



European Bank Competitiveness

Enabling banks to play a greater role financing European
growth

Key insights from the report

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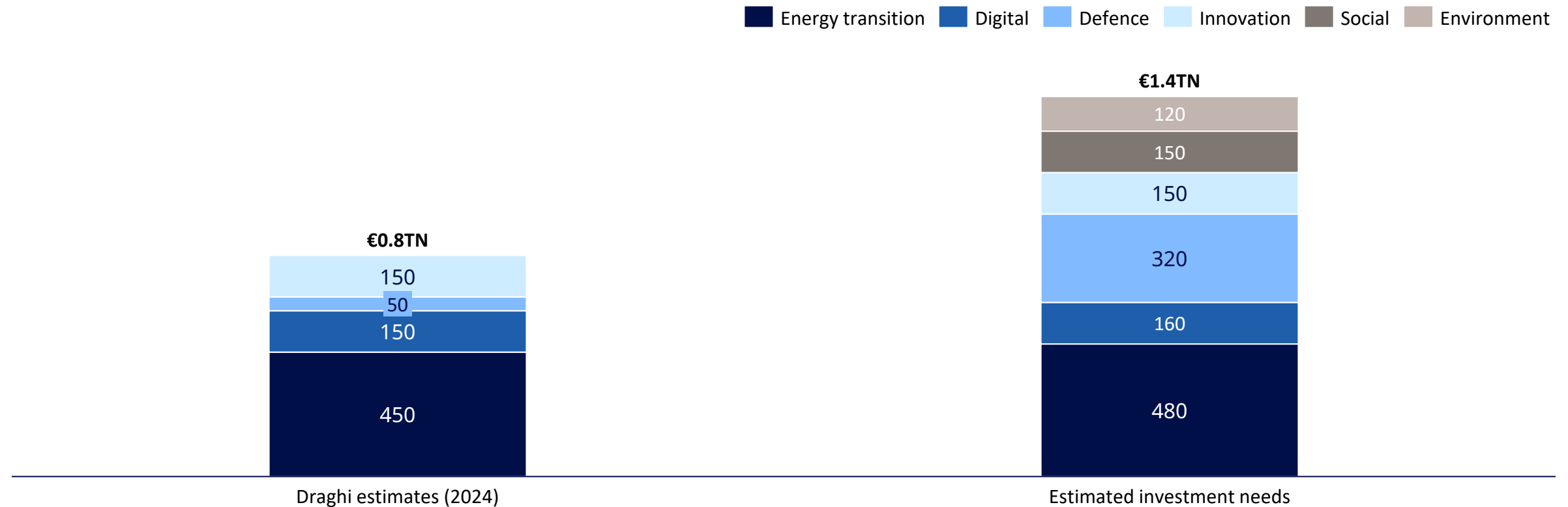
Key insights from the report

- **Europe faces two defining economic challenges:** reversing a prolonged period of weak growth and declining competitiveness, while financing an unprecedented investment agenda that will shape economic resilience, strategic autonomy and long-term prosperity over the coming decade
- **Our analysis suggests Europe's additional annual investment needs could reach approximately €1.4 trillion,** significantly above historical investment levels and the €800 billion estimate highlighted in the 2024 Draghi Report
- **The challenge is not only the scale of capital required, but also the nature of the financing needed.** Much of Europe's future investment demand is concentrated in long-duration, capital-intensive and higher-risk assets, requiring financing across a broader range of risk profiles and investment horizons
- Europe does not lack savings. European households held approximately €37 trillion in financial assets in 2023. **However, too little of this capital is currently being channeled towards productive investment, particularly in the strategic sectors that will drive future growth and competitiveness**
- **Europe's financing continuum is not currently configured to meet these needs at scale.** We estimate that banks can target only around 20% of private-sector investment needs under the current framework, while alternative financing channels remain less developed than in other major economies
- **Savings and Investment Union initiatives represent an important step towards deeper and more integrated capital markets. However, Europe's investment needs are immediate, and building the scale and depth of capital markets required to meet them will take time**
- **Banks remain at the heart of Europe's financing model and will be indispensable to closing the investment gap.** As the primary source of financing for much of the European economy, banks play a critical role in supporting businesses, households and infrastructure investment, while also connecting savings to productive investment opportunities and supporting capital markets development
- Europe has substantially strengthened the resilience of its banking system since the global financial crisis. **The next challenge is ensuring that regulation, supervision and market structures continue to safeguard financial stability while enabling banks to play their full role in financing growth, innovation and strategic investment**
- **The seven recommendations in this report are designed to strengthen Europe's financing ecosystem** by increasing banks' financing capacity, supporting a stronger Savings and Investment Union, reducing fragmentation and improving the efficiency with which capital is mobilised and allocated across the European economy

