**Autorité
de contrôle prudentiel
et de résolution**

ACPR
BANQUE DE FRANCE

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ANNUAL REPORT

ACPR 2018

ACPR
BANQUE DE FRANCE

Contents

The Annual Report presents an overview of the different activities of the Autorité de contrôle prudentiel et de résolution and its services.
Complementary information is available in two editions of the “Analyses et Synthèses” series, which present various aspects of the financial situation of the two sectors.
It will also be further supplemented in the third quarter of 2019 by the publication of “The French banking and insurance market in figures”.

Editorial

Annual Report ACPR 2018 – Editorial of the Governor

François Villeroy de Galhau,
Chairman of the ACPR
and Governor of the Banque de France

2018 was characterised by renewed concerns about the economic situation: trade tensions and the return of volatility on international financial markets; concerns over the consequences of Brexit; and slower euro area growth. Against this backdrop, the ACPR continued to strive to preserve financial stability. I would like to thank all ACPR staff, who work with great professionalism, in both the General Secretariat and in the different Supervisory and Resolution Colleges. I also wish to highlight a few essential contributions last year.

French banks and insurers are sound but face two ongoing challenges: the low interest rate environment and digitalisation

In 2018, French banks and insurers maintained or enhanced their solvency. The aggregate CET1 capital ratio of the six main French banking groups remained stable at 13.6%. As regards insurance firms, their solvency capital requirement ratio should exceed 240% at end-2018, compared with 238% at end-2017. The Autorité de contrôle prudentiel et de résolution was nevertheless particularly vigilant about the implications, for the financial sector, of persistently low interest rates. Given the economic environment, the ACPR's supervisory priorities included ensuring that banks and insurers adapted their business models, and preventing the risks associated with the excessive search for yield.

The digital revolution constitutes another major challenge for the banking and insurance sectors: the arrival of new players, "Fintechs" or now multinational "Bigtechs" from other sectors but now controlling a large part of the digital economy; the emergence of cyber-risk and the development of new information analysis and processing tools. The ACPR must monitor the innovations and the disruptions resulting from the digitalisation of the financial sector. Indeed, the ACPR recently published two studies on artificial intelligence and the management of cyber-risk in the financial sector.

Resolution and macroprudential policy contributing to financial Stability

In 2018, the ACPR was given new powers in terms of preventing and managing the failure of insurance companies and groups, with the implementation of a resolution regime for this sector. France is the first country in Europe to adopt such a framework, which will take the form, in 2019, of preventive recovery plans to be implemented in the event of a major crisis. This exercise has already been carried out for a few years in the banking sector.

2018 and the start of 2019 were also marked by three new macroprudential decisions by the High Council for Financial Stability (HCSF). First, in order to encourage institutions to accumulate capital in favourable periods to cope with a possible subsequent turnaround in the financial cycle, the HCSF decided in June 2018 – with one year's notice – to activate the counter-cyclical capital cushion set at 0.25% of French banks' exposure. This rate was raised to 0.5% in March 2019 in the context of ongoing credit growth. Second, given the sharp rise in corporate debt, the HCSF set, in July 2018, a stricter limit for French systemic banks' exposures to the most indebted firms. It was thus set at a maximum of 5% of the capital of French systemic banks per firm.

The risks related to business conduct are still very significant

The ACPR ensured that business practices fully incorporated the provisions aiming to protect the most vulnerable customers. As regards the insurance sector, it strived to ensure that the information provided to customers was clear, and notably adequately explained the characteristics and risks taken by customers when marketing products without capital protection. This was also the case for the most simple contracts sold through telemarketing. For the banking sector, it sought to ensure full compliance with banking inclusion obligations, and closely monitored commitments to limit bank charges for the three million people in financial difficulty.

Anti-money laundering and counter-terrorist financing (AML/CTF) remains more than ever a priority and a major objective, both at the national and European level: events in a number of North European countries clearly testify to this. The ACPR is focusing on prevention with a view to shoring up the internal systems of financial intermediaries, including though sanctions where serious breaches are identified. Another priority is to strengthen the role of the European Banking Authority, now headquartered in Paris, in the area of AML/CTF: the ACPR is actively contributing to this development.

To prepare tomorrow's supervision, it is necessary to adapt to regulatory developments and the international environment

2018 was also marked by preparations for the United Kingdom to leave the European Union. ACPR staff was closely involved in helping the French institutions that conduct cross-border business to ready themselves for the loss of the European passport. At the same time, the ACPR handled licensing applications from UK firms that have to date been operating in France under the freedom to provide services or freedom of establishment.

At the European level, the ACPR reviewed the legal frameworks of both the banking and insurance sectors. In this respect, it participated in the review of the Solvency II Delegated Regulation and proposed a reduction in the capital requirements relating to long-term equity investments in order to avoid compromising the role of insurance firms, as institutional investors, in the financing of the economy. It is actively preparing the 2020 review of Solvency II. In the banking sector, the entry into force in January 2018 of the Second European Payment Services Directive (PSD2) created new types of authorisations for the new services of payment initiation and aggregation of bank account information into a single interface. The regulation of these new players and services seeks to guarantee the security of transactions for users while enabling this fast-growing market to develop.

These different challenges remain key concerns for the ACPR in 2019. I have every confidence in the commitment of its staff to deal with them with confidence and efficiency. The ACPR's professionalism is widely recognised in Europe, and is an asset for financial stability.

Interview

Action taken in 2018

Édouard Fernandez-Bollo,
Secretary General
of the ACPR

In 2018, the ACPR set itself **six key focus areas for the year,** some of which had to be subsequently adjusted due to excessive pressures on personnel.

With regard to our role in **prudential supervision,** our level of commitment in support of the European Central Bank (ECB) was largely maintained and we continued to harmonise the procedures and tools applied by the ACPR to less significant institutions (LSIs) with those of the ECB. In the insurance sector, the ACPR successfully achieved its priorities on monitoring the consequences of the low interest rate environment and improving institutions' systems as regards data quality, calculation and documentation for quantitative requirements. The programme of on-site inspections was tailored to the personnel available.

In terms of **customer protection,** the ACPR launched on-site and remote inspections (with the number depending on the staff available) on the concept of product governance, which encourages professionals to automatically assimilate customer interests into their organisation, and on professionals' recognition of the needs of vulnerable customer groups. In addition to targeted reviews, at the end of 2018 the ACPR published a discussion paper on marketing practices for ageing populations in conjunction with the AMF.

In the field of **anti-money laundering and counter-terrorist financing (AML/CTF),** our efforts focused on monitoring the effectiveness of the risk-based approach and also verifying compliance with asset-freezing obligations. The ACPR carried out 23 on-site inspections in this regard. The review of banking groups' AML/CTF-related outsourcing arrangements was pushed back and will now benefit from work planned in 2019 at both the European and national level on supervisory tools and cooperation between supervisors following the conclusion of a European MoU with the ECB in January 2019.

As for **regulation,** the work identified as a priority was undertaken as planned, bearing in mind that several projects remain ongoing in 2019. Preparing for the consequences of Brexit has proven to be a major focus of attention for the ACPR, which is working to ensure that the customers of British entities operating in France receive the best possible protection in the event of a no deal between the United Kingdom and the European Union, and also to allow any British entities that wish to do so to set up in France.

The ACPR has continued to work on **emerging risks,** with initiatives on behalf of the *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability) on risks such as debt and leveraged financing and measures to gather information and raise awareness in the insurance and banking sectors on the need to prepare for the effects of climate-related risks. The ACPR also published two discussion papers on (i) IT risk and (ii) the challenges of artificial intelligence (AI) for the financial sector, and contributed to a market-wide project on cybersecurity and carried out a series of inspections focusing on cyber-insurance.

Lastly, with regard to **resolution,** the ACPR successfully completed all its initiatives as planned with the exception of the work on the tools and procedures required to facilitate the implementation of any resolution measures that may be decided by the Resolution College.

Work priorities for 2019

The main identified risks remain relatively unchanged from 2018. The basic characteristics of financial intermediaries have changed little (continued bolstering of the solvency of the main banking players without major individual shocks or significant changes in general operating conditions in both the banking and insurance sectors), while the main identified risks still relate to persistent low interest rates in an increasingly uncertain economic environment.

In the banking sector, the ACPR's role as a national authority must fall within the framework of decisions made by the ECB. As such, the ACPR aims to maintain its current level of commitment in support of the ECB for the direct supervision of significant institutions (SIs). It also intends to see through the projects for the adoption of ECB tools for all LSIs and other similar banking sector institutions.

In the insurance sector, the ACPR's supervisory activities will pursue the same objectives set out in 2018 (monitoring the consequences of the interest rate environment, quality of the data used to calculate regulatory ratios, governance arrangements, overseeing the technical balance of the health, death and disability sector) in addition to the initial projects resulting from new insurer recovery and resolution provisions.

With regard to the **supervision of business practices,** the ACPR will continue to address the priorities identified for 2018 (protection of vulnerable customer groups and the ways in which customer interests are incorporated into product governance rules). A specific project will be launched to verify the methods used to market unit-linked contracts and particularly the advice given to customers. Action taken by the ACPR can also be seen within the framework of the joint AMF-ACPR unit that will work to boost the visibility of the information for customers available on the shared AMF, ACPR and Banque de France website, ABEIS, particularly on fraud alerts, among other issues, and that will look into the concept of the digital customer experience given the increasingly frequent interaction between customers and digital tools.

In the field of **AML/CTF,** the ACPR will continue its inspections to verify compliance with asset-freezing obligations (a three-year programme that should come to a close in 2020) and will deepen its analysis of the risks posed by new technologies and particularly the use of crypto-assets. The ACPR, in conjunction with all public bodies, will also have to prepare for the Financial Action Task Force's assessment of France's national framework in 2020 and furthermore will be actively involved in European projects on the interaction between prudential supervision and AML/CTF.

With regard to the **adaptation of the regulatory framework,** 2019 is a transition year for the European Union with preparations for the "2020 Review" of the Solvency II insurance directive and the transposition of the finalised Basel III accords for the banking sector into European law. In addition, continued action to strengthen the single market (the Banking Union, regulation of activities conducted under FPS) remains a major priority.

Lastly, the work carried out to identify **emerging risks** (cyber-risk and climate-related risk) will continue. In terms of AI applications, the discussion paper published in 2018 was a first step that will be built upon through workshops to examine specific applications under development in financial institutions.

Adapting the ACPR

Several major initiatives will be launched in 2019 to ensure the ACPR continues to adapt to meet supervisory requirements that are constantly evolving, either due to changes in the regulations themselves or due to changes in financial sector practices.

In terms of personnel, an intensive recruitment drive (for 155 staff) to make up for the decline in headcount experienced in 2018 and to allow the ACPR to fulfil all its duties and missions under favourable conditions, will go hand in hand with discussions on how to make the ACPR more attractive and improve employee loyalty. In addition, two initiatives have been launched to modernise supervisory tools and methods: firstly, the format of on-site inspections will evolve to increase the number of reviews performed through shorter, more ad-hoc missions; and secondly, the ACPR aims to take advantage of developments in tools for the collection and ongoing analysis of supervisory data, particularly as part of a data lake project that should be operational from 2020 but will require an immediate rethink of some of the tools used to analyse collected data.

In order to deal with the digital transformation of the financial sector, the ACPR has launched a "Suptech" approach – exploiting technological applications to meet supervisory requirements – overseen by the Fintech Innovation Unit with support from the Banque de France's centre of innovation. The initial results could be seen in 2020. In April 2019, after a fact-finding period, the ACPR adopted an intrapreneurial approach that should allow certain ACPR employees to head up innovative projects aimed at enhancing the supervisory capacity of the ACPR. The selected projects will benefit from human, technological and organisational resources to develop new tools or devise new supervisory approaches that are better adapted to financial sector changes.

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Chapter 1

About the ACPR

2018 key figures

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SUPERVISORY COLLEGE MEETINGS	RESOLUTION COLLEGE MEETINGS	SANCTIONS COMMITTEE MEETINGS	FULL-TIME EQUIVALENT STAFF

1. Statutory objectives

The ACPR supervises the banking and insurance sectors. It is responsible for preserving the stability of the financial system, protecting customers and insurance policyholders, and supervising compliance with anti-money laundering and counter-terrorist financing (AML/CTF) rules.

In 2013, the ACPR was given powers to prevent and resolve banking crises. These powers were subsequently expanded to the insurance sector as the ACPR was made the resolution authority for insurers following the adoption and publication of Ordinance No. 2017-1608 of 28 November 2017. France was thus the first euro area country to introduce a regulatory mechanism of this kind. This national regime, which is modelled on the regime for credit institutions and investment firms, seeks to more effectively prevent failures by insurance institutions and to minimise the adverse impact of any that do occur on policyholders, financial stability, the economy and the public finances. It allows the ACPR's Resolution College to quickly obtain enhanced powers over struggling insurers. Following publication of the Decree of 10 April 2018, 14 insurance groups or individual institutions were identified and made subject to the new provisions.

The ACPR was assigned a new task under the 2017 Supplementary Budget Law of 28 December 2017, which came into force on 30 December 2017 and which introduced new anti-fraud and tax evasion obligations for institutions in the banking and life insurance sectors, as part of the implementation of arrangements for the automatic exchange of tax information. The new legislation tasked the ACPR with checking that these institutions set up specific internal control systems designed to verify that internal procedures to ensure compliance with these obligations are introduced and properly applied. The first inspections in this area were carried out in 2018.

Since the European banking union was set up in 2014, the ACPR has discharged its banking-related prudential responsibilities within the framework of the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM).

2. Organisation

2.1 Decision-making bodies

To discharge its statutory objectives, the ACPR relies on a number of decision-making bodies, including the Supervisory College and its various configurations (plenary and restricted sessions and sub-colleges for each sector), the Resolution College and the Sanctions Committee.

To provide it with further information on some of the topics it has to address, the ACPR's Supervisory College is supported by an Audit Committee, three consultative committees covering prudential affairs, AML/CTF and business practices respectively, and a Scientific Consultative Committee.

For further information on the consultative committees, go to: https://acpr.banque-france.fr/en/acpr/colleges-and-committees/consultative-committees

The Supervisory College (at 31 December 2018)

Front row
Seated from left to right:
Édouard Fernandez-Bollo,
Martine Lefebvre,
Christian Poirier,
Robert Ophèle,
Ariane Obolensky.

Second row
Standing from left to right:
Philippe Mathouillet,
Anne Epaulard,
Bernard Delas,
Monique Millot-Pernin,
François Villeroy de Galhau,
Denis Beau,
Jean-Louis Faure,
Francis Assié.

Third row
Standing from left to right:
Lionel Corre (representing the Director-General of the Treasury),
Jean-Luc Guillotin,
Henry Toutée,
Emmanuel Constans,
Patrick de Cambourg,
Thomas Philippon,
Christian Babusiaux.

Not present
Jean-François Lemoux.

Chairman

François Villeroy de Galhau
or
Denis Beau,
designated Deputy Governor

Vice-Chairman

Bernard Delas,
Vice-Chairman, ACPR.

A vice-chairman with professional experience in insurance matters, appointed by the ministers with responsibility for the economy, social security and mutual insurance

Members of the ACPR's Supervisory College

Robert Ophèle
Chairman of the *Autorité des marchés financiers* (AMF – Financial Markets Authority)

Patrick de Cambourg
Chairman of the *Autorité des normes comptables* (ANC – National Accounting Standards Board)

Anne Epaulard
Appointed by the President of the National Assembly

Monique Millot-Pernin
Appointed by the President of the Senate

Henri Toutée
Division president appointed at the recommendation of the Vice-Chairman of the *Conseil d'État*

Francis Assié
Honorary counsellor appointed at the recommendation of the Chairman of the *Cour de cassation*

Christian Babusiaux
Honorary presiding judge at the *Cour des comptes* appointed at the recommendation of the Chairman of the *Cour des comptes*

Appointed for their expertise in customer protection, quantitative or actuarial techniques, or other areas that help the Authority fulfil its statutory objectives:
Emmanuel Constans,
Thomas Philippon

Appointed for their expertise in insurance, mutual insurance, provident institutions or reinsurance:
Jean-Louis Faure,
Jean-Luc Guillotin,
Jean-François Lemoux,
Philippe Mathouillet

Appointed for their expertise in banking, payment services or investment services:
Martine Lefebvre,
Ariane Obolensky,
Christian Poirier

Do not have a vote, but may request that matters be deliberated a second time:

Odile Renaud-Basso
The Director-General of the Treasury, or her representative, sits on the College in all its configurations

Mathilde Lignot-Leloup,
The Director of the Social Security administration, or her representative, sits on the Insurance Sub-College or other configurations dealing with entities governed by the Mutual Insurance Code or the Social Security Code.

The Resolution College
(at 31 December 2018)

François Villeroy de Galhau
Chairman

Denis Beau
Designated Deputy Governor

Bernard Delas
Vice-Chairman of the ACPR

Robert Ophèle
Chairman of the AMF

Sébastien Raspiller
representing
Odile Renaud-Basso
Director-General of the Treasury

Thierry Dissaux
Chairman of the Deposit Insurance and Resolution Fund

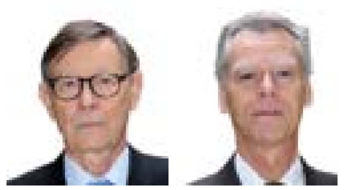
Agnès Mouillard
Presiding judge at the Commercial, Financial and Economic Chamber of the *Cour de cassation*

The Sanctions Committee
(at 31 December 2018)

Appointed by the Vice-Chairman of the *Conseil d'État:*

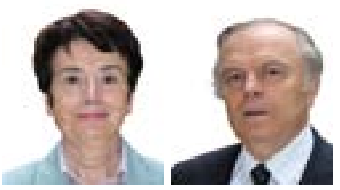
Rémi Bouchez
member of the *Conseil d'État*, Chairman

Martine Jodeau
member of the *Conseil d'État*, alternate



Jean-Pierre Jouguelet
member of the *Conseil d'État*, full member

Denis Prieur
member of the *Conseil d'État*, alternate



Appointed by the Chairman of the *Cour de cassation:*

Claudie Aldigé
Counsellor at the *Cour de cassation*, full member

Yves Breillat
Counsellor at the *Cour de cassation*, alternate

Appointed for their expertise in matters that are helpful for the ACPR to meet its statutory objectives:

Christian Lajoie
full member

Thierry Philipponnat
alternate

Claudie Boiteau
full member

Christine Meyer-Meuret
alternate

Elisabeth Pauly
full member

Francis Crédot
alternate

2.2 General Secretariat

The operational departments are overseen by the General Secretariat. At 31 December 2018, the General Secretariat of the ACPR had 967.1 full-time equivalent (FTE) staff, all employed by the Banque de France, compared with 1,026.8 at the end of 2017, and 1,010 actual employees. These staff members, who have a wide range of backgrounds, are distributed as follows in the Authority's different areas of activity.

