THE FUTURE OF RETAIL BANKING

Cooperative banks' recommendations for boosting competition and inclusion in Europe

EUROPEAN ASSOCIATION OF CO-OPERATIVE BANKS

The Cooperative Difference: Sustainability, Proximity, Governance

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EXECUTIVE SUMMARY

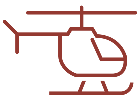
Taskforce Future of Retail Banking

The avalanche of legislative proposals that were released in the area of retail banking in spring 2023 have sent a shockwave through the community of cooperative and retail banks that are united in the European Association of Co-operative Banks (hereafter EACB). Together with the European Digital Identity regulation released earlier in 2021, the combined impact of the proposed measures leaves virtually no area of retail banking untouched. This observation has led the EACB members to reflect on the bigger picture of retail banking in Europe, its characteristics, its role, the assets it holds for Europe, the way it is affected by the current regulatory approach, and how to ensure that the European economy and society can continue to reap the benefits that this sector has to offer going forward. A dedicated Taskforce on “the Future of Retail Banking” was created for this purpose.

Main findings and recommendations

This paper described the main findings and recommendations of the Taskforce as summarised below.

Strong universal retail banks such as cooperative banks are a vital part of Europe’s financial sector. They support local economies, promote financial inclusion, and contribute to both sustainable development and a stable banking system. Their deep-rooted presence and commitment to serving diverse customer needs are essential for Europe’s strategic objectives.
Understand and consider the strong positive contribution of both Europe’s universal retail and cooperative banks toward achieving the EU’s economic and social objectives. It should be ensured that the diversity they bring can be maintained.



Recent regulatory tendencies weaken the strong universal retail banking model, which has consequences for Europe’s strategic objectives and financing needs.
To enhance the effectiveness of European regulation, it is essential to adopt a more holistic approach. By considering the combined impact of individual proposals for the financial sector, regulations can better serve the interest of citizens, the economy and broader society.

European regulations do not consistently reflect the benefits of having diversified banks. When combined, these regulations significantly intervene with and distort competition and markets.
It is essential to consistently assess legislative proposals on their impact on the diversity of the banking landscape and the related effects for the financing of Europe’s regions and households.

Proposals like the Retail Investment Strategy (RIS), Digital Euro, Financial Data Access (FIDA) and Payment Service Regulation (PSR) tend to intervene deeply into the commercial freedom of universal retail banks. These interventions hinder the ability to offer services at fair prices and shift universal retail banks into an enabling role, thereby weakening their capacity to compete.
Instead of positioning retail banks as utility providers, it is crucial to enable them to build a sustainable business case.

Recent proposals also tend to standardise financial products and services, emphasising the need for cost efficiency. However, this focus limits universal retail banks' ability to pool costs and cross-subsidise across different client profiles and services. Meanwhile, it allows market players with different business models to prioritise the least costly and most profitable customer segments, potentially leaving others underserved.
Impose comparable obligations on retail banks and other non-bank financial service providers. These obligations should cover aspects such as inclusion, cash access, paper-based services and branch availability. Alternatively, policymakers should ensure fair compensation, particularly for mandatory (semi-) public services.

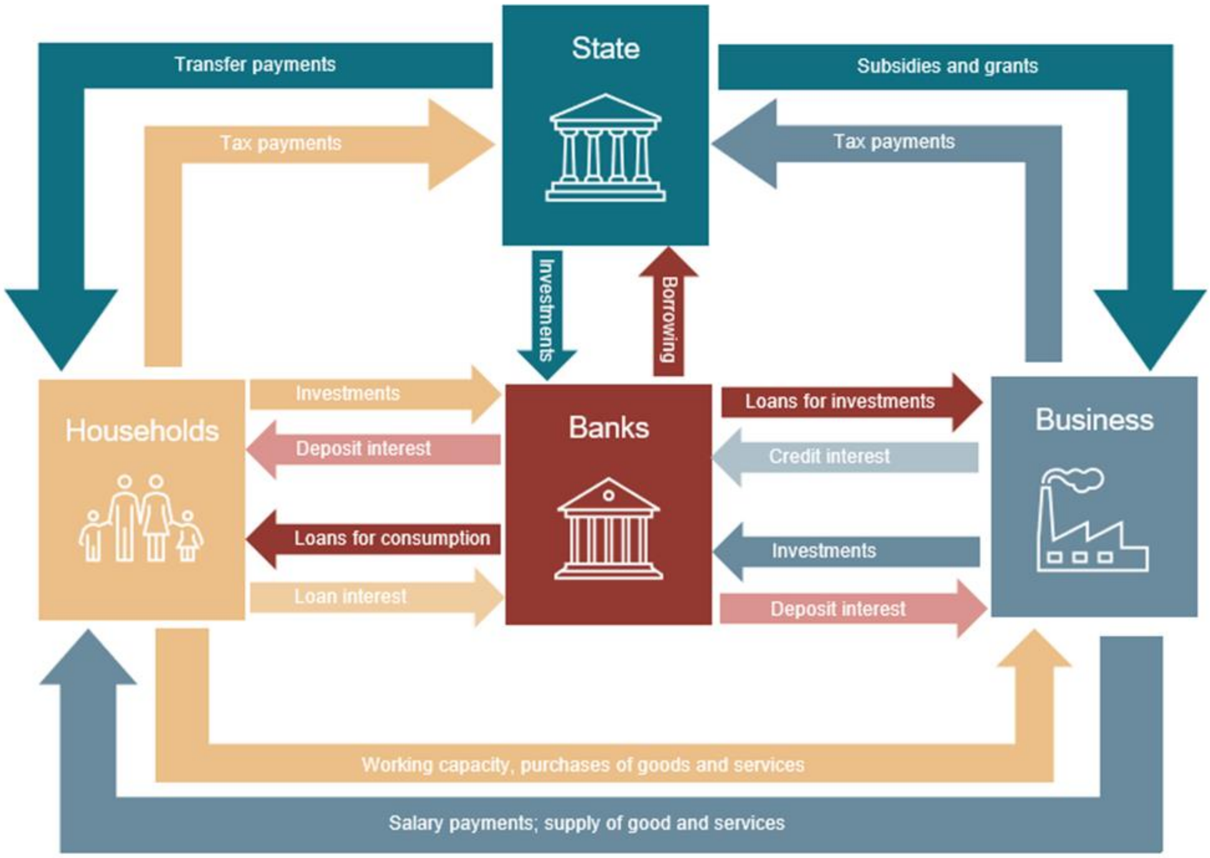
Regulation plays a crucial role in the retail banking industry, both directly and through the regulation of services offered by universal retail banks. Over time, the significance of regulation has grown, and it is essential to recognise that the regulatory process itself takes its toll and requires improvement.
Improve the legislative process by focusing on principles rather than overly prescriptive rules, ensuring practical implementation timelines and assessing proposed legislation' capacity to contribute to European competitiveness and potential overlap with existing regulations.

