



## The Credit Mediation Scheme: 10 years of service to businesses and the economy

The Credit Mediation Scheme for Businesses was set up in October 2008 at the height of the financial crisis. It was introduced in response to shocks in bank credit supply, as the concentration of requests over time (2008-09) and by sector shows. Since its creation, 23,500 mediation cases have been resolved. Successful mediation halves the business failure rate at one year: part of this decline can be attributed in the short term to the Credit Mediation Scheme, which also has a long-term positive effect on credit allocation. Today, the scheme continues to provide support to businesses and is even rolling out its activities to new sectors.

Louis-Marie Harpedanne de Belleville  
Companies Directorate

JEL codes  
G32,  
G33, G38

64%

the success rate for eligible requests for mediation since 2008

23,500

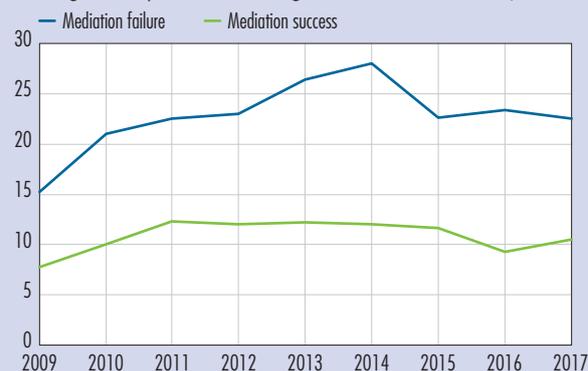
the number of mediation cases successfully resolved since 2008

-10.3 percentage points

the reduction in the business failure rate during the year following the request when mediation is successful (9.6% compared with 19.9% if mediation fails)

### Business failures during the year following a request

(% of eligible requests, according to mediation outcome)



Sources: Credit Mediation Scheme and FIBEN company database.



“The Credit Mediation Scheme for Businesses is ten years old: ten years of serving the economy, jobs and the regions. Thanks to the sustained efforts of Banque de France departmental directors and the directors of overseas territory agencies (IEDOM and IEOM), in their capacity as regional credit mediators, the Credit Mediation Scheme has helped to support France’s economic activity. At a time when our SMEs and VSEs now have easier access to credit, mediation continues to be a useful tool, both in providing discipline to banks in their relations with businesses and in offering a recourse for businesses that may be experiencing financing difficulties. More than ever, even with easier access to credit, no business should be allowed to fall by the wayside. This conviction is also what drives the complementary initiatives undertaken by the Banque de France through its VSE correspondents and its activities to heighten awareness of financial management among businesses.”

Frédéric Visnovsky, National Credit Mediator

<https://mediateur-credit.banque-france.fr/>

## 1 A crisis management mechanism that has now stabilised

### A high concentration of requests during the crisis years

A National Credit Mediator was appointed on 23 October 2008, only five weeks after Lehman Brothers filed for bankruptcy. This role is performed by a prominent figure (René Ricol) with the support of the departmental teams of the Banque de France, the *Institut d’émission des départements d’outre-mer* (IEDOM – the French overseas departments’ note-issuing bank) and the *Institut d’émission d’outre-mer* (IEOM – the French overseas note-issuing bank) – whose directors act in their capacity as regional credit mediators – on the one hand, and a network of trusted third parties,<sup>1</sup> on the other. The scheme, which was rapidly introduced in cooperation with financial centre players, primarily banks, was further consolidated in July 2009 with the signature of a national credit mediation agreement that set out the working methods and the responsibilities and commitments of each party.

The mission to assist businesses with their financing difficulties, which continues to this day, was coupled at

the launch of the scheme with a role in monitoring banks’ compliance with their commitment to facilitate access to credit in return for the public support measures adopted at the height of the financial crisis.

