

SPEECH

Resilient banks through effective supervision: a pillar of Europe's competitiveness

Keynote speech by Frank Elderson, Member of the Executive Board of the ECB and Vice-Chair of the Supervisory Board of the ECB, at the ECB Forum on Banking Supervision 2025

Frankfurt, 14 November 2025

It is a pleasure to deliver the last keynote speech of this year's banking supervision forum. Over the past two days, we have discussed what resilience means in times of challenge, complexity and disruption – and why resilience should be broad based.^[1] As the Chair mentioned yesterday morning, broad-based resilience is about strong financials, but equally about operational resilience, sound governance and good risk management.

During this period of profound change, a debate on European competitiveness has emerged with full force. Many are asking what the key impediments and main enablers might be for a more competitive European economy. How can we tackle the former and improve the latter? And what role does the banking sector play in shaping the competitiveness of the real economy?

The good news is that over the past decade, much has already been achieved to make banks more resilient, and this resilience remains the indispensable foundation to support the real economy throughout the economic cycle. I will therefore start by illustrating this very welcome healthy state of the banks under our supervision.

At the same time, discussions about the complexities that are having an impact on European banks' competitiveness have gained prominence. Today I would like to highlight how we are tackling undue complexities in the regulatory and supervisory framework in order to help banks operate efficiently within a predictable, proportionate and risk-based framework.

I will then illustrate how banks' competitiveness crucially hinges on structural and macroeconomic factors that will require a concerted effort from a wide range of stakeholders. In this way, Europe's banking system can be both innovative and strong, competitive and resilient. So, let me first start by looking at the resilience I mentioned at the start.

Bank resilience is crucial to withstand shocks and support the economy at all times

Resilient banks are a vital precondition for a thriving real economy. Why is this so?

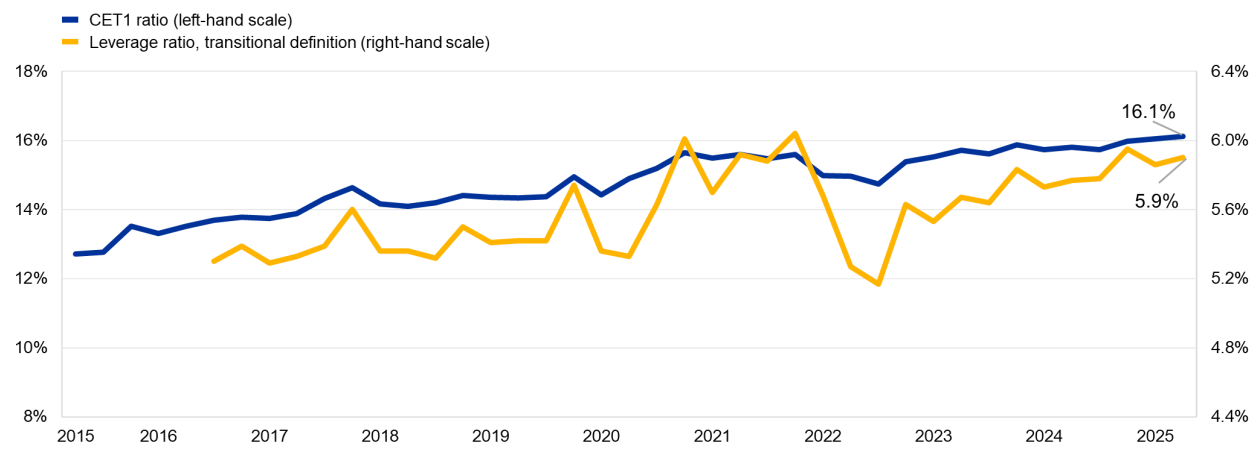
Well-capitalised and resilient banks are better placed to channel funds from savers to borrowers to enable businesses to innovate, households to buy homes and governments to finance public goods. Banks must therefore be well regulated and supervised.^[2]

European banking supervision was established in 2014 in response to the global financial crisis and subsequent European sovereign debt crisis. Now, almost to the day 11 years later, banks under our supervision are significantly stronger. Thanks to regulatory guardrails, rigorous supervision and continued improvements in banks' risk management, the banking sector is now in a much better position to fulfil its essential function of supporting the economy at all times.

