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Are the European Commission's Plans on Financial Services What the EU Needs?

The Draghi report has underscored the need for an additional €800 billion in annual investments from 2025 to 2030 in order to maintain the EU's global competitiveness. This ambitious target represents about 5% of the EU's GDP, far surpassing the 2% of GDP investments mobilised under the Marshall Plan from 1948 to 1951. While questions may arise about whether enough viable business projects exist to absorb such a vast amount of capital, we will, for this analysis, take Draghi's estimate as a valid benchmark. Indeed, even if the targets were somewhat lower, the scale of resources required is so immense that achieving it without significant contributions from the financial sector is practically inconceivable.

Much of the media attention on the Draghi report has focused on the possibility of eurobonds; however, it is clear that most of the additional investment will need to come from the private sector. The fiscal space of many EU member states is already highly constrained: for instance, three of the four largest EU economies have public debt levels exceeding 100% of GDP, and future prospects show limited fiscal flexibility (Arnal, 2024). While eurobonds could deepen the Economic and Monetary Union, lower borrowing costs, significantly advance integration in Europe's capital markets and enhance private risksharing (Lannoo & Thomadakis, 2019), the introduction of eurobonds alone would not fundamentally alter the financing landscape for this large-scale investment challenge.

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In this context, revitalising the EU's financial sector takes on heightened importance. But are the European Commission's current plans for financial services aligned with the EU's needs? What direction might financial regulation take in the next five years? Will the banking sector become more integrated, and will capital markets advance significantly?

To address these questions, this article first reviews the current state of the EU's financial sector and then discusses the most likely actions the next European Commission will undertake, based on the mission letter from the European Commission President Ursula von der Leyen to Commissioner-designate for Financial Services and the Savings and Investments Union, Maria Luís Albuquerque. The paper concludes with an analysis of the mission letter's content and puts forward a series of policy recommendations aimed at fostering a resilient and competitive financial sector for the EU.

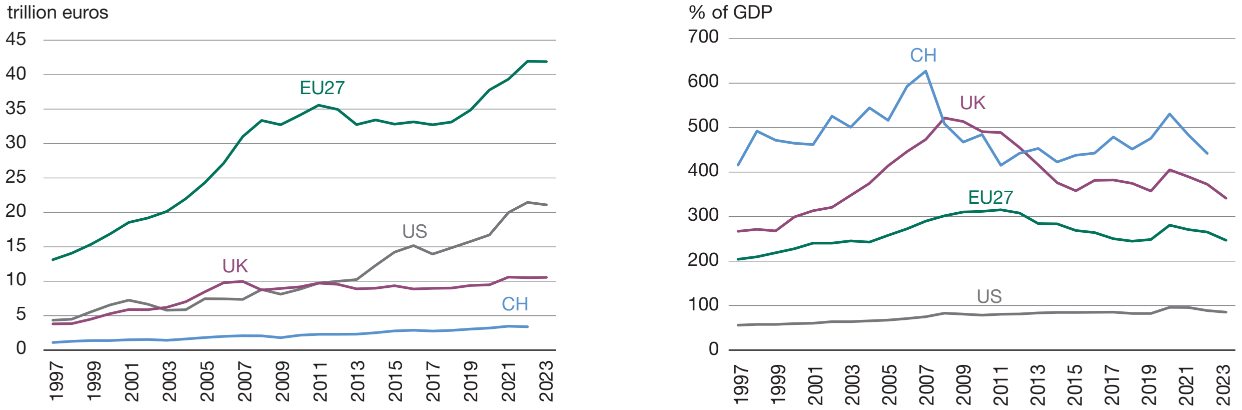
State of play of the EU's financial sector

The EU's financial sector is characterised by several key features, discussed in detail below: a large banking system in terms of assets, though lagging in market capitalisation; a sharp decline in public listings within the EU; a shrinking role in both equity and fixed income markets globally; limited venture capital availability and smaller, costlier investment funds, increasingly weighted towards US assets; a strong preference among European households for cash and deposits over investments; and a complex regulatory framework that creates compliance burdens and limits market dynamism.

Today, the EU hosts the world's largest banking system by assets (Thomadakis et al., 2024). Total bank assets in the EU27 reached approximately €41.9 trillion in 2023, or 247% of the region's GDP (see Figure 1). This contrasts sharply with the US, where total bank assets were valued at €21.2 trillion, or 85% of GDP.

