28th May 2020 Roundtable with EU Representatives of Consumers, Business Stakeholders and Financial Sector with the Executive Vice-President Dombrovskis

Preliminary Statement by EBF CEO Wim Mijs

Introduction:

We face an extraordinary situation, which is still ongoing, with unprecedented consequences for our societies and economies, which require an extraordinary response from us all. I want to talk about:

- **What we have done as the banking sector**
- **What impact this has had**
- **What else we can do together to help our economies and households**

WHAT MEASURES HAVE WE TAKEN?

SOME GENERAL POINTS

- In general, and even more so during this crisis, the interests of the banks and the economy are fully aligned. Banks want to provide liquidity and help clients be safe and remain connected to the economy. However, banking is strictly regulated (for good reasons), so transmission of funding through banks must take into account the comprehensive duties of banks towards society (eg ensuring an efficient allocation of credit, financial stability, AML, cybersecurity).

- During the crisis so far, banks have played a crucial role by supporting the needs of their customers through lending as demand grew, as well as by channeling state-guaranteed loans to businesses and households across Europe and offering different forms of relief to vulnerable borrowers. This has been key to alleviating liquidity needs of families and small businesses during the most severe periods of the pandemic. We are proud of the fact that banks have not only implemented government measures but have gone beyond public initiatives, offering their own measures to help their customers.

- We value cooperation. Together with our colleagues from the rest of the banking sector, we were proud to have engaged with our corporate counterparts in the SME Feedback Principles process long before the crisis. The recent stock-taking of the Principles led to an agreement to continue this dialogue on a regular basis. Moreover, we recently issued a Joint Statement with SMEunited to improve the funding to improve the flow of credit to SMEs. In that sense, I welcome and salute your leadership, Mr Executive Vice-President, to organise this meeting today.

MEASURES TAKEN

- **INCREASED FUNDING CAPACITY.** By working constructively with the prudential regulators early on, we increased our flexibility to lend to the economy in distress while preserving financial stability. In addition, the decision to forego bonuses for high earners and the decision to suspend dividends (an initiative taken and coordinated by the EBF which received a positive response from the majority of banks, even before public authorities urged banks to do so) all contributed to increasing the flow of liquidity into the economy. The decision on the dividends was taken carefully, balancing the need to deliver returns to investors and the shareholders' rights with the exceptional needs of the economy.
- **LOANS.** With greater internal flexibility and the help of publicly supported measures in some countries, and going beyond public measures in most, banks extended loans to corporates and households to manage the crisis. The measures taken have been largely based on national state schemes and a flexible assessment of SME credit requests. Banks have provided new credit lines to cover cash needs, increased credit lending and working capital, launched financing programmes directed to vulnerable sectors such as SMEs and self-employed people, engaged with SMEs to avoid cash burn in the initial phases, while trying to manage the more challenging payment breaks and planning next steps for significant debt refinancing needs.
- **GAVE BREATHING SPACE.** The EBF led the way with a fully-fledged proposal for private moratoria schemes as part of the EBF emergency plan. This was already mentioned in the letter to the EU institutions on March 11th, even before lockdown was decided in many countries. These programs are being deployed by EBF national banking associations. In many cases, the banking sector has broadened the scope of eligible customers set by the government. Apart from payment moratoria, other initiatives have been taken individually by banks to broaden the breathing space for companies and consumers: eg pre-approved loans, advanced payments on pensions and unemployment benefits, rent forgiveness on own housing and several volunteering initiatives.
- **WAIVERS AND DEFERRALS.** Banks have waived or deferred fees and charges, eliminated additional costs for deferrals, made wire transfers free, suspended charges on direct debit orders, waived SEPA payment charges for payments via online or mobile banking platforms up to certain amounts, increased standard daily cash withdrawal limits at ATMs, cancelled ATM cash withdrawal commissions, etc.
- **ACCELERATED CREDIT APPROVAL PROCEDURES.** Banks have taken measures to reduce the backlog and speed up the process and ensure the appropriate allocation of increased financing demand, both by using digital solutions and by clarifying the administrative process with authorities. Among others, banking associations have been working closely with state agencies to clarify and streamline the

information needed from clients to carry out the credit checking process.

