Credit Agricole CIB determined to create synergies

The intensification of relations between the CIB and CACEIS, combined within a single division, is at the centre of the plan.

by VIRGINIE DENEUVILLE
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The main direction remains unchanged. "*Following the deep restructuring undertaken in 2011-2012, our corporate and investment bank model (CIB) is consistent with Credit Agricole's strategy. We can nevertheless make a few adjustments and will continue with cost reductions and external partnerships*," says Jean-Yves Hocher, Deputy Chief executive Officer of Credit Agricole S.A. in charge of the large clients division. In line with the impulse given at group level, Credit Agricole CIB (CA CIB) also intends to play in a more collective way, with an increase in synergies. As part of the plan 2016-2019 announced at the beginning of March, the relations between the CIB and CACEIS' securities services business, combined since September within the division headed by Jean Yves Hocher, will intensify and be one of the cornerstones of development. "*A strong commercial convergence has been underway for several months between CA CIB and CACEIS which both serve clients in the insurance and asset management sectors. The teams who now propose the same offering will not be reduced, the idea being to increase our power*," explains Jean-Yves Hocher, also in charge of private banking activities. Cost synergies are being studied, in particular for processing back office operations.
A complementary offering might also be developed for instance in services provided to private equity funds.
Tightening our relations with retail banks is also on the cards: "*We can increase the Group's coverage of Medium sized companies (MSC) that use more or less the same type of products as those we now offer to large corporates*," says Jean Yves Hocher.

Being more selective

While low risk financial institutions that require value added products are, with MSCs, among the clients CACIB intends to cultivate in priority, the approach will now be more selective concerning large corporates. "*We will review our client portfolio and favour those with whom we have a complete relationship," explains Jean-Yves Hocher. "The first decisions should be taken in the United States and should trigger a several billion dollar decrease in our risk weighted assets (RWA).*"

These assets will be reduced by 12 billion euros to 134 billion euros by 2019, to compensate for new regulations. In addition to client selection within CACIB, "*one of the goals pursued is also to optimise CACEIS' financial management by refocusing its activity towards the Group and by reducing the share of external activities, which require more capital after Basel III", explains Jean Yves Hocher.*

The Group has also set itself a 2% growth of revenues objective for the large clients division for 2016-2019 (see chart). "This might seem ambitious in the current lacklustre market environment, but in our previous plan this activity grew in a market that was in a double-digit contraction," says the deputy CEO. "Of course we were starting from a low point following our restructuring but we think we can purse this trend during the coming years." According to Jean-Yves Hocher, the main lever of this growth will rest on market activities (+3.8% expected per year).

“While the beginning of the year was difficult, in particular in the bond markets before the recent decision of the European Central bank, we hope they will sooner or later materialise. Furthermore, in a high yield market which is currently closed on the other side of the Atlantic, we observe an increase in securitisation activity,” Jean-Yves Hocher observes.

The second growth lever will come from CACEIS (owned 85% by Credit Agricole and 15% by Natixis). In addition to organic growth, *“The future will bring consolidation in a sector in which CACEIS, n°3 today, intends to remain in the top three”*. Furthermore, among the perimeter adjustments, CACIB, which will leave La Défense to join Montrouge in May, intends to strengthen certain activities. *“While some players are moving out of Cash management, we intend to grow in this area where we were not historically very active. We recruited several specialists last year”, i*ndicates Jean-Yves Hocher, adding that he also intends to invest in supply chain activities.

In this context the Group aims to reach a return on normalised equity (RONE) of more than 11% for the large clients division by 2019, against a 9.4% ratio at the end of 2015 for the CIB. *“This is a very determined but reasonable goal”*, according to Jean-Yves Hocher. All these goals should lead to an annual net income growth of about 10% over the 2016-2019 period.

Jérôme Legras’ advice, Head of Research for Axiom Alternative Investments

“Reasonable goals”

What do you think about Credit Agricole’s strategic plan?

The goals mentioned are reasonable and overall in line with analysts’ estimates. One of Credit Agricole’s weak points compared to its competitors is the lack of transparency concerning the group centre, which is a kind of holdall where everything that doesn’t concern the business lines is lodged. In particular, this division has disproportionate costs of around 2.5 to 3 billion euros a year before tax at cruising speed, and significant risk weighted assets of approximately 16 billion euros. Its impact is to exaggerate the profitability of the business lines.

What about the corporate and investment bank (CIB)?

The synergies planned between these activities and CACEIS’ securities services activities are interesting but will not radically change the income statement. Credit Agricole anticipates indeed a modest and realistic growth in revenues of 2% a year in these activities. The most aggressive goal and the most uncertain one, is the 3.8% annual increase planned in market activities. This is based in particular on a determination to carry out more international transactions. Gaining market share far from one’s local market is nevertheless far from easy.

What are CACIB’s strong points?

The division is well positioned in structured finance and this creates many synergies with derivatives’ activities. The CIB also has very low market risks, because it has almost no proprietary trading activities and no equity derivatives.
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