BANKING DIVERSITY AND DIGITALIZATION

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Cooperative and mutual banks: let's be truly proportionate!

Cooperative and mutual banks constitute an important component of the European banking sector and contribute significantly to its diversity, stability and resilience. This is fully recognized by the EU prudential framework. The EBA strives to ensure that the specific characteristics of cooperative and mutual institutions are appropriately reflected in the development of EU banking regulation. This is supported by constructive dialogue with associations and industry stakeholders.

Discussions on proportionality are often framed around the legal form of institutions, such as listed banks versus cooperative institutions, or around their size, with distinctions drawn between large and smaller institutions. However, proportionality is more than this. It is a broader regulatory principle that encompasses the nature, scale and complexity of institutions' activities, their organisational structure, and the risks arising from their business model. Proportionality should consider the full range of factors that may influence an institution's risk profile, as well as supervisory needs.

Cooperative and mutual banks have distinctive characteristics, particularly in the area of governance. Assessing independence within the management body needs to take into account their specific ownership arrangements, stakeholder representation, and organisational structures. On the other hand, the cooperative banking sector is diverse. It includes small local institutions operating in narrowly defined markets as well as large, sophisticated banking groups, some of which are systemically relevant and internationally active. This diversity calls for a proportionate approach based on an institution's characteristics rather than its sole legal form.

Like any bank, cooperative and mutual institutions are exposed to risks and must be capable of managing them effectively. Sound governance arrangements are key irrespective of an institution's size, ownership structure or business model. Effective governance promotes sound risk management, prudent management, operational resilience, consumer protection and compliance with prudential requirements. Long-term viability depends on the suitability of those who steer the institution. While a "one-size-fits-all" approach is neither appropriate nor desirable, the underlying supervisory objectives remain the same across all categories of institutions.

Proportionality should consider all factors influencing risk profiles and supervisory needs.

In this context, supervisors should give due consideration to the distinctive governance and business model features that characterise cooperative and mutual institutions. Supervisory assessments should therefore focus on whether governance arrangements support effective decision-making, appropriate challenge, prudent risk-taking and robust risk oversight, while recognising organisational features commonly found within the cooperative sector, such as federated structures, central institutions and institutional protection schemes.

These considerations are already reflected in the EBA's regulatory framework and considered within the context of the simplification work EBA is currently performing. Risk-based supervision should be grounded in the principle that institutions are assessed according to the risks they generate and their capacity to identify, monitor, manage and mitigate those risks. This is not about conferring unwarranted preferential treatment. Rather, it is about applying true and justified proportionality within a risk-based supervisory framework. Differentiation should be justified by objective differences in governance arrangements and risk profiles, while prudential standards and supervisory outcomes remain proportionate to the risks posed by the institution.

Through this approach, risk-based supervision and proportionality can be reconciled in a manner that recognise the diversity of the European banking sector while preserving a level playing field and ensuring consistent prudential outcomes across all institutions.

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Risk-based supervision and banking diversity in Europe

Europe's banking sector is characterised by a diversity of ownership structures, governance arrangements and business models. In this landscape, shareholder-owned banks coexist with cooperative banks, which serve tens of millions of clients across the continent. This diversity reflects national histories and economic structures, and may lead banks to achieve resilience through different paths. In France specifically, the resilience of cooperative banks does not rely solely on financial solidarity mechanisms designed to support solvency and liquidity allocation within these banking groups, but also on a governance model that successfully combine decentralised and local customer relationships with a strong oversight of the central body.

At local level, cooperative banks are deeply embedded in the territories they serve. Their governance structures promote proximity to customers, knowledge of local economic conditions, and a long-term relationship with members and borrowers. At the same time, these institutions are not a collection of independent entities and should act as a banking group. Their architecture relies on central bodies that define consistent risk policies within an approved risk appetite tolerance and coordinate liquidity and capital management decisions to ensure the financial soundness of the group. This combination of decentralised management and centralised risk control is a strength, enabling local responsiveness while ensuring risks are monitored through a consolidated view and managed in line with the subsidiarity principle.

