



## 2 Financial stability and financial market supervision<sup>4</sup>

### 2.1 Banking sector, payment services, and AML/CFT

#### 2.1.1 Banking sector

As at 31 December 2019 a total of 12 banks and 15 foreign bank branches were operating in Slovakia. Under the Single Supervision Mechanism (SSM), consisting of the European Central Bank (ECB) and the national competent authorities of participating Member States, all banks and foreign bank branches in Slovakia are categorised as either:

- significant institutions (SIs),<sup>5</sup> supervised directly by the ECB in cooperation with Národná banka Slovenska;
- less significant institutions (LSIs),<sup>6</sup> supervised directly by NBS; three of these institutions are classified as high-priority LSIs.

In 2019 a total of 24 proceedings were initiated in which the ECB exercises decision-making power in cooperation with NBS. The majority of these proceedings concerned fit and proper assessments of persons nominated to be a member of a significant bank's management board or supervisory board.

In 2019 NBS issued a total of 73 decisions under supervisory proceedings concerning this sector; most of them were grants of prior approval for appointments to one or more of the following positions: member of a management board or supervisory board, senior manager, and chief internal control/audit officer.

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<sup>4</sup> Further details are provided in a Slovak-language report entitled "Správa o činnosti útvaru dohľadu nad finančným trhom NBS za rok 2019" (Report on the Activities of the Financial Market Supervision Unit of NBS in 2019), which is published on the NBS website at <http://www.nbs.sk/sk/publikacie/publikacie-dohladu/sprava-o-cinnosti-udf>.

<sup>5</sup> Tatra banka, a.s., Všeobecná úverová banka, a.s., Slovenská sporiteľňa, a.s., Československá obchodná banka, a.s. and ČSOB stavebná sporiteľňa, a.s. (both belonging to KBC Group), UniCredit Bank Czech Republic and Slovakia, a.s. (foreign bank branch), Komerční banka, a.s. (foreign bank branch), mBank S.A. (foreign bank branch), and Raiffeisen Centrobank AG Slovak Branch (foreign bank branch).

<sup>6</sup> Other banks and foreign bank branches operating in Slovakia.

## Priorities of the SSM and NBS banking supervision

One of the key priorities for all the Bank's supervisory activities in 2019 was credit risk. Supervision focused mainly on analysing the quality of banks' portfolios in close connection with the approval of a new definition of "default" and with the continuing long-term SSM project focused on reviewing banks' internal models used for the capital requirement calculation.

### Inspections targeted at reviewing housing loan portfolios

NBS banking supervision responded to developments in the Slovak banking market, which, on the one hand, was reporting a prolonged uptrend in retail lending and, on the other hand, a downtrend in interest rates, in particular rates on loans secured by residential real estate. It was natural in this situation to open discussions at SSM fora on the need to review the quality of retail portfolios.

Two comprehensive inspections conducted by international teams commenced in 2019 at two significant institutions in Slovakia and neither was formally completed by the end of the year. In addition to these inspections, NBS banking supervision staff participated in a further eight international inspections and in four on-site inspections at LSIs.

### Reviewing of credit standards at EU and national levels

In an environment of low interest rates, high non-performing loan ratios in several European countries, discussions about loan pricing, and downward pressure on banks' profitability, the ECB and the European Banking Authority responded with a number of initiatives in 2019. Among them was a review of credit underwriting standards conducted at EU and national levels. In Slovakia, the review was conducted by NBS through ongoing supervision of the country's three largest banks.

In 2019 NBS banking supervision actively participated in the work of the ECB's joint supervisory teams (JSTs) and supervisory colleges for individual European banks, which includes the production of annual assessments of the supervised banks. Compared with the 2019 assessments of other EU banks, the assessment results for Slovak banks were among the best.

#### 2.1.2 Payment services and electronic money issuance

The fastest-growing sector of the Slovak financial market in 2019 was payment services. As at 31 December 2019 a total of 13 payment service providers were authorised to operate in the Slovak financial market; nine of them were authorised to provide payment services to an unlimited extent,

and four of them to a limited extent. One electronic money institution was active in the Slovak financial market in 2019.

A total of 25 final decisions concerning payment services were issued by NBS in 2019, including one decision to authorise the provision of payment services. The other decisions concerned the grant of prior approval for appointments to one or more of the following positions: member of a management board or supervisory board, and chief internal control officer.

