EBA BS BSG 2021 008 rev. 1

Board of Supervisors and Banking Stakeholder Group

28 October 2021

Location: teleconference

EBA Regular Use

Joint Board of Supervisors and Banking Stakeholder Group meeting on 28 October 2021 – Minutes

Agenda item 1: Welcome and approval of the agenda

1. The Chairperson welcomed the Members of the Board of Supervisors (BoS) and the Banking Stakeholder Group to the joint meeting.

2. The Chairperson asked the BoS and BSG whether there were any comments on the draft agenda. There were no comments on the agenda.

3. The Chairperson informed the BoS and the BSG that Marc Thevenin who joined in April 2021 had resigned and that the EBA was planning to replace him in the coming weeks.

Conclusion

4. The BoS and BSG approved the agenda of the meeting.

Agenda item 2: Report on the activities of the BSG

5. The BSG Vice-Chair summarised the BSG working plan for 2021 and stressed that it was in close alignment with the EBA work programme. He mentioned that the BSG's deliverables in 2021 included responses to various consultation and discussion papers, own initiative advices and preparation of workshops. On the organisation of work, the BSG Vice-Chair informed that the BSG was internally organised in eight working groups and that the groups were meeting on a monthly basis. He concluded by highlighting some of the deliverables and he also thanked the EBA for organising the event on the EBA's 10th anniversary.

6. The BoS and BSG Members did not raise any comments.

7. The Chairperson concluded by thanking the BSG for their pro-active approach during the COVID-19 pandemic and their contribution to various EBA's deliverables.

Agenda item 3: Lessons learnt from the COVID-19 crisis

8. The Chairperson introduced the item by stressing that it was important for regulators and supervisors to reflect on policy measures and assess their efficiency. This was particularly crucial for the measures applied as response to the COVID-19 pandemic, in which the regulators had to make decisions swiftly given the specific time constrains.

Agenda item 3a): A positive effect of policy measures to help the EU banking sector absorbing the impact of the pandemic crisis

9. The EBA Director of Economic and Risk Analysis (ERA) continued by summarising policy measures deployed by the EBA as a response to COVID-19 pandemic. He highlighted that swift response from fiscal, monetary, regulatory and supervisory communities limited the impact of the COVID-19 crisis. The high-speed response helped reduce uncertainty as to the intentions of public authorities and helped enable banks to continue supporting the economy. He also mentioned that in contrast to previous crises, banks were able to continue lending due to their higher levels of capitalisation and more robust balance sheets. Contrary to expectations at the outbreak of the pandemic, a credit crunch was avoided, and no bank failures have materialised. With regards to the measures introduced in response to the pandemic, the Director of ERA noted that it was too early to assess their full effect and that key risks, such as potentially unsustainable profitability, potential for higher market, cyber and other operational risks, higher household credit risk, ESG related risks as well as macroeconomic uncertainty, remained for the banking sector. He summarised that delayed remittance dates for supervisory reporting, the stress test postponement, flexibility on SREP and recovery planning as well as the guidelines on moratoria on loan repayments brought immediate operational relief to banks. Throughout 2020, the EBA prepared several reports on the pandemic impact and in June 2020, the EBA conducted a transparency exercise which helped the market participants to assess timely and accurately banks' standing condition. He then focused on coordinated approach of regulators together with micro- and macroprudential authorities on restrictions of banks' distributions and said that similar to other measures, this aimed to encourage banks to sustain the flow of new lending to the economy and to increase buffers for potentially upcoming credit risk and other pandemic-related losses. The measure indeed supported the build-up of banks' capital buffers. The average CET1 buffer above overall capital requirement & P2G reached 4.5 percentage points as of YE 2020 (3.6p.p as of YE2019). The Director of ERA concluded by updating the BoS and BSG on the recent capital developments and said that capital positions and liquidity buffers have remained stable in the first half of 2021, asset quality remained robust, yet there were signs of deterioration. All loan segments reported a year-on-year decrease in NPL ratios except for credit for consumption and large corporates. The decrease was more pronounced in SMEs (- 150bps YoY,) and CREs (-200bps YoY). On the other side, the sectors most affected by the pandemic have taken a toll

on the reported asset quality. For example, hospitality and entertainment sectors reported a substantial deterioration in their asset quality (Q2 2021 NPL ratios stood at 9.7% and 8.2%).