Europe's investment needs stand at €1.4 trillion annually

EU annual additional investment needs

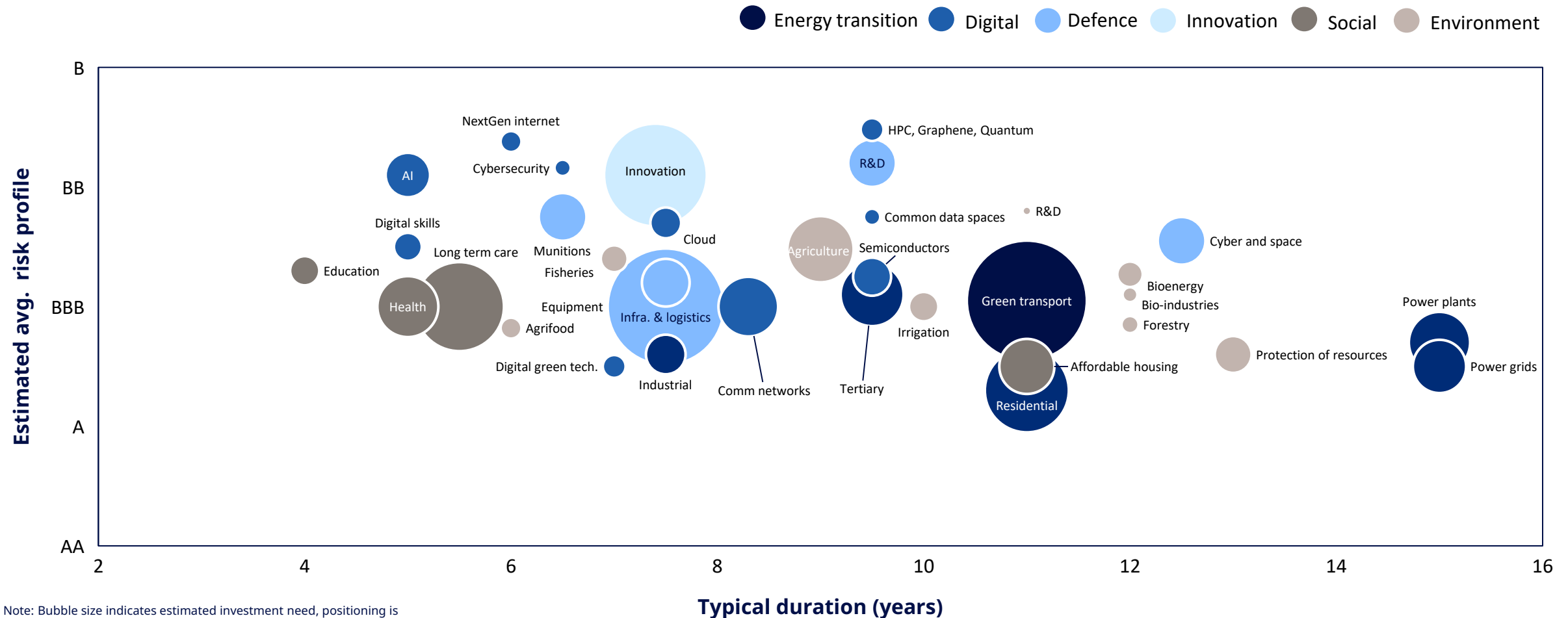
€BN per year until 2030-2031



Source: Draghi report on EU competitiveness (2024); World Economic Forum, Europe has the capital to compete — it just needs to fix its financial plumbing (2026); EIB Investment gaps to achieve sustainable targets in the bioeconomy (2025); ECB Green Investment Needs in the EU and their funding (2025); ECB Time to be strategic: how public money could power Europe's green, digital and defence transitions (2025); European