Bank competitiveness from an EU policy perspective

DG Fisma, Single banking market seminar

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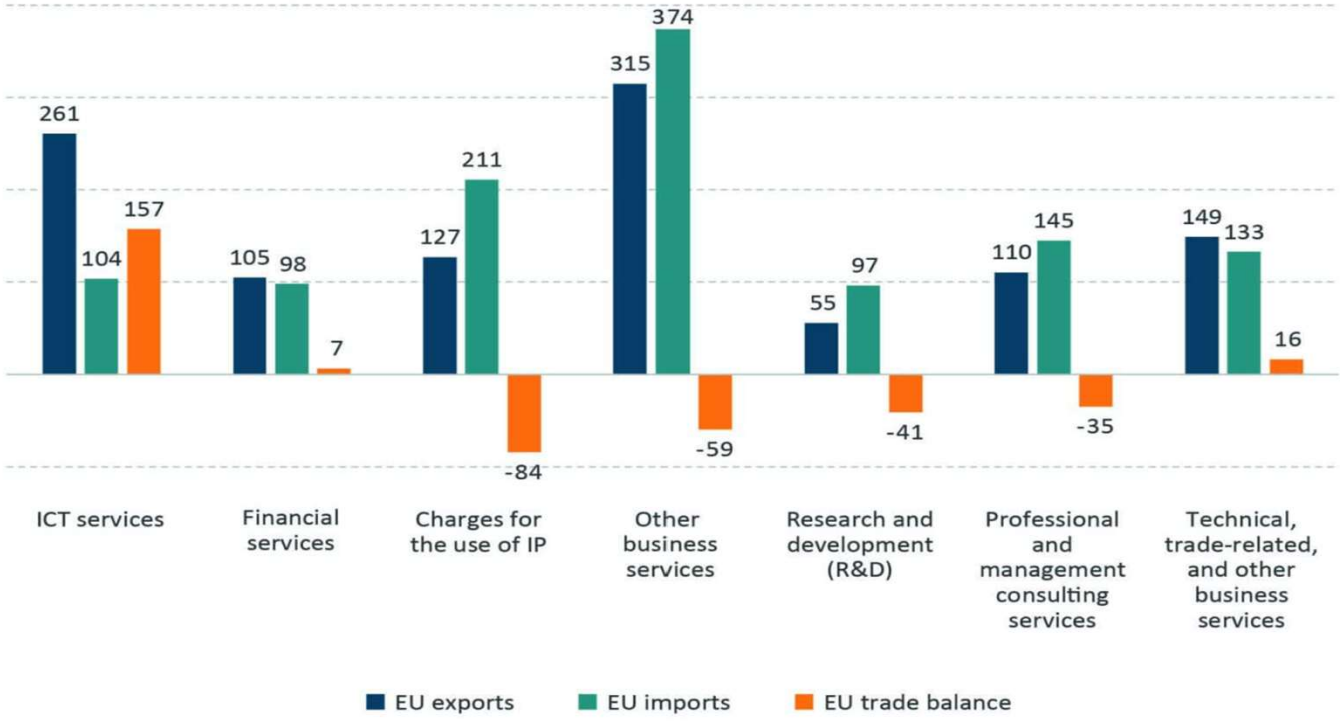
What?

- How to measure?
  - Bankers' vs supervisory perspective
    - RoE vs Core equity Tier 1
  - Market cap
  - How to overcome difference in accounting and prudential rules?
  - Internal vs external
  - Share of 3rd country banks
- How trade intensive are bank services?
  - Depends on openness of markets, or barriers to trade
    - Prudential carve-out
    - Fragmentation in EU financial markets, above all on the retail-end (ECB indicator)
  - EU positive balance in services

Largest US and EU bank compared

Metric	**JPMorgan (U.S.)**	**BNP Paribas (EU)**
Regulatory Regime	U.S. Basel III / SLR	EU CRR/CRD under ECB SREP
Min Leverage Requirement	~5% (SLR)	~3.85%
Actual Tier 1 Leverage	~7.2%	~4.4%
Exposure Calculation	Includes derivatives, off-balance, daily average assets	On-balance sheet and standardized scope, netting allowances
Frequency	Daily average	Quarter-end snapshot

Figure 3: Extra-EU ICT and digital services trade in 2021, in billion USD



Source: UNCTAD.

Innovation in the financial sector

- Financialisation since 90s
- IT is key driver to respond to market and regulatory complexity
  - IT investments 7-10% of operating costs
    - Long term investment, difficult to predict, high amortization
    - System legacy ≈ size?
    - Extreme dependence on clouds of US-based firms
  - Digitalisation
  - Innovation mostly by payment providers, fintech, often non-banks (open banking, crypto)
  - No patents in sector?
- AI next revolution in front and back office
  - AI and big data help in credit scoring, fraud detection, but regulatory hindrances (Arnal)
- Financial Economic Complexity Index (following Haussmann-Hidalgo)
  - Simple vs extremely complex financial products in banking
  - Determinants: breadth and diversity of services, market depth, degree of product innovation and sophistication, serve customers efficiently, capacity to attract human capital
  - Objective: remain resilient and trustworthy – both domestically and globally

Impact of regulation is not one-sided

- In theory, EU rules should simplify
  - One-stop shopping
  - Free branching
  - Mutual recognition
- But started from a certain model
  - Universal banking
  - No separate model for large investment banks/brokers
  - Diversity of regimes for payment providers stimulated competition
  - Now also private credit through non-banks
- In practice
  - Continuation of national regimes
  - Goldplating
  - Other national rules: taxation, labour market, company law, ring-fencing
    - Lack of cross-border waivers

Supervisory simplification

- Much has been achieved with the SSM
  - Standardisation of reporting (FINREP and COREP)
  - One-stop shopping for SIs
  - But capital buffers set by NCAs
  - Room for further use of proportionality
- Mushrooming of delegated and implementing acts is a burden, huge compliance costs, but who is to blame?
- Better supervisory governance needed (Arnal)
- Variety of bank business models matters (Ayadi, e.a.)
- Diversity and unclarity in M&A authorization procedures is burden

In conclusion

- Regulatory competition continues to affect competitiveness
  - Within and outside regime
  - Within and outside EU
- Innovation is big driver, and more to come with AI
- Analysis of economic complexity in financial sector could help in design of regulatory and supervisory framework
  - What, where and how of simplification
  - Introduce a supervisory efficiency test: is supervision adapted to product, service, market (Demarigny)
  - More tailor-made regulatory regimes (see MiCA, PSD, AIFMD)?

References

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