

VI. BANKING AND INSURANCE REGULATION

Issues at stake

The Covid-19 crisis illustrates that while the Basel III framework has effectively reinforced the EU banking system, the implementation of the final Basel III package could undermine its capacity to finance the economy, which is why it was postponed for one year by the BCBS. In the EU, given the importance of banks in the funding of the economy, the challenge is finding the right balance between the consistency with the global prudential Basel standards and being able to implement them in a simple and risk-sensitive way.

The soundness of the European banking system is also very much dependent on the completion of the Banking Union. Much progress has already been made, but substantial building blocks are still missing to deliver a sufficiently integrated banking system that each Member State can trust. In this perspective, some suggest adopting a holistic approach to the Banking Union, others are more favourable to step-by-step approaches.

The EU insurance regulatory framework is also challenged by the current context. In the short term, insurance companies will need to play a central role in supporting the relaunch of a suddenly frozen economy in highly volatile market conditions, as well as further contribute to the long-term investments needed to improve the resilience of the EU economy, given limitations in public spending. These objectives question the relevance of the current Solvency II market-valuation and one-year horizon options, which impair any long-term investment and particularly in equities. This also calls for a differentiation between liquidity and solvency needs and a clarification of the responsibilities for investment decisions.

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