Competitiveness in the banking sector – a Europe capable of action

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bankenverband

Where are we now?

2026 will be a pivotal year for our continent.

Europe must mobilise all its resources to strengthen its resilience and move onto a more stable path of economic growth. The next twelve months are likely to be decisive in determining whether Europe can secure its economic and political capacity to act over the next ten to 15 years.

Competitiveness is the foundation of European sovereignty

Competitiveness is a prerequisite for defense capabilities, the expansion of modern infrastructure, digital transformation, and the transition to a sustainable economy. According to ECB estimates, the EU will need to invest more than €5 trillion in this area by 2031. Banks play a key role in this regard: they finance investment, innovation, and growth in the real economy, thereby making a significant contribution to the achievement of political goals. At the same time, access to the financial services of European and German banks is itself an element of sovereignty.

Political objectives and regulatory frameworks must be aligned.

Regulatory frameworks determine the extent to which banks provide capital – and thus whether political objectives are underpinned economically. Other economic areas are acting accordingly: in the US, regulatory adjustments are estimated to release up to US$169 billion in equity capital, which corresponds to additional financing capacity of around US$2.5 trillion (Alvarez & Marsal, 2025). This capital is specifically available for economic and industrial policy priorities.

In Europe, new, additional capital requirements are hindering strategic action.

As a result, regulatory approaches are increasingly diverging from those of other major jurisdictions. The current improvement in the earnings situation of European banks should not obscure the fact that the balance of power in the global financial sector has shifted noticeably to the detriment of Europe since the 2008 financial crisis. Without strategic adjustments, this trend is likely to continue and jeopardize the implementation of key policy objectives. In this respect, it is very welcome that there is a growing willingness in Europe to address the challenges in a targeted and timely manner.

What would be necessary?

Europe needs a competitive regulatory approach with clear prioritization.

This must enable adjustments to be made at short notice and, at the same time, initiate structural development of the European regulatory and supervisory framework. First and foremost, further increases in capital requirements must be stopped. Growth requires scope for credit and investment in the real economy, not banks that have to adapt to higher capital requirements. Banking regulation thus has a direct impact on industrial policy. Targeted regulatory adjustments are needed that contribute to Europe's competitiveness and sovereignty while taking European characteristics into account. However, it is also necessary for the regulatory framework to be applied in a more targeted manner and to a greater extent on the basis of risk-benefit assessments and the principle of proportionality.

In order to make rapid progress, a two-stage approach seems sensible.

Some regulatory elements can be adjusted quickly and effectively through targeted quick fixes. In particular, the European Commission should present concrete proposals, together with a binding timetable, in its competitiveness report before the end of this year. Other issues, however, are more complex and therefore require a structured discussion over the 2026-2028 period.

Quick Fix (2026)

Continuation of the Basel III transitional rules

Deletion of the phase-out periods in: Art. 465 (1), (3), (4) and (5) as well as Art. 495a and 495d CRR

According to the current timetable, European banks will have to build up additional capital as key transitional rules are phased out by 2033. This is likely to lead to rising borrowing costs in strategically important areas such as the financing of unrated corporates/small and medium-sized enterprises (SMEs), which account for 60% of CO_2 emissions in Europe. Approximately 70% of European companies are unrated corporates; in the defense value chain, the figure is as high as 75%. Real estate projects, credit lines (UCCs), and derivatives for risk hedging will also become more expensive due to regulatory requirements. As a result, there is a risk of investment restraint – precisely where capital is needed for growth, transformation, and defense capabilities.

Solution: Make the temporary Basel III transitional rules permanent.

Capital deductions (software and NPL backstop)

Adjustment of Article 36(1)(b) CRR and proportionate design of the NPL backstop

The EU is engaging in painful gold-plating in two areas of capital deduction regulations: (i) Software investments are generally deducted from core capital as intangible assets in the EU, whereas in the US they are accounted for as "other assets" and do not reduce capital. This EU gold-plating alone reduces the financing potential of European banks by around €220 billion. It also makes investments in proprietary IT systems less attractive for European banks. This hinders digitalization and entrenches competitive disadvantages in the medium term. (ii) The NPL backstop is disproportionately strict in its design. In countries with structurally low NPL ratios such as Germany (around 1.3%), the rigid provisioning schedule leads to premature capital consumption and encourages premature restrictions on lending – especially in the commercial sector – instead of enabling bank-led and orderly restructuring.

