Frank Elderson: Hearing of the Committee on Economic and Monetary Affairs of the European Parliament

Introductory statement by Mr Frank Elderson, Member of the Executive Board of the European Central Bank and Vice-Chair of the Supervisory Board of the European Central Bank, at the Hearing of the Committee on Economic and Monetary Affairs of the European Parliament, Brussels, 28 January 2026.

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Since I last addressed this Committee in 2021, Europe's banks have been repeatedly and profoundly tested. But the banking sector has remained strong in the face of these challenges, absorbing rather than amplifying the shocks and continuing to provide services to people and firms. Forward-looking, risk-based and proportionate European supervision, alongside effective coordination with the central banking functions of the ECB, has underpinned this resilience. In my remarks today, I will briefly reflect on the lessons learned and set out how we intend to simplify and streamline supervision, making it even more efficient, effective and risk-based, while maintaining the banking sector's resilience.

Bank resilience in challenging times

During my mandate as Vice-Chair of the Supervisory Board, Europe's banks have proven resilient to a series of severe shocks.

They successfully navigated the economic fallout from the worst pandemic since the 1920s. Clearly, fiscal and monetary policy support played an important role. But those measures were reinforced by the solid capitalisation and broad-based resilience of European banks, which were also supported by strong, swift and coordinated supervisory measures. Together, these measures allowed the banks to act as shock absorbers rather than shock amplifiers.

Banks have also withstood the economic fallout from the most devastating war on European soil since the Second World War. As Russia's unjustified war against Ukraine triggered a wave of sanctions, we engaged proactively with euro area banks to ensure that their risk management frameworks and practices were fit for purpose, in line with our responsibility to protect financial stability. As a result, relevant European banks effectively accelerated their efforts to reduce their not adequately covered or managed exposures towards Russia.

Moreover, banks remained resilient and continued to support the real economy despite the biggest rise in inflation since the 1970s. As monetary policy tightened rapidly, banks faced heightened interest rate, market and liquidity risks – pressures that culminated in the banking turmoil of March 2023. Thanks to the forward-looking risk assessments that had recently been introduced, these vulnerabilities were already being addressed. As a result, the turmoil had only limited repercussions for the European banking sector, allowing monetary policy to successfully reduce inflationary pressures.

The message from these events is unmistakable: identifying vulnerabilities early and acting decisively are essential to ensure that the banking sector remains safe and sound and to safeguard the financial stability that underpins Europe's competitiveness and cohesion.

Looking ahead: priorities for 2026-28

Today, the European banking sector is navigating a challenging external environment, with risks more likely to stem from external shocks than in the past. To keep European banks safe and sound, we have set two key priorities for 2026-28.[1]

Strengthening resilience in a fast-changing risk landscape

First, we need to strengthen banks' resilience to geopolitical shocks and macro-financial uncertainties. Geopolitical developments have become a structural driver, affecting banks' risks both directly and indirectly. We will therefore assess institution-specific geopolitical scenarios and their potential impact on banks. Moreover, while banks have made notable progress in managing climate and nature-related risks, the impact of physical risks materialising will intensify if mitigation and adaptation measures are insufficient. As banks incorporate these risks into their assessments, we will continue to evaluate them within our prudential mandate.

Ensuring operational resilience in an increasingly digitalised financial system

Second, it is imperative that banks prevent disruptions to critical operations by maintaining strong operational resilience. We will continue to assess their risk management practices with a particular focus on cybersecurity, third-party risk management and enhanced risk reporting capabilities.

Banks must also prepare for the continued digitalisation of financial services. We encourage their use of new technologies to improve their services and strengthen competitiveness. But banks must innovate responsibly by fully incorporating the risks from artificial intelligence and crypto-assets into their risk management. And in the future, if the digital euro is introduced, European banks will be able to further enhance their business models and payment services.

Simplification and effectiveness

We are operating in a fast-evolving risk landscape, shaped by rapid technological change, heightened geopolitical fragmentation, cyber threats, climate and nature-related risks and demographic shifts. At the same time, the regulatory and supervisory framework has grown increasingly complex. But supervisory resources are finite, which is why it is essential that we remain as agile as possible. This is why we are pursuing simplification – tackling unwarranted complexity helps supervisors focus on the most material risks and reduces unnecessary compliance burdens for banks, thereby supporting competitiveness without compromising resilience.

Earlier this month, ECB Vice-President Luis de Guindos presented the report of the ECB High-Level Task Force on Simplification to this Committee. The report contained recommendations for regulatory change that could serve as inputs to the Commission's assessment of the overall situation of the banking system.

European banking supervision actively contributed to this work while simultaneously reporting on our ambitious reform agenda that will make supervision more risk-based and proportionate without requiring any legislative changes. These reforms have been in the works since 2023 – we have sharpened our risk-based approach and priorities, better integrated supervisory activities and made greater use of proportionality and digital tools to reduce undue complexity. And the full implementation of the SREP reform will be complemented by accelerated decision-making, streamlined supervisory activities, a shared culture of risk-based supervision across the Single Supervisory Mechanism and measuring supervisory effectiveness. None of these improvements lower supervisory standards – they simply ensure that supervisory resources are concentrated on the risks that matter most, delivering clearer and faster outcomes and more transparent communication to banks.

As Vice-Chair of the Supervisory Board, I have been deeply invested in this work. Simplifying supervision while safeguarding resilience is both necessary and achievable. I am determined to see these important initiatives across the finish line, to ensure that our supervision is as efficient, effective and risk-based as possible while ensuring that banks remain resilient and continue to play their essential role in our economy.

Advancing financial integration and competitiveness

While reducing undue complexity enhances competitiveness, deeper financial integration would allow these simplification measures to deliver even greater gains while also strengthening resilience.

Completing banking union, including a European deposit insurance scheme, would make our financial system more resilient and reduce fragmentation, enabling banks to diversify more easily, improve their operational efficiency and scale up – ultimately improving their international competitiveness. We look forward to the Commission's upcoming report on the overall situation of the banking system, and are happy to contribute our expertise to these discussions.

We also very much welcome the Commission's ambitious policy initiatives on the savings and investments union, as integrated capital markets complement the banking sector, support innovation and strengthen the shock-absorbing capacities of the EU. Ultimately, a true single market is one of the most important levers at our disposal to foster competitiveness and strengthen our sovereignty.

Conclusion

Let me conclude. The European banking sector has remained broadly resilient throughout some exceptionally challenging years. But this must not lead to complacency. Our task is to identify risks early, act decisively and ensure supervision remains risk-based, proportionate and as simple as it can be – but not simpler.

If you agree to the proposed extension of my mandate as Vice-Chair of the Supervisory Board, I will keep pursuing this forward-looking agenda with determination, and I will continue to listen to the views of this Parliament as we work together to safeguard Europe's financial stability.

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1 ECB (2025), *Supervisory priorities 2026-28*, 18 November; Donnery, S. and Quagliariello, M. (2026), "Supervisory priorities 2026-28: charting a course through turbulent waters", *The Supervision Blog*, ECB, 22 January.