary,  
Société Générale



**Legal Committee**  
Chairman:  
**JEAN-LOUIS GUILLOT**  
Off Counsel to the General  
Management, BNP Paribas



**Payment Management  
Committee**  
Chairman:  
**JEAN CLAMON**  
Managing Director,  
BNP Paribas



**Compliance Committee**  
Chairman:  
**PATRICK SUET**  
Corporate Secretary,  
Société Générale

# The FBF's information mission

## INFORMING AND SHARING EXPERIENCES WITH MEMBER BANKS

In 2011, the FBF organised more than 25 conference-debates for bank employees on industry issues. These events enabled around 3,000 bankers to acquire information and talk with specialists. The FBF also runs an Extranet site for bank employees. <sup>01</sup>

## MORE THAN 100 BANKING COMMITTEES IN THE FIELD

The FBF is represented by a network of 106 committees which work actively on issues bearing on the financing of the economy and relations with VSEs/SMEs. In order to inform young people about different jobs in the banking profession, the committees organised four forums in 2011 in Lille, Reims, Montpellier and Dijon. The committees also take part in numerous job fairs and vocational discovery sessions for secondary school students. In conjunction with the "Keys to Banking" programme, the committees continue to pursue their partnerships with social players and have signed new partnerships with the towns of Lille and Avignon, and in the Yvelines department to encourage the integration of young people into the world of work.

## "KEYS TO BANKING": A PUBLIC INFORMATION CENTRE

Developed by the FBF's Banking Information Centre, the financial education programme "Keys to Banking" promotes the understanding of banking mechanisms in order to help the public (individuals, professionals, young people) durably manage its relationship with the bank. In order to reach the most vulnerable people, the programme is also aimed at social players. The FBF makes its teaching aids - the Lesclesdelabanque.com website or the collection of practical mini-guides - available to the largest number of people. <sup>02</sup>

<sup>01</sup> The "FBF Chairs Meetings" are aimed at bank employees. Each year, they enable the presentation of the academic research studies financed by the FBF for four years.



<sup>02</sup> The collection of mini-guides "Keys to Banking" has been expanded, with new titles added in 2011: Studying abroad, The PTZ+ (interest-free loan), The limited liability individual entrepreneur. Moreover, the "Practical Guide to Managing your Budget", with approximately 80,000 copies distributed since it was first published, has become an everyday work tool for many social workers. In fact, the way in which the bank account is operated often reflects the management of the family budget.

A total of **more than one million** mini-guides were distributed in 2011.

## The men and women of the FBF and AFB

Assumpta Adiceam | Florence Amblard | Maxime Attimont |  
Sylvie Augros | Sylvie Auré | Françoise Auréjac | Olivier  
Balmont | Patricia Barraud | Katia Bartek | Lucie Batier |  
Véronique Béal | Sylvette Beltrame | Sophie Bertomeu |  
Laurent Bertonnaud | Laurène Betito | Elise Binet | Jean-  
Marc Bing | Fabrice Boronat | Marie-Claude Bourcier |  
Cédric Cefber | Christine Chadozeau | Henry Cheynel |  
Yves Collombat | Corinne Cottin | Sarah Courdavault |  
Elisabeth Da Cunha | Elisabeth Danton-Petit | Astrid  
Delacour | Patricia Désuert | Michelyne Didin | Marie-  
Claude Doloir | Frédéric Ducamp | Béatrice Durand |  
Vicentia Fachinan | Nicole Flah | Lydia Flom-Sadaune |  
Fabienne Fontaine | Catherine Gaillon | Mariel Gansou |  
Raphaël Garcia | Antoine Garnier | Carole de Gaulle |  
Martine Gauthier | Brigitte Gayral | Barbara Gicquel | Marie  
Gillouard | Christiane Girardey | Francis Gravet | Géraldine

