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The French financial sector confronting the 2024 pivot: between normalisation and preparation for the "new world"

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Ladies and Gentlemen,

I am very pleased to welcome you to our presentation of the Annual Report of the *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority), in the company of Jean-Paul Faugère, recently reappointed Vice-Chairman of the ACPR, Nathalie Aufauvre, Secretary General of the ACPR, and Pierre Collin, the new President of the Sanctions Committee.

This report is published in the context of a triple pivot in 2024 to 2025: (i) a cyclical pivot, with the reversal of the rates cycle alongside disinflation without recession; (ii) a regulatory pivot, with the finalisation of certain major initiatives that will durably shape the banking and insurance environment; and finally (iii) a historical pivot, with profound geopolitical change, marked by the policy shift of the new US administration and a challenging of the multilateral order.

This convergence calls for sober reflection, with regards to both the past and the future. I will therefore organise my speech in two parts: by first considering the lessons learned from a period of normalisation and stabilisation that closes the chapter opened by the 2008 crisis (1); and, second, by looking to the future to prepare for a still uncertain “new world” (2).

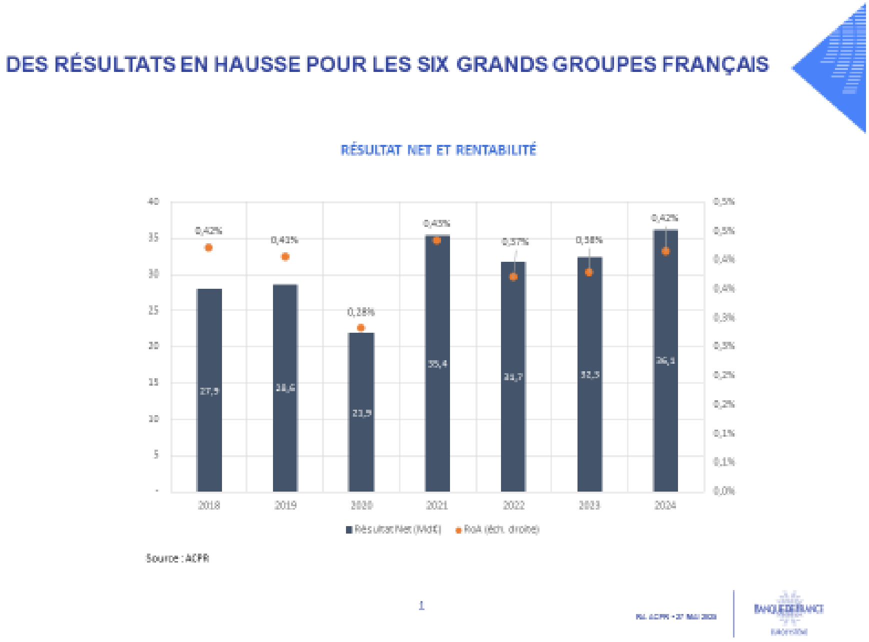
1) Closing the chapter opened by the 2008 crisis: between normalisation of monetary policy and regulatory stabilisation

The 2008-11 crisis ushered in a dual cycle, with an exceptionally accommodative monetary policy and the need for increased regulation.

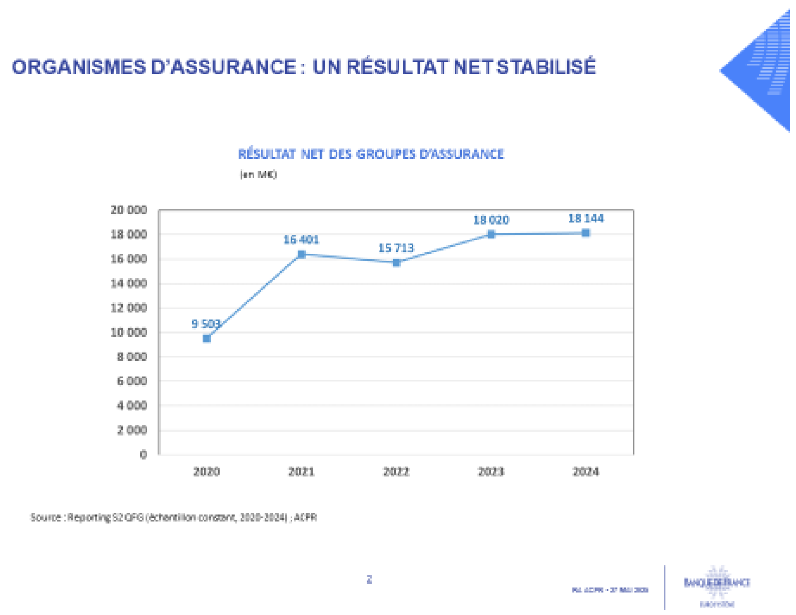
1.1. The normalisation of monetary policy

