

The French Deposit Banks and the *Banques d'Affaires*

In general outline, the structure of the commercial banking system in France comprises a mixture of large banks, whose interests are nationwide in their scope, and of many medium-sized and small banks, whose range of business is more or less localised either geographically or within specific sectors of the economy. In addition, the French have established a distinction between the deposit bank proper and the *banques d'affaires*, the latter being in some degree a specialist in investment banking. As a matter of definition, this difference obtained from the first, though in earlier years it was much less clear-cut. In the latter half of the nineteenth century, when many of these banks were established, it was quite common for the institutions concerned, whatever their ostensible purpose, to stray into the other camp. Deposit banks did much investment banking and the *banques d'affaires* often based their operations, at least in part, on the attraction of demand deposits. The results of doing a « mixed » business were not always particularly happy and there was a number of failures and reconstructions. Gradually, in consequence of this experience, there was a tendency to specialise in one activity or the other, but no formal classification was attempted until the introduction of the banking legislation of December, 1945.

The changes then introduced were not unimportant, but in some respects they constituted little more than a codification of existing practices and the « reforms » were therefore rather less radical than may at first appear. Certainly, the deposit banks were less free to undertake investment banking and the *banques d'affaires* were restricted in the use they might make of short-term deposits, but each group retained some degree of interest in the field of the other. It is proposed in this article to discuss and to compare both the

structures of these two sectors of the French banking system and the types of business done.

I.

Apart from the foreign banks operating in the country and certain miscellaneous institutions, there were 278 deposit banks registered in France as at December 31, 1953. Six of these were *grands établissements*, 82 were Parisian banks (including the small but important group of private bankers), 22 were regional banks and 168 were local banks.

The four largest deposit banks — the *Crédit Lyonnais*, the *Société Générale*, the *Banque Nationale pour le Commerce et l'Industrie*, and the *Comptoir National d'Escompte de Paris* — were all nationalised in 1945. All of them conduct their business through a widespread network of branches covering the whole of the country. The other two *grands établissements*, because of the rather more regionalised character of their businesses, were not nationalised. The *Crédit Industriel et Commercial* is technically a Parisian bank, its own branches in France being restricted to Paris and its environs, but it heads an important group of regional banks, in each of which it holds a capital interest and the larger part of the country. The offices of the *Crédit Commercial de France* provide a less complete national coverage, though the business done is definitely on a national scale.

Of the 22 regional banks (including those associated with the *Crédit Industriel et Commercial*), the *Crédit du Nord* is by far the largest and, indeed, ranks fifth in size for the country as a whole. The remainder are very much smaller.

In addition to these, there are three other groups of banks. First, there are the private

bankers in Paris, of which the most important are *de Neuflize, Schlumberger et Cie, Vernes et Cie, Lehideux et Cie, Mallet Frères et Cie, Veuve Demachy et Cie, and Hottinguer et Cie*. These houses do an increasingly general business, but have no branches. Their connections still tend to depend on long-established family contacts and new business is usually accepted on the basis of introductions. Nevertheless, the exclusive character of their operations is now much less obvious than formerly. It is difficult to generalise, because there is quite a lot of variation in the emphasis of business done as between these houses, but they share a common outlook and tradition and, being registered as deposit banks, they are necessarily bound by the same general requirements.

Then there are the order Paris banks. These are often specialist institutions, dealing in particular types of transactions or connected with certain trades and industries. Not infrequently, too, they are subsidiaries which operate within their chosen field primarily for a group of larger institutions. The latter provide the necessary capital and at least some of the directors.

Finally, there are the local bankers, who are both numerous and very various in size. As a rule, they have no branches (there is a small number of exceptions) and their operations are restricted to a small area. A number of them are primarily commercial banks, though in many cases, the business continues to be based — as with the private bankers — on established personal relationships. Others undertake transactions which are not strictly banking in character and, in some cases, their activities approximate more nearly to the functions of a stockbroker.

The foreign banks and, for the most part, those operating in Algeria and the Saar are also deposit banks. From the point of view of French banking structure, however, none of these is really very important. Some of them are very small in respect of their French business and all of them are primarily concerned with the provision of banking facilities for their own nationals and the finance of trade between France and their own countries or territories.

Although much less marked than (say) in

the United Kingdom, there has been some evidence in France of a trend towards the concentration of banking business in the hands of a small number of large units. Thus, the four large nationalised deposit banks now account for about two-thirds of the total volume of business, in addition to which there are the two non-nationalised *grands établissements* and one large regional bank. Of the other regional banks, eleven are grouped with the *Crédit Industriel et Commercial* at their head, one is associated with the *Société Générale* and another (less directly) with the *Crédit Lyonnais*. It is true that there are still nine independent regional banks and 168 local banks *en province* (the vast majority of which is unattached). But the last group is slowly shrinking in size — there were 188 of these banks listed in 1949 — and, over the years, there has been a definite tendency for the smaller banks either to die out or to be absorbed by, or associated with, larger banks. Recently, there seems to have been some hastening of this process. Nevertheless, the continuing coexistence of large banks, of independent regional banks, and of numerous local banks calls for some explanation.

