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BANKING STAKEHOLDER GROUP

COVID-19 banking measures and recommendations towards a sustainable recovery

Based on BSG Contribution for FISMA Meeting 28 May 2020

This contribution provides an overview of the relief measures by banks targeting consumers and businesses applied across the EU and a better understanding of their features, practical applications, and related problems. It also provides a BSG view on the way forward towards a sustainable recovery.

Diving in the COVID-19 Crisis

Responses by banks to alleviate the crisis for the most vulnerable:

Banks have a fundamental role to play as providers of payment services, liquidity and funding to the individuals and corporates (micro, small, medium, large) in the time of the COVID-19 crisis.

They implemented relief measures such as suspension of loan repayments for affected customers or some other forms of moratorium on payment of credit obligations (relaxed payment schedules and deferment of loan (mortgages, SME loans etc.) repayment), as well as actions to ensure companies continue to have access to credit in exceptional circumstances.

Banks have been processing requests for working capital facilities. Millions of private customers and companies have been granted extra grace periods. Substantial changes across a whole range of banks' operational systems have been necessary in order to process this massive amount of applications for payment interruption.

At EU level, the following measures are widespread and used by most banks in the member states:

For corporates, the measures ranged from accelerated credit lines, moratoria and other specific measures depending on the needs, in particular:

- Temporary waiving or deferral of fees and charges, elimination of additional costs for deferrals;
- Provision of new credit lines to cover cash needs, increase in overall credit lending and increased provision of working capital, with or without public guarantees
- Launch of financing programmes directed to SMEs and self-employed, and specific measures targeting most affected sectors (e.g. tourism and airlines);
- Relaxations on collaterals;

- Engagement with SMEs to avoid cash burn in the initial phases, while trying to manage the more challenging payment breaks;
- Payment advances to suppliers;
- Suspended foreclosure procedures;
- Accelerated credit approval procedures – ensuring fast processing of Covid-19 related requests;
- Continued export credit via using paperless processes.

Decisive measures were also taken to reorganize the bank's business operations, and ensure continuity of client service and risk and financial management, in particular:
- Work from home was implemented in a very short period of time, implying considerable adjustment to IT and communication systems, in order to maintain necessary security environment.
- However, banking was in many countries defined as one of the essential services, and a lot of staff continued to work on site, in branches and in essential units. This also included swift implementation of business continuity plans, with split teams to ensure appropriate social distancing, as well as strict monitoring of outsourced services, including offshore centers, to ensure full business capacity.
- Adoption of tailored solutions (moving staff to support and speed up the lending processes, simplification of administration, e-meetings and faster electronic formatting, finding new ways of receiving electronic signatures, advisory on specific regulatory actions and promotion of changes essential for business operations) - also very relevant for export finance;
- Facilities to help clients avoid physical contact (increases of contactless limits). In the case of Poland for example, banks were ready to install additional POS devices, a few offered 'recycling ATM' – ATMs with cash deposit function, special offers for payment cards addressed to those customers who did not have any so far (including cards instantly ready for use);
- Measures to keep branches open while preserving employee and client safety;
- 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 the European Banking Federation (EBF), messaging for cyber risk awareness of customers and employees intensified during the crisis. The EBF - Europol EC3 joint campaign on cyberscams was intensely promoted by EBF;
- Measures to prevent money laundering such as the case of Italy where protocols stipulated between the representatives of Banks, Employees and Institutions (Minister of the Interior/ Prefectures) to prevent criminal phenomena in the financial sector. Through this tool, all the subjects represented put in place enforcement actions to prevent any type of illegality and, at the same time, to better exercise their rights / duties as citizens / workers.

For retail customers, measures related to payments and more specific measures to help the most vulnerable were implemented:
- Moratoria on home loans and consumer finance were implemented in some countries. In other countries, such as France, borrowers were already protected given clauses allowing clients to suspend payments, or reduce installments, in case of need are inserted in home loans and consumer loans as a standard feature, allowing clients to immediately benefit of those clauses without any need for negotiation or approval process.
- Facilities to enable customers to avoid coming to branches (e.g. digital banking, use of robotics, help to vulnerable clients through delegated authorisation);

- Free-of-charge cards for clients entitled to one;
- Increased contactless payments limits to the maximum limits allowed by PSD2 (50 euros per transaction / 150 euros cumulative) so that customers can shop more at ease and avoid having to enter their PIN at the payment terminal, protecting shop staff too (estimated 70-80 percent of all card payments are contactless);
- Increased communication towards clients, especially towards more vulnerable parts of the population, to assist customers online and over the phone (e.g. to inform customers, help customers make payments over the phone or online and getting general support for banking functions) with a particular focus on customers who cannot use existing, well established online and mobile banking services;
- "Access to cash" initiatives, including dedicated apps to allow a volunteer to get cash out on behalf of an isolating person; post office cheque encashment, etc.;
- Prepaid/debit card services where providers working with local authorities provide prepaid cards for particularly vulnerable users to allow others to make payments; certain issuers producing "companion cards" linked to users' account but separate (with appropriate limits and fraud controls) which can be used by others; some smaller stores (local convenience stores) enabling 'card not present' transactions for grocery transactions to allow an isolating person to make a remote payment and for a volunteer to deliver goods;
- Benefits for specific demographics (e.g. students), free wire transfers, suspended charges on direct debit orders, waived SEPA payment charges for payments via online or mobile banking platforms up to specific amounts, increased standard daily cash withdrawal limits at ATMs, cancelled ATM cash withdrawal commissions, etc.;
- Banks collaborating with NGOs and others to help the homeless (e.g. an initiative that provides cash to homeless people), healthcare workers and local small business;
- In the case of Spain, advanced payment of pensions and other social benefits (unemployment and social subsidies);
- Grants to hospitals and charity organisations.

