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European Commission  
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Via Electronic Mail: [john.berrigan@ec.europa.eu](mailto:john.berrigan@ec.europa.eu)

**Re: TARGETED CONSULTATION ON THE COMPETITIVENESS OF THE EU  
BANKING SECTOR**

Dear Mr. Berrigan,

On behalf of the World Council of Credit Unions (“WOCCU”), we appreciate the opportunity to contribute to this important consultation in the European Union. WOCCU is the apex international organization that advances financial inclusion through credit unions and financial cooperatives. Our mission is to promote more equitable and resilient communities through the unique model of member-owned, democratically controlled financial institutions that maximize benefits to its members.

Across Europe, credit unions, also known as savings and loan cooperatives and financial cooperatives, serve a vital role in the financial ecosystem. There are approximately 2,000 credit unions in Europe with more than EUR 34 billion in total assets with over 8 million members. WOCCU is the leading trade association for the international credit union movement. Worldwide, there are over 67,000 credit unions in over 100 countries with USD 3.8 trillion in total assets serving over 412 million physical person members.<sup>1</sup> The global economic crisis in 2007-2009 convincingly showed that credit cooperatives are the most crisis-resistant and sustainable financial institutions in the financial sector, primarily due to their specific form of ownership.

In short, credit unions and financial cooperatives are a vital link in the financial services ecosystem in Europe and globally and this is why we are particularly interested in the Commission’s consultation questions.

While we recognize that we are submitting our reply to the open consultation past the Commission’s deadline, we nonetheless urge the Commission to consider our views, particularly because we write from our unique **not-for-profit, member-owned model**, which provides a vital alternative to the traditional commercial banking landscape. As such, our response is limited to only seven questions posed in the Consultation:

**Question 1:**

How is the banking sector currently supporting economic growth in the EU, and to what extent (for example, by providing loans to households and businesses, supporting innovative sectors, and helping channel investments into capital markets (including for retail investors))? How could banks do more to

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<sup>1</sup> World Council of Credit Unions, 2024 Statistical Report (2025), available at [https://www.woccu.org/documents/2024\\_Statistical\\_Report\\_EN](https://www.woccu.org/documents/2024_Statistical_Report_EN)



boost productivity and economic growth, thereby supporting the priorities of the EU and accelerating the green, digital and social transitions? Please give concrete examples and evidence.

Credit unions are the backbone of local and regional economies. Unlike commercial banks, which prioritize shareholder returns or exit markets during downturns, credit unions are anchored in their communities by their common bond.

- **Inclusive Lending:** Credit cooperatives provide essential credit to households and to Micro, Small, and Medium Enterprises (MSMEs) that are often underserved by larger institutions. The credit union model focuses on financial inclusion, ensuring that borrowers with little or no credit history or low-income households have access to affordable credit rather than predatory alternatives.
- **Stability through Recessions:** Historically, credit unions maintain lending levels during economic contractions. Because they are funded by member deposits rather than volatile wholesale markets, they act as a counter-cyclical force that stabilizes local consumption.

### Accelerating Green, Digital, and Social Transitions

- **Green Transition:** Credit unions are uniquely positioned to finance retail green initiatives. This includes specialized low-interest loans for home energy retrofits, heat pumps, and electric vehicles—investments that are often too small for larger commercial or investment banks but crucial for meeting EU climate targets.
- **Digital Transition:** Credit unions worldwide are currently investing heavily in human-centric digitalization. Their priority is not just efficiency but more importantly, accessibility. For example, credit unions use AI to proactively identify members in financial distress before they miss a payment, ensuring a digital shift that does not leave the elderly or less tech-savvy behind.
- **Social Transition:** As member-owned cooperatives, credit union profits are returned to members via better rates or reinvested in local social projects. In short, credit unions are the social in ESG (Environmental, Social, and Governance).