THE KEY CHARACTERISTICS OF EUROPE'S RETAIL BANKING LANDSCAPE

Universal retail banking

To understand the characteristics of Europe's retail banking landscape it is important to remind of the raison d'être of banks which is to collect deposits from clients, grant loans, and provide means of payment, as shown in the figure below.

Figure 1 EACB Retail banking.



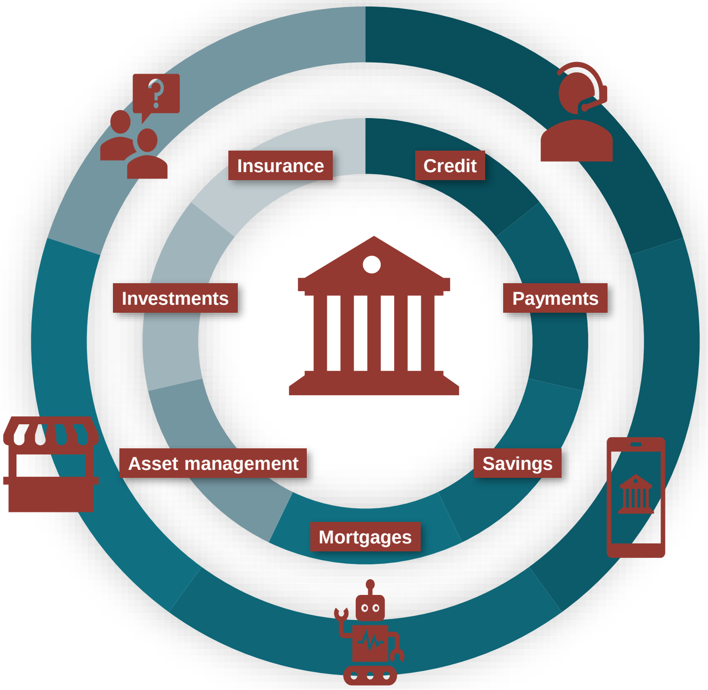
Other than investment or wholesale banks, retail banks tend to focus their attention on the needs of the general public: individuals, families and small and medium-sized enterprises (SMEs).

Over time and with a view to building sustainable business models, retail banks in many cases diversified their offer and developed additional services (for example, retail investments and insurance). To describe this diversification, we will use the term universal retail bank in this publication.

The typical universal European retail bank has five characteristics:

1. **One stop shop:** it aims to offer comprehensive financial solutions for all type of financial needs to retail clients, regardless of their income, wealth, and geographic location (whether in cities or rural areas), as well as SMEs.
2. **Various products and services:** it provides all kind of retail products and services, like payments, savings, mortgages, insurances, consumer credits, investments, asset management, etc.
3. **Long-term relationships:** it seeks to build a stable and long-term relationship with clients, often over several generations, based on trust and proximity and an overall understanding of the client's financial situation.
4. **A large network of branches** to secure the bank's access to clients and clients' access to the bank.
5. **Omnichannel:** the availability of relationship managers and advisers in either face-to-face or online capacity.

Figure 2 EACB Universal European Retail Bank characteristics.

