DIVERSITY IN THE EU BANKING SYSTEM

HELMUT ETTL
Executive Director – Austrian Financial Market Authority

Proportional and risk-based supervision's contribution to diversity

One objective of any financial system in Europe, regardless of its structure, is to support the (real) economy effectively and efficiently. Therefore, the banking system must meet the needs of different stakeholders and population groups within the EU, which differ both in terms of their characteristics and their associated risks. For example, European banks have to offer business models tailored to the needs of private individuals, small and medium sized enterprises (SMEs), large corporations and start-ups. They must offer business models both for young, tech-savvy customers as well as older technology-averse customers. Diversity of banks' business models across the European Union is key in achieving this.

As digitalisation progresses, many new players such as digital banks and BigTechs have entered the market. Such players drive innovation, leading to changes throughout the whole banking landscape, as they increase competitive pressure on incumbent banks. In addition, traditional banks must embrace new technologies (and the accompanying implications that come with them) and modernise themselves on an ongoing basis. Such a digital transformation and permanent modernisation are necessary to ensure the sustainability of banking business models.

In this context, it is necessary to highlight the continuing economic importance of the co-operative sector and regionally-offered services. They include guaranteeing the security of supply for older customers especially in rural areas. Additionally, this sector also plays an essential role in Austria, for example in SME financing. However, the different business models (traditional vs challenger) can also learn from each other and utilise their respective strengths.

A look behind the scenes reveals an enormous battle for value chains, particularly in the digital sector. New market entrants with new business models have collected a significant share of the value chain of traditional banks. There is a particular focus on outsourcing and, with the advent of DORA, third-party service providers are now also subject to greater supervisory scrutiny.

Banks and supervisors alike need to keep abreast of digital developments and emerging new business models. The regulatory framework must therefore allow a rapid response to the dynamic developments, while ensuring a level playing field and common standards in application of the principle of proportionality. It is essential that supervisors find the right balance between consistency (same risk, same rules) while also affording due consideration to the respective business model and its inherent risk. Furthermore, this distinction and different rules that accompany it should not become too complicated and the risk of unnecessary over-complication should be minimized.

Supervision is already conducted proportionally, in accordance with a business model's inherent risk. The principle of proportionality inherently states that there is no "one size fits all" approach – different risks and different business models require different supervision.

The SSM has also intensified examining the areas where the main risks exist. The SSM is moving towards a risk tolerance framework, in which supervisory resources should be explicitly deployed where risk is most inherent, while also, on the other hand, consciously tolerating risk in other areas. Such an approach makes even more focused and risk-based supervision possible.

The ECB's ongoing SREP Review is also intended to further empower supervisors and enable them to fulfil their essential tasks more efficiently and effectively. It is important to move away from a "box ticking exercise" approach and instead to explicitly focus on the main risks identified. In addition, supervisors need to anchor proportionality and risk-based supervision even more firmly in their thinking and daily duties. These two principles will also be further strengthened as part of the revision of the EBA SREP guidelines. Their consistent implementation in Austria will further strengthen proportional and risk-based supervision of LSIs.

One size doesn't fit all: different supervisory approaches for different risks and business models.

Consequently, this discussion reiterates that effective supervision cannot be carried out using a series of "box ticking" procedures. Effective supervision requires highly specialised employees who engage with individual business models and make appropriate decisions accordingly. Regulatory provisions must be complied with by all players – regardless of whether they involve new or traditional business models. New innovative business models must also fulfil the high regulatory expectations, not only in the prudential area, but also in the AML area, for example. Ultimately, the competitive battle over technology will determine success and failure in the future.

ELIZABETH MCCAUL

Member of the Supervisory Board, ECB Representative – Single Supervisory Mechanism (SSM)

Adapting to technological shifts: supervision in the evolving financial landscape

A major strength of the European banking system is the diverse business models and governance structures that in turn enhance resilience and ability to meet the needs of customers. As supervisors, it is our duty to ensure each bank's soundness and safety by assessing the effectiveness of their risk management, the appropriateness of their technology investments and the sustainability of their business models, among other things. At the same time, it is not our task to defend supervised entity market shares. Neither do we favour specific business models or technologies. This role requires careful calibration amid technology and societal shifts that are continually reshaping the business of banking. Banks and supervisors must both adapt, especially in the face of the unprecedented speed of technological progress that is driving customer demand for digital solutions from banks and the entry of new competitors.

So what does this mean for the role we need to play in the sector's digital transformation?

