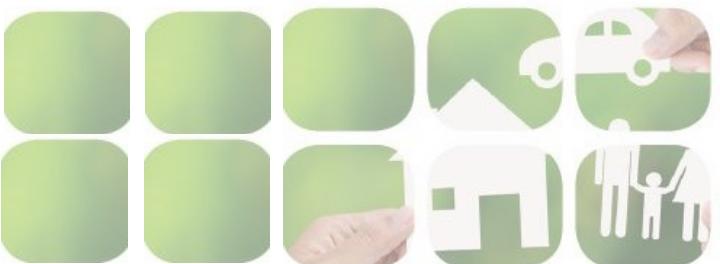


Romanian non-bank financial sector convergence towards the euro enlargement



Valentin Ionescu
Strategy and Financial Stability Directorate



Non-bank financial sector in the Romanian economy

The assets of the financial sector to GDP ratio
(end of H1 2018)

Collective Investment
Undertakings

4,58%

Insurance companies

2,21%

Private pensions funds

5,09%

| Indicators (billion RON) | 2013 | 2014 | 2015 | 2016 | 2017 | H1 2018 |
|--|-------|-------|-------|-------|-------|--------------|
| Total assets of the Collective Investment Undertakings | 39,5 | 39,4 | 41,3 | 41,4 | 43,5 | 41,0 |
| Total assets of the Private Pension System | 14,8 | 20,2 | 25,9 | 33,0 | 41,5 | 45,6 |
| Total assets of the Insurance Companies | 18,2 | 18,7 | 16,4 | 18,9 | 20,0 | 19,9 |
| GDP | 637,5 | 668,1 | 712,7 | 762,3 | 858,7 | 896,4 |

Consumers of non-bank financial services in Romania



Capital market sector

- **313.433** investors in Open-End Investment Funds
- **89.011** investors in Closed-End Investment Funds
- **58.290** investors with accounts at intermediaries



Insurance sector

- **13.307.147** non-life insurance contracts
- **1.665.889** life insurance contracts



Private pensions system

- **7,15** million participants at Pillar II
- **459.340** participants at Pillar III

Insurance: High level of convergence in terms of legal framework, licensing and supervision processes

Romania applies **Solvency II**, the new prudential framework for insurance companies, starting January 1st 2016, as all the other EU member states

Ongoing project to improve the ASF risk based supervision for the insurance market, financed by EC and benefiting from EIOPA's technical assistance

Participated in the EU wide 2014 and 2016 insurance stress tests.
National level comprehensive balance sheet review and stress test in 2015-2016