Commission Boosting Investment in Social Infrastructure in Europe (2018); EPRS Benefits of EU strategic investment in high-tech digital innovation (2025); Oliver Wyman analysis

Much of Europe's investment needs are concentrated in capital-intensive, long-duration and higher-risk assets

Estimated financing needs by risk and duration profile

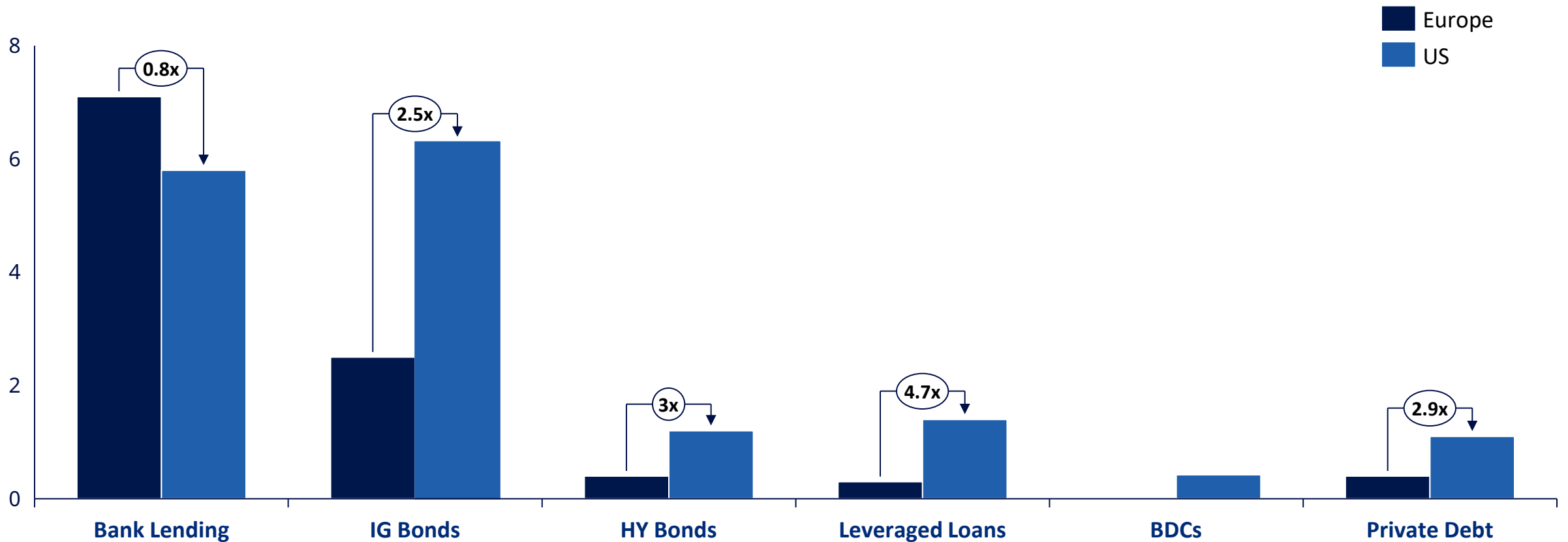


Note: Bubble size indicates estimated investment need, positioning is directional and intended for comparative illustration only.
Source: EDA, European Commission, EIB, ECB, Oliver Wyman analysis

