

## B. Operational supervision

### 1. Banks

During 2019, the main focus of attention for the operational supervision of the Belgian banking sector was the sector's profitability, the viability of certain business models, and the digital transition. That transition implies IT risks and cyber risks, and also requires constant adjustments to the supervision methodology.

Both the SSM and the Bank conducted stress tests during the year under review. For significant credit institutions, these tests concerned the sensitivity of their liquidity positions. For smaller Belgian banks, they covered the resilience of the solvency position in the event of severe shocks.

#### 1.1 Mapping of the sector

The Belgian bank population was stable overall in 2019 and comprised 104 institutions at the end of the year. However, the gross changes reflect the trend towards steady consolidation of the Belgian banking sector which has persisted for many years. This concerns not only mergers and acquisitions, but also the conversion of Belgian subsidiaries of banks from the European Economic Area (EEA) possessing their own legal personality into branches of these foreign credit institutions with no separate legal personality.

The number of branches governed by the law of another EEA member state increased by one entity in net terms in 2019. In gross terms, five new licences were recorded and four were withdrawn. Most of the registrations and withdrawals relate to Brexit: owing to the relocation of UK banks in the EU, the Belgian branches of British credit institutions were converted to branches of the institutions transferred to the continent.

Table 17

#### Number of institutions subject to supervision

(end-of-period data)

	2018	2019
<b>Credit institutions</b>	<b>105</b>	<b>104</b>
Under Belgian law	32	31
Branches governed by the law of an EEA member state	47	48
Branches governed by the law of a non-EEA member state	8	6
Financial holding companies	6	8
Financial services groups	5	4
Other financial institutions <sup>1</sup>	7	7
<b>Investment firms</b>	<b>32</b>	<b>34</b>
Under Belgian law	17	17
Branches governed by the law of an EEA member state	14	16
Financial holding companies	1	1

Source: NBB.

<sup>1</sup> Specialist subsidiaries of credit institutions and credit institutions associated with a central institution with which they form a federation.

The number of branches of third country banks declined by two institutions, one of which was an Indian bank active mainly in financing the Antwerp diamond industry.

The changes in the number of financial holding companies and financial services groups are partly technical, as classification as a financial holding company or financial services group depends on whether there are any insurance undertakings in the group. For instance, the financial services groups Anbang Belgian Holding which, since the

sale of Fidea, now has only one banking subsidiary (Bank Nagelmackers), was reclassified as a financial holding company.

Despite the trend towards bank consolidation, there were also some initiatives – albeit few in number – aimed at establishing new banks on the market with innovative business models, either by the creation of a totally new bank or by the acquisition and conversion of an existing bank. Thus, in 2019, the Bank received an application for approval for the licensing of a new cooperative bank, namely NewB SCE, which intends to concentrate specifically on ethical banking. The applicant in this case resorted to the capital market with a public offering of cooperative shares in order to raise the required regulatory capital, set at a minimum of €30 million. Raising the said minimum amount was not only necessary so that, in the initial years, the new bank can absorb any start-up losses and continue to respect the capital ratios, but it also represented a decisive test of the likely existence of a degree of support for the project, and therefore gives NewB SCE a better chance of implementing its business

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plan. The capitalisation operation raised well over the set minimum amount. In regard to the procedure, it should be noted that the decision to grant a banking licence is taken by the European Central Bank, once the NBB has issued a positive opinion.

Another initiative concerned the conversion of Banca Monte Paschi Belgio, the former Belgian subsidiary of the Italian parent bank, which was renamed Aion after being acquired by a private equity group. This bank intends to operate from Belgium offering differentiated financial products and services via a digital platform on the basis of a subscription formula.

Licensing challenger banks of this type promotes a dynamic and diverse banking landscape, but it is no guarantee of success. After their launch phase, these banks will need to prove that they can fulfil their growth potential and that their business model is viable and sustainable so that they can secure their place in a fast-changing banking environment.



