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Presentation of the 2017 annual report

of the *Autorité de contrôle prudentiel et de résolution* (ACPR)

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Ladies and Gentlemen,

I am pleased to welcome you for the presentation of the 2017 annual report of the *Autorité de contrôle prudentiel et de résolution* (ACPR), alongside Bernard Delas, Vice-Chairman of the ACPR, Rémi Bouchez, President of the Sanctions Committee, and Edouard Fernandez-Bollo, Secretary General of the ACPR.

Once again in 2017, the ACPR strived to make finance more secure. I wish to thank the more than 1,000 women and men at the ACPR – 1,026 FTEs at the end of 2017 – for their exceptional efforts in working to accomplish this goal and I would like to emphasise certain key achievements from the past year.

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I. The ACPR has been heavily involved in the implementation of common international standards, capable of reinforcing financial stability

On the international stage, the ACPR made a decisive contribution to the finalisation of **Basel III**. I repeat, the agreement of 7 December 2017 is the best possible outcome for France and Europe. The resulting prudential framework will limit the unjustified variability of weighted assets while remaining risk sensitive, which was one of our main concerns. It is fully compatible with the smooth financing of the French economy. I am pleased that the European Commission has launched initiatives to ensure its application in Europe. The first step will see the European Banking Authority present its assessment report. Data will be necessary for certain business areas and I encourage all institutions to actively contribute to their collection.

In Europe, the ACPR has continued to provide firm support for the work of the Single Supervisory Mechanism and the Single Resolution Mechanism. The **harmonisation of banking supervisory practices** within the euro area is one of the ACPR's primary objectives. As for the insurance sector, the ACPR is actively involved – particularly within the EIOPA – in the preparation of the reform of the **Solvency II** directive and the long-term guarantee package measures planned for 2018 and 2020, respectively. The goal will be to better reconcile prudential requirements with increased investment in equity and infrastructure: reform cannot be a status quo.

European developments have also been shaped by work stemming from Brexit and the United Kingdom's upcoming loss of its "European passport". The ACPR will take particular care to ensure that activities transferred to France will be operated by entities that are capable of managing the associated risks. Empty shell corporations will not be tolerated, nor will failures to comply with the prudential regulations that guarantee our financial stability.

In 2018, we must keep up our efforts to **encourage the consolidation of the European financial sector**. This must of course have an institutional component and, consequently, completing the Banking Union is crucial. The agreement reached last Friday on the review of CRR2 – and particularly MREL – is an excellent step, but we are not finished yet. In this respect, the priority is the second pillar on resolution even more than the third pillar on deposit guarantees. A common backstop for the Single Resolution Fund is needed quickly, as is a common framework to better ensure that financially sound entities have an adequate level of liquidity following resolution. Once the work on resolution is finalised, the environment must be favourable to the emergence of cross-border banking and insurance groups and pan-European savings products. This means that we will have to work towards removing the regulatory impediments that currently hinder cross-border mergers. In the context of a "Financing Union for Investment and Innovation", a more integrated financial sector will help to better steer the abundant savings – a surplus of almost EUR 400 billion in the euro area – towards productive investment, equity and innovation across our continent.

Alongside appropriate regulation and appropriate microprudential supervision, appropriate macroprudential policy now completes the post-crisis trifecta. The ACPR has actively contributed to the discussions of the **High Council for Financial Stability (HCSF)**. Given the rapid and excessive increase in the indebtedness of certain large corporations, the HCSF adopted a measure that will take effect on 1 July 2018 and will impose a limit on the exposure of French systemic banks to the most indebted large resident non-financial corporations. Nevertheless, the HCSF remains vigilant with regard to the rapid increase in bank lending to the private sector, which rose by 5.5% in the first quarter of 2018. French private sector debt amounted to 130.2% of GDP at the end of 2017, which is the highest of the major euro area countries. Since 2014, it has increased in France by 9.4% of GDP, compared with an average reduction of 5.4% in the euro area. On 29 March, the HCSF stated that it was ready to act. In particular, if we have to determine the countercyclical capital buffer, it would obviously not be to stop credit today, but rather – as the name suggests – to prevent it from drying up in the future in the event of a turnaround in the cycle: banks with insufficient capital could manage the increased risks thus materialising in their balance sheets by restricting new lending. The aim of a moderate capital buffer is to smooth this excessive credit cycle – the risk of "go and stop" experienced during financial crises.

