

DIVERSITY IN THE EU BANKING SYSTEM



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Cut the red tape, not the rules: simplifying finance without deregulation

Fanciful notions of deregulation are about to sweep across the Atlantic and could pose an enormous threat to our Global Financial System that has only just recovered from the last Global Financial Crisis (GFC). The lesson learned from the GFC was the need to build up regulatory capital requirements to protect our economy from the drivers of financial instability. From empirics we derived early warning indicators and capital buffers to prevent the worst-case scenario.

Yet, there is no glory in prevention. History repeats itself and many economists recall Hyman Minsky's "financial instability hypothesis" which states that investors and institutions begin leveraging up and taking bigger risks when the memory of the crises fades.

However, we have developed an extremely comprehensive and granular European rulebook. It therefore seems appropriate to re-evaluate this set of

rules with the aim of reducing burden and complexity. We welcome efforts to consider targeted simplifications that provide real relief to the institutions and supervisory agencies. Targeting simplification efforts to achieve better, not less resilient, supervisory frameworks is key to our future success as regulators and supervisors, or as European banking champions. Any efforts to simplify the regulatory framework must be based on a sound risk assessment.

This is where simplification comes into play. We should strive for an efficient financial system able to weather future storms. To achieve this, processes, requirements, and supervisory frameworks should be as simple and efficient as possible, and without unjustified costs. Simplification is a solution for reducing the administrative burden on financial institutions and supervisors alike. Deregulation, on the other hand, is a destructive strategy that jeopardises the resilience and hence the competitive edge of our European financial market.

A key question will be to what extent less granular regulation would provide supervisors with more scope for adequate, proportional application—proportional to the bank's business model, size, and risk. This naturally raises the question of maintaining a sufficient level playing field in the open European banking market. To what extent does the oversight exercised by the European Banking Authority (EBA) need to be strengthened?

In this respect, the question of risk tolerance and the associated flexibilisation of supervisory minimum engagement rules would also have to be discussed. The question of adequate risk tolerance is closely linked to the question of fault tolerance. As long as supervisors pursue an implicit zero-default objective, risk tolerance will remain low.

Efforts for simplification should be coordinated between European and national agencies: there must be a joint effort rather than a race to the bottom. Simplification must also not occur to the detriment of our international credibility: we must not exude any impression of the EU no longer being fully committed to international standards like the Basel framework. The European Single Rulebook has proven a gamechanger for the single market.

Can Simplification be guided by proportionality and uncoupled from the competitiveness debate? Small-to-medium sized institutions form the backbone of the Austrian financial market – such institutions aren't really in competition with US or UK banks. However, their economic performance should not be hampered by overly complex requirements. Instead, these players should drive simplification. Small-to-medium sized banks would benefit from burden reduction as it would lower the barriers to market entry. In turn this would support market diversification and provide regional institutions to rural regions.

Should we be discussing a two-tiered system with separate requirements ("small banking box") for big and small players, as was initially mooted and rejected in the early 2000s? Differentiation within the same system addresses challenges faced by banks with differing sizes, risk exposures, etc. without losing the holistic view of the entire market.

Simplification must be balanced with the need to safeguard a strong and resilient financial system.

One final consideration should not be overlooked in the discussion about simplification and burden reduction: the banking industry has implemented the European rulebook. These costs have already been incurred. When implementing new changes, it should not be overlooked that they will entail new costs, and therefore a cost-benefit analysis should be conducted.

Simplification must be balanced with the need to safeguard a strong and resilient financial system and not be mistaken for deregulation.



PATRICK MONTAGNER

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Balancing diversity and stability in European banking supervision

The European banking system has continuously evolved, with diverse business models emerging to meet particular economic and social needs. From mutual banks established to support specific communities to modern digital challengers addressing new consumer preferences, this diversity reflects the needs of EU consumers and our economic history. The creation of European banking supervision in 2014 was a crucial milestone in establishing a common supervisory approach that respects this historical diversity while ensuring that prudential standards are applied consistently.