Responding to the supervisors recommendations, banks mobilized own contribution to lending capacity by foregoing bonuses of high earners, retention of profits (withholding or canceling dividend payments and buy-backs).

The above are selected measures adopted by banks and other credit institutions in the EU. Other specific measures in Italy and Spain are provided in Box 1.

In view of the variety of measures, the BSG recommends that the EBA collects and makes public a full directory of measures implemented, with the view of transparency, encouraging best practices, and facilitating cross border analysis by international corporates and banks.

Challenges from banks perspective and recommendations

BSG members welcome the dialogue between banks, authorities at national and European levels, and end-users/consumers representatives. They are working hand in hand with governments to ensure that support measures are channeled as promptly as possible to the various client segments in order to minimize the economic and social cost of the Covid-19 crisis.

While it is difficult at this stage to have a comprehensive view of how much has been done, the ECB has published its March 2020 update[1] on corporate loans net flows in the Euro area, showing an unprecedented spike in lending (125bn€), twice the previous peak reached in 2007.

This mobilization is made possible thanks to the fact that banks entered this crisis in a position of strength, from a capital and liquidity standpoints, after 10 years of a regulatory overhaul. However, the magnitude of the credit needs will generate massive balance-sheet inflation, and regulators are implementing a range of measures to minimize the consequences on bank solvency.

Those measures are very welcome, but their technical implementation raises a number of challenges that ought to be carefully considered:

Regulatory uncertainty: The first move has been to allow corporates to postpone capital and interest payments to help them dive in the crisis without defaulting on their debt. **Such moratoria have been declared by the BCBS on April 3rd as not needing automatic recognition as forbearance, as long as the client was healthy before the crisis.** The EBA guidelines have introduced restrictions, imposing that only moratoria granted as part of « general » moratoria could be exempted. National banking associations have been working hard to develop such general moratoria, which needed to be submitted to national authorities to check their eligibility to the EBA guidelines. In addition, general moratoria have been also granted by single banks to certain categories of clients conditional to certain specified selection criteria. These moratoria have been granted either before the government and banking associations launched their initiatives or to include categories not included in these moratoria. To the best of our knowledge, no country has received yet a green light on those moratoria. Needless to say, banks are not waiting for this approval to deliver those moratoria, putting themselves at complete accounting and prudential risk. The approval process is not clear and long, while the clients have immediate financing needs. More transparency and guidance on the process is highly recommended.

Fragmentation: Thanks to the flexibility provided by the European Commission in its Temporary Framework for 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, this process is leading to various forms of public guarantees being provided in each member state, with technical differences. Given the extreme rigidity of the CRR in terms of recognition of Credit Risk Mitigation techniques, the state guarantees are likely not to be 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 European Commission has mandated the EBA to produce guidelines on state guarantees. We strongly recommend that such guidelines be guided by the need to endorse a flexible interpretation of CRR and ensure a fair treatment of public guarantees across the Union, as otherwise the very purpose of those guarantees would be largely missed.

In addition, national accounting rules differ from IFRS rules. Furthermore, both national legal environments and specific contractual circumstances lead to different treatments.

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[1] Source : https://www.euro-area-statistics.org/banks-balance-sheet-loans?cr=esp&lg=en&page=1&charts=M..N.A.A20T.A.4.U2.2240.Z01.E+M..N.A.A20T.A.4.U2.2250.Z01.E+M..N.A.A20.A.4.U2.2240.Z01.E&template=1

Smaller differences in wording of contracts or governmental rules produce balance sheet and P/L effects that make the accounting outcome difficult to compare – internally as well as externally and regarding regulatory authorities. Under IFRS 9, depending on the specific loan contract, a moratorium might lead in one case to a stage transfer in the impairment treatment with a change from calculating the loan loss provision on a lifetime expected losses rather than on a 12-month-period, whereas in other cases the 12-month-loss is still relevant. Regarding guarantees, it is questionable whether this measure is able to prevent a movement into stage 2 (lifetime expected losses) or stage 3 (impairment) – depending on whether the customer is seen in a short term liquidity shortage or significant deterioration of credit risk (or even in an incurred loss situation).

This situation will lead to more complexity in interpreting data delivered by banks.

Overall, the BSG urges the need for more guidance and symmetry to avoid further fragmentation and discretion that would undermine monetary policy transmission and hence the single financial market.