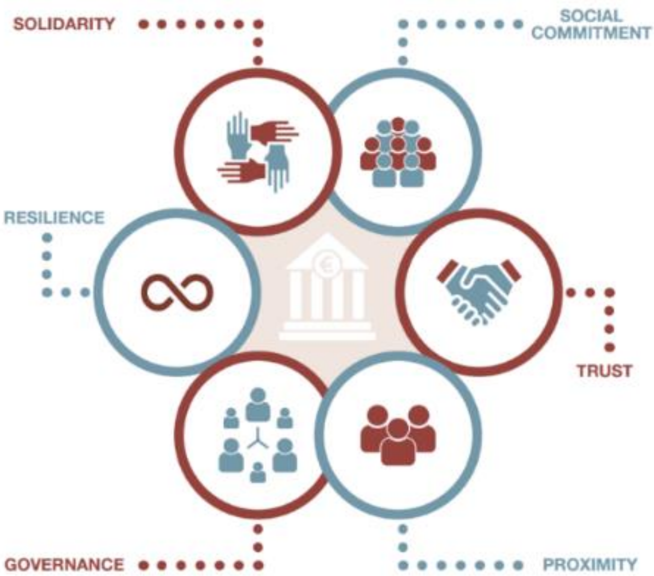


The universal retail banking model is widely spread in Europe[1] and it is clearly a model distinctively tailored for the European context. It differs from the Anglo-Saxon approach in which businesses (retail banking, private banking, wholesale and investment banking, insurance, asset management) and financial services (real estate credit broker, consumer credit broker, securities broker, etc.) are segmented.

Cooperative banks: stakeholder driven universal retail banks

Cooperative banks such as the members of the EACB also qualify as universal retail banks. They have all the characteristics of universal retail banks that are based on the shareholder model with the additional benefits of the cooperative form of enterprise. Cooperatives are qualified as a stakeholder driven form of enterprises and are the epitome of collaborative partnership that shares the benefits of business fairly with all stakeholders – employees, customers, and other stakeholders. Cooperative corporate governance incentivises longer-term ambitions, prioritising customer service over capital value maximalisation. Their mindset is therefore oriented towards value creation, local growth, financial inclusion, prosperity, and providing value to society.

Figure 3 EACB Cooperative bank characteristics.

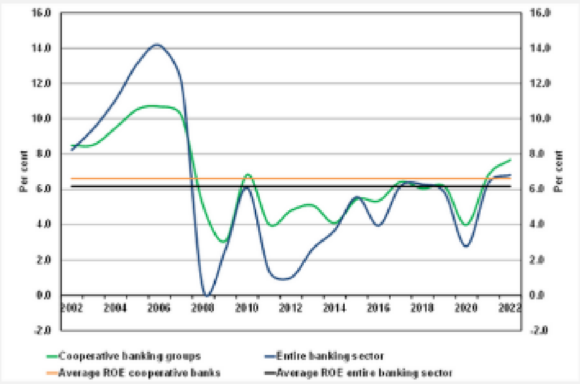


[1] Cernov M, Urbano T, Identification of EU bank business models, EBA June 2018

The following figures emphasise the high performance of cooperative banks relative to non-cooperatives and their importance to banking in Europe.[2]

- **Average return on equity:** the return on equity (ROE) for cooperative banks is much more stable (lower variance, less deep swings, even at the time of the 2008 crisis, the Eurozone crisis, and Covid-19). The ROE remains higher on average even if the peaks might be lower.
- **Loan and deposit development:** cooperative banks' loans and deposits have grown much more than for other banks throughout the cycle since 2011. Loans have grown consistently in all years when for other banks they only returned to 2011 levels in 2018 (see that they are below the 100 level of the index).
- **Staff development:** cooperative banks are a robust employer in the sector and provide quality jobs across regions.

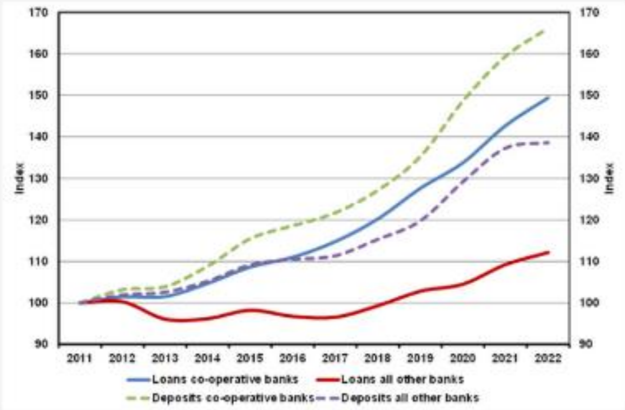
Average return on equity



Source: Own calculations based on data from cooperative banking groups, national supervisory authorities, the ECB, IMF and World Bank.

Note: The orange and black lines represent the average return on equity of respectively cooperative banks and the entire banking sector over the time-period 2002-2022.

Loan and deposit development (2011 = 100)



Source: Own calculations based on data from cooperative banking groups, national supervisory authorities and/or central banks. It concerns loans and advances to the non-financial private sector, excluding government.

[2] The performance of European cooperative banks in 2022 – a snapshot
Cooperative banks close the financial year '22 with highest market share on record - EACB Press Releases

OBSERVATION 1: STRONG UNIVERSAL RETAIL BANKS SUCH AS COOPERATIVE BANKS ARE A VITAL PART OF EUROPE'S FINANCIAL SECTOR

In the coming years, Europe will need massive investments for sustainable growth, to support green initiatives, digital transformation and reinforcement of economic security. The role of universal retail banks is vital to sustain such financing needs in complement to wholesale banks, investment banks and Europe's capital markets.

