

## DIVERSITY OF THE EU BANKING SECTOR: WHAT WAYS FORWARD?



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### Embracing harmonisation and diversity

In *varietate concordia* – “united in diversity” – is the motto of the European Union, and it also applies to banking regulation and supervision. Since the creation of the banking union, the co-legislators’ intention has been to harmonise the supervisory framework and deepen the Single Market. But this framework also respects the diversity of the institutions, be that in terms of business model, size or ownership structure – private, cooperative, mutual or public. The co-legislators’ goal was to equip the EU with a Single Rulebook, enabling depositors to choose their bank without worrying about weaker supervisory standards.

**A harmonised framework provides tangible benefits.** Consistent standards help prevent panic when a shock hits one category of institution and limit contagion. This is not hypothetical: the 2023 regional banking crisis in the United States showed how a differentiated, size-based supervisory framework can be less demanding, and therefore more fragile, when just one institution fails.

Moreover, size-based thresholds can constrain the growth of financial institutions. Crossing a regulatory threshold can abruptly change the rules applied, potentially discouraging expansion or leading to regulatory arbitrage.

The Single Rulebook also underpins the Single Market, facilitating the freedom of establishment and the freedom to provide services. The rise of online banking and the digitalisation of financial services have made it easier for many institutions to offer services across borders.

Recital 1 of the preamble to the Capital Requirements Directive<sup>1</sup> clearly establishes that regulation and supervision must be exercised in a proportionate manner. This objective requires ongoing reassessment. Reflecting this, the report submitted by the ECB’s Governing Council to the European Commission<sup>2</sup> proposed improvements to the framework applicable to small and non-complex institutions. These qualifiers are important: size alone does not determine the risk an institution faces or poses to the system.

In the euro area, where the ECB has supervisory competence, credit institutions are divided into two categories – significant institutions (SIs) and less significant institutions (LSIs) – to facilitate a practical division of labour. The ECB focuses on the largest and most systemically relevant institutions in the euro area, while national competent authorities supervise LSIs directly.

Currently, around 3,000 credit institutions operate in the euro area. Of these, 823 are consolidated under one of the 112 SIs supervised by the ECB. Even within the SIs, there are considerable differences in size, business model and ownership structure. Seven of the global systemically important banks identified by the Financial Stability Board are SIs, but many other SIs operate in a single country and remain relatively small if their domestic market is limited. As a result, the intensity of supervision by the Joint Supervisory Teams varies significantly, including in terms of resources, which determines the level of interaction with banks.

ECB Banking Supervision considers differences in business models by organising institutions into peer groups or “clusters” to facilitate meaningful comparisons. These clusters are analytical tools rather than mechanisms to standardise institutions artificially; differences within clusters are fully recognised.

For example, in France and Germany, both of which have sizeable cooperative and mutualist sectors, institutions within these sectors pursue very different strategies. The way European banking supervision is carried out does not challenge these approaches, illustrating that common rules and joint supervision are compatible with diverse, country-specific business strategies.

However, regardless of size, business model or ownership structure, the ECB expects all banks to continuously assess their risks and maintain robust internal controls and governance systems. Institutions should be able to make informed decisions and maintain a consistent and coherent risk appetite. This includes strong internal lines of defence, a well-balanced relationship between executive and supervisory functions and well-trained administrators who receive appropriate information from the executive functions.

In the “Streamlining supervision, safeguarding resilience” report<sup>3</sup>, the ECB has reviewed its intervention methods to prioritise actions and focus on the most relevant risks for the 112 SIs under its direct supervision.

There is, however, a factor that could profoundly reshape the European banking landscape: the scale of investment required to upgrade information systems. Investments in efficiency, cybersecurity and digitalised customer services are key not only to making credit institutions more competitive, but also to protecting against cyber threats.

By building on these foundations, banks can strengthen customer confidence, support sustainable profitability, ensure broad access to the integrated European market and maintain lasting competitiveness through investment in technology and innovation.