Buffer usability: The BSG welcome the effort of EU authorities to increase the lending capacity of banks. A large part of the measures taken so far has been provided through the clarification that capital buffers are usable to absorb losses, a feature that was very clear in the Basel framework, but not totally explicit in the European transposition. Such a clarification is mostly welcome, but banks are reluctant to use this flexibility, despite encouragements notably by the ECB. This is mainly due to the stigma linked to publishing ratios below the combined buffer "requirement", and the Maximum Distributable Amount mechanism that would prevent banks to pay AT1 coupons if they breach the trigger. On the other hand, supervisors have requested a pause in dividend payments, whereas banks were still far from the Maximum Distributable Amount (MDA). As this MDA framework is being tested for the first time in this crisis, the BSG emphasises the importance to assess the architecture in view this external shock, to ensure that the desired flexibility can really be put at work for the benefit of the economy.

Balance between multiple constraints: the post 2008 crisis regulatory agenda has imposed multiple regulatory constraints to banks: risk-based capital, leverage ratio, MREL, systemic scores, etc. This implies that the capital planning exercise has to take into account those multiple constraints, and that the limitation in capacity to lend will be set by the most binding constraint. The Covid-19 measures have targeted almost exclusively the risk-based capital constraint, with the ECB having estimated an additional lending capacity of 1.5trn€ as a result of the combined measures. However, should such an additional lending be put on the books, it would have a major impact on leverage exposure, on MREL, etc. While some observers consider that "enough" has been made to support banks to help their customers, nothing has been made yet on leverage exposure (contrary to measures adopted in the US for instance) and MREL, which will prevent the risk-based relief measure to provide their full expected efficiency. Usability of these measures and multiplicity of prudential constraints should be considered in designing a comprehensive policy package in order to avoid unintended consequences on the level playing field.

NPLs management: There are no doubts that the resilience of the European banking sector has been enhanced by the successful efforts of the European authorities to reduce the NPL ratios. However, the current prudential treatment of NPLs (level 1 backstop to NPLs and level 2 supervisory expectations) was developed to incentivise loan sales and to reduce the level of NPLs to be prepared for the next crisis. It is based on the hypotheses that NPLs on individual banks' balance sheets should not exceed

certain vintages. Banks should – in the given regulatory framework – perform a fast workout (press for insolvency instead of restructuring) or sell the NPLs in a secondary market to non-banks. Consequently, the framework disincentivises forbearance, a management tool that has been proved particularly helpful in the current scenario. Thus, as crisis deepens companies in financial difficulties would receive less support from the banking system and face a higher funding risk that might eventually lead them to bankruptcy or liquidation. This would have a negative impact on real economy and be particularly damaging for the recovery of the economy. The BSG recommends an assessment of the NPLs treatment.

Challenges from end-users perspective and recommendations

The divergent applications of moratoria and introduction of payment practices to deal with the COVID-19 challenges are noted in the EU members states from a consumer perspective. We provide the cases of Portugal, Poland and Romania where evidence is collected (see Box 2).

In view of these countries' experiences on the application of moratoria, a number of BSG members highly support a standard definition of moratorium, which would allow holiday periods for loans – mortgage and consumer credit – without accruing interests during that period (six months minimum). This should be available for any household that applies for it. It should be noted that in some countries, such as France, suspension or reduction of payments is incorporated in most standardized home loans and consumer loans contracts. Such practices should be encouraged as they can apply, not only in the case of systemic crisis as Covid-19, but also on an individual basis in case of life accidents, such as disease, divorce, unemployment etc.

Another important development relates to fees and charges for services, such as payments and credit transfers, carried out via distant banking services – homebanking and mobile. Some banks introduced own initiative measures to reduce or exempt those fess and charges. This practice was highly welcomed and considered it should be seen as an example of good practices from the industry side that reveals their understanding and adaption to their clients' circumstances and needs.

At national level, for example, the Portuguese Government introduced by law (Lei n.º 7/2020) a temporary prohibition of charging fees payment transactions via homebanking or apps (also for card based transactions) for distressed retail customers (affected by the impact of Covid-19 in their source of income). To that end, eligible clients were required to send to credit institutions a document demonstrating that.

Some BSG members highly support measures that would consider a reduction or exemption on fees regarding payments and credit transfers for those who are required to stay at home or those who have seen a reduction of income/unemployment/furlough due to the impact of covid-19 in their activities.
However, some members note that such measures should be proportionate and take into account the negative impact on banks revenues, to avoid adverse consequences on bank's employment policies, as well as avoid further deterioration of banks profitability, an area of weakness of European banks as flagged.

In terms of online payments – e-commerce card based transactions in the EU, the change of consumption patterns is evident across most countries affected by covid-19. There are many research documents from specialised firms (Nielsen, Statista). In this scenario, it is more and more relevant to ensure a safe and secure environment for

online payment transactions. As referred by Europol[2] "*The number of cyber-attacks is significant and expected to increase further. Cybercriminals will continue to innovate in the deployment of various malware and ransomware packages themed around the COVID-19 pandemic. They may expand their activities to include other types of online attacks.*" Cyberattacks pose a threat not only to clients but also to financial institutions. It is a topic of concern for all stakeholders and reports mention the probability of being a target is very high.[3]

The PSD2 brought in requirements aiming at making payments safer translated by the Strong Customer Authentication (SCA) rules[4]. While those rules are already in place for access to accounts, they were postponed (following the EBA communication[5]) for e-commerce card-based payment transactions to the deadline of 31 December 2020 (instead of 14 September 2019). Therefore, to ensure security and consumer protection in e-commerce card-based transactions there should be no further postponement of the application of SCA rules.