The leading example of a regional bank which has both retained its independence and expanded its business is the *Crédit du Nord*. This is admittedly rather a special case. Banks of similar size and strength in France have developed a nationwide spread of interests, whereas the *Crédit du Nord* has grown substantially within the confines of its own region. It has consciously preferred to develop intensively rather than to pursue national ambitions and the reason is to be found in the character of the region that it serves. Even the few outposts which exist south of the Seine link up quite directly with its regional business, either in the North of France or (through a *filiale*) across the border in Belgium. Scarcely anywhere else in France — except in Alsace-Lorraine (where strong regional banks also exist, though they have become affiliated with Paris) — is there such a wealth of resources and diversity of economic activity. This has provided both the opportunity of good business and a wide spread of risks. This would seem to be the basis of explanation and, in such an

environment, the regional bank with its tradition of direct and close contacts with its clientele has held a decided advantage over the banks controlled from Paris and has been able to flourish. In varying degree, the same has been true of the other regional banks, though a number (as we have seen) have partially surrendered their independence and have sought greater strength in a wider grouping. Sometimes, local particularisms (e.g. in Alsace) have served to reinforce this emphasis on autonomy (complete or partial, as the case may be), but primarily it has been the strength and balance of the regional economy that has provided the basic support for the continued existence of regional institutions.

It is the survival of the local banker which requires more detailed explanation. Most of these banks are very small, though size is not the only criterion. A more important factor in their definition is the local character of their business, which in many cases is confined to one town and its environs. Branches do sometimes exist, but they are not the general rule, as these institutions often operate primarily as private bankers and provide a highly specialised personal service. The majority of them are family businesses and their relationships with customers are usually of long standing. Nevertheless, it is unlikely that any new private banks will be founded, since the private person of means who provided the main demand for their services is himself disappearing under the combined and persistent attack of recurrent inflation and heavy taxation.

Apart from the generally small size of the local banks (of 168 banks, 141 had balance sheet totals as at December 31, 1953 of less than Frs. 500 million) there is the question of the centres which they serve. By no means all are « country banks » and several of the larger provincial cities and towns possess small groups of local banks (Marseilles has 12; Lyons 6; Bordeaux, Lille and Strasbourg, 4 each). For the rest, about 50 of the local banks are found in the larger and medium-sized towns (populations of 80,000 or more), the remainder being in the smaller centres. Again, if we attempt to relate size of bank to size of town no very clear picture emerges. Many of the small banks are found in the larger centres,

where they depend for their survival on a somewhat specialised business, and quite a number of the relatively large local banks are established in small towns, but draw the greater part of their business from the surrounding countryside, or from the tourist trade or other local industry of importance.

What are the reasons for the continued existence of the local banks (and, indeed, of the smaller regional banks)? First, the Frenchman is an individualist. This is something deeply rooted in French character and is reflected in the large number of small businesses that exist over wide sectors of the economy. It is by no means confined to banking. Second, there has been ample evidence of a continuing demand for the smaller banking unit, both in Paris and in the provinces. There are certain classes in French society, which over several generations have remained loyal to established family concerns. These classes may now be in decline and the institutions which serve them may eventually suffer extinction, but there is as yet no overwhelming evidence that their end is near. Apart from such special considerations, the French have a liking for individual treatment and many of them prefer institutions that can provide it. Third, one must take into account the strength of French particularism, which often manifests itself in strong local patriotisms (e.g. in Alsace and in Brittany). Fourth, the local and smaller regional banks have been able to survive because of their special knowledge of the locality and their willingness to grant credits to local business interests which to the large bank based on Paris and without local roots may seem too risky. Fifth, there is the legacy of the larger institutions' past preference for building up branches in new areas instead of absorbing local and regional banks. This may have been a recognition of the strength of local interests, but it has retarded the process of integration and the attempt to secure business by establishing branches to compete with local banks also proved to be rather an expensive policy. Finally, the nationalisation in 1945 of four of the large Paris banks must have done something to lengthen the lives of the smaller regional and local banks. There are two possible effects. From the point of

view of the institutions themselves, there are obvious dangers in growing too big. The larger non-nationalised unit has little interest now in swallowing smaller units and expanding territorially until reaching the scale of a national institution « ripe » for nationalisation. From the point of view of the bank customer also, the nationalisation of the larger banks must have raised fears — unjustified though these may be — that his affairs might become accessible to the curious eyes of other governmental instrumentalities. Few Frenchmen would welcome that and, in such circumstances, the usefulness of the local and private banker must have been highlighted. Nevertheless, no very great changes were introduced by nationalising the « Big Four ». They continued to be managed by much the same personnel and competition between them and with other banks remained as intense as ever.

II.

Under the banking legislation of December 2, 1945, it became necessary to opt for, and to confine a bank's activities to, a particular class of business. For the first time, a formal distinction was drawn between deposit banking proper and the business of the *banques d'affaires*. Previously, these two classes of business were very much intertwined and almost all banks did a measure of both. Nevertheless, the leading deposit banks of today had come to place the major emphasis in their business on lending at short-term, thus ensuring the liquidity of the bulk of their assets, the holding of which they financed mainly by deposits repayable on demand. The 1945 legislation, which *inter alia* nationalised the four largest deposit banks, imposed certain restrictions on the range of business that deposit banks might accept. Deposit banks were now defined as those which received from the public by way of deposit moneys repayable either on demand or within a period of two years. They might not hold « participations » (i.e., investments) in excess of 10 per cent. of its capital in any concern other than a bank or financial institution directly necessary to their own operations. Except with the permission of the National Credit Council (which

was set up under the same legislation to succeed the Permanent Banking Committee of 1941), they were forbidden to employ deposits from the public either in taking up « participations » or for investment in real estate, i.e., for these purposes they could only commit their own capital resources. This provision was made even more stringent by an amending Law of May 17, 1946, which restricted « participations » to 75 per cent. of a bank's own funds (capital and reserves).

It was within the framework of these requirements that the deposit banks were now to conduct their business. In common with deposit banks in most other countries, the bulk of the resources employed is derived from deposits. Capital and reserves play only a very minor role and nowadays represent no more than a kind of « guarantee fund » to ensure a degree of protection for depositors. That this is a reasonable interpretation is evidenced by the relatively higher proportion of total resources held as capital and reserves by the regional and local banks (2 per cent and 4.3 per cent respectively) as compared with 0.4 per cent for the nationalised banks, the solvency of which is in effect underwritten by the State.