### **New EU legislation concerning the provision of payment services is bringing several innovations**

The Commission Delegated Regulation on strong customer authentication and secure standards of communication ('the SCA regulation'), in force from 14 September 2019, supports new security requirements introduced into the payment services market by the EU's second Payment Service Directive (PSD 2) and does so partly by regulating third-party access. In this case, 'third party' means account information service providers and payment initiation service providers in regard to payment accounts accessible online which are held with account servicing payment service providers, in particular with banks. The operational testing of these bank interfaces was already available for functional testing by third parties from 14 March 2019.

Banks that decided to establish a dedicated interface for third-party communication with customer accounts were required to provide a fallback mechanism to ensure that third parties continue to have access to payment accounts in the event of an unexpected occurrence. Banks and other account servicing payment providers that opt for a dedicated interface may be exempted by NBS from having to provide a fallback mechanism only if their dedicated interface complies with all stipulated conditions. In 2019 NBS granted five such exemptions.

### **Certain problems were highlighted by the implementation of the SCA regulation**

The SCA regulation defined new categories of security features for customer authentication. The technical demands of harmonising SCA requirements across the EU necessitated the adoption of measures by the EBA and national regulators, including Národná banka Slovenska.

In the European context, the main problematic area in the implementation of the SCA regulation concerns compliance with requirements in regard to e-commerce card-based payment transactions (where the payment card is not physically present when the purchase is made).

On this matter, in 2019, NBS was communicating regularly with banks in their capacity as payment service providers. There was also intensive communication between the EBA, NBS and the Slovak Banking Association (SBA).

Based on the results of a survey conducted in the EU internal market, in October 2019 the EBA issued an Opinion on the deadline and process for completing the migration to SCA for e-commerce card-based payment transactions.

In accordance with the EBA Opinion, NBS in November 2019 issued a methodological guideline for financial market participants (specifically banks and payment institutions) in order to give payment service providers guidance on time periods, deadlines, procedures and information obligations in regard to the EU-wide harmonisation of procedures for e-commerce card-based transactions.

### 2.1.3 Foreign exchange activity

As at 31 December 2019 there were 673 entities in Slovakia holding a foreign exchange authorisation. During 2019 NBS issued 16 decisions in this area, 14 of which were decisions to issue a foreign exchange authorisation.

Eighteen sanction proceedings that resulted in the imposition of a fine were initiated in 2019.

In the same year NBS conducted six on-site inspections focused on checking compliance with the Foreign Exchange Act.

### 2.1.4 Non-bank consumer lending

As at 31 December 2019 there were 32 non-bank lenders operating in the Slovak financial market, of which 31 were authorised to provide consumer credit to an unlimited extent and one to a limited extent.

In 2019 NBS issued 39 final decisions under approval proceedings concerning non-bank lenders, including two authorisations to provide consumer credit to an unlimited extent and 27 prior approvals for appointments to one or more of the following positions: member of a management board or supervisory board, authorised representative, and chief internal control officer.

In 2019 NBS conducted four comprehensive on-site inspections at non-bank lenders. These inspections focused mainly on reviewing and assessing compliance with the Consumer Credit Act in the provision of consumer credit, compliance with business conditions, the internal control/audit

system, and the system for preventing money laundering and terrorist financing.

### 2.1.5 First comprehensive risk assessment of Slovakia in the area of anti-money laundering and combating the financing of terrorism

#### Action plan to combat money laundering, financing of terrorism and financing of the proliferation of weapons of mass destruction for the period 2019 to 2022

Risk assessments in the AML/CFT area were a feature of 2019. In connection with a cross-cutting project entitled “National assessment of the risk of money laundering and terrorist financing”, the Slovak Government in May 2019 approved an “Action plan to combat money laundering, financing of terrorism and financing of the proliferation of weapons of mass destruction for the period 2019 to 2022”. The document sets out specific tasks aimed at improving the efficiency of AML/CFT activities in Slovakia. Národná banka Slovenska, in cooperation with other sectors, is actively engaged in the performance of these tasks and in mitigating risks in this area. Several national authorities are cooperating on the project, including ministries with competence in this area, the Financial Intelligence Unit,<sup>7</sup> the General Prosecutor’s Office, and the courts. As regards the assessment and analysis of risks to financial market participants, NBS is the principal actor.

