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The impact of the COVID-19 pandemic on the German banking industry – a critical analysis of regulatory easing for banks

1. Introductory overview

The banking industry has been affected both directly and indirectly by the COVID-19 pandemic, with the level of risk faced by banks depending on both their portfolio orientation and the banks' operating area (Deutsche Bundesbank, 2020). In this context, the indirect effects of the pandemic on banks are of great relevance, since – due to lockdowns – commercial and private customers have suffered considerable financial losses (Deutscher Industrie- und Handelskammertag, 2020). To combat this, the federal government passed a comprehensive package of measures in March 2020 to provide financial support to the affected companies and employees (Bundesfinanzministerium, 2020c). At the beginning of the first lockdown, the national and international supervisory authorities (National Competent Authority – NCA) decided on and implemented a wide range of support measures for banks (BaFin, 2021).

In this paper, we will therefore first outline the main regulatory simplifications for German banks before presenting the overall results of an expert study and formulating recommendations for action.

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2. Regulatory easements due to COVID-19

The COVID-19 pandemic is a new situation, the scale of which is difficult to grasp. The consequences of the pandemic are being felt in all sectors of society and represent yet unknown challenges, both in humanitarian and economic terms. The economic consequences of the pandemic may lead to a significant deterioration of bank portfolios and consequently to a higher number of loan defaults. To mitigate these effects, the federal government has taken various measures together with the banking supervisory authorities (Neisen, Schulte-Mattler, 2020, 35). In the following, however, only the most important measures are presented. In this context, the focus is on the easing of capital buffers and the operational area. The main objective of these measures is to avoid a break-down in the provision of credit.

2.1. CRR Quick Fix

In order to further promote credit provision by banks and mitigate the impact of the COVID-19 pandemic on banks, the European Commission published Regulation (EU) 2020/873 amending the CRR (Capital Requirements Regulation) and CRR II (CRR Quick Fix) on 24 June 2020. This includes temporary measures as well as those brought forward from CRR II (Neisen, Schulte-Mattler, 2020, 35). Among others, the changes include the following aspects:

- The interim arrangements to mitigate the IFRS 9 effects on Common Equity Tier 1 capital according to art. 473a CRR are extended by two years (Regulation (EU) 2019/630, 11–13).
- Banks must hold a minimum amount of capital for loans that is available in the event of restructuring or resolution (prudential backstop). This minimum level is intended to avoid the need for state support measures (Deutsche Bundesbank, 2019).
- The temporary introduction of prudential filters for dealing with unrealised gains and losses on government bond-related financial products (Regulation (EU) 2020/873, 15).
- The possible suspension of the qualitative multiplier used in market risk to determine equity. The daily back-testing for the forecasting quality of the models used is only of limited significance due to the high volatility of markets during the COVID-19 pandemic. Bringing forward the regulations from CRR II on support factors for loans to small and medium-sized enterprises (SMEs) and infrastructure companies.
- Allowing reduced risk weights to be reported for loans backed by pensions or salaries.

- Provisional possibility of not taking into account exposures to central governments in the calculation of the leverage ratio (Regulation (EU) 2020/873, 9, art. 1 no. 4 and art. 9) if, from the BaFin's point of view, there are exceptional circumstances (Regulation (EU) 2020/873 art. 1 no. 4 para. b).
- Early application of the CRR II rules on the treatment of software assets, according to which conservatively valued software assets (Regulation (EU) 2019/876 art. 1 no. 18) do not have to be considered as deductible items in accordance with art. 36 CRR II if their value is preserved in the event of insolvency.

