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Now is the time to be pan-European

Covid-19 has accelerated the challenges European banks are facing, but also creates opportunities, especially if authorities and the private sector can share a vision and work together. Working closely with banks, European governments, the Commission and monetary authorities acted swiftly and convincingly to protect people and businesses. The pandemic severely disrupted reduced economies last year. European leaders seized the opportunity to design a multi-year plan not just for recovery, but for digitalization and the greening of the economy. The biggest opportunity lies in building on this renewed unity of purpose.

The biggest opportunity is to create a true single market for financial services. Banks in Europe today operate in a fragmented market with an incomplete banking union. To do cross border business, we face barriers in everything from how deposits can be deployed to different customer protection and bankruptcy rules. We cannot freely move capital or liquidity. It is crucial to advance more quickly in aligning policies and removing barriers, developing a clear single rulebook and completing the banking union with a deposit insurance scheme. Because of this fragmentation, European capital markets remain woefully underdeveloped, unable to provide the scale or financing options available in competing geographies. A true single market for financial services in Europe would provide the foundation for banks to achieve the scale, efficiency, and resilience needed to finance more growth and jobs.

A second opportunity lies in the digitalization of the economy. FinTechs and BigTechs have entered financial services, providing a new source of competition to banks. However, the tech companies that provide financial services are not subject to the same regulations as banks. Rules governing innovation, access to data and platforms, and well as taxation, should be brought up to date to ensure a level playing field for incumbents and new entrants. Banks are not seeking any favours, simply not to have to compete with one hand tied behind our back.

Thirdly, while regulatory and supervisory responses to the pandemic have been prompt and quick, certain measures did not work. Specifically, banks did not use the flexibility provided to draw down their countercyclical capital

buffers, which could have supported more lending. We should use this opportunity consider how to develop truly countercyclical regulation, as well as take into account the challenges to the sector from green transition and digitalization.

Last is the challenge of declining profitability, especially in Europe. There are four main factors behind low returns. First, low interest rates are pressuring margins despite higher public and private indebtedness. Second, non-bank competition, especially from new digital entrants. Third, the costs of regulatory compliance and maintaining higher capital and liquidity ratios as a result of post-financial crisis reforms. Finally, the expected increase in business-related NPLs as a result of the pandemic, especially among small and medium-sized enterprises and the most-affected sectors.

We must seize the opportunity to mitigate this last factor by maintaining measures to support firms until the recovery is well under way. This would help viable firms remain solvent, and thus avoid the drag on the economy and the banking system that their failure would entail.

In Santander, with the One Europe project I am leading, our goal is to build a better and simpler bank that puts the customer at the heart of everything we do. One Europe will exploit synergies across our businesses in Spain, Portugal, Poland and the United Kingdom to take a truly regional approach. We expect to grow by serving our customers better, simplifying and transforming our mass market business and accelerating our digital offer through a common omnichannel strategy. We expect this will enable us to realize significant efficiency savings in the next two years, even as we improve our products and services.

Doing this is the best way we can contribute to a strong and rapid recovery in Europe.