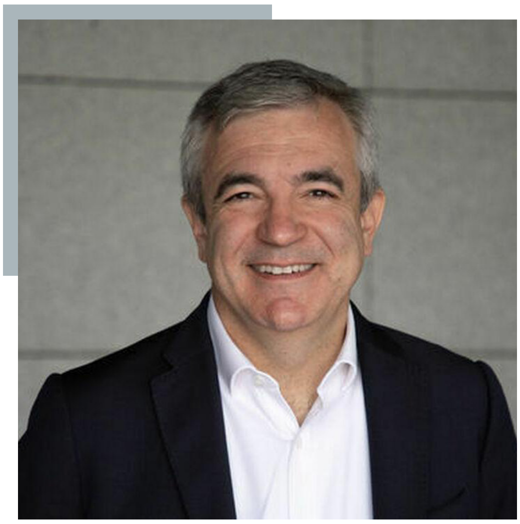

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To have bank mergers the priority must be to complete the Banking Union

Over the last few months, the European Central bank has taken some steps to encourage consolidation in the banking sector. For instance, it published a new guide on their supervisory approach to mergers and suggested that they could start grating cross-border liquidity waivers if adequate intragroup financial support agreements are included in bank recovery plans.

These kinds of measures are welcome. However, they do not address the basic reasons why we have barely seen any interest from banks in undertaking cross-border mergers. It is quite simple: the central barrier to cross-border mergers is the lack of the single market for banks, and the reason for this lack of a single market is the fact that the Banking Union is not complete.

In this way, there are three political challenges ahead of us: the absence of a common deposit insurance, which means that banks are expected to build excessive buffers in host countries; the absence of a credible and predictable resolution framework; and addressing a whole host of other regulatory differences that make it extremely difficult to operate as "one bank" across the Union.

It is well known that one of the main impediments to cross border mergers is the fact that banks have to meet capital requirements both at the European and at the national level. However, it is crucial to emphasize that this issue, the home-host problem, will not be solved until we have achieved a meaningful European deposit insurance. A common deposit insurance has been stalled for more than five years now, but recently the German government finally turned in favor of it, and there is a growing consensus on the so-called "hybrid" model. Indeed, the upcoming review of the crisis management framework presents the much-needed opportunity to finally get it done.

The second main obstacle we face is that our crisis management framework is not fit for purpose. European institutions went to great lengths to establish a common resolution framework and a Single Resolution Board. However, Member States, each in their own way, have figured out how to circumvent it. Unless we have a predictable and uniform framework to deal with troubled banks and to facilitate market exits, we will continue to have an amalgam of smaller, more regional, more inefficient, and more politically connected banks.

Lastly, we must address the regulatory differences across countries that banks continue to face. These span areas as broad as insolvency frameworks and tax regimes. However, a clear area where decisive EU action is possible in the short term is anti-money laundering. Today's framework leaves too much discretion to local regulators and supervisors. This creates divergences in how rules are applied and understood that are inefficient to comply with across borders and that seriously undermine joint efforts to eliminate any risks derived from financial crimes. There has been enough talk of "coordination" on this issue, it is time for common AML supervision and for a European Financial Intelligence Unit.