

# Michael Theurer: Competitiveness of the German banking sector

Speech by Mr Michael Theurer, Member of the Executive Board of the Deutsche Bundesbank, at the Bundesbank-Symposium "Banking supervision in dialogue", Frankfurt am Main, 7 May 2026.

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*Check against delivery*

## 1 Introduction

Ladies and gentlemen.

A warm welcome to this year's Bundesbank symposium. I'm very pleased to see the exceptional level of interest in this event. This shows just how important and current its topics are.

At my first symposium last year, I said that it was time to make regulation less complex. And today – almost exactly a year later – we will spend the whole morning looking at concrete proposals for achieving this.

Friedrich Schiller once wrote in a letter to Gottfried Körner that simplicity comes from maturity. If we pause to reflect, we can see that this quote fits the current state of banking supervision and regulation remarkably well.

The Banking Act has been with us for almost 65 years, MaRisk for more than 20 years and the Basel III reforms more than 15. Institutionally, too, we have come a long way: BaFin was founded in 2002, the EBA was launched in 2011 and the SSM came into force in 2014. We have created an institutional regulatory and supervisory framework that has weathered crises, seen new business models emerge and responded to entirely new issues such as sustainability or artificial intelligence. Without a doubt, we can say that this framework has made the European banking sector much more resilient.

That is exactly why it is not a sign of exhaustion today, but of maturity, for us to take an intensive look at how to further develop regulation and supervision. Moving towards a simpler framework: more proportionality, less bureaucracy and "simplification". So it is all about making our system less complex again.

What we are asking ourselves today is: where is regulation more complicated than it needs to be? Where can we bundle requirements, structure them more clearly, tailor them better to the size and risk profile of institutions – while also preserving the stability of the system?

I would like to begin my remarks with a hot topic in the European financial sector, especially when looking across the Atlantic: the competitiveness of the German and European banking sectors, especially in relation to US banks.

I will clarify what we mean when we talk about "competition" and "competitiveness" in the banking sector – and who even competes with whom.

Then I will discuss the implementation of the Basel III finalisation and, finally, talk about the role of regulation in financial stability.

## **2 What does competition actually mean, especially in the banking sector?**

So what does competitiveness actually mean, especially in the banking sector?

When we talk about "competitiveness" today, it often sounds like a fixed characteristic: a country, a sector or a bank is either competitive – or not. This view is misleading, and not only for the banking sector.

Competition does not happen between abstract "systems", but between specific institutions in specific markets. It happens between savings banks, cooperative banks and commercial banks in regional corporate banking, between international big banks in capital market and investment banking, and increasingly also between banks and new providers of digital financial services.

These players compete in areas where their business models overlap – for example, in lending to small and medium-sized enterprises, or in payments or asset management. In many core areas – especially retail and SME business – this competition still mostly takes place at the national level. By contrast, in investment banking and capital markets business, competition has an international dimension. Digitalisation is creating new competitors, which often operate across borders.

Competition is not a disruptive factor, but the key driver of performance. It forces banks to become more efficient, cut costs and modernise processes. Competition encourages innovation – for example, in digital services, payment solutions or the financing of new technologies. It rewards forward-looking and sustainable business models and ensures that weaker models are changed or forced out of the market.

Competitiveness is not a prerequisite for competing – it is the result of this process. A bank becomes competitive by facing up to competition, learning from its successes and failures, and continually adapting.

In short, competitiveness is the result of competition. But what role does regulation play in this system?

Regulation ensures a fair, reliable framework for competition – a level playing field where banks compete through their efficiency, innovation and sound risk management. Good regulation creates the conditions for businesses to enter and exit the market without endangering financial stability.

Regulation thus makes fair competition possible. However, it is not its job to influence the competitiveness of individual players.

Unfortunately, this is often overlooked in the current debate. For example, I am hearing some overly pessimistic voices, especially on Basel III finalisation in the United States and Europe.

While European banks will have to follow stricter rules in the future thanks to CRR III, via which the EU is implementing the Basel minimum standards, the United States will probably implement its Basel III finalisation less strictly than originally planned.

This leads some to conclude that competition will be distorted to the advantage of US banks, and that Europe's banking sector will be left further behind. I disagree.

### **3 Competitiveness and the differences between EU and US banks**

To see whether differences in regulation and, in particular, the Basel III finalisation really distort competition between German and US institutions, we need to consider two factors.

First, are German institutions and US institutions actually significantly active in the same markets? Are they even in direct competition with each other?

Second, do the different Basel III finalisation approaches really mean a substantial shift in the rules of play which would put US banks at an advantage in these markets?

Let's take a closer look.

