

SUSTAINABLE FINANCE: WHAT PROSPECTS IN EUROPE?



FAUSTO PARENTE

Executive Director – European Insurance and Occupational Pensions Authority (EIOPA)

Sustainable finance: a past, current and future supervisory priority for EIOPA

Global economic losses stemming from natural catastrophes are rapidly increasing. The frequency and severity of natural catastrophes is accelerating, to a large extent fuelled by climate change. In 2024, natural catastrophes have cost the world an estimated €274 billion, with about €124 billion insured.

Europe is on the front line of climate change, experiencing fast warming and rising economic losses. Inaction carries immediate and escalating economic costs, threatening growth, financial stability, and economic resilience. The business models and solvency of (re)insurers and pension funds face growing threats from natural catastrophes. At the same time, Europe continued to face a persistent and widening insurance protection gap against natural catastrophes, undermining economic resilience and financial stability.

Stronger supervision of sustainability is key to unlock Europe's economic resilience.

The (re)insurance and occupational pensions sectors have an important role to play in supporting the transition to a more sustainable and resilient economy. As significant long-term institutional investors within the EU financial system, undertakings are particularly well positioned to channel long-term capital into sustainable projects. This long-term perspective also enables an alignment of incentives that can be used through their stewardship role, leveraging their influence to encourage companies to operate responsibly and support sustainable value creation.

Making use of the comprehensive data regularly collected from solo insurance undertakings and groups in the European Economic Area (EEA), EIOPA showed that in 2024 the share of green investments in the portfolios of EEA insurers has edged higher. EIOPA's analysis revealed that 4.5% of insurers' direct corporate bond and equity investments were aligned with the Taxonomy. When considering only non-financial exposures, the share of Taxonomy-aligned investments was 10.7%, up from 5.7% in 2022. An additional 20.5% of direct corporate bond and equity investments were eligible for the taxonomy (this percentage was 48.6% when considering only non-financial exposures).

Concerning the reform of the sustainable finance disclosure framework, EIOPA strongly supports the objectives of simplification and burden reduction, as also reflected in its public statement of April 2025 "Bolder, Simpler, Faster: EIOPA's views for better regulation and supervision".

However, simplification should not come at the expense of the availability of key sustainability information, needed by (re)insurers and occupational pension funds for a sound risk assessment and impact of sustainability risks. Taking into account the reduced scope of undertakings required to report on the ESRS, EIOPA considers that it will be important to ensure that (i) the reporting requirements under the ESRS are proportional to the size and nature of the companies in the scope of the ESRS, and (ii) to ensure proportionality and coherence of those requirements with the future voluntary standards for companies outside of the scope of the ESRS, including most insurance undertakings. For EIOPA it is also important that the ESRS ensure consistency with Solvency II as well as interoperability with international standards.

To conclude, natural catastrophe resilience is a source of economic strength and supports Europe's long term competitiveness. The EU and its economy are insufficiently protected against natural catastrophe risks. Enhanced resilience can minimise business disruptions and ensure business continuity, also across supply chains.

EIOPA's focus on sustainability risks is driven by a risk-based assessment of impacts to its prudential, consumer protection and financial stability mandates. EIOPA continues developing work aiming to address sustainability risks and the natural catastrophe insurance protection gaps, as an integral part of its supervisory, regulatory and risk monitoring activities.

Data gaps and modelling limitations still constrain effective assessment, monitoring and supervision of natural catastrophe risks. Improving the accessibility, consistency and quality of information is a crucial first step. Forward looking models are vital to improve the accuracy of risk assessments beyond reliance on historical information.

This work is driven by the threats that sustainability risks pose to consumers, to the undertakings operating in the sectors under EIOPA's supervision and financial stability. Left unchecked, climate-driven sustainability risks pose a substantial threat to our economy and way of living.



SIRPA PIETIKÄINEN

MEP, Committee on Economic and Monetary Affairs – European Parliament

Climate change is a financial system risk and finance must lead the response

Climate change is not only an environmental or political issue. It is an existential financial system risk. Financial markets have operated on the assumption that natural systems are stable, external and effectively free. That assumption no longer holds. Climate change is escalating, cumulative and systemic — and so are the financial risks associated with it.

Europe is already warming faster than the global average. Heat-waves, floods and droughts are damaging infrastructure, disrupting supply chains, driving up insurance losses and eroding asset values. These physical risks are increasing in frequency and severity.