Table 18

**Belgian banks grouped according to the SSM classification criteria**

Significant institutions (SIs)	Less significant institutions (LSIs)
<b>Belgian parent</b>	Aion
Argenta	Anbang Group – Nagelmackers Bank
AXA Bank Belgium	Byblos Bank Europe
Belfius	CPH
Degroof Petercam	Crelan Group – Crelan, Europabank
Dexia (financial holding company)	Datex Group – CKV
KBC Group – KBC Bank, CBC	Dierickx-Leys
<b>Non-Belgian SSM-member parent</b>	ENI
BNP Paribas Fortis, bpost bank	Euroclear
Beobank, Banque Transatlantique Belgium	FinAx Group – Delen Private Bank, Bank J. Van Breda
ING Belgium	Shizuoka Bank
MeDirect Bank	United Taiwan Bank
Puilaetco Dewaay Private Bankers	Van de Put & C°
Santander Consumer Bank	vdk bank
<b>Non-SSM member parent not governed by the law of an EEA member country</b>	
Bank of New York Mellon	

Source: NBB.

The Belgian population of investment firms remained stable, except for a few changes concerning branches, notably in the funds sector.

In the euro area, banking supervision is exercised by the SSM, supported by cooperation between the ECB and the national banking supervision authorities. The ECB exercises direct supervision over all significant institutions (SIs) and is assisted in that by the national supervisory authorities. The latter continue to exercise direct supervision over less significant institutions (LSIs), though the ECB retains the option of exercising direct supervision over those institutions if that is justified for the consistent application of its supervision standards.

In the case of the SIs, in 2019, the Bank took part in 13 Joint Supervisory Teams (JSTs), which – under the direction of the ECB – supervise significant Belgian institutions, be they Belgian banks owned by a Belgian parent company, Belgium-based subsidiaries of a non-Belgian parent company subject to the SSM, or banks established in Belgium and owned by a non-Belgian parent company not subject to the law of an EEA member country.

The group of Belgian LSIs comprises 16 local and/or specialist banks; that number increases to 20 if financial holding companies of less significant institutions are included.

On 25 October 2019, Crelan announced that it had reached an agreement with the AXA Group to take over AXA Bank Belgium. If that deal is approved by the supervisory authorities, the new consolidated entity will become a significant institution subject to the direct supervision of the ECB.

## 1.2 Supervisory priorities

The supervisory priorities are defined by combining the general sectoral risk analyses of the Bank and the SSM with the firm-specific risks. Prominent subjects on the agenda of the SSM and the Bank are the viability and sustainability of business models against the backdrop of low interest rates and the digital transition, IT risks and cyber risks, Brexit-related risks and more traditional risks: credit risk, in particular in the case of mortgage loans and consumer credit (conditions, pricing, risk acceptance), operational risk, combating money-laundering and terrorist financing, etc.

One of the Bank's priorities is to ensure that the supervision methodology and instruments keep pace with the digital transition currently ongoing in the banking sector. In that regard, the Bank set up an intensive training programme to equip its prudential supervision staff with the skills to analyse the impact of digitalisation on the banks' business models and organisation, and the IT and cyber risks that they face.

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The Bank also set up a programme to identify new technologies capable of analysing vast quantities of both qualitative and quantitative prudential data and to enhance the effectiveness of supervision. In that regard, the Bank works with aligned supervisory authorities to examine how and where progress can be achieved.

## BOX 11

### Stress tests

#### **SSM 2019 stress tests**

Under the SSM, the ECB conducted stress tests in 2019 to analyse the sensitivity of the liquidity position of euro area banks. The Belgian credit institutions subject to the direct supervision of the SSM<sup>1</sup> took part in the exercise.

The aim was to analyse the banks' ability to withstand hypothetical shocks calibrated on the basis of the prudential experience gained by the SSM from recent idiosyncratic crisis events. The exercise consisted of an adverse scenario and an extreme scenario, both involving shocks whose impact persisted over a period of six months following the reference date of 31 December 2018. The six-month horizon is thus longer than the one-month period used for the statutory short-term liquidity coverage ratio (LCR).

The results showed a generally comfortable liquidity position for all institutions in the sample. Almost half the banks reported a "survival time" of more than six months in the event of an adverse shock, and more than four months in the event of an extreme shock. Only 11 banks had a survival time of less than 2 months in the event of an extreme shock. The survival time corresponds to the number of days for which the institution can continue to honour its liabilities with the cash and assets at its disposal without access to the financing markets. The long survival times in the event of the shocks simulated by the exercise would leave the banks enough time to set up their emergency financing plans.

