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Competitiveness of the EU banking sector

The European FinTech Association (EFA) welcomes the opportunity to contribute to the European Commission's (Commission) work on the competitiveness of the EU banking sector. This paper responds to the call for feedback on the Commission's Communication on the competitiveness of the banking sector and the single market in banking and aims to inform the legislative package announced for early 2027.

We believe the banking single market remains incomplete, with a direct impact on the ability of digital, cross-border business models to serve consumers and businesses across the EU. Fragmented implementation of EU rules, national gold-plating and inconsistent supervisory practices still require firms to adapt products, onboarding and operations country by country. At the same time, aspects of the prudential framework, in particular operational risk capital and the leverage ratio, introduce structural biases that penalise fee-based and digital-first models compared to traditional interest-based banking. It also ties up capital in risk-free central bank assets that are instead excluded from leverage calculations in jurisdictions such as the United Kingdom (UK) and the United States (US).

These frictions increase costs, slow down the rollout of innovative services, and, in some cases, mean that products are not offered in certain jurisdictions at all. Addressing them is **essential to build a genuinely integrated and competitive banking market for modern, digital and cross-border financial services.**

Digitalisation has already reshaped the EU banking landscape. FinTech companies and digital banks typically operate with lower overheads than traditional institutions, enabling more affordable and accessible financial products. This has benefited consumers by increasing convenience, expanding access and driving down costs, while pushing the entire sector to improve service quality. Mobile banking apps, digital wallets and other FinTech solutions have made financial management possible for a broader audience, including people for whom location, mobility or disability previously made access to branches difficult.

Today, more than half of Europe's bank account holders use a smartphone or tablet to manage their finances.

EFA shares the Commission's assessment that fragmentation along national borders, the way international standards are implemented in EU legislation, and undue complexity in the regulatory framework are holding back the sector's contribution to growth, capital markets development and the EU's wider competitiveness agenda. From a digital-first and cross-border perspective, our priorities are: making the banking single market work in practice, ensuring that prudential requirements are genuinely risk-sensitive and business-model-neutral, and treating digitalisation and open finance as core competitiveness levers rather than ancillary topics.

Making the banking single market work in practice

Market fragmentation and the absence of a true Single Market continue to materially limit consumers' access to and businesses' provision of cross-border innovative banking and payment services in the EU. Whilst large, established incumbents (including non-European players) with multi-country infrastructure can face the challenges provided by a fragmented market, **smaller European challengers are prevented from scaling across the EU** - a stated objective of the current European Commission's political mandate and of the Savings and Investments Union (SIU) Strategy.

European digital banks face a fundamental growth paradox: they establish operations in the EU in principle to benefit from regulatory harmonisation, yet instead of being able to scale first across the EU, they find themselves expanding into non-EU jurisdictions, particularly the United States and Asia, to achieve the scale required for profitability and investor returns. Besides the fragmented nature of European retail banking markets due to linguistic, cultural and legacy banking relationships - limiting cross-border customer acquisition, there is a growing national cumulative regulatory burden that increases disproportionately as institutions grow. Unlike US counterparts, which can scale within a single continental market under a more unified regulatory regime, European challengers must navigate 27 distinct supervisory approaches, consumer-protection frameworks, tax systems, branch and subsidiary rules, and compliance requirements, even within the Single Market.

EFA therefore strongly supports the Communication's recognition that prudential and non-prudential barriers to integration, national gold-plating and differences in the application of harmonised rules remain key obstacles to cross-border banking. We also welcome the Commission's intention to work with the Anti-Money Laundering Authority (AMLA), monitor national consumer-protection practices and simplify and integrate reporting.

Nevertheless, to make the banking single market work in practice for digital-first and cross-border business models, we see four priorities.

IBAN discrimination and non-local accounts

IBAN discrimination remains one of the clearest, most prevalent issues of market fragmentation. Despite the SEPA Regulation's anti-IBAN discrimination rules, consumers and businesses still face refusal, friction or additional checks based solely on IBAN country code. In parallel, national restrictions on the use of non-local and virtual IBANs reduce the ability of cross-border providers to offer seamless account services across the Union.

EFA asks:

- The EU should urgently **strengthen and harmonise enforcement of the SEPA Regulation's anti-IBAN discrimination rules across Member States**, ensuring that consumers and businesses can use any EU IBAN for euro credit transfers and direct debits without refusal, friction or additional checks based solely on country code.

Mutual recognition of remote onboarding and Know Your Customer (KYC)

One key hurdle remains the mutual recognition of KYC and remote identification. The lack of a unified digital identity standard means, for example, that a German 'Video-Ident' may not be accepted by a Spanish bank. The revised eIDAS framework and the European Digital Identity Wallet are major steps towards interoperable, cross-border digital identity in the EU. The remaining challenge is to ensure that this framework translates into practical, sector-specific acceptance for financial services and aligns with the new single AML rulebook.

