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## Financing innovation for long term economic development

Warsaw, March 18th, 2026



# 1. The EU falls behind (1/2)

## Three Structural Vulnerabilities:

### 1. Institutional inertia and fatigue render the EU unambitious

- Key projects unfinished: Banking Union, Capital Markets Union, deeper Single Market and policy fatigue (e.g., recurring delays in the Green Deal)
- Fragmentation limits scale and investment capacity

### 2. Strategic dependence

- Security outsourced to the US
- Energy dependence (Russia, US, Middle East)
- Global supply chains for key intermediates and final goods reliant on China
- “Strategic autonomy” remains mostly rhetorical

### 3. Weak growth dynamics

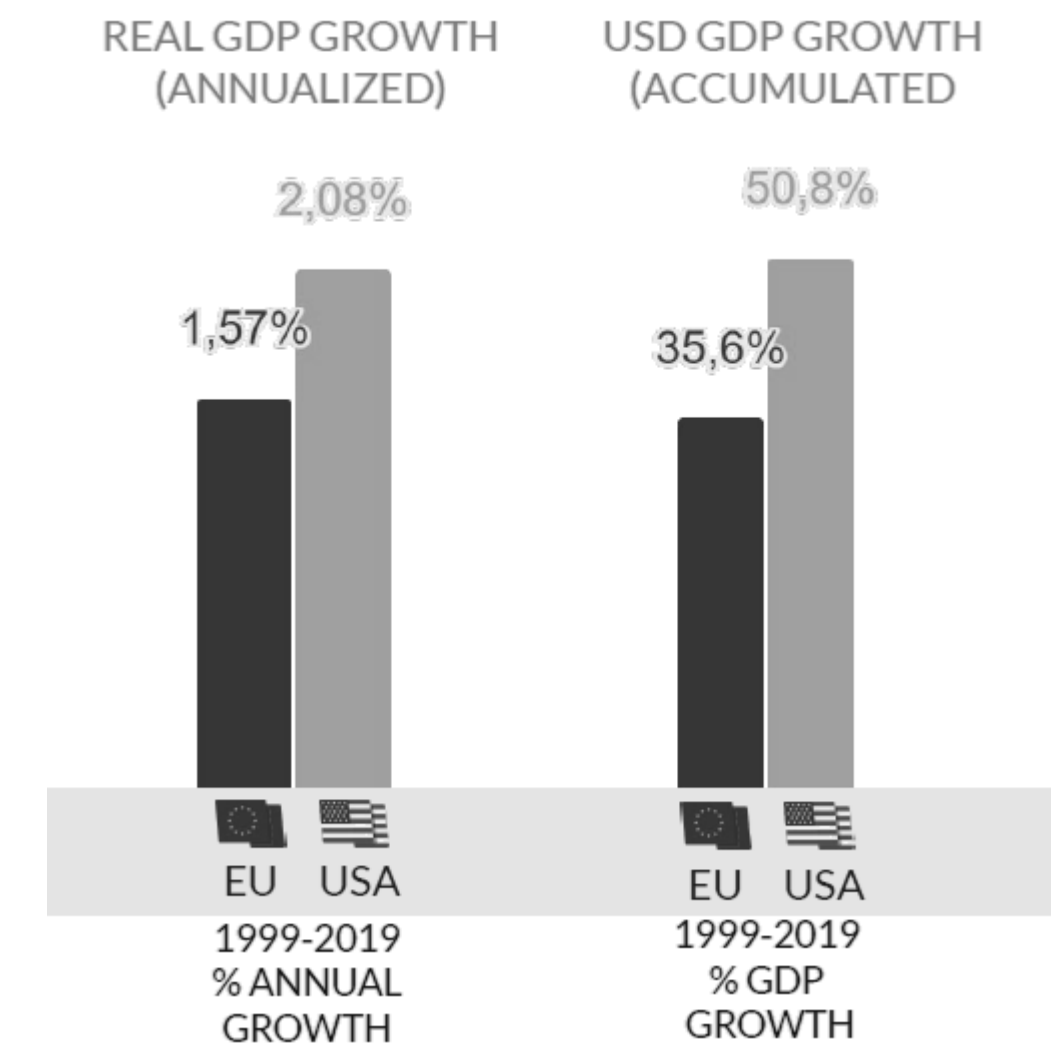
- Long-term stagnation of income per capita growth across many EU economies
- Productivity slowdown

### Drivers of weak potential growth

- Ageing population → lower labour participation – gone demographic bonus
- Lower capital intensity
- *Weak productivity growth linked to insufficient innovation investment*

## Growth potential cumulated

(weaker value realization hinders growth)



# 1. The EU falls behind (2/2)

Europe's Structural Weakness of its growth is fundamentally an innovation and investment problem, driven by insufficient private capital and weak accumulation of intangible assets.