Europe's financing continuum is not yet capable of meeting these needs

Debt to non-financial sector in EU and US

\$TN, 2024



Source: EBA, FRED, Preqin Ltd, Pitchbook, Oliver Wyman analysis

Europe needs a fully functioning financing continuum

Europe's financing continuum – corporate view

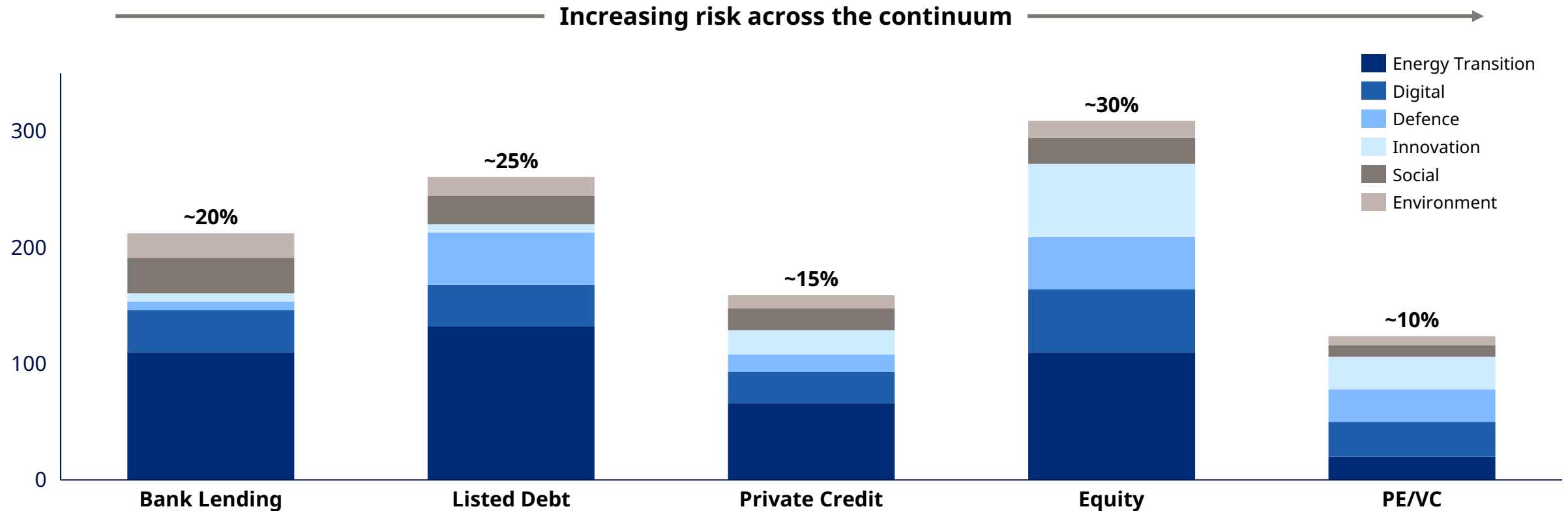
Channel	Bank Lending	Listed Debt		Private Credit	PE/VC	Equity
		Investment Grade	High Yield			
Risk allocation	Low-medium	Low-medium	Medium	Medium-high	High	High
Avg. cost for Corporates	Bench rate + 100-150 bps	Bench rate + 200-450 bps		Bench rate + 450+ bps	Bench rate + 700+ bps	-
2024 Assets Observations	~€18 TN loans (~€6.5 TN non-financials)	~€9 TN (~€2,5 TN non-financials) <i>Still Inaccessible to smaller corporates in EU</i>		~€0,5 TN AUM <i>Nascent</i>	~€1,5 TN AUM <i>Selective</i>	~€14 tn <i>Fragmented</i>
Asset Owners (Investors)	Banks	Insurers Pension funds Asset managers		Private credit funds Insurers (partnerships)	PE/VC funds Pension funds Family offices	Pension funds Asset managers Households
Bank Implications	<i>Remains core, but profitability increasingly constrained by regulation</i>	<i>A large opportunity if the SIU delivers, expanding fee pools across primary issuance, secondary trading and securitization fees</i>		<i>Banks are increasingly financing private credit firms, while private credit is intermediating banks and insurers</i>	<i>Scaling and dominated by US players, but limited role for banks</i>	<i>Highly fragmented, ECM revenues muted relative to the US</i>