Simply put, we look to answer at least two questions:

1. How do we ascertain whether banks are managing the long-term sustainability of their business model effectively as well as risks from digitalisation and non-bank partnerships, and provide appropriate supervisory responses to any weaknesses?
2. How can we maintain an effective regulatory and supervisory framework amid constantly reshaping financial value chains, un- and re-bundling of financial services and decentralised financial services provision?

Our focus is on how banks formulate, execute and monitor their digital strategies, emphasising timely identification and adequate mitigation of risk. We are incorporating digitalisation into our supervisory priorities so we can answer these questions, and are publishing criteria and best practices for banks' digital activities as we continue to learn.[1]

Going forward, we will expand our supervisory work and review the use of specific technologies such as artificial intelligence, constantly striving to better understand how banks' efforts to devise digitalisation strategies, investment decisions and ecosystem interactions are linked, especially in terms of impact on business models and operational resiliency risks.

The financial landscape is shifting, and so should regulation and supervision. To evolve properly, collectively we need a holistic understanding of the new contours of the financial system. We need robust risk assessment capabilities to apply a proportionate and fair approach while enabling innovation. Calibrating supervisory actions properly should be based on the economic and societal impact of services, not the technology or licences used.

A major restructuring is under way in financial services: integrating financial services into non-financial ecosystems, changing the risk landscape, blurring traditional industry lines and challenging conventional regulatory boundaries. Against this rapidly evolving backdrop, we also must continuously reassess the effectiveness of our supervisory framework.

Bigtechs and fintechs are reshaping customer experiences using technology and data not only to compete with traditional banks, but increasingly to collaborate with them by delivering their products as customer interfaces. Mobile apps and platforms are the new norm for providing financial services. Licensing-as-a-service delivering these apps and platforms via partnerships extends the reach of banks by leveraging fintech innovation. There is much that is good about this.

But partnerships with non-bank intermediaries pose new challenges when they act as the primary consumer interface while banks bear legal responsibility. Sound practices about reliance on third-party providers should be applied to these partnerships, even if they must be framed differently in the world of partnerships.

And here's why: fintech providers tend to prioritise customer convenience, efficiency and growth, without demonstrating knowledge of what robust bank risk management practices entail. Banks need to exercise control over customer onboarding, operational resilience, liquidity and legal risks. They must consider the interaction between their own innovative business models and their partners' risk profiles, prepare for intermediary and vendor failures and oversee the soundness of partners who may take excessive risks or become sources of concentration or interdependency risks.

There is another, not inconsequential twist. Bigtech conglomerates where the primary business is technology rather than banking are entering the financial sector through e-commerce and payment platforms, and subsequently expanding into retail credit, mortgage lending or crypto services. These actors may also explore alternative, less-regulated lending forms like crypto lending using peer-to-peer platforms, ultimately mimicking the economic functions of banks without being subject to the same comprehensive oversight.

We need to expand our tools and surveillance to prevent gaps in oversight. They need to be robust and yet versatile enough to oversee disintermediated, interdependent and possibly distributed-ledger-based business models. We must adapt regulation and oversight of bigtech conglomerates, for entities mainly active in non-financial services. This necessitates a thorough understanding of the financial activities of large non-bank groups across jurisdictions and sectors.

Our preferred response to such challenges involves creating global standards for supervising non-banks, fostering cross-border cooperation and promoting information sharing among supervisory authorities. We should avoid the kind of regulatory "race to the bottom" that is often driven by a myopic vision of prioritising innovation and attracting large firms which may not contribute to the good of society. This may require the EU to continue leading the regulatory evolution in the oversight of bigtechs, conglomerates and crypto-asset services.

1. *https://www.bankingsupervision.europa.eu/ecb/pub/html/ssm.reportondigitalisation_202407~3f4de7a771.en.html*

EVA SLUKOVÁ
Director of Financial Markets I Department; Board Member of Financial Market Guarantee System – Ministry of Finance, Czech Republic

Diversity in the EU banking system

The EU banking system has undergone significant changes in recent years, with the presence of two main types of banks contributing to the diversity of the European financial market. Traditional credit unions, mutual, or cooperative banks prioritize personalized services and member ownership, serving as community-focused institutions. On the other hand, emerging players such as fintech companies, challenger banks and various digital platforms offer innovative solutions like peer-to-peer lending and mobile payments, contributing to a more competitive landscape.

Both traditional credit unions, mutual, or cooperative banks and emerging banks in some cases provide alternative sources of funding for those who may have been underserved by traditional banks for a variety of reasons ranging from a specific line of business of some SMEs to geographical remoteness of some customers. The contributions of emerging players have already had a positive impact on the bank industry, but challenges remain that must be addressed in order to ensure their long-term and ongoing success. Representatives of both groups often struggle with regulatory compliance, as smaller institutions have problems with the amount of increasing regulatory and reporting burden and at the same time new players must navigate complex regulations and licensing requirements in order to operate in the banking sector. In particular, the current issues of cybersecurity and data protection are crucial and burdensome for all these entities as they need to protect sensitive customer information and maintain confidence in their services to ensure the stability and growth of the banking sector.