Solution: Exclude software assets from regulatory capital deductions. Apply NPL backstop only to banks whose NPL ratio exceeds 5%.

Trading Book Boundary

Maintain previous trading book distinction

Banks must assign their positions to either the banking book or the trading book – with different capital adequacy regimes. Until now, trading intent has been the decisive criterion for assignment. The revision of the market risk framework (FRTB) replaces this principle-based regulation with specific lists and complex exemptions with special application and approval procedures. This not only regularly leads to inappropriate allocation in individual cases, but also to increased complexity and considerable additional work for banks and supervisory authorities.

Solution: Retain existing classification rules for the trading book (trading intent as the decisive criterion).

Treatment of central bank reserves in the leverage ratio

Exclusion of central bank balances from the leverage ratio

The leverage ratio requires banks to hold a fixed amount of capital relative to their total exposure, regardless of the risk profile of their assets. As a result, it limits both the volume of leverage—including customer deposits—and the maximum level of lending. This becomes particularly problematic in periods when banks are expected to expand their balance sheets in response to monetary or fiscal policy measures. For many institutions, the leverage ratio quickly becomes the binding constraint. At the same time, it can undermine sound liquidity management, as customer deposits represent a particularly stable source of funding. If fully risk-free assets were no longer subject to capital requirements under the leverage ratio, banks could accept additional customer deposits at any time and would have greater overall capacity for lending and investment.

Solution: Exclude central bank balances from the leverage ratio calculation.

Leveraged lending (ECB guide to leveraged transactions)

Anchoring at Level 1 in the CRR, followed by a revision of ECB practices.

The guidelines at times classify medium-sized and young, fast-growing companies as leveraged lending solely on the basis of their financing volume. This particularly affects strategically relevant areas such as defense, green tech, and infrastructure (e.g., data centers). While European banks are prevented from engaging in such financing by regulations, the US has now completely withdrawn its guidelines. Lending is increasingly shifting to less regulated non-bank financial intermediaries. At the same time, US banks are further expanding their dominant position in M&A and private equity business, thanks in part to this direct competitive advantage. This has a direct impact on value creation, jobs, and corporate control in Europe.

Solution: Define leveraged lending narrowly and in a risk-appropriate manner, e.g. exclude financings below €5 million, SMEs, and high-credit-quality borrowers.

Risk-mitigating treatment of collateral

Equal treatment of collateral under the Standardised Approach (SA) and IRB; amendment of Articles 197, 199 and 210 CRR.

In a bank-based financing market, collateral and assigned receivables play a central role, particularly in SME financing and retail banking. While their risk-mitigating effect can be recognised under the IRB approach, it is not reflected in the Standardised Approach (SA). As a result, the Standardised Approach does not adequately capture the actual credit risk and provides no incentives for meaningful collateralisation. This leads to unnecessarily higher capital requirements, increases borrowing costs for SMEs and retail customers, and also exerts pressure on IRB institutions through the output floor.

Solution: Allow banks to deduct collateral from capital requirements regardless of the calculation approach.

Operational risk – service component under the SMA

Amendment of Article 314(5) CRR, followed by a revision of the relevant EBA products.

In addition to interest income, fees for banking services play a central role, particularly in capital market activities. Under the Standardised Measurement Approach (SMA) for operational risk, it is no longer permissible to offset income against directly related expenses, meaning that operational risk capital increases mechanically with gross income. This logic is questionable, as operational risks do not arise from the level of gross revenues but from the net earnings situation and the underlying complexity of processes. The Biden administration had already announced that it would not implement this aspect. European banks must currently price in the additional capital requirement—unlike their U.S. competitors. Fee-intensive services—from securities issuance and trading, clearing and settlement, asset management and custody and trust services to structured finance and securitisation servicing, as well as credit commitments, guarantees and foreign exchange transactions—are becoming significantly more expensive. As a result, the rule runs counter to efforts to deepen European capital markets.

