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It's the last chance for an EU finance union

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Deeds, not words. Despite the numerous reports (such as Draghi and Letta) and the clear momentum towards 'more union' for EU financial markets among policymakers, it seems that national reflexes haven't changed. The new Merz government in Germany continues to oppose the Unicredit takeover of Commerzbank. For political reasons, the Italian government would prefer the problematic MPS bank to take over Mediobanca or to stop BPM being taken over by Unicredit. The Spanish finance minister also opposes the Sabadell acquisition by BBVA for domestic reasons. In the meantime, the necessary moves towards consolidation and specialisation in Europe's financial markets isn't advancing.

Last year saw a flurry of reports calling for a true single finance market and the launch of a new game plan, the 'Savings and Investment Union' (SIU). In a nutshell, this plan aims to promote more savings in long-term investment products, combined with stronger EU-wide supervision, better investor protection and the promotion of EU-wide consolidation in asset management, trading and post-trading platforms. It should stimulate market development and create truly EU-wide pools of capital. Given its importance for Europe's competitiveness but also with the unfulfilled promises of the past in mind, this is essentially the last chance saloon.

Despite lots of EU harmonising legislation and single supervision for banks, financial integration hasn't advanced, according to ECB data (see Chart 9). The large divergence in prices and the supply of financial products remains firmly in the EU, meaning that financial institutions cannot exploit scale and scope economies. The costs for a retail investor over one year for an equity fund differs by a factor of three in the EU, according to ESMA, with the EU having four times more investment funds than the US. These discrepancies will need to be tackled before consumers start to invest in capital market products.

Consolidation in the banking sector has also stalled. Mergers and acquisitions lead to improved profitability for the merged entity, by enhancing the cost efficiency and liquidity of the targeted entity, and the capitalisation of the acquirer. Since the late 2000s financial crisis, deals have

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become much smaller, often targeting weaker entities, and they're much less cross-border in nature and they don't often push into new markets. With the SIU in mind, consolidation in the financial sector – to allow for scale, competition and specialisation at international level – is truly needed, and must be actively supported. In short, Europe needs deals that create scale and are underpinned by strong industrial and market logic.

Especially for asset management, in the context of the current plans, the EU's efforts could allow for actors to specialise by simplifying the regulatory regime. Today, there's no unified regulatory regime for asset management in the EU and large investment banks – which do not take deposits – need to follow the same rules as classic retail banks. Applying different rules to specialised financial services providers would strengthen their international position and at the same time facilitate the local consolidation needed to realise the SIU.

There's now a lot of talk about strengthening the euro's position because of the unpredictable impulses of the Trump administration and the US' fiscal position. The US, of course, has the big benefit of the dollar's dominant international role, which is used in more than 50% of transactions globally. This reduces financing costs for enterprises and consumers.

However, so long as the EU isn't pushing forward with integrating its financial markets, these opportunities don't exist in reality. Take payment systems, where most EU Member States rely on non-EU foreign payment providers for cross-border payments because local payment systems' interoperability isn't sufficient enough.

To make a true finance union happen, the European Commission should pursue an uncompromising stance with its enforcement and free competition mandates. And the Member States should stop paying lip service to the SIU, while at the same time working against the spirit of deeper financial integration.

Europe needs deeds, not words.

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