PRESENTATION OF THE 2015 ANNUAL REPORT OF THE AUTORITE DE CONTRÔLE PRUDENTIEL ET DE RÉSOLUTION

Press conference of Monday 23 May 2016

Speech by François Villeroy de Galhau, Governor of the Banque de France Chairman of the Autorité de Contrôle Prudentiel et de Résolution

Ladies and Gentlemen,

I am delighted to welcome you today to this press conference for the presentation of the sixth annual report of the Autorité de Contrôle Prudentiel et de Résolution, the ACPR, which is the first such presentation for me.

In recent years, the ACPR has successfully and constantly adapted and restructured itself to respond to the numerous changes affecting its supervisory role. Backed by the Banque de France, which provides it in particular with its 1,065 staff, the ACPR is the guarantor of the French financial system's stability and of customer protection.

I will deal with five points in turn in order to focus on:

- the changes to the international regulation of the banking and insurance sectors;
- the strengthening of the European dimension of prudential supervision;
- supervisory action in the area of customer protection and combating money laundering and terrorist financing;
- financial stability in an environment of all-time-low interest rates; and,
- despite these challenges, French banks' extremely satisfactory results in 2015, which further strengthen their level of solvency.

Bernard Delas, the ACPR's Vice-Chairman, will then talk to you about prudential developments in the insurance sector, before Rémi Bouchez closes with a presentation of the Sanctions Committee's activity.

I – In 2015, the ACPR was actively involved in changes made to the international regulation of the banking and insurance sectors

The ACPR's teams participate in all the international working groups that prepare banking regulation changes, whether as part of the Basel Committee or the European Banking Authority (EBA).

The challenge at the Basel level – after the impact studies that took up much of 2015 and have continued into the early part of this year – is to complete the so-called Basel 3 reform by the end of 2016 while ensuring that overall regulatory requirements stabilise. The work carried out to strengthen regulation since the crisis was considerable but indispensable, and it did not adversely affect growth. The question today is not of imposing further significant increases in overall capital requirements on banks – there is no need for a Basel 4 project – but of completing the post-crisis reform work. The G20 reiterated as much in Washington in April: the Basel Committee now has to do it.

Earlier, in November 2015 the G20 published the final terms of the Total Loss Absorbing Capacity (TLAC) requirement. In the event of a banking crisis, the resolution authorities will be able to expose TLAC-eligible instruments to loss and rebuild the capital of global systemically important banks (G-SIBs), at the same time as protecting depositors. This is an important part of the post-crisis mechanism.

The ACPR plays an equally active role in the area of insurance, notably with the implementation of the "Solvency II" directive, which has been in force since 1 January of this year. Bernard Delas will speak more about this in a short while.

As regards customer protection, the ACPR has contributed to the EBA's work on guidelines in the area of mortgage lending. A great deal of harmonisation work has also been done as regards the oversight of products that banks and insurers offer to their customers.

II – The ACPR played an important part in the strengthening of the European dimension of prudential supervision

In the banking field, supervisory work naturally focused strongly on the operational implementation of the Single Supervisory Mechanism (SSM). For us, this consisted in taking a central role in the new European supervisory organisation, with a more transverse dimension than was the case before the SSM.

After its launch on 4 November 2014, 2015 was the first full year of operation for the SSM and its Joint Supervisory Teams (JST), which are made up of staff from the European Central Bank and the relevant national supervisors. A JST has been put in place for each of the 123 significant banking groups. In 2015, these teams, led by an ECB coordinator and a sub-coordinator from the relevant national supervisor, carried out an initial exhaustive and harmonised review of these banks using a shared methodology, the Supervisory Review and Evaluation Process (SREP), which represented a considerable task for all the JSTs and one that they carried off successfully. These evaluations will be carried out again in 2016 and will notably include the stress tests under way and implemented by the EBA and the ECB in coordination with the national authorities.

Last year, transverse, thematic analyses were also carried out under the SSM with the aim of increasing the comparability and convergence of approaches. They covered three main aspects: assessment of governance risk, leveraged activities and banks' cyber-security risks. Convergence was also strengthened by the review carried out on more than 120 national options and discretions. Harmonisation measures will come into force in 2016 to ensure, step by step, that CRD4 is rolled out consistently across the whole euro area. The first pillar of banking union – supervision – has already been successfully introduced.

The year 2015 was also strongly marked by the theme of resolution – the second pillar – with in particular the transposition into French law of the directive for the recovery and resolution of credit institutions and investment firms, the so-called BRRD. Meanwhile, at the European level the Single Resolution Mechanism (SRM) has been gradually implemented and its decision-making body, the Single Resolution Board, became fully operational on 1 January 2015. The aim is that the Board should become a fully-fledged stakeholder in banking union, the purpose of which is to align Brussels (the seat of the SRM) with Frankfurt (the seat of the SSM).

III – The ACPR also stepped up its supervisory action in the area of customer protection and combating money laundering and terrorist financing

One of the ACPR's tasks is to ensure that consumers are protected in the area of banking and insurance products – a responsibility borne entirely at national level. The ACPR handled over 7,300 related requests and claims in 2015, a very significant increase (31%) from 2014. In dealing with such cases the ACPR is especially careful to correctly apply the so-called Eckert Act relating to inactive bank accounts and unclaimed life insurance policies, and on 2 May it published the report required by French Parliament showing considerable progress in that area.

