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The European Edge

How the region’s banks are competing through risk, compliance and trusted data

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Foreword

Banking has always been a business built on judgment: assessing risk, pricing credit and allocating capital. What has changed is the speed required. The quality of judgment still matters, but institutions that act faster often gain an advantage. They connect insight to action more quickly, apply decisions across functions with greater consistency. Research with 348 senior banking decision-makers confirms that this pressure is universal.

What is distinctive is European banking leaders are competing through sharper risk management and stronger compliance. They also treat the fight against fraud and financial crime as a priority in its own right.

Legacy systems and fragmented data slow decisions and weaken competitiveness. Across Europe, banks are responding with targeted investment in AI, data and analytics. The aim is to build an integrated, cross-functional view of risk while strengthening governance, explainability and human oversight in line with regulatory expectations.

The goal may be consistent across markets, but Europe is taking a distinct path to compete at pace.

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Five takeaways for European banking leaders

01
Europe is answering its pressures with sharpened risk and compliance

61% of European banks cite increased competition from new entrants, compared to 52% in the US and 52% in APAC. Europe is responding by strengthening risk management and compliance.

Half of European banks are enhancing risk management capabilities and 37% are deepening compliance, both above US and APAC levels. In a market reshaped by fintechs and non-bank lenders, control is the chosen way to compete.

02
Fraud and financial crime is the priority threat to contain

66% cite rising fraud and sanction enforcement as a challenge (versus 44% in the US and 54% in APAC); 60% of European risk professionals are focusing on fraud and financial-crime risk and 69% of European compliance professionals are focusing on financial-crime compliance.

Hybrid, sophisticated fraud sits at the top of the agenda - reducing it is central to better managing operational risk.

03
Legacy systems and fragmented data slow decisions – and competitiveness

51% of European banks struggle to plan and execute strategy amid volatility (versus 36% in the US and APAC); 42% cannot get an integrated, cross-risk view and 42% report decisions slowed by internal misalignment.

Risk management is seen as a growth driver, yet fragmented data and legacy infrastructure remains a key challenge, undermining their agility and competitiveness against new entrants they face.

04
AI in data and analytics is the route to an integrated view of risk

European banks lead the world on investing in AI for data analytics and insights (58%, against 46% in the US and 49% in APAC), with 32% targeting cross-functional risk integration across risk, finance and lending.

The region is focusing AI adoption across origination, credit and risk so that decisions can be made faster with greater confidence.

05
Governance, explainability and the human-in-the-loop are the price of scale

70% of compliance professionals at European banks are investing in regulatory compliance and 48% in compliance governance - the highest of any region. The reason is that AI only scales when it is transparent, explainable and supervised.

Europe's regulatory rigor makes explainability and an emphasis on human-in-the-loop as the precondition for deploying AI in regulated workflows - a discipline leaders treat as a strength.

SECTION 2

Europe competes through risk and compliance

The key forces reshaping banking in 2026 are not regional. Across every market, banks contend with the same structural shifts: faster, more agile entrants competing on speed and experience; customers who expect faster decisions; and a demanding risk and regulatory environment.

92% of senior decision-makers across US, European and APAC banks identify increased competition from new entrants as a challenge.

Almost 90% point to rising customer expectations.

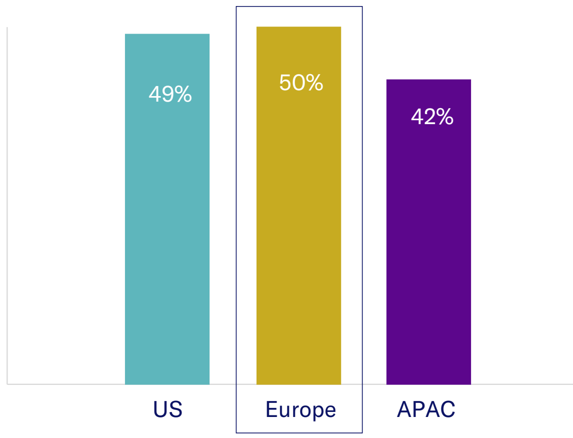
The shared conclusion of the research is that competitive advantage belongs to the institutions that can turn insight into action faster, with confidence and across functions.

What sets Europe apart is the nature of its answer. Rather than reaching first for new service delivery, Europe's banking leaders treat sharper risk management and stronger compliance as the primary way to compete: half of European banks (50%) are enhancing risk management capabilities and 37% are enhancing compliance which is higher than the US and APAC.

