

# Do French Financial Co-operatives Still Have a Role in Financial Inclusion?

Georges Gloukoviezoff

Historically, French financial co-operatives appeared at the end of the nineteenth century as an answer to the difficulties for farmers and artisans to access credit. Closely linked to the church and quickly supported by the State, co-operative banks have known a constant growth which has led them to become the main banks in France today. Ironically, more than one century after, access to credit is again a problematic issue. But this time, it is an issue for households considered too risky and not profitable enough. This situation raises questions about the strength of the co-operative role.

Based on several research studies about financial exclusion and assessments of the impact and effectiveness of microcredit pilots, this contribution underlines why French co-operative banks have clear advantages to succeed in improving access to appropriate forms of credit for these households and why a partnership approach is pertinent, but it also underlines the essential role of banking sector regulation.

## Introduction

Co-operative banks are perceived differently to commercial banks. They are supposed to provide more appropriate<sup>1</sup> banking services as well as being more accessible for people with low income. This is what characterised them when they appeared in the second half of the nineteenth century. Nowadays, the French co-operative banks are the main financial services providers for households. They are acting within an environment which has been progressively liberalised during the last 30 years.

They are therefore facing serious profitability constraints. At the same time the need for banking services has considerably changed: nowadays in order to lead a normal life, households not only need access to credit but also to basic banking services (a bank account, means of payment, etc).

Do co-operative banks still play a role regarding financial inclusion in this context? Have they been able to preserve their unique features and to build on them? Are they still able to be innovative and to promote more appropriate ways to meet the financial needs of their customers?

In order to answer these questions the first part of this paper will explore the situation of co-operative banks today. Their development, with the help of the State, as well as their evolution during the last 30 years in a more liberalised environment will be assessed. The second part will take into account the innovations regarding financial inclusion which have appeared during the last 10 years and the role that the co-operative banks have played in their emergence and promotion. Such an analysis will help in understanding what co-operative banks are doing regarding financial inclusion as well as

the conditions required to promote their action.

## 1. Co-operative Banks are Historically a Major Actor of Financial Inclusion

From the outset French co-operative banks appeared to meet the credit needs of a part of the population that main banks refused to serve. Promoting financial inclusion was basically at the heart of the co-operative movement. It was their ethos. However they are now the main banks. Such an evolution has led to a redefining of their role regarding financial inclusion.

### 1.1. From state support to the 'free market'

Although the *Caisse d'épargne* appeared in 1818, the history of the co-operative banks in France started in the second half of the nineteenth century. Farmers and artisans had almost no access to credit except from money lenders. In order to give them better access to credit, co-operative credit institutions appeared, inspired by the experiment of Raiffeisen and Schultze-Delitzsch. With the support of the church, the first *Banque populaire* was created in 1878 and the first *Crédit agricole* in 1884.

However, these experiments were successful mainly because the State decided to support them. The State saw them as a way to avoid tension with farmers who represented a real political power at the time. In order to favour their development, the State created a regulatory framework which gave them fiscal and economical advantages (cheap access to public funds, fiscal incentives, etc). Even though these institutions remained co-operative, they were under the increasing influence of the State. This influence was illustrated by the creation of a national body for each co-operative bank in order to increase the efficient use of public incentives.

It happened in 1921 for the *Banque populaire*, in 1926 for the *Crédit agricole*, in 1938 for the *Crédit cooperative* and later, in 1958 for the *Crédit mutuel* which was the one which resisted State influence the longest due to its strong links with the Church.

From the middle of the nineteenth century to the second world war, co-operative banks were providing credit to customers ignored by commercial lenders and they were supported by the State in that respect. After the second world war, the situation changed slightly as all the commercial banks were nationalised due to their activities during the war. From the 1950s to the 1980s, all the banks were under the direct (former commercial banks and the postal bank) or indirect (co-operative banks) control of the State. Banking activity was also closely regulated by the State such as the interest rate for savings or for credit.

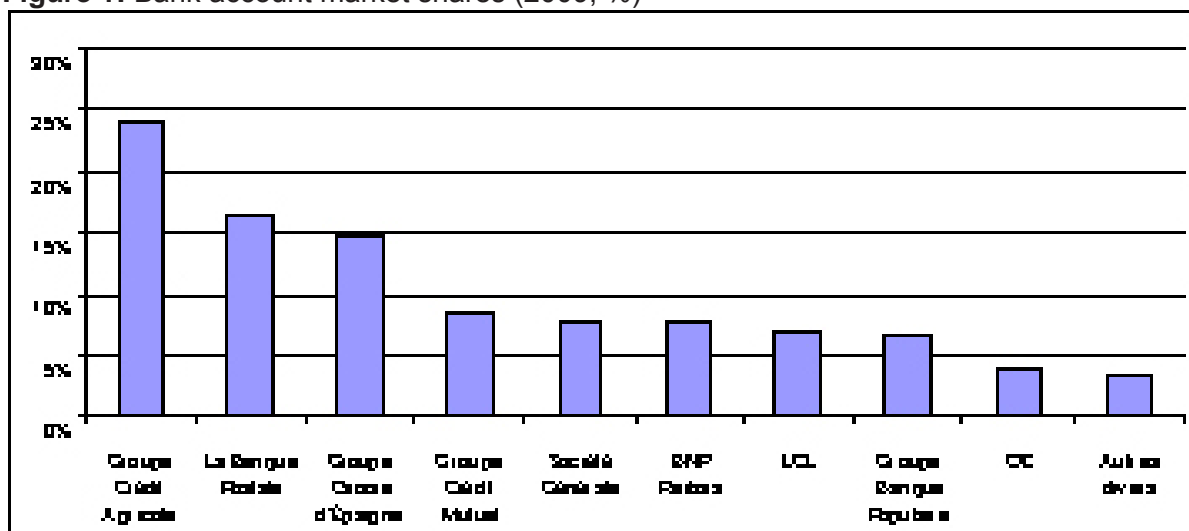
Under this public control of the financial sector, the meaning of financial inclusion changed fundamentally. Until the 1960s, financial inclusion of households was mainly related to having appropriate access to credit and being able to save. During the 1960s, there were two key changes. First, consumer credit became widespread as a result of higher levels of consumption, mainly due to the need for household goods. Second, the State changed the way employees were paid and decided that wages should be paid monthly through a bank account. This evolution obliged most of the population to have a bank account. While only 17% of the population had a current account in 1966, this increased 62% in 1972 and 92% in 1984 (Bonin, 1992).

The decision to make it compulsory to pay wages through a bank account broadened the meaning of financial inclusion. In order to lead a normal life, it was still necessary to have appropriate access to credit but also to basic banking products. Current accounts, cheques and payment cards became a social norm. For example, in 1978, benefits payments also became compulsory through a bank account. This evolution meant that even the poorest households had to have access to basic banking services.

The strong influence of the State permitted greater access to banking products by the general population. Households were not seen as a potential source of profit. They were a source for deposits which could be lent to firms which were the real profitable activity. In that respect, it appeared that the State had organised access to banking products in a way which met the interests of households and banks. For example, cheques were free for customers and in exchange current accounts were not remunerated (ie it was a free resource for lenders).