A bank or regulated financial institution should be able to rely on an EUDI Wallet, notified electronic identification means, and qualified electronic attestations of attributes from any Member State for standard customer due diligence, without being required to repeat local identification, document checks or other national onboarding steps unless justified by specific risk indicators.

EFA asks:

- EFA **advocates for the mandatory mutual recognition of remote identification methods so that "onboarding once" effectively means "onboarding everywhere" in the EU.**

Business lending

Business lending remains largely unharmonised across the EU. Divergent national credit-reporting requirements, SME definitions and national usury-rate caps create a fragmentation tax that prevents Europe-wide rollout of business finance and pushes activity towards less-regulated arrangements such as merchant cash advances. Each requirement may reflect a legitimate national concern, but taken together they steer financing outside the regulated perimeter.

EFA asks:

- The Commission should **prioritise greater convergence in the regulation of business lending**, including credit-reporting requirements, SME definitions and national fee caps, so that regulated providers can offer business finance across the Single Market without building country-specific credit silos. This would complement the Communication's focus on insolvency law, consumer protection and non-prudential barriers and help ensure that SMEs can benefit from a wider range of cross-border financing options.

Gold plating

National gold-plating further undermines integration and distorts competition. In several Member States, payment institutions and other FinTech providers face additional local restrictions that prevent them from offering services that are otherwise permitted elsewhere in the EU, or are effectively pushed to establish local branches and use local bank accounts despite operating lawfully under passporting arrangements. In practice, this can severely limit the use of non-local and virtual IBANs, reducing the ability of cross-border providers to offer seamless account services across the Union. These practices restrict cross-border retail investment models, reinforce domestic incumbency, prevent the creation of European champions and weaken the objectives of the Savings and Investments Union (SIU) and the Single Market.

For example, different authorities may require parallel reporting of similar data sets, or apply varying technical formats and validation rules, forcing providers to build country-specific reporting silos instead of relying on a truly harmonised EU framework. EFA therefore advocates a clear "report once" principle, with EU-level standards superseding overlapping national requirements.

EFA asks:

- Addressing these barriers **requires both a stricter approach to national gold-plating and a more integrated supervisory practice.** Firm enforcement of passporting rights, mutual recognition of remote onboarding and KYC, stricter monitoring and enforcement against IBAN discrimination, and a "report once" approach to regulatory reporting are all essential to make the banking single market work in practice and to allow European challengers to scale within the EU, rather than being pushed to prioritise third-country markets.

A diversified banking ecosystem

A diversified banking sector **benefits the EU economy because it improves the ability of the financial system to serve different customer needs, fosters competition and innovation, and increases resilience** by reducing over-reliance on a small number of similar institutions and business models. Diversity matters not as an end in itself, but because it helps ensure that European consumers and businesses can access financial services that are fit for purpose in a modern, digital and increasingly cross-border economy.

Whereas much of the incumbent banking sector remains predominantly national in footprint, FinTechs instinctively see Europe, and beyond, as their home market. Many FinTech business models are built from day one to serve customers moving, trading and operating across borders, helping to make the EU Single Market a reality for many consumers and SMEs. This diversity delivers concrete products that customers increasingly expect, such as fast, convenient and affordable cross-border payments with clear and transparent fees, multi-currency accounts that reflect the reality of travel, international work and cross-border commerce, and simple, user-friendly access to investments that support household wealth-building and participation in capital markets.

A diversified landscape also introduces competitive pressure that benefits the wider economy, leading to better products, more competitive pricing and faster adoption of new technologies. FinTechs have played a key role in raising customer expectations around speed, transparency and digital-first experiences, encouraging the entire sector to modernise. This is consistent with the Communication's emphasis on diversified business models and on the contribution of both large and smaller institutions to EU competitiveness.

However, business-model diversity can only deliver its full benefits if consumers and businesses are able to choose between providers on a genuinely equal footing. Today, practical and regulatory barriers still favour incumbents by default. Consumer confusion around protection regimes means that deposit guarantee schemes benefit from strong public recognition, while alternative safeguarding frameworks for regulated non-bank providers are often less visible, even when they offer equally robust protection. Restrictions on the use of non-local accounts and unnecessary localisation requirements for firms operating cross-border under EU rules similarly tilt the playing field in favour of domestic incumbents. In some jurisdictions, access to central bank settlement accounts is in principle open to non-bank payment and e-money institutions, but the process for obtaining such access remains excessively complex and burdensome in practice, which significantly reduces its effectiveness as a level-playing-field tool.