To find out where German and US banks actually compete with each other directly, we analysed cross-border ties. Landesbanken and bigger commercial banks are the main points of contact with the US market.

However, the US the endgame re-proposal would mainly provide relief not only to medium-sized institutions with total assets of up to €750 billion in categories III and IV but also to small and micro banks. For some, this would reduce capital requirements by 6 to 7 percentage points due to relief under the standardised approach for credit risk. There are around 4,500 such small banks in the US; in Europe, there are just under 5,500.

But these banks generally operate locally and lend within their domestic markets. This means that they are not in direct competition with German or European big banks – nor with our smaller institutions, which mainly do business in their own regions and with local customers. So in effect, the relief for these small banks in the US does not change the competitive pressures on our institutions in local lending business.

At 93%, practically all of German banks' lending to households is to domestic households, too. Their lending to US households is close to zero.

By contrast, the share of loans to non-financial corporations (NFCs) abroad is much higher, at 33% of the aggregate NFU portfolio. Although the United States is the most important country outside the EU, accounting for 6% of the total, other EU countries remain the key foreign market overall.

Conversely, the lending volume of big US banks that grant loans to German households and enterprises via subsidiaries in Germany is also low. Their market share in both segments is well below 1%. As with all European institutions, the CRR and the BRUBEG regulations apply to these subsidiaries, too.

In summary, we can therefore say that German and US banks hardly compete with each other – if at all – in deposit and lending business.

By contrast, international big banks compete globally in investment banking and trading. In terms of total capital requirements, however, the share of trading business is much lower than the share of traditional lending business. Competition for loans to enterprises in Germany is between German and other European institutions – not between German banks and big banks in the US.

In their lending business, German subsidiaries of US banks focus on working with international wholesale customers, especially from the financial sector. Their lending conditions are no lower than those of German institutions. This is partly due to their funding costs, which tend to be higher: they hardly conduct deposit business, and intra-group funding must be priced at close to market value for tax reasons. They take on a more significant role only in specific market segments, for example in revolving wholesale loans – including from the private equity sector – or in USD syndicated loans.

As you can see, competition between German and European institutions on the one hand and US institutions on the other is only taking place at a relatively small number of international big banks in a few specific market segments.

And these big banks have, in fact, long shown lower profitability among the largest European institutions than their US counterparts on average.<sup>1</sup> Some bank representatives have ventured the assumption that this is due to supposedly stricter European regulations – and would be amplified once again by the different Basel III finalisation approaches in Europe and the United States.

But is this actually the case? Let's take a closer look at the finalisation of Basel III in the two jurisdictions. As a matter of principle, it should be noted that the assessment of the extensive, over one-thousand-page US proposal is based on an initial assessment by Bundesbank experts.

With the introduction of the output floor in CRR III and BRUBEG, the European Union is resolutely implementing the Basel minimum standards. The output floor limits the extent to which banks can reduce their risk-weighted assets using internal models. It thus creates a lower bound – and thus greater comparability and less scope for excessive model optimisation.

Transitional rules will apply in the EU until the end of 2022. The length of this phase is deliberate: institutions should have sufficient time to adapt their models, align their capital planning and manage potential effects on business models and lending in an orderly manner.

On the other side of the Atlantic, by contrast, global systemically important banks (G-SIBs) are currently subject to capital requirements that, in some cases, go beyond the

Basel standards – in other words, they tend to have stricter rules than European big banks.

The proposals put forward by the Federal Reserve on 19 March to implement the revised Basel framework recommend that some elements of this "gold plating" be withdrawn. In addition, relief measures such as lowering the leverage ratio requirement to the Basel level were already announced in 2025.

The new US proposal contains adjustments in some areas that provide for convergence with international standards, such as the methodology for determining capital add-ons for G-SIBs. At the same time, other proposals go far beyond the mere reduction of gold plating. There are no indications at present that the capital requirements for US G-SIBs overall will fall below the level set out in the Basel framework. We're not, then, talking about the start of an undercutting race.

A detailed direct comparison of the capital requirements of European G-SIBs with those of their US competitors is difficult for many reasons. In addition to differences in the rulebook, structural factors play a major role. For example, banks are also constructing their portfolios with an eye to regulatory requirements. However, under this constraint, some clear points can still be derived from our analyses:

In Pillar 1, the capital requirements for G-SIBs in the United States currently tend to be higher than those in the EU. One key reason for this is the Collins floor, which corresponds to an output floor of 100% for market and credit risk. In the EU, by contrast, the output floor applied to all risk types as a whole will gradually increase from 50% to 72.5% between 2025 and 2030.

The capital buffers required by supervisors for systemically important institutions are also higher on average in the United States than for European G-SIBs– even when the Federal Reserve's proposals of 19 March are taken into account.