## 1. Investment and innovation shortfall

- Private investment significantly below US levels
- Private capital availability  $\approx$  60% of US levels
- Estimated EU-US investment gap:  $\sim$ 3–5% of GDP

## 2. Intangible investment lag

- Share of intangible assets lower than required in a knowledge economy
- Innovation and intangible capital investment share US  $\approx$  50% EU  $<$  25%
- Only  $\sim$ 40% of EU firms possess strong digital capabilities

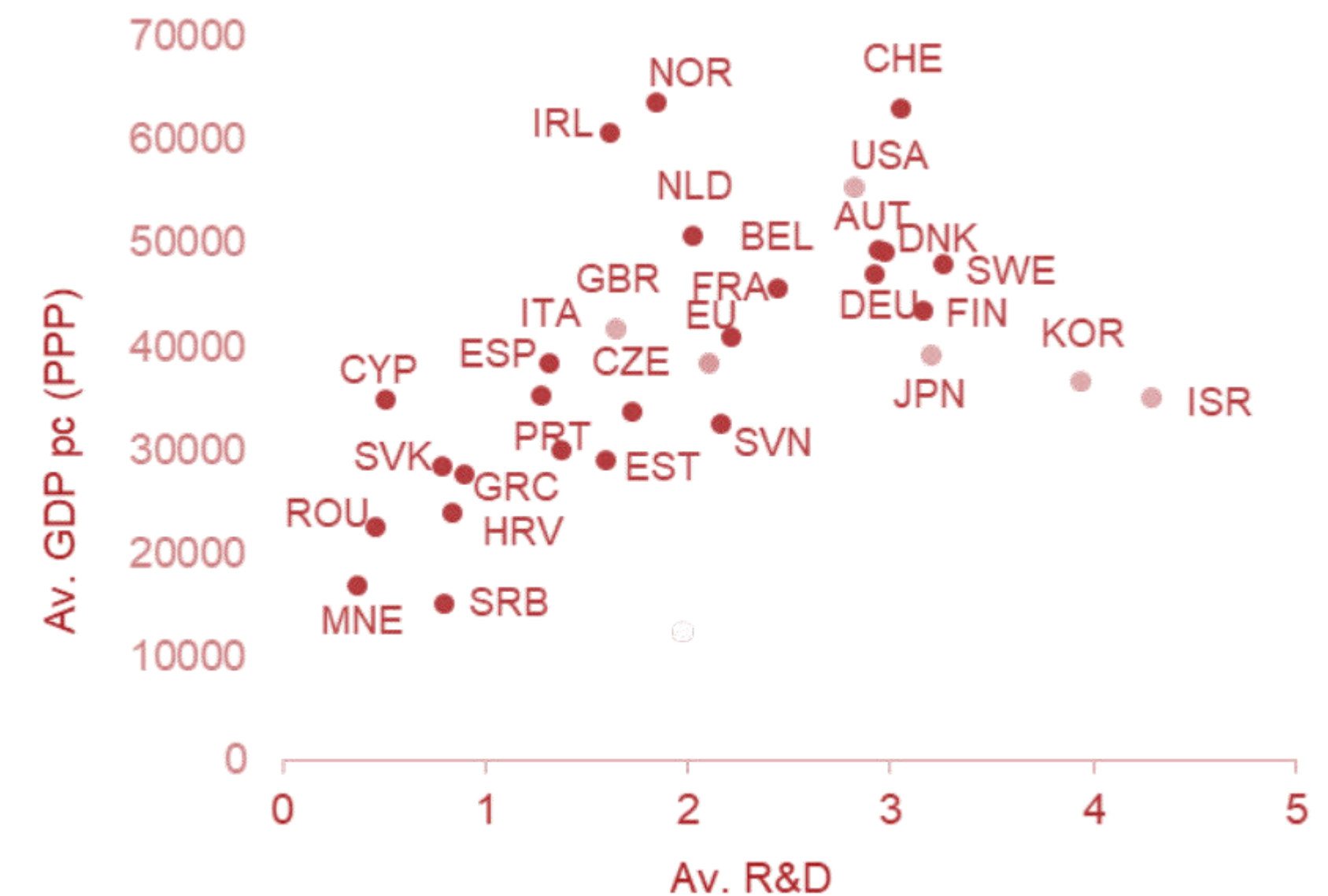
## 3. R&D intensity: EU $\approx$ 1.3% of GDP US $\approx$ 3% of GDP

### Economic consