Q&A

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Completing Europe's Banking Union: path to financial resilience & competitiveness

Why do European banks remain less profitable than global peers, and what steps are needed to reverse this trend? What role does the limited consolidation and integration of the European banking sector play?

European banks remain structurally less profitable than their global peers. Over the past decade, the average return on equity (RoE) for EU banks supervised by the ECB stood at 6.4%, compared to 10.4% for U.S. banks. This is aggravated by a loss of global market share in investment banking and persistently lower price-to-book ratios.

While this is partly due to conjunctural and monetary policy factors such as the growing Eurozone – US interest rate differential (which has eroded EU banks' net interest margins relative to U.S. peers), there are two structural issues that the EU can and should address promptly and effectively.

First, the absence of a fully integrated European banking market limits the potential for scaling up and improving efficiency. Currently, a high number of smaller entities compete for the same customer base in what could be described as a 'high costs, low profits' model. This fragmentation restricts cross-border capital and liquidity flows and hinders consolidation. In contrast, U.S. banks benefit from greater scale, unified supervision and deeper capital markets. A more integrated Banking Union, recognised as a single jurisdiction for prudential and resolution purposes, is essential to foster European banking champions.

Past cross-border merger failures have shown the consequences of this fragmentation. Uncertainty around intra-group capital flows, inconsistent supervisory expectations, and political resistance to foreign ownership have all contributed to the lack of successful integration across borders. These barriers must be addressed to enable meaningful consolidation.

Second, EU banks face heavier regulatory burden. A recent GARP study for the EBF shows that EU capital add-ons increase Basel minimum requirements by 67% at CET1 level. National discretions and supervisory overlays add complexity, creating a regulatory "mille-feuille" hard to digest. Meanwhile, the U.S. is easing some prudential rules, widening the competitiveness gap. New initiatives like the digital euro and the Retail Investment Strategy (RIS) could further impact the universal banking model, a cornerstone of EU financing.

Only by integrating the European banking sector, completing the Banking Union, advancing towards a more proportionate regulatory framework, and enabling market-driven processes can we ensure that European banks are globally competitive, support the real economy, and uphold financial stability across the Union. The 2026 Banking report will be an important opportunity to assess this situation and propose decisive steps forward.

What are the main divergences in Basel III implementation globally, and how do they affect the competitiveness of EU banks? How should the EU adapt its approach to safeguard its banking sector and financial sovereignty?

Global divergence in Basel III implementation is creating significant asymmetries. In the United States, uncertainty is rising regarding divergence from the Basel standards, with authorities aiming to ensure that the package remains capital-neutral for US banks. Recent declarations by Treasury Secretary Scott Bessent before the FED seem to confirm that the US approach relies on a likely reduction in capital requirements to stimulate lending. The United Kingdom has delayed its implementation of Basel III until January 2027, with several adjustments, including on P2 requirements, and an additional delay up to end of 2027 for market risk (FRTB). Canada, meanwhile, has frozen the output floor at its current level.

In much of the rest of the world, Basel III will lead to a reduction in capital requirements. European banks will be the only ones facing an increase, despite already being subject to stricter requirements. In this context of global economic competition, the convergence of international prudential standards is becoming increasingly illusory.

The EU must ensure that the implementation of Basel III reflect the specificities of the European banking sector, including its diverse models (e.g., cooperative and regional banks).

The EU must then take decisive steps and not shy away from meaningful reforms of the prudential framework where needed. Without financial sovereignty and a strong financial sector, there can be no European sovereignty.

Why is progress on building a true Savings and Investment Union so slow, despite abundant private savings and major investment needs (green, digital, defence)? What policy priorities should go beyond securitisation to unlock long-term capital and improve investment allocation across borders?

Despite abundant private savings and major investment needs, particularly in the green, digital, and defence sectors, the EU lacks an efficient savings-investment channel. Fragmented capital markets, legal barriers, and insufficient cross-border risk-sharing limit investment flows. Internal barriers in Europe are equivalent to tariffs of over 100% on services.

The current framework does not effectively channel household savings into productive, long-term investments, particularly across borders. Pan-European investment vehicles and capital markets remain underdeveloped compared to those in the United States. As a reminder, 70% of financing in Europe is currently provided by banks, and only 30% by capital markets. However, banks face numerous constraints on their ability to significantly expand their financing capacity. The Savings and Investment Union (SIU) should move forward based on the following key principles: 1) Regulatory consistency and simplification are essential to reduce administrative and legal burdens, as stated in the "Less is More" Report. 2) A balance must be struck between consolidating market infrastructures and respecting existing structures: some solutions to fragmentation are already in place and should be preserved where effective. 3) European supervision is not a one-size-fits-all solution; it should be considered where it adds value but not assumed to be the answer to every challenge. While some highly Europeanised activity areas may call for a European supervision, the role of national authorities remains fundamental for understanding and supervising local specificities.

We should as well work toward unleashing the investment capacity of institutional investors in making the prudential framework more risk sensitive and proportionate to the rules of our non-EU competitors. A true Banking Union, without obstacles to the free movement of financial institutions, would support economies of scale and allow European champions to emerge to compete with their non-EU peers. Lastly, initiatives like the "Finance Europe" label or the Savings and Investments Accounts are very relevant to encourage long-term investments.

What concrete steps beyond EDIS are needed to advance Banking Union? How can the EU overcome national ring-fencing and domestic bias in supervision?

National ring-fencing and domestic bias in banking supervision reflect a deeper issue: a lack of trust in EU institutions and in the system we have built to safeguard financial stability. If ring-fencing persists, it is because existing mechanisms are not yet seen as sufficient. While the Single Resolution Mechanism (SRM) and the Single Supervisory Mechanism (SSM) have significantly harmonised processes, they have not yet translated into greater cross-border fluidity. To build that trust, we need action. Advancing market integration is essential to achieve the scale needed for productivity and innovation, as highlighted in the Letta, Draghi, and Noyer reports. No EU Member State can face global challenges alone.

On EDIS, while it is true that it is the missing pillar of the Banking Union, let's be realistic: the current proposal has been under discussion since 2015, and its origins date back to the 2012 vision of a three-pillar Banking Union. Before even considering EDIS, several steps are needed, including a precise assessment of risk levels and their convergence. Moreover, the conceptual debate around EDIS has become inflated and disconnected from practical progress. What we need now are concrete steps, starting with cross-border consolidation to build European champions in today's fragmented and increasingly adversarial global environment.

The most pressing priority is to build on the progress made through the SSM and SRM by facilitating cross-border consolidation. This means addressing the barriers to integrated capital and liquidity management, such as large exposure limits, ring-fencing of capital and bail-inable assets, national reluctance to pool liquidity, and a fragmented macroprudential framework. Removing these obstacles would allow EU banks to achieve economies of scale and scope, enhance their financing capacity within the internal market, and strengthen their global competitiveness.

Only through deeper integration can we achieve the scale, resilience, and innovation needed to compete globally and support our economies locally. The question is no longer whether to integrate, but how, and how fast. Let us choose ambition, grounded in trust and pragmatism.