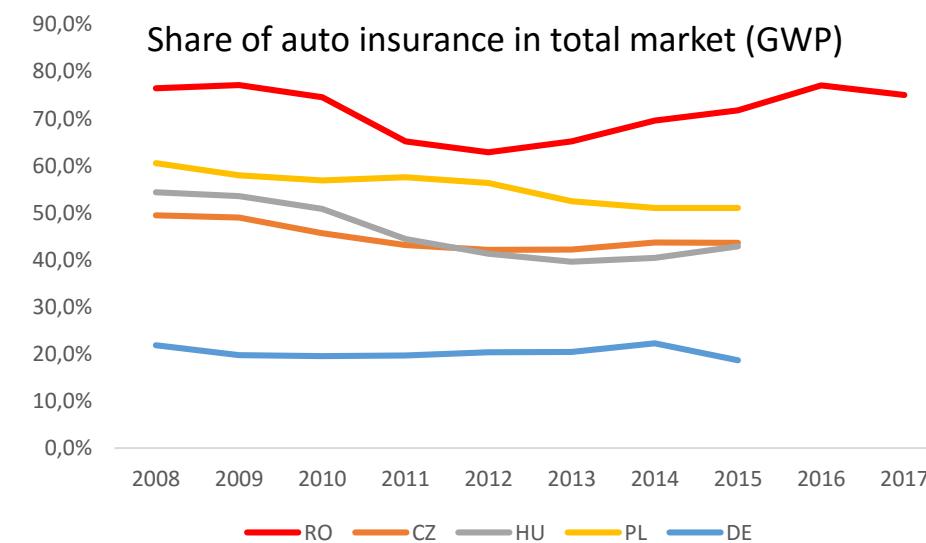
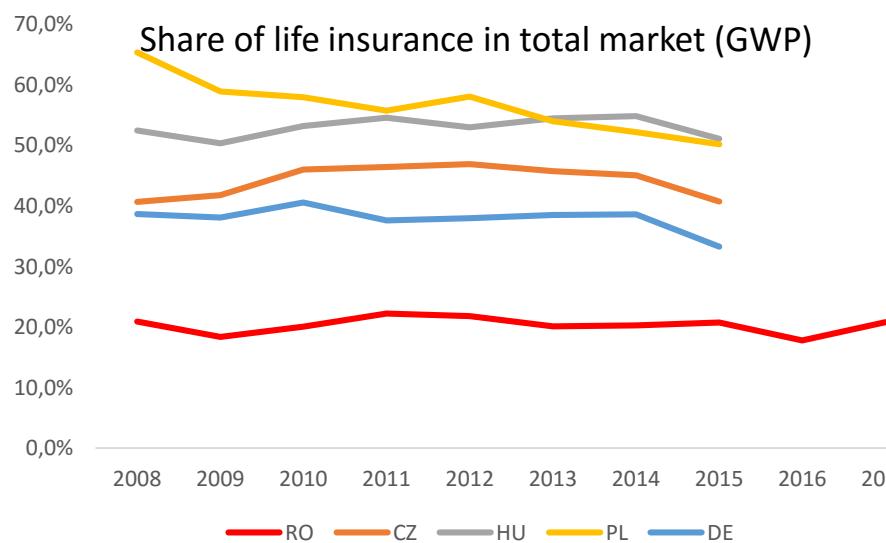
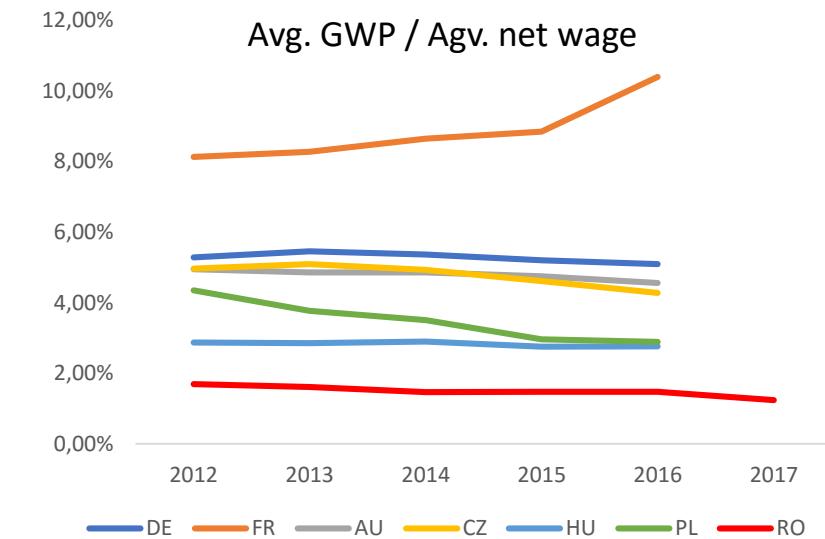
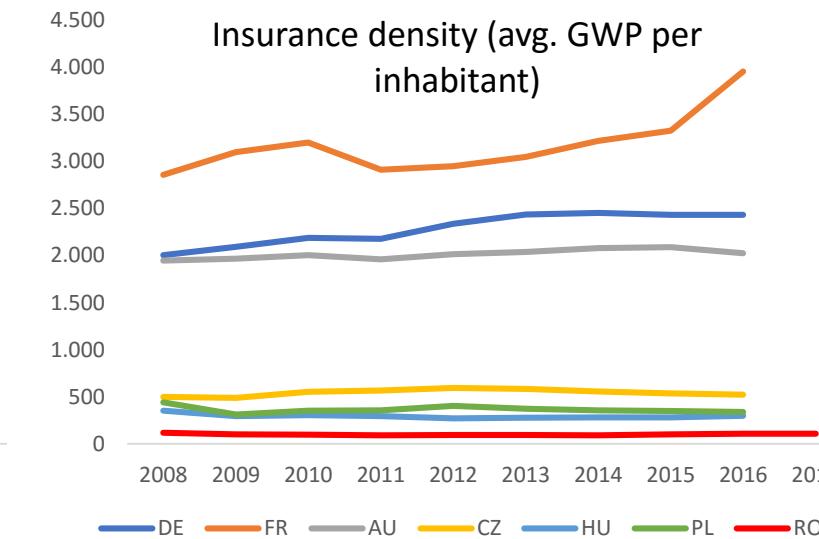
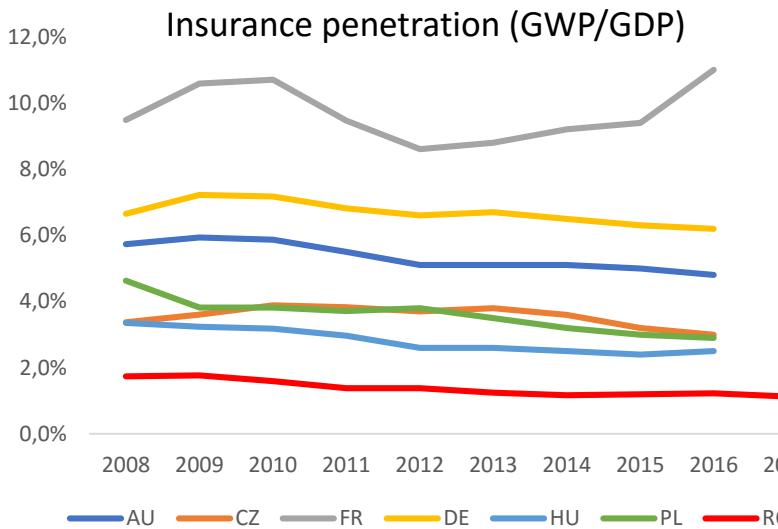


