

## ANNUAL INTERNATIONAL CONFERENCE | CIRSF

### MAJOR TRENDS IN THE SUPERVISION AND REGULATION OF THE FINANCIAL SECTOR IN 2017

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Speech given by the ASF Chairman, Professor José Figueiredo Almacá, at the opening session of the CIRSF annual international conference.

**Lisbon, June 1<sup>st</sup>, 2017**

Ladies and gentleman,

The agenda for today provides the discussion of relevant and current issues to the national and international financial system. On my present opening speech, I would like to go through the various topics listed, marking a few notes and reflections.

We are living times of great changes in financial regulation and supervision. As far as the banking sector is concerned, the establishment of the banking union introduced a paradigm shift, with the centralization of a substantial part of the supervisory responsibilities in the European Central Bank. Due to the structural changes operated, combined with the macroeconomic environment and persistent vulnerabilities in the banking sector, the reflection on how the implementation of this model has taken place is of particular relevance. This is also useful to inform the next steps to complete the banking union, namely the consolidation of the pillars related to the resolution and deposit guarantee mechanisms.

Still in the context of the banking sector, it is worth referring the problems associated with the management of the huge stock of non-performing loans (NPLs) that affect banks in several countries, including, more acutely, the national banking sector. In the absence of easy solutions, the main objective should be to free up the banks' ability to finance the economy without having to resort to tax payers' money.

The macro prudential dimension of supervision will be one of the topics in focus at this conference. This theme has gained, over the last years, a significant emphasis both at national and international levels. Moreover, in the national context, one of the areas under discussion about the planned revision of the financial system supervision architecture has to do with the institutional framework of macro-prudential supervision powers. In this context, it is crucial that the effective risk monitoring capacity be ensured from a cross-cutting perspective, making full use of the expertise of the micro-prudential supervisory authorities of each sector, while ensuring, at decision-making level, an adequate, but independent, relationship between the micro and macro prudential aspects. Macro-prudential policy decisions, pursuing the objective of maintaining financial stability, must take into account the overall impact on the various sectors, rather than focusing only on one of them.

In fact, it is important that the development of macro prudential measures consider the inherent specificities of the traditional insurance business model, which is markedly different from the banking model. Macro-prudential policies and instruments should be designed according to the degree of the underlying systemic risk, defined as the risk of disruption of the financial system, likely to have serious consequences on markets and the real economy.

In this context, insurance companies tend to have a lower degree of systemic risks than banks. However, it is recognized that they may, under certain circumstances, generate or amplify market shocks, by marketing products or pursuing investment policies with greater exposure to macroeconomic or liquidity risks.

The current situation and future perspectives of the implementation of the new European solvency regime in the insurance sector is also part of the list of key issues under discussion at this conference. As it is known, Solvency II came into force on January 1st 2016, representing a structural change compared to the previous regime. This regime is based on the valuation of assets and liabilities according to economic principles, on increasing the sensitivity of capital measures to risks incurred and on strengthening comparability and level playing field. Following the previous theme discussed, it should be noted that the construction of this regime did not assume a macro prudential vision, the main objective being the protection of policyholders and beneficiaries. The preservation of financial stability is only a secondary objective. For this reason, the scheme does not have instruments specifically designed to monitor and mitigate systemic risks, although some of the existing ones may play such a role.

Another subject to be focused on this debate is the review of the role, powers and duties of the European Supervisory Authorities, EBA, EIOPA and ESMA, a discussion that also relates to the reconfiguration of post-Brexit European Union. It is a timely discussion, aimed at drawing lessons from the experience of the already more than six years of activity of these institutions, in a period characterized by other important changes, such as the implementation of the Banking Union and the developments of the Capital Markets Union. In general terms, it would be important to strengthen the mechanisms for sharing experiences and understandings between supervisors, tempering the common regulatory vision established by the single rule book with the approach of greater proximity to local supervisors.

On the Capital Markets Union (CMU), the European Commission presented, in 2015, an action plan that included several steps to progressively build this project, which is scheduled for completion by 2019. This action plan is one of the Commission's main priorities for promoting job creation, economic growth and investment at the EU level. The CMU is, thus, an initiative aiming at deepening the integration of the capital markets of the Member States, with the purpose, *inter alia*, to diversify sources for financing enterprises, especially SMES and start-ups, to broaden the choice of savers across the EU and to facilitate cross-border investment, this way attracting more foreign investment.

The existence of more diversified financing sources is also essential for the financial stability by alleviating the impact of banking sector problems on companies.

As part of the CMU's action plan, the strategies for deepening the internal market associated with pension schemes should be highlighted. The growth of this market segment is seen as a key element for stimulating capital markets, given its role in linking long-term savings with long-term investment. At a European level, there are very different realities in terms of the organization of national pension systems. However, the adequacy of pensions is a concern shared by all Member States.

There have been a number of initiatives over the years to improve the quality of retirement products and to contribute to the development of safer, more cost-efficient and worker mobility facilitating schemes.

The European Commission's public consultation held in the second half of 2016 gathered the stakeholders' opinions on the best way to deal with the obstacles currently facing the individual pension products market, while also assessing the feasibility of establishing a strategic framework for the creation of a single European market for simple, efficient and competitive individual pension products.

Building on the results of this public consultation, the European Commission intends to present a legislative proposal by the middle of this year. In the advice provided by EIOPA, the creation of the Pan-European Personal Pension Product (PEPP) was proposed as the best solution, though the introduction of a "2<sup>nd</sup> regime", i.e. a European scheme, which is an alternative to national legislation.

The creation of PEPP is seen as a new opportunity for the growth of the European individual pension products market, taking advantage of more efficiency gain through economies of scale, risk diversification and innovation. However, this proposal has underlying operational and fiscal challenges arising from the heterogeneity that characterizes the tax systems applicable to the different Member States.

Finally, I would like to return to the debate on the revision of the national supervisory model, to emphasize the individual and aggregate importance of the prudential and behavioral aspects. As two sides of the same coin, I believe it is crucial to maintain an holistic view of the problems each sector is facing, in order to ponder the overall impact of the solutions available to the problems identified in each field.

Thank you very much to all.