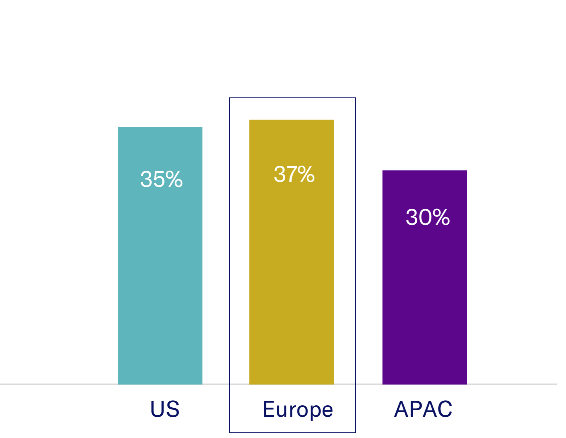
> "Risk should be seen as a partner to help you grow a business, not a function that stops business. When risk highlights which products to prioritize, using the right metrics, that actually helps you grow smarter. It's a mindset shift, but it pays off."
>
> *Treasurer, EU*

> "If you have a blunt tool approach to risk, then you are missing out on opportunities."
>
> *Senior Banking Executive, Switzerland*

My bank is enhancing risk management capabilities (%)



My bank is enhancing compliance capabilities (%)

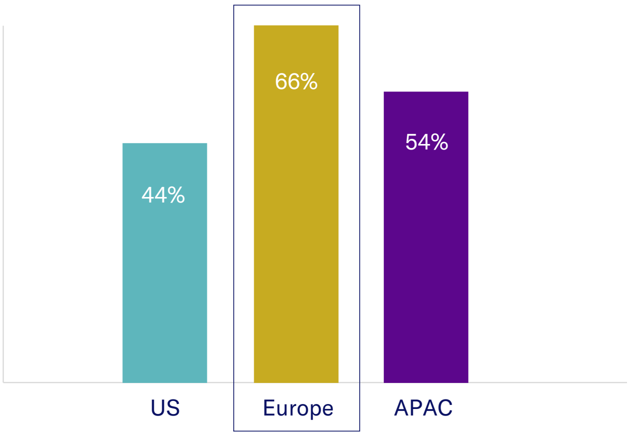


SECTION 3

Fighting financial crime, protecting the customer

Behind the case for sharper risk management sits a threat that has become both more urgent and more costly, and one which Europe feels more acutely than any other region. **Rising fraud and sanction enforcement is cited as a challenge by 66% of European banks, far above the 44% reported in the US and 54% in APAC.** The threat has advanced from individual bad actors to organized, technology-enabled schemes that blur the line between external and internal risk. Above all, it is a threat to customers, and protecting them from it is now a frontline responsibility for banks.

Rising fraud and sanction enforcement is a significant challenge for our bank (%)



When a fraudulent payment slips through, the cost is not only the loss itself but the liability that follows. Regulators expect banks to detect and prevent fraud, and where a customer has been a victim the responsibility increasingly lands on the institution that processed the transaction. This means that protecting the customer is a commercial and regulatory obligation, not just a duty of care.

> "Say a deepfake is being perpetrated on my client - regulators expect you to be vigilant against that. And if you process a fraudulent payment where the customer was a victim of fraud, there is an element of liability on you."
>
> *Chief Control Officer, UK*

> "Fraud and sanction enforcement and long-tail fraud is for us probably a key issue. We are seeing hybrid fraud - external and internal combined - as a significant challenge, and the fraud is becoming more sophisticated every day."
>
> *Chief Operating Officer, France*

Europe is investing accordingly: **60% of risk professionals at European banks are directing investment at fraud and financial crime (versus 51% in the US and 52% in APAC), and 69% of European compliance professionals are investing in financial-crime compliance (versus 56% in the US).**

However, protecting the customer should not come at the customer's expense. The same controls that catch bad actors can also generate false positives: legitimate customers and ordinary transactions wrongly flagged for review. Every false positive is a customer stopped in their tracks and an analyst pulled onto a dead end, which is a tax on efficiency and the customer experience that n banks fight hard to protect.

> "On the screening side we use it to identify fraud and cross-border payment issues. The reason we focus there is that we get a lot of false positives - most flags require a human to review and intervene, and the majority turn out negative. It's about reducing that noise."
>
> *Chief Financial Officer, UK*

The goal is more precise screening: to detect genuine crime, whilst clearing legitimate customers faster. Tools alone are not enough. Banks also need to redesign the workflows around them to improve efficiency and detection. That level of precision depends on a capability many European banks are still building: a single view of risk organisation-wide.

SECTION 4

Legacy systems and fragmented data are the brake

Risk management is seen as a growth driver by 66% of European banks. However, fragmented data and legacy infrastructure are slowing the decisions that growth depends on.

The constraint is structural: **42% of European banks say they cannot get an integrated, holistic view across different risk types; 43% point to inadequate surveillance and early-warning systems; and 42% report decisions slowed by internal misalignment**, higher than both the US and APAC. The picture that emerges is of insight that exists, but cannot yet converge.

