



## **QUE FONT LES BANQUES DE NOTRE L'ARGENT ? WHAT DO THE BANKS DO WITH THE MONEY IN OUR CURRENT ACCOUNT?**

### **Introduction**

**LUCILE:** Welcome to *L'Eco en court*. Today, we are going to answer a question put to us by Eugénie, from Toulouse.

**EUGENIE:** Hello, I would like to know what banks do with the money in our bank accounts.

**LUCILE:** My name is Lucile, I work at the Banque de France and my guests for this episode are Deva and Alexis.

**DEVA:** My name is Deva, I'm 40 years old and I've been working for about twenty years. Economics is not really my strong point.

**ALEXIS:** My name is Alexis, I'm 25 years old. I studied economics but I've never worked in the field. But it's okay, I feel relatively comfortable with it. But I think there are still some gaps in my knowledge.

**LUCILE:** We're going to tell you everything about the business model of banks. We have 10 minutes. So let's get started!

When we talk about bank accounts, we usually mean our current accounts. As their name suggests, these accounts are used for day-to-day transactions.

**DEVA:** When I think of banks, I think about accounts, I mean opening and using bank accounts. You know, bank transfers, direct debits, bank cards. Everyday stuff.

**LUCILE:** Our current accounts are credited mainly with our salaries and we use them to pay our rent, different subscriptions, shopping, cinema tickets, etc. The main role of banks is to provide us with access to our money at all times, so that we can easily use it to pay our expenses. Let's call this their number one service.

But not all our expenses have to be paid at the same time. They are spread out over time. Similarly, our current accounts are not credited all at once: we may receive our salary once a month, cash cheques or receive transfers from one day to the next. Basically, while for you and me, as individuals, our account balance can vary from day to day, for banks, taking all their customers together, it is much more stable. And when all of their customers' current accounts are taken into account, there is always some money available.

But what do banks actually do with this money? Now, let's get down to the business model of banks.

Banks use these deposits to grant loans to individuals or companies who have a project but are as yet unable to finance it.

**ALEXIS:** For me, the role of a bank is to enable people to get a loan and to gain access to funds they don't have at the time. That means that if they need to make a major purchase, they can get the funds right now.

**LUCILE:** Lending money to individuals or companies who need it immediately but will not be able to repay it until later is the number two service provided by banks. This is a crucial activity. These loans enable companies to do business or invest. We say that banks finance the economy.

**ALEXIS:** Yes, I know that expression, “loans make deposits”. I've heard it before in economics class. It is one of those expressions that I have never fully understood. But I've definitely heard it before.

**LUCILE:** When it grants a loan, a bank credits the current account of the person or company that has taken out the loan. The bank considers that borrowers will then repay their loans. These borrowers use the money that has just been credited to their current accounts to pay their expenses. This money then becomes someone else's deposits, who will in turn use it to pay for their own expenses. That's why the number one service of paying with your deposits and the number 2 service of providing credit work together. This is also where the adage ‘loans make deposits’ comes from.

This mechanism requires caution. While a loan can be for several years and the borrower may not be able to repay it, as a depositor we can still use the money in our current accounts at any time.

Banks have risk and cash management departments to ensure that their assets and liabilities are always in balance. Banks' assets consist of the loans they grant. Their liabilities consist of our deposits and their capital, which is sort of like their own

money and enables them to absorb risks, in particular the risk that a loan will not be repaid.

Banks have a transparency obligation regarding the loans they grant.

**ALEXIS:** I trust the bank with my money, insofar as I know it is real and that I can withdraw it at any time. But when it comes to some aspects of the services provided by banks, I sometimes feel that there is a lack of transparency. But it's also my fault, I don't bother to read all the small print. I know I have money on my account, but I don't know exactly what they do with it.

**LUCILE:** In the financial and non-financial information they have to publish each year, we can obtain more information on the type of loans they finance using our deposits.

But if banks use our deposits to grant loans, on which they earn interest, why don't we get interest on our current accounts?

**DEVA:** I didn't know that but the fact that our current accounts don't earn interest doesn't surprise me. But it would be nice if they did. After all, we also contribute to the economy, so why shouldn't they pay interest?

**LUCILE:** Firstly because, as we have seen, the balance of our current accounts can vary greatly from one day to the next. But more generally, for investing money, savings accounts are a better option. These are interest-bearing accounts that can't be used to make payments. Furthermore, part of the interest that borrowers pay on their loans reflects the risk that they may not be able to repay them, and compensates the bank incurring this risk.

In order to ensure that banks always honour their promise to preserve the value and availability of our deposits, their activities are strictly regulated. In France, it is the *Autorité de contrôle prudentiel et de résolution* (ACPR - Prudential Supervision and Resolution Authority), under the aegis of the Banque de France, that, together with the European Central Bank, is in charge of banking supervision. They both make sure that banks remain capable of providing their services, for example by ensuring that they are sufficiently careful when granting loans.

**DEVA:** A bank can't lend any amount of money to just anyone. When I wanted to take out a mortgage, they asked me for all sorts of supporting documents. I assume the bank requires these documents to protect the customer, to prevent them from becoming overindebted, and also for their own accounting purposes, so that they don't end up in the red.

**LUCILE:** In order to mitigate risks, the ACPR and the European Central Bank also check that banks have enough capital to absorb losses. Plus, our deposits are covered by a state guarantee of up to EUR 100,000 per depositor per bank.

In conclusion, banks allow us to use our money easily, but also to borrow when we need to. Since trust does not mean that there are no checks, there are rules to make sure when granting loans to some people, it doesn't affect the value and availability of other people's deposits. Today, 65% of French people have a positive image of banks. And this figure goes up to 89% when it comes to their own banks.

**ALEXIS:** I trust the banking system in general because, with all the rules in place at the European level to prevent contagion and systemic risk, I would tend to trust the financial system as a whole.

**DEVA:** Well, I trust my bank, or rather, my banker. Also, I keep an eye on my accounts, but I also regularly speak to my bank advisor. So I also place my trust in them.

**LUCILE:** This episode was produced with the assistance of the Research and Risk Analysis Directorate of the ACPR. If you liked it, don't hesitate to leave comments and stars. You can also subscribe to Banque de France podcasts on your platforms. And like Eugénie, send me your economic questions on the Banque de France Instagram account or to [podcasts@banque-france.fr](mailto:podcasts@banque-france.fr).