The Belgian banks' resilience to shocks proved satisfactory, with a survival time similar to, or actually longer than, the average for all banks in the sample. However, the tests drew attention to a number of points relating to dependence on less stable funding sources with shorter maturities, such as

<sup>1</sup> Subsidiaries of significant institutions such as BNP Paribas Fortis and ING Belgium took part indirectly via their parent institution.



interbank deposits and business deposits, and reliance on the wholesale markets. Conversely, the resilience of custodian banks proved to be greater owing to their generally bigger liquidity buffers, largely inherent in their business model.

Another point for attention is the dependence of some banks on the foreign exchange market, reflected in shorter survival times in certain foreign currencies, notably the US dollar. Some subsidiaries based outside the euro area have a relatively short survival time and depend on their parent company for finance, something which could cause tensions in the event of a liquidity crisis. Management practices, of decisive importance in a liquidity crisis, could be strengthened, particularly in regard to the ability to mobilise certain assets in order to improve the liquidity buffer.

The results had no direct impact on the institutions' capital requirements. They were taken into account in the assessment of governance and liquidity risk management. That assessment resulted in individual quantitative and qualitative measures where necessary, notably via the SREP (Supervisory Review and Evaluation Process). Thus, some banks will have to strengthen their management practices, while others will be asked to improve their ability to mobilise their liquidity buffer.

Most of the Belgian banks supplied the required data promptly, and the quality of the data was acceptable. Nonetheless, the tests revealed problems in the quality of the data in the prudential reports of some institutions. The exercise will thus lead to an improvement in the quality of future prudential reporting.

#### ***NBB solvency stress test on the LSIs***

In 2019, the Bank conducted a stress test on the ten LSIs which underwent an SREP during the year under review. That stress test aimed to check whether the institutions had sufficient capital to absorb losses resulting from a series of hypothetical adverse macroeconomic and financial shocks, and to recommend an additional capital buffer if necessary.

Although this exercise has a European dimension – the common scenarios are supplied by the ECB, and all the national stress test exercises have to respect certain principles – the Bank retains the necessary flexibility to take account of the specific characteristics of the participating LSIs. For instance, it opted to analyse a broad range of risk factors so that all institutions experienced sufficient stress, whatever their business model. Conversely, the necessary proportionality was built in by using less detailed data and a simplified methodology compared to the two-yearly EBA stress test which is mandatory for SIs. The workload for the LSIs was further reduced by only asking them for additional information on their December 2018 starting position, which the Bank used as the basis for projections for 2019-2021.

The stress test results were not published, but were discussed with the LSIs and were a factor determining their capital requirements under the SREP.

## 2. Insurance undertakings

The low interest rate environment puts pressure on the life insurance business, prompting the Bank to pay greater attention to a number of firms in 2019.

In particular, the operational supervision of insurance undertakings focused on the annual reporting statements that firms submit to the Bank. Particular attention also centred on the detailed examination of applications made to the Bank on account of Brexit, the supplementary individual health insurance market, cyber risk and InsurTech, plus the accredited auditor's duty of cooperation. The Bank also conducted a stress test for a number of insurers.

### 2.1 Mapping of the sector

#### Insurance undertakings

At the end of 2019, the Bank exercised supervision over 81 undertakings. The number of institutions subject to supervision stabilised after the consolidation movement in the sector which followed the entry into force of the new prudential regime. Two undertakings subject to the Bank's supervision are reinsurers in the strict sense.

**Table 19**  
**Number of institutions subject to supervision<sup>1</sup>**  
(end-of-period data)

	2018	2019
Active insurance undertakings	67	66
Insurance undertakings in run-off	1	1
Reinsurance undertakings	31	31
of which:		
Undertakings also operating as insurers	29	29
Other <sup>2</sup>	12	12
<b>Total<sup>3</sup></b>	<b>82</b>	<b>81</b>

Source: NBB.

<sup>1</sup> At the end of 2019, the Bank also exercised prudential supervision over nine branches of undertakings governed by the law of another EEA member country, but that prudential supervision was confined to verifying compliance with the money-laundering legislation.

<sup>2</sup> Surety companies and regional public transport companies.

<sup>3</sup> The total only takes account once of undertakings active as both insurers and reinsurers.

#### Insurance groups

At the end of 2019, nine Belgian insurance groups were subject to the Bank's supervision, or two fewer than in 2018. Six of those groups only have holdings in Belgian insurance undertakings (national groups), while three have holdings in at least one foreign insurance undertaking (international groups).

