Banking diversity and digitalisation: banking model and supervisory framework evolution

The discussion focused on how the EU regulatory and supervisory framework can preserve banking diversity while maintaining common prudential standards and financial stability. Participants examined how this framework could better reflect cooperative and mutual business models, before turning to the challenges of digitalisation. A central question was how cooperative banks can preserve their local anchoring and distinctive value while achieving the scale and investment capacity required to address AI, cybersecurity and other technological developments.

1. Banking diversity and proportionality: reconciling common rules with differentiated supervision

The Chair invited the panel to assess whether the current EU regulatory framework recognises the specific features of cooperative and mutual banks and whether this is sufficiently reflected in supervisory practice. This is particularly relevant in the context of accelerating digitalisation. Discussions about AI, cloud technology and cybersecurity have intensified since the concerns surrounding Anthropic in April. The question is whether banks with different ownership and governance structures, including smaller, locally focused or less hierarchical institutions, are equally well equipped to address these challenges. Proportionality should reflect different risk profiles and business models, not be pursued for its own sake.

1.1 Embedding banking diversity in supervisory practice

An industry speaker argued that there is a growing awareness of the necessity to preserve banking diversity at the highest levels of European policymaking, but this is yet to be reflected in day-to-day supervision. In response to the Commission's consultation, the European Central Bank (ECB) stated that new regulatory initiatives should acknowledge the diversity of the EU banking sector as a source of systemic resilience. Similarly, a recent joint non-paper from France, Italy and Spain called for greater recognition of cooperative banks in the Supervisory Review and Evaluation Process (SREP). Supervisory practice is falling short. The latest version of the ECB's draft governance guide still raises concerns for cooperative banks, notably over the independence of board members. The SREP does not appear to use key performance indicators (KPIs) to assess the preservation of business-model diversity. European supervision is deeply embedded in the underlying legal framework. Changing supervisory practice therefore requires an appropriate legal basis. To address this issue, a recital could be added to the Capital Requirements Regulation (CRR), potentially through the Commission's simplification proposal expected in March, to clarify that supervision should have full regard to banking diversity and its contribution to systemic resilience. Secondly, the SREP could incorporate KPIs aimed at monitoring the preservation of business model diversity.

1.2 Adapting supervision to the specificities of cooperative and mutual banks

1.2.1 Nuanced benchmarking and comparable peer groups

An industry representative welcomed the ECB's recent improvements to the SREP and its next-generation supervision agenda. SREP letters have become shorter, clearer and more tightly focused on supervisory expectations, but the specificities of cooperative models are still not being adequately recognised. Peer review is a powerful tool, but overly simplistic benchmarking can produce misleading conclusions. Return on equity (ROE) and cost-income ratio are core metrics used by analysts, shareholders and supervisors to evaluate bank performance. Below-average ROE or above-average cost-income ratio can be interpreted as signs of a weak business model, but the retained earnings of cooperatives can create substantial reserves and strong capital buffers. The resulting larger equity base mechanically lowers ROE: a large EU cooperative bank, for example, has over 20% Common Equity Tier 1 (CET1) capital and €15 billion of excess capital. Separately, cooperatives may maintain investment through the cycle, even when income is constrained, rather than prioritising short-term cost cuts; this can affect their cost-income ratios. Additionally, the creation of a SREP peer group for cooperative banks would enable true like-for-like comparisons between cooperative banks such as BPCE, Rabobank and Crédit Agricole.

1.2.2 Hardwiring proportionality into supervision

An industry representative emphasised that proportionality should be better taken into account into the regulatory framework, given the volume of regulatory and supervisory activity faced by smaller cooperatives. Supervisor-mandated activities, such as SREP requirements, on-site inspections (OSIs) and 'Dear CEO' letters, consume management bandwidth and IT budgets and risk crowding out banks' own judgement. Despite SREP improvements, OSIs remain burdensome and generate too many findings, potentially

displacing banks' own risk-management judgement and leaving insufficient room for boards. Incorporating more nuanced performance metrics, dedicated peer groups and greater proportionality into the reform of the SREP and the development of the next-generation supervision agenda would benefit cooperatives of all sizes.