## 5. Evaluation of Slovakia by experts from the Council of Europe’s MONEYVAL Committee

Another important assessment activity in which NBS is actively involved is the evaluation of Slovakia carried out by the Council of Europe’s Committee of Experts for the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). The Committee is tasked with assessing compliance with the principal international standards to counter money laundering and the financing of terrorism and the effectiveness of their implementation.

From the beginning of 2019, the Bank was preparing documents for what would be MONEYVAL’s 5th round of an evaluation covering the whole financial market in Slovakia. The primary purpose of the evaluation is to assess the overall effectiveness of Slovakia’s AML/CFT system – to evaluate Slovakia from both a technical perspective (the provisions of the legisla-

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<sup>7</sup> Financial Intelligence Unit of the National Criminal Agency of the Presidium of the Police Force of the Slovak Republic.

tive framework for AML/CFT) and in terms of efficiency (how effectively AML/CFT legislative provisions are applied). The MONEYVAL evaluation visit took place in Bratislava from 7 to 18 October, and the evaluation process will continue into the period ahead.

In 2019 NBS conducted four AML/CFT-related on-site inspections at banks and foreign bank branches, during which it checked the institutions' compliance with AML/CFT obligations. In addition, members of the NBS supervisory staff prepared a set of questions that are required for off-site supervision and are designed to identify AML/CFT risks to the financial market.

## 2.2 Insurance sector

### Insurance undertakings in 2019

During 2019 a total of 14 insurance companies were operating in the Slovak financial market under the Solvency II regime. As of 31 December 2019 one insurer was dissolved by merging with another insurer. In the same year, one insurer ceased its activities, and its insurance portfolio was transferred to another insurer. Twenty branches of (re)insurers from other EU Member States were also operating in Slovakia in 2019.

#### 2.2.1 Review of Solvency II

##### The need for a review of insurers' reporting obligations was clear from practical experience

Throughout 2019, NBS was actively involved in activities of EIOPA working groups aimed at improving insurance-related EU legislation, which is undergoing a substantial review. The Bank was able to support these efforts with the experience gained from its regulatory and financial market supervision activities, thus enabling a transfer of knowledge acquired from the practical application of regulations in national conditions.

Proposals for the review were divided into two independent areas and put out for consultation.

The first area concerned insurers' reporting of supervisory data and disclosure of data. Since the entry into force of the Solvency II regulatory regime for (re)insurers, it has become clear that some of the reporting requirements for insurers need to be reviewed. At the same time, data which would help improve the performance of supervision and are not available on a periodic basis should be added to insurers' reporting statements.

The review is also focused on improving the financial condition report which, under the regulatory regime, all insurers are required to disclose. The purpose is to make the report clearer for consumers, so that they themselves can evaluate and assess the information contained in it. On the other hand, investors and analysts considered the report to be lacking in detail; in their view, it should be tailored to a professional readership, to make it easier to use for analytical purposes. This is also why EIOPA is considering whether there should be two reports instead of one: a report for consumers and a report for analysts, investors and other professionals.

In the second round of the consultation exercise, NBS together with other supervisory authorities put out a document proposing changes mainly in regard to Pillar 1 of Solvency II, in particular changes to the following: the calculation of technical provisions, the definition of the risk-free discount curve, the calculation of own funds, and the calculation of certain sub-modules of the solvency capital requirement. The document also put forward proposals extending into Pillar 2, specifically in regard to proportionality, group supervision, and insurers' conduct of business under the freedom to provide services in other EU Member States or by establishing a branch licensed in another EU Member State.

### **The extent of the proposed changes was reviewed on the basis of data collected from insurers**

To make the case for some of the proposed changes to the regulatory framework, it was necessary for EIOPA, via national supervisory authorities, to collect from insurers data that are not directly available through standard reporting statements. The purpose was to determine the extent of the proposed changes more efficiently and precisely. For that same reason there was direct cooperation with insurers, while a sufficiently representative sample was ensured through the participation of smaller, medium-sized and larger insurers. For this purpose, EIOPA in 2019 produced stress scenarios for insurers. The cooperation took place in a standard way in accordance with national and EU regulations. In Slovakia, insurers sent the data to NBS, and NBS, after validating the data, sent them to EIOPA for further processing.