Another perspective on continuing complexity of the diverse banking environment in the Member States is provided by the ongoing debate on a level playing field and the drive to complete the Banking Union. The introduction of the third pillar of the Banking Union, the European Deposit Insurance Scheme (EDIS), which is intended to strengthen financial stability by providing a common safety net for depositors across the EU, is currently blocked. Together with persistent concerns about risk sharing and moral hazard, notwithstanding the legislative measures already taken in this area, the impossibility of finding a compromise is partially due to heterogeneous system of deposit guarantee schemes and private institutional protection schemes in place in the Member States. The only way forward may be an appropriate level of supervision and integration of these diverse entities into the regulatory framework of the Banking Union, particularly in the context of EDIS, with careful consideration of their unique characteristics and risk profiles.

> **Diversity in the EU banking system is necessary to promote innovation and competition.**

The heterogeneity of banks and the differences in approach to resolution between Member States have proven to be a challenge that needs to be addressed in the current revision of the EU framework for bank resolution and deposit insurance (CMDI). One of the objectives of the current revision of crisis management is to adapt and further strengthen the existing framework to enable authorities to organise an orderly exit of failing banks of any size and business model from the market, and to allow more use of the resources of deposit guarantee schemes in the resolution process, not just to preserve them for the pay-out function. Nevertheless, as the Council's negotiation has made absolutely clear there are significant differences in current use of resolution framework and lessons learned so far or different motivation and experience with the use of the national deposit guarantee schemes in crisis situations. The agreement on the negotiating mandate reached during the Belgian presidency is being loudly criticised by representatives of the European Commission for failing to meet the objectives of the reform, which is based on the Eurogroup's statement on the future of the Banking Union of June 2022, and for renationalising and fragmenting the application of the crisis management framework for banks. The Council's position is also criticised for the significant difference between the efficiency and credibility of resolution in banking union Member States and in non-banking union Member States, which may lead to differences in the treatment of failing banks. It then remains to be seen how fragile this compromise will be in the trilogues with the European Parliament.

In conclusion, while both good and bad examples of banking diversity can be found within Member States' banking systems, diversity in the EU banking system is not only necessary to promote innovation, competition and widen access to finance for individuals and businesses but must also be maintained for underserved customers and SMEs in the rural periphery of Europe. Striking a balance between national interests and a harmonised approach will be essential to address the regulatory challenges of the complexities of the EU's diverse banking environment.

LÁSZLÓ VASTAG
Executive Director for Prudential and Consumer Protection Supervision of Money Market Institutions – The Central Bank of Hungary

Proportionality: focusing on the micro- and small enterprises

Micro- and small enterprises (companies having less than 50 employees) account for 99% of the total non-financial businesses in the EU and these companies employ close to 50% of the persons employed by the private sector, whilst they contribute roughly one third to the total value added generated in the EU.

The above statistical data are strong indicators that the success of the European economy lies in the fate of small- and micro enterprises. However, these businesses even if they are successful in their respective fields, are hardly on the radar screen of capital market investors, and though there could be a chance to involve angel investors in some cases or obtain certain government/EU support, these are available only to a number of companies with specific business models (e.g. agricultural sector, those who have an appealing business plan). Therefore, they are and most probably will continue to be predominantly served by the banking sector.

Policy makers in the EU and in the EU member states are encouraging the banking sector to continuously meet the financing needs of this sector and the access of the SMEs to bank financing has become easier and cheaper during the last decade. Nonetheless the different financial institutions have different approaches to serving small enterprises ranging from boxed-up products to tailor-made solutions.

In our experience the bigger the financial institution is the more likely its general approach towards small businesses is to create a few relatively simple products with a corresponding scoring system (often very much reliant on the collateral background) and automatize the client service model to the maximum possible extent. On the contrary smaller institutions are more likely to engage in complex client interactions, use a broader set of information for the credit decision and as a result offer more demand driven solutions to small businesses.

Two tangible examples of that latter approach are (i) cooperative or mutual banks, which are deeply rooted in their respective business community and therefore might have the advantage to "see beyond the figures"; and (ii) fintech or more broadly speaking financial institutions that are keen to use more the support of advanced IT solutions, like big data, social scoring or potentially AI might as well be able to take a more detailed view about the needs and possibilities of their small business clients.

Uniformization of banks could negatively affect the inclusivity of the EU financial system.