Today, the ECB directly supervises 114 significant institutions across 21 countries, which form a rich ecosystem of banking models.¹ They include global systemically important banks (two of which are mutual groups) as well as domestic lenders, universal banks, sectoral and diversified lenders and more specialised institutions. This diversity strengthens the resilience of the financial system by reducing the correlation of risks at the macro level, yet it also requires sophisticated supervisory approaches. The design of our

supervisory framework is particularly relevant in this context, as it addresses the issue of proportionality. The ECB focuses on significant institutions while national competent authorities supervise less significant institutions, ensuring that the intensity of supervision matches the complexity and systemic importance of each institution.

The ECB's supervisory philosophy is neutral towards business models – any differential treatment stems from banks' risk profiles and complexity, not from their legal form or specific business models.² This principle is embedded in our Supervisory Review and Evaluation Process (SREP), where business model analysis plays a central role.³ Supervisors assess profitability drivers and key ratios based on long-term viability. They evaluate governance structures with an understanding of the differences between cooperative banks and commercial banks, and they compare banks against relevant peers.

The ECB is placing greater emphasis on the unique characteristics of specific business lines, individual banks and clusters of banks to better identify patterns or issues that require tailored supervisory actions. This proactive approach aims to develop supervisory strategies to address vulnerabilities at an early stage, potentially including escalation measures.

As announced in May 2024, recent reforms to the SREP methodology demonstrate our commitment to enhancing the effectiveness and proportionality of our supervisory approach.⁴ The revised framework has brought several improvements to the way we assess business models. The new methodology introduces a more structured assessment of banks' forward-looking strategies and their ability to implement these strategies. It also enhances proportionality, simplifying internal reporting for smaller banks.

The banking sector is facing transformative challenges that require close attention from supervisors. The need for enhanced IT systems is requiring substantial investments in technology while creating new operational risks. Banks need to significantly modernise their IT infrastructures, which are often burdened by legacy systems, in order to meet customers' evolving expectations for banking services, adapt to demographic shifts, enhance security and improve efficiency by reducing production costs. The Digital Operational Resilience Act is an important step in addressing some of these challenges, but questions remain about how to ensure a level playing field between banks and technology-

focused competitors that are willing to enter some of the traditional banking activities. In the EU, only a few – often relatively new – institutions have managed to create fully integrated platforms for some business areas to address these IT and data challenges.

The ECB applies high supervisory standards across a diverse banking landscape.

Market integration is another key consideration. Reducing system frictions can lead to more integrated EU banking groups, fostering competition, improved customer service and innovation. This requires strong governance and comprehensive risk management, which should be implemented effectively in both parent entities and their subsidiaries.

Overall, European banking supervision must balance the benefits of diversity with the need to ensure a level playing field. We need to maintain the integrity of the Single Rulebook, but we should also allow for a variety of business models, ensure that requirements are applied proportionately and support innovation while managing the associated risks. Success in these areas will be key to ensuring that the European banking sector remains competitive while serving the diverse needs of the European economy.

1. ECB (2025), "List of supervised entities", February.
2. See the "Strategic intents" page on the ECB's banking supervision website.
3. ECB (2024), "Supervisory methodology 2024".
4. Buch, C. (2024), "Reforming the SREP: an important milestone towards more efficient and effective supervision in a new risk environment", *The Supervision Blog, ECB*, 28 May.



SOLEDAD NUÑEZ

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Diversity of banking business models: a strategic advantage for the future

Europe's wide diversity of business models is not unique; it is a result of a historical heritage of finance adapting to the local economy. Europe's diverse economy necessitates a variety of banking business models. This diversity arises from economic dynamics that drive the coexistence of different business models to efficiently meet the economy's financial needs. It is important to recognise the strength that a diverse banking landscape represents for financial stability, as diversification is a robust means of mitigating risk.

However, it is crucial to clarify that supervisors and regulators neither promote nor support specific business models. Our primary role is to ensure the European financial system's stability by conducting thorough reviews to verify that banks have adequate risk management systems, robust governance and viable business strategies. Any business model must meet these three criteria.

Our responsibility is not to ensure the coexistence, complementarity and development of the diverse range of existing business models, but rather to ensure that each bank is viable and solvent. The market itself will

determine the business model's viability based on its adaptability to market needs. Supervisors analyse business strategies and their evolution in the course of monitoring banks' viability given the potential implications for financial stability. From the supervisor's perspective, therefore, any business model is valid as long as it complies with the established regulatory framework and ensures sustained profitability over time, guaranteeing its long-term viability and sustainability.