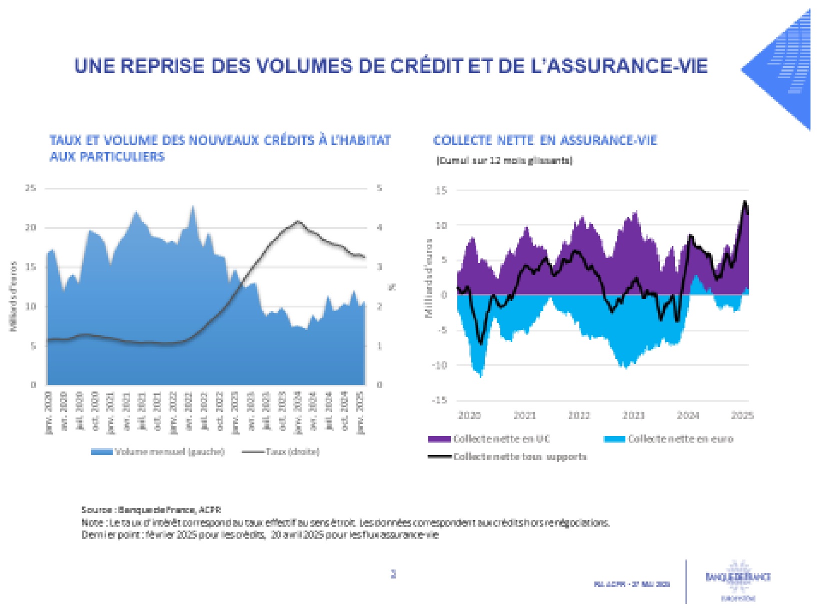
For more than a decade, very low interest rates were needed to tackle too-low inflation and even the threat of deflation. They helped to ease the financing of the economy but impacted the profitability of banks and insurers. Conversely, from 2022 onwards, the inflationary shock linked to the emergence from the Covid crisis and the war in Ukraine led to a rapid rise in the ECB's policy rates, which peaked at 4% in September 2023 and resulted in an inverted yield curve. This monetary tightening put the solidity of the financial system to the test.

In June 2024, the ECB began a process of normalisation and has since made seven successive policy rate cuts. We have returned to what could be termed the “2-2” zone: inflation close to our 2% target and a policy rate now at 2.25%, well below the US[i] and UK[ii] rates of 4.25%. The first French inflation estimate for May, released this morning at the low level of 0.6%, is another very encouraging indication that disinflation is underway. And this normalisation process may not yet be over: we will see during next week’s Governing Council meeting. Nevertheless, in France, it has already coincided with an improvement in financial sector results:



an increase in net profit to EUR 36.1 billion (up 12% year-on-year and up 26% since 2019); a stabilisation of insurance undertakings’ net profit; a recovery in housing loan volumes and in net life insurance inflows, which amounted to EUR 23 billion in 2024 (a level last seen in 2010) and EUR 16 billion in the first four months of 2025; the gradual recovery of bank interest rate margins, which was confirmed in March 2025 (EUR 16.4 billion vs. EUR 15.9 billion on average in 2024, an increase of 3.2%); and effectively managed claims-to-premium ratios (97% at the end of 2024 after 98% at the end of 2023) and operating costs.