2.2. Easing with an impact on capital

At the beginning of the COVID-19 pandemic, both the European Banking Authority (EBA) and the European central Bank (ECB) used the flexibility contained in their regulations and presented easements in capital requirements (Waschbusch, Kiszka, 2020). The easing is intended to give banks the opportunity to continue to grant loans to their customers, even though the worsening economic situation could mean that more capital could be needed to cover credit risks. According to these regulations, banks are allowed to temporarily reduce their capital buffers, as these were built up specifically for times of crisis (EBA, 2020a). Since the national NCAs were requested to reduce the requirements for the countercyclical capital buffer as part of the measures, the BaFin in Germany has already reduced the existing buffer to 0% with effect from 31st March 2020 (BaFin, 2020a).

The existing capital buffer easements can thus lead to a situation where the banks under the supervision of the German supervisory authorities do not fulfil the combined capital buffer requirements according to § 10i of the German Banking Act (KWG). Since the capital buffers are built up in economically good times to be available in times of crisis to absorb negative developments, this does not result in any grounds for objection for the supervisory authorities. However, the restrictions associated with non-fulfilment, such as the distribution ban for dividends or for variable remuneration components (§ 10i para. 2 KWG), must be considered. In addition, any failure to meet the combined requirements must be reported to the supervisory authority without delay. In the event of a shortfall in the requirements according to § 10i para. 6 KWG, the capital maintenance plan must be prepared in the context of a crisis after consulting the supervisory authorities, and the resulting measures as well as the timetable for implementation must be specified (BaFin, 2020c).

In addition, the possibility was created for banks supervised by the ECB to fulfil the requirements of Pillar 2 of the Basel Regulation (P2R, Pillar 2 Requirements) with capital instruments that are not assigned to the Common Equity Tier

1 capital. This means that the instruments of Additional Equity Tier 1 capital and Equity Tier 2 capital can also be considered at this point. This regulation was meant to come into force in January 2021 with the revision of the CRD V (Capital Requirements Directives) and was brought forward to support the banking industry (ECB, 2020). For less significant institutions (LSI), the use of extended capital instruments was possible in Germany at that time (BaFin, 2020b).

In addition to the possibility of using capital buffers, the European supervisory authorities also established the easing of the liquidity coverage ratio (LCR), by which the requirement for compliance with a ratio of at least 100% in accordance with art. 412 CRR can be undercut. The aim of this easing is, on the one hand, to avoid potential liquidity problems for banks and the associated spill over effects for other institutions and, on the other hand, for the economy as a whole (ECB, 2021). Therefore, falling below the defined ratio does not lead to supervisory measures, but a report is still required according to art. 414 CRR. The information requirements until the quota is met again are to be determined individually. The NCAs may also require additional reports beyond the regular supervisory reports (e.g., daily liquidity reports). For LSIs, the BaFin has stipulated that any further shortfall in 10% steps must be reported to the respective institution's supervisors at the BaFin and the German Central Bank. Based on this, a waiver of daily liquidity reports for LSIs is expected (BaFin, 2021).

The obligation to meet the P2G (Pillar 2 Guidance) and the liquidity coverage ratio will be reintroduced depending on the path of economic development. In its FAQ, the ECB specifies a timeline until the end of 2022 in which banks can operate below the P2R. The liquidity coverage ratio depends on both the individual bank as well as the market development. The ECB plans an obligation to comply with this at the earliest from the end of 2021 (ECB, 2021).

In addition to the possibility of falling short on the overall ratio, there are also simplifications in the calculation of the liquidity coverage ratio. For highly liquid assets in the form of shares, these may not show a loss in value of more than 40% even in a stress case (Delegated Regulation (EU) 2015/61 art. 12 no. 1). During the COVID-19 pandemic, it has so far been shown that shares continue to be highly liquid, even if there are fluctuations in value of more than 40% within 30 days. Therefore, LSIs in Germany currently still have the option of including shares as highly liquid assets in the calculation of the LCR even if the 40% limit is exceeded, if they are assigned to one of the main indices (BaFin, 2021). Furthermore, the liquidity coverage ratio exclusivity criterion for LSIs mentioned in the delegated regulation has been suspended. This stipulates that investment funds are only to be included in highly liquid assets if all special assets of the fund also consist exclusively of highly liquid assets. The relief is particularly relevant for special funds that only have one investor and where the investor sets the investment

guidelines himself (single-investor funds). Through this suspension, highly liquid assets in the special assets of a single-investor fund can be included in the liquidity coverage ratio, regardless of whether the fund is invested exclusively in highly liquid assets (BaFin, 2021).