Although there is a dearth of data, the evidence available suggests that different banks did not play the same role in providing access to banking products. The post office and the co-operative bank were considered to have provided the greatest access to the poorest households. In that respect, the fact that the State allowed the saving banks to provide current accounts and cheque books in 1978 following the decision to make benefit payments through bank accounts compulsory, can be seen as an effort to promote appropriate providers to

**Figure 1:** Bank account market shares (2009, %)



Source: personal evaluation based on data from OPERBAC, Roland Berger and CCSF

households receiving benefits.

This equilibrium was strongly questioned by a political change. The neoliberal wave and the belief that the 'free market' would be more effective than State intervention led to a withdrawal of the State from control of the banking sector. The French banking sector was reformed with the law of 1984 which started the homogenisation of the sector in order to promote competition (eg State support for co-operative banks was seen as unfair by other financial services providers). This law also introduced the right to an account which ensured, in theory, that everyone without a bank account would be entitled to have one. The law also promoted the liberalisation of the banking sector through the privatisation of commercial banks, the change of status of the postal bank and the progressive suppression of the fiscal advantage of the co-operative banks.

This 'free market' orientation of the banking sector led to a paradoxical situation: banking products (from current account to consumer credit) had become an absolutely social necessity for everyone but they were provided by financial institutions which were under a growing profitability constraint. This paradox is at the root of financial exclusion as it is known today. The question is whether co-operative banks are still playing a role promoting financial inclusion.

## 1.2. The role of co-operative banks in financial inclusion

Co-operative banks appeared because the financial needs of the general population were

not met by commercial banks. Since their inception, they were seen as the main actor of financial inclusion in France. However, following the development of the French banking sector under State regulation, they became the most important financial institution. Given that they are the major actor of the sector, acting in a liberalised sector, are they still providing better and wider access to those who are refused or exploited by commercial banks? It is difficult to answer this question due to a lack of data. However some data are available which allow an assessment of the role of co-operative banks in this regard.

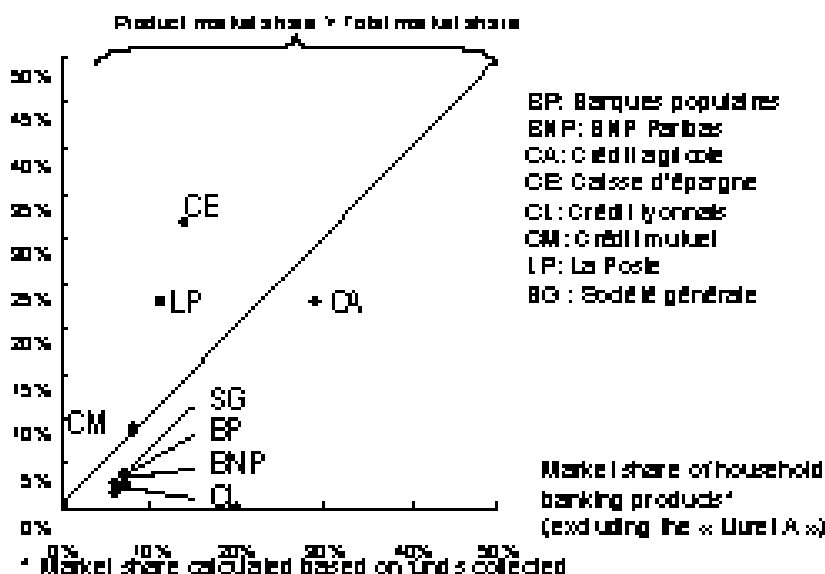
### 1.2.1. Access to a bank account

At the heart of financial inclusion in France is access to a current account. Despite the existence of a right to an account since 1984, there are still around 500,000 people without access (around 1% of the population (Jauneau and Olm, 2010)). Based on several studies, it is possible to assess the market shares of different banks.

According to this assessment, co-operative banks represent 54% of the market of current accounts, commercial banks have 30% and the postal bank 16%. There is no doubt therefore that co-operative banks are the main providers. In order to assess the role of co-operative banks in relation to financial inclusion, it would be necessary to compare the global market shares of those banks with their market share regarding households below the poverty line.

Although there is insufficient data to carry

Figure 2: Livret d'épargne populaire market shares (2005 %)



Source: unpublished CNCE data.

out this analysis, there is some evidence which gives an idea of the situation. It seems that the co-operative banks are heterogeneous regarding their openness to households below the poverty line<sup>2</sup>. Even though all co-operative banks have more customers living below the poverty line than commercial banks, in terms of their market share the difference is not always significant. Data provided by the *Caisse d'épargne* regarding the *Livret d'épargne populaire* (a savings account accessible only for low income households) gives an indication of the openness of different banks to low income households. These data compare the market shares of each bank on this product to their overall market share.

According to the figures of the *Caisse d'épargne*, it appears that households with a low level of income are overrepresented in only three banks: the *Caisse d'épargne*, the postal bank and the *Crédit mutuel*. Those where customers are under-represented include the three main commercial banks (*Société générale*, *BNP Paribas*, *Crédit Lyonnais*) and two co-operative banks (*Banques populaires*, *Crédit agricole*).

Taking into account these figures and others indicates that the French banking sector is heterogeneous regarding access of low income households. Mainly it appears that the bank which is the most open to those customers (globally and relatively to its market share) is the postal bank. Conversely, it appears that

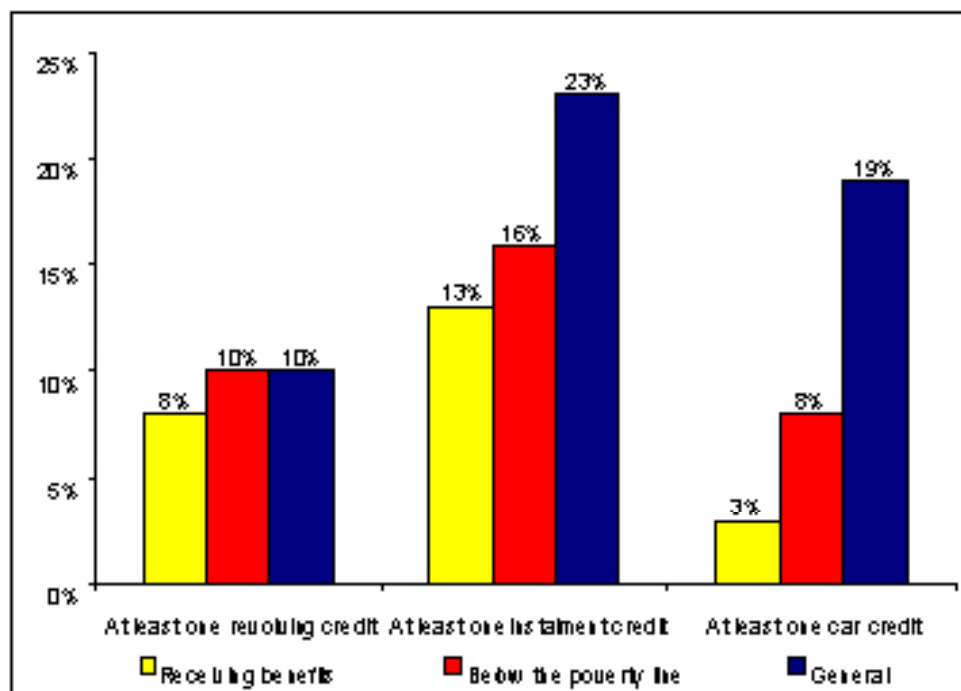
customers below the poverty line are strongly under-represented in the *Crédit Agricole* (Jauneau and Olm, 2010)<sup>3</sup>. It is therefore interesting to notice that the *Crédit Agricole* has seen its national body being introduced on financial markets in 2002. Such an unusual situation for a co-operative bank may have an influence regarding their openness to low income customers.