Today's euro area banks have solid capitalisation levels, with a Common Equity Tier 1 (CET1) capital ratio of 16% compared with 12.7% a decade ago.^[3]

Chart 1

Capital adequacy

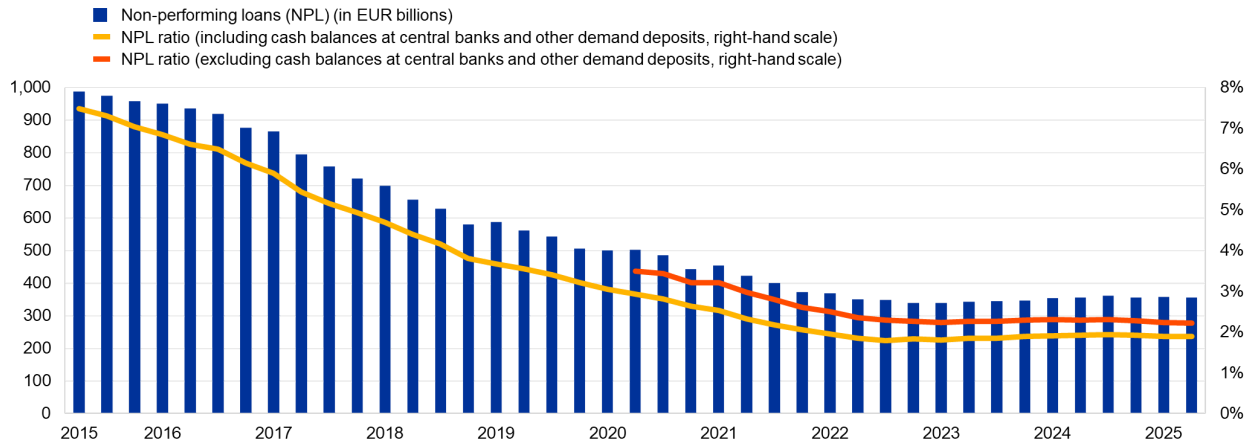


Source: ECB [supervisory banking statistics](#).

Banks have robust liquidity positions well above regulatory requirements^[4] and the asset quality problems that plagued many significant banks across Europe a decade ago have been successfully tackled. In fact today the non-performing loans ratio stands at 1.9%, less than a third of the level observed ten years ago.

^[5]