- **ADOPTED QUICK SOLUTIONS TO ADAPT TO THE NEW REALITY.** Measures to speed up processes went beyond lending. By moving (and often re-training) staff to new support positions to help clients, banks speeded up the lending processes, simplified administration, provided alternative (digital) solutions to meetings, receiving signatures, and provision of services such advice on regulatory actions and promotion of changes essential for business operations. Such solutions were essential for certain lines such as export credit.
- **FACILITIES TO HELP CLIENTS AVOID PHYSICAL CONTACT.** Banks undertook a variety of measures to facilitate an increased use of digital banking; put in place an increased range of tools for payment (such as prepaid/debit card services); increased contactless payments limits to the maximum limits allowed by PSD2 (50 euros per transaction / 150 euros cumulative), with the result that an estimated 70-80 percent of all card payments are contactless; issued free-of-charge cards for clients entitled to one; put in place a variety of "access to cash" initiatives; kept branches open under restructured schedules while preserving employee and client safety and avoiding overcrowding outside branches; ensured full operationalisation of ATMs.
- **STEPS TO FIGHT CRIME AND MONEY LAUNDERING**. Banks took measures to prevent and mitigate cybercrime; banks raised the threat level and enhanced their information-sharing regarding COVID-related cyber threats); both individually and centrally at EBF, messaging for cyber risk awareness of customers and employees intensified during the crisis. The EBF - Europol EC3 joint campaign on cyber scams was intensely promoted by EBF. Measures to prevent money laundering were intensified.
- **INCREASED COMMUNICATION TOWARDS CLIENTS.** Banks increased their communication with all clients to inform them of new measures, to help customers use digital banking (especially those who cannot use existing, well established online and mobile banking services), and also centralise access to information and answer FAQs.
- **HELPING IMPROVE PROCESSES.** Banking associations have improved the functioning of the state supported schemes both internally (by coordinating banking actions) and externally by engaging with governments, companies, SMEs, consumer representatives etc, all of which has helped ensure a continuous flow of support to the economy (also by using their market expertise to help the governments design specific support instruments to SMEs, farmers, healthcare workers).
- **HELPING RESOLVE CONFLICTS**. Some banking sectors have used existing ombudspersons or new facilities to deal with complaints to help clients speedily, with good outcomes. Banking and business

associations have often also cooperated closely to act as mediators between affected parties.

- **LOOKED AFTER THE MOST VULNERABLE.** In addition to the adapted solutions for engagement with their own elderly or other self-isolating clients, banks have collaborated with NGOs and others to help the homeless (eg initiatives to provide cash to homeless people, solidarity funds to provide masks, etc).

WHAT DO WE KNOW ABOUT THE IMPACT?

- **TOO EARLY TO HAVE THE MACRO PICTURE.** At the European level, the statistics of the ECB will not give us a full picture until Q2 is finalised, as the concrete elements on the crisis were only starting by the end of Q1. (ECB has estimated a financing need of **1.5 trillion Euro** as a result of the crisis.) However, it can be seen already that firms have drawn on credit lines and government support schemes as their first source of external finance to address short-term liquidity needs. Data reported by the European Central Bank in its May 2020 Financial Stability Review shows that loan provisions in March 2020 increased by around **120 billion Euro** flow - the highest monthly level on record. It is also estimated that, through the dividends decision coordinated by the EBF, banks have freed up **hundreds of billions Euro** for lending to European citizens/businesses by allowing 30 billion Euro of additional capital of the highest quality to be kept within the system.
- **BANKS ARE TRACKING THE SITUATION.** Our members are monitoring the situation in their country. Even if we do not have full coverage, the majority of our members have put in place measures to track the trends in terms of loan applications, use of state measures and other indicators. We will continue these efforts and seek to develop a macro picture by pulling more aggregable data.
- **EARLY INDICATORS ARE POSITIVE.** Data collected so far by various national banking associations indicates that the state-supported schemes have mostly functioned as intended and the banks have fulfilled their transmission function. Banks are applying interest rates in compliance with the measures established by the law; in most of the cases, interest rates are well below that cap. Early data collected shows that a very high rate of loan applications is fulfilled. Decisions to provide loans are tightly regulated and must continue to be risk-based.
- **BANKS DO THEIR BEST TO PRESERVE STABILITY AND RESILIENCE.** Regarding banks' resilience and business continuity, no major impact has been observed in the resilience of critical banking services or the operation of supply chains. EBA recognizes that "*banks have entered the COVID-19 crisis more capitalised and with better liquidity compared to previous crises. In contrast to the Global Financial Crisis (GFC) in 2008-2009, banks now hold larger capital and liquidity buffers. The common equity tier 1 (CET1) ratio rose from 9% in 2009 to nearly 15% as of Q4 2019, including a management buffer above*

overall capital requirements and Pillar 2 Guidance (P2G) of on average about 3% of risk weighted assets (RWAs). In addition to the ample management buffers, the capital related measures put in place by EU regulators to mitigate the effects of the crisis will free up roughly 2% of RWAs. Similarly, prior to the pandemic outbreak, banks' liquidity coverage ratios (LCR) were on average close to 150%, significantly above the regulatory minimum." Moreover, EBA recognizes that *"[f]ollowing the outbreak of the pandemic, banks have activated their contingency plans, which have allowed them to keep their core functions broadly unaffected."*

- **BANKS ARE ENSURING A SAFE ENVIRONMENT.** Regarding cyber-attacks, there were reports of an increase in phishing and DDoS attacks but no major impact; especially on phishing, the content of the campaigns is adapted to COVID-related messages taking advantage of the current situation.