The new **Insurance Distribution Directive** is also enforced, starting October 1st 2018

ASF already implemented or is in advanced stages to implement relevant ESA's guidelines on approval of significant shareholders and AMSB

Among the first countries in EU to implement a recovery and resolution legal framework for insurance

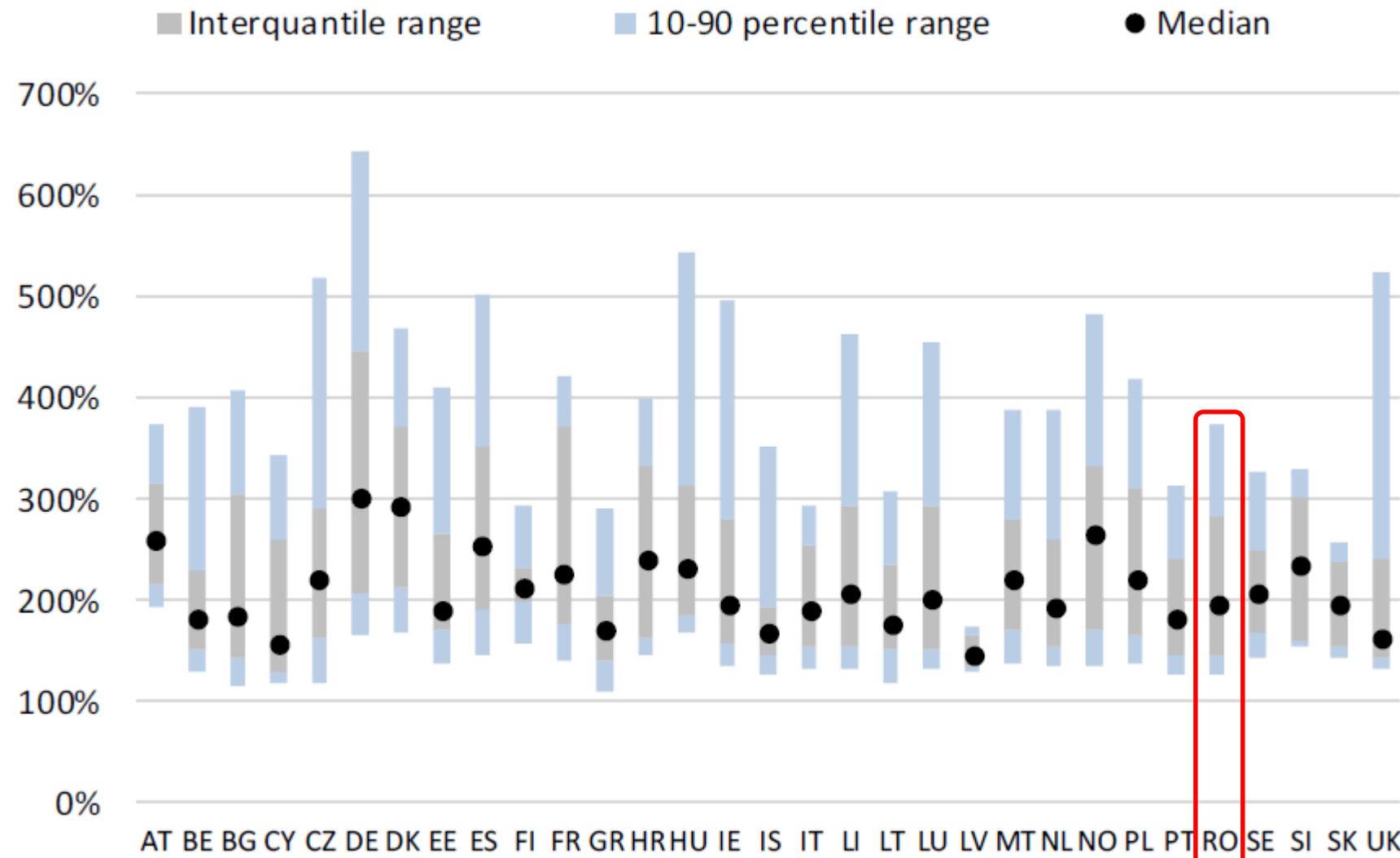
Insurance: The market still needs to be developed and diversified