In this sense, supervisors tailor their actions based on a bank's characteristics and activities, which are tied to their business model.

The Single Supervisory Mechanism's latest strategic review implemented some new supervisory approaches, such as the risk tolerance framework, to better focus joint supervisory teams on each bank's specific risks. This risk-based approach, in tandem with the multi-year approach, aims to translate supervisory priorities into specific activities that allow for supervision to be more sharply focused on each bank's most significant risks.

In addition, in this ever-changing environment, both banks and supervisors must adapt to new market trends. Banks must position themselves to face new challenges and risks, adjusting their business models to new forms of client interaction, financing needs and competitors. Supervisors, meanwhile, must also tailor their methodologies to such aspects to ensure financial stability. Supervisory activities must be designed to accommodate new risks and the specific characteristics of each bank, which are largely defined by its business model. Ultimately, being more risk-focused means being more efficient. Proportionality in supervision should thus be determined by risk profile, not business model.

All business models are valid if they comply with regulation and ensure a sustained profitability.

In this context, horizontal reviews, or transversal activities that complement other supervisory tasks, are often necessary to analyse some specific risks or general aspects of the activity. Nevertheless, the results must always be interpreted from the perspective of each bank and business model. Supervisors' in-depth understanding of banks allows them to properly interpret analysis

results, draw accurate conclusions and take appropriate measures to mitigate risks or deficiencies that they detect.

Furthermore, the regulatory framework must consider all the financial sector's characteristics. A fundamental principle for the proper functioning of markets and fair competition is that every actor must be subject to the same rules: "same activity, same risk, same regulation". However, there is room for some proportionality under this principle, especially regarding the reporting obligations of smaller banks, without undermining the purpose of regulation. We cannot lose sight of the fact that regulation is intended to establish a clear and stable framework that ensures a robust financial system that fulfils its function of efficiently channelling funds. It follows that all banks must comply with this framework.

In conclusion, the European banking ecosystem's intrinsic diversity results from the sector evolving to meet the economy's various financial needs. Regulators and supervisors cannot favour or oppose any particular business model, but must ensure that all are subject to the same regulatory and supervisory framework, ensuring a robust financial system. The diversity of business models is a valuable asset in the European economy. Consequently, it is necessary to ensure that all business models are able to adapt to the challenges that are currently emerging, such as digitalisation, the increasingly prevalent use of artificial intelligence and the imperative transition towards a sustainable economy.



JACQUES BEYSSADE

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Diversity of European banking models strengthens the financing of our economy

The Draghi report published last September 2024 has made it clear how the EU economic landscape is alarming. The competitiveness gap between the EU and the United States has dangerously widened: between 2002 and 2023, the GDP differential increased from 15% to 30%. Moreover, Europe suffers from an investment deficit in new strategic technologies, compared to China and the USA which would require an annual investment of around 700 to 800 billion euros from the EU to bridge the gap.

Moreover, with their limited budgetary and fiscal capacities, both Member States and the European Union cannot finance all investment needs in transition, which the European Commission estimates to be around 1000 billion euros per year (600 billion for the green transition alone, 200 billion for the digital, and 200 billion for defense).

Public authorities and banks have the same objective: to ensure the effective financing of the economy and to achieve the EU's transitional goals: Digital, green, social, and strategic (EU Defense). This requires an appropriate framework

for supervision and regulation that allows each stakeholder to pursue this objective, with a proper balance between financial stability and the competitiveness of the economy.

That is why policy makers and private sector have to work hand-in-hand to deliver pragmatic solutions that will bolster our competitiveness. It will not be possible without a real simplification of the EU supervision framework, with prudential rules and day-to-day supervision respectful of the diversity of business models.

Firstly, it is important to keep in mind that without a strong and diversified banking sector, the EU economy will not be able to achieve its sustainable goals. European studies estimate the cost of the energy transition for EU countries around 1.3 trillion euros per year by 2030 and 1.54 trillion euros per year between 2031 and 2050. States alone will not be able to finance these needs. That is why, to finance our social, green and digital transitions, it is key that specificities of all banking models are recognised, especially the universal and cooperative banking model.

