

Model Contract between the French Public Bank of Investment and their Depositors¹

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ABSTRACT

Companies keep increasing prices sometimes without the approval of regulation authorities or informing customers; this phenomenon has increased depositor's complaints especially in the banking industry; Depositors need to carefully read contracts proposed by banks before signing them, to avoid paying extra fees while using these products or services. The object of this work is to propose good contracts which will benefit to both banks and their depositors. We will be using the compensatory method from the multi-attribute method to decide which method among the Do nothing, go with the same contract, go with the cost plus incentive contract and go with the firm fixed price incentive best suit to depositors because they the more impacted. Based on the results we will have after the analysis, the go with the firm fixed price incentive contract seems to be the best solution for depositors after comparing it to the go with cost plus incentive contract.

Key words: contracts, depositors, policy, regulation, clause, types of contracts, negotiation, dispute resolution

INTRODUCTION

Due to the technological evolution in the whole world, companies always need to introduce new products and services in the market to satisfy customers. No matter the industry where you are competing, companies need to improve in order not to lose market shares. In the banking industry which is moving even faster and where there are new competitors from different industries (like Orange Telecommunication Company which will be providing banking services soon), banks that will differentiate from its competitors will have to propose a best service or product at a good price.

Price is such an important variable that customers always have to keep a close look on it because banks keep charging customers if failing to meet a specific clause of their contract.

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According to the last report of the French Union of Consumers, banks fees are in net progression in 2017, only based on the reason of having an account at a bank.

But other reasons such as withdrawing the money in the cash machine of another bank (average of 4,5%), cards of international payment with immediate debit (average of 3%) can also be mentioned, as they are even higher than the inflation.

As many banks adjust their fees in January, others even do that during the year like Societe Generale and some popular banks.

As customers are not looking carefully their contracts before signing them, the phenomenon is significantly increasing every year.

We therefore decide to have a look on this in order to determine if banks and their depositors can both benefit of signing a contract, respecting rules set up by the authority of the banking markets.

The aim of this study will be:

- To determine whether contracts given by banks to customers are well written and suit to customers.
- What are the benefits for depositors?
- What are the limits of contracts proposed by banks to depositors?
- What can be our suggestions to both parties?

The author of this paper will be focusing on one specific bank called the French Public Bank of Investment (PBI) by analyzing some specifics clauses of one of their contract with a specific client.

The author will be defining some concepts like banks, depositor, contract, in order to make a clear analysis of the specified contract.

To conclude this analysis, the author will give his opinion regarding the contract analyzed and say if he can recommend other customers to sign a contract with this bank.

METHODOLOGY

As this is a confidential contract of one bank and their client, we will analyze some specifics clauses of the contract such as interest on arrears, early termination of contract in case of a force majeure, methods of invoicing and payment, suspension of services, normal termination of contractual relation. These are the four feasible alternatives.

I. FEASIBLE ALTERNATIVES:

1. Do nothing:

In this situation, we will be deciding not to bring any adjustment to what has been agreed and signed by both parties; we will not be following the terms of this contract but instead the one that we think is good for us.

2. Go with the same contract:

After analyzing this contract, we will be deciding to follow this contract as we think, it is well written, it covers all aspects; If each party respects his own part of the contract, then everyone will be satisfied, and we will be recommending this contract to any other bank providing the same service to its customers.

3. Go with the Cost Plus Incentive Contract:

As the French, Public Bank of investment is a non-commercial bank, not providing commercial services to its customers, but instead lending them money to help them realize their projects, and at the end, customers will be paying just interest on their money, they got from the bank. We will be suggesting this type of contract to customers as it will be a benefit to both parties. For a company which has a project to realize, if the project is done on time, respects the quality criteria set at the beginning, and not exceeding the cost, this company will be motivated to do the project well in order to get an incentive from the bank.

With the formula to calculate the incentive set at the beginning, the customer will have the opportunity to see if he is on the right track to deliver what has been agreed.

4. Go with the Firm Fixed Price Incentive:

The French public Bank of investment has one goal which is to promote innovations; As companies have new ideas, but sometimes lack money to bring these ideas into operational use, we will recommend this type of contract as well; The particularity of this contract is that both parties agree on some financial incentives, and define some performance criteria such as schedule, technical performance at the outset.

This contract represents a financial motivation to complete the work at the most economical cost;

Once the project will be completed, both parties will meet to determine the price to be paid by the bank to the customer, we will be going for this contract and fully recommend the French Public bank of investment to use it with their customers.

II. ATTRIBUTES:

In this section, we will take a look at five different attributes. The interest on arrears will correspond to any delay in the settlement of the invoices of the Bank by the client beyond the time limits which will lead to payment of interests. The suspension of services which corresponds to any delay in the payment of the invoices of Bank by the Client, except for any duly justified opposition by the Client and independently from the interest on arrears.

The termination of contract in case of force majeure will refer to events such as War, riots, grassroots movements, floods, natural disasters, strikes...which might occur during the project; Those events have to be notified by any means by the affected party within a limit of time fixed in the contract.

The normal termination of contractual relation which has to be made by written notification to one party to another.

The methods of invoicing refers to the bill the bank sends to the depositor every month, in conformity with the procedure; This shall be sent in good time and should be in VAT exclusive.