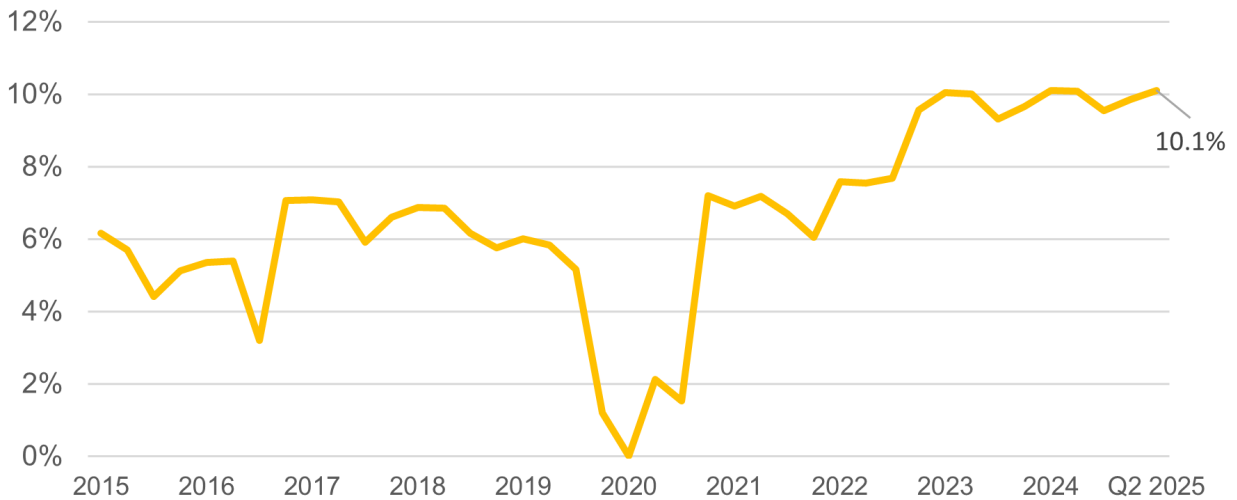
Chart 2
Asset quality



Source: ECB [supervisory banking statistics](#).

Moreover, euro area banks' profitability has improved, with their return on equity now standing at 10.1%.

Chart 3
Euro area banks' return on equity



Source: ECB [supervisory banking statistics](#).

Encouragingly, stronger profitability is increasingly reflected in the higher valuations investors attribute to euro area banks, as shown by a price-to-book value of over 1.

Chart 4

Euro area median price-to-book ratio for publicly listed significant institutions (daily data)



Source: ECB calculations based on Bloomberg data

In addition to financial resilience, euro area banks have also improved their risk management and governance^[6], and boosted their operational resilience^[7].

Thanks to broad-based resilience banks have been an anchor of stability in undeniably challenging times. In the past five years alone, we have dealt with the worst pandemic since the 1920s, the most devastating war on European soil since the 1940s, and the biggest energy shock and rise in inflation since the 1970s. Moreover, we are now seeing tariff levels and “beggars-are-beggars” trade policies reminiscent of the 1930s and a resurgence of great power rivalry similar to the Cold War of the 1950s, all while the climate and nature crises are getting worse.

Against this backdrop of change and complexity, the euro area banking system has fared well. Banks remained resilient and did not propagate shocks. And this is no coincidence: well-capitalised and resilient banks do not excessively retreat in downturns, propagating adverse dynamics; instead, they continue to support the economy.^[8] Think about what happened during the pandemic: banks continued to supply credit to struggling businesses and households, even in the direst of circumstances. Better capitalisation therefore makes the banking sector more resilient and better able to fund the real economy in good as well as bad times.^[9] Fiscal and monetary support to households and firms clearly helped to shield the banks from higher credit losses.

So resilient banks yield a double dividend: not only are they safer and hence better able to withstand shocks, but they are also better able to continue playing their vital role of supporting the economy at all

times. In that sense, resilient banks play an important role in contributing to competitiveness, especially in a bank-based economy like Europe.

Resilience must not, however, lead to complacency in an environment that continues to be complex and, in certain aspects, is becoming increasingly challenging. Geopolitical tensions are not expected to subside, ever more frequent and severe cyberattacks are here to stay, and the substantial growth of non-bank financial institutions, including their interconnectedness with the banking sector, demand our continued vigilance.^[10]

Reducing undue complexities, overlaps and costs that may hinder competitiveness

At the same time we hear voices loud and clear about undue complexities in the regulatory and supervisory framework that may negatively impact banks' competitiveness.

Looking at how the regulatory and supervisory framework evolved since the start of the banking union there is undoubtedly an increase in size but also complexity which is shaped by several factors.

A root cause of this complexity lies in the persistent fragmentation of rules at national level. Many facets of the current prudential framework, for example, do not actually consist of a single European regulation but of a patchwork of nationally transposed directives that create complexity. In addition, foundational elements of the prudential framework, such as accounting standards, securities and insolvency laws, continue to differ across Member States, which also adds unnecessary complexity.

Another root cause of this increasing complexity is that regulation and supervision have developed in lockstep with the complexity of the external environment in which the banks under our supervision operate. For example, the framework has evolved to make sure banks are operationally resilient, for instance, to ever more frequent and severe cyberattacks and operational failures.^[11] And while this was very much warranted in light of a more complex external risk landscape, it has also led to regulation growing in size.

