

# Financial Market Supervision Report ——— 2021



Czech National Bank ——— Financial Market Supervision Report ——— 2021

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# Governor's foreword

Dear Readers,

**Financial market supervision in the Czech Republic is one of the Czech National Bank's core statutory tasks.** Its ultimate objective is to maintain a strong and resilient financial sector to finance the needs of the Czech economy, consumers and businesses. **In this context, I am pleased to present our regular Financial Market Supervision Report** (hereinafter the Report) in which we inform the public about our activities in this area in the previous calendar year.



**The report provides information** on conditions in the financial sector and on the most important supervisory and regulatory measures and policies in **2021**. It describes not only the main activities in the area of off-site surveillance and on-site examinations in regulated financial market entities, but also supervisory activities regarding compliance with the duties set out in the Consumer Protection Act. It also provides standard information on the CNB's licensing, approval and authorisation activities, on the recommendations issued to supervised entities, on the imposition of remedial measures and on the application of sanctions. In addition to information about supervisory work, the publication contains basic information on major changes in Czech and EU financial market legislation and an outline of the CNB's activities in international cooperation with financial market regulatory and supervisory authorities.

The economic situation in the Czech Republic and around the globe has been affected by the **Covid-19 pandemic** for the second consecutive year, accompanied by other adverse factors such as problems with supplies in some sectors, supply chain difficulties and higher energy prices. Thus, in a period of increased uncertainty and risks regarding future developments, in addition to the areas usually monitored, such as compliance with prudential rules, consumer protection and conduct of business rules and the resilience of supervised entities to cyber risks, the CNB also dealt intensively with the impacts of the pandemic on the financial market and on regulated entities. We also focused on other sources of risks to the financial sector, including the consequences of climate change and natural disasters. Overall, the Czech financial sector as a whole has overcome the previous adverse impacts of the pandemic and continues to remain in very good shape with sufficient liquidity and capitalisation.

In the credit institutions sector, the CNB focused mainly on the **quality of credit institutions' credit portfolios**, both for loans for which instalments were postponed under the loan moratorium law in 2020 and loans to clients in the sectors hit hardest by the pandemic. The slight increase in non-performing loans and their share in total loans observed since mid-2020 peaked at the end of 2021 Q1. However, this did not have a significant impact on the financial situation and stability of individual institutions, as confirmed by the results of another round of supervisory stress tests. The CNB has long

followed and promoted a risk-oriented approach to credit risk both in its supervisory work and in creating the relevant regulations. Therefore, in September 2021, in a joint letter to senior representatives of the European Commission in the field of financial services, financial stability and the capital markets union, the CNB, together with the other 24 supervisory authorities and central banks of EU Member States, called for the full, timely and consistent implementation of the international Basel III prudential banking regulatory concept into EU law.

**Combating money laundering and the financing of terrorism (AML/CFT)** continues to be one of the CNB's priorities. A number of legislative changes further strengthening the regulatory framework in this area took place in 2021; the CNB was also involved in preparing the changes. The CNB regards the protection of the financial system to prevent its use for the purpose of financial crime as a key issue given the possible impacts not only on individual institutions, but potentially on the system as a whole. These effects may be both reputational and economic. The CNB therefore strives to ensure that the supervised institutions effectively apply preventive measures and put in place a robust governance system in this area and, together with these institutions, seeks to strengthen the overall resilience of the financial system in the Czech Republic to such undesirable phenomena.

The world entered 2022 expecting a possible end to the pandemic, a gradual phasing-out of extraordinary and stabilisation measures and a return to the normal operation of not only fiscal and monetary policies, but also of supervisory authorities. However, in light of Russia's invasion of Ukraine, economic **developments will clearly continue to be exposed to an unprecedented degree of uncertainty and extraordinary external factors. The CNB's supervisory work must also adequately reflect this.**

To conclude, I would like to assure you that – as it enters this exceptional period – the Czech financial sector as a whole is stable, resilient and well prepared for the current challenges. Domestic banks have long been sufficiently capitalised, liquid and profitable and focus mainly on financing the domestic economy, Czech firms and domestic consumers. At the same time, we need to continue to have a solid understanding of the developments and changes that are taking place and be able to identify their potential major consequences in a timely manner. In this context, I would like to assure you that the CNB will continue to conduct supervision based on a risk-oriented approach with maximum responsibility in the current period of increased uncertainty to maintain financial stability and safeguard the sound operation of the domestic financial market. We have the necessary tools for this task and stand ready to respond promptly to various scenarios for future developments and adopt the appropriate supervisory measures.

On behalf of the Czech National Bank



Jiří Rusnok, Governor

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## CORE SUPERVISORY ACTIVITIES IN 2021

The CNB performs the role of integrated financial market supervisory authority in the Czech Republic based on the powers conferred on it by Act No. 6/1993 Coll., on the Czech National Bank. In 2021, in addition to supervision, it also carried on other related activities in this role. These included licensing, approval and authorisation work, the imposition of penalties and remedial measures where shortcomings had been detected, and activities in the fields of regulation and international cooperation.

The financial market and its individual sectors had to continue to deal with the consequences of the coronavirus pandemic. This also had a significant effect on the CNB's supervision last year. **The CNB's core activities in the area of financial market supervision in 2021** were as follows:

- In the **supervision of credit institutions**, the CNB focused mainly on credit portfolio quality, capital adequacy and provisioning, changes in credit standards and the approach to risk, and the profitability and viability of the business models of banks and credit unions. It monitored risk factors relating mainly to economic developments during the pandemic and ongoing structural changes. Given the continued digital transformation of financial services, the CNB also set the evaluation of credit institutions' resilience to cyber risks and their ability to ensure business continuity as one of its supervisory priorities. The management of outsourcing risks, such as those in the area of information and communication technology, was also at the forefront of supervisory interest.
- As regards **credit institutions' conduct of business and consumer protection**, the CNB focused primarily on checking compliance with the duties associated with maintaining payment accounts for consumers arising from both EU legislation (in particular payment summaries, uniform description, strong user authentication, SEPA payment fees and currency exchange information) and under new national legislation (protected account). The CNB also comprehensively examined legal risk management relating to the creditworthiness assessment for consumer credit, fees for early repayment of consumer credit and arbitration clauses in consumer contracts. The CNB also addressed the issue of banking identity introduced by many credit institutions in the period under review and planned by others in the future.
- CNB supervision in the **insurance sector** continued to focus on evaluating the risk profiles of supervised insurance companies and changes thereto, their financial condition and solvency situation and assessing compliance with governance system requirements. It focused on the risk management of insurance companies' information systems and information technology and compliance with the requirements for regulatory reporting and information disclosure. Owing to the coronavirus pandemic, the CNB closely monitored and assessed its impacts on the insurance sector, especially as regards the capital and solvency needs of individual insurance companies and their potential vulnerabilities arising from their business models.
- In the area of **conduct of business and consumer protection in the insurance sector**, the CNB focused more closely on market developments, where a rapid shift in the area of technological innovation and digitalisation is under way, with potential impacts on the quality of services provided to clients (the conclusion and administration of insurance policies, loss adjustment). This is placing increased risk management and mitigation demands in the area of conduct of business and consumer protection by insurance companies. A large part of the supervisory work focused on compliance with the regulatory requirements in the area of product governance (the creation and distribution of insurance products). The CNB focused mainly on the transparency and objectivity of information about insurance products provided to end-customers. The CNB also strongly reflected the numerous activities coordinated by the EIOPA in its supervisory work. This was associated with analytical work based on quantitative data, which are now used in standardised form for conduct of business supervision.
- In the **pension management companies (PMCs) and retirement funds sector**, the CNB monitored compliance with regulatory requirements, especially fulfilment of the capital adequacy requirements by PMCs, and evaluated their capital positions and capital management. The CNB also paid increased



attention to monitoring and assessing the impacts of the pandemic and key interest rates on PMCs' capital condition, results and overall activities.

- As regards **investment firms**, the CNB paid particular attention to the implementation of new prudential regulation of this capital market sector (IFD/IFR) as part of its off-site surveillance. It also focused on checking compliance with the requirements arising from the implementation of the MiFID II into domestic law, and on the provision of services by foreign investment firms. At the same time, it paid attention to the cross-border provision of investment services and cooperation with other European supervisory authorities in the area of measures against money laundering and terrorist financing.
- Supervision of **management companies and investment funds** focused on the valuation and reporting of financial instruments in accordance with IFRS, and in particular on the choice of business model as a basis for proper valuation of financial instruments.
- As regards the **bureau-de-change** sector, the CNB focused mainly on checking compliance with the duties relating to measures against money laundering and terrorist financing (AML/CFT) and, in this context, also the duty to properly keep records of bureau-de-change transactions. The risk profiles of bureaux de change from the AML/CFT perspective were also updated.
- As regards **non-bank payment service providers**, the CNB focused primarily on the effectiveness of measures against money laundering and terrorist financing, the configuration of systems for the protection of payment service users' funds, and compliance of payment service providers' activities with information in business plans. Following a change in EU legislation, the CNB also checked compliance with the information duty of payment service providers to users and checked possible obstacles to the provision of payment initiation services and the provision of information on payment accounts.
- In the segment of **consumer credit providers**, the CNB's examinations focused on the provision of consumer credit secured by property and on continuing monitoring of applications for deferral of consumer credit instalments due to the fading coronavirus pandemic.
- In the **retail distributors sector**, the CNB conducted an information campaign related to a new reporting duty for financial services intermediaries. It also conducted thematic surveys focusing on compliance with the requirements for professional qualifications in insurance intermediaries and the scope of intermediation (production) activities of distributors. The CNB issued two supervisory benchmarks relating to proving compliance with the conditions for professional qualifications of retail distributors. The CNB also organised a meeting with professional intermediaries' associations where it presented its findings in all areas of retail distribution.
- In the area of **regulated markets and securities issues**, the CNB recorded increased interest in the approval of securities prospectuses and supplements thereto. The CNB conducted standard supervision of compliance with issuers' information duties, mainly by reviewing the content of annual and mid-year reports and, in selected cases, conducting checks as regards the correct application of international financial reporting standards (IFRS).
- CNB supervision of **accredited entities** focused on compliance with the requirements for holding examinations of professional qualifications remotely and on the organisation of follow-up training programmes to enhance professional qualifications for insurance distribution.
- **AML/CFT was another key area of the CNB's supervisory work.** In 2021, the CNB continued in its intensive work to expand the range of supervisory tools applied in this area, especially in off-site surveillance (see Box 3 for details). It focused on applying a risk-oriented approach, both in its scheduling of inspections and in determining their specific focus.



# Part A — Financial market supervision

## I. BRIEF OVERVIEW OF THE FINANCIAL MARKET IN 2021

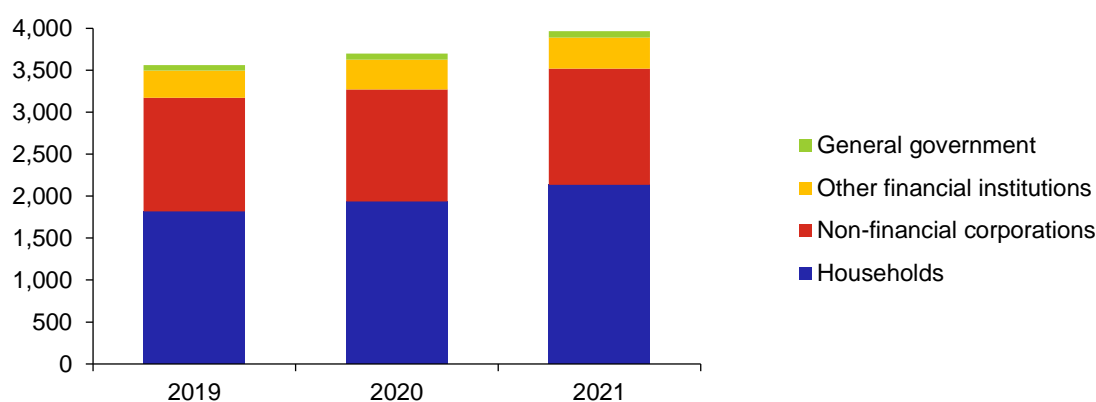
### The growth in client loans in the banking sector was driven by mortgage loans

The banking sector had total assets of CZK 8,523.8 billion at the end of 2021, a year-on-year increase of 7%. With a share of around 74% of total assets, total loans and receivables at amortised cost (adjusted for provisions) was the largest asset item in terms of volume, amounting to EUR 6,297.8 billion.

The value of client loans<sup>1</sup> rose by CZK 265.3 billion year on year, to CZK 3,966.5 billion. This increase was driven mainly by loans to households, which rose by 10.3% to CZK 2,135.5 billion. The rise in the total loans of households mainly reflected persisting high interest in financing owner-occupied housing. The gradual increase in key interest rates by the CNB dampened high demand for this type of loans to only a limited extent in 2021. Loans to non-financial corporations grew by 3.4% year on year to CZK 1,384.4 billion at the year-end.

#### Chart A.1 Selected client loan aggregates

(in CZK billions; as of end of year)



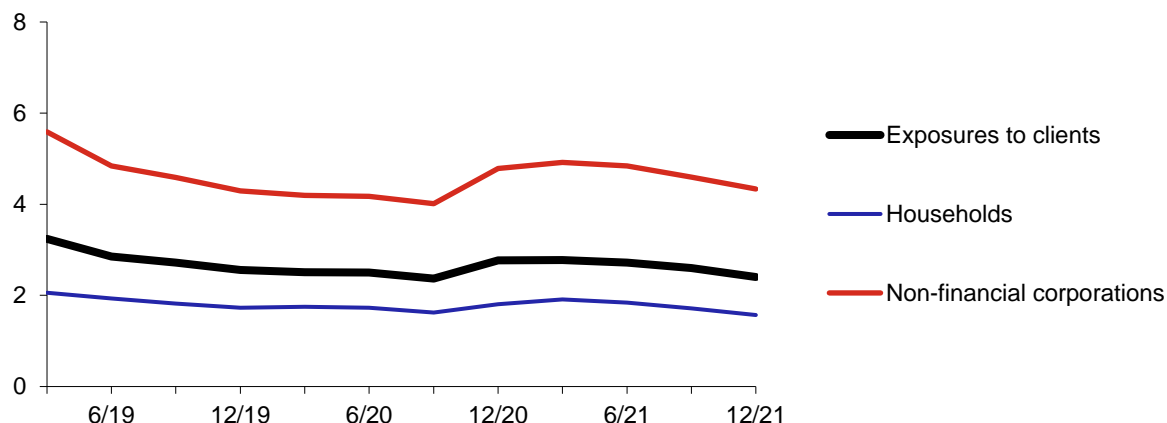
### NPL ratios remained relatively low

The volume of non-performing client loans (at gross value, i.e. excluding allowances) decreased by 7.3%, or CZK 7.6 billion, year on year to CZK 97.2 billion. By contrast, following a slight increase in the first quarter, banks reported a relatively even decline in the volume of this type of loans in the following two quarters, whereas they recorded a more pronounced decline in the last quarter (of 6%). The changing epidemic situation was thus partly reflected in the non-performing exposures ratio, but ultimately did not affect these statistics significantly. At the end of the year, the ratio of non-performing loans to total client loans was still relatively favourable at 2.4% (an annual decline of 0.4 pp). This share declined slightly year on year for both loans to households (by 0.2 pp to 1.6%) and loans to non-financial corporations (by 0.5 pp to 4.3%).

<sup>1</sup> Client loans represent loans to and receivables from general government, households, non-financial corporations and other financial institutions.

**Chart A.2 Non-performing loans**

(in % of bank credit exposures to the given sector)

**The volume of deposits of households and non-financial corporations increased**

Client deposits,<sup>2</sup> which have long been the largest category of liabilities of domestic banks, amounted to CZK 5,661.1 billion. This represented a year-on-year increase of 6.6%. Deposits of households and of non-financial corporations both recorded roughly the same growth rate. While the total liabilities of the banking sector rose by 7.2% to CZK 7,821.6 billion during 2021, aggregate equity increased by 4.8% year on year to CZK 702.1 billion at the end of 2021.

**Domestic banks significantly increased their profitability**

The domestic banking sector recorded total after-tax profits of CZK 70.6 billion in 2021, up by around CZK 23 billion on a year earlier. The substantial rise in profit reflected the relatively low base recorded at the end of last year due to the coronavirus pandemic. The year-on-year improvement in profit primarily reflected a drop in asset impairment losses (of CZK 25.7 billion) and an increase in profit from fees and commissions of CZK 4.0 billion, i.e. of 12.8%. Following last year's decline, administrative expenses rose by 3.2% year on year to CZK 75.6 billion. The year-on-year growth in profit was reflected in higher profitability indicators amid lower growth in total assets and equity. Return on assets (RoA) amounted to 0.80%, a year-on-year increase of 0.23 percentage point. Return on equity (RoE) rose by 3.2 percentage points to 11.4% in the same period.

**The liquidity situation of the banking sector remained very good, as well as stable**

The banking sector remained in a good liquidity position and its aggregate liquidity indicators confirmed that it was robust to potential liquidity shocks. The liquidity coverage ratio (LCR) of banks edged down by 13.9 pp year on year to 183.6% at the end of 2021. The ratio of total client deposits to total client loans as of the same period was 142.7%, representing a year-on-year decline of 0.8 pp. The share of quick assets in the sector's total assets remained virtually unchanged at 40.9% in year-on-year terms at the year-end.

**The capital ratios of domestic banks decreased slightly**

The regulatory capital of the domestic banking sector<sup>3</sup> rose by 2% year on year, to CZK 643 billion. Most of the total capital (almost 97%) consisted of high-quality Tier 1 capital. The total capital ratio of domestic banks<sup>4</sup> fell by 0.8 pp year on year to 23.5%, mainly because of a rise in risk-weighted exposures due to continued growth in the mortgage portfolio. The leverage ratio expressed as the ratio of Tier 1 capital to total loans and receivables was 7.3% as of the end of 2021, representing a year-on-year decrease of 0.5 percentage point.

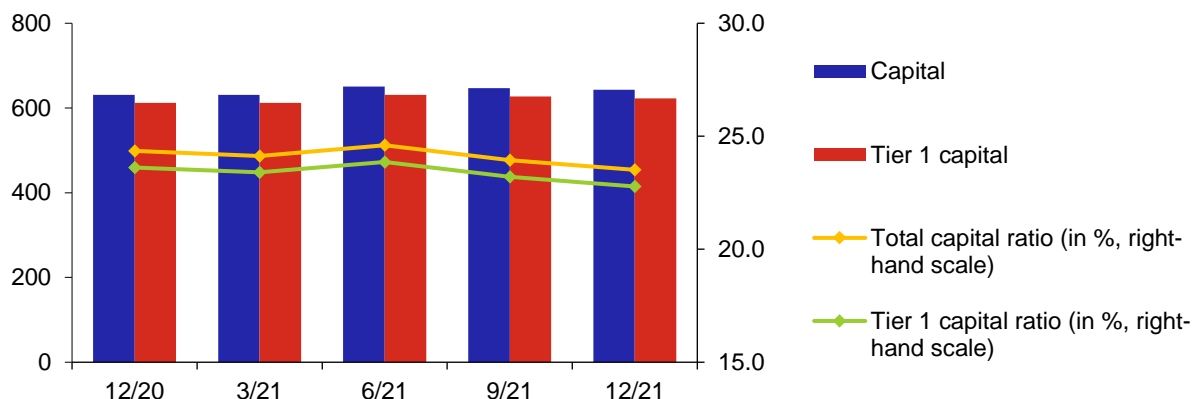
<sup>2</sup> Client deposits are deposits accepted from general government, households, non-financial corporations and other financial institutions.

<sup>3</sup> In this case, foreign bank branches operating in the Czech Republic are excluded from the Czech banking sector, as the risks to their business activities are covered by the regulatory capital of their head offices. The assessment of capital adequacy falls to the competent foreign supervisory authority.

<sup>4</sup> The capital ratio is defined as the ratio of the relevant capital to total risk exposures in per cent.

**Chart A.3 Capital and capital ratios of the domestic banking sector**

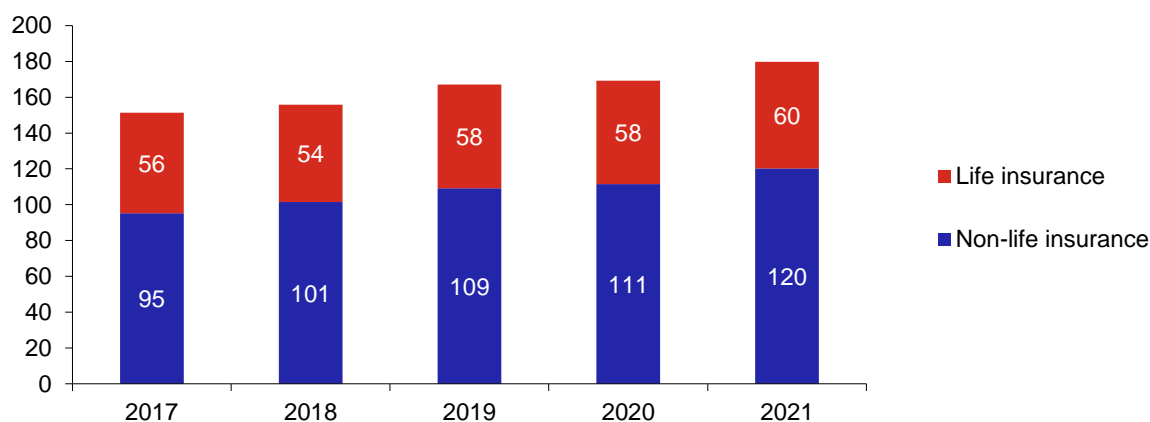
(left-hand scale in CZK billions; right-hand scale in %)

**The insurance sector saw an increase in premiums written in both the life and non-life segments**

Gross premiums written totalled CZK 179.9 billion at the end of 2021, up by 6.2% on a year earlier. Premiums written in non-life insurance increased by 7.9% to CZK 120.3 billion, while those in life insurance recorded a slower year-on-year increase of 3.2% to CZK 59.6 billion. The share of non-life insurance premiums in total premiums grew slightly by 0.9 pp to 66.9%.

**Chart A.4 Gross premiums written**

(rounded to CZK billions; premiums written by domestic insurance companies and branches of foreign insurance companies)

**The investment level and investment structure of insurance companies remained stable**

Total investments of insurance companies amounted to CZK 314.3 billion at the end of 2021, up by 1.7% year on year. The investment structure also remained broadly unchanged. Investments in debt securities were still the main investment item, with their share in total investments increasing to 76.2%. The remaining share of investments consisted mainly of shares and other variable-yield securities (10%), participating interests in domestic insurance companies' portfolios (8.5%) and bank deposits (2.6%).

