



## A Single Market for banks – scale as driver for EU competitiveness and financing capacity

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Scale is a key driver of bank competitiveness. It allows banks to diversify risks across countries and sectors, allocate capital and liquidity more efficiently, and invest sustainably in technology, cybersecurity and innovation. A stronger European banking sector, at scale, means stronger European banks globally.

A key constraining factor for European banks is that, despite the creation of the Banking Union and a harmonised banking rulebook, they are **largely unable to realise the benefits of operating as integrated cross-border groups**. Fragmentation along national lines continues to limit scale, constrain lending capacity, and weaken international competitiveness.

Fragmentation stems from a mix of regulatory and non-regulatory barriers. For our sector, we believe that the main barrier is fragmentation of the prudential requirements governing the capital and liquidity rules applicable to banks.

A second key concern is that **the prudential framework should allow banks to support future demand for credit as growth picks up**. Although credit demand today is largely met, if Europe wants to meet its ambitions in innovation, energy transition, housing, and strategic autonomy, banks need to be able to support corporates and households making these investments when demand for credit increases. There are a number of prudential constraints standing in the way in the banks fulfilling this role.

We believe that banking regulation need to be a key component of the EU's "One Europe, One Market" strategy and that significant progress can be made by the end of 2027.

This paper sets out five pragmatic steps to improve the functioning of the Single Market for banking and increase EU banks' global competitiveness.

### **Explainer: Why efficient application of prudential requirements matters for EU banking integration**

Banks operate under strict prudential requirements, which are in principle determined at the EU level. Concretely, the EU's CRD and CRR laws have translated the global Basel agreement into EU law.

Despite this EU level rulebook, in today's framework, banks operating in multiple Member States remain subject to duplicative requirements at consolidated and individual entity level, combined with diverging supervisory and nationally determined macro-prudential practices. This fragmentation prevents banks from achieving scale, traps capital and liquidity locally, and undermines the Single Market.

In a genuinely integrated Single Market, cross-border banks would be able to benefit naturally from economies of scale and diversification. Today, this remains the exception rather than the rule.

### **1. Applying EU rules at highest consolidated company level only**

Whilst the EU has made remarkable progress in harmonising the EU Rulebook for banks since the financial crisis, its application is unnecessarily burdensome for cross-border groups. EU bank rules are typically applicable at all levels of a bank, both at the consolidated level of the headquarters, and separately in all other EU countries in which a bank has a subsidiary. We recommend a shift in mindset that would increasingly allow EU rules to be applied at the highest level of consolidation only. This would be very significant simplification that will stimulate cross-border integration. Within the Banking Union in particular, it will also lead to more efficient allocation of capital and liquidity across borders improving lending conditions.

In practice, the starting point of a new integration exercise along these lines should be the Banking Union. As per the recommendations of the ECB: "The Banking Union should be regarded for the purpose of financial regulation as a single European jurisdiction by all relevant competent and designated authorities."<sup>1</sup>

<sup>1</sup> ECB, [Eurosystem response to the EU Commission's targeted consultation on the competitiveness of the EU banking sector](#), April 2026, p.

A powerful first step would be to apply a waiver to individual level liquidity requirements within the Banking Union, which is already allowed under the CRR upon supervisory approval.

### **ING suggestion: activate cross-border liquidity subgroups**

An important powerful but underused tool already available within the current regulatory framework is the cross-border single liquidity subgroup (C-SLS), as defined in CRR Article 8.

This mechanism allows subsidiaries within a banking group to operate with a minimum Liquidity Coverage/Net Stable Funding Ratio of 75%, provided a number of safeguarding conditions are met. Despite being available since 2013 and supported by ECB guidance, the C-SLS regime has never been granted to a large cross-border banking group. ING believes this is a missed opportunity.