However, despite this scale, EU banks exhibit weaker structural performance compared to their global peers, as evidenced by consistently lower stock market valuations. Before the global financial crisis, the long-term weighted average price-to-book (P/B) ratios of EU and US banks hovered around 2 and 2.4, respectively. Since the

Figure 1
Total assets of credit institutions, 1997-2023



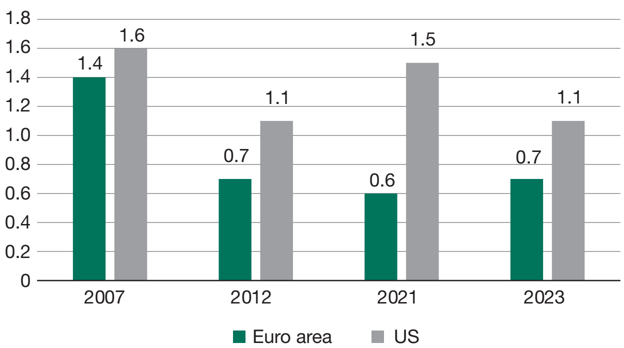
Sources: Author's calculations based on data from the Bank of England, ECB, Federal Deposit Insurance Corporation, FRED Economic Data, Swiss National Bank and Eurostat.

2007 crisis, P/B ratios of EU banks fell sharply and have consistently remained below 1 (see Figure 2).

The number of public listings in the EU has declined dramatically as a share of global initial public offerings (IPOs). Prior to the European Single Market, EU27 corporates accounted for roughly 5% of global IPOs, peaking at around 20% with the establishment of the Single Market in the 1990s. However, this share has since fallen back to around 7% due to low IPO activity and increased delistings, driven primarily by mergers and acquisitions (see Figure 3).

The lack of development in the EU's capital markets is stark when compared with the US (Lannoo et al., 2024). In 2008, the EU27 comprised 17% of global market capitalisation, compared with 35% for the US (see Figure 4). By 2023, the US share had grown to 43%, while the EU's share had fallen to just 11%. China's equity share rose from 5% in 2008 to 10% in 2023, highlighting the growing importance of non-European markets.

Figure 2
Price-to-book ratios in the euro area and the US, 2007-2023



Source: Authors' calculations based on data from ECB (2023), Adrian et al. (2024) and Oliver Wyman and European Banking Federation (2023).

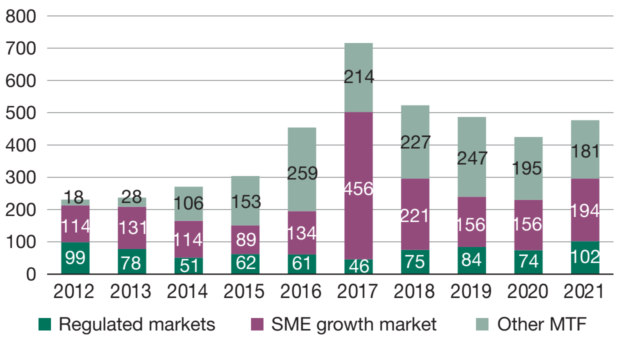
The EU's fixed income markets reflect a similar trend (see Figure 5). The US has maintained a stable global market share of around 40%, whereas the EU's share has dropped from 28% in 2008 to 18% in 2023. Meanwhile, China's share of global fixed-income markets grew from 3% to 16% over this period.

Risk capital investments are low in the EU, which impedes the development of start-ups and scale-ups (see Figure 6). Risk capital is particularly relevant for early-stage companies that do not yet have a sufficient track record to access more traditional financing sources, such as banking. Venture capital investment in the EU27 accounted for just 0.1% of GDP in 2023 (€8.4 billion), six times lower than that in the US (0.6% of GDP or €150 billion). Additionally, EU private equity investment was 0.3% of GDP (€50.7 billion), much lower than that of the US at 2.5% (€639 billion).

