Crédit Mutuel: Arkéa Exit Manageable and Would End a Long-Running Saga

In this short report, Scope considers the current desire of Credit Mutuel Arkéa (CMA) to leave the Crédit Mutuel (CM) group. We also review the current structure of the CM group, and examine the reasons behind CMA's latest moves as intragroup management tensions intensify. Yesterday, Scope affirmed the issuer rating of A+ for Banque Fédérative du Crédit Mutuel SA (BFCM) which acts as the central funding entity for the majority of the CM group.

CMA (not rated) recently announced that the boards of two of its three constituent regional bank federations have voted to initiate action designed to separate them from the overall CM group. The heightened level of disagreement between the managements of the CM group and CMA somewhat increases the probability of CMA's exit from the group.

CMA's diverging strategy has been evident for some time. While some uncertainties remain regarding timing and how such an exit would be managed, this is not a new threat. Given the relatively small size of CMA, Scope does not view such a departure as an existential threat to the CM group, nor would we expect it to have a significant impact on the group's key financial metrics. In short, we expect any exit on the part of CMA to be manageable for the CM group.

It remains possible that CMA will continue to operate within the CM group. To date, intragroup tensions have not led to either party pursuing an evidently riskier strategy, and if this continues to be the case, we would consider it a manageable scenario, albeit one which is likely to continue to generate management friction within the CM group.

Scope does not rate CMA. However, we note that in terms of a possible breakaway, its situation appears slightly more complex than for the CM group, as CMA would fall outside of the group solidarity mechanism, and would also lose the CM brand name. Getting to that point is not a completely straightforward process, as the mechanism is determined by statute and would require unwinding by statutory means. Mitigating factors include a strong position and clear strategy in local markets, particularly Brittany, as well as solid financial fundamentals.

Events leading to CMA's wish to break away from the CM Group

Although intragroup tensions have existed for some time, CMA has been openly agitating for a departure from the wider CM group for over three years, and recent events have intensified these discussions. Based on decisions made by the ECB on 5 October and 4 December 2015, the prudential supervision of all entities in the CM group, including CMA, was organised so as be conducted through the Confederation Nationale du Crédit Mutuel (CNCM), the group's central body. The CM group has reformed its organisation so that it can comply with regulatory requirements – a move which further centralises governance and the setting of group strategy. Unsurprisingly, CMA has not welcomed this development.

CMA legally challenged the ECB's right to oversee the entire CM group as one entity via CNCM, on the basis that it is not a credit institution, that there is no 'Groupe Crédit Mutuel' and that the ECB should not require it to hold additional equity (a requirement imposed on CMA by the ECB on the basis that it might leave the CM group).

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However, on 13 December 2017 the General Court of the European Union rejected CMA's challenge. Firstly, the court ruled that a central body does not require the status of a credit institution, and that CNCM, as an association, meets the necessary requirement. Secondly, the court pointed to the solidarity mechanism that exists within the CM group, such that there is a mutual obligation to transfer capital and liquidity between group entities for the benefit of creditors, and the existence of consolidated accounts for the group. In addition, CNCM can issue instructions to the management of entities within the group, and they can be sanctioned by the CNCM in the event of non-compliance. Finally, the court took that the view that, in light of the possible negative impact on CMA's ratings from leaving the umbrella of the group and its solidarity mechanism, the ECB did not err in requiring additional capital for CMA. CMA has opposed the court's decisions, and indicates that it intends to pursue the matter in the European Court of Justice.

On 17 January 2018, CMA announced that the boards of Crédit Mutuel de Bretagne and Crédit Mutuel de Sud-Ouest had voted to initiate consultation with their local co-operative banks during H1 2018, with the aim of CMA leaving the CM group and setting up a new, independent co-operative and mutual banking group. CMA states that CNMA seeks to undermine CMA's autonomy and favours the main grouping within the CM group, the Crédit Mutuel-CM11 Group (CM-C11), mainly located in eastern France. The board of the third federation within CMA, Crédit Mutuel du Massif Central, opposes this process, wishing to leave CMA and join CM11-CIC.

This announcement followed the decision of the Court of Appeal of Paris on 16 January 2018 which confirms that unanimity amongst CM group entities is not required in order to transform the legal status of the CNCM which intends to convert from an association into a co-operative society, as a prelude to gaining the designation of 'credit institution'. Considering its previous court challenge, CMA clearly opposes such a move.

Some background – current CM group structure

There is no legal entity called Crédit Mutuel Group (or even Groupe Crédit Mutuel-CIC, as the group styles itself) – rather, this is a blanket name used to describe this complicated and decentralised collection of mutual and non-mutual banks. At the top of the hierarchy is CNCM, the central body of the entire group. The group includes 2,107 local co-operative banks, 18 regional federations and six federal banks, as well the 2,085-branch CIC network. CNCM represents CM vis-à-vis public authorities and is responsible for the proper operation and overall cohesion of the network.

The group is divided into three main segments:

- The so-called Crédit Mutuel-CM11 Group (CM-C11) is made up of a mutual banking division consisting of 11 regional banking federations, as well as Strasbourg-based BFCM and its non-mutual subsidiaries. The BFCM group is principally made up of the CIC network and subsidiaries operating in insurance, finance, electronic banking and IT. BFCM acts as the central funding arm for the whole of the CM-C11 Group.
- Crédit Mutuel de Bretagne (by far the principal partner), Crédit Mutuel du Sud-Ouest and Crédit Mutuel Massif Central created CMA in 2002, built on the same principles as the CM11-CIC Group, but on an inherently smaller geographic scale.
- Four smaller, unaffiliated regional federations.

CM-CM11 Group had EUR 624bn in total assets as of H1 2017, compared to CMA's EUR 125bn. The CM group as a whole does not report half-yearly figures. At YE 2016, the CM group had total assets of EUR 794bn, of which CMA represented 15%.

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