On that basis it is safe to say that uniformization of the EU banking system towards traditional commercial banks with savings cooperatives and innovative financial intermediaries losing ground could potentially negatively affect the inclusivity of the EU financial system, when it comes to the service of small businesses.

However, the complexity and sheer size of the single rule book and the ever-increasing costs of regulatory and supervisory compliance make it more and more difficult for smaller institutions to stay on the market in a sustainable fashion. Henceforth, it has been an important topic for regulators and supervisors for almost a decade how the principle of proportionality should be applied to preserve the diversity of the EU banking sector.

Although there are elements of proportionality in the EU banking regulation it is more the supervisory practice and judgment so far where the concept is supposed to be filled with content and that is why in our view no breakthrough has been achieved in this field. What is expected from supervisors and regulators is to apply proportionality, and though some angles are provided, the exact content and practice are not detailed, consequently, it remains as a broadly interpreted concept in all jurisdictions, creating the opportunity for setting back the level-playing field for the institutions, which is also a justifiable expectation just as the proportionality.

The gut feeling which is associated with proportionality is that it means something like compromising on risk and that is against the nature of supervisors, whom always had the sneaking suspicion – that grew into a conviction after the 2023 banking turmoil – that the demise of an institution, which is not considered systematically important, might have a negative impact at system level. Therefore, the challenge is a balancing exercise i.e. to implement proportionality without compromising on the prudential position of the institutions, where the issue of simpler, but stricter rules recurringly comes up.

Moreover, proportionality is a sword that cuts both ways in the sense that regulators and supervisors shall ensure that by applying proportionality, traditional banks are not put into disadvantage vis-a-vis small banks.

NATHALIE AUFAUVRE

Secretary General – Autorité de Contrôle Prudentiel et de Résolution (ACPR)

Cultivating banking diversity in the age of digital finance

The diversity of the EU banking system is an asset as it contributes to financing economy and preserving financial stability. The EU banking system is well diversified in terms of size, geographic footprint (global and domestic) and business model (bank-insurers, commercial banks, investment banks, cooperative institutions, finance companies, digital banks, fintechs). Such diversity, by fostering competition and innovation, is key to enabling various financing needs to be met – from households to businesses – especially in the EU where banking intermediation is predominant. Diversity is also achieved through large universal banking groups, which show internal diversification in terms of activity, risks, income, liquidity and funding. It participates to resilience by limiting procyclicality and contagion risk and proved to be helpful during recent stress episodes including the pandemic, war in Ukraine and 2023 banking turmoil. This diversity should be cultivated for the benefits of the EU economy and customers especially in the context of the twin transitions (ecological and digital).

The full benefits from diversity can only accrue if it is supported by strong regulatory and supervisory frameworks. Regulation, as is the case with CRR2 and now CRR3, must preserve diversity without questioning the full application of standards to all EU banks and by providing necessary adjustments to requirements (notably disclosure and reporting) for smaller banks to ensure proportionate treatment and ease the market entry and growth of emerging players. It is also of critical importance to preserve the competitiveness of EU large internationally active banks, and so to pursue the development of the Banking Union while ensuring that non-EU groups providing financial services in EU are effectively subject to equivalent requirements. Diversity must be also supported by keeping supervision risk-based and "business model-neutral", that is without interference in business model choices. This requests a deep understanding of institutions' activities and environment and a good capacity to address adequately each institution's specificity and risk profile. Finally and beyond banking, diversity and innovation should continue being supported through the variety of EU sectoral regimes (investment services, payments, e-money, cryptoassets) which have been introduced over time to address the risks and challenges raised by innovative practices in a proportionate manner.

It is key to preserving banking diversity while addressing challenges of digitalisation.

The challenges raised by the ongoing digitalisation of finance and emerging players or business models should be further addressed. New actors in financial services such as fintechs and bigtechs can bring further competition, efficiency and cost reduction for the ultimate benefits of customers and the entire financial system, but they can also raise risks. Therefore, it is key to preserving banking diversity while addressing challenges of digitalisation. The EU legislation has been evolving to embrace digital transformation and balance the related opportunities and risks: critical acts as DORA (operational resilience), DMA (markets), AIA (artificial intelligence) and the financial data access and payments package under discussion are the building blocks of a safe and virtuous innovation by addressing the most imminent risks while bringing legal certainty. However, the potential financial stability risk that may result from a further increase of such actors' activities in financial services should be addressed. The existing supervisory and regulatory framework, whereby various regimes apply to financial service activities other than banking, is typically activity-based (e.g. payments and e-money) rather than entity-based, that limits supervisory visibility over the aggregated risks that may arise from all the financial activities carried out by these actors. This is all the more the case as bigtechs in particular could increase their provision of financial services including the provision of credit while there is no harmonised EU regime for non-bank lending. Against this backdrop, policy actions may be warranted: first, to closely monitor the development (type and scale) of financial service activities by non-banking groups; second, to enhance the regulation and supervision of such groups, for instance by requiring them to group all their financial service and ancillary activities, when significant, in a dedicated structure (e.g. an Intermediate Parent Undertaking) to which relevant prudential requirements (e.g. banking rules in case of banking or banking-like activities) could apply and that would be subject to consolidated supervision at EU level; third, to consider back-stop supervisory powers to deal with specific scenarios (e.g. the distribution of services through platforms reaching a critical level with a change in power balance); and fourth, to develop an harmonised regime for non-bank lending.

