Banking Union: combining EU and national interests

Introduction

The Chair opened the session on the Banking Union and introduced the panel. The discussion focused on three main areas: the underlying reasons for, and the costs associated with, the absence of a completed Banking Union today; whether host country supervisors continue to prevent cross-border banking groups from managing their capital and treasury functions centrally; and the European Union's policy priorities required to complete the Banking Union. A number of highlights emerged from the discussion:

There is a broad consensus on the vital role of the banking union for Europe's financial future, its interdependence with the capital markets union (CMU) within the savings and investment union (SIU) and the need to overcome market fragmentation and regulatory inconsistencies to unlock its full benefits. National ring-fencing policies, which apply to capital, liquidity – and in particular output floor, leverage ratio and MREL liabilities -, need to be suppressed. In addition, the patchwork of national authorities' different views on macroprudential rules and conduct needs to be resolved.

To break the deadlock on the banking union, it is essential to address the concerns of host countries, which do not always see the benefits of abandoning ring-fencing practices. These countries, which are often dependent on the subsidiaries of cross-border groups for financing, fear that they would find it difficult to finance their activities in the event of a banking crisis. There is also a lack of confidence in European banking supervision and resolution mechanisms.

Trust cannot be mandated but regulation can foster the right conditions for it, with crisis management and deposit insurance (CMDI) and European Deposit Insurance Scheme (EDIS) playing key roles. A balanced approach, combining simplification and targeted legislation to address market fragmentation and strengthen confidence across member states, is required.

The introduction of a single European banking licence for banks operating in multiple markets, allowing them to operate under a harmonised set of rules, with the banking union becoming a single jurisdiction for these institutions, was proposed. At the same time, domestically focused institutions would benefit from a lighter, more tailored regime.

1. The costs of the non-banking union

1.1 The EU banking market remains significantly fragmented, with limited cross-border synergies

An industry representative argued that the European Union has fallen into a self-imposed trap of fragmentation. As noted in a recent article in the Financial Times by Mario Draghi, internal barriers caused by excessive regulation and market fragmentation impose an effective 110% tariff on services, which is far more damaging than any external tariff, such as that imposed by the United States. This fragmentation stifles growth turns capital allocation into a bureaucratic maze and significantly increases compliance costs. The savings and investments union (SIU) aims to reduce these barriers, but the single market for banking services remains overly complex and bureaucratic. A capital markets union (CMU) cannot exist without an effective banking union. Current regulatory and supervisory inconsistencies, such as the Capital Requirements Regulation 3 (CRR3) output floor, the internal minimum requirements for own funds and eligible liabilities (MREL) and the fragmented macroprudential framework, continue to prevent banking groups from managing their liquidity and capital efficiently (centrally). National differences persist, resulting in a lack of a level playing field.

1.2 Without a truly integrated single market, Europe risks falling behind in key areas like energy, defence and digital transformation

An industry representative observed that fragmentation has led to a banking sector characterised by a large number of small institutions operating under high-cost, low-return business models. This structure prevents the emergence of European banking champions capable of competing on a global scale. However, there are promising proposals. The SIU strategy recommends an earlier report assessing the competitiveness of the European banking sector. It also suggests that the global context of regulatory frameworks, such as the United States' selective commitment to international standards, the United Kingdom's postponement of Basel III and Canada's suspension of the output floor, needs to be taken into account.

Centralised banking supervision has not helped to remove barriers. An integrated market cannot be built and promoted by supervision alone. Europe has created a huge and expensive framework around crisis management but there is very little engagement with it. CMDI and EDIS in their current form are bureaucratic solutions that do not remove the existing barriers. A single banking market is essential, not optional, if the European Union is to remain globally competitive and able to drive investment in critical sectors such as energy, defence and digital transformation.

1.3 The inefficient banking union leads to higher costs, lower growth and greater systemic risk, all of which weaken the global competitiveness of European banks

An industry representative listed the three main categories of costs associated with the incomplete banking union: higher operating costs, lower economic growth and increased systemic risk. Higher operating costs affect not

only banks, but also the individuals and businesses they serve. Regulatory and liquidity constraints that impede the flow of funding and deposits across regions reduce the volume of lending and ultimately suppress economic growth. Smaller and more isolated pools of capital limit the ability to effectively diversify risk, thereby increasing systemic risk. Together, these three factors undermine the competitiveness of European banks relative to their US counterparts. Breaking this cycle is essential if Europe is to improve its financial strength and global standing.