Based on these indicators, it seems that there is a hierarchy in the openness of different banks to low income households. The most open is the postal bank which until recently was publicly owned. Next the co-operative banks. However they are a heterogeneous group as *Banques populaires* and the *Crédit Agricole* do not really appear to be open to those customers. The higher proximity of the *Crédit Agricole* with the financial markets could have had an impact regarding this aspect. And finally the commercial banks which are similar to the least open co-operative banks.

Even if co-operative banks are still playing a role in access to bank account for households below the poverty line, their role is not as clear as usually perceived and more in-depth research is needed regarding this question.

Along with accessibility of banking products, a second aspect of financial inclusion should be taken into account: the price of this access. Financial inclusion implies that banking products are accessible but it also presumes that this

**Figure 3:** On going consumer credits (2009, %)



Source: Jauneau and Olm, 2010.

access is appropriate. Price is therefore an important part of it. If access is so costly that it impoverishes customers, it is not part of financial inclusion. Banks do not have the same strategy regarding this aspect of the service. Gloukoviezoff (2008) has shown that the pricing of the service is used to make low income customers profitable even if such a strategy impoverishes those customers.

According to partial studies carried out by consumer associations, it appears that banks have different strategies regarding the pricing of their services<sup>4</sup>. The least costly bank is the Postal bank and the co-operative banks have very heterogeneous levels of fees which can even vary from one region to another within a same network. The most appropriate pricing for people with a low level of income seems to be that of the *Crédit Mutuel de Bretagne*<sup>5</sup>.

It appears difficult – due to the lack of data – to give a global assessment of the co-operative banks’ role regarding appropriate access to basic banking services. It seems that some networks are favouring it although such an evaluation should probably be made at regional level. However, it is clear that the co-operative movement is in front of the commercial banks and behind the postal bank which remains the main actor of financial inclusion in that respect. Such a situation may be explained by a higher level of market influence on the practices of the commercial banks but also of the co-operatives ones which are the main banking product providers in France, while the postal bank stayed more attached to its initial values of public service.

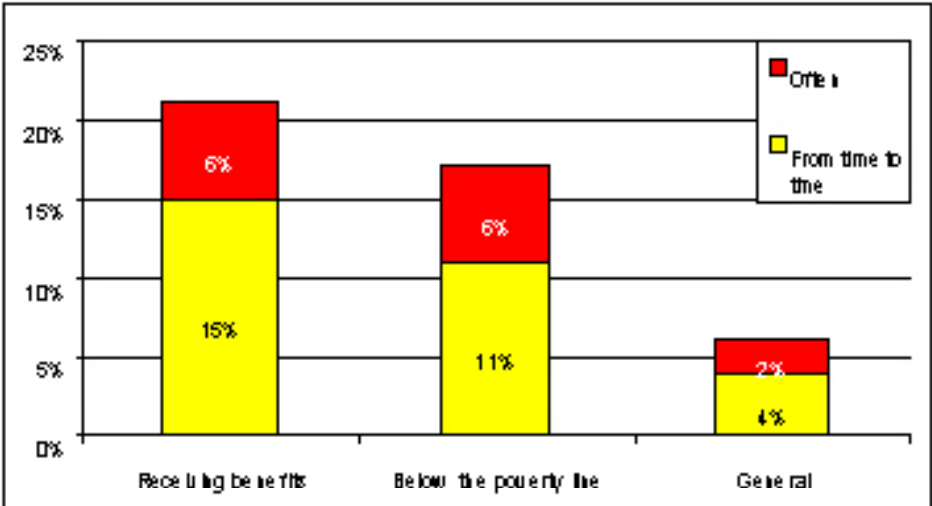
**1.2.2. Access to consumer credit**

Besides basic banking services, credit is an essential aspect of financial inclusion. It is also the need for this financial product which led to the creation of the co-operative banks. While credit exclusion is growing in France, it would be expected that the co-operative banks would play the primary role in credit provision (even more so than the postal bank which has only been entitled since 2010 to provide consumer credit). Unfortunately, there are no precise data about difficulties of access to credit (ie someone who suffers from being unable to access credit) or about the role of the different credit providers in relation to those difficulties. However, it is possible to underline some characteristics of the French credit sector pertinent to the role of the co-operative banks.

First, it is important to keep in mind that there is no subprime sector in France due to the existence of a usury ceiling. When the amount lent is under 1,524 Euros, the maximum APR which could be charged is 21.15% (July 2010). When the amount lent is over 1,524 Euros, the usury rate changes depending on the type of credit. If the credit provided has no fix monthly reimbursement planned (ie overdraft or revolving credit), the usury rate is 19.27% but if there is a monthly reimbursement planned (ie personal loan) the usury rate is 8.61% (July 2010). These rates make access to credit more difficult for the riskiest borrowers but at the same time they play a significant role in preventing overindebtedness as the profitability for lenders of taking risks is limited (Gloukoviezoff, 2008).

Second, there are some figures available regarding access to credit. It appears that