**Table 20**  
**Belgian insurance groups subject to the Bank's supervision**

Belgian national groups	Belgian international groups
Belfius Assurances	Ageas SA/NV
Cigna Elmwood Holdings	Navigators Holdings (Europe)
Credimo Holding	KBC Assurances
Fédérale Assurance	
Groupe Patronale	
Securex	

Source: NBB.

### 2.2 Supervision priorities

#### Ongoing supervision

In the long run, the persistence of a low interest rate environment is liable to cause problems for some undertakings in the life insurance business. The situation of some institutions already requires the Bank's special attention at this stage, on account of their business model. During the period under review, the Bank therefore continued to exercise closer supervision over undertakings with the highest risk profile.

Within the framework of the overall supervision approach, on-site inspections remain an important tool for detecting weaknesses, particularly in connection with the "best estimate" of the technical provisions in life insurance portfolios. The process as a whole (from ascertaining the need for an inspection to the findings resulting from the inspection) led the Bank to take severe measures for some undertakings. Verification of the best estimate is one of the key points for attention in prudential supervision, as are the means devoted to it.

## Brexit

For insurance undertakings, Brexit remains a point for attention in view of the uncertainty over the arrangements for its implementation. Some of the uncertainty will disappear once EU law no longer applies to the United Kingdom and the EU passport expires.

However, the repeated postponement of the departure date gave the undertakings concerned extra time to refine their strategy and prepare their processes taking account of the various possible scenarios (“hard” versus “soft” Brexit). In this connection, Belgian undertakings were repeatedly asked about their contingency plans. It emerged that most undertakings which already have a branch based in the United Kingdom opted to convert that institution to

### *Prudential supervision over the new undertakings formed in the context of Brexit will present a major challenge for the Bank*

a third-country branch once the British authorities launch this scheme.

For British undertakings operating in Belgium, loss of the European passport also obliges them to adopt the necessary measures to achieve their objectives in terms of both the conclusion and renewal of contracts<sup>1</sup> and the servicing of current insurance liabilities until expiry of the existing contracts (legacy portfolio or back book). Discussions took place between the Bank and the British authorities concerning the British insurance undertakings that need to regularise their position.

<sup>1</sup> Four undertakings now have offices in Brussels on that account: Lloyd's Insurance Company, QBE Europe SA, Amlin Insurance SE and Navigators via the takeover of Asco NV.



### ***Data Quality and analysis of periodic reporting***

During the year under review, the Bank kept a close eye on the quality of the financial reporting submitted to it periodically and certain identification data on the insurance undertakings under its supervision.

In regard to the first aspect, apart from the validation tests developed by the European Insurance and Occupational Pensions Authority (EIOPA) and applied in automated form to the periodic financial reporting, the Bank also developed and applied supplementary validation tests. The Bank attaches great importance to accurate reporting, as that is the cornerstone of prudential supervision. In the course of this exercise, various undertakings were contacted concerning the correction of inconsistencies in their financial reporting. The Bank will continue this exercise in order to achieve constant improvement in financial reporting quality.

The Bank also monitored the quality of identification data (key data such as licences, contacts, etc.) on insurance undertakings. In that regard, the "ID file" generated automatically for each insurer was modernised.

In addition, the Bank is totally committed to establishing a set of instruments permitting more detailed analysis of the data. The emphasis here will be on key factors in the financial health of firms. The Bank will accord priority to monitoring the technical provisions, the quality of the capital requirement calculations, and the nature of the firms' asset portfolios.

### ***Horizontal analysis of non-occupational health insurance***

In order to chart the profitability of supplementary individual health insurance, the Bank conducted a horizontal analysis of the Belgian market. The study showed that the profitability of the products depends on their characteristics. In order to ensure a level playing field, firms were asked, when calculating the best estimate and setting the parameters, to carry out a number of sensitivity analyses which will provide a clearer picture of these characteristics.

On the basis of the sensitivity analyses, it was possible to assess the best estimates reported by the firms and impose corrective measures where necessary. However, the exercise did not produce the desired result, so that the firms were asked to conduct a

new sensitivity analysis on the assessment of the best estimate. The results of that exercise are expected during 2020.