The funding escalator in both the EU and the US shows a relatively balanced landscape at the early stages, such as business angel investing, equity crowdfunding and early-stage venture capital. However, as companies progress along the funding escalator, significant disparities emerge. In later stages – particularly in late-stage venture capital and private equity – the gap widens considerably. For instance, the US boasts over seven times the number of large venture capital funds (i.e. those with assets exceeding €600 million) compared to the EU. Additionally, more than half of

Figure 3

Number of annual delistings in the EU classified by type of market



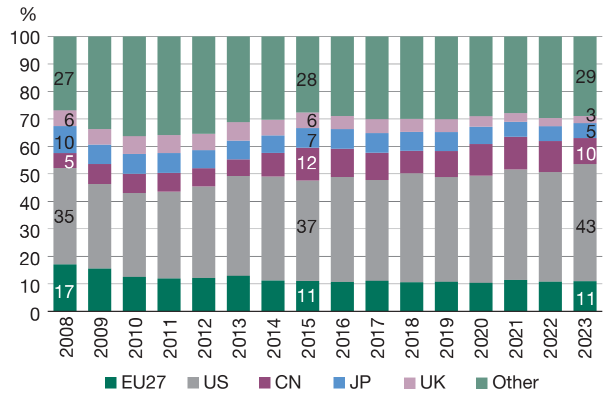
Note: MTF refers to a multilateral trading facility, a trading venue that serves as an alternative to a traditional exchange.

Source: Authors' calculations based on data from the Federation of European Securities Exchanges.

Figure 4

Global equity market capitalisation, 2008-2023

Share of total



Notes: The figure depicts the market capitalisation of listed domestic companies. The category "Other" includes AU, CA, HK and SG, as well as other developed and emerging markets.

Source: Authors' calculations based on data from the Securities Industry and Financial Markets Association.

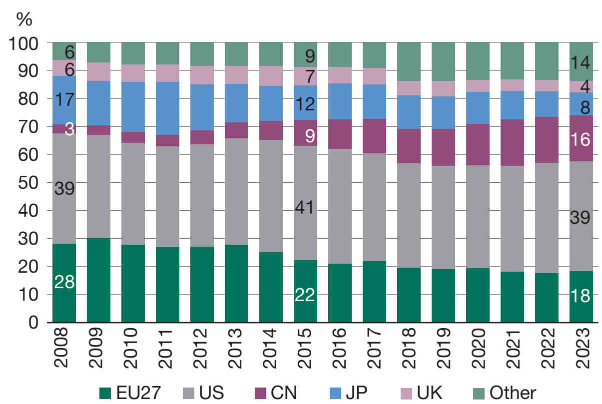
the financing for EU-based tech companies in later stages comes from non-EU sources. This reliance on external capital highlights a structural funding gap within the EU and underscores the limited availability of sizable funds that can support companies as they mature and scale up.

In terms of investment funds, a stark difference in scale and cost is evident between the EU and the US. The average size of an EU investment fund is less than one-sixth of its US counterpart, highlighting a substantial size disadvantage in Europe (see Figure 7, left-hand panel). Additionally, European funds come with a higher price tag – their average cost is approximately 0.4 percentage points above that of comparable US funds (ESMA, 2023;

Figure 5

Global fixed income market outstanding, 2008-2023

Share of total



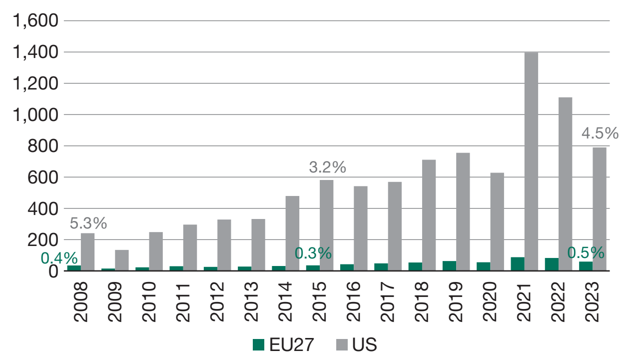
Note: The category "Other" includes AU, CA, HK and SG, as well as other developed and emerging markets.

Source: Authors' calculations based on data from the Bank for International Settlements.