Climate change is cumulative: emissions build up, impacts compound and spill over across sectors. For financial markets, this means heightened sovereign risk, volatility in commodity markets, disruptions to trade flows and new strategic dependencies around energy and critical raw materials.

Climate change is escalating, cumulative and systemic — and so are its financial risks.

Climate risk propagates through the system. Transitioning to a climate-compatible economy requires deep structural changes in energy, industry, mobility, agriculture and consumption patterns. Entire business models will be repriced. Some assets will lose value abruptly. Others will gain.

Finance must become a driver of the transition. Four pillars are essential: high-quality information and data, credible sustainable finance frameworks, forward-looking risk management and political advocacy.

Information and Data for Financial Decision-Making

Financial markets run on information. Risk pricing, capital allocation and portfolio construction depend on reliable and comparable data. Investors need decision-useful, forward-looking and science-based information on things such as scope 1-3 emissions across value chains, exposure to physical climate risks, alignment with science-based transition pathways as well as capital expenditure plans and transition strategies.

Without harmonised and standardised reporting, markets cannot distinguish between companies genuinely transitioning and those merely exposed to escalating risk. Fragmented or voluntary disclosures create opacity. Opacity leads to mispricing.

A science-based, comparable and comprehensive sustainability reporting framework — ideally accessible through a single data

access point — enables financial actors to integrate climate risk into valuations, credit assessments and portfolio strategy.

Sustainable Finance as Capital Reallocation

Sustainable finance is about correcting distorted price signals.

For too long, environmental externalities have not been reflected in financial decision-making. This has channelled capital toward carbon-intensive activities while underfunding resilient, resource-efficient solutions.

Clear taxonomies, credible transition plans and life-cycle-based reporting allow investors to assess whether an economic activity contributes to long-term sustainability or locks in future risk. They also provide a basis for stewardship, engagement and capital reallocation. The objective is not to create a parallel “green” market, but to integrate sustainability into mainstream financial analysis.

Capital markets are powerful accelerators. When investors demand credible transition pathways and price climate risk appropriately, cost of capital shifts.

Preparedness and Risk Management

Even with rapid mitigation, significant climate impacts are already locked in. Financial institutions must therefore treat climate change as both a transition and a physical risk.

This requires for example climate scenario analysis and stress testing, integration of climate risk into prudential supervision, reassessment of long-term asset valuations and a reconsideration of adaptation financing needs.

Currently, funding remains uneven. Mitigation receives significant attention, while adaptation — particularly infrastructure resilience — is underfinanced. From a financial stability perspective, this imbalance is problematic. Unmanaged physical risk will translate into insurance losses, credit defaults and sovereign strain.

The Wake-Up Call for Finance

The financial sector cannot afford to steer clear of political advocacy. Lobbying creates impact - so whoever is active, reaps the results.

If finance continues to optimise for short-term returns without integrating systemic environmental constraints, it will amplify instability. The financial system helped build the carbon-intensive economy. It now has the capacity — and responsibility — to finance its transformation.

Climate change is an existential risk. But it is also a financial system test. Whether we pass depends on how quickly finance aligns with long-term resilience rather than short-term gain.



SEBASTIAN THOMASIUS

Head of Unit, Financial Services Unit – Permanent Representation of the Federal Republic of Germany to the EU

Simplifying sustainable finance to unlock investment

Over the past years, the European Union has built one of the most comprehensive sustainable finance frameworks worldwide. The ambition of the European Green Deal was to reorient capital flows, improve transparency and support the transition towards a climate-neutral economy.

This architecture is now largely in place. The challenge for the coming years is therefore not to add new layers of regulation, but to make the existing framework work better for companies, investors and citizens.

Transparency requirements have created a common language and strengthened risk awareness. At the same time, complexity, overlaps and legal uncertainty can reduce effectiveness. Smaller institutions and companies in particular often face real implementation difficulties.

The reform debate is therefore both necessary and timely. Simplification does not mean deregulation. It means clearer, more coherent and more practical rules. Stability and predictability remain essential for long-term investment decisions.

From a German perspective, sustainable finance must now move into a phase of usability, proportionality and impact. Capital needs to be channeled into transformation and innovation while preserving Europe's competitiveness.

Germany has strongly supported recent simplification efforts, notably the first Omnibus initiative, which significantly reduces the number of companies subject to extensive reporting under EU sustainability legislation. This is an important step. It allows firms to focus resources on decarbonising business models, investing in technologies and managing risks rather than navigating administrative complexity.