Source: ECB; Preqin; Pitchbook; World Economic Forum; Europe has the capital to compete – it just needs to fix its financial plumbing (2026); Oliver Wyman analysis

Banks can help bridge the gap – but current constraints limit their ability to finance Europe’s investment needs

Annual additional private-sector investment needs by financing channel

€BN, based on current risk/duration appetite



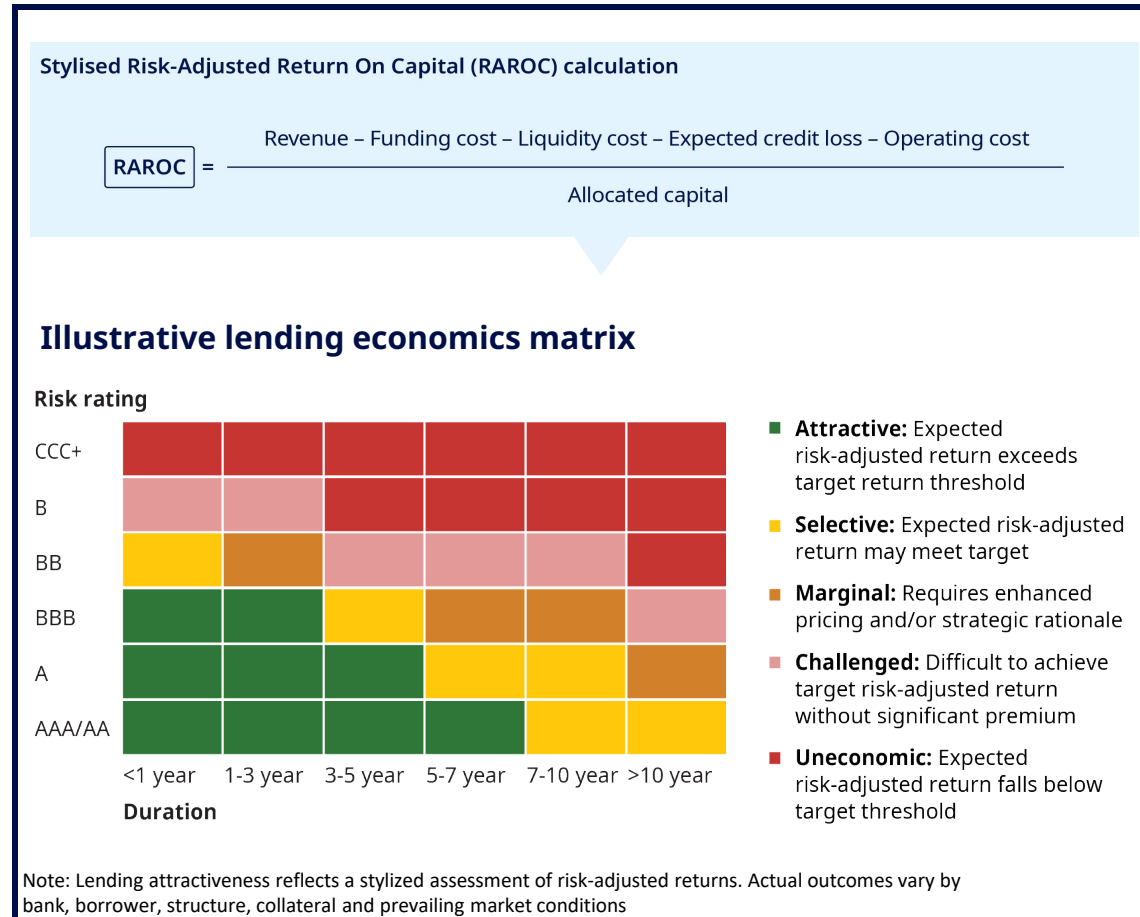
Note: Indicative; estimated annual investment needs broken down by sub-sector and mapped to financing channels based on estimated duration, debt:equity ratios, credit ratings and listings. Share of public financing (assumed to be 20% in total) varies across funding types (e.g., a higher proportion for public funding in defence).