At the same time there is also a need to identify areas of unwarranted complexity, overlaps and unnecessarily prescriptive elements that may have built up over the past decade and which can and must be simplified.

Against this backdrop, we welcome the debate on simplification. The ECB's Governing Council has created a High-Level Task Force on Simplification to develop proposals to simplify the European prudential regulatory, supervisory and reporting framework, while still maintaining resilience. The Task Force plans to deliver its proposals for simplification to the Governing Council by the end of the year, after which they will be presented to the European Commission.

As far as European banking supervision is concerned, we have been taking action for quite a few years now. Let me outline some of the initiatives that are already in full swing to make supervision more efficient, more transparent and more risk-based, without sacrificing resilience. This makes sure that we keep banks resilient in an efficient and effective manner, thereby reducing cost factors that may hamper

competitiveness. We are proving that simplification and resilience are not opposing forces – they can go very well hand in hand.

The comprehensive reform of the Supervisory Review and Evaluation Process (SREP) that we embarked upon in 2022 is at the heart of our simplification initiatives. We have embraced risk-based supervision through initiatives like the risk tolerance framework and a multi-year approach, which allow our supervisory teams to focus more effectively on the underlying risks that matter the most. Practically speaking, this means that we are not looking every year at every risk in every bank.

The SREP reform is already delivering results: SREP decisions have become shorter and more focused, with SREP measures decreasing from 700 in 2021 to below 400 in 2025, with a stronger emphasis on addressing severe findings.^[12] Moreover, issuing decisions by the end of October rather than the end of December means that key findings can be communicated more promptly. We are also enhancing our supervisory planning by improving the alignment of different supervisory activities, which helps banks to avoid duplicating their efforts.

In addition, we are reducing undue complexities and prescriptiveness by streamlining our supervisory processes through our “next-level supervision” project, which covers areas such as decision-making processes, internal models, stress testing, capital-related decisions, reporting and on-site inspections.^[13] One concrete example is fit and proper assessments, where, thanks to the help of machine learning and technology, we have reduced processing times so that banks receive faster responses.^[14]

Another example is a [new fast-track process for simple securitisations](#), which was tested in the first half of 2025. This new process will cut approval times from three months to just ten working days.

An additional concrete simplification initiative is our drive to reduce reporting costs by establishing an integrated reporting framework that is accessible to statistical, prudential and resolution authorities.

We are also further embracing proportionality, which, although already embedded in the European regulatory and supervisory system, can be expanded further. Currently, [small and non-complex institutions \(SNCIs\)](#), which are banks that meet clear criteria for size, simplicity and limited trading activity, already benefit from lighter reporting templates and simplified liquidity and market risk standards, as well as streamlined recovery and resolution planning.^[15] In practice, this means they are only required to report up to 30% of the data that large banks must report. They also benefit from less frequent on-site inspections. Therefore the SNCI regime seems the natural starting point to further enhance proportionality. For instance, one could consider a more systematic application of this regime, as well as an increased scope. These steps could be taken while maintaining the Single Rulebook, which ensures the risk-based nature of the prudential framework is retained for all banks. This is important, because proportionality should not be mistaken for simply reducing prudential standards for all smaller banks, irrespective of the risks this would generate. Instead, we should focus our attention on initiatives that reduce undue complexity, prescriptiveness and cost factors, without making banks less safe or causing them to lose track of the underlying risks.

In addition, while maintaining the current level of financial resilience among supervised banks, there is room to increase the predictability of how our supervisory assessments feed through to banks' capital requirements. This enhanced predictability would help banks' capital planning. Moreover, the risk-based capital stack in the EU is admittedly complex. With up to nine different layers of requirements and buffers, each serving a specific purpose that needs to be met with going and gone-concern funding instruments, the system can be difficult to navigate and, at times, create unintended interactions.^[16] Thus there seems to be room to make the framework simpler and more transparent while maintaining resilience.