This unique model offers significant assets: a territorial approach and a strong relational model, based on genuine proximity to territories, serving all clients through a complete range of banking services, and providing long-term support to our clients. This is the DNA of BPCE which combines the solidity of a major international group with an in-depth understanding of all regions that we serve. BPCE finances 22% of the French economy and supports 35 million customers through more than 6000 branches in every region. The group is also a leader in access to housing, local authorities, the hospital sector, protected persons and the leading bank for local public companies.

Recognising diverse banking models and simplifying supervision will bolster the EU competitiveness.

Keeping that in mind, EU policymakers and regulators should adopt a new policy continuum based not only on the stability but also on the financing of the economy. That is why we fully support the French authorities in this approach, which requires real impact assessments on competitiveness and European sovereignty for each new peace of EU

legislation. This “financing the economy test” will be a real game-changer for the EU economy. It will, for example, show the real impact that the adoption of Basel IV would have on financing capacity, and allow us to make more informed decisions.

Secondly, we also need “Simplification” to boost the EU competitiveness and to achieve our main transitional goals. Some practical measures should be implemented in this regard. The “Savings and Investments Union” should pave the way for securitization, which will release the full capacity of the EU banking sector to finance the economy. Also, the new prudential requirements for market risk (Fundamental Review of the Trading Book - FRTB) should allow a proper development of capital market. Without a further one-year deferral and temporary adaptations, it will not be possible to ensure a level playing field with our main competitors.

I am convinced that the European banking sector, based on relational, universal and proximity models, is a powerful asset in these crucial times. We stand ready to work with regulators and supervisors to deliver real change, on the ground, where no other banks could deliver it. I am convinced that the cooperative relational banking model will allow Europe to reposition the financial sector as a strategic, long-term sector capable of engaging in ambitious investments. It is the way forward.

We should work collectively and rigorously. There is a new Commission, and it is time to put forward our ideas.



DANIEL QUINTEN

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One size, not fit for all: the Need for a new Approach to Banking Regulation

Since 2007 numerous actions have been taken to strengthen the banking sector. Enhanced capital and liquidity requirements and higher sensitivity for ESG risks have allowed credit institutions to master important shocks during the past years and be well-prepared for future challenges. However, the continuous striving for crisis resilience and for greening finance has created relentless regulatory machinery aiming to cover every possible eventuality with increasingly complex rules. During the past 10 years banks had to digest around 250 RTS/ITS and about 6800 Q&As. The European Single Rulebook has become increasingly burdensome to handle for all banks, but especially for smaller cooperative banks. For them regulation has become a threat to their existence. Mergers are the only way out. But when regulation -and not the market- becomes a predominant driver for mergers, then something is wrong.

To improve the situation, we demand a clear signal: a moratorium. No new regulation is currently necessary. We are now at a point where it is impossible for institutions to adequately follow

regulation at all levels, from EU regulations to Q&As, guidelines and supervisory expectations. The sheer amount and complexity of regulation has developed into a risk in itself. A moratorium would be a credible reset.

Such moratorium should go hand in hand with a holistic review of the entire regulatory framework, as called for by the central bank governors of Italy, France Spain and Germany. This review should include all rules applied to European banks, including at level 2 and 3, to prevent unintended regulatory complexity that exceeds the direction in level 1 texts. The assessment would encompass the microprudential, macroprudential and resolution frameworks, but also other areas where the European framework is too complex and may create competitive distortions.

But we even have to go a step further and make our rulebook more diverse in two ways: First, we need simpler – not less prudent – rules for smaller, non-complex institutions. The current rulebook is inflated, by standards developed in Basel for large international institutions and by all the Level 2 and level 3 bureaucracy. We need something simpler for banks operating locally and doing plain vanilla business. Simpler regulation does not mean regulation light. The simple regulation that we mean is much less complex, focused on a limited number of key indicators, but not less strict and it does not hamper competition. The British and the Swiss regulators and actually all other major jurisdictions outside the EU, have developed regulatory frameworks for smaller institutions, along these lines. Financial stability remains the name of the game, not regulatory paradise so that these frameworks could be a model for the EU.

**We demand a clear
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A diverse rulebook also has to better reflect the cooperative banking model and cooperative group structures as many features differ significantly. After the 2007 financial crisis, which cooperative banks mastered much better than many others, some particularities were considered in the regulatory framework. For a younger generation of regulators and supervisors, however, that is past history; uniformity seems to be key. Thus, it is increasingly difficult to raise understanding for

specificities, like our group structures. The key word here is “inverse pyramid” structure, meaning that small local banks own the big central institution and jointly control it. Or take “return on equity”. Our primary focus is member benefit and not profit and we only have to remunerate subscribed capital, not retained earnings. Thus, you risk comparing apples with pears when you do not consider the context. We therefore need to better anchor the diversity of business models in the single rulebook.