Deposits provide something like 75 per cent of the total resources of the nationalised banks (for the other deposit banks, the ratio is a little higher). Much the larger part of these funds is repayable on demand either as *comptes de chèques* (private accounts) or as *comptes courants* (business and commercial accounts). For the nationalised banks, *comptes courants* represent 45 per cent of total resources (slightly more for the regional and local banks). Private accounts — *comptes de chèques* — are normally in credit, but the *comptes courants*, which are business accounts, often run into debit, when the relevant figures appear on the opposite side of the balance sheet as an overdraft. All credit balances attract interest, usually at low rates, but (despite the attempt to maintain an effective control) competition has been so keen in recent years that in a number of cases rates have been pushed up quite sharply. The French banks also receive deposits on a term basis, but these are not by any means an important part of their deposit structure. Thus, in December, 1953,

bons et comptes à échéance fixe represented only 4.2 per cent of the total liabilities of the nationalised banks, 9.4 per cent for the regional banks and 6.1 per cent for the local banks.

Another liability item that deserves comment is « banks and correspondents ». In a system of the French type, which is still in-

chases by the Bank of France). For the large institutions, « banks and correspondents » amount to approximately 7 per cent of total resources, slightly higher for the regional banks and between 4 and 4.5 per cent for the local banks which on the whole would tend to hold balances with other banks rather than for them.

STATEMENT OF CONDITION OF THE FRENCH BANKING SYSTEM: LIABILITIES
(milliards of francs; December 31, 1953)

	Major Commercial Banks			Regional and local Banks			Banques d'affaires		
	Nat. (a)	N. Nat. (b)	Total	Reg. (c)	Loc. (d)	Total	S. A. (e)	S. P. (f)	Total
A) Absolute figures									
Deposits:									
Private Customers	327.62	26.61	354.23	77.10	19.93	97.03	19.65	3.45	23.10
Business Accounts	630.69	80.62	711.31	162.09	32.49	194.58	125.77	34.78	160.55
Fixed Deposits	57.47	3.66	61.13	32.63	4.30	36.93	13.24	6.02	19.26
Banks and Correspondents	92.37	7.03	99.40	26.01	2.81	28.82	25.94	2.09	28.03
Acceptances (as per contra)	32.95	4.72	37.67	5.83	0.54	6.37	8.71	1.43	10.14
Capital & Reserve	4.88	4.00	8.88	7.11	3.10	10.21	24.99	2.86	27.85
Other Accounts (g)	178.30	12.92	191.22	29.01	5.53	34.54	53.51	5.32	58.83
Total	1,324.26	139.57	1,463.83	339.77	68.70	408.47	271.83	55.94	327.77
B) Percentages									
Deposits:									
Private Customers	24.7	19.1	24.2	22.7	29.0	23.7	7.3	6.2	7.0
Business Accounts	47.6	57.8	48.6	47.7	47.3	47.6	46.3	62.2	49.0
Fixed Deposits	4.3	2.6	4.2	9.6	6.4	9.0	4.9	10.8	5.9
Banks and Correspondents	7.1	5.0	6.8	7.6	4.0	7.1	9.5	3.7	8.6
Acceptances (as per contra)	2.5	3.4	2.6	1.7	0.8	1.5	3.3	2.6	3.1
Capital & Reserve	0.4	2.9	0.7	2.1	4.5	2.6	9.1	4.9	8.5
Other Accounts (g)	13.4	9.2	12.9	8.6	8.0	8.5	19.6	9.6	17.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(a) Nat. = Banques Nationalisées.

(b) N. Nat. = Banques non Nationalisées.

(c) Reg. = Regional.

(d) Loc. = Local.

(e) S.A. = Sociétés par Actions.

(f) S.P. = Sociétés de Personnes et Affaires Personnelles.

(g) Includes: Comptes exigibles après encaissement; Créditeurs divers; Dividendes restant à payer; Obligations; Comptes d'ordre et divers; Bénéfices de l'exercice; Report à nouveau.

completely integrated, one would expect these balances to be sizeable, but, in addition to ordinary correspondent balances, this item includes amounts borrowed from the central bank by way of *avances à 30 jours* and *avances sur titres*, which constitute accomodation of a supplementary character (i.e., over and above ordinary rediscounts and « open market » pur-

Because the bulk of bank liabilities is repayable on demand, it is most essential to maintain a high level of liquidity. At the same time, the banks are concerned to earn as high a rate of profit as they can with safety. The most liquid asset is cash and central bank (or Treasury) balances but this earns no interest. However, where liquidity can be guaranteed

in other ways (e.g. by rediscount facilities at the central bank), the cash ratio can safely be maintained at low levels. Prior to World War II, the large deposit banks in France held cash reserves at about 10 per cent of total liabilities. Since the war the ratio has dropped to nearly 4 per cent. Meanwhile, the smaller banks have raised theirs — it now

for the regional banks has been somewhat higher at from 60 to 70 per cent. In both cases, there has been an increase on the 1938 ratio — most marked for the regional banks. The local banks' ratio at from 54 to 58 per cent has also been very much higher than the 1938 level of about 33 per cent, though latterly it has tended to decline. *Portefeuille-effets* is

STATEMENT OF CONDITION OF THE FRENCH BANKING SYSTEM: ASSETS
(milliards of francs; December 31, 1953)

