

STRATEGIES

Crédit Agricole CIB upfront with its customers about being a smaller market player

by *Sylvie Guyony*

The corporate and investment banking businesses of Crédit Agricole CIB will never be international nor comprehensive. Crédit Agricole CIB has closed ten subsidiaries and discontinued its equity derivatives and commodities businesses. On the equity brokerage front (*Agefi Hebdo Magazine*, 7 March 2013), it is finalising the sale of CLSA to Chinese brokerage firm Citics, and has signed the sale of Cheuvreux to Kepler. Crédit Agricole CIB and Société Générale have also begun restructuring their joint-company Newedge of which one of the branches could see a change of shareholders. “[*Players*] have started pulling out of targeted activities, even entire sections of businesses”, explains Pierre Reboul, Senior Partner at Roland Berger. “*UBS announced its withdrawal from fixed income (excluding foreign exchange), and others are pulling out of commodities: medium-sized CIBs have to choose their battles in order to tweak their business models*”.

Developing areas of excellence

To meet regulatory requirements on liquidity, risk-weighted assets and capital, Crédit Agricole CIB has completed its adaptation plan. With its distribution-origination model, it can now turn its focus on its "areas of excellence" for strategic customers (700 large companies and 450 financial institutions), with 32 subsidiaries. Crédit Agricole CIB believes that it can maintain its global expertise in structured and corporate finance (aerospace and infrastructure financing and syndicated loans) and in origination, while redistributing 80% of assets. As such, "Debt optimisation and Distribution" business line, the keystone of its organisation (alongside three other divisions: sales and investment banking; structured finance; capital market activities), originates, structures and arranges syndicated and bilateral medium- and long-term loans, provides underwriting services and does primary and secondary distribution of syndicated loans to banks and non-banking institutions. These activities have already given rise to 30 internal and external partnerships aimed at maximising net banking income while maintaining a minimum amount of outstandings. One such partnership was established in January between Crédit Agricole CIB and Allianz France to provide property finance for listed property company Icade. Prior to this partnership, Crédit Agricole CIB signed its first joint transaction with AXA (Neopost, October 2012) and with Crédit Agricole Assurances for a private bond placement for an unrated intermediate-sized company (Bonduelle, September 2012).

"Crédit Agricole CIB has essentially become a debt platform, serving first and foremost Group customers, and strives to become a leader in its key areas of expertise", says Eric Sebbagh, Principal at Roland Berger. According to Antonio Guglielmi, analyst at Mediobanca, Crédit Agricole CIB is “*trying to square the circle*” and went as far as telling *Reuters* that Crédit Agricole’s would be best served by selling its Corporate and Investment Bank. Jean-Yves Hocher, however, is upfront about his bank being a smaller

player on the market and has set a roadmap for 2015-2016 (see *interview on page 20*), pending an overall strategy from the parent company.

On the agenda: a return to profit in 2013

Jean-Yves Hocher, Crédit Agricole CIB Chief Executive Officer, is categorical: *"we have no reason to worry about negative earnings in 2012"*. But the end-2012 snapshot shows otherwise if excluding the operations currently being wound down, which now include trading, commodities and equity derivatives (excluding corporate and convertible equity derivatives). Group net income (GNI) totals EUR 1.2 billion as soon as it is restated for exceptional items: re-evaluation of debt and loan hedging (accounting effect), goodwill write-downs (for Crédit Agricole CIB and Newedge), the impact of current disposals (especially CA Cheuvreux) and the adaptation plan, which had a negative impact of EUR 477 million on the NBI and EUR 1.27 billion on Crédit Agricole CIB 's GNI. The labour aspect of the plan is complete in France with 426 job cuts through voluntary departures (excluding brokers), and is nearing completion abroad (795 jobs targeted). Excluding private banking, Crédit Agricole CIB's full-time equivalents come out at 9.439 compared to 12.523 at end-2011 on account of resignations, retirements and early retirements.

In terms of liquidity and risk-weighted assets, the plan has surpassed its targets with a total balance sheet increase solely due to *"the booking of market activities at gross market value"*, explains Jean-Yves Hocher.

Corporate and Investment Banking industry: back to the drawing board

According to the strategy consulting company Roland Berger, out of the 14 international and comprehensive CIBs in 2012, less than ten - or even three or four according to Ares & Co (*Agefi Hebdo Magazine, 8 March 2012*) - will maintain their model in the next three to five years. Like Natixis (BPCE Group), BBVA and Santander (in Spain), Commerzbank (Germany), Nordea (Sweden) and UniCredit (Italy), Crédit Agricole CIB 's structural overhaul will not reach completion. *"Product-wise, it is a trade-off between margins and RWAs"*, says Pierre Reboul. *"Some of these players can focus on a closer customer relationship with banks or second-tier insurance companies. But they will need to weigh up their geographic set-up against whether realistically they can survive in highly competitive regions, particularly the United States and Asia"*. Other consulting companies, including Oliver Wyman, share the same diagnosis (*Agefi Hebdo Magazine, 13 December 2012*).