By contrast, the European rulebook deliberately emphasises Pillar 1: loans to small and medium-sized enterprises and for infrastructure financing are subject to capital relief. Financing in these areas, which are particularly important for the economy, is given preferential treatment.

The regulatory architecture in Europe and the United States differs fundamentally: in the EU, a single rulebook with proportionality principles applies to all institutions. In the United States, the system is more strongly tiered; the scope and complexity of the requirements depend significantly more on the size and systemic importance of an institution. As a result, only relatively few institutions in the United States actually fall within the scope of the Basel rules.

There are therefore differences in detail, but no systematic "excess" of capital requirements in Europe and no "lack" thereof in the United States that would create a competitive disadvantage for European G-SIBs.

Nevertheless, let us briefly address a much-cited scenario in which the future lower capital requirements in the United States would also affect the European banking market.

The scenario supposes that the lower capital requirements in the United States allow banks there to invest more in areas of the future such as IT and artificial intelligence (AI). This then allows them to leverage economies of scale and expand their position in the European market, too. As a result, competitive pressure on European banks increases.

In this setup, however, European big banks have so far benefited from comparatively lower requirements. This means that they have had, and currently do have, every opportunity to invest in these forward-looking technologies. If we follow this line of argument, European banks should have actually built up a competitive edge in recent years. I don't think they have.

German banks currently have excess capital of more than €180 billion. At least part of this capital could be used in a targeted manner to strengthen their own competitive position and safeguard long-term competitiveness – especially where direct international competition prevails.

The central message is this: recent Bundesbank analyses have found that the Federal Reserve's proposals for implementing the revised Basel framework would indeed lead to a reduction in capital requirements for US institutions compared with the status quo. However, because there are limited direct ties between German and US banks, those lower capital requirements in the United States are unlikely to have any noticeable impact on the competitive situation for German institutions.

International competitiveness depends not so much on the precise level of certain metrics as on the consistency, predictability and credibility of the regulatory framework.

#### **4 The role of regulation and its importance for financial stability**

From the perspective of financial stability – which is what ultimately matters – I firmly reject the call for a more lax implementation of Basel III standards in Europe, including in the form of longer transitional periods.

Even if it has been nearly 20 years since the financial crisis, we must not repress our memories of the consequences of inadequate regulation: shaken trust in banks and the financial system has led to massive economic damage, to the loss of jobs and savings, and to doubts about the fairness of the economic system as a result of bank bailouts worth billions.

The subsequent reform of banking regulation was necessary and successful: it strengthened stability and created new confidence, reduced risks for taxpayers and ensured more reliable lending. European banks are more resilient today than ever.

However, adequate capital requirements are not an end in themselves. They support sustainable lending and help avoid misallocation of capital. Well-capitalised banks are more resilient and can thus compete more successfully in the long term. A stable, reliable set of rules and soundly capitalised institutions create trust among investors and are in the public interest – all the more important in a period of major political and economic uncertainty.

Nevertheless, there are starting points for further developing a mature system – I mentioned these at the beginning. And so we have made a firm, decisive step on the stony road to simplifying our rulebook. We will hear about this over the course of the morning and discuss it together.

## 5 Conclusion and outlook

Ladies and gentlemen, if you take one thing from this speech, I would like it to be the following conclusion:

There is no reason to lower the regulatory capital requirements in the EU either implicitly or explicitly.

Instead, it is now time – in the spirit of Friedrich Schiller – to review our regulation, which is quite mature but increasingly complex, and thus to provide banks – and, incidentally, us as their supervisors – with meaningful relief.

The focus should be on simplifying requirements in a targeted manner, for example by reducing bureaucracy and improving supervisory practise.

Today, in the morning, we will focus our attention on the simplification debate with discussions on the capital stack, the small bank regime and the MaRisk Review. In the afternoon, we will discuss how the environment in which this regulatory framework needs to operate is changing.

We will look at three structural trends that have a lasting impact on banks' business models and competition: first, stablecoins and other new forms of private currency; second, the use of AI in the financial sector in conjunction with – third – demographic developments.

Of course, as our regular guests are accustomed, after lunch we will shed light on the current risk situation – this time specifically in the context of the conflict in Iran.

All of these points are interwoven: a mature, simplified regulatory framework, sound capitalised banks and a clear view of new technologies, demographic trends and geopolitical risks. The answers to this interplay will determine how competitive and resilient our financial system will be in the coming years. I look forward to working with you to explore these questions later in the course of the symposium.

Thank you very much.

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<sup>1</sup> See [Europas Banken wachsen dynamischer als ihre US-Pendants | EY – Deutschland](#)