In addition, it would be essential to implement SEPA Inst. scheme not only as an electronic transfer of money but also as payment transactions for goods and services. Therefore, European banks, together with the EPC, should work for the implementation of the SEPA Inst. as a consumer transaction scheme with full range of services including possible charge backs and all R-transactions in response to their potential competitors - the card schemes transactions. The forthcoming deadlines for SCA implementation will support and ensure the customers' safety and protection and the future innovation of TPP's applications, which would incorporate the SEPA Inst. schemes in their Payment Initiation Services. The capabilities of using an alternative scheme (SEPA Inst.) of real merchant payments would counteract of the new kinds of fraud that are causing extra negative impact to consumers daily payment journey and increased costs for the PSPs.

Finally, it is important to emphasize the over-indebtedness of individuals, as well as of corporates and SMEs because of the access to accelerated loans. For individuals, see the Box 2 – case of Portugal. For corporates, they entered in the crisis with already a high leverage, following half a decade of cheap money. The addition of much needed liquidity facilities in the Covid-19 context is making corporate financial structure much worse (see ECB financial stability report).

On the consumer side, despite the fiscal measures implemented in the EU countries, the impact of covid-19 on households' income and financial situation is very significant – for example, a survey by Eurofound[6] shows that:

- More than one-quarter of respondents across the EU at this stage report losing their job either temporarily (23%) or permanently (5%), with young men most affected. Half of those in work are also seeing their working hours reduced, especially in Romania, Italy, France, Cyprus and Greece. The Nordic countries have reported fewest reductions in working time

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2 https://www.europol.europa.eu/sites/default/files/documents/pandemic_profiteering-how_criminals_exploit_the_covid-19_crisis.pdf
3 https://www.keepersecurity.com/blog/2020/05/13/more-than-two-thirds-of-financial-services-firms-globally-have-experienced-a-cyberattack/
4 https://eba.europa.eu/eba-publishes-an-opinion-on-the-elements-of-strong-customer-authentication-under-psd2
5 https://eba.europa.eu/eba-publishes-opinion-on-the-deadline-and-process-for-completing-the-migration-to-strong-customer-authentication-sca-for-e-commerce-card-based-payment
6 https://www.eurofound.europa.eu/publications/report/2020/living-working-and-covid-19-first-findings-april-2020

- Almost 40% of people in Europe report their financial situation as worse than before the pandemic – double the numbers reported in surveys before the crisis. Close to half are indicating their households cannot make ends meet and over half report they cannot maintain their standard of living for more than three months without an income. The situation is even more dramatic for three-quarters of those unemployed who cannot get by for more than three months with 82% reporting their household has difficulty making ends meet

On the corporate side, the problem may become systemic (and will require massive re-equitization whereas on the consumer side, it is a question of social safety nets, where the EU programs such as SURE and the EU recovery can play a role in levelling out the « Europe that protects »

Exiting from the COVID-19 Crisis – recommendations towards a sustainable recovery

European credit institutions are today well capitalised and much more resilient than they were in 2008. This enables them to play a key role in managing the economic shock that stems from the Covid-19 pandemic. Nevertheless, there is still a lot of uncertainty on the pace of recovery of economic activity and on the overall and medium-term impacts of the crisis on banks. Therefore, it is important that capital is deployed where it is most needed, that the prudential framework interacts smoothly with the various measures that address the emergency situation and that banks exit the crisis in a position to fully support the recovery.

Therefore, the BSG fully support the Commission's initiative to increase the capacity of credit institutions to lend and to absorb losses, while still ensuring their continued resilience. Given the complexity of financial regulation, the BSG raises two issues:

1 Banks are differently constrained by several prudential requirements: changing the application date of certain measures may impact on some bank business models more than others, with unintended consequences on the level playing field. Therefore a balanced approach and a mix of temporary measures should be considered.

2 Some measures are more effective than others. For example, as also stated in the ECB opinion on the Commission proposed amendments to the CRR, credit institutions might not be willing to use their buffers for additional lending due to uncertainty on the timing of their replenishment and concerns to face the potentially negative reactions of market participants.

While most current measures are designed to prevent a stoppage of payments which could trigger a number of defaults and bankruptcies, potentially leading to a banking crisis, it is important to also look into longer term measures.

Two baseline scenarios are to be considered. The first one is that of a V shaped recovery where demand/consumption resumes at pre-crisis level rather quickly, which would mean that the cash flow of most individual debtors and businesses would be restored allowing them to resume the payment of their financial obligation. In this scenario, the additional debt added during the coronavirus lockdown would simply be spread over the next decades and repaid with no major issues. NPLs could rise somewhat due to an inevitable rise in unemployment, but should demand/consumption pick up in a V shaped style, then unemployment should gradually fall over the coming months as economic activity resumes. A smooth recovery without further complications also pre-supposes a return to growth, hopefully of a sustainable kind (see proposals on a sustainable "green" recovery), which would make the additional

debt burden serviceable for both governments (via increased tax revenue), consumers and businesses.