A core lesson of post-crisis regulation is that **supervision should track risk, not firm size**. Yet proportionality still largely follows balance-sheet thresholds rather than the nature of a firm's activities, so large digital and fee-based institutions are treated like universal banks despite generating minimal credit risk, no trading book and no material maturity transformation. The supervisory review and evaluation process (SREP) already provides institution-specific risk assessment and could be used more systematically to extend proportionality from institution size to activity risk, without redesigning the prudential framework.

<u>**EFA asks**</u>:

- To fully harness the benefits of a diversified banking ecosystem, policy should focus on **creating a genuine level playing field between incumbents and new entrants** and on making the Single Market work in practice by enabling firms to scale cross-border efficiently. This requires **proportionate, business-model-neutral regulation** that reflects different risk profiles, supports secure, standardised data-sharing through open finance to enable data-driven competition, and removes practical barriers that force artificial localisation or limit cross-border service provision.
- Deposit guarantee schemes benefit from strong public recognition and are often perceived as the default gold standard of protection. If regulated FinTechs and non-bank providers cannot participate in such schemes, despite being subject to alternative safeguarding requirements, incumbents may benefit from a familiarity advantage that is not always linked to better outcomes for consumers. The Commission should therefore consider how to ensure a more level playing field, **whether by widening access to protection mechanisms in a manner that is appropriate or by making alternative customer-protection frameworks far clearer and more visible to the public**.

A prudential framework: risk-sensitive and business-model neutral

Operational risk

For digital banks and licensed FinTechs operating in retail banking, **competitiveness is heavily influenced by how prudential capital requirements are calibrated**, and whether they accurately reflect the risk profile of the business model or introduce structural biases based on revenue composition. The operational risk capital framework being implemented under CRR3 is the clearest current example of such a structural bias.

Under the new Business Indicator Approach (BIA), interest income is effectively treated on a net basis, while fee income is treated on a gross basis. For firms whose primary revenue is merchant transaction fees, payment processing fees or subscription-based services, this creates capital requirements that are orders of magnitude higher than for a traditional lender generating the same economic value with the same underlying risk. The draft regulatory technical standards on the components of the business indicator (Articles 314 and 315 CRR3) crystallise this asymmetry by finalising a **taxonomy that leaves no room to accommodate fee-heavy business models**. The outcome is a framework that uses revenue composition as a proxy for risk, even though fee-based and interest-based income do not carry systematically different levels of operational risk.

This bias has several consequences. It **penalises innovation without evidence of higher risk and distorts business-model choices** by pushing firms away from interest-free, fee-based products towards traditional interest-charging models, despite no change in underlying risk. It entrenches incumbent advantages, reduces consumer choice and risks increasing borrowing costs, as consumers who currently access interest-free credit through fee-based products may face higher prices or reduced access. By overstating operational risk exposure for fee-based models, including through effective double-counting of assets that generate fee income, it also contradicts Basel's own objectives of creating simple, comparable and risk-aligned standards. Most importantly, it is not coherent with the EU's wider competitiveness agenda, including the Draghi report and the Savings and Investment

Union strategy, which both emphasise the need to support digital-first business models and enable European firms to scale.

The Communication explicitly acknowledges that the EU has, in some areas, gone beyond international standards and that this may have overlooked EU specificities, and announces measures to address level-playing-field concerns around the market-risk framework and output floor. EFA believes that the same logic should apply, at least equally, to operational risk capital.

EFA asks:

- To align prudential policy with the EU's competitiveness objectives, the framework should be both **risk-sensitive and business-model-neutral**. For operational risk capital in particular, this means revisiting the treatment of fee income and interest income under the BIA so that "same risk, same capital" applies regardless of revenue mix, and correcting double-counting effects that overstate the actual level of operational risk for fee-based models.

International level playing field

Design choices are compounded by timing and by differences in international implementation. **EU-headquartered digital banks and FinTechs face a specific and growing competitive disadvantage arising from the pace and rigidity of EU Basel III implementation** relative to other major jurisdictions. While the UK and US are expected to adopt broadly similar Basel III standards in substance, both have significantly delayed implementation, the UK has postponed key elements to 2028 and beyond, and the US "Basel Endgame" timeline remains uncertain. As a result, European firms are being asked to absorb capital increases of several multiples of their current operational risk requirement on a fixed timeline, while competitors headquartered outside the EU face no comparable near-term obligation.