**Concrete Example:** In several EU member states, credit unions have partnered with local governments to provide Social Innovation Loans to community-led startups that larger banks deemed too risky or too small to process. More specifically, the Irish credit union sector is a leader in measuring and delivering social value beyond simple financial returns:

- **Social Return on Investment (SROI):** Donore Credit Union was the first in Ireland to conduct an SROI study, revealing that every €1 invested generated approximately **€10 of social value**.
- **Broad Community Support:** In 2024 alone, 305 Irish credit unions collectively contributed nearly €8 million to community projects.
- **Voluntary Organizations:** Social Finance Ireland works with social lending organizations to part-finance loans for community and voluntary groups, particularly those serving children and persons with special needs in rural areas.

### Question 5:

To what extent does the EU economy benefit from a diversified banking sector? How would you further encourage the diversity of the EU banking sector landscape, with banks operating across different business models (universal, investment, savings, mortgage financing, cooperatives, digital banks, etc.)? Please elaborate whether and how banking sector diversity matters.



A diverse banking ecosystem is a resilient ecosystem whereas a monoculture of large universal banks creates systemic Too Big to Fail risks. Thus, a financial services mix that includes a strong credit union sector provides:

- **Systemic Stability:** Credit unions have different risk profiles and funding structures. If one segment of the market (e.g., investment banking) faces a shock, the cooperative and credit union sector remains a stable provider of liquidity to the real economy.
- **Proximity and Trust:** Diversity ensures that banking remains human scale. Credit unions offer a high-trust environment where decisions are made by people who live in the same community as the borrower, not by a distant algorithm in a capital city.

### Encouraging Diversity: The Need for Proportionality

The greatest threat to banking diversity is regulatory complexity. To encourage a diverse landscape, the EU must ensure against a "one-size-fits-all" approach:

- **Proportionality in Practice:** Regulations designed for global systemic banks (G-SIBs) are often crushing for small credit unions. We advocate for a proportionate regulatory framework that recognizes our lower risk profile and simpler business models but nevertheless provides a safe and effective regulatory framework.
- **Recognizing the Cooperative Difference:** Regulation should protect the unique governance of credit unions (one member, one vote) and acknowledge that the capital of credit unions—retained earnings—is high-quality and stable.

### The Uniqueness of the Credit Union Sector

Credit unions are not just "small banks." Rather, they are financial democracies because of:

- **User-Ownership:** Credit union members *are* credit union owners. This eliminates the conflict of interest between profit-seeking and customer service.
- **Societal Value:** By preventing financial deserts (areas where commercial banks have closed branches), credit unions maintain the social fabric of rural and marginalized urban areas.

### Question 8:

What are in your view the main risks faced by EU banks today?

While the banking sector faces geopolitical and macroeconomic volatility, the primary risk for credit unions is what we call regulatory saturation.

- **Proportionality Gap:** The "one-size-fits-all" regulatory approach remains the most significant operational risk. Credit unions operate with simple business models (local deposits to local loans) yet are often subject to the same reporting intensity as complex, cross-border investment banks.
- **Governance Integrity:** The unique one member, one vote governance is a risk-mitigant, as it prevents a profit-at-all-costs mentality that often leads to systemic instability. However, modern governance requirements (e.g., EBA suitability assessments) must recognize that credit union boards are often composed of dedicated member-volunteers, not career bankers.
- **Concentration Risk:** Because we serve specific communities, we are sensitive to local economic shocks. Strengthening the ability of credit unions to diversify locally without losing their common bond is essential.



## Question 27:

What are, in your view, the effects of digitalisation on the activities and business model of EU banks in the Single Market?

From the perspective of the credit union sector, digitalisation is not merely a technological shift but a fundamental transformation of the cooperative business model. As member-owned, community-based institutions, credit unions face a unique paradox: digitalisation offers the tools to deepen member engagement and operational efficiency, yet it introduces a "scale-bias" in regulatory compliance that can threaten the competitiveness of smaller, local institutions.