The second scenario would be that of an L shaped recovery where demand/consumption does not return to pre-coronavirus crisis levels, but settles at a lower level. In such a scenario, the current temporary relief measures will have only served at postponing a deep recession and economic/financial crisis. A debt based financial system relies on growth in order to service the interest on the debt. This is valid for governments as much as for businesses and consumers. If the cash flow of businesses, consumers or governments shrink, they can only roll over credit (refinancing) and hope that cash flow will return in one way or another in the near future. In the case of a permanent lower demand, current loans will not be serviceable, especially for businesses and consumers which do not benefit from the same attributes as governments to refinance their debt into unsustainable and unreasonable levels (see Japan), and will thus trigger a major surge in NPLs which in turn could lead to a banking crisis on top of a deflationary spiral.

In order to prepare for the long-term consequences of the coronavirus pandemic, the BSG recommends the EBA to prepare policy responses based on several scenarios which are situated between the two "extreme" ones depicted above. Given that GDP has grown at best at a rate of around 2% in the EU since the 2008 financial crisis, that interest rates have been extremely low (which leaves little room for easing the debt burden via cheap refinancing of existing debt) and given the challenges ahead (climate change, a possible second wave of the pandemic,…), it is clear that policy responses will require highly innovative and exceptional measures if we are to avoid a worst case scenario.

From that perspective, the discussion on 2021 stress testing scenarios will be crucial to envisage various options, and identify the resilience of the banking sector in the medium term.

The BSG believes that the recovery plan from the pandemic crises should be based on sustainable finance objectives, what fits well in in the attitude manifested in EBA action plan on sustainable finance[7].
First of all, the environmental risk (especially climate risk) and the pandemic risk have many in common and therefore there should be a coherent response to both. Thus the "European Green Deal"[8] has especially gained in importance and we believe that the recovery plan should be based on it. It is worth mentioning, that some financial institutions joined the manifesto "Green Recovery. Reboot and reboost our economies for a sustainable future", calling for an EU-wide green recovery strategy focused on sustainability after COVID-19[9].

Financial institutions should also take into account social aspects of sustainability. Of special regard should be the financing of social infrastructure, notably hospitals and health in general, as the Covid crisis evidenced the insufficiencies in this area. The recent development of "social bonds" is the sign that the market is getting ready for broadening the Green agenda into a full ESG agenda. Another aspect is financial exclusion (as it may lead to social exclusion).

[7] https://eba.europa.eu/sites/default/documents/files/document_library//EBA%20Action%20plan%20on%20sustainable%20finance.pdf
[8] https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1588580774040&uri=CELEX:52019DC0640
[9] https://drive.google.com/file/d/1j54QxE-QjhrEHjGb5LrKsHuDAKvv8LUq/view

The pandemic crisis has shown a strong dependence on digital skills and digital inclusion, as well as specific exposure to the exclusion of people with disabilities. Several financial institutions provided a range of good practice with regard to those issues and it would be desirable to extend these practices whenever possible to the entire financial sector that could help building inclusive economy.

Therefore, we suggest to develop clear and comparable disclosure requirements. The CSR directive (Directive 2014/95/EU) could be further improved towards sustainable finance provided by banks as well as towards specific social responsibilities taken over by banks (bank specific disclosure requirements) as a measure in line with Pillar 3 requirements.

We agree with the opinion of Luiz Awazu Pereira da Silva - Deputy General Manager of the Bank for International Settlements – that this crisis requires us "to rethink the trade-offs between the efficiency and resilience of our socio-economic systems"[10].

[10] L. A. P. da Silva, *Green Swan 2 – Climate change and Covid-19: reflections on efficiency versus resilience*, 14.05.2020, www.bis.org/speeches/sp200514.htm

Box 1: Countries experiences: Italy and Spain

Moratoria in Italy: Agreement with business Associations on Moratoria for enterprises: Suspension or extension for loans to micro, SMEs damaged by "COVID-19" (loans granted until 31 January 2020. The moratorium refers to suspension of the principal portion (to be requested for up to one year). Such Suspension is applicable to medium / long-term loans, also completed through the issue of bills of exchange and leasing transactions; **Agreement on Moratoria for loans to Municipalities, Provinces and other local entities:** Suspension of the principal of mortgages for 12-months. Extension of the original amortization plan for 12 (twelve) months; **Agreement with Unions on cash advance of ordinary unemployment benefits'**: Allowing workers suspended from work due to the COVID-19 emergency to receive from banks an advance on the ordinary income integration with simplified procedures (€ 1,400 lump sum); **Agreement with Consumers Association:** Suspension up to 12 months of the principal of mortgages guaranteed by real estate and of other loans with repayment in installments. The recent agreement expands support measures for families and self-employed and freelancers affected by the epidemiological event from Covid 19. The agreement covers: a) Mortgages guaranteed by non-luxury immovable properties granted before January 31, 2020 (to individuals) for renovation/provision of liquidity/ purchase of properties not used as main homes, (which do not fall within the benefits provided by the government «Gasparrini Fund ») or - even finalised at purchasing the main house - they are not suitable for the Gasparrini Fund; b) unsecured Loans granted before 31 January 2020. **Specific initiatives undertaken by single Italian banks;** Measures for the tourism sector: suspension for 24 months of installments for mlt loans for the capital or entire installment (hotels, restaurants); plafond of 2 bn EUR: support to liquidity and investments thanks to MLT loans up to 72 months (transport, travel agencies; for business continuity: services offered to SMEs to facilitate teleworking for their employees (e.g. access to a set of apps for improving intra company communication, collaboration, video conferencing services... and renting of PC and printers)