Finally, we believe that it will not be enough to adjust the rulebook. We need regulatory discipline, as outlined in the recently published and widely seen study “less is more” to which we contributed. That implies reviewing and refocusing the mandates of the ESAs with the aim of a stronger governance. The ESAs should only adopt guidelines or recommendations when explicitly mandated by level 1 regulation. Moreover, any RTS, ITS or guidelines should strictly respect the limits of the mandate given in the level 1 text, while the control mechanisms for level 2 and level 3 acts are enhanced. The Commission should get the right to amend drafts for level 2 texts, while the EP and Council should be able to object to parts of any standards only. More possibilities to appeal against level 2 and level 3 acts should be created both to the ESAs’ Board of Appeal and the European Court of justice, especially on the grounds of that the legal mandate was not respected.



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Safeguarding the safekeepers: specificities and strengths of custodian banks

Global custody banks are not often at the centre of policy discussions yet they play an important role in contributing to the orderly functioning of the financial ecosystem. They facilitate access to the broader financial ecosystem, including the payment, clearing and settlement infrastructure, and by safekeeping and administering investors assets they help ensure the efficient allocation of capital underpinning savings and investments.

The custody bank business model

Safekeeping and asset administration services are at the core of the custody bank business model, with large institutional investors such as asset managers and asset owners as the typical clients. History offers some important lessons for the fundamental importance of custody banks. From the collapse of investment trusts in the 1930's to the Bernie Maddoff scandal of late-2008, investor are put at risk when their assets are not properly safeguarded.

Robust custody regulation, such as the Investment Company Act of 1940 and the UK Pension Act of 1997, has helped produce the highest protection for client

assets. These are lessons which are very much relevant today in the context of the development of the digital asset market, which will need to be supported by strong investor protection standards and a robust custody framework of the assets.

However, one point that is often missed from the current policy discussion is that even though custody banks are authorised, regulated and supervised as any other bank, their business model is unique and clearly distinguishable. As 'safekeepers' of their clients assets, custody banks do not make markets in the assets they service, nor do they make investments decisions on behalf of their clients. Similarly, custody banks operate as directed agents and do not have the ability to transact for their clients without proper instruction.

As a consequence, the liquidity, credit, market and operational risk profiles of custody banks vary from other types of banks, something that is not always adequately reflected in regulation and supervisory expectations.

A regulatory framework not always fitted to custody banks

One clear example is evident in the Basel 3 capital framework for credit exposures. While custody banks do provide important credit access to their investment fund clients, this lending activity is ancillary to their core business of safekeeping and asset administration and generally involves overdraft protection and other short term extensions of credit. As a result,

Preserving the role of custody banks requires tailored regulatory and supervisory frameworks.

the size and composition of the custody bank's balance sheet is mainly driven by the client's needs rather than by the bank's financing decisions.

Nevertheless, capital rules treat lending to regulated investment funds, such as EU UCITS, as exposures to unrated corporates, a category that does not recognize the unique nature of an investment fund counterparty. While the Basel 3 agreement creates a new category of "investment grade" corporates which receives a lower risk weight, unfortunately this is limited to entities with a public listing. This one-size fits all approach unfairly restricts custody banks' ability to provide credit to

EU UCITS and other regulated entities, which often need them to accommodate day-to-day operational needs. This is a point that will have to be further clarified by EU supervisory authorities once the transition period for corporate exposures comes to an end.

Evolving supervisory expectations

From a supervisory perspective, supervisory expectations in relation to climate and wider sustainability related risks will inevitably become even more challenging and complex, particularly with decarbonisation objectives over emissions from client assets held in custody and administration. Custody banks are not and should not be able to gate clients' ability to make investment decisions. Climate and other sustainability related policies should recognize that custody banks cannot influence client ownership of specific assets.