For a supervisor, the value of a business model should neither be taken for granted nor challenged on the basis of its organisational form alone. What matters is whether it delivers effective governance and sound risk management outcomes. The key question is whether the articulation between local institutions and central bodies enables sound risk identification, timely decision-making and robust crisis management. A supervisory assessment should therefore focus on evidence of effectiveness rather than on conformity with a predefined governance structure.

The same principle applies when assessing the profitability and sustainability of banking groups. By design, the objective of cooperative banks is not to maximise short-term returns, but their member-based model encourages a longer-term perspective and supports a more stable commitment to financing households, SMEs, agriculture, local authorities and infrastructure projects. As a result, cooperative groups have become key actors in the financing of the real economy and play an important role in supporting investment over long horizons supporting the climate and demographic transitions' financing needs. This long-term orientation is particularly valuable during periods of economic uncertainty, and mutual banks have demonstrated a capacity to maintain credit provision throughout the economic cycle. This continuity contributes to economic growth, supports local development and helps avoiding the amplification of downturns through abrupt contractions in lending.

Different banking organisations require different assessments, not different standards.

For supervisors, the challenge is therefore not only to assess current profitability, but also to evaluate the sustainability of the institution's capacity to finance the economy over time. On these aspects, the internal capital generation capacity of cooperative groups with low pay out dividend ratios is a key aspect that allows them to play an essential part in the financial ecosystem. Therefore, in addition to traditional indicators such as Return on Equity, supervisors should consider measures of organic capital generation, earnings stability, funding resilience and the capacity to invest in innovation, operational resilience and digital transformation. These indicators provide a more complete view of whether a business model can continue to support future financing needs while maintaining adequate financial strength.

More broadly, the diversity represented by mutual banking groups contributes to the resilience of the financial system as a whole. A banking system composed of a variety of business models and ownership structures is less likely to react uniformly to economic shocks and may therefore be better able to absorb stress. Diversity should not be regarded as an exception requiring special treatment or specific standards. Rather, it should be recognised as one of the factors that can enhance the resilience of the overall banking ecosystem.

Ultimately, effective supervision combines a common prudential framework with a deep understanding of institutional specificities. The objective is not to favour a particular model, but to ensure that each model is assessed on its ability to deliver robust governance and risk management, sustainable financing and long-term resilience.

DANIEL QUINTEN

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Banking diversity needs proportionate rules

European banking regulation and supervision are built on the "same risk, same regulation" principle; meaning that neither legal form nor group affiliation constitute grounds for special treatment. Applying this principle consistently does not mean treating all institutions identically, it means that supervisory assessments must accurately reflect actual risk. This contradicts the EU's approach of a Single Rule book, which by definition treats everything equally.

The Commission's 2026 Competitiveness Report rightly recognizes that the strength of Europe's banking sector lies precisely in its diversity, from internationally active institutions to regionally anchored banks with close ties to the real economy. This diversity must be reflected in the regulatory framework. The principle of proportionality and the Supervisory Review and Evaluation Process (SREP) require that the individual characteristics of an institution - including business model, ownership structure, and risk profile - be duly considered. Regulatory diversity should not be limited to supervisory assessments. For smaller and non-complex institutions, the EU would benefit from a genuine "second single rule book" in banking regulation — a simplified, proportionate prudential framework that reflects their lower risk profile, distinct ownership structures, and limited complexity. This would let them fulfil their distinct role serving local economies, complementary to larger institutions that serve different market segments. This is not a contradiction to the EU's Single Market, as other advanced economies apply differentiated banking rules within a single domestic market, based on size and complexity.

Cooperative banks differ in their structure from capital-market-oriented commercial banks. Their purpose is member promotion, rather than shareholder value maximization, which leads to incentive structures distinct from those of listed banks. While the latter often operate under expectations to achieve short-term returns on equity, cooperative banks are geared toward sustainable earning power, solidity, and long-term member support. Their regional embeddedness and relationship-based lending further reinforce this low-risk orientation.

These differences should be reflected in supervision, e.g. when assessing the business model. The suitability of a business model cannot be assessed exclusively based on return on equity. Long-term viability, sustainability of earnings, adequacy of the risk strategy, and the capacity for capital generation are also relevant. Lower profitability may be consistent with a viable business model where it reflects a conscious, prudent approach rather than a structural weakness. Supervisors should thus interpret profitability metrics within the context of business strategy, risk appetite, and ownership structure.

