

## PRESS RELEASE

# New study outlines path to unlocking major bank financing and economic growth

**Brussels, 27 January 2023** - The European Banking Federation (EBF) and Oliver Wyman today launched a [study](#) exploring the EU banking regulatory and supervisory framework and its impact on banks and the economy. The reference study concludes that a review of current capital requirements and supervisory processes could provide capacity for around **EUR 4 trillion additional bank lending** to finance the green and digital transitions and strengthen the competitiveness of the EU economy.

*"Europe's banking sector is strong and resilient. We are well placed to help Europe tackle the challenges we face, especially the need for growth. Without growth, we will struggle to deliver the defence and security, public services, and the green transition that we all want and need. Europe's banks are ready to deploy more capital to power this growth, but we need to ensure that our regulatory and supervisory framework does not create constraints that go beyond other regions, including the US. If Europe is to compete and win in today's global markets and take advantage of the opportunities the green and digital transitions create, we have to ensure we have frameworks that support that goal,"* said Ana Botín, EBF President and Executive Chair of Banco Santander.

*"At a time when Europe is adjusting to a new macroeconomic environment and planning for the transition to a greener economy, the right capital requirements and supervisory processes could create the opportunity to foster a more vibrant lending market. With some thoughtful intervention, supervisors could make swift progress in freeing European banks to lend more robustly now,"* added Christian Edelmann, Managing Partner, Europe, Oliver Wyman.

The study illustrates how the European banking sector's funding capacity is at a disadvantage when compared with the US:

- The EU's approach to determine capital requirements is more complex and gives supervisors wider discretion and might be perceived as being less transparent. The resulting uncertainty is one of the reasons why EU banks tend, on average, to hold surplus capital. Additionally, on average and considering that samples are not directly comparable given differences in business models and market structure, EU banks face higher capital requirements than US peers. Furthermore, future requirements climate-related capital surcharges are expected to penalise EU banks to a larger extent than US banks.
- Contributions to EU and member-state deposit and resolution funds are almost twice as high for EU banks compared to US peers.
- The EU banking sector is not earning its cost of capital, while US competitors have returned to pre-crisis profitability.
- There are still structural obstacles to bank consolidation across the eurozone, preventing banks from realising synergies across markets.

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- EU capital market union remains underdeveloped, preventing the creation of a securitization market that would unleash significant lending capacity in the EU banking system.

The paper indicates that if the prudential framework struck a better balance between promoting economic growth, improving productivity and maintaining financial stability, then the eurozone's financial services could do more to help the EU address the challenges it faces. The European Banking Federation has outlined policy recommendations for an updated framework, more conducive to growth:

- Policymakers should redouble their efforts to complete the banking and capital markets unions. They should also simplify the current complex and costly resolution regime.
- Policymakers should foster the securitisation market. Currently, the European securitization market (including UK) is 17 times smaller than the US'. A well-designed securitization will provide an effective tool for banks to free up their balance sheets and release capital, enabling the risk to be transferred to investors
- Supervisors should place greater emphasis on streamlining and making more efficient key processes (such as the Supervisory Review and Evaluation Process or stress testing) and be more vigilant on breaches of the level playing field in EU countries. As Basel III is fully implemented, authorities must ensure that EU banks do not have a disadvantage on the global playing field.

### **About the EBF**

The European Banking Federation is the voice of the European banking sector, bringing together national banking associations from across Europe. The federation is committed to a thriving European economy that is underpinned by a stable, secure and inclusive financial ecosystem, and to a flourishing society where financing is available to fund the dreams of citizens, businesses and innovators everywhere.

### **About Oliver Wyman**

Oliver Wyman is a global leader in management consulting. With offices in more than 70 cities across 30 countries, Oliver Wyman combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation. The firm has more than 6,000 professionals around the world who work with clients to optimize their business, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is a business of Marsh McLennan [NYSE: MMC].

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