Finally, there is also a growing regulatory and supervisory focus on the growing importance of NBFIs. Under EU legislation, banks are already required to carefully assess and control their counterparty risks, including those arising from non-bank entities, standards that will increase further with the last Basel 3 package. In this context, it is important to realize that the relationships that custody banks have with regulated entities in the NBFIs space are of high quality and low risk, with limited exposure amounts and virtually no history of credit loss.

Looking forward to stronger and more unified EU capital markets

As the EU focuses on a deeper CMU, one point missing in the policy discussions is the operational differences that continue to exist in the fund depositary and servicing space. The ability to achieve maximum scale and efficiency in EU fund operations is still limited today by the lack of a EU depositary passport. This contributes to a fractioned market and works against the prospects of developing truly European fund operations.



GUY CORMIER

President and Chief Executive Officer – Desjardins Group

Global banking: Different models, common goals

The diversity of banking models around the world is shaped by a combination of cultural and social values, economic structures, regulatory reforms and historical factors. In the US, a more flexible regulatory environment encourages innovation and diverse business models, while Europe's rigorous regulations prioritise stability and risk management. Canada, with its balanced regulatory approach, blends aspects of both, which influence its banking model. This regulatory fragmentation results in different banking models tailored to regional norms and priorities.

Diverse financial landscape

The US offers a competitive financial model with multiple players and state-specific regulations, benefiting from a skilled workforce, advanced infrastructure and a robust capital market. This culture encourages risk-taking and innovation. In contrast, Canada's financial sector is more concentrated, dominated by a few large players with a reputation for stability and resilience, as seen during the 2008 financial crisis and the COVID-19 pandemic. Large banks and regional institutions such as Desjardins Group, North America's largest cooperative financial group, are rapidly digitizing services to reduce costs and improve customer experience. European financial institutions, with roots

dating back to the Middle Ages, offer diverse banking models that reflect the economic and regulatory diversity of member countries, addressing regional needs and enhancing stability.

Diverse regulatory landscape

Canada's principles-based and proportionate regulatory approach strikes a balance between stability and innovation. By setting clear objectives without imposing rigid solutions, it allows institutions to adapt to changing market conditions. Proportionality tailors regulation to the size, complexity and risks of each institution, reducing the burden on smaller firms while maintaining security. Cooperation between provincial and federal regulators further strengthens the system, helping to harmonize rules and ensure a level playing field. This encourages innovation and supports a vibrant sector. Europe's regulatory framework, while coordinated at the EU level, allows for adaptation by individual countries, ensuring high standards of financial management and stability. Meanwhile, the US has a fragmented but flexible regulatory system that promotes stability, competition and innovation. Each system has its strengths, and the best approach depends on regional needs and objectives. Regulators face the ongoing challenge of balancing stability with competitiveness, fostering innovation while reducing burdens. Strengthening risk management and supervision is essential to prevent crises and ensure a level playing field, especially as we move towards a digital economy.

The harmonization of regulations strengthens the Canadian financial system.

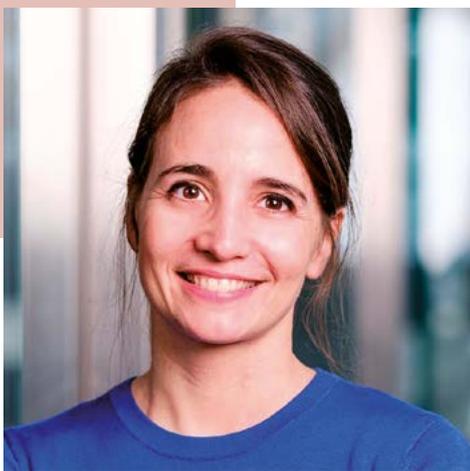
Desjardins Group: An efficient and robust cooperative model

For 125 years, Desjardins Group has demonstrated the effectiveness of the cooperative model within an adapted regulatory framework. With a presence across Canada and an international reach, Desjardins plays a crucial role in providing financial services to individuals and businesses while maintaining a robust democratic governance that has evolved over time. By combining modernity with co-operative values, Desjardins demonstrates that co-operative financial institutions can be both competitive and robust while remaining

true to their mission. A key element of Desjardins' success is its collaboration with its provincial regulator, l'Autorité des marchés financiers (AMF), and the legislature. This partnership has allowed Desjardins to maintain its cooperative structure while aligning itself with the regulatory standards of Canada's larger banks. This alignment is crucial given Desjardins' status as a systemically important financial institution. The harmonization of provincial regulations with federal and international standards has created a level playing field and enhanced the stability and soundness of Canada's financial system. This alignment is crucial as Desjardins issues debt internationally, ensuring compliance with best practices and international standards. This harmonization not only ensures Desjardins' competitiveness but also strengthens its credibility and reliability around the world. Finally, Desjardins has made the necessary investments and evolved its business to serve its members and clients as effectively as its peers. This dual approach of regulatory compliance and organisational discipline has been instrumental in Desjardins' success story.