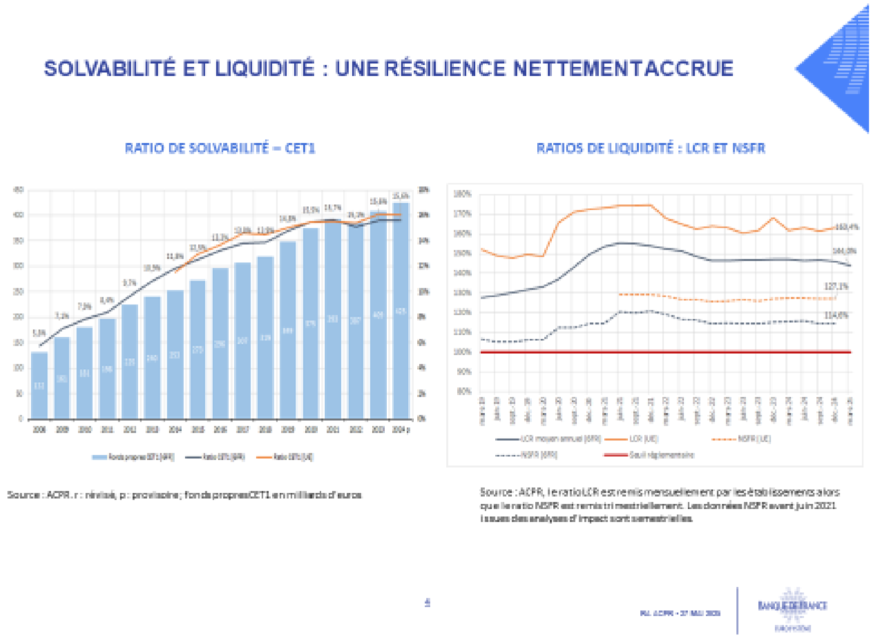
The return on assets is thus improving for insurers and remaining stable for banks. However, there is still an unfavourable gap relative to their European peers, which lent more at variable rates and therefore benefited more from the interest rate rises after 2021.

1.2. The regulatory stabilisation required

We have reached the end of an international and European negotiation cycle in the wake of the Great Financial Crisis. We are now entering a new phase: the concrete implementation and, let us hope, stabilisation of the regulatory framework. Several key pieces of legislation have entered into force over the past year:

- CRD6[iii] and CRR3,[iv] which complete the implementation of Basel III in the European Union. The Group of Central Bank Governors and Heads of Supervision (GHOS) met in Basel on 12 May and unanimously – the three US agencies included – reaffirmed their intention to implement Basel III in its entirety in a consistent and timely manner. In Europe, with regards to the final building block on market risks (the Fundamental Review of the Trading Book – FRTB), the ACPR strongly supports the proposal of the Commission to postpone the FRTB for a further year to 2027 in order to ensure a level international playing field faced with the United States.
- Solvency II,[v] revised to promote a risk-based approach and better support long-term financing;
- DORA,[vi] which introduces specific regulation of the operational risks associated with information systems and critical service providers;
- MiCA,[vii] a pioneering milestone in the regulation of activities related to crypto-assets.

This body of legislation not only provides a regulatory framework for financial institutions, but also reinforces their ability to deal with emerging risks. French banks' balance sheets have strengthened significantly over the last decade, their average CET1 ratio increased from 11.8% in 2014 to 15.6% in 2024. In terms of liquidity, the coverage ratio (LCR) of French banks was well above the regulatory threshold at 144% in March 2025. Their long-term financing structure is also robust, with an average NSFR[viii] of 114.6% at the end of 2024.[ix]



I sometimes hear or read that regulation hinders credit and growth in France and Europe. This is not true. Credit has grown significantly faster than GDP. The private sector debt ratio in France rose from 113% in 2010 to 136% in 2024.

French insurers have also maintained a robust balance sheet structure, with an elevated solvency level (238% at the end of 2024) that far exceeds the regulatory requirement of 100%. Their holdings are concentrated in high-quality, highly liquid assets. Contrary to a common misconception, French insurers' equity holdings have practically doubled over the past 15 years. Between 2010 and 2024, their equity holdings grew by more than the total of their investments (up 69% compared with an increase of 51%). This positive trend reflects the growth of unit-linked products in life insurance contracts.

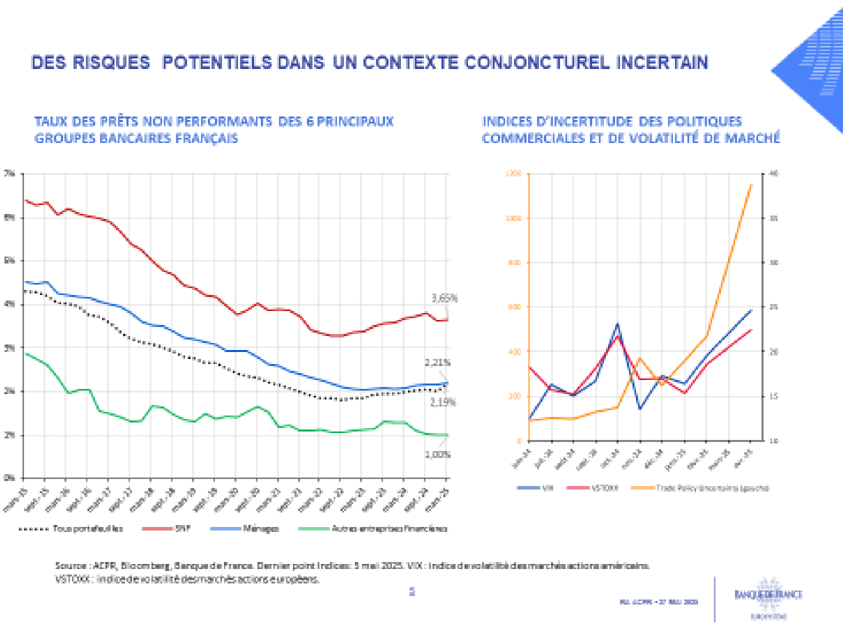
2. Strengthening for a still uncertain "new world"