1. Directive (EU) 2024/1619 of the European Parliament and of the Council of 31 May 2024 amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks (OJ L, 2024/1619, 19.6.2024).
2. ECB (2025), “Governing Council proposes simplification of EU banking rules”, press release, 11 December.
3. ECB (2025), Streamlining supervision, safeguarding resilience: the ECB’s agenda for more effective, efficient and risk-based European banking supervision, 11 December.



## RUI PINTO

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### Advancing risk-based supervision: reducing complexity while ensuring resilience

**Discussions on supervisory proportionality and business-model sensitivity must be grounded in a recognition of resilience: the current EU prudential framework has served the sector well.** The robust regulatory architecture post-GFC has effectively protected the European banking sector through successive crises, ranging from the pandemic shock to the banking turbulence of early 2023.

**Financial history has made it clear that proportionality is, indeed, not limitless.** Size alone cannot be equated with risk; niche business models can harbor significant vulnerabilities. Therefore, simplification must not be mistaken for deregulation. The core tenet of independent supervision - the willingness and ability to be intrusive and “say no” - must remain intact.

**Any adjustments to the existing framework must therefore prioritize the preservation of resilience,** ensuring that hard-won stability is not compromised.

**At the same time, evidence suggests there is scope for improving the operationalization of proportionality.** The exponential growth in regulatory density and reporting obligations has

increased compliance complexity and often created potentially formalistic requirements. In some cases, supervisory processes are not sufficiently aligned with institutions’ risk profiles. This can generate unnecessary compliance costs and divert management attention from material risks.

**Removing these frictions is important for financial stability and economic efficiency.** Failure to address them may, for instance, create segments of the financial sector that are “too small to comply”. If smaller, viable banks exit the market due to disproportionate compliance costs, banking systems risk becoming overly concentrated, reducing competition and exacerbating “too big to fail” dynamics.

**Current supervisory initiatives - such as the ECB’s agenda to increase supervisory effectiveness and its High-Level Task Force on Simplification - signal a positive direction of travel.** Proposed reforms - which are broad-ranging, encompassing regulation, processes and data reporting requirements - aim to streamline procedures and focus supervisory resources on material risks, while preserving consistency across the Banking Union.

**These initiatives introduce concrete measures to strengthen the business-model and risk sensitivity of supervision.** The revised SREP has incorporated a multi-year supervisory approach and a risk tolerance framework. This is complemented by a tiered approach to supervisory findings that strictly aligns follow-up engagement with risk severity. Concurrently, the Next-Level Supervision project seeks to operationalize proportionality by streamlining core procedures, such as straightforward capital-related decisions and internal model approvals.

**Proportional supervisory approaches should be paired with strengthened structural safeguards.**

**Crucially, these initiatives build on existing safeguards.** To account for institutional diversity, benchmarking practices, for instance, already account for size, geography and business model, and outcomes are interpreted through supervisory judgement rather than applied mechanically.

**Taken together, these reforms are bound to enhance risk sensitivity without resorting to overly segmented**

**or excessively tailored regimes** whose implementation could, without very careful consideration, be at odds with concurring objectives such as simplification, practice harmonization and supervisory consistency.

**Such measures, however, must not be implemented in isolation: a reduction in supervisory layering must be counterbalanced by a strengthening of structural safeguards.** Four aspects are key: (i) conservative calibration of requirements, (ii) strong fitness-and-propriety standards, (iii) strict gatekeeping and (iv) reversible relief. Indeed, simplified supervisory regimes should be prudently calibrated, with sufficient capital buffers to offset reduced complexity, while maintaining strong governance and fitness-and-propriety standards for boards and senior management. Proportional treatments should be limited to institutions whose size, complexity and risk profile justify such an approach, with safeguards to prevent regulatory arbitrage, and must remain reversible, with supervisors able to withdraw such treatment when warranted.