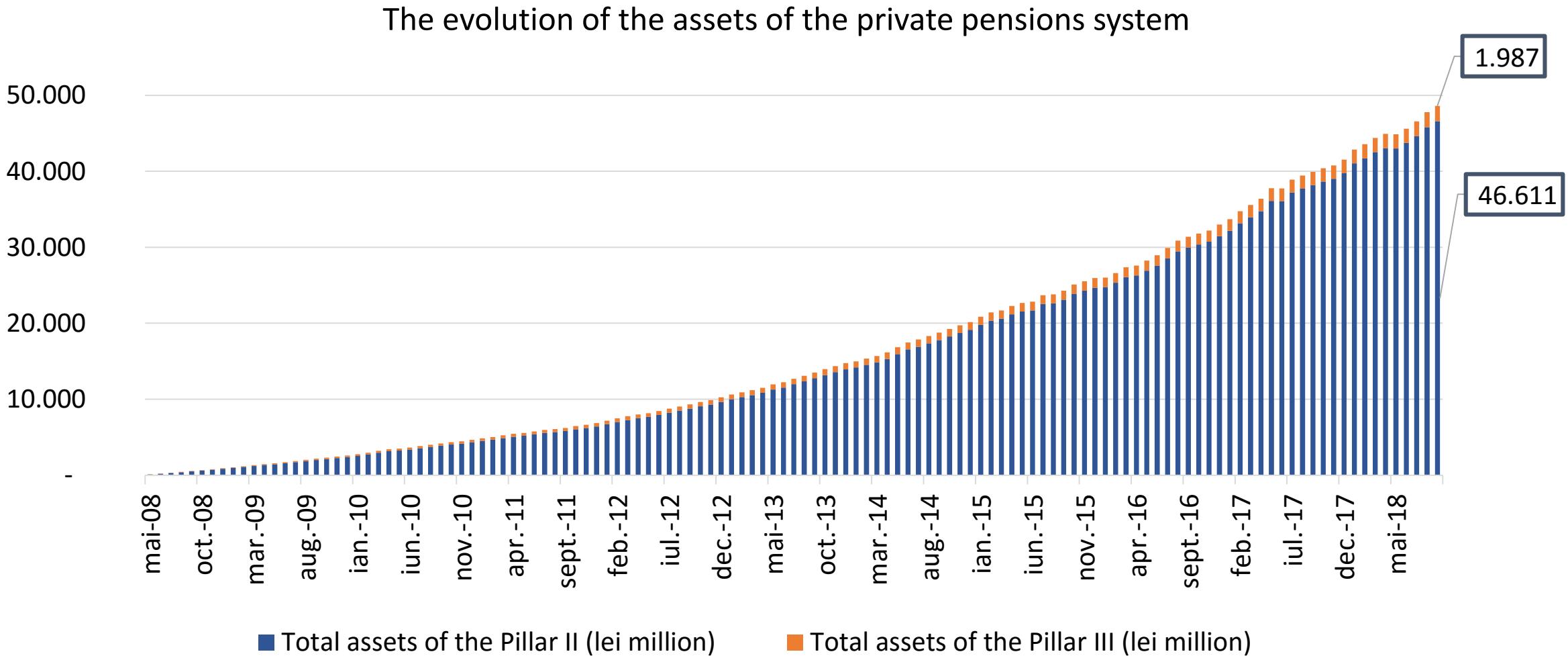
Insurance: similar investment behavior (2017)