Figure 6

Pre-IPO risk capital investments in the EU27 and the US, 2008-2023

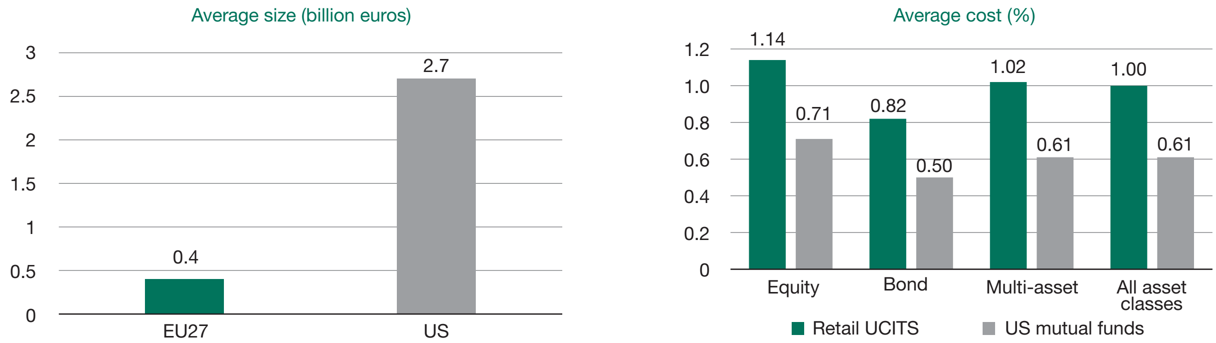
in billion euros and % of GDP



Note: IPO: initial public offering.

Sources: Authors' calculations based on data from the Cambridge Centre for Alternative Finance, University of New Hampshire – Center for Venture Research, European Business Angels Network, Eurostat, Florida Atlantic University – College of Business, FRED Economic Data, Invest Europe and PitchBook.

Figure 7
Average size and average cost of an investment fund in the EU and the US



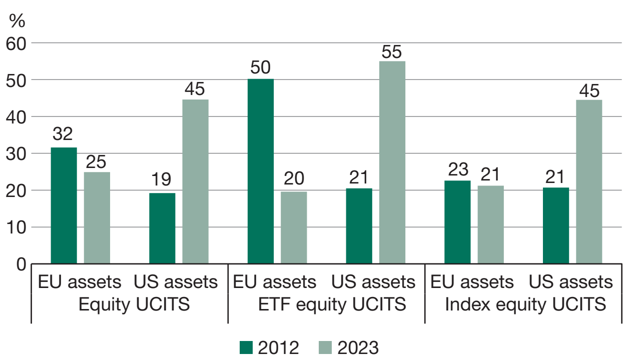
Note: UCITS: undertakings for collective investment in transferable securities.

Source: Noyer (2024).

Morningstar, 2024) (see Figure 7, right-hand panel). Such a discrepancy in cost structure suggests, among other things, that EU investors face the dual challenge of smaller fund sizes and higher expenses – factors that could adversely impact net returns and weaken the competitiveness of European funds on the global stage.

Furthermore, European funds display a significant tilt towards US assets (see Figure 8). From 2012 to 2023, equity UCITS (Undertakings for collective investment in transferable securities) funds reduced their allocation to European assets by 7 percentage points, while investment in US assets surged from 19% to 45%. This trend is even more pronounced in exchange-traded equity UCITS, highlighting the growing investor appetite for higher returns and greater liquidity found in US markets. Notably, this shift aligns with the expanding presence of US asset managers in the EU, whose market share reached 40% in 2023 (Noyer, 2024).

Figure 8
Share of assets in different types of equity UCITS, 2012 and 2023



Note: UCITS: Undertakings for collective investment in transferable securities. ETF: Exchange Traded Funds.

Source: Authors' calculations based on data from the European Fund and Asset Management Association (EFAMA, 2024).