ACPR General Secretariat
(at 1 May 2019)

DELEGATION CHARGED WITH THE ON-SITE INSPECTION OF CREDIT INSTITUTIONS AND INVESTMENT FIRMS

Representative: **Jérôme SCHMIDT**
Deputy: **Thierry FRIGOUT**
- On-site Inspection Teams and Risk Modelling Control Unit

RESOLUTION DIRECTORATE

Director: **Frédéric VISNOVSKY**
Deputy: **Marie-Lorraine VALLAT**
- Division R1: **Éric FONTMARTY-LARIVIERE**
- Division R2: **Carine HENRY**

HUMAN RESOURCES AND SUPPORT FUNCTIONS DIRECTORATE

Director: **Anne-Sophie MARTENOT**
Deputies: **Jean-Marc SERROT**, **Fabienne LASSERRE**
- Human Resources Division: **Christine DECUBRE**
- Operational Support, Functional and Application Management Division: **Freddy LATCHIMY**
- Financial Management Division: **Muriel LECORNU**

CROSS-FUNCTIONAL AND SPECIALISED SUPERVISION DIRECTORATE

Director: **Emilie QUEMA**
Deputy: **Olivier MEILLAND**
- Internal Models Division: **Taryk BENNANI**
- Supervision of AML Procedures Division: **Patrick GARROUSTE**
- On-site Inspection Team of Insurance Institutions

Quality Control Division: **Aude-Emmanuelle DUMONT**

Communication Unit: **Sophie BALSARIN**

Fintech Innovation Unit: Director: **Olivier FLICHE**

ACPR GENERAL SECRETARIAT

Secretary General
Édouard FERNANDEZ-BOLLO

First Deputy Secretary General
Patrick MONTAGNER

Deputy Secretaries General
Bertrand PEYRET
Frédéric VISNOVSKY

BANK SUPERVISION (DIRECTORATE 1)

Director: **Evelyne MASSE**
Deputy: **Ludovic LEBRUN**
- Division 1: **Cédric PARADIVIN**
- Division 2: **Jacqueline THEPAUT-FABIANI**
- Division 3: **Corinne PARADAS**
- Division 4: **Laure QUINCEY**

BANK SUPERVISION (DIRECTORATE 2)

Director : **Philippe BERTHO**
Deputy : **Jean-Gaspard D'AILHAUD de BRISIS**
- Division 5: **Thomas ROS**
- Division 6: **Philippe BUI**
- Division 7: **Audrey SUDARA-BOYER**
- Division 8: **Muriel RIGAUD**

INSURANCE SUPERVISION (DIRECTORATE 1)

Director: **Bruno LONGET**
Deputy: **Claire BOURDON**
- Brigade 1: **Nathalie PAILLOT-MUHLHEIM**
- Brigade 2: **TBA**
- Brigade 3: **Sébastien HOUSSEAU**
- Brigade 4: **Olivier DESMETTRE**

INSURANCE SUPERVISION (DIRECTORATE 2)

Director : **Violaine CLERC**
Deputy : **Eric MOLINA**
- Brigade 5: **Anne-Laure KAMINSKI**
- Brigade 6: **David FAURE**
- Brigade 7: **Didier POUILLOUX**
- Brigade 8: **Didier WARZEE**

RESEARCH AND RISK ANALYSIS DIRECTORATE

Director
Laurent CLERC
Deputies
Bertrand COUILLAULT
TBA
- Insurance Risk Analysis Division: **Anne-Lise BONTEMPS-CHANEL**
- Statistical Studies and Publications Division: **Denis MARIONNET**
- Banking Risk Analysis Division: **Emmanuel POINT**

INTERNATIONAL AFFAIRS DIRECTORATE

Director
Frédéric HERVO
Deputies
Marie-Cécile DUCHON
Emmanuel ROCHER
- Banking International Division: **Philippe BILLARD**
- Insurance International Division: **Nathalie QUINTART**
- Accounting Affairs Division: **Sylvie MARCHAL**
- SSM Secretariat and Coordination Division: **Sylvain CUENOT**

LEGAL AFFAIRS DIRECTORATE

Director
Henry de GANAY
Deputy
Barbara SOUVERAIN-DEZ
Board Services:
Patricia AMINOT
- Institutional Affairs and Public Law Division: **Laurent SCHWEBEL**
- Private and Financial Law Division: **Hélène ARVEILLER**
- AML and Internal Control Division: **Marine HAZARD**

SANCTIONS COMMITTEE DIVISION

Head of Division:
Jean-Manuel CLEMMER

AUTHORISATION DIRECTORATE

Director
Jean-Claude HUYSSEN
Deputy
Geoffroy GOFFINET
- Banks and Investment Firms Division: **Jérôme CHEVY**
- Specialised Procedures and Institutions Division: **Julia GUERIN**
- Insurance Institutions Division: **Julie BRIAND**

SUPERVISION OF BUSINESS PRACTICES DIRECTORATE

Director
Nathalie BEAUDEMOULIN
Deputy
Flor GABRIEL
- Oversight of Contracts and Risks Division: **Patrig HERBERT**
- Intermediaries Supervision Division: **Sophie BERANGER-LACHAND**
- Consumer Information and Complaints Division: **Caroline de HUBSCH-GOLDBERG**
- Coordination Division: **Jean-Philippe BARJON**

Management Committee

Seated from left to right:
Philippe Bertho,
Bruno Longet,
Émilie Quema,
Violaine Clerc.

Second row, from left to right:
Evelyne Massé,
Laurent Clerc,
Anne-Sophie Martenot,
Henry de Ganay,
Olivier Fliche,
Jean-Claude Huyssen,
Frédéric Hervo.

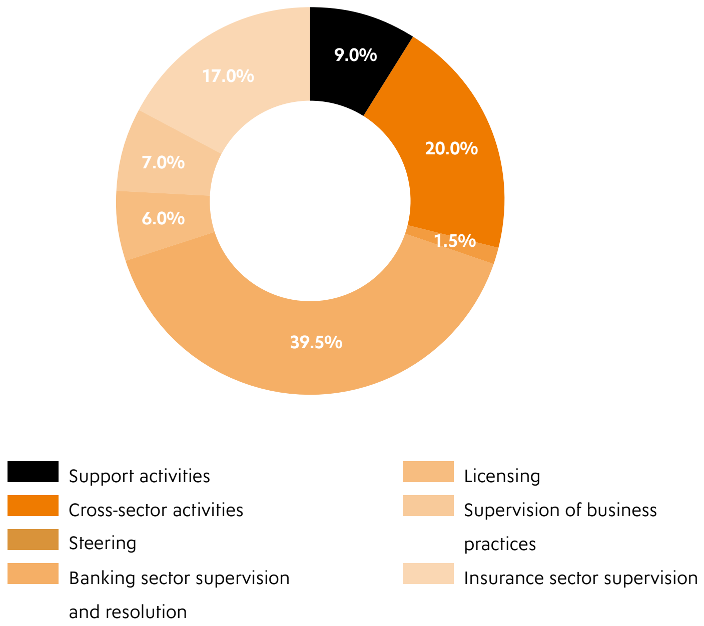
Not present:
Nathalie Beaudemoulin
and Jérôme Schmidt.

Deputy secretaries general

Patrick Montagner,
First Deputy Secretary General

Bertrand Peyret,
Deputy Secretary General

Frédéric Visnovsky,
Deputy Secretary General



In 2018, the ACPR kept up its intensive training effort, with staff receiving over 30,000 training hours, which went towards improving business area expertise and providing tailored training courses to new hires.

The ACPR moves to new offices: the InTown Building, 4, Place de Budapest

ACPR staff moved to new offices in the InTown Building in July 2018. Over 800 people, who were previously split between two separate buildings, are now housed together under one roof at 4, Place de Budapest in the ninth arrondissement of Paris, near the Saint Lazare train station. The 200 or so staff responsible for on-site inspections of credit institutions and investment firms will move in spring 2019 to a nearby building on rue de Londres. These relocations will deliver substantial rent savings while also greatly improving working conditions, thanks to new workstation layouts, numerous collaborative workspaces and more extensive use of occasional and permanent teleworking arrangements.

3. Key focus areas in 2018

In 2018, the ACPR concentrated on the main identified risks in the banking and insurance sectors, namely:

- macroeconomic risks linked to the low interest rate environment and business conditions, especially the potential consequences of the United Kingdom's withdrawal from the European Union (Brexit);
- compliance risks (business practices, AML/CTF);
- structural risks linked to property market values, digitalisation, climate change and the impact of regulatory reforms.

The ACPR examined a number of issues relating to these risks.

In the banking sector, the ACPR looked particularly at questions related to digitalisation, including stricter regulation of cryptoassets and the business models of online banks and neobanks. It also paid specific attention to the operational implementation of banking inclusion schemes and efforts to transpose Basel Committee standards into a European regulation.

In the insurance sector, the ACPR monitored how insurers were adjusting their business models to the low interest rate environment and considered risks linked to the hunt for yield. It examined approaches to doing business under the freedom of establishment and the freedom to provide services as regards certain type of risk (construction insurance and medical liability insurance). And it kept track of legislative and regulatory developments, especially transposition of the Insurance Distribution Directive and the 2018 review of the Solvency II Directive.

The ACPR continued to keep a close watch on all aspects of behavioural risk:

- within the framework of its customer protection responsibilities, by adopting a position on placements without a firm commitment, investment advice and business consulting on questions of capital structure, industrial strategy, mergers and acquisitions, and by issuing a warning on business practices in loan insurance;
- in the area of AML/CTF, by updating guidelines and sector enforcement principles, including those on know-your-customer (KYC) aspects, politically exposed persons, Tracfin reporting and disclosure obligations and correspondent banking.

The ACPR carefully monitored the consequences of Brexit for institutions and organisations authorised to do business in France, acting in coordination with European supervisory authorities, supervisors in the United Kingdom and other European Union member states, and, in the case of the banking sector, with the European Central Bank.

The United Kingdom's withdrawal from the European Union (Brexit)

On 29 March 2017, the United Kingdom (UK) officially triggered the procedure to withdraw from the European Union (EU), as provided for by Article 50 of the Treaty of Lisbon. In the event of a no-deal Brexit, where no agreement is reached on the provisions governing future relations between the UK and the EU, Britain will cease to be a member of the EU.

For financial services, including banking, insurance, investment services and payment and electronic money services, a withdrawal would mean the immediate loss of European passporting rights for UK entities offering cross-border financial services in the EU, whether under the freedom to provide services, i.e. directly by the UK-based entity, or via the freedom of establishment, i.e. through a branch located in the EU country where the service is provided or a network of agents/distributors in the case of payment and electronic money services. By the same token, EU financial entities offering cross-border services in the UK would lose their European passporting rights and ability to offer services in the UK.

The situation in the two sectors can be broken down as follows:

– **Insurance:**
  - 23 French institutions do business in the UK under European passports either via branches or under the freedom to provide services. Of these, 15 continue to write premiums, while eight are managing insurance portfolios on a run-off basis. In 2017, total premiums amounted to EUR 450 million and total technical provisions to EUR 635 million, meaning that these activities are on a small scale when compared against the total business of the French institutions in question and the UK business of European insurers;
  - 69 UK insurance institutions have liabilities in France, mainly in non-life insurance, for total premiums in 2017 of EUR 2.8 billion and EUR 7.9 billion in technical provisions.

– **Banking:**
  - 23 French institutions have established branches in the UK, and 129 have passports under the freedom to provide services. The UK accounts for a small share of the total consolidated assets of the three main groups represented in the country (between 5% and 8%), while UK employees make up around 2% of their total headcount;
  - Conversely, the ACPR has received around 2,700 inward passport notifications from UK entities, the vast majority of which concern investment services (over 2,000 notifications), mainly conducted directly from the UK via the freedom to provide services. The ACPR has also received over 400 passport notifications from payment and electronic money institutions.

Accordingly, the ACPR kept watch throughout 2018 to ensure that participants took the actions required by these developments. In the case of French entities doing business in the UK under a European passport:

– in the insurance sector, the largest participants have made good headway in implementing their continuity plans, but some entities remain in wait-and-see mode, in response to statements by the British government;

– in the banking sector, major French credit institutions conducting some or all of their market activities through EU branches have filed applications with the UK authorities for third country branch licences.

The situation looks to be similarly well in hand in the case of UK entities using European passports to do business in France, although there are areas to watch in each sector:

– in the insurance sector, the vast majority of UK institutions with liabilities in France have prepared continuity plans, which include setting up EU bases through subsidiaries in order to continue to write new business and relocating existing portfolios with exposure to European liabilities to Europe, mainly through regulatory portfolio transfers. Over EUR 7 billion in liabilities in France (out of a total EUR 8 billion) are set to be handled this way so that business can continue seamlessly when Brexit happens;

– banks under ECB jurisdiction are showing no major difficulties in drawing up and implementing these plans;

– the largest investment firms have made extensive relocation plans. Smaller firms and payment and electronic money institutions, in contrast, have been slower to draw up their continuity plans. Hoping for a deal and a transitional period, they did not begin submitting relocation applications until summer 2018.

To cover the eventuality of a no-deal Brexit, the French government adopted a number of key provisions through Ordinance No. 2019-75 of 6 February 2019 on measures relating to financial services in preparation for the United Kingdom's withdrawal from the European Union. These are designed in particular to:

– ensure access by French entities to the interbank settlement and settlement/delivery systems of third countries including the UK and the finality of settlements conducted by means of these systems (Art. 1);

– maintain the ACPR's responsibility for supervising contracts entered into pre-Brexit through passports and that continue after the withdrawal, including as regards the exercise of sanction powers (Art. 1);

– ensure that insurance contracts entered into in France pre-Brexit via passports remain in force as part of their management in run-off, and that UK institutions do not receive criminal penalties for unlawfully engaging in insurance activities in France (Art. 2);

– set up a regime to replicate master agreements in order to ensure their full continuity in the area of financial services during Brexit (Art. 3);

– ensure the eligibility of the shares or units of UK entities for inclusion in French equity savings plans (Art. 4).

The ACPR also conducted several analyses and studies, including on the exposure of French banks and insurance institutions to climate change risk and the challenges posed by the digital revolution in the banking and insurance sectors.

Work related to climate risk

In 2018, the ACPR continued its work on analysing the risks associated with climate change in the financial sector. A Climate Change and Supervision network (C2S), comprising all ACPR directorates affected by these issues plus the Banque de France's Financial Stability Directorate, meets monthly. Discussions cover work aimed at developing tools to measure and analyse climate change-related risks as well as the latest developments at international working groups, such as the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), the Sustainable Insurance Forum (SIF), and European groups, including the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Commission's Technical Expert Group. Reflecting its deep commitment to this issue, the ACPR co-chairs EIOPA's sustainable finance working group with the Dutch supervisor.

The ACPR has maintained an ongoing dialogue with the industries under its supervision since it began its initial work in 2015 and assesses the practices developed by professionals to manage climate risk. By conducting bilateral interviews with the marketplace's leading banks and sending a questionnaire to all insurers, the ACPR learns about the organisational arrangements put in place to identify climate change-related risk, as well as measurement tools used and steps taken. Building on work done in 2016 with the French Treasury and the Banque de France, the ACPR released a summary of its interviews with banks in the spring, along with recommendations on the challenges posed by climate change. Feedback from insurers to the ACPR's questionnaire was also published, as was an analysis of reports published under Article 173 of the law on energy transition for green growth.

The ACPR was extensively involved in organising an international conference of supervisors on the financial risks posed by climate change, which took place on 6 April 2018 in Amsterdam. It was also an active participant in the NGFS working group on microprudential supervision, whose work included drafting an initial stock-take of approaches and work by central banks and supervisory authorities concerning the supervision of climate change-related risks. The report was released in April 2019

4. Supervisory priorities for 2019

In prudential oversight, the ACPR will ensure that when supervising significant banking institutions, it maintains the current level of commitment in its support of the European Central Bank (ECB), while when supervising less significant institutions, it will endeavour to make sure that the procedures and tools used by the ACPR are aligned as closely as possible with those of the Single Supervisory Mechanism (SSM). In the insurance sector, supervisory priorities will be focused on the effects of current interest rate levels and the risk of a rate increase, and on improvements to institutions' data quality and management systems, with a particular emphasis on measurement and documentation for quantitative requirements, especially in relation to solvency. The ACPR will also monitor the increased role of governance systems in managing risks in the Solvency II environment as well as implementation of new recovery and resolution provisions.

In customer protection, the ACPR will make sure that professionals are recognising the specific needs of vulnerable customer groups, especially by checking proper application of the banking inclusion scheme and monitoring aggressive canvassing practices in the insurance sector.

In AML/CTF, the emphasis in 2019 will be on continuing work on implementing asset freeze obligations, getting ready for France's international assessment by the Financial Action Task Force (FATF) and strengthening AML/CTF rules applicable to cryptoasset service providers.

In regulation, the priority will be to foster European convergence with a view to implementing Brexit, completing the Banking Union, strengthening EBA's role in AML/CTF, ensuring harmonised application of the Solvency II regime in insurance and preparing for the 2020 review of the directive. Convergence will also be important to the single EU capital market and the oversight of participants operating under the freedom to provide services.

The ACPR will also continue its work on anticipating emerging risks, including those linked to the rise of fintechs, cyber-risk and climate risk. These will be supervised through a threat watch and by conducting communication and awareness-raising campaigns throughout the financial industry. The ACPR will additionally endeavour to grow its international influence by organising conferences and publishing working documents.