	Major Commercial Banks			Regional and local Banks			Banques d'affaires		
	Nat. (a)	N. Nat. (b)	Total	Reg. (c)	Loc. (d)	Total	S. A. (e)	S. P. (f)	Total
A) Absolute figures									
Cash & Balances with Central Bank and Treasury	56.12	7.36	63.48	17.88	4.80	22.68	7.31	1.37	8.68
Banks and Correspondents	104.12	13.05	117.17	25.39	10.05	35.44	37.00	18.93	55.93
Discount Portfolio (including Treasury bills)	884.01	97.07	981.08	230.62	38.02	268.64	150.24	20.33	170.57
Loans & Overdrafts (g)	237.98	15.20	253.18	52.87	11.95	64.82	38.48	9.34	47.82
Acceptances	32.95	4.72	37.67	5.83	0.54	6.37	8.71	1.43	10.14
Investments	3.12	0.97	4.09	1.38	1.56	2.94	23.47	4.14	27.61
Other Accounts (h)	5.96	1.19	7.15	5.79	1.79	7.58	6.63	0.40	7.03
Total	1,324.26	139.57	1,463.83	339.77	68.70	408.47	271.83	55.94	327.78
B) Percentages									
Cash & Balances with Central Bank and Treasury	4.2	5.3	4.3	5.3	7.0	5.5	2.6	2.4	2.6
Banks and Correspondents	7.9	9.3	8.0	7.6	14.6	8.7	13.6	33.8	17.1
Discount Portfolio (including Treasury bills)	66.6	69.5	67.0	67.9	55.4	65.8	55.3	36.3	52.0
Loans & Overdrafts (g)	17.9	10.9	17.3	15.5	17.5	15.9	14.2	16.8	14.6
Acceptances	2.5	3.4	2.6	1.7	0.6	1.6	3.2	2.5	3.1
Investments	0.2	0.7	0.3	0.4	2.2	0.7	8.6	7.5	8.4
Other Accounts (h)	0.7	0.9	0.5	1.6	2.7	1.8	2.5	0.7	2.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(a) Nat. = Banques Nationalisées.

(b) N. Nat. = Banques non Nationalisées.

(c) Reg. = Regional.

(d) Loc. = Local.

(e) S.A. = Sociétés par Actions.

(f) S.P. = Sociétés de Personnes et Affaires Personnelles.

(g) Includes: Comptes Courants, Avances garanties, Avances et débiteurs divers.

(h) Includes: Coupons, Acompte de l'exercice, Actionnaires, Comptes d'ordre et divers, Immeubles et mobilier, Pertes de l'exercice, Pertes des exercices antérieurs.

stands at nearly 7 per cent — to which must be added their net holdings of correspondent balances with other banks.

The most important single ingredient in the asset structure is *portefeuille-effets*. For the nationalised banks, it has varied since 1945 from 55 to 65 per cent of total assets and

an omnibus item and includes Treasury bills and similar short-dated paper; medium-term paper, which can be « mobilised » in various ways; and commercial paper most of which is eligible for rediscount at the Bank of France. Much of the last sub-item represents the finance of commerce and business which in

England would be provided by way of overdraft. Since in France paper relating to such loans may be rediscounted with the central bank (within the prescribed « ceilings ») a significant proportion of the earning assets of the banks has been rendered much more liquid than would be the case in countries which follow the Anglo-Saxon tradition.

Holdings of government paper by the French banks are lower than one might perhaps expect. The bulk of the relevant item consists of Treasury bills with maturities of up to two years and bank holdings of short-dated governments are now governed by the *plancher* requirements introduced in September, 1948. The « floor » was related to the level of holdings as at September 30, 1948, 95 per cent of which had to be held as a minimum and 20 per cent of any increase in deposits also had to be placed in Treasury paper. In the event of a contraction in bank liabilities, holdings might be reduced to the extent of 80 per cent of the fall in deposits. This was a formalisation of an earlier « gentlemen's agreement » intended to preclude the unloading of government securities for the purpose of expanding private credit. The requirements were further tightened up in October, 1951. Previously, it had been sufficient to achieve the required ratio once a month. Now it had to be maintained on a daily basis. The ratio of short dated governments now held is about 10 per cent for the nationalised banks but is rather higher for the regional and local banks.

Bank accommodation made available to business often tends to be longer-term in France than in countries with an Anglo-Saxon tradition, but when the French banks lend at medium-term, liquidity is assured by making such paper eligible for ultimate rediscount at the central bank. This is effected by arrangements whereby the commercial banks can « mobilise » medium-term paper (relating to loans with a maximum currency of 5 years) by way of rediscount or *en pension* (a sale of paper under an agreement to repurchase within a stipulated period) through the agency of various semi-public institutions such as the *Crédit National* and the *Caisse des Dépôts et*

Consignations (1). A wide range of economic activity is accommodated in this way — e.g. the film industry and the provision of industrial equipment on a hire purchase basis.

The most important part of the *portefeuille-effets* (from a quantitative point of view) consists of *autres effets* (discountable paper other than Treasury bills and similar items). In the United Kingdom, the bulk of such short-term credit would be granted by way of overdraft, but French practice is to lend primarily on the basis of discountable paper. The proportion which this item bears to total assets tended to rise progressively during the postwar years and, for the larger banks, has been much higher than in 1938. Latterly, for the nationalised and regional banks, the ratio seems to have settled down to something less than half of total assets (for the local banks, it is rather lower at about a third) and the achievement of relative stability in this item is probably due, at least in part, to the firmer application of credit ceilings by the Bank of France.