1.3.1 Regulatory fragmentation in Europe leads to high operational complexity and hinders banks' ability to offer similar services across the EU

An industry representative explained that their fintech firm is licensed in Lithuania and has chosen to establish branches in several European countries rather than subsidiaries. This approach was designed to overcome the discrimination of International Bank Account Numbers (IBANs). Initially, the firm tried to passport its services from one country to many others. However, it became clear that, in a fragmented regulatory environment, it was necessary to establish branches in each country. These branches are now subject to supervision by seven national regulators, in addition to oversight by the home regulator in Lithuania, the European Central Bank (ECB) and the Single Resolution Board (SRB).

While achieving 'significant institution' status has brought benefits (Revolut is now directly supervised by the SSM) such as coordination through the ECB's Joint Supervisory Team (JST), national interpretations of EU rules and specific practices continue to pose significant challenges. The multiplicity of legal and regulatory frameworks will only increase operational complexity as the firm grows, creating an environment that is not conducive to expansion. For example, it took the firm four years to launch personal loans in just nine European countries, despite its status as a fast-growing fintech. The scale of the differences between jurisdictions makes it extremely difficult to provide a consistent service across Europe. Granting greater authority to the Single Supervisory Mechanism (SSM) could be helpful. Fragmentation exists not only among supervisory bodies, but also within national legal frameworks. These inconsistencies continue to hinder progress.

1.3.2 The lack of a completed banking union, particularly the absence of EDIS, limits competition, cross border growth, and deposit mobilisation in the EU financial sector

The Chair noted that the European banking system suffers from a lack of scale and limited cross-border mergers. Over the past 15 to 20 years, cross-border banking activity has declined. There are frequent comparisons with the strength of the United States banking system and Europe must take decisive action if it wishes to compete effectively.

An industry representative stated that the absence of a completed banking union significantly limits competition in Europe's financial sector. The fragmented regulatory environment hampers banks' ability to operate across borders and scale effectively, which negatively impacts their customers and the wider economy. This regulatory fragmentation also limits banks' ability to raise deposits to support their operations. The lack of an EDIS prevents existing banks from attracting sufficient deposits to implement their strategic plans and develop a more ambitious cross-border presence. Without urgent action, Europe will not be able to realise its full potential and the financial services sector will not be able to fulfil its role of supporting the economy.

1.4 The banking union is vital for EU competitiveness and must advance in tandem with the CMU

An industry representative stated that both the banking union and the SIU are urgently needed to enable growing banks and diverse financial institutions to operate across borders and benefit from the single market. The current tensions must be resolved to support economic development and the wellbeing of European citizens.

1.4.1 Completing the banking union as a key part of the broader SIU

A policy maker confirmed that the European Commission remains committed to making progress on the banking union. Banking union features prominently in the 19 March communication, which sets out a broader strategy for the SIU. The SIU is not simply a rebranding of the CMU but a comprehensive vision that encompasses both capital markets and the banking union, although this integrated approach has not been widely recognised and therefore should be emphasised.

In contrast to capital markets, significant progress has already been made in the area of banking. For example, the implementation of the SSM is an important milestone. Nevertheless, further efforts are needed to complete the banking union. The communication of 19 March outlines two main work streams. First, the negotiations on CMDI need to be finalised. Second, the EDIS needs to be reviewed. The benefits of a completed banking union would be considerable. The most important of these is financial stability, which is fundamental in the current context where competitiveness and growth are key priorities. A financial system cannot be considered competitive if it is not stable. Other benefits include greater economic integration, the development of innovative financial products and improved cross border capital flows.

1.4.2 The SIU offers a key opportunity to foster fintech growth, capital market development and financial inclusion in Europe

An industry representative suggested that the SIU represents a valuable opportunity to strengthen capital markets and create a more favourable environment for new fintech firms. The speaker's firm has already grown to serve 50 million customers, despite being less than ten years old. A more integrated financial landscape would allow for the emergence of other European champions of similar scale. While fintech is often associated with technology and services, it is also important to enable progress in the regulated segments of the market, especially for firms that provide services to consumers and businesses. Fintech companies have the potential to develop into listed companies and contribute to the growth of capital markets.