3. Easing in the operational area

3.1. Finalising Basel III

One of the most significant facilitations in the operational area is the postponement of the finalisation of Basel III to 1st January 2023. The new regulations will be implemented among others by the CRR II and the CRD V. The introduction of the extensive changes is associated with a high degree of operational effort for banks. By postponing the finalisation, the introduction phase for the output floor, for example, will be extended. The members of the Basel Committee see the postponement as justified, as the strength of the financial system is not endangered, but the operational burden for the banks can be significantly reduced (BCBS, 2020; Waschbusch, Kiszka, 2020).

3.2. Stress tests

In order to assess the stability of the European banking system and to identify existing risks, the EBA conducts an EU-wide stress test every two years. The participants in the stress test include the largest and most important banks supervised by the ECB. Both the ECB and the NCAs as well as the ESRB (European Systemic Risk Board) are involved in conducting the stress test (EBA, 2021). Due to the COVID-19 pandemic, the test scheduled for 2020 was postponed to 2021 with the aim of reducing the operational burden on banks so that they can focus on their core business activities. To still be provided with up-to-date information, the EBA has requested information on the size of the institutions' credit portfolios and their quality as part of an EU-wide survey (EBA, 2020b). In addition to the EBA stress test, a stress test for the LSIs is carried out in years in which no EU-wide stress test takes place. Thus, the stress test planned for 2021 was also postponed by one year (Waschbusch, Kiszka, 2020; BaFin, 2021).

3.3. Moratoria

The EBA published the Guideline on statutory moratoria and non-statutory moratoria on credit repayments in view of the COVID-19 crisis (EBA/GL/2020/02)

at the beginning of April 2020. The reason for the introduction of the guideline is that, due to the measures taken to contain the COVID-19 pandemic, many borrowers are currently unable to meet their payment obligations or will be unable to do so soon. The Euro states have each created their own legal regulations for this purpose to support individuals (Baumstark, Mehring, 2020, 10). In the guideline, the EBA sets out how loan agreements that are subject to a general payment moratorium are to be treated for supervisory purposes. The guideline refers to the application of the definition of default according to art. 178 CRR and the classification as a deferral measure according to art. 47b CRR (EBA/GL/2020/02 para. 6). In order not to qualify as a deferral measure pursuant to art. 47b CRR, the moratorium must meet the criteria of no. 10 of the guideline. It is important that the moratorium is not applied to individual debtors, but to groups of debtors only. The criteria relevant for the assignment to a debtor group are to be defined as broadly as possible, so that the borrower can make use of the moratorium without a prior credit assessment. Another essential criterion is that the moratorium was introduced due to the COVID-19 pandemic (EBA/GL/2020/02 para. 10b, 10f). If a payment moratorium fulfils the criteria mentioned in paragraph 10, the days in default are to be counted in accordance with paragraphs 16 to 18 of the EBA guideline on the application of the definition of default in accordance with article 178 CRR (EBA/GL/2016/07) (EBA/GL/2020/02 para. 13). However, the days affected by the moratorium are not counted as days in default (EBA/GL/2016/07 paras. 16–18, EBA/GL/2020/02 para. 13). Despite the payment moratorium, banks should continue to assess the likelihood of a default according to standard practices so as not to underestimate longer-term risks (EBA/GL/2020/02 para. 14). If institutions use moratoria without a law, this must be reported to the NCAs. The report content is defined in paragraph 17 of the guideline on moratoria. Among other things, it includes the date from which the moratorium is applied, the number of debtors and the sum of the exposure values that fall within the scope of application (EBA/GL/2020/02 para. 17a, c).