Examples of initiatives granted by Spanish banks: Granting of moratoriums on the payment of quotas for mortgage and non-mortgage loans for a period of three months, in accordance with the emergency measures adopted by the Government. Given that a wide sector of clients cannot benefit from these legal measures (for not strictly complying with the criteria of "vulnerability" established in the Royal Decree-law), banks have gone beyond public initiatives, offering additional measures to broaden the scope of eligible clients. These measures include moratoriums and renegotiations (up to 12 months in the case of mortgage products and 6 months in consumer finance - loans or credits with mortgage guarantee and personal loans). Endorsements of the ICO (Official Spanish Credit Institute) program, endowed with 100,000 million euros, are being channeled through our entities to preserve the liquidity of companies in a context of drastic drop in activity. Unemployment benefit payments have been anticipated, so that families who have seen their incomes reduced because they have lost their jobs can have income to meet their current payments. Rent have been deferred and even forgiven within the Social Housing Fund program.

Box 2: Countries experiences: Portugal

In Portugal, **the public moratoria** only cover main home mortgages, leaving out other mortgages and consumer loans that represent a big chunk of repayments for many households (e.g. due to car loans). Eligibility criteria are very technical and complicated resulting in lack of understanding of their application. Regarding **private moratoria** initiatives, which aim to complement the public moratoria as they cover remaining loans, the fact that they are of a voluntary adherence has resulted that, while banks have significant adherenece, only a few of specialised credit firms provide these options.
In both public and private moratoria, all the proposals exhibit the addition of interests accrued to the capital for the remainder of the period, and those interests will be capitalised which means an increase of the total cost borne by consumers, leading paying interests over interests. Private moratoria have been extended, on 17th June, until 31 March 2021.

The confinement measures put in place in Portugal and across the EU changed the patterns of usage of banking services by retail clients. There was a significant shift to distance channels, such as homebanking, mobile and telephone.
In Portugal, we saw some banks introducing a reduction or exemption of fees and charges for some services provided online or via apps – e.g. for credit transfers.
We welcomed this practiced and consider it should be seen as an example of good practices from the industry side that reveals their understanding and adaption to their clients' circumstances and needs.

The Portuguese Government introduced by law (Lei n.º 7/2020) a temporary prohibition of charging fees payment transactions via homebanking or apps (also for card based transactions) for distressed retail customers (affected by the impact of Covid-19 in their source of income). To that end, eligible clients were required to send to cr sedit institutions a document demonstrating that.

It is also worth mentioning that the Banco de Portugal issued a statement on its Macroprudential Recommendation indicating banks can provide short-term loans to households suffering from income shortage due to the impact of Covid-19. Those loans, framed under consumer credit, would not be subject to DSTI ratios and the requirements of regular repayments of capital and interests. We highlight that there is a significant issue regarding this incentive to promote loans and alleviating creditworthiness assessment requirements. We see this as a possible root for overindebtedness and a potential cause for a rise of NPLs. This could have been less problematic if the statement would have introduced a reduced cap on APR for those specific loans thus preventing the issues of overindebtedness.

Box 2: Countries experiences: Poland

In Poland credit moratoria were offered by banks voluntarily. Already 2 days after the announcement of the state of epidemic threat, the Polish Bank Association declared that banks would facilitate postponement (suspension) of repayment of principal and interest installments or capital installments for a period of up to 3 months (several banks offer 6 months) and automatic extension by the same period of the total loan repayment period provided extension of the period of validity of loan collateral. The facilitations relate to housing loans, consumer loans for individual clients, loans to entrepreneurs who justify the need to postpone (suspend) their loan due to their financial situation caused by the COVID-19 (https://zbp.pl/?lang=en-us). The same applies to leasing and factoring companies owned by banks. Interest in moratoria among clients was quite large[1], but in practice they encountered a number of problems and in several cases on some issues intervened: Financial Ombudsman, Office of Competition and Consumer Protection, Polish Financial Supervision Authority.

The key problematic issues that were raised are: interest on interest (in some banks repayment was deferred over time, yet the interest due for the suspension period was added to the total amount of the credit and the banks calculated further interest on this amount), informing the credit information system about using a moratorium (which may result in deterioration of clients' creditworthiness). Financial Ombudsman - given the existing problems with the use of moratoriums by various banks (controversial entries in applications regarding confirmation of the loan balance or different banks' approach to suspending instalments) - recommended introducing statutory, harmonised credit moratoria. The government proposes now a regulation, which provides for the right of consumers who took out loans before 13.03.2020 and later lost the main source of income, to suspend the repayment of one loan for up to 3 months, without accruing interest and fees.