| | Government bonds | Corporate bonds | Equity | Cash and deposits | Mortgages and loans | Property | Other |
|----------------|------------------|-----------------|---------------|-------------------|---------------------|--------------|--------------|
| EU/EEA | 31.58% | 32.63% | 15.35% | 4.91% | 5.23% | 2.25% | 8.05% |
| AUSTRIA | 25.76% | 31.01% | 21.14% | 3.69% | 3.87% | 6.84% | 7.69% |
| BELGIUM | 49.76% | 22.96% | 6.40% | 2.99% | 10.66% | 2.84% | 4.38% |
| BULGARIA | 53.51% | 17.72% | 10.11% | 12.19% | 0.52% | 2.90% | 3.06% |
| CROATIA | 64.51% | 4.12% | 8.05% | 5.81% | 7.17% | 7.93% | 2.42% |
| CYPRUS | 18.69% | 30.63% | 19.45% | 15.04% | 2.56% | 5.20% | 8.44% |
| CZECH REPUBLIC | 50.48% | 27.57% | 7.72% | 6.52% | 0.84% | 0.19% | 6.68% |
| DENMARK | 18.04% | 36.92% | 31.16% | 3.01% | 3.60% | 2.24% | 5.04% |
| ESTONIA | 28.79% | 49.76% | 1.64% | 14.46% | 0.53% | 0.00% | 4.83% |
| FINLAND | 11.50% | 38.64% | 16.69% | 8.56% | 4.82% | 6.25% | 13.54% |
| FRANCE | 32.75% | 35.66% | 12.27% | 3.08% | 1.82% | 2.38% | 12.04% |
| GERMANY | 25.28% | 37.34% | 20.46% | 3.76% | 5.36% | 2.03% | 5.77% |
| GREECE | 60.14% | 21.17% | 4.45% | 6.11% | 1.05% | 2.21% | 4.86% |
| HUNGARY | 79.12% | 3.68% | 4.70% | 5.21% | 0.27% | 0.09% | 6.91% |
| ICELAND | 29.53% | 15.96% | 38.74% | 4.72% | 1.05% | 0.08% | 9.92% |
| IRELAND | 30.67% | 31.71% | 4.34% | 23.09% | 3.91% | 1.35% | 4.93% |
| ITALY | 51.65% | 21.06% | 13.64% | 2.68% | 0.88% | 1.07% | 9.00% |
| LATVIA | 57.52% | 14.40% | 2.68% | 21.33% | 0.56% | 1.13% | 2.38% |
| LIECHTENSTEIN | 23.20% | 30.99% | 7.36% | 29.02% | 4.89% | 0.14% | 4.40% |
| LITHUANIA | 68.90% | 12.25% | 2.81% | 8.98% | 1.08% | 0.95% | 5.02% |
| LUXEMBOURG | 31.89% | 35.33% | 8.82% | 10.41% | 6.95% | 0.91% | 5.69% |
| MALTA | 28.87% | 19.19% | 7.87% | 16.36% | 8.33% | 1.92% | 17.45% |
| NETHERLANDS | 35.63% | 16.52% | 6.62% | 5.68% | 26.71% | 2.35% | 6.49% |
| NORWAY | 15.43% | 45.76% | 22.95% | 2.42% | 8.84% | 0.42% | 4.18% |
| POLAND | 54.09% | 4.60% | 24.52% | 5.42% | 3.49% | 0.29% | 7.59% |
| PORTUGAL | 48.23% | 30.30% | 9.54% | 6.38% | 0.80% | 2.55% | 2.19% |
| ROMANIA | 70.36% | 6.35% | 7.81% | 11.62% | 1.37% | 1.51% | 0.98% |
| SLOVAKIA | 49.04% | 33.42% | 4.74% | 6.10% | 1.35% | 0.62% | 4.74% |
| SLOVENIA | 38.26% | 33.53% | 17.67% | 3.63% | 1.47% | 1.84% | 3.60% |
| SPAIN | 55.98% | 22.15% | 6.11% | 8.38% | 0.84% | 2.44% | 4.10% |
| SWEDEN | 15.16% | 31.38% | 34.41% | 3.93% | 3.22% | 3.17% | 8.73% |
| UNITED KINGDOM | 21.22% | 35.36% | 14.99% | 10.26% | 8.21% | 2.66% | 7.31% |

Insurance: similar level of capital adequacy (2017)



Private pensions: robust DC system with guarantees, still in the accumulation phase



Private pensions: balanced and safe mix of assets

Mandatory pension funds portfolio at 30th of September 2018 (EUR)

| Assets Category | Assets Value (EUR) | % Total Assets |
|---------------------|----------------------|----------------|
| Government Bonds | 6,246,232,633 | 62.50% |
| Equity | 1,890,656,291 | 18.92% |
| Bank Deposits | 845,772,510 | 8.46% |
| Investment Funds | 335,087,707 | 3.35% |
| Corporate Bonds | 325,887,429 | 3.26% |
| Supranational Bonds | 298,298,815 | 2.98% |
| Municipal Bonds | 62,163,932 | 0.62% |
| Metal Funds | 8,916,784 | 0.09% |
| Hedging | 1,928,832 | 0.02% |
| Other assets | (20,544,275) | -0.21% |
| Total | 9,994,400,658 | 100.00% |

Optional pension funds portfolio at 30th of September 2018 (EUR)

| Assets class | Asset value (EUR) | % of Total Assets |
|---------------------|--------------------|-------------------|
| Government Bonds | 251,720,623 | 59.07% |
| Equity | 90,104,335 | 21.15% |
| Corporate Bonds | 27,357,939 | 6.42% |
| Bank Deposits | 24,184,675 | 5.68% |
| Investment Funds | 15,217,484 | 3.57% |
| Supranational Bonds | 9,796,245 | 2.30% |
| Municipal Bonds | 6,581,964 | 1.54% |
| Metal funds | 1,099,178 | 0.26% |
| Hedging | 44,677 | 0.01% |
| Other assets | 8,992 | 0.00% |
| Total Assets | 426,116,113 | 100.00% |