3.4. Interaction between the front office and the back office in the credit division

The BaFin provides some simplifications for LSIs at the national level, especially for the operational requirements in the credit division based on the MaRisk. There is often a shortage of staff, especially in small banks, which can lead to bottlenecks due to pandemic-related staff shortages. The MaRisk requirement that a strict separation between front and back office must be maintained in the credit division can have an aggravating effect in this context. To counter this circumstance, the BaFin has given banks the opportunity to soften this strict separation

in the event of crisis-related staff shortages. This means that employees can work both in the front and back office to ensure the smooth course of business. Banks that make use of this facilitation are therefore required to adequately consider and manage the potential risks that may occur (BaFin, 2021).

Furthermore, banks can also waive a second vote under certain conditions. However, this only applies to loans issued to existing customers within the framework of a state-guaranteed aid programme to bridge crisis-related difficulties. For these loans, the market vote is sufficient at the time of issuance, whereby the back-office vote must be obtained within three months. If the back office votes negatively on such a loan, appropriate risk-limiting measures must be initiated accordingly (BaFin, 2021).

3.5. Non-performing loans

Due to the COVID-19 pandemic, an increase in non-performing loans is expected. The BaFin considers it to be usual and appropriate for banks to support borrowers who are only experiencing difficulties due to the pandemic. However, applying BTO 1.2.5 para. 3 MaRisk, according to which institutions must obtain a restructuring concept from borrowers if they decide to accompany the restructuring, is currently suspended. Therefore, a loan can currently be granted even if the ability to service the debt is not guaranteed because of the crisis. In this context, the bank must conclude within an internal review that the company is able to survive and that the current difficulties would not have occurred without the pandemic situation (BaFin, 2021).

4. Further facilitations

At the beginning of the crisis, the EBA already called on the ECB and the NCAs to perform their supervisory tasks only within an appropriate framework and to show flexibility whenever possible. At the same time, banking audits were postponed whenever possible (EBA, 2020a). In the meantime, however, these are mostly carried out again in an off-site mode (no on-site audits) (BaFin, 2021).

A measure which did not constitute easing for banks as for their commercial customers was the CovInsAG. Under this act, the obligation to file for insolvency was suspended under certain conditions in order to mitigate the consequences of the pandemic for companies that were particularly affected and to avoid a sharp increase in insolvencies. At the same time, the CovInsAG was intended to ensure banks that lending was also promising during the pandemic, even though a positive prognosis for a going concern was difficult to make (Schluck-Amend,

Schwarzer, 2020, 46). However, according to section §1 para. 1 CovInsAG, the suspension of the obligation to file for insolvency was only possible if maturity for insolvency had been reached due to the COVID-19 pandemic and there was a chance that insolvency could be resolved again. Essentially, it could be assumed that the requirements were met if on 31st December 2019 the company was not yet insolvent. The suspension of the obligation to file for insolvency was extended until the end of April 2021. Since 1st January 2021, the obligation to file for insolvency could be suspended if a company was in difficulties due to the crisis but had a chance of survival due to state aid payments. The state aid had to be requested by 28th February 2021 (§ 1 para. 2 and 3 CovInsAG).

For banks, this act was a good way to keep their debtors and support them through the time of crisis. However, granting loans in times of crisis is always associated with increased risks, which may be very difficult to calculate due to this measure. However, this act also offered banks the opportunity to reduce their risk due to a privileged status. The basic prerequisite for this, however, was that the borrower's problems were demonstrably caused by the pandemic and that rehabilitation was not already hopeless at the time a loan was granted. The privileges according to § 2 para. 1 CovInsAG referred primarily to short-term loans to bridge existing difficulties (Schluck-Amend, Schwarzer, 2020, 48–49).

