

BANKING UNION: COMBINING EU AND NATIONAL INTERESTS



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Cross-border banking in the EU: from national silos to an integrated market

In today's competitive landscape, the number of pan-European entities remains very limited in the EU's still fragmented Internal Market, with many different national options permitted by the Capital Requirements Directive. This prevents European banks from achieving economies of scale, especially in terms of their IT systems. Removing barriers to integration will be key for European banks to remain globally relevant and continue to serve Europe's strategic interests. Restrictions on the movement of capital and liquidity persist, a legacy of the 2008 financial crisis, which resulted in ring-fencing practices that trap financial resources within national boundaries. The banking union was designed to break this cycle of fragmentation, but it remains incomplete.

When supervising a consolidated banking group, the ECB gives no

preference to either the parent entity or its subsidiaries. Our supervisory decisions are based solely on prudential considerations, not on national interests, and we have a strong track record of balanced, evidence-based supervision. The Capital Requirements Regulation does not, however, allow cross-border capital waivers. And while cross-border liquidity waivers are permitted, they have not been taken up.

The limited extent of cross-border integration reduces the potential for private risk sharing in the European banking market, increasing risks to financial stability rather than alleviating them. This fragmentation also hinders banks' ability to optimise liquidity management and undermines the diversification benefits of cross-border operations.

In the absence of major legislative changes, several practical options could foster banking sector integration.

As former ECB Supervisory Board Chair Andrea Enria suggested, "branchification" – converting subsidiaries into branches of a single legal entity – could be a way of overcoming capital and liquidity fragmentation within the current regulatory framework.¹ This model, while requiring careful coordination with deposit guarantee schemes, would avoid financial resources being trapped by allowing them to be allocated freely within a single legal entity. Obstacles to "branchification" still exist, however, in the areas of corporate law and governance, taxation, deposit insurance and relations with host-country authorities.

Cross-border liquidity waivers are another way of fostering integration, and they could potentially be enhanced through contractual intragroup guarantees made enforceable through supervisory tools. The ECB has proposed incorporating group support agreements into recovery plans, which could facilitate cross-border liquidity waivers while maintaining prudential safeguards.² These practical approaches show that some progress towards integration is possible even in the absence of comprehensive legislative reforms.³

More importantly, completing the banking union would enhance the resilience of the European banking sector and Economic and Monetary Union more broadly. The European deposit insurance scheme (EDIS) is

clearly a critical missing element. Currently, the prevailing perception is that in a crisis, a bank's credit standing would still reflect the strength of its respective national deposit guarantee scheme and the sovereign's ability to provide the ultimate backstop.⁴ EDIS, however, would significantly mitigate host countries' concerns about deposit protection and make it possible to move financial resources more freely. Furthermore, the ECB strongly welcomed the European Commission's proposal on crisis management and deposit insurance as an important step to increase the resilience of European financial markets in crisis situations and to address possible or actual failures of credit institutions within and across Member States.⁵

While legislative reforms are essential to reduce fragmentation in the European banking sector in many different areas, it is equally important for banks themselves to take proactive steps. European banks should leverage their current profitability to invest in modernising their IT platforms, ensuring they remain competitive and continue to provide high-quality services to customers across several countries. By enhancing their IT capabilities and by developing integrated and tailored platforms, banks can overcome the constraints of outdated, fragmented IT systems and increase synergies and scale. This would enable smooth cross-border operations while providing a consistent customer experience throughout the EU. However, tailoring these platforms to align them with the diverse array of national laws, such as those related to consumer protection, can present challenges and incur additional costs. Nonetheless, these technological advances will improve efficiency and customer service while complementing regulatory efforts to create a more unified and competitive European banking landscape.

1. Enria A. (2023), "The integration of the EU banking sector and the challenges of global competition", contribution for VIEWS, *The Eurofi Magazine*, 13 September.
2. Enria, A. and Fernandez-Bollo, E. (2020), "Fostering the cross-border integration of banking groups in the banking union", *The Supervision Blog, ECB*, 9 October.
3. Enria, A. (2023), *op. cit.*
4. *ibid*
5. *Opinion of the European Central Bank of 5 July 2023 on amendments to the Union crisis management and deposit insurance framework (CON/2023/19)*.



