Press release

Europe's banks need scale to compete: AFME outlines next steps to support bank consolidation

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The Association for Financial Markets in Europe (AFME) has today published a new report examining the remaining barriers to bank consolidation in Europe and identifying areas where further policy and regulatory reforms could support a more integrated and competitive European banking sector.

The report, *Lifting barriers to bank consolidation in Europe*, examines the economic rationale for further consolidation and identifies the policy reforms needed to support a more integrated, efficient and competitive European banking landscape. It reconfirms that, despite more than a decade of Banking Union, European banking remains overwhelmingly domestic, with limited cross-border lending, deposit-taking and customer servicing.

AFME highlights that scale has become increasingly important in global banking, particularly as banks face rising fixed costs from technology, cybersecurity, artificial intelligence and regulatory compliance. Without deeper integration and a more predictable M&A framework, European banks risk being constrained in their ability to innovate and finance businesses, households and strategic European priorities.

Caroline Liesegang, Managing Director and Head of Capital & Risk Management at AFME, said: "*Europe cannot achieve its competitiveness ambitions without a banking sector that can operate at the scale in the Single Market and globally. Today, too many barriers continue to prevent banks from consolidating across borders, from national political intervention and fragmented approval processes to ring-fenced capital and liquidity trapped within subsidiaries.*

"This is not about consolidation for its own sake. It is about enabling stronger, more efficient banks that can finance growth, support Europe's Savings and Investments Union, invest in innovation and compete globally. The policy environment is moving in the right direction, but ambition must now translate into delivery. Completing the Banking Union and removing unnecessary national and supervisory barriers should be a priority if Europe is serious about strengthening its competitiveness."

The report identifies three main structural features of the European banking market that strengthen the case for further consolidation:

- **The need to realise the benefits of the Single Market.** European banks remain overwhelmingly domestic, with limited cross-border lending, deposit-taking and customer servicing. Banking market fragmentation prevents firms from fully exploiting the scale of the European economy.
- **Reducing costs for clients by making use of a larger scale.** Technology, cybersecurity, AI investments and regulatory compliance increasingly favour institutions capable of spreading these costs across a broader customer base. Additionally, notwithstanding recent progress, Europe continues to maintain dense banking infrastructures and fragmented market structures that increase operating costs, compress profitability and dilute returns. Scale also allows access to a broader funding market that reduces funding costs and improves risk management.
- **Revenue synergies through broader customer access and product choice.** A larger scale allows banks to offer their costumers a wider range of products, services, and distribution channels. This can improve consumer choice, expand access to specialised financial services, and allow customers to benefit from products that may not have been commercially viable on a standalone basis. Scale is particularly important for capital markets activities, as many products require infrastructure, balance sheet capacity and specialised expertise to achieve commercial viability and compete effectively at a European scale.

AFME's report finds that there remains significant scope for consolidation without creating material competition concerns at European level. Market concentration across most EU Member States remains low to moderate, while concentration at Banking Union level is very low when measured by the Herfindahl-Hirschman Index. Cross-border deposits account for only 3.4% of euro area deposits while cross-border lending stands at 5.4% of total lending.

The report also identifies several barriers that continue to deter bank M&A in Europe, including national Member State interference, fragmented foreign direct investment screening regimes, inconsistent competition assessments, open-ended supervisory approval processes, uncertainty around capital requirements and the persistence of regulatory ring-fencing. AFME estimates that approximately **€225 billion of capital and €250 billion of liquidity remain trapped** within subsidiaries, weakening the business case for cross-border consolidation.

AFME welcomes recent efforts by European policymakers to strengthen banking competitiveness and support greater market integration. The report argues that building on this progress will require further action to complete the Banking Union, improve supervisory consistency, reduce regulatory fragmentation and remove remaining barriers to cross-border banking consolidation.

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Notes:

1. The Association for Financial Markets in Europe (AFME) is the voice of the leading banks in Europe's financial markets, providing expertise across a broad range of regulatory and capital markets issues. We represent over 150 leading global and European banks and other significant market players. Our members play a vital role in Europe's financial ecosystem, underwriting around 90% of European corporate and sovereign debt, and 85% of European listed equity capital issuances. Importantly, AFME members are market makers, providing liquidity, which is essential for ensuring financial markets can function efficiently. We also represent law firms and other associate members which advise market participants and support AFME's legal and regulatory initiatives. For more information please visit the AFME website: www.afme.eu

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