### The profitability of the insurance sector increased substantially

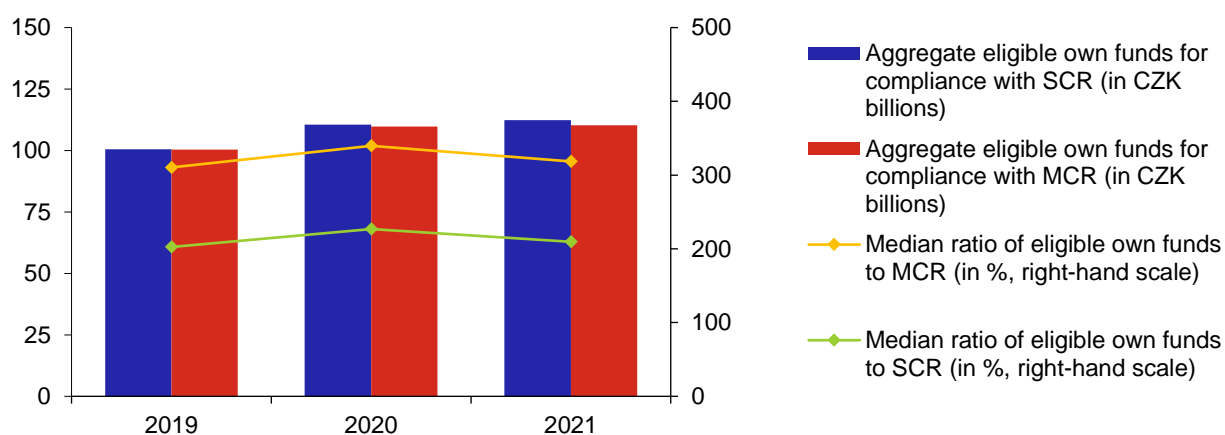
The profitability of the domestic insurance sector (including branches of foreign insurance companies) surged in 2021, with the total after-tax profit amounting to CZK 27.3 billion in the period under review. This almost twofold annual increase reflected, among other things, an improvement in the sector's technical accounts. The technical account for life insurance increased by 74.2% year on year to CZK 14.5 billion, while the technical account for non-life insurance rose by 67.7% year on year to CZK 15.2 billion. The increased profitability was also positively reflected in higher profitability indicators in the insurance sector. Return on assets (RoA) of domestic insurance companies rose by 2.6 pp year on year to 5.9% and return on equity (RoE) increased by 18.8 pp year on year to 36.9%.

### The insurance sector maintained strong capitalisation

Domestic insurance companies maintained strong capital positions in 2021. The insurance sector as a whole met the capital requirements under the European Solvency II framework by a sufficient margin<sup>5</sup>, and none of the supervised domestic insurance companies reported a ratio of eligible own funds to the solvency capital requirement (SCR) of less than 100%. The median ratio of eligible own funds to the SCR was 209%, down by 18 pp year on year at the end of 2021.

### Chart A.5 Capital and compliance with the Solvency II capital requirements

(left-hand scale in CZK billions; right-hand scale in %; as of the end of year)



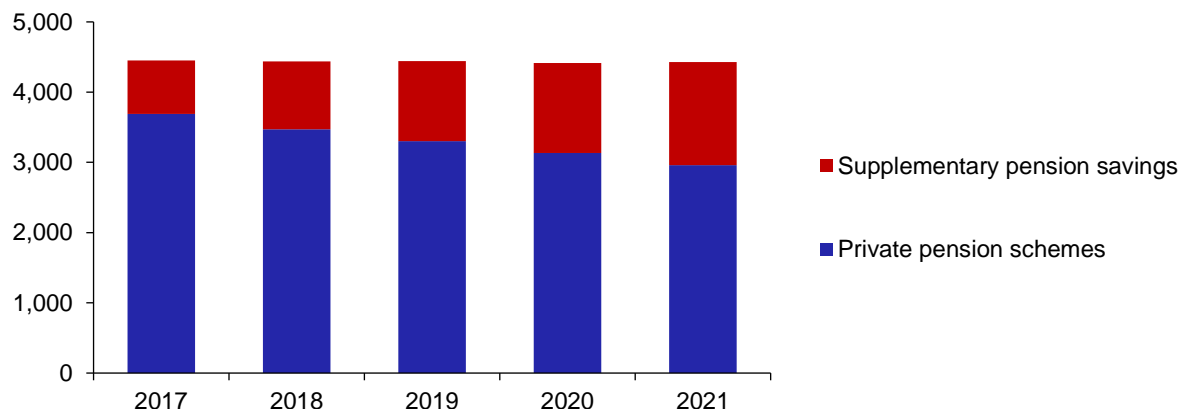
### The assets of third-pillar funds increased due mainly to new inflows

The assets in funds managed by PMCs totalled CZK 574.5 billion at the end of 2021, up by more than 6% on a year earlier. The year-on-year increase was due mainly to net funds received, which amounted to CZK 35.1 billion in 2021. Following a contraction in 2020, the total number of participants increased by 14,800 to 4.43 million, returning to around the 2019 level. The number of pension scheme planholders declined by 169,000 to 2.96 million at the year-end, while the number of planholders in the supplementary pension savings scheme increased by 184,000 to 1.47 million. Unlike in the previous year, the net profit of pension management companies increased by 8.8% year on year to CZK 2 billion in 2021. The ratio of total capital to the specified capital requirements was 254.9%, up by 39.0 percentage points on a year earlier.

<sup>5</sup> Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of insurance and reinsurance.

**Chart A.6 Number of planholders in the third pension pillar**

(in thousands; as of end of year)

**The share of debt securities in pension fund portfolios remains dominant**

Assets allocated in private pension funds (transformed funds) accounted for 82.1% of funds of third-pillar planholders at the end of 2021, down by 3.3 pp on 2020. The investments of transformed funds' consisted mainly of government bonds (79.9%), receivables from banks (10.3%) and other bonds (8.6%). The resources of participation funds were allocated mainly in government bonds (44.5%), equity securities (25.9%), receivables from banks (20.1%) and other bonds (8.4%). The share of bank deposits in pension fund portfolios fell by 2 pp year on year to 12%. By contrast, increases were recorded mainly by the shares of debt securities and equity securities (to 82% and 5% respectively).

**Investment fund assets rose, among other things, due to new issues of fund units**

Czech management companies were managing assets totalling almost CZK 489 billion in their collective investment funds at the end of 2021, up by 16.8% year on year. Growth in assets was driven mainly by net sales of units totalling CZK 53.4 billion. The net profit of domestic management companies rose by 43.6% year on year to CZK 1.7 billion. The bulk of the assets of collective investment funds was invested in mixed funds (39.8%), bond funds (22.7%), equity funds (22.5%) and real estate funds (14.7%).

**Prague Stock Exchange indices ended 2021 at 13-year highs**

Total exchange trading in securities on the Prague Stock Exchange (PSE)<sup>6</sup> rose by 12.1% year on year to CZK 140.5 billion, with the average daily volumes returning to 2018 levels. Transactions on the Prime Market accounted for 91.7% of the total volume of trades. The rest of the transactions were executed on the Free (4.2%), Standard (3.7%) and START (0.4%) markets. The total market capitalisation of shares on the Prime Market was CZK 1,301.2 billion at the end of the year, amounting to 22.8% of GDP. The PX index stood at 1,426.0 points at the end of 2021, up by 38.8% on a year earlier. It peaked on the last day of the year. This meant, among other things, that the index was at its highest level since 2008. The yearly minimum of 1,017.4 points was recorded on 29 January 2021. The total trading volume on RM-S also rose by 5.9% year on year to around CZK 4.5 billion.

<sup>6</sup> Prague Stock Exchange (Burza cenných papírů Praha, a.s.)

## II. REGULATORY FRAMEWORK

### II.1 SELECTED REGULATORY CHANGES IN THE EU IN 2021

In 2021, as in previous years, new rules in the area of financial market regulation were prepared at the EU level. This work included in particular the preparation of directives and regulations of the European Parliament and of the Council and implementing regulations of the European Commission (hereinafter the Commission). When discussing legislative proposals, the CNB worked closely with the Ministry of Finance on the formulation of the Czech Republic's positions and the preparation of instructions for Czech representatives at the meetings of EU Council working groups, which are also attended by CNB representatives as observers in some cases. The CNB also prepared and presented a number of non-papers on selected regulatory topics. Within the European Supervisory Authorities (the EBA, EIOPA and ESMA), the CNB was involved in the preparation of the ESAs' draft replies to the Commission's public consultations, technical standards, guidelines, opinions and other methodological and interpretative documents.

#### Major legislative changes in the EU in 2021

##### ***Reviews of the Prospectus Regulation and the Markets in Financial Instruments Directive (MiFID II) in response to the coronavirus crisis***

Both an amendment to the Prospectus Regulation (2021/337) and an amendment to the Markets in Financial Instruments Directive (2021/338) were adopted in February 2021. The two regulations are part of a set of legislative proposals adopted by the Commission in response to the COVID-19 pandemic known as the "capital markets recovery package". They jointly aim to reduce the economic impacts of the current crisis and support a swift recovery of capital market participants. The purpose of the targeted amendments to the Prospectus Regulation is to simplify the prospectus regime for issuers, specifically, to introduce a shorter prospectus (the EU Recovery Prospectus) and relax the regime for notification of supplements and non-equity issuances by credit institutions. The option to use the simplified regime will end on 31 December 2022 (and the approved prospectuses will be valid until 31 December 2023). The amendment to the MiFID II aims to encourage investment in the real economy and facilitate fast recapitalisation of EU companies. This will be achieved through changes to the rules governing investment services and amendments to the commodity derivatives regime.

##### ***Amendment to the Securitisation Regulation***

Regulation (EU) 2021/558 amending Regulation (EU) No 575/2013 as regards adjustments to the securitisation framework to support the economic recovery in response to the COVID-19 crisis was published in April 2021. At the same time, Regulation (EU) 2021/557 amending Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation was published to facilitate recovery from the COVID-19 crisis. Both regulations were in response to the pandemic situation and are aimed at supporting the economic recovery. The previous securitisation legal framework did not use its full potential and its calibration did not take sufficient account of the specifics associated with securitisations of non-performing exposures. These regulations aim to address these shortcomings. With some exceptions, both regulations have been in force since 9 April 2021.

##### ***Directive on credit servicers and credit purchasers***

In November 2021, the new Directive (EU) 2021/2167 on credit servicers and credit purchasers (the "NPL Directive") was adopted. The directive establishes a harmonised framework for the activities of credit purchasers and credit servicers in relation to loans provided by credit institutions that are not duly repaid. It is part of a wide range of measures presented in the Council's Action Plan (of 2017) to tackle non-performing loans in the EU, with the aim of reducing the large amount of such loans in the balance sheets of European banks. To carry on their activities, such as enforcing payments, negotiating changes to the terms of the contract, handling complaints and informing the debtor about changes in interest or fees, credit servicers will have to obtain authorisation that will authorise them to provide the listed services throughout the EU (under a single authorisation) and will be subject to supervision. The directive contains provisions to ensure that the level of protection of the debtor is not affected due to the underlying transactions. The directive aims to support



the development of secondary markets for non-performing loans in the Union by removing impediments to the transfer of loans from a bank to credit purchasers while ensuring the protection of borrowers' rights. The transposition deadline for Member States is the end of December 2023.

#### ***Revision of the directive on insurance against civil liability in respect of the use of motor vehicles***

Directive (EU) 2021/2118 amending Directive 2009/103/EC relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability entered into force in December 2021. The purpose of the directive is to improve the protection of victims of motor vehicle accidents, and in particular to strengthen the protection of injured parties in the event of damages resulting from an accident in another Member State in the case of insolvency of an insurance company. The directive sets out a new definition of vehicle, introduces the standardisation of claims history statements and sets out a requirement for insurance companies to accept a claims history statement issued by an insurance company from another Member State when calculating premiums. Member States are obliged to transpose this directive no later than 24 months after its entry into force. The CNB participated in a Ministry of Finance public consultation on the use of discretions under this directive, the results of which will form the basis for a new legal framework for motor third party liability insurance in 2022.

#### Selected directives and regulations under preparation in 2021

#### ***Revisions to the CRD/CRR European prudential framework (the “2021 banking package”)***

In October 2021, the Commission issued a draft amendment to Directive 2013/36/EU and a draft amendment to Regulation (EU) 575/2013, collectively referred to as CRD VI and CRR III. The drafts aim to strengthen financial stability while preserving the smooth financing of the economy in the context of the recovery following the coronavirus crisis. They will also complete the implementation of Basel III<sup>7</sup>, an important element of which is a reduction in the impact of internal models in the calculation of prudential capital requirements and the related introduction of the output floor<sup>8</sup>. Beyond Basel III, the Commission's proposal removes, for example, the existing misalignment between the regulation of the crisis management framework and the requirements for own funds and eligible liabilities, harmonises the rules for branches of banks from third countries and the assessment of key individuals in the institution, complements the powers of the supervisory authority and sets out the requirements for risk management in the area of environmental, social and governance risks (ESG risks). The CNB in cooperation with the Ministry of Finance was actively involved in the ongoing European legislative process. The CNB advocates a full, timely and consistent implementation of Basel III. Moreover, it supports the implementation of the output floor at all levels of consolidation.

#### ***The review of the European Solvency II regulatory framework and the proposed framework for the recovery and resolution of insurance and reinsurance companies***

In September 2021, the Commission published a draft directive amending Directive 2009/138/EC on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II), as well as a draft directive establishing a framework for the recovery and resolution of insurance and reinsurance companies. This is a comprehensive review of the Solvency II regulatory regime covering all of its three pillars, i.e. quantitative and qualitative requirements, reporting and information disclosure. The declared objective of the revision is to achieve the objectives of the Commission's initiatives, such as the European Green Deal or the Capital Markets Union, supporting economic growth and reviewing areas for which the Commission has a direct mandate in the directive, such as measures related to long-term guarantees, the calibration of capital requirements and rules for the supervision of groups of insurance and reinsurance companies. In addition to the changes to Solvency II, the Commission intends to make related adjustments to Commission Delegated Regulation (EU) 2015/35 supplementing Solvency II. The draft framework for the recovery and resolution of insurance and reinsurance companies was submitted as a separate directive aimed at better preparing supervised entities and competent supervisory authorities to address possible failures in the insurance sector and to mitigate their consequences. The draft is conceptually based on the directive governing the framework for the recovery and resolution of credit institutions and investment firms, which is also evident from its breakdown, with the

<sup>7</sup> In December 2017, the Basel Committee on Banking Supervision published a revised standard "Basel III: Finalising post-crisis reforms". The document represents the final stage of Basel III, which was gradually published and implemented following the 2008–2009 financial crisis.

<sup>8</sup> The output floor is the lower limit on the capital requirements when applying internal models for their calculation.

individual parts gradually regulating recovery and resolution planning, resolvability barriers, preventive measures and resolution itself, including its conditions, instruments and powers. It also covers, for example, cases of resolution of cross-border groups, relations with third countries and sanctions. The CNB supported maintaining the current Solvency II principles during meetings of Commission and EU Council working groups. In particular, it strived to ensure that the protection of policyholders and beneficiaries remained the primary objective of the framework and that the changes would not cause an unjustified relaxation of prudential rules.

#### ***A legislative package of measures under the Capital Markets Union (CMU) project***

In connection with compliance with the Commission's CMU Action Plan, a draft amendment to the regulation on markets in financial instruments (MiFIR) was submitted in November 2021, which mainly aims to simplify and further harmonise the transparency of trading on the capital market in the EU. As part of the package of measures based on the CMU Action Plan, a proposal for a regulation on the European single access point (ESAP) for reporting financial and non-financial information, an amendment to Directive 2011/61/EU on alternative investment fund managers (AIFMD) and Directive 2009/65/EC on the coordination of regulations relating to undertakings for collective investment in transferable securities is also being submitted. The revision of the AIFMD is intended to deepen the harmonisation of the legal framework for funds providing credit to commercial enterprises, create a single framework for liquidity management tools, greater harmonisation of outsourcing rules, revision of supervisory reporting and the limited relaxation of cross-border services by depositaries. In view of the slow development of European long-term investment funds (ELTIFs), the Commission proposes to amend the ELTIF regulation to make these funds more attractive and accessible to non-professional investors as well.

#### ***Proposal for a regulation on the European green bond standard (EuGBS)***

On 6 July 2021, the Commission published a sustainable finance package, which includes a proposal for a regulation on European green bonds. The draft regulation sets out the conditions for the issuance of European green bonds and lays down requirements for bond issuers who wish to use the terms "European Green Bond" or "EuGB" for their environmentally sustainable bonds offered to investors in the European Union. The funds raised from European green bonds should be used to finance economic activities that have a lasting positive impact on the environment, i.e. meet the requirements of Regulation (EU) 2020/852 establishing a framework to facilitate sustainable investment (the "Taxonomy Regulation"). The compliance of European green bonds with the draft regulation will be checked by external supervisors registered with ESMA. European green bonds can be issued by any legal entity.

#### ***Legislative package reviewing the prevention of money laundering and terrorist financing (AML/CFT)***

The new package aims to achieve a much higher degree of regulatory unification in the area of AML/CFT and consists of proposals for one directive and three regulations. Revisions to private sector duties will now be largely regulated through a single regulation. In the area of supervision, the main change is the proposed establishment of an EU body for combating money laundering and the financing of terrorism, which should also have direct supervisory powers over selected obliged entities. Another proposed change will extend the reporting duties related to transfers of funds and to crypto-asset transactions.

#### ***Proposal for a regulation on digital operational resilience for the financial sector***

Last year, the CNB actively commented on the Ministry of Finance's position in the negotiations in the EU Council on the proposal for a regulation on digital operational resilience for the financial sector (Digital Operational Resilience Act, DORA). This regulation unifies the requirements for protecting financial institutions against cyber incidents, introduces reporting of cyber incidents by financial institutions and introduces mandatory testing of the resilience of financial institutions' internal systems to cyber attacks. The proposed regulation further establishes the supervisory powers for the European Supervisory Authorities (EBA, EIOPA and ESMA) for critical providers of ICT services to financial institutions.

#### ***Proposal for a regulation on markets in crypto-assets***

The discussion of the proposal for a regulation on markets in crypto-assets (MiCA) also continued into 2021. The regulation sets out the rules for crypto-asset-related service providers and for crypto-asset issuers regarding, *inter alia*, their legal form, disclosure, governance arrangements and capital requirements. In this

case, too, the CNB participated actively with comments in the preparation of the Ministry of Finance's instructions for negotiations in the EU Council.

### ***Proposal for a regulation – Artificial Intelligence Act***

Last year, the Commission published a draft regulation laying down harmonised rules on artificial intelligence (Artificial Intelligence Act, AIA). Among other things, the AIA sets out rules for systems using artificial intelligence and categorises them into several groups. AI systems which pose a high risk to health and safety or to the fundamental rights of individuals are to be permitted on the European market on condition that they meet certain mandatory requirements and that an ex ante compliance assessment is carried out. The fact that the draft regulation includes automated systems for assessing the creditworthiness of natural persons in the category of high-risk AI systems and that the AI systems of insurance companies were also added to this category during the negotiations is relevant to the financial market.

## II.2 SELECTED REGULATORY CHANGES IN THE CZECH REPUBLIC IN 2021

In 2021, the CNB was involved in amending the legislation forming the regulatory framework for the financial market in the Czech Republic. These amendments arose primarily from the implementation of EU legislation. In the legislative area, the CNB worked with the Ministry of Finance and other state administration bodies on the preparation of new laws. On the basis of legal authorisation, it issued decrees and explanatory and methodological opinions on the application of regulatory requirements pertaining to financial market entities. This section describes the most important legislative changes in the area of financial market regulation approved or under preparation in 2021.

### Major legislative changes in the Czech Republic in 2021

#### ***Amendment to the Act on the CNB***

In 2021, an amendment to the Act on the Czech National Bank was approved as Act No. 219/2021 Coll. with effect from 1 August 2021. The amendment extends monetary policy instruments and also the range of entities with which the CNB may conclude open market operations. This ensures sufficient operational flexibility for the CNB, which is normally available to other central banks. The amendment further expands the CNB's powers in macroprudential policy relating to the protection of the household sector from excessive debt stemming from property-related loans. The CNB can therefore set binding upper limits on one to three credit indicators relating to consumer loans secured by residential property. The International Monetary Fund and the European Systemic Risk Board have already recommended that the Czech Republic should add this to the competence of the CNB.

#### ***Amendment to the Recovery and Resolution Act***

An amendment to Act No. 374/2015 Coll., on Recovery and Resolution in the Financial Market, was approved as Act No. 298/2021 Coll. in 2021 and took effect on 14 August 2021. The law was passed in connection with the adoption of an amendment to Directive (EU) 2019/879 setting out a framework for the recovery and resolution of credit institutions (BRRD II), which was published in the EU Official Journal in June 2019. The amendment aims mainly at strengthening the bank resolution framework, primarily by implementing the international standard for own funds and liabilities eligible for use in bank resolution (the TLAC standard).

#### ***Amendment to the Act on Banks and the Act on Credit Unions***

In 2021, Act No. 353/2021 Coll. was approved with effect from 1 October 2021, amending Act No. 21/1992 Coll., on Banks, and Act No. 87/1995 Coll., on Credit Unions. The amendment implemented Directive (EU) 2019/878 (CRD V). The main objective of the new legislation was to reduce risks and strengthen the resilience of the banking sector. The most important changes included changes to the rules for calculating the Pillar 2 capital requirement, changes in the adjustment of capital buffers, an obligation to establish an intermediate parent undertaking for large non-EU groups consisting of at least two subsidiaries established in the EU, changes in the regulation of financial holding entities and mixed financial holding entities to which some prudential requirements have been newly transferred on a consolidated basis, and changes to the remuneration adjustment aimed primarily on taking into account the principle of proportionality.

**Act on Vetting of Foreign Investment**

A new Act No. 34/2021 Coll., on Vetting of Foreign Investment, enables the Ministry of Industry and Trade to contact the CNB with a request for an opinion on an assessed foreign investment. It is also possible to make an exemption from the mandatory vetting of a foreign investment where necessary for resolution or to avert the failure of a financial institution, which is decided by the CNB. The Act entered into force on 1 July 2021.

**Act on the Register of Beneficial Owners**

Act No. 37/2021 Coll., on the Register of Beneficial Owners, was adopted and took effect on 1 June 2021. The Act primarily transposes Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing and aims to increase the organisational and personnel transparency of legal entities.

**Amendment to the government decree on investment fund investments and techniques and instruments used for the purpose of portfolio management**

An amendment to Government Decree No. 243/2013 Coll., on investment fund investments and techniques and instruments used for the purpose of portfolio management, was approved in November 2021. It lowered the liquidity buffer for a real estate fund from 20% to 10% of its assets, which is in line with the system of laws in Western Europe. In addition, for special funds investing in funds for qualified investors, it also added the rule for accepting loans for the funds for qualified investors in which the special fund invests. For example, the limit on real estate valued in a competitive manner was also abolished and the obligation for the financial statements of a real estate company in which the real estate fund invests to be approved by an auditor was abolished.

Major legislative changes under preparation in the Czech Republic in 2021**Act on the Pan-European Personal Pension Product**

The process of approving the draft law on the Pan-European Personal Pension Product (PEPP), which aims to adapt Czech law to Regulation (EU) 2019/1238 on a Pan-European Personal Pension Product, continued into 2021. The law under preparation regulates the areas necessary for the functioning of the regulation in practice, in particular the CNB's areas of competence, infringements, the use of certain discretions and certain rights and obligations of PEPP providers, distributors and participants. The bill was submitted to the Chamber of Deputies in the past parliamentary term but the debate thereof was not completed, so it was re-submitted to the legislative process. The CNB also prepared an implementing decree for this act.

