C. Operational supervision

Like other organisations, the Bank had to adapt its operations on account of the pandemic. It activated its plans to ensure the continuity of its critical activities, such as the supervision of banks, insurers and financial market infrastructures (FMIs). Staff responsible for supervision therefore switched quickly to remote working, and meetings requiring physical attendance (both within the Bank and with the institutions) were replaced by virtual, remote meetings. Similarly, meetings concerning international partnerships – both those in which the Bank took part under the leadership of a foreign authority and those which the Bank organised in its capacity as the lead supervisor – were held remotely.

The coronavirus crisis presented particular challenges for on-site inspections in which the Bank's inspectors conduct checks on institutions' premises. When the first lockdown was announced in Belgium, inspectors were no longer able to visit institutions, where very few people were present in any case, owing to extensive recourse to working from home. A modified infrastructure was set up to for exchanging files and holding interviews during the lockdown, and it was maintained subsequently. The Bank adapted its inspection methodology by using new forms of checks and interaction with financial institutions. During this period, particular attention focused on good communication and the smoothest possible interaction with financial institutions, taking account of the consequences of remote working for both the institutions and the Bank.

1. Banks

As one might expect, banking supervision in 2020 was geared to one central theme, namely the impact of the COVID-19 crisis on the operations and financial situation of banks. The government also gave the banks a key role in the implementation of a series of measures designed to provide financial support for the economy, businesses and individuals (see box 8 above on moratoria and guarantee schemes).

1.1 Mapping of the sector

The downward trend in the number of banks in Belgium was halted in 2020 : registration of the new Belgian credit institution NewB offset the deregistration of another Belgian credit institution, namely Puilaetco Dewaay Private Bankers, following its conversion to a branch of a Luxembourg bank. In net terms, the number of branches declined by two : two new branches of banks from the European Economic Area (EEA) were registered and four were deregistered.

On 31 January 2020, the European Central Bank granted a banking licence to NewB ECV under the SSM. That decision followed a favourable opinion from the Bank, which had found that the application fulfilled all the conditions imposed by the Belgian Banking Law. The cooperative had previously conducted a public offering of cooperative shares which raised sufficient capital to respect the minimum capital requirements. NewB had to launch its banking activities within 12 months following the grant of the licence.

In 2020, the Belgian population of investment firms declined by six, namely three stockbroking firms governed by Belgian law and three branches of investment firms governed by the law of an EEA member country. The reduction in the number of Belgian stockbroking firms was due to a trend towards consolidation whereby smaller institutions seek links with larger operators in the sector.

In the euro area, banking supervision is exercised by the SSM, based on 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 assuming direct supervision over those institutions if that is justified for the consistent application of its supervision standards.

In regard to the SIs, in 2020 the Bank took part in 12 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. Following the conversion of the Belgian bank Puilaetco Dewaay Private Bankers into a branch of the Luxembourg parent bank, the Bank will no longer take part in the work of the JST responsible for supervising this banking group under the SSM. Consequently, the number of JSTs of which the Bank forms part was reduced to 11 at the end of the year.

The group of Belgian LSIs comprises 17 local and/or specialist banks; their number has therefore risen by one institution, namely NewB. If the Belgian financial holding companies of less significant institutions are included, that number increases to 22. It should be noted that Dexia, a Belgian financial holding company which owns banking subsidiaries in France and Italy, for example, and was previously classified as a significant institution subject to direct ECB supervision, was reclassified as an LSI from 1 July 2020 by an ECB decision. Although Dexia's consolidated balance sheet total is well above the € 30 billion minimum, which is the main criterion for classification as an SI, the specific characteristics of the banking group which is being dismantled were the deciding factor. The consolidated supervision of the Dexia group will now be conducted by the French banking supervisor, the ACPR (*Autorité de contrôle prudentiel et de résolution*), in close collaboration with the Bank as the national supervisory authority for the Dexia financial holding company.

Table 20

Belgian banks grouped according to the SSM classification criteria

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

Source: NBB.

