

François Villeroy de Galhau: Presentation of the 2016 Annual Report of the ACPR

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 press conference, Paris, 29 May 2017.

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I am pleased to welcome you today for the presentation of the 7th activity report of the Autorité de contrôle prudentiel et de résolution (ACPR), with Bernard Delas, Vice-President of the ACPR, Rémi Bouchez, President of the Sanctions Committee, and Edouard Fernandez-Bollo, Secretary General of the ACPR.

As you know, the ACPR and its 1,046 staff members have a broad field of action. The ACPR guarantees the stability of our financial system, through the supervision of banks and insurance companies, but it also guarantees the protection of French customers and savers. First of all, I would like to mention our essential involvement both at the European and the international level. I will then present the results of the main French banking and insurance groups, before addressing four major challenges that strongly shape the ACPR's action: low interest rates, digital finance, customer protection, the fight against money laundering and the financing of terrorism.

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I. The ACPR's action at the European and international level

At the European level, the ACPR has taken an active part in furthering the deployment of the Banking Union. The ACPR has greatly contributed to the smooth functioning of the joint supervisory teams, which supervise the major French banking groups, with 38 on-site missions. Under the second pillar, the single resolution mechanism, which entered into force on 1 January 2016, the ACPR has actively prepared the preventive plans for the resolution of the four French banking groups known as systemic banks and the transitional resolution plans for the other important groups.

Two and a half years of banking union, this is a significant step forward, but its construction is not yet completed: we have to complete the "resolution" pillar, with finalised and simpler rules between MREL and TLAC, with a more efficient functioning between Frankfurt, Brussels and the national authorities. The banking problems that remain in Italy, Portugal and even elsewhere can be solved: but they must be dealt with quickly, and definitively. It is not normal to have localised difficulties weigh to such an extent on the overall image of a European banking sector that is in fact much stronger than before.

Today the question arises as to the **architecture of European supervision and regulation**. Indeed, the Commission has opened the triennial review of the functioning of the three European authorities, in charge of convergence in the regulation of banks, insurance companies and markets respectively. In the short term, it is essential to relocate the European Banking Authority to take account of Brexit. The powers and governance of the three authorities could also be adjusted to further improve their efficiency, but I do not think it would be useful in the short term to radically change the existing architecture. Greater changes – which could also bring supervision and resolution closer together – could be considered once Brexit has occurred and the Banking Union and the Capital Markets Union are well established. With regard to Brexit, I would like to reiterate a requirement which, in our view, is obvious: clearing operations in euro, for all those of systemic importance, must be located where the supervision of the Eurosystem can be exercised effectively. And after Brexit, we do not see how this could be in London.

II. The 2016 results of the French banking and insurance sectors

In 2016, in a context marked by the low level of interest rates, the major **French banks** showed solid performances and compared favourably with their European counterparts. Their profitability increased, with their net profit (group share) amounting to EUR 24.3 billion, up 3.1% over the year. Moreover, the French banking system was able to strengthen its higher quality capital, while maintaining the financing to the economy. The ratio of core capital now stands at 13.2% of risk-weighted assets, up 60 bp from 2015; this represents a EUR 164 billion increase in capital since 2008 for the major banks, i.e. more than a two-fold increase: an increase of more than 120% in less than 10 years. At the same time, with a 20% decrease in the cost of risk compared to 2015, lending to the economy remained buoyant: +4.9% in outstanding loans to non-financial corporations and +4.5% to households. This growth, the strongest in Europe, accelerated further at the end of March: 5.3% for non-financial corporations, 5.6% for households. While the management of these risks at the level of individual institutions does not give any cause for concern to the ACPR, this overall strong growth may call for special attention and a review by the High Council for Financial Stability in which I participate.

For the insurance sector, Bernard Delas will give you more details, but I note the satisfactory situation of the French insurance groups with a median solvency ratio of more than 200% at the end of 2016.

Overall, I would like to point out that the French banking and insurance sector is sound, one of the soundest in Europe and the G7. The quality of our supervision has contributed to this soundness, which is one of the assets of the French economy.

III. Four major challenges that shape the ACPR's action

The first challenge in our supervision of banks and insurance companies is **the low interest rate environment**. These low rates weigh on bank margins, mainly on their retail banking business, although they are partly shielded by the high share of fees in their income. Since the turning point last autumn, however, we are witnessing a very gradual rise in nominal long-term interest rates and a “steepening” of the yield curve. This is a more favourable development for bank profitability, which could turn into a weakness in the event of a sudden rise in rates: I do not believe this hypothesis is the most likely. But the ACPR remains particularly attentive to the supervision of the interest rate risk management frameworks put in place by banks. The next stress test exercise, currently underway, will look at different scenarios regarding interest rate variations.

As regards the insurance sector, the moderation of the rates paid out on life insurance policies is necessary to preserve their solvency. Luckily, we have observed such a trend in 2016 on euro-denominated products, although the average return remains significant at 1.9%. The low interest rate environment has also prompted a shift in savings towards unit-linked products. Here the ACPR is vigilant as to the commercial conditions of this development.

The second challenge is the rise of **digital finance**. Supporting new players is a priority for the ACPR, which we have materialised by the creation of the Fintech Innovation unit and the Fintech Forum with the AMF. Fintechs bring innovative solutions for customers, which are very welcome, but they must also be attentive to data protection, cyber-security and compliance with anti-money laundering measures. But the digital challenge is not limited to Fintechs. It can also be tomorrow the major digital platforms – the GAFA – and today the transformation of banks and insurance companies. They have committed themselves to it, much more actively in 2016; monitoring the consequences for their business models is one of the priorities of European supervision in 2017. New opportunities will also have to be seized: the possible exploitation of data, while protecting customers and ensuring a real level playing field with the GAFA; or the development of cyber-insurance.

The third challenge is the **protection of the customers of banks and insurance companies**, which is of course one of our core tasks. The ACPR received more than 6,500 letters in 2016, an increase of almost 20% in two years, and made more than 600 interventions among the bodies, institutions or intermediaries concerned. The ACPR has also continued to work towards the dissemination of good practices, with five recommendations adopted or revised in 2016, notably regarding the new practices related to social media or “complex products”. Finally, in its audits, the ACPR focused on providing advice on health insurance contracts, the de-linking of home loans and borrower insurance, and on compliance with obligations related to unclaimed life insurance policies. On this subject of the “Eckert Act”, the insurance companies monitored by the ACPR paid out EUR 2 billion to the beneficiaries of unclaimed policies in 2015; banks, for their part, transferred 5.5 million inactive bank accounts to the Caisse des dépôts et consignations in 2016, representing a total amount of EUR 1.9 billion to be claimed by the account holders or their beneficiaries.

The fourth challenge is the **fight against money laundering and the financing of terrorism**, which in 2016 was a higher priority for action. We carried out 30 missions among banks and insurance companies on this subject in 2016, as against 22 in 2015. These missions complement the substantive action of the ongoing supervision, which resulted last year in close to 700 follow-up letters. In total, we initiated and published six disciplinary sanctions against institutions. The year 2016 was therefore an active year in this field, raising to 22 the number of sanctions taken since 2010 for noncompliance with the regulations.

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In conclusion, it is with pride that I look at what was achieved in 2016, but without any let-up or complacency: many projects await us in 2017, both nationally and internationally. A strong ACPR must have the necessary means to accomplish its missions: I would like to emphasise this imperative. I will now give the floor to Bernard Delas, who will present the prudential developments in the insurance sector. Rémi Bouchez will then discuss the work of the Sanctions Committee. Thank you for your attention.