**Act amending certain laws in the financial market area, especially in connection with the implementation of the European Union's legislation relating to the capital markets union**

The Chamber of Deputies did not discuss the act amending certain laws in the financial market area, especially in connection with the implementation of the European Union's legislation relating to the capital markets union in 2021 either. The act contains a number of regulations, including an amendment to the Act on Bonds and an amendment to the Capital Market Undertakings Act. The bill was again submitted to the Chamber of Deputies and is expected to be discussed and take effect in the first half of 2022.

**Draft law amending certain laws relating to the development of the capital market**

Another regulation that was not discussed in 2021 in the previous parliamentary term of the Chamber of Deputies is a bill amending certain laws in connection with the development of the capital market, which included an amendment to Act No. 427/2011 Coll., on Supplementary Pension Savings. The bill includes, for example, the introduction of a riskier alternative participation fund. Other proposed changes included a revision of the rules for bonds, in particular a duty to provide additional information about the issuer in the issue conditions of bonds without a prospectus, the introduction of a regulation of subordinated bonds respecting the possibility to create several degrees of subordination, the possibility to create sub-funds for limited partnerships for investment certificates and joint-stock companies that are closed-ended investment funds, an extension of the competence of exchange courts of arbitration to all disputes that can be settled by an arbitrator and a duty for distrainers to use the XML format in communication with non-bank financial institutions.

**Amendment to the Payment System Act**

In 2021, the CNB was actively involved in renewed preparations of an amendment to the Payment System Act. The amendment was submitted to the Chamber of Deputies in 2020 in the previous parliamentary term, but its first reading was not even discussed. The draft aims mostly to adapt an amendment to the European Regulation (EU) 2019/518 on cross-border payments in the Union (CBPR2). For the purposes of CBPR2, the bill stipulates the competent supervisory authorities (the CNB for financial market entities including non-bank ATM operators and the Czech Trade Inspection Authority for investment firms) and offences for breaches thereof. The bill also eliminates some shortcomings identified in practice (in particular, it modifies the transposition of PSD II in respect of liability for unauthorised transactions without strong authentication and better specifies the conditions for non-bank payment service providers' access bank accounts). The amendment further tightens the requirements for the licensing of small-scale payment service providers and small-scale electronic money issuers. The amendment is expected to be approved and take effect in 2022.

**Amendment to the Consumer Protection Act and the Civil Code**

As part of the interdepartmental comments procedure, the CNB was involved in the preparation of the draft law amending Act No. 634/1992 Coll., the Consumer Protection Act, and Act No. 89/2012 Coll., the Civil Code. The draft transposes Directive (EU) 2019/2161 amending Directives 93/13/EEC, 98/6/EC, 2005/29/EC and 2011/83/EU on the better enforcement and modernisation of Union consumer protection legislation into Czech law. The draft, among other things, extends the CNB's supervisory powers in the Consumer Protection Act. In the case of persons subject to CNB supervision, the draft proposes CNB supervision of compliance with the prohibition of unfair terms in consumer contracts, the content of which the consumer could not influence because they were drawn up in advance (typically form contracts). The legislative process will start in the Czech Parliament in 2022. The transposition deadline expires on 28 May 2022.

**Preparation of the Act on Credit Institutions**

In 2021, the Ministry of Finance launched work on the preparation of a new regulation to replace the Act on Banks and the Act on Credit Unions in the future. Consultations were also held with the Czech National Bank at an expert level on selected issues.

### II.3 SELECTED CNB DECREES, OFFICIAL AND OTHER SUPERVISORY INFORMATION DOCUMENTS

The CNB published decrees, official information documents, a series of explanatory opinions, usually in the form of answers to frequently asked questions (FAQs), supervisory benchmarks and other supervisory communications on its website. We present below a selection of the most important regulatory documents issued by the CNB in 2021.<sup>9</sup>

**Decree No. 209/2021 Coll., on the remuneration and reimbursement of cash expenditures of liquidators of banks and credit unions**

A decree issued on the basis of new authorising provisions in the Act on Banks and the Act on Credit Unions regulates the manner of determining the reimbursement of cash expenditures and the remuneration of the liquidator of a bank or credit union, their maximum amount to be covered by the state and the method of payment. The main principles and objectives of the decree are the transparency and simplicity of the method of calculating the remuneration, as well as the provision of incentives for liquidators to perform this function. The Decree took effect on 27 May 2021.

**Decree No. 235/2021 Coll., amending Decree No. 67/2018 Coll., on certain requirements for the system of internal principles, procedures and control measures against the legitimisation of the proceeds of crime and financing of terrorism.**

The amendment to the Decree was adopted primarily in response to the amendment to the Act on Certain Measures against Money Laundering and Terrorist Financing. The changes to the Decree simultaneously respond to some recommendations and findings from the fifth round of the assessment of the Czech Republic by the MONEYVAL Committee, also reflecting the supervisory experience gained during the application of the

<sup>9</sup> A more extensive overview of selected explanatory and similar documents is given in part B, section IX. The CNB's regulatory activities in 2021. All documents are available on the CNB's website.



decree so far. For example, the amendment to the Decree supplements some factors taken into account by the obliged entity when compiling and assessing client risk profiles. The Decree took effect on 1 July 2021.

***Decree No. 399/2021 Coll., on credit ratios.***

The decree came in response to Act No. 219/2021 Coll., under which the CNB has the power to set limits on three credit ratios (LTV, DTI and DSTI) relating to consumer loans secured by residential property. It sets out the manner of, and rules for, calculating credit ratios and contains definitions of the items included in the calculation. The Decree took effect on 1 January 2022.

***Official Information of the CNB regarding the method for calculating risk weights for the purpose of setting contributions to the Deposit Insurance Fund (No. 3/2021 CNB Bulletin).***

On 31 March 2021, the CNB published an official information document changing the rules for calculating risk weights. This official information amends Official Information of the CNB No. 7/2018 CNB Bull. and repeals No. 5/2019 CNB Bull. and No. 14/2020 CNB Bull.

***Official information – Recommendation on the management of risks associated with the provision of consumer credit secured by residential property (No. 13/2021 CNB Bulletin)***

On 10 December 2021, in order to enhance the effectiveness of regulation of consumer credit secured by residential property, the CNB published a set of qualitative and quantitative recommendations for entities authorised to provide consumer credit. The recommendations relate to the LTV, DTI and DSTI ratios.

***Supervisory Information No. 1/2021 regarding ensuring the suitability of entities in the credit institution, insurance, reinsurance and pension management companies sectors***

Given the different level of detail of legislative and other provisions for individual sectors in the area of ensuring the suitability of entities, the CNB provided transparent information in this supervisory information document published on 9 April 2021 on its expectations and approach to the supervision of the configuration and functioning of financial service providers' governance systems in the credit institution, insurance, reinsurance and pension management companies sectors. In particular, it clarified its expectations as regards ensuring the suitability of the persons concerned in these sectors, namely members of management, supervisory and other bodies, committees of the management body and persons in key positions.

***Supervisory Information No. 2/2021 regarding the possibility of applying the exemption from strong customer authentication (SCA) in cases of companies' secured payment processes and protocols***

On 3 May 2021, the CNB published a supervisory information document on its website created in response to the requirements of payment service providers interested in using the exemption from strong user authentication for their corporate clients (for example, Multicash and Databanking apps). The application of the exemption pursuant to Article 17 of Regulation (EU) 2018/389<sup>10</sup> is conditional on the CNB checking that the processes or protocols used for such corporate solutions guarantee levels of security that are at least equivalent to the level of security stipulated in the PSD II directive. In order to maintain a consistent approach and to fulfil the principle of open communication with market participants, the requirements assessed under the exemption have been standardised through the "Information to demonstrate compliance with the requirements for an exemption under Article 17 of RTS on SCA". The template of the document is also included in the supervisory information.

***Supervisory Benchmark No. 1/2021 regarding the loss adjustment process and the claim amount when renting a replacement vehicle***

This supervisory benchmark of 27 January 2021 defines the CNB's expectations regarding internal rules and processes governing the investigation of claims and the provision of insurance claims to injured parties when renting a replacement vehicle. In this document, the CNB also communicated its expectations regarding the monitoring of legislation and court rulings in this area and a proper incorporation of their impact on the insurance company's internal methodology. The CNB also emphasised the duty of insurance companies to

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<sup>10</sup> Commission Delegated Regulation (EU) No 2018/389 of 27 November 2017 supplementing Directive (EU) 2015/2366 with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication.

provide injured parties with information about the conditions for compensation of the costs of renting a replacement vehicle in a proper and timely manner.

***Supervisory Benchmark No. 2/2021 – Regarding the exemption from the obligation to acquire general knowledge***

Using this supervisory benchmark published on 4 June 2021, the CNB communicated its supervisory expectations regarding the proof of compliance with the conditions for applying the exemption from the general knowledge requirements confirmed by an appropriate document (a secondary school-leaving certificate or a certificate of completion of higher education) for persons who have relevant work experience on the financial market. The supervisory benchmark defined a set of entities to which the exemption applies, the criteria that are relevant for the application of such an exemption (relevance and duration of professional experience) and the relevant documents to prove them.

***Supervisory Benchmark No. 3/2021 – Regarding further education programmes for insurance or reinsurance distribution and the conditions of professional qualifications and proof thereof***

Using this supervisory benchmark published on 10 December 2021, the CNB defined its supervisory expectations regarding the new requirement for deepening the expert knowledge and skills in insurance and reinsurance distribution, which is to be provided by the annual completion of follow-up training programmes of a minimum of 15 hours for persons who have obtained accreditation for this activity by the CNB. The supervisory benchmark is intended for insurance and reinsurance distributors and accredited entities that organise subsequent training programmes.

***The CNB's explanatory opinion on banking secrecy***

On 1 November 2021, the CNB published an explanatory opinion on banking secrecy. The opinion examines some aspects that were identified as potentially problematic following questions from banks and other enquirers. These include in particular the question of the scope of information protected by banking secrecy and the question of which relationships and persons are covered by banking secrecy. The opinion also covers the cases in which a bank may disclose data protected by banking secrecy to a third party, individual legal interference in banking secrecy, as well as the procedural aspects of requests by public authorities for information protected by banking secrecy.

***Public notice – strong user authentication for card payments on the internet***

On 4 January 2021, the CNB published a public notice regarding the use of strong user authentication for online card payments. The notice describes what strong authentication is, in which cases it should be applied and the features of strong authentication that will be used. At the same time, it informs the public of the imposition of an obligation to use strong authentication for online card transactions since the start of the year. The specific method of strong authentication is always at the discretion of the customer's payment card issuer, who can be contacted if problems arise.



### III. FINANCIAL MARKET SUPERVISION

The supervision performed by the Czech National Bank is based on a “forward-looking” system for assessing the risk profiles and degree of systemic importance of supervised institutions.<sup>11</sup> This system identifies material risks relating to their activities and quantifies their impact. It also captures systemic risks regarding the behaviour of financial market participants. The CNB determines the intensity of its supervision of individual areas of the financial market and specific institutions on the basis of the outputs of this system. When performing supervision, the CNB assesses compliance with legal requirements in the areas of prudence, conduct of business and AML/CFT. The CNB supervises all these areas, taking into account the links between them.<sup>12</sup>

The CNB applies its supervisory powers by means of off-site surveillance and on-site supervision. It selects the form of supervision with due regard to its effectiveness in each specific case. It systematically plans and performs supervisory work in accordance with internal procedures to ensure internal consistency.

In its supervisory activities, the CNB uses a wide information base encompassing both publicly available and confidential information. The information obtained is subject to both regular and extraordinary (thematic) assessments based on analytical tools developed by the CNB. These tools include regular supervisory stress tests of banks and insurance companies and a system for monitoring financial market transactions. Relevant findings are then communicated to supervised entities. The specific form of such communications depends on the content of the findings. The CNB then performs follow-up checks within a reasonable period of time to ensure that corrective action has been taken.

As part of its enforcement activities, the CNB proceeds in the individual sectors not only in accordance with the relevant sectoral law, but also in accordance with other laws governing the activities of specific supervised entities. A bank, for example, may therefore be penalised both under the Act on Banks and under the AML Act.<sup>13</sup> As regards the disclosure of the specific entities affected by the CNB’s decisions, the CNB is obliged to publish its final decisions under some laws, whereas other laws do not permit their publication. This affects the degree to which penalty decisions are specified in the following part of this publication. In justified cases, ongoing penalty administrative proceedings can also be stopped, for example when assessing a breach as being non-material or for procedural reasons. The decisions mentioned below on imposing fines became final and conclusive in 2021.

#### III.1 SUPERVISION OF CREDIT INSTITUTIONS

The CNB was supervising 23 domestic banks, including five building societies, as of the end of 2021. It was also supervising seven credit unions following the decision taken at a membership meeting to liquidate Československé úvěrní družstvo credit union. To a limited extent, the CNB was also supervising 20 branches of banks from EU/EEA countries, i.e. two branches less than in 2020. Poštová banka, a.s. and PRIVAT BANK der Raiffeisenlandesbank Oberösterreich Aktiengesellschaft closed their Czech branches. Two branches of third country banks, both Chinese, continued to operate in the Czech Republic.

The CNB approved the merger of Raiffeisenbank a.s. and Equa bank a.s., as a result of which the latter ceased to exist as of 1 January 2022. Individual administrative proceedings relating to the acquisition of Moneta Money Bank by the PPF group were ongoing in the course of the year. During the proceedings, the CNB approved the acquisition of a qualifying holding (of up to 30%). However, the whole acquisition process has multiple steps and was not completed in 2021.

The situation in the credit institutions sector continued to be affected by the ongoing coronavirus pandemic in 2021. CNB off-site surveillance and on-site supervision of credit institutions was focused mainly on credit

<sup>11</sup> The CNB publishes lists of regulated and registered supervised entities on its website ([www.cnb.cz](http://www.cnb.cz) > Supervision, regulation > Lists and registers).

<sup>12</sup> Additional relevant supervision-related information is presented on the CNB website ([www.cnb.cz](http://www.cnb.cz) > Supervision and regulation).

<sup>13</sup> Act No. 253/2008 Coll., on Certain Measures Against Money Laundering and Terrorist Financing.

portfolio quality, capital adequacy and provisioning, changes in credit standards and the approach to risk, and the profitability and viability of the business models of individual institutions.

### BOX 1: SUPERVISION OF THE ADEQUACY OF PROVISIONING AND RISK WEIGHTS SET USING INTERNAL MODELS

Financial market supervision also involves **assessing the adequacy of the quantitative instruments** (in particular internal models) that credit institutions use to **determine risk-weighted assets** (in banks with an approved internal-ratings based approach to the calculation of risk-weighted assets for credit risk – the IRB approach), **set provisions** and **model the future evolution of credit risk**. These areas are and will be analysed and assessed in detail by the CNB, as the outputs of quantitative instruments may be subject to a high degree of uncertainty, especially at times of economic downturn.

The ongoing pandemic and the deteriorating economic situation, in particular rising inflation, which is causing an increase in corporate sector costs and the prices of basic household necessities, are giving rise to a number of significant uncertainties. They also increase the probability of credit risks materialising. The CNB has therefore communicated some of its **expectations regarding the setting of the level of provisions and buffers for credit exposures** to the supervised institutions and auditor firms. As the international financial reporting standard IFRS 9 for the calculation of provisions requires macroeconomic forecasts to play an important role in setting provisions, the system for calculating provisions and buffers should ensure an adequate response to a deterioration in the macroeconomic forecast. In view of the significant uncertainties, the forecasts used by banks should also include a highly pessimistic scenario, which should be factored into the calculation and given the relevant weight. A significant negative shock to the levels of inflation and other relevant macroeconomic variables should lead to an increase in the values of the probabilities of default in the models used to estimate expected credit losses. In addition, all the appropriate and verifiable information, including information on outlooks not included in the macroeconomic scenarios, should be taken into account to assess the increase in credit risk on an individual basis. Where an institution does not have enough information for an individual assessment, it should assess the degree of impairment on a portfolio basis, taking into account all relevant information. If there are limitations in the system for calculating provisions, the CNB assumes that institutions' management will ensure the application of temporary adjustments to provisions and buffers, for example by means of expert estimates (management overlay).

Although the credit institutions sector has long maintained high resilience to adverse developments, the average risk weights for exposures of banks using the IRB approach to set those weights have declined in recent years. Relatively high heterogeneity in risk weight levels has also been observed across banks in some segments in recent years. However, internal models should ensure accurate and consistent quantitative estimates of risk parameters. A decline in average risk weights for non-default receivables that is not based on fundamentals, especially in the largest segments such as loans to households secured by property and loans to non-financial corporations, may lead to insufficient capital coverage of unexpected losses. In order to minimise these risks, the CNB, as part of its supervisory work, requires credit institutions to make sufficiently robust probability of default estimates in a manner that considers the default rates observed over the entire business cycle and does not take disproportionate account of those observed in economically favourable times or those affected by data distortions. Similarly, the CNB requires appropriate robustness of credit loss estimates so that they are consistent with cash flows during times of adverse economic developments. To this end, institutions are required to ensure that the data used in developing models and applying the modelled risk parameters meet strict requirements for accuracy, completeness and appropriateness, including stability over time.

In its supervisory work, the CNB also prioritises the validation of internal models, including an analysis of data representativeness, an analysis of a model's forecasting ability and an assessment of the adequacy of risk weights to cover the risks undertaken in individual segments with regard to current developments and possible changes to input parameters.

If, in its supervisory work, the CNB identifies insufficient provisioning, low risk weights or an unjustified decline in risk weights for individual exposure categories, it requires credit institutions to take measures leading to an adequate risk assessment, thereby maintaining the high resilience to shocks of the credit institution sector.

In 2021, the Supervisory Review and Evaluation Process (SREP) abandoned the pragmatic approach applied in 2020 due to the outbreak of the pandemic, and returned to standard procedures. It focused more on current risk factors, relating mainly to the path of the economy during the pandemic and ongoing structural changes. Greater attention was paid, for example, to a potential deterioration in credit portfolio quality due to rising interest rates on client loans. The assessment of interest rate risk also took into account the potentially lower reliability of banks' deposit models, as the pandemic saw a significant increase in client deposits, for which it

is more difficult to predict their stability and client behaviour after the pandemic subsides. The CNB also assessed the riskiness of new mortgage loans on an ongoing basis given their continued significant growth in banks' portfolios in 2021. In its communications to credit institutions, associations and the Chamber of Auditors, the CNB communicated its expectations regarding the method for determining risk weights for exposures using internal models and the institutions' approach to determining provisions and buffers for credit exposures. In connection with the temporary restriction on dividend payments, introduced to maintain the capitalisation and stability of the domestic banking sector due to the significant uncertainty after the outbreak of the pandemic in early 2020, the CNB commented in September 2021 on the intentions of banks to pay dividends from their profits for 2019 and 2020, for which it set upper limits in March 2021. In September 2021, the CNB also informed banks that the amount of dividends in the period ahead would no longer be restricted across the board and that profit distribution proposals would be assessed in the standard supervisory process. However, owing to the continued pandemic, it again called on banks to maintain a conservative approach to profit distribution in order to maintain a safe level of capitalisation.

CNB supervision of credit institutions also focused on the information security of payment systems and new electronic financial services launched in the financial sector in connection with digital transformation. In 2021, the trend of increasing resilience of institutions and their information systems to cyber attacks and fraud continued, taking the form of new techniques targeting bank clients. In addition to the assessment of cyber resilience, key components of on-site examinations were the assessment of the effectiveness of contingency plans for dealing with emergencies and the quality of outsourcing management in IT services.

## BOX 2: CURRENT ICT RISK FROM THE PERSPECTIVE OF INSTITUTIONS AND CLIENTS

In 2021, **financial institutions managed their IT risk** using the experience they gained in 2020 from the changes **which arose due to the coronavirus pandemic**. In general, the number of incidents recorded in IT systems was higher than in the past. However, most of the incidents had a low degree of seriousness. In 2021, data integrity risk and the risk associated with IT system security were assessed as the highest IT-related risks. The risk assessment took into account the serious technological vulnerabilities identified and a higher threat of cyber-attacks due to a deterioration in the international political situation.

Cyber risks strongly affect the reputation of financial institutions and financial groups, something individual institutions are very well aware of. In addition to systemically important institutions, the CNB focused on smaller financial market entities in 2021. In this context, it conducted on-site examination focusing on cyber security and protection against advanced cyber threats. Besides the usual strong supervisory emphasis on the banking sector, an assessment of the level of IT risks for medium-sized and smaller insurance companies was carried out in the insurance sector. This followed a pilot assessment of the segment of large insurance companies conducted in the previous year.

Processes to mitigate the impact of cyber incidents on financial institutions were checked during on-site examinations related to cyber threats in 2021. Contingency planning is generally very good, with room for improving cyber incident response processes identified only in some cases. The examinations in the IT area placed further emphasis on the security of activities (both outsourced and non-outsourced) of third parties and suppliers of IT services. Sufficient high-quality personnel capacity is a key prerequisite for high-quality cyber risk management in every institution. However, this prerequisite is currently more difficult for some institutions to fulfil, especially in the area of cyber security. As a result, for example, the technical means purchased to ensure security are not fully utilised.

In 2021, the CNB recorded **a significant increase in internet fraud targeting clients of financial institutions**. Fraudulent social engineering techniques were refined. In particular, phishing campaigns (fraudulent electronic communication) and vishing campaigns (fraudulent phone calls) were adapted to the Czech financial sector, where fraudsters misused the name of reputable entities, including the CNB. Therefore, the CNB issued notifications for bank clients about fraudulent phone calls trying to elicit online banking login details or payment card details. Given the increasing digitalisation of financial services, the risk of this type of fraud is on the rise. Therefore, the CNB is paying great attention to measures that can be implemented by financial institutions to mitigate these risks.

However, even the best protection measures adopted by banks may have no effect if a deceived user himself opens the door for the perpetrator. **Clients of financial institutions should therefore pay sufficient attention to the security of their funds and have the necessary awareness of the risks associated with the use of online banking.**

This applies, in particular, to the protection of access details and careful checking of notifications. In this context, clients should pay attention to all suspicious and unusual circumstances. They should not act hastily under time pressure and above all should not disclose their access details or other sensitive data to anyone. If in any doubt, they should not initiate or continue communication with a potential attacker and should instead contact their bank or another financial institution in the standard agreed manner.