Table 21

Number of institutions subject to supervision

(end-of-period data)

	2019	2020
Credit institutions	104	102
Under Belgian law	31	31
Branches governed by the law of an EEA member state	48	46
Branches governed by the law of a non-EEA member state	6	6
Financial holding companies	8	8
Financial services groups	4	4
Other financial institutions [1]	7	7
Investment firms	34	28
Under Belgian law	17	14
Branches governed by the law of an EEA member state	16	13
Branches governed by the law of a non-EEA member state	0	0
Financial holding companies	1	1

Source: NBB.

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

1.2 Supervisory priorities

1.2.1 Impact of COVID-19

The immediate repercussions of the health crisis on the operations and financial situation of banks were fairly minor and could be rectified quite quickly. Thus, some banks faced sudden, substantial drawings on confirmed credit lines by businesses wanting to secure sufficient liquidity in the light of the emerging crisis. However, the liquidity position of the banks concerned was sound enough to absorb that shock.

In 2020, banking supervision was geared to the impact of the COVID-19 crisis on the operations and financial situation of banks

The true extent of the damage will not be apparent until 2021, when the moratoria on loan repayments expire and the borrowers' ability to pay the loans back will be put to the test. In that context, taking account of the postponement of the EBA stress test, the SSM conducted a stress test using a top-down approach for SIs, the Vulnerability Analysis, which was also used by the Bank for the LSIs (see box 9). The 2021 supervision programme will therefore concentrate largely on the way in which banks detect and cover non-performing loans and risk exposures. The supervisory authorities have been keeping a close eye on the situation since the start of the crisis, notably on the basis of special reports.

1.2.2 Other priorities

Another key topic is the assessment of the sustainability of the banks' business models in the light of a series of fundamental trends in the financial sector, particularly the pressure on banks' profitability due to the persistently low interest rates and the pressure of competition on certain key market segments (housing loans, private banking services, payments). In that context, banks must also develop a digital strategy to secure an adequate position on tomorrow's banking market and to control their costs. In that regard, the NBB asked the banks to complete a new FinTech questionnaire, examining the impact of FinTech and digitalisation on the institutions' business models.

In addition, close attention was paid to the implementation of the second Payment Services Directive (see also section E.2.1 of this Report). The technical regulatory standards concerning strong customer authentication and common and secure open standards of communication came into force in September 2019. All account-servicing payment service providers managing payment accounts accessible online must have at least one access interface permitting secure communication with account information service providers, payment initiation service providers and payment service providers who issue card-based payment instruments. In 2020, the Bank compared the access interfaces proposed by the banks with the technical rules and called on institutions to comply fully with the requirements by the end of 2020.

The Bank is also busy preparing for this new environment by updating its operations and its working tools and by providing the necessary training for its staff.

BOX 9

Stress tests on the capital position of Belgian banks

The original plan had been to organise a stress test in 2020 for SIs and a small number of LSIs which, during the year under review, were subjected for the first time to an NBB stress test in the context of their Supervisory Review and Evaluation Process (SREP). The purpose of these exercises is to check whether institutions have sufficient capital to absorb losses resulting from a series of hypothetical adverse macroeconomic and financial shocks and, if appropriate, to recommend an additional capital buffer.

In view of the global spread of COVID-19 from February 2020, the EBA decided to postpone its coordinated stress test for the largest banks until 2021. That decision aimed to give priority to banks' operational continuity. Nonetheless, it was important to assess the banking system's situation in the face of the consequences of the pandemic crisis.

In that context, the SSM conducted a top-down stress test, also known as a vulnerability analysis, for the 86 largest banks in the euro area. At the same time, the Bank conducted a similar exercise for the main Belgian subsidiaries of foreign banking groups. The parent companies of these subsidiaries took part in the exercise coordinated by the SSM. In addition, the Bank decided to use the same approach for LSIs, taking due account of proportionality, and to enlarge the sample to include the six LSIs with the highest credit risk exposures.

The vulnerability analysis of the largest banks comprised three scenarios: (1) the baseline scenario provided for the EBA's 2020 stress test, (2) a mid scenario based on the most likely macroeconomic developments according to the Eurosystem's June 2020 projections, i.e. a recession in 2020 followed by a recovery in 2021 and 2022, and (3) a severe scenario, which assumes a deeper recession in 2020 accompanied by a slower recovery and a fall in property prices in 2021 and 2022. For the LSIs, only the two adverse scenarios were tested.