A well-designed C-SLS can enhance efficiency in business-as-usual conditions by reallocating surplus liquidity across entities. Moreover, it can provide resilience in crisis scenarios by enabling liquidity to be deployed where it is most needed. The ECB estimates that over €250bn of liquidity is trapped in subsidiaries of EU banking groups (See [“Andrea Enria, How can we make the most of an incomplete banking union?”](#)). For a bank like ING, a prudent estimate is that the use of liquidity waivers in the banking union would free up around EUR 15bn liquidity, and that number is expected to increase over time.

To unlock this liquidity, we recommend a more harmonised and transparent application process, prudent supervisory engagement, and a renewed political commitment to make better use of this existing tool.

## **2. We urgently need a reform of the macroprudential framework**

Contrasting the relatively successful harmonisation of the micro-prudential rulebook for banks, the macroprudential framework de facto remains a purely national competence, without meaningful enforcement of common guidance to national authorities. This leads to complex and overly conservative capital buffers, fragmentation in the single market and a competitive disadvantage vis-à-vis non-EU banks that operate under a better calibrated buffer framework.

A more risk-based, coherent, and transparent macroprudential framework would not only support the free flow of funds within banking groups but also strengthen financial stability by ensuring that means are deployed where they are most needed.

The O-SII buffer scoring framework should be harmonised, and it should be ensured that the banking union is taken into account when assessing size and cross-border exposures in the harmonised scoring. Optional indicators should be removed from the framework.

Ultimately, in the Banking Union, the ECB should get a stronger role in setting buffer requirements for the banks it supervises. This is because the ECB, as the bank supervisor, is the only authority that can have a holistic view of the adequate total requirements for an individual bank. Ideally, the ultimate decision to impose a macro-prudential measures should be taken away from national authorities, though they should be consulted to provide input into the risks posed in a national context. Creating a new authority that qualitatively discusses the overall level of capital in the banking sector will be insufficient to address divergences and overlaps.

### **ING suggestion: macroprudential reform**

We recommend to make the macroprudential framework fit for purpose by:

- Abolishing the Systemic Risk Buffer (SyRB) and RWA adjustment tools (including CRR art 458), which have become redundant and lead to overlaps;
- Harmonising the methodology for setting the Other Systemically Important Institutions (O-SII) and Countercyclical Capital Buffers. Turn this new approach into a real common rulebook applied in the same way across the Banking Union. The O-SII buffer should be capped so it does not exceed the G-SII buffer, at consolidated and at solo level.
- The ECB should be given a stronger decision-making role in macro-prudential policies in the Banking Union.

### 3. Output floor: competitiveness and integration at stake

The full implementation of the Basel III Output Floor, currently foreseen by 2033, will cause a severe competitiveness problem for EU banks, who are widely considered to be most impacted by this measure worldwide. This is confirmed by banks' public disclosures on future impact. For ING, based on Q3 2025 static balance sheet data, it is estimated that risk-weighted assets will increase by 11%, which represents a significant increase that will impact credit provision and pricing. Note that the US will not implement the output floor at all.

The overly punitive impact of the Basel output floor was recognised in the EU's CRR3. EU policy makers built in transitional arrangements to mitigate impact, with a focus on low-risk mortgages and loans to corporates, key areas of EU banks' balance sheets. This temporary regime should be made permanent.

Low-risk residential mortgages and investment grade unrated corporates (including SMEs) have historically demonstrated low loss rates and stable performance through economic cycles, which is not adequately reflected under the fully phased in Basel III output floor and standardised risk weights. A more risk sensitive treatment would better differentiate exposures based on their actual risk characteristics and long-term empirical evidence, while avoiding excessive capital inflation for low-risk portfolios. An output floor as currently designed will incentivise banks to take more risks.

Separately, EU implementation of the Basel output floor goes beyond international standards by applying the floor at both consolidated and individual entity level. For cross-border banking groups, this design traps capital at subsidiary level, even when the output floor is not binding at group level. Given the diversification benefits at consolidated level, the output floor is likely to be more constraining locally and distort internal capital allocation.

It is essential both these issues are addressed in a timely manner to ensure that the output floor does not become a structural obstacle to scale and competitiveness in the coming years.

#### **ING suggestion: recalibrate the output floor**

- Transitional arrangements for low-risk mortgages and unrated corporates should be made permanent.
- The output floor should be applied only at the highest level of consolidation, in line with the Basel agreement. The current EU requirement to also apply at subsidiary level should be removed.

### 4. International competitiveness in global corporate banking

The world rightly coordinated its regulatory response in the aftermath of the global financial crisis. The Basel Committee and the Financial Stability Board have since been valuable fora to foster a coherent framework. Despite the strong coordination, we observe that in some global markets, EU banks are disadvantaged due to high buffer requirements at home (including macroprudential requirements and supervisory add-ons).

Beyond the buffers themselves, we observe that EU banks are losing relevance in markets where they were historically globally competitive. Examples are specialised lending, a highly effective way of collateralised lending to large projects, commodities, and capital-intensive equipment such as ships and aircraft, as well as the financing of global trade. European banks have historically been strong in assessing risk through sophisticated modelling, which we believe is a strength that should be maintained.

In most cases, risk-based technical changes to the rulebook would help removing competitive disadvantages. These necessary technical changes are often linked to the recognition of collateral as a risk-mitigating technique and the consequences of lack of data on what happens when loans go sour, due to low defaults in certain portfolios.

#### ING suggestion: target recalibration of methodologies surrounding specific asset classes

- The methodologies governing RWA calculations for specialised lending and trade finance would benefit from targeted recalibration to better reflect risks. This is the case for both standardised approach and more sophisticated internal models.
- Risk-mitigating factors, in particularly the recognition of physical collateral and credit protection incl. credit insurance, should be better considered in the different approaches.
- Maintain the classification of commitments consistent with accounting standards and market practice for loan documentation, instead of introducing additional layers of complexity through ambiguous unconditional cancellability requirements.

### 5. European deposit insurance as an engine for integration

A European Deposit Insurance Scheme (EDIS) is essential to foster a genuine Single Market in banking. EDIS is the missing third pillar of Banking Union. Progress on EDIS is necessary to move beyond current national ring-fencing practices. Without Banking Union, the free flow of capital and liquidity across borders will remain constrained.

A single, fully mutualised, EDIS would provide governments, supervisors and depositors with the necessary confidence to trust any European bank with customer savings, thus boosting competition and improving the allocation of funding across Europe. It is crucial to creating the environment in which banks can really achieve cross-border scale in the Banking Union.

In contrast, the current patchwork of national Deposit Guarantee Schemes (DGSs) actively hinders cross-border banking activity because DGS funds are difficult to transfer to other DGSs in case of cross-border M&As. The national DGS system, linked to its role in bank crisis response, also keep in place the dreaded national “sovereign-bank doom loop”<sup>2</sup>, motivating national regulators to restrict cross-border capital and liquidity flows within banking groups.

#### ING suggestion: develop a real EDIS

- **Scope:** A fully fledged EDIS would replace the 21 national DGS in the banking union. A second-best solution, which would be very meaningful progress, would be to create an EDIS for a group of large banks (e.g. all banks directly supervised by the SSM).
- **Financing:** Transition from DGS to EDIS – all national DGSs in the EU have reached the statutory target levels (most, albeit not all, 0,8% of covered deposits as per the DGSD). Establishing an EDIS does not require additional resources from the banking sector at aggregated level. A mechanism through which the new EDIS can claim ex-ante contributions from existing DGSs commensurate with the risks transferred to the new EDIS and needs to take into account resolution strategy of the individual banks will be needed.
- **Role:** limiting EDIS coverage to large banks only would mean more limited role in resolution and insolvency for the EDIS, which could pave the way to a more limited role for EDIS focusing mainly on depositor payout. The national DGSs could then be designed to serve the needs of small banks and their clients in specific markets.

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<sup>2</sup> See e.g. [The “doom loop” and default incentives \(ECB, 2024\)](#)