Short-term lending by the banks is based on two main types of discountable paper. First, there is the commercial bill, which is used to finance the movement of goods and, second, there are the cross-acceptance and cross-endorsement which are a more general means of providing accommodation. The latter are « finance » bills in the London sense and, in England, this business would be done by way of overdraft. But the French banks have long preferred the older method of bill finance, because this paper can be rediscounted and converted into cash as required. Nevertheless, it is not now a means of securing unlimited central bank credit, since commercial bank rediscounts with the Bank of France must be confined within the *plafonds* or ceilings allocated to them. During the postwar inflation of French prices, the overall ceilings were revised upwards on several occasions and individual adjustments were also made as between banks. Since October, 1951, however, the ceilings have on the whole been held. Supplementary accommodation was made

(1) For a more detailed discussion of these arrangements, see PIERRE CAUBOUÉ, *Medium-term Lending by the French Deposit Banks and Banques d'Affaires*, this Review, No. 30, September, 1954.

subject to secondary ceilings and penalty rates were applied to borrowings beyond the ceilings. There had always been a number of « safety valves » so that pressure against the ceilings would not become too great, but the strict application of penalty rates from October, 1951 onwards heralded a much more stringent discipline.

The cross-signature procedures are of great convenience to the banks, since a loan can thereby be divided between two or more banks and transactions can be effected which may have seemed too large or too risky for any one bank to carry alone. Under these arrangements, the customer draws bills on two or more banks, dividing the amount he requires between them and the bills are then accepted by the other bank (or banks) in the deal. The same procedure may be followed with credits granted against promissory notes or *billets à ordre*, in which case the banks resort to cross-endorsements. Generally speaking, the cross-acceptance is used for the finance of export-import business and the cross-endorsement accommodates transactions arising out of internal business.

Despite the emphasis on « bill finance », the French banks also make accommodation available by way of advances of various kinds. These represent the second largest of their asset items, but are considerably smaller than the total of their *portefeuille* and, indeed, of the sub-item *autres effets*. Advances may be made in *comptes courants*, as *avances garanties*, or under the heading *avances et débiteurs divers*. *Comptes courants* as an asset represent overdrafts granted to business firms subject to an agreed limit. These moneys may only be used for « current requirements » and the account is therefore expected to fluctuate. *Avances garanties* are somewhat similar, but the balance outstanding tends to remain relatively stable. This is not a large item. Nor are the amounts made available as *avances et débiteurs divers*, which include the debit balances stockbrokers and other specialists' and items associated with subscriptions to new issues. The *débiteurs divers* also include certain accounts arising out of collections on behalf of customers. For the nationalised banks, *comptes courants* and *avances garan-*

ties taken together have now been stabilised at 16 to 17 per cent of total assets. The ratios of the regional and local banks are rather lower.

« Report » loans have long been an established Continental practice and, in addition to financing stock exchange transactions, the French banks are also concerned with *reports sur devises*. In the latter capacity, they are especially active when the foreign exchange market is subject to disturbance and their customers are anxious to make arrangements on the basis of which to plan ahead. Forward contracts will then be entered into between the banks on behalf of their customers. A « report » loan to finance the carrying of securities on margin from one stock exchange settlement to another will be secured by collateral and made on an *en pension* basis (the lender assumes the stock exchange obligations of the borrower under an agreement that the latter will resume his obligations at a future date). The large French banks do not now finance this class of business to any extent, but it is done by certain smaller institutions specialising in this type of operation. Stockbrokers would normally provide these facilities themselves, but if their resources are insufficient for the purpose they borrow from outside parties. Banks which lend to them may employ their own funds or lend out moneys lodged with them by customers specifically for *placements en reports*.

Acceptance credits, whereby a bank lends its name to a transaction as the acceptor of a bill thereby ensuring the ready discount of paper which might otherwise be difficult to place, are granted by almost all the French banks, particularly for the finance of external trade. The larger banks do the bulk of this business and the regional banks also have a sizeable interest.

For many years, certain of the deposit banks still possessed significant holdings of *titres* or long-dated investments, but as it came to be realised that this was not a proper deposit banking function, these were liquidated or allowed to run off. By 1938, only the local banks still retained a substantial investment portfolio. This has now virtually disappeared in consequence of existing legal res-

trictions. So far as the larger banks are concerned, current participations consist mainly of holdings in other banks or financial institutions.

The scale of rates charged on loans of all kinds was regulated over a period of years by an *entente*, but is now settled through committees of the *Association Professionnelle des Banques*. The scale consists of minimum rates for discounts and advances respectively, in each case plus a commission, and being more or less directly related to Bank rate, is now much the same throughout France for similar types of business. On the whole, borrowing from the French banks has tended to become progressively more expensive over the postwar years. Only more recently have these rates been lowered slightly. The rates charged on discounts, being closer to Bank rate, have been relatively more flexible and have reflected more directly any relaxations which have been accorded. But the regulation of the « conditions of business » is not restricted to interest and discount rates. It also covers collection charges for cheques and bills, charges for opening documentary credits and providing bank guarantees, and charges for keeping accounts. It is said that these « conditions » are not always adhered to as scrupulously as they might be.

It is frequently stated that the habit of using cheques is much less highly developed in France than in Britain and certainly the holding of ordinary private banking accounts is more common in the United Kingdom. Nevertheless, the use made by the French (and, indeed, by other Continentals) of the *chèques postaux* must not be overlooked. It has been difficult to persuade the Frenchman to keep a bank account merely for making personal payments, but the use made of the *chèques postaux* system is almost universal. It is convenient, relatively cheap and well understood. In these circumstances, there has been little incentive to use the ordinary cheque for private transactions. But it has entailed a very serious competition for deposits and the growth of bank resources has thereby been considerably restricted. The total deposits of the *chèques postaux* represent the equivalent of a large bank and the more active competi-

tion for deposits, involving the payment of higher rates, has tended to force up the general level of bank charges. This is no doubt one reason for the dearness of credit in France.

III.