JOE HENEGHAN
Chief Executive Officer,
Europe – Revolut

Making the Banking Union more inclusive for digital pan-European banks

Digital banking models have emerged only recently compared to the long-established European banking regulatory frameworks. No one expected such rapid adoption of digital bank solutions, which have evolved from offering purely payment services to providing core banking services such as loans, deposits and mortgages. While some time ago we could say that digital banks were not there to fully compete with traditional banks, this is no longer the case. For example, Revolut's revenues surged from EUR 190 million in 2019 to EUR 2.1 billion in 2023, and its customer base expanded from 7.8 million in 2019 to 38 million in 2023.

Such growth can be attributed to a model prioritising user convenience, cost-efficiency, and innovative financial solutions, challenging conventional banking paradigms. A good example is Revolut's recently launched instant access savings accounts. With these accounts, Revolut users can have daily interest payouts and instant access to funds with rates as high as 3.5% for EUR per annum. In this way we are making it simpler than ever for our customers to grow their savings.

European regulation and supervision needs to evolve with these models as well. Digital banks require pan-European frameworks because, unlike traditional banks, they are European from the outset and do not follow the model of growing in one European market before expanding to the pan-European level.

This can be done by enhancing the Digital Single Market for financial services, building more consumer trust in the banking system and promoting interoperable pan-European payment solutions.

Enhancing the Digital Single Market for financial services

One major obstacle to the Digital Single Market is IBAN discrimination, an issue that is detrimental not only to digital banks but also to businesses that want to expand across Europe and to customers who live cross-border. Revolut launched a project to establish branches across Europe in order to provide local IBANs to serve its clients locally, and the results are striking. In one country, the number of direct debits increased by over 200% just in 5 months since launch of the branch, signifying the significant impact local IBANs have. While a lot of work has been done recently by national competent authorities and European stakeholders to fight against IBAN discrimination, the issue remains. As Commissioner Mairead McGuinness rightfully mentioned, it's "a stone in our shoes," and it's time to put an end to this practice. The only viable solution we see is to move to a European IBAN number, confirming the unity of the Single Market and allowing everyone, from consumers to businesses, to enjoy the benefits of the free movement of goods and services.

Regulation must evolve with digital banking to ensure competition and better choice.

More consumer trust in the system

Another issue that digital banks are facing is the absence of the third banking pillar, an European Deposit Insurance Scheme (EDIS). An incomplete banking union results in pan-European digital banks struggling to gain confidence from EU depositors not based in the home state of the digital bank and consequently failing to attract more deposits from users from their host states. For example, in the recent report the Dutch Consumer & Markets Authority (ACM) observed that 'There is also a lack of trust among consumers in foreign products banks. This lack of confidence is partly due to doubts about whether savings are safe in such banks.' Revolut strongly believes that this lack of trust can and should be taken away if Member States want more competitive offerings in their markets. This can be done by completing the EDIS project.

Solving European payments fragmentation

As we expand across Europe and become the primary bank for our customers, we are witnessing how fragmented the European banking and payments regulatory landscapes are. Some Member States have developed their own A2A or card payment solutions tailored to specific markets. While these solutions offer more user convenience and create competition with international card schemes, their benefits diminish when a payment is cross-border. We anticipate and look forward to the possibility of a single access point to such solutions, similar to the European Digital Identity Wallet. Whether it be the EPI, Digital Euro, or any other interoperability initiative, ambitious timelines and non-discriminatory access rights are essential for success.

Conclusion

We believe that these reforms are needed not only for digital banking business models but also for customers being served. Making the Banking Union more inclusive for digital pan-European banks ensures competition and better choice for consumers and businesses and allows them to enjoy the benefits of the free movement of goods and services.