**While the path is clear, successful execution is not without challenges.** Effective delivery will require leveraging current momentum to advance the completion of the Banking Union - particularly the European Deposit Insurance Scheme - so as to support consensus on several of the recent proposals on simplification and harmonisation. From an operational standpoint, clear benchmarks, such as quantitative targets for reducing reporting, would also be helpful in ensuring tangible results.

**Delivering on this agenda is key: the future of the European banking system depends on a supervisory framework that successfully bridges the gap between regulatory rigor and operational efficiency, thus ensuring that supervision remains a catalyst for stability rather than a barrier to competitiveness.**



## PETER PALUS

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### In varietate concordia: a united Banking Union without uniformity

Among the main reasons why host Member States want to maintain the prudential requirement for bank subsidiaries to hold their own capital are national-level responsibility and consequences in case such subsidiaries fail and the dependence of host Member States especially in the CEE region on bank financing of the economy.

To ensure **alignment between powers and responsibilities**. Simply, if responsibility for deposit protection lies at the national level, the prudential requirements should also be met at the same level. In this context, the fully fledged European Deposit Insurance Scheme presents itself as a natural solution that would systematically address this misalignment.

**A bank-driven economy.** Dependence on bank financing represents, in many host Member States in the CEE region, a structural constraint that has no short-term solution, as it is linked to the country's economic model, transformation process, risk appetite, and other factors. In this regard, the current focus on deepening EU capital markets is crucial, as in the medium term it could contribute to diversifying

sources of financing for economies. The initiative of the European Commission in the area of the Savings and Investment Union is equally appropriate, as it interlinkages and brings under one umbrella the Banking Union and the Capital Markets Union.

From this perspective, and given the less developed infrastructure in CEE host Member States, it is natural to focus on removing barriers in capital markets and enabling businesses and households to fully benefit from the developed and more efficiently functioning infrastructure already existing in financial centres across the EU. However, it is crucial not only to remove barriers and fully reap the potential of the internal market in the spirit of the report by Enrico Letta and the “One Europe, One Market” strategy, which also leads to reducing the costs of the entire infrastructure, but also to **open the market to innovative solutions**. This would create space also for host Member States to benefit directly from the development of EU capital markets.

Unfortunately, creation of the fully fledged Capital Markets Union, which also requires a change in mind-set within the EU, will be a longer-term process. Dependence on bank financing will therefore persist. Moreover, the objective of the Capital Markets Union in the EU is not to compete with banks or reduce their importance, but to complement them, in order to **increase the resilience of the financial sector as a whole, strengthen the system's ability to absorb macroeconomic shocks and create opportunities for investors to invest more in the EU economy**.

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**The answer lies in the principle that there is no one-size-fits-all solution.**

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**So how can we overcome the deadlock we are facing?**

**The answer lies in the principle that there is no one-size-fits-all solution.**

**Member States should be empowered to maintain systemically important subsidiaries under the current regime, at least for the necessary transition period** during which the portfolios of cross-border European banking groups would become more Europeanised. This would mean maintaining the possibility of requiring these banks to hold adequate capital at subsidiary level. Capital tied up in subsidiaries in this way would not represent a significant

cost for the EU banking sector. On the one hand, such a regime would still create incentives for expanding cross-border banking activities, including cross-border M&A transactions. On the other hand, it would not jeopardize the macroeconomic stability of Member States that are dependent on bank financing and in which subsidiaries (and sometimes only few) hold a dominant position in the banking sector.

At the same time, it will of course be essential to ensure equal protection of consumers, avoid possibility to misuse such framework to protect national players, as well as to preserve the unity of the supervisory mechanism within the EU. Therefore, **the entire system should remain within the Single Supervisory Mechanism, with the European Central Bank at its centre**.



## FRANÇOIS- LOUIS MICHAUD

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### Banking business models are undergoing a fast-paced transformation

The EU banking system displays high diversity in sizes, business models and geographical footprints. This is good as it fosters both competition and resilience.