A very important postwar development has been the institution of a *service des risques*. The idea of such a service dates back to the depression of the 1930's, when many banks incurred heavy losses, partly in consequence of the normal Continental practice of customers' borrowing from several banks. No bank could know how much accommodation a customer had been granted elsewhere and this greatly increased the risks of lending. In an effort to overcome this difficulty, an organisation to centralise information on risks was suggested, but only a few localised experiments were attempted.

The matter was again taken up for serious study in 1943 and by June 1944, the *Association Professionnelle des Banques* had managed to secure broad agreement to a draft plan. It was on this basis that the recently constituted National Credit Council decided in March, 1946 to set up a *Service Central des Risques* under the management of the Bank of France, the information being assembled both for Paris and the provinces, the latter through the Bank's branches. The original purpose of assisting the commercial banks to evaluate the extent of their lending risks still remained, but there can be little doubt that an equally important reason for the enthusiasm shown by the authorities was the extent to which such a service would provide useful supplementary data upon which to base an informed control of credit conditions throughout the country. The system was further extended by a decision of the Council, whereby a more complete coverage was obtained and the banks were required to make returns more frequently. About 80 per cent. of all credits granted are now reported to the *Service des Risques*. In these returns, credits are classified according to category — *effets commerciaux* (commercial bills proper), *caisse des marchés* (loans to finance public works), *moyen terme* (medium-term loans of up to 5

years), *autres crédits mobilisables* (which include the cross-credits), *crédits non-mobilisables* (overdrafts on *comptes courants* or by way of *avances*, as well as discounted paper which it is not possible to rediscount) and, finally, contingent liabilities in the form of special guarantees (*avals et cautions*), which are shown below the line. In all cases, the amount of credit taken up must be distinguished from that authorised. Information derived from all banks is then processed and communicated on a global basis for each customer to the institutions concerned and, in the event of a new application for credit from a bank customer, interim advices might be sought. No information communicated in this way is to be passed on to third parties. It is difficult to determine the extent to which the banks employ this information in evaluating their lending risks. Some banks agree that it is useful, while others claim that they pay little attention to it, mainly on the grounds that the global information is out of date before they get it. Perhaps, too, they are a little suspicious of the use the authorities may make of the information supplied. But there can be little doubt that from the point of view of the banks themselves it is potentially a most valuable service and a most necessary adjunct in a system where it is normal practice for customers to borrow from several bankers.

IV.

The French *banques d'affaires*, the first of which were established in the latter half of the nineteenth century, represent the continuation of an earlier tradition in France which placed more emphasis on financial operations than on banking as such. The only difference was that the floating of loan issues to finance governments soon came to be rivalled by the developing interest in industrial finance. In earlier days, all the French banks tended to do a « mixed » business. Part of their energies they devoted to deposit banking and part to investment finance and many of their early difficulties were due to the use of demand deposits for the purpose of lending long-term. On other occasions, banks were tempted to under-

take speculative transactions. Some of these paid off very handsomely indeed, but others involved them in heavy losses. Many banks, if not forced into liquidation, were absorbed by their stronger competitors.

Stability was sought by way of increasing specialisation of function. Just as the deposit banks were forced in the interests of safety to concentrate within their chosen field and, for the most part, to avoid long-term commitments to industry, so the *banques d'affaires* found it impossible to combine investment banking with more than a partial dependence on demand deposits. The basis of operation was necessarily restricted by the risky character of the business undertaken either to their own resources — capital and reserves — or to deposits accepted for a minimum term. Banks continued to mix their business to some extent, but they were already working towards the position which was formally determined by the 1945 legislation. *Banques d'affaires* were now defined as institutions whose principal activities were to take up and administer « participations » in existing concerns, to assist in the formation of new ventures, and to open credits (subject to no specific limitation as to term) for public and private enterprises, which have benefited or which stand to benefit from such participations. For these purposes, they might employ, in addition to their own funds, only such deposits as had been accepted for a term of at least two years. Demand deposits might only be accepted from their own staff; from concerns in which the *banque d'affaires* already held a participation, or which was about to be assisted by way of a credit or participation; from mercantile houses for the purposes of their business; or for the account of persons who were shareholders in companies in which the *banque d'affaires* itself was interested and subject to the bank managing the investment account (*compte-titres*) of such persons.

None of the *banques d'affaires* was nationalised, but for purposes of general supervision a Government commissioner was attached to each such bank operating as a corporate body, provided the total of its balance sheet (including contingent liabilities) exceeded (initially) Frs. 500 million and after May, 1951, Frs. two

milliards. He was to be the medium of communication between the National Credit Council and the bank concerned, and was empowered to take part in all deliberations of the bank with full access to documents. He might veto any decision which appeared to him to be contrary to the national interest, though the bank was accorded a right of appeal to the National Credit Council.

In most other respects, the new legislative requirements did not introduce any very material changes in the practice of the *banques d'affaires* and much of the new Law amounted to little more than a formal recognition of arrangements already substantially in existence. The *banque d'affaires* was now frankly defined as an « investment bank », the purpose of which was to provide long-term finance to industry. The initial finance might well be supplied by means of an interim credit, which would be converted at an appropriate stage into a « participation » in the company concerned. Subsequently, when the venture had been successfully launched and provided market conditions were favourable, this would be followed by arrangements either for a public quotation of shares on the stock exchange or for an issue of shares or bonds to the public. In most cases, only a proportion of the bank's investment would be floated off in this way and ordinarily a *banque d'affaires* would retain an interest in the company sufficient to ensure ultimate control of its policy (frequently a holding of not more than 30 per cent is found to be enough). On the other hand, if a public issue proved relatively unsuccessful, a bank might be obliged to hold indefinitely more of the issued capital than it desired. Often a *banque d'affaires* will provide investment finance in conjunction with other banks and associates, and consortiums or syndicates organised by a *chef de file* are not uncommon.