For smaller and non-complex institutions, the EU needs a genuine "second single rule book".

Due to their legal form, cooperative banks build own funds predominantly through retained earnings and members' contributions rather than capital market issuance. In assessing capital planning, supervisors should assess the sustainability of capital accumulation rather than its speed.

The Institutional Protection Scheme (IPS) is a further distinguishing feature of many cooperative banks in the EU. It identifies economic difficulties at an early stage and prevents insolvency through targeted support, contributing significantly to sector stability. Irrespective of whether this should or should not result in a general lowering of regulatory requirements, the IPS represents a measurable risk-mitigating factor that must be considered. This applies, on the one hand, to the assessment of loss-absorption capacity, crisis management, and liquidity and contagion risks in day-to-day supervision. On the other hand, those characteristics must be reflected in regulatory proposals such as EDIS. Any possible future EDIS proposal needs to embrace the challenges the proposal from 2015 was falling short: It needs to address the home-host conundrum, the bank-state nexus, the fact that very heterogeneous banks in the EU operate successfully and stably under the current deposit protection, and last but not least the fundamental difference of IPS- vs deposit protection. One could argue that scarce resources would be better spent on other pressing priorities. Short of that, the elements above should serve as guiding principles for any future EDIS proposal.

It is not the cooperative legal form that justifies different treatment, but the objectively observable impact of ownership structure, business model, sustainable capital formation, and the stabilizing IPS on the actual risk profile. Differentiated assessments may be appropriate when they are based on empirically demonstrable differences in risk, e.g. capital retention ratios, historical loss and NPL trends; this secures financial stability and the diversity of Europe's banking landscape without undermining the level playing field.

MATTHEW ELDERFIELD

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Banking diversity and digitalisation: time for a new supervisory mindset

Europe's banking sector stands at a crossroad as digitalisation and new forms of digital money are transforming financial services faster than at any time since the creation of the Banking Union. At the same time, Europe needs a diverse banking landscape where cooperative and savings banks should remain deeply rooted in their local communities as they have an important role to play in this changing landscape alongside traditional commercial banks and the new fintech players. The challenge for policymakers is to preserve this diversity while ensuring that banks remain competitive, innovative and resilient.

Recent initiatives by the Single Supervisory Mechanism (SSM) and the European Banking Authority (EBA) suggest that a shift is underway. After more than a decade of post-crisis rulemaking, banking supervisors increasingly voice the need for a more risk-based and proportionate approach. The objective is not to weaken resilience but to reduce unnecessary complexity and reporting burdens. This simplification is welcome and will allow banks, regardless of their structure or history, to better support customers, promote innovation and help Europe navigate its geopolitical challenges.

This direction is reinforced by the European Commission's recent report on banking competitiveness. While European banks are resilient, they face challenges related to scaling up in the European Union due to fragmentation along national borders. The report advocates reducing regulatory complexity, removing overlapping supervisory requirements and better reflecting European specificities, including unrated corporates, specialised lending and low-risk mortgages.

We welcome the Commission's initiatives. Accelerating the change agenda now underway in European banking regulation and supervision is critical in light of the fundamental transformation that the banking industry is facing, like the emergence of new forms of digital money. The digital euro, stablecoins, tokenised deposits and the tokenisation of financial assets are creating a parallel ecosystem alongside traditional banking and payments infrastructure. This development extends far beyond payments innovation. It has the potential to reshape how banks are funded, how payments are processed and how financial assets are traded.

The implications for banks are profound. Participation in both traditional and emerging ecosystems require major investments in infrastructure, digital wallets, tokenisation capabilities, cybersecurity and specialised talent. Not every institution will be able to compete across all areas. Strategic choices by banks will therefore become unavoidable. Large banking groups may have the scale to develop broad digital capabilities, while smaller institutions may increasingly rely on shared platforms, partnerships, mergers or greater specialisation to remain competitive.