1.3. Maintaining the level playing field while recognising cooperative specificities

1.3.1 Common prudential standards and proportional supervision

An industry speaker explained that the Canadian prudential framework is largely principles-based and takes account of an institution's size, complexity and risk profile. Desjardins Group supports harmonisation between federal and provincial regulation and supervision. Although provincially regulated, it competes with federally regulated peers and is assessed by investors and rating agencies; it also accesses international debt markets. Desjardins is designated as a domestic systemically important financial institution (D-SIFI) in Québec. AMF Québec applies the same capital, total loss-absorbing capacity (TLAC), bail-in, recovery and resolution requirements as those applied to other Canadian banks. Although Desjardins is a cooperative and does not issue public CET1 instruments, it must demonstrate the same resilience, financial strength and risk-management capabilities as larger financial institutions.

1.3.2 Recognising effective governance and long-term value creation

An industry speaker remarked that the specificities of cooperatives become particularly relevant when supervisors evaluate business models, governance and long-term sustainability. Governance structures should be assessed on the basis of effectiveness rather than legal form. This assessment must focus on competence, independence, oversight and the ability to challenge management. At Desjardins, two-thirds of board members come from the caisse network and one-third are independent directors selected for their expertise, with separate Chair and CEO roles. Its business model focuses on members' evolving needs rather than maximising short-term shareholder returns, while ensuring long-term resilience and sustainability. This approach influences strategic decisions, earnings retention, capital generation and risk appetite. Ultimately, the supervisory lens must be the same. It should assess asset quality, capital adequacy, liquidity, funding, earnings sustainability, governance and the effectiveness of risk management. Strong regulation should ensure a level playing field, while effective supervision should recognise how cooperatives create value, build resilience and serve members over the long-term.

1.4 Advancing proportionality while preserving prudential objectives

1.4.1 A risk sensitive and dynamic approach to proportionality

A Central Bank official noted that regulatory and supervisory frameworks need to be continuously reviewed to ensure they are fit for purpose and their objectives are being achieved as simply as possible. The fundamental objectives of regulation are resilience, financial stability and protection. Any measures designed to increase proportionality or simplification must not undermine these priorities. Risk-based supervision is inherently proportionate because supervisors with finite resources necessarily focus on the most important risks. However, they also need to maintain appropriate safeguards and have a holistic view of risk. If a simpler rule is less risk-sensitive or limits the amount of information available to supervisors, it could require higher prudential standards: Irish credit unions, for example, face higher capital requirements despite not being subject to a CRR-equivalent rulebook. Size alone is not an adequate measure of risk. Small institutions can have complex business models and can cause significant harm individually or collectively—the "too many to fail" concern. This is why the EU focuses on small and non-complex institutions (SNCIs), rather than simply small institutions. The fact that smaller entities innovate and grow rapidly makes it even more important to supervise their governance, controls and risk management.

1.4.2 Proportionality without fragmentation

A Central Bank official emphasised that further progress is underway. The work on next-generation supervision, the Commission report and the ECB's High-Level Task Force on Simplification have all considered the expansion of proportionality under the SNCI regime, including OSIs, supervisory processes and reporting. Changes to inspections may take time to become visible because inspections are scheduled well in advance. The regulators are open to the idea of greater proportionality, but there are different views on what it means in practice. The supervisors take a holistic view of the banking system and differentiate between business models, but proportionality calibrated from a system-wide perspective may still be perceived as disproportionate by individual institutions. Ultimately, proportionality must be reconciled with harmonisation, integration and the level playing field. Any effort to reduce fragmentation and complexity in the rulebook will likely conflict with the establishment of separate regimes for different types of business model. Greater proportionality should be pursued within a harmonised framework; otherwise, it may lead to greater regulatory fragmentation.

