Do EU policies balance risk, growth and competitiveness effectively?

The session explored how EU financial policies can strike the balance between risk mitigation, competitiveness and sustainable growth. While the panelists acknowledged that financial stability is essential, there was agreement that excessive risk aversion and regulatory complexity are constraining innovation and long term investment. The speakers called for a more proportionate, harmonised and principles based regulatory framework that encourages productive risk taking and retail participation. Strengthening the links between policymakers, regulators and industry, simplifying legislation, and drawing inspiration from national initiatives such as Sweden's retail savings model and Spain's market reforms will be key to reigniting Europe's competitiveness and deepening its capital markets.

1. Reconciling stability, risk and competitiveness

The panelists called for a redefinition of the relationship between stability and growth in Europe, combining a balanced approach to risk taking with a stronger focus on productive and sustainable investment.

1.1 Financial stability as the foundation of growth and competitiveness

A regulator observed that financial stability, growth and competitiveness are not opposing objectives. On the contrary, stability is a prerequisite for both. The EU benefits from a highly advanced financial regulatory framework, but supervisors must continue to underline the cost of financial crises at a time when the policy debate increasingly focuses on growth.

As part of the Savings and Investments Union (SIU) proposals, the Commission will issue recommendations on best practices in areas beyond its direct competence, such as taxation and pension systems. The focus should not rest solely on new directives or regulations: successful models already exist within the EU and can serve as examples. While there is scope to achieve more within the current framework, the question arises whether its overall complexity could be reduced.

1.2 Building a healthy financial system where trust, risk and innovation coexist

An industry representative argued that a certain degree of risk is necessary, provided that it does not endanger financial stability. Retail investors understand that capital market investment involves risk, and US investors, for instance, accept individual losses as a natural element of market participation without expecting public protection given the broader net benefits seen.

Trust, frequently mentioned throughout the conference, is also key for regulators: they must place greater confidence in the system itself. Post-crisis regulations have undoubtedly stabilised the EU financial sector, but the objective cannot be to eliminate every potential risk. The EU cannot and should not aspire to a zero-risk environment.

1.3 Distinguishing between investors and consumers

An official underlined that financial stability remains the cornerstone of national financial policies. While aspects of regulation can be adjusted, stability must remain the central value of the system.

He drew attention to the essential distinction between investors and consumers. Investors are, by definition, willing to take risks. Consumers, by contrast, need safe products and services. Financial regulation must reflect this difference by allowing a reasonable level of risk taking. Achieving this balance, however, is politically difficult: citizens demand both opportunities for risk and state protection when losses occur.

1.4 Rebalancing risk and growth in EU financial regulation

Regulation should reflect actual business risks and avoid deterring liquidity and innovation. Excessive regulatory expansion drains resources from productive growth, compelling firms to limit their size or relocate outside Europe.

An industry speaker stressed that while risk mitigation should support growth and investment, in practice it often hinders both. The Investment Firms Regulation (IFR), intended as a proportionate prudential regime, has instead discouraged firms from expanding by imposing heavier obligations beyond certain thresholds. Similarly, since the introduction of MiFID II, compliance and risk functions have grown exponentially without a corresponding increase in underlying risk. Excessive internal spending on compliance now crowds out investment in innovation. A genuinely risk-based and proportionate regulatory approach is required, alongside efforts to reduce fragmentation.

1.5 Reorienting Europe's financial priorities towards long term investment

Sustaining innovation, competitiveness and growth depend on strengthening pensions, retaining savings and reinforcing financial institutions. Europe's strength lies not in consumption but in production — and both sides of the economy must work in concert.

An industry representative stressed that investment risk should always be assessed in relation to the investment's time horizon. To channel savings into long-term assets, the European pension market must be further developed. Equally, a significant portion of European savings must be invested within the European economy thereby creating a virtuous circle: incentives attract capital to European firms, enabling them to invest in innovation and the green transition, thereby enhancing productivity and competitiveness. Higher expected returns then attract additional savings. This concept should underpin the proposed European financial label.

Finally, strong European financial institutions are indispensable. Supporting them is as crucial as financing defence. They play a key role in reinvesting savings locally. In this regard, the mandate of European supervisory authorities should include supporting the competitiveness of financial actors.

After decades focused on consumer protection, Europe must rebalance its priorities. The continent's strength will not come from having 450 million consumers, but from enabling 450 million producers.