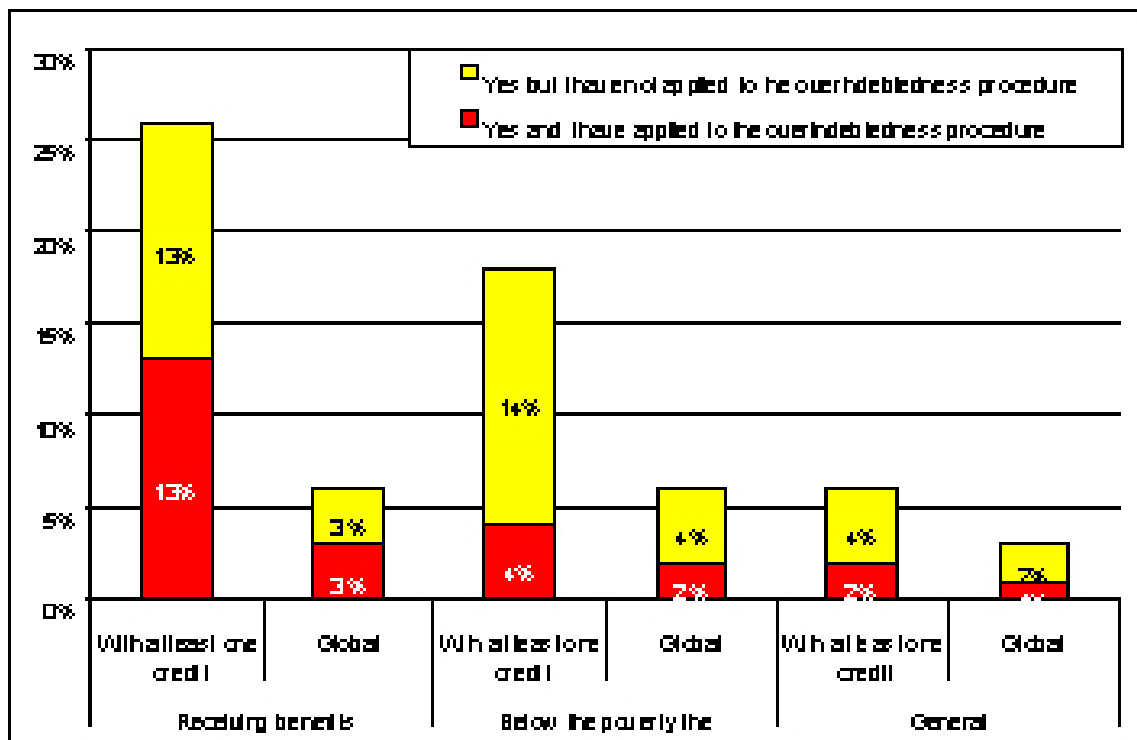
**Figure 4:** Households having missed payments of their credit (2009, %)



Source: Jauneau and Olm, 2010.



**Figure 5: Perceived overindebtedness (2009, %)**



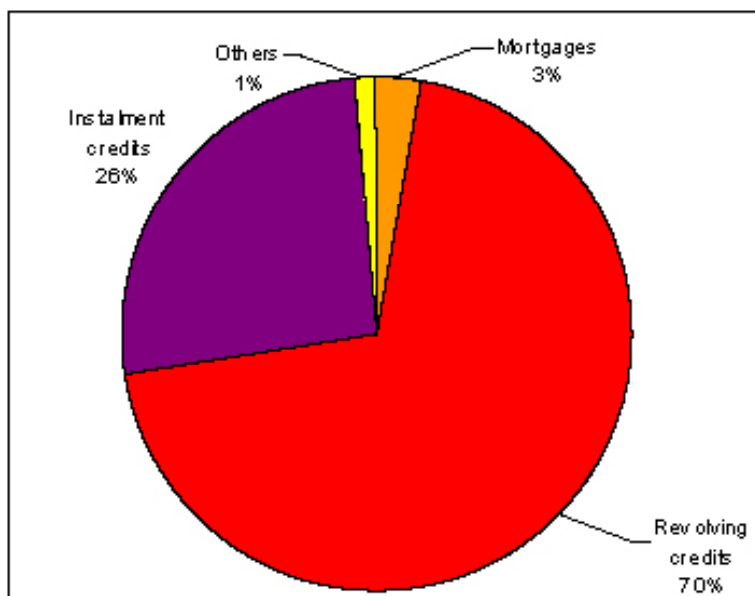
Source: Jauneau and Olm, 2010.

51% of all French households have at least one source of credit but this falls to only 31% of households below the poverty line and 24% of those receiving benefits (Jauneau and Olm, 2010). These differences between types of households are not homogeneously distributed regarding different types of credit.

It clearly appears that households under the poverty line or who are receiving benefits have a proportionally higher level of access to

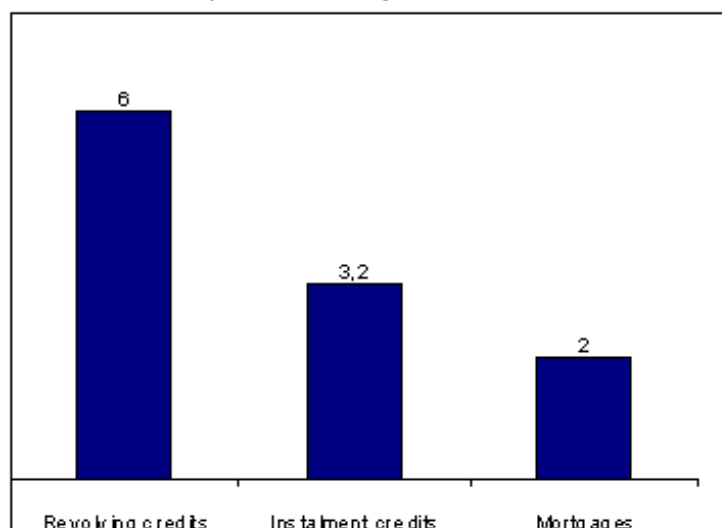
*revolving* credits while instalment credits and car credits seem less accessible but for different reasons (car credit is not a specific type of credit so the differences are probably related to the purpose of the credit). If households receiving benefits or who are below the poverty line have a proportionally higher level of access to *revolving* credits than the global population, it is mainly the result of the possibility for lenders to charge a higher level of interest rate making them

**Figure 6: Credits hold by overindebted households (2007, %)**



Source: Banque de France, 2008.

**Figure 7:** Number of credit per type on average (2007, number)



Source: Banque de France, 2008.

profitable. However, the access to this kind of credit is not without negative consequences. For households with a low level of income, *revolving* credit is a more costly and more complicated product to manage than instalment credit. This can be illustrated by two sets of figures.

First it appears that borrowers receiving benefits or who are below the poverty line are more likely to miss payments of their credit or to feel that their indebtedness is too high and that they are on the verge of overindebtedness.

Of course the fact of receiving benefits or being below the poverty line increases the risk of facing financial difficulties. However, the nature of the indebtedness is also part of the problem. This can be seen in the difference in ratios between households who perceive themselves as overindebted and the global population for each category as well as the general population: a ratio of three (from 6% to 18%) for those below the poverty line and a ratio of two (from 3% to 6%) for the global population.

Second the figures provided by the administrative procedure to deal with overindebtedness show that the indebtedness of overindebted households is more likely to be as a result of *revolving* credit. This represents 70% of the credit held by those households and these households have on average six credit sources of this kind (Banque de France, 2008).

Nonetheless households receiving benefits or below the poverty line are more likely to face difficulties accessing credit but when they do access credit, it is through *revolving* credit which is more likely to lead to difficulties due to their cost and complexity. Basically, the heart of the problem seems to be that lower income

households are unable to access instalment credit which would be more suitable for them. Could this difference of accessibility between *revolving* credit and instalment credit help to understand the role of co-operative banks?

According to an unpublished study of Roland Berger, it appears that 29% of consumer credit is provided directly by co-operative banks while commercial banks provide 11% of it. The remaining 60% are mainly provided by credit card providers.