Chapter 2

Prudential supervision

2018 key figures

384
LICENSING AND AUTHORISATION DECISIONS

142
ON-SITE INSPECTIONS RELATING TO PRUDENTIAL SUPERVISION

25
NUMBER OF MEETINGS ATTENDED of decision-making bodies of European supervisory authorities (EBA and EIOPA) along with 17 meetings of the ECB's prudential supervisory board

11
***ANALYSES ET SYNTHÈSES* REPORTS PUBLISHED**

4
FORMAL NOTICES

1. Licensing/changes to the structure of the French financial system

Summary of ACPR licensing and authorisation decisions

	ACPR Total		
	Total	Insurance	Banking[1]
Granting of licences, authorisations and registrations	39	7	32
Licence extensions	22	15	7
Waivers and exemptions from licensing and authorisation requirements	13	0	13
Amendments to licences and authorisations	14	0	14
Withdrawals of licences and authorisations	50	14	36
Risk transfer agreements	94	94	0
Administrative changes	32	7	25
Changes in ownership	66	27	39
Mergers, demergers and/or portfolio transfers – Insurance sector	46	46	0
Other	**8**	**5**	**3**
TOTAL	**384**	**215**	**169**

[1] Including investment firms, financing companies and payment institutions.

Relations between the ACPR and supervised undertakings go digital with a new portal

After conducting a study in 2017, the ACPR inaugurated its new Authorisations portal on 5 November 2018.
Since then, all procedures involved in checking the experience, expertise and reputation of effective managers and directors in the banking sector, key function holders in the insurance sector as well as the agents of payment services providers have gone paperless.
By 31 December 2018, over 550 applications had already been submitted to the ACPR by more than 160 institutions using the new channel: half of these concerned the agents of payment service providers, 36% concerned bank executives and directors, while 13% involved executives and key function holders in the insurance sector. The portal is set to be expanded to cover other authorisation procedures in the second quarter of 2019.

1.1 Insurance sector

- The ACPR issued seven new licenses in 2018, up from five in 2017:
  - three institutions were licensed as supplementary occupational pension funds (FRPS) under the new regime established by Ordinance No. 2017-484 of 6 April 2017: the Aviva and Malakoff Médéric groups set up FRPS – Aviva Retraite Professionnelle for the former and MM Retraite Supplémentaire for the latter – while Société d'Assurances de Consolidation des Retraites de l'Assurance (SACRA) opted to convert itself into an FRPS;
  - for the first time in France, a licence was granted to a sub-fund of a securitisation fund (FCT) carrying insurance risks; specifically the sub-fund of the "157 Re 19" securitisation fund co-owned by France Securitisation and BNP Paribas Securities Services was licensed in France to conduct securitisation transactions for the insurance risks of CCR Re, a reinsurer;
  - three licences were issued as businesses previously conducted out of the UK were moved to France. The licences were issued to two companies from the US-based Chubb group (Chubb European Group SE and Ace Europe Life SE), and to Scor Europe SE, which is part of the SCOR group. These licences took effect on 1 January 2019;
- 15 institutions obtained licence extensions to develop new activities;
- As it has in recent years, the French insurance landscape continued to evolve, entailing a substantial number of authorisations for combinations between institutions, which took the form of mergers, portfolio transfers, and memberships of non-ownership-based prudential groups such as group mutual insurance companies (SGAMs) and mutual insurance union groups (UMGs). In 2018, there were seven authorisations for memberships of non-ownership-based prudential groups and 46 mergers or portfolio transfers. Large-scale tie-ups were also seen between major non-ownership-based groups as they sought to unlock synergies and exploit fits between their businesses: the AG2R La Mondiale and Matmut groups combined within a central SGAM, as did the Malakoff Médéric and Humanis Développement Solidaire groups;
- Ordinance 2017-734 of 4 May 2017 amending the provisions relating to mutual institutions, supplemented by Decree No. 2018-56 of 31 January 2018, made it mandatory to amend risk transfer agreements between mutual insurers. These amendments, which have to be submitted for the ACPR's prior authorisation, were responsible for a significant number of authorisations in 2018;
- 1,020 decisions concerning appointments of effective managers and key function holders in the insurance sector were also taken in 2018.

Bringing risk transfer agreements into compliance

Risk transfer is a solution allowing mutual institutions to have their prudential obligations borne by another institution, mutual insurer or union, while retaining ownership of their portfolio and their legal independence.

The Ordinance of 4 May 2017 amending the provisions relating to mutual institutions, followed by the Implementing Decree of 31 January 2018, modified this mechanism, notably by strengthening the commitments and oversight of the mutual insurer or union taking on the obligations with regard to the entity whose risks are assumed.
Under the new arrangements:

- risk transfer becomes total for all insurance transactions of the mutual insurer or union whose risks are assumed;
- the transfer mechanism entails a new mutual guarantee obligation on the part of the entity assuming the risks and applicable to all financial commitments and expenses (including non-insurance-related expenses) of the entity whose risks are assumed;
- the mutual insurer or union to which the risks are transferred shall have enhanced oversight powers over the entity whose risks are assumed. In particular the board of directors or general meeting of the entity to which the risks are transferred must give its prior authorisation for any major management decisions by the mutual insurer whose risks are assumed, including setting benefits and contributions, appointing senior executives and determining the pay policy.

Affected mutual insurers and unions had until 31 December 2018 to bring their risk transfer agreements into compliance with the new regulatory framework and get authorisation from the ACPR. Accordingly, the agreements of 84 risk-transferring institutions were amended by riders in order to bring them into compliance with the new legal framework and were authorised by the ACPR. In 2019, the ACPR then announced that the licences of these 84 mutual insurers or unions had lapsed.

1.2 Banking sector

Authorisation highlights in 2018 included the following:

- more restructuring within the mutual credit institutions of the BPCE group, with two mergers in the Banques Populaires and Caisses d'Épargne networks, and within the Crédit Coopératif network of mutual guarantee companies (whose population shrank from 42 to 33);
- concentration on the private management market, illustrated in particular by the takeover of investment firm Selection 1818 by the Nortia group, and the takeover of the Finaveo & Associés savings product distribution platform by a consortium of buyers operating in the insurance sector;
- an overhaul of trading procedures on the Negotiable EUropean Commercial Paper (NEU CP) market, with the authorisation of a dedicated multilateral trading facility promoted by Orange in partnership with the market's main participants;
- licensing of new payment participants in connection with the second Payment Services Directive (PSD2) and a sharp increase in the number of agents authorised by the ACPR to provide services on behalf of licensed participants in the payments sector (2,714 agents registered by the ACPR in 2018 compared with 1,259 in 2017);

Implementation of the second Payment Services Directive (PSD2)

The second European Payment Services Directive (Directive (EU) 2015/2366 – PSD2) came into force on 13 January 2018. The main change introduced by the new legislation, aside from strengthening security-related aspects, consists in regulating a new class of participants with access to bank accounts.

Transposed into French law by Ordinance No. 2017-1252 of 9 August 2017 supplemented by the decrees published on 31 August 2017, PSD2 created two new payment services, which must be licensed by the ACPR before being provided:

- payment initiation, which allows users to perform credit transfers from a payment account through an intermediate service provider;
- account information, which allows users to retrieve information about all their payment accounts on a single interface through an intermediate service provider.

Since 13 January 2018, participants providing this (these) service(s) have been required to be licensed by the ACPR as a payment institution if they provide payment initiation services or to be registered as an account information service provider if they provide only account information services. Compared with more conventional payment service providers, these new providers are subject to more streamlined requirements, consisting mainly of security requirements and the obligation to take out professional indemnity insurance.

The ACPR, which was one of the first European authorities to issue these types of licences, has so far authorised seven companies that specialise in account information services. Some of these firms have taken advantage of the new regulations to expand their service line-up by adding payment initiation services. A further 17 institutions licensed in other EU countries have also applied for European passports to offer their services in France.

This is a growing market. Account information services are developing beyond budgeting applications offered directly to users. In particular, bank data can be shared, with the user's consent, with other partners that can use them in turn to offer other services, such as automatically recording transactions going through payment accounts, setting up loyalty programmes or assessing customer solvency.

A major step still needs to be taken however to finalise the development of these new services: by September 2019, banks must develop and implement application program interfaces (APIs) to protect and facilitate the exchange of data with the new participants, in order to comply with the regulatory technical standards adopted in March 2018 as part of implementing the directive.

- issuance of the first Brexit-related licences, including for National Bank of Kuwait, a credit institution authorised by the ECB, investment firm Bank of America Securities Europe S.A., and JCB International France, a payment institution that is also the subsidiary of a Japanese group providing card payment solutions. By early 2019, 90 institutions that are currently based in the United Kingdom had reached out to the ACPR regarding plans to relocate to France, of which 67 had already submitted or announced their intention to submit a licence application;
- since the SSM was established, licences, licence withdrawals and acquisitions of qualifying holdings for credit institutions have been authorised by the ECB based on proposals from the ACPR: 27 common procedures were handled in 2018;
- the ACPR processed 1,962 appointment and reappointment applications for effective managers and directors of credit institutions, investment firms, financing companies, payment and electronic money institutions; the ACPR and the ECB may object to these appointments if the individuals in question do not meet the requisite criteria for experience, expertise and reputation.

Insurance sector	31/12/2017	31/12/2018	Change 2017/2018
Insurance institutions			
Insurance companies	267	260	-7
Supplementary occupational pension institutions	0	3	3
Reinsurance companies	14	12	-2
Non-EU country branches	4	4	0
Social Security Code	**285**	**279**	**-6**
Provident institutions	36	35	-1
Social Security Code	**36**	**35**	**-1**
Mutual insurers governed by Book II and not backed by larger partners	310	301	-9
Mutual insurers governed by Book II and backed by larger partners	111	98	-13
Mutual Insurance Code	**421**	**399**	**-22**
Total licensed undertakings and undertakings not requiring a licence	**742**	**713**	**-29**

Banking sector	31/12/2017	31/12/2018	Change 2017/2018
Banks	145	143	-2
Mutual and cooperative banks	82	80	-2
Municipal credit banks	18	18	0
Specialised credit institutions	76	72	-4
Branches in France of institutions whose registered office is in a non-EU country	18	19	1
Credit institutions licensed in Monaco	19	19	0
TOTAL CREDIT INSTITUTIONS (licensed in France and Monaco)	**358**	**351**	**-7**
TOTAL INVESTMENT FIRMS (licensed by the ACPR)	**75**	**79**	**4**
Financing companies	156	151	-5
o/w mutual guarantee companies	*42*	*33*	*-9*
Dual status: financing companies and investment firms	4	4	0
Dual status: financing companies and payment institutions	21	20	-1
TOTAL FINANCING COMPANIES	**181**	**175**	**-6**
TOTAL PAYMENT INSTITUTIONS (licensed by the ACPR)	**29**	**33**	**4**
TOTAL ACCOUNT INFORMATION SERVICE PROVIDERS		**2**	**2**
TOTAL ELECTRONIC MONEY INSTITUTIONS (licensed by the ACPR)	**8**	**10**	**2**
Total licensed banking institutions	**651**	**650**	**-1**
TOTAL THIRD-PARTY FINANCING COMPANIES	**1**	**2**	**1**
TOTAL MONEY CHANGERS	**178**	**177**	**-1**
Total other institutions authorised by the ACPR	**179**	**179**	**0**
Branches of EEA institutions operating under the freedom of establishment			
Branches of insurance institutions	*73*	*76*	3
Branches of credit institutions	*66*	*63*	-3
Branches of investment firms	*57*	*67*	10
Branches of payment institutions and electronic money institutions	*20*	*22*	2
Total branches operating under the freedom of establishment	***216***	***228***	**12**

2. Prudential oversight

2.1 Insurance sector

Analysing risks linked to the low interest rate environment

In 2018, monitoring the risks linked to the low interest rate environment remained a priority for the ACPR in its supervision of insurance institutions. Nominal rates on the benchmark instruments in which life and combined insurance institutions invest their cash and cash equivalents – French 10-year government bonds especially – have been below 1% since 2014. This prolonged situation puts a drag on the recurring portion of the return earned on assets, which fell from 3.2% to 2.6% for the main French market participants between 2013 and 2017.

Insurers have had to take a variety of measures to cope with the current financial environment. Revaluation rates for non-unit linked funds have been slashed and averaged 1.83% in 2017 compared with approximately 3% five years earlier, owing to the ongoing decline in bond yields. While revaluation rates had been heading downwards steadily since 2010, they fell especially sharply between 2013 and 2016. The rate of decline then slowed in 2017, a trend that appeared to be continuing for 2018 rates announced in early 2019. Insurers have also ramped up allocations to the profit-sharing reserves that hold profits to be paid to policyholders within eight years and that increased from 1.4% of outstanding non-unit linked life insurance at end-2011 to 3.9% at end-2017 among the main insurers. Inflows of new money, meanwhile, are being steered into unit-linked products: redeemable non-unit linked products saw net outflows of EUR 1.2 billion in 2018, after net outflows of EUR 19.4 billion in 2017, while redeemable unit-linked instruments recorded net new money of EUR 21.3 billion in 2018, compared with EUR 24.4 billion in 2017. At end-2018, the total value of life insurance policies stood at approximately EUR 1.700 trillion, with unit-linked funds accounting for EUR 334 billion of this.

In 2018, the ACPR therefore continued its efforts to measure the risks arising from prolonged exposure to extremely low interest rates, particularly with a view to identifying the institutions most exposed to a sudden run-up in rates or a continuation of the current environment. It also urged insurance institutions to pursue the preventive measures that they have been taking in recent years. Attention focused primarily on revaluation policies for life insurance products, and the financial terms applied to new policy sales in compliance with the duty to provide advice to customers and with the investment policy.

Sector developments

The consolidation trend continued in 2018, especially in health and death & disability. Recent reforms (*Accord national interprofessionnel*,[1] clause naming an insurer in collective agreements, "responsible" policies with tax benefits for employers, "100% health" plans) have made certain structural adjustments necessary, while future reforms, including "patient pays zero" measures, will add to the need to make changes. In death & disability, the 2010 pension reform, demographic patterns and the economic environment have all pushed up the technical cost of claims. At the same time, institutions are having to contend with reduced financial profitability owing to the low interest rate environment, whilst also adapting to the increased requirements of Solvency II. But they have limited room to pass on these additional costs to prices in a fiercely competitive market. For all these reasons, the pace of concentration has picked up in the sector. In this setting, the ACPR continues to keep a close watch on assessments of liabilities, cost control and forward-looking risk management.

Ensuring proper application of Solvency II

In 2018, ACPR staff continued to work actively to promote optimal implementation of the technical aspects of Solvency II.

As regards prudential balance sheet and risk assessments, the 20 or so on-site inspections found that, as a rule, the documentation provided on calculation methods, assumptions and underlying data had improved. However, significant efforts are still needed to better demonstrate compliance with certain regulatory requirements and the appropriateness of simplifications used in some calculations and to ensure traceability in these areas.

These requirements apply in particular to the calculation of the solvency ratio and technical provisions, both in life insurance (future management actions and behavioural assumptions, expense modelling, contract boundaries, economic scenario generators and the look-through approach for UCITS) and in non-life insurance (segmentation into homogeneous risk groups, data quality, premium risk). About ten on-site inspections focused specifically on a review of future management actions introduced in valuation models for technical provisions. They revealed a wide spread of practices, requiring increased vigilance by the ACPR owing to their major impact on the solvency of life insurance institutions as well as more clearly documented explanations from the institutions themselves about their choices in this regard.

Activity relating to internal models was also sustained owing to new requests to approve models and especially to review amendments to existing models. As it does with users of the standard calculation formula, the Authority will take care to ensure that institutions have a proper command of the many underlying assumptions used. It will also monitor the governance arrangements of these models, including validation, the policy for changing models, and other aspects.

The ACPR continued to check data quality in 2018, assessing the credibility of prudential indicators by looking not only at the robustness of valuation models but also at the quality of input data, whether these data are used to summarise customer portfolio characteristics, compile aggregates or build assumptions and parameters. As in 2017, insufficient recognition of data-related aspects in governance and internal control systems intended to perform and validate prudential calculations was again a major focus for the ACPR. Insurance institutions must vigorously pursue their efforts in this area, taking special care to identify, prioritise and document data to ensure the traceability of prudential information. In addition, the quality of data, whether from internal or external processes, must be regularly assessed using criteria and thresholds that are shared by the units in charge of producing the data but also by institutions' internal control organisations.

1. *Accord national interprofessionnel* (ANI – national cross-industry agreement) of 11 January 2013 on supplementary health insurance.

Information system security raises integrity, availability and confidentiality issues that encompass data, the technical environments that record, convey or produce them, as well as the tools that use them. It is therefore another prerequisite to ensuring robust prudential calculation processes. Yet ACPR inspections in 2018 found once again that institutions were overly confident in their control and security systems, especially entities outsourcing these systems, including through cloud-based arrangements, and were not doing enough to anticipate the risks linked to digital innovation.

Finally, the increased Pillar 3 reporting and disclosure requirements introduced under the Solvency II framework, both in terms of the volume and complexity of information required, entailed major changes to upstream systems, i.e. management databases, and as well as to the downstream systems handling data consolidation and transmission. With reporting and disclosure requirements evolving on a regular basis, institutions must take care to maintain the IT systems used to ensure compliance with these obligations.

Data quality needs to be understood as an essential element in steering business activity and solvency. The ability to implement effective data governance is a strategic asset and offers a key competitive advantage to insurers that have a proper command of this area. The principles for the governance and internal control of data quality that cover the calculation of regulatory data (Pillar 1) must therefore be extended to the provision of information for data collection sheets and narrative reports to the supervisor. Yet while the second annual data collection campaign since Solvency II came into force certainly pointed to marked progress in overall compliance, particularly as regards completeness, several areas for improvement, most of which were already highlighted last year, still remain when it comes to meeting the main regulatory requirements on data quality (completeness, appropriateness and exactness).

The ACPR also continues to keep a close watch on consistency between the data that are sent to it and those that are made public. With a view to ensuring that the general public is properly informed, some analyses of solvency and financial condition reports and regular reports to the supervisor highlighted the need to strengthen the accessibility and consistency of qualitative assessments (multi-year perspective, assessment of effects of measures under the long-term guarantees package).