Source: Draghi report on EU competitiveness (2024); EIB; ECB; European Commission; EPRS; Oliver Wyman analysis

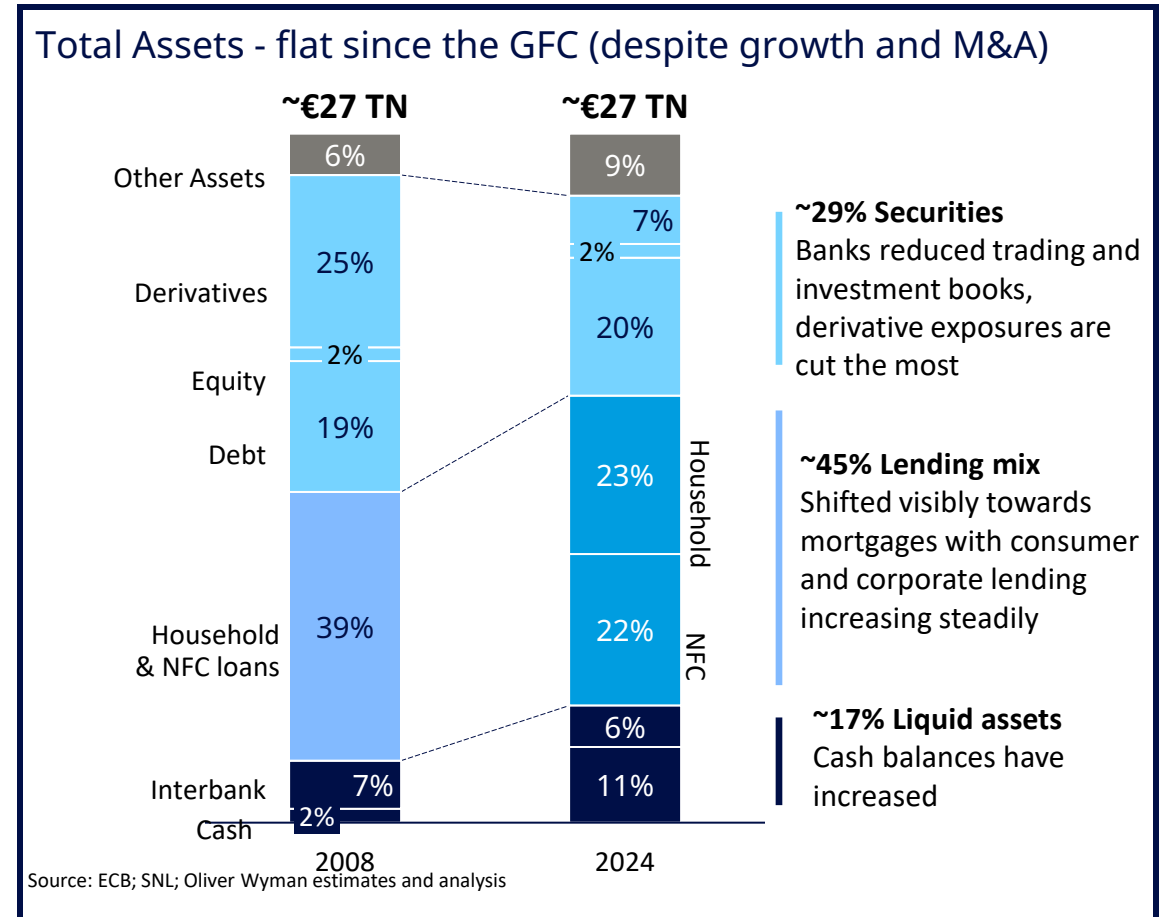
Drill down on economics of lending

The current framework limits Banks' ability to finance Europe's investment needs that often sit in higher risk and duration buckets

Bank lending economics



Evolution of EU bank balance sheets since the GFC



Addressing common misconceptions

Banks are not constrained in granting credit

Banks will lend where it offers attractive returns. Increasing capital requirements absorb banks' earnings.

Higher capital requirements are not a problem for lending

Empirical evidence shows the macroeconomic costs of excessive capital requirements outweigh the benefits.

Surveys show no evidence of a credit squeeze

Surveys are point in time and lack the granularity to reflect Europe's additional investment needs.

Calls to simplify the prudential framework are effectively calls for deregulation and weaker resilience

Simplification reduces unnecessary complexity, eliminates duplication and addresses unintended incentives that have arisen from cumulative layering of regulations over time.

EU banks would face higher capital requirements under US rules

Structural and regulatory differences across markets influences banks' asset composition, biasing results. Analysis did not account for upcoming changes (e.g. Basel III implementation).

Europe needs a financing system capable of mobilising capital at scale; banks remain at the heart and will be critical to close the investment gap


Europe's strategic challenges >

Enabling banks to play a greater role >

Recommendations to improve EU bank competitiveness

 Low economic growth

 Geopolitical re-alignment

 Massive investment needs across digital, energy, defence

 Regulatory complexity and risk aversion

 Overly complex and overlapping rules

Enable greater financing capacity and durable growth

Unlock a savings and investment financing continuum

Foster scale and integration

- 1 Rationalise and recalibrate European capital add-ons
