

**On The Reform of Supervision of the Financial Institutions**

I am pleased to be here today to give you an overview of the newly established French Prudential Supervision Authority (*Autorité de Contrôle Prudentiel*) that I will refer to as ACP later in my speech.

First, I will focus on the objectives of the reform of the supervision of financial institutions in France. Then, I will describe the key changes introduced in our supervisory framework to achieve these objectives.

Before I go through these objectives, let me remind you that up to a very recent period, the French supervisory framework was sectoral:

- on the one hand, credit institutions (and investment firms) were supervised by the Banking Commission (CB) which had close institutional links with the Banque de France ;
- on the other hand, insurers (and reinsurers, mutual insurers, provident societies and supplementary pension institutions) were supervised by the Authority for Insurance and Mutual Insurance Entities (ACAM), an independent public authority with legal personality;
- furthermore, licensing and supervisory authorities in both sectors were separate.

The creation of a new Authority responsible for supervising both the insurance and banking sectors and also merging licensing and supervisory authorities was created by Ordinance issued on 21st January 2010. The first Plenary Board installed the new Authority on 9th March 2010.

The reform follows three critical objectives: improve financial stability, enhance consumer protection and strengthen international supervisory cooperation.

**First, the reform helps to improve financial stability.** It provides France with a single supervisory authority responsible for supervising banks and insurers and so able to address threats to financial stability throughout the entire financial sector. Although the supervisory focus may differ for each sector - more on liquidity for banks and on ability for insurers to fulfil their commitments -, financial techniques are close and we need to address the potential risk that both insurance and banking activities may pose to the financial sector and the economy as a whole. Furthermore, some large financial groups carry out both banking and insurance activities. It is the case in France where all major banking groups are identified as financial conglomerates under the Financial Conglomerates Directive. Besides, the enhancements to the regulatory frameworks in the banking and insurance sectors - Basel 2 and Solvency 2 - and the need for a supervision of large financial groups on a consolidated basis - taking into account their risk profile arising from the entire scope of their activities - are also part of the rationale behind a single supervisory authority responsible for dealing with the risk posed by such financial institutions. The ACP is closely linked with the Banque de France. It permits to combine in real time information coming from the supervisory activity, the activities of the central bank on the financial markets and its economic and financial expertise. The crisis has highlighted the crucial advantages of a strong institutional link between prudential supervision and the central bank.

**Second, the reform enhances consumer protection.** The crisis has increased the need for consumer protection for users of insurance and banking products. Consumer protection ultimately rests on consumers' confidence in the integrity and expertise of financial professionals but it also depends on close monitoring by supervisors of firms' marketing practices. The ACP then supervises the marketing of financial products in the banking sector and - as it was already the case for investment products - in the insurance sector. The Authority devotes substantial resources to addressing consumer issues, supervising institutions' dealings with consumers, and monitoring intermediaries. In addition, the ACP and the Financial Market Authority (*Autorité des Marchés Financiers* – AMF) created a joint structure to carry out this mission and deal with the increasingly blurred line between different types of savings products (such as the overlap between life insurance products and mutual funds) and the emergence of firms that market all types of insurance and banking products. This joint structure provides a single point of contact for consumer inquiries, while preserving the division of responsibilities between the two authorities.

**Third, the reform help to strengthen supervisory international cooperation.** The crisis has accelerated a debate about the organisation and structure of supervisory authorities. At the international level, the Financial Stability Board was created. At the European level, the European Heads of State and Government launched an ambitious reform of the European supervisory framework that will lead to the creation of the European Systemic Risk Board (ESRB) and the European System of Financial Supervision (ESFS). The ACP is fully part of the ESFS with the new European Supervisory Authorities (ESAs) and, beyond the EEA devotes an important portion of its efforts to foster supervisory cooperation.

Having described the objectives of the reform let me turn now to the key changes introduced in our supervisory framework to achieve these objectives.

**The changes introduced are threefold: (i) a larger number of institutions to supervise, (ii) with an enhanced organisation and (iii) expanded powers.**

**First, the ACP supervises a much wider scope of financial institutions,** which can be divided into two main sectors:

- the banking, payment service and investment sector that accounts for almost a thousand entities, primarily credit institutions and investment firms;
- the insurance sector that accounts for around 1,300 entities, primarily insurance and reinsurance firms, mutual insurance companies and provident institutions.

**Second, the reform led to an enhanced organisation of the supervision in France.** The ACP was created by merging the former licensing and supervisory authorities in the banking and insurance sectors, that means four entities : the insurance firms committee (CEA), the credit institutions and investment firms committee (CECEI), the authority for insurance and mutual insurance entities (ACAM) and the banking commission (CB). These entities had various legal forms, responsibilities and scope of activities. The reform set up an organisation less fragmented and so more consistent with the objective to deal increasingly with financial stability issues in conjunction with other divisions of the Banque de France.

Furthermore, the human and financial resources of the ACP will be significantly increased. The number of staff of the ACP is around 900 people and it will increase in the near term. The creation of the ACP will enable a more efficient utilization of the best expertise and available resources of the two different sectors of the supervised entities that is necessary for a successful supervision in an environment of increasingly complex risks and regulation.

**Third, the ACP is invested with expanded powers to carry out its expanded missions.** As

I mentioned earlier the ACP is responsible both for licensing and supervising banks and insurers, dealing with financial stability issues as well as for supervising the marketing of financial products. To perform all these tasks, the powers of the Authority have been expanded notably by:

- granting to the Authority administrative police powers, including the authority to impose civil money penalties for non compliance with the duty to provide information;
- establishing an Enforcement Committee distinct from the plenary Board;
- enabling the Authority to disclose to the public any information which it considers necessary for carrying out its missions, without being subject to professional secrecy.

Thank you very much for your attention.