Insuring against cyber-risk

Cyber-risk has been one of the top-five threats identified by company risk managers for some years. Responding to the rise in cyberattacks, the specific coverage first introduced to professional insurance policies a decade or so ago has evolved into a line of dedicated insurance products designed to protect explicitly against the consequences of a cyberevent. The aim is to address the primary concerns of businesses by offering cover for business resumption, lost income and third-party liability. In 2018, the ACPR conducted fact-finding missions with a panel of insurers operating on the French market to draw up an overview of this new insurance risk.

Most of the insurers interviewed have adopted a cautious and scalable approach given the systemic nature of this risk, which lies on the boundary between serial, catastrophe and epidemic risk. This is illustrated in the way in which they have set up ad hoc structures to observe cyberevents, design coverage, with input from cyber-risk experts, and draw up selection criteria and subscription documents.

However, while the risk seems to be well monitored for now in the case of affirmative coverage, the same is not true for implicit or non-affirmative coverage, i.e. included in older and more conventional policies drawn up before cyber-risk was specifically identified and that provides unintended protection against some of the consequences of damage caused by cyberincidents. Moreover, to cope with the rise of this risk, which is hard to avoid given the interconnectedness of information systems, greater use of outsourcing including through cloud systems and the introduction of connected devices in homes and workplaces, insurers have lots to do to clarify the definitions used for the many symptoms of cyber-risk and to ensure that compensation clauses are clear and robust. Efforts to simultaneously provide training for distribution networks and raise awareness should help to spread a culture of cyber-risk and promote the introduction of risk-prevention measures, making these a requirement before taking out a policy, similar to what happens with some property & casualty coverage. In addition, insurers have significant work to do in terms of building reliable statistical databases.

Construction insurance in France

Mandatory construction insurance in France, namely construction liability insurance (*responsabilité civile décennale*) and building damage insurance (*dommages-ouvrage*), has highly specific features, which are reflected in particular in the fact that claims are managed over very long periods and in the need to capitalise over the long run on the insurance premium earned when the policy is taken out, i.e. no later than when the construction work begins.

This situation makes it hard for new entrants to compile reliable statistics on this segment based on their own data alone, since they may have to wait almost 30 years to observe a complete underwriting exercise (settlement of all claims and collection of all recoveries). Market data therefore need to be used to make up for the lack of historical information. With this in mind, in February 2018 the ACPR published a study in the *Analyses et Synthèses* section of its website providing statistics compiled from a representative sample of French construction participants, which offered some statistical benchmarks for key parameters in this area. The study (No. 86) is entitled "Some statistics concerning the French construction insurance market (building damage insurance and construction liability insurance)".

In recent years, direct French business has been worth an average of EUR 2.1 billion in premiums written annually, with building damage policies accounting for just over one-quarter. On average, the total cost of claims for a given underwriting exercise (including claims management costs but net of recoveries) is less than 100% of premiums after deducting acquisition costs for building damage insurance (owing in particular to the important role played by recoveries, which reduce the final cost for the insurer) but is above 100% for construction liability insurance. These statistics do not count investment income.

In practice, the economic balance of these two businesses is highly dependent both on the rate of return on investments and the future inflation rate, and it is important that insurers are able to anticipate these factors. To illustrate this point, consider that, in a given economic environment, a one-point reduction in the rate of return on investments over the claims settlement period or a one-point increase in inflation over the same period would require a relative increase of 10% in the net premium to maintain the economic balance of these insurance policies.

The financial difficulties encountered by some foreign insurers operating in France under the freedom to provide services act as a drag on the accounts of solvent French businesses via two distinct mechanisms. First, it is hard for French insurers providing building damage coverage to take action against struggling or insolvent insurers. Second, in a situation where several insurers have construction liability insurance exposures to the same project, a solvent French insurer may have to pay the entire insurance benefit to the policyholder without being able to argue limited liability, if a court ruling has found in favour of the policyholder in a joint and several action against all the participating insurers.

Governance oversight

In 2018, the ACPR continued the thematic review of insurers' governance arrangements that it began in 2017, in order to verify compliance with the rules introduced by Solvency II as well as with those of recognised international standards. Between 2017 and 2018, the ACPR completed 13 specific inspections; in some of these, representatives from the ACPR's General Secretariat sat in as silent observers on board meetings to assess the content of discussions as well as the quality of the documents presented.

These inspections were designed to make sure that insurance institutions were following and taking ownership of the rules. Accordingly, particular attention was paid to the composition and operating procedures of the board of directors or supervisory board, with a focus on the collective expertise of members, relations with specialised committees, reporting quality, interactions with senior executives, and quality of information provided. Inspections also sought to make sure that the institutions were under effective management, that the "four-eyes" principle was applied, that key function holders performed oversight and had access to supervisory bodies. The broader aim was to assess the quality of risk management and internal control systems, in particular by analysing the own risk and solvency assessment (ORSA) process. Outsourcing was another area of focus, with attention being paid particularly to the ability of insurance institutions to identify important or critical outsourced activities and to oversee service providers, in order to keep their risks under control.

New crisis prevention regime

Under the regime for the prevention and management of individual crises introduced by Ordinance No. 2017/1608, insurers are required to submit preventive recovery plans in 2019. These plans, along with resolution plans, must be approved by the Supervisory and Resolution Colleges.

Preventive recovery plans in the insurance sector

The regime for the prevention and management of insurance crises introduced by Ordinance No. 2017/1608 requires insurance institutions or groups whose total assets exceed a threshold – set by the Decree of 10 April 2018 at EUR 50 billion – to submit preventive recovery plans. These plans must be submitted for the first time to the ACPR in 2019.

The preventive recovery plan must enable the group or institution to hold advance discussions during a non-crisis period that will enable it to manage a near-failure situation by restoring its financial and prudential balance or by organising an orderly run-off of business. The starting point for the plan is the assumption that exceptional steps must be taken to restore viability. While an ORSA is performed with a view to ongoing risk management, a preventive recovery plan considers a major crisis entailing exceptional corrective measures.

The plan must include a condensed and operational summary of the plan itself and its expected effects, a brief description of any changes in the legal structure, organisation or activity of the group, a list of the entity's critical functions, i.e. functions with an impact on financial stability or economic participants, a description of interdependencies within the group and an analysis of the measures necessary to ensure the activity's operational continuity. At least three crisis scenarios must be considered, including an idiosyncratic scenario, a systemic scenario and a scenario combining both, with an analysis of their respective impacts. These scenarios must lead to a near-failure situation and be tailored to the specific features of the entity in question. The plan should contain a set of indicators to monitor the group's financial situation and thresholds beyond which appropriate measures must be taken; at the very least, these indicators should cover solvency, liquidity, underwriting profitability and financial profitability. The plan should also include credible recovery measures, including their impact, implementation timeline and limits. A crisis communication plan targeting recipients both within the organisation and outside (public, investors, supervisors) should also be provided for in the event that the institution enters a "recovery" situation.

2.2 Banking sector

Assisting the ECB in the supervision of major banking groups

The ACPR provides significant support in the ongoing supervision of France's 11 major banking groups, or significant institutions (SIs), that are directly supervised by the ECB. This supervision is performed by Joint Supervisory Teams (JSTs), which are more than 50% made up of ACPR employees, with the Authority providing 113 FTE staff in addition to the personnel supplied by the ECB and the other national authorities from countries where these banks do business. ACPR staff are also involved in the work of eight other JSTs in charge of supervising European SIs operating in France through subsidiaries or branches.

Reporting to the JST coordinator at the ECB and the local coordinator at the ACPR, the ACPR's supervisory staff implemented the annual supervision programme, which was designed to reflect the size and risk profile of each banking group and SSM priorities for 2018.

As in past years, the work done in 2018 was organised around the annual Supervisory Review and Evaluation Process (SREP). Under this approach, each institution is assigned an overall score, which may give rise to additional Pillar 2 capital requirements (P2R).

More information at:
SSM SREP Methodology Booklet.

The annual evaluation was supplemented in 2018 by a Europe-wide stress test organised by EBA, which was used to measure the capital losses that would be incurred by banks if the shocks identified in the scenario were to occur. The test results were considered by the ECB when establishing Pillar 2 guidance (P2G), which rounds out the P2R. By complying with the guidance and requirements, institutions should ensure that they have adequate capital throughout the entire business cycle.

The JSTs also completed cross-cutting thematic reviews decided on and executed based on SSM priorities. Specifically, the reviews covered business models and profitability drivers (including the consequences of the low interest rate environment), preparations of French institutions for Brexit, credit risk (in addition to the level of non-performing loans at some banks, IFRS 9 implementation was also analysed), risk management (covering, among other things, the targeted review of internal models (TRIM – see below)) and internal capital and liquidity adequacy assessment processes (ICAAP and ILAAP). Special attention was paid to ICAAPs, given the key role that these are going to play going forward when the SSM sets additional capital requirements for institutions.

European inspection campaigns

The European inspection campaigns trace their origins back to 2016 and the SSM's decision to conduct a cross-cutting analysis of shipping-related credit portfolios at six European banks. The first campaign, which ended at the start of 2018, marked the advent of a new approach to on-site inspections under ECB supervision. In 2018, there were three new campaigns, including two ECB-coordinated campaigns on residential and commercial property financing that concerned French institutions. In 2019, in addition to continuing the previous campaigns, three new campaigns will be started, on leveraged finance (coordinated by an ACPR inspector), information system continuity and the measurement of financial instruments during market operations.

The campaigns feature multiple inspections covering the same theme and launched at several institutions in successive waves, potentially over more than one year. Pursuing shared objectives, they follow a methodology that is typically developed in the months leading up to their launch. As with credit risk inspections, the pre-inspection requests submitted to institutions are also harmonised. The campaigns are coordinated by the ECB and/or an inspector appointed within a national supervisory authority. The coordinator has the twofold role of chairing the methodology development team and coordinating the community of lead inspectors once the campaign is underway. As such, the coordinator makes sure that inspections are proceeding properly and in accordance with the specifically designed methodology. To do this, he or she is supported by the team that drew up the methodology, whose responsibilities thus shift from a drafting to a coordinating role.

In addition to harmonising investigation methods, the campaigns offer a way to share experiences and skills within the SSM, and build the technical knowledge of inspectors specialising in a given area during the campaign, which enhances the SSM's credibility and promotes greater acceptance of the results by institutions. Because they use shared methods, they also facilitate comparisons between institutions. However, the campaigns are a considerable drain on resources over relatively long periods, both for the inspection teams themselves and within the coordination groups, so the SSM must be selective when determining the themes for these campaigns.

Specific in-depth analyses of individual institutions were also conducted, especially on operational and credit risk. Combining these various initiatives offers a comparative insight into sector-wide issues while capturing the specific situation of each institution.

In all, 45 on-site inspections were conducted on the ECB's behalf at major French banking groups under direct ECB supervision. Of these, 18 inspections concerned the approval and/or review of internal models, particularly within the framework of the TRIM project. Launched in 2016 and set to continue in 2019, the TRIM reviews are designed to check the quality of the internal models used by banks to measure their Pillar 1 capital requirements (core capital requirements to which are added capital buffers and Pillar 2 requirements as required). Themes reviewed as part of general inspections included systems for managing and controlling IT, credit, counterparty, market and operational risk, and governance.

Supervision of less significant institutions

In 2018, the ECB continued work on harmonising the methods for supervising smaller institutions that remain under the direct supervision of national authorities. There are 115 of these «less significant institutions» (LSIs) in France and about 3,000 in the SSM as a whole. The ECB is developing uniform standards and procedures to ensure equal treatment by the 19 national authorities.

Specifically, efforts in this area included finalisation of the SREP for LSIs, which was formally approved by the SSM Supervisory Board in early 2018. This involved a test exercise for nine French LSIs as well as significant work by the ACPR staff responsible for their supervision. Derived from the methodology applicable to SIs, the LSI SREP incorporates the proportionality principle and includes more room for supervisory judgement in order to recognise the specific nature of the activities carried on by some LSIs. The SREP has been applied at least to "high-priority" LSIs since 2018, and national authorities are being encouraged to extend it to other LSIs by 2020. The principles underpinning this methodology are largely consistent with the approach customarily taken by staff at the ACPR, which confirmed in 2018 that profitability and operational (especially cyber) risks remain the main challenges for the French LSI sector in the current economic environment.

More information at:
SSM SREP for LSI Methodology Booklet

ACPR staff provided input to work on drafting and implementing Joint Supervisory Standards (JSS). The new standards tackle various aspects of crisis management, such as the procedures governing exchanges between the ECB and national authorities in these situations, but they also address automobile financing, on-site inspections and the planning of supervisory activities. Several of these standards will be made public in the first quarter of 2019. Joint ECB/national authority working groups are also working on issues such as the implications of IFRS 9 adoption, fintech challenges and IT risk assessment.

Another highlight of 2018 was the work done on stress tests conducted by national authorities, which may be used to inform the annual LSI risk assessment. Conducted by a committee chaired by the ACPR and including representatives from most of the national authorities and the ECB, this work was used to draw up a precise inventory of current practices in each component part of these supervisory exercises (methodologies, scope, frequency, use made and communication of results) and to identify points of convergence or divergence between authorities. These efforts will continue in 2019 with the aim of identifying and promoting best practices, deepening the methodological principles and shared tools that already exist, while upholding the principle of proportionality.

Supervision of institutions not covered by the SSM

In 2018, the ACPR put considerable effort into supervising institutions from the payment sector, i.e. payment institutions and electronic money institutions, whose number increased markedly over the course of the year owing to the emergence of new fintechs but also because of Brexit and the entry into application of the second Payment Systems Directive (PSD2), which led to the creation of a new class of participants: account information service providers, also known as account aggregators.

These institutions often struggle to build profitable business models, whether they are operating in established fields, such as money remittance, or attempting to roll out innovative payment solutions. They have to be closely monitored to ensure that they maintain a level of capital that is commensurate with their obligations and that will enable them to honour their commitments to customers. The ACPR makes sure that they maintain appropriately sized support and control functions, especially to meet their AML/CTF obligations, since most of these participants deal with their customers exclusively on a non-face-to-face basis, which thus requires vigilance and specific due diligence measures. The Authority also continued to keep a close eye on compliance with the rules on safeguarding customer funds, whether protection is achieved by ringfencing or through a guarantee from an insurance or guarantee company. Following on-site inspections and document-based audits, a number of institutions were instructed to strengthen their procedures and make them more reliable, in order to ensure that funds provided by customers are adequately protected at all times.

Brexit also had a fairly significant impact on the ACPR's supervision of investment firms and market undertakings in 2018. A substantial number of UK-based broker-dealers decided to transfer a portion of their business to France by setting up investment firms, some of which command sizeable assets, engage in complex activities and have the potential to offer their customers new functionalities, including systematic internalisation and membership of organised trading facilities (OTFs). In some cases, authorising these new entities involved assessing their internal risk monitoring models in extremely short timeframes to check their robustness and prudence level. This work will continue in 2019 as the ACPR monitors business transfers and makes sure that target organisational frameworks are properly set up.

While regulating new entrants to the Paris marketplace, the ACPR continued to pay close attention to the developing situation of market intermediaries amid the entry into force of MiFID 2 provisions, which require research and execution fees to be charged separately. The changes, which have forced many intermediaries to review their business models, could affect the financial health of the most vulnerable participants.

With European sovereign debt clearing flows being transferred from London to Paris, the ACPR, which is responsible for supervising central counterparties (CCPs), stepped up its watch on these systemically important infrastructures. While continuing its routine supervisory work, particular within the EMIR Supervisory College, which includes supervisory authorities, market surveillance authorities and central banks, the Authority paid special attention to the creation of specific recovery tools for clearing activities and was heavily involved in efforts to improve the ability of the Paris CCP, LCH S.A., to withstand cyber-risk. Internationally, ACPR staff also contributed to work aimed at lessening uncertainty about the post-Brexit regulatory framework for clearing, in terms of the access of European entities to UK clearing and the continuity of flows processed in France.

Review of preventive recovery plans in the banking sector

In 2018, the ACPR continued work begun the previous year by assessing about 100 preventive recovery plans. Following the transposition in late 2016 of the Bank Recovery and Resolution Directive (BRRD), all credit institutions, the most significant investment firms and financing companies subject to the requirement owing to their systemic importance, must prepare these plans, which form an essential component of the regulatory reforms undertaken in the wake of the 2008-2011 crisis to strengthen the stability of the financial system.

By drafting these plans, affected institutions should be able to identify a set of credible and operational measures that would allow them to cope with a major deterioration in their financial situation arising from internal causes or a broader economic or financial crisis.

Given the complexity of the exercise, which involves simulating the institution's own failure and needs to be fully integrated in the entity's risk management and governance arrangements, the ACPR provided institutions with support in implementing the new obligation. In addition to making various presentations to the financial community, ACPR staff held talks with individual institutions on the main components of their plans, from the analysis of core business and the identification of warning indicators to crisis scenario choices and possible recovery options. The ACPR also sent institutions written feedback on the first drafts of plans submitted to it, indicating required adjustments and potential improvements.

The constructive dialogue created through this iterative process enabled most institutions to draft preventive recovery plans that were broadly appropriate, credible and tailored to the entity's business model and specific characteristics. There is still room for improvement however. Warning thresholds, for example, are often set at levels too close to the regulatory minimum and could be better calibrated, proposed stress scenarios are still insufficiently challenging in many cases, and more evidence could be provided to support the feasibility of some recovery options. Furthermore, institutions still have to work on making their plans operational by deploying tools to monitor leading indicators of problems that are fully integrated in day-to-day risk management. More generally, it is vital for institutions to ensure that their recovery plan is a living document by regularly updating it and testing it periodically by means of dry runs involving all affected parties.

All in all, recovery planning has turned out to be a highly stimulating exercise for affected entities and for the ACPR. By thinking about how to improve their crisis resilience, institutions have been forced to review their strengths and weaknesses and, in so doing, make the necessary adjustments to their organisation and/or business model. The ACPR, in turn, has greatly improved its knowledge of the organisation, strategy and critical elements of affected institutions and enhanced its own ability to spot at-risk situations at an early stage.