But simplification should not stop there; it remains a central element of the broader competitiveness agenda. A meaningful reduction of data points under the European Sustainability Reporting Standards would be important. Extending the value-chain cap to banks and insurers could further improve proportionality across the system.

Moreover, the Council has invited the Commission to present a dedicated financial services simplification package. From our perspective, this should be the next logical step.

Let me be clear: this is not a departure from climate ambition. Rather the contrary: Excessive bureaucracy risks weakening acceptance and tying up resources that are needed for real economic change and successful decarbonisation.

We are convinced that competitiveness and the green transition are mutually reinforcing. Financially strong

and innovative companies are best placed to develop sustainable products, modernise production and succeed in global markets. At the same time, firms that invest early in sustainability will be more resilient in the long run.

A key premise of sustainable finance is that attractive opportunities will mobilise private capital. Where risk-return profiles are convincing, funding will follow. The task for policymakers is therefore to ensure that the regulatory framework supports market confidence and comparability.

In this context, the review of the Sustainable Finance Disclosure Regulation is particularly relevant and offers the opportunity to make the regime more user-friendly. Clearer product categories, better investor protection and more understandable requirements can strengthen trust and help investors – especially retail clients – identify credible sustainable investment options. At the same time, streamlining obligations, for example by reconsidering entity-level reporting, can reduce unnecessary burdens for market participants.

We now need to make sustainable finance simpler, usable and investable.

This approach is consistent with the coalition agreement of Germany's government: mobilising private capital, supporting innovation and enabling growth. Regulation should facilitate transition pathways, not obstruct them.

Despite a changing political environment, the economic case for decarbonisation remains strong. Investing in renewables and electrification fosters energy security and technological leadership. Building resilient value chains will determine Europe's future prosperity.

Public funding will continue to play an important role, but the bulk of financing needs to come from the private sector. We need deep and integrated capital markets. For that, our sustainable finance framework must function smoothly and deliver in practice.



RICHARD ANDREWS

Partner & UK Head of Sustainability – KPMG in the UK

HENNING DANKENBRING

Partner – KPMG

CATHY CHEN

Climate Finance Lead – KPMG International & Project Fellow – World Economic Forum

The challenges of attracting private climate finance at scale

There has been significant growth in sustainable finance over the last five years. Global sustainable bond issuance reached a record high of US\$ 1 trillion in 2024, with US\$ 5 trillion of cumulative issuance from 2019 to 2024¹. Climate finance aimed at mitigation and adaptation – including renewable energy, low-carbon transport and resilience – has accelerated. Climate-related investment grew at an average compound annual rate of 19% between 2018 and 2023, reaching an estimated US\$ 1.9 trillion in 2023². However, this progress remains insufficient for a 1.5°C pathway. Even under conservative assumptions, annual investment must rise to USD 6 trillion by 2028 to align with climate-compatible scenarios³.

There is a mismatch between available capital and where it's flowing. The world's 100 largest asset owners manage over US\$ 26 trillion, yet private climate finance flowing into emerging markets and developing economies (EMDEs) was only \$36 billion in 2023⁴. Although capital commitments from institutional investors rose sharply, from US\$ 2 million in 2022 to US\$ 1.6 billion in 2023, holding steady in 2024⁵, institutional capital was only 1% of private climate finance for EMDEs⁶. This is due to the mismatch between where institutional capital sits – liquid, listed public markets – and where climate projects are originated, in less liquid assets targeting private market transactions.

The key challenge is to align incentives and returns with the risk appetites of private investors.

While public markets are crucial for portfolio decarbonisation and stewardship, they are less effective at directly financing new low carbon assets. Financial innovations, such as the FCDO-backed MOBILIST programme, are emerging to address this disconnect by converting climate relevant assets and business models into public market compatible investment products.

Until now, the gap has been bridged largely through blended finance and government grants, whether bilateral donors or multilateral development banks. However, competing demands in the geopolitical arena mean there is a reduction in available finance from the public balance sheet in the US, EU and UK, and defunding of large multilateral organisations. With less public money to go around, risk appetite will become more constrained.

More needs to be done to ensure limited public funds effectively catalyse private finance. This includes looking at risk levels for public money so that it encourages, rather than crowds out, private investment.

Blended finance must be more innovative to unlock the risk equation. We are starting to see some good examples of capital stacking, but it has been slow to get going and needs to be looked at further in terms of the mix of instruments, incentives and guarantees.

