The EU's Savings and Investments Union (SIU)

A chance to unlock capital for European growth

→ Europe is sitting on a significant stock of savings, yet many of its businesses struggle to access funding.

→ The purpose of the Savings and Investments Union (SIU) is to change that, by unlocking regulatory barriers and building common institutions – a challenging undertaking.

Financial fragmentation

One of the root causes of the mismatch between savings and productive investment is EU fragmentation, at both the market, regulatory and supervisory level. Retail and institutional investment in the EU remains constrained by regulatory fragmentation and nationalism. For instance, pension funds and insurance markets, a potential source of capital, remain largely country-based, with limited options and cross-border investment.

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Due to these barriers on both the retail and institutional sides, many companies– especially young and innovative firms–struggle to secure adequate financing. Bank financing alone is not always suitable, particularly for early-stage and high-growth companies that require equity rather than debt to support their expansion. EU capital markets lack the necessary scale and depth to provide sufficient investment opportunities, particularly in the area of risk capital.

As a result, many businesses in the EU face funding shortfalls. Indeed, conditions for larger firms are much better both in terms of price and liquidity in the US or the UK. This highlights the urgent need to strengthen and expand EU capital markets to better support innovative companies and drive long-term economic growth.

Previous attempts to address fragmentation have fallen short

Previous attempts to address market fragmentation, such as the Capital Markets Union (CMU) and the Banking Union (BU) have largely been unsuccessful. It is important to draw lessons from earlier efforts to unify capital and financial markets. The Lamfalussy approach, introduced in the early 2000s, aimed to streamline EU financial regulation and promote coordination. However, it relied too heavily on self-regulation by banks, leading to distortions in market competition as some national regulators adopted looser oversight. This lack of uniform supervision contributed to systemic risks that became evident during the 2008 financial crisis. In response, the De Larosière approach established European Supervisory Authorities (ESAs)—the EBA, ESMA, and EIOPA—to strengthen EU-wide oversight. While these institutions improved regulatory consistency, national competent authorities (NCAs) remained in place, limiting the full integration of financial markets and leaving supervisory practices uneven across member states.[1]

Enter the SIU

In this regard, the Commission is attempting to move forward on its latest initiative, the Savings and Investments Union, or SIU. The SIU aims to channel EU savings into productive investments, aligning with the EU's strategic priorities of innovation, the green and digital transition, and defence and represents the Commission's latest attempt to create a common financial market. This initiative fits within the Commission's broader agenda of reducing red tape and simplifying regulations to make financial markets more accessible and efficient. The Commission launched a Call for Evidence in early February of this year to collect input on its overall approach to the SIU and to identify significant challenges that the SIU should address. Indeed, in the coming weeks, we expect a communication to be published with further details over the proposal. Planned adoption is scheduled for the second quarter of 2025.

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The potential advantages of deeper financial market development and integration are significant. Better-integrated capital markets could unlock billions in new financing for EU companies, particularly benefiting young and innovative firms.

Residents would also gain from enhanced market access, with more opportunities to save and invest efficiently, secure better returns, and build long-term wealth–including for retirement.

How the SIU plans to address market fragmentation

Although there are as yet not too many concrete details over the Commission's SIU proposal, according to the Commission, the SIU seeks to achieve its objectives by enhancing the mobilization of savings through the promotion of simple, low-cost investment products and incentives, which will help pool capital for greater wealth creation. It also aims to expand investment opportunities for EU firms, especially young and innovative companies, by encouraging both private and institutional investors to support productive businesses. To foster greater market integration and efficiency, the proposal calls for the removal of barriers to cross-border activity, including those related to supervision, taxation, and authorization. Finally, the Commission aims to strengthen supervisory frameworks to ensure the consistent application of the single rulebook, ensuring high-quality market oversight throughout the EU.

The Commission aims to balance legislative and non-legislative actions while minimizing burdens on the financial sector, particularly in a lower-rate environment. Reducing regulation could limit frictions and foster integration. In shaping the SIU, it will also be important for the Commission to focus on feasible initial steps, like establishing a single supervisory body, and address the long-term need for harmonizing regulations across the EU.[2] In this regard, the proposal for a "28th regime", which would create a unified regulatory framework for financial activities across EU member states, aiming to enhance the mobility of savings and capital,[3] warrants consideration.

An uncertain outlook for the SIU

The SIU presents a unique opportunity for Europe to mobilize capital more effectively, but success depends on learning from past attempts. Excessive regulation could stifle competitiveness. As well, there are practical considerations – member countries may consider that existing national rules, though inhibiting cross-border capital flows, provides a high degree of predictability to their financial system and solvency procedures. There is also resistance from industry itself – European markets mean more competition. Finally, the objective of the SIU is not to achieve a European financial market similar to the American one because it is practically impossible. The goal is to improve the efficiency in how capital is allocated throughout the EU. For instance, the SIU does not seem to tackle the main issues presented by the previous plans for the CMU and the BU. As well, the initial perception is that there are a lack of policies focused on the demand side.

In sum, the SIU represents a necessary step toward financial integration, which requires drawing lessons from past failures and overcoming rising economic nationalism.

Notes

[1] The Lamfalussy approach (2001) emerged in response to financial market integration needs in the early 2000s but was weakened by excessive reliance on self-regulation, while the De Larosière approach (2009) was a reaction to the 2008 financial crisis, leading to stronger EU-wide supervisory authorities while maintaining national regulatory roles.

[2] https://www.bruegel.org/first-glance/european-capital-markets-union-make-it-or-break-it

[3] https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX%3A52010IE0758