10. A presentation by a BSG Member on the disclosures of European banks during COVID-19 covering a sample of 153 banks followed. He noted that the Conceptual Framework (CF) of the International Financial Reporting Standards (IFRS) provided information that was useful for making economic decisions for a broad range of addressees. The methodology included analyses of half-year and annual reports 2020 from European banks under quantitative and qualitative aspects which he briefly summarised. He mentioned that disclosure in annual reports was better than in half-year reports and that overall level of disclosure was unsatisfactory with exception for credit risk where there was a high level of disclosure on expected credit loss (ECL) measurement updates. In general, there was a need for improvement with regard to sensitivities, overlays, accounting policies and portfolio breakdown. Furthermore, uncertainty faced by banks was not adequately depicted, together with other than credit types of risks, future effects, assumptions and judgements.

11. The BSG Vice-Chair presented the BSG own initiative paper on COVID-19 recovery and resilience. He mentioned that in the paper, the BSG assessed the measures applied to support banks and consumers, and potential implications/impact of these to consumers, financial institutions, and regulatory/supervisory community, and provided some suggestions going forward. He noted that even if it was too early to assess the effectiveness of the extraordinary measures applied, given the ongoing uncertainty it was important to sketch out the phase-out of the measures in order to avoid cliff-edge effects. In this regard, there were several policy actions proposed in the paper, such as flexibility for banks which should not be pushed to make provisions "above and beyond international standards"; calendar provisioning should be respected with the "comply or explain" process; relief measures that intend to address excessive procyclicality in buffers need to be maintained either for a longer period or permanently; future legislative proposals should not overly impact banks' capital requirements to ensure international competitiveness for European institutions, and a support should be provided to households that continue suffering from the impact of the pandemic. He concluded by saying that regulators need to be agile during times of change and this meant being able to rapidly create, adapt and enforce regulations. In a more adaptive, collaborative and outcomes-based regulatory approach, regulators might have a better chance to balance consumer protection and innovation effectively.

12. A BoS member reflected on the presentations. He acknowledged that the cooperation and forceful policy action helped to overcome the COVID-19 crisis. The European banks were well prepared as result of the banking regulatory framework based on which the position of banks was stronger, and they had enough capital. There was an overall trust in the economy and many national governments quickly reacted at the beginning of the pandemic. He acknowledged some policy actions proposed in the BSG paper and highlighted a need for harmonisation at the EU level.

13. A discussion by several BoS and BSG Members followed. One BSG Member requested clarification on the qualitative part of the disclosure analysis. She also suggested that the EBA could consider how leverage ratio was disclosed in different supervisory regimes. One BoS Member provided clarification on their national developments related to payment moratoria given that they were mentioned in the BSG own initiative paper and noted that despite having 17 % of household mortgages impacted by the moratoria, there was no increase of NPLs and no particular challenges have been considered in this segment.

14. The Chairperson stressed that some of the structural challenges mentioned in the presentations, such as increased digitalisation, banking consolidation, and sustainability have been challenges of today with long run implications.

15. The BSG presented explained details of the qualitative analysis of the disclosure. The BSG Vice-Chair mentioned that banking regulatory framework was too complex and their proposal for outcome-based regulation was suggesting more pragmatic approach to the complex regulatory issues.

16. The Chairperson concluded by reminding the BoS and BSG that at the beginning of the COVID-19 pandemic, the regulators were worried of the use of buffers and even if they have not been used as much as expected, it was crucial to keep them as they might be used in the future.

Agenda item 3b): A possitive effect of the COVID-19 outbreak for digitalisation and retail banking?