In the area of conduct of business supervision in credit institutions, in 2021, the CNB comprehensively examined credit institutions' compliance with information duties to clients, compliance with duties linked with maintaining payment accounts, compliance with consumer protection duties, and risk management in relevant areas and the related configuration of procedures in internal rules. Specifically, it conducted a number of thematic surveys, through which it systematically examined (i) the area of banking identity, (ii) the management of legal risk, court disputes and proceedings held before the Financial Arbiter, (iii) remuneration principles and procedures in connection with the sale and provision of retail banking products and services, (iv) the configuration of procedures for handling payment accounts of commercial companies, (v) the area of a protected payment account in enforcement of judgements, (vi) strong customer authentication in card payments, (vii) responsibility for unauthorised payment transactions where strong customer authentication is not used, (viii) payment summaries, the use of standardised terms for services, SEPA payment fees and currency exchange information, and (ix) the handling of claims and complaints. The investigations identified numerous shortcomings, with the CNB mostly seeking voluntary remedy by institutions, which it then actively monitored. The institutions concerned took appropriate corrective action in most cases. Nevertheless, the CNB continues to examine some of the cases. In the coming period, the CNB will concentrate on compliance with existing and new regulatory requirements in the conduct of business and consumer protection areas.

Another integral part of off-site surveillance of credit institutions was the supervision of banks' activities in the provision of the services of investment and pension fund depositories, which is essential for protecting investors on the capital market. The CNB therefore systematically monitored compliance with depositories' duties arising from national and European legislation. In the area of investment service provision, the CNB focused on fulfilment of the obligations to clients, especially the assessment of customers' needs and objectives when creating, distributing and promoting investment instruments. In order to protect the integrity of the financial market, the CNB continued to examine the adequacy of measures to prevent and detect market abuse by selected banks. Owing to changes in the system of reference interest rates on the financial market, the CNB checked the preparedness of banking products for these changes. Following the entry into effect of the requirements arising from the regulation in the area of sustainable finance,<sup>14</sup> the CNB conducted basic monitoring of credit institutions' preparedness to disclose relevant information on taking into account aspects of sustainability in their activities. The CNB will continue to pay attention to product governance and promotion in the period ahead. In addition, supervisory work will focus on informing customers about the costs and compliance with information duties associated with sustainable finance.

The AML/CFT area remained one of the key areas to which the CNB paid great attention in 2021. The CNB continued to expand the information on supervised institutions at its disposal and strengthen its risk analyses. The robust set of information taken into account when assessing the riskiness of individual supervised institutions also serves as the basic starting point for the subsequent identification of appropriate supervisory procedures. These primarily involved thematic on-site inspections focusing on AML/CFT, where emphasis was placed on areas which present a higher risk to a specific supervised institution. The risks identified were also addressed using complementary off-site surveillance instruments. For example, an examination of AML/CFT procedures by an external auditor was required in some banks while in others informal bilateral meetings with representatives of the relevant units took place. Considerable attention was paid to deepening and streamlining the assessment of the efficiency and effectiveness of AML/CFT in the context of overlaps with the governance systems. On-site examinations assessed the effectiveness of the system of preventive measures applied by credit institutions, both generally in terms of the governance system and in areas assessed as risk sensitive (in particular transaction monitoring, correspondent banking, trade financing and the implementation of

<sup>14</sup> Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (hereinafter the "SFDR") and Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment (the "Taxonomy Regulation").

international sanctions and group management). In 2021, the CNB continued to work closely with the Financial Analytical Office (FAO), including the exchange of supervisory information and joint on-site inspections.

### BOX 3: CURRENT DEVELOPMENT OF RISKS AND SUPERVISORY TOOLS IN THE AREA OF AML/CFT

Anti-money laundering and combating the financing of terrorism (AML/CFT) is one of the key areas of CNB supervision. **Preventing the misuse of financial institutions for criminal activity is essential for maintaining both the integrity and stability of the financial system.** Financial institutions face both national and international threats, more specifically, efforts to move and conceal the origin of the proceeds of crime or transfer assets in order to support persons involved in extremist and terrorist activities. There is also the abuse of the clients of these institutions, who often unconsciously help this activity. In addition, the clients of these institutions are misused and often end up unintentionally facilitating such activity.<sup>15</sup> The CNB, together with other relevant public institutions, in particular the Financial Analytical Unit (FAO), monitors these risks and through its supervisory work supports individual financial institutions in their essential role in preventing the use of the financial system against the legitimisation of the proceeds of crime and financing of terrorism (ML/FT). Together with the efforts of public institutions, the financial institutions themselves and some other selected entities, which apply measures to prevent or detect illegal activity, play a key role in combating financial crime. The fight against financial crime should be a crucial topic for financial institutions in all their processes and at all levels of their structure. The CNB appreciates the financial sector's responsible approach to this area and its long-term growing efforts to comply with these duties.

Like the FAO and other public institutions, the CNB assesses the current risks and how these risks are developing on an ongoing basis (for example, as part of the National ML/FT Risk Assessment) and subsequently adapts its activities accordingly. Besides the many new risks, there is still a **scheme of companies with no proper economic activity and no ties to the Czech Republic.** These companies can be used for unjustified transfers of funds. The most effective prevention in this respect is consistent efforts by financial institutions to identify the point and purpose of a business relationship and the origin of funds. This information must be ascertained without any doubt and consistently supported by relevant documents. Otherwise, a financial institution may not enter into or continue the business relationship. The information obtained in this manner is also invaluable for financial institutions in their subsequent ongoing monitoring of client behaviour and transactions. As part of its supervisory work, the CNB checks whether financial institutions comply with these duties.

To be able to respond to all the above risks, the CNB is developing a **holistic approach to AML/CFT supervision** and a portfolio of instruments on an ongoing basis. In the area of off-site surveillance, for example, the CNB maintains continuous contact with supervised entities in the area of AML/CFT, as part of which relevant issues are discussed. It is also expanding the range of software and analytical tools being applied, the main purpose of which is high-quality data collection and analysis. High-quality data collection and analysis tools have allowed for the further expansion and development of broad-based surveys conducted in all the most important sectors of the financial market. These structured surveys always cover the entire relevant financial market sector, and are designed to assess the riskiness of each sector and determine the risk profile of each institution. The information obtained in this manner is then systematically taken into account when planning examinations so that available supervisory capacity is used as efficiently as possible. As part of supervisory work, considerable emphasis is therefore placed on understanding individual sectors and institutions (and their knowledge), which serve as important guidelines for focusing supervision on specific sectors, areas and institutions. At the same time, CNB supervisors view and assess AML/CFT in the context of the institution as a whole and its governance system.

In 2021, the CNB recorded a **significant increase in internet fraud targeting clients of financial institutions.** As the digitalisation of financial services increases, the risk of such fraud is also on the increase. Therefore, the CNB is paying close attention to measures that can be implemented by financial institutions to mitigate these risks. For this and other reasons, CNB AML/CFT specialists collaborate with colleagues from other relevant areas of financial market supervision, and close cooperation is also taking place at the European and international level. The intensity of cross-border exchange of information and cooperation has been significantly strengthened in recent years, including within the framework of the newly established AML supervisory colleges. The AML colleges supplement the prudential colleges that have been operating for some time now and their establishment illustrates the importance the EU currently attaches to AML/CFT, owing mainly to the international nature of combating money laundering and the financing of terrorism. In practice, this involves multilateral agreement-based cooperation, in particular through negotiations between competent national supervisory authorities always concerning a specific financial group. The aim of AML colleges is to support the

<sup>15</sup> For details on this issue see the CNB blog: [https://www.cnb.cz/cs/o\\_cnb/cnblog/Zneuziti-identity-klientu-financnich-instituci-a-souviselici-podvodne-jednani-z-pohledu-prani-spinavych-penez-ci-financovani-terorismu/](https://www.cnb.cz/cs/o_cnb/cnblog/Zneuziti-identity-klientu-financnich-instituci-a-souviselici-podvodne-jednani-z-pohledu-prani-spinavych-penez-ci-financovani-terorismu/) (available in Czech only).



further development and increase the resilience of individual entities and entire groups to the ever-increasing ML/FT risks. The CNB is actively involved in the meetings of these colleges both in the role of host and home supervisory authority, which manages and coordinates the relevant AML college. In addition, the CNB continues to develop cooperation with a whole range of other foreign supervisory authorities and international organisations operating in the field of AML/CFT, especially in the areas of supervisory cooperation, information exchange, training activities and the assessment of selected countries and supervisory authorities.

In 2021, the CNB received a total of 858 submissions from the public regarding activities of credit institutions, 662 of which concerned the provision of payment, investment and deposit services and bureau de change activity, and 196 concerned the provision of consumer credit. The most submissions from the public related to credit institutions' communication with clients and their handling of clients' complaints. The reason for the frequent submissions in this area is that clients disagree with how the credit institution has handled their complaints. The CNB received 52 submissions from the public in the area of investment services. These concerned the execution of clients' orders and the provision of incomplete or false information to clients before arranging a transaction in an investment instrument.

In 2021, the CNB opened 15 new enforcement proceedings in the area of credit institutions. Twelve decisions became final and conclusive, with a fine being imposed in two cases, remedial measures in seven cases and the proceeding being discontinued in three cases. The highest fines imposed under the Act on Banks – CZK 3 million in each case – were imposed on UniCredit Bank Czech Republic and Slovakia, a.s. for breaches of the law in the area of investment service provision and bureaux de change activities, and on PARTAPP Corp. s.r.o. for carrying on unauthorised banking business. The CNB also opened three additional proceedings under the Act on Certain Measures against Money Laundering and Terrorist Financing. In 2021, three decisions imposing a fine became final and conclusive under this Act. The highest fine imposed under the AML Act was CZK 5 million for misconduct in the area of monitoring client transactions and excessively long time limits for investigating suspicious transactions. The fines imposed in the credit institutions sector totalled CZK 15.2 million in 2021.

### III.2 SUPERVISION OF INSURANCE COMPANIES

The CNB was supervising 23 domestic insurance companies<sup>16</sup> and one reinsurance company as of the end of 2021. To a limited extent, it was also supervising 18 branches of foreign insurance companies, all of them based in EEA countries (a branch of the Maltese insurance company Fortegra Europe Insurance Company Limited and YOUPLUS Životní pojišťovna, pobočka pro Českou republiku insurance company recently commenced their activities, while Youplus Insurance International AG, pobočka pro Českou republiku ceased to operate), and also the cross-border marketing of insurance to consumers in the Czech Republic by foreign insurance companies based on the freedom to provide services on a temporary basis.

The most important proceedings in the insurance sector included the cross-border merger of the Czech insurance companies AXA pojišťovna, a.s., AXA životní pojišťovna, a.s. and the Slovak UNIQA poisťovňa, a.s., which were wound up, into the successor UNIQA pojišťovna, a.s. In addition, consent to the acquisition of a qualifying holding in ERGO pojišťovna a.s. by the German group S.V.Holding AG and consent to the acquisition of a qualifying holding in Pillow pojišťovna a.s. by companies from the RSJ group were issued.

In 2021, as part of the supervisory review process (SRP<sup>17</sup>), the CNB continued to focus on analysing the risk profiles of insurance companies, monitoring their financial situation and performance, assessing their capital and solvency position and compliance with the conduct of business and consumer protection rules. Another key element of the SRP was assessing the configuration and quality of insurance companies' governance systems, with an emphasis on robust risk and capital management systems. The standard supervisory tools

<sup>16</sup> For the purposes of this document, we also include the Czech Insurers' Bureau and the Export Guarantee and Insurance Corporation, which are supervised to a defined extent.

<sup>17</sup> Supervisory Review Process, a review by a supervisory authority pursuant to Article 36 of Solvency II.

also included ORSA<sup>18</sup> analysis of reports submitted by insurance companies to the CNB.

In 2020, in response to the ongoing coronavirus pandemic, the CNB continued to pay increased attention and allocate more capacity to insurance companies' capital position and its management, to monitoring financial market developments more intensively and to assessing the impacts on the assets administered by the supervised insurance companies. The extraordinary reporting duties to the CNB, which were implemented in 2020, were continuously updated and supplemented during 2021 to reflect the course of the pandemic and the risks associated with its impacts. Increased attention was paid to insurance segments which are more affected by the pandemic.

The CNB also continuously monitored organisational changes in insurance companies and evaluated their impact on the companies' governance systems. Moreover, the CNB assessed the extent and nature of externally provided activities or outsourcing (including cases of intra-group outsourcing). It put an emphasis mainly on the retention of strategic decision-making in insurance companies, their ability to ensure insurance business continuity and check the quality of services provided. The CNB has long focused on monitoring the risks associated with the quality of asset and liability management in insurance companies. In 2021, it continued to evaluate information system and information technology risk in insurance companies. It mainly assessed IT infrastructure, cyber security and the overall standard of governance in this area.

The CNB continued its supervisory activities in the area of premium sufficiency management for third-party vehicle liability insurance in 2021. It also performed analyses of information regarding compliance with the requirements for an effective premium sufficiency management system, ensuring that claims arising from this type of insurance can be settled any time. The results of the analyses were a key input for the planning and taking of relevant supervisory actions, both in relation to individual insurance companies and at the level of the insurance segment. As regards internal premium sufficiency management systems, insurance companies' internal governance processes are gradually being modified and streamlined, and insurance companies respond to supervisory findings and remedial measures imposed. The CNB considers the period after the stabilisation of the current situation caused by the pandemic, and especially the incorporation of all the relevant facts in vehicle liability insurance pricing, to be of particular importance in this area. Monitoring the situation will thus be one of the CNB's supervisory priorities in the period ahead.

In order to reduce the likelihood of systemic shortcomings in insurance companies' activities, the CNB conducted off-site and on-site examinations in the area of conduct of business and consumer protection. Last year, supervisory work was also significantly affected by the consequences of the coronavirus pandemic. The current pandemic has accelerated the introduction of new technologies into the individual activities of insurance companies, especially in the areas of remote negotiation of insurance, electronic underwriting and loss adjustment, and has enabled a rapid and effective switch to remote communication with clients. On the one hand, the implementation of new technological innovations, including the use of artificial intelligence in communicating with clients, is desirable and increases the efficiency of individual activities, but on the other hand it is placing increased risk management and mitigation demands in the area of conduct of business and consumer protection. The speed at which customers adapt to the shift to an online environment varies from insurance company to insurance company, with the level of customer confidence in the security of their personal data seen as a major factor. The further deepening and expansion of digitalisation and automation where companies fail to take into account those customers who have lower confidence or ability in using these technologies poses the risk that such customers will be excluded from the possibility of arranging certain types of insurance.

The pandemic was also reflected in the range of products offered by individual insurance companies. Around half of insurance companies adjusted their insurance products (180 products in total), especially as regards the scope of the insurance cover. The restrictions related to travelling abroad were reflected in an increase in claim settlements arising from the insurance guarantee against bankruptcy of travel agencies and claims to reimburse the premiums paid for travel insurance in relation to an unredeemed voucher issued pursuant to Act

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<sup>18</sup> Own Risk and Solvency Assessment, which insurance and reinsurance companies must perform under Pillar 2 of Solvency II.



No. 185/2020 Coll.<sup>19</sup> As part of its supervisory work, the CNB responded to new regulatory requirements and changes in legislation. At the national level, an amendment was adopted which resulted in the monopolisation of the health insurance market for foreigners in favour of one insurance company – Pojišťovna VZP, a.s.<sup>20</sup> From the perspective of conduct of business and consumer protection, this legislative change created a risk of negative impacts on the quality of services provided by insurance companies which had previously offered this type of insurance.

In its activities, the CNB also reflected events that occurred in the past year, which had a potentially significant adverse impact on insurance companies' customers. The CNB, for example, conducted a thematic survey responding to the natural disaster (tornado) which hit the South Moravian region on 24 June 2021. As regards conduct of business, insurance companies demonstrated that they were well prepared to deal with a large number of claims in a relatively short period of time so as to ensure early claims settlement. However, given the risk of a future increase in natural disasters owing to climate change, a rise in the cost of reinsurance in some insurance sectors cannot be ruled out. This could have a negative effect on the availability of insurance to some groups of clients.

On the basis of supervisory findings, examinations were conducted to detect systemic shortcomings in the activities of individual insurance companies, which could have a negative impact on a larger number of clients. The CNB examined (i) the rules and processes ensuring compliance with information duties when changing the amount of premiums and when arranging travel insurance online, personal belongings insurance on payment cards and cancer insurance over the phone, (ii) proper delivery of reminders to group insurance policyholders, (iii) compliance of the product ranges with the licence to carry on insurance activities issued, (iv) proper management of internal loss adjustment processes in connection with the transfer of data to the Czech Insurers' Bureau, (v) proper control of debt collection companies when recovering claims from vehicle liability and vehicle accident insurance, and (vi) proper management of conflicts of interest in the area of distribution by an insurance company's majority owner. In order to ensure a comparable level of consumer protection, the CNB continues to monitor the distribution of "fleet insurance", i.e. insurance through policyholders who allow other persons to become an insured person, through a specific reporting duty for insurance companies using this distribution channel. Monitoring developments in relevant judicial decision-making practices and the way legal risk is managed by insurance companies in the configured governance system, including reflecting on developments in valid case law with implications for private law, also continues to be an important area for the CNB.

At the European level, regulations requiring sustainability to be taken into account in the activities of financial institutions, including insurance companies, and setting requirements for compliance with information duties took effect.<sup>21</sup> In this regard, the CNB monitored the preparedness of individual insurance companies to publish information on whether their investments aim to be socially responsible, i.e. whether their business takes into account social responsibility and sustainable growth factors. This information should enable end-customers to make a well-informed assessment of the impacts of the given investment opportunity in terms of its sustainability.

Supervisory attention also focused on the cross-border activities of domestic<sup>22</sup> insurance companies and the activities of foreign insurance companies operating in the Czech Republic based on the freedom to temporarily provide services, from the point of view of their compliance with the regulatory requirements applicable in the Czech Republic and ensuring transparency and availability of insurance companies to the end-customer. The

<sup>19</sup> Act No. 185/2020 Coll., on certain measures to mitigate the impacts of the (SARS CoV-2) coronavirus epidemic on the tourism sector. Under specified conditions, it allowed tour operators to issue a voucher at least in the value of all payments made by or to the customer for a cancelled tour instead of refunding the money for the tour.

<sup>20</sup> On 23 July 2021, Act No. 274/2021 Coll., amending Act No. 326/1999 Coll., on the residence of foreign nationals in the Czech Republic and on the amendment of certain other acts, as amended, and other related acts, entered into force with effect from 2 August 2021. The amendment regulates, among other things, the conditions for the private health insurance of foreigners applying for a visa for a stay of over 90 days and the extension of the stay, including provisions introducing, among other things, a guarantee of comprehensive health care and limiting the range of potential insurers to only Pojišťovna VZP, a.s.

<sup>21</sup> The SFDR regulation and Taxonomy Regulation; see also footnote 14.

<sup>22</sup> A change in the legal form of operation for selected insurance companies in Slovakia (conversion into a branch) and a takeover of the insurance portfolios there.

CNB records trends involving changes in group structures (such as the conversion of insurance companies in Member States into branches), the search for new markets in the form of growth in cross-border insurance provision and cost reduction through outsourcing.

In 2021, the CNB received 452 submissions from the public which concerned supervision of insurance companies. The share of submissions from the public regarding insurance products in motor third party liability insurance has long been significant (38%). Also important were submissions regarding insurance companies' behaviour in respect of life insurance products (12%), property insurance (8%) and vehicle accident insurance (7%). Unlike in previous years, there was also a significant share of submissions regarding the guarantee against bankruptcy of a travel agency (6%). The shortcomings identified or suggested on the basis of submissions from the public mainly concerned loss adjustment procedures. Other shortcomings were mostly related to administering insurance, terminating insurance, and arranging insurance, commissions, fees and premiums.

In 2021, seven new enforcement proceedings were opened in the area of supervision of insurance companies and five decisions became final and conclusive. One insurance company was ordered to submit a recovery plan and fines were imposed in four cases. The relevant sectoral legislation does not permit the publication of specific penalty decisions. However, it is possible to disclose that these were penalties for breaches in the conduct of business area, in one case, a penalty linked to premium sufficiency in vehicle liability insurance in another case and a penalty linked to compliance with the solvency capital requirements. The highest fine imposed totalled CZK 1.5 million. The fines imposed in the insurance sector amounted to CZK 3.9 million in all.

### III.3 SUPERVISION OF PENSION MANAGEMENT COMPANIES AND RETIREMENT FUNDS

The CNB was supervising nine pension management companies (PMCs) at the end of 2021. The number of supervised participation funds increased to 34 after the CNB granted authorisation to establish three new participation funds to Rentea penzijní společnost, a.s. in May 2021. The number of eight transformed funds remained unchanged.

In 2021, the CNB focused on assessing the capital adequacy and capital management systems of PMCs, especially in the context of rising interest rates, which adversely affect the revaluation reserve for securities, and also in the context of the effects of the implementation of IFRS 9. As regards the supervision of transformed funds, the CNB focused mainly on compliance with the requirement to cover liabilities with assets at all times, which is relevant mainly because of the gradual increase in interest rates.

As a result of the coronavirus pandemic, the CNB allocated increased supervisory capacity to monitoring and assessing the effects of the pandemic on PMCs' capital condition, profits and overall activities. In addition, it also observed financial market developments and assessed the impacts on the assets managed by the supervised entities.

The CNB also assessed compliance with the rules for the management of assets of funds managed by PMCs and the accuracy of the accounting of PMCs' fees for the accounting period. The CNB also sought to remedy the findings identified in supervisory surveys conducted in the area of capital management.

The CNB received a total of 27 submissions from the public in the area of private pension schemes and supplementary pension savings in 2021. As in previous years, most of the submissions concerned the determination of individual benefits or the manner and date of their payment. In one case, minor misconduct was identified in relation to the processing of applications from several participants and the provision of information to participants about the funds included. A thematic survey of customer complaints filed in 2020 was conducted for PMCs, indicating the areas to be comprehensively examined by the CNB in the period ahead.

One enforcement proceeding was opened under to the Supplementary Pension Savings Act in 2021. A decision to impose a fine of CZK 250,000 on Allianz kontakt, s.r.o. for organising professional examinations

aimed at demonstrating professional qualifications without authorisation from the CNB became final and conclusive.

#### III.4 SUPERVISION OF INVESTMENT FIRMS

The CNB registered 41 entities holding an investment firm licence at the end of 2021, of which 16 were banks and 25 were non-banks. The CNB granted new investment firm licences to MTX Capital Services a.s. and Fondée s.r.o. A total of 34 branches of investment firms were operating in the Czech Republic at the end of the year.

The CNB focused mainly on the implementation of prudential regulation for non-bank investment firms governed by the EU IFD/IFR framework. The requirements of the new prudential regulation, which makes significant changes in particular to the approach to calculating capital requirements, are tailored to the different risk profiles of investment firms and their business models. In this context, a new reporting framework was introduced for investment firms. The CNB conducted the first collection of data under this framework as of 30 September 2021. The CNB identified prudential categories pursuant to IFD/IFR and for several groups permitted the use of a group capital test, in which the parent company holds sufficient capital instruments to cover the book values of its interests.

As in previous years, the CNB continued to check compliance with the MiFID II, transposed into Czech law in 2018. The CNB took part in a peer review on compliance with the rules for creating and marketing investment instruments, which was organised by the European supervisory authority ESMA. The review revealed shortcomings in communication between distributors and product manufacturers relating to target markets. The level of implementation of the MiFID II rules and their convergence across the EU will continue to be examined in the period ahead, as will cooperation with ESMA on another peer review which will focus on the post-trade provision of customer information on costs and fees.