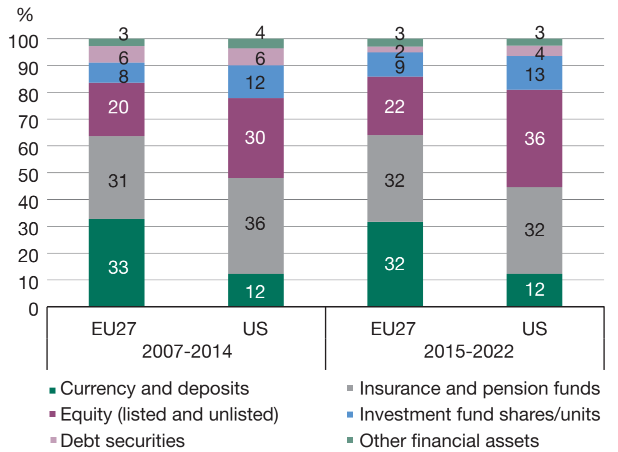
One of the key reasons why EU capital markets remain significantly smaller relative to the size of the economy, compared to their US counterparts, may lie in the allocation of financial assets. Although the asset allocation of European households has shifted more towards capital markets since the initiation of the Capital Markets Union (CMU) project, overall investment in capital markets remains considerably lower than in the US (see Figure 9). On average, European households allocate about 32% of their financial assets to cash and deposits, compared to just 12% for US households. In contrast, US households invest nearly 50% of their savings in equity and investment funds, while their European counterparts invest about 30%. This differing allocation of household financial assets helps explain, at least in part, why capital markets in the EU are less developed than in the US, thereby limiting alternative financing options for the European private sector.

In addition to the potential lack of appropriate measures to channel the EU's savings into mutual and pension funds, such as a pre-paid pension system, the preference of European households for cash and deposits – presumably perceived as simpler and safer – may also be linked to insufficient financial education. Improving financial literacy could encourage European households to diversify their investments across a broader range of financial products, which in turn could help develop capital markets further.

Figure 9

Household financial assets in the EU27 and the US, on average in 2007-2014 and 2015-2022

Share of total financial assets



Notes: The category "Other financial assets", for the EU includes other accounts receivable, financial derivatives and loans. For the US it includes other miscellaneous assets and loans.

Sources: Authors' calculations based on data from Eurostat and FRED Economic Data.

This challenging environment, marked by undervalued banks, decreasing public listings, underdeveloped capital markets, small and relatively expensive investment funds and lack of venture capital, is compounded by a complex regulatory framework. Under the EU's single rulebook approach, almost all foundational financial regulations – whether directives or regulations – are supported by secondary legislation, including level 2 implementing measures (e.g. delegated acts, implementing acts, regulatory and implementing technical standards) and level 3 guidelines and recommendations, alongside related Q&As.

For instance, in banking, the Capital Requirements Regulation and Directive (CRR and CRD) comprise over 300 implementing measures, including guidelines (see Table 1). In insurance, Solvency II includes over 120 implementing measures, with level 3 elements as well. Similarly, in capital markets, the revised Markets in Financial Instruments Directive framework (MiFID II) is estimated to contain over 10,000 pages of regulations and supporting documents. This intricate and voluminous regulatory landscape further adds to the challenges facing the EU financial sector, impeding growth and market development.

Given this diagnosis and the substantial additional investments the EU needs to make in the coming years, it is critical to closely examine the European Commission's plans to determine if the EU is on the right track. While the Letta and Draghi reports offer valuable insights into the future of the financial sector, the most relevant policy document is widely considered to be the draft letter addressed to the Commissioner-designate for Financial Services and the Savings and Investments Union, Maria Luís Albuquerque, as well as her public hearing before the European Parliament.

Table 1

Number of articles, level 2 and 3 measures under the core EU financial services acts

	Articles	Level 2 measures (RTS, ITS, delegated acts)	Level 3 measures (guidelines, opinions, Q&A)
CRR	519	53	282
CRD	165	13	88
Solvency II	311	63	57
MiFIR	54	41	64
MiFID	97	40	48
UCITS	119	22	74

Notes: CRD: Credit Requirements Directive, CRR: Capital Requirements Regulation, ITS: Implementing Technical Standards, MiFID: Markets in Financial Instruments Directive, RTS: Regulatory Technical Standards, UCITS: Undertakings for collective investment in transferable securities.

Source: Lannoo et al. (2024).

Von der Leyen's mission letter to the Commissioner for Financial Services and the Savings and Investments Union

On 17 September 2024, European Commission President Ursula von der Leyen sent a mission letter to Commissioner-designate Maria Luís Albuquerque. The mission letter, with its 15 priorities, outlines an ambitious agenda for the next five years, reflecting the urgency of addressing critical gaps in the EU's financial markets and broader economic challenges.