### 1. Transformation of the Cooperative Value Proposition

Digitalisation has shifted the credit union relationship-based model from physical proximity to **digital intimacy**.

- **Hyper-Personalization:** Advanced data analytics allow credit unions to offer tailored financial counseling and products, reinforcing their role as financial partners rather than mere service providers.
- **Accessibility vs. Local Presence:** While digital platforms extend credit union reach within the Single Market, the cost of maintaining high-quality mobile and online banking can divert capital away from community lending. For credit unions, the challenge is ensuring that digital-first does not become digital-only, which would alienate members who value the cooperative's local presence.

### 2. The Shift in Competitive Dynamics

Digitalisation has lowered the barriers to entry for non-bank actors (FinTechs and BigTechs), fundamentally altering the Single Market landscape.

- **Platform-Based Competition:** Credit unions increasingly find themselves competing with global platforms that do not carry the same prudential or social responsibilities.
- **Operational Resilience Costs:** For smaller institutions, the entry price for digital competitiveness is rising. Regulatory frameworks like DORA, while necessary, impose fixed costs that are proportionately much higher for a credit union than for a systemic bank.

### 3. The Critical Role of Proportionality

We welcome the Commission's recognition of the **proportionality principle** in recent regulations. This approach is essential to maintaining a diverse banking ecosystem in the EU.

- **DORA and CRR Examples:** The simplified ICT risk management frameworks for microenterprises and the reduced reporting burdens for "Small and Non-Complex Institutions" (SNCIs) under CRR are successful templates.
- **Necessary Evolution:** For digitalization to foster true competitiveness, proportionality must move beyond simplified reporting to proportional-by-design regulation. This means future rules should account for the lower risk profile and specific governance of cooperatives from the outset, rather than offering exemptions as an afterthought.

### 4. Impact on the Single Market and Financial Inclusion

Digitalisation poses a risk of financial fragmentation. While digital tools facilitate cross-border services, the digital divide risks leaving behind certain demographics.

- Credit unions act as a digital bridge, providing human interaction for members navigating a complex digital financial world.



- If regulatory compliance costs (driven by digital mandates) force consolidation of the credit union sector, the Single Market will lose its most effective vehicle for regional financial inclusion and social cohesion.

## Question 36:

The Draghi report argues that banks need scale to be competitive. Is market consolidation a good way forward to achieve scale in the banking industry? Which actions should be taken at EU level to facilitate EU banking groups wishing to operate cross-border to do so?

### 1. The Fallacy of Scale as the Sole Driver of Competitiveness

While the Draghi report emphasizes the need for scale to compete globally, we urge the Commission to distinguish between global systemic competitiveness and regional economic resilience. From a credit union perspective, scale is often a double-edged sword. While it can reduce per-unit ICT costs, excessive market consolidation risks creating a financial desert in local and rural economies.

- **Diversity is Strength:** A competitive banking sector is a diverse one. The presence of small, member-owned institutions ensures that credit remains available to SMEs and households that larger, consolidated banking groups might find unprofitable or too risky.
- **The Cooperative Advantage:** Credit unions operate on a not-for-profit, and for-service basis. Their competitiveness is not measured by market capitalization, but by their ability to provide stable, counter-cyclical lending. Forced consolidation to achieve scale would dilute this unique value proposition and reduce consumer choice in the Single Market.

### 2. Consolidation vs. Cooperation: The Network Alternative

Market consolidation (mergers and acquisitions) is not the only—or even the best—way to achieve the benefits of scale. The European credit union movement demonstrates that functional cooperation is a viable alternative.

- **Shared Service Centers:** By pooling resources for core banking systems, cybersecurity, and regulatory reporting (especially for frameworks like DORA), credit unions achieve scale without losing their local identity or member-centric governance.
- **Recommendation:** EU policy should facilitate and provide legal certainty for cooperative networks and shared-service arrangements, allowing smaller players to enjoy the economies of scale typically reserved for banking giants.