To ensure strong European regions and local communities

Europe hosts a wide range of economic activities that do not only take place in European capitals or in multinationals. According to the latest census, about 40% of Europe's population lives in cities with 30% living in rural areas. When it comes to the composition of the business tissue, SMEs make up 99% of all EU businesses.[3]

Universal retail banks play an important part providing the population in regions across Europe and SME community with access to financial services. Cooperative banks alone already serve no less than 225 million customers of which 89 million are cooperative members. They are one of the largest lenders to SMEs. European cooperative banks have an average market share in Europe of around 20%.[4]

With their broad range of products and services provided locally by a proportionally dense network of branches at the request of stakeholders (36,650 banking branches throughout the EU), cooperative banks have a global and accurate knowledge of their customers and in-depth know-how of the strength and weaknesses of the regional and local economies they serve. Thanks to cooperative banks, citizens in many countries have access to nearby banking services, even in sparsely populated rural areas.

Universal banking also means that the primary focus is not necessarily the profitability of each product or service separately at each moment. Cooperative banks, in particular, prioritise customer value over mere profit maximisation and strive for financial inclusivity.

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[3] Key figures on European business 2023, Key figures on European business 2023 edition (europa.eu),
[4] Key Statistics 2022 for Cooperative Banks, Key statistics 2022 of European cooperative banks (eacb.coop) and the performance of Cooperative Banks in 2022, Cooperative banks close the financial year '22 with highest market share on record - EACB Press Releases

Another feature of this model is that it is based on commissions paid by producers of the various financial products to remunerate the distribution service of the retail network (branches, advisors). Cooperative banks have this strong universal retail banking model with the advantage of being able to achieve economies of scale and pooling costs among all their customers.

To summarise, the strength of the universal retail banking model is a diversified product and service offering through a single point of contact (one stop shop) accessible to a wide range of customers, including regional and local businesses. Combined with a proportionally dense branch network, cooperative governance and anti-cyclical behaviour, this makes a positive contribution to the strength of regional and local economies. As result, universal retail banks and cooperative banks are key players in financing the real economy and supporting the green and digital transitions.

To ensure a financially inclusive Europe

The diversification of products and services also ensures financial inclusion based on the principle of solidarity, which takes the form of cost pooling. Universal retail banks, and cooperative banking groups are able to mutualise costs by compensating less profitable products, services, customers channels (brick and mortar, phone, online) or even customer groups, with more profitable ones. This allows them to offer affordable financial services to all citizens. In the specific case of cooperative banks, the financial inclusion approach is driven by their focus on serving customers rather than maximising capital value.

Cooperative banks have strong incentives to reconcile innovation and social responsibility. They use new technologies, such as artificial intelligence (AI), as supporting tools for the benefit of customers, while maintaining their regional roots and close relationships with customers.

In addition, cooperative banks take part in a range of schemes, such as microfinance and financial education. They also traditionally foster the development of their communities through cultural sponsorship and responsible citizenship. Nowadays, green finance is gaining an increasing importance; customers can contribute to the preservation of the environment through a variety of investment solutions and making their assets (incl. houses, businesses) more sustainable. In essence, it is a model that works for all people. A bank for everybody, everywhere, at any time (even in difficult times), for all their financial needs.

To ensure an economically secure Europe

Another element of diversification in the universal retail model is that it is good management practice in itself and clearly reduces risk. More in detail, this model allows for a diversification of complementary activities or different places in synergy with each other. These activities are not affected by the same business cycles and have different types of income (interest, fee, etc).

The economic benefits can be summarised as follows:

- **Distribution of risks** through business splitting. Risk distribution also helps to understand and manage uncertainties.
- **Cost reduction** through internal synergies. Synergies also help tackle complex challenges more efficiently, promote creativity and produce high-quality results.
- **Balancing of revenues and results**, which promotes financial health, stability and responsible management.

Universal retail and cooperative banks generally have a high level of capitalisation, stable incomes from retail businesses and a diversified credit portfolio. Credit ratings reflect this very well, ranging between AA and AAA for the largest cooperative banking groups in Western Europe.

In addition, cooperative banks offer a unique approach that counterbalances short-term business models with long-term growth-oriented business plans. By doing so, they actively promote sustainability in business practices. Cooperative banks are intrinsically committed to supporting major societal challenges, like climate, energy, EU sovereignty, and digital transformation.

Linked to the long tradition of commitment, cooperative banks have high ethical standards for their business. In essence all to keep their customers, local communities and Europe safe.

To ensure European strategic autonomy

Universal retail banks, and cooperative banks especially, contribute to diversifying the European banking system. This diversification is critical for Europe's economy and its ability to operate with strategic autonomy and determine its own path forward.

Key elements to consider are:

- **Economic strength:** diversified banks fulfil various financing needs, promote financial inclusion and contribute to the financing growth and transitions in Europe. Diversification also enhances a bank's ability to withstand shocks, which provides economic stability and increased resilience within the banking system. In comparison to more concentrated banks (e.g. 2023 US failures), diversified banks demonstrate greater adaptability and robustness.
- **Financial sovereignty:** Europe's strategic autonomy requires financial sovereignty. By maintaining financial sovereignty, Europe can independently shape its economic policies, safeguard its interest and respond effectively to economic challenges. A diversified banking system contributes to sovereignty by ensuring that European financial markets operate efficiently and independently.

European Payments Initiative

A recent and important initiative is the European Payments Initiative (EPI), European banks including several cooperative banks aim to support Europe's strategic autonomy by developing pan-European payment solutions. The initiative provides an important impetus for the further evolution of the European payments landscape and offers the opportunity to rapidly drive the European payments market forward. Payments are an important factor for Europe's strategic autonomy and a key driver for the euro's greater international role.

For more information: European Payments Initiative - Changing The Way Europe Pays (epicompany.eu)

In addition, the structure of cooperative banks makes them inherently independent and less sensitive to hostile takeovers.