- 2 Embed durable growth and competitiveness in regulatory and supervisory objectives
- 3 Modernise the rulemaking framework
- 4 Unlock the full potential of the Savings and Investment Union across public and private markets
- 5 Unclog securitization pipes to free up lending capacity and support European infrastructure build outs
- 6 Review targeted prudential rules that constrain EU activity
- 7 Remove fragmentation and barriers to integration

Recommendations to improve EU bank competitiveness



Rationalise and recalibrate European capital add-ons

The EU should conduct a targeted review of the full capital stack to rationalise overlaps and ensure requirements are appropriately calibrated to risk.



Embed durable growth and competitiveness in regulatory and supervisory objectives

Europe should consider following other major jurisdictions to strike a better balance between financial regulation, resulting supervision, and growth



Modernise the rulemaking framework

The cumulative impact of regulation and supervision on EU banks is significant. Independent cost-benefit analysis, periodic reviews, and phased implementation of new rules would allow policymakers to identify overlapping or outdated requirements and preserve resilience



Unlock the full potential of the Savings and Investment Union across public and private markets

Europe has no shortage of capital, but it struggles to channel it towards productive investment. Deepening both public and private markets is essential to mobilising household savings.



Unclog securitization pipes to free up lending capacity and support European infrastructure build outs

Recent proposals represent an important step forward but risk being a missed opportunity for Europe. Europe should accelerate progress to enable securitisation to play a larger role in financing strategic investment.



Review prudential rules that constrain EU activity

A range of narrower provisions continue to discourage the type of lending Europe needs. They should be reviewed to remove avoidable frictions that suppress lending and investment without weakening financial stability.



