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MFSA Encourages Banks to be Vigilant as COVID-19 Support Measures are Phased Out

The Malta Financial Services Authority is working closely with banks to ensure that they are able to recognise early warning signs of credit deterioration once COVID support measures are phased out.

A number of measures were introduced by the Authorities to support the real economy but these could have masked credit risk problems that may have developed during the pandemic. These measures will gradually be phased out as economic activity returns to pre-pandemic levels.

During 2021, the MFSA examined standards across the industry and identified some good practice, but also a number of areas where banks in Malta need to improve in order to meet the standards expected. It will now work with the banks as they embed these standards into their procedures.

The Authority is encouraging banks to be vigilant and to pick up any signs of distress as soon as possible, as this will raise the chances of being able to find solutions for their clients. Banks also need to ensure that their capital properly reflects the risks in their balance sheets. The Authority noted that banks should be able to demonstrate that they performed an affordability assessment, ensuring that any restructuring of the loan was viable

Additionally, the MFSA suggested a number of areas that the boards and management of banks should focus on, including: improving the quality of data used to support credit; the identification of credit problems earlier on via appropriate triggers; and taking note of any concessions made to borrowers so as to be in a better position to spot any credit deterioration.

Banks should also not rely only on an annual review of a customer file to identify whether a deterioration in credit quality has occurred.

“The earlier the issue is identified, the earlier its management and the higher the likelihood that suitable measures are provided to the client to achieve a turnaround ... In the long run, prompt identification of early signs of deterioration is likely to reduce the overall risk level,” the Authority wrote in a [circular](#) published on its website.

The Authority will engage with, and assess, the approach taken by boards as part of its supervisory assessments in 2022.

About MFSA

The Malta Financial Services Authority (MFSA) is the single regulator of financial services in Malta, covering banks, insurance companies, investment services, trusts and pensions. In 2018, the MFSA became the first European regulator to develop a framework to regulate virtual financial assets. The MFSA's mission, as enshrined in its Vision 2021, is to enhance its position as an independent, proactive and trustworthy supervisory authority with the main purpose of safeguarding the integrity of markets and maintaining stability within the financial sector, for the benefit and protection of consumers. The MFSA licenses over 2,000 entities to operate in the financial services sector.



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