Private pensions: mainly local investments denominated in RON (Sept. 2018)

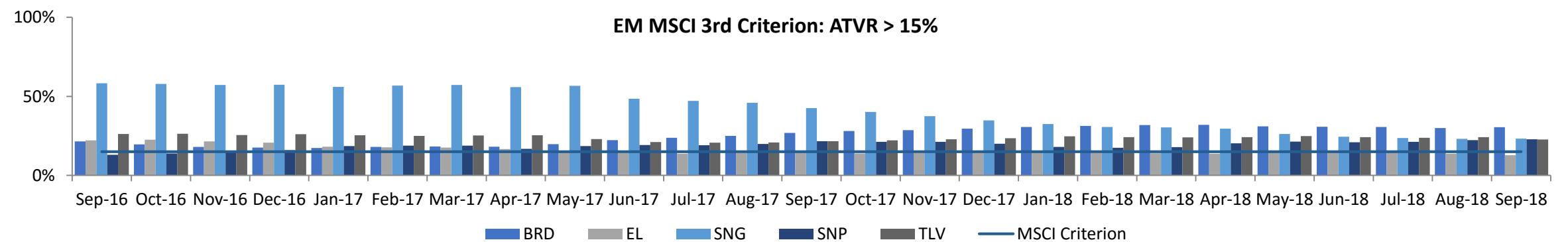
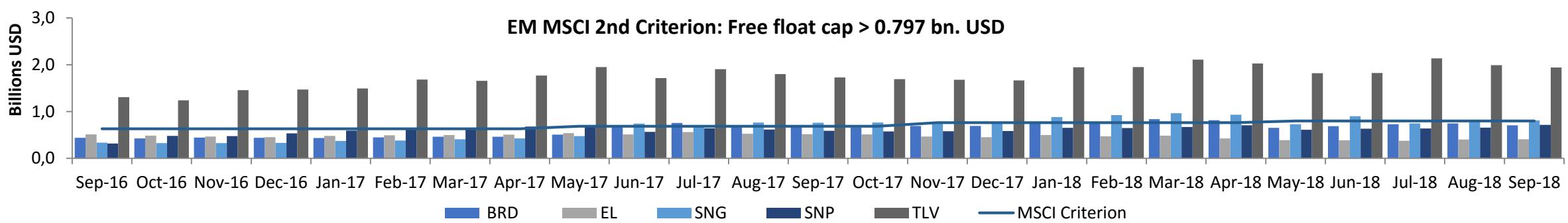
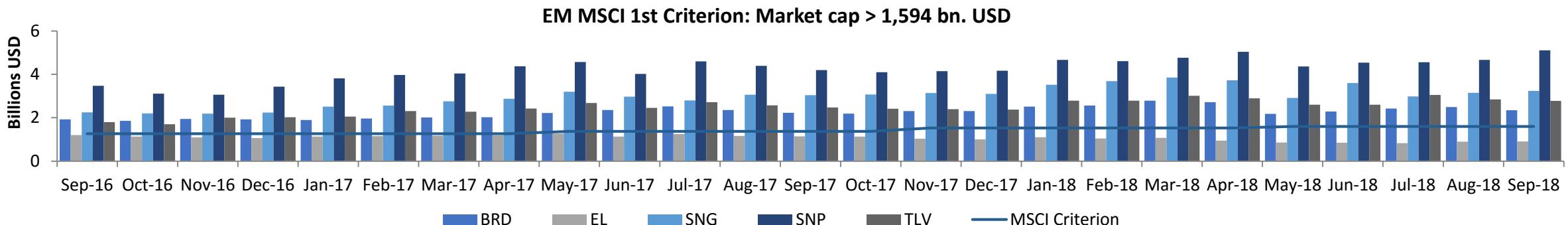
Pillar II

| Currency | Exposure value (EUR) | % Total assets | % Hedging |
|----------|----------------------|----------------|-----------|
| RON | 9,116,686,314 | 91.22% | - |
| EUR | 759,584,660 | 7.60% | 16.48% |
| USD | 76,093,742 | 0.76% | - |
| PLN | 13,102,638 | 0.13% | - |
| CZK | 10,188,669 | 0.10% | - |
| HUF | 6,972,931 | 0.07% | - |
| GBP | 4,319,430 | 0.04% | - |
| TRY | 3,856,248 | 0.04% | - |
| CHF | 3,596,027 | 0.04% | - |