- **Technological innovation:** diversified banks drive technological innovation in finance. They invest in digital infrastructure, payment systems, and security. Technologically advanced banks contribute to Europe's competitiveness and autonomy in the digital economy.

To summarise, diversified banks bring strength into the European banking system. Unlike exclusively digital players, universal retail and cooperative banks play a vital role in fostering financial inclusion, supporting regions and local communities, ensuring stability, and safeguarding economic security. Their deep-rooted presence and unwavering commitment to serving diverse customer needs are essential for Europe's economic and social prosperity.

Recommendation 1: understand and consider the strong positive contribution of both Europe's universal retail and cooperative banks toward achieving the EU's economic and social objectives. It should be ensured that the diversity they bring can be maintained.

OBSERVATION 2: RECENT REGULATION WEAKENS THE UNIVERSAL RETAIL BANKING MODEL WHICH HAS CONSEQUENCES FOR EUROPE'S REGIONS AND COMMUNITIES, FINANCIAL INCLUSION, ECONOMIC SECURITY, COMPETITIVENESS, AND STRATEGIC AUTONOMY

While the European Union acknowledges the role of the universal retail banking model in the European banking sector[5], the benefits of a diversified banking system for Europe are not consistently reflected in regulatory and legislative proposals.

Over the past months, several proposals for legislation have been put forward - for instance the proposed Retail Investment Strategy (RIS), the regulation on a European Digital Identity (eID), the proposal on the Digital Euro, and the one on a regulation on Financial Data Access (FIDA) - which altogether will have a significant impact on the way universal retail banks operate, in particular, cooperative banks. Many of these proposals were conceived as part of the European Commission's regulatory objectives of increasing the EU's strategic autonomy in geopolitical competition, as well as promoting financial inclusion, innovation and a European data economy.

We fully support these objectives because:
- Innovation is the engine of economic growth and competitiveness;
- Strengthening strategic autonomy ensures Europe's independence in key areas;
- Financial inclusion promotes access to financial services and contributes to social justice; and
- A European data economy creates a sustainable basis for economic success in the digital age.

However, the regulatory path to achieving these goals is inappropriate, with initiatives indirectly undermining the EU's stated objectives and the universal retail and cooperative banking sectors of Europe. These proposals may unintentionally disadvantage existing European actors, while non-European players with economies of scale stand to benefit. Their impact on the universal retail and cooperative banking model will translate into impacts on the European economy as a whole.

[5] Recital 17 of Regulation 1024/2013 entrusting the ECB with banking supervision tasks reads: "The ECB should take full account of the diversity of credit institutions, their size and business model, as well as the systemic benefits of diversity in the Union banking sector."

Below is a brief summary of some potential downsides of the recent proposed legislation that, especially when combined, can seriously disrupt the retail market and universal retail banking model instead of allowing open competition.

- **Retail Investment Strategy (RIS):** through its partial ban on inducements along with is singular emphasis on value for money and price regulation, the proposal will influence how actors service their customers, develop products and manage costs. This impact could potentially limit the offering of retail investment products and services to citizens contrary to what this proposal would like to achieve. Notably, less wealthy clients may suffer most from a reduction in the products and services offered, as the alternative remuneration models typically require a minimum transaction size.
- **Digital Euro:** beyond payments, the impact of the Digital Euro extends to other financial products and services offered by banks, including deposits and lending capacity. Simultaneously, the European Central Bank (ECB) plans to enter the payments ecosystem as a market player however with legal advantages such as a legal obligation to merchants to accept the Digital Euro and forced distribution by banks without proper compensation. This all under the greater good to have a Central Bank Digital Currency (CBDC) and a public European universally accepted digital means of payment throughout the euro area. While the ECB's intentions sound promising, there are concerns about potential negative side effects. Strengthening Europe’s strategic autonomy and monetary sovereignty is crucial, but the introduction of the Digital Euro may weaken private European banking and payment actors in favour of non-European companies of scale, such as BigTechs. Non-European players are already benefiting from opening the European payments market and may integrate the proposed Digital Euro wallets into their wallets and payment solutions.
- **Financial Data Access (FIDA):** besides the Digital Euro, legal proposals like FIDA and e-ID (see below) have the potential to exacerbate unfair competition between banks and BigTech companies. For instance, FIDA grants BigTech firms access to financial data held by banks, while banks do not have reciprocal access to data collected by BigTechs. This situation could further consolidate power and increase reliance on US-based companies such as Apple, Google, and Amazon like we are already seeing in the payment area.
- **European Digital Identity (eID):** the lack of clarity in the final eID text may lead to market confusion, disproportionate legal expenses, and delays due to uncertainty. Additionally, it may impose risks on banks that need to make significant changes to their existing infrastructure and networks, even when it might not be obligatory. This ambiguity could create an opportunity for larger players (such as the BigTechs) to exploit the eID and strengthen their entrenched positions.
- Initiatives like the Digital Euro or FIDA might directly compete with existing market solutions, even in the absence of any market failure that necessitates system changes. This situation weakens the incentive for current players to invest in innovative solutions going forward.

In combination these potential negative effects create a regulatory tsunami that could seriously affect the diversity of the European banking system. Simultaneously universal retail banks must meet their capital and liquidity obligations under the current implementation of the Basel IV reform. Amidst this, urgent efforts are underway to transition toward sustainable growth and a green economy, while also keeping pace with the lightning speed of developments in digitalisation (including AI). Recent legislative proposals and regulatory developments may lead to not more than a trickle of benefits for citizens, while at the same time massively impact the competitiveness of the European universal retail banking sector and market.