The Commission's recent action on the Fundamental Review of the Trading Book (FRTB) illustrates that these concerns are recognised. In April 2026, the Commission introduced a temporary multiplier to neutralise the capital impact of FRTB for up to three years, explicitly because the US and UK are implementing their own versions of Basel III more slowly or at a lower calibration. The same logic applies, with at least equal force, to the operational risk framework. **If competitive neutrality justified intervention on FRTB, it should also justify adjusting the timing or calibration of operational risk capital requirements to prevent unjustified competitive disadvantage for EU-headquartered institutions.**

Similar considerations arise for the leverage ratio. Currently, the EU's 3% requirement includes central bank reserves in the exposure measure, unlike major jurisdictions such as the UK and US. Holding capital against risk-free assets unnecessarily restricts banks' lending capacity and limits financing available to the broader economy, again weakening the international level playing field. The Communication announces the removal of Pillar 2 leverage-ratio requirements as part of the Commission's simplification agenda. EFA believes that, in parallel, the treatment of central bank reserves in the leverage ratio should be reviewed in light of international practice and of the EU's broader competitiveness objectives.

EFA asks:

- To preserve a balanced international level playing field, **the prudential framework should include a standing flexibility mechanism allowing the Commission to adjust the timing or calibration of requirements where there is significant divergence in implementation across major jurisdictions**. This would help prevent periods of material competitive asymmetry, such as those arising from faster and stricter EU implementation of operational risk capital and the leverage ratio compared to other key markets.

Digitalisation

To sustain this shift and support new business models, customers must be able to trust digitally provided services and investment products. Transparency of costs is essential: users should see clearly the total costs they face, including product, platform, FX and execution components where relevant. Financial education and empowerment tools are equally important. Many FinTech platforms already embed educational content and budgeting or planning tools that help users understand financial concepts and manage money more effectively. By empowering individuals with knowledge and practical tools, these services can strengthen confidence in digital finance over time.

The regulatory framework and supervisory practice must also adapt to reflect digitalisation. Requirements must be calibrated to different business models and risk profiles rather than applied in a one-size-fits-all manner. This includes recognising the digital risk-management capabilities of digital-native institutions, which often invest heavily in automated, data-driven controls and DORA-compliant ICT resilience, and ensuring that prudential tools take into account actual loss experience rather than relying solely on formulaic revenue-based metrics. It is also important that AML/CFT onboarding requirements remain genuinely risk-based, so that lower-risk small businesses are not unintentionally excluded from regulated payment and banking services.

Digitalisation should also be treated as a competition and inclusion tool. FinTechs can reduce switching friction, improve accessibility, give customers real-time control over spending and fraud settings, and provide budgeting and savings tools at scale. Regulation should therefore support digital controls and data-driven risk management, rather than assuming branch-based or paper-based processes are inherently safer. This is consistent with the Communication's recognition that digitalisation and IT developments can boost competitiveness and that the regulatory framework must remain sufficiently agile to support more digitalised banking services while preserving cyber-resilience.

Finally, digitalisation reinforces the importance of effective cross-border operations and data-driven competition. In practice, this means **ensuring that passporting is not undermined by conflicting or duplicative national demands, and that secure, standardised data-sharing frameworks are enforced and expanded.** Inconsistent implementation of open banking and limited progress towards a comprehensive open finance framework through FIDA currently restrict the emergence of a true EU data economy. Strengthening enforcement of existing rules and raising ambition on open finance would support innovation, enhance competition and allow digital-first business models to contribute more fully to the EU's competitiveness objectives.

EFA asks:

- To harness digitalisation as a driver of competitiveness, policy should support secure, **standardised data-sharing and risk-based use of digital tools**. This implies stronger enforcement of existing open-banking obligations, progress on the financial data access framework, and supervisory practices that recognise digital-native risk-management capabilities and keep AML/CFT and consumer-protection rules genuinely risk-based and technology-neutral.

Conclusion

The EU regulatory framework for banking has, over the years, significantly improved resilience and consumer protection, but **important gaps remain in terms of effectiveness, proportionality and coherence**. In particular, fragmentation, national gold-plating and inconsistent supervisory practices still create barriers for cross-border activity, while elements of the prudential regime, most notably the operational risk framework under CRR3, introduce structural biases against fee-based, digital-first business models without clear evidence of higher risk. These features limit the ability of innovative providers to scale within the Single Market and are difficult to reconcile with the EU's stated competitiveness objectives.

EFA broadly supports the Commission's analysis and welcomes the intention to address fragmentation, adapt international standards to EU specificities and simplify the framework in the 2027 package. From a digital-first and cross-border perspective, this should mean fewer national divergences and instances of gold-plating that undermine effective passporting, and a prudential framework in which operational-risk and leverage-ratio requirements reflect actual risk and do not disadvantage fee-based business models. It should also mean stronger enforcement and data-sharing so that IBAN discrimination, remote onboarding and obstacles to open finance are dealt with in practice rather than remaining recurring Single Market frictions.

These targeted adjustments would help make the Single Market for banking work in practice, support diversity and innovation in financial services, and maintain high standards of financial stability and consumer protection. They would also ensure that the forthcoming legislative package delivers on the objectives set out in the Communication, the Savings and Investments Union Strategy and the wider EU competitiveness agenda.