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Trust in the Single Market

Nordea is the leading bank in the 10th largest economy in the World - the Nordics. We are active in four small, liberal market economies, each with its different characteristics. Finland is in the Banking Union, Denmark and Sweden are in the EU but outside of the Banking Union, and Norway is outside of the EU but a part of the EU Single Market.

Since the beginning of the creation of Nordea twenty years ago, the vision was to create one Nordic bank, One Nordea. But despite the EU efforts to create a truly single market in Europe, operating as a cross border bank was difficult with the combination of an integrated cross-border operating model and national legal entities. Nordea saw a need for structural changes to achieve One Nordea business and operating model, improve resolvability, simplify implementation of new EU regulation, and simplify governance.

Consequently, Nordea made two major changes to its legal structure: in 2017 the group merged its primary banking subsidiaries into one, creating significant branches in other Nordic countries and in 2018 the bank re-domiciled to Finland, moving into the Banking Union.

You could say that Nordea has done all in its power to structurally transform into the "perfect" cross-border EU bank. Has the regulatory side of the equation delivered at the operational level?

The simplified structure has indeed strengthened the drive for scale advantages and common processes and systems. The resolvability is improved; resolution entities now coincide with critical entities in the operating model - reducing authorities' execution risk. In principle, Nordea, including the branches in the Nordic home markets, is now subject to one set of regulation, incl. one ICAAP process, one SREP process, and the need for a unified legal structure continues to be relevant with additional regulation coming into force.

However, as the EU single rule book is still incomplete, the expected regulatory advantages has not come to fruition.

To function as a universal bank, Nordea must operate branches as well as subsidiaries across the four Nordic countries. Therefore, the operating model is susceptible to divergence in regulatory definitions, and regulatory changes to accounting definitions. Examples incl. differences in definition of default, which has implications for credit risk modelling, and differences in IFRS9 implementation. Meanwhile, macroprudential requirements are still not harmonised, distorting the level playing field in capital and operations, and regulatory guidance on structure of branch supervision is vague. This reflects issues in prudential supervision, while the less harmonized legislation relating to conduct and compliance create even further issues.

Experience shows that the many supervisory discretions distort the single market and prevents cross-border banks from being fully efficient, also in a branch structure. Even in the Nordics, where regulators have a history of mutual trust, cooperation and coordination, perhaps more so than in any other place in Europe, deviation in local practises and duplication of safeguards fundamentally hampers further integration.

This must be overcome to better enable cross-border banking in the EU.