



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Andrea ENRIA

Chair of the Supervisory Board

COURTESY TRANSLATION

Mr Marco Zanni
Mr Marco Valli
Members of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 3 July 2019

Re: Your letter (QZ033)

Honourable Members of the European Parliament, dear Mr Zanni, dear Mr Valli,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 28 May 2019.

Your questions relate to the decision of the ECB to recruit additional ECB staff to work on stress tests and thereby reduce the reliance on external consultants for future stress test exercises.

During the process of setting up ECB Banking Supervision, priority was given to staffing the relevant ECB business areas to conduct regular supervisory tasks. For resource-intensive but time-limited activities, such as EU-wide stress tests, the ECB availed itself of experts from national competent authorities (NCAs) and national central banks (NCBs) as the primary sources for additional temporary staffing. For instance, in both the 2016 and 2018 EU-wide stress tests, more than 80 experts from NCAs and NCBs joined the ECB in Frankfurt for a period of four to six months to support the mandate given to the EBA of quality assurance regarding banks' data. However, in cases where the combined available ECB and NCA resources were not sufficient to satisfy the overall staffing needs required for stress tests, the ECB has in the past resorted to using external consultants.

In 2018 the Governing Council decided to recruit additional ECB staff to work on stress tests, beginning with the EBA EU-wide stress test in 2020, thereby reducing the reliance on consultants for this type of activity. Allow me to clarify that this decision was not taken on an ad hoc basis, but following a careful assessment of the associated costs and benefits. The reasons for keeping this work that was previously performed by consultants in-house were primarily based on the following considerations:

- First, an increased reliance on internal resources fosters the acquisition and consolidation of institutional knowledge and skills which, were we to have continued to rely on external service providers, would need to be acquired for each and every stress test exercise.

- Second, building up an internal pool of expertise in the area of stress testing and risk analysis, model assessment and project management enables the ECB to yield useful synergies for certain content-related activities, such as ad hoc stress tests for small groups of banks or the smaller but regular supervisory stress tests in those years without an EBA EU-wide stress test.
- Third, at times when no EBA EU-wide stress test is being conducted, these additional staff members will be able to support other supervisory activities that require a skill set similar to that used for stress tests, such as on-site inspections and internal model investigations. The exploitation of such cross-functional synergies has the additional benefit of reducing the reliance on and expenditure for consultants, also in other supervisory fields beyond stress testing.
- Finally, another positive effect from reducing the use of consultants is that the ECB will also be able to streamline resources in other functions required to support the preparation of EU-wide stress tests.

Given these synergies and long-term benefits, the costs of keeping stress testing resources in-house compare favourably with the previous practice of hiring consultants for a period of six months every two years. All things being equal, it should lead to a net reduction in the overall cost of ECB Banking Supervision activities.

As regards your further question regarding compliance with contractual obligations, I do agree that ensuring “complete control of compliance with contractual obligations” is indeed more challenging with an external service provider than with a workforce that consists only of ECB and NCA staff members. However, reliance on consultants was necessary in the set-up phase of ECB Banking Supervision and cannot be entirely excluded in the future either, for example for certain tasks requiring specific skillsets or for bridging a temporary need for additional resources. We are very well aware that such arrangements require adequate safeguards enshrined in the contractual framework and proper implementation, as also explained by my predecessor in previous letters.¹

Yours sincerely,

[signed]

Andrea Enria

¹ https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.mepletter181001_Schauble.en.pdf
https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.mepletter190521_Zanni_Valli-5b42c3705f.en.pdf