## **2.2.2 On-site and off-site supervision**

### **Increase in number of AML-related on-site inspections**

In the first half of 2019, NBS completed six thematic on-site inspections of insurers which it had initiated in the previous year. They included two inspections that focused on both own funds and remuneration policy, two that examined the performance of and compliance with obligations aris-

ing under the AML/CFT Act, one that centred solely on the institution's own funds, and one that examined the corporate governance system and outsourcing activities. Supervisory activities in the insurance sector in 2019 also included the initiation and completion of one thematic on-site inspection focused on AML and the initiation of two on-site inspections that were not completed by the end of the year. Each of the uncompleted inspections examined the respective institution's AML system, while one of them also reviewed the management of insurance contracts and the settlement of insurance claims, and the other looked at the accounting and reporting of unassigned payments and at the insurers implementation of measures to eliminate shortcomings identified during a previous on-site inspection (conducted in 2013-14 and focused on the area of motor third party liability insurance).

### **Off-site supervision focused on the adequacy of premiums in motor third party liability insurance and the amount of agent commissions in relation to product management, product oversight, and insurance distribution**

Besides regularly reviewing statements and reports submitted by insurers, NBS conducts off-site supervision of all insurers in Slovakia. In 2019 this supervisory activity focused on ascertaining how insurers were implementing in their internal rules new legislation concerning product management, product supervision and insurance distribution, given that the EU's Insurance Distribution Directive had been enacted in Slovak law in 2018.

The off-site supervisory activities in 2019 included the supervision of all insurers, including branches of insurers from other EU Member States, which conduct business in the area of motor third party liability insurance (MTPL). The purpose of this activity was not only to review the state of compliance with requirements of the MTPL Act in regard to premium adequacy, but also to identify best practices among insurers in the area of MTPL insurance business.

### **Meetings with market participants**

Several meetings took place in 2019 between members of the NBS supervisory staff and representatives of individual insurers and representatives of external audit firms. These meetings focused mainly on the activity of supervised entities under the Solvency II regime, on the principal risks in the insurance sector, and on the outlook for the insurance market.

## 2.3 Securities market, pension fund sector, and financial intermediation and financial advisory services

Among the Slovak financial market participants as at 31 December 2019 were 22 domestic investment firms and seven investment firms operating through a branch under MiFID 2, two of which operated through tied agents. There were also eight banks and four foreign bank branches authorised to provide investment services.

In the investment fund sector, nine domestic asset management companies and seven banking entities performing depository activities were operating as at 31 December 2019.

As for the pension fund sector,<sup>8</sup> there were five pension fund management companies (second pillar) and four supplementary pension management companies (third pillar) operating in Slovakia as at 31 December 2019. Two PFMCs merged in 2019 to form a single company. Five banking entities were acting as depositories for second-pillar and third-pillar entities.

In the sector of financial intermediation and financial advisory services, a total of 27,927 entities were listed in the register of financial agents and financial advisers (REGFAP) as at 31 December 2019. Of these entities, 479 were issued in 2019 with an authorisation to operate as an independent financial agent and 12 were issued with an authorisation to provide financial advisory services. In 2019 in Slovakia there were thirteen entities authorised to provide specialised financial education.

Off-site supervision also covered the Bratislava Stock Exchange (BSSE) and two central securities depositories (CSDs): Centrálny depozitár cenných papierov SR (CDCP) and Národný centrálny depozitár cenných papierov (NCDCP). Issuers of securities admitted to trading on the BSSE were also subject to off-site supervision in order to check their compliance with information obligations vis-à-vis Národná banka Slovenska via the NBS-maintained Central Register of Regulated Information (CERI). There were 76 such issuers registered as at 31 December 2019.

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<sup>8</sup> The second pillar of the Slovak pension system – the old-age pension scheme – is a largely compulsory defined-contribution scheme operated by pension fund management companies (PFMCs). The third pillar – the supplementary pension scheme – is a voluntary defined-contribution scheme operated by supplementary pension management companies (SPMCs).

### 2.3.1 Investment services – further elaboration of certain issues

In 2019 NBS issued a methodological guideline, an opinion, and a set of questions and answers in order to provide further details on certain topics and issues in the area of investment services.

