

Deloitte Banking Alert

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Supervisory priorities for 2025-27 reflected in ECB Banking Supervision's medium-term strategy for the next three years.

The priorities are based on the key risks that supervised banks face in the current macro-financial and geopolitical environment and take into account the results of the supervisory and evaluation process (SREP) as well as the progress made compared to the priorities of previous years.

Over the past year, the European banking sector has demonstrated resilience in the face of an uncertain external environment and shown its capacity to continue supporting the economic recovery and European banks:

- are reporting strong capital and liquidity positions;
- asset quality has remained broadly resilient to the more challenging macro-financial environment;
- their profitability reached the highest levels recorded since the establishment of European banking supervision, in particular as a result of higher interest rates.

Given the persistently high geopolitical tensions and the associated uncertainty about the macroeconomic outlook, ECB recommend banks to remain cautious and vigilant, regularly assessing the implications that such events could have on their business, operations and risk profile. In this context, the priorities remain:

- addressing weaknesses in credit risk management frameworks, in particular with regard to the early identification of deterioration in asset quality and the implementation of prudent levels of provisioning.
- the enhancement of banks' operational resilience frameworks, in order to strengthen their ability to withstand any operational disruptions resulting from sudden events.
- strengthening digitalisation efforts and ensuring prudent management of risks arising from the adoption of new technologies.

Against this background, the supervisory priorities for 2025-27 focus on:

- banks' resilience to immediate macro-financial threats and severe geopolitical shocks (Priority 1);
- the importance of timely remediation of known material shortcomings (Priority 2);
- the need to tackle challenges stemming from digital transformation and new technologies (Priority 3).

Priority 1: Banks should strengthen their ability to withstand immediate macro-financial threats and severe geopolitical shocks

The main aspects regarding this priority are:

- The persistent uncertainty surrounding the macroeconomic outlook and the increasing intensity of geopolitical threats warrant heightened supervisory scrutiny of banks' ability to withstand any related shocks.
- Geopolitical risks can result in adverse macro-financial developments and impact the broader operating environment for banks.
- According to the ECB the vulnerabilities concerned are: (i) weaknesses in credit risk management frameworks and (ii) weaknesses in operational resilience frameworks in relation to IT outsourcing and IT security/cyber risks.
- The ECB recommended that Banks identify in a timely manner deteriorations in asset quality and translate them into prudent provisions and capital levels, comply with the legal requirements stemming from the Digital Operational Resilience Act (DORA) in terms of ICT risk management, incident reporting, digital operational resilience testing and third-party service providers.

Priority 2: Banks should remedy persistent material shortcomings in an effective and timely manner

The main aspects regarding this priority are:

- The progressive shift in focus from risk identification to risk remediation is an essential feature of the SSM-wide supervisory strategy.
- According to the ECB, the vulnerabilities concerned consist of: (i) weaknesses in business strategies and risk management with regard to climate and environmental risks, and (ii) weaknesses in the aggregation and reporting of risk data.
- The ECB recommends that banks fully comply with supervisory expectations regarding the management of R&E risks, as well as the requirements stemming from the new CRR3/CRD6 banking package, and address the identified weaknesses in a timely manner, as well as step up their efforts to address long-standing weaknesses in their RDARR frameworks.

Priority 3: Banks should strengthen their digitalisation strategies and tackle emerging challenges stemming from the use of new technologies

The main aspects regarding this priority are:

- Banks face many structural and longer-term trends, and digitalisation is one of them. The rapid advances observed in the area of technology – such as the emergence of generative artificial intelligence (AI) – and the strong increases seen in the deployment of such technology in banks call for a structured approach.
- The priority vulnerability lies in weaknesses in digital transformation strategies

- According to ECB banks should strengthen their digitalisation strategies and the related execution plans in order to properly mitigate the underlying risks, including risks stemming from the use of new/advanced technologies such as cloud services and AI.

Conclusions

In addition to the supervisory priorities that have been outlined for 2025-27, ECB Banking Supervision will continue to conduct other regular and ad hoc activities. It will focus on consolidating and addressing existing findings to ensure full compliance with supervisory and regulatory expectations.

For further questions regarding the aspects mentioned in this alert, please don't hesitate to contact us:



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For more information about Supervisory priorities 2025-27 of ECB Banking Supervision please follow the link below::
https://www.bankingsupervision.europa.eu/framework/priorities/html/ssm.supervisory_priorities202412~6f69ad032f.en.html