Macroprudential measures in 2018

At domestic level, the *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability) introduced two new measures in response to rising debt levels and increased lending to non-financial private agents, i.e. households and companies:

1. In accordance with Article 458 of the Capital Requirements Regulation (CRR), it decided to tighten the large exposure limits applied to banks in relation to their exposures to France's most heavily indebted non-financial companies; the measure came into application on 1 July 2018. Accordingly, French systemically important banks must not incur an exposure that exceeds 5% of their eligible capital to groups of connected customers with, at the highest level of consolidation, (i) debt less outstanding liquid assets that exceeds equity and (ii) an interest coverage ratio of less than 3.

This measure has not had a direct impact so far, but it is raising awareness among banks about the risks arising from an excessive increase in the debt of large companies, while encouraging these firms to get their debt under control. On 5 December 2018, the European Systemic Risk Board (ESRB) issued a recommendation calling on other Union countries to apply this measure.

2. In October 2018, the HCSF confirmed that a countercyclical capital buffer (CCyB) set at 0.25% of risk-weighted assets in relation to French exposures would come into force on 1 July 2019. The buffer seeks to mitigate the procyclical behaviour of credit institutions, enabling banks to absorb losses in the event of a cyclical reversal and maintain their credit offering.

Furthermore, by way of reciprocity, other EU and EEA countries will be subject to the CCyB in relation to their exposures in France, while French banks will have to apply to their foreign exposures the corresponding CCyB rate in the country where they are located.

Stress tests in the insurance and banking sectors

In late 2018, EBA and EIOPA published the results of stress tests that they had launched at the end of January and in mid-May respectively. In all, 48 banking groups (including six from France: BNP Paribas, Crédit Agricole Group, BPCE Group, Société Générale, Crédit Mutuel Group and La Banque Postale) and 42 insurance groups (including nine from France: AXA, BNP Paribas Cardif, Crédit Agricole Insurance, CNP, COVEA, Groupama, Assurances du Crédit Mutuel Group, Sogecap and Natixis Insurances), representing around 70% and 75% respectively of the assets of the European banking and insurance sectors, took part. The tests were designed to make a forward-looking assessment of the financial sector's ability to withstand adverse financial environments and to maintain solvency levels in accordance with regulatory requirements.

The ACPR was involved in designing the tests (by defining the stress scenarios) and took over from the European authorities when it came to the operational organisation of the exercises on the French market, working in conjunction with the ECB for the bank stress test.

Stress test results for the banking sector

The bank test consisted in projecting balance sheets under two scenarios (baseline and adverse) covering a three-year horizon and calibrated by the ESRB and the ECB. For the first time, bank projections had to include the effect of implementing International Financial Reporting Standard (IFRS) 9, which came into effect on 1 January 2018 and which led to an average decrease in the Common Equity Tier 1 (CET1) solvency ratio of 10 basis points (bps) for the 48 banks in the EBA sample and a 19 bps decline for the six French banks.

The stress test confirmed the resilience of the overall European banking sector: even though the scenario was more severe than that of the previous year, leading to a larger average decline in the CET1 ratio[1] in 2018 (410 bps decline in the adverse scenario compared with 383 bps decline in 2016), banks in the EBA sample posted a higher CET1 ratio in 2020 (10.3% compared with 9.4% in 2016).

The stress test had a slightly smaller impact on French banks, although it was also more pronounced than in 2016 (385 bps decrease compared with 286 bps decrease). However, the results showed that, as their financial situation improved, the banks' CET1 ratio was projected to match the level at the end of the last exercise (9.7%) by 2020.

Stress test results for the insurance sector

Insurance groups were required to simulate the impact of three shock scenarios on their prudential situation as at 31 December 2017. As with the 2016 test, two financial scenarios (increase in rates, prolonged low rates) were introduced but were accompanied in 2018 by insurance shocks (instantaneous 20% increase in lapses and longevity shock respectively). A third scenario was used to assess the impact of a set of natural catastrophes in the European Union.

EIOPA, which reported the results in aggregate form, said that the test confirmed the European insurance sector's sensitivity to severe but plausible shocks, especially the two scenarios linked to interest rates, i.e. the "yield curve down" scenario of prolonged low interest rates (65-point decline in the aggregate solvency capital requirement (SCR) coverage ratio in Europe) and the "yield curve up" scenario of higher rates (57-point decline in the aggregate SCR coverage ratio in Europe). The 25 groups with material exposure to the events included in the natural catastrophe scenario demonstrated high resilience to the shocks, with a limited decrease in the average solvency ratio, pointing to the importance of the risk transfer mechanisms in place, namely reinsurance, which absorbed 55% of losses. EIOPA said that the sector was adequately capitalised on aggregate to absorb the prescribed shocks.

1 Change in CET1 ratio taking account of transitional measures between 1 January 2018 and 31 December 2020, excluding impact of first-time application of IFRS 9.

3. Active involvement in efforts to adapt the regulatory framework

In 2018, the ACPR continued to be an active and influential participant in the European and international bodies that look after the insurance and banking sectors. In France, the ACPR and the *Compagnie nationale des commissaires aux comptes* (National Institute of Statutory Auditors – CNCC) undertook in July 2018 to update the guide to relations between the ACPR and statutory auditors.

3.1 Insurance sector

Internationally, the ACPR provided extensive input to the work of the International Association of Insurance Supervisors (IAIS). This work continued to explore ways of deepening the measurement of the systemic footprint in the insurance sector, with an approach using a broader scope than that in force until now, the so-called holistic approach, being put out for a public consultation at the end of 2018. Other work focused on developing an international capital measure applicable to major internationally active insurers. Initially, this will provide a benchmark for exchanges within the Supervisory Colleges. Following a five-year observation period, it will be discussed again by the IAIS with a view to possible adoption.

In Europe, the ACPR contributed to work by EIOPA as part of the Solvency II review while also offering input to several other major workstreams. Specifically, several measures were taken to increase EIOPA's involvement in monitoring activities carried out under the freedom to provide services. The ACPR provided much of the driving force in this initiative and was involved in drafting advice on long-term non-life insurance (construction insurance and medical liability insurance) marketed on this basis.

EIOPA set up a working group on sustainable finance in the insurance sector, chaired jointly by one representative from the ACPR and one from the Dutch supervisor. At the European Commission's request, a proposed amendment to the Solvency II delegated regulation was drawn up to recognise sustainability risk and environmental, social and governance (ESG) criteria in the risk management of insurance institutions.

The proposal was put to a consultation of stakeholders that ran until early 2019. This work is set to continue, with a second request from the European Commission, this time covering the integration of sustainability in Pillar 1 of Solvency II.

The ACPR was involved in EIOPA's work on drafting advice on the remuneration policies of insurance institutions, whose broad principles are consistent with those adopted by EBA. It will be published in 2019.

The ACPR continues to monitor work on IFRS 17 on insurance contracts, which is primarily connected with the review of the application difficulties raised by the standard. In fact, the International Accounting Standards Board (IASB) decided in November 2018 to delay the standard's entry into force by one year, pushing it back to 1 January 2022.

Review of the Solvency II Directive

The ACPR participated in EIOPA's review of the Solvency II delegated regulation, which led to publication of a second set of advice in February 2018, after the first set was published in November 2017. This advice proposes, for example, favourable treatment under certain conditions for unrated debt securities and unlisted equities in order to reduce the capital requirement associated with holding such securities. EIOPA's advice was taken on board by the European Commission, which on 7 November 2018 published for public consultation an amended version of the Solvency II delegated act, whose final version was adopted on 8 March 2019.

This review of the delegated act precedes a more general revision of the Solvency II Directive that will give rise in 2020 to a proposal by the European Commission. The third annual report on the long-term guarantee package measures published in 2018 by EIOPA is designed to assess the use of these measures and their impacts on insurer solvency. In 2018, EIOPA began work on assessing the liquidity of insurance liabilities, which also enabled it to respond to a request from the European Commission about the impact of Solvency II on the long-term business of insurers and reinsurers. The findings of this work, in which the ACPR is playing an active role, will help to inform the advice that EIOPA is going to draft in 2019 for the 2020 Solvency II review.

3.2 Banking sector

The Basel Committee's activity was essentially centred on follow-up work after the finalisation of the Basel III Accord on 7 December 2017, which capped off the revision of methods used to measure credit and operational risk. Work was also done to finalise the Fundamental Review of the Trading Book (FRTB); while maintaining the sensitivity of measurement to these risks, the new framework, which will apply from 2022, is expected to have a more measured impact on bank capital requirements. The ACPR participated actively in several other Basel workstreams, including projects to strengthen the provisions governing banks' leverage ratio disclosures, define the criteria used to identify short-term, simple and transparent securitisations, and to deepen cybersecurity approaches.

In Europe, the ACPR was involved in preparing EBA guidance aimed at clarifying the application of rules (governance, Pillar 2, interest rate risk, stress tests) and took part in the initial work to get ready to transpose the Basel III Accord in the European Union, in response to a request for advice from the European Commission. The ACPR's technical expertise was also brought into play in a number of major projects for Europe and the French banking system in particular, including negotiations within the Council on the legislative package to reduce risk, the reform of the prudential regime for investment firms, the draft harmonised European framework for covered bonds, and the revision of regulations establishing the organisation and tasks of the European supervisory authorities.

In terms of accounting standards, 2018 was the first year of application for IFRS 9 on financial instruments. The ACPR contributed to the analytical work in this area, especially the third impact study led by EBA, which found that the effects on French banks were relatively limited. The ACPR will continue to be involved in European and international work, particularly to ensure consistent application of the standard by banks as well as proper articulation with prudential treatment.

Legislative package of risk reduction measures

In 2018, the finance ministers of the European Union (EU) and the European Parliament reached a general agreement on strengthening the legislative measures aimed at reducing risk in the banking sector. The CRR, which applies directly in EU member states, was in particular amended to set requirements for banks' leverage and net stable funding (NSFR) ratios; the fourth CRD was expanded to improve supervisory tools. Pillar 2 powers, which allow supervisory authorities to impose specific requirements according to the risk profile of each institution, were refined; major third-country groups based in the EU must set up an intermediate parent undertaking (IPU) to facilitate supervision of the European entities of these groups. The benefits of integrated supervision within the Banking Union were recognised more fully, as supervisors were authorised to use an alternative methodology to calculate systemic importance scores in which the Banking Union is treated as a single jurisdiction for the purposes of measuring the activity indicator. The banking crisis management framework, which is governed by the BRRD for the EU and the Single Resolution Mechanism for the Banking Union, was also strengthened, particularly to boost banks' ability to cope with stress in their financial situation while limiting the use of public money and the impact on deposits.

Once in effect, these changes to the regulatory framework, combined with other measures such as the reduction in the share of NPLs on bank balance sheets, will help to make the European banking sector more robust.

Chapter 3

Customer protection

2018 key figures

7 070
LETTERS AND EMAILS received from customers of banks and insurers

77
ON-SITE INSPECTIONS

2
FORMAL NOTICES AND 1 FORMAL WARNING

2 380
ADVERTISEMENTS ANALYSED

The ACPR supervises business practices in a market comprising several hundred institutions, along with tens of thousands of banking and insurance intermediaries. To guide its supervisory activities effectively in order to zero in on priority topics and improve practices in the areas of greatest risk, the Authority has introduced a wide variety of monitoring tools, including analysing letters from customers, consumer views on social media and advertisements, monitoring innovation and harnessing information from the customer protection questionnaire that it sends to supervised institutions each year. It is in regular contact with national partners, particularly the AMF (within the ACPR/AMF Joint Unit), as well as with European partners, consumer associations, industry organisations and ombudsmen.

Involvement in European work linked to the freedom to provide services (FPS)

Institutions licensed in one member state of the European Union (EU) can do business in all EU countries under the FPS, i.e. with a European passport. Over the last two years, the ACPR has noted that some European insurers operating in France have a poor grasp of the specific features of certain activities. This issue is exacerbated by their extensive and unsupervised delegation of activities (including claims management) to brokers whose business they do not oversee, contrary to the requirements of the Solvency II Directive. Although these insurers expanded quickly on the domestic market, in some cases owing to competitive pricing, they did not set aside adequate provisions and are now running into difficulties. In 2018, two such insurers operating in France failed, another was placed under provisional administration and a major intermediary was put under a winding-up order.

The prudential supervision of these institutions, including risk management aspects, is the responsibility of the home country authority, so the ACPR's role is confined to checking that contracts and business practices comply with French law. With limited scope for direct action, the ACPR engaged in initiatives in other areas. It alerted European authorities, especially EIOPA, to the issue. Affected supervisors were informed about the specific features of the French construction insurance market, and EIOPA published an initial document in December 2018 (https://eiopa.europa.eu/publications/eiopa-opinions) on provisioning procedures for these risks. Where an at-risk situation is detected (non-coverage of prudential ratios or an actual or impending payment suspension), EIOPA-led technical cooperation platforms are set up. These bring together affected supervisors (including the ACPR in several cases) to support information-sharing and enable concerted action where possible. The ACPR also informed policyholders about the failures of certain insurers and the effects on their rights. From a preventive perspective, ACPR staff pay close attention to new passporting applications and share information with home authorities where necessary.

Meanwhile, as France's prudential authority, the ACPR monitors the cross-border activity of insurers licensed in France and makes sure that these entities manage risk properly when they do business under the FPS.

1. Main work areas in 2018

1.1 Self-placement

The procedures used by banks and insurers to sell to customers securities that they themselves have issued must be monitored. The features of these securities, including reduced liquidity in some cases and the risk of capital loss in the event of the issuer's insolvency, for example, and the existence of a potential conflict of interest for the issuing institution, which is also the distributor, create specific risks. The ACPR conducted several inspections that revealed that the risks linked to these securities, as well as the diversification of customer savings, were not always sufficiently recognised in the advice provided to customers. Sales incentive activities targeting sales networks and the marketing of these securities through unit-linked life insurance products and collective investment schemes are also areas to watch.

1.2 Freedom to choose loan insurance

The ACPR again observed practices designed to dissuade borrowers from changing their policy or to encourage them to delay changing it (non-timely responses to borrowers, requests for additional or corrective materials, refusals that provided few details or were unjustified or insufficiently reasoned, inadequate communication on the policy's annual renewal date). The Authority issued a warning, pursuant to Article L. 612-30 of the Monetary and Financial Code, to one institution that raised its interest rate and/or handling fees in return for agreeing to outside insurance, or rejected unbundling requests submitted as part of loan transfers while offering no reason other than the existence of external insurance. The best practices[2] recommended by the ACPR should help to promote proper application of the laws and regulations in this area.

Marketing unit-linked policies

In the low interest rate environment, life insurers have responded to meagre returns on non-unit linked funds by promoting investments in unit-linked policies. This kind of marketing comes with a duty to provide appropriate advice in order to regulate the level of risk taken on by customers. Accordingly, the ACPR calls on professionals to take special care, as they may find themselves dealing with non-expert, vulnerable customers. This duty of care forms part of insurers' enhanced regulatory obligations relating to the provision of advice and information and to product governance and oversight. The ACPR also urges firms to make sure, right from the design stage, that products are eligible as units of account for life insurance policies.

1.3 Contract execution

As part of inspecting proper execution of contractual obligations by banks and insurers, the ACPR noted that some institutions were still not correctly applying the general terms and conditions of their own contracts, particularly regarding fees charged (sometimes unduly) and the procedures for calculating profit-sharing, with beneficiaries sometimes getting unfairly treated. Special attention was paid to supplementary pension contracts, whose income statements, which may be contractually required, can be complex to draw up.

Monitoring and treatment of unpaid life insurance policies and dormant bank accounts also remain central concerns for the ACPR. A survey of 17 insurance institutions provided the basis for a report to Parliament in May 2018 on supplementary pension contracts. The data available to institutions to manage these long-term contracts are sometimes of very poor quality, preventing insurers from contacting customers to encourage them to liquidate their contracts. Mandatory contracts, whose beneficiaries are not always aware of the associated entitlements, are particularly affected, with the percentage of letters not delivered to their recipients exceeding 90% for some portfolios of beneficiaries aged over 70. The outstanding amount of unpaid contracts involving beneficiaries aged over 62 is estimated at more than EUR 13 billion. In the banking sector, a marketwide survey of dormant employee savings plans was launched in late 2018.

1.4 Non-face-to-face sales

The sale of insurance policies through unsolicited phone calls continues to be a source of bad business practices and customer dissatisfaction. In 2018, the ACPR was once again forced to punish a firm selling contracts over the phone for failing to meet its obligations to provide information and advice.[3]

Distributors must provide advice that is tailored to customers and explain how the marketed product meets their requirements and needs. Pre-contractual information must be issued in a timely fashion so that customers can take fully informed decisions. Provisions to protect customers, such as the cooling off period and the procedures for submitting documents, are

2. Recommendation 2017-R-01 of 26 June 2017, effective since 1 January 2018.
3. See Ruling No. 2017-09 of 26/02/18.

ineffective if a customer is unaware that he or she is taking out a new policy owing to an unclear presentation of the reason for the call, the marketed product and the distributor.

1.5 Financially vulnerable customers

Financial weakness can lead to restricted access to banking services or repeated charges for account-related incidents. As such it is a major source of vulnerability for customers. The ACPR therefore pays special attention to ensuring that institutions set up effective systems to identify problem situations and implement appropriate responses.

The Authority conducted inspections and a major marketwide survey in 2018. It noted that the financial community was engaged in this issue but also found that there were disparities between institutions in terms of identifying vulnerable customers and that some institutions had not yet done enough to deploy early detection systems as required under the Charter for Banking Inclusion and the Prevention of Overindebtedness. That said, across all the institutions surveyed, around two-thirds of customers identified as vulnerable were detected using early or flexible detection criteria set up at the institution's own initiative. The ACPR also noted that the distribution rate for "special banking packages"[4] was still far too low and called on institutions to draw on best practices – including sending specific letters, making follow-up phone calls where necessary, and involving customer advisors – to spread the word about these special packages among affected customers.

The ACPR's survey also highlighted the very high average fees paid by vulnerable customers who are not enrolled in a special banking package. The Authority will therefore pay special attention to this point when monitoring the effective implementation of maximum exposure commitments made by the industry in September and December 2018.