17. One BSG member gave a presentation on the effects of COVID-19 outbreak on digitalisation and retail banking. He started by providing the context and the main impact of the pandemic: lockdowns with reduced mobility; adoption of digital channels; consumption patterns adjusted with an increase in e-commerce; payment options shifted to electronic/digital moving away from cash; adoption of contactless payments as well as adoption of new technologies with potential impact in other areas. Figures in relation to the digital uptake and payment behaviour were discussed, including a strong rise in internet and mobile access, an increase of electronic payment transactions, and a reduction in the use of cash. Based on this, he presented some concerns such as: proneness to frauds and data breaches, need for adequate assessment methods in AI, excessive reliance on connectivity, unclearly defined regulatory perimeters and fairness and transparency of fees and charges.

18. The presentation also included information on financial literacy levels and digital skills, which suggested a need for further work before achieving full digital financial empowerment of consumers. The reduction of the number of ATMs was also mentioned, with the greatest decrease taking place in 2020. Conversely, statistics showed that 55% of Euro area citizens deemed cash important.

19. The BSG member concluded with positive takeaways in the adoption of digital banking services but also underscored the need to address a potential increase of fraudulent activity going

forward, to ensure data protection and the operability of systems, to increase trust in decision making processes and avoid potential biases, and to address issues related to potential lack of connectivity. He advocated for a clear regulatory perimeter and accountability provisions as well as transparent fees and charges. The BSG member deemed important to ensure consumer choice was available (including the use of cash) and to increase levels of consumer literacy.

20. A BoS member was invited to discuss the presentation. He concurred that digitalisation had brought benefits to consumers and increased competitiveness of the market whilst also posing some risks. For example, he pointed out that while digitalisation had offered consumers a 24-hour service, its interruption could equally bring reputational risk for banks. He deemed important the education of consumers in relation to internet security. In the same vein, he opined that banks needed to invest in control systems, continuity planning, and regular testing of ICT processes. He also informed of challenges for supervisors stemming from digitalisation, such as sectoral and geographical concentration, the need to hire staff with ICT specific profiles, and collaboration in relation to issues of national security. He concluded by stating that supervisors also needed to adjust its processes and systems.

21. The Head of the EBA's Conduct, Payments and Consumers (COPAC) unit contributed to the discussion by pointing out the ways in which most of the concerns outlined in the BSG presentation are being addressed, in Level 1 legislation and/or EBA legal instruments in support thereof. The Head of COPAC started with fraud in the area payments, where the preliminary assessment of the EBA of card fraud was that, after the implementation of PSD2 and the imposition of two factor authentication through the EBA's Technical Standards, card fraud was decreasing. Whilst it was premature to draw conclusions given the limited data reported to the EBA, he said early indications suggested a reduction by 40-50% of card payment fraud between 2019 and 2021. He continued that the EBA was planning to issue a discussion paper by end of 2021 or early 2022 to expose to the public some of the data collected in this regard and invite external stakeholders to comment on this.

22. In response to the concerns raised by the BSG member regarding data breaches, the EBA Head of Unit reminded that the EBA had set in place a set of Guidelines on the reporting of security incidents in 2017. These required all 4,500 banks and 1,500 payment and e-money institutions to report operational and security incidents in the payments space to NCAs, for them to take appropriate action and also to forward the reports to the EBA. Moreover, he continued by reminding that the Council and EU Parliament were finalising the legislative proposals on the Digital Operational Resilience Act (DORA), which will contain numerous preventive requirements and will extend these not only to the banking but also to the insurance and investment sectors and will include incident reporting as well.

23. The EBA COPAC Head of Unit continued by responding to the concern of inadequate information disclosure and accountability provisions that prevent consumers from making well-informed decisions. He referred to the recent Joint ESAs Consumer Protection Day in which this topic was discussed. These discussions suggested that there was indeed a need for

a paradigm shift to disclosure in the digital age and that the ESAs are will now assess the potential next steps.