Over the past 18 months, the speaker's firm has introduced low-risk investment products to consumers in 18 European countries, with 2 million individuals participating. Although the total amount invested remains modest, this development

reflects a shift in accessibility for European consumers who previously lacked such opportunities. The willingness of citizens to invest demonstrates the need for the SIU to create a framework that encourages the development of similar offerings. The Commission's recent proposals should therefore be pursued as a matter of urgency. CMDI and EDIS will be essential components of this effort.

1.4.3 Banking union and SIU must move forward together

An official remarked that the banking union is particularly important in the broader context of enhancing the competitiveness of the European Union and improving the efficiency and effectiveness of its financial system. It is not possible to complete the banking union without the development of strong capital markets. This is particularly true for the host countries in central and eastern Europe, which are heavily dependent on bank financing. Conversely, a CMU cannot be achieved without significant progress on the banking union. Banks have well-established distribution channels and are often the first point of contact for consumers. They also act as market makers in regulated markets and as key providers of liquidity.

The Commission's recent recognition of the link between the CMU and the banking union is therefore welcome. Building the SIU on the three pillars of CMU, banking union and retail participation is the right approach. However, it is worrying that the recent report on competitiveness did not pay sufficient attention to the banking union. This omission suggests that the Commission may be trying to decouple the banking union from broader efforts to improve competitiveness. Such an approach would be unwise, as the banking union is a prerequisite for a competitive banking sector.

2. Addressing host countries' concerns

2.1 The widespread lack of trust in Europe's banking system and institutions hinders cross border integration and effective use of crisis mechanisms

An industry representative noted that the central problem facing Europe is a pervasive lack of trust in the EU institutions, including the SSM and Single Resolution Board (SRB), and the banking sector itself. This hinders cross-border integration and creates further barriers between Member States. Building trust among host countries is particularly challenging because it involves public institutions. The speaker cited their bank's experience in Greece during the sovereign debt crisis over a decade ago. The group provided significant financial support to its Greek subsidiary, which was eventually sold to another Greek bank. This example shows that banks can act responsibly and honour their commitments, which should help to build confidence.

2.2 Countries rely heavily on transnational banking groups and further discussion on how to ensure stable financing in times of crisis is needed

An official stated that they were looking forward to the 2026 report and confirmed that plans are underway to introduce appropriate safety nets, including EDIS. Several member states in central and eastern Europe are entirely dependent on the capital strength and crisis absorbing capacity of well-capitalised banking groups, particularly in times of economic disruption such as the pandemic. Further discussion of these dependencies is needed to ensure that the economies of these member states will be appropriately financed in all circumstances.

2.3 Trust can be built among host countries by clearly communicating the benefits of the banking union, addressing concerns over financial stability and the financing of their economies and advancing work on all key components, including EDIS and resolution liquidity.

An official acknowledged that there are conflicting interests in this area. What financial institutions or industry may see as an obstacle or a hindrance, is often perceived by host Member States as a safeguard or anchor of financial stability and often the only viable source of financing for their national economies. So far, EU authorities and financial institutions have not clearly communicated the potential benefits of the banking union for host countries. These countries are mainly concerned about whether a completed banking union would improve their access to credit or lower the cost of financing. There are also concerns about so-called home bias and the possibility of ring-fencing, even at a consolidated level, in what is currently a highly politicised environment.

The banking union project and the broader SIU concept should be welcomed. Notable achievements so far include the SSM, the SRB and the resilience of the banking sector during the COVID-19 crisis. However, building confidence will take time and continued efforts. Diversifying the sources of financing for the economy is essential to enhance the shock-absorbing capacity of the financial system. Work must continue across the four established banking union workstreams. A holistic approach is needed. In particular, EDIS provides a necessary safety net. Technical discussions should start immediately on resolution-related liquidity issues, which remain unresolved and are likely to be confirmed by the SRB or the SSM. A stronger focus on the banking union in future Commission communications would be highly desirable.

The Chair observed that some member states remain concerned that, in the event of a crisis, their national economies could be placed at serious risk.

An official confirmed that trust remains the central challenge. Building confidence among member states will take time. Improvements in governance could contribute meaningfully to this effort. However, progress has been limited due to the relatively low number of bank resolution cases. Each case contributes to the learning process and enables the system to evolve. For example, the most recent resolution case revealed several areas in which the SRB's governance framework could be enhanced.

