NPL Trading Platforms: Experience from Europe

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### Background - Failures of the EU NPL Market

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<tr>
<th>Market failure 1) Information &amp; transaction costs</th>
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<tbody>
<tr>
<td>• A market for ‘lemons’; intransparency</td>
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<td>• High costs of overcoming intransparency (investors)</td>
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<th>Market failure 2) Bargaining problems</th>
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<td>• Few investors can absorb costs; barriers to entry</td>
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<th>Market failure 3) Insufficient control</th>
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<td>• Even when they can, cannot be sure of exclusive rights to debtors</td>
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<td>• Creates oligopsony, eliminates price competition and crystallises low prices associated with ‘lemons’ market</td>
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<td>• banks generally can’t afford to sell</td>
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<td>• many investors excluded from the marketplace</td>
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<td>• wide bid-ask spreads; low market liquidity</td>
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Background - addressing market failures

Information & transaction costs: “nature of the exchange”

Bargaining problems: barriers to entry “nature of the market”

Imperfect excludability - “nature of the commodity”

Background - Platforms can be Multi-Faceted

...but NPL platforms are no silver bullet. Only one element of encompassing NPL resolution strategies, including e.g.
- bank-internal workout,
- securitisation and
- AMCs,
NPL Platforms in Europe - Progress so far

Institutional ‘Genesis’

- Idea triggered by ECB in 2017

- EU NPL Action Plan (2017) included the idea of NPL Transaction Platforms


- Roundtable of industry experts organised by EC (2019)

- Idea of a central NPL data hub at EU level stressed in EC’s Communication on ‘Tackling NPLs in the aftermath of the Covid-19 Pandemic’ (2020)
Common ‘conceptual denominator’ reached so far

- **Broad scope desirable**
  - all loan types should be eligible for inclusion (unlike the more selective approach for AMC’s in EU’s ‘AMC Blueprint’)
  - Open to all types of sellers and (professional) buyers
  - Wide geographical scope – ideally EU-wide – to obtain economies of scale

- **Scope of services to be provided**
  - Ensure data quality and high degree of data standardisation
  - Could conduct data quality checks and define data validation standards
  - Could offer a price discovery mechanism
  - Could intermediate between investors and 3rd party providers
  - Never own nor service any loans, do not settle NPL transactions (!)
NPL Platforms in Europe- Open issues

- **Ownership – public versus private, national versus European**
  - EC sees no clear-cut case for public ownership and considers EU institutions mainly as ‘facilitators’
  - National public ownership seen as politically sensitive
  - EC idea of a ‘network’ of privately-owned platforms, adhering to industry standards, enforced by an industry body (self-regulation). *Details TBD*

- **How to square ‘bottom-up’ approach with pan-European scope?**
  - Expansion of existing ‘national’ platforms into other jurisdictions?
  - Some (limited) progress:
    - *Cooperation between Debitos (DE) and doValue (IT) starting in 2020, now expanding to GR and CY* but not yet on a large scale
    - Creditor coordination platforms in Portugal and Greece
  - Are NPL markets across EU still so diverse that a stronger top-down approach is needed?
NPL Platforms in Europe - Open issues

- Data to be used for the platform
  - EBA published NPL data templates in 2017
  - Wide stakeholder involvement in their design
  - ‘screening’ vs. (more detailed) ‘transaction’ templates;
  - Identification of subset of ‘critical’ data fields
  - Not used in practice(!); now to be reviewed and streamlined
  - Design problem or stronger (regulatory) push needed?

- Are the incentives sufficiently strong?
  - Banks should have an interest in well-functioning platforms with strong economies of scale and scope!
  - But they face monetary costs (improving / adjusting NPL data, platform fees), possible reputational risks and benefits are uncertain
  - Stronger incentives needed?
    - Regulatory costs and benefits of (not) using the platform
    - Tax incentives
References


European Banking Authority (2017), EBA NPL Templates

https://www.eba.europa.eu/sites/default/documents/files/documents/10180/2061766/28cab1a7-9e68-4af8-bab8-7b7ce3c2b1c7/EBANPL Templates%20Cover%20Note.pdf?retry=1


Thank you for your attention!

Comments / Feedback?

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