### ***Compliance assessment***

The inspection teams conducted a transversal study of the organisation and working of the compliance function on a sample of ten small insurers. This study revealed that the firms generally opt for an internal compliance function which has a good knowledge of the firm's activities and can intervene when necessary. The resources allocated to the compliance function seemed very meagre, and duties are often combined in ways that may generate conflicts of interest for the compliance officer and the director in charge of compliance. Risk analysis and work planning are areas where improvement is desirable, to create more transparency regarding both the adequacy of the compliance function's coverage of the compliance risks facing the firm, and the human resources necessary for the proper performance of the function.

### ***Accredited auditor's duty of cooperation***

In accordance with their duty of cooperation, accredited auditors explained their approach to the best estimate at a workshop. In 2019, examination of this subject continued on a structured basis in order to obtain a sufficiently detailed insight into the actual work relating to specific areas such as methods of assessing the best estimate. This resulted in a number of general findings which were examined in greater depth in one-to-one dialogues with several firms of auditors, enabling them to explain their procedure and provide details of the audits conducted and the substantive tests. The feedback sent to the auditors and to the professional association forms the starting point for better communication with the Bank and should ultimately improve the coordination between the work of the Bank and that of the auditors.

### ***IT risk***

By means of a questionnaire and on-site interviews, the Bank collected information from eleven significant insurers and reinsurers concerning their IT risks and how they are managed. The analysis results are expected in the first quarter of 2020.

In this questionnaire, the assessment of a firm's IT risk is based on the assessment of five sub-categories of





IT risks: security, availability and continuity, change, outsourcing and integrity of the data. The assessment of the framework for monitoring IT risks is based on ten dimensions: IT governance, IT organisation and outsourcing, IT risk management, management of IT security, management of IT operations, acquisition of software, software development and project management, data quality management and ability to aggregate data, IT continuity management, IT reporting and internal IT audit.

### **Cyber risks**

The Bank has previously drawn attention to the extensive digitalisation, the growing digital interconnection of the various economic sectors, and the scale of the resulting IT risks and cyber risks. Insurance and reinsurance undertakings and groups are thus becoming vulnerable on two fronts: on the one hand, as institutions, they are targets for cyber attacks and they need to set up sufficiently robust protection and detection systems; also, they feel the repercussions of attacks suffered by their customers, either because they

explicitly provide cover (affirmative cyber insurance), or because they unwittingly provide cover (silent insurance or non-affirmative cyber insurance). The Bank polled the entire insurance sector in Belgium on these two points by means of a questionnaire. Analysis of the results will start in 2020. IT risks and cyber risks are discussed in more detail in section E.3.

### **InsurTech**

To assess the impact on the insurance sector of the use of technological innovation, the Bank is working on a number of InsurTech projects. On the basis of a survey of firms, it is trying to take stock of initiatives concerning technological innovation and digitalisation, e.g. in regard to setting tariffs, underwriting and claims management. In addition, the Bank lists points for attention specific to InsurTech which could promote a better mutual understanding of the new technological trends and a more transparent dialogue with insurance undertakings. From 2020, these projects will actually be reflected in the prudential supervision of the Belgian insurance sector.

## Stress tests and “flashing-light” reserves

Since EIOPA had not organised any stress tests at European level in 2019, the Bank arranged a test for a number of individual insurers that together make up a substantial share of the Belgian insurance sector. This stress test comprised two scenarios: a Belgian Adverse scenario and a Low Yield scenario. The reference date for these exercises was 31 December 2018. The impact on the balance sheet, own funds and the capital requirement had to be calculated for each scenario. The results of these stress tests were published on the Bank’s website<sup>1</sup>.

The Belgian Adverse scenario measures the impact on Belgian insurers’ solvency of a rise in Belgian government bond yields of 100 and 200 basis points respectively. That scenario makes it possible to assess in practice how the volatility adjustment mechanism<sup>2</sup> works in a stress situation. The coverage ratio relating to the solvency capital requirement (SCR) of the seven firms taking part in the test averaged 209 % before application of the shocks, suggesting a comfortable starting position. Following a 200-basis-point shock, the average SCR coverage ratio dropped by 64 percentage points to 145 %. The fall is due mainly to the reduction in the value of the portfolio of Belgian sovereign bonds resulting from that shock (negative impact of 94 % on the SCR coverage ratio). That decline is partly offset by compensatory effects relating to certain assets and liabilities on the balance sheet. Similarly, the hedging strategies involving derivatives used by some insurers moderate the impact of the shock.