The CNB regards the cross-border provision of investment services by domestic investment firms to be an important area. In cooperation with ESMA, the CNB participated in another review in this area in 2021, which followed up on a review conducted in 2020. A total of 14 non-bank investment firms are authorised to provide cross-border investment services in the Czech Republic. The review, which newly lowered the threshold for the provision of small-scale investment services, revealed that only six non-bank investment firms provided investment services on a larger scale (more than 50 clients). The CNB plans to further increase its attention to this area in the period ahead.

Given the persisting problems with the activities of foreign entities providing investment services to domestic customers, mainly for high-risk investment instruments, cooperation with their home supervisors continued. The situation is illustrated by the number of submissions from the public regarding foreign entities or their branches and tied agents in the Czech Republic. These submissions continued to account for a high share (71%) of all complaints (76) relating to the non-bank investment firms sector. In 2021, the CNB's examinations again focused mainly on the provision of services by foreign investment firms. Although they did not reveal as many core findings as in previous years, the situation cannot be considered fully satisfactory. The better examination results were not achieved by paying more respect to the experience and financial standing of non-professional customers, but through better formal adjustments to internal regulations and processes in companies. There are still shortcomings in communication with customers, the provision of incorrect information about the nature of business and the risk properties of the financial instruments offered, and the misclassification of customers into categories based on their risk profiles.

The CNB further participated in examinations conducted as part of international cooperation, initiated and methodologically managed by ESMA. During the examinations, shortcomings in product governance were identified and reported in aggregate form. Typical shortcomings included the offering and distribution of investment instruments included in inadmissible customer target markets, insufficient verification of customers' actual knowledge and experience, the offering of investment instruments to (potential) customers before including them in the target market, and insufficient credit analyses of the corporate bonds offered.

In the case of non-bank investment firms, the CNB's supervisory activities in 2021 also included the participation or organisation of colleges in the area of prevention of the use of the financial system for the purposes of money laundering or terrorist financing (AML/CFT).<sup>23</sup>

In 2021, five enforcement proceedings pursuant to the Capital Market Undertakings Act and two pursuant to the AML Act were opened in the investment firms sector. Four decisions to impose a fine pursuant to the Capital Market Undertakings Act became final and conclusive. The highest of these fines was imposed on Notesco Limited (CZK 6 million) for the provision of investment services without authorisation from the CNB. Two decisions under the AML Act also became final and conclusive in this sector, with the highest fine reaching CZK 150,000. The fines imposed in the investment firm sector totalled CZK 6,650,000.

### III.5 SUPERVISION OF MANAGEMENT COMPANIES AND INVESTMENT FUNDS

The CNB registered 41 management companies, three branches of foreign management companies (NN Investment Partners B.V., Czech Branch was newly registered), one primary administrator, nine depositories, 213 investment funds with legal personality (of which were 30 autonomous investment funds) and 253 mutual funds at the end of 2021. The CNB granted licences to four new management companies: EnCor Asset Management, investiční společnost, a.s., Allegro investiční společnost, a.s.,<sup>24</sup> DEKINVEST investiční společnost, a.s. and CREDITAS investiční společnost, a.s. Licences were granted to autonomous investment funds Trigea nemovitostní fond, SICAV, a.s. and FINEMATIC SICAV, a.s. Investment fund depository licences were in 2021 acquired by Conseq Investment Management a.s., ATLANTIK finanční trhy, a.s. and Raiffeisenbank a.s.

The number of entities conducting asset administration comparable to asset management pursuant to Article 15 of the Act on Management Companies and Investment Funds and registered in the list maintained by the CNB increased by 136 in 2021. Therefore, a total of 340 small alternative investment fund managers whose activities do not require any authorisation and are not subject to CNB supervision, were registered with the CNB at the end of 2021.<sup>25</sup>

In 2021, the CNB participated in a peer review in collaboration with ESMA focusing on collective investment fees and costs. The aim of the review was to check, on a selected sample of managers of standard funds (UCITS), whether investors are charged excessive or unjustified costs via fees. The CNB survey revealed that compliance with the relevant EU legislation is high in the Czech Republic. The survey also confirmed the strong and positive influence of the competitive environment in this area.

At the start of 2021, selected provisions of Decree No. 501/2002 Coll.,<sup>26</sup> entered into force, introducing a new obligation for accounting units in the segment of management companies and investment funds to proceed in accordance with international accounting standards (IFRS) for the reporting and valuation of financial instruments and the provision of information on them in the notes to the financial statement. As the basis for the correct valuation of financial instruments is the choice of an appropriate business model for an accounting entity under IFRS, a supervisory examination on this topic was conducted in 2021. The examination identified large differences in the concept of business models across the market and, in the case of some managers, the absence of the basic parameters needed for the choice of a business model. Following the examination, the CNB addressed the market with a letter in which it summarised the basic principles and requirements for determining a business model. It also explained these principles in a presentation given to AKAT CR<sup>27</sup> in autumn 2021. In 2022, the CNB will focus directly on the valuation of financial instruments in the portfolios of individual funds.

<sup>23</sup> The CNB was the organiser of one AML college for non-bank investment firms and was a participant in other such colleges. See Box 3 and section IV *International cooperation* for more details on the activities of AML colleges.

<sup>24</sup> Quant Asset Management, a.s. as of 29 December 2021.

<sup>25</sup> Registration on this list does not authorise an entity to conduct business or collect funds from the public. The CNB is not authorised by law to check whether the information contained in an application for entry into the list is true or accurate, nor does it examine compliance with the conditions for entry into the list.

<sup>26</sup> Decree No. 501/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll., on Accounting, as amended, for accounting units that are banks and other financial institutions.

<sup>27</sup> The Czech Capital Market Association.

In 2021, the CNB conducted examinations focusing on major managers in terms of the volume of assets managed and also on smaller managers who have already exceeded the relevant threshold and were in the process of approving an application for authorisation to exceed the limit. In the case of established fund investment entities, shortcomings were identified mainly in the delegation of activities, a low time provision for performing key positions and inappropriate input parameters in the valuation of financial instruments. On the other hand, there were serious shortcomings stemming from the existing less stringent regulatory requirements in the case of smaller managers, in particular lower quality of internal regulations, inadequate staffing and expertise of persons carrying on regulated activities (often leading to the performance of conflicting duties), the absence of procedures for the economic analysis of benefits of trades and best execution procedures, errors in valuation models and errors in determining the fair value of assets in accordance with the IFRS 13 international accounting standards.

The CNB opened 21 enforcement proceedings in the area of management companies and investment funds in 2021, with 20 decisions becoming final and conclusive. Fines were imposed in three cases. In 13 cases, a decision was taken to impose a fine and delete an entity from the register of persons conducting asset administration comparable to management. Proceedings were discontinued in three cases. A licence was revoked from one autonomous investment fund – SOLIDEUS, investiční fond s proměnným základním kapitálem, a.s. The highest fines (CZK 100,000 in each case) were imposed on Mr Juraj Krúpa for performing activities without the prior consent of the CNB and on J.O. Investment s.r.o. for repeated breaches of the information duty. At the same time, the company was deleted from the register of persons conducting asset administration comparable to asset management. The fines imposed in this sector totalled CZK 900,000.

### III.6 SECURITIES ISSUES AND REGULATED MARKETS

In 2021, the CNB's main approval activities again included approvals of securities prospectuses, approvals of takeover bids and squeeze-outs and the conduct of licensing administrative proceedings in the market infrastructure area. Supervision focused mainly on the activities of market infrastructure entities, and on securities issuers' compliance with the information duty (reviews of the content of annual and half-yearly reports of all supervised issuers and detailed reviews of the application of the IFRS international accounting standards in the financial statements of selected issuers) and compliance with obligations in public offers of securities.

Securities of 111 companies<sup>28</sup> (compared to 107 at the end of 2020), of which 78 were fully subject to CNB supervision as regards compliance with information duties,<sup>29</sup> were admitted to trading on a European regulated market as of the end of 2021. Securities of 16 issuers (bonds in 11 cases, shares in five cases) were newly admitted to trading on a regulated market in 2021. By contrast, securities of 13 issuers were excluded from trading (five of them were shares excluded at the decision of the issuer or regulated market operator and eight were bonds excluded because of due or early redemption).

The number of supervised entities in the market infrastructure area was unchanged in 2021. Three entities continued to operate as regulated market operators, multilateral trading facilities and organised trading facilities (Burza cenných papírů Praha, a.s., RM-SYSTÉM, česká burza cenných papírů a.s. and 42 Financial Services, a.s.), two as operators of settlement systems with settlement finality (Centrální depozitář cenných papírů, a.s., and the CNB as the operator of the Short-Term Bond System), one central depository (Centrální depozitář cenných papírů a.s.) and one benchmark administrator, namely the PRIBOR interbank rate administrator (Czech Financial Benchmark Facility, s.r.o.).<sup>30</sup>

<sup>28</sup> This number includes all issuers (both domestic and foreign) whose securities are admitted to trading on a regulated market in the Czech Republic, issuers based in the Czech Republic whose securities are admitted to trading on a regulated market in another EU Member State, and also issuers based outside the Czech Republic whose securities are admitted to trading on a regulated market in the Czech Republic.

<sup>29</sup> The remaining cases were issuers whose home supervisory authority was the supervisory authority of another EU Member State (9) or issuers whose home supervisory authority was the CNB but enjoyed one of the exemptions from the information duties (27).

<sup>30</sup> On the basis of registration in 2020, the Prague Stock Exchange also acts as an administrator of the indices used as benchmarks for the PSE (PX indices).



The CNB performed standard checks of annual and half-yearly reports of all more than 70 issuers and detailed checks of the application of IFRS in selected financial statements. After their CNB pointed out the shortcomings, those shortcomings identified in issuers' reporting duties were eliminated by the supervised entities. In 2021, a change in the format of annual reports (a single electronic reporting format – ESEF) was applied. The manner of sending the reports to the CNB through the SDAT system also changed. No major problems were identified with the new format of the annual reports.

A total 93 administrative decisions on the approval of documents connected with securities issues (securities prospectuses and supplements thereto) were issued in 2021, compared to 84 in 2020. They mostly involved bond prospectuses of issuers engaged in property development projects. This figure also includes four share prospectuses for offers to the public (two of which were offers using the Prague Stock Exchange's START – Public Offer system). A large number of draft prospectuses and other documents relating to public offers (final terms, advertisements relating to public offers) were reviewed outside the administrative proceedings.

The CNB supervised compliance with legislation in the area of public offers throughout the year. More specifically, this involved correcting several incorrect advertisements in public offers of securities based on approved prospectuses and examining 17 cases of suspected public offering of securities (bonds) without a valid approved prospectus.

In 2021, the CNB conducted one proceeding, in which it granted prior consent to PPF Telco B. V. to the squeeze-out of minority shareholders of the issuer O2 Czech Republic, a.s.

In the market infrastructure area, two changes to the rules of the Central Securities Depository Prague (CSDP) settlement system were approved in 2021, partly due to the application of settlement discipline effective from February 2022. The CNB also conducted its regular review and assessment of compliance of the CSDP with CSDR. In addition, it conducted two proceedings with the Prague Stock Exchange concerning the suspension of waivers from the market transparency obligation under the MiFIR and assessed changes in trading rules. In 2021, two foreign central depositories (Clearstream Banking from Luxembourg and Euroclear Nederland from the Netherlands) notified the CNB of their intention to provide book entry and registered services for domestic securities, including equity instruments.

The CNB also assessed 24 notifications of the intention of non-financial groups to apply the exemption from the obligation to report to a trade repository pursuant to Article 9(1) of EMIR and one application for an exemption from the obligation to provide an initial margin pursuant to Article 11 of EMIR (ČSOB). Data on internalised settlements (settlement directly with traders outside the settlement system) were assessed quarterly and the related report was sent to ESMA.

In 2021, six enforcement proceedings were opened in the area of issuers and regulated markets and eight decisions to impose a fine became final and conclusive. They involved fines for breaches of public offers, failure to disclose voting rights, management trades and market abuse. The highest fine was CZK 500,000 and was imposed on UNIPRO SPE01 SE for publicly offering bonds without a prospectus. The fines imposed in this sector totalled CZK 1,345,000.

### III.7 SUPERVISION OF PAYMENT SERVICE PROVIDERS AND ELECTRONIC MONEY ISSUERS

At the end of 2021, the CNB registered 21 payment institutions, 12 established foreign payment institutions (four established through a branch and eight through an appointed agent), two electronic money institutions, four established foreign electronic money institutions (one through a branch and three through an appointed agent) and three payment account information administrators. Two new licences for the pursuit of business of a payment institution were granted, one to ZNPay a.s., the other to Direct Fidoo Payments s.r.o.

The payment services sector, in which the CNB's capacity had been overloaded by a large number of low-quality licence applications in the previous two years, stabilised in 2021. The increase in new applications for authorisation to provide payment services slowed slightly compared to the previous year. A total of 17 applications were filed in 2021, including four applications for a payment institution licence, seven for a small-

scale payment service provider licence or a change thereto and six for a small-scale electronic money issuer licence. In addition to increased efforts in the assessment of applications, the sector was also stabilised by rejecting poor-quality applications and terminating proceedings where applications were incomplete. On the other hand, this approach to applications in the payment system sector led to an increase in the number of appeals against the CNB's first-instance decisions and resolutions.

In 2021, off-site surveillance continued to be focused on monitoring the manner of protecting funds entrusted by payment service users to payment service providers in order to execute payment transactions, in which the latter are obliged to deposit such funds in accounts with banks or credit unions. As the protection of funds is one of the conditions for granting authorisation, the CNB is entitled to withdraw authorisation if the provider fails to comply with this obligation. In 2021, the CNB also assessed compliance with the capital requirements by payment institutions and electronic money institutions and compliance with the limits on the volume of payment transactions by small-scale payment service providers and small-scale electronic money issuers. Following a change in EU legislation introducing new requirements for the provision of information on currency conversion fees related to online payments, the CNB also checked compliance with the information duty to disclose transaction and currency conversion fees. Another CNB survey focused on identifying and removing potential obstacles (intentional or unintentional) on the part of payment service providers maintaining payment accounts accessible online to access by clients who use third-party services, i.e. the indirect submission of payment orders and the provision of information on payment accounts.

#### **BOX 4: MORE TRANSPARENT PAYMENT TRANSACTIONS INVOLVING CURRENCY CONVERSION**

As in the previous year, the CNB focused on the transparency of payments involving currency conversion in 2021. **Regulation (EU) 2021/1230 on cross-border payments in the Union requires the charges for cross-border payments in euro to be the same as those for corresponding domestic payments in koruna.** For example, the charge for a non-priority euro payment from the Czech Republic to EU countries made via online banking must be the same as the charge for a non-priority domestic koruna payment made in the same manner. The rule also applies to withdrawals from ATMs. In this case, the charge for withdrawing euro from an ATM in the European Union must be the same as the charge for withdrawing koruna from an ATM of a bank in the Czech Republic other than the user's bank.

**The EU Regulation also stipulates reporting obligations in respect of currency conversion for credit transfers (payments between accounts) made via internet banking or a mobile app. In this case, the payment service provider must inform the user** of all the charges related to currency conversion and the execution of the payment prior to the initiation of the transaction. This must be done in a clear, neutral and comprehensible manner (for example, in the same font size as the other information). The provider must inform the user of the total amount that will be debited from his account (in the currency of that account), including individual fees and the provider's exchange rate margin.

**The Regulation also provides for an obligation to provide transparent information to the payer about card transaction fees if he is offered a dynamic currency conversion (DCC) service when withdrawing cash from an ATM or when paying at card terminals or shopping online. The use of this service could be relevant particularly** for payments and withdrawals abroad. In this case, the exchange rate is usually less favourable than that offered by the card issuer. When offering DCC, the payer must be informed of the total charges associated with its use, expressed as a percentage mark-up over the ECB's central exchange rate for the given currency pair. The payer can thus easily compare the advantages of the exchange rate offered with the rate offered to him by his card issuer. In addition to the exchange rate for card transactions, the card issuer must also publish the deviation of this rate from the ECB's central rate on its website. The DCC provider must also inform the payer of the total amount to be debited from his account if DCC is used and of the total amount to be credited to the recipient's account. When offering DCC, the payer must also be informed in a neutral manner of the possibility to make the payment in the currency used by the recipient at the exchange rate given by the payer's payment card issuer. The new obligations should enable payment card users to better assess whether a currency conversion is advantageous for them if they are offered the DCC service.



On-site examinations focused primarily on the implementation and effectiveness of anti-money laundering and terrorist financing measures, the configuration of the system for protecting the funds of payment service users and compliance of payment service providers' activities with the information in the business plan. In particular, the CNB examined whether small-scale payment service providers and small-scale electronic money issuers operating on the basis of an exemption from PSD II actually provide payment services only within the Czech Republic, as stipulated in the relevant exemption from the directive. The results show that, in their business plans submitted as part of licence applications, some entities tried to conceal their actual intention to provide payment services not to domestic citizens or firms, but to foreign clients and attempted to use domestic licences to carry on their business activities without having any connection to the Czech market. On-site examinations also identified recurring fundamental shortcomings in the area of anti-money laundering and terrorist financing. These shortcomings consisted in only formal regulation of processes, activities and inspections in the internal rules regardless of an entity's actual activity and in the application of the processes in practice.

The risk profiles of payment service providers and electronic money issuers were updated in connection with the implementation of ESA guidelines for AML supervisory colleges.<sup>31</sup> At the same time, the CNB completed a mapping of the entities it supervises in this area, and identified those for which it must establish an AML college and those that will require its participation in an AML college abroad.<sup>32</sup> In addition to monitoring the activities of risk entities and compliance with AML/CFT duties by payment service providers, the CNB's supervisory work in the period ahead will focus on the manner and form of implementation of the requirements for managing ICT and security risks arising from an amendment to the decree on certain conditions of the pursuit of business of payment institutions, payment account information administrators, small-scale payment service providers, electronic money institutions and small-scale electronic money issuers.

The CNB opened 15 enforcement proceedings pursuant to the Payment System Act in 2021, with 25 decisions becoming final and conclusive. Licences were revoked in eight cases. Licences were revoked and fines imposed in four cases, only fines were imposed in three cases and ten proceedings were discontinued. Licences were revoked mainly due to the inaction of the licence holders and enforcement proceedings were discontinued when there was proof that activities had started. The largest fine of CZK 1.9 million was imposed on ORANGETRUST s.r.o. for breach of several duties. Its authorisation to operate as a small-scale electronic money issuer was also revoked. The fines imposed in this sector amounted to CZK 3,750,000 in all.

### III.8 SUPERVISION OF CONSUMER CREDIT PROVIDERS

Consumer credit is provided by most credit institutions and by non-bank consumer credit providers. At the end of 2021, the CNB supervised 107 consumer credit providers (83 non-bank providers and 24 credit institutions). Two companies – CFG Credit a.s. and QWERT trade s.r.o. (DURO credit, s.r.o., since 1 February 2022) – were granted licences to provide consumer credit in 2021. CFG SE, Money Store s.r.o., P&P Loan s.r.o. and Československé úvěrní družstvo closed down in 2021. During the year, Benxy s.r.o. merged with Air Bank a.s., and Wüstenrot hypoteční banka a.s. merged with MONETA Money Bank, a.s.

Consumer credit providers' procedures for dealing with applications for deferral of instalments relating to the impacts of the coronavirus pandemic continued to be monitored in 2021. A total of 406,031 applications for deferral of instalments were received in the period under review. This meant a continuation of the downward trend (470,106 in 2020). Summary reports were sent regularly to the Ministry of Finance as part of the established cooperation.

Examinations of consumer credit providers authorised to provide consumer credit secured by property commenced in 2021. A total of 30 non-bank providers operate in this segment. As in other provider segments, the examinations concentrate on whether procedures for assessing creditworthiness are being followed and

<sup>31</sup> Guidelines of 16 December 2019 on cooperation and information exchange for the purpose of Directive (EU) 2015/849 between the competent authorities supervising credit and financial institutions (JC/2019/81).

<sup>32</sup> The CNB established one AML college in the area of non-bank payment service providers and organised its first meetings, and participated in three foreign AML colleges established in this financial market segment. See Box 3 and section IV *International cooperation* for more details on the activities of AML colleges.

on checking the rules and procedures for the acceptance and valuation of collateral on consumer credit for house purchase, and in particular on determining whether mortgage loans not tied to a specific property are over-collateralised.

In connection with supervision in the area of consumer credit providers, the CNB opened a supervisory review in 2021 to check how consumer credit providers verify and register the requirements for the professional qualifications of their collaborators. The review included 77 supervised companies and involved 5,370 persons, of whom 520 were employees of the supervised companies and 4,850 were employees of their business partners. In 2021, the CNB completed a review of the relevant documentation attesting to the professional qualifications of staff in 42 supervised companies, without identifying any major shortcomings.<sup>33</sup>

In 2021, the CNB opened ten new enforcement proceedings under the Consumer Credit Act (nine against non-bank consumer credit providers and one against an accredited entity pursuant to the Consumer Credit Act) and five decisions became final and conclusive. Fines were imposed in four cases. In one case, a fine was imposed and the proceedings were partially discontinued. The largest fine, amounting to CZK 3 million, was imposed on Creamfinance Czech, s.r.o., for the provision of consumer credit by persons without professional qualifications and for failure to assess the consumers' ability to repay. The non-assessment or incorrect assessment of creditworthiness was generally the most serious offence for consumer credit providers. The fines imposed in this sector amounted to CZK 5,150,000 in all.

#### BOX 5: SUPERVISION OF COMPLIANCE WITH DUTIES STIPULATED BY THE CONSUMER CREDIT ACT

Act No. 257/2016 Coll., on Consumer Credit, significantly changed the conditions for doing business in the consumer credit area. The new rules improved the consumer's position (e.g. by introducing an early loan repayment option and the mandatory assessment of creditworthiness, as well as limiting penalties for late loan repayment). They also introduced supervision by the CNB of all consumer credit providers and intermediaries. In the area of supervision of compliance with the duties laid down in this Act, the CNB carried out a total of 37 examinations of consumer credit providers from the moment it actually started supervising them (i.e. the end of 2018) until the end of 2021.

In line with its risk-oriented approach to supervision, the CNB **identified short-term consumer credit as the most risky**. These "micro-loans" (sometimes referred to as "payday loans") are concluded with a maturity period of usually up to 30 days with the possibility of extension. These are high-cost, short-term loans. The first loan is often interest-free, but a large number of consumers do not repay the entire principal on time and request an extension of the maturity of the loan. A high fee is charged for the extension or deferral of maturity, and in many cases back interest is even charged on the principal borrowed. Another risk of this type of loan is that under the contract, the debtor's payments are usually first used to cover fees and interest on the loan and only then to repay the principal. The debtor thus often gets caught up in a cycle of repeatedly extending the contractual relationship and, by extension, in a debt spiral.

The CNB therefore conducted examinations of all consumer credit providers engaged in the provision of micro-loans. It identified shortcomings mainly in the area of proper assessment of creditworthiness and in the provision of information on fees connected with the extension of consumer credit maturity and the recovery of claims in the event of consumer default.