Has the Credit Mediation Scheme overstepped its powers by forcing banks to lend to non-viable businesses? If this were the case, we would have seen a high apparent success rate for the proposed plans, and an equally high business failure rate for supposedly successful mediations. In reality, even though the Credit Mediation Scheme no longer performs this monitoring function, the success rate observed at its launch was not far from its current level (see Chart 2 at the end of this section). The business failure rate for successful mediations at the time was slightly lower than the levels reached in recent years (see Chart 4 in Section 3).

At the scheme’s launch, the number of requests for mediation peaked (during the 2008-09 period),<sup>2</sup> with 16,000 accepted cases and 4,000 requests refused for ineligibility (see Chart 1). These figures declined significantly until 2012, with 2,700 accepted requests and less than 1,000 refused. After bouncing back slightly in 2013, requests dropped off sharply up to 2017, and

I would like to thank Raymond de Pastor and Jean-Michel Pourchon (Credit Mediation Scheme for Businesses) for their suggestions and recommendations, Jean-Pierre Villetelle, Christine Bonnery, Didier Cochonneau, Franck Lemaire, Valérie Vogel (Companies Observatory) and Jérôme Conte for their generous advice with regard to the data, and Aymeric Bellon (Wharton School) for his help in analysing the Credit Mediation Scheme’s channels of action.

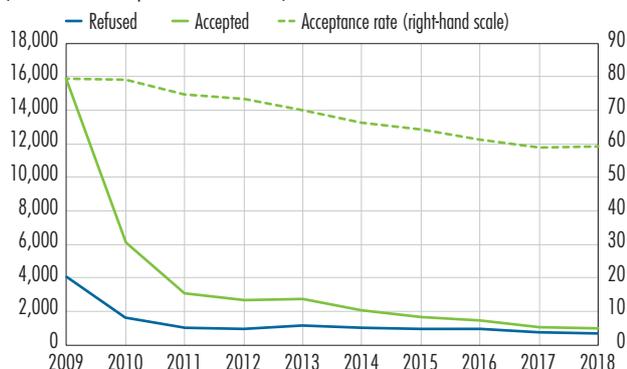
1 Named volunteer advisers appointed in each *département* within chambers of commerce and trade and socio-professional networks, in particular.

2 As the computerised system for monitoring mediation cases was implemented in April 2009, the date of the request is not always available for cases prior to this date. Requests made at the end of 2008 are therefore grouped with those of 2009.



### C1 Requests accepted and refused by the Credit Mediation Scheme

(number of requests; rate in %)



Source: Credit Mediation Scheme.

remained relatively unchanged in 2018 at around 1,700 cases, approximately 1,000 of which were deemed eligible.<sup>3</sup>

This high concentration of requests during the early years of the scheme demonstrates that the financial crisis, precipitated by the Lehman Brothers bankruptcy, was indeed the main factor in businesses turning to credit mediation due to its impact on their access to bank financing and particularly on local loans granted by banks located in France (Harpedanne de Belleville, 2016). By contrast, the euro area crisis and more standard cyclical fluctuations have not had a proven impact on the number of requests.

#### A request eligibility rate in decline over the past ten years

Requests are carefully examined for eligibility. Once a business has filed its request on the Credit Mediation Scheme website,<sup>4</sup> it is contacted by dedicated teams that consider its eligibility in light of the criteria set out in Box 1. As a general rule, a decision is made on the eligibility of a request at the beginning of the procedure. However, new information or a more detailed examination may subsequently lead to a case that was initially deemed eligible being reclassified as ineligible.

Once informed that a request is eligible, financial institutions are given five days to review their position.

Failing this, the case is processed by credit mediation teams, which propose a mediation plan. If the business and its creditors accept this plan (sometimes after discussion and amendments), the mediation is considered to be successful; otherwise, it is deemed to have failed and the business may file an appeal.

Over recent years, the proportion of requests deemed ineligible, and therefore refused, at the first phase has increased (see Chart 1). However, during the same period, the proportion of cases initially accepted then later declared ineligible declined somewhat to only 16% in 2017. In other words, ineligible requests are now identified earlier in the process.