However, it seems clear that in the future, we will not simply see a return to normal: the world is shaping up to be more uncertain, more fragmented and more exposed to shocks.

2.1 French banks and insurers are robust enough to cope with potential risks

Our financial sector is fully mobilised to address multiple structural changes, particularly climate change and the technological acceleration driven by artificial intelligence and quantum computing. This morning, however, I would like to focus on two shorter-term risks.

First, **credit risk**, which deserves special attention. In 2024 and the beginning of 2025, the increase in the cost of risk was effectively controlled during a cyclical slowdown. It actually stemmed from the NFC/business portfolio (EUR 6.6 billion, up 28%) in line with significant financial operations and a more pronounced deterioration in outstanding loans to SMEs. Consequently, non-performing loan ratios rose slightly (up 7 basis points between December 2023 and March 2025 to 3.65% for the entire loan-to-business portfolio, and up 42 basis points to 4.68% for SMEs).[x]



Outstanding loans secured by commercial real estate accounted for a limited share of French groups' balance sheets (3.24%). As for the cost of risk on the household portfolio, it remains relatively stable.

Next, **market risk** and financial instability, which increase with US unpredictability. Since the beginning of 2025, and particularly between 2 and 9 April, there have been renewed episodes of market volatility, notably due to heightened global trade tensions and mounting fiscal uncertainty. The US Treasury market saw a sharp rise in long-term rates, with the 30-year yield rising from around 4% in September 2024 to more than 5% today.[xi] Heightened uncertainty could trigger further spikes in volatility, potentially exacerbated by the growing and more procyclical involvement of certain non-bank players such as hedge funds. This situation highlights the need for adequate monitoring tools and an appropriate regulatory framework for non-bank finance. In order to take better account of the risks associated with financial sector interconnectedness and better understand their nature and transmission channels, the ACPR and the Banque de France are currently working with the French Financial Markets Authority, the AMF, to develop a pilot systemic stress test exercise this year involving banks, insurers and investment funds. The exercise has no regulatory implications.

2.2 One imperative: the European dimension must finally become a strategic advantage

However, these upheavals can and must be an opportunity for Europe,[xii] if – and only if – we quickly activate three clear levers: (i) simplifying, (ii) unifying and, consequently, (iii) securing our financial sovereignty.

It is now time to exit this cycle of regulatory standard accumulation. Financial stability comes with regulatory stabilisation. Simplification in no way means deregulation, but rather better regulation. The European approach to simplification must remain firm on fundamental objectives but more agile in its conception; reducing complexity, not necessarily requirements.[xiii] Since February 2025 and our letter signed jointly with the governors of the Bundesbank, the Banca d'Italia and the Banco de España,[xiv] I have warmly welcomed the creation of two high-level task forces: one at the EBA and the other at the ECB, chaired by Vice-Chairperson Luis de Guindos. These two task forces have been set up to look at all aspects of simplification – of regulation, supervision and reporting – and to make concrete proposals this year.

Next, **unifying**: the Savings and Investments Union (SIU) has become a strategic priority, with political momentum building thanks to the remarkable convergence of the Draghi[xv] and Letta[xvi] reports in 2024 and then the strategy unveiled by European Commissioner Maria Luis Albuquerque in March 2025. I would like to make a brief comment on the change of name: the aim is to combine two priorities that we too often tend to treat as opposites – the Banking

Union **and** the Capital Markets Union. And I would quickly like to explain the objective more clearly: to make European investment more dynamic and innovative by promoting effective capital allocation and more equity financing.[xvii] But for intention to become action, I call for a *mobilising deadline*, as Jacques Delors did in the past with 1 January 1993 for the single market, and 1 January 1999 for the single currency.[xviii] It is up to the Commission to propose this deadline and the Council to approve it, but why not 1 January 2028? We need to give ourselves two to three years to emerge more powerful and sovereign from the policy turnaround of the US administration. As a lovely Italian saying goes: "The difference between a dream and a goal is a deadline".[xix] This is Europe's moment. If we remain as slow as we are today, we will miss it.