24. Lastly, in relation to the concern of the BSG member on fees and charges, the EBA Head of Unit reminded that the EBA Regulation mandated the Authority to enhance transparency on fees and charges. Thus far, given resource constrains and the need to prioritise work, the EBA had not taken any concrete steps to fulfilling this mandate. However, given the issues identifies in consecutive editions of the EBA's Consumer Trends Reports in this regard, he informed that the EBA was currently carrying out a thematic review into fees and levies in jointly with NCAs, consumers associations and financial institutions. He also mentioned that potentially some mystery shopping activities could be carried out mid next year as part of said review.

25. One BSG member intervened to say that there was scattered evidence that bank fees have increased during the pandemic, particularly on the bank accounts (for small companies and consumers). She was of the opinion that SEPA transactions should be free with no conditions attached to it. If not possible, she recommended to conduct regular monitoring reports based on mystery shopping by EBA.

26. Another BSG member was of the opinion that, from a consumer point of view, the ideal banks business models should involve some degree of human intervention and not be a complete automated service.

27. Another BSG member welcomed the EBA GL on incident reporting under PSD2 in the context of reporting of security breaches but said that institutions could have strong incentives not to report incidents. Thus, it would be important to validate whether PSPs were actually reporting as required.

28. One BSG member informed of the good level of digitalisation prior the pandemic in her jurisdiction. However, she said that increased online shopping and consequent increase in card transactions as well as challenges with third party providers deserved monitoring. She also informed of an increased indebtedness amongst young people for which her national Parliament was looking to establish a national debt register. Looking at the future, and in relation to fraud, she was of the opinion that the provision in Art 2 of the RTS on strong customer authentication and secure communication (SCA&CSC) left room to interpretation. She advocated for clearer and more concise guidelines that would increase supervisory convergence and provide further guidance to banks on how to build the transaction monitoring.

29. Two BSG members intervened to stress the issue of the digital knowledge gap and financial exclusion. One said that older members of the population were unable to keep up with digitalisation and were unfairly suffering its consequences. Some examples were given such as the increase of fees for withdrawing cash as well as risks of assault when doing so, reduction of branches, and reduction of effective hours dedicated to face-to-face customer service. Another pointed out to the need of reconciling simplicity and effectiveness.

30. One BSG member pointed to the importance of the regulatory perimeter and barriers across sectors. For instance, it was mentioned the extensive bundling of products with different regulatory treatments which were difficult to grasp for consumers.

31. Two BSG members intervened to elaborate on fraud method in their jurisdiction like MB Way and OLX fraud.

32. The BSG presenter intervened to welcome that the most important and major concerns of his presentation had been identified by the EBA and the institutions and that work was underway or already implemented to address these. He took the opportunity to reinforce the comment on differences amongst jurisdictions.

33. The EBA Head of COPAC intervened to add that the EBA was very aware of the issue of financial exclusion, as it has become apparent that many banks have decided to comply with requirements under PSD2 and the EBA's Technical Standards by requiring the customers to use, and therefore own, a smart phone. This was not a requirement under the PSD2 or the RTS and has been the choice of banks but has led to the unintended policy consequence that some customers were at risk of being financially excluded. He cautioned, however, that exclusion was a societal concern that the EBA as an authority over financial institutions was not well placed to address and that any explicit requirement to that effect would need to be articulated in Level 1 legislation. He concluded by saying that the EBA would raise the issue when developing its response to the call for advice it has received from the EU Commission on the review of PSD2.

Agenda item 4: AOB

34. The Chairperson reminded that the next meeting would on 21 April 2022 and concluded the meeting.

Participants of the Joint Board of Supervisors and Banking Stakeholder Group conference call on 28 October 2021[1]