5. Expert study – banking supervisory easements in practice

5.1. Sample and methodological approach

The empirical study is intended to contribute to answering the question regarding the extent to which the measures adopted by the supervisory authorities made it easier for German banks to deal with the effects of the COVID-19 pandemic. Therefore, seven guideline-based interviews were conducted with a total of nine experts. All experts were selected according to their professional background. We sought professionals from the banking industry with at least ten years of experience in an area related to the topic discussed. Moreover, it was important to interview experts from different areas to be able to get a full and diversified perspective on the topic. Therefore, experts from the banking industry, from the supervisory authorities and from academia selected. In this context, it is important to mention that the statements and opinions of the experts are their own and do not necessarily represent the institution in which they are currently employed. An anonymised presentation of the experts can be found in Table 1.

Table 1

Experts – Overview

Expert 1	academic and banking background (internal audit and general bank management)
Expert 2	banking background (bank audit)
Expert 3	banking background (e.g., non-performing loan processing and internal audit)
Expert 4	regulatory background (continuous banking supervision)
Expert 5	regulatory background
Expert 6	regulatory background (was involved in the drafting the facilitations)
Expert 7, expert 8 and expert 9	banking background (internal audit)

All interviews were based on a semi-structured questionnaire to structure the interviews, on the one hand, and to make sure all necessary topics were covered, on the other hand. Six of the interviews were individual interviews, the seventh interview was conducted as a group interview at the request of the three experts questioned. This did not lead to any limitations in the analysis. The interviews took place between 25th January 2021 and 10th February 2021 by telephone or video calls and lasted about one and a half hours each.

To be able to analyse the data collected in the interviews, they were audio-recorded and then transcribed based on the rules of Kuckartz (2018) and Dresing/Pehl (2018). Subsequently, the transcribed interviews were analysed using the qualitative content analysis according to Mayring (2015). The most important results are presented below in a summarised form.

5.2. Presentation and interpretation of the results

The expert study was intended to critically analyse the easing measures for German banks enacted by the supervisory authorities about their applicability and their benefit. Furthermore, the question as to whether the measures can contribute to overcoming the effects of the COVID-19 pandemic was addressed. In this context, some facilitation measures are assessed by the experts as very positive, others as very critical. According to the experts, the main purpose of the rapid introduction of easing measures was to calm the market so that both borrowers and the banks themselves could count on the support of the supervisory authorities during the crisis. There are no special beneficiaries of the facilitation

measures, according to the experts, as the different banks can benefit from the adopted measures to different extents depending on their individual situation and the respective business model and focus. However, it must be kept in mind that taking advantage of the facilitation measures often goes hand in hand with being more affected by the crisis. The measures can therefore be understood primarily as a signalling effect both towards the banks and towards the economy.

However, the experts list numerous points of criticism regarding the easing of capital requirements. The basic design of the capital buffer requirements serves to build up capital so that it is available in times of crisis. Consequently, the possibility of falling short on these capital buffers is understandable and reflects their purpose. Nevertheless, it has been shown that in practice, falling short on these capital buffers is associated with further, sometimes costly measures, so that the banks try to avoid it if possible. In the current market situation, in which the effects of the COVID-19 pandemic have not yet been reflected in the balance sheets of the companies and banks, a shortfall is generally to be viewed rather critically, as the effects are regarded as second-round effects by the experts. In other words, banks need a comprehensive capital base to absorb the risks as soon as credit risks occur. If banks start using their capital buffers now, there is a possibility that there will be insufficient capital available to counteract risks when they materialise. At the same time, the use of the free equity components for lending can lead to loans being granted to borrowers with poorer credit scores, which can make the effects even more drastic when risks materialise. However, in practice, the easing of capital buffer requirements has so far not led to an increase in lending to borrowers with poorer credit ratings. The caution of banks in avoiding additional or bad risks is very clear in this context. Thus, the measures do not provide a great benefit at this point, as the risks involved are for the most part difficult to calculate.