### 3. Protecting Proportionality in the Consolidation Debate

If the EU moves to facilitate banking group consolidation, it must ensure that the resulting regulatory framework does not level up the requirements for the remaining smaller institutions.

- **Risk-Based Supervision:** Actions taken to facilitate cross-border groups (such as liquidity waivers) should not be traded for stricter requirements on smaller, more local institutions.
- **Institutional Protection Schemes (IPS):** The EU should formally recognize and support IPS as a mechanism that provides the stability and scale of a large group while maintaining the independence and local focus of individual credit unions.

## Question 38:

To what extent would further strengthening the protection of depositors provide reassurance on the stability and effectiveness of the EU crisis management framework and its ability to shield EU taxpayer money and therefore support the competitiveness and integration of banking markets?



## 1. Depositor Protection as a Pillar of Local Confidence

From the credit union perspective, depositor protection is not just a technical backup—it is the bedrock of the trust-based cooperative model. Unlike commercial banks, where depositors are customers, credit union depositors are members **and** owners.

- **Stability through Member Trust:** Strengthening protection (e.g., through the recently adopted **CMDI reform package**) directly supports the competitiveness of smaller institutions by ensuring that a member's local choice is as safe as a global one.
- **Preventing Pro-Cyclical Runs:** In times of market stress, robust protection prevents flight to quality scenarios where deposits move from community institutions to systemic banks, which would otherwise lead to a dangerous concentration of capital and a reduction in local lending.

## 2. The CMDI Reform: A Practical Shield for Taxpayers

The conclusion of the CDMI legislative process earlier this year marks a significant step forward. We support the shift toward industry-funded safety nets over taxpayer bailouts.

- **Expanded Use of Deposit Guarantee Schemes (DGS):** By lowering the threshold for the Public Interest Assessment (PIA), the new framework allows resolution tools to be applied to smaller and medium-sized financial institutions. This ensures that these institutions can exit the market or be restructured using DGS funds rather than government intervention.
- **Tiered Depositor Preference:** We welcome the three-tier harmonized preference (Covered Deposits > Eligible Deposits of SMEs/Persons > Other Non-Preferred Deposits). This hierarchy provides clarity and ensures that the most vulnerable members of our cooperatives are shielded first, reducing the social and political pressure for state-funded bailouts.

## 3. EDIS and the Unique Role of Institutional Protection Schemes (IPS)

While a European Deposit Insurance Scheme (EDIS) aims to break the sovereign-bank nexus, its design must respect the diversity of the EU banking landscape.

- **Recognition of IPS:** It is important that the EDIS does not undermine the successful, self-funded protection models – Institutional Protection Schemes -- already functioning within the cooperative sector.
- **Risk-Based Contributions:** Further strengthening depositor protection must not lead to a one-size-fits-all fee structure. Contributions to any mutualized EU fund must reflect the lower risk profile of cooperatives, whether in a separate fund or contributions already made in a local protection scheme. Smaller institutions should not subsidize the riskier activities of large, cross-border universal banks.

## 4. Impact on Competitiveness and Integration

A harmonized level of protection across the Single Market supports competitiveness by leveling the playing field for funding.

- **Cost of Funding:** If depositors perceive they are equally safe in a community credit union as in a multinational bank, the "too-big-to-fail" funding advantage is diminished. This allows credit unions to compete on service quality and community impact rather than just perceived safety. However, this more level playing field will only be effective if regulators are required to consider the unique nature of credit unions and implement an appropriate deposit guarantee scheme for their size and risk profile.
- **Integration without Homogenization:** Effective crisis management allows for a more integrated market where institutions can fail in an orderly manner without systemic contagion. This exit path is essential for a dynamic market, provided it does not lead to forced consolidation that erases the local cooperative identity.



## Question 84:

Would you consider that the current bank regulatory framework is sufficiently proportionate for smaller banks?