From universal banks to specialist lenders, from ‘bricks and mortar’ to ‘digital only (neo) banks, model diversity indeed helps serve the needs of different types of customers across different geographies, thus providing the real economy with the funding it needs. Diversity and diversification also mitigate concentration and interconnectedness risks, contributing to banking sector resilience and financial stability including in a climate of rising geopolitical risk.<sup>1</sup>

This picture of diversity - or heterogeneity - across EU banks owes both to history and to innovation. In recent years, new ICT technologies have indeed fueled business model diversity through digital disruption and digital transformation. New entrants operating a ‘digital-first’ business model raise the stakes for incumbents who need to align, speed up their digital transformation

and facilitate 24/7 customer access to financial services if they are to stay the course. Incumbents’ responses may of course differ. Some may choose to establish specialist subsidiaries, for instance to offer e-money tokens, while others may expand their core business to operate multi-function platforms providing access to a wide range of products and services.

EBA’s innovation monitoring<sup>2</sup> confirms that EU banks are adopting a broad range of innovative technologies. It shows that over 90% use AI,<sup>3</sup> 65% offer digital and mobile wallets, 25% use distributed ledger technologies (DLT), 12% offer or experiment tokenised assets<sup>4</sup>, 5% explore quantum computing.

EU banks’ embracing of innovative technologies goes beyond complementing their offer for traditional clients and aims to serve new markets. For example, EBA’s identified rapid growth in the use of digital platforms to distribute financial products to new customer segments, including cross-border. This may involve marketing the products under the brand of non-bank partners, such as e-commerce platforms,<sup>5</sup> as ‘white labelling’ is now a widespread business model employed by 35% of EU banks.

A consequence of these trends is that the EU banking sector’s dependency on non-EU third-party technology providers has become high. Market participants need to prepare for the risk of disruptions in crucial IT, software and data-related services originating from outside of the EU. Other third-country dependencies also need to be analysed. This includes those important segments of EU banking services like trading in derivatives, repos and commodity products which are largely provided by subsidiaries of non-EU financial institutions with specialised business models. Finally, many business lines and models are predominantly operating in non-EU currencies, especially US dollars.

### Innovation in financial intermediation is key to foster competition and resilience.

Third-party dependency has always been a traditional driver of operational risk. Managing this risk should feature high on the agendas of financial entities and their supervisors, especially as business models’ resilience of sustainability is now largely exposed to cyber risk.<sup>6</sup> Banks and supervisors need to focus on data governance, explainability and

transparency, to ensure that innovation in general – and AI in particular - does not endanger firms’ business model resilience and with it that of the broader financial sector.<sup>7</sup>

All in all, a rapid and important transformation is currently ongoing in the financial sector. This is very healthy as innovation is a key feature of financial intermediation and of its efficiency. Regulation and supervision of course need to ensure that their approaches acknowledge the magnitude and manifestations of this phenomenon. To help EU supervisors assess bank business models, EBA’s last SREP review<sup>8</sup> will provide a common supervisory approach. This will build on EBA’s earlier analysis<sup>9</sup> of banks’ business models and on its most recent insights about the impact of innovation on business model diversity. More broadly, the EBA plans to increasingly factor in innovation monitoring for its policy development and risk analysis work at the service of the supervisory community.

1. *Autumn 2025 Risk Assessment Report, EBA.*
2. *2025 Factsheet EBA innovation monitoring, EBA*
3. *2025 Factsheet Rising application of AI in EU banking and payments sector, EBA*
4. *e.g. services relating to tokenised bonds and securities, and tokenised deposits and electronic money tokens for on-chain settlement.*
5. *2025 Report on white labelling, EBA*
6. *See further DORA. In July 2025 the EBA launched a consultation on draft Guidelines on the sound management of third-party risk.*
7. *An EBA factsheet provides an overview of the interplay between the AI Act and banking sector regulation.*
8. *In October 2025 the EBA launched a consultation on revised Guidelines on supervisory review and evaluation process and supervisory stress testing.*
9. *Identification of EU bank business models, EBA Staff Paper.*