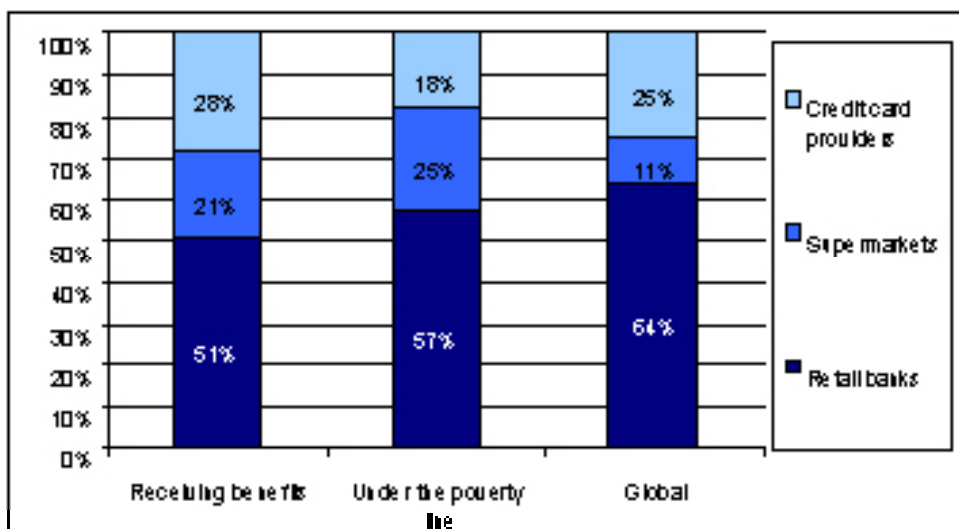
Figure 8 shows that in relation to instalment credit, households below the poverty line or who are receiving benefits are less likely to access it through retail banks compared to the general population and more likely than the general population to access it through supermarkets and credit card providers.

When considering provision of *revolving* credit, 34% of borrowers access it through retail banks (Jauneau and Olm, 2010). *Revolving* credit is mainly provided by credit card providers and supermarkets, a reality which is even stronger for households under the poverty line.

Figure 9 shows that households under the poverty line have a higher level of access to instalment credit as well as *revolving* credit through supermarkets and credit card providers than the general population. It may be tempting to conclude that co-operative banks could be blamed as they play a small role regarding access to consumer credit. However, they could argue that they have little responsibility in the highly risked access to *revolving* credit. If the first part of this interpretation is right, the second part has to be seriously counterbalanced.

It has to be underlined that credit card

**Figure 8:** Instalment credit providers (2009, %)



Source: Jauneau and Olm, 2010.

providers are mainly owned by retail banks. For example BNP Paribas with its subsidiaries *Cetelem* and *Laser Cofinoga* own totally or partially 20 credit card providers and *Credit Agricole* with *Finaref* and *Sofinco* own totally or partially 7 credit card providers (Athling, 2008). Altogether it appears that retail banks control directly or indirectly almost 64% of the consumer credit provision. The remaining 34% are credit card providers owned by supermarkets. It also appears that the two biggest players in the field of revolving credit are a commercial bank (*BNP Paribas*) and a co-operative one (*Crédit Agricole*). Together with their subsidiaries (including those in partnership with supermarkets) they represent more than two thirds of the whole market.

Even if more data is needed to be able to assess rigorously the role of co-operative banks in promoting appropriate access to credit, it seems that they are not playing a fundamental role regarding increasing access of lower income households to credit. In fact some of them (ie the *Crédit Agricole*) are playing a significant role in the provision of *revolving* credit which fuels financial difficulties.

Regarding the promotion of appropriate access to bank accounts or to consumer credit, it seems that co-operative banks play a heterogeneous role. Some of them seem to be committed to providing appropriate access to basic banking services (ie the *Caisse d'épargne* or the *Crédit mutuel*) but they are not as effective as the postal bank. Moreover, none of them seem to play an outstanding role in the promotion of appropriate access to credit. Again, more data is needed to provide a detailed assessment of their

role. However it can be noted that the specificity of the co-operative movement regarding financial inclusion has been weakened by 30 years of liberalisation of the banking sector. Therefore, it can be questioned if this waning of the co-operative specificity will lead to their assimilation with commercial banks or if there are some remaining resources which can lead to a renewal of their co-operativeness.

## 2. The Regeneration of Financial Inclusion Through Microcredit

Regarding financial inclusion in France, the last 10 years have witnessed two main innovations: the development of structures dedicated to help people to manage their financial difficulties and the promotion of personal microcredit. Co-operative banks are at the heart of both of these developments.

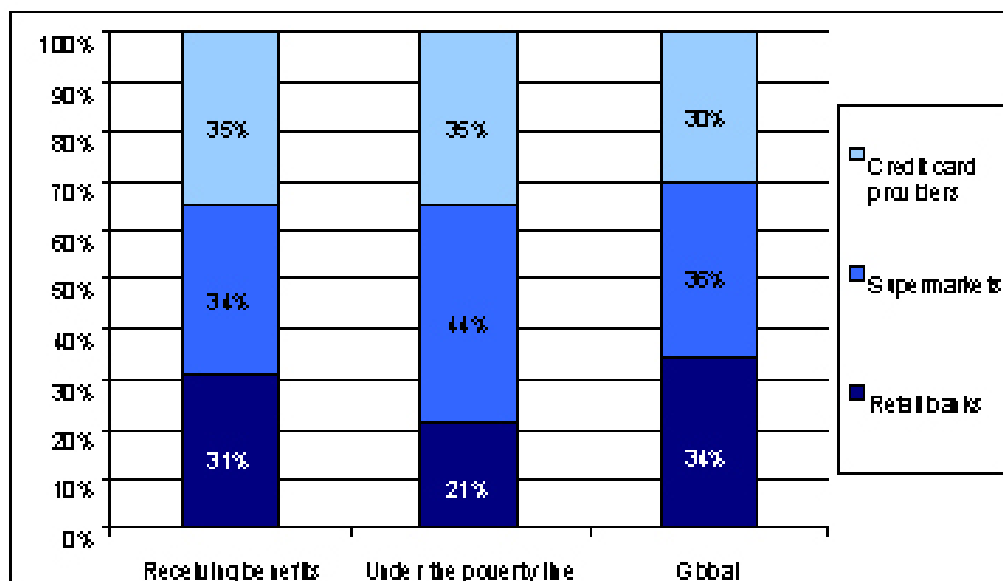
### 2.1. How to respond to households' financial difficulties?

The liberalisation of the banking sector has resulted in increased pressure on bank staff to sell products and spend less time with customers not profitable enough. Households with a low income have increasingly had access to an impersonal relationship in order to save money for the bank. At the same time – as already explained – fees charged when incidents occur are used as an increasing source of income for the banks (Gloukoviezoff, 2008).

These developments have led to a situation where financial difficulties resulting from loss of employment, divorce or ill-health can be made



**Figure 9:** Revolving credit providers (2009, %)



Source: Jauneau and Olm, 2010.

worse as a result of the banking relationship. Even though these practices are profitable for the bank as long as the customer is able to pay, it is not profitable when the customer cannot pay and is a source of tension for the staff. Unable to provide an alternative banking relationship due to the pressure of the profitability constraint in the banking sector, some co-operative banks have tried to take into account those excesses.