The Low Yield scenario measures the impact of a further decline in the risk-free yield curve on the solvency of Belgian insurers. The main aim of this scenario is to identify and assess the potential vulnerabilities of the insurance sector resulting from a persistent low interest rate environment. The individual results are taken into account in the assessment of applications for exemption from the formation of the flashing-light reserve for the interest rate risk.

The Royal Decree on the annual accounts of insurance and reinsurance undertakings<sup>3</sup> states that the additional reserves formed under Solvency I should be retained in the statutory annual accounts when switching to Solvency II and must then be topped up for as long as the interest rate risk persists. That Royal Decree contains simplified provisions on exemption from the obligation to create an additional reserve.

All the regulatory capital requirements must be covered in order to qualify for exemption from the obligation to form additional reserves. To claim exemption, firms must also conduct stress tests on their exposure to the interest rate risk, and the test results must be satisfactory. The Bank uses the results of the test simulating the Low Yield scenario mentioned above in order to grant that exemption.

<sup>1</sup> See <https://www.nbb.be/en/financial-oversight/prudential-supervision/areas-responsibility/insurance-or-reinsurance-29>.

<sup>2</sup> Adjustment of the risk-free yield curve reducing the impact of the short-term volatility of the spreads in the bond portfolio on the solvency position.

<sup>3</sup> Royal Decree of 1 June 2016 amending the Royal Decree of 17 November 1994 on the annual accounts of insurance and reinsurance undertakings.



For 2019, firms achieving satisfactory results in 2018 were exempt from taking part in the stress test provided their interest rate risk profile had not changed significantly. The exemption was granted if the following two conditions were met and there were no other grounds for refusing the exemption: first, the institution must have a solvency ratio of over 100 % in the baseline scenario and must maintain it above 100 % after application of an adverse scenario. As an additional condition for granting exemption for the year 2019, insurers had to achieve coverage of at least 125 % of the solvency capital requirement as at 30 September 2019. The tougher conditions for granting this exemption were due to the very low interest rate environment and the serious underestimating of the capital requirement for the interest rate risk in the standard formula.

### 3. Financial market infrastructures and payment services

In regard to financial market infrastructures (FMIs) and payments, the year 2019 brought two significant developments: the introduction of the rules on payment initiation service providers and account information service providers, and the licences granted to two Belgian central securities depositories under the CSD Regulation. The second EU Payment Services Directive (PSD2), which requires account-servicing payment service providers to open up their online payment accounts infrastructure (Open Banking), enables payment initiation service providers and account information service providers (both banks, payment institutions and electronic money institutions) to further penetrate the payment services market. Open Banking forms the subject of a separate section in chapter E on digitalisation, which also contains more detailed information on IT risks and cyber risks, and how the Bank is monitoring them. The CSD Regulation has not led to the emergence of any new types of institution. Instead, this Regulation was intended to ensure the security and efficiency of CSDs, to encourage a level playing field and to facilitate consolidation of the CSD sector.

#### 3.1 Mapping of the sector

The Bank is responsible for both the oversight and the prudential supervision of financial market infrastructures, custodian banks, payment service providers and critical service providers. Oversight

concerns the security of the financial system, whereas prudential supervision examines the security of the operators offering these services. In cases where the Bank exercises both oversight and prudential supervision, these two activities can be considered complementary.

The table below presents the systems and institutions subject to the Bank's supervision and/or oversight. As well as being classified according to the type of services provided, these institutions are also grouped according to: (i) the Bank's role (namely prudential supervision authority, overseer, or both) and (ii) the international dimension of the system or institution (the Bank as the sole authority, international cooperation agreement with the Bank as the main player, or other role for the Bank).

At the end of 2019, twenty-six payment institutions and seven electronic money institutions under Belgian law were subject to the Bank's supervision. The Bank also supervised five branches and one payment institution providing account information services. During the year under review, that institution was granted a licence, along with two electronic money institutions and seven payment institutions under Belgian law, including Transferwise Europe and WorldRemit Belgium, which, in view of Brexit, decided to establish a subsidiary in Belgium. Finally, during the year under review four licences were withdrawn, one foreign branch was approved and two institutions progressed from limited status to full status.