A central priority in the mission letter is the development of a European Savings and Investments Union, aimed at leveraging Europe's substantial private savings to support broader economic goals, particularly through banking and capital markets. Key to this initiative is addressing the fragmentation of capital markets by designing simpler and more cost-effective financial products at the EU level and exploring the feasibility of tax incentives. Additionally, the letter emphasises maximising the role of private and occupational pensions, channeling them into the economy while helping EU citizens prepare for retirement. A significant portion of her mandate also focuses on fostering innovation by ensuring that European start-ups can access the necessary financing while safeguarding financial stability.

The scaling-up of sustainable finance is another crucial goal, with a focus on developing and categorising financial products that support sustainability, ensuring that the EU remains a global leader in this area. Moreover, the mission letter calls for consolidation of investment funds and stock exchanges, removing barriers to efficient post-trading infrastructure. Strengthening EU-level financial supervision, progressing the banking union and addressing the long-standing issue of the European Deposit Insurance Scheme (EDIS) are also high on the agenda. The mission letter further highlights the need to address macro-prudential issues in non-bank financial institutions and continue international regulatory cooperation.

Lastly, the letter stresses the importance of digital finance, promoting the use of new technologies, improving access to financial data and increasing financial literacy across the EU. Albuquerque is also tasked with ensuring the protection of consumers and retail investors, the effective implementation of anti-money laundering regulations and the proper enforcement of EU sanctions.

Though the mission letter provides a broad framework for action, it misses a few relevant points, fosters fruitless political debates, lacks detail in particular relevant aspects and presents some measures as game-changers.

Assessing the mission letter

The mission letter to Commissioner-designate Maria Luís Albuquerque overlooks a critical aspect: the need to support the competitiveness of European financial institutions. Financial regulation in the EU has traditionally focused on protecting investors and safeguarding financial stability, with less emphasis on providing the necessary financing for Europe's economic competitiveness. However, without competitive financial institutions, Europe cannot remain economically competitive.

Another significant issue with the mission letter is its propensity to foster political debates rather than resolve critical financial issues. A prime example is the mandate to the Commissioner to identify a way forward for EDIS, the third pillar of the banking union. The Single Supervisory Mechanism (SSM) – the first pillar of the banking union – has been broadly successful, though it faces legal, supervisory, judicial and political obstacles (Lamandini & Thomadakis, 2024; Arnal, Russo & Thomadakis, 2024) and reforms are needed, particularly in shifting towards a risk-based approach (Thomadakis & Arnal, 2024). The Single Resolution Mechanism (SRM), however, has seen limited success, with only two resolution cases so far, and has suffered from national fragmentation in dealing with failing banks (Arnal, Lannoo & Lastra, 2024). The Commission's latest proposal on Crisis Management and Deposit Insurance (CMDI), aimed at expanding the scope of the SRM, is a step in the right direction but remains limited due to unresolved issues around state aid rules and public funds. Moreover, the common backstop to the Single Resolution Fund (SRF) remains blocked by Italy, signaling a lack of political will to advance the banking union (Arnal, 2023). Meanwhile, progress on EDIS has stagnated for nearly a decade, with strong opposition from Germany and Northern European states, compounded by the lack of appetite from other countries like France and Italy. It is perplexing that the mission letter continues to prioritise this pillar, disregarding the technical work already completed and the substantial improvements in the SRM. Furthermore, it fails to address the root issue of market fragmentation, such as the mistrust between member states, which undermines further integration in the banking sector.

The mission letter also lacks detail in some crucial areas. For example, while it mandates the Commissioner to tackle capital market fragmentation by promoting simple and low-cost saving and investment products, it fails to acknowledge the limitations of previous attempts in this domain. Since its launch in 2021, the pan-European personal pension product (PEPP) has only one provider in just four member states, highlighting significant policy design issues (e.g. product design, asset allocation, governance framework, supervisory oversight). The letter is silent on what lessons have been learned from these efforts and offers no insight into how these challenges will be addressed moving forward. Additionally, the reference to improving the EU supervisory system is vague, offering no clear indication of the direction the Commission intends to take.