#### Significant impact of fund distribution on the capital market

At the start of 2019 NBS issued a methodological guideline on the issue of fund distribution by authorised entities (banks, investment firms, and financial agents). Given its significant implications for the capital market, the guideline, in particular its substantive aspects, was under discussion at the Bank for some time. It was produced in connection with a Securities Act amendment that enacted MiFID 2 in Slovak law. The guideline's purpose is to harmonise the interpretation of certain provisions regulating the distribution of funds by authorised entities and to establish transparent terms for the conduct of this business by all authorised entities. NBS sees the guideline as contributing to a convergence of views and to a proper understanding of fund distribution as a regulated activity.

#### NBS guidance provided to sector through questions and answers

In the first half of 2019 NBS also issued a set of frequently asked questions and answers regarding problems related to the practical application of MiFID 2 and MiFIR. The document was the result of cooperation between the Bank and Slovakia's Association of Securities Dealers in regard to the interpretation of Security Act provisions. The document answers questions put to the Bank, as the supervisory authority, by supervised entities and professional organisations and provides interpretations of national and EU law concerning matters within the Bank's competence.

The questions and answers concern mainly the organisation and governance of investment firms, market and reporting transparency, product management, record-keeping obligations, costs and fees, testing of suitability and adequacy, and testing of stimuli.

#### Streamlining of the scrutiny and approval process for prospectuses

Based on its obligations arising directly from the EU's Prospectus Regulation, the Bank in 2019 issued a methodological guideline on the scrutiny and approval process for prospectuses. Under the Regulation, competent authorities are required to provide on their websites guidance on the scrutiny and approval process in order to facilitate efficient and timely approval of prospectuses.

Even before the Prospectus Regulation entered into force, the Bank had in place a consultation and interim review process for prospectuses. Issuers offering securities and persons asking for admission to trading on a regulated market had the opportunity to consult NBS about the content of the prospectus even before submitting an official publication. The methodological guideline formalised this process and satisfied the requirements of directly applicable EU legislation.

### **NBS opinion on the provision of investment services under an exemption**

In early autumn 2019 NBS issued an opinion on the application of an exemption under Section 54(3)(d) of the Securities Act. The provision of investment services and the performance of investment activities are regulated activities; unless the Securities Act or another act provides otherwise, an entity other than an investment firm may not perform these activities if NBS has not granted that entity authorisation to provide investment services or, as an ancillary service, safekeeping and administration of financial instruments for the accounts of clients, including custodianship. The respective provision of the Securities Act provides for an exemption from that rule.

The issuance of the opinion followed repeated requests to NBS for further clarification on the conditions under which the exemption applies. To that end, the Bank issued a single opinion providing details about the exemption conditions, which is available on the NBS website<sup>9</sup> and will simplify the processing of responses to questions on this issue.

### **2.3.2 Annual pension account statements sent to savers**

#### **Clear and comprehensible information in statements of personal pension accounts**

Given that a growing number of SPMCs' customers (third pension pillar) were complaining about the statements of their personal pension accounts, and given other practical experience in this area, there was a clear need for a legislative amendment to address the issue. In this context, during 2019, NBS representatives were actively engaged in the drafting of the new Measure No 411/2019 of the Ministry of Labour, Social Affairs and Family laying down model statements of personal accounts and expected pension benefits in the supplementary pension scheme. The main purpose of the measure was to incorporate the implications of a constitutional law

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<sup>9</sup> [https://www.nbs.sk/sk/dohlad-nad-financnym-trhom/legislativa/detail-dokumentu/\\_76c785f8-45c8-4504-9b34-60e119ea386e](https://www.nbs.sk/sk/dohlad-nad-financnym-trhom/legislativa/detail-dokumentu/_76c785f8-45c8-4504-9b34-60e119ea386e)

that set a single retirement age ceiling and to remedy shortcomings identified in practice. At the suggestion of NBS, made in response to consumer feedback, the model statements included an explanation of how pension fund performance fees are charged.

### **NBS participation in the preparation of an EU-wide model pension benefit statement**

The issue of clear and comprehensible statements is not confined to Slovakia. In 2019 NBS representatives at EIOPA were participating in the drafting of model pension benefit statement for use throughout the European Union. A long-term objective of the Bank, in cooperation with the Ministry of Labour, Social Affairs and Family, is that EU standards and concepts become established in the Slovak environment and that pension savers are provided with comprehensive information in a clear and comprehensible way that is unified across the European Union.