From a methodological point of view, the vulnerability analysis is similar to the previous stress tests coordinated by the EBA in 2016 and 2018 as regards the risks covered, while being based on the assumption of a static balance sheet which takes no account of the banks' reactions. However, in contrast to the earlier stress tests, the vulnerability analysis was an entirely top-down exercise: it was conducted by the authorities without any interaction with the banks concerning the data or the projections. The LSIs were again subjected to a simplified stress test which only estimated credit losses, the two main income sources, and any losses on the value of the investment portfolio.

On the basis of these analyses, Belgian banks should be able to satisfy the regulatory requirements in the scenarios envisaged. The results for individual institutions were not published but helped to determine their capital requirements under the SREP.

2. Insurance undertakings

The year under review was dominated by the COVID-19 pandemic and closer monitoring of the financial situation of insurance and reinsurance undertakings subject to supervision. The crisis had a significant impact on the financial health of businesses. For the time being, the underwriting impact remains low for most firms, and is only likely to become clear during 2021. The health crisis and the low interest rate environment continue to exert pressure on the life insurance business, prompting the Bank to impose special measures on a number of undertakings. In addition, the operational supervision of insurers still centred on the detailed examination of the applications submitted to the Bank on account of Brexit and on the supplementary individual health insurance market, cyber risk and InsurTech. Particular attention focused on outsourcing by firms and the horizontal analysis of ORSA reports.

2.1 Mapping of the sector

The number of undertakings subject to the Bank's supervision continues to fall. At the end of 2020, the Bank still exercised supervision over 74 undertakings.

A year dominated by the health crisis which has so far only had an impact on the financial markets

Table 22

Number of undertakings subject to supervision [1]

(end-of-period data)

	2019	2020
Active insurance undertakings	66	64
Insurance undertakings in run-off	1	0
Reinsurance undertakings	31	30
of which:		
Undertakings also operating as insurers	29	28
Other [2]	12	8
Total [3]	81	74

Source: NBB.

1 At the end of 2020, the Bank also exercised prudential supervision over eight 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.

2 Surety companies and regional public transport companies.

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

Table 23

Belgian insurance groups subject to the Bank's supervision

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

Source: NBB.

The decline is due mainly to the regional public transport companies, the number of which was down by four. At the end of 2020 the Bank also exercised prudential supervision over eight branches of undertakings governed by the law of another EEA member country; that prudential supervision was confined to verifying compliance with the money-laundering legislation.

In the figures, undertakings active as both insurers and reinsurers are only counted once. Two of the undertakings subject to the Bank's supervision are reinsurers in the strict sense.

The number of Belgian insurance groups subject to the Bank's supervision remained stable, at ten. Seven of these groups only have holdings in Belgian insurance undertakings (national groups), and three of them have holdings in at least one foreign insurance undertaking (international groups). Owing to the entry of new players on the market, the Bank was represented in more supervisory authority colleges than previously.

Table 24

Colleges for insurance undertakings subject to the Bank's supervision

The Bank is the group's supervisory authority	The Bank is one of the supervisory authorities	
Ageas	Allianz	Allianz Benelux
		Euler Hermes
KBC Assurances	AXA	AXA Belgium
		Inter Partner Assistance
Navigators Holdings Europe		Yuzzu Assurances
	Assurances du Crédit Mutuel	Partners Assurances
		NELB
	Munich Re	D.A.S.
		Ergo Insurance
		DKV Belgium
	NN	NN Insurance Belgium
	Baloise Group	Baloise Belgium
		Euromex
	Monument Re	Monument Assurance Belgium
	Athora	Athora Belgium
	Enstar	Alpha Insurance
	QBE	QBE Europe
	MS&AD	MS Amlin Insurance

Source: NBB.

2.2 Supervision priorities

2.2.1 2A difficult macroeconomic context

The Bank used a supplementary qualitative survey among Belgian insurers to try to take account of the impact of COVID-19 and the difficult macroeconomic context, and to monitor its scale and severity.

The health crisis first had a direct impact on investment portfolios, owing to the volatility of share prices and spreads, and the continuing fall in interest rates. Ultimately, it remains to be seen what the implications will be for the real economy and how they will play out on the financial markets.

So far, the underwriting impact has been limited. Life insurance premium income is down while non-life premium income remains stable.