<u>Selection attributes</u>	<u>Do nothing</u>	<u>Go with the Same Contract</u>	<u>Go with the Cost Plus Incentive Contract</u>	<u>Go with the Firm Fixed Price Contract</u>
<u>Interest on arrears</u>	<u>None</u>	Fair	Need to be adjusted according to external factors	Good
<u>Suspension of services</u>	<u>None</u>	Good	Fair	Good
<u>Termination of Contract in case of force Majeure</u>	<u>None</u>	Excellent	Excellent	Because they are events beyond our control, they are highly recommended for any kind of operation
<u>Methods of Invoicing and Payment</u>	<u>None</u>	Fair	Fair	Fair
<u>Normal Termination of Contractual Relation</u>	<u>None</u>	Fair	Once the work is completed, both parties can end their relation	Fair

Regarding the above information, we will be putting the “do nothing option” aside from the possible options, because we will not be taking into account option with no green cases since they will not correspond to the value of this paper.

To have a good analysis, we will be comparing the feasible alternatives against the attributes; we will be using in this section of the compensatory method from the Multiple Attribute

Decision-making. With all those alternatives, we will define a criterion, so in this section we will be looking on options with a minimum of one green box in the matrix analysis table.

FINDINGS

Here, we will be comparing all the alternatives. This comparison will lead us to suggest the best option possible and present quantitative factors that will help in taking the good decision.

Selection attributes	Do nothing	Go with the Same Contract	Go with the Cost Plus Incentive Contract	Go with the Firm Fixed Price Contract
Interest on arrears	0.00	0,33	0,33	1
Suspension of services	0.00	1	0,33	1
Termination of Contract in case of force Majeure	0.00	1	1	1
Methods of Invoicing and Payment	0.00	0,33	0,33	0,33
Normal Termination of Contractual Relation	0.00	0,33	0,33	0,33
TOTAL	0.00	2,99	2,32	3,66

MULTI ATTRIBUTE DECISION MAKING (COMPENSATORY METHOD)						
Attributes	Step One	Step two	Do nothing	Go with the same Contract	Go with the cost plus incentive contract	Go with the Firm Fixed Price Contract
	Relative rank	Normalized weight				
Interest on arrears	2	0,13	0	0,04	0,04	0,13
Suspension of services	5	0,33	0	0,33	0,11	0,33
Termination of Contract in case of force Majeure	4	0,27	0	0,27	0,27	0,27
Methods of Invoicing and Payment	3	0,20	0	0,07	0,07	0,07
Normal Termination of Contractual Relation	1	0,07	0	0,02	0,02	0,02
Sum	15	1,00	0	0,73	0,51	0,82

Regarding the above table, we will suggest some recommendations. Three kinds of contracts are recommended for this depositor: The cost plus incentive contract, the firm fixed price contract and the contract established by the French public bank of investment.

Using the tables, this paper suggests some recommendations. First of all, the go with the firm fixed price contract seems to be the best choice after a comparison with the go with the cost plus incentive contract. It is 159 % better ($3.66/2.32 * 100 = 122\%$). The other important conclusion which can be made regarding the table is that the go with the same contract is 129 % better than the go with cost plus incentive contract ($2.99/2.32 * 100 = 129\%$)

Based on these two preferred solutions, some main differences appear. First of all, a real dispute between the contractor (the depositor) and the owner (the bank) which may create tensions. Something to have in mind is that this depositor wants to invest the money they got from the French investment bank in building a site which will transform the waste of goose to produce new energy, so external factors need to be taken into consideration by both parties.

CONCLUSIONS

This work had the objective to answer the questions mentioned at the beginning like:

- To determine whether contracts given by banks to customers, are well written and suit to customers.
- What are the benefits for the depositors?
- What are the limits of contracts proposed by banks to depositors-What can be our suggestions to both parties?

After a deep analysis, we came with the results that the “go with the cost plus incentive contract” and the “go with the firm fixed price contract” are the solutions to retain for this depositor with the French Public Bank of investment. But the firm fixed price contract is the best as it really takes into consideration all factors especially in case of force majeure (the epidemic of goose) which has affected this project.

Both parties need to sit around a table to redefine the terms of this contract, to avoid this depositor to pay back more money to the bank.

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Charles Moudourou Zeth is a MSc student in Skema Business School Paris campus, majoring in Project Program Management and Business Development. He graduated from the University of Douala in Cameroon, where he holds a Professional Bachelor's degree in Technical Commercial Management in 2007, a Professional Master Degree Level 1 in Marketing 2008, and Professional Master Degree Level 2 in Marketing, in 2009.

From 2007 to May 2011, he worked for the second telecommunication group in Africa, named MTN (Mobile Telecommunication Networks), in his operation of Cameroon respectively as Contact Center Agent where he has handling customers queries, advising customers on new services and promotions; Account management agent where he was managing phone bills for biggest companies, and marketing officer in the Consumer Segment Unit; He was actively engaged in one successful project called "The MTN Mobile Money", a service which consists for customers to pay their university fees, their electricity bills, send and receive money in Cameroon, buy train tickets, buy fuel at Total and Oilibya Stations... through their mobile phone. He also supervised all the promotional offers for prepaid customers like MTN Zik, and was fully engaged in elaborating the business plan of the Consumer Segment Unit in 2010.

In June 2011, he went to London in order to continue his studies at the former Cavendish College of London, where he got a postgraduate Diploma in Business, Management and leadership-Edexcel BTEC Level 7, in 2012. After ending his studies in London, he worked as Welcome Desk Agent at 45 Park Lane Hotel, the Dorchester Group in London. His work was to welcome and advise customers on promotions of the hotel, handle customers queries at his level or escalate them to the right person.

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