> **A cultural shift is now needed among all stakeholders to manage the profound transformation and emer.**

These trends risk undermining the diversity of the banking sector unless handled carefully. Artificial intelligence adds another dimension. It can improve customer service, strengthen fraud detection and enhance operational efficiency. At the same time, it may create new risks by enabling vulnerabilities to be identified and exploited faster, more effectively and more sophisticated than ever before. These developments will require significant investment if banks are to remain relevant, efficient and trusted. For smaller institutions, the costs to transform may prove particularly challenging, potentially accelerating consolidation. Larger banks can spread these costs across a broader customer base, giving them a natural advantage. Without careful policy choices, technological change could erode the diversity of business models.

This brings us to an equally important issue: culture. The ECB has embraced a welcome programme of reform to its supervisory practices, including its own culture. The time is right for this change agenda, as it takes place against the backdrop of a much stronger banking industry since the formation of the Banking Union and the Single Supervisory Mechanism. This has involved and - to be fair, sometimes required - intense and intrusive supervision. European banks have significantly strengthened their capital positions, liquidity, risk management frameworks and governance structures. However, as the ECB itself acknowledges, there is now scope for far-reaching reform of its current supervisory approach.

A cultural shift amongst all stakeholders will help Europe manage the profound transformation and emerging threats facing the financial sector. This does not mean lowering standards. Its means adapting Europe's regulatory framework to the challenges of geopolitical competition and digital innovation. It means crafting a supervisory approach that is less burdensome and more efficient and effective. And it means that preserving the diversity of the European banking sector, with the important role played by cooperative and savings banks, must remain one of the guiding principles for the changes to come.

GIUSEPPINA MARRA

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When digital transformation strengthens cooperative identity

Digitalisation has become a key driver of competition in banking, accelerated by the pandemic and changing customers' expectations. Neobanks and big tech firms have raised the bar for speed, convenience and user experience, challenging traditional banking models. For cooperative banks, the challenge is to meet evolving members' needs, attract a younger digital generation and remain competitive while preserving the member-focused values that define the cooperative model.

Banking diversity takes different forms across jurisdictions. Europe combines large banking groups, cooperative networks and digital challengers, with cooperative banks alone serving approximately 228 million customers through 2,400 local institutions1. The United States blends banking giants, community banks and fintech leaders, while Canada is characterized by six major banks, a diversified credit union sector and Desjardins Group, Canada's largest financial cooperative, with more than 10 million members and clients, up to $524 billion in assets, and a growing fintech sector. Regardless of the market structure, diversity remains essential to promoting innovation, resilience, financial inclusion and consumer choice.

At Desjardins Group, adaptation has always been guided by the evolving needs of our members. This philosophy has led to the launch of AccèsD back in 1996, making Desjardins an early pioneer of online transactional banking in Quebec. Since then, members' behaviour has steadily migrated from branches and ATMs to digital channels, with the pandemic and the Canada Post strike accelerating a broader transition toward online services and electronic communications.

As members' preferences have evolved, so has its branch network. For Desjardins, often one of the last financial institutions present in many Quebec communities, these decisions are never taken lightly. However, balancing accessibility with productivity is essential to reinvesting in innovation, technology and new services while preserving the long-term sustainability of the cooperative model.

Members' loyalty has also evolved. While they continue to value the cooperative difference, their expectations are increasingly shaped by the digital economy. Accustomed to one-click purchases, personalized recommendations and instant access to services, consumers now expect the same speed and simplicity from their financial institution. Financial institutions therefore compete not only with banks, fintechs and neobanks, but also with the standards set by global technology leaders. The challenge for cooperatives is to preserve the trust and values that define their model while delivering the seamless experience members increasingly expect.

The future of cooperative banking combines human strengths with technology and regulatory innovation.

Looking ahead, Desjardins' ambition is to become the Canadian leader in member and client experience. Achieving this objective requires simplifying processes, strengthening execution and leveraging data, analytics and artificial intelligence (AI). AI is already helping employees serve members more efficiently, improve productivity and support better decision-making. Over time, it will increasingly power more personalized products and services, enabling us to anticipate and better respond to members' needs.

Long-term sustainability also requires growth. As members become increasingly mobile and conduct financial activities across provincial and national borders, regulatory frameworks must evolve accordingly. Canada's securities passport system streamlines access across provinces while preserving local oversight. Ontario's recent commitment to join the framework represents an important step toward greater harmonization, helping reduce regulatory burden, eliminate duplication and create a more efficient national market. Europe's passporting framework demonstrates how regulatory integration can support growth, competition and consumer choice while maintaining effective supervision through home-country oversight. Similar principles could help inspire greater regulatory cooperation across Canada, reducing unnecessary barriers and compliance costs while preserving provincial authority. Home-host supervisory approaches could also facilitate cross-jurisdictional activity, allowing institutions to better follow their members as they grow.