The impact on claims varies according to the product range and seems to be significant for firms offering credit insurance, transport insurance (maritime, road and air transport) and travel insurance. For credit insurance in particular, the economic recession means lower premium income, a higher claims rate and an increased claims burden owing to rising payment arrears and bankruptcies. Also, in view of the unprecedented crisis, agreements were concluded between Belgian credit insurers and the Belgian government with the aim of continuing to protect national firms against default by their counterparties by maintaining the credit limits covered at the beginning of the year. This temporary risk transfer mechanism limited the impact of the recession on the credit exposures of beneficiaries of credit insurance contracts and kept down the claims rate for insurers. For other branches of non-life insurance, the impact on the claims burden seems to be sustainable owing to the exclusion of the pandemic risk in the contract clauses. However, hospitalisation insurance and guaranteed income insurance show significant losses. Business interruption insurance, event cancellation insurance and professional liability insurance for directors are types of insurance cover likely to see a substantial number of claims, but they do

BOX 10

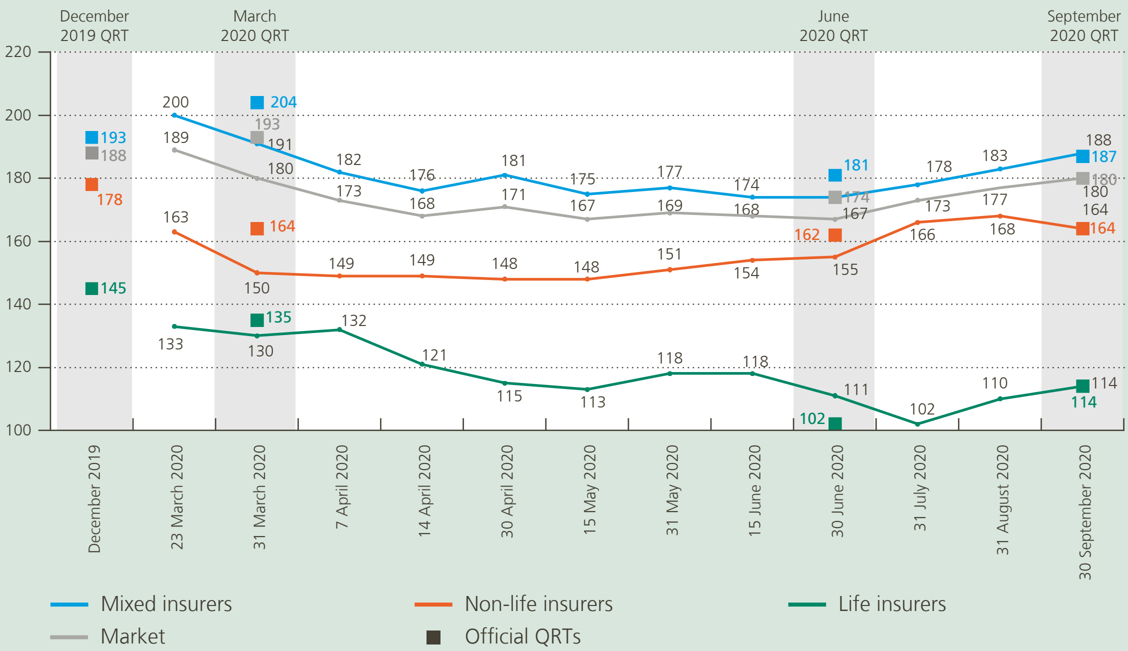
Impact of COVID-19 on the insurance sector

Following the COVID-19 pandemic, the Bank published Circular NBB_2020_08 introducing a new COVID-19 reporting system for the Belgian insurance sector. The aim of this reporting is to obtain recent key data from insurers at frequent intervals and with the best possible accuracy. In comparison with the quarterly quantitative reporting template (QRT), submitted six weeks after the reference date, this reporting permits speedy assessment of the impact of the COVID-19 pandemic on individual insurance undertakings and on the sector as a whole. Obviously, as the corollary to the speed with which these reports are submitted, the data are supplied on the basis of less demanding approximations.