II. The ACPR was particularly active in the area of emerging risks and new technologies

In 2017, the ACPR paid particular attention to the risks and opportunities for the financial sector related to **new technologies**, especially via its FinTech Innovation Unit. Its aim is to provide guidance to new players and to do so it has met with over 300 such players since it was created in 2016.ⁱ But it is equally important for well established players to adapt to the digital revolution and remain as prepared as possible to deal with cyber-security risks. In this regard, I welcome the creation of a G7 group for the conduct of cross-border cyber crisis simulation exercises. And the Banque de France will coordinate the G7 test in 2019. Indeed, cyber-security will be one of the priorities of the French presidency of the G7 next year.

As regards the adaptation of existing banks and insurers to digital revolution, the ACPR published in March 2018 an influential study.ⁱⁱ These players now all agree that this is their overriding or even vital challenge, far greater than low interest rates or prudential regulations. The ability of institutions to retain customer relationships, from branches to the smartphone, has been particularly put to the test. The response must come first of all from the institutions themselves, their strategy, their customer offering, their governance, and their investments. But regulations must also adapt: "same activity, same regulation" of course, and the Big Techs will have to apply the same rules as banks and insurance companies if they start to perform the same regulated financial activities. The challenge nevertheless extends beyond financial regulation alone; it will be how to apply to all players, in a fair and proper manner, regulations in three broader areas: data protection, monitoring competition and concentration, and cyber-security. We are aware that the only way to meet this challenge is through international cooperation. However, when adapting to the digital revolution, no one should expect that these necessary regulations will protect existing situations. Innovation is naturally the only effective response.

We must also take a long term view and that is why the ACPR has strived to improve the monitoring of climate risk. Notably, it participated in the creation of the international **Central Banks and Supervisors Network for Greening the Financial System**, building on the One Planet Summit which was held in Paris. This has already proved a success. The nine founding members were rapidly joined by four new members, including the European Central Bank, and two observers: the BIS and the OECD. Other major central banks and supervisors are also about to join.

III. Enduring requirements: customer protection, and anti-money laundering and counter-terrorist financing

Anti-money laundering and counter-terrorist financing (AML/CTF) remains a key objective. ACPR staff pursued their work in this area, aiming notably to ensure that all the activities performed by French banks through their foreign affiliates are subject to active monitoring by their parent companies. Obviously banking groups must implement their AML/CFT policy with the same rigour in their foreign affiliates as they do in their French entities.

As regards **banking inclusion and the supervision of business practices**, the Banque de France continually strives to improve access to suitable banking services for vulnerable populations and fight against the exclusion of people in financial difficulty, which may also result from being overcharged for banking services. It is imperative to make further progress in this area. Bernard Delas will also discuss FPS in the construction insurance sector.

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To conclude, I would like to share a few figures that illustrate the soundness of our financial system. In 2017, the net banking income of the six main French banking groups stood at EUR 146.4 billion. Admittedly, it was up just 0.5% on 2016, but the cost of risk is extremely low, and fell further by a significant 18% in 2017. The share of impaired outstandings also fell to stand at just 3.45% of the loan portfolio. The enhancement of the quality of banks' balance sheets, combined with continued capital growth, has led to further improvement in prudential ratios. The aggregate CET1 solvency ratio of these six groups reached 13.8% at end-2017, against 13.3% at end-2016 and notably 5.8% at end-2008. In the insurance sector, I am also pleased to note that the solvency capital requirement coverage ratio of the main groups rose to 212% at the end of 2017.

All in all, the French financial system is one of the soundest in Europe. I have every confidence in its ability to meet any forthcoming challenges and take advantage of future opportunities. 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.

ⁱ Figures at end-May 2018. At the end of 2017, meetings had been held with 200 players.

ⁱⁱ *Survey on the digital revolution in the French banking sector*, ACPR, Analyses et synthèses No. 88, March 2018.