> "Risk has the tools. Finance has the tools. Origination has their own. But there's no single place where it all converges - unless someone manually pulls it together."
>
> *Senior Risk Leader, EU*

The cost is paid twice over: in lost time and in lost business. Decisions stall not because the analysis is wrong, but because no one can see where the deal sits and the early conversation that would prevent a surprise has not taken place:

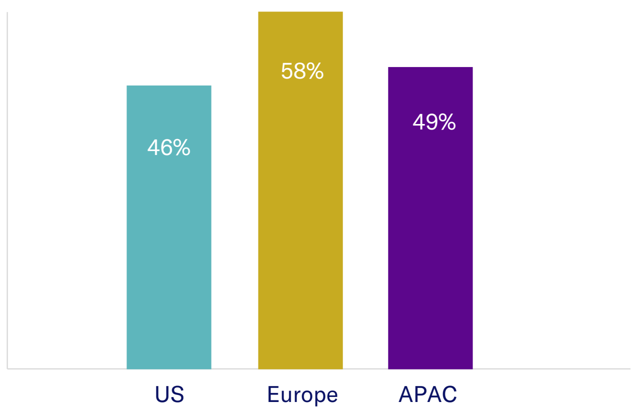
> "We've got great documentation - clear policies, risk appetite statements, credit manuals. But real alignment doesn't happen on paper, it happens in the room. We still get cases where the front office is surprised by a 'no' from risk because the early conversation didn't happen."
>
> *Chief Risk Officer, EU*

The diagnosis points to a single remedy.
If fragmented data is what slows the bank, then connecting that data intelligently is the lever that can facilitate speed and competitiveness.

AI in data and analytics is the answer

European banks know they need to respond, and they are concentrating their bet in one place. **European institutions lead the world** on **investing in AI for data analytics and insights, at 58% against 46% in the US and 49% in APAC**. They are investing in the engine room: turning fragmented data into a connected foundation, and building the integrated, cross-functional view of risk that today's systems cannot yet provide.

My bank is investing in AI for data analytics and insights (%)



The areas of investment reflect the changing nature of risk in the region due to increasing complexity, regulatory supervision and non-financial risk. **Almost half of risk professionals at European banks say they are directing AI and risk investment on operational risk (versus 37% in the US), 47% are focusing on stress testing and scenario modeling, and 43% are focusing on cross-functional risk integration across risk, finance and lending.**

Proportion of risk professionals investing in risk areas (%)

Where banks succeed in connecting the data and enhancing their analytical capabilities, the payoff is immediate.

> "We've cut our time to decision in half. Not because the model changed, but because we finally connected data from origination, credit and risk in one place. That visibility gave us the confidence to move faster."
>
> *VP, Funds Credit Risk, EU*

The same connected foundation sharpens the fight against financial crime, where AI can then be used to find the patterns manual review misses, and to reduce the false positives that clog investigation queues. European banks are not plugging into public models to do this, but building controlled, in-house capabilities:

> "You can't just open the data to the clouds and your common AI cannot help them, so you develop something fairly specific and controlled inside the financial institution's own database. Massive amounts of work are being done on this."
>
> *Partner, Lending, UK*

The instinct to maintain the intelligence in institution's own control means AI can only be deployed in Europe's regulated workflows if it can be governed and explained.

Governance, explainability and the human-in-the-loop

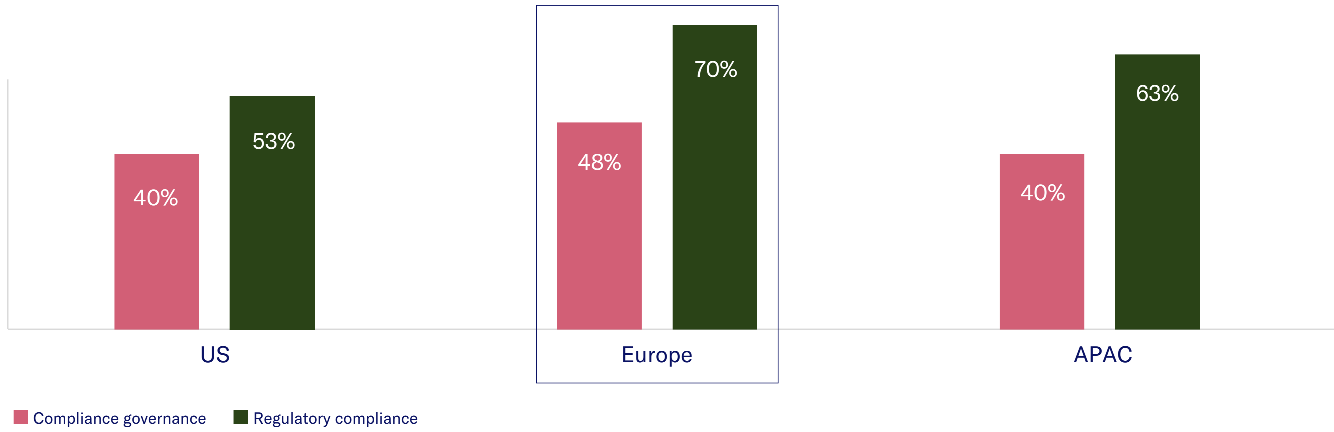
The benefits that AI promises only count if a regulator can trust it. This is compounded by the complex regulatory requirements that EU banks face. Basel IV, the Digital Operational Resilience Act (DORA) and the 2024 EU AI Act are all actively raising expectations on operational resilience, AI and governance.