Business of this character is much less routine than deposit banking and a higher proportion of the staff will be engaged on investigations and research of various kinds. In one form or another, all these banks have an « industrial intelligence department », to which is attached a small number of engineers and other technical experts, who provide the

basic reports when a new venture is being considered. On occasion, outside advice may also be sought, usually from associates with first-hand knowledge of the industry or industrial process in question. The larger *banques d'affaires* also have sitting on their boards of directors a number of men of wide industrial and commercial experience and there is therefore ample opportunity to weigh carefully the separate reports of the specialist enquiries and to vet thoroughly the proposals which come before them. Furthermore, once a *banque d'affaires* is committed to the finance of a project the assistance of its technical experts is always available to the firms concerned and such experts may either sit on their boards of directors or be attached to them as specialist advisers.

In addition to « investment banking », the *banques d'affaires* have continued to do an important deposit banking business. The *banques d'affaires* may still accept a variety of demand deposits and even private deposits can be drawn from a wider range of customers than might at first sight seem possible. This was mainly due to the concession granted under the law permitting the *banques d'affaires* to accept demand deposits from private persons for whom they managed investment accounts and who held at least one share in a company in which the bank itself had an interest. On the basis of these deposits (and those drawn from mercantile houses), the *banques d'affaires* grant a wide range of short-term credits, but for the most part this business is linked more or less directly with their primary function of providing investment finance. This is also true of the export credits granted by the *banques d'affaires* and quite often these are directly connected with the finance of development projects abroad.

V.

As at December 31, 1953, there were 39 *banques d'affaires* registered in France. Of these, 29 were incorporated as public companies and the remainder were private companies and partnerships. The more important of the incorporated institutions include the *Banque de Paris et des Pays-Bas*, the *Banque*

de l'Indochine, the *Banque de l'Union Parisienne*, the *Union Européenne*, and the *Union des Mines*. The largest private *banques d'affaires* are *Lazard Frères et Cie*, *de Rothschild Frères*, and *Worms et Cie* (2). With the exception of the *Banque de l'Indochine* (which is in rather a special category and only registered as a *banque d'affaires* in 1948, when it renounced some of its privileges as a colonial bank of issue), these institutions have few branches. For the most part, they concentrate their activities in one main office and the branches that exist are either abroad or associated with business outside France. For banking services in centres where these banks are not represented directly, they depend on correspondents. Within France, too, close links of this sort have been built up over the years with banks operating in the provinces, in some cases with regional and local banks, since formerly these banks were themselves interested in the finance and development of industry. Close relations of this kind have been especially typical of the *Banque de l'Union Parisienne*, which in some cases has acquired a capital interest in the banks concerned. More generally, it is quite common for the *banques d'affaires* to establish *filiales* (often overseas) and to be associated more or less directly with a number of other financial institutions.

The balance sheets of the *banques d'affaires* are in exactly the same form as those of the deposit banks, but the emphasis on investment rather than on deposit banking is necessarily reflected in variations in the relative importance of particular items. Thus, the capital and reserves of the *banques d'affaires*, though there has been a noticeable shrinkage of ratios since 1938, are relatively (and in some cases, absolutely) much higher. So far as deposits are concerned, private accounts (*comptes de chèques*) are very much lower than those of the deposit banks — relatively and absolutely. This is consistent with present legal restrictions on the holding of such accounts by the *banques d'affaires*. Nevertheless, no very great change was introduced thereby and the 1938 global ratio for the *banques d'affaires* was not

(2) Total figures for the 20 private *banques d'affaires* represent about a fifth of those for banks incorporated as public companies.

greatly different from that obtaining post-World War II. For the most part, therefore, the deposits of the *banques d'affaires* relate to business concerns (*comptes courants*) and the proportion of total liabilities held in this form (slightly less than half) is not greatly different from that of the large deposit banks. This was also true in 1938, when the relevant ratio approximated one-third. The term deposits of the *banques d'affaires* are relatively more important than for the large deposit banks and the terms for which moneys are fixed also tend to be rather longer. The ratio of accounts held for other banks as correspondents is slightly higher and this reflects the importance of reciprocal correspondent relationships.

On the assets side, cash ratios tend to be lower than for the deposit banks, but since (with one major exception) the *banques d'affaires* do not possess extensive branch systems, they are obliged to hold rather more of their cash in the form of correspondent balances and these serve to supplement the low cash ratio proper (after due allowance has been made for balances held on account of other banks) (3). The proportion of total assets held by the *banques d'affaires* as *portefeuille-effets* (latterly, slightly more than half) tends to be lower than the ratio for the larger deposit banks. Further, if the total of the *portefeuille* is subdivided, the *banques d'affaires* will be found to hold more of their portfolio in Treasury bills and similar paper and much less is put into commercial paper (*autres effets*). The reasons are two-fold. On the one hand, with their lower cash ratios, they must hold rather more in the form of liquid assets other than cash. This is also a convenient way of investing reserves which must necessarily be relatively higher than for a deposit bank. On the other, ordinary commercial loans are less the province of a *banque d'affaires*. Hence, the consistently lower ratio of total assets held as *autres effets*. Similarly, a smaller proportion of their funds is absorbed by overdrafts (*comptes courants* and *avances garanties*) and

(3) For the *Banque de Paris et des Pays-Bas*, which attracts a lot of correspondent business, the reverse position obtains and balances held for other banks are very much higher than the corresponding asset item. Much the same is true of the smaller *Banque de l'Union Parisienne*.

rather more as *avances et débiteurs divers*, which include subscriptions to shares, *syndicats*, and « participations » in industrial concerns. In relation to their total figures, the *banques d'affaires* do a slightly larger amount of business by way of acceptance credits than do the deposit banks and this is consistent with the international connections which most of them possess.