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It is time for banks to fully reap the benefits of the Banking Union

The EU is facing an unprecedented situation as it is confronted by a shifting geopolitical landscape and declining competitiveness. In spite of that, the EU holds a unique competitive advantage compared to other world regions - European integration and the potential of the largest internal market in the world. If it manages to remove unnecessary barriers and obstacles within the internal market and fully leverage the single market, it could cultivate economic growth for decades to come. Moreover, with better efficiency in capital allocation, the financial needs identified by Mario Draghi in his report should be manageable. This challenge is also evident in the Banking Union, which, from a regulatory perspective, is undoubtedly a success. An integrated architecture based on harmonised framework has been established with harmonised prudential rules, a single supervisor, common resolution framework, and harmonised deposit guarantee schemes. However, the banks and consumers are still unable to fully reap the expected benefits. From a macroeconomic perspective, we are also not taking the full advantage yet, particularly in terms of the ability of

our banking sector to absorb shocks and thus mitigate the impact on the real economy.

The diagnosis of the current state and the way forward for strengthening and completing the Banking Union have already been formulated in the Eurogroup statement from June 2022. Its foundation is a holistic approach based on four workstreams; 1) framework for the management of failing banks, 2) common protection for depositors, 3) integrated single market and 4) diversification of banks' sovereign bond holdings. However, one key dimension is missing - a central focus on competitiveness, which could help to overcome the current deadlock. Given the recurring external shocks, along with a renewed emphasis on simplification, the Banking Union has a unique opportunity to leap forward.

The fundamental question in this context is: why does the EU have de facto almost identical conditions for a small local bank as for a cross-border international bank?

Unfortunately, this is a trap we have fallen into when creating the single market; driven by lack of trust and desire to protect national banking sectors and economies. To enhance the competitiveness of the banking sector, we should now seek to overcome this trap. Doing so could allow us to get over the current political deadlock that we have been unable to escape for a longer time.

Apply the principle of proportionality in both directions.

How? Why not starting with the creation of a fully-fledged Banking Union with a focus on large cross-border operating banks, allowing them to benefit from all advantages of the single market, including the free movement of capital and liquidity? Of course, this should come with an adequate transfer of burden-sharing to the EU level, including the establishment of a fully-fledged EDIS and the "Europeanization" of said banks. This means overcoming their link to member states by addressing the so-called sovereign-bank nexus and eliminating home bias. At the same time, the principle of proportionality should be applied for smaller and mid-sized locally operating banks. This includes opening a discussion on whether such banks need to fully

comply with all Basel III standards. In this way, we would apply the principle of proportionality in both directions. The system must remain open and support market access, yet it cannot be regulatory locked in favour of one group over the other. Of course, from a consumer protection perspective, such a structure must not lead to disparities. To sum up, the unity of the Banking Union must be preserved; only with a better incorporation of the principle of proportionality for its participants. This would lead to greater competitiveness of EU banks at the global stage and increased efficiency of EU banks at the local level.



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The cost of the Banking Disunion

The growing competitiveness gap between the US and the EU economy is now thankfully at the centre of the European political debate.

Between June 2015 and September 2024, the average return on equity for the European banks supervised by the ECB was 6.4%, compared with 10.4% for US banks.

The EU has been falling back because it is paying the price of the fragmentation of its single market for banking and therefore the opportunity cost of the banking disunion. In a more and more conflictual global economy, the Single Market is our strongest asset and can be leveraged on for growth. As the IMF underlines, after the enlargement waves of 1995 and 2004, regions in new Member States saw their average GDP per capita rise by more than 30% compared to similar regions outside the Single Market. This highlights the growth potential behind integration.

We must think of Banking Union as an integral part of the Single Market. It is essential for financing the substantial investment needs linked to the energy transition, digitalisation, defence, European sovereignty and the ageing of the population.

The EU banking market remains significantly fragmented, with low cross-border synergies. Consolidated banking

groups are still unable to manage their liquidity and capital positions on a consolidated basis, leading to higher management costs, missed opportunities for better capital allocation and lack of stability through diversification. Notable barriers are the CRR3 output floor, which is set to apply by default at entity level, the capital and liquidity ratios, internal MREL obligations which hamper intra-group circulation of capital, and the macroprudential framework. Macroprudential tools' variety and intensity are much higher than in other jurisdictions. The O-SII buffer was activated neither in the US nor in China while it applies to more than 170 banks in the EU with national divergences that impact the level playing field.

These barriers result in poorly concentrated market structures. A larger number of smaller entities are competing for a reduced customer base – leading to a “high costs, low profits” model. This prevents the building of European champions capable of conducting EU-level activities and compete on the global stage.

Mario Draghi rightly describes this in his OpEd in the FT “High internal barriers and regulatory hurdles are far more damaging for growth than anything America might impose”. Enrico Letta, in a recent interview to RFI, highlighted that the European financial system risks becoming a colony of American finance. We have opened the EU's Single Market to third-country players, but we put impassable internal barriers that impede the development of EU players. EU banks need to challenge the dominance of foreign banks in Europe - where American Banks have 50 % of the corporate and investment banking market. EU banks need to assert their competitiveness on the global stage where our market share is shrinking due to a lack of reciprocity - European banks' share of US dealmaking fees has halved in a decade to represent only 12.6% of the total fee pool in the US in 2024. US banks command 78% of their national market and dominate by far the investment banking global landscape.