That is why the region's compliance investment leads the world: **70% of compliance professionals at European banks are investing in regulatory compliance (versus 53% in the US and 63% in APAC) and 48% in compliance governance (versus 40% in both the US and in APAC)**. This investment is deliberately simultaneous with investment in AI.

The recurring requirement is explainability. A model that performs well but cannot account for itself is, in a regulated context, close to unusable, which is why leaders are explicit that transparency now matters as much as automation:

> "The AI model is powerful and it picks up things we miss. But if you can't walk someone through why it flagged a deal, then it's a hard sell to compliance and to the board. We need transparency as much as automation."
>
> *Head of Wholesale Credit Risk, EU*

Proportion of compliance professionals investing in compliance areas (%)



The result is an approach of gradual, governed augmentation rather than wholesale automation. Banks cannot simply drop a model into a regulated workflow and declare the problem solved:

> "You can't just drag and drop an AI model and say everything's fixed. No regulator is going to accept that without understanding, to the nth degree, that it's controlled, correct and complete. It's a gradual augmentation over time."
>
> *Senior Lending Advisor, UK*

AI may support validation and propose decisions - onboarding a customer, extending a credit line - but the final confirmation still rests with a person, because a decision cannot stand on an AI output alone. European risk leaders treat this not as a limitation, but as a framework within which trustworthy gains become possible.

SECTION 7

The response: AI for better risk and compliance

For most banks, the pull between ambition and caution remains unresolved: they want to harness AI, but they remain wary of the risk and the regulator. It is this tension which slows them down. Europe's answer is to point AI squarely at the problem and use it to make risk management and compliance faster, sharper and more scalable. That investment is already converting into tangible business outcomes.

The first is speed with confidence. By connecting data across origination, credit and risk, banks can compress decision times without loosening control which turns a slow, manual process into a source of competitive advantage.

> "We've cut our time to decision in half. Not because the model changed, but because we finally connected data from origination, credit and risk in one place. That visibility gave us the confidence to move faster."
> *VP, Funds Credit Risk, EU*

The second is precision in financial crime. AI is lifting detection while cutting the false positives that frustrate customers and tie up analysts, so that investigative effort lands where it matters and good customers are cleared faster.

> "We're investing in technology and AI for better workflow integration, especially for customer risk management - we use a provider to define patterns that reduce false positives. Better matches are the goal, because false-positive alerts are a big challenge."
> *Head of Compliance, Germany*

The third is a clearer, more forward-looking view of risk. With data connected and analytics applied across functions, banks can see the gaps in their models and the shifts in their markets sooner:

> "In the new world you will not only be faster, but more accurate and precise - and that means better steering of the business."
> *Head of Traded Risk, Germany*

Each of these is a return on the same investment: AI applied to risk and compliance, built on a foundation of trusted data and kept within a robust governance framework. Taken together, they compound into the outcome Europe is pursuing - the confidence to compete and move at pace.

SECTION 8

Methodology

This whitepaper draws on an online survey of 348 senior banking decision-makers spanning the United States (45%), Europe (33%) and Asia-Pacific (21%), supplemented by 20 in-depth executive interviews across the same regions and functions. Participants comprised finance (41%), compliance (22%), risk (19%) and lending (19%) functions, from regional banks to Tier 1 global institutions.

Nearly half of respondents came from Tier 1 banks (large global or systemically important institutions, with assets typically exceeding $500 billion), 40% from Tier 2 (mid-sized regional and national banks) and 12% from Tier 3 (smaller community banks and specialist institutions). Traditional banks accounted for 70% of respondents, with fintechs and neo-banks comprising the remainder.

The research was conducted in February and March 2026 by independent research consultancy **We Live Context** on behalf of Moody's, and is published in full in The intelligence edge: Banking's new decision advantage (Moody's, May 2026). This European edition draws on the European subset of that dataset and on interviews with senior leaders across UK, German and French institutions. All comparative statistics cited are drawn from that dataset.

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