Some regional branches of *Crédit Mutuel* like those of Brittany or Valence have set up committees to deal with customers who face an extreme level of fees following payment incidents. These committees are supposed to counterbalance the effect of the depersonalisation of the relationship and to take into account what level of fees would be fair. They assess the nature of the incidents, the reason for the accumulation of fees, and the situation of the customer. They also try to obtain information about the reason for the difficulties and the way the customer has tried to find a solution. When the customer appears to be of good faith, the committee reduces the fees. While such a committee helps to reduce the impact of the imperfection of the banking relationship, it does not help to find a solution to the banking problem faced by the customer. It is precisely in response to this need that the *Crédit agricole* of the north east region set up the *Point passerelle*.

These dedicated associations have employees who are bankers seconded from the *Crédit agricole*. They receive debtors in difficulties for face-to-face interviews in order to

find a personalised solution to their difficulties. These advisers have specific tools in order to make their action really effective. For example they can restructure the overall indebtedness through a low interest loan. This restructuring is not only the spreading of the indebtedness over a longer period of time to reduce the monthly repayments. Each debt is renegotiated by the adviser with creditors and, in case of difficulties during those negotiations, a professional mediator who works with *Point passerelle* can intervene. The aim of this approach is to take into account the global situation of the customer in order to secure as much as possible the improvement of the situation as well as the reimbursement of the potential credit.

This pilot was set up in 2001 in order to reaffirm the co-operative dimension of the regional *Crédit agricole*. The idea was to provide a better service for its customers who were facing difficulties. Although there was no desire to make a profit, after several years it appeared that the *Point passerelle* costs were matched by the savings made by the avoidance of several kinds of costs such as lawyer's fees which would have occurred due to the recovery of debts (Crosemarie, 2007). Even if the "profitability" of the *Point passerelle* is very low, it shows that this alternative way to deal with the difficulties of debtors is economically sustainable and that co-operative banks are still able to build on their distinctive features in order to innovate.

The regional *Crédit agricole* pilot was such a success that it was decided to extend the *Point passerelle* on a national basis<sup>6</sup>. However, each

regional *Crédit agricole* has the possibility to change the organisation and services provided by the *Point passerelle* which has led to an important heterogeneity of the service and therefore of its efficiency.

Through their action to help people to find a solution to their financial difficulties, the *Points passerelle* have also shown that it was possible to give access to credit to people who would have been refused or who would have had access to inappropriate forms of credit. Such practices have fed the reflexion on the second innovation: personal microcredit.

## 2.2. How to give appropriate access to credit: the personal microcredits

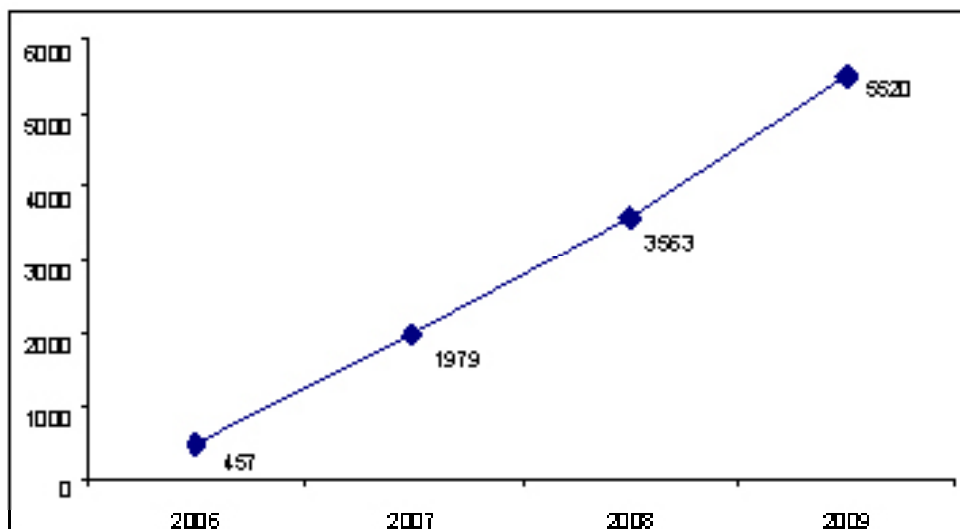
As well as taking into account financial difficulties of lower income households within the banking relationship, the question of giving those households appropriate access to credit is also a difficult issue. On this topic, co-operative banks have been innovative. The *Points passerelle* of the *Crédit agricole* have shown that it is possible to sort out very complex situations through personalised assessments as well as appropriate credit. But it is a partnership between *Crédit mutuel* of the south west region and Caritas France which has really been the basis of the development of personal microcredit. Their partnership was dedicated to providing small loans to households from Toulouse who had suffered from the AZF catastrophe<sup>7</sup>. As a result of the success of this pilot, the French government set up a scheme in 2005, the social cohesion fund to provide small loans to people who were refused by lenders. The fund was granted with 75 million Euro over

five years to guarantee 50% of each professional and personal microcredit. Its purpose was to reduce the cost of the risk for lenders and to encourage banks to get involved in the provision of microcredit.

Personal microcredits are loans between 300 and 3,000 Euro with an interest rate between 4% (*Caisse d'épargne*) and 13% (ADIE) and which are accessible to borrowers refused by mainstream lenders. These loans are granted by a lender (retail bank or credit card provider) in partnership with a structure (charitable association, dedicated associations, social workers, etc) who is in charge of the evaluation of the request and of the support during the reimbursement if needed. These microcredits differ from professional microcredits as they cannot be used to finance the set up of a business. However, the emphasis is still on professional purposes such as keeping a job by repairing a car needed for work or acquiring employment as a result of obtaining a driving licence or participating in training. Nevertheless professional purposes are not the only ones. Personal microcredits can also be used to improve or protect the quality of everyday life (housing, health, social or family life, etc).

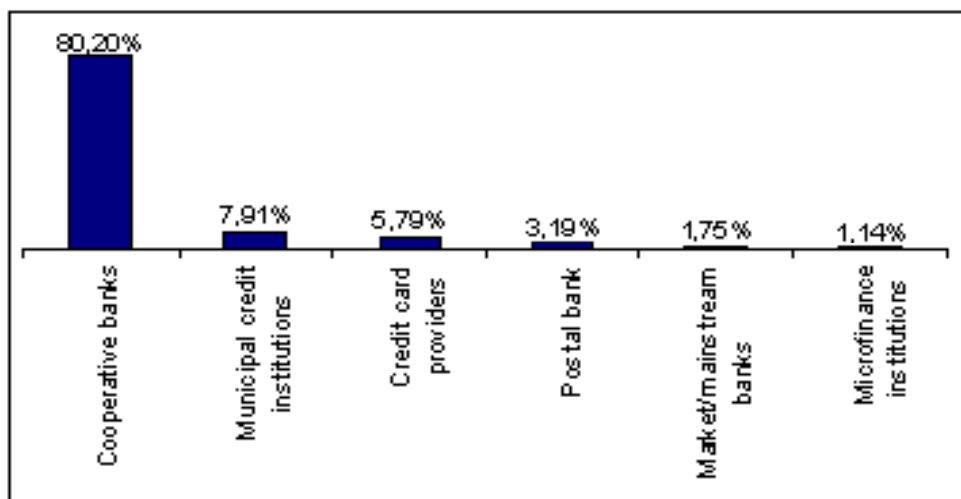
On a qualitative basis, personal microcredit has proved to be a pertinent tool in finding a solution to lots of different situations. Evaluations of their impacts (Gloukoviezoff and Palier, 2008; Gloukoviezoff and Palier, 2009) have shown that they can help to keep or to find a job, to improve housing comfort, to maintain or improve the quality of the family life (ie keeping parents and children together). Most of all, they have a very positive impact on the self

Figure 10: Number of personal microcredits granted (2006-2009)



Source: data from Caisse des dépôts.