Tackling fragmentation in the Banking Union is the way forward.

In this new geopolitical context, either we suffer this economic war, which is rather existential, or we develop and strengthen our Banking Union and Capital Markets Union. One supports the development of the other, since in

both settings we risk being dominated by US banks and market players.

Central supervision in the banking sector has not helped to remove barriers. An integrated market cannot be built and promoted only through supervision. We cannot build a market via the police! There is a lack of trust in Europe – from certain stakeholders – towards mechanisms (resolution within hours) and EU institutions. For crisis management, we have built a huge and costly cathedral with no worshippers! They prefer staying at home. This leads to the creation of further obstacles across Member States.

We must think at consolidated level to overcome obstacles to cross-border activity. The Banking Union should be recognised as a single regulatory and prudential jurisdiction, to improve intra-group circulation of capital and liquidity, promote cross-border investments and foster the creation of European champions. Furthermore, resolution rules need to be fit for purpose and not distort the level playing field, at the expense of healthy competition. The CMDI framework is an administrative construction which does not address the economic issues of fragmentation.

The EU integration process was built through crisis moments, as a necessity-driven process. It has been a pragmatic approach. Hence, today, we call for pragmatism and a long-term political vision: tackling fragmentation in the Banking Union is the way forward to enable Europe to weather the current unstable global environment and strengthen its economy.



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Banking on unity: A strategic vision for Europe's financial future

The typical discourse surrounding the European Banking Union starts with a baseline acceptance of the status quo, suggesting that only minor adjustments are needed or even possible.

In the current geopolitical context of trade wars and the erosion of the rules-based order, however, a much more ambitious strategy is needed.

The industry has made significant progress toward integration in recent years through initiatives such as the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). But further integration is essential, not only to ensure all banks adhere to consistent standards but also to improve competitiveness on a pan-European and, ultimately, a global scale.

Consider sectors such as healthcare, telecommunications and automotive, which have embraced cross-border business and regulatory frameworks and now are well-positioned on the pan-European and global stages. In healthcare, the European Health Data Space facilitates the secure exchange of health data across borders, fostering innovation and enhanced patient care, while the European Medicines

Agency is the principal regulatory body, akin to the FDA in the United States. The telecommunications sector has benefitted from the European Union's initiatives to abolish roaming charges and establish uniform standards. In the automotive industry, European legislation governs the entire homologation framework, encompassing all regulations for obtaining new vehicle roadworthiness certification.

In stark contrast, the banking sector remains burdened by a patchwork of national regulations and supervision that stifles its potential for growth and stability across Europe.

In the European banking landscape I envision, a single license process would apply to all institutions of a certain scale operating across multiple markets, allowing them to function under a harmonized set of rules. Such an arrangement would enable them to provide services without the hindrance of varying national regulations or supervision.

All European banks would operate under a unified deposit insurance scheme, relieving them of contributions to national schemes where they exist. Liquidity would increasingly be managed in EU-level sovereign debt, with a weaker domestic sovereign nexus. Furthermore, consumer protection for banking clients and insolvency laws would be more aligned, fostering confidence in a genuinely single market.

The banking sector remains burdened by a patchwork of national regulations and supervision.

This wouldn't entail more regulation overall; indeed, quite the opposite. Given the importance and interconnectedness of finance, the EU may want to use the banking sector to create a blueprint that will ensure adequacy, effectiveness and efficiency across all European regulation.

Such an approach would create a market environment in which the management of both sides of the balance sheet is not constrained by a multitude of domestic regulations. It would be further supported by a revitalized European securitization market, facilitating active balance sheet management.

What's more, banks operating under an EU license would encounter significantly reduced challenges for cross-border mergers and acquisitions. Variations in legal structures between branches and subsidiaries would become absolute. Consequently, national regulatory and governmental bodies would play a substantially diminished role in these transactions.

As for timing, Europe's broader objectives urgently require a new approach to banking oversight. The unprecedented financing demands arising from the war and new security imperatives, green initiatives, and digital transformation cry out for simplified bank-capital requirements.

It is well-documented, for example, that Europe lags behind both the United States and China in financing for startups. U.S. companies, specifically, receive five times the investment compared with European startups. And in 2024, China launched a tech lending program in which the central bank collaborated with 21 banks to provide loans to small- and medium-sized tech companies at reduced interest rates.

Some might argue that adjusting capital requirements to provide relief for political objectives would violate the risk-based principle set out by the Basel standards. In that case, Europe would need to find a way to achieve its objectives with stronger involvement from development banks.