WHERE CAN WE IMPROVE (FOR THE NEAR FUTURE)?

- **LOTS OF SMALL WHEELS TO MAKE THE BIG WHEELS TURN BETTER.** Banking is very regulated and several public and private sector actors are involved in transmitting the necessary funds to the companies and people in need. We do not need a radical overhaul, but we need to adjust a number of seemingly small things that make the 'bigger wheels' turn slower right now. Many of these improvements require a coordination of public actions, but banks will also assume their own role in improving processes.
- **WE SHOULD STREAMLINE THE PROCESS OF STATE GUARANTEED LENDING.** Need to streamline the application processes, analysis and approval by the national guarantee schemes, in particular by clarifying the guidelines given to banks and clarifying the scope of responsibility of the banks in the risk analysis and decision-making. This will avoid the need of the guarantee institution and the bank duplicating tasks and therefore speed up the process.
- **STATES SHOULD REDUCE LEGAL UNCERTAINTY.** Bank lending involves a risk-based decision, which must take into account a range of risks, including credit risk and legal risk among others. When extending a credit, the bank needs to consider that, despite best efforts, the loan may end up in insolvency. Insufficient clarity regarding how the guarantee schemes will apply in case of a potential insolvency (eg as to whether the bank will have a secured creditor position) could lie at the root of the prolonged creditworthiness checks or delays in the lending process in some cases. In some jurisdictions, the lack of legal certainty may even create a risk for the bank in the form of legal penalties if the bank is unable to demonstrate compliance with all the criteria established by the guarantee institution. Greater legal certainty about these issues will only help shorten and streamline the lending process and ensure that all the groups targeted by a scheme receive the funding they need.

- **STATES SHOULD COMMUNICATE CORRECTLY.** Governments' public communication about the guarantee schemes are not always aligned with the credit guidelines given to banks. Guarantee institutions need to be clear about the differences between grants and guarantees and ensuring that customers do not misinterpret such essential items such as the **timelines** to receive financing, the **conditions of financing** or the **funding modalities**.

- **STATES MAY NEED TO INCREASE THE AMOUNT STATE SUPPORT IN SOME CASES.** The level of public guaranteed credit lines is still insufficient in some cases. From a public point of view, there may also be a need to address companies whose credits were already being restructured before the context created by COVID-19, and which face greater difficulties in the current context.

- **FRAGMENTATION:** Thanks to the flexibility provided by the Commission on state aid, governments have put in place public guarantees to alleviate the credit risk pressure on banks, which would otherwise have to increase capital to support these exceptional lending volumes. Unfortunately, the technical differences among Member States among the public guarantees, together with the extreme rigidity of the CRR in terms of recognition of the Credit Risk Mitigation techniques, lead to a situation whereby the state guarantees are likely not eligible to reduce the RWA and hence the capital in some Member States, whereas it may work in others. This creates an unnecessary complexity for banks operating in various Member States, and an unlevel playing field across Europe for banks and for clients. The Commission has mandated the EBA to produce guidelines on state guarantees, and we would strongly recommend that such guidelines be guided by the need to endorse a flexible interpretation of CRR and ensure fair treatment of public guarantees across the Union, as otherwise the very purpose of those guarantees would be largely missed.

- **COORDINATION IN A COMPETITIVE ENVIRONMENT**. It has been pointed out in a number of cases that the overly strict application of competition rules in some countries impeded coordinated action among banks and may generate issues in the long term.

LOOKING BEYOND AT THE RECOVERY PHASE

- **RESTRUCTUNG:** Moratorium solutions have a limited time scope of effectiveness and more debt is not necessarily the best solution. Eventually it will be necessary to have a clear process for structural reorganisations / insolvencies in a way that preserves value. Recapitalization measures and corporate debt restructuring solutions should be facilitated.

- **FOUR PILLARS FOR RECOVERY:**

    - Accelerating the twin revolution of digitalization of the EU's economy and transition towards a sustainable economy as a propeller of recovery;
    - Ensuring smaller companies' access to funding;
    - Avoiding disruptions in export finance, and
    - Diversifying the sources of corporate funding and innovation (Markets4Europe initiated by the EBF with cross-sectoral partners to deepen and integrate the capital markets).

- **BASEL:** The coronavirus crisis has laid bare the need to strike a balance between capital/liquidity requirements and the capacity of banks to finance the economy. We have witnessed how central bankers, regulators and supervisors, in a demonstration of awareness of the needs of the economy, have adapted the prudential requirements set during the regulatory reform period to the current needs of the economy. The upcoming transposition of the Basel IV reform should be done with the same focus on the needs of the economy, thus enabling both financial stability and economic activity. The EBF will be keen to play a key role in this debate, as it has during the coronavirus outbreak.