The first five reports had to be submitted weekly so that the Bank could keep the closest possible watch on market volatility at the start of the COVID-19 crisis. The reporting frequency then changed to monthly once the financial market situation stabilised. The first reporting date was 23 March 2020. At that time, the sector's solvency was up slightly. On 31 March 2020, the average solvency capital requirement (SCR) coverage ratio was 193 % compared to 188 % in December 2019. That rise mainly applied to certain major insurance undertakings, with increases of up to 30 percentage points in their

The SCR ratio of Belgian insurance undertakings

(in %)



Source: NBB.

SCR ratio. In view of the economic situation and the financial markets, this counter-intuitive rise was due partly to over-compensation for the widening spreads by the volatility adjustment mechanism [1].

Although the overall solvency position of Belgian insurers had not suffered at the start of the COVID-19 crisis, from April 2020 the solvency ratios began falling steadily. The lowest solvency ratio reported was on 15 May (166 %). From 30 June 2020 (173 %), the insurers' solvency position began to recover steadily up to 30 September, in line with the improvement on the financial markets.

The impact of the COVID-19 crisis on Belgian insurers was uneven, and its scale depends partly on the institution's size and type of business. As shown by the chart, the biggest impact was on life insurers, as their average solvency ratio dropped from 145 % to 102 % on 30 June 2020. Mixed insurance undertakings, encompassing most of the largest insurers, were slightly less affected than other insurers, on average. This difference was particularly marked at the peak of the crisis, at the end of March 2020.

Regarding investments, as one might expect on the basis of market developments, equity investments were the asset class that took the hardest hit. Mortgages and other loans were among the few investment categories to display a clear upward trend; that was due both to an increase in the stock and a rise in the valuation of those assets.

This crisis has shown that the countercyclical instruments included in Solvency II, such as the volatility adjustment and the symmetrical own funds adjustment, played their part in attenuating the impact of market volatility on the solvency ratios of Belgian insurers. However, the counter-intuitive movement in solvency ratios at the end of March 2020 shows that there is still room for improvement in these mechanisms (see also section B.2.2 on the revision of the Solvency II Directive).

1 Adjustment of the risk-free yield curve attenuating the impact of the short-term volatility of the spreads in the bond portfolio on the solvency position.

not represent a significant share of the Belgian insurers' product range. Motor vehicle third-party liability insurance and insurance covering loss or damage by land motor vehicles recorded fewer claims owing to the reduction in mobility during the lockdown.

For the main life insurance products, the impact on claims is limited; most of the contracts mature at retirement age and therefore do not concern the age groups sensitive to COVID-19.

2.2.2 Brexit and outsourcing

Brexit

Owing to the decision by British voters to leave the European Union, British insurers no longer have access to the European Single Market under the European passport rules. Following the British elections on 19 December 2019, the Withdrawal Act was passed on 23 January 2020 and the United Kingdom left the European Union on 31 January 2020. However, the Withdrawal Act provided for a transitional period up to 31 December 2020 during which insurance activities could still continue without a licence.

For that reason, some British insurers sought to establish an insurance subsidiary in Belgium to carry on their business in Belgium and in the rest of the EEA. In 2018, the Bank's Board of Directors decided to grant approval to some of those undertakings. Those institutions began to write and administer new insurance contracts, in most cases from 2019, but in many cases, British insurance undertakings continued to administer the existing contracts.

Other British insurers decided, in the case of rights and obligations arising from portfolios of insurance contracts which could no longer be administered from the UK, to transfer the business in 2020 to an undertaking licensed in Belgium. These portfolio transfers were approved by the Bank and the High Court of Justice of England and Wales following in-depth analysis. Thus, in 2020, technical provisions totalling more than € 5 billion (gross) were transferred to Belgian insurance undertakings.

Outsourcing

Outsourcing by (re)insurance undertakings remains a key point for the Bank's attention, as is evident for instance from the inclusion of a number of clarifications in the overarching circular on the governance system, which – among other things – sets out the Bank's expectations on outsourcing within a group and outsourcing outside the EEA. These new recommendations and the new template, which also includes critical outsourcing, apply from 2021.