Our view is that the current regulatory framework is not yet sufficiently proportionate because it does not account for the unique capital structure and service-over-profit mandate of the credit union sector. More specifically:

### 1. The Capital is a Buffer, not a Dividend Argument

Unlike most commercial banks, credit unions do not have external shareholders demanding high ROE (Return on Equity). This means they do not have the same incentives to engage in high-risk, high-yield activities to drive stock prices. Credit union capital is built almost exclusively through **retained earnings**.

- **The Proportionality Gap:** Current regulations often treat capital as a static number. However, the *quality* and *stability* of credit union capital—representing an entire community of depositors—should result in significantly lower prudential requirements. Credit unions are built for safety, yet they are often regulated as if they were built for speculation.

### 2. The Social "Profit" Reinvestment

In a credit union, what would be "profit" in a bank is returned to the member-community through lower interest rates, higher savings returns, and local social investment.

- **The Regulatory Penalty:** When high compliance costs (like the administrative overhead for DORA or complex ESG reporting) are imposed, they act as a direct tax on the credit union member. In a bank, these costs might reduce a wealthy shareholder's dividend; in a credit union, they directly reduce the financial support available to a local SME or a family buying their first home. The current framework inadvertently punishes social reinvestment.

### 3. Disproportionate Governance Burden

The framework often assumes a professionalized board model typical of multinational firms.

- **Governance Proportionality:** Many credit unions are governed by volunteer boards drawn from the membership. Rigid and extensive fit and proper requirements designed for Tier-1 banks are often poorly adapted to community leaders. Credit unions would benefit from a framework that recognizes the democratic oversight of their members as a powerful internal control, reducing the need for the same level of extensive external supervisory management required by profit-seeking entities.

### 4. Recommendation: The Subsidiarity of Regulation

We propose a **three-tier regulatory approach**:

1. **Tier 1:** Global Systemically Important Institutions (G-SIIs).
2. **Tier 2:** Large national commercial banks.
3. **Tier 3: The Community & Cooperative Tier.** For not-for-profit entities with simple business models. This tier should feature simplified reporting, reduced capital buffers (reflecting the stability of retained earnings), and governance standards that respect the volunteer/member-led nature of the cooperative movement.

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We applaud the Commission's drive for a more competitive banking sector. We caution, however, that it must not be conflated that ambition with a drive for a more consolidated one. True competitiveness is born from diversity, resilience, and inclusivity—traits that are fundamentally embedded in the credit union and



cooperative model. However, for credit unions to continue to thrive and support the EU's green, digital, and social transitions, the regulatory center of gravity must shift.

We call on the European Commission to adopt the following three strategic pivots:

- 1. Define Competitiveness Through Financial Health, Not Just Scale:**  
While scale can drive efficiency for global commercial and investment banks, proximity drives productivity for the millions of SMEs and households that form the backbone of the Single Market. We ask that the Commission recognize that a competitive Europe requires the high-trust, low-risk, not-for-profit credit union model to remain viable and vibrant.
- 2. Move from Proportionality as an Exception to Proportionality by Design:**  
Rather than retrofitting important regulations like DORA and FiDA with exemptions for smaller institutions, the EU should adopt a think small first legislative philosophy. Regulations should be built for the simple, member-owned business model and scaled *upward* for systemic risk, rather than designed for global giants and retrofitted *downward* onto community lenders.
- 3. Protect the Cooperative Social Buffer:**  
Regulation must not penalize the not-for-profit structure. The stability of retained earnings of credit unions and their service-over-profit mandate should be viewed as a competitive advantage for EU financial stability. Increasing the administrative and capital burden on credit unions does not level the playing field—it tilts it in favor of large-scale incumbents and unregulated BigTech firms, ultimately reducing choice and increasing costs for EU citizens.

We thank you for the opportunity to share our views. If you have any questions or would like to discuss any of our answers in more detail, please do not hesitate to contact me at [pandrews@woccu.org](mailto:pandrews@woccu.org)

Best regards,

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