Banking sector competitiveness is shaped by multiple factors

Reducing undue complexities in regulation, supervision and reporting that may hamper banks' competitiveness is essential. However the ability of euro area banks to compete with other actors – especially their international peers – is primarily shaped by a broad range of other factors, many of which are structural as well as macroeconomic in nature.

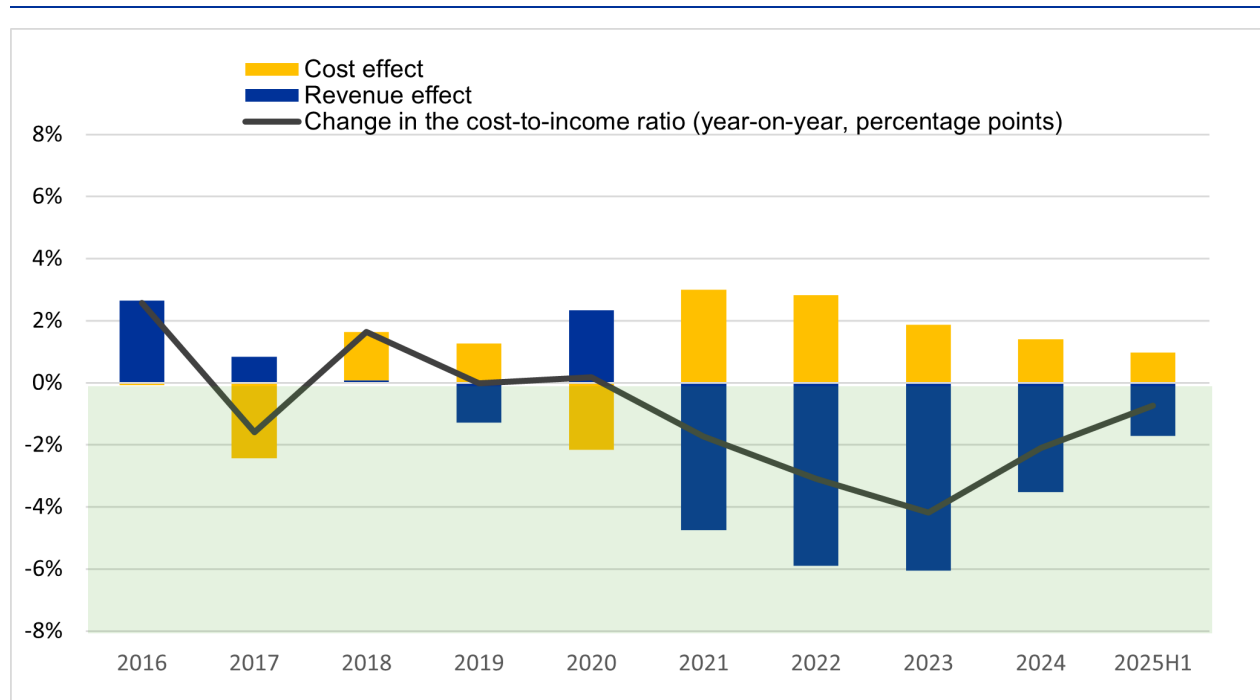
This becomes particularly clear when looking more closely at the profitability gap between euro area and US banks.^[17] European banks, for instance, have a smaller home market and lower IT investments. US banks are more concentrated, with the largest ones operating across the entire country, which allows them to exert more pricing power and reap the benefits of economies of scale. European banks, on the other hand, do not have access to the same benefits because the Single Market is still fragmented.