2. Changes to the regulatory framework

Applicable since 1 October 2018, the Insurance Distribution Directive (IDD)[5] is chiefly intended to encourage insurance distributors to act in the best interests of their customers. It introduces new obligations relating to ongoing training, product oversight and governance, advice and prevention of conflicts of interest for all distributors, regardless of their status. The IDD also contains enhanced requirements for the distribution of insurance-based investment products.

Over the course of 2018, the ACPR participated in work by EIOPA that led to the publication of a set of Q&A on implementing the new requirements. The ACPR also organised five thematic meetings with market participants on a number of key points to get ready for the entry into force of the innovative new provisions.

EIOPA will continue its work in 2019, providing technical advice at the request of the European Commission with a view to amending the delegated regulations supplementing the directive, so that customer preferences on environmental, social and governance criteria are factored into the distribution of insurance products.

Among the specific requirements applicable to insurance-based investment products, the PRIIPs Regulation,[6] supplemented by a delegated regulation,[7] requires the pre-contractual provision of a standardised information document to retail investors. Under a temporary exemption, this document is not required from UCITS representing units of account in multi-option life insurance policies, which continue to be subject to the documentary requirements provided for under the UCITS Directive. In 2018, the ACPR took part in work by the Joint Committee of the European Supervisory Authorities on coordinated implementation of the regulation. In particular, the aim is to mitigate the difficulties caused by the coexistence of two documentary models that lead to differences in the information provided to customers and implementation constraints for providers. This work led to the publication of a set of Q&A. A public consultation was also launched in late 2018 on the methodological alternatives for determining performance scenarios and calculating transaction costs. The PRIIPs Regulation and its delegated regulation may be revised in 2019.

4. The special banking package comprises a set of moderately priced banking products and services and is reserved for people in a vulnerable financial position. The aim is to help them to manage their budget and limit charges in the event of an incident.
5. Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016.
6. Regulation (EU) No. 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs Regulation).
7. Commission Delegated Regulation (EU) 2017/653 of 8 March 2017.

ABEIS: a website with information for customers of financial institutions, which contributes to the Banque de France's task of promoting financial literacy

A partner of ***Mes questions d'argent***, a nationwide portal set up and run by the Banque de France to support economic, budget and financial literacy (www.mesquestionsdargent.fr), the **ABEIS** website (www.abe-infoservice.fr) offers practical information on banking and insurance products and financial investments, provides guidance to customers on the right steps to take and warns about improper practices or fraudulent websites. The ABEIS website is run by the ACPR, the AMF and the Banque de France.

ABEIS greatly expanded its audience in 2018, as it was consulted by 750,000 visitors, a 14% increase on 2017, and around 1.2 million pages were viewed, a 5% increase on 2017.

In all, 12 new sets of Q&A were published this year, tackling issues from the financial products underlying life insurance policies to the freedom to choose loan insurance, along with five new videos addressing topics such as bank mobility or accident insurance. The ACPR also provided information to help French policyholders exercise their rights following the failure of European insurers that had marketed insurance policies, especially construction insurance, in France under the freedom to provide services. In addition, it regularly updated its blacklist of entities or websites proposing unauthorised banking or insurance products. There were around 90 names on the list by the end of the year.

Chapter 4

Anti-money laundering and counter-terrorist financing (AML/CTF)

2018 key figures

23 ON-SITE INSPECTIONS

6 DISCIPLINARY PROCEEDINGS OPENED

7 FORMAL NOTICES ISSUED

1. Individual supervision

The ACPR makes sure that the entities under its supervision, including large credit institutions supervised directly by the ECB as regards prudential aspects, comply with their anti-money laundering and counter-terrorist financing (AML/CTF) obligations.

The ACPR continued its work aimed at strengthening its risk-based supervisory approach, in accordance with the joint guidelines issued by the European Supervisory Authorities (ESAs) in 2017.[8] Institutions and entities from the banking, payment services, investment services and life insurance sectors are subject to an annual assessment of the risks to which they are exposed. Assessments are conducted in two stages:

- the first stage consists in assessing the inherent risk to which each institution is exposed. Risk exposure is essentially measured based on activity and four key factors: products, customers, distribution channels and the geographical areas where the firm operates. The assessment draws in particular on the supranational risk assessment prepared by the European Commission and the national risk analysis currently being finalised by the AML/CTF Advisory Committee;
- the second stage consists in assessing the AML/CTF risk management arrangements of each institution, and especially internal control procedures. In this regard, the ACPR relies particularly on an annual questionnaire, which, beginning in 2019, will be supplemented by an annual report on internal control of AML/CTF arrangements. This information is rounded out by interviews with institutions, reports from on-site inspections carried out by the ACPR, information-sharing with Tracfin, and any other relevant notifications.

This provides an overall assessment of the risk profile of each financial institution, which is used to determine supervisory measures. Close and ongoing cooperation between Tracfin and the ACPR, which takes a variety of forms, is important in helping the ACPR to implement risk-based supervision. In particular, information received from Tracfin on the reporting practices of financial institutions or the due diligence measures that they implement, is one of the factors considered by the ACPR when determining its annual programme of on-site inspections.

Furthermore, the ACPR and Tracfin organise cross-market gatherings with financial institutions to talk about the suspicious transaction reports (STRs) received by Tracfin and to inform them about money laundering and terrorist financing typologies. A meeting of this kind was organised for the first time in December 2018 for institutions from the insurance sector (life and non-life).[9] This provided an opportunity to stress again the importance that the ACPR and Tracfin set by the quality of STRs and to remind institutions that this requires them to take care when characterising suspicions in each STR, following joint STR guidelines issued by the ACPR and Tracfin, which were updated in 2018. In terms of timely reporting to Tracfin, the joint guidelines emphasise that, in the case of a warning after a transaction has been executed, financial institutions must be sure to take only such time as is strictly necessary to go from entertaining doubts to reporting suspicions, a point that the ACPR Sanctions Committee has made repeatedly. In this regard, the average time taken to submit STRs reported by banks in their feedback to the annual questionnaire showed a sharp decrease, falling from 97 days in 2016 to 68 days in 2017.

In terms of combatting terrorist financing, staff conducted interviews under the enhanced supervision framework to examine how major banking groups are incorporating the financing typologies issued by national and international bodies in their risk classifications and oversight arrangements for business relations and transactions. Transactions subject to the closest scrutiny, as per the guidelines, included consumer loans followed by cash payouts and credit transfers to the custodial population. More generally, institutions have taken steps to strengthen their CTF arrangements, notably by implementing unusual-transaction detection scenarios with a terrorist financing focus and by deploying specific training programmes and procedures to help deal more quickly with transactions that are likely to give rise to a CTF STR.

In 2018, the ACPR continued inspections initiated to assess management by groups of the AML/CTF risks inherent in the activities of their foreign entities, especially in the high-risk area of private banking. It is monitoring the headway made in strengthening exchanges of information on shared customers of several group entities and in improving group internal control systems.

Special attention was also paid to the implementation by institutions of asset freeze obligations, particularly by means of on-site inspections at major banks and life and non-life insurers. The inspections revealed that progress remains to be made in the time taken to screen customer databases, in the comprehensive coverage of financial flows by detection tools, and in the associated control systems.

On-site inspections also targeted high-risk payment and electronic money distribution services, such as money remittance, prepaid cards and crowdfunding. The inspections covered services provided by entities licensed in other EU countries and doing business in France through payment service agents or electronic money distributors. They revealed deficiencies in procedures and in the effective implementation of due diligence obligations, particularly in terms of KYC obligations in business relationships and in terms of compliance with asset freeze obligations, especially at national level. Failures to meet obligations to report suspicious transactions to Tracfin were also identified and were in part due to the fact that insufficient human and technical resources were assigned to detecting and analysing unusual transactions by customers. In some cases, information system failures were responsible for problems in reporting to Tracfin.

In all, 23 on-site AML/CTF inspections were carried out in 2018, three of which were performed overseas by the ACPR advisor to overseas note-issuing institutions, while six other general inspections also addressed AML/CTF systems specifically. Following the on-site inspections, the ACPR notified Tracfin of any STR deficiencies and also informed the tax authorities if tax evasion criteria were found. Depending on the seriousness of the breaches, on-site inspections gave rise to an action letter from the ACPR's Secretary General, a formal notice, or, in the most serious cases, the initiation of disciplinary proceedings by the Supervisory College. In 2018, the ACPR sent six AML/CTF cases to its Sanctions Committee, which imposed and published nine disciplinary sanctions, bringing to 37 the total number of sanctions imposed by the ACPR in this area since 2011, including 21 in the last three years. Six sets of disciplinary proceedings including AML/CTF complaints were in process at the end of 2018. The ACPR also issued seven formal notices and 18 action letters.

2. Regulatory developments

The ACPR helped to ensure that reporting entities properly implemented the new AML/CTF framework created by transposition of the Fourth Anti-Money Laundering Directive, which came into full effect on 1 October 2018. Following on from the revision of this directive (to create the Fifth Anti-Laundering Directive, which was adopted on 30 May 2018), it also took an active part in European initiatives to strengthen "consolidated" supervision of the AML/CTF framework in cross-border groups, as well as cooperation between AML/CTF and prudential supervisors.

Implementing the risk-based approach in AML/CTF

After consulting with industry representatives within the AML/CTF Consultative Commission, the ACPR adopted or updated: (i) guidelines on politically exposed persons (in April 2018); (ii) guidelines on KYC aspects (in November 2018); (iii) sector enforcement principles on correspondent banking (in June 2018), and (iv) together with Tracfin, guidelines on Tracfin reporting and disclosure obligations (February and November 2018). It provided explanations on key elements of AML/CTF preventive arrangements and on high-risk customers and activities to help professionals implement their new obligations using a risk-based approach, in accordance with the Fourth Directive. It will continue this approach in 2019 by adopting asset freeze guidelines drawn up jointly with the French Treasury and discussed within the AML/CTF Consultative Commission.

The ACPR also contributed to determining the content of reports on the organisation of internal control systems for AML/CTF and asset freeze arrangements, which must be submitted to it by institutions in the banking, payment services, investment, electronic money and life insurance sectors on an individual basis and, where applicable, at group level, beginning in 2019[10] pursuant to the Decree of 21 December 2018. These annual reports are intended to provide a better picture of the effectiveness of internal control systems for financial institutions' AML/CTF and asset freeze arrangements, especially with regard to the risks to which these institutions are exposed.

The ACPR reviewed the annual questionnaire that must be submitted to it by European payment service providers doing business in France under the freedom of establishment, via a network of payment service agents or via electronic money distributors, tailoring it specifically to the situation of these entities and the elevated risks presented by their respective activities.

Monitoring initiatives to strengthen the Fourth Directive

The Fifth Anti-Laundering Directive, which the ACPR helped to draft, must be transposed before 10 January 2020. It includes advances in a number of areas, including (i) restrictions for "anonymous" electronic money, (ii) enhanced due diligence measures applicable to business dealings involving high-risk third countries, (iii) transparency of legal entities and legal arrangements, in particular by providing for access by any person with a legitimate interest to a register of the beneficial owners of trusts.

In addition, it establishes the principle of ensuring the broadest possible exchange of information between AML/CTF supervisors and provides for a mechanism of "consolidated" group-level supervision of AML/CTF arrangements, which was backed by the ACPR, especially in the wake of the Panama Papers scandal. Within this new framework, the ACPR helped to draft ESA guidance providing for the establishment of AML/CTF Supervisory Colleges for cross-border groups (bringing together all affected AML/CTF supervisors, along with prudential supervisors, including the ECB, as observers).

Last but not least, the ACPR participated actively in drafting the agreement on procedures for exchanging information between the ECB and AML/CTF authorities, provided for by the Fifth Directive and intended to strengthen their cooperation. It signed the agreement on 10 January 2019.

8. Joint guidelines.
9. TRACFIN/SG ACPR cross-market meeting on AML/CTF in the insurance sector.
10. In respect of the 2018 financial year.

European initiatives aimed at strengthening AML/CTF supervision

The European Union was faced in 2018 with several laundering scandals in the banking sector, which revealed a number of shortcomings. In addition to the Fifth Anti-Laundering Directive, European authorities took a series of initiatives to address these deficiencies:

- **on 4 December 2018 the Council adopted an action plan comprising 26 non-legislative measures to implement before the end of 2019;**
- **the regulations establishing the ESAs were amended to strengthen EBA's role in AML/CTF.** EBA is to be given the lead role among the ESAs. The AML/CTF Committee, which has been chaired by the Secretary General of the ACPR since the end of 2018, will be strengthened, with enhanced powers and responsibilities over national AML/CTF competent authorities in order to prevent potential failures.

Regulatory framework for cryptoasset service providers

a) International framework

At its plenary meeting on 18 October 2018, the FATF adopted changes:

- to its glossary to insert a definition for virtual assets and virtual asset service providers;
- to recommendation 15 on new technologies to recommend that these providers be subject to AML/CTF regulations and that they should be registered or licensed by member states.

The FATF recommended regulating a broad spectrum of activities, including: (i) exchange between virtual assets and fiat currencies or between one or more forms of virtual assets; (ii) safekeeping and/or administration of virtual assets or instruments enabling control over virtual assets; (iii) transfer of virtual assets; (iv) participation in and provision of financial services related to an issuer's offer and/or sale of a virtual asset.

The procedures for implementing this recommendation are to be specified in 2019.

b) European and domestic framework

The Fifth Anti-Laundering Directive requires member states to ensure that natural persons or legal entities who provide: (i) exchange services between virtual currencies and fiat currencies; and (ii) services to safeguard private cryptographic keys on behalf of customers, to hold, store and transfer virtual currencies, are registered and subject to AML/CTF obligations. It also requires senior executives and beneficial owners of these legal entities to be subject to supervision relating to their experience, expertise and reputation. These requirements will be transposed into national law as part of the PACTE law currently going through Parliament: services to safeguard digital assets for third parties and to trade digital assets with fiat currencies will be subject to AML/CTF obligations under the mandatory licence that providers must obtain in order to do business. Providers of other services in the digital asset sector, such as services involving exchanges of digital assets for other digital assets, operation of a digital asset trading platform or the provision of financial services as part of an initial coin offering, shall be able, if they wish, to apply for an optional licence entailing compliance with the same AML/CTF obligations as those applicable to services requiring a mandatory licence.

Chapter 5

Innovation and new technologies

2018 key figures

152
FINTECHS OR INNOVATIVE PROJECTS SUPPORTED

55
OUTSIDE PRESENTATIONS including conferences, roundtable discussions, workshops and seminars in France and abroad

The digital revolution is transforming the financial sector, bringing new approaches (mobile phones, sharing economy), new technologies (algorithms, cloud computing) and new sources of competition (start-ups, retailers, telephony groups and tech giants). It presents financial institutions with risks and rewards. It also represents a new challenge for the ACPR. Since setting up its Fintech and Financial Innovation Unit in 2016, the Authority has committed itself to promoting responsible innovation in the financial sector and lending its support to this necessary transformation.

1. Work by the Fintech Innovation Unit in 2018

1.1 Be the gateway to the ACPR for innovators

Since 2016, the Fintech Innovation Unit has maintained an open and ongoing dialogue with entrepreneurs as well as more generally with start-ups and licensed financial institutions proposing innovative projects. By taking a stripped-down approach through its Fintech Innovation Unit and expert network, the ACPR provides quick, clear answers to innovators' questions. The aim is to make the regulations understandable and accessible in order to help entrepreneurs integrate regulatory aspects in their projects and prepare their licence applications.

The unit met around 150 project initiators in 2018. Consistent with previous years and reflecting implementation of the second European Payment Services Directive (PSD2), projects relating to payment, account aggregation and savings advice again accounted for the largest number of meetings (31%), followed by projects to improve compliance and risk management functions, particularly in KYC and subscription processes (regtechs), which accounted for 20% of all meetings. And with the regulations potentially set to change in this area, the unit and the AMF received a significant number of cryptoasset-related projects, which accounted for 12% of participants met by the ACPR.

These bilateral meetings, which were greatly appreciated by entrepreneurs, were supplemented by targeted educational initiatives. After organising a morning briefing on licensing payment and electronic money participants in September 2017, the ACPR organised a second morning meeting in June 2018 on the supervision of these same entities, which attracted around 60 participants. The Authority also posted several e-learning videos on its website.

The ACPR also makes a point of reaching out to entrepreneurs by regularly organising presentations around the country, speaking at incubators and accelerators (Station F, Le Swave, Finance Innovation), industry events (Paris Fintech Forum, Vivatech, Regtech Forum) and universities. The ACPR is very open to foreign innovators and has signed three cooperation agreements to this effect with sister authorities in Singapore, South Korea and Japan. It took part in an event in London put on by Business France and the French Embassy and organised an event in New York with the support of Business France that attracted 120 participants.

1.2 Understand market changes linked to innovation

Thanks to this regular dialogue with market participants, the unit is ideally placed to study structural changes in the financial sector. In March 2018, after conducting an in-depth survey of six banking groups and 11 insurance companies, the ACPR published two studies on the digital revolution in the banking and insurance sectors.[11] These studies were used to prepare a stock-take and identify the main challenges for the financial sector and its supervision. In October 2018, the ACPR published another study on the business models of online banks and neobanks.[12] By collecting unique data, the ACPR was able to highlight the profitability challenges faced by these new participants but also their strong commercial momentum in the retail segment: a full 6.5% of French people are now customers of online or neobanks, and these types of participants are responsible for one-third of new customers won in the segment. Finally, in December 2018 the ACPR held a public consultation on the initial results of work by the cross-market group on artificial intelligence. In 2019, the Fintech Innovation Unit plans to continue closely studying the rise of major tech firms (bigtechs) in the financial sector as well as the contribution by regtechs to risk management and compliance.

1.3 Help to set up pro-innovation regulatory and operational frameworks

The ACPR draws on its dialogue with innovators to identify potential regulatory changes that might support innovation. For example, the ACPR provided input to discussions that resulted in improvements to KYC regulatory requirements, which now do a better job of taking technology into account.[13] The Fintech Forum, a body for conducting dialogue and offering up proposals run by the ACPR and the AMF, also suggested some regulatory amendments in 2018 to better accommodate new intermediation models and financing approaches, such as crowdfunding and new credit providers. These proposals could be incorporated in the PACTE law currently being debated in Parliament.