Outsourcing will increasingly become the norm in the sector

Extensive use of outsourcing must not enable (re)insurance undertakings to have the characteristics of an empty shell, no longer capable of respecting their authorisation and operating requirements. The same applies to (re)insurance undertakings created on account of Brexit. In accordance with the expectations published by EIOPA in 2017 in connection with Brexit, the Bank therefore paid particular attention to checking whether these new and existing (re)insurance undertakings have sufficient resources in Belgium. This surveillance of outsourcing activities and policies was subject to checks conducted both by the Bank's off-site supervision teams and by on-site inspection teams.

In addition, (re)insurance undertakings which outsource tasks to the UK must take account of the fact that, after Brexit, the UK is no longer part of the EEA. Outsourcing outside the EEA is subject to supplementary conditions, which are set out in the Overarching Governance System Circular.

At the end of 2020, an agreement was concluded between the EU and the UK. Consequently, at the beginning of this year, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) informed foreign insurers of the procedure that they would have to follow in the months ahead to continue temporarily pursuing their activities in the UK or to wind them up in an orderly manner. The UK adopted two regimes to ensure the continuity of British policyholders' contracts and to enable EEA insurers to retain temporary access to the British market : the Temporary Permissions Regime (TPR) and the Financial Services Contracts Regime (FSCR). The FSCR is subdivided into two regimes : Supervised Run-Off (SRO) and Contractual Run-Off (CRO). Some insurers based in Belgium are now subject to the TPR/SRO and hence to the supervision of the British regulators. In their case, the PRA will have the same powers as it has in regard to other undertakings with Part 4A authorisation. The rules applicable to these insurers under the TPR and the SRO will depend on the way in which they access the British market. A letter was sent to insurers in the EEA who were expected to access these regimes in December 2020. The letter set out the rules – including mitigation measures – which will apply to EEA insurers covered by the TPR and SRO. In this connection, it is important to point out that the Bank must in all cases be able to continue to exercise its inspection rights unchanged in the case of firms which insurers and reinsurers use as service providers.

Finally, one general point worth making is that if an insurer/reinsurer decides to outsource, it not only retains full responsibility for the outsourced function or activity but must also adapt its internal control system to ensure that the quality of the services obtained from the service provider meets the expectations. In the course of the inspections conducted this year, particular attention focused on insurers' monitoring of the quality of the service provider's work, to ensure that this work is sufficiently structured.

2.2.3 Health insurance

In regard to the complex problem of modelling and evaluating the commitments arising from individual health insurance, the Bank intends to ensure that the insurance undertakings concerned use realistic assumptions for the trend in health care costs.

To verify whether the absolute level of the technical provisions shown on the market-consistent balance sheet of each insurer individually is adequate, and to find a common basis for comparing their figures, the Bank asked the main health insurers to conduct a sensitivity analysis on the valuation of their best estimate.

It is necessary to check the adequacy of the technical provisions in health insurance

Overall, the results of that exercise indicate that the valuation of the best estimate is extremely sensitive to the assumptions concerning the expected trend in both the insurers' specific claims inflation and general medical inflation at market level.

In regard to the execution of the sensitivity analysis, the Bank found that practices varied widely among the health insurers questioned. Clear rules are therefore necessary for modelling and assessing the insurance commitments in the individual health care segment.

In this connection, the Bank decided to publish on its website a Communication[1] on the valuation of health care liabilities. That communication proposes a reference scenario which can be used to test the prudence of the assumptions for modelling medical inflation and which can form the basis for identifying and quantifying structural imbalances in individual health insurance portfolios.

1 Communication NBB_2020_043 of 18 November 2020.

2.2.4 ORSA

Since the introduction of Solvency II, the Bank receives an ORSA report[1] from insurers each year in which they are required to assess their risks and the corresponding capital requirements in order to maintain sufficient solvency capital to absorb unexpected shocks, in accordance with the undertaking's risk profile and risk appetite.

The ORSA requires undertakings to carry out a prospective assessment of the risks that they expect to face. Stress tests are among the tools that they must use to facilitate this prospective approach to risk management. Circular NBB_2019_30 contains an entire chapter devoted to good practice on the subject of stress tests and sensitivity and scenario analyses, illustrating the great importance which the Bank attaches to the quality of the stress test environment in insurance undertakings.