Moreover, business volumes and profitability crucially depend on a dynamic real economy. As the Draghi report^[18] convincingly shows, real GDP growth in the EU has been subdued in comparison with US growth over the last decade. And the robust economic growth in the United States, partly fuelled by its more advanced capital markets, has provided substantial benefits to banks. Thus, improvements in European banks' competitiveness crucially hinge on revitalising growth in the European economy.^[19]

Another factor shaping banks' competitiveness is operating efficiency. Although euro area banks' cost/income ratio has improved from 66% to 54% between 2020 and 2025, since 2021 this has been entirely driven by increasing revenues most notably net interest income, showing that there is still room for improvement when it comes to banks' cost base.

Chart 5

Drivers of the change in euro area banks' cost/income ratio



Source: ECB supervisory reporting.

Notes: The data show the year-on-year changes in the cost/income ratio (operating expenses as a share of net total operating income), along with the individual contributions of the numerator ("cost effect") and denominator ("revenue effect") to these changes. Lower values indicate an improvement in cost efficiency.

Boosting bank competitiveness by deepening integration and revitalising growth

Considering the myriad factors shaping European banks' competitiveness and the fact that many of these factors have structural and macroeconomic root causes, real progress requires a concerted effort by a wide range of stakeholders. Let me outline some of the potential avenues that can sustainably move the dial when it comes to banks' competitiveness.

One promising path for euro area banks to improve their operating efficiency is to enable them to reap the benefits of economies of scale by consolidating the highly fragmented sector. Larger, pan-European banks would also be better equipped to diversify risks, invest in digital transformation and compete in higher-margin, fee-based business areas. Such developments would not only strengthen banks' competitiveness but also enable them to operate more effectively in the most profitable segments of the financial market, improve their profitability and optimise their liquidity management at the group level. From a supervisory perspective, we have repeatedly stressed that we see the benefits of cross-border mergers and have been crystal clear that we will not obstruct consolidation efforts, provided that the limitative set of regulatory

criteria are met. These criteria essentially ensure that a merger results in the formation of a safe and sound bank.

At the same time, the ability of euro area banks to build pan-European business models and scale up their activity is additionally constrained by the fact that the banking union is incomplete. Completing it, including by establishing a European deposit insurance scheme, would help eliminate barriers that still hinder market integration and ensure that euro area banks can scale up and diversify geographically more easily.

Some financial instruments can also play a meaningful role in transferring risks away from credit institutions so that they are better positioned to meet additional lending demands from the real economy, while creating opportunities for financial market investors. As noted in the recently published [ECB opinion on the securitisation package](#), the proposed regulations are a step in the right direction to make further progress at EU level to achieve economies of scale in the development of securitisation products, facilitate the expansion of the market, and support the integration of EU markets, all of which would broadly support the savings and investments union.

However, further integrating banking markets alone is no silver bullet for the competitiveness challenge banks are facing.

Looking at the real economy, the Draghi report shows that the widening GDP gap between the EU and the United States is primarily driven by weaker productivity growth in Europe. And when it comes to productivity, economists largely agree that one key reason for the gap is that Europe is adopting digital technologies more slowly and is unable to fully capture the efficiency gains of the digital transformation.

Many firms remain behind the technological frontier.^[20] In order to catch up, these firms need access to risk capital and to investors with networks and experience – which is why finalising the savings and investments union is vitally important for more efficient and more integrated capital markets.

Beyond capital market integration, the broader lack of a true Single Market further amplifies Europe's competitiveness challenge. As I mentioned in a speech earlier this year^[21], internal barriers to the Single Market are, on average, equivalent to a tariff of 44% on goods and a staggering 110% on services. And soberingly, 60% of barriers to trade in services are still the same as they were 20 years ago. So in order to boost productivity, unlock competitiveness and promote simplification, a time-limited roadmap to complete the Single Market is more important than ever. In areas where full harmonisation is currently politically or technically unfeasible, alternative approaches, such as introducing a "28th regime", could provide a practical and effective interim step.

Conclusion

Let me conclude.

Europe stands at an important crossroads: to become a bulwark against external threats, ensure our strategic autonomy, and remain masters of our own destiny with good living standards for all Europeans, our economic prosperity is more important than ever.