Europe, with its abundant savings, has the financial resources needed for greater sovereignty. But it must also better recognise the need for powerful intermediation and therefore a **competitive industry**. On the European wholesale financial markets, only three of the ten banks generating the majority of commissions from investment banking activities are from the euro area, and account for 27% of commissions. US banks, meanwhile, account for 57%. The objective of competitiveness is important for industry, and rightly so; but there is also a hierarchy of objectives. Just as price stability is the primary objective of monetary policy ahead of supporting growth, financial stability must continue to be our primary objective. But once financial stability is secure, we must of course support competitiveness.[xx]

Meanwhile, the establishment of the new European anti-money laundering authority, AMLA, is an opportunity to ensure the effectiveness of the fight against terrorism and money laundering at the European level. At a time when some appear to be scaling back their commitments to fighting corruption and promoting transparency, Europe must remain exceptionally vigilant, including with regard to foreign institutions operating on its territory. A financial industry is all the more powerful when it is transparent, and above suspicion.

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I would like to conclude by quoting Paul Valéry: "The future is not what is going to happen, but what we are going to do".[xxi] Over the past ten years, we have been able to learn the lessons of the crises and preserve financial stability. But today, history is accelerating, and financial Europe must pick up the pace too, by better integrating our market, asserting our European sovereignty and freeing up our capacity for innovation. France has the advantage of hosting Europe's leading financial sector: our country combines both the strength and the ambition to seize this moment of acceleration.

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[i] US Federal funds rate of between 4.25% and 4.5% at 27 May 2025.
[ii] UK rate at 4.25% at 27 May 2025.
[iii] Directive (EU) 2013/2024 of the European Parliament and of the Council of 31 May 2024 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (amended).
[iv] Regulation (EU) 2024/1624 of the European Parliament and of the Council of 31 May 2024 on prudential requirements for credit institutions and investment firms.
[v] Directive (EU) 2025/2 of the European Parliament and of the Council of 27 November 2024 amending Directive 2009/138/EC as regards the prudential requirements of insurance and reinsurance undertakings.
[vi] Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 on digital operational resilience for the financial sector.
[vii] Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets.
[viii] NSFR, the Net Stable Funding Ratio, introduced by Basel III, requires banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities.
[ix] European Banking Authority (EBA), (2024), Risk assessment report of the European Banking Authority, July.
[x] The same goes for the share of outstanding loans with an impairment in credit risk (IFRS 9 stage 2, up 85 basis points to 13.35% for the entire NFC loan portfolio in March 2025 and up 200 basis points to 15.24% for SMEs).
[xi] As at 23 May 2025.
[xii] Villeroy de Galhau (F.) (2025), *Letter to the President of the French Republic: From stupefaction to a general mobilisation, how to respond to America's policy shift*, 9 April.
[xiii] Villeroy de Galhau (F.) (2025), Financial services: The European mysterious gap, Bruegel, Brussels, 4 September.
[xiv] Joint Letter from Banque de France, Bundesbank, Banca d'Italia and Banco de España, to the European Commissioner Albuquerque. 19 March 2025.
[xv] Draghi (M.) (2024), *The future of European competitiveness*, September.
[xvi] Letta (E.) (2024), *Much more than a market*, April.
[xvii] Villeroy de Galhau (F.) (2025), *Venturing into open waters to unlock Europe's innovative potential*, speech, Euronext Paris, 18 March.
[xviii] Villeroy de Galhau (F.) (2025), *A mobilising deadline for seizing "Europe's moment"*, Hearing of François Villeroy de Galhau, Governor of the Banque de France, before the National Assembly Foreign Affairs Committee, 14 May.
[xix] Original proverb in Italian: "*La differenza tra un sogno e un obiettivo è una data di scadanza*".
[xx] Villeroy de Galhau (F.) (2025), "*A European approach to simplification: avoiding three misconceptions, and suggesting concrete milestones*", Eurofi Warsaw, 11 April.
[xxi] Valéry (P.)(1931), *Regards sur le monde actuel*