By the end of 2021, the CNB issued a total of 64 final and conclusive decisions to impose fines totalling CZK 20.6 million as part of its supervision in this market segment. It also revoked the authorisation of one accredited entity to carry out professional examinations. Further administrative proceedings are still ongoing.

### III.9 SUPERVISION OF RETAIL DISTRIBUTORS

Last year, the CNB conducted a comprehensive update of the sets of examination questions to test the expertise of distributors of financial products in all three areas (insurance, investment and consumer credit). The sets of test questions are used by accredited entities (persons authorised by the CNB to examine financial services providers or intermediaries) to test expertise. As of 31 December 2021, there were 78 of these entities, some of which are authorised for up to four sectors.<sup>34</sup> The highest number of professional examinations was

<sup>33</sup> The CNB communicated its supervisory expectations regarding the exemption from the duty to acquire general knowledge in supervisory benchmark No. 2/2021 (for details see section II.3).

<sup>34</sup> In the supplementary pension savings sector, individual accredited entities create the sets of examination questions.

taken by insurance distributors in 2021. The highest test success rate was recorded in the consumer credit area (see Table A.1).

**Table A.1 Number of professional examinations taken in 2021 and their success rate**

Sector/legislation	Total tests	Of which successful	Success rate
Consumer Credit Act	11,071	7,794	70.4%
Capital Market Undertakings Act	9,336	5,654	60.6%
Act on Insurance and Reinsurance Distribution	40,557	24,842	61.3%

The period for extending the authorisation of intermediaries ended on 29 December 2021. The renewal fees introduced by sectoral laws and the Act on Administrative Fees continue to play a positive role and have led to a further clearing of the relevant lists of those intermediaries who do not or no longer intend to operate. However, the number of entities which ceased to operate due to non-payment of the administrative fee for extending the authorisation was relatively low in the period under review (see Table A.2 below). The largest share of entities which became defunct in this manner was recorded for independent intermediaries pursuant to the Consumer Credit Act (6.2%). A total of CZK 33,375,000 was paid in administrative fees.

**Table A.2 Intermediaries of financial products which ceased to exist due to non-payment of the administrative fee for extending the authorisation**

	Number of entities subject to extension as of 1 October 2021	Number of defunct entities due to unpaid fees	Share of defunct entities (in %)
<b>Intermediaries pursuant to the Act on Insurance and Reinsurance Distribution</b>	26,649	576	2.2
of which:			
Independent intermediaries	804	10	1.2
Tied agents	22,614	468	2.1
Supplementary insurance intermediaries	3,231	98	3.0
<b>Intermediaries pursuant to the Capital Market Undertakings Act</b>	10,886	542	5.0
of which:			
Investment intermediaries	151	7	4.6
Tied agents	10,735	535	5.0
<b>Intermediaries pursuant to the Consumer Credit Act</b>	17,508	674	3.8
of which:			
Independent intermediaries	289	18	6.2
Tied agents	15,135	577	3.8
Intermediaries of specific-purpose consumer credit	2,084	79	3.8
<b>Intermediaries pursuant to the Supplementary Pension Savings Act</b>	10,668	343	3.2
of which:			
Independent intermediaries	101	2	2.0
Tied agents	10,567	341	3.2

The conduct of CNB supervision was focused mainly on the compliance of individual categories of intermediaries with the statutory requirements for the distribution of financial products under the relevant sector-specific laws and EU legislation, and on the activities of accredited entities. The CNB conducted

thematic surveys focusing, for example, on checking compliance with the conditions of professional qualifications in insurance intermediaries, proper entry in the register of the links of supplementary pension savings intermediaries, the production of distributors and the assessment of suitability and appropriateness by investment intermediaries. The CNB's examinations focused on the comprehensive assessment of the activities of financial product distributors, including the AML rules, and the remote conduct of professional examinations and subsequent training for accredited entities.

As regards insurance distribution, shortcomings relating to compliance with the rules of conduct towards clients were most often identified. This mainly included shortcomings in compliance with the duty to provide clients with recommendations and, in cases of providing advice, a failure to comply with the duty to obtain from the client all the information necessary for the analysis. The CNB also found shortcomings in records of negotiations which could not be used to reconstruct the process of negotiation with the client. Shortcomings were also identified in compliance with information duties vis-à-vis the client, especially in the provision of pre-contract information on the insurance intermediary. A considerable number of shortcomings were also identified in internal control and regarding information on the website.

In the area of consumer credit intermediation, shortcomings consisted, among other things, in the use of false or misleading information in individual communication with consumers and on supervised entities' websites. The CNB also came across recommendations that mortgages be increased to invest "free" money without proper explanation of the related risks.

In the area of investment intermediation, shortcomings also pertained to compliance with the rules of conduct towards clients, e.g. insufficient obtainment of client information and, conversely, insufficient provision of information to clients regarding the risks related to the investment. As part of its on-site examinations, the CNB also identified a considerable number of shortcomings in informing clients about the amount of inducements accepted before the provision of an investment service and shortcomings in the configuration of the governance system. It also found shortcomings consisting in the use of misleading names of investment intermediaries giving the impression that they are authorised to provide investment services which they cannot provide given the scope of their authorisation. The CNB also identified the provision of investment services in connection with entities with which investment intermediaries are not authorised to cooperate and the provision of investment services which they cannot provide.

As regards supplementary pension savings distribution, shortcomings were identified in the configuration of the rules for this activity, especially with regard to notifications of changes to data entered in the register (for example, links to cooperating pension management companies). In addition, there were cases of non-compliance with the duty to record the reasons on which the independent intermediary based its recommendations for the choice of saving strategy.

The CNB also paid attention to the supervision of accredited entities and verified whether the accredited entities comply with Supervisory Benchmark No. 2/2020 on holding professional examinations remotely. The most frequent shortcomings identified during examinations of accredited entities were failure to announce changes following the granting of accreditation and non-compliance with procedures under the examination rules for professional examinations.<sup>35</sup>

The CNB also worked intensively to prepare for the new reporting stipulated in Decree No. 518/2020 Coll., on the submission of information by financial services intermediaries to the Czech National Bank, which took effect on 1 January 2021. The first data for 2021 were to be submitted by the end of March of the following year. Throughout the year, the CNB conducted an information campaign to provide methodological guidance to retail distributors, both by addressing all of the more than 1,000 financial services intermediaries and via the CNB website, where it published a set of answers to frequently asked questions and a detailed methodology for the report and a manual for filling it in.

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<sup>35</sup> The CNB communicated its supervisory expectations regarding the organisation of follow-up training for insurance and reinsurance distribution in Supervisory Benchmark No. 3/2021 (see section II.3 for details).

The CNB also organised a meeting with professional associations of intermediaries at which it presented the latest findings from off-site surveillance and on-site examinations in individual supervised areas (insurance, investment, consumer credit, supplementary pension savings), including AML/CFT and the reporting of changes (post-licence activities).

In the period ahead, the CNB's supervisory and inspection activities will continue to focus on the compliance of retail distributors with the statutory requirements with regard to conditions for the performance of their activities, including professional qualifications and trustworthiness as well as compliance with duties relating to conduct towards clients. The CNB will also focus on compliance with the new reporting duty for financial services intermediaries.

In 2021, twelve enforcement proceedings were opened against insurance intermediaries pursuant to the Act on Insurance and Reinsurance Distribution, and ten decisions became final and conclusive. Fines were imposed in all ten cases. The highest fine of CZK 600,000 was imposed on Broker Trust, a.s., for shortcomings in the provision of information to clients and the inspection of its tied agents. The fines imposed under this Act totalled CZK 2,120,000.

Pursuant to the Capital Market Undertakings Act, ten enforcement proceedings were opened in the distribution area and 14 decisions became final and conclusive in 2021. Fines were imposed in all cases. The highest fine of CZK 500,000 was imposed on SMS finance, a.s., for shortcomings in inducements and the internal control system, and Modrá pyramida stavební spořitelna, a.s., for failure to store documents, insufficient performance of internal control and other shortcomings. The fines totalled CZK 2.8 million.

In 2021, the CNB opened five enforcement proceedings against consumer credit intermediaries, and three decisions became final and conclusive. Fines were imposed in all three cases. The highest fine imposed was CZK 1 million and was imposed on Petr Barták for unauthorised consumer credit intermediation. The total amount of fines imposed in this distribution sector in 2021 was almost CZK 1.1 million.

### III.10 SUPERVISION OF BUREAUX DE CHANGE

As of the end of 2021, the CNB had registered 863 bureaux de change, while in 2021, 19 bureaux de change were granted licences and 38 terminated their activity.

As in the previous year, CNB supervision of bureaux de change was focused above all on compliance with duties relating to anti-money-laundering and anti-terrorist financing measures. From the AML/CFT perspective, the risk profiles of bureaux de change have been updated so that it was possible to effectively focus supervision primarily on risky entities. Exchange transaction record-keeping and the storage of related documents and information were also checked. In mystery shopping inspections, the CNB examined whether entities were carrying out customer identification and not circumventing this obligation by dividing the amount exchanged into several smaller amounts.

The conduct of supervision also included dealing with submissions received from the public, especially complaints pointing to potential violations of legal rules by bureaux de change. In 2021, there was another significant decrease in complaints received, with most of them pointing to unfavourable exchange rates, non-compliance with the information duty vis-à-vis clients and non-compliance with AML/CFT measures. The decline in the number of complaints can be attributed mainly to the continuing pandemic and the related reduction in tourism, i.e. a significant decrease in the number of tourists from abroad, and a further drop in the number of bureaux de change in the Czech Republic.

A total of six enforcement proceedings were opened for violation of the Act on Bureau de Change Activity in 2021. The CNB issued seven final and conclusive decisions, with fines being imposed in all cases. The highest fine of CZK 400,000 was imposed on Terms Advertisement s.r.o. for unauthorised bureau de change activities. In addition, the CNB opened one penalty proceeding against a bureau de change operator under the AML Act in 2021. Under this act, one decision imposing a fine of CZK 600,000 for failure to perform client identification

in cash transactions exceeding EUR 1,000 became final and conclusive in this sector. The fines imposed in this sector totalled CZK 1,395,000.

### III.11 SUPERVISION IN THE AREA OF BANKNOTE AND COIN CIRCULATION

The CNB opened one enforcement proceeding under the Act on the Circulation of Banknotes and Coins in 2021. Three decisions became final and conclusive. A fine was imposed in two cases and the authorisation to organise special courses on the identification of suspected counterfeit or altered banknotes and coins was withdrawn in one case. The highest fine of CZK 200,000 was imposed on Raiffeisenbank a.s. for failure to exchange banknotes damaged in a standard way for banknotes fit for recirculation. In addition, one decision to impose a fine of CZK 50,000 under the Act on the CNB for unauthorised use of the word “coin” became final and conclusive. The fines imposed in this sector totalled CZK 350,000.

### III.12 CROSS-BORDER PROVISION OF SERVICES

In all financial market sectors, financial services or funds may be offered in the EU/EEA not only on the basis of the right of establishment, but also under the free movement of services, i.e. cross-border without the establishment of a branch. To be able to provide services in the Czech Republic in this manner, a foreign financial services provider must follow the procedure in line with the relevant EU regulations, i.e. through the supervisory authority in its Member State, it must notify the Czech supervisory authority, i.e. the CNB, of the cross-border provision of services to the Czech Republic. Domestic financial services providers can also use a single licence to operate under the free movement of services in other EU/EEA countries. The numbers of selected entities notified to the Czech Republic by type of entity are shown in Table B.17.



## IV. INTERNATIONAL COOPERATION

As the integrated financial market supervisory authority, the CNB is a member of the European System of Financial Supervision (ESFS) and is actively involved in its work. This system, which was established in 2010 in response to the financial crisis of 2008–2009, combines microprudential and macroprudential supervision and aims to ensure consistent and coherent financial supervision in the EU. The ESFS includes the European Systemic Risk Board (ESRB) and the European Supervisory Authorities for the banking industry (EBA), insurance and occupational pensions (EIOPA) and securities and markets (ESMA). Besides its work in the ESFS, the CNB is actively involved in the activities of international regulatory and supervisory organisations, which gives it a say in the creation of international standards and allows it to contribute to the identification of best practices in this area. At the international level, the CNB is a member of the International Association of Insurance Supervisors (IAIS), the International Organization of Pension Supervisors (IOPS) and the International Organisation of Securities Commissions (IOSCO). Bilateral cooperation with foreign authorities supervising the individual sectors of the financial market and the exchange of information and experience are also an integral part of the CNB's supervisory work.

### Cooperation within supervisory colleges

In 2021, the CNB was involved in eight supervisory colleges for European banking groups and acted as consolidating supervisory authority in one case. The colleges focused mainly on assessing the capitalisation and risk profiles of supervised entities. In these assessments, attention continued to be paid mainly to the categorisation of receivables and provisioning in connection with the continuing pandemic and its economic impacts. An integral part of the work of the supervisory colleges included assessing the recovery plans of individual banking groups.

In 2021, the CNB was also involved in the activities of ten supervisory colleges for European insurance groups, which concentrated mainly on group internal models, compliance with the Solvency II requirements (capital requirements with regard to the consequences of the pandemic, among other things) and risk assessments of supervised insurance companies. The work of some supervisory colleges also dealt with issues relating to conduct of business and consumer protection. The issues discussed included, for example, assessing the configuration of single rules for product governance implemented within the groups, including assessing the benefits of newly introduced insurance products for clients, identifying and assessing the main risks in the area of conduct of business and group internal models.

In 2021, the CNB also participated in the activities of newly established AML/CFT supervisory colleges for selected international financial groups and in three cases organised the colleges as the home supervisory authority.<sup>36</sup> Colleges are set up in a situation where a credit or financial institution providing its services on a cross-border basis is subject to AML/CFT supervision by at least three EU supervisory authorities. The supervisory authority of the EU Member State where the parent company is located then convenes an AML college involving the supervisory authorities of the EU countries where branches of the institution operate.

### European Banking Authority (EBA)

The supreme body of the EBA is the Board of Supervisors (the Board). In 2021, the CNB was actively involved through its representatives in the activities of the Board, all seven standing committees and most expert working groups of the EBA.

Activities related to the implementation of the package of risk reduction measures in the EU banking sector and the Basel III standards were among the key priorities of the EBA's work in 2021. The CNB has long supported this international concept of prudential banking regulation. It declared its approach, among other things, by signing a joint letter on 7 September 2021 – together with 24 other supervisory authorities and central banks of EU Member States – addressed to the European Commission's senior representatives for financial services, financial stability and the capital markets union. The signatories emphasised the need for full, timely and consistent implementation of all Basel III standards and pointed out that any fragmentation of the concept is not in Europe's interest. The letter specifically emphasises support for an appropriate output

<sup>36</sup> See Box 3 for details on the establishment and functioning of the colleges.

floor and a new standardised approach to credit risk, and calls for the minimisation of deviations in the EU, including a review of existing ones.

CNB representatives were actively involved in the preparation of numerous EBA outputs, mainly in relation to mandates contained in the CRD/CRR and BRRD legislation and the implementation of a new IFD/IFR prudential framework for investment firms.

Following the impacts of the coronavirus pandemic, the EBA discussed, among other things, prudential requirements for credit institutions. In line with its long-term position, the CNB opposed the unwarranted relaxation of the prudential requirements at these meetings. The CNB-appointed member of the Board rejected the EBA's proposals for a less prudent determination of default exposures which were justified as a means of mitigating the impacts of the pandemic, as the proposed relaxation of the regulatory requirements could have a procyclical effect, would create a dangerous precedent for the future and negatively affect the ability of institutions and supervisors to identify and manage future risks.

The CNB also worked with other EU supervisory authorities to promote its opinions in the EBA. The CNB-appointed Board member initiated the sending of a joint letter from four Board members to the EBA Chairperson regarding the EBA's draft regulatory technical standard on emerging markets and advanced economies, the main part of which is a list of economies that are considered advanced in connection with setting the capital requirement for market risk. The EBA originally adopted the Basel approach, according to which only euro area and Western European non-euro area countries are regarded as advanced economies. In cooperation with partner supervisory authorities, the CNB achieved the inclusion of all Central and Eastern European countries, including the Czech Republic, on the list of advanced economies.

As regards the convergence of supervisory practices across national supervisory authorities in the EU, the CNB participated in two peer reviews of supervisory procedures focusing on assessing the application of the ESA's joint guidelines on prudential acquisitions of qualifying holdings in the financial market<sup>37</sup> and evaluating the application of the EBA guidelines on the management of non-performing and forborne exposures<sup>38</sup>.

### **European Insurance and Occupational Pensions Authority (EIOPA)**

The supreme body of EIOPA is the Board of Supervisors (the Board). In 2021, the CNB was actively involved through its representatives in the activities of EIOPA's Board, Management Board, two steering committees and other working groups.

The important activities of EIOPA in 2021 included above all the preparation of regulatory outputs relating to Solvency II, sustainable finance, pensions, institutions for occupational retirement provision and other European legislation (such as the Insurance Distribution Directive and the PRIIPs Regulation). CNB representatives continued to be actively involved mainly in activities relating to the revision of the Solvency II framework, the methodology for constructing risk-free yield curves and consumer protection.

In 2021, EIOPA stepped up its sustainability activities, including those related to expectations of a substantial increase in insurance claims in the longer term as a result of the impacts of climate change. In this respect, it addressed the risk of a lower availability of insurance cover and the relevant insurance products due to a need to increase premiums and reduce the overall level of risk coverage. According to EIOPA, the adoption of appropriate adaptation measures can be considered a key tool to maintain the availability of insurance products. Their aim should be to adapt non-life insurance products to take sufficient account of the impacts of climate change. In this context, EIOPA has prepared a set of documents on the underwriting of non-life risks and their appropriate valuation.

The Board member appointed by the CNB supported EIOPA's proposal for EU strategic supervisory priorities which also take into account the impacts of the coronavirus pandemic on the EU insurance market. As regards these supervisory priorities (sustainability of insurance companies' and reinsurance companies' business

<sup>37</sup> The CNB ranked very well in the EBA's final assessment report: It fully complied in six out of the eight criteria assessed and partially complied in two.

<sup>38</sup> This assessment has not yet been completed.

models, adequacy of product design and product oversight and governance<sup>39</sup>), in 2021, EIOPA focused on monitoring their implementation and assessing the findings of national supervisory authorities. The CNB presented its supervisory practices in areas linked to EU-wide supervisory priorities in a bilateral teleconference held in September 2021. EIOPA praised the CNB's approach and open dialogue.

A benchmarking exercise focused on the outsourcing of critical or important functions and activities of insurance and reinsurance companies was launched in 2021. A follow-up review was also conducted on how the national supervisors have implemented the conclusions of the peer review for key function holders published by EIOPA in 2018. The CNB has implemented the EIOPA recommendations and modified its supervisory procedures in the area of combining key functions and also with regard to key function holders also being members of an administrative, management or supervisory body.

### **European Securities and Markets Authority (ESMA)**

The supreme body of ESMA is the Board of Supervisors (the Board). In 2021, the CNB was actively involved through its representatives in the activities of ESMA's Board, Management Board, and 13 steering committees and working groups.

As regards the creation of the single rulebook, ESMA focused on evaluating the functioning of MiFID II/MiFIR as part of the Commission's review of that directive and regulation, preparing a regulatory framework for third-country CCPs, revising regulatory technical standards following the review of EMIR and changes arising from the EMIR Refit amendment. CNB representatives were actively involved above all in the preparation of proposals regarding the MiFID/MiFIR II review.

In 2021, ESMA continued its work on establishing a Capital Markets Union (CMU), which resulted from the Commission's action plan in this area published in September 2020. The creation of the CMU involves, among other things, the establishment of a European Single Access Point (ESAP) for corporations' financial and non-financial information. The access point should be made available to the public free of charge. In connection with the preparation of an ESMA statement as part of the Commission's public consultation on the establishment of the ESAP, the CNB-appointed Board member recommended further discussion on project governance options (e.g. the establishment of a dedicated ESAP agency), especially in light of the considerable financial impacts of the project on the budgets of ESMA and national supervisory authorities, notably in the IT area.

As regards convergence of supervisory practices, ESMA continued to implement the powers and tasks set out in the amended ESMA Regulation. The member of the Board appointed by the CNB supported ESMA's proposal to keep the current strategic EU supervisory priorities in place for 2021–2023. These priorities are the identification and resolution of problems regarding the costs and performance of retail investment products, with the aim of increasing transparency and avoiding unwarranted differences in the cost of products, as well as ensuring data quality in order to prevent market abuse and identify systemic or counterparty risks across jurisdictions.

In the discussion of ESMA's draft response to the Commission's consultation on the convergence of supervisory practices and the creation of a single rulebook, the CNB-appointed Board member supported most of the ESMA proposals, including a strengthening of the legal basis for sharing supervisory and enforcement information between national supervisory authorities and between national supervisory authorities and ESMA, and streamlining the process of creating and approving sets of questions and answers for market participants.

In 2021, the CNB participated in a benchmarking exercise focused on cooperation between home and host supervisors in the cross-border provision of services by management companies. It received a positive assessment from the ESMA evaluation committee, especially as regards the CNB's procedures in the area of

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<sup>39</sup> As part of this second supervisory priority, EIOPA developed principles for testing the cost-effectiveness of investment life insurance products, focusing on exclusions and preventing the unavailability of insurance cover for consumers.

cooperation with other supervisory authorities and procedures for dealing with notifications received from home supervisors.

#### **Joint Committee of European Supervisory Authorities**

The main objective of the Joint Committee is cooperation between the EBA, EIOPA and ESMA to ensure consistency of activities across financial market sectors. In 2021, the Joint Committee focused on retail investor protection, sustainable finance, financial innovation and cyber security. CNB representatives actively participated in the preparation of most joint ESA documents by providing technical comments. The CNB considers the review of the regulation on packaged retail and insurance-based investment products (PRIIP) to be one of the most important areas of joint activity of the European institutions. PRIIP aims to ensure that retail investors can fully reap the benefits of capital markets in an environment of coherent rules across financial market sectors. Sustainable finance was also an important area of interest for the ESAs last year. In this context, the ESAs submitted to the Commission two sets of draft regulatory technical standards governing sustainability-related disclosures in the financial services sector. During the preparation of the proposals, the CNB-appointed Board members drew attention, among other things, to the absence of reliable underlying data for compliance with information duties by supervised entities.

#### **International Association of Insurance Supervisors (IAIS)**

The main activity of the IAIS in the past year was a continuation of its efforts to improve the risk-oriented global insurance capital standard (ICS) with the aim of creating a common supervisory approach to the solvency of internationally active insurance groups, improving the convergence of supervisory practices in the area of group capital standards and achieving the final adoption of the ICS in 2024. The implementation of the new framework for assessing and mitigating the effects of systemic risk to support financial stability in global insurance continued into its second year. The IAIS also supported members in implementing standards and addressing the risks and opportunities arising from key trends (climate risks and sustainability, insufficient protection against pandemics, increasing the operational resilience of insurers, responding to digital innovation and cyber risks). In the period under review, the CNB participated in the annual large-scale monitoring exercise focused on key risks, trends and changes in the global insurance sector from the systemic risk perspective.