KAROLIN SCHRIEVER
Executive Member of the Board – Deutscher Sparkassen- und Giroverband (DSGV)

Smart regulation aiming for a stable, competitive and diversified banking sector

The EU is home to a wide variety of banking models, reflecting the diversity of Europe with its numerous regions and their different social and economic needs. A regulatory framework that allows all banking business models to thrive will promote tailored financial solutions for citizens and the real economy. On the other hand, a blind pursuit of consolidation could weaken competition and innovation, increase costs for clients, and negatively impact financial stability through too-big-to-fail risks.

We need them all: Start-ups and FinTechs that bring innovative solutions, international champions that take higher risks or carry out complex mergers, and smaller, locally rooted institutions with decentralized structures that allow for quick decision-making and close customer proximity that minimizes asymmetric information.

EU decision-makers face the challenge of considering the entire banking sector when shaping the policy framework. The good news is that the efforts by regulators and the banking industry since the financial crisis have paid off. We have a comprehensive regulatory framework in place to prevent undesirable developments, and the EU banking sector has demonstrated its resilience multiple times in recent years. However, there is room to improve efficiency, which would ultimately strengthen Europe's competitiveness. Ensuring a real level playing field is essential!

There is no doubt that financial stability will remain the corner stone of future regulation. Now, however, more attention has to be paid to the performance of the banking sector. Against the backdrop of the twin transition of the economy, financial resources will be required on an unprecedented scale. A large proportion of this will have to be raised via private financing channels so that it will be paramount for all of the EU's financial institutions to be able to efficiently allocate capital.

In recent years, we have seen a steadily increasing number of – in part bureaucratic – regulatory requirements with particularly negative consequences for smaller institutions. Now, a break is needed, as is a reflection on possible improvements and redundancies:

- With the Single Rulebook, the EU's prudential framework still largely follows a one-size-fits-all approach. The resulting fixed costs and complexity affect smaller players and new entrants disproportionately. While the principle of proportionality is getting traction, it has to be filled with life by truly differentiating regulation and supervisory intensity along the lines of size and systemic relevance.
- Regarding efforts to improve the Banking Union, specificities of a large share of the banking sector are ignored. Often, decentralized banking networks are organized in networks and around an Institutional Protection Scheme (IPS). This is a proven and cost-efficient means of preventing financial crises by protecting depositors and regional economic cycles. It is essential that the functionality of the European IPSs is maintained in the course of the further development of the banking union, especially when looking at the negotiations on CMDI and EDIS.
- The introduction of a digital euro has great potential to spur innovation in payment systems and financial services. For this to materialize we will need a fair remuneration model incentivizing banks and payment service providers. At the same time, it has to be avoided that the digital euro favors big tech companies to monopolize their market control.
- In the area of open banking, the German Savings Banks want to play a vital role: as data holders, enabling third-party providers, and as users of external data in order to further improve customers services. Yet, with regard to the numerous data categories in scope of FIDA we see the risk of a dysfunctional imbalance: a sprawling scope of application which triggers a severe implementation effort on one side that is not being matched by economic customer benefits. It must be borne in mind that the costs of implementing the technical and organizational requirements for data access can be considerable.

The EU banking sector directly reflects the diversity of the EU's economic and social needs.

Given the important role of the diversified banking sector for the economy, but also during any type of crisis, the EU will need to find a proper regulatory environment. It has to aim at striking the right balance for all whilst providing the right incentives, enabling innovation and allowing for a well-functioning financial services sector. This is not about weakening banking regulation, but about making it smarter.

MIKE VELTHAAK
Advisor to the Management Board – Rabobank

Preserve EU autonomy and diversity by applying a holistic approach

Recent legislative proposals related to the Retail Investment Strategy, the digital euro and the Financial Data Access Act (FIDA), along with the finalised Regulation on European Digital Identity (EUDIW), will altogether have a significant impact on the European bank diversity and the way retail banks operate. These proposals were composed with good intentions to increase the EU's strategic autonomy in geopolitical competition, as well as promoting financial inclusion, innovation and a European data economy. But when combined with increased competition and costs that banks have to bear to facilitate these EU digital initiatives, it will erode the banks' revenues and increase their expenses, creating an unintentional risk of a decrease in the diversified European financial landscape. Though it's clear that Europe needs to make progress on these topics, these proposals will not meet the intended objectives due to several omissions.

For banks with a large retail clients base, the digital euro entails a risk in the case of a large surge in digital euro usage. A study by the European Commission's Joint Research Centre shows this will create substantial challenges for the European banks balance sheets and profitability, especially for the small ones without access to capital market funding. In addition, the current digital euro legislative proposal forces banks to facilitate the distribution of this central bank digital currency, while it is currently unclear if banks would receive a fair compensation. European retail banks are expected to face significant funding and implementation costs and mandatory responsibilities such as KYC, AML and fraud management. On the other hand, Big Techs and other innovative companies with targeted business models on specific low cost and profitable elements in the payments value chain, can provide the digital euro wallets without having to bear these costs. And once this situation arises, there will be no way to reverse it. Furthermore, the digital euro could potentially crowd out existing and new European payment solutions, which would run against the EU strategic autonomy objective.