Impact on European regions and local communities

Europe's funding needs will be considerable in the coming years due to the transition to a sustainable economy, digitalisation, the aging of the population, etc. Retail deposits play a crucial role in this context, constituting approximately 46% of funding for European banks in the euro area. In addition, individuals and households will need advice on how to direct their savings to their best interests and societal objectives. Retail banking will therefore play a key role in meeting these new long-term investment needs.

The current wave of legislation holds a number of risks for the regions and local communities of Europe.

- RIS, Digital Euro, FIDA and Payment Service Regulation (PSR) all prevent universal retail banks from offering their services at a fair price. Aspects of price regulation make it difficult for these banks to develop a sustainable business case. Retail banking networks might therefore shrink and this in turn will significantly affect the financing of the local economy.
- Legislative initiatives that incentivise an outflow of retail deposits (Digital Euro, FIDA) create funding gaps in the balance sheet of locally operating universal retail and cooperative banks that rely on deposits for their funding activity. Changes in this space can have significant consequences. If there are fewer deposits, the gap between credit and deposit inflow may widen, affecting asset and liability management (ALM) and commercial strategies. Affected institutions face tough choices: deleveraging their portfolio or repricing new assets, potentially increasing the cost of credit and affecting competitiveness.

Deposit outflow risk based on the Digital Euro proposal.
Cooperative banks modelled the possible impact of the Digital Euro on their organisation. Calculations of what happens in stress scenarios with a 3,000 EUR holding limit for the Digital Euro of show a potential reduction in liquidity coverage ratios of seventy percentage points or more. Addressing the deposit outflow risks is very important to align with the Digital Euro's purpose without jeopardising banking diversity and financial stability.

Impact on a financially inclusive Europe

The universal retail banking model allows for cost sharing among customers. Some recent legislative proposals (RIS, FIDA) hold various elements which have an impact on financial inclusion in Europe.

- **Solidarity**: both proposals focus on value for money of each product, making it more challenging or sometimes even impossible to pool costs. This one-sided focus affects the ability to provide a broad range of payments and banking products and services to all kinds of customers, in favour of competitors that are targeted on the more profitable customer groups for their business.

  These more targeted business models prioritise servicing (digitalised) customers for their own profit goals over facilitating products and services that all European citizens need to secure their future and financial well-being. Cooperative banks currently provide a counterbalance to the loss of human interaction caused by digitalisation, as they have strong incentives to reconcile social responsibility and digitalization. However, this balance is put at risk by several factors, including the far-reaching proposals. This could lead to overall reduced access to financial services for all, disproportionately affecting less affluent citizens and exacerbating financial exclusion.
- **Quality and adaptability**: both proposals seek to standardise financial products and financial services. Banks offer a unique range of products and services and use different methods to assess for example the risk appetite and suitability of the product for the customer. Complete standardisation of processes could potentially lead to a loss of quality in the assessment process and could hinder or even eliminate institutions' efforts to continuously improve the quality of these processes. It would also lead to a reduction of the product offering in the market, e.g., through a standardisation of product features or of institution-specific advisory or decision-making processes.

Impact on an economically secure Europe

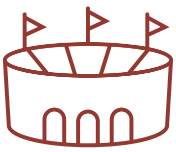
By operating as a crucial link between the providers of capital and the end-users of capital, universal retail banks have been pivotal in enabling financial and monetary systems to operate effectively. Some of the recent proposals (RIS, FIDA, Digital Euro) create a risk of bank disintermediation and this comes at a cost.

Banks play critically important roles with regard to determining the appropriate creditworthiness of borrowers and other counterparties as well as conducting risk management and compliance. While most bank loans are secured through some form of collateral, this is not always the case with disintermediated lending platforms. This means that borrowers (for example in the case of P2P lending) may quickly fall deeply into debt if they fail to pay high interest rates on unsecured loans. The same kind of risk exists in the investment services area where universal retail banks offer advisory services which are severely threatened by the RIS proposals.

The risk of disintermediation is rather acute when talking about the Digital Euro. The Digital Euro entails a risk of shifting deposits to the Digital Euro wallets, affecting the bank's role as an intermediary. As detailed above, this shift would have consequences for the banks' model and the role of banks in maturity transformation and the funding of the economy as well as on the ability, in certain Member States, of fixed rates financing.

Additionally, the Digital Euro risks to disproportionally affect universal retail banks such as cooperative banks which rely heavily on retail deposits for their funding activity. A reduced availability of those banks' deposits will also impact their capacity to withstand procyclical tendencies in periods of crisis. Rather the opposite, the Digital Euro would reduce their capacity to withstand such tendencies. Their resilience would be affected.

Impact on a competitive Europe and its strategic autonomy



Over the last 15 years the world market share of all European financial services has dramatically reduced, due to an accumulation of regulatory obstacles in Europe.[6] Non-European players have been able to create scale, capacity, and models that give them far more opportunities than European innovative companies to benefit from the opening of the European payment, finance and data markets.

Europe tends to export its savings to the United States and Asia rather than investing in the European capital market, while European banks have lost ground to banks in other countries since the 2008 crisis. Despite having larger loan books, European banks have been less profitable than their North American counterparts. North American banks have consistently achieved a return on equity (RoE) close to or above 10% since the 2008 financial crisis.