And to safeguard our prosperity, we must bolster our competitiveness to ensure Europe is a place where innovators, creators and doers seek opportunity in the world's second largest market. And if we are to succeed, a concerted effort from a wide range of stakeholders is essential.

Resilient banks have an important role to play. Banks that are innovative, strong and at the service of firms and citizens at all times, are an essential pillar of a competitive real economy.

And as supervisors, our single most important contribution is to make sure that banks continue to fulfil this role. Our job description is clear: maintain the public good that is financial stability. Because history has taught us – often in the hardest way during crises – that without financial stability, growth falters, progress fades, potential flounders, investment stalls, innovation slows and confidence slips away. But with the solid bedrock of financial stability, there is no ceiling to the innovation, progress and prosperity we can unleash.

Thank you for your attention.

1.

Buch, C. (2025), [“Global banking, global risks: how banks and supervisors can navigate a complex environment”](#), keynote speech at the ECB Forum on Banking Supervision, Frankfurt, 13 November.

2.

The traditional microprudential regulation of banks operates on a well-established logic. Banks finance themselves with high leverage, partly through insured deposits, which play a crucial role in preventing destabilising bank runs (see Diamond, D. W., & Dybvig, P. H. (1983). Bank runs, deposit insurance, and liquidity. *Journal of political economy*, 91(3), 401-419)). However, high leverage and deposit insurance also creates moral hazard: it incentivises bank managers to take on excessive risks, knowing that potential losses would be absorbed by creditors and taxpayers rather than the bank itself. The primary objective of capital regulation is to counteract this moral hazard by compelling banks to internalise potential losses. Another convincing explanation of the rationale of prudential supervision was outlined in the seminal book by Dewatripont, M. and Tirole, J. (1994), *The Prudential Regulation of Banks*, which states that supervisors' task is to monitor banks to ensure they are safe and sound on behalf of depositors, as the latter are too small, dispersed and have neither the time nor the expertise required to understand the risks a bank is taking. That's why supervisory authorities are assigned the task of ensuring financial stability. Moreover, after the great financial crisis, a credible and effective resolution framework to resolve failing banks in an orderly manner has been a key innovation to increase trust, protect taxpayers' money and preserve financial stability.

3.

Data on European banks refer to significant institutions under the direct supervision of the ECB. Please see the latest [list of supervised entities](#) as well as the latest available [supervisory data](#) that refer to the

second quarter of 2025.

4.

As of the second quarter of 2025, the liquidity coverage ratio stood at 157.8% and the net stable funding ratio at 126.7%.

5.

In the second quarter of 2015, the comparable number was 7.5%. These ratios include cash balances at central banks and other demand deposits. The NPL ratio excluding cash balances at central banks and other demand deposits stood at 2.2% as of the second quarter of 2025.

6.

Elderson, F. (2024), "[The first decade of European supervision: taking stock and looking ahead](#)", keynote speech at the "10 Years of SSM – Looking back and looking forward" conference organised by the European Banking Institute and the Hessisches Ministerium für Wissenschaft und Kunst, Frankfurt am Main, 4 November; Elderson, F. (2024), "[The art of bending without breaking – banking on operational resilience](#)", speech at the joint European Banking Authority and European Central Bank international conference on "Addressing supervisory challenges through enhanced collaboration", Frankfurt am Main, 4 September; and Tuominen, A. (2025), "[Operational resilience in the digital age](#)", *The Supervision Blog*, ECB, 17 January.

7.

For why a broader view on resilience, including governance and risk culture, operational resilience and structural risk drivers are not peripheral issues but are at the core of prudential supervision, see Elderson, F. (2025), "[What good supervision looks like](#)", keynote speech at the 24th Annual International Conference on Policy Challenges for the Financial Sector, Washington DC, 12 June; and Elderson, F. (2025), "[Resilience offers a competitive advantage, especially in uncertain times](#)", keynote speech at the Morgan Stanley European Financials Conference, London, 19 March.