Besides the digital euro, legal proposals like FIDA, and the finalised EUDIW Regulation also have the potential to exacerbate unfair competition between banks and Big Techs. For instance, FIDA could grant Big Tech firms access to precious financial data held by banks, while banks do not have reciprocal access to the significant amount of data collected by Big Techs. Also the EUDIW aims to open up the EU market for digital services, enabling individuals to proof fully digitally their identify, for example to open bank accounts. But also the EUDIW may impose banks with disproportionate expenses when they will have to make significant changes to their existing infrastructure and networks as the final legal text lacks clarity and builds on different existing national systems.

EU digital regulations should prevent a decrease in bank diversity.

Not having to bear the cost for the implementation and operationalisation of the European digital initiatives and not being required to provide reciprocal access to the data collected by Big Techs, will create a situation where Apple, Google, and Amazon further consolidate power, as we are already seeing in the payment area.

Though the digital initiatives are aimed at innovation and strengthening Europe's strategic autonomy and monetary sovereignty, these pieces of legislation may weaken the European banking and payment sector in favour of non-European companies of scale. To prevent this, it is essential to adopt a holistic approach based on well-designed impact studies that considers the combined impact of the individual proposals for the EU financial sector, including bank diversity and whether they could place a break on new credit creation by the European banking system. Instead of positioning retail banks as utility providers, it is crucial to offer them a proper compensation for the tasks EU banks are required to mandatorily perform as (semi-) public services and that allows them to develop innovative products and services that meet market needs. The proposals should also provide them with a clear legal text and time frame to facilitate a smooth implementation and include a requirement that opens up the data collected by non-banks. In addition, European digital regulations should include safeguards that prevent a development of a one size fits all movement and that ensure that all digital players embrace social inclusion, to ultimately safeguard that the more vulnerable and less digital literate Europeans will not be excluded. Banks welcome competition as this will trigger innovation, but please facilitate this in a careful way.

BENOÎT DE LA CHAPELLE BIZOT

Head of Public Affairs and Advisor to the Chief Executive Officer – Groupe BPCE

The relational and cooperative banking model is the way forward

As we are celebrating the SSM's 10th anniversary, which also coincides with European elections, it is a rare opportunity for the financial services sector to step back and assess the progress made on financial regulation. In our view, many reforms have been successful: European banks are now much more solid, with significant improvements in capital, liquidity,, asset quality, and crisis management.

However, it is time to raise an important question: beyond stability, have these new regulations delivered better financing of the economy and allowed banks to onboard more customers, SMEs, and local communities in order to enable them to face the real challenges linked to the environmental, digital, and societal transitions?

The short answer is not enough. This is why our common work is not over but starting. Europe is faced with numerous challenges: a context of great geopolitical uncertainty, worsening economic disparities between Europe and some of our partners like the US, and the financing of three key transitions I mentioned above —digital, environmental, and social.

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

Private sector financing is, therefore, indispensable, but the conditions for such private financing to meet expectations are not currently in place. In fact, European integration in financial services has been slow for many years: there still is no freedom of capital and liquidity movement within banking groups, nor any cross-border mergers. Regarding the Capital Markets Union, there still isn't any harmonization on savings products' taxation, nor on supervisory practices. Additionally, building a credible European savings product remains challenging at best.

We stand ready to work with regulators and supervisors to deliver real change, on the ground.

This lack of consensus prevents us from defining a common trajectory for the European financial sector and prevents banks from fully fulfilling their mission: being useful and providing financial solutions to our customers, whether it is every day, in times of crises, and for their long-term projects.

This is the essence of cooperative banks, which are the best placed to deliver real change: our banks are based on loyal advisory services, and maintain long-term and comprehensive relationship with clients, which enables us to truly support them. Moreover, we serve all types of clients, at every stage of their lives. We do not select our clients based on the profitability of a transaction and act as a real shock absorber: for example, 96% of loans for individuals in France are at fixed rates, which means that we absorb part of the risk for both our clients and the overall economy.

Nonetheless, this model, which the is dominant one in France (cooperative banks finance 60% of the economy), is challenged by European regulation and supervision. Too often, European regulation and supervision push towards the transactional banking model.