#### **International Organisation of Pension Supervisors (IOPS)**

In 2021, IOPS activities in response to the pandemic were its top priority. This involved gathering information and sharing experiences across jurisdictions. Furthermore, projects aimed at enhancing cyber security and the use of digitalisation in the supervision of the private pension sector continued. New projects were launched on risk-oriented supervision, data collection and the implementation of IOPS supervisory guidelines on the integration of ESG factors into the risk and investment management of pension funds. The CNB was actively involved in ongoing projects, mainly by providing inputs to projects relating to risk-oriented supervision, mapping approaches and experience in the area of consumer protection in financial services during a pandemic and the implementation of ESG factors, and in evaluating proposals in the area of data collection for pension fund supervision.

#### **International Organization of Securities Commissions (IOSCO)**

The CNB was actively involved in the activities of IOSCO. In 2021, IOSCO activities focused mainly on strengthening financial stability in the area of money market funds, managing liquidity in open-ended mutual funds and corporate bonds in portfolios. IOSCO also discussed sustainable finance, the rules of conduct by investment firms towards retail customers, cyber security, crypto-assets, passive investment through exchange-traded funds and the fragmentation of the derivatives market.

# Part B — Statistical part

*Part B of the Financial Market Supervision Report complements Part A mainly with statistical information and data providing a broader overview of the conduct of CNB supervision in 2021. Statements submitted as part of the reporting duty of economic agents subject to CNB supervision are used as the primary source of the selected sectoral data.*

*The data are updated as of 30 April 2022.*

## I. CREDIT INSTITUTIONS

Table B.1 – Numbers of entities in the credit institutions sector

Type of entity	As of 31 December 2020	Entries in 2021	Exits in 2021	As of 31 December 2021
<b>Credit institutions, total</b>	56	0	4	52
of which:				
Banks <sup>i)</sup>	24	0	1	23
Branches of foreign banks from EU/EEA	22	0	2	20
Branches of foreign banks from third countries	2	0	0	2
Credit unions	8	0	1	7
<b>Registered representations of foreign banks<sup>ii)</sup></b>	10	0	0	10

i) Of which five building societies.

ii) Registration of a representation of a foreign bank pursuant to Article 39 of Act No. 6/1993 Coll., on the CNB, does not entitle it to carry on business in the Czech banking sector, but only entitles it to promote the services of its head office in the Czech Republic.

Table B.2 Selected data on the banking sector

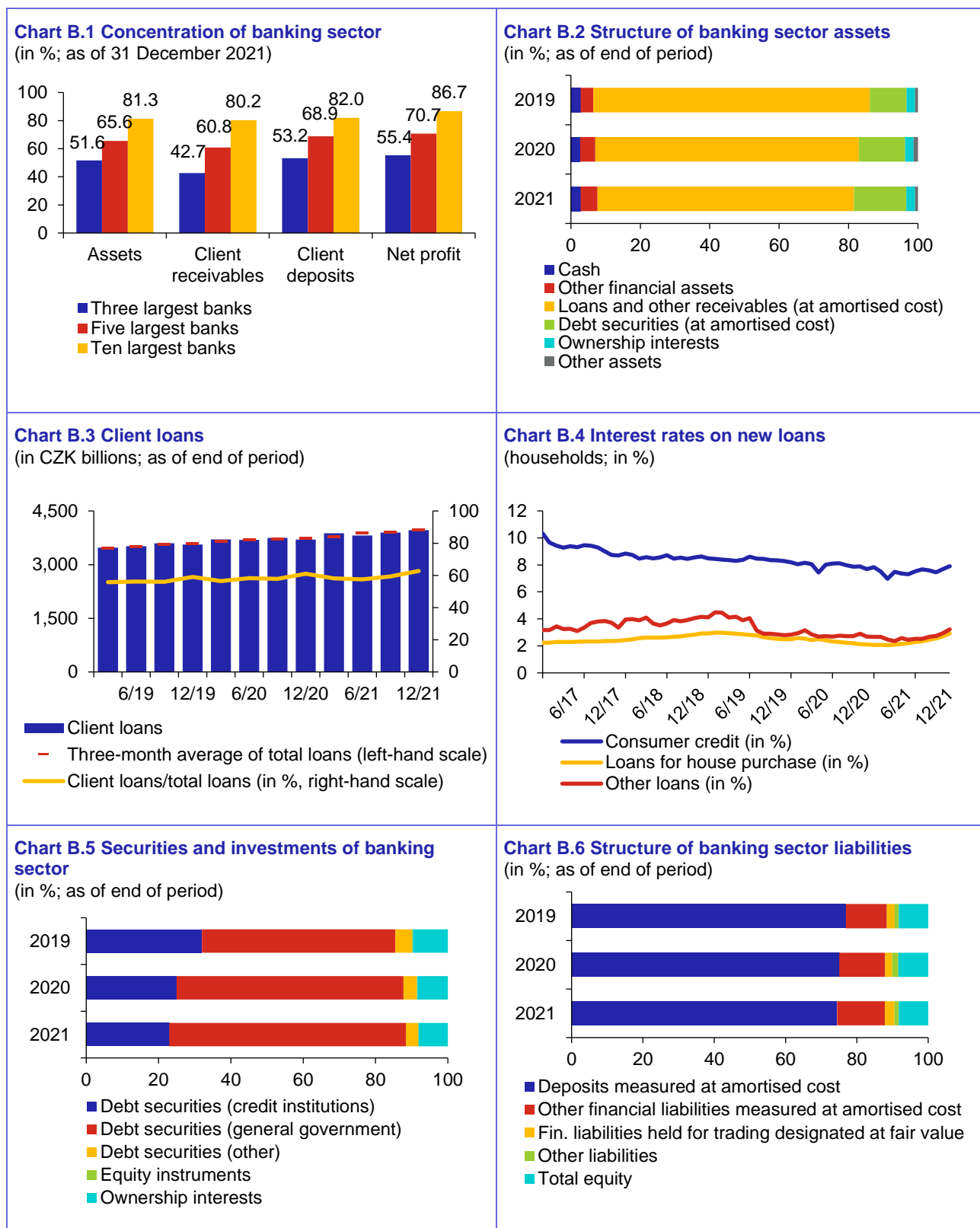
	2019	2020	2021
<b>Balance sheet and its structure</b>			
<b>Total assets (in CZK billions)</b>	7,563.0	7,967.8	8,523.8
of which:			
Client loans	3,560.6	3,701.0	3,966.5
Securities and investments, total	1,061.4	1,382.1	1,600.4
<b>Total liabilities</b>	6,941.1	7,297.7	7,821.6
of which:			
Client deposits (measured at amortised cost)	4,870.4	5,309.5	5,661.1
Client deposits/client loans (in %)	136.8	143.5	142.7
<b>Equity</b>	621.9	670.1	702.1
<b>Liquidity</b>			
Quick assets, total (in CZK billions)	3,069.9	3,269.7	3,486.1
Quick assets/assets (in %)	40.6	41.0	40.9
Liquidity coverage ratio (LCR; in %)	184.9	197.5	183.6
<b>Asset quality</b>			
Non-performing client exposures (in CZK billions)	92.9	104.8	97.2
Non-performing client exposures/total client exposures (in %)	2.6	2.8	2.4
Coverage ratio of non-performing credit exposures by provisions (in %)	55.0	48.9	50.4



Table B.2 Selected data on the banking sector (continued)

	2019	2020	2021
<b>Profits</b>			
Sector's after-tax profit (in CZK billions)	91.1	47.5	70.6
Financial profit (in CZK billions)	198.5	177.6	180.2
Administrative expenses (in CZK billions)	77.7	73.3	75.6
Cost-to-income ratio (CIR; in %)	44.6	47.8	48.4
Net interest margin (in %)	1.94	1.60	1.53
RoE (in %)	18.12	8.23	11.37
RoA (in %)	1.16	0.57	0.8
<b>Capitalisation</b>			
Regulatory capital, total (in CZK billions)	539.9	630.7	643.0
of which:			
Tier 1	527.2	611.8	622.9
Tier 2	12.7	18.9	20.2
Capital ratio (in %)	21.3	24.3	23.5
Tier 1 capital ratio (in %)	20.8	23.6	22.8
Leverage ratio (in %)	7.1	7.8	7.3

## Selected data on the banking sector – charts



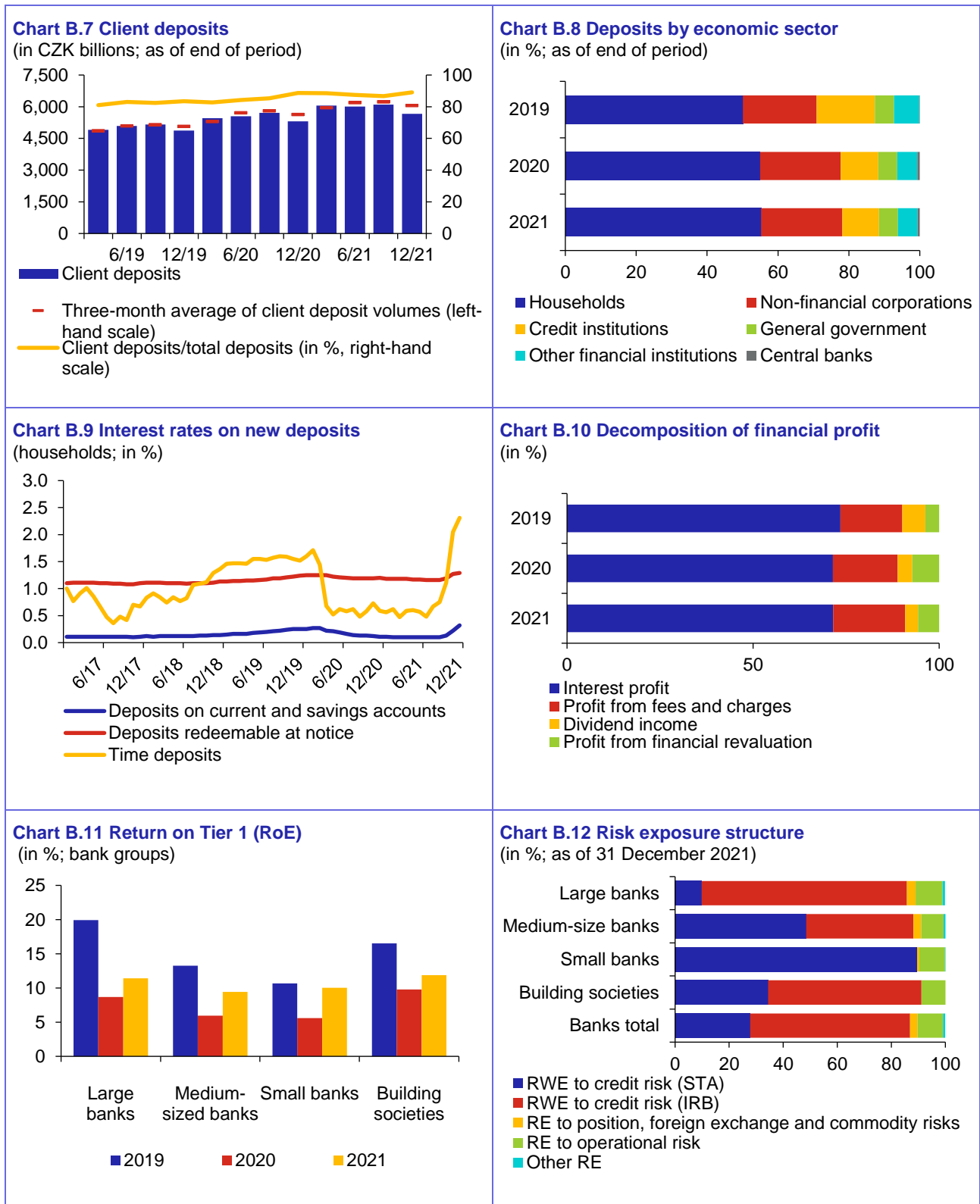


Table B.3 Selected data on the credit unions sector

	2019	2020	2021
<b>Number of credit union members</b>	12,222	11,991	11,419
<b>Total assets (in CZK millions)</b>	10,157.6	9,988.4	9,092.7
of which:			
Loans and receivables	7,282.0	6,427.7	5,826.9
<b>Liabilities (in CZK millions)</b>	8,408.5	8,392.5	7,486.5
of which:			
Deposits (measured at amortised cost)	8,118.7	8,133.3	7,218.9
<b>Equity (in CZK millions)</b>	1,749.2	1,595.0	1,606.3
Total capital ratio (in %)	29.2	26.7	24.4
Non-performing loans/total loans provided (in %)	24.1	28.9	26.2
After-tax profit (in CZK millions)	-36.0	-104.0	44.8

## II. INSURANCE COMPANIES

Table B.4 Numbers of entities in the insurance sector

Type of entity	As of 31 December 2020	Entries in 2021	Exits in 2021	As of 31 December 2021
<b>Insurance companies</b>	44	2	5	41
of which:				
Domestic insurance companies <sup>i)</sup>	27	0	4	23
Branches of insurance companies from EU/EEA	17	2	1	18
<b>Reinsurance companies</b>	1	0	0	1
<b>Accredited entities</b>	23	3	0	26

i) The number of insurance companies includes the Czech Insurers' Bureau and the Export Guarantee and Insurance Corporation.

Table B.5 Selected data on the insurance sector<sup>i)</sup>

	2019	2020	2021
<b>Balance sheet and its structure</b>			
<b>Total assets (in CZK billions)</b>	466.2	473.4	507.1
<b>Total assets (domestic insurance companies)</b>	412.0	419.2	450.2
of which:			
Investments	285.8	287.0	294.0
Investments of life insurance where investment risk is borne by policy holders	75.6	77.1	86.0
<b>Total liabilities</b>	389.8	393.7	432.3
of which:			
Technical provisions	236.4	238.4	250.1
Provision for life insurance where investment risk is borne by policy holders	98.3	100.1	110.7
<b>Equity</b>	73.1	75.6	71.9
<b>Premiums written</b>			
Gross premiums written (in CZK billions)	167.1	169.2	179.9
of which:			
<b>Life insurance</b>	58.0	57.7	59.6
of which: Insurance premiums ceded to reinsurers	4.6	4.8	5.1
<b>Non-life insurance</b>	109.2	111.5	120.3
of which: Insurance premiums ceded to reinsurers	28.9	29.5	32.8
<b>Claim settlement costs</b>			
Gross claim settlement costs (in CZK billions)	100.6	93.2	100.0
of which:			
<b>Life insurance</b>	46.4	40.0	43.1
<b>Non-life insurance</b>	54.2	53.3	56.9

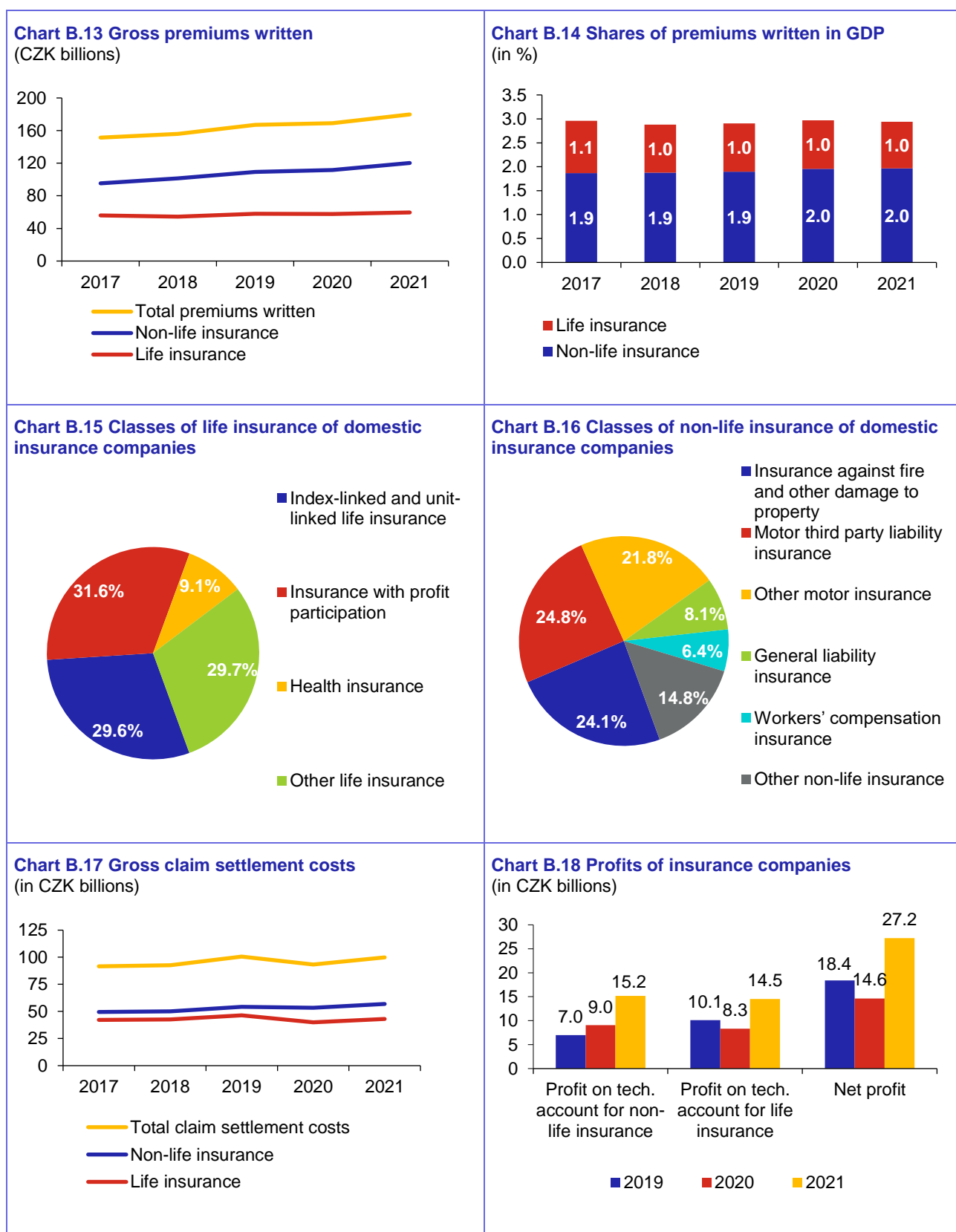
i) The data exclude the Czech Insurers' Bureau, the Export Guarantee and Insurance Corporation and VIG RE zajišťovna, a.s.

Table B.5 Selected data on the insurance sector (continued)

	2019	2020	2021
<b>Profits</b>			
After-tax profit (in CZK billions)	18.4	14.6	27.3
RoE (in %)	23.8	18.1	36.9
RoA (in %)	4.2	3.3	5.9
Net profit/earned premiums (in %)	14.5	11.2	20.7
<b>Capital adequacy</b>			
Median ratio of eligible own funds to SCR (in %)	202.5	226.8	209.4
Median ratio of eligible own funds to MCR (in %)	310.4	339.7	318.7



### Selected data on the insurance sector – charts



### III. PENSION MANAGEMENT COMPANIES AND RETIREMENT FUNDS

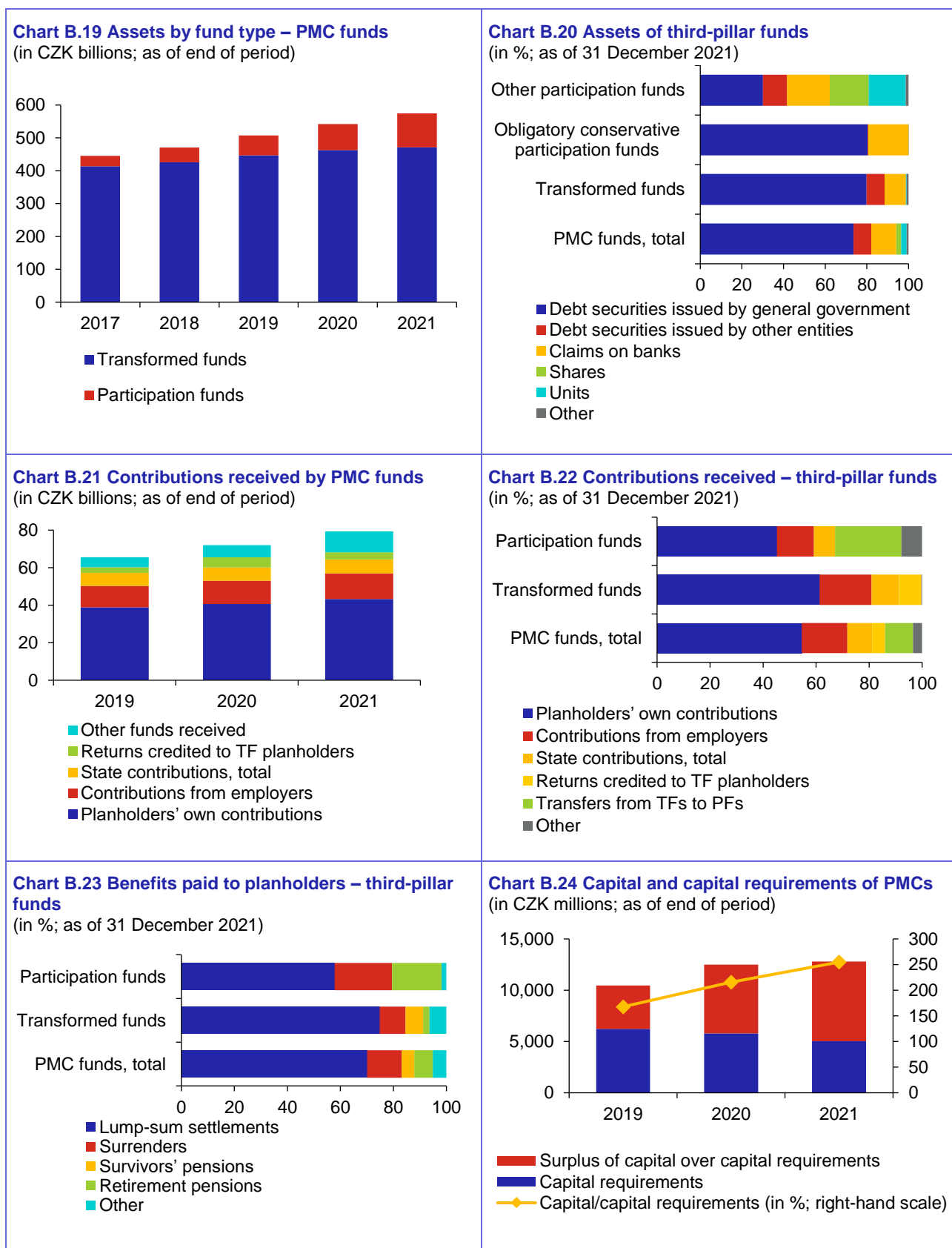
Table B.6 Numbers of entities in the PMCs sector

Type of entity	As of 31 December 2020	Entries in 2021	Exits in 2021	As of 31 December 2021
PMCs	9	0	0	9
Transformed funds	8	0	0	8
Participation funds	31	3	0	34
Accredited entities	12	1	1	12