Ease of access is another prerequisite for greater private sector participation. Investors highlight concerns around the time and complexity to access blended finance and other de-risking instruments. KPMG and the World Economic Forum (WEF) recently conducted a global study⁷ to identify practical strategies to help scale private investment. Nearly half of respondents had never participated in a blended finance transaction, many citing available de-risking tools as fragmented and complex. Streamlined due diligence, simplicity and contained transaction costs are required – blended finance is not a silver bullet, but one of many levers for mobilisation.

Philanthropic capital and some impact-related funds also play a critical role. A public-private-philanthropic lens should be applied, especially as foundations and endowments focusing on the climate agenda look to deploy their capital in ways beyond grants. However, to fund climate initiatives at the required scale, the major capital markets must play a greater role. This means sufficiently de-risking and incentivising climate finance opportunities to bring them within risk appetite.

Looking forward, the key challenge is to align incentives and returns with the risk appetites of private investors, making climate finance commercially viable. This may involve expanding grant schemes and tax incentives, especially to support new technologies, and investing in the skills, supply chains and raw materials needed to scale climate solutions.

Finally, the most critical obstacle is short-termism in investment decisions. Both public and private sectors must adopt longer timeframes for climate investments, moving beyond three-to-five-year government cycles, to ensure funding is available at appropriate tenors and to drive sustained impact.

1. *United Nations World Investment Report 2025*
2. *Climate Policy Initiative - Global Landscape of Climate Finance 2025*
3. *Climate Policy Initiative - Global Landscape of Climate Finance 2025*
4. *Climate Policy Initiative - Global Landscape of Climate Finance 2025*
5. *State of climate blended finance - Fall 2025 - Convergence*
6. *Climate Policy Initiative - Global Landscape of Climate Finance 2025*
7. *'From Risk to Reward: Unlocking Private Capital for Climate Growth,'*



MARINA MARECOS

Head of Sustainability Strategy EMEA -
Mizuho Financial Group, Inc. / Mizuho Bank, Ltd.

Europe's next chapter in sustainable finance

We are witnessing a transformation in the geopolitical landscape that is reshaping international alliances and development of domestic and foreign policies. These shifts are influencing global trade relationships, redefining political priorities and driving changes in investment strategies. Sustainability is no exception.

Energy transition investment needs are being recalibrated to consider climate policy, energy security, and global competitiveness. There is reinforced urgency to scale clean energy, diversify supply chains, and reduce exposure to volatile fossil-fuel markets.

This was clear in 2025 as global energy transition investment reached US\$2.3 trillion, up 8% from 2024¹. However, the International Energy Agency notes that annual investment in clean energy must double to US\$4.5 trillion by 2030 to achieve a Paris Agreement-aligned transition.

Sustainable finance is a critical enabler of the energy transition. This has traditionally encompassed green, social or sustainability-linked instruments, though recently, transition instruments have emerged, targeting activities not considered green, but crucial in decarbonising hard-to-abate sectors.

What major challenges is sustainable finance still facing? As 2030 fast approaches, we must implement solutions to accelerate investment into the energy transition.

Bankability

Sustainable projects may struggle with credit, pricing, or structural constraints (lack of offtake agreements, technology risk, etc), with risk-return profiles that are not yet always bankable. Frequent changes in policy further increase perceived risk and undermine investor confidence.

Incentives and risk sharing mechanisms such as blended finance and first-loss guarantees, constitute essential tools to overcome these challenges. The scope of incentives including tax incentives, production credits and contracts for difference should be broadened to include early stage, non-commercially viable sustainable technologies to reduce risk and capital costs whilst accelerating uptake.

Stable, multi-decade decarbonisation policies are essential to mitigate perceived risk. A good example is Japan's 7th Strategic Energy Plan created by the Ministry of Economy, Trade and Industry. This outlines how clean energy will increasingly contribute to the power mix until 2050, providing long-term demand signals and influencing companies' sustainability strategies. Banks, including

Mizuho, have identified that mobilising capital for emerging technologies underpinning the plan, such as energy storage, carbon capture and storage, and hydrogen, supports portfolio decarbonisation, risk management, and advances the real economy transition.

Transition finance

Whilst criteria for sustainable finance instruments are well established, transition finance criteria remain fragmented. The definition of 'transition' varies globally across regulatory and industry frameworks and financial institutions' internal frameworks. This undermines comparability, increases transaction costs and creates cross-jurisdiction complexity.

There is both a clear role and appetite for transition finance instruments, but global alignment is needed to enable maximum impact. Solutions may include interoperability matrices, and harmonisation of regulatory and sector-specific frameworks, which may build on recently published ICMA and LMA guidance. Banks and investors typically leverage such guidance and would likely mirror this harmonisation, ultimately providing consistency across all fronts to support investment into transition activities.