In addition to these national initiatives, the ACPR participates in work by the European and international bodies with responsibility for regulatory issues. In February 2018 the Basel Committee on Banking Supervision released a first report assessing new technologies in the financial sector and proposed ten sound practices for banks and supervisors.[14] The European Commission, meanwhile, published a Fintech Action Plan in March 2018, to which the ACPR contributed ten proposals.[15] The ACPR has since participated actively in sessions of the EU Fintech Lab, which brings market participants and supervisors together to talk about new themes in innovation, from cloud computing to artificial intelligence.

11. *Analyses et Synthèses No. 87* and *No. 88*.
12. *Analyses et Synthèses No. 98*.
13. Decree No. 2018-284 of 18 April 2018 strengthening the French AML/CTF framework, ACPR guidelines on KYC aspects dated 14 December 2018.

Artificial intelligence: challenges for the financial sector

In early 2018, the ACPR set up a working group comprising financial sector professionals (including trade federations, banks, insurers and fintechs) and public authorities (AMF, CNIL, Tracfin, French Treasury) to talk about current and potential applications of artificial intelligence and the associated risks and opportunities. This led to the publication of a discussion paper in December 2018 followed by a public consultation.
The ACPR's discussion paper sheds light on the proliferation of projects drawing on artificial intelligence techniques. Applications range from customer relations (with the roll-out of chatbots already well advanced and possible opportunities in advice and personalised pricing), to back office management (of insurance claims, for example) and risk management (detection of fraud, suspicious transactions or cyberattacks). Progress levels vary, but the conditions are ripe for rapid, across-the-board growth of these techniques in the financial sector.

Three main short-term challenges have been identified:

(1) Algorithm governance to ensure that the objectives assigned to algorithms comply with the law and ethical rules (no discriminatory biases, protection of consumer interests, etc.);
(2) Auditability and oversight of the reliability of algorithms to prevent biases and ensure that these algorithms, which have some autonomy, do not get off-track over time;
(3) Explainability and the scope of human involvement, to ensure that algorithms are integrated in a controlled and appropriate way in operational processes.

Responding to these three challenges should make it possible to get past the "black box" effect sometimes associated with these complex algorithms. In 2019, the ACPR will begin exploratory and more in-depth work with a few volunteer participants to clarify these questions.

2. Suptech: how the ACPR is harnessing new technologies to fulfil its statutory tasks

Aware of the swift transformation taking place in the sector that it is entrusted with supervising, the ACPR is keen to explore the possibilities that new technologies offer to make its supervisory methods more effective and adapt them to reflect the changes underway. This approach, which has also been undertaken by other supervisory authorities around the world, is generally referred to as "suptech", short for "supervisory technology". In July 2018, this new suptech mission was assigned to the Fintech Innovation Unit, which is working closely with the Banque de France's Digital Transformation Directorate and its open innovation space, known as The Lab. The first task is to identify priority areas of innovation to enhance the ACPR's of supervisory methods. Thanks to the wealth of data gathered by the ACPR, one of the priorities will be to provide supervisory staff with innovative data processing tools that will facilitate their analyses and help them to shape their action proposals. Initiatives are expected in 2019 to explore these areas of innovation in more concrete terms.

14. Basel Committee on Banking Supervision, Sound Practices: implications of fintech developments for banks and bank supervisors, February 2018.
15. Response by the ACPR and the Banque de France to the European Commission's public consultation entitled "Fintech: A more competitive and innovative European financial sector", June 2017.

Chapter 6

Resolution

2018 key figures

31
PREVENTIVE RESOLUTION PLANS ADOPTED

5
MEETINGS OF THE SINGLE RESOLUTION BOARD ATTENDED

1. Strengthening the institutional and operational framework of the bank resolution regime

Implementation of the Single Resolution Mechanism (SRM) continued in 2018, with major support provided by the ACPR in planning efforts and work on establishing an operational definition for the management of banking crises. The preventive resolution plans of the most important French credit institutions were updated and supplemented by the ACPR with the involvement of Internal Resolution Teams (IRTs), which are made up of staff from the Single Resolution Board (SRB) and National Resolution Authorities (NRAs).

Resolution plans are drawn up as part of the mechanism for managing banking crises (BRRD in the European Union, SRM for the Banking Union), which gives supervisory and resolution authorities the means to take action to prevent and manage crises. This mechanism is intended to achieve the five objectives set down by the legal framework, namely to ensure the continuity of critical functions, avoid significant adverse effects on financial stability, protect public funds, protect covered depositors and protect client funds and assets. For each resolution plan, a preferred resolution strategy is prepared and an assessment of resolvability is performed to ensure that implementation can take place under optimal conditions.

Cooperation between the SRB and NRAs takes place within the framework of the overall principles governing SRM organisation and the target operating model, which organise the distribution of tasks between the various teams. In 2018, the ACPR also continued drafting a national handbook containing all the decisions and legal procedures applicable during resolution proceedings, which also applies to institutions under the SRB's direct responsibility. In addition, the ACPR pursued work on the operational implementation at domestic level of a bail-in decision for a listed bank.

Resolution plans are supplemented by the minimum requirement for own funds and eligible liabilities (MREL), which corresponds to the loss-absorbing and recapitalisation capacity of affected institutions or groups in a crisis. The revision of the European "banking package" and the underlying directives led to an agreement within the Economic and Financial Affairs Council (ECOFIN) on 4 December 2018, which will develop MREL and its application to banking groups, providing a more effective way to have shareholders and creditors share in losses. The ACPR continued to collaborate with the French Treasury on draft European laws and regulations, the "banking package", and transposition into French law of the directive on the ranking of unsecured debt instruments in insolvency hierarchy. It also provided input to work by EBA.

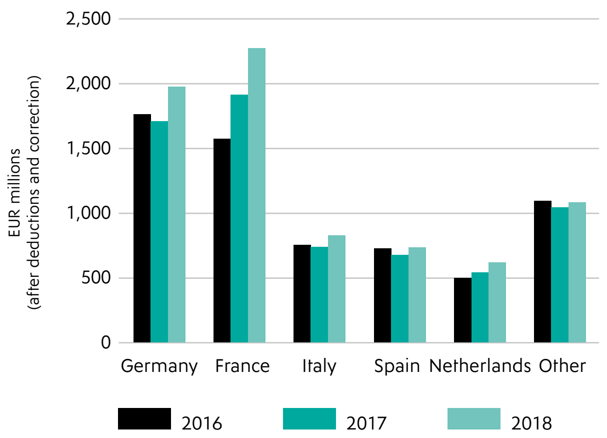
To cover the costs of crises at banking institutions, a Single Resolution Fund (SRF) was set up for institutions within the Banking Union and a National Resolution Fund (NRF) for institutions that remain under the ACPR's exclusive responsibility. In 2018, institutions licensed in France, the overseas territories and Monaco contributed EUR 2.3 billion to the two resolution funds, making France the Banking Union's largest national contributor to the SRF (see chart). Differences in the national contributions are attributable to the underlying calculation methods, which are based on the size of the domestic banking sector, the size of individual institutions and risk indicators used. The ACPR also calculated and notified institutions of their contributions to the guarantee schemes for deposits, securities and bank guarantees managed by the *Fonds de garantie des dépôts et de résolution* (FGDR – deposit insurance and resolution fund). Approximately EUR 400 million was raised in this way for the largest of these mechanisms, namely the deposit guarantee scheme.

The ACPR participated in an operational crisis simulation exercise organised by the SRB on 29 and 30 November 2018. This involved simulating the resolution of a major French bank, with the aim of testing utilisation of the SRF, implementation of the bail-in mechanism and establishment of a crisis management team (CMT).

As regards the credit institutions and investment firms that remain under its direct authority, the ACPR is responsible for drafting preventive resolution plans for over 140 less significant credit institutions (LSIs) and investment firms. Institutions in overseas territories outside the EU and those based in Monaco are also in the group of entities under the ACPR's direct jurisdiction.

Individual analyses of these institutions resulted in the adoption of the first preventive resolution plans for investment firms and LSIs. The plans will be definitively adopted once compliance with SRB resolution standards has been assessed. A first round of plans covering 31 entities was adopted by the Resolution College in late 2018. The remaining plans for institutions under ACPR supervision are scheduled to be finalised over the course of 2019.

SRF contributions by licensed institutions in Banking Union member countries



2. Resolution of insurance groups and institutions

Following the publication on 28 November 2017 of Ordinance No. 2017-1608, the ACPR was made the resolution authority for insurers. This mechanism, which is modelled on the regime for credit institutions and investment firms while taking account of the specific features of the insurance sector, allows the ACPR's Resolution College to quickly obtain enhanced powers over struggling insurers. France was thus the first euro area country to introduce a resolution mechanism of this kind for the insurance sector.

The regime, which applies to all institutions subject to the Solvency II prudential regime, has three parts: under the "governance" component, the Resolution College now has responsibility for the insurance sector and is tasked with drawing up preventive resolution plans and analysing resolvability; the "preventive" component includes an obligation for insurance institutions to prepare preventive recovery plans (applies to institutions whose total assets have exceeded a threshold set by decree at EUR 50 billion at least once in the past three financial years) and for the Supervisory College to draw up preventive resolution plans; the "resolution" component sets out the powers given to the Resolution College to resolve crises in the insurance sector.

In 2019, the Resolution College will be required to give its opinion on the preventive recovery plans submitted by institutions to the Supervisory College and, on this basis, may start to draw up resolution plans.

3. Establishing the regime for the resolution of central counterparties (CCPs)

Among the institutions under the direct responsibility of the ACPR, LCH SA, a central counterparty (CCP), was the subject in 2018 of a third meeting of the CMG, whose composition was extended in accordance with international standards in the area (see FSB Guidance on CCP Resolution, 2017).[16] A resolution strategy was presented to the CMG, the ACPR being the only authority in the Banking Union to apply the criteria set by the Financial Stability Board (FSB).

At the same time, the ACPR contributed to efforts to build the international and European regulatory framework for CCP resolution. Internationally, it took part in work by the FSB's fmiCBCM group, which drafted supplementary guidance to the 2017 guidance on CCP resolution. The new guidance deals in particular with the treatment of shareholders and the necessary financial resources in resolution, and is the subject of an international public consultation that includes French banks and businesses. Within Europe, talks on the draft CCP resolution regulation are ongoing.

16. Guidance on Central Counterparty Resolution and Resolution Planning.

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Chapter 7

Activity of the Sanctions Committee

2018 key figures

7
NEW CASES

10
RULINGS HANDED DOWN

12
MONTHS TAKEN TO HANDLE AN AVERAGE CASE

1. Overview

Seven sets of disciplinary proceedings were referred to the Committee in 2018, down from around ten in recent years. The Committee handed down ten decisions, all of which were rulings on the merits.[17] Of these rulings, nine had to do with AML/CTF breaches, while the tenth concerned customer protection. In each of these cases, the Committee issued fines ranging from EUR 60,000 to EUR 50 million. Total fines came to almost EUR 70 million, which was considerably higher than the amounts seen in previous years, namely EUR 25.9 million in 2017 and EUR 6.5 million in 2016. This was primarily due to one EUR 50 million fine issued at the end of the year (see paragraph 2.3. below). In eight of the ten cases, the fine was accompanied by a reprimand.

Three of the rulings were published anonymously. In two cases, the company in question was in the process of being taken over, meaning that it could not be named. In the third, the Committee felt that naming the firm might have had disproportionate effects on the institution.

The average time between when a case was brought before the Committee and when notification of the sanction ruling was provided increased to 12 months compared with 11.1 months in the previous year.

2. Main lessons from the 2018 rulings

2.1 Duty of insurance intermediaries to provide information and advice in non-face-to-face sales

In its SGP Ruling No. 2017-09 of 28 February 2018 (reprimand and fine of EUR 150,000), the Committee once again ruled on the duty of intermediaries to provide information during non-face-to-face sales of insurance policies.[18] During such sales, the applicable legal provisions require that the consumer must receive certain information in writing or in another durable medium before making any commitment. An exemption is however permitted to this obligation if the policy was entered into at the consumer's request using a remote communication technique not allowing such information to be transmitted. In this case, the Committee felt that the intermediary, which initiated the telephone conversation that led to the sale of the insurance policy, was not entitled to the exemption and should have provided the requisite precontractual information in a durable medium before signing the contracts. Furthermore, although SGP sells fairly simple insurance products, the Committee considered that the intermediary had failed to properly take account of the needs and requirements of its customer base, which includes low income earners who are not well informed about these matters.

2.2 Compliance with AML/CTF obligations

In its Credit institution B Ruling No. 2017-08 of 22 March 2018 (reprimand and fine of EUR 8 million), the Committee ruled that the institution's automated system to detect terrorist financing was inadequate because it failed to capture the risk that might arise from the issuance of consumer loans followed by cash withdrawals, a transaction type that the ACPR and Tracfin have publicly said could constitute "micro-terrorist financing". Beyond the specific case identified by the inspection, the system put in place by the institution to monitor business relations as at the date of the inspection was judged to be insufficiently tailored to management of this risk. For reasons specific to the case, the Committee decided to publish its decision, the first to deal solely with CTF aspects, in an anonymous format.

In its CNP Assurances Ruling No. 2018-01 of 26 July 2018 (reprimand and fine of EUR 8 million), the Committee found grounds for the main shortcomings identified in the case, which concerned the organisation of the institution's AML/CTF arrangements, but also implementation of its due diligence obligations, especially in high-risk situations, and obligations in terms of suspicious transaction reporting to Tracfin. The Committee considered that the breaches in question were largely due to the company's inadequate knowledge of its customers and their transactions, owing to relations in place, at the time of the inspection, with its two distributing bank networks, which deal with the same customers and which are themselves subject to AML/CTF obligations. The business model put in place did not relieve CNP of its own obligations, particularly concerning the knowledge that it is supposed to have of its business relations.

Six other AML/CTF-related rulings were handed down: Ruling No. 2017-05 of 17 April 2018 with regard to Caisse fédérale du Crédit Mutuel Nord Europe (CFCMNE) (credit institution – reprimand and fine of EUR 1.5 million); Ruling No. 2017-06 of 13 June 2018 with regard to Sigue Global Services Ltd (UK payment institution – reprimand and fine of EUR 60,000); Ruling No. 2017-07 of 13 June 2018 with regard to Sigue Global Services SAS (UK payment institution – reprimand and fine of EUR 100,000); Ruling No. 2017-04 of 3 July 2018 with regard to Caisse fédérale du Crédit Mutuel (CFCM) (credit institution – reprimand and fine of EUR 1 million); Ruling No. 2017-02 of 26 July 2018 with regard to Company B as successor in interest to Company A (insurance institution – fine of EUR 200,000); and Ruling No. 2017-03 of 26 July 2018 with regard to Company D as successor in interest to Company C (insurance institution – fine of EUR 800,000).

17. The Committee's rulings, which are published in the ACPR's official register, may also be consulted in the compendium of previous decisions posted on the Authority's website.
18. See also Santiane Ruling No. 2015-09 of 22 December 2016.

In several of these rulings, the Committee stressed the vital importance of setting up systems to monitor and analyse business relations that are suited to customer characteristics and to the products offered by reporting institutions. It also said that these systems should be able to generate appropriate warnings that receive adequate treatment.[19]

The Committee reiterated, regarding transactions involving guaranteed investment contracts in bearer form, that gathering information about the circumstances under which the bearer came into possession of the contracts presented for redemption might, in some cases, be necessary to comply with due diligence and Tracfin reporting obligations.[20]

2.3 Compliance with asset freeze obligations:

The Committee handed down a reprimand and fine of EUR 50 million to La Banque Postale (LBP Ruling No. 2018-01 of 21 December 2018). The ruling mainly punished the institution's failure to include a portion of its activity, namely money remittance using national "money orders", in its arrangements for detecting transactions by or for persons or entities subject to European or French asset freeze measures owing to their involvement in terrorist activities or international law violations. As indicated below, this sanction is being appealed before the *Conseil d'État*.

3. Appeals against Sanctions Committee rulings

In 2018, the *Conseil d'État* rejected the appeal against CREPA Ruling No. 2015-11 of 19 July 2016[21] (CE, 3 December 2018, Ms A...D..., Mr C...B...and Abbatial Immobilier, a limited liability sole proprietorship (EURL), No. 409934, B). It determined that the provident institution's former senior managers were not admissible to challenge the ruling, for while the statement of facts for the ruling, which moreover was issued in an anonymous format, mentions the role played by the senior managers and the company in the breaches subject to the disciplinary measures, the operative part of the ruling penalises only CREPA and does not contain any complaint against the managers.

At 31 December 2018, no appeal against a Committee ruling was pending before the *Conseil d'État*. Since then, LBP has challenged the sanction ruling that was handed down to it on 21 December 2018.

19. See in particular Ruling Nos. 2017-04, 2017-05 and 2017-07.
20. See Ruling Nos. 2017-02 and 2017-03. See also Axa France Vie Ruling No. 2015-08 of 8 December 2016.
21. See ACPR 2016 annual report, p. 73.

Chapter 8

Budget and activity monitoring

2018 key figures

EUR 199.4
MILLION TOTAL BUDGET

1. Budget of the ACPR

The ACPR is an administrative authority whose independence is organised and guaranteed by the French Monetary and Financial Code (MFC). In accordance with MFC Article L. 612-18, the ACPR is financially independent within the limits of the contributions paid by institutions under its supervision. The ACPR's budget consists of all of its receipts and expenses, and is an annex to the budget of the Banque de France. Pursuant to MFC Article L. 612-19, the ACPR relies on support functions provided by the Banque de France in order to benefit from the pooling of certain services (property management, IT, personnel management, etc.) whose costs to the ACPR are measured on the basis of the Banque de France's cost accounting.

The report on the ACPR budget outturn for 2018 was submitted to the Audit Committee on 19 February 2019 and approved by the College at its plenary meeting of 4 March. The Authority ended 2018 with a EUR 6.3 million surplus. After taking into account the surplus, the balance of contributions carried forward totalled EUR 26.8 million.