**Figure 11:** personal microcredit market shares by categories of providers (2006-2009, %)



Source: data from Caisse des dépôts.

esteem of the borrowers. Most of these people have been refused by lenders and by social services, so they really appreciate that they are seen as trustworthy enough to be granted a microcredit. However, the strength of the impact is related to the situation of the borrower. When the microcredit intervenes in a situation which is already characterised by a project or by a dynamic of improvement, its impacts are more important. Some borrowers have escaped from poverty with the help of a microcredit. However the majority of microcredits have less significant impacts even if these impacts really matters to the borrowers. To be able to keep children living with the parent may not facilitate escaping from poverty but it has a real value for the family.

On a quantitative basis, the provision of personal microcredits is limited. Only 11,519 personal microcredits have been granted over four years with only 5,520 in 2009. However, such a result is not a negative one in itself. Establishing this new tool requires complex social engineering as it is supposed to make bankers and volunteers or social workers work together. It is a difficult task given their different working culture. There is a potential for conflict between bankers who are seen as the root of the financial difficulties and overindebtedness and volunteers or social workers who are in charge of helping people face those difficulties. Despite these potential difficulties, the provision of personal microcredit has known a strong growth rate of more than 330% in 2007, 80% in 2008 and 55% in 2009.

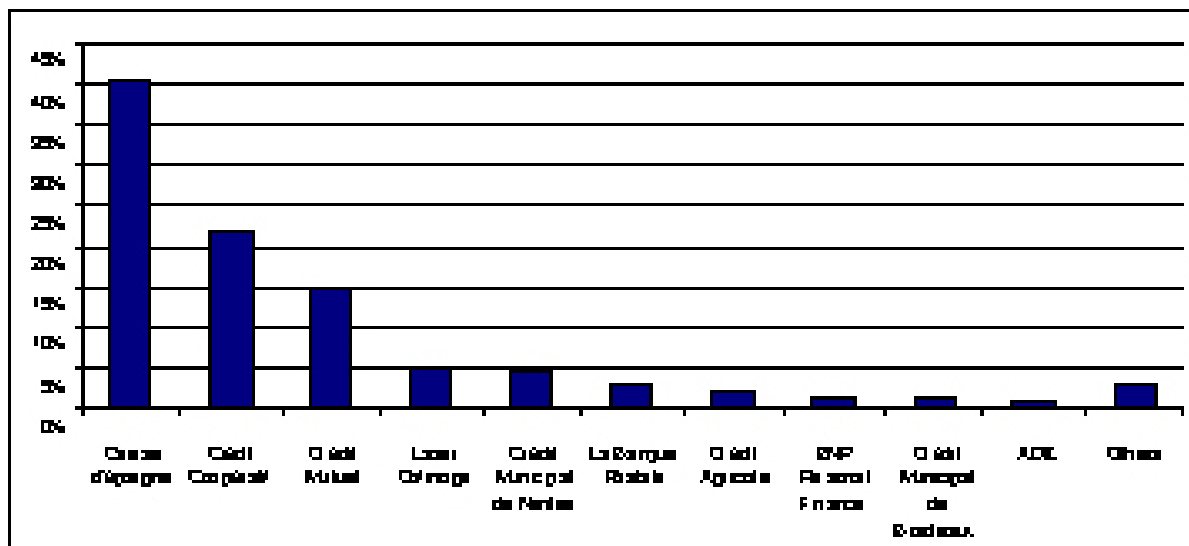
However, this apparent strong growth is not the result of a global effort on behalf of the lending sector. If some co-operative banks have

inspired the creation of personal microcredit, they are also at the heart of its growth. It appears that the main personal microcredit providers are the co-operative banks with 80% of the market share. Such a result shows that there is a real potential for the development of personal microcredit but it requires strong incentives or constraints to involve lenders.

But even among the co-operative movement, the effort to provide personal microcredit is not equally shared. It appears that only one bank has been providing more than 40% of the number of microcredits granted: the *Caisse d'épargne*. It is followed by the *Crédit coopératif* and the *Crédit mutuel* with 22% and 15% of the market share respectively.

However, this effort is not only the result of the co-operative ethos. It has to be underlined that until 2008 the *Caisse d'épargne* had a legal obligation to spend a percentage of their profit through projects of general interest, one of which was microcredit. In order to respect this legal obligation, the *Caisse d'épargne* set up *Parcours confiance*. It is an association with its own staff (*Caisse d'épargne* employees seconded to it). Historically, it was dedicated to providing a response to the financial difficulties of households (like *Points passerelle*) and this has progressively focused on microcredits. Each regional *Caisse d'épargne* has set up their own *Parcours confiance* which differ from one another in terms of organisation and objectives but which have in common the provision of microcredit. This obligation was suppressed in 2008 and the *Caisse d'épargne* now continues to ensure their mission of general interest through its corporate social responsibility activities.

Figure 12: personal microcredit market shares by provider (2006-2009, %)



Source: data from Caisse des dépôts.

### 2.3. The need for regulation

Co-operative banks are still able to be innovative in relation to financial inclusion through the provision of appropriate services which meet the needs of people with low income. Social committees of the *Crédit mutuel*, *Points passerelle* of the *Crédit agricole*, *Parcours confiance* of the *Caisse d'épargne* and the involvement of several of them in the provision of personal microcredits illustrate this ability. However these services remain limited. They reach very few customers and they have almost no impact on the great majority of people facing banking difficulties even when they are customers of these co-operative banks.

Regarding *Points passerelle* and *Parcours confiance*, some regions are providing a great level of service while some others are very poor. The social committees of the *Crédit mutuel* only exist in some regions. Personal microcredit is mainly provided by three co-operative banks and at low level in comparison with the level of need.

The risk is therefore to waste these innovative ways to provide banking services. They may remain only an alibi for their corporate social responsibility report with no impact on their main banking practices. Such a development would result in the co-operative banks missing the potential of the pilots to identify new economically sustainable ways of providing banking services for customers who are considered not profitable enough or too risky. For example, personal microcredit initiatives have shown that partnerships with charitable association or social workers can be a way of reducing the cost of a personalised relationship

with people with low income. Moreover, while these pilots can be perceived as costly, the *Point passerelle* has demonstrated that they could save money for the bank if they are used in partnership with the branch network to sort out the complex difficulties of some customers.