#### BOX 1

##### Eligibility criteria

Credit mediation is open to businesses from the real sector<sup>1</sup> that face the termination of overdraft facilities or factoring or discount lines, a Dailly assignment of credit, a refusal or absence of response to a credit request, a rejection of security, guarantee or debt rescheduling, or a reduction in guarantees by a credit insurer.<sup>2</sup>

While credit mediation is available to businesses undergoing arbitration or judicial proceedings, the suspension of payments is nevertheless an obstacle. Equally, a business that has consistently reported a gross operating loss will generally be declared ineligible. Requests for mediation may also be rejected due to negative equity capital if there is no prospect of recapitalisation in the short term. Businesses are therefore encouraged to request credit mediation before their financial situation degrades to this point.

<sup>1</sup> Therefore excluding financial institutions; *sociétés civiles immobilières* (SCI – French non-trading real estate companies) are eligible for the Credit Mediation Scheme if they have sufficient ties to an operating company.

<sup>2</sup> See the French Credit Mediation Scheme for Businesses website: <https://mediateur-credit.banque-france.fr/>

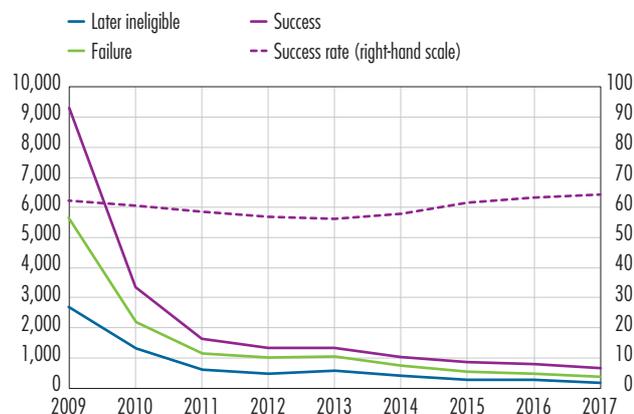
<sup>3</sup> As information can sometimes be incomplete, not all requests for mediation are taken into account in this bulletin.

<sup>4</sup> <https://mediateur-credit.banque-france.fr/> (under the heading, *Saisir la médiation*).



### C2 Outcome of accepted requests

(number of requests; rate in%)

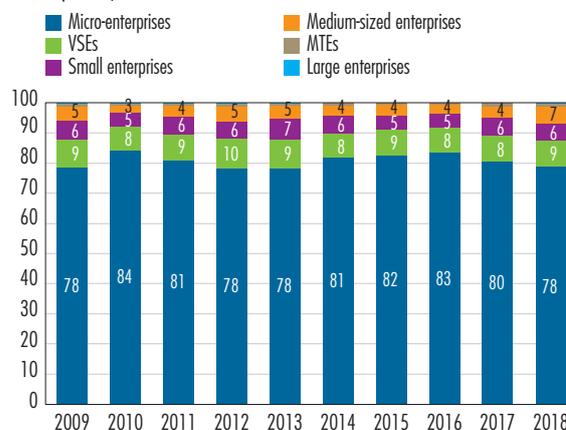


Source: Credit Mediation Scheme.

Note: Data for 2018 are not included as the outcome of mediations was not always known at the time the data was received.

### C3 Size of businesses requesting mediation

(% of requests)



Sources: Credit Mediation Scheme, FIBEN company database and Companies Observatory (for size calculations).

Note: VSEs, very small enterprises; MTEs, mid-tier enterprises (see business category definitions in the appendix).

## A high success rate for eligible requests

Once accepted by the Credit Mediation Scheme (and with the exception of the limited number of requests subsequently reclassified as ineligible, discussed above), the cases are examined by credit mediation teams, which propose a mediation plan to the business' creditors.