OMFIF & Luxembourg for Finance 'Competitiveness of European financial services', January 2024

We believe that the recent series of legislative proposals reinforces opportunities for those players to the detriment of European strategic economy as they weaken the capacity of Europe's retail banks to compete. European legislative proposals are pushing existing European universal retail banks into an enabling role. Examples of this are:

- In the context of the FIDA proposal, companies from outside of Europe stand to benefit from the opening up of the European retail bank client data across the entire retail banking product range. These non-European players are strategically positioned to provide alternative services

[6] OMFIF & Luxembourg for Finance 'Competitiveness of European financial services', January 2024
In addition, price-to-book ratios reflect market value of equity compared to book value. EU banks struggle achieving valuations matching accounting value, resulting in low ratios. Low ratios are associated with negative investor perceptions. EU banks valuations are consistently lower than US banks over the last decade. Despite eurozone interest rates, low ratios persist. Investors seem to view European banks less as commercial businesses and more as essential service providers.

exclusively to the most attractive European customers or to access their assets located outside Europe. Importantly, this can be achieved at minimal cost given a sustainable business case for data holders is not required.

- On the side of the Digital Euro, there is nothing in the legal proposal that prevents non-European companies with a PSP license to offer the Digital Euro wallet. Quite the opposite: while European retail banks will remain responsible for the funding and defunding of customer accounts, AML, fraud management and settlement without compensation, the business case will go to those that pursue the Digital Euro wallet.

- While not negating its potential benefits of Digital Identity (eID), it must be acknowledged that Europe's digital identity wallet will also make it easier for non-European PSPs to attract European customers.

As it is crucial to strike a balance that fosters both competition and diversity, while enabling the universal retail banking sector to remain competitive and innovative and support European objectives, we propose the following recommendations:

Recommendation 2: to enhance the effectiveness of European regulation, it is essential to adopt a more holistic approach. By considering the combined impact of individual proposals for the financial sector, regulations can better serve the interest of citizens, the economy and broader society.

Recommendation 3: it is essential to consistently assess legislative proposals on their impact on the diversity of the banking landscape and the related effects for the financing of Europe's regions and households.

Recommendation 4: instead of positioning retail banks as utility providers, it is crucial to enable them to build a sustainable business case.

Recommendation 5: impose comparable obligations on retail banks and other non-bank financial service providers. These obligations should cover aspects such as inclusion, cash access, paper-based services and branch availability. Alternatively, policymakers should ensure fair compensation, particularly for mandatory (semi-) public services.

OBSERVATION 3: THE REGULATORY PROCESS IN ITSELF TAKES ITS TOLL AND NEEDS IMPROVEMENT

Regulation plays a crucial role in the retail banking industry, both directly and through the regulation of services provided by universal retail banks. Over time, the importance of regulation has grown due to technological advancements, the changing market dynamics and to create trust in society. This creates several challenges for universal retail banks.

The importance of coherence

Each piece of legislation introduces new compliance requirements, reporting obligations, and operational changes. Complying with these regulations can be resource-intensive and time-consuming, especially for smaller banks with limited resources. On top of this, there are different elements that render compliance even more challenging:

- **Diverse regulatory frameworks**: European regulations, directives, and guidelines vary across different topics and countries. The implementation and interpretation of these various regulatory requirements can lead to inconsistencies and different compliance requirements for universal retail banks especially operating in different European jurisdictions. This creates challenges for universal retail banks in terms of harmonising their operations and timely implementation of regulatory requirements. In addition, these regulations may attempt to solve issues that have already been addressed by universal retail banks, resulting in duplications.
- **Various legal fundamental requirements**: new European legislative proposals often cover legal fundamental requirements like market access, integrity, personal data protection, cyber security and operational resilience, etc. Often these requirements have already been in place in the banking sector for a long time. Instead of leveraging the fundamentals in place, we still see new or (slightly) deviating requirements proposed. Aligning these requirements could streamline compliance efforts and level the playing field.

As examples, the Digital Euro proposal does not contain provisions related to resilience for the ECB similar to Digital Operational Resilience Act (DORA) or another standard. Also, the sanction regime should be the same as applicable to other electronic payments or under the instant payment regulation (IPR). Regarding FIDA, Account Information Service Providers (AISPs) under PSD2 and Financial Information Service Providers (FISPs) should adhere to the same requirements as banks. The requirements cover areas such as authorisation, personal data protection, cybersecurity, operational resilience. Ensuring consistency prevents them from becoming a weak link of financial data integrity across Europe. It remains unclear whether regulators will consistently impose and verify the level of requirements for FISPs and AISPs.
Also, a stronger cooperation between FIDA’s competent authorities and GDPR supervisory authorities is crucial. Especially in the authorization phase, verifying FISPs compliance with EU data protection rules is essential, especially for third country FISPs. Furthermore, the regimes between PSR (Payment Service Regulation) and FICA could enhance permission dashboards for online banking clients.