Pillar III

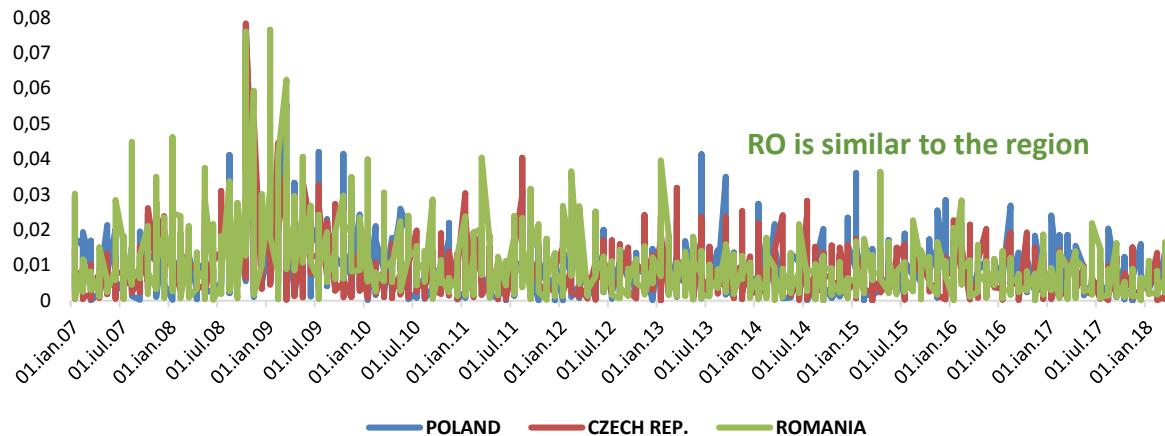
| Currency | Exposure value (EUR) | % Total assets | % Hedging |
|----------|----------------------|----------------|-----------|
| RON | 372,665,052 | 87.46% | - |
| EUR | 49,845,213 | 11.70% | 9.53% |
| USD | 1,327,973 | 0.31% | - |
| PLN | 910,447 | 0.21% | - |
| GBP | 700,338 | 0.16% | - |
| CZK | 518,181 | 0.12% | - |
| HUF | 143,614 | 0.03% | - |
| CHF | 5,294 | 0.00% | - |

Capital market: Towards the emerging market status



Capital market: sigma and beta convergence

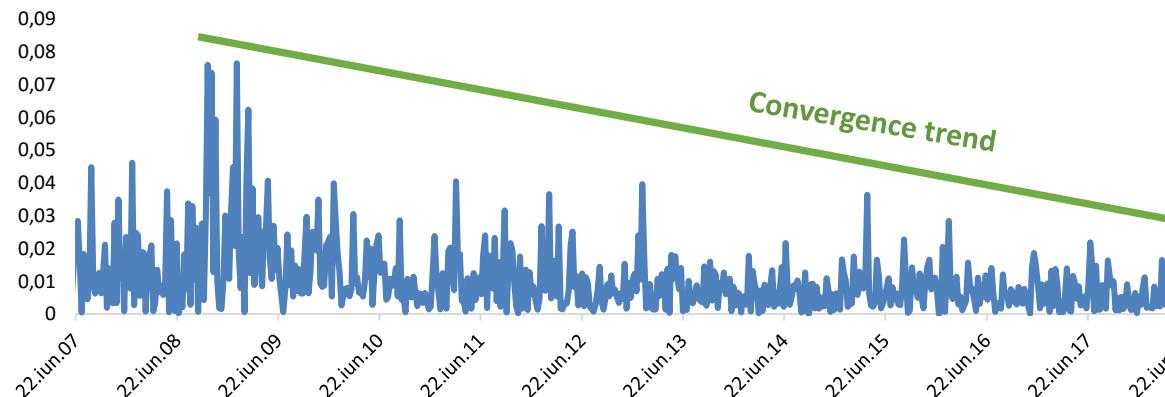
Sigma convergence for CEE countries capital market indices



β convergence for selected markets

| | Beta | Limita inferioară interval 95% | Limita superioară interval 95% |
|----------------|---------|--------------------------------|--------------------------------|
| POLONIA | -0.8050 | -0.8842 | -0.7258 |
| REP. CEHĂ | -0.8532 | -0.9315 | -0.7749 |
| UNGARIA | -0.8118 | -0.8909 | -0.7327 |
| BULGARIA | -0.8125 | -0.8921 | -0.7330 |
| CROAȚIA | -0.7968 | -0.8775 | -0.7161 |
| ROMÂNIA | -0.8858 | -0.9652 | -0.8063 |
| MAREA BRITANIE | -0.8784 | -0.9579 | -0.7989 |

