



EBA publishes Report on benchmarking of national insolvency frameworks across the EU

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The European Banking Authority (EBA) published today its Report on the benchmarking of national loan enforcement frameworks across EU Member States, in response to the EU Commission's call for advice. The Report introduces for the first time a set of benchmarks for bank loan recovery and identifies areas where the divergence in the national insolvency regimes is wider. In addition, the Report provides an overview of the characteristics of insolvency regimes that help explain the differences across the EU.

The Report provides a rich and unique set of benchmarks on national insolvency frameworks across 27 EU countries, based on loan-by-loan data. Benchmarks are calculated by asset class for recovery rates (gross and net), time to recovery and judicial cost to recovery. The dispersion among different categories of loans and across the EU27 is high for most of the benchmarks in most loan categories.

Collateralised lending, including RRE and CRE, generally present higher recovery rates while retail credit cards generally show the lowest recovery rates, but are characterised by the shortest recovery times. Retail loans, in general (credit cards and other consumer loans), show the highest levels of judicial cost to recovery relative to the size of the receivables.

Loans to large corporates always present higher recovery rates than loans to SMEs, whereas the time to recovery tends to be similar for the two loan categories. Loans to SMEs also show one of the highest judicial costs to recovery.

The legal system that forms the basis of the enforcement framework (referred to as "legal origin" throughout the Report) is a significant factor explaining the recovery rates and time to recovery. The results also indicate that the existence of certain characteristics related to both the legal framework and the judicial capacity are important to improve the recovery outcomes. Positive characteristics of the enforcement frameworks that are common to three or more asset classes are for example: (i) legal instruments to enable out-of-court enforcement of collateral available; (ii) the possibility for creditors to influence the proceedings through creditor committees; and (iii) the existence of triggers for collective insolvency proceedings taking into consideration the debtor's future positive/negative cash flow. Positive characteristics of the judicial capacity that seem important to improve the recovery outcomes include, for instance, the existence of courts and judges who are specialised in insolvency cases, as well as the possibility of electronic communication between the courts and the insolvency administrators.

Note to the editors

In January 2019, the EBA received a Call for Advice from the EU Commission to benchmarking national loan enforcement frameworks across individual EU Member States. For the analysis, in 2019-20 the EBA and the National Competent Authorities collected loan-by-loan data on loans under insolvency proceedings from more than 160 banks located in 27 Member States.

The sample of loans under enforcement comprises of more than 1.2 million loans and is divided in the following asset classes: corporate, small and medium-sized enterprises (SMEs), commercial real estate (CRE), residential real estate (RRE), retail-credit cards and retail-other consumer loans. The reference date for the data is the period before December 2018.

The ratio of total assets of the banks participating in the exercise over the total assets of the respective banking sectors is, on average, above 30% for all asset classes considered.

This is the first time that individual loan-level information was collected by the EBA across the EU. Some remaining data quality issues, which are highlighted in the Report, suggest some caution in the analysis of the results.

DOCUMENTS

- › Report on the benchmarking of national loan enforcement frameworks
- › EBA's response to the Call for Advice

LINKS

- › Calls for Advice
- › NPLs

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