Banks declare that are ready to launch the process of facilitating access to short-term credit to entrepreneurs to stabilize the financial standing of a client who has been affected by the effects of the COVID-19. However, it seems that this declaration only applies to the distribution of state aid programs (state authorities and government agencies). Banks declared that they would use the support schemes prepared by the state, and they assured the full transfer of the assistance benefit to customers. Liquidity support to banks' customers is therefore mainly possible thanks to the fiscal and monetary support packages applied[1] and the reduction of the supervisory burden[1].
Some banks launched a special loan offer (mainly for consumers, with remote procedure). However generally banks, expecting higher credit risk, tightened their creditworthiness requirements, so loans are more difficult to access[1], but also the demand for loans is declining[1].

Banks have also been an important channel of information about the pandemics, safety rules, warnings, state aid activities etc.
There were also financial education initiatives (especially the ones directed to children and people with disabilities – for who banks had special campaigns and activities/assistance for visually impaired people, hearing impaired people etc.).

Expecting a significant increase in the non-performing loans ratio, Polish banks started to look for remedies and instruments that could help in restructuring. An asset management company is an idea to relieve financial institutions. A "bad bank" would be an institution to which banks would transfer parts of their NPL portfolios. This institution would use the experience gained by Polish banks in the 1990s, when the very bad condition of the economy caused a huge increase in nonperforming loans; at that time, the 'bank conciliatory proceedings' mechanism was used, under which banks redeemed part of the loans, set a new repayment schedule for some, and some converted into the capital of enterprises and - as a co-owner - helped restructure them. The newly proposed vehicle would be mainly a private venture (capital would be invested by banks willing to participate in it). Banks also suggested the participation of public institutions, in particular the Bank Guarantee Fund (Polish Banking Association proposed to finance a 'bad bank' with a part of the contribution paid to the deposit guarantee/resolution system).

[1] Until half of May, customers submitted almost one million applications, of which 86%, were approved (https://zbp.pl/Aktualnosci/Wydarzenia/Juz-prawie-milion-wnioskow-o-zawieszenie-platnosci-rat)
[1] E.g. renewal, extension or granting of new loans to corporations and SMEs with the use of national de minimis and EU guarantees, including preferential loans (with a state bank subsidy for working capital loans), application of operational and financial simplifications facilitating access to loans and credits guaranteed or guaranteed within the framework of national and regional programmes, distributed within the framework of the EU Cohesion Policy in Poland; lowering the reserve requirement on deposits.
[1] E.g. the repeal of the obligation for institutions to apply the systemic risk buffer, announcement of a more lenient supervisor's approach to possible non-compliance with the LCR liquidity standard, and allowing banks to take into account the specific situation of certain borrowers in the micro and SME and corporate segment as a result of an epidemic threat when assessing their creditworthiness, relaxation of national GAAP rules concerning provisioning and classification of credit exposures. In addition, Polish banks have called for the abolition of the bank levy (the basis of taxation is the banks' assets, excluding treasury bonds - therefore, it does not favour the granting of loans) and the levy on income from capital deposits (especially since at low interest rates the central bank during the pandemic crisis, which drastically reduced the attractiveness of bank deposits).
[1] According to the cyclical survey by the National Bank of Poland, already in Q1 2020, banks tightened their lending policies in all market segments due to the impact of the Covid-19 pandemic on economic activity. For corporate loans, the scale of the tightening of credit policy was the highest since mid-2009. The tightening of credit policy is expected to continue in the next quarter and the scale of the tightening will be significant. At the same time, banks expect a drop in demand for the majority of loan categories, the largest in the case of consumer and mortgage loans, very high in the case of long-term loans for SMEs, only in the case of large enterprises an increase in demand is expected - for short-term loans (www.nbp.pl/systemfinansowy/rynek_kredytowy_2020_2.pdf)
[1] Banks' inquiries about the condition of contractors and customers in the credit information database have already dropped by almost half (https://media.bik.pl/informacje-prasowe/505116/coraz-ostrzejsze-hamowanie-polskiej-gospodarki-zapytania-o-kondycje-kontrahentow-i-klientow-spadly-juz-o-niemal-polowe)

Box 2: Countries experiences: Romania

In Romania, measures for deferral of Loan Payments was adopted: an emergency ordinance was passed on 26 March 2020 by the Government (the "Ordinance"), instituting a Moratorium of up to 9 months, available to virtually any type of borrower affected directly or indirectly by the COVID19 context (except for credit institutions), who do not register overdue payments/whose loan is not accelerated. For legal persons, there are two additional criteria to be met: (i) the entity's activity was curtailed (in full or in part) further to measures taken by competent authorities during the state of emergency or its March 2020 revenue has decreased by 25 % or more compared with the average income generated in January and February 2020 and (ii) the entity is not subject to insolvency.
Debtors which may qualify for the GEO 37/2020 benefits: individuals; authorized individuals, individual enterprises, family enterprises, liberal professions and those exercised under special laws, irrespective of the professional form; legal entities under loan agreements and leasing agreements, except the credit institutions.
Type of credit facilities fall under the scope of the GEO: all types of credit facilities granted to the debtors appear to fall under the scope of the GEO, including consumers loans, mortgaged credit granted to consumers etc.; Lenders: credit institutions; non-banking financial institutions; branches of foreign credit institutions and financial nonbanking institutions which carry out their activities in Romania. **In case of natural persons:** The postponement of the maturity date will depend on (i) the age of the client and (ii) on the type of financing. In case of natural persons who would exceed the age limit for a credit facility, the loans will be restructured in order to fall within the age limit of the individual. Moratorium is voluntary for eligible borrowers (opt-in), who will have to submit a request with their lender within 45 days as of publication of the Ordinance (which occurred on 30 March).