1.5 Preserving banking diversity within a common supervisory framework

A regulator commented that the creation of the EU single rulebook has provided significant benefits. The single rulebook supports financial stability, as illustrated by recent instability elsewhere, notably in the US, and enables the free movement of capital and services across the EU. National competent authorities (NCAs) complement the European risk-based supervisory approach. Business-model diversity is beneficial to financial stability and should be preserved, but supervisors should not prescribe an arbitrary level

of diversity. Appropriate KPIs should assess whether business models remain resilient in the long-term and can fund the real economy. Return on equity (ROE) alone may be misleading; organic capital generation, earnings stability and sound risk management are more informative. Governance and risk management can be a particular challenge for cooperative banks, which need to reconcile their local anchoring to customers with the effective central management of risk, capital and liquidity. For this reason, supervisors pay close attention to risk and capacity management at central level. The SSM and Eurosystem illustrate how local anchoring can coexist with central functions.

The Chair observed that supervisors understand the importance of banking diversity and do not intend supervision to be 'one size fits all'. However, this differentiation in treatment is not yet sufficiently clear to all banks. Supervisors should communicate more clearly the differences in treatment between different institutions and reflect this differentiation in the legal texts governing supervision. Any measures designed to increase proportionality must be risk sensitive and able to evolve over time. Greater proportionality should not depend solely on an institution's size or governance structure; it should reflect factors such as resilience, capital formation and risk profile.

2. Digitalisation and scale: preserving cooperative value while adapting to technological change

2.1 Preserving cooperative value through digitalisation

Opening the digitalisation discussion, the Chair asked whether cooperative and mutual banks have the scale, investment capacity and governance structures to compete with neobanks, fintechs and big tech and meet the AI challenge. An industry speaker remarked that digitalisation presents both opportunities and risks. Large cooperative groups such as BPCE have the scale and investment capacity to combine digital services with local presence and can learn from new entrants about digital customer proximity. When problems arise, however, customers also need a trusted person with whom they have a long-term relationship. The main risk of digitalisation is greater standardisation of business models. The value of the cooperative model lies in its local anchoring and its ability to serve all customers and communities, including vulnerable ones. If this is not recognised in regulation and supervision, mutualisation could be undermined and some vulnerable clients could be left behind. The introduction of a cooperative bank or banking diversity test could help to address this issue. All new regulations or supervisory practices could be assessed for their impact on the value of cooperative business models.

The Chair noted that this proposed banking diversity test echoes the Commission's call for a more holistic approach and closer assessment of regulatory and supervisory actions. He then asked how banks could achieve scale when they bear the costs of trust and infrastructure while other players may capture an increasing share of the value created.

2.2 Achieving scale to meet the challenge of ever increasing IT investment needs

2.2.1 Scale and growing pressure on IT investment

An industry representative noted that scale is becoming a major challenge for banks. JP Morgan has an annual IT budget of €18 billion. No European bank generates as much in net profit. Santander comes closest with around €14 billion. The scale challenge comes not only from fintechs and big tech companies but from the large US banks, which are playing an increasing role in Europe.

Cooperatives face particular challenges around consolidation and scaling up, especially in IT investment. IT budgets are fiercely contested and there are difficult choices to make between funding regulatory projects, creating new services for customers, 'run the bank' spending or decommissioning legacy systems. Cybersecurity is the immediate driver of the pressure on IT budgets, alongside the emerging challenges posed by frontier AI. Banks preparing responses to the ECB's 'Dear CEO' letter face major spending requirements and reprioritisation towards faster patching, tougher segmentation and defensive AI capabilities. Andrew Bailey's Financial Stability Board (FSB) letter similarly refers to the need for 'bare metal solutions', which would be a type of air-gapped 'bank in a box' or minimum viable bank that could be restored following a catastrophic cyberattack. Such solutions could be very expensive, particularly for smaller cooperatives.

2.2.2 The AI investment challenge pushes the limits of proportionality

An industry representative stated that pressure on IT budgets will only intensify as AI plays a greater role in banks' commercial operations. Banks will need to invest if their own agentic AI is to become the main customer interface rather than ceding that space to other players. One cooperative bank client wants management accounts to distinguish operating expenses (OPEX), capital expenditure (CAPEX) and a separate "tokens" line for computing costs; these costs could eventually exceed employee salary costs. These developments will test proportionality; cybersecurity requires a minimum level of investment regardless of an institution's size. This exacerbates the challenges of consolidation for cooperatives, which need to preserve their local anchoring while achieving scale through common platforms and shared investments. As the need for investment in cybersecurity and AI increases, scale will become increasingly critical.