Summary of 2017 and 2018 expenses and income and 2019 projections

Expenses and income in EUR millions	2018 / 2017			Forecast 2019
	2017	2018	%	
Contributions from supervised institutions	190.0	195.0	2.6	195.0
Payment from Caisse des dépôts et consignations	2.40	2.60	8.3	2.40
Other income	1.92	1.79	-6.4	1.50
Income (A)	**194.32**	**199.39**	**2.6**	**198.90**
Personnel costs	110.74	107.94	-2.5	116.53
IT	24.63	25.28	2.7	25.41
Property	28.62	29.11	1.7	20.20
Other expenses	29.74	27.78	-6.6	30.74
Amortisation and depreciation	3.22	3.00	-6.8	1.87
Expenses for the year (B)	**196.95**	**193.10**	**-2.0**	**194.75**
Budget balance (A)-(B)	**-2.63**	**6.29**	**-**	**4.15**

1.1 Receipts

Receipts from contributions for the cost of supervision were up 3.9% at EUR 197.9 million and were recorded in the amount of the tax allocation cap set by the 2018 Budget Law (EUR 195 million). The difference, EUR 2.9 million, will be paid back to the State. For 2019, the cap was not changed but contributions are forecast to reach EUR 203 million, which would lead EUR 8 million to be paid back to the State.

The increase in contributions in 2018 was essentially due to the insurance sector, owing to an increase in the base (life and non-life premiums and contributions) and an increase in the contribution rate, which rose from 0.21% to 0.23%. Contributions from banks were unchanged.

At the end of the period, the overall collection rate for contributions due in 2018 was 99.6%. For the second year running, the amount of contributions exceeded the tax allocation cap. However, the surplus to be paid back to the State is not yet definitive and could change depending on the amount of contributions actually collected.

1.2 Expenses

Expenses came to EUR 193.1 million in 2018, a 2% decrease.

With 967.1 FTE staff, the year-end headcount was well below the target of 1,040 and also sharply down on the end-2017 headcount of 1,026.8 FTEs, as the 81 hires over the year were insufficient to compensate for departures. The decline led to a reduction in personnel expenses despite the positive effect (1.19% increase) attributable to the age and job skill coefficient. For 2019, personnel expenses were calculated based on having an annual average headcount of 1,012 FTEs. To achieve this, an ambitious programme targeting 155 new hires (through competitive examinations or on contracts) was launched.

In terms of overheads, several spending items recorded material decreases, including amounts charged out for shared Banque de France services and other operating expenses. These reductions offset the increases in IT and property expenses, the latter of which went up temporarily in connection with leasing a new building, whose costs began to be recorded in 2018. The ACPR's move in July 2018 will however enable these costs to be brought down considerably. The forecasts for 2019 reveal an overall decline in overheads owing to substantial savings resulting from the move to new offices. Similarly, amortisation and depreciation expenses are reverting to a lower level after accelerating in connection with the move in 2017 and 2018.

2. Activity monitoring

The ACPR's strategy derives from its statutory objectives, which are to supervise the banking and insurance sectors, ensure the stability of the financial system, protect customers and policyholders, and make sure that anti-money laundering and counter-terrorist financing rules are obeyed. The ACPR has broken this strategy down into five strategic themes:

- **Undertake prudential supervision aimed at preventing systemic risks** (Goal 1 below)
- **Strengthen protection for financial consumers** (Goal 2)
- **Strengthen the ACPR's proactive role in the area of AML/CTF** (Goal 3)
- **Help define and implement financial system regulations** (Goal 4)
- **Monitor the efficiency of the ACPR's actions** (Goal 5).

Goal 1

Monitor the impact of changes in the risks of supervised entities, and more specifically those of the largest or most vulnerable institutions

The ACPR General Secretariat initially planned to conduct 161 prudential inspections including 57 for the ECB. The need to adjust the programme to reflect current developments resulted in 14 inspections being added over the course of the year. However, heavy pressure on personnel meant that 29 others were cancelled. In all, the ACPR began 142 prudential inspections in 2018, of which 50 for the ECB and the 92 others under its domestic statutory objectives.

Indicator 1.1: Completion rate of prudential inspection programmes in insurance

Indicator 1.2: Completion rate of prudential inspection programmes in banking

Goal 2

Monitor the evolution of business practices

A total of 77 inspections were begun in 2018 compared with 82 in 2017. A large proportion of these inspections involved intermediaries.

Indicator 2.1: Completion rate of inspection programmes in the area of business practices

Goal 3

Strengthen the ACPR's AML/CTF activities through inspections and measures in support of new standards

The ACPR worked with Tracfin to update guidelines on Tracfin reporting and disclosure obligations. It also published two sets of guidelines, one on KYC aspects and one on politically exposed persons. In addition, the ACPR published two sector enforcement principles on correspondent banking and AML/CTF obligations in relation to the right to a basic bank account. A total of 23 on-site inspections were carried out, about the same as in 2017. Themes addressed included centralised AML/CTF management at major banking groups.

Indicator 3.1: Number of sector enforcement principles and guidelines published by the ACPR

Multi-year target	2017 actual	2018 actual
3	1 set of guidelines	3 sets of guidelines and 2 principles

Indicator 3.2: Completion rate of AML/CTF inspection programmes

Goal 4

Monitor regulatory developments and how well supervised institutions adapt to them

As part of its involvement in setting international standards or European regulations, the ACPR has given itself the goal of obtaining an impact study before adopting any major measure. It also plays an active role in working groups with a view to influencing the content of future regulations and standards.

In 2018, the ACPR participated in various efforts to strengthen European convergence. In this regard, a proposal to streamline SSM supervisory practices was approved by the ECB. Furthermore, the Basel Committee's Accord of November 2018 is consistent with the positions upheld by the ACPR.

Goal 5

Manage the time taken to undertake inspections

The total time taken to undertake inspections continued to decrease. However, it exceeded the target length of one year in inspections of insurers' prudential situations. AML/CTF inspections were also over the target length but did show an improvement compared with 2017.

Indicator 5.1: Total time taken to undertake inspections

3. Three-year programme

In 2017, the Supervisory College of the ACPR considered several personnel and activity scenarios for the General Secretariat with the aim of:

- making sure that the Authority has sufficient resources to fulfil its statutory objectives so that it remains a key asset in the French and European institutional landscape, noting that the ACPR has fewer resources than its main EU counterparts;
- ensuring that the ACPR is appropriately financed to support the acquisition of these resources;
- identifying savings.

Following these investigations, the General Secretariat recommended a target headcount of 1,080 FTEs and proposed raising the contribution paid by the insurance sector, since its contribution was not enough to sustainably cover the expenses incurred for its oversight. It also recommended actively seeking potential areas of savings.

On the first point, the significant improvement on the employment market for managerial-level staff since mid-2017 has made it more challenging to attract skilled personnel, and the number of FTEs fell in 2017 and 2018, declining to well below the current headcount cap of 1,050. Proactive measures to boost hiring are therefore being taken in 2019 with the aim of getting back over three years to the trajectory used in the baseline scenario considered by the College.

On the second point, the Minister for the Economy and Finances decided to increase the contribution from the insurance sector from 0.21% to 0.23% of net written premiums. The increase is sufficient for the time being given the current headcount and the existing reserve, and the 2019 accounts should once again be in balance.

On the third point, while the Authority does not control all of its expenses, especially its contributions to running the two European sector agencies, EIOPA and EBA, and to some costs incurred by the ECB within the framework of the SSM, it is benefiting from efforts by the Banque de France to lower its support expenses. In addition, the ACPR moved in mid-2018 to a new building under extremely favourable terms that should allow it to save EUR 7 million annually in property costs from 2020 onwards. Efforts are being made to unlock savings in other overhead items (documentation, postage and telecommunication expenses, fewer photocopiers), and close attention continues to be paid at all times to inspection expenses.

Acronyms used – 2018 annual report

ACPR *Autorité de contrôle prudentiel et de résolution* (Prudential Supervision and Resolution Authority)

AMF *Autorité des marchés financiers* (Financial Markets Authority)

ANC *Autorité des normes comptables* (National Accounting Standards Board)

API Application program interface

BIS Bank for International Settlements

CCP Central counterparty

CCyB Countercyclical capital buffer

CET1 Common Equity Tier 1

COREP COmmon solvency ratio REPorting

CRR Capital Requirements Regulation

EBA European Banking Authority

ECB European Central Bank

EEA European Economic Area

EIOPA European Insurance and Occupational Pensions Authority

EMI Electronic Money Institution

EMIR European Market Infrastructure Regulation

ESRB European Systemic Risk Board

EU European Union

EUR Euro

FINREP FINancial REPorting

Fintech Financial technology

FSB Financial Stability Board

G-SIB Global systemically important bank

HCSF *Haut Conseil de stabilité financière* (High Council for Financial Stability)

IFRS International Financial Reporting Standards

LCR Liquidity Coverage Ratio

MREL Minimum Requirement for Own Funds and Eligible Liabilities

NA Not available

NBI Net banking income

NSFR Net Stable Funding Ratio

PACTE *Plan d'action pour la croissance et la transformation des entreprises* (Action Plan for Business Growth and Transformation)

SCR Solvency Capital Requirement

SRB: Single Resolution Board

SSM Single Supervisory Mechanism

Annexes

Annex 1: Decisions taken by the Supervisory College concerning individual entities in 2018
Annex 2: List of decisions on general issues adopted in 2018
Annex 3: List of ACPR publications in 2018

ANNEX 1

Decisions taken by the Supervisory College concerning individual entities in 2018

	TOTAL	*of which*	BANKING SECTOR	INSURANCE SECTOR
Supervision (monitoring of prudential ratios, exemptions)	**45**		20	25
Administrative enforcement measures	**17**		12	5
Warning			*1*	*0*
Formal notice (issued by the Chairman acting under delegated authority)			*10*	*3*
Request for recovery programmes			*0*	*0*
Placement under special supervision			*0*	*0*
Limitation of activity			*0*	*1*
Placement under provisional administration			*0*	*1*
Reappointment of a provisional administrator			*0*	*0*
Other			*1*	*0*
Other binding measures	**56**		46	10
Appointment of a liquidator			*0*	*0*
Reappointment of a liquidator			*0*	*1*
Injunction on capital requirement			*46*	*0*
Request for short-term funding plans			*0*	*0*
Injunction with coercive fines			*0*	*2*
Other			*0*	*7*
Initiation of disciplinary proceedings	**7**		6	1
Other measures concerning individual entities (including initiation of joint decision-making processes, opening of *inter partes* proceedings, etc.)	**34**		22	12
Total decisions concerning individual entities	**159**		**106**	**53**

ANNEX 2

List of decisions on general issues published in 2018 in the ACPR's official register or on its website

INSTRUCTIONS

Instruction 2018-I-01	on amendments to forms for licences and licence exemptions for payment institutions, licence exemptions under the terms set by Articles L. 521-3-1 and L. 525-6-1 of the Monetary and Financial Code, agent disclosures and creating forms for simplified payment institution licences and for registration as an account information service provider
Instruction 2018-I-02	on amendments to forms for licences, simplified licences and licence exemptions for electronic money institutions
Instruction 2018-I-03	on the information to be provided to the ACPR about statutory auditors
Instruction 2018-I-04	on the information to be provided to the ACPR about statutory auditors
Instruction 2018-I-05	on information about anti-money laundering and counter-terrorist financing arrangements
Instruction 2018-I-06	on the form for appointing or reappointing an effective manager and the form for appointing or reappointing a member of a corporate body
Instruction 2018-I-07	on licence withdrawal, authorisation and registration of credit institutions, financing companies, third-party financing companies, investment firms, payment institutions, account information service providers and electronic money institutions
Instruction 2018-I-08	on the information to be provided to the ACPR in the case of the acquisition or extension of an interest in an insurance company, reinsurance company or a company in an insurance group
Instruction 2018-I-09	on the forms for appointing or reappointing an effective manager or key function holder at insurance and supplementary occupational pension institutions
Instruction 2018-I-10	on the contents of applications to establish or amend a risk transfer agreement
Instruction 2018-I-11	on the national prudential documents to be provided annually by supplementary occupational pension institutions
Instruction 2018-I-12	on the European prudential documents to be provided annually and quarterly by supplementary occupational pension institutions
Instruction 2018-I-13	on the procedure for authorisation by the ACPR to recognise unrealised capital gains when determining the solvency margin of supplementary occupational pension institutions
Instruction 2018-I-14	on the contents of applications for administrative licences, or changes to licences, for supplementary occupational pension funds, supplementary occupational pension institutions, mutual insurers and occupational pension unions
Instruction 2018-I-15	on the contents of applications concerning a prior disclosure to the inclusion, withdrawal or exclusion of a group mutual insurance company (SGAM), a mutual insurance union group (UMG) or a group social protection insurance company (SGAPS)
Instruction 2018-I-16	on the annual prudential documents to be provided by institutions subject to ACPR supervision and falling outside the scope of the Solvency II regime
Instruction 2018-I-17	on the submission of prudential documents to the ACPR by insurance and reinsurance institutions falling outside the scope of the Solvency II regime
Instruction 2018-I-18	on the submission of information needed to calculate contributions to guarantee schemes for deposits, securities and bank guarantees
Instruction 2018-I-19	on the form for appointing or reappointing senior managers of insurance institutions
Instruction 2018-I-20	on information on the AML/CTF arrangements of institutions referred to in 1c of Article L. 561-2 of the Monetary and Financial Code

POSITIONS

Position 2018-P-01	on placements without a firm commitment, investment advice and business consulting on questions of capital structure, industrial strategy, mergers and acquisitions

NOTICES

Notice on credit risk management practices and recognition of expected credit losses by financing companies
Notice on the information to be disclosed by financing companies regarding governance arrangements under Article 435, paragraph 2, of Regulation (EU) No. 575/2013
Notice on the implementation by financing companies of uniform disclosures under Article 473a of Regulation (EU) No. 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds
Notice of compliance with guidelines on internal governance (EBA/GL/2017/11) and on assessing the suitability of management body members and key function holders (EBA/GL/2017/12)
Notice on procedures for implementation by financing companies of recommendations on outsourcing to cloud service providers
2018 Notice on procedures for calculating and publishing prudential ratios under CRD IV
ACPR Notice on governance arrangements, ORSA and disclosures to the supervisory authority and to the public (RSR/ SFCR) for supplementary occupational pension institutions

GUIDELINES AND SECTOR ENFORCEMENT PRINCIPLES

Guidelines on KYC aspects
Joint ACPR/Tracfin guidelines on Tracfin reporting and disclosure obligations
Guidelines on politically exposed persons (PEPs)
Sector enforcement principles on correspondent banking
Sector enforcement principles on AML/CTF obligations in relation to the right to a basic bank account

ANNEX 3

List of published articles

- Andrade (P.), Cahn (C.), Fraisse (H.) and Mesonnier (J.-S.) (2018), "Can the Provision of Long-Term Liquidity Help To Avoid a Credit Crunch? Evidence from the Eurosystem's LTROS", *Journal of the European Economic Association,* June.
- Fraisse (H.), Hombert (J.) and Lé (M.) (2018), "The competitive effect of a bank megamerger on credit supply", *Journal of Banking & Finance,* Elsevier, vol. 93(C), pp. 151-161.
- Barake (M.), Capelle-Blancard (G.) and Lé (M.), « Les banques et les paradis fiscaux » ("Banks and Tax Havens"), *Revue d'économie financière,* 2018/3 (No. 131), pp. 189-216.
- Fraisse (H.), Lé (M.) and Thesmar (D.) 2018, "The Real Effects of Bank Capital Requirements", *Management Sciences,* forthcoming.
- De Bandt (O.), Camara (B.), Maître (A.) and Pessarossi (P.) (2018), "Optimal capital, regulatory requirements and bank performance in times of crisis: Evidence from France", *Journal of Financial Stability* (39), pp. 175-186.
- Fraisse (H.), "Short Term Effects of Household Debt Restructuring: Evidence of the French Experience", *forthcoming in Annals of Economics and Statistics.*

List of *Débats économiques et financiers*

- **Débats économiques et financiers No. 33 :**
  « L'impact de l'identification des GSIBs sur leur business model » (The Impact of the Identification of G-SIBs on their Business Model), Violon (A.), Durant (D.) and Toader (O.).

List of *Analyses et Synthèses*

- ***Analyses et synthèses No. 86 :***
  Quelques statistiques concernant le marché français de l'assurance construction (Some statistics concerning the French Construction Insurance Market (Building Damage Insurance and Construction Liability Insurance)).
- ***Analyses et synthèses No. 87 :***
  Étude sur la révolution numérique dans le secteur français de l'assurance (Survey on the digital revolution in the French insurance sector).
- ***Analyses et synthèses No. 88 :***
  Étude sur la révolution numérique dans le secteur bancaire français (Survey on the digital revolution in the French banking sector).
- ***Analyses et synthèses No. 89 :***
  La situation des grands groupes bancaires français à fin 2017 (French banks' performance in 2017).
- ***Analyses et synthèses No. 90 :***
  La situation des assureurs soumis à Solvabilité II en France à fin 2017 (Position of insurers subject to Solvency II in France at the end of 2017).
- ***Analyses et synthèses No. 91 :***
  L'exposition des assureurs français au risque de changement climatique: une première approche par les investissements financiers (Exposure of French insurers to climate change risk: an initial assessment based on financial investments).
- ***Analyses et synthèses No. 92 :***
  Le financement de l'habitat en 2017 (Housing finance in France in 2017).
- ***Analyses et synthèses No. 93 :***
  Le financement des professionnels de l'immobilier par les banques françaises en 2017 (French banks' lending to the professional real estate sector in 2017).
- ***Analyses et synthèses No. 94 :***
  Revalorisation 2017 des contrats d'assurance-vie et de capitalisation – engagements à dominante épargne et retraite individuelle (2017 revaluation of life insurance and guaranteed investment policies – focus on commitments relating to savings and individual retirement products).
- ***Analyses et synthèses No. 95 :***
  Revalorisation 2017 des contrats d'assurance-vie et de capitalisation – engagements à dominante retraite collectifs (2017 revaluation of life insurance guaranteed investment policies – focus on commitments relating to group retirement products).
- ***Analyses et synthèses No. 96 :***
  Étude sur les modèles d'affaires des banques en ligne et des néo-banques (Study on the business models of online banks and neobanks).
- ***Analyses et synthèses No. 97 :***
  La situation des assureurs soumis à Solvabilité II en France au premier semestre 2018 (Position of insurers subject to Solvency II in France in the first half of 2018).

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