Chairperson: Jose Manuel Campa

Board of Supervisors

Country	Voting Member/High-Level Alternate	National/Central Bank
1. Austria	Helmut Ettl	Karin Turner-Hrdlicka
2. Belgium	Jo Swyngedouw	
3. Bulgaria	Stoyan Manolov	
4. Croatia	Sanja Petrinic Turkovic	
5. Cyprus	Constantinos Trikoupis	
6. Czech Republic	Zuzana Silberová	
7. Denmark	Jesper Berg/Thomas W. Andersen	
8. Estonia	Andres Kurgpold	Timo Kosenko
9. Finland	Marko Myller	Katja Taipalus
10. France	Dominique Laboureix/Emmanuelle Assouan	
11. Germany	Peter Lutz	Karlheinz Walch
12. Greece	Heather Gibson/Kyriaki Flesiopoulou	
13. Hungary	Gergely Gabler	
14. Ireland	Gerry Cross	
15. Italy	Andrea Pilati	
16. Latvia	Santa Purgaile/Ludmila Vojevoda	Andris Vilks
17. Lithuania	Simonas Krepsta/Renata Bagdoniene	
18. Luxembourg	Claude Wampach	Christian Friedrich
19. Malta	Joseph Gavin/Pierre Paul Gauci	Oliver Bonello
20. Netherlands	Maarten Gelderman/Sandra Wesseling	
21. Poland	Kamil Liberadzki	Olga Szczepańska
22. Portugal	Ana Paula Serra	
23. Romania	Cătălin Davidescu	
24. Slovakia	Tatiana Dubinova/Linda Simkovicova	
25. Slovenia	Primoz Dolenc/Damjana Iglic	
26. Spain	Angel Estrada/Alberto Rios Blanco	
27. Sweden	Karin Lundberg	David Forsman

EFTA Countries	Member
1. Iceland	Unnur Gunnarsdottir
2. Liechtenstein	Markus Meier
3. Norway	Morten Baltzersen

Observer	Representative
1. SRB	Sebastiano Laviola

[1] Liga Kleinberga (Financial and Capital Market Commission); Jose Rosas (Banco de Portuga); Kurt Van Raemdonck (NBB); Luca Serafini (Banca d'Italia); Brita Hrenovica (Finanstilsynet); Morgan Allen, Eida Mullins (Central Bank of Ireland); Pawel Gąsiorowski (Narodowy Bank Polski); Vincent Woyames Dreher (ECB); Pascal Hartmann (FMA); Marek Sokol (CNB); Liza Lunstroo, Carljin Elemans (DNB)

Other Non-voting Members	**Representative**
1. ECB/SSM	Stefan Walter
2. European Commission	Martin Merlin
3. EIOPA	Kai Kosik
4. ESMA	Tomas Borovsky
5. EFTA Surveillance Authority	Marta Margret Rúnarsdóttir
6. ESRB	Tuomas Peltonen

BSG members

Consumers		
Monica Calu	Asociatia Consumers United/Consumatorii Uniti	Romania
Tomas Kybartas	The Alliance of Lithuanian consumer organisations	Lithuania
Jennifer Long	International Monetary Fund	Ireland
Vinay Pranjivan	Associação Portuguesa para a Defesa do Consumidor	Portugal
Martin Schmalzried	Confederation of Family Organisations in the EU	Czech Republic
Christian Stiefmueller	Finance Watch AISBL	Austria
Patricia Suárez Ramírez	Asufin	Spain
Employees' representatives of financial services		
Andrea Sità	UILCA Italian Labor Union - credit and insurance sector	Italy
Leonhard Regneri	Input Consulting Gmbh	Denmark
Financial institutions		
Eduardo Avila Zaragoza	BBVA Group	Spain
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Erik De Gunst	ABN AMRO Bank	Netherlands
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Maria Ruiz de Velasco Camiño	SIBS	Portugal
Representatives of SMEs		
Constantinos Avgoustou	Founder and Non-Executive Director of several enterprises	Cyprus
Top-ranking academics		
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Concetta Brescia Morra	University Roma Tre	Italy
Edgar Löw	Frankfurt School of Finance & Management	Denmark
Monika Marcinkowska	University of Lodz	Poland
Users of Banking Services		
Rens Van Tilburg	Sustainable Finance Lab	Netherlands
Alin Eugen Iacob	Association of Romanian Financial Services Users	Romania
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For the Board of Supervisors

Done at Paris on 7 December 2021

José Manuel Campa

EBA Chairperson