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Strengthening European financial sovereignty

Europe's banks are set to take a large financial hit from the COVID-19 crisis, both in terms of credit losses and in several years' worth of weaker earnings that are expected to follow. After a decade of strengthening balance sheets, however, the industry looks sufficiently robust to sustain the economic shock and expected credit losses. Banks have worked hard to maintain their operations and to support their customers during the lockdowns thus far, and they are partnering with governments to protect the economy. Some goodwill, in short supply for years, is now being replenished.

However, ultra-low interest rates and massive liquidity programs challenge the core role and business model of commercial banks. Liquidity transformation is simply of less value in a world where central banks provide a wash of liquidity and money is free.

Hence, a bold vision for Europe's financial system needs to be imagined: robust, providing great services for customers, built on modernized infrastructure, and governed in Europe's best interests in the vanguard of social challenges. However, on their own banks will not deliver the banking system Europe needs. This will take collective endeavour: from management and shareholders, but also employee groups, regulators, and policymakers. Individual bank transformation programs will not be successful without broad stakeholder support, and broader reforms are also necessary outside of individual institutions.

The remedies have been clear for some time: complete the banking union; create a true capital markets union; eliminate unnecessary obstacles to banking consolidation and tackle the fragmented and costly regulatory system. Adding on competing regulations for data protection or digital is only going to make things worse and should now receive much more coordination.

Furthermore, a mutual understanding should be built on the future of banking. Banks would fast-track transformation plans to drive greater efficiency and consolidation and set out an ambitious role in the social and environmental challenges of the next 20 to 30 years, even if this is not always directly aligned with shareholder value.

Doing so will substantially increase Europe's financial sovereignty, by giving EU-based financial institutions and markets the ability to provide for Europe's needs. It will also reduce dependency on outside financial firms which can create some risk in times of crisis, as there is a home bias that can cause firms to pull back to their home bases, just as many European banks reduced their overseas operations during the global financial crisis. The analogy that comes to mind is supply chains and the issues the EU faced with medication and masks at the peak of the Covid outbreak. The answer – also for banking – lies not in national efforts but a European response. ●