Guillaumot | Marine Guyon-Godet | Marie-France Gerber-  
Guzniczak | Védi Hekimyan | Brigitte Hoffmann | Céline  
Houehunpe | Isabelle Huard | Mélanie Hulin | Jean-  
François Jondeau | Françoise Laclau | Delphine Laconde  
| Olivia Laplane | Florence Le Texier | Christine Leduc |  
Geneviève Lhomme | Olivier Lhomme | Camille Ly | Léonie  
Magdeleine | Valérie Maingé | Odile Mamane | Anne  
Marais | Xavier Mendiboure | Aude Mesnard | Miguel  
Monteiro | Jean-Baptiste Musso | Sandrine Nicolas |  
Fabien Pelluchon | Bernard Pierre | Philippe Poeydomenge  
| Jérôme Raguénès | Hélène Ricaud | Danièle Rineau |  
Michèle Rossi | Anna Samocka | Stéphane Saugère | Tania  
Saulnier | Guillaume Soler | Hugues Stupnicki | Malik  
Tabi | Ghislaine Tayoung | Céline Thomas | Estelle Toullec-  
Marquot | Bruno Vandewalle | Mario Van Doorn | David  
Verfaillie | Jacques Vessaud | Maxime Zitouni





\* Pierre de Lauzun, Valérie Ohannessian, Jean-François Pons, Philippe Gendillou and Jean-Claude Guéry are members of the FBF Management Committee, coordinated by Ariane Obolensky.

## The FBF's affiliated entities

### THE ASSOCIATION FRANÇAISE DES BANQUES (AFB)

The AFB is a founding member of the FBF. As such, it sits on the Executive committee, where it represents in particular small and medium-sized banks and foreign banks operating in France. The AFB is also the professional body of commercial banks with respect to the social aspects of the January 2000 collective bargaining agreement. Through OCTA -Banques, the AFB has collected the apprenticeship tax since 2006.

### OPCABAIA

OPCABAIA is the new joint body for the fundraising for inter-branch ongoing vocational training for AFB banks, insurance and mutual insurance companies, general insurance agents and assistance companies. It succeeded the OPCA-Banques (fundraising body for AFB banks) on 1 January 2012.

### THE COMITÉ FRANÇAIS D'ORGANISATION ET DE NORMALISATION BANCAIRES

Created in 1930, the CFONB oversees the standardisation and organisation of banking activities in France. It is authorised to act as a standards bureau within AFNOR, the French standards association. Although its work mainly concerns payment systems and instruments, it also deals with securities.

### THE REVUE BANQUE GROUP

The group is structured around four activities concerning banking, finance and insurance: RB Press (Revue Banque, Banque & Stratégie, Banque & Droit, Bankers Markets & Investors), RB Seminars (Club Banque, Rencontre Banque & Droit, Conférence, etc.), RB Publishing and RB Bookshop. All the activities are accessible on [revue-banque.fr](http://revue-banque.fr).

## The FBF on the internet



The **Fbf.fr** site had a total of 1.3 million page views in 2011. It offers RSS flows and alerts on the latest industry news: key figures, publications, press releases, etc. The site has more than 5,000 subscribers to the newsletter.



With its **Twitter** account, which was set up in August 2011, the FBF distributes press releases, statements and other industry news in real time.

The **Toutsurlacrise.fr** site has been running since end-October 2011. It is designed to provide educational answers to questions raised against the backdrop of considerable confusion, and to re-establish the truth. More than 13,600 pages have been consulted in less than three months.

The **Lesclesdelabanque.com** portal received 2 million visits in 2011 (+25% year-on-year). It provides access to four dedicated areas: individuals, professionals, young adults and social players. These are regularly updated according to the news.

## The FBF in Burkina Faso



The FBF, in partnership with its Works Council, is involved in a humanitarian project in Burkina Faso, funding the installation of natural water pumps and developing educational programmes. Two staff members visited the site in 2011.

THIS DOCUMENT WAS DESIGNED  
AND CREATED BY THE INFORMATION  
AND EXTERNAL RELATIONS  
DEPARTMENT OF THE FBF

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-  
COMPLETED JANUARY 31, 2012  
PRINTED FEBRUARY 28, 2012

-  
HEAD OF PUBLICATION:  
ARIANE OBOLENSKY

-  
COPYRIGHT REGISTRATION:  
1ST QUARTER 2012  
ISSN ALLOCATION PENDING

-  
GRAPHIC DESIGN:  
ALLÉGORIES CREATIONS



FEDERATION  
BANCAIRE  
FRANCAISE