Lastly, the mission letter presents some measures as game-changers, but this is overly optimistic. For instance, the proposed reform of the EU securitisation framework could certainly help address the EU's investment gap by freeing up banks' balance sheets. However, it should not be presented as a game-changer, as similar reforms have been part of previous CMU packages without significant progress (Thomadakis et al., 2022). Similarly, the reinforcement of the macroprudential framework for non-bank financial intermediaries (NBFIs) is a positive step in enhancing financial stability, but it is unlikely to drive the level of competitiveness that the EU requires to meet its ambitious economic goals.

The hearing of Commissioner-designate Maria Luís Albuquerque

Maria Luís Albuquerque's hearing before the European Parliament as Commissioner-designate on 6 November 2024 was an opportunity to dive deeper into her proposed priorities and approach to financial services and capital markets. Her responses demonstrated solid technical knowledge and highlighted her commitment to building a European Savings and Investments Union, advancing the CMU and banking union. However, her vision appeared overly cautious and her statements left much to be desired in terms of clarity and specificity, particularly on overcoming the political and structural hurdles that have previously hindered integration efforts.

On capital market fragmentation, Albuquerque acknowledged the need for simpler and more cost-effective financial products, but offered few concrete solutions or timelines. While it is clear that tax incentives and product simplification are key to reducing fragmentation, the lack of detail on how to overcome the entrenched regulatory barriers across member states was notable.

On banking reform, the Commissioner-designate emphasised support for the banking union and EDIS, though she admitted there are existing challenges in achieving consensus. While she spoke to the importance of a unified banking framework, her solutions appeared limited to reiterating ongoing discussions, without providing a concrete plan for addressing resistance from certain member states.

Regarding sustainable finance, she stressed the importance of maintaining the EU's leadership in this field but struggled to outline specific actions that would differentiate the EU from other regions such as the US or Asia. There was a general acknowledgment of the importance of transparency in sustainable finance products, but no clear roadmap was presented. This conservative approach drew concern from MEPs, who expected more detailed plans for enhancing the EU's leadership in sustainable finance amid global competition.

On digital finance and innovation, Albuquerque addressed the importance of fostering financial technologies while maintaining safeguards for stability and consumer protection. Yet, once more, she lacked clarity on how to balance regulatory standards with the flexibility required for emerging technologies.

Policy recommendations

To position Europe as a global leader, the new European Commission and Commissioner must focus on a streamlined, forward-looking regulatory approach. A critical step would be an improved framework for enforcement in the EU's complex regulatory landscape. The European Supervisory Authorities (ESAs) need resources to boost enforcement, prioritising rapid actions and effective oversight, while a shift back to principles-based legislation would avoid regulatory overreach that stifles innovation. Moving away from excessive reliance on Level 2 and 3 rules, which complicate compliance, would support a more balanced approach that combines clarity with flexibility.

Strengthening the competitiveness of EU financial institutions requires flexible, globally aligned regulations that avoid burdening EU banks with requirements beyond international standards. Implementing the proportionality principle more consistently for smaller banks can ensure stability without over-regulation. Additionally, harmonising crisis management frameworks across member states would create a fairer playing field in financial stability and deposit insurance, which remains politically contentious.

To attract capital, CMU policies should prioritise structural development over superficial integration. Strategies like expanding funded pension schemes and enabling cost-effective investment options (e.g. index funds) would drive long-term growth. Addressing fragmentation in market infrastructure and enhancing ESMA's supervisory role over CCPs and CSDs could further improve market efficiency and investor outcomes.

Finally, financial literacy is essential for a strong capital market. The EU must foster financial education across all life stages, starting in schools, to equip individuals with the knowledge to make informed investment choices. This foundation will contribute to a more integrated and resilient financial services market.

Conclusions

There is an urgent need for the European Union to reimagine its financial regulatory strategies and integration if it truly intends to tackle the formidable challenges of today's and tomorrow's markets. The proposed plans, while ambitious, require bold recalibration to promote competitiveness, reduce fragmentation, and unlock funding access across the region. A fundamental shift is needed: away from overly complex rules and towards a regulatory framework that empowers European financial institutions to compete globally. By embracing proportionality and simplifying regulations for both large and small banks, the EU can finally mobilise the private investment required to meet its targets. Without these changes, the EU risks an endless loop of political stagnation, trailing behind international competitors and failing to meet the economic resilience that its future demands.

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