Table 21

Mapping of the financial market infrastructures and payment services sector

	International cooperation		The Bank acts as the sole authority
	The Bank acts as lead authority	The Bank participates under the direction of another authority	
Prudential supervision		<u>Custodian</u> Bank of New York Mellon SA/NV	Payment service providers (PSP) Payment institutions (PI) Electronic money institutions (ELMI)
Prudential supervision and oversight	<u>Central securities depository (CSD)</u> Euroclear Belgium <u>International central securities depository (ICSD)</u> Euroclear Bank SA/NV <u>Supporting institution</u> Euroclear SA/NV	<u>Central counterparties (CCP)</u> LCH Ltd (UK), ICE Clear Europe (UK) LCH SA (FR), Eurex Clearing AG (DE), EuroCCP (NL), Keler CCP (HU), CC&G (IT)	<u>Payment processors</u> Worldline SA/NV
Oversight	<u>Critical service provider</u> SWIFT	<u>Service provider</u> TARGET2-Securities (T2S) <sup>1</sup>	<u>Central securities depository</u> NBB-SSS
		<u>Payment system</u> TARGET2 (T2) <sup>1</sup> CLS Bank	<u>Card payment schemes</u> Bancontact <sup>1</sup> Mastercard Europe
			<u>Payment system</u> Centre for Exchange and Clearing (CEC) <sup>1</sup>

Post-trade infrastructure	Securities clearing	Payments	Payment systems
	Securities settlement		Payment institutions and electronic money institutions
	Custody of securities		Payment processors
Service providers	T2S		Card payment schemes
Critical service providers	SWIFT		

Source: NBB.

<sup>1</sup> Peer review in Eurosystem/ESCB.

See table 22 regarding the change in the number of payment institutions and electronic money institutions subject to supervision.

### 3.2 Supervision priorities

In 2019, there were two notable events concerning FMIs and payment services. First, there was the advent of various new payment service providers, prompted by the introduction of the PSD2. Next, the Bank approved two central securities depositories in Belgium under the CSD Regulation. A full list of all the supervisory activities relating to FMIs

and payment services can be found in the latest Financial Market Infrastructures and Payment Services Report, available on the Bank's website<sup>1</sup>.

<sup>1</sup> See <https://www.nbb.be/en/publications-and-research/economic-and-financial-publications/financial-market-infrastructures>.

Table 22

**Number of payment institutions and electronic money institutions subject to supervision**

(end-of-period data)

	2018	2019
<b>Payment institutions</b>	<b>25</b>	<b>31</b>
Under Belgian law	19	26
Providing account information services <sup>1</sup>	0	1
Limited status institutions <sup>2</sup>	3	0
Branches governed by the law of an EEA member country	3	4
<b>Electronic money institutions</b>	<b>9</b>	<b>8</b>
Under Belgian law	5	7
Limited status institutions <sup>3</sup>	2	0
Branches governed by the law of an EEA member country	2	1

Source: NBB.

- 1 Payment institutions providing account information services are registered in accordance with Article 91 of the Law of 11 March 2018 and are subject to a limited regime.
- 2 Limited status institutions are registered as having limited status in accordance with Article 82 of the Law of 11 March 2018 and are subject to a limited regime.
- 3 Limited status electronic money institutions are registered as limited status electronic money institutions in accordance with Article 200 of the Law of 11 March 2018 and subject to a limited regime.

**FinTech**

In recent years, under the impetus of technological innovations and changing consumer preferences, the financial sector has become increasingly digitalised, and has introduced numerous new applications, processes and products. The digital transformation and FinTech<sup>1</sup> are closely linked concepts, defined partly by the market entry of new innovative service providers, and partly by existing

*Digitalisation in the financial sector is manifested mainly in payments*

- 1 The Financial Stability Board (FSB) defines FinTech as “technology-enabled innovation in financial services that could result in new business models, applications, processes or products with an associated material effect on the financial markets and institutions and on the provision of financial services”.
- 2 Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No. 1093/2010, and repealing Directive 2007/64/EC.

institutions’ initiatives aimed at improving their organisation, provision of services and supply of products with the aid of technological innovations.