Mediation in the majority of these cases is successful. The success rate, which declined until 2013 to a low of 56%, has since improved to reach a high of over 64% in 2017 (see Chart 2). Since 2008, 23,500 businesses have benefited from successful mediation. Conversely, mediation failed in 36% of definitively eligible cases in 2017, as the bank(s) or the business refused the agreement proposed.

## 2 Mediation is mostly requested by small enterprises

### A preponderance of micro-enterprises

The vast majority of businesses requesting credit mediation are micro-enterprises (80%) and VSEs (around 10%), reflecting their share in the French economy. However, SMEs, which account for approximately 10% of requests, made up a greater proportion in 2008-09, with 11%,

and particularly at the end of the review period, with 13% in 2018 (see Chart 3). The share of MTEs (at most 1%) and large enterprises (11 cases in 2008-09, and virtually none since then) continues to be negligible.

### Sector-specific features resulting from the financial crisis

Requests for mediation have come from four main sectors of activity, namely, in descending order, wholesale and retail trade, construction, industry and accommodation and food services (see Table 1). In ten years, the proportion of requests made by some of these categories has declined: the share of cases from the industrial sector in particular has decreased from 15.4% to 12.6%. At the time of the financial crisis, this sector was particularly heavily financed by banks which drastically cut access to credit (Harpedanne de Belleville, 2016). It was therefore especially affected by the shock in credit supply. Conversely, sectors that accounted for a relatively small share of requests in 2008-09 but a far greater share more recently include agriculture (a twofold increase over ten years from 2.6% to 5.2%) and real estate (up from 4.4% to 5.2%), which sourced their financing from other, less affected, banks (Harpedanne de Belleville, 2016). The breakdown of requests for mediation in 2008-09 by sector thus appears to reflect the shocks in bank credit supply at the time.



### T1 Sector of activity of businesses requesting mediation

(% of requests)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	10-year change
Agriculture	2.6	7.0	3.0	2.4	2.9	2.9	5.1	5.7	6.7	5.2	2.6
Industry	15.4	12.2	13.4	12.6	13.4	11.6	11.4	10.4	11.0	12.6	-2.7
Construction	17.7	18.6	18.4	19.1	19.1	17.9	18.1	15.8	15.5	16.5	-1.3
Wholesale and retail trade	26.6	25.1	26.9	27.9	27.6	28.4	27.3	26.4	25.1	26.1	-0.5
Transport	3.8	3.7	4.1	3.4	4.3	3.9	3.7	6.4	5.3	4.0	0.1
Accommodation and food services	9.7	10.9	10.2	10.0	10.4	10.5	10.8	11.8	10.9	10.1	0.4
Information and communication	3.1	2.5	3.0	2.7	2.5	2.4	2.7	2.3	2.3	2.1	-1.1
Real estate	4.4	3.6	3.1	3.8	4.0	5.3	4.8	5.7	5.9	5.2	0.9
Specialist and service activities	10.1	9.2	10.1	10.2	8.7	9.5	9.0	8.3	8.9	9.8	-0.3
Education – other services	6.6	7.3	7.9	8.0	7.1	7.6	7.2	7.2	8.4	8.5	1.9

Sources: Credit Mediation Scheme, FIBEN company database and Companies Observatory (for activity sector identification).

### 3 A business failure rate at one year halved following successful mediation

The business failure rate after successful mediations has remained relatively unchanged at around 10%. However, the business failure rate in the event of a failed mediation increased significantly, from 15% in 2008-09 to almost 28% in 2014, before stabilising at 23% in recent years (see Chart 4). This may reflect businesses waiting longer to request mediation, which undermines the chances of success. This upward trend particularly indicates that the increase in ineligibility described above is not the result of more exacting requirements on the part of the Credit Mediation Scheme; on the contrary, a more stringent selection would have resulted in better quality ineligible cases, with lower business failure rates.

On average, since the scheme was launched, the business failure rate in the year following a request for mediation has been two times lower when the mediation was successful than when it failed (9.6% compared with 19.9%). This high ratio shows that in many scenarios, it is more profitable for a bank to accept a proposal for mediation in order to recover the money it is owed over time, rather than placing a business in difficulty by recovering a part of its debt more quickly.