### **2.3.3 On-site and off-site supervision**

#### **Survey of information assessment in the appropriateness regime**

In 2019 NBS participated in an ESMA survey conducted as part of the European supervisory authority's common supervisory action (CSA) initiative. The survey focused on the process of providing and assessing information about the appropriateness of clients' knowledge and experience in the investment field relevant to the specific type of financial instrument. Conducted as part of off-site supervision, the survey was in the form of a questionnaire sent to a sample of nine investment firms. It assessed mainly compliance with the legal framework, the processes and procedures for obtaining information from clients, the content of clients' knowledge, and how the level of knowledge and experience that clients need to trade in financial instruments is evaluated.

#### **On-site inspections centred on causes of an increasing number of consumer complaints**

In the pension fund sector, thematic on-site inspections were conducted at all PFMCs and SPMCs in 2019. They focused on the structure and content of pension account statements sent to savers in the second pillar and participants in the third pillar. The thematic inspections were selected on the basis of the increased number of applications and complaints sent to the NBS, especially from third-pillar participants who thought the amount of performance fees charged by SPMCs was disproportionate to the amount of savings in their personal pension accounts. The inspections showed, however, that the companies had been acting in accordance with the law

and that the figures given in pension account statements under both the second and third pillar simply reflected the adverse developments in financial markets towards the end of 2018, which weighed on the performance of both old-age pension funds and supplementary pension funds. The pension companies were charging fund performance fees only for the period of financial market growth.

### **First on-site inspection at a provider of specialised financial education**

A Financial Intermediation Act amendment, in effect from 23 February 2018, introduced among other things changes in the form of specialised financial education and in the frequency of, and rules for, the provision of such education. The amendment clearly defined the entities authorised to provide specialised financial education for particular sectors and for different levels of professional competence. As a result, the remit of NBS supervision was extended to include supervision of specialised financial education providers. In this context, the Bank in 2019, for the first time, conducted an on-site inspection of a specialised financial education provider. The inspection examined mainly the quality of the specialised financial education – whether it was beneficial for the recipients and whether it provided a source of new information and knowledge.

### **Preparation of risk-oriented capital market supervision**

Off-site supervision in 2019 included standard checks of investment firms, asset management companies, the Bratislava Stock Exchange, central securities depositories, pension fund management companies, and supplementary pension management companies. A sample of issuers of securities traded on the BSSE regulated market was also examined. In 2019 off-site supervision focused mainly on assessing the capital adequacy of investment firms. At the same time, the supervisory staff prepared a framework for risk-oriented supervision, mainly in regard to investment firms and asset management companies.

## **2.4 Cross-cutting themes**

### **2.4.1 Macprudential policy**

The low interest rate environment has been contributing to the ongoing build-up of cyclical risks (mainly in lending to households) and to further interest margin compression. These two trends represented the main risks to Slovakia's financial stability in 2019. Despite these risks, however, the Slovak banking sector remained stable and sufficiently capitalised, with all risks adequately covered.

## Significant risks persisted in the household credit market, and NBS responded to them

The second half of 2019 saw housing loan growth pick up again, owing mainly to the strength of market competition and a further drop in interest rates. In response to this situation, NBS tightened regulatory limits on retail lending. A reduction of the limit on the debt-service-to-income (DSTI) ratio, from 80% to 60%, started to be phased in from 1 January 2020. The main aim of this measure was to reduce the probability of borrowers being unable to service their debts during periods of stress. Lowering the DSTI ratio cap protects not only banks, but also households by making them more resilient to any potential financial crisis. The policy tightening is expected to result in a slower pace of household indebtedness growth and to ease pressures in the property market.

## By raising the capital buffer, NBS increased the banking sector's resilience

In 2019 NBS responded to mounting risks by further increasing the countercyclical capital buffer (CCyB) rate. The buffer is usually built up during good times in order to make banks more resilient during periods of stress. NBS decided to raise the CCyB rate from 1.5% to 2% from 1 August 2020, mainly because credit growth was excessive and property prices were continuously rising, which in the low interest rate environment was supporting a build-up of imbalances. The increase in the CCyB rate needs to be seen in the context of banks diminishing capacity to absorb potential losses during periods of stress, a situation that is further exacerbated by decreasing risk weights.