2. Simplifying and harmonising the EU financial regulatory framework

Building on the debate about reconciling stability and competitiveness, the panelists discussed how to make the EU regulatory framework simpler, more coherent and proportionate.

2.1 Beyond reporting, a step towards competitiveness

A regulator acknowledged that the EU's regulatory framework has become highly complex — a consequence both of the post-crisis response and of the EU's intricate legislative process. Negotiations involving numerous stakeholders tend to be lengthy and often produce overly complicated outcomes that are difficult to implement.

There is, however, broad agreement among European institutions and national authorities on the need for an ambitious programme of simplification and burden reduction. Progress has been made through initiatives such as the Omnibus package, yet much remains to be done. Reporting is an area where immediate gains are possible: firms could substantially reduce the number of data points submitted. Nonetheless, narrowing the overall scope of entities required to report would be a mistake. Simplifying reporting requirements is only the first step; the deeper challenge lies in addressing the fundamentals of the framework — notably market structure and the investor journey. Achieving rapid and meaningful progress will require broad consensus among stakeholders.

An industry representative emphasised the need to reduce the burden on listed companies, particularly SMEs, noting that similar debates are underway in the US. Another speaker added that comparable reforms are already being pursued in Italy.

2.2 Accelerating change and simplification in EU financial regulation

2.2.1 Simplification as a driver of efficiency and retail participation

Progress in retail investment and reporting, notably through the Omnibus initiative, demonstrates that simpler rules can improve both transparency and competitiveness. A regulator underlined that the EU must accelerate its legislative process. Simplification has now become a key political objective, supported by a gradual change in mindset, even if implementation remains slow. Retail investment is one of the areas where tangible progress can be achieved. The Commission's Omnibus proposal linked to the Corporate Sustainability Reporting Directive (CSRD) has been a success and could serve as a model for further initiatives.

2.2.2 Prioritising and streamlining regulation across sectors

The speaker highlighted that more could be done to simplify capital buffer requirements. The current system — with different buffers in each member state — creates unnecessary complexity. A more streamlined structure with one microprudential, one macroprudential and one resolution buffer could simplify the system without reducing capital levels.

She also pointed out that the new Anti-Money Laundering Authority (AMLA) is preparing to start operations, with numerous Level 2 mandates. Without clear prioritisation, there is a risk of creating a multitude of secondary legislative texts that might later be withdrawn, wasting effort and resources.

2.3 Eliminating divergent interpretations

A single harmonised framework under the European Securities and Markets Authority (ESMA) would enhance consistency, fairness and market efficiency. Regulators should accept a balanced level of risk and avoid interventions that hinder market development and innovation.

An industry speaker stressed that eliminating inconsistencies in regulation is essential. A principles-based approach to regulation and supervision can only function if applied uniformly across the EU. Divergent national interpretations have many causes — some structural, others political — and require a formal governance process for resolution. Cooperation among national competent authorities (NCAs) should be strengthened, and ESMA could play a decisive role in arbitrating interpretative disputes. Firms must be able to rely on a single, coherent interpretation instead of facing today's uneven playing field.

2.4 A bottom up approach to simplification and legislative consistency

An official explained that Poland favours a bottom-up legislative process. Through a national deregulation mechanism, private companies can propose amendments to legislation — a process that has already produced around 20 parliamentary bills. At the European level, a similar approach could begin with improved interoperability and cooperation between market infrastructures.

He noted that discrepancies in legal definitions are a frequent source of fragmentation. Divergent applications of EU law often stem from inconsistent terminology across member states. Harmonising definitions would help ensure a more coherent implementation of EU legislation.

2.5 Incentivising cooperation

The official observed that the political process tends to emphasise safety over risk. During the previous Council Presidency, numerous legislative files were discussed with multiple stakeholders, including Eurofi, but national priorities often prevailed as member states sought to maximise perceived benefits for their citizens. This dynamic creates a strong bias towards risk aversion, at the expense of growth and competitiveness.

He underlined that the procedure for handling policy proposals is critical. One of the key questions is always when new legislation will actually be enacted — often two to three years later. If stakeholders were incentivised to accelerate decision-making, progress on even the most complex policy priorities could become achievable.

3. Strengthening European capital markets and retail participation

Building on this discussion, several speakers underlined that regulatory coherence and better coordination between national and European authorities are only part of the solution. Simplification and consistency must ultimately translate into more dynamic and accessible financial markets.