Medium-sized European CIBs will also have to assess in which businesses they can remain credible and work out where they will need to find an alternative if they are to continue serving their customers, even if this means sharing their margins with their product suppliers. *"This is especially the thinking with UniCredit, according to Eric Sebbagh. "All these CIBs have to come to terms with moving from a risk model to a service or service-aggregating model"*. Other than cutting costs, mainly through outsourcing certain functions (like the Société Générale/Accenture model), the idea of "aggregating" services could increase income and improve RoE, now invested at 10%, explains Sebbagh. *"Opting for an intelligent model in the form of alliances with smaller-sized institutions which give large banks access to millions of additional customers"* is the first step advocated by AlixPartners to investment banks *"having to make brave decisions in order to industrialise"*. According to the December 2012 study, this step will involve, in particular, *"setting up open platforms"* using *"third-party products and solutions"*. Given the resources and

time frames (10-15 years), there is no doubt in Pierre Reboul's mind that "*the CIB industry will have to go back to the drawing board*".

A meeting with... Jean-Yves Hocher, CEO of Crédit Agricole CIB

Sylvie Guyony

Will there be a change in the position of the Corporate and Investment Bank within Crédit Agricole SA?

Our challenge in the coming years is to bring the risk weighted assets of our on-going activities – which represent 33% of the total of Crédit Agricole SA group – closer to our contribution to Crédit Agricole SA's recurring revenues - 24% at the end of 2012 – without impacting our revenues. Our "Distribution-Origination" model is already proving thrifty in terms of resources (liquidity and RWAs). This allows us to substantially improve our ratio of net banking income on liquidity. This is also a cautious model as it has a low VaR (Value at Risk). It therefore meets the group's requirements. There is another important element: the optimisation of the cooperation between Crédit Agricole CIB and the Regional banks in order to support them in their development with medium-size companies in the regions. This is an element of the Crédit Agricole group's vision of customer-centric universal banking.

Does your size allow you to respond to all of your clients' needs?

Compared with large American banks Crédit Agricole CIB is certainly a medium-sized bank. It is centred on a portfolio of clients, and has chosen its territory, both in terms of skills and of geographical establishments. In many of our areas of expertise we are among the best. We have a global origination capability and the capacity to sell assets internationally. Our global expertise is recognised in structured products, for instance in telecoms, but also in the energy sector which we are developing. We are also a world leader in aircraft financing and in shipping. Finally, our portfolio of large corporate clients is one of our strengths. In the international network, which represents approximately 30 countries, we have chosen to keep the establishments that meet the needs of large corporates requiring financing, and of the financial institutions with which we want to work. Our platforms in London, New York and Hong Kong allow us to be actively involved in the markets 24 hours a day. Last but not least, we are close to our clients in terms of investment banking, both for capital transactions and mergers & acquisitions. When LVMH bought Bulgari, they asked us to ensure the deal was properly executed.

Are you able to set medium-term strategic objectives even though Crédit Agricole SA will not unveil its strategic plan before the end of the year?

We are confident in the relevance of our model. We now know that the market can absorb 80% of the assets that we redistribute. This allows us to continue to originate new credits. We want to bring our risk-weighted assets to 120 billion euros, in spite of the new constraints of the CRD III and CRD IV directives (*capital requirements*). And we will maintain the EUR 85 billion liquidity level. Our ROE objective is 12% over the medium term, which seems reasonable given Crédit Agricole CIB's level of market risk. These orientations will be part of Crédit Agricole group's medium term plan.

Will this require new efforts in terms of costs?

Yes. We will need to lower our fixed costs by approximately 15%, in particular by speeding up our exit from the portfolios of discontinued activities, possibly by entrusting them to external service providers, sub-contracting certain functions, reducing current expenses and developing transverse work-projects.

Might you sell other activities or create partnerships with other professionals on certain segments like you did in the area of brokerage?

In the area of brokerage we are waiting for a last agreement from the Swedish regulator to finalise the CA Cheuvreux-Kepler merger. We will have a 15% share of the new company, alongside its staff, Blackfin capital investment fund, Crédit Mutuel Arkéa, Caisse des Dépôts, Mediobanca and UniCredit, which has taken a share in the company. A social plan will accompany the sale for the job cuts. The sale of CLSA should be closed by the end of June. Finally, concerning Newedge we are working on a project with Société Générale which would separate the pure execution side – a commercial business which requires little capital – from the clearing side, which is very industrial, in order to strengthen the company's position. Generally speaking, cooperation and partnerships are possible. All CIBs seem to be open to these subjects. On the other hand, I don't think there will be mergers between CIBs.