Conversation with Sir Stephen Hester

Sir Stephen Hester - Chair, Nordea
David Wright - President, EUROFI

David Wright

It is a great pleasure to welcome Sir Stephen Hester, Chair of the Board of Nordea Bank. He has a long and distinguished career, including as Chair of EasyJet, Lead Independent Director of Kyndryl, and former Group Chief Executive of RSA Insurance and the Royal Bank of Scotland. He studied Politics, Philosophy and Economics at Oxford University with outstanding results.

Stephen, thank you to you and to Nordea for your ongoing support of Eurofi. Let me begin by asking: how do you see the banking sector coping with the current climate of heightened geopolitical uncertainty? Do you feel the ground shifting under your feet?

Stephen Hester

Thank you for the kind introduction. In many respects, it is business as usual for the banking sector, both in Europe and globally. The sector is solid, strong, and resilient. Banks have the talent, skills, and products needed to operate effectively.

Of course, the external environment is uncertain. Technology, for example, brings both opportunities and risks. It creates resilience challenges and competitive threats for those that fail to adapt. Banks face these issues in the same way as other industries.

Uncertainty also affects consumer confidence, which in turn influences demand for services and growth opportunities. But overall, European banks are in good shape. They are serving customers and supporting economies effectively. The challenges we face are not fundamentally different from those facing other businesses. That said, there are specific competitiveness issues for European banks, which I know you will want to explore.

David Wright

Yes, indeed. Let us turn to competitiveness. Where do European banks stand compared with international counterparts, particularly in the US? Twenty years ago, some European banks were among the largest in the world. Today, they are a fraction of that scale. Are we becoming uncompetitive?

Stephen Hester

The European banking sector does face competitiveness challenges. Some reflect Europe's broader economic performance, while others are specific to banking.

It is true that European banks have a higher cost of capital than their US peers. This makes services to the real economy more expensive and discourages reinvestment of earnings. Investors prefer dividends and buybacks unless exceptionally high returns are available.

Why is the cost of capital higher? Fundamentally for two reasons. First, Europe's economy is less dynamic than that of the US. It benefits less from economies of scale, is more sclerotic, and less growth-oriented. Banks mirror the economies they serve, so Europe's economic weaknesses feed through to banking.

Second, there is a self-inflicted problem: overregulation.

European banks are subject to overlapping, inconsistent, and sometimes excessive rules. Regulation is vital, but it should be consistent, predictable, and proportionate. Unfortunately, parts of the European framework have become burdensome without clear benefits for consumers or financial stability.

David Wright

Can you give some examples of where regulation puts European banks at a disadvantage?

Stephen Hester

Certainly. European banks are held to higher capital standards than American banks, both in capital ratios and in the complexity of calculations. Bureaucratic requirements are heavier, consuming huge amounts of management time and resources.

A recent example is the environmental, social and governance (ESG) area. These are vital issues, but one can debate whether they should be areas of bank regulation rather than issues for companies to address in cooperation with society. I would argue ESG is important, but it should not be imposed through bank regulation.

Another issue is scale. US banks benefit from a very large, relatively seamless domestic market. In Europe, consolidation faces major obstacles and political resistance. We see controversy around potential mergers in Germany, Spain, or Switzerland. Europe sometimes wants large institutions that can compete globally, but at the same time resists their creation.

European banks are in good shape overall – well capitalised, with strong talent and products – but these disadvantages mean they compete on unequal terms with international peers.

The warning signs are most evident in globalised sectors such as payments, where US firms like Visa and MasterCard dominate, or in asset management with Vanguard and BlackRock. Economies of scale can allow such players to take over entire segments. While retail and local banking remain resilient and more difficult for global firms to penetrate, Europe must not be complacent.

David Wright

Around a year ago, Mario Draghi and Enrico Letta published major reports on revitalising the European economy and strengthening the single market. From your perspective, are things moving, or is it still business as usual? Banking Union, for example, still seems incomplete.

Stephen Hester

I welcome the direction of travel. The Draghi report in particular recognised that Europe is in an uncomfortable position. It lacks both the economies of scale that the EU was designed to create and the agility that smaller independent states can exercise. Europe risks being stuck in the worst of both worlds.

Ideally, Europe would identify key areas where scale matters – capital markets being a prime example – and pursue full integration there, while allowing other areas to remain under local or national control. The US offers a useful comparison: despite being a federal system, individual states like Texas or California can pursue very different economic policies, with significant outcomes. Europe should combine economies of scale in some areas with local flexibility in others.

The challenge is political. Progress requires giving up some powers at national level, which often triggers resistance. European politics are unsettled, and public frustration with economic outcomes is high. Many people feel worse off than their parents, unable to afford housing, and lacking prospects for improvement. Unemployment remains low, but discontent is widespread.

In such an environment, achieving consensus on deeper integration is difficult. The direction is right, but implementation may be slowed by political headwinds.

David Wright

Finally, let us turn to the Nordic region. It is often cited as a model combining strong social consensus with economic dynamism. Are you optimistic about its future?

Stephen Hester

The Nordics are indeed a very positive environment in which to live and work. Economies are strong, public finances are in excellent condition compared to most of the world, and there is broad consensus on the respective roles of state and market. Despite a strong social model, business and entrepreneurship thrive, and success is widely accepted.

Capitalism is also more broadly distributed through share ownership than in much of Europe, with Sweden a clear example. Overall, the Nordics provide a very favourable environment.

That said, the region is not immune to broader challenges. With just 25 million people across four countries, four currencies, and four regulators, fragmentation exists even here. Nordea is one of the few banks with a genuinely pan-Nordic structure, but the obstacles to cross-border banking are similar to those in the rest of Europe.

There is still work to do, but I am very pleased to be chair of Nordea and optimistic about the region's future.

David Wright

Thank you, Stephen, and thanks to Nordea for your support. Europe has much to learn from the Nordics, and their ideas are increasingly influencing policy discussions in Brussels. We wish you every success and thank you for being with us this afternoon.

Stephen Hester

Thank you very much.