The benefit from the easing of capital requirements must also be critically reviewed considering the banks' current earnings situation and their options for raising equity capital. Since the lowering of the capital buffer requirements is a temporary measure and the due date of this facilitation has not yet been determined, the financial planning is associated with high risks for banks. Particularly in the forecast of capital available to the banks and to be held to cover the capital requirements, banks cannot reliably plan for the measures adopted due to the lack of a limit on the duration of the facilitation. Therefore, if a shortfall occurs, banks will have to make up for it by the next forecast date to meet their capital budget requirements. Their tight earnings situation can also cause problems for banks in raising new equity capital. If they take advantage of the easing and reduce their capital buffers, this can lead to a situation in which they are no longer able to meet their capital requirements as soon as the measures have been discontinued. This can then lead to difficulties for the affected banks. Banks

using the facilitation measures to avoid a necessary merger for the time being can thus widen their structural problems. The lack of equity capital could also lead to a restriction of business activities, especially in structurally weak regions. The restrictions that come into effect when the capital buffers are undercut can also be an obstacle to raising capital. Especially for cooperative banks that push dividends as an incentive for subscribing to business shares, a ban on distributing dividends can have negative effects.

All in all, the measures to suspend the buffer requirements have a signalling effect on banks and can offer them a safety net, but ultimately their use is associated with high risks, which most banks do not want to take now if they can avoid it. It is particularly important to emphasise, however, that these facilitations do not imply a lowering of the minimum capital requirements. The fundamental capitalisation of the banks remains the same.

Eases in the context of the calculation of own funds are mostly brought forward regulations within the framework of the revision of the CRR and thus to be classified within the framework of the Basel III finalisation. The possibility of backing the P2R with additional Equity Tier1 capital and Tier 2 capital is primarily directed at significant banks. Due to the mix of experts, it is not possible to make a standardised statement at this point. However, it can generally be observed that the capitalisation of significant banks is more limited, which is why this regulation can be an advantage for them. At the same time, the requirements for large banks will be adapted to the regulations that already apply to smaller banks in Germany. The adjustment of the qualifying amounts for loans to small and medium-sized enterprises will only help banks if they also make use of the privileged treatment. For smaller banks which are very well capitalised, the benefit of this privileged crediting is usually less than the associated expense, which is why they do not make use of it. At the same time, it is also questionable whether the political reasons for favouring SMEs correspond to the risk content of such loans.

The facilitations in the operational area are very differentiated in terms of their effects. In particular, the abolition of the separation of front and back office is viewed as being very critically by the experts. Regarding the incidents of fraud that have occurred in the past this is understandable. At the same time, however, this measure can be an opportunity for banks with limited personnel, which struggle with pandemic-related staff shortages. Nevertheless, this measure should only be used in exceptional cases. If banks make use of this regulation, they must be aware of the risks that may arise from it.

When considering operational easements for non-performing loans, the following two aspects must be considered. On the one hand, there is the possibility of waiving a reorganisation report. On the other hand, the suspension of the insolvency obligation also plays a role here. The lack of an obligation to file

for insolvency can contribute to companies continuing to be kept artificially alive despite an unsustainable business model. However, the amendments to COVInsAG have reduced this risk, as companies must prove that a positive continuation of the company is possible after taking the requested state support into account (§ 1 para. 1 and 3 COVInsAG).

A measure that can be an advantage for both the borrowers and the bank itself is the general moratorium on payments. Banks whose borrowers and lessees were financially restricted by short time work particularly benefit from this. These deferrals made it possible to bridge short-term liquidity bottlenecks of customers without having to mark the loans as defaulted. At the same time, however, the deferral can also extend a loan that is already no longer sustainable, since the lack of debt service capacity is due to structural problems that are, however, masked by the pandemic. The default marker would thus have allowed for an earlier liquidation and thus also an earlier realisation of the collateral. However, the experts note overall that the payment moratoria have some obstacles regarding their design. Among other things, the deferral of interest payments should be mentioned in this context. Due to these particularities, banks tend to use individual agreements with their customers instead of the possible moratoria. The lack of default identification also means that the supervisory authorities do not gain a comprehensive insight into possibly defaulted loans through the banks' reporting. The risks building up in the banks can then no longer be recognised at an early stage. This problem can be limited by the COVID-19 reporting system, but not eliminated.