Either way, a more harmonized pan-EU regulatory framework for European banks is imperative. This needs to be complemented by a strategy to align the banking sector with the strategic financing objectives of Europe, covering the entire financing spectrum of banks, non-banks and capital markets.

The time has come to embrace a genuinely integrated banking union that will not only enhance financial stability but also stimulate innovation and growth—helping Europe become more competitive on the global stage than it is today.



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A competitive Banking Union requires a European Union ready to take on Big Tech

As always, Europe is strongest in a crisis. Even before the recent escalation in geopolitical tensions, the new Commission had prioritised accelerating the Banking Union, and reinforcing the Single Market across a range of financial services from savings, to investment and payments. The political determination in Member States and the Parliament to deliver those changes appears more robust than it's ever been.

While this new burst of energy and ambition for financial services is exciting to behold, to succeed in securing the future of finance, policymakers must redouble their efforts to regulate Big Tech. While much groundwork has been laid, thanks to the DMA and DSA, the next twelve months will be the real test.

Will social media platforms be required to take greater responsibility in preventing financial scams under the new payments services regulation? Will the Commission use its powers to genuinely force the big online platforms to treat European citizens and business more fairly? Will Europe again lead the world to drive beyond Open Banking to Open Finance and even Open Data?

On all of these issues, Revolut's stance is clear. Our priority is supporting policies that empower our over 50 million customers. We genuinely believe regulation can drive innovation and competition, but it must target the right things.

The rapid expansion of Big Tech into financial services presents a challenge that cannot be ignored. Companies like Meta, Google or Apple are transforming the financial landscape by leveraging their vast user bases, data-driven insights, and technological advantages. These firms provide digital wallets, peer-to-peer payments, and even credit services, all of which compete directly with banks. However, unlike traditional and digital banks, Big Tech companies do not face the same prudential regulations, capital requirements, or consumer protection standards. Their impact can often fall outside the traditional remit of purely financial regulators.

This imbalance places a disproportionate regulatory burden on financial institutions, making it hard for European Banks and fintechs to truly compete with Big Tech. Ultimately, it creates a two-tier system where highly regulated entities, such as banks, face disadvantages, while consumers are exposed to greater risks.

If left unchecked, this trend could lead to market concentration, reduced competition, and systemic risks within the EU's financial ecosystem. As part of the Banking Union, the EU must ensure that the impact of Big Tech on financial services is managed properly.

The rapid expansion of Global tech Giants into financial services presents a challenge that cannot be ignored.

One obvious short term issue is Big Tech's culpability, notably social media providers, in enabling scams against European citizens. These platforms have become hotspots for romance and purchase scams, investment fraud, and phishing attacks.

Revolut's most recent fraud report¹, based on data from the first half of 2024, highlights the alarming role of social media in facilitating authorised fraud across the EU. The findings reveal that over 60% of victims of authorised fraud were targeted via Meta platforms,

with Facebook accounting for nearly 40%, WhatsApp close to 20%, Instagram over 5%, while Telegram exceeded 10%, and X stood at around 5%. The trend is particularly striking at the national level: in Poland, more than 55% of authorised fraud victims were targeted via Meta, while in Denmark, this figure surges to 73%.

Despite being the primary gateway for financial scams, tech platforms face no liability for the harm they are enabling, specifically, no financial obligation to compensate victims, no penalties, and no accountability for failing to prevent fraud. The lack of robust verification mechanisms and insufficient coordination with financial regulators exacerbates the problem, leaving European consumers vulnerable. Even in the most obvious areas, such as when a platform is paid to promote fake ads by scammers, there is negligible chance they will be held accountable for the harm caused.

This issue is currently up for debate as part of the Payment Services Regulation. It is a very clear test of will for EU policymakers. To safeguard the integrity of the Banking Union, the EU must implement stricter oversight and enforcement measures to hold tech platforms accountable for financial fraud. While these companies should ultimately be financially liable for fraud, a key first step would be to ensure they only allow advertisements from financial institutions authorized by regulators and every ad using a financial brand is checked before it is shared with millions of Europeans.

The next twelve months is an opportunity for Europe to demonstrate its resilience, leadership, and vision for the future. Policymakers face a choice: either maintain an uneven playing field that favors dominant global tech companies or uphold the regulatory principles that have made Europe's financial system one of the safest in the world. We hope that they will rise to the occasion, meeting this challenge with the boldness and determination needed to shape a stronger, more integrated financial landscape. Now is the time to back Europe's banks, its fintechs, and its innovators.

1. https://cdn.revolut.com/pdf/Revolut_Consumer_Security_Report_H1_2024.pdf?utm_source=social_media&utm_medium=linkedin&id=fraudreport&utm_term=not_paid