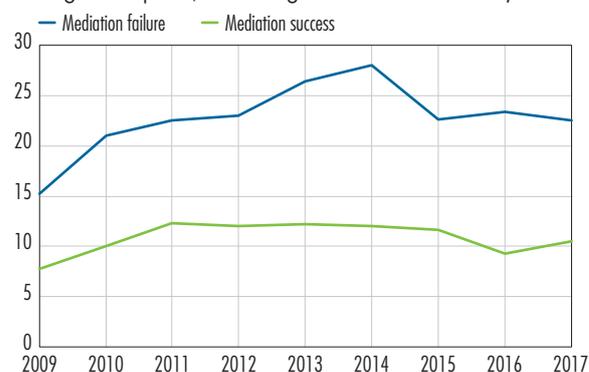
However, this reasoning may be complicated by multiple creditors. A creditor exposed to a short-term risk may be tempted to recoup its debt rapidly, even if this endangers the business and therefore the other creditors.

This is why the coordination of creditors is one of the essential functions of mediation (see Box 2 below).

In theory, the significant difference between the business failure rates following successful or failed mediations does not necessarily prove that mediation is the causal effect. It could reflect a heterogeneity in the situations of the businesses involved in mediation. However, businesses with very sound financial characteristics are hardly likely to request the procedure, while those with very poor indicators are declared ineligible. Under these conditions, the eligible businesses (covered in Chart 4) are probably somewhat homogeneous and the difference mentioned above then reflects a causal effect of the Credit Mediation Scheme.

### C4 Business failures during the year following a request

(% of eligible requests, according to mediation outcome)



Sources: Credit Mediation Scheme and FIBEN company database.



In addition, mediation relies on the Banque de France's network, which has long-standing experience in credit risk analysis (Avaro and Bignon, 2019), and on trusted third parties that know the businesses well. Their work may help to correct the rational inattention of banks, the cognitive biases that may affect entrepreneurs or the difficulties in coordinating creditors (see Box 2),<sup>5</sup> which explains an effect specific to mediation.

Lastly, in so far as they reflect a causal effect of credit mediation, these results raise the question of just how optimal such an initiative may be. All else being equal, saving a business and its associated jobs appears positive, particularly during a period of crisis when

available resources are under-utilised. However, maintaining credit to a business experiencing difficulties can be problematic in the long term if it discourages banks from lending to other more efficient businesses.

An extreme case is that of "zombie" firms that survive thanks to a steady stream of credit despite not being viable. However, McGowan et al. (2017) show that for a sample of nine OECD countries, France has by far the lowest proportion of zombie firms. Furthermore, the potential side effects of credit mediation seem very limited and, also over a long-term perspective, its actions are most likely empirically beneficial, in line with the theoretical gains presented in Box 2.

### BOX 2

#### How can the Credit Mediation Scheme improve financing for businesses?

In a "frictionless" world as defined by Modigliani and Miller (1958), a mechanism such as credit mediation would be superfluous. However, the credit market is subject to a range of imperfections; by correcting some of them, the activities of the Credit Mediation Scheme can be beneficial.

For example, banks are susceptible to "rational inattention", which among other things leads them to refuse loans to profitable businesses (Mariathan and Zhuk, 2018). The additional analysis provided free of charge by the Credit Mediation Scheme and trusted third parties helps to better channel credit and therefore benefits businesses that are fundamentally profitable.

The economic importance of financial literacy has been highlighted by Lusardi and Mitchell (2014). Entrepreneurs often suffer from gaps in their financial knowledge (Trombetta, 2018) and are frequently far too optimistic (Thaler and Sunstein, 2011; Blaseg and Schwienbacher, 2018). Credit mediation can help to address these weaknesses, help entrepreneurs to assess their situation more realistically if the prospects of recovery appear too uncertain,<sup>1</sup> and failing that, help them to better prepare and present their case when dealing with banks, thereby facilitating the granting or renewal of loans or guarantees.

