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# Fostering market integration and completion of the Banking Union

The focus of regulators, supervisors and central banks the last months has been on managing the COVID-19 pandemic and ensuring we have the right tools and framework to facilitate the recovery. The reforms we implemented following the financial crisis have shown their merits and the banking sector has so far proven resilient, but the second-round effects on the banking sector will become clearer over time. We have to make sure that we have in place a completed Banking Union, to weather the fall-out from this and any future crises, and protect the single market for banking.

Market integration is a key objective of the single market because of its benefits for economic growth. One of the aims of the Banking Union is to strengthen the resilience of the banking sector and reinforce financial stability. The challenge is how to reconcile financial stability in each Member State with European financial integration. The EU legal framework contains a number of mechanisms to address this challenge, yet the EU banking sector remains less integrated than it was before the financial crisis. Controlling of resources in local subsidiaries of banks, including restrictions of cross-border movements of capital, liquidity, and loss absorbing capacity persist, as local authorities are ensuring pre-positioning of resources in advance of potential stress conditions.

Within the single market, as recovery from the impact of COVID-19 proceeds, enhanced integration and consolidation in the banking sector will become all the more important. However, banks' appetite for consolidation and cross-border expansion is very low. Progress on revisiting some aspects related to fragmentation will not be possible without addressing the main concerns of host authorities, including the absence of effective and enforceable mechanisms that ensure a timely and credible transfer of non-prepositioned resources (i.e. capital, liquidity and loss absorbing capacity) by the parent to its subsidiaries, including in time of stress.

Another critical element that is missing from the Banking Union architecture and that would help fend off fears of contagion and address the sovereign-bank nexus is a European scheme for depositor protection. Such a scheme will ensure the protection of depositors regardless of the location of their bank. It will be important to get the financial safety nets for the Banking Union up and running. This includes the European deposit protection scheme, as well as the backstop to the Single Resolution Fund.

Such advances will be key in order to deal with ring fencing. Creating a new home-host paradigm will require restoring and consolidating trust and aligning incentives in terms of liabilities versus control both in a going concern and in a gone concern perspective.

Work also needs to continue on a further strengthened and aligned crisis management framework, to increase its efficiency and consistency. There is a broad consensus that the review of the resolution and depositor protection rules will provide a solid foundation to move forward with the completion of the Banking Union. We believe it is crucial that the resolution framework is fit for purpose and that adequate and proportionate solutions are available to address the issues of potentially any bank. An array of tools and sources of funding are available, which can and should be employed. In order to ensure that these are adequately used, a holistic reflection on the components of the framework, encompassing the tools, the available funding means, including the use of deposit guarantee schemes, and the interaction between resolution, liquidation and national insolvency rules is warranted.

We should also continue the work on the sovereign-bank nexus and in particular on how the impact of COVID-19 pandemic and the economic fallout will affect banks' exposures to sovereigns, financial stability and the need for safe assets at the EU level.

Work on all these aspects should continue in a comprehensive way, given their close interrelation, whilst taking into account any relevant lessons learnt from the current crisis or monitoring of the economic situation. In a well-functioning and strong Banking Union, banks will be better able to play their part to mitigate the effects of COVID-19 and support the recovery. It is important that all actors continue the work on Banking Union completion. ●