

11th ECB Banking Supervision Market Contact Group (BSMCG) meeting

Tuesday, 15 September 2026, physical meeting

MEETING SUMMARY

Claudia Buch, Chair of the Supervisory Board, opened the eleventh meeting of the BSMCG and outlined the agenda. Ms Buch recalled that the exchanges of views with market participants are an essential component of the market intelligence activities conducted by ECB Banking Supervision to support its assessment of the main risks and vulnerabilities of the banking sector.

1. Outlook for the European banking sector – medium-to-longer term opportunities and risks

BSMCG members discussed the current state and future challenges for the European banking sector, balancing optimism about its strengths with caution about emerging risks. The sector benefits overall from improved asset quality and stronger profitability driven by higher interest rates, which offer a positive revenue outlook. However, concerns persist about geopolitical tensions, sovereign vulnerabilities, and political uncertainties. Geopolitical tensions and their influence on interest rates, energy security, and defence spending were also highlighted as key macroeconomic factors that could shape the sector's future stability and growth trajectory. Participants emphasized also the trust banks managed to build in recent years, viewing it as a critical asset that can serve as a competitive advantage, particularly in areas like cybersecurity and resilience.

Technological advancements, particularly in artificial intelligence (AI), were identified as both a significant opportunity and a potential risk for the sector. Participants noted that AI investment is becoming a major driver of growth, and as such has a potential to generate substantial wealth and transform banking operations. However, concerns were raised about the risks associated with disruptions in key AI players, which could spill over into financial markets, affecting banks and overall market sentiment. While there is optimism about AI's transformative potential, questions remain about whether Europe can compete with global leaders, particularly the U.S. and China, in scaling its AI capabilities. The rapid growth of AI hyperscalers' capital expenditure has led some participants to express concerns about the potential formation of a "bubble", the bursting of which could have severe implications for financial markets, affecting banks and overall market sentiment. The general consensus though was that AI generally represents a

long-term opportunity. Nonetheless, participants stressed the importance of robust governance and regulation to ensure responsible and sustainable adoption of AI technologies in banking.

Emerging risks, such as cybersecurity and climate-related transition risks, were another key focus. Participants emphasised the need for robust data protection to maintain customer trust, especially as cyberattacks grow more sophisticated. The interconnected nature of tail risks, such as the reliance on shared cybersecurity providers, was also flagged as an area of concern, with participants questioning whether existing insurance mechanisms are prepared to handle such correlated risks. Transition risks linked to climate change were also highlighted as more complex to model than physical risks, remaining often underpriced in financial models. The mismatch between the maturity of loan books and the materialisation of transition risks creates vulnerabilities that require greater attention.

Furthermore, demographic ageing, evolving customer behaviour and digitalisation are reshaping the competitive landscape for banks. In particular, ageing populations are expected to reshape consumption, savings, and investment dynamics, creating both challenges and opportunities for banks. Incumbent banks face growing competition from neobanks, particularly among younger consumers. To remain competitive, they can respond by fast-tracking their digital transformation efforts to defend profitability and market share. Some participants suggested that these pressures could lead to further consolidation in the sector.

The recent EU initiatives to enhance the banking sector's competitiveness were broadly welcomed, especially measures to enable cross-border liquidity flows. However, participants warned against focusing too heavily on short-term competitiveness at the expense of long-term strategic priorities, such as fostering cross-border banking scale. Participants highlighted in particular the need to address EU's reliance on external funding sources for strategic investments, particularly in areas such as energy, defence, and the green transition, and urged swift action to address this challenge.

2. Financial markets' vulnerabilities amid high valuations – how to ensure resilience in an uncertain environment?

Participants discussed ongoing developments in financial markets, focusing on valuations, emerging risks, and structural shifts. A key theme was the growing influence of AI and tech hyperscalers, with concerns about circular dependencies (e.g. through private credit exposures), supply chain risks, hidden leverage, and challenges in assessing the organic profitability of these firms. The significant role of hyperscalers in debt capital markets and their increasing integration with the financial sector was emphasised, raising questions about disclosure, risk concentration, and potential contagion effects, particularly for European banks as bond yields rise. In this context, participants pointed also towards the growing exposures among euro area households to US equity markets.

Members discussed further equity market valuations, which are at the highs in the US, though more restrained in Europe where the technology sector is a smaller part of the market. Some participants noted that rising equity valuations may be driven more by money supply than earnings growth, while others pointed to tightening credit spreads and the extraordinary resilience of financial markets. Questions arose about the sustainability of current valuations, also given changes in investor composition, which could lead to greater market volatility. Potential market correction could be amplified by increasing global leverage. Additionally, participants highlighted the divergence between financial and non-financial sectors, with financials improving credit quality at a faster pace.

Several participants pointed out that bank valuations remain resilient despite competition for capital and lingering vulnerabilities. Regulatory incentives, diversification strategies, and the potential for increased mergers and acquisitions were though still mentioned as areas for further development in this regard. Furthermore, the role of risk premiums was discussed, with some participants suggesting that recent changes reflect mostly increasing inflationary pressures rather than general heightened risk perceptions. While higher rates currently seem to be at a level that is supportive for banks' revenues, there is a tail risk of a stagflationary scenario, which then in turn could weigh on banks' profitability outlook.

3. Concluding remarks

Ms Buch concluded the meeting by thanking the members for their contribution and active participation in the discussions. The next meeting is planned to take place in February 2027.