Solution: Allow banks to net service-related income and expenses in the calculation base for operational risk capital requirements.

Need for a comprehensive revision

Fundamental review of the market risk framework (FRTB)

In case of continued international divergence, make the envisaged relief measures permanent and extend them.

For many trading-active banks, the introduction of the new FRTB regime is associated with significantly higher capital requirements and substantially increased administrative costs. The United States and the United Kingdom have not yet fully implemented the framework and provide targeted relief in key areas. As a result, considerable competitive disadvantages may arise, particularly in sensitive segments such as trading in European government bonds and hedging instruments like interest rate options in the EMEA region. In these markets, the share of European banks has already declined to around one third. Well-functioning and competitive domestic capital markets are a key prerequisite for resilience and sovereignty. Further losses in market share by European banks would increase dependence on non-European actors. The European Commission has recognised this issue and intends to mitigate the competitive disadvantages through temporary relief measures in a delegated act.
Solution: Refine the calculation methods for capital requirements and prevent excessive increases through the use of scaling factors.

Small Banking Regime for the EU

Significant relief for small banks, for example through the introduction of an EU small banking regime.

Small banks play an indispensable role in financing small and medium-sized enterprises (SMEs) and supporting regional economies in Europe. They are important and reliable partners for customers at the local level. The financial crisis demonstrated that a diverse banking landscape contributes to the stability and resilience of the financial system and has positive effects on competition. An ever-expanding regulatory framework risks undermining this diversity and, consequently, the financing of the European economy. A regulatory framework tailored to the needs of such institutions—already in place in countries such as Switzerland, the United Kingdom, and even the United States—is therefore essential.
Solution: Introduce a dedicated regulatory regime for small banks.

Macroprudential capital buffers

Simplify and restructure the capital buffer framework (see proposal by the German Banking Industry Committee).

Macroprudential capital buffers – in particular the countercyclical capital buffer and sectoral systemic risk buffers – were introduced in an environment of strong credit growth but today often function as quasi-permanent capital surcharges. The COVID-19 pandemic demonstrated that capital buffers are only of limited usability in practice, even when formally released. At the same time, additional microprudential requirements have been built up through TRIM, on-site inspections and higher Pillar 2 requirements (P2R), although many of these risks are now addressed under Pillar 1 through CRR III. The result is an uncoordinated and highly complex capital framework with fragmented responsibilities at national and European levels. This leads to double counting of risks, while a holistic assessment of the overall capital adequacy for individual institutions is lacking. It undermines predictability for banks and investors—particularly in an international context—and ties up capital inefficiently without providing additional financial stability benefits.
Solution: Simplify the capital buffer framework and ensure a coherent overall assessment of banks' capital requirements.

Waiver

Amend Article 6(1) CRR so that institutions are required to apply liquidity requirements only at the highest level of consolidation.

It is still not possible for liquidity to move freely within a banking group across Europe. The existing waivers under the CRR apply only to domestic institutions. This hampers the central management of liquidity and complicates cross-border mergers within Europe, thereby negatively affecting the competitiveness of European banks.
Solution: Apply liquidity requirements at the consolidated group level, rather than separately for each individual (national) entity within a banking group.

Supervisory culture – a risk-based approach in the application of supervisory law

Amend the SSM Regulation to explicitly anchor the competitiveness of the banking sector in the supervisory mandate, including the principles of risk orientation and proportionality.

For a competitive banking sector, not only the regulatory framework itself but also its application by supervisors is of central importance. This requires a mindset that acknowledges that banks have significantly strengthened their profitability in recent years. Profitability is the first line of defence and does not stand in contradiction to financial stability; rather, it is a key prerequisite for it. This perspective is currently underrepresented in supervisory discussions. The prevailing risk-averse, highly detailed and at times overly conservative approach to applying the regulatory framework constrains the growth that Europe needs. Credit and investment capacity for the real economy is limited by an excessively conservative interpretation and application of regulation. What is needed is a supervisory approach that consistently applies regulation in a risk-based and proportionate manner, focusing on the material risks.
Solution: Align regulation in a risk-appropriate manner, taking into account risk–benefit considerations and the principle of proportionality.

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