The experts agree that the current business models of German banks will continue in the future. This also refers to the threefold structure of the German banking industry (savings banks, cooperative banks, credit banks). At this point, the COVID crisis will not lead to a change in the basic business models, although the way business is conducted and bank portfolios will change as a result of the pandemic. The biggest drivers in this regard are digitalisation as well as the changed attitude of people towards life. Due to the earnings situation being burdened by the persistently low interest rate environment, banks have had to look for new ways to generate/increase earnings even before the pandemic. In the past, many banks did not pay too much attention to the topic of digitalisation, which experts justify with the high supervisory requirements that had to be implemented at the same time and the sometimes-considerable costs incurred in the implementation of digitalisation. However, it should be noted at this point that many banks were still doing so well financially in recent years that they were not forced to proactively address this topic or see any reason to do so. However, the COVID-19 pandemic has given this topic an enormous boost, as both the way of doing business and the way of serving customers are becoming more and

more digital. The decreasing income due to the low interest rate environment can be improved either by shifting the business models towards a bigger focus on commission business or by changing the portfolio towards new financing topics (e.g., sustainable investments). In addition to new investment opportunities, banks need to become more efficient, as the measures in digitalisation and further regulatory requirements are accompanied by high costs. Reducing costs (e.g., closing branches), rationalisation and digitalisation investments in a bank's infrastructure as well as the development of new sources of income (e.g. commission business, new products) are the logical consequence.

Despite all the measures implemented, experts see the danger of a new financial crisis. In particular, the expected increase in default rates due to loan defaults, caused for example by business insolvencies, could lead to a crisis in the banking industry. Thus, the benefit of the easing measures also depends on how long it will take to lift the restrictions caused by the pandemic. The existing economic buffers and the banks' reserves can only mitigate the pandemic conditions for a limited period. The pandemic has led to severe cutbacks in many areas of society, some of which have had to be buffered by financial aid from the government. However, the consequences of the pandemic would have been even more severe without government support and would subsequently require further assistance, as unemployment, for example, would increase. This (financial) aid also resulted in an increase in public debt in Germany (Tokarski, Wiedmann, 2021, 1).

The research results clearly show that most German banks – from the experts' point of view – still prefer a cautious approach to using the easing measures. The risks caused using the facilitation measures have so far tended to be rated by the banks as higher than the benefits resulting from the implementation of the measures. The questions of whether the facilitation measures have a benefit for the banks and whether they help them overcome the challenges associated with the pandemic can therefore not be answered in general. The measures are partly criticised because they were introduced at a very early stage of the COVID-19 pandemic and have hardly had any effect to date. In addition, uncertainty is very high due to the lack of a time frame for the validity of the measures when they were implemented.

6. Critical concluding remarks

In addition to the challenges posed by the COVID-19 pandemic, banks also must meet high regulatory requirements stemming from many different supervisory regulations. In particular, the implementation of the final regulations from Basel III are associated with a high implementation effort for many banks.

Especially small banks are confronted with problems in this context, as the new requirements often cause a high need of labour that can hardly be managed with the existing personnel capacities. The high requirements are mainly the result of the last financial and economic crisis of 2007 onwards, which revealed weaknesses in the financial system. To be able to continue to guarantee a functioning financial industry and sufficient provision of credit to private individuals and businesses, the regulatory authorities have decided on and implemented various easing measures in the context of the COVID-19 pandemic.