2.4 Trust cannot be mandated but regulation can foster the right conditions for it

A policy maker commented that, although trust cannot be legislated into existence, regulation can create the conditions in which trust can be built. CMDI and EDIS are

essential tools in the effort to build that trust. The primary objective must be to reassure host member states that banks will no longer be 'European in life and national in death'. Liquidity in resolution scenarios is another crucial component, and this area is ready for further assessment. Confidence continues to be undermined by market fragmentation, the patchwork of national rules and divergent application of EU rules across member states.

The report on the banking sector, originally scheduled for 2028 but now expected in 2026, will take a global perspective. Several policy ideas will be considered, including intra-group support arrangements, which are particularly relevant to this discussion. While proposals such as unrestricted free movement of capital or liquidity are unlikely to inspire confidence at this stage, a balanced approach is needed. There is considerable support for a regulatory pause and simplification. In some cases, however, legislation is needed to simplify the system. Without concrete action, existing problems will persist.

3. EU policy priorities

3.1 The banking sector must move beyond incremental change and follow other industries in creating a truly pan-European market through stronger EU-level integration and regulation

An industry representative explained that the usual approach has been to maintain the status quo, with a high degree of involvement, oversight and control by the host country's domestic authorities, and then try to make incremental improvements. However, this approach is no longer sufficient. Examples from other sectors could be instructive for the banking sector. In the pharmaceutical industry, the European Medicines Agency approves new products at EU level before they are marketed across borders. In addition, the European Health Data Space facilitates the secure exchange of health data across borders, fostering innovation and enhanced patient care. In the telecommunications sector, a major regulatory effort at European level led to the abolition of roaming charges, creating a single market. Several telecoms operators now operate on a truly pan-European basis. In the automotive sector, vehicle type-approval is also carried out at a single European level. Although banking is often seen as an exception because of its impact on national sovereignty, similar arguments could be made for healthcare and transport. These examples show that a truly pan-European market is possible. The banking sector should emulate these models rather than sticking to a strategy of incremental change.

3.2 Building a unified regulatory and supervisory framework

3.2.1 Thinking at consolidated level to overcome obstacles to cross-border activity

An industry representative emphasised the need for a consolidated regulatory and supervisory approach to remove existing barriers to cross-border activity. Ring-fencing creates inefficiencies and limits the ability of banks to contribute to economic stability and growth. The banking union must be recognised as a single regulatory and supervisory area to improve intra-group capital and liquidity flows, encourage cross-border investment and promote the creation of EU champions. Resolution rules must be fit for purpose and not distort competition or undermine the level playing field. Currently, the CMDI is a bureaucratic mechanism that does not sufficiently address the economic challenges posed by market fragmentation. Indeed, the CMDI keeps resolution processes at the national level and fails to break the link between banks and national taxpayers. A constructive solution would be the removal of internal MREL requirements, which would signal a tangible step towards the integration of a single banking market.

Enrico Letta recently warned that Europe risks becoming a 'financial colony' of the US. The EU has opened its single market to third-country institutions, while at the same time erecting internal barriers that hinder the development of home-grown financial champions. This contradiction needs to be resolved. The EU's integration process has often been driven by necessity in times of crisis, including now. A pragmatic mindset, combined with a long-term political vision, is essential to achieve meaningful progress. Mario Draghi recently noted the need for defragmentation and investment, which are two closely related priorities. Addressing both will be essential to prevent Europe from entering a prolonged period of stagnation characterised by low growth and declining productivity. European growth could be revived through strategic investment. Concrete, actionable proposals must be put forward to overcome the prevailing inertia and revive Europe's financial dynamism.

3.2.2 Fully harmonised rules and breaking the link between national deposit guarantees and sovereign taxpayers to overcome persistent national barriers.

A supervisor confirmed that significant progress had indeed been made, especially compared to the situation in 2008. However, the co-legislators' decision to combine European Union rules with national rules has caused increased complexity and some inconsistencies in day-to-day supervision. Ideally, fully harmonised rules would provide a better framework for the supervision.

EDIS and CMDI are not just bureaucratic constructions; without them, a fully-fledged banking union will remain elusive. As long as the current link between deposit guarantees and sovereign taxpayers is maintained, national authorities will continue to implement safeguards such as ring-fencing to protect their own taxpayers. This link must be broken to complete the banking union. The current 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. EDIS, however, would significantly mitigate host countries' concerns around deposit protection and make it possible to move financial resources more freely.

