Sustainable finance: what prospects in Europe?

Introduction

The Chair opened the session by recalling that, since 2018, the European Union has pursued an ambitious strategy to make sustainable finance a driver of the green transition through improved transparency, market incentives and climate-risk management. After rapid initial growth, momentum has slowed: green bond issuance has stabilised, and climate-related instruments remain at levels insufficient to meet the EU's climate targets. This slowdown reflects higher interest rates, economic uncertainty, the complexity of financing carbon-intensive transition projects and rising compliance costs linked to greenwashing concerns. The panel focused on the priorities the EU should pursue in order to improve the bankability of transition projects, strengthen public de-risking tools and simplify frameworks while preserving credibility and trust.

1. The development of sustainable finance in the EU

A representative of a national public authority described the EU's sustainable finance drive as a clear success now transitioning into a more complex phase. Between 2015 and 2021, green bond issuance scaled from almost nothing to around EUR 200 billion per year, driven by the Paris Agreement, the EU framework (Taxonomy Regulation, SFDR) and the EU's first-mover advantage, shifting sustainable finance from a niche to a mainstream segment in only six years.

Since 2021 the market has reached a plateau for three reasons: a higher-interest-rate environment making all investments - not only green ones - more selective; a shift away from the "low-hanging fruit" of renewables towards structurally more complex and riskier transition projects (steel, chemicals, buildings); and a more mature but also more complex framework, with a significant - and at times excessive - increase in data points. It remains unclear whether greater transparency is translating into higher capital flows, which is one reason why the national authorities welcomed the Commission's Omnibus Initiative. This is not stagnation but a normal transition from scaling up to delivering on transformation: the focus must now shift to usability and bankability, and the key question is how to make the framework work in practice and more user-friendly.

An expert agreed that the overall assessment is somewhat ambiguous: transparency requirements shed light on activities not previously labelled, and the long-term effects of that change need time to emerge. Success cannot be judged solely on the flows labelled "sustainable" as real corporate behaviours have also changed through the interplay of environmental, economic and sustainable-finance policies. The framework should be given time to mature, because sustainable development is in the interest of Europe's economy and citizens - a matter of economic security, long-term development and resilience. Embedding sustainability in corporate decision-making is also in firms' own interest: first movers tend to perform better financially by identifying sustainability-related risks and opportunities earlier.

Given persistent data gaps and methodological challenges around ESG risks, simple forward-looking methods should be developed to address risks that are certain to materialise, and behavioural incentives can help overcome short-termism. The expert expressed disappointment with the final Omnibus package, which achieved simplification at the expense of a significant reduction in transparency. Her priorities for the EU agenda are to refine disclosures around what is essential and material; encourage voluntary adoption of disclosure requirements by companies outside the CSRD scope; move beyond transparency to price climate-related risks; improve risk assessments by iterating on transition plans and climate scenario methodologies; and let the framework mature while providing legal certainty and strong enforcement. In concrete terms, this means widening ESRS adoption, reforming asset-management transparency through the long-awaited SFDR review (a welcome development), mainstreaming transition plans in business planning, risk management and supervision, adjusting the capital framework so climate risks are properly priced in, and improving forward-looking tools such as scenario analysis and stress testing.

A representative of the financial sector emphasised the importance of the figures behind these trends. The EU remains in a transition phase with a 2050 carbon-neutrality target, and the German government's recent commitment to cutting emissions by 65% by 2030 compared with 1990 levels will require substantial investments. The UN's World Investment Report estimates that developing countries need USD 4-5 trillion annually for a 1.5 degrees C pathway. KPMG and the World Economic Forum find that emerging markets and developing countries - responsible for around 74% of global emissions - need annual private finance to rise from some USD 36 billion to USD 700 billion. Yet supply is declining: the UN report records a 16% drop in renewable-energy investments in 2024. Research from the Potsdam Institute confirms that climate change is accelerating. A failure to invest in the transition will heighten physical risks and sharply increase future mitigation and adaptation needs.

2. The cost of materialisation of physical risk and the insurance protection gap

Noting that the estimated cost of physical-risk materialisation has doubled over 20 years to around USD 200 billion globally, the Chair turned to the insurance supervisor.

An insurance supervisor explained that the bulk of last year's USD 200 billion in losses were uninsured. With damages rising in both frequency and magnitude and a widening insurance protection gap, concerns for the wider economy are growing. Joint work with the ECB shows that insurance coverage enables faster recovery and a smaller drop in GDP after natural catastrophes: closing the gap is a societal need, on which EIOPA has been working for many years through discussion papers and advice. Without action, affordability will deteriorate and some areas could become entirely uninsurable. This points to a potential role for wider use of public-private partnerships, as some risks can be better covered if both sectors play their role. Insurers can also incentivise clients to adopt mitigation measures through better pricing, and greater coverage translates into wider societal risk mitigation; government intervention should serve as a last resort. EIOPA measures the gap via a public dashboard, seeks to enhance insurers' capacity to mitigate NatCat risks through incentives for physical adaptation, and has studied why individuals fail to take up coverage or misperceive their exposure.