The next part of the session therefore examined how Europe can leverage these regulatory improvements to deepen its capital markets, enhance retail participation and support long-term competitiveness.

3.1 The European Competitiveness Lab and the 28th regime

A regulator explained that initiatives such as the European Competitiveness Lab aim to enhance the efficiency of the European legislative process. The current policymaking framework does not always produce the intended outcomes. When an initiative is supported by only a few member states, it can first be implemented outside the formal legislative process and later extended to others. Developing EU-level legislation becomes easier when a functioning product already exists.

Several member states have achieved positive results with national savings account schemes, which could serve as useful models. Similarly, the "28th regime" - promoted by the Spanish Minister of Finance - represents a promising avenue for experimentation and gradual convergence.

3.2 Simple products and fair access

A regulator highlighted that the retail investment market should remain a key focus for the European Commission. To maximise the benefits of the Retail Investment Strategy (RIS), investors need straightforward and accessible products, and processes must be simplified for both intermediaries and investors. Achieving this will require regulatory adjustments and product innovation.

An industry representative underlined the importance of developing retail savings account schemes, citing the Swedish model as a success story. Retail investors using this model understand the level of risk involved. Its simplicity and effectiveness make it a candidate for broader adoption across Europe.

The regulator added that the Commission should also focus on improving market infrastructure. Reviving liquidity on exchanges would make public markets more attractive for listings, enhancing transparency, equal access and price formation. Success depends on the effective interaction between public and private markets. The Commission is exploring interoperability initiatives but must remain cautious about intra-market fragmentation.

An industry speaker observed that MiFID II has inadvertently shifted trading activity away from transparent "lit" venues. Retail investors are increasingly channelled into products that are neither listed nor traded on open order books. This trend stems from a lack of fair access, with retail clients often directed towards structured products offered by private institutions rather than transparent market instruments.

3.3 Reforming the liability framework and fostering stronger public private collaboration

3.3.1 Reforming the liability framework

An industry representative noted that discussions on increasing retail participation have been ongoing for years, yet little progress has been made. Without reforming the liability framework, no real change will occur. A modernised framework would promote long-term investment and naturally lead to greater financial literacy. Education should be seen as a consequence of participation, not a prerequisite.

While regulation remains essential, it must be viewed strategically in a globally competitive market. For over a year, the policy debate has centred on simplification — a welcome but insufficient step. Europe's competitiveness ultimately depends on how it regulates its financial services sector.

3.3.2 Strengthening public–private collaboration

The speaker emphasised that global competition requires closer collaboration between European policymakers, regulators, public authorities and industry stakeholders to shape the future financial ecosystem. This ecosystem must be able to compete internationally. Achieving this demands that EU regulators integrate competitiveness and long-term growth into their mandates, alongside - but not subordinate to - consumer protection.

3.4 From risk aversion to action: lessons from Spain and the Nordics

An industry speaker argued that Europe has become excessively risk-averse and that its regulatory framework remains overly complex. In an increasingly competitive global financial environment, robustness and resilience are essential, but competitiveness must guide legislative priorities.

While the need for greater retail participation in equity markets is well understood, progress has been slow. Examples from Spain and the Nordic countries provide practical insights. Spanish regulators, despite operating within a strict regulatory regime, maintain close dialogue with market participants to strengthen and modernise their market infrastructure. Regulators must recognise firms' operational needs and the importance of competitive solutions.

Sweden's retail savings account system stands out as a particularly effective national initiative, driving the success of its SME market. Other member states could replicate this model to encourage wider retail participation. The key message, he concluded, is that Europe must move from debate to action.

The Chair concluded that, although numerous initiatives are underway at both national and EU level and consensus on simplification has been achieved, frustration persists over the slow pace of legislative progress. Firms are seeking clarity within an increasingly complex regulatory environment, while the broader societal culture of risk aversion continues to constrain growth. As he summarised, while public authorities rightly aim to protect citizens, the cumulative effect of excessive prudence is to entrench risk aversion across the European economy as a whole.

Overall, the discussion highlighted that achieving the right balance between stability, competitiveness and growth will require both regulatory pragmatism and political determination. Moving from a culture of risk aversion to one of responsible risk taking is essential for Europe to mobilise its savings, deepen its capital markets and strengthen its global economic position. The challenge now lies in translating these shared principles into concrete and coordinated policy action at both national and European levels.