Fundamental change is needed, as well as recognition that the current barriers are not just bureaucratic. It is essential that all EU member states develop confidence in a fully functioning banking union. National barriers, whether related to capital constraints, liquidity or the lingering perception from the 2008 crisis that national taxpayers will ultimately bear the cost, must be dismantled

3.2.3 Regulatory changes and action by banks can foster integration in an incomplete banking union

A supervisor acknowledged that the ECB and the SSM supervisory teams are well aware of the undesirable fragmentation along national lines. A key EU policy priority should be to strengthen the legal and practical frameworks that facilitate cross-border activity and allow greater capital and liquidity mobility across member states. This would enhance the efficiency of the EU economy as a whole.

A wide range of views are represented on the SSM board, including representatives of 21 national authorities, six ECB representatives, a chair and a vice-chair. The common focus is on building a European supervisory community. While national idiosyncrasies and reactions are inevitable due to the different banking landscapes in each country, they must not be allowed to impede collective progress. Moving forward as a single European Union is the only viable solution.

Supervision should aim to protect depositors by ensuring a stable funding environment, which will support economic growth, but banks should also take proactive steps. Banks are part of the real economy and should be treated as such. Cross-border mergers and acquisitions are not a panacea. Retail banking and retail services are only part of the picture. In corporate and investment banking (CIB), banks must be able to operate efficiently across borders, invest in modernising their IT platforms and build integrated and tailored platforms to serve a pan-European clientele. These platforms must serve individuals, SMEs and large corporates alike. 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.

3.3 A single European banking licence and unified supervision to enable the emergence of pan European banks capable of competing on a global scale and a more tailored regime for smaller, domestically focused institutions

3.3.1 A single licence for institutions operating across multiple markets

An industry representative proposed the introduction of a single European banking licence. Under such a regime, any bank operating or wishing to operate on a pan-European basis would be regulated and supervised exclusively at European level. Such an arrangement would allow them to provide services without being hampered by different national regulations or supervision. All European banks would operate under a single deposit guarantee scheme, freeing them from contributions to national schemes where they exist. Liquidity would be increasingly managed at the EU level, with a weaker link to national sovereigns. In addition, consumer protection for bank customers and insolvency laws would be more closely aligned, boosting confidence in a truly single market. Instead of leading to more regulation overall, regulation would reduce. Given the importance and interconnectedness of finance, the EU could use the banking sector to create a blueprint for ensuring the appropriateness, effectiveness and efficiency of all European regulations. Increased sovereign debt issuance at the EU level would help weaken the so-called sovereign-bank nexus.

At present, cross border mergers and acquisitions are often blocked by national interests that favour domestic champions over European-scale institutions. These transactions need to be facilitated if Europe is to address the stark contrast in scale with US banks, especially in wholesale banking and capital markets, which are crucial to the financing of the European economy. A strong alignment with the CMU and a renewed focus on securitisation will also be crucial. The difference in size between the European and US markets remains significant.

The prevailing narrative in both the public and private sectors continues to be shaped by the 2008 financial crisis. There is a perception that banks are inherently risky and need to be tightly regulated. This narrative needs to evolve. Banks should be recognised as indispensable actors in achieving Europe's strategic goals.

3.3.2 A lighter, more tailored regime for smaller, domestically focused institutions

An official suggested that, as the EU is entering a new political and institutional cycle, future discussions should differ from past debates by focusing on proportionality. The single market currently applies similar conditions to small, domestically focused banks and internationally active, cross-border banks. Any future proposals to complete the banking union should target significant institutions and apply Basel III-style standards, while ensuring that these banks can fully benefit from the single market, including the free movement of capital and liquidity. For smaller and mid-sized locally operating banks, a lighter regime could be introduced, taking into account national specificities. In this way the principle of proportionality could be applied in both directions. The system must remain open and support market access and regulation cannot favour one group over the other.

The Chair closed the session by emphasising that immediate action is required to safeguard Europe's future prosperity and economic dynamism. Attracting international investors and embracing fresh thinking will also be of vital importance. Europe is at a critical juncture and bold, practical solutions must be pursued. Historical experience has demonstrated that, with the right investment, a compelling economic case and appropriate safeguards, meaningful progress can be achieved.