Table B.7 Selected data on the PMCs sector

	2019	2020	2021
<b>Numbers of third-pillar participants (in thousands)</b>	4,440.1	4,415.1	4,429.9
of which:			
Number of supplementary pension savings planholders	1,137.4	1,282.9	1,467.1
Number of private pension scheme planholders	3,302.7	3,132.2	2,962.8
Assets of third-pillar funds (in CZK billions)	507.7	542.1	574.5
Contributions received (in CZK billions)	65.5	72.0	79.3
Capital/capital requirements	1.7	2.2	2.5
Net profit (in CZK billions)	1.9	1.9	2.0

**Selected data on the PMCs sector – charts**



## IV. INVESTMENT FIRMS

Table B.8 Numbers of entities in the investment firm sector

Type of entity	As of 31 December 2020	Entries in 2021	Exits in 2021	As of 31 December 2021
<b>Investment firms</b>	39	2	0	41
of which:				
Banks	16	0	0	16
Non-banks	23	2	0	25
<b>Branches of investment firms</b>	35	2	3	34
of which:				
Banks	15	0	0	15
Non-banks	20	2	3	19
<b>Accredited entities</b>	14	3	0	17

Table B.9 Selected data on the investment firms sector

	2019	2020	2021
T1 capital ratio (in %)	22.9	21.5	29.7
After-tax profit (non-bank investment firms; in CZK millions)	626.2	1,003.3	1,147.3

## V. MANAGEMENT COMPANIES AND INVESTMENT FUNDS

Table B.10 Numbers of capital market entities

Type of entity	As of 31 December 2020	Entries in 2021	Exits in 2021	As of 31 December 2021
Management companies	37	4	0	41
Main administrators	1	0	0	1
Branches of foreign management companies	2	1	0	3
<b>Investment funds with legal personality</b>	185	41	13	213
of which:				
Autonomous funds	30	2	2	30
<b>Mutual funds</b>	234	23	4	253
Depositories	6	3	0	9
Entities conducting asset administration comparable to asset management pursuant to Article 15 of the AMCIF <sup>40</sup>	238	136	34	340

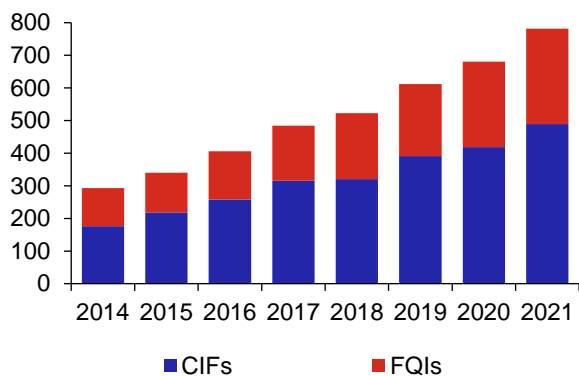
Table B.11 Selected data on the investment sector

	2019	2020	2021
<b>Assets managed by CIFs (in CZK billions)</b>	390.9	418.8	489.0
of which:			
Bond funds	121.0	113.5	111.2
Mixed funds	143.1	159.5	194.4
Equity funds	76.3	88.4	110.0
Money market funds	0.0	0.0	0.0
Real estate funds	48.5	56.4	72.0
Other funds	2.0	1.0	1.4
<b>Assets managed by FQIs (in CZK billions)</b>	220.9	256.5	293.0
Capital/capital requirements of management companies	4.8	4.8	3.7
Net profit of management companies (in CZK billions)	1.2	1.2	1.7
Net sales/redemptions (in CZK billions)	45.4	15.3	53.1

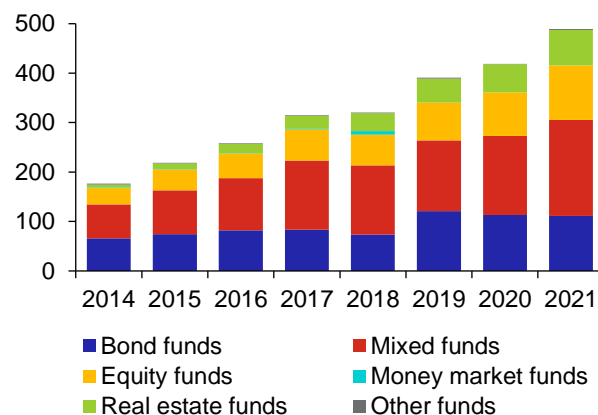
<sup>40</sup> An administrator pursuant to Article 15 of the AMCIF is a registered entity without a licence from the CNB that is not subject to CNB supervision.

### Selected data on management companies and investment funds – charts

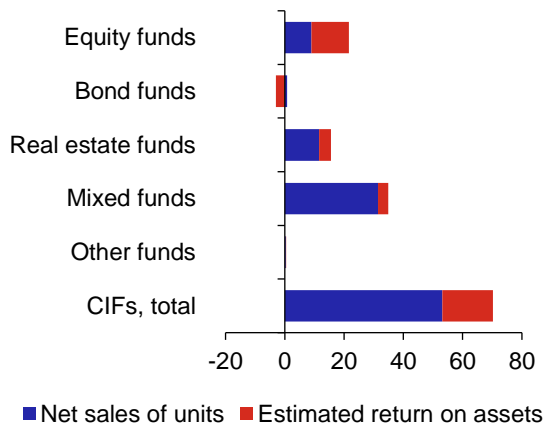
**Chart B.25 Assets of domestic investment funds**  
(in CZK billions; as of end of period)



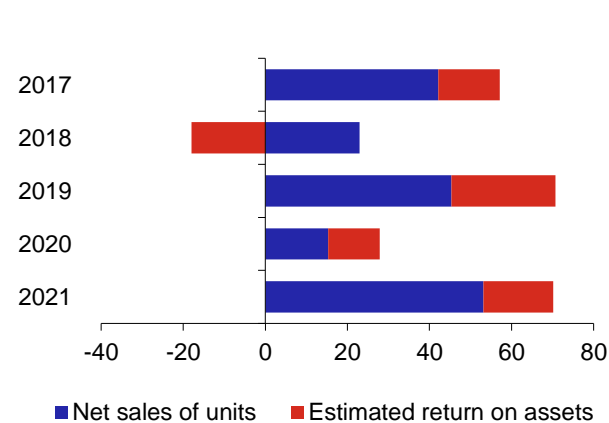
**Chart B.26 Assets by fund type – CIFs**  
(in CZK billions; as of end of period)



**Chart B.27 Decomposition of change in assets by fund type**  
(in %; as of 31 December 2021)



**Chart B.28 Decomposition of year-on-year change in assets – CIFs**  
(in CZK billions; as of end of period)





## VI. NUMBERS OF OTHER FINANCIAL MARKET ENTITIES

**Table B.12 Numbers of entities in the sector of payment institutions and electronic money issuers**

Type of entity	As of 31 December 2020	Entries in 2021	Exits in 2021	As of 31 December 2021
Payment institutions	23	1	3	21
Branches of payment institutions	9	3	0	12
Electronic money institutions	1	1	0	2
Branches of electronic money institutions	3	1	0	4
Payment account information administrators	3	0	0	3
Small-scale payment service providers	84	1	12	73
Small-scale electronic money issuers	20	0	4	16

**Table B.13 Numbers of entities in the retail distributors sector**

	As of 31 December 2020	Entries in 2021	Exits in 2021	As of 31 December 2021
<b>Retail distributors of investment services</b>				
Investment intermediaries	155	4	13	146
Tied agents (capital market)	11,770	4,094	2,187	13,677
<b>Distributors of supplementary pension savings</b>				
Independent intermediaries	105	3	8	100
Tied agents (supplementary pension savings)	11,857	4,167	2,223	13,801
<b>Insurance and reinsurance distributors</b>				
Independent intermediaries	853	28	62	819
Tied agents	30,828	7,455	10,730	27,553
Supplementary insurance intermediaries	2,116	163	722	1,557
<b>Consumer credit distributors</b>				
Independent consumer credit intermediaries	305	23	40	288
Tied agents (consumer credit)	17,052	5,292	3,481	18,863
Intermediaries of specific-purpose consumer credit	1,016	59	54	1,021

**Table B.14 Numbers of entities in the consumer credit providers sector**

	As of 31 December 2020	Entries in 2021	Exits in 2021	As of 31 December 2021
Non-bank consumer credit providers	85	2	4	83
Accredited entities	22	3	2	23

**Table B.15 Numbers of entities in the bureau de change sector**

	As of 31 December 2020	Entries in 2021	Exits in 2021	As of 31 December 2021
Bureaux de change	882	19	38	863

**Table B.16 Numbers of entities in the sector of handlers of domestic banknotes and coins**

Type of entity	As of 31 December 2020	Entries in 2021	Exits in 2021	As of 31 December 2021
Handlers of domestic banknotes and coins	5	0	0	5

**Table B.17 Number of financial services providers and funds notified to the Czech Republic under the freedom to provide services as of 31 December 2021**

	2021
Notified credit institutions	417
Notified insurance companies	826
Notified foreign institutions for occupational retirement provision	0
Notified investment services providers	580
Notified central securities depositories	5
Notified UCITS funds	1,453
Notified AIFs <sup>i)</sup> excluding EuVECA <sup>ii)</sup> and EuSEFs <sup>iii)</sup>	345
Notified EuVECA funds	92
Notified EuSEF funds	1
Notified UCITS management companies	51
Notified alternative investment fund managers	44
Notified electronic money institutions	167
Notified payment institutions	263
Notified payment account information administrators	5
Notified insurance intermediaries	5,495
Notified intermediaries of consumer credit for house purchase	10

i) AIFs: alternative investment funds (special funds and funds for qualified investors).

ii) EuVECA = European Venture Capital Funds.

iii) EuSEFs: European Social Entrepreneurship Funds.

## VII. SECURITIES ISSUES AND REGULATED MARKETS

Table B.18 Numbers of issuers and market infrastructure entities

Type of entity	As of 31 December 2020	Entries in 2021	Exits in 2021	As of 31 December 2021
Issuers of securities admitted to trading on a European regulated market <sup>i)</sup>	107	16	13	110
Market infrastructure <sup>ii)</sup>	10	0	0	10

i) The figure includes all issuers (both domestic and foreign) whose securities are admitted to trading on a regulated market in the Czech Republic, issuers based in the Czech Republic whose securities are admitted to trading on a regulated market in another EU Member State, and also issuers based outside the Czech Republic whose securities are admitted to trading on a regulated market in the Czech Republic.

ii) The role of entities in the position of a regulated market operator, a multilateral trading facility operator, an organised trading facility operator, an operator of settlement systems with settlement finality, a central depository and a benchmark administrator.

Table B.19 Selected data on the securities market

	2019	2020	2021
Number of share issues (PSE)	54	55	55
Total share trading volume (PSE; in CZK billions)	108.8	125.3	140.5
Market capitalisation of shares (PSE; in CZK billions)	22,054.2	13,502.7	15,659.2
Total share trading volume (RM-S; in CZK billions)	2.2	4.5	4.9

Table B.20 Overview of issuers of securities admitted to trading on a regulated market in the Czech Republic

	2019	2020	2021
<b>Issuers of securities admitted to trading on a regulated market in the Czech Republic</b>	122	107	110
of which:			
<b>Issuers whose home Member State is the Czech Republic</b>	112	98	103
of which:			
Issuers having their registered address in the Czech Republic	105	94	97
Issuers having their registered address in another EU Member State	5	3	5
Issuers having their registered address outside the EU	2	1	1
<b>Issuers exempt pursuant to Article 119c of the Capital Market Undertakings Act</b>	36	27	25
<b>Issuers fully subject to CNB supervision</b>	76	71	78
of which:			
Issuers having their registered address in the Czech Republic	72	68	73
Issuers having their registered address in another EU Member State	2	2	4
Issuers having their registered address outside the EU	2	1	1
Share issuers	46	43	44

## VIII. AGGREGATE INFORMATION ON SUPERVISION

**Table B.21 Numbers of examinations started by sector**

	2019	2020	2021
Banks <sup>3)</sup>	21	22	28
Credit unions	1	5	1
Insurance companies	9	6	10
PMCs and retirement funds	9	0	1
Investment firms – non-banks	3	1	2
Branches of foreign investment firms	0	4	2
Management companies and investment funds	4	5	3
Bureaux de change	16	5	6
Payment service providers	12	3	6
Electronic money issuers	1	0	1
Consumer credit providers	14	11	8
Accredited entities	0	6	7
Retail distributors	33	24	25
Handlers of domestic banknotes and coins	0	1	1

i) Including examinations started under the Act on the Circulation of Banknotes and Coins

**Table B.22 Overview of offences**

Breakdown according to Article 45d(2) of the Act on the CNB	2021
Number of petitions received	164
Number of proceedings opened	97
Number of cases deferred	67
Number of proceedings discontinued	16
Number of final and conclusive decisions	124
Total fines imposed	CZK 44,900,000
Number of decisions waiving the imposition of a penalty	0
Number of appeals submitted <sup>41</sup>	25

<sup>41</sup> Of the total number of 25 appeals submitted, the first-instance decision was confirmed by the Bank Board (the second instance) in 19 cases, a part of the statement of the decision was modified and the rest of the decision was confirmed in two cases, the first-instance decision was revoked and the matter returned for reconsideration in two cases, the first-instance decision was revoked in one case (decision regarding a preliminary measure), and the appeal was refused due to late submission in one case.

Table B.23 Penalty administrative proceedings

Legislation	Number of penalty administrative proceedings continuing from 2020	Number of penalty administrative proceedings opened in 2021	Number of penalty administrative proceedings closed in 2021	Total fines imposed (in CZK thousands)
Act on Banks and Act on Credit Unions	5	15	12	6,000
Insurance Act and Insurance and Reinsurance Distribution Act	2	19	15	6,020
Capital Market Undertakings Act	11	21	26	10,595
Act on Management Companies and Investment Funds	5	22	21	1,150
Bureau de Change Act	1	6	6	695
Consumer Protection Act	1	1	1	100
Payment System Act	22	15	25	3,750
Banknote and Coin Circulation Act	2	1	3	300
Consumer Credit Act	13	15	8	6,240
Act on Certain Measures against Money Laundering and Terrorist Financing	2	6	6	10,000
Act on the Czech National Bank	1	0	1	50
<b>Financial market supervision, total</b>	<b>65</b>	<b>121</b>	<b>124</b>	<b>44,900</b>

Table B.24 Financial market entities in liquidation<sup>42</sup>

Type of entity	As of 31 December 2020	Entries in 2021	Exits in 2021	As of 31 December 2021
Banks	4	0	1	3
Credit unions	4	1	0	5
Insurance and reinsurance companies	0	0	0	0
Management companies	3	0	0	3
Investment funds	9	0	2	7
Mutual funds	8	2	1	9
PMCs	0	0	0	0
Investment firms	1	0	1	0
<b>Total</b>	<b>29</b>	<b>3</b>	<b>5</b>	<b>27</b>

Table B.25 Applications for information

Type of application	2018	2019	2020	2021
Applications from foreign regulators	46	48	47	48
Applications under Act No. 106/1999 Coll., on Freedom of Information	79	71	49	86

<sup>42</sup> A total of five entities ceased to be subject to CNB supervision as a result of the completion of liquidation: one bank (Agrobanka Praha, a.s. v likvidaci), two investment funds (JIS investiční fond, akciová společnost v likvidaci, a Startec Ventures SICAV), one investment firm (brokerjet České spořitelny, a.s. v likvidaci) and one mutual fund in liquidation. One credit union (Československé úvěrní družstvo v likvidaci) and two mutual funds went into liquidation in 2021.

Table B.26 Overview of submissions from the public

	2019	2020	2021
<b>Credit institutions</b>	872	1071	858
of which:			
Conduct of business and consumer protection	667	714	662
Consumer credit provision	205	357	196
Insurance	570	521	452
PMCs and retirement funds	37	30	27
Non-bank investment firms	72	121	76
Management companies and investment funds <sup>1)</sup>	21	14	45
Money-changing activities	174	41	14
Payment service providers and electronic money issuers	51	36	21
Non-bank consumer credit providers	195	172	142
<b>Retail distributors</b>	215	229	225
of which intermediation of:			
Insurance products	142	149	146
Investment products	24	45	41
Consumer credit	49	35	38

ii) Including similar foreign entities.

Table B.27 Central Credit Register

	As of 31 December 2018	As of 31 December 2019	As of 31 December 2020	As of 31 December 2021
<b>Number of registered borrowers</b>	632,726	641,579	642,759	642,266
of which:				
Natural persons (entrepreneurs)	322,364	322,192	325,040	329,519
Legal entities	310,362	319,387	317,719	312,747
Total volume of loans outstanding (in CZK billions)	1,830	1,869	1,897	1,957
Number of CCR application users	2,246	2,234	2,233	2,344
Ad hoc enquiries about credit commitments (thousands per year)	361	367	364	337
Number of enquiries about client credit commitments in monthly reports (thousands per year)	4,506	5,945	3,416	3,315
Number of extracts made for clients per year	488	460	442	456



## IX. THE CNB'S REGULATORY ACTIVITIES IN 2021

### CNB decrees and provisions

- Decree No. 209/2021 Coll., on the remuneration and reimbursement of cash expenditures of liquidators of banks and credit unions.
- Decree No. 235/2021 Coll., amending Decree No. 67/2018 Coll., on certain requirements for the system of internal principles, procedures and control measures against the legitimisation of the proceeds of crime and financing of terrorism.
- Decree No. 246/2021 Coll., amending Decree No. 346/2013 Coll., on reporting of banks and foreign bank branches to the Czech National Bank, as amended, and Decree No. 426/2013 Coll., on reporting of credit unions to the Czech National Bank, as amended.
- Decree No. 354/2021 Coll., amending Decree No. 163/2014 Coll., on the performance of the activities of banks, credit unions and investment firms, as amended by Decree No. 392/2017 Coll.
- Decree No. 399/2021 Coll., on credit ratios.

### Selected official information documents and other communications

- Official Information of 31 March 2021 regarding the method for calculating risk weights for the purposes of setting contributions to the Deposit Insurance Fund (No. 3/2021 CNB Bull.), amending Official Information No. 7/2018 CNB Bull. and repealing Official Information No. 5/2019 CNB Bull. and No. 14/2020 CNB Bull.
- Official Information of 29 June 2021 on the business of investment firms – the application of the supervisory authority's overall discretion to exclude exposures from concentration risk limit (No. 7/2021 CNB Bull.).
- Official Information of 8 July 2021 on the performance of the activities of banks, credit unions, branches of banks from a non-Member State and some other entities – disclosure of information (No. 9/2021 CNB Bull.), repealing Official Information No. 9/2018 CNB Bull., No. 12/2018 CNB Bull., No. 5/2020 CNB Bull., and No. 27/2020 CNB Bull.
- Official information of 3 August 2021 regarding overall discretions pursuant to the CRR (No. 10/2021 CNB Bull.).
- Official information of the Czech National Bank of 12 October 2021 regarding some provisions of decrees on reporting of banks, foreign bank branches and credit unions to the Czech National Bank (No. 15/2021 CNB Bull.).
- Official Information of 10 December 2021 – Recommendation on the management of risks associated with the provision of consumer credit secured by residential property (No. 13/2021 CNB Bull.).
- Official information of 20 December 2021 regarding major security and operational incidents reporting in the payment system area (No. 14/2021 CNB Bull.).
- CNB information of 15 January 2021 on EBA Guidelines on the specification and disclosure of systemic importance indicators.
- CNB information of 4 August 2021 on EBA Guidelines specifying the conditions for the application of the alternative treatment of institutions' exposures related to 'tri-party repurchase agreements' set out in Article 403(3) of Regulation (EU) 575/2013 for large exposures.
- CNB information of 9 August 2021 on EBA Guidelines on customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions under Articles 17 and 18(4) of Directive (EU) 2015/849.

- CNB information of 22 October 2021 on EBA Guidelines on criteria for the use of data inputs in the risk-measurement model referred to in Article 325bc of Regulation (EU) No 575/2013.
- CNB information of 12 November 2021 on Revised EBA Guidelines on major incident reporting under Directive (EU) No 2015/2366 on payment services in the internal market.
- CNB information of 2 December 2021 on EBA Guidelines on internal governance.
- CNB information of 2 December 2021 on EBA Guidelines specifying the criteria to assess the exceptional cases when institutions exceed the large exposure limits and the time and measures to return to compliance pursuant to Regulation (EU) No 575/2013.
- CNB information of 17 December 2021 on EBA Guidelines on sound remuneration policies.
- CNB information of 17 December 2021 on joint EBA and ESMA Guidelines on the assessment of the suitability of members of the management body and key function holders.

**Selected explanatory opinions**

- CNB explanatory opinion of 1 November 2021 on banking secrecy.

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# Abbreviations

AIF	alternative investment fund
AMCIF	Act on Management Companies and Investment Funds
AML/CFT	anti-money laundering/combating the financing of terrorism
BRRD	Bank Recovery and Resolution Directive
CBPR	Cross-Border Payments Regulation
CCR	Central Credit Register
CIF	collective investment fund
CIR	cost-to-income ratio
CMUA	Capital Market Undertakings Act
CSD	Central Securities Depository
CRD V	Capital Requirements Directive V
CRD VI	Capital Requirements Directive VI
CRR III	Capital Requirements Regulation III
CSDR	Central Securities Depositories Regulation
DORA	Digital Operational Resilience Act
DSTI	debt service-to-income
DTI	debt-to-income
EBA	European Banking Authority
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ELTIF	European long-term investment fund
EMIR	European Market Infrastructure Regulation
ESAs	European Supervisory Authorities
ESEF	European Single Electronic Format
ESFS	European System of Financial Supervision
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EuSEF	European Social Entrepreneurship Fund
EuVECA	European Venture Capital Fund
FAQs	frequently asked questions
FQI	fund for qualified investors
IAIS	International Association of Insurance Supervisors
ICT	information and communications technology
IF	investment firm
IFD	Investment Firms Directive
IFR	Investment Firms Regulation
IFRS	International Financial Reporting Standards

IOPS	International Organization of Pension Supervisors
IOSCO	International Organization of Securities Commissions
IRB	internal ratings based approach
KID	key information document
LCR	liquidity coverage ratio
LTV	loan-to-value ratio
MCR	minimum capital requirement
MF	Ministry of Finance
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MONEYVAL	The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
ORSA	Own Risk and Solvency Assessment
PRIBOR	Prague InterBank Offered Rate
PRIIP	packaged retail and insurance-based investment products
PMC	pension management company
PSD II	Payment Services Directive II
PSE	Prague Stock Exchange
PSF	pension savings fund
RM-S	RM-SYSTÉM, česká burza cenných papírů a.s.
SCA	strong customer authentication
SCR	solvency capital requirement
SDAT	information system for receiving and processing statistical and supervisory reporting data to the CNB
SEPA	Single Euro Payments Area
SFDR	Sustainable Finance Disclosure Regulation
SREP	supervisory review and evaluation process
SRP	supervisory review process
TLAC	Total loss-absorbing capital
UCITS	undertaking for collective investment in transferable securities



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Contact:  
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GENERAL SECRETARIAT  
Tel.: +420 224 413 112  
[www.cnb.cz](http://www.cnb.cz)

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