The facilitations that have been made include extensive measures, which, however, have so far had little effect in the context of day-to-day operations in the banks. For example, the reduction of capital buffers built up for times of crisis is a controversial topic of discussion. Since bank portfolios have hardly been affected by the effects of the crisis so far, these measures cannot yet unfold their full effect. The banks are acting cautiously here to be prepared for possible future credit defaults. The tension between the high regulatory requirements, on the one hand, and the mandate of the government to the banks to grant loans as quickly and flexibly as possible during the pandemic, on the other hand, may lead to an excessive use of easing measures. However, since defaults in their credit portfolios as well as violations of the regulatory requirements for due diligence can lead to increased capital requirements, banks are still cautious about using the facilitations that have been provided regarding capital buffers.

In contrast, the scope regarding operational facilitation is much more extensive. However, the past has demonstrated that, for example, the removal of market and follow-up regulations can lead to high operating losses. The banks must therefore compare the costs of a possible risk with the benefits of the measures taken. The banks' increased need for information is also important in this context. The additional workload that arises can lead to a high burden or even an overload of their back office. The possibility of compensating for crisis-related staff shortages in this context gives the banks security, regardless of the actual use.

Payment moratoria are a good opportunity for banks to help their clients who have experienced liquidity bottlenecks due to the crisis. However, whether the moratoria are more useful and helpful than individually agreed deferral measures remains questionable. In particular, the suspension of default covenants that comes with the deferrals can be a great advantage for banks. At the same time, however, it should be noted that the existing uncertainty about the informative value of the economic documents as well as the suspension of the insolvency obligation make it difficult to recognise actual defaults. This is because the resulting risks in the bank balance sheets can unfold almost completely undetected. Only the COVID-19 reporting system can provide the supervisory authority with an indication of the development in a bank's balance sheet.

As to whether the timing of the introduction of the facilitations was reasonable or not is difficult to answer at this point, as comparable situations have not yet occurred in the past. Generally, the measures are to be seen as a step in the right direction. At the same time, however, they can also pose a great risk. This is especially true if the use of the measures means that already existing structural problems of a bank continue to remain undetected and thus possibly worsen undetectably.

These measures do have a signalling effect on the financial industry. However, the extent to which the measures can mitigate the full effects of the crisis once they are felt in the balance sheets of companies and once there are more defaults in the future cannot be conclusively clarified at this point. Fortunately, due to government assistance and well-positioned companies, only a few borrowers have been negatively affected so far. However, due to the measures of payment moratoria and the resulting removal of the assignment to default status, it is currently unclear how high the actual risks are. The caution that banks are currently exercising in taking advantage of the measures, however, speaks for a predominantly good risk management. Especially with regard to their equity capital, the banks have been able to build up sufficient capital buffers in recent years, so that in most cases it is currently not necessary to fall short on the capital buffer requirements.

If the massive increase in risk provisioning forecast occurs, a reduction of the capital situation in the entire banking industry must be expected to be able to cover the resulting defaults. It is therefore important that the measures will still be valid at this time, so that their intended effect can fully unfold.

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Summary

The COVID-19 pandemic was a challenge for all aspects of life. Besides others, this includes health and social life as well as the overall state of the economy. To contain the spread of the coronavirus, governments throughout the world imposed temporary closures (lockdowns). The banking industry was affected by these lockdowns in multiple ways. To mitigate the potential

negative impact of the COVID-19 pandemic on banks, the national and international supervisory authorities passed comprehensive measures. The aim of this paper is to highlight the main regulatory facilitations for German banks by focussing on measures regarding capital buffers and the operating areas of banks. Besides this, an expert study was conducted to analyse how the measures are perceived by German banks and to develop recommendations for action. The results of the study show that the measures have mainly had a signalling effect on banks. However, measures like the easing of capital requirements are also related to higher risks for the banks. The results illustrate that most banks have hesitated in taking these additional risks if they can avoid them, with other measures like general moratoria on payments considered helpful. Overall, the results demonstrated that the experts prefer a cautious approach to using the easing measures.

JEL codes: E58, G21, G28

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