Remove fragmentation and barriers to integration

Advancing the Banking Union and reducing barriers to cross-border integration would increase efficiency of the European banking sector, improve the allocation of capital across the single market and enhance banks' ability to support investment and growth.



Enabling banks to deepen their role



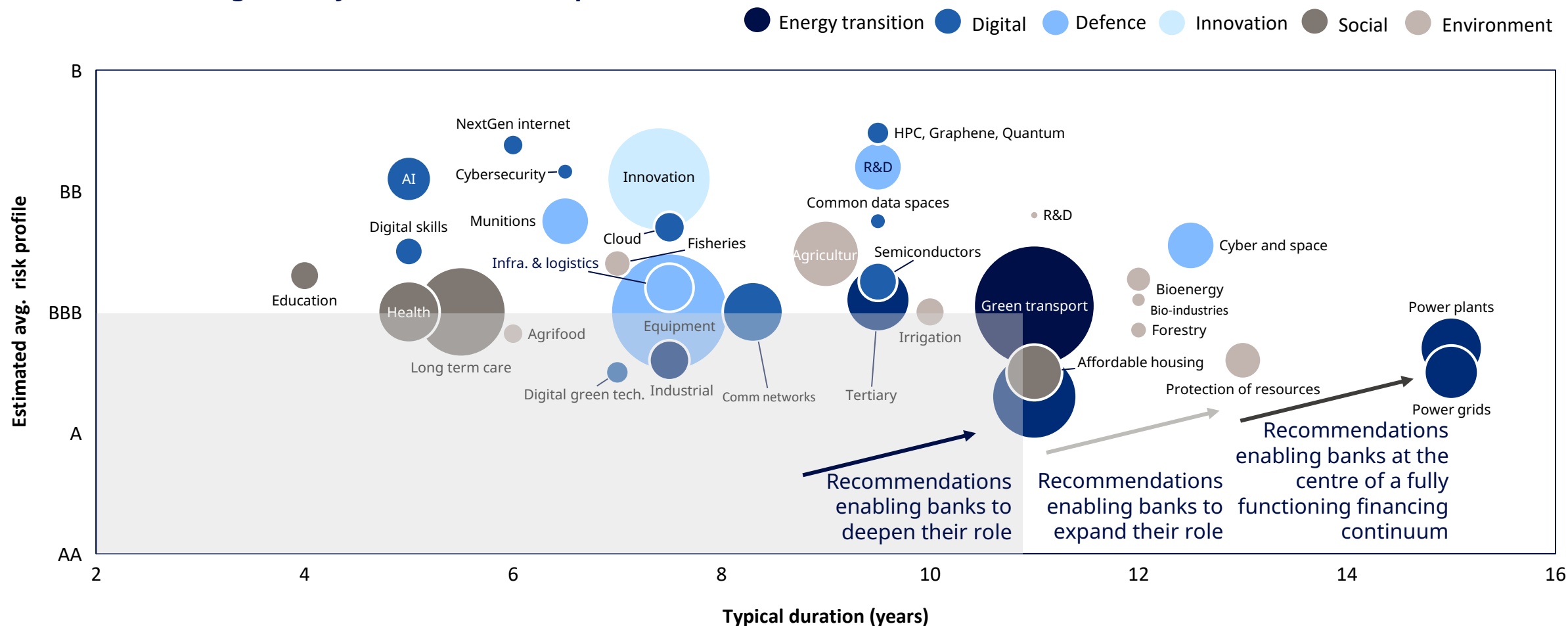
Enabling banks to expand their role



Enabling banks at the centre of a functioning financing continuum

Together, these recommendations enable banks to deepen and expand their role in financing Europe's investment needs at the centre of a fully functioning financing continuum

Estimated financing need by risk and duration profile



Note: Bubble size indicates estimated investment need, positioning is directional and intended for comparative illustration only. Defence breakdown of investment needs based on estimated current split of financing.

Source: EDA, European Commission, EIB, ECB, Oliver Wyman analysis

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