

## **François Villeroy de Galhau: Supervision of business practices**

Opening speech by Mr François Villeroy de Galhau, Governor of the Bank of France and Chairman of the Autorité de contrôle prudentiel et de résolution (ACPR), at the ACPR conference “Supervision of business practices”, Paris, 20 November 2015.

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Ladies and gentlemen,

I am delighted to welcome you today to this new conference organised by the Autorité de contrôle prudentiel et de résolution and would like to thank you all for coming. This is an opportunity for me to tell you for the first time how important I find this type of event, where the Authority that I chair explains its actions and the principles that guide it. It is also an opportunity for us all to listen to the parties concerned, on a topic that brings us together today – that of the supervision of business practices – on which I would like to put forward three ideas:

- (I) First, our supervision of business practices is important for the current mobilisation of the nation.**
- (II) Second, our supervision of business practices is important for financial stability.**
- (III) Lastly, our supervision of business practices must increasingly take account of developments in technology and changes in Europe.**

**Our supervision of business practices is important for the current mobilisation of the nation.**

Many lessons can be learned from the dramatic events of Friday 13 November in Paris and its suburbs, which requires of us a total mobilisation. Faced with these barbaric acts, I wish to recall the determination of the Banque de France – and of the financial sector – to participate in the fight against terrorism, by attacking its financing.

Many of you will attend this afternoon the presentations, introduced by Mr Delas, Vice-Chairman of the ACPR, on anti-money laundering and counter-terrorist financing in the insurance sector. As you know, the ACPR College, together with Tracfin, adopted just last week new guidelines in this area, applicable to both banks and insurance firms. I am in no doubt that the financial sector will be fully involved in their implementation; we will ensure this together with the professionals.

I would also like to recall today our determination to fully participate in the mobilisation of the nation, by contributing more broadly to economic and social cohesion, through greater banking and financial inclusion. The protection of consumers – and in particular the most vulnerable ones – is one of the components of this. Financial education and the fight against overindebtedness are also priorities to which the Banque de France actively contributes. Terrorism, alas, also feeds off exclusion in its different forms.

**II/ Second, our supervision of business practices is also important for financial stability.**

Since its creation in 2010, the ACPR has been responsible for safeguarding financial stability and ensuring consumer protection. This is a major innovation, a robust step, in the wake of the 2008 crisis and the loss of confidence of customers in their financial sector in many advanced economies, sometimes due to deceptive business practices. Restoring confidence is of course in the interest of all those present in this room. This means, for us, ensuring compliance with existing laws and regulations, as well as with the best practices observed or recommended by the ACPR.

Naturally, this consumer protection task is not designed to enforce these different rules in a blanket fashion. Rather, it must be done in accordance with the principles underlying these regulations and fully understanding the reality of these business practices.

To sum it up in one sentence, **these principles** aim to balance relations between clients and professionals. This rebalancing is mainly achieved by taking account of the information asymmetry that can exist between these players. This may include rules that are specific to vulnerable clients, to a category of complex products, to the obligation to consider the interest of customers when the product is designed or in the organisation of product distribution.

The **reality of business practices**, however, is difficult to sum up in a few words. This is where the work of ACPR staff comes into play; in the supervision as well as analysis of different data and through contact with both professionals and consumers. Collecting data on business practices is a prerequisite for the ACPR to guide its supervisory duties. Against this backdrop, the ACPR redesigned its questionnaire on business practices and consumer protection. It can now understand current market practices, as well as trends in products, services and practices.

I will now talk about **ACPR inspections**. They are firstly intended to ensure compliance with the applicable rules and to make sure that errors are corrected before they have consequences for customers. In the worst cases, such errors lead to sanctions. This approach is necessary to punish violations and useful to increase awareness in the profession.

ACPR inspections are not however limited to dealing with bad practices on a case-by-case basis. They also identify more general problems that call for changes in market practices or even in regulations. Several examples will be discussed this morning to illustrate the lessons learned from such inspections. For instance, ACPR staff examined distribution channels in which there are a number of intermediaries between the customer and the producer (bank or more often insurer). The questions that we are asking today are simple. But they are important for the sector as a whole. Do all intermediaries provide value added to the customer? How can we guarantee the customer a reliable and efficient chain, irrespective of its organisation?

To enhance practices, the ACPR also has a flexible legal tool, the **recommendation**. I believe that this instrument is useful for prevention. Recommendations are intended to change or guide the behaviour of professionals. It helps them to identify and actually integrate what is expected of them in terms of consumer protection.

Generally, the area of business practices is one in which it is quite conceivable that some best practices can be defined by the players themselves. To do this, dialogue is required as well as commitments that are binding enough to be enforced. The AERAS Agreement which aims to facilitate access to credit for people with serious health problems, is a good example and I would like to thank Mr Emmanuel Constans, Chairman of the AERAS Mediation Committee and member of the ACPR College for having agreed to present today the changes in this Agreement.

### **III/ Lastly, our supervision of business practices must increasingly take account of developments in technology and in changes in Europe.**

I believe that it is important, not only for the ACPR but also for the market, to anticipate these changes wherever possible.

European legislation that is recent or in the process of being adopted calls for the standardisation of customer information. This is the case for the Packaged Retail and Insurance-Based Investment Products (PRIIPs), the Directive on Credit Agreements Relating to Residential immovable Property (CARRP), and the Insurance Distribution Directive (IDD). Also, under the aegis of the AMF, with which we share a joint unit that is efficient at

supervising business practices, there is the Markets in Financial Instruments Directive (MiFID).

European legislation recasts the obligations of product distributors to include in particular the concept of independent advice in the sectoral directives. It also makes changes to the obligations of product manufacturers by imposing a product design process that takes account of the interests and characteristics of the targeted customers. Lastly, extensive work on the delicate subject of the compensation of sales staff and other employees should be completed in the coming months.

As regards the latest and not least substantial European developments in the area of business practices, the aim of the drive to standardise rules in the framework of a cross-sectoral approach is simplification. This drive should be extended. An obvious case is the Key Information Document of the PRIIPS Regulation. It will allow customers to easily compare two investment products, irrespective of whether they are classified as bank products, insurance products or financial instruments. But I could also cite examples of work in the area of “product governance”, conflicts of interest or compensation, which bring regulations from the three sectors closer into line.

I will finish by discussing changes stemming from *new technologies*. We are all aware that they change business practices by affecting consumption patterns and customer relations. The contractual nature of the banking and insurance industries means that relationships are rich and often long-standing. Such relationships are based on the consent of both parties to the contract and execution on the basis of trust. Today, over and above agreement on the price and on the object, which forms the basis for a sales contract, the possible use and security of customer *data* is increasingly relevant.

The development of new technologies and the appearance of new tools, aimed at making the “customer experience” more fluid or attractive, must also take into account the cardinal principle of consumer protection. This is also a necessary condition for new sustainable and robust economic models to emerge.

These areas are currently the main focus of the national and European authorities and the ACPR stands ready to play a full role, drawing on its experience and the dialogue it engages in with the stakeholders.

Let me now hand the floor to Patrick Montagner and to the ACPR staff to elaborate on a number of these aspects and I wish you an excellent conference. Thank you for your attention.