

Christian Noyer: France's Prudential Supervisory Authority and Financial Markets Authority – enhancing the protection of French consumers

Introduction by Mr Christian Noyer, Governor of the Bank of France, President of the Prudential Supervisory Authority (Autorité de contrôle prudentiel) and Chairman of the Board of Directors of the Bank for International Settlements, at the ACP-AMF academic symposium, Paris, 11 May 2012.

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Dear Mr President,

Ladies and gentlemen,

I welcome you to this symposium organised today by the Prudential Supervisory Authority and the Financial Markets Authority.

Before saying a few words on the subject of this morning's discussions, I would like to say just how much Jean-Pierre Jouyet and myself are attached to fruitful collaboration between the two authorities that we preside.

Since the creation of the ACP two years ago, the ACP and the AMF have united their efforts to durably enhance the protection of French consumers.

A common division has been set up. Apart from the public information platform, *Assurance Banque Épargne Info Service*, which the general public is increasingly aware of, the two authorities have also conducted numerous consumer protection initiatives. For example, in 2010, the simultaneous publication of an ACP recommendation and an AMF guideline allowed the establishment of a framework for the marketing of complex products whatever their distribution channel. In order to limit the excesses sometimes encountered, these two texts underscored the need for contracts that are intelligible to non-professional consumers.

In 2011, the number of jointly conducted control missions increased. Twelve joint missions were conducted in entities distributing life insurance contracts and financial products; the common actions also concerned operators offering leveraged transactions on the Forex market and the processing of complaints throughout the financial sector. In 2012, joint missions will continue to focus on the different players involved in the marketing of insurance contracts, particularly among portfolio management companies, banks and distribution platforms.

This joint work proves, if proof is needed, the shared determination of the two authorities to place consumer interests at the heart of the regulatory framework governing different financial products.

Indeed, by their very nature, certain subject areas automatically imply collaboration between the two bodies. This is the case for example of household savings. While the financial markets are a natural target for these savings, in the vast majority of cases, retail investors can only access these markets via the services offered by financial institutions and insurance entities.

The crisis we have experienced these last four years has had a profound impact on the economy of our country and of the world, affecting as much the financial markets, banks and insurance companies as the savings behaviour of households. To understand the changes that the crisis has induced and to take appropriate action in the best conditions, the ACP and the AMF need to work together and be attentive to the views of experts and practitioners.

That is the primary aim of this morning's symposium, bringing together the scientific committees of both the ACP and the AMF who play a key advisory role in each of our

institutions and who clearly work in areas of common interest. It is organised around the following specific themes that I would like to introduce with a few words.

I. Firstly, in a difficult context, French households have altered their investment choices: what are the consequences of this alteration?

Already high before the crisis, the savings rate of French households has further increased, reaching levels close to those recorded at the start of the 1980s.

This increase in the savings rate seems to reflect a precautionary attitude on the part of households.

The year 2011 was also characterised by a significant reallocation of assets between the various savings options. Alongside a substantial withdrawal from UCITS and a fall in net new money flowing into life insurance contracts – a movement that has nevertheless slowed since the beginning of 2012 – bank savings products have posted a significant rise in deposits. Savers clearly decided to place their money in more liquid and less risky banking products such as passbooks to the detriment of long-term investments, despite the need for the latter to cover certain requirements for both households and the economy.

These movements can be explained by several factors: risk aversion, preference for liquidity, tightening of remuneration spreads, tax-regime uncertainty, “re-intermediation” of savings ahead of the new prudential rules (Basel III and Solvency II). I would like to emphasise just how complementary the approaches that will be presented to you in this first session can be. While the topic of savings touches upon a wide range of well-known macroeconomic issues, it is the individual decisions of households and their financial services providers that ultimately generate the fundamentals.

II. Following on from this, what challenges do movements of household savings pose for the marketing of financial products?

The rules framing the marketing of financial products play a fundamental role in modern economies because they contribute so much to consumer confidence, particularly when the consumer wishes to make long-term investments.

In a highly complex economic environment, the advisory duty is an essential link in the chain between household satisfaction and the economic efficacy of their investments. The numerous questions concerning life-insurance received by the legal specialists on the ACP information platform bear witness to this reality.

The marketing of financial products also raises questions of consumer protection. The financial services provider must take into account the client’s profile including his/her age, assets, investment horizon and degree of risk aversion, and adapt the investment opportunities offered accordingly so that the recommended investments are tailored to the client’s wishes and needs. Guaranteeing that savers receive the right information is therefore indispensable.

Beyond this, at a time when savers seem to be turning towards more liquid products, how can the industry cater for savers’ longer-term financing needs and for the financing requirements of other economic agents? Should these needs and requirements be taken into consideration in the way financial products are marketed? This will be the theme of our second session.

III. Lastly, what role should regulators play?

Regulators carefully monitor changes in household savings patterns and the marketing conditions of financial products.

The evolution of household savings decisions can impact the soundness of financial institutions. In fact, any sharp switch from one form of saving to another can potentially destabilise the financial system and therefore the economy as a whole. The same is true for badly calibrated financial products that can have negative consequences on the profitability of institutions, especially when the remuneration of the product clearly deviates from prevailing market interest rates.

As regards product marketing, it is, I repeat, a key factor in consumer confidence, particularly with respect to longer-term investments which play such an important economic role. The ACP and the AMF will make sure that these longer-term investment opportunities are preserved and, in this context, the development of aggressive and abusive sales practices is not acceptable.

More generally, we will ensure that credit institutions and insurance entities behave prudently in their quest to gather client resources and rigorously in their respect of consumer protection laws.

This will be the theme of the round table in the third session that will close this symposium.

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I thank you for your attention and hand the floor to Antoine Frachot who will assume the role of moderator for the first session.