Lastly, coordination between creditors may lead to specific difficulties in the event of a business' default or liquidity problems (Bolton and Scharfstein, 1996; Detragiache and Garella, 1996). Credit mediation takes place before a formal default, but the logic is similar. By facilitating the coordination of creditors, the Credit Mediation System helps in bringing a solution to light that might otherwise be impossible if each creditor seeks to optimise its own position. This is the reason why the Credit Mediation Scheme recommends, without any obligation, that all creditors are included in the process.

<sup>1</sup> See Articles 8 to 10 of the national credit mediation agreement (available at <https://mediateur-credit.banque-france.fr/>, under the heading, *Publications*).

<sup>5</sup> The causal analysis of the effects of credit mediation is currently the subject of an econometric study carried out as part of an international cooperation effort.



#### 4 A new decade of promoting dialogue between businesses and banks

Ten years after its launch at the height of the financial crisis, and at a time of deepening uncertainty, the Credit Mediation Scheme continues to work to promote dialogue between businesses and banks. Research is underway as part of an international cooperation effort to better assess the causal impact of mediation activities.

Placing France's Credit Mediation Scheme for Businesses under the aegis of the Banque de France in 2018 has already simplified the coordination of the activities of the departmental mediators – Banque

de France departmental directors – and offers numerous opportunities for synergy with other Banque de France services such as VSE correspondents or financial literacy training for entrepreneurs.

Finally, the Credit Mediation Scheme is extending its scope of action in order to reach as many businesses as possible and, as part of its expansion to the social and solidarity economy (SSE), it signed an agreement on 27 June 2019 with the French Chamber for the Social and Solidarity Economy and the National Council of Regional Chambers for the Social and Solidarity Economy to open the service up to SSE businesses.



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## Appendix

### Business sizes

#### Business sizes according to the “LME classification”

Decree 2008-1354 of 18 December 2008 sets out the criteria for determining the category to which a business belongs for statistical and economic analysis purposes. It specifies the criteria to be applied to divide businesses into the four categories defined in Article 51 of French Law 2008-776 of 4 August 2008, known as the law on the modernisation of the economy (LME): micro-enterprises, small and medium-sized enterprises, mid-tier enterprises and large enterprises.

- Microenterprises have less than 10 employees and annual turnover or a total balance sheet of under EUR 2 million.
- Small and medium-sized enterprises (SMEs) have less than 250 employees and annual turnover of under EUR 50 million or a total balance sheet of under EUR 43 million.
- Mid-tier enterprises (MTEs) are those that do not fall within the category of SMEs and that have less than 5,000 employees and annual turnover of under EUR 1,500 million or a total balance sheet of under EUR 2 billion.
- Firms that do not fall within the above categories are classified as large enterprises (LEs).

The number of employees is calculated pro rata on the basis of hours and the proportion of the year worked by a person in the enterprise. Turnover is calculated excluding VAT.

#### A specific classification for the analysis of business failures

Here, a more precise breakdown of SMEs – used by the Banque de France in its monthly *Stat Info* publication, *Défaillances d’entreprises* (business failures) – into VSEs, small enterprises and medium-sized enterprises is applied.

VSEs are legal entities that are not micro-enterprises and that have less than 20 employees and annual turnover or a total balance sheet of under EUR 10 million. Enterprises that have less than 50 employees and annual turnover or a total balance sheet of under EUR 10 million are classified as small enterprises and larger SMEs fall within the category of medium-sized enterprises.

Moreover, the concept of a failure concerns a legal unit rather than an enterprise. Therefore, the criteria set out above are applied to the legal unit and not to the enterprise, defined in Council Regulation (EEC) No. 696/93 of 15 March 1993 on the statistical units for the observation and analysis of the production system as “the smallest combination of legal units that is an organizational unit producing goods or services, which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources”.



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