However, those initiatives face barriers in being mainstreamed: they are less profitable for the banks than strategies which create difficulties for the customers. The example of the commitment of *Caisse d'épargne* to *Parcours confiance* as well as personal microcredit show that the State has a role to play. After 30 years of liberalisation of the banking sector, co-operative banks are less able to promote an alternative way of providing banking services as they are no longer the outsiders but the main providers. And even if they were outsiders able to take more risk to develop their services, providing appropriate banking service is not profitable enough on a short term basis. Therefore, the regulation of the public sector is needed in order to promote financial inclusion.

Such regulation could be inspired by the Community Reinvestment Act (CRA) which is based on precise goals of financial inclusion, in-depth evaluation of banks' practices and incentives or sanctions<sup>8</sup>. Such a project is currently advocated by Caritas France and has been welcomed by the Government and the Ministry of Finance. It could be very effective as it could build on the co-operative banks specificity. As it has been shown, co-operative banks still have the ability to develop innovative practices at a local level in order to provide appropriate banking services. If a financial inclusive regulation were set up, those banks



would be really effective in developing practices which would be part of a sustainable approach to banking.

Financial inclusive practices would not only rely on co-operative banks. It is the responsibility of all stakeholders (customers, banking service providers, third sector and the State) to assume their part through funding or direct provision of services. However it would be an opportunity to develop a more appropriate environment for co-operative banks (as well as for the postal bank) in order to make them able to reaffirm their co-operative identity and to make the best of their remaining presence in the local communities. It is these strengths which have been used in the development of the different pilots already presented (*Points passerelle*, *Parcours confiance*, etc). Such a regulation would make them available for the majority of the customers.

## Conclusion

French co-operative banks are still playing a role regarding financial inclusion given that they are the main banking service providers. They are also providing services for those with a low income. Despite the dearth of data it seems that access to basic banking products is mainly provided by the postal bank followed by some co-operative banks. Conversely, access to appropriate consumer credit seems to be a more complex issue to analyse as co-operative banks also provide *revolving* credit through their credit card subsidiaries. Therefore it appears that the role of co-operative banks differs substantially to the one they had when they were created or the one they assumed between 1950 and 1980 when they were providing access to banking products.

Since 1980, the liberalisation of the French banking sector has deeply changed the context within which the co-operative banks were acting. When the State was regulating this sector, it was able to compensate for the less profitable activity of the provision of appropriate access to a part of the population. Such regulation

board of the National Observatory of Poverty and Social Exclusion (Paris) France

## Bibliography

- Athling (2008) *Pour un développement responsable du crédit renouvelable en France*, rapport d'Athling Management pour le CCSF, Paris, CCSF.
- Banque de France (2008) *Enquête typologique 2007 sur le surendettement*, Paris, Banque de France.
- Bonin, H (1992) *La banque et les banquiers du Moyen Age à nos jours*, Paris, Larousse.
- Crosemarie, P (2007) *Le surendettement des particuliers*, Avis et Rapport du Conseil Économique et Social,

allowed co-operative banks to become the main banking service providers without losing their co-operative ethos. However the liberalisation of the banking sector forced them to comply with a higher constraint of profitability.

Constrained to act in a more competitive environment as mainstream banks, co-operative banks saw their practices becoming similar to those of commercial banks. Such an evolution was not homogeneous among the different co-operative banks. Some of them maintained a significant difference. Within one co-operative bank, there were also great differences from one region to another regarding practices favouring financial inclusion.

Nevertheless, the weakening of the co-operative specificity does not equal its disappearance. The main innovative practices regarding financial inclusion for the last 10 years have been inspired and promoted by co-operative banks: dedicated structures to deal with financial difficulties and personal microcredit. Despite the real pertinence of these tools to promote financial inclusion, they mainly remain underused;. Such a situation can be explained by their lower profitability compared to mainstream banking practices. Therefore, their mainstreaming requires State regulation which promotes financial inclusion as a goal. Similar regulation exists in the USA (Community Reinvestment Act) and would deserve to be adapted to the French context. Based on clear financial inclusion goals, transparent evaluation and serious incentives, they may help to promote more appropriate financial services as well as giving the opportunity to the co-operative banks to reaffirm their specificities and to build on them in order to be economically and socially efficient.

## The Author

Georges Gloukoviezoff is Doctor in Economics and specialises in questions of financial inclusion. His work deals with difficulties of access to basic banking services and over-indebtedness as well as potential solutions such as microcredit and financial regulation. He is director of G2 Research (Dublin, Ireland) - 2G Social Exclusion (Paris) France and member of the



- no 2007-21, Paris, Conseil Économique et Social.
- Gloukoviezoff, G (2008) *De l'exclusion à l'inclusion bancaire des particuliers en France. Entre nécessité sociale et contrainte de rentabilité*, thèse de doctorat en économie, Lyon, Université Lumière-Lyon II.
- Gloukoviezoff, G and Palier, J (2008) *Évaluation d'impacts des Crédits Projet Personnel du Secours Catholique*, Rapport Final, Lyon, LEFI.
- Gloukoviezoff, G and Palier, J (2009) *Évaluation des dispositifs Parcours Confiance et Créa-Sol des Caisses d'Épargne*, Rapport pour la Fédération Nationale des Caisses d'Épargne, Lyon, 2G Recherche.
- Jauneau, P and Olm, C (2010) *Les conditions d'accès aux services bancaires des ménages vivant sous le seuil de pauvreté*, rapport du Crédoc pour le CCSF, Paris, CCSF.

## Notes

- 1 In this article, the term "appropriate" will be used to define financial services or access to financial services. The appropriateness of financial products means that their features favour the autonomy of the customer by meeting his/her needs.
- 2 See Gloukoviezoff (2008).
- 3 Differences for other banks are not significant enough to be statistically exploited.
- 4 See Gloukoviezoff (2008) for more information.
- 5 Customers are entitled to select each product they want to access rather than subscribe to a "package" of products as is usually the case. The price of each product is usually lower than the one in other banks as well as the fees when an incident occurs.
- 6 [http://www.creditagricole.info/fnca/ca1\\_843809/fr/initiative-pour-clients-fragilises?portal=esn\\_5744](http://www.creditagricole.info/fnca/ca1_843809/fr/initiative-pour-clients-fragilises?portal=esn_5744)
- 7 A chemical factory exploded in 2001 and the victims were not able to repair their accommodation as insurance companies were too slow to reimburse the damages. Crédit Mutuel and Caritas France decided to give microcredit to those people in order to face the most urgent needs (eg windows).
- 8 The Community Reinvestment Act is a United States federal law which aims at encouraging financial service providers to lend to low and moderate borrowers (for home or commercial purposes) within deprived communities. It was implemented in order to tackle discriminatory lending practices known as "red lining" (to mark in red area where lenders refuse to lend).