From an operational point of view, the Bank notes that insurers still have a long way to go before achieving the quality set for the stress test environment at sectoral level. An initial horizontal study of the ORSA reports showed that undertakings still frequently relied on the sensitivity test for single parameter stresses and simple scenario analyses (combination of parameters on just one side of the balance sheet, whereas the COVID-19 crisis clearly shows that crisis situations affect both sides of the balance sheet). On the subject of the completeness of the arsenal of stress tests and scenario analyses, the Bank also identified some significant gaps: in particular, scenarios relating to climate and cyber risks could be improved. In 2021, the Bank will therefore continue working on improving the quality of the stress tests and scenario analyses in the ORSA reports. To that end, it is planning new horizontal exercises accompanied by feedback for the sector.

3. Financial market infrastructures and payment services

From the start, the Bank has closely monitored the impact of the COVID-19 pandemic on FMIs, custodian banks, payment service providers and critical service providers. In addition, it has continued its normal supervision activities. Thus, in 2020, in collaboration with the ECB, it took charge of a group of Eurosystem central banks which is to apply the stricter oversight regime to Mastercard Europe. On 4 May, that Belgium-based company was included in the small group of (previously four) systemically important payment systems in the euro area, the institution now being subject to the stringent requirements of European Central Bank Regulation (EU) No. 795/2014 of 3 July 2014 on oversight requirements for systemically important payment systems (ECB/2014/28)[2]. This year, the section on supervision activities will relate to COVID-19. A complete list of all the supervision activities relating to FMIs and payment services appears in the latest Financial Market Infrastructures and Payment Services Report available on the Bank's website[3].

3.1 Mapping of the sector

The Bank is responsible for both the oversight and the prudential supervision of institutions in the post-trade sector, payment services and other infrastructures. Oversight mainly concerns the security of the financial system, whereas microprudential 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: (a) the Bank's role (namely prudential supervision authority, overseer, or both) and (b) 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 2020, 37 payment institutions and eight electronic money institutions were subject to the Bank's supervision.

1 Own Risk and Solvency Assessment.

2 See https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0795.

3 See https://www.nbb.be/en/publications-and-research/economic-and-financial-publications/financial-market-infrastructures-and

Table 25

Mapping of the financial market infrastructures and payment services sector

	International cooperation		
	The Bank acts as lead authority	The Bank participates under the direction of another authority	The Bank acts as the sole authority
Prudential supervision		Custodian bank The Bank of New York Mellon SA/NV (BNYM SA/NV)	Payment service providers (PSP) Payment institutions (PI) Electronic money institutions (ELMI)
Prudential supervision and oversight	Central securities depository (CSD) Euroclear Belgium International central securities depository (ICSD) Euroclear Bank SA/NV Supporting institution Euroclear SA/NV	Central counterparties (CCP) LCH Ltd (UK), ICE Clear Europe (UK) LCH SA (FR), Eurex Clearing AG (DE), EuroCCP (NL), Keler CCP (HU), CC&G (IT)	Payment processor and payment institution Worldline SA/NV
Oversight	Critical service provider SWIFT	Other infrastructure TARGET2-Securities (T2S)[1]	CSD NBB-SSS
		Payment system TARGET2 (T2)[1] CLS	Card payment schemes Bancontact[1] Mastercard Europe[1] Maestro[1]
	Payment system Mastercard Clearing Management System[2]		Payment processors Mastercard Europe equensWorldline
			Payment system Centre for Exchange and Clearing (CEC)[1]

Post-trade infrastructure	Securities clearing	Payments	Payment systems
	Securities settlement		Payment institutions and electronic money institutions
	Custody of securities		Payment processors
Other infrastructures	T2S		Card payment schemes
	SWIFT		

Source: NBB.
1 Peer review in Eurosystem/ESCB.
2 The NBB and the ECB act jointly as lead overseers (authorities responsible for oversight).

Table 26

Number of payment institutions and electronic money institutions subject to supervision

(end-of-period data)

	2019	2020
Payment institutions	31	37
Under Belgian law	26	33
Limited status institutions [1]	0	0
Foreign EEA branches	4	4
Electronic money institutions	8	8
Under Belgian law	7	7
Limited status institutions [2]	0	0
Foreign EEA branches	1	1

Source : NBB.

1 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.

2 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.