The ACPR takes an equally vigilant approach to – and is also particularly interested in – the current boom in the fintech sector. This ambition is reflected in the appointment within the ACPR of a Fintech innovation officer, who will work in direct collaboration with the AMF.

The ACPR's ongoing concern with regulatory compliance is also – and more than ever – borne out in our action to combat money laundering and terrorist financing (ALB-CFT). The financial sector – including banks and insurance companies – is duly active here but it is an area where setting an example is of major importance, and every stakeholder needs to be conscious that due diligence requirements in this area will necessarily only increase.

Moreover, all stakeholders are actively encouraged to file a suspicious activity report with Tracfin at the first sign of doubt. At the same time, the ACPR has carried out permanent control actions based on a questionnaire and our on-site audits (22 in 2015 and several dozen in 2016, some including post-“Panama Papers” information). We are doing this in increasingly close cooperation with foreign supervisory authorities, and we naturally welcome anything that strengthens, clarifies or secures the framework of this cooperation. If shortcomings come to light as a result of our investigations, we issue sanctions (five such sanctions were imposed in 2015). Rémi Bouchez will revisit this point a little later.

IV – The macroeconomic context, characterised by an all-time-low interest rate scenario, is subject to particular scrutiny by the ACPR as it seeks to preserve financial stability

The specific economic context relating to the heretofore unexperienced situation in France and elsewhere in Europe of low interest rates is an important aspect of monetary policy for supporting economic activity, facilitating lending on favourable terms (end-March outstandings were up 4%) and thereby improving the situation of the non-financial sector.

In this regard, I would like to stress that in 2015 the Eurosystem’s monetary policy had a positive overall impact on the profitability and solvency of euro-area banks. While falling short term interest rates and the flattening yield curve reduced banks’ net interest margin, increased lending partially offset the former; lower rates improve borrowers’ solvency and creditworthiness, which results in a decrease in the cost of risk. Lastly, the banks are benefiting from reduced debt issuance costs, in particular through the TLTRO.

However, it is also the case that persistently low rates can affect the profitability of the banking and insurance sectors.

This is therefore an area to monitor, accompanied by the consideration of investor expectations as regards the return on invested capital, which one would expect to be revised downwards in this new environment of lower risk-free rates. Faced with this risk, the ACPR is paying particular attention to the most exposed business models. In the insurance sector, the low-rate context has led to a situation in which the yields on new portfolio securities are lower than the rates paid on the corresponding life insurance policies. I would therefore repeat my call for prudence by organisations when they set their revaluation rates for life insurance policies.

Furthermore, I would urge the public authorities and professionals alike to continue to reflect on the reorientation of savings, notably through the development of new long-term savings products that are suited to both the low-interest-rate environment and the long-term needs of households (pensions). These new savings products could be less liquid and would probably feature long-term capital protection; they would thus enable consumers to benefit from equities' higher yield over time while working in favour of the funding of corporate investment. To allow such products to develop it would need to be ensured at the very least that they are not taxed disadvantageously with respect to liquid and risk-free savings.

V – Despite these difficulties and the upcoming challenges facing banks, they posted extremely satisfactory results in 2015, which further strengthens their level of solvency

The aggregated net banking income (NBI) of the six biggest banking groups rose by 5.1% between 2014 and 2015. Retail banking proved especially resilient, supported by the gradual recovery of demand for credit, specifically for home and consumer loans as regards households and investment loans for companies. Corporate and investment banking and specialised financing activities also turned in a sound performance in 2015. The group share of net income of the six banks in question came to €23.7 billion in 2015, an increase of 65.9%, or €9.4 billion. However, it should be noted that they incurred a high volume of non-recurring charges in 2014. Restated for these charges, the group share of net income nevertheless increased by 8%.

These strong performances are enabling banks to allocate a substantial share of their earnings to bolstering their capital. This has led to a noticeable improvement in full CRD4 Common Equity Tier 1 (CET 1) ratios, with the aggregate solvency ratio of the six banks in question reaching 12.6% at the end of 2015, well above regulatory requirements and more than double what it was in 2008. The “core” capital (CET 1) of French banks increased twofold between December 2008 and December 2015, increasing from €132 billion to €275 billion. Each group’s liquidity ratio is over 100%, three years ahead of the 2018 regulatory deadline. Today's banking system is solid; indeed, it is one of the most solid in Europe and among advanced economies, and together with the Finance minister we reiterated this fact at last weekend’s G7 meeting in Shanghai. The same can be said of our insurance market.

So we approach 2016 with confidence and determination; as with previous years, it will be one replete with challenges and changes. In light of the challenges that our institutions and organisations have successfully risen to in recent years, I have no doubt of their ability to meet the new ones facing them equally well. As for ACPR’s staff, rest assured that they will remain fully prepared to help them make these changes. I have every confidence that their dynamism, their expertise and their professionalism will enable them to tackle the developments to come.

I will now hand the floor to Bernard Delas, the ACPR's Vice-Chairman.

Thank you for listening.