Digitalisation in the financial sector is manifested primarily in payments. Factors driving this trend include the introduction of the second Payment Services Directive (PSD2)<sup>2</sup> and the related concept of Open Banking (see section E.1.). In Belgium, the Bank is the national competent authority for the prudential supervision of payment service providers. For the purpose of exercising that supervision, it has a broad range of instruments incorporated in Belgian law in order to watch over the secure operation and solvency of those institutions. In its capacity as the supervisory authority for the second Payment Services Directive, the Bank also grants licences to new players, or to existing players wishing to expand their activities. As the supervisory authority, the Bank has noted the following developments on the Belgian payments market:

- increase in specialist payment service providers targeting small and medium-sized businesses;
- increase in specialist payment service providers focusing on facilitating international payments; and
- increase in specialist payment service providers trying to automate, optimise and enhance the processing of payment data.

Regarding the first trend, it is notable that a growing number of non-bank payment service providers, namely payment institutions and electronic money institutions, are trying to develop competitive, personalised services aimed at small and medium-sized businesses, which often require specific payment solutions. The second trend concerns the fact that increasing numbers of players are trying to innovate within the international payments sector. By using new technologies, those players try to offer competitive services. The third identified development concerns the wider use of data, including payment data, in the supply of services by non-bank payment service providers. For instance, certain players focus on the automation and enhancement of operational processes, such as account management and cash flow projections.



The above-mentioned developments are largely complementary. This can be illustrated by the fact that a significant number of new service providers are trying to respond to more than one of the market trends mentioned above. For example, some stakeholders aim to facilitate international payments for both individual consumers and small and medium-sized businesses. Future developments on the payments market, in combination with the further implementation of Open Banking, will show whether these new players can introduce a sustainable business model and secure a permanent foothold in the payments landscape.

### **CSD Regulation**

After analysing the authorisation applications and consulting the foreign authorities as stipulated by the CSD Regulation<sup>1</sup>, the Bank approved two CSDs, namely Euroclear Belgium and Euroclear Bank, in Belgium in 2019 under this Regulation.

<sup>1</sup> Regulation (EU) No. 909/2014 on improving securities settlement in the European Union and on central securities depositories.

<sup>2</sup> See [https://www.bis.org/cpmi/info\\_pfmi.htm?m=3%7C16%7C598](https://www.bis.org/cpmi/info_pfmi.htm?m=3%7C16%7C598).

<sup>3</sup> In the case of securities governed by the law of another Member State, there is provision for additional consultation with the authority of the Member State concerned.

The CSD Regulation implements the Principles for Financial Market Infrastructures (PFMI)<sup>2</sup> set out by the Committee on Payments and Market Infrastructures (CPMI) and the International Organisation of Securities Commissions (IOSCO).

The purpose of the Regulation goes beyond ensuring the security and efficiency of the CSDs by means of specific prudential requirements geared to the systemic importance of CSDs for the financial system and the operation of these institutions.

The internationalisation of securities settlement, which means that CSDs are increasingly interlinked, has also heightened the need for a common prudential framework to prevent risks which emerge in one CSD from infecting other countries, too. The Regulation does not only promote a level playing field by imposing common requirements throughout the European Union, but it also involves the authorities of other countries in the assessment of CSDs in the EU. Simply in order to grant authorisation for the settlement of securities issued under Belgian law, the Bank had to consult the authorities of 22 countries for which Euroclear Bank is important<sup>3</sup>.

Despite the internationalisation of securities settlement, the market is still fragmented. A third aim of

the Regulation is therefore to encourage competition between CSDs, not only by standardising the requirements applicable to all CSDs in the EU, but also by granting securities issuers the right to issue their securities in any EU CSD (in some countries, it was still compulsory to issue securities through the national CSD). Although there has been little consolidation in the sector so far, the Regulation does offer that possibility. The harmonised rules applicable, for example, to the settlement cycle<sup>1</sup> have greatly reduced the complexity for internationally active parties – for both participants and CSDs.

*The CSD Regulation aims to ensure the security and efficiency of CSDs, to promote a level playing field and to facilitate the sector's consolidation*

However, the authorisations granted to Euroclear Belgium and Euroclear Bank are not the end of the process. At least once a year, a check is conducted to ensure that all EU CSDs continue to respect all the Regulation's requirements. During that check, the foreign authorities concerned are also consulted. Moreover, as a member of the Eurosystem, the Bank takes part in the assessments of the EU's foreign CSDs which carry out settlement in euros.

<sup>1</sup> For the whole of the EU, the settlement cycle becomes "T + 2" (i.e., settlement takes place two days after the purchase/sale).