3.2 Supervision priorities

3.2.1 Impact of COVID-19 on the activities of Belgian payment service providers, FMIs, custodian banks and critical service providers

The impact of the pandemic and the government measures on economic life brought major changes in the retail payments market. Since the concept of "payments" covers a whole array of options for the end user, ranging from cash to direct debits and including card payments, the impact was not the same for all payment service providers. Data requested by the Bank to enable it to monitor the crisis more closely showed that, in the first month of the first lockdown (March 2020), the total amount of card transactions in physical stores in Belgium was down by more than 30 % against the same period in 2019. Over the same period, card transactions in online stores were up by more than 20 % in both value and number of transactions. These shocks were not entirely unexpected, considering that "non-essential" stores were closed and consumers therefore had to turn to online retailers to make their purchases. The impact on payment services relating to cash or travel was also considerable. Thus, the number and value of transactions effected with certain money remitters declined by more than 50 % during the first lockdown.

COVID-19 has had a significant impact on consumer behaviour and that will probably persist

The pandemic therefore had a significant effect on the payments sector and on consumer behaviour. The Bank expects these changes to persist as the pandemic is still not over. For example, the increase in the limit on contactless payments without a PIN code from € 25 to €50 for a single payment (and from €50 to €100 for successive payments) triggered a strong rise in the number of contactless payments and may continue to accelerate the upward trend for this payment method.

At the start of the pandemic (February-March 2020), the financial markets exhibited heightened volatility and increased transaction volumes. For central counterparties (CCPs), (international) central securities depositories ((I)CSDs) and custodian banks, this meant processing more transactions in securities (and, in some cases, more foreign exchange transactions). The higher revenues generated by transaction fees had a positive impact on the income of these institutions. Conversely, there was a decline in custody fees, in so far as that depends on share prices.

For custodian banks, which also rely to some extent on interest income, the decline in interest rates had a negative impact (primarily in the United States, as interest rates in the euro area have been at historically low levels for some years). Owing to the financial market turbulence caused by the pandemic, investors preferred to boost their cash holdings by closing out positions in securities, but above all by not immediately reinvesting bonds reaching maturity. In view of the risk profile of custodian banks (their business model is not based on the pursuit of risky activities), their customers placed more cash with custodian banks regarded as secure. This additional cash created a credit risk for custodian banks which had to try to place the cash securely, as they are expected to do.

Finally, SWIFT – an international organisation for exchanging electronic financial messages – also felt the effects of the pandemic. The exchange of payment messages recorded 2.1 % growth in the first six months of 2020, whereas that growth had amounted to 4.9 % in the same period of the previous year. The exchange of messages concerning transactions in securities increased by 21.7 % in the first half of 2020 owing to market volatility, compared to 8.3 % in the same period of 2019. The lower growth in payments and the stronger rise in transactions in securities resulted in 12.1 % overall growth in FIN traffic, compared to 6.6 % in the first half of 2019.

3.2.2 Operational impact

While most FMIs, payment service providers and critical service providers had to handle far more transactions or messages, like most organisations they had to modify their method of working in order to combat the spread of the virus in the workplace. In accordance with the supervisory authorities' requirements, these institutions drew up business continuity plans (BCPs) to ensure the continuity of their activities in various scenarios, such as a pandemic.

Belgian (I)CSDs, custodian banks, payment service providers and SWIFT activated their BCP measures when the COVID-19 pandemic reached Belgium. Institutions with offices in Asia had already taken these measures, such as extensive recourse to working from home, from the start of the year for those offices. Institutions with offices throughout the world can generally conduct their business from another region if an office in a particular region cannot be used on account of a local incident. A global event like the COVID-19 pandemic therefore presents an additional challenge, especially if the event is long-lasting. Thanks to modern technology enabling staff to work safely and efficiently from home, Belgian institutions were able to continue their business without interruption.

During the first phase of the pandemic, some (I) CSD clients experienced difficulties owing to the rising volume of transactions combined with the lack of arrangements for performing back office functions from home. This resulted in a greater number of transactions which could not be settled on the agreed date. To enable clients who were behind with their instructions to deal with that backlog, Euroclear Bank opened its systems on a Saturday by way of exception.

SWIFT also took steps to assist its clients. For example, the annual adjustments to message standards were postponed for one year, thus easing the pressure on IT departments.