## BENOIT DE LA CHAPELLE BIZOT

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### Unlocking the potential cooperative banking model to drive growth and transition

Since the global financial crisis, the European Union's banking sector has been subject to an increasingly demanding regulatory and supervisory framework, which has often become excessively complex. Capital requirements have doubled over this period, with the average Common Equity Tier 1 (CET1) ratio rising from approximately 8% in 2009 to around 16% today. While these strengthened requirements have enhanced financial stability, their cumulative effect now put growing pressure on SME financing, fair competition, and the capacity of savings banks to support Europe's green, digital, and social transitions. Moreover, further increases in capital requirements are anticipated with the full implementation of Basel III by 2032.

The regulatory cycle initiated in the aftermath of the 2008 crisis reached a pivotal moment in 2025, marked by a momentum of simplification. Regulation

and supervision must now better reflect the diversity of banking models, in particular the specific role played by savings and cooperative banks in long-term, locally anchored financing. In this context, the European Commission is expected to publish, by the end of the year, a report on the competitiveness of the EU banking sector. This provides a timely opportunity to recall that public authorities and banks share a common objective: financing the real economy and supporting Europe's environmental, technological, and demographic transitions.

Achieving this objective requires a regulatory and supervisory framework that strikes an appropriate balance between financial stability and economic competitiveness, while duly taking into account the specificities of EU banking business models—most notably that of savings banks.

These following concrete measures could rapidly unlock financing and enhance the competitiveness of the European economy:

**Introduce a “financing the economy test” for new EU legislation:** We need an assessment of the impact of any new regulation on competitiveness in general, and on small and medium-sized enterprises (SMEs) in particular, as well as greater involvement of stakeholders in the decision-making process, as endorsed by the Draghi report. Improving European legislation requires enhanced impact assessments which analyses the consequences of proposed legislation on competitiveness before it is adopted by the Commission. Also, introducing a second ESA mandate focused on competitiveness would ensure that ESA decisions take European growth and economic competitiveness into account.

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**Strengthen proportionality based on business risk profiles, while preserving the Single Rulebook:** For instance, within the SREP process, particularly when establishing benchmarks, it is important for the supervisor to consider the specific characteristics of institutions. In the case of cooperative banking groups, the supervisor should not use the same peer groups reference for all topics. Cooperative groups share common features such as capital

structure and governance arrangements and peer groups should reflect that. Conversely, for institutions with similar business models but different structures, it is necessary to adapt the indicators used. This is the case notably when measuring profitability. This would free up capacity to lend, especially in regions and communities that are currently underfinanced.

Acknowledging the specificities of banking models, particularly for savings banks which have a low-risk business model, calls for proportionate regulations. This risk-based proportionality should be encapsulated in the Single Rulebook.

**Simplify the EU regulatory framework while ensuring fair international competition:** Europe urgently needs regulatory simplification to restore and enhance its competitiveness. Overlapping requirements should be reduced, and the regulatory environment should become more stable and predictable, thereby lowering compliance costs and allowing banks to focus on financing the real economy rather than managing regulatory complexity. At the same time, the framework must safeguard fair international competition. In this regard, the implementation of the new market risk framework (FRTB) should support the development of EU capital markets; a postponent is necessary to preserve a level playing field vis-à-vis US and UK competitors.

**Promote securitisation through the Savings and Investments Union:** The Savings and Investments Union should actively support the development of safe and simple securitisation. This would help banks to dedicate more lending capacity to households and businesses without increasing systemic risk. We support the objective of the Commission to relaunch securitisation, but if we want to make it count, we should go even further in adapting securitisation rules, notably supervisory practices.

The time has come for the European Union to adopt a more streamlined, proportionate, and forward-looking regulatory approach—one that enhances competitiveness and enables savings banks to fully contribute to Europe's economic transformation.