Looking ahead

In today's interconnected global economy, with changing geopolitical dynamics, emerging technologies and risks, it's essential to address regulatory fragmentation and its impact on the diversity of banking models. Balancing competitiveness, innovation and stability is crucial to ensuring the long-term resilience of the global financial system, paving the way for growth, cooperation and a stronger future.



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Diverse business models in the EU: fostering growth, innovation and inclusion

Europe can be proud of its banking landscape, in which cooperative banks play a key role. Over a century, we collectively managed to build a diverse and sound banking ecosystem, ensuring that citizens and businesses across the European Union have access to banking services that meet their needs and expectations. In this landscape, cooperative banks are able to provide “tailor made” banking services, adapted to all public segments. Answering each customer’s need is at the core of cooperative banks business models for the very simple reason that our decision-making processes rely on our customers, through their membership capacity. As a result, we cultivate client-centered relationships rather than product-centered ones.

Our strength no longer needs to be proven. Cooperative banks provide services to 210 million people – nearly half of the European Union population – and account for nearly 25% of retail

banking services across Europe. Cooperative banks provide critical support to SMEs, households, and underserved regions. Even in times of crisis, they have shown resilience, maintaining strong capital positions and continuing to support local economies.

To navigate the current environmental, digital and geopolitical transitions ahead, it is crucial not to weaken the sound European banking system, based on the coexistence of diverse business models and various governances. There is room for any viable business model. Therefore, we are supportive of a balanced regulatory framework that does not discriminate between business models.

A sound and well-balanced regulatory framework is absolutely key to ensure the protection of citizens and prevent financial crisis in Europe. However, we have now reached a point where an ever-growing set of highly prescriptive regulation, product-based rules - trying to catch up with an Anglo-Saxon approach -, supervisory expectations, reporting requirements as well as often-overlapping capital requirements, are making it harder for European banks to remain competitive. Ultimately, this situation presents a risk of diverting focus from serving customers in times of economic uncertainty. The continuous expansion of secondary legislation adds to the compliance load, potentially hindering innovation and business growth – especially when new market players do not face the same level of scrutiny.

Europe can be proud of its banking landscape, in which cooperative banks play a key role.

Now is the time to seize the momentum and strike the right balance: relying on our strengths that are coveted by many foreign players and fostering innovation thanks to an adapted regulatory framework, without creating unfair advantages. For instance, the rapid rise of digital-only providers and fintech companies – which often operate under lighter regulatory obligations and lower costs -, might create an uneven competitive environment, which could come to the detriment of customers, as these providers primarily serve the more tech-savvy segment of the population. In contrast, cooperative banks remain committed on the long-term financial well-being of Europeans, embracing technology while maintaining human connections amidst sweeping

digitalization. However, some legislative proposals risk limiting their ability to offer fairly priced services, pushing them toward a mere utility provider role and weakening their competitiveness.

Regulations that have a direct impact on the commercial activities of banks, such as the Digital euro and the Retail Investment Strategy, must therefore be carefully balanced. Cooperative banks, with their strong commitment to financial inclusion and local economic development, should not be hindered by overly rigid or restrictive rules. When it comes to the Digital euro for instance, unintended consequences on financial stability and local lending should be carefully managed.

On a global scale, the uneven implementation of Basel III reforms further underscores the need for a level playing field, as European banks continue to navigate complex regulations that are not always aligned with those faced by their non-European peers. As the European Commission works on its simplification agenda, we are supportive of a holistic approach, one that not only reviews existing legislation, but also carefully assesses frameworks that have yet to be implemented. New regulatory requirements should not come at the expense of growth, innovation and sovereignty. The Financial Data Access regulation, for example, raises serious concerns, as the regulation not only adds complexity, but also presents significant risks to cybersecurity and the sovereignty of Europeans’ data.