Sigma convergence for Romanian capital market index



$$\Delta R_{i,t} = \alpha_i + \beta R_{i,t-1} + \sum_{l=1}^L \gamma_l \Delta R_{i,t-l} + \epsilon_{i,t}$$

where:

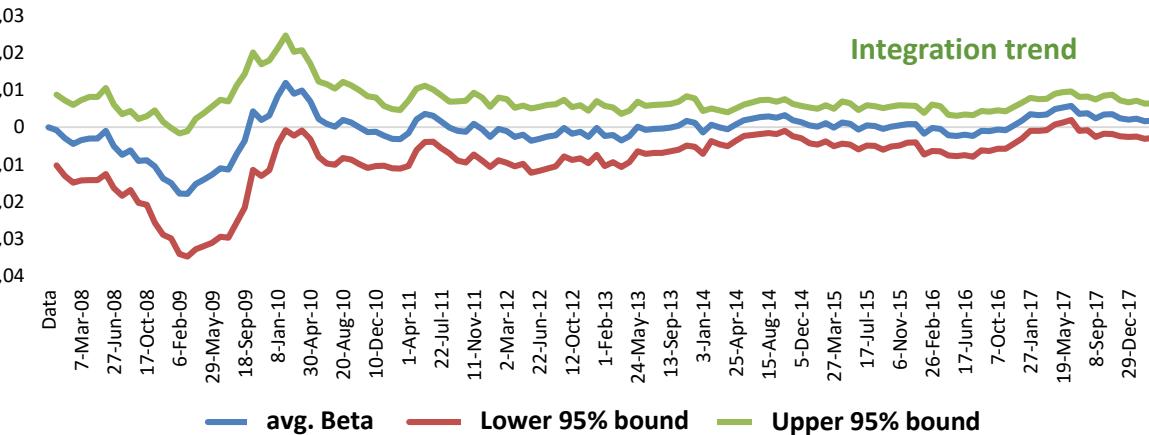
$R_{i,t}$ is the difference between log return for the selected country and the log return for the region used as benchmark (in our case EZ), at moment t

Δ is the time difference operator

L is the number of lagged periods

Capital market: financial integration

α_i integration coefficient for Romanian capital market index

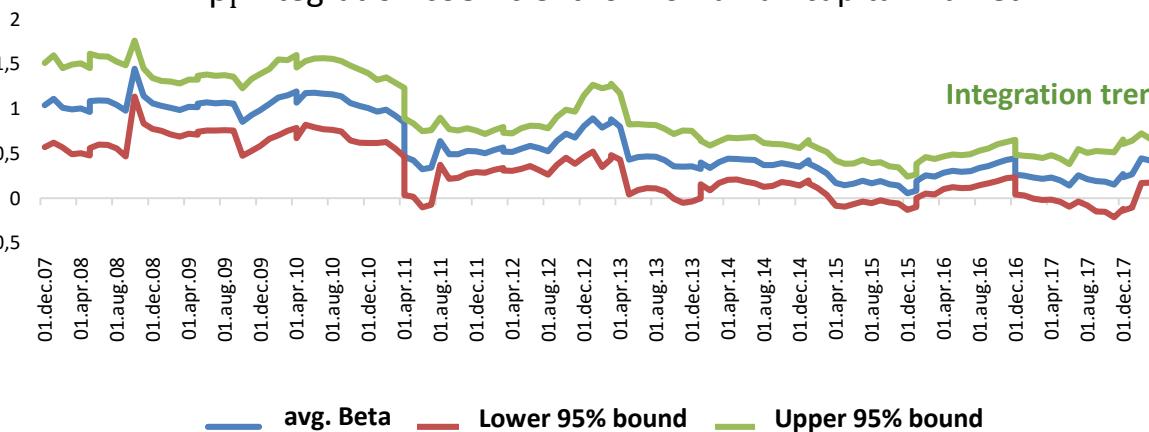


$$R_{i,t} = \alpha_i + \beta_i R_{r,t} + \psi_{i,t}$$

where:

$R_{i,t}$ is the log return for the selected country

β_i integration coefficient for Romanian capital market



$R_{r,t}$ is the log return for the benchmark (EZ in our case)

Some further ASF actions towards improved convergence

Sustaining the effort for establishing a local CCP

Operationalizing the SLB mechanisms

Finding a solution for Section 1 of the CSD

An AIF law (already in public consultation)

Stimulating the bond market

Revising the MTPL legal framework

Further developing life, medical, agro and house insurance

Implementing IORP II

Finalizing the Pension Payment Law

THE EUROPEAN UNION

ICELAND

- Original members, 1993
- Joined in 1995
- Joined in 2004
- Joined in 2007
- Joined in 2013
- Candidate countries