## MIKE VELTHAAK

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### In a maturing Banking Union a culture change in banking supervision is needed

We welcome the European Central Bank's recent initiatives aimed at making European banking supervision more efficient, more effective, and more risk-based. These priorities are precisely what one would expect from a supervisor that has done a tremendous job over the past decade in helping European banks become more mature and resilient. However, while the direction is right, the current proposals do not go far enough. Today's supervisory framework remains excessively prudent, detailed, and intrusive, and it lacks sufficient attention to competitiveness. Without more far-reaching reforms, Europe risks missing an important opportunity to encourage diversity and strengthen market dynamism within its banking sector.

Over the past decade, banks have reinforced their capital positions, strengthened governance, and addressed many of the vulnerabilities identified since the SSM was launched. With this progress in place, the next phase of supervisory evolution cannot be driven only by new processes or a more refined methodology. It requires a cultural shift within supervision itself.

A genuinely risk based framework means moving away from a mindset that

treats supervisory risk minimisation as the overriding objective. Instead, supervisors should embed in their culture that well-managed, responsible risk taking is essential for economic growth and for banks' long-term viability. The same cultural adjustment in supervision should be visible in the ECB's drive to improve internal efficiency. Higher internal productivity should not, however, result in additional on-site inspections or meetings for banks that have already demonstrated strong fundamentals. Institutions with robust capital positions, solid SREP outcomes, and consistently strong stress-test performance should experience a tangible reduction in supervisory intensity.

In 2025 alone, Rabobank participated in more than 500 supervisory meetings, excluding inspections and deep dives. Too many of these meetings were held with lower-level management and operational staff, focusing on the how rather than the what, with the ECB appearing to take the bank's seat in operational matters. These meetings add limited supervisory value, yet require substantial effort from both banks and supervisors.

In their recent proposals the ECB still expects banks to have extensive documentation for F1-F2 findings, even when they have no bearing on financial stability. These low-materiality points should in our view fall solely under managerial discretion, more as guidance by the supervisor rather than quasi-enforcement. Treating them as formal supervisory concerns perpetuates a culture of excessive micromanagement that offers little value. A cultural shift toward trust-based, proportionate supervision would help restore the right balance. In our view, proportionality in supervision should not be a matter of size but should instead differentiate between weaker and stronger institutions.

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**Supervision should differentiate between weaker and stronger institutions.**

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Digitalisation further underscores the need for cultural change. Large banking groups enjoy scale advantages in for example, cybersecurity, AI, and data modernisation, while smaller institutions face far higher relative costs. This could nudge the sector toward consolidation and reduced diversity. However, digitalisation also enables new collaboration models: shared

utilities, outsourcing, and group-wide platforms can allow smaller institutions to innovate without replicating every capability in-house. Cooperative groups already demonstrate how collective services can strengthen members' digital resilience.

Supervisors can actively support this ecosystem by encouraging sector-wide utilities, like shared KYC/AML platforms, pooled fraud-detection systems, common cybersecurity intelligence hubs, and unified reporting tools based on common data definitions. These infrastructures reduce fixed costs that disproportionately burden smaller banks and help preserve diversity. At the same time, as digital services increasingly come from non-bank providers with growing market power, prudential oversight must also incorporate competition dynamics. Monitoring concentration risks in cloud services, payments, or AI infrastructure should complement traditional balance-sheet supervision.

In conclusion, we support the ECB's efforts to streamline supervision. But ensuring a diverse, competitive, and innovative banking system requires more than procedural improvements; it demands a shift in a trust-based supervisory culture. The EU institutions and the ECB should embed truly proportionate, outcome-focused practices, reduce administrative burdens for strong institutions, tailor supervisory intensity more precisely, and help shape the digital transition in a way that preserves resilience and diversity. Europe now needs a trust-based supervisory approach that safeguards stability while giving banks the room to innovate, compete, and grow.