8.

Boissey, F. et al. (2019), "[Impact of financial regulations: insights from an online repository of studies](#)", *BIS Quarterly Review*, 5 March; Budnik, K., Dimitrov, I., Gross, J., Lampe, M. and Volk, M. (2021), "[Macroeconomic impact of Basel III finalisation on the euro area](#)", *Macroprudential Bulletin*, No 14, ECB, July. See also Siciliani, P., Eccles, P., Netto, F., Vitello, E., Sivanathan, V. and van Hasselt, I. (2023), "[Paper 2: The links between prudential regulation, competitiveness and growth](#)", Bank of England Prudential Regulation Authority, 11 September. On the usability of buffers for bank lending, see Couaillier, C. et al. (2021), "[Bank capital buffers and lending in the euro area during the pandemic](#)", *Financial Stability*

Review, November; and Couaillier, C. et al. (2022), "[Caution: do not cross! Capital buffers and lending in Covid-19 times](#)", *Working Paper Series*, No 2644, ECB, February.

9.

See Berg, J., Boivin, N. and Geeroms, H. (2025), "[The quickly fading memory of why and when bank capital is important](#)", *Working Papers*, Issue 4, Bruegel; and Behn, M. and Reghezza, A. (2025), "[Capital requirements: a pillar or a burden for bank competitiveness?](#)", *Occasional Paper Series*, No 376, ECB.

10.

In relation to the significant growth of non-bank financial institutions that now accounts for over half of financial sector assets in the euro area, see Buch, C. (2025): "[Hidden leverage and blind spots: addressing banks' exposures to private market funds](#)", *The Supervision Blog*, ECB, 3 June; and Montagner, P. (2025), "[Non-bank financial institutions: understanding transmission channels and regulatory challenges](#)", contribution for Eurofi Magazine, 17 September.

11.

For example, the number of significant cyber incidents reported to the ECB more than doubled between 2022 and 2024.

12.

Banks will be informed of their SREP outcome, key concerns and requirements/recommendations in a concise letter, with the main text expected to be around ten pages on average.

13.

Buch, C. (2025), "[Simplification without deregulation: European supervision, regulation and reporting in a changing environment](#)", speech at the Goldman Sachs European Financials Conference 2025, Berlin, 11 June; ECB, "[Making European supervision more efficient, effective and risk-focused](#)"; Donnery, S. (2025), "[As simple as possible, but not simpler](#)", *The Supervision Blog*, ECB, 8 September.

14.

For example, we reduced the average processing time from 109 days in 2023 to 97 days in 2024, and to as little as 61 days for non-complex cases, meaning that we can dedicate more time and resources to complex cases in line with our risk-based approach. For certain appointments, such as renewals of mandates, we will streamline the assessment process further.

15.

Today, around 1,400 banks, or more than 70% of less significant institutions, are also SNCIs.

16.

Buch, C. (2025), "[Simplification without deregulation: European supervision, regulation and reporting in a changing environment](#)", speech at the Goldman Sachs European Financials Conference 2025, Berlin, 11 June.

17.

Di Vito, L., Martín Fuentes, N. and Matos Leite, J. (2023), "[Understanding the profitability gap between euro area and US global systemically important banks](#)", *Occasional Paper Series*, No 327, ECB, August.

18.

Draghi, M. (2024), [The future of European competitiveness](#), European Commission, September.

19.

Donnery, S. (2025), "[Less regulation, more growth? It's not that simple](#)", speech at the SSM Senior Forum organised by A&O Shearman, Königstein im Taunus, 25 June.

20.

Schnabel, I. (2024), "[From laggard to leader? Closing the euro area's technology gap](#)", inaugural lecture of the EMU Lab at the European University Institute, Florence, 16 February.

21.

Elderson, F. (2025), "[Europe at a crossroads: it is high time to complete the Single Market](#)", keynote speech at the SRB Legal Conference 2025, Brussels, 18 June.