An expert concurred and stressed the systemic dimension: insurers' role extends beyond direct coverage to products such as credit-risk insurance. Understanding systemic effects across the whole financial system is essential, as chain reactions will eventually unfold once risks materialise.

A representative of a national public authority emphasised that views on the protection gap differ. From a German perspective, creating a public insurance scheme to cover flood damage would not be appropriate: mitigation matters, but prevention must be the priority, and insurance coverage should not dilute incentives to prevent disasters.

A representative of the financial sector argued that the protection gap is itself a market signal inviting economic agents to reconsider their decisions. An uninsurable property will struggle to obtain a mortgage, which in turn suggests the purchase may be unsound - the same logic applies to other transitions now facing the European economy.

3. The impact of the new political environment

Amid rising anti-Green-Deal sentiment and a divergent US stance, the Chair asked whether the current political climate might undermine green investment globally and within the EU.

A representative of a national public authority acknowledged a real shift in the political climate but argued against reading it too negatively. The Paris Agreement still stands, and EU member states, other European countries and many other nations remain strongly committed to its objectives. From a corporate standpoint, three arguments support continued engagement: the economic logic is reinforced by energy-security and competitiveness concerns, so decarbonisation is no longer just climate policy; large EU firms have set long investment cycles that cannot easily be reversed; and institutional investor demand for long-term sustainable investments remains strong. The real risk is not a lack of ambition but a lack of usability and acceptance: the framework must remain workable, easily applicable and affordable in order to avoid any perception of overregulation.

The Chair recalled that these points echo earlier debates during the regulatory design phase, when it was already planned to revisit the arrangements during implementation.

An insurance supervisor confirmed that sustainability and climate risk remain integral priorities for EIOPA, EU policymakers and insurers. Attention to competitiveness, strategic autonomy and defence has grown, but this is not a strict dichotomy: solutions to the geopolitical challenges of the day must be intertwined with those to climate risk. The regulatory burden should be manageable and meaningful - past EU measures have sometimes lacked proportionality, but more recent initiatives enjoy broad support. Driven by data and evidence, EIOPA maintains its focus: sustainability risk is central to the sector's solvency and stability, and EIOPA is adapting the standard formula to recalibrate these risks. While views on public-private partnerships differ, there is broad agreement that prevention is pivotal; effective prevention requires public-private interplay to ease pressure on public finances, as seen recently in France, Spain and Italy.

4. Recommendations to foster sustainable finance

A representative of the financial sector emphasised that there are no substantive issues with the framework itself: new EU legislation is not needed from a sustainable-finance perspective, though regulatory simplification could usefully be revisited. Recent oil and gas price developments naturally reinforce incentives for renewable energy, and market forces will drive behavioural shifts without requiring framework changes. Mobilising private capital is crucial, particularly as public finance faces pressure from defence and other priorities: blended structures combining public and private money, potentially involving multilateral development banks, should be scaled up. Projects also need to be brought to market more transparently, as investors require better project-level information and market data to weigh incentives and risk-return profiles. The measures likely to make the biggest difference are greater use of innovative structures, better alignment with risk-return profiles, and better data.

The Chair noted that many market participants do not yet appear to integrate climate risks into asset valuations and invited the expert to respond.

An expert underlined that this challenge must be emphasised. Transparency helps, but the core mechanisms of financial markets – return on equity and short-term risk-return tools – struggle to capture the full spectrum of future risks because they are inherently short-term, whereas climate mitigation and adaptation unfold over decades. If proactive decisions are not taken today, the EU and the wider world are in effect choosing to lock in future consequences, and measures will remain insufficient unless this point is widely understood. Regulation is therefore crucial, as it aligns market incentives with what society recognises as an existential challenge. More and better data are needed, but the broad trajectory of the climate is already clear from science and must be acted upon.

A deeper issue is that the baseline models used for climate analysis often assume no climate change, treating change itself as a hypothetical scenario. That baseline is incorrect and needs fundamental reassessment. Modelling climate risk is not as straightforward as modelling credit or market risk and is further complicated by increasingly frequent "black swan" events. Addressing these issues is ultimately a political choice: today's decisions lock in future risks that may materialise in one, five or ten years – or much sooner.

EU decision-makers' continued optimism and commitment to the Paris Agreement is welcome. The transition will bring business opportunities but also fewer quick wins: major economic transformations will force firms to change, scale down or transform, entire sectors will have to disappear, and people will bear the brunt. Tackling this collectively requires financial regulation, broader policy and social components. The EU should seize this moment to reassert itself internationally and avoid being drawn into a race to the bottom. It is easy to be pressured by the United States through the levers of tariffs, NATO and defence, but Europe must hold its own agenda – a decisive moment for European sovereignty. Companies and individuals alike will benefit and gain competitive advantage if Europe preserves legal certainty and provides a stable, business-friendly political environment rather than being repeatedly destabilised by external priorities.