This is in direct opposition with cooperative banks' relational banking model, which is based on long-term client support and profitability, and not on transactions. This is a defining feature, which allows us to offer services to all our clients, across all territories, and ultimately change and shape our territories, even in times of crisis.

In order to uphold this model, I have a conviction: the Commission, and the European system in general, when establishing regulations and supervisory systems, must conduct a test on the specific impact of each new regulation on the financing of the economy, the long-term relational banking model, and the governance of cooperative companies.

In Europe, we are walking on one leg: that of stability. This leg is fundamental, but we do not sufficiently incorporate the other one: financing capacity. This is the essence of what banks do. For example, we will implement Basel IV before the British and in a stricter manner than the Americans, which will result in additional capital charges. A capital charge is not a penalty on banks, but on our clients, which means fewer loans for the French and European economy. The test on the financing of the economy would, for example, show the impact that the adoption of Basel IV would have on financing capacity, and allow us to make more informed decisions.

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 and long-term sector, which is capable of engaging in ambitious investments. It is the way forward.

We should work collectively and rigorously. There is a change of Commission and a new chair at the SSM, and it is time to put forward our ideas.

GUY CORMIER
President and Chief Executive Officer – Desjardins Group

Balancing strength and mission in a competitive financial landscape

In the evolving landscape of the global financial industry, cooperative institutions are redefining how they balance robust financial stability with their core mission. They navigate the complexities of modern finance and global economic issues while adapting from traditional cooperative models to sophisticated financial entities.

What are the positives and negatives of the different business banking models in jurisdictions where banks play a decisive role in the financing of the economy, particularly in the face of challenges such as digitalization, financial inclusion, and the ESG transition?

In Canada, business banking models are mainly cooperative financial institutions, such as credit unions, and traditional banks. They are regulated either by federal or provincial laws.

Cooperative financial institutions are born from the needs of the members. Their views and priorities have great influence on the conduct of the business. To reconcile those needs and priorities in a large cooperative organization like Desjardins Group is not an easy task. Governance challenges, such as balancing democratic decision-making with efficient management, and the risk of a mission drift as they grow, pose significant challenges. Moreover, the reliance on member-based capital structures limits the access to capital markets, making it more difficult to raise funds quickly compared to banks, particularly during financial stress.

On the other hand, the membership structure and cooperative values create an attachment to the organization, a delicate collective loyalty that needs to be nurtured. Cooperatives must navigate these difficulties while striving to maintain their commitment to member engagement, community support and long-term sustainability, all of which are integral to their identity and success.

What are the main features of Desjardins' business model within this context?

Founded 125 years ago and designated as a Systemically Important Financial Institution (SIFI) by the Autorité des marchés financiers (AMF) in 2013, Desjardins Group is the leading cooperative financial group in Canada and the Americas, and the 6th largest in the world, with assets of C$444 billion. Today, more than 58,000 employees and elected directors are always working in the interests of 7,7 million members and clients.

> **As a cooperative, we give our members the support they need to be financially empowered.**

Desjardins is an integrated financial services provider offering a comprehensive range of products and services and a variety of insurance products and brokerage which allows it to compete with traditional banks.

Financial inclusion has been a core principle of Desjardins Group. Since Alphonse Desjardins founded the first caisse populaire in 1900 in Lévis, Quebec, the organization continues to prioritize serving the financial needs of all members, particularly those who may be underserved by traditional financial institutions... Desjardins also invests heavily in local economies, particularly in Quebec and Ontario, by supporting small businesses, local projects and community initiatives.

In terms of innovation, Desjardins Group has been a pioneer in the digital transformation of financial services. It offers cutting-edge online and mobile banking solutions, rivaling those of the major banks, while maintaining a strong physical presence with its 204 caisses across Quebec.

Do regulation and supervision sufficiently address this diversity need in Canada and in Europe in particular?

As a SIFI, Desjardins Group is subject to stringent regulatory oversight similar to that of Canadian banks. With a robust Common Equity Tier 1 capital ratio of 21,2 %, Desjardins is among the best-capitalized financial institution in Canada. The AMF, the financial regulator in Quebec, is actively involved in several key national and international committees which allows it to stay aligned with global regulatory standards, contribute to the development of international financial regulations and ensure that Quebec's financial institutions, including Desjardins Group, operate within a stable and sound regulatory environment. It should also be noted that the International Monetary Fund's (IMF) support for provincial regulators, such as the AMF, improves coordination between provincial and federal regulators, thereby contributing to the overall stability and integrity of the Canadian financial system.

Desjardins Group's strong position in the industry highlights the resilience and relevance of the cooperative model and its capacity to build a sustainable and equitable financing model in an increasingly competitive financial landscape and global world.