## Bank levy increase is problematic

The bank levy, under its current terms, is not only swallowing up a large part of banks' profits, but its indefinite duration is impairing the overall outlook for the banking sector. Besides reducing banks' ability to build-up capital buffers, the levy also may have a negative impact on the credit market or on the willingness of banks' owners to invest in this sector in Slovakia.

### 2.4.2 Fintech

Financial technology (fintech) can be summed up as a field of technological innovations used to support the provision of various financial services, including payment services, banking services, investment services and insurance services.

## Launch of the Innovation Hub

In order to support the implementation of modern technologies in the Slovak financial sector and to improve the rules of its operation, Národná banka Slovenska in cooperation with the Slovak Finance Ministry launched an Innovation Hub on 1 April 2019. It is designed for entities that have a feasible business plan in the fintech field and comprises several components.

The Fintech section of the NBS website<sup>10</sup> provides an overview of innovative business models and a basic guide to the regulatory framework in this area. For entities that have a feasible fintech business plan but are not equipped to interpret the relevant legislation on matters within NBS's competence, the Fintech section provides an electronic contact form. This allows them to structure their inquiry in such a way that the appropriate NBS expert can provide them with a fast and informed response. At the same time, the Bank has put in place an internal process that ensures the identification and involvement of experts who are able to provide various points of view on a given inquiry. This is an internal horizontal function which reflects the multidisciplinary and cross-cutting nature of the inquiries.

In operating the Innovation Hub, NBS is acting in accordance with its mandate to contribute to the secure and sound functioning of the financial market, so as to ensure financial market credibility and the protection of financial consumers and other financial market customers. The Innovation Hub is fulfilling the purposes for which it was established. It has the potential to reduce risks related to financial innovations and to increase benefits for the economy and consumers.

### 2.4.3 Information support

In 2019 a number of new information systems (ISs) were established at NBS in compliance with regulatory requirements and in order to increase the financial awareness of financial consumers. At the same time, the Bank's other supervisory information systems continued to be operated and developed.

### Register of Bank Loans and Guarantees replaced with a new version

For the NBS-maintained Register of Bank Loans and Guarantees (RBUZ), 2019 was significant year. A new version of the Register finally replaced the existing version after the end of a period of parallel operation. The upgrade was related to developments with the ECB's AnaCredit, a dataset

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<sup>10</sup> <https://www.nbs.sk/en/financial-market-supervision1/fintech>

which contains detailed information on individual bank loans in the euro area and for which data collection began in September 2018. In order to improve the quality of data in the Register, the new version incorporates new outlier analyses and comparisons of data in other statements. The Register now meets the requirements laid down by the ECB (in regard to AnaCredit and the Register of Institutions and Affiliates Database), and in future it will also be a key component in the international exchange of credit data. The Register also maintains its function as a provider of information to banks about client credit exposure.

## Changes in the Register of Entities

The Register of Entities, an integral part of the RBUZ, underwent several important changes in 2019. Processes and checks were introduced to ensure data quality is at the level required for the international exchange of data with the ECB's RIAD. As part of efforts to reduce the reporting burden on reporting entities, data from the Social Insurance Agency were integrated into the system, and the quality of data transmitted to the ECB was increased.

## Expanded functionality in the register of financial agents and financial advisers (REGFAP)

In the register of financial agents and financial advisers (REGFAP), the scope of collected data and the manner of displaying data on financial agents were expanded in 2019. In line with the digitalisation trend, email replaced traditional postal mail as the means for giving notification about the assignment of company registration number (IČO) to a financial agent.

### 2.4.4 Resolution

In the area of resolution, NBS supervisory activities in 2019 included active involvement in the resolution planning process for banks that fall under the competence of the European Union's Single Resolution Board, for banks that fall under the competence of Slovakia's Resolution Council and which belong to a group whose parent undertaking is established in a non-banking union Member State, and for banks that do not fall under the competence of the Resolution Council.

The 2018/2019 resolution planning cycle culminated with the determination of the minimum requirement for own funds and eligible liabilities (MREL). The fulfilment of this requirement over a period of four years will ensure that the banks have sufficient eligible (and prescribed by law) own funds in the event that resolution is needed.