The loans are suspended at the request of the debtors, for a period of up to nine months, but no later than 31 December 2020. In case of the debtors for whom the extension of the credit maturity exceeds the age limit provided in the lenders' rules, the latter shall proceed to restructure the loans with the observance of the age limit. This provision could expose the older consumers to over indebtedness and possibly led to an increase in NPLs. Another cause of risks for consumers is that the GEO 37/2020 provides interest capitalization except for mortgage loans. The interest for the amounts due whose payment is suspended is capitalized and thus added to the credit (principal) balance at the end of the suspension period. Thus, the revised principal repayments are spread over until the new maturity of the loan following the suspension period. However, the interest is not capitalized in the case of the mortgage loans granted to individuals. In such case, the interest accrued during the suspension period is calculated according to the loan, and represents a standalone and independent receivable in relation to the other debtor obligations under the loan. This standalone and independent receivable bears no interest and its payment is spread over 60 equal monthly installments, starting the month immediately following the end of the suspension period and is guaranteed by the State. In case of debtor default, subsequent execution of the guarantee and payment by the Ministry of Public Finance, the Guarantee Fund prepares a debt instrument identifying the payment obligations of the individuals benefiting from the suspension measure. The debt instrument is a writ of execution. The relevant receivables resulting from the execution of the state guarantees under GEO 37/2020 are recovered from the debtors by the National Agency for Fiscal Administration and the collected amounts become state budget revenues. If a debtor fails to pay a receivables resulting from the execution of the guarantee letters on the due date, the debtor shall owe accessory tax liabilities calculated and communicated by the National Agency for Fiscal Administration.

Recently, it was found that Romanian consumers who have resorted to the facility offered by the state to postpone rates due to the COVID-19 pandemic and have postponed their monthly rates will be reported by creditors to the Credit Bureau, even if the rules of application of GEO 37/2020 did not provide for this. However, the Credit Bureau and the banks claim that these notifications are not important and will not have negative effects on customers credit scoring.

`Box 2: Countries experiences: Romania (continued)

Many Romanian consumers are at risk of being directly impacted by the global economic downturn. The military ordinances issued by the Government under the state of emergency, aimed at stopping the spread of the coronavirus, have led many companies to partially or wholly cease operations. This has led to the highest unemployment rate in more than two years. The number of suspended contracts has stabilised somewhere close to 1 million (active employees at the end of Feb-2020 were 5.6 million). Terminated contracts have been steadier and more gradual, reaching close to 350k, basically doubling the number of unemployed people at the end of Feb-2020. Thus, until June 15, 2020, individual customers submitted a number of over 334,000 requests to suspend monthly payment obligations, which represents a share of approximately 22% of ongoing loans to the population. The clients of legal entities have submitted a number of almost 28,000 requests for suspension of monthly payment obligations, corresponding to a share of approximately 28% of the total loan portfolio granted to this category. The figures are rising compared to previous reports, which raises concerns about the risk of insolvency for individuals and businesses.

For these reasons there have been calls by the Asociatia Consumers United/ Consumatorii Uniti, to make fully operational the insolvency commissions provided by Law no. 151/2015 on insolvency procedures applicable to individuals from the central and local level which at the moment do not work. ”Law no. 151/2015”, which entered into force on 1 January 2018, and sets out class proceedings aimed at facilitating the financial recovery of individual debtors acting in good faith. Law no. 151/2015 was met by criticism from insolvency professionals, who highlighted the lack of creditor representation, restricted access to judiciary proceedings and lack of clear procedures for debt enforcement and liquidation. Moreover, since 1st January 2019, the NBR limited the debt-service to income threshold for loans granted to natural persons (both mortgage loans and consumer loans), in order to limit the level of indebtedness of natural persons. This recent change may lead to a decrease in the number of loans that credit institutions can provide to consumers.

Due to the poor banking degree and digital skills of the Romanian Population, the risk of financial and economic exclusion during the pandemic increased.

Although banks claim to have taken steps to increase the degree of digitization and introduce measures to limit physical contact with customers, in fact, for most operations banks in Romania require the personal physical presence of the consumer at the agency (i.eg for card collection, personal data update, closing an account or activating a suspended current account). If the holder did not provide a proxy before the pandemic, the banks only accept original notarial power of attorney for representation of the holder. The vulnerable consumers, especially the old and the ones living in the remote rural areas of the country are affected by these practices, they had no access to notary nor to banks. They also have difficulties in access to cash due to the movement restrictions and the low degree of banking in those areas.

The digital signature is not frequently used in Romania by individuals. It is spread mainly to the enterprises for business and fiscal purposes. As part of its response to the COVID-19 outbreak in Romania, the Romanian government has taken additional measures to reduce in-person interaction with public authorities. Under the Government Emergency Ordinance no. 38/2020 ("GEO 38/2020"), all Romanian public authorities are required to take necessary measures for accepting electronically signed documents from the public and issuing to that end electronically signed official documents. However, although the enactment of the above-mentioned government emergency ordinances is a good step forward towards digitalisation, we are still missing national implementation rules.