Ultimately, the future of cooperative banking depends on its ability to combine the human strengths of the cooperative model with the opportunities created by technology and regulatory innovation. By doing so, cooperative institutions can remain competitive, relevant and resilient while continuing to create long-term value for their members and communities.

JACQUES BEYSSADE

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A more adequate European banking framework that preserves diversity

After more than a decade of European banking supervision, our EU banking sector appears sound, well-capitalised and resilient. Successive reforms, including setting up the Single Rulebook, the Single Supervisory Mechanism (SSM) and the Supervisory Review and Evaluation Process (SREP), have significantly strengthened financial stability since the 2008 crisis. While this framework has undoubtedly enhanced resilience, it has also anchored a one-size-fits-all approach in supervisory practices. This drive for harmonisation has put at stake the diversity of banking business models, creating requirements that may not reflect the realities of institutions operating under different business models.

This is particularly true for cooperative banks, whose long-term orientation, territorial anchoring and strong links with SMEs and households remain central to financing the real economy. These institutions account for a substantial share of SME lending in Europe. However, the cumulative effect of regulatory requirements, with the full Basel III implementation by 2032, will constrain their lending capacity and channeling resources away from financing investment and growth. Uniform frameworks insufficiently capture differences in risk profiles, governance and business models. In this regard, using benchmarks for supervision leads naturally to a greater uniformisation of business models.

For Europe's retail and cooperative banking sector, the priority is not regulatory simplification but ensuring that prudential frameworks remain effective, efficient and compatible with our cooperative model and our capacity to finance households, SMEs and local economies. Some progress has been made in that direction :

- In the field of Governance : the ECB has decided to stop working on its planned guide on governance and risk culture, which was expected to define supervisory expectations and promote specific governance practices. Instead, it will release a non-binding report in Q1 2027 highlighting observed good practices.
- We have also noticed that, in its answer to the European Commission's consultation on the competitiveness of European banking sector, the ECB explicitly underlined that any *"initiatives should have full regard to the diversity of European banks, which the Eurosystem recognises as a source of systemic resilience."*
- There is also growing recognition among Member States that the diversity issue needs to be addressed: the joint French–Italian–Spanish non-paper recently called for *"a specific recognition- within the European banking framework- of the cooperative credit institutions with a predominantly mutualistic mission for SREP purposes".*

Banking diversity is a key asset for financial stability, competitiveness and growth.

The challenge now is to make it real in the day-to-day supervision. It is not only a question of staff culture. This recognition should be encapsulated in the SREP revision process announced by Claudia Buch in 2024. In particular, Peer groups should reflect the governance and capital structure of cooperative groups, while performance indicators should be adapted for institutions sharing similar business models but different organisational structures.

But to address fully this challenge, we need to go beyond supervisory practices. A more adequate, simplified and forward-looking framework is needed to the benefit of the EU economy with :

The introduction of a "Financing the Economy Test" for all major regulatory and supervisory initiatives, assessing their potential impact on banks' capacity to finance households, SMEs and long-term investment.

The introduction of a "Cooperative Banking Model Test" for all major regulatory and supervisory initiatives, assessing their potential impact on the viability of cooperative banking groups, their governance structures, member-based ownership model, and their capacity to support local communities and regional economic development.

The simplification of the EU regulatory framework in order to ensure a fair international competition: Overlapping requirements should be reduced, and rules should become more stable and predictable, lowering compliance costs and allowing cooperative banks to focus more on financing the real economy rather than managing regulatory complexity. In this respect, we support the call by the President of the Commission for Member States to reduce the practice of gold plating (for instance on TLAC versus MREL).

The diversity of banking models is a core strength of the European Union. Preserving and promoting this diversity through adequate regulation, simpler rules and more tailored supervisory practices is essential to reconcile financial stability, economic competitiveness and banks' capacity to support Europe's digital, environmental and economic transitions.