Data

Financial institutions need dynamic, decision-grade data to assess climate risk and transition progress. This is costly, fragmented, and difficult to obtain, so poor data quality continues to limit accurate portfolio alignment monitoring. Banks and investors welcome increased use of AI, IoT sensors, and geospatial analytics to produce real-time risk and performance data, whilst acknowledging that sustainability disclosures still have a role to play.

Global standardisation of disclosures will improve comparability and assist in identifying how sustainable financing can support hard-to-abate sector transitions, complemented by better collaboration and continued conversation through client engagement which is a must for financial institutions.

To date, we have made progress in creating an enabling environment; the energy transition is considered to be a key driver of supply chain resilience and competitiveness, and financing and disclosure frameworks have experienced harmonisation. Focus must now turn towards international and cross sector collaboration to further accelerate real economy decarbonisation.



JULIA SYMON

Head of Research and Advocacy – Finance Watch

Maintaining ambition and trust: from transparency to action

The adoption of the Paris Agreement in 2015 marked a turning point for EU financial policy. In the years that followed, the EU took important steps to direct financial flows towards the green transition.

The first legislative wave focused primarily on increasing the availability of clear, comparable information to inform market participants' investment choices. Progress was made on common definitions and disclosure obligations that required companies and financial institutions to explain how their activities aligned with environmental objectives. Asset managers could no longer label products as green without substantiating those claims. This reduced greenwashing, improved comparability and encouraged market participants to consider sustainability in their investment choices. It provided a necessary foundation.

However, fostering transparency alone has proved too narrow to reorient investments at the scale necessary to meet Paris objectives. The logic guiding policy choices over the last decade largely assumed that more knowledge of sustainable impacts would necessarily translate into investment decisions that supported the green transition. This logic misses the fundamental principle of the financial system operation - the logic of short-term risk and return optimisation.

However, the methods used to quantify risk are limited. Traditional risk management relies on short time horizons, most commonly one-year default probabilities, and fixed risk parameters derived from historical data. These tools do not account for the radical uncertainty of climate change. In other words, they map the known past onto an increasingly unpredictable future, and only in the near term. Without financial metrics that properly reflect long-term climate risk, there is an artificial incentive to choose underpriced, unsustainable investments. Financing keeps flowing into unsustainable activities and global GHG emissions continue to rise, setting the planet on track to reach 3 C by 2100, according to the UN Emissions Gap report.

Given still incomplete transparency, underappreciated risks and the world on track to significantly overshoot Paris targets, the logical response would be to continue refining disclosures, improve risk assessment and commit firms to green objectives. Instead, the EU has embarked on rapid and underinformed deletion of parts of the sustainable finance framework, weakening disclosure requirements without addressing the underlying incentives driving corporate and investment decisions.

The narrowing of the scope of the Corporate Sustainability Reporting Directive, after market participants had already begun aligning with its requirements, illustrates the direction

of travel. Information that firms had prepared to disclose will now reach the market through fragmented and duplicative requests, just as reporting practices were starting to stabilise. The Corporate Sustainability Due Diligence Directive faced similar cuts before implementation, including the removal of obligations for firms to translate information into action through credible transition plans. Undoing in one year what was developed over five has not resolved issues in the framework, it has introduced new problems.

The broader downsides of deregulation are significant. Regulatory uncertainty is particularly damaging for long-term contracts and investment decisions. The instability of legislation increases complexity, raises costs for businesses and weakens trust. It also undermines confidence in sustainability-labelled products and in the credibility of the framework itself.

Disclosure remains essential, but further measures must address incentives and price the risk.

Recognising that transition to sustainability is a prerequisite for economic resilience, the EU must return to the original ambition of the Action Plan on Sustainable Finance. Disclosure remains necessary, but it must be complemented by measures that address incentives and the way risk is priced. Clarifications on the development of credible transition plans can be reintroduced through the SFDR review, reinforcing the criteria for the transition product category proposed by the Commission. Incorporating forward-looking climate risk into prudential frameworks, including macroprudential buffers, would help properly price climate risks and protect financial stability from the consequences of accelerating climate change.

The challenge of the coming years is predictable. Climate change will intensify, and its impacts will increasingly be felt by the financial system. The financial sector is not a passive observer. The EU must reignite its ambition to steer capital flows in line with the objectives of the Paris Agreement.