2.3 Combining scale with local anchoring

An industry speaker explained that Desjardins Group's members increasingly prefer to use digital channels for day-to-day banking. Its network has declined from around 600 caisses in the early 2000s to approximately 190 today, while technology has developed that helps it serve members more effectively, efficiently and

accessibly. Following the 2008 financial crisis and Desjardins' domestic systemic-importance designation, the framework evolved to reflect the group's integrated structure and financial solidarity. Close collaboration with AMF Québec and alignment with federal supervision have helped integrate its cooperative model into the regulatory and supervisory framework. Desjardins combines strong local anchoring with centralisation in areas such as IT, finance and treasury. These functions have significant fixed costs but limited direct interaction with clients. Meanwhile, the group's local caisses are the heart of its member relationships. They understand communities, support households and small businesses and even decide how to invest community development funds. In this way, digitalisation can reinforce rather than weaken cooperative identity. With the support of regulators, cooperative banks can combine the benefits of scale and technology with the benefits of local proximity.

2.4 Trusted digitalisation, strategic autonomy and innovation

A regulator explained that the ACPR is working with banks to develop digital services that preserve trust and customer proximity. In AI, fairness and transparency—including fair credit distribution and onboarding and transparent algorithms—are key; the ACPR is developing a best-practice framework as a frontier supervisory initiative. Sovereignty and strategic autonomy are equally important. While scale matters for individual cooperative groups, maintaining European strategic autonomy in areas such as cloud, AI, cyber-defence and other digital products requires cooperation at a sectoral or cross-sectoral level. Additionally, cooperative banks should seize the opportunities offered by tokenisation. Tokenisation could contribute to the Savings and Investments Union (SIU) by helping small and medium-sized enterprises (SMEs) access capital markets and low-cost tokenised equity, broaden funding opportunities and address the funding imbalance in Europe's real economy.

2.5 Adapting regulation and bank operating models to digital transformation

A Central Bank official noted that the proposal to impact-assess new rules, resembles the cost-benefit analyses and regulatory impact assessments that already take place. The CBI has a consultation underway and has discussed approaches with peer jurisdictions. While quantitative metrics are difficult to apply, ex ante qualitative assessments can help regulators anticipate policy impacts and explain their reasoning transparently. Digitalisation has entered a new phase in which institutions increasingly face 'run, fix or change' decisions. This presents both risks and opportunities; failing to invest, innovate or seize opportunities is itself a risk. The use of shared platforms can help institutions to address these challenges, although this is clearly not a universal solution. In Ireland, legislation passed with the government introduced the concept of a credit union service organisation, enabling credit unions to collaborate to address the challenges of scale, technology and capability while continuing to add value and serve their customers.

Conclusion

The Chair observed that the need to achieve scale and invest in IT calls for the adoption of new approaches, including resource pooling. Banks need a strong digital presence. Cooperative banks' distinctive role in serving all communities should be preserved, and new solutions such as tokenisation can enhance their ability to serve customers. The challenge of digitalisation extends beyond cooperative banks. It raises wider issues of sovereignty and cross-sectoral cooperation. The importance of these priorities is reflected in the approach to the implementation of the Digital Operational Resilience Act (DORA). The European Banking Authority (EBA), European Securities and Markets Authority (ESMA) and European Insurance and Occupational Pensions Authority (EIOPA) have been pooling resources to ensure that DORA can be applied on a cross-sectoral basis. More broadly, digitalisation requires an ecosystem-wide response. This approach will involve actors beyond banks and supervisors, as illustrated by the warning on AI published by the European Systemic Risk Board (ESRB) in June 2026. Europe should facilitate the emergence of players capable of supporting financial institutions in managing these challenges.