The section of the balance sheet in which the investment character of their operations is emphasised most is under the item *titres* (investment securities). As a ratio of total assets, this item is of negligible importance for the deposit banks, whereas for the *banques d'affaires* it is one of their bread-and-butter activities. Yet the proportion of total assets so employed is only 7 to 8 per cent (about half that of 1938). Some of these securities are negotiable, but much of the investment portfolio consists of long-term investments which take time to mature and their market value may still be an open question. For this reason, the *banques d'affaires* are extremely conservative in their balance sheet valuations. In respect of holdings of shares, they are obliged to bear the risks of an ordinary shareholder and are no longer in the position of a secured creditor. Great care must therefore be taken to make adequate provision for any losses that might arise. *Titres* not quoted on the stock exchange are heavily written down and quoted securities are valued either at cost or current market price, whichever is the lower. But in view of this emphasis on conservative valuation, neither the absolute figures which appear in the balance sheets nor the relation between such items and the total of the balance sheet should be taken at their face value in attempting to estimate the extent of this part of a *banque d'affaires'* business. For similar reasons, inter-bank comparisons are fraught with great difficulty.

The *banque d'affaires* is a peculiarly Continental institution. It is not the child of a specifically French tradition, since investment banking has been resorted to at one time or another by almost all the Continental European countries. A high degree of risk is inherent in this form of activity and over the years heavy losses have been incurred from

time to time. Nevertheless, these banks also have many successes to their credit and but for them industrial development in Europe must inevitably have been slower. Latterly, it has become increasingly difficult to meet the demand for new investment finance, as much more capital is now required to float a new enterprise or to expand one already in existence. Not only are the banks' resources too small in relation to the demands being made upon them, but it has become more difficult to « place » new issues with the public. A high rate of saving must be the basis of an active capital market and the Paris market, in particular, was great weakened by the general loss of confidence in the stability of the franc. This was evidenced by a tendency to move out of stocks and shares into gold hoards, which had the effect of « sterilising » a considerable proportion of new savings. In the formation of this unfavourable climate, political considerations have not been unimportant and a return to political and financial stability is a prerequisite of sounder investment conditions. Furthermore, because of the paucity of savings and the inability of the banks to meet the demand from their own resources, the economy has tended to become increasingly dependent on funds furnished by State instrumentalities, much of the finance being provided by way of medium-term credits, which can at best be only a provisional solution. To the extent that such credits are matched by new savings accruing to semi-public institutions, no great harm will be done to the economy as a whole, but such a redirection of savings has had the effect of reducing the part played by the *banques d'affaires* in the modernisation and development of the French economy.

VI.

Formally, considerable changes were introduced by the French banking legislation of 1945. In practice, as we have seen, many of the arrangements which were then codified had already become more or less accepted procedure. Nor was the categorical distinction that was made between a deposit bank and a *ban-*

que d'affaires nearly as hard and fast as might at first appear. Within limits, certain of the deposit banks still « participate » in other concerns — usually banking and financial subsidiaries — and they also assist in the « placing » of investment securities. Some do more of the latter than others. Furthermore, the *banques d'affaires*, which were specifically defined as investment banks, have continued to provide deposit bank facilities, in particular for concerns in which they hold interests and these activities still constitute a very important part of their total operations. Again, the nationalisation of the four largest deposit banks and the appointment of Government commissioners to sit on the boards of the more important *banques d'affaires* have not resulted in any major changes either in the overall structure or in business arrangements. The several institutions still operate as separate entities and are managed by much the same personnel. Competition between them is still as keen as ever — whether nationalised or not — and from this point of view the changes of 1945 have made very little difference. The really effective controls have been implemented by the central bank and have related to credit policy. Conformity with Government wishes has therefore been primarily assured by imposing a system of *plafonds* (or « ceilings ») and only permitting the commercial banks to borrow in excess of these limits at penalty rates of interest. This has been further reinforced by an active Bank rate policy. Although not strictly a credit control, the regulation of private lending has been materially strengthened by the institution of a *plancher* or « floor » prescribing minimum bank holdings of Treasury paper. That is not to say that the various requirements of the Banking Control Commission, whose function it is to « police » the banking system and to ensure minimum standards of sound behaviour, have not greatly strengthened the overall structure. It is merely to suggest that the control over bank lending has been the most potent single factor in establishing the « nationalisation of credit »,

which without doubt was the prime purpose in the minds of those who framed the 1945 arrangements.

One final point. Too much importance must not be attached to the contrast which is supposed to obtain between Anglo-Saxon forms of bank organisation and those which have been favoured in France and the Continent of Europe generally. Not only may the differences between the French deposit banks and the *banques d'affaires* be exaggerated, but to the extent that the latter are specialist institutions the French solution is not really very different from that offered in countries with Anglo-Saxon traditions. In most cases, the past difficulties of both the French deposit banks and the *banques d'affaires* could be associated with the mixing of two essentially different types of business. Attempts at reform have in consequence been in the direction of specialisation on one type of activity or the other. Either these institutions have become more or less specialised investment banks, or the investment side of their business has been « hived off » or restricted and they have evolved into deposit banks proper. Indeed, in countries such as Britain, where the emphasis was from the beginning on deposit banking, a reverse development has been witnessed. « Macmillan gaps » began to appear and it was found that sections of industry were being starved of certain types of finance. The lending policies of the banks were often more elastic than is commonly supposed, but in so far as it was not regarded as the function of deposit banks to meet the longer-term needs of industry, specialist institutions — such as industrial finance corporations — either grew up or were specifically established (often with the support of the deposit banks) to provide the required type of interim accommodation unhampered by the inhibitions associated with an advance repayable on demand. In the final analysis, therefore the Anglo-Saxon solution did not differ very materially from that evolved in France.

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