- **Interconnectedness**: regulation treats products and services provided by universal retail banks separately. Payment services, granting loans or providing investment advice are not considered as being part of an integrated financial service. This regulatory approach could be suitable for societies where banking coverage is low and financial inclusion is a significant challenge, so that any new form of financial services is better than an empty space. However, such unconnected and divisive regulation would be less desirable where communities have universal retail banks that play a vital role in them, a role that goes well beyond individual financial transactions. For these more complex societies where universal retail banks take a long-term view and derive value from fostering relationships and stimulating local growth, a more coherent and holistic approach is needed. It is unclear whether and how a global payment provider, an online lender or a robo-advisor would engage with a local community, but there is little doubt that cooperative banks should contribute to the overall prosperity of European regions and local communities.

The importance of an agile policy-making process

Many, if not all, legislative proposals require changes in IT systems and banking processes. Legislative timelines are already demanding, and additional requirements (such as level 2 regulations or guidance) can compound the complexity. The disparate timelines due to the lack of interconnection and coherence between proposed legislation can lead to cumulative regulatory intensity. Aligning these timeframes and providing more flexibility in the way that universal retail banks and other actors may implement the requirements is essential to prevent undue burdens, higher implementation costs and temporary non-compliance issues.

RIS and FIDA are examples of legislative proposals with unfeasible implementation timeframes.

- RIS has a 12-month transposition period for member states and all provisions must be applied only six months after the end of this transposition period. This poses an enormous challenge to the retail banking industry. This is complicated further by the fact that the provisions relevant to technical implementation will only be adopted through delegated acts or RTS (level 2 provisions), which could further reduce the implementation period of six months, as could late transposition by a member state.
- FIDA sets a timeline of 18 months for joining a scheme. Creating schemes involves several critical steps: setting up the governance for the scheme, designing and agreeing on the set of rules. It is particularly complex when schemes involve stakeholders with opposing interest. An 18-month period is insufficient to realize these essential components. We suggest that market participants should initially be provided with 18 months to establish schemes, along with an additional 12 months to negotiate the conditions for data exchange. Following this, all participants in a scheme should be granted at least 12 months to implement the scheme rules and set up the essential technical, organizational, and legal conditions for it.

An agile policy-making process can address critical implementation challenges and at the same time foster innovation. This process should involve multi-stakeholder engagement and experimentation through regulatory sandboxing. An agile policy-making process enables flexible adaptation and responses to technological developments and market dynamics. It will also allow to navigate in the complexity of the dynamic global and regulatory environment.

The importance of calculating the costs

As stated above, universal retail banks face increasing regulatory requirements to facilitate the open payment, finance, and data market. These requirements necessitate the implementation of new infrastructures without receiving any proper return on these investments. This approach is unsustainable for the future of Europe's retail banking system.

Therefore, it is crucial to prioritise requirements that call for large investments while considering associated costs, as they deplete the resources universal retail banks have to innovate and compete. Prioritisation involves evaluating the broader benefits of these investments for European citizens and European objectives such as financial inclusion, economic security and strategic autonomy. Therefore, an in-depth evaluation of costs versus benefits is essential for striking the right balance between investments, citizens benefits and societal impact of proposed legislation.

> As example from e-ID:
> Significant investments made should not be compromised by new standards.
>
> If banks and merchants are obliged to accept the European Digital Identity Wallet for payments, additional significant investments and fundamental adjustments would be required to update the existing payment infrastructures (e.g., interface and procedures) without necessarily improving the customer experience. Therefore, we strongly recommend that the use of the EUDIW for the full payment cycle should be voluntary, allowing time to include it as part of normal planned terminal replacement cycles of usually 5-7 years.

The importance of a competitiveness check

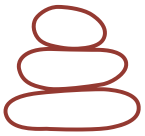
The EACB aligns with the European Commission's view that the quality of the regulatory framework significantly influences the EU's competitiveness.[7] While the European Commission currently considers competitiveness during policy formulation, there is a growing need for a more targeted approach.

The competitiveness check is a crucial tool and should act as a compass. It should guide legislative proposals to support competitiveness, sustainable growth, strengthening EU's strategy autonomy, to enhance resilience and to uphold broader social values. The EACB supports the further integration of competitiveness checks during impact assessments for legislative proposals. These checks should span various contexts and evaluate factors such as cost, price, international competitiveness, innovation capacity, SME impact, and other social values. Importantly, this competitiveness check should cover a wide spectrum, including legislative initiatives, level 2 regulations, strategies, programs, and international agreements. By assessing competitiveness impacts at each stage of decision making, effective implementation and enforcement should be

[7] European Commission, Long-term competitiveness of the EU: looking beyond 2030. March 2023

able to be better ensured. Furthermore, the application of competitiveness checks should extend across all European institutions, including supervisors and the European Central Bank (ECB). Ensuring representation of the business community in the competitiveness check assessments is crucial to avoid complacency assessments.

The importance of principle based regulation



Recent European legislative proposals often aim to address specific conduct or practices that can have a direct impact on universal retail banks and its costumers or try to harmonise practices across different jurisdictions within the EU. These proposals are closer to a rule-based approach which outlines specific actions that banks must take. By focusing on specific rules, these proposals seek to limit the scope of regulation. However, policymakers must carefully consider the proposals' impact on innovation, flexibility and long-term effectiveness in a dynamic retail banking landscape. In our view the benefits of principle-based regulation are much greater and empower universal retail banks to manage complexity, adapt to changing environments, and prioritise outcomes that benefit both the universal retail banking sector and society at large.

Recommendation 6: improve the legislative process by focusing on principles rather than overly prescriptive rules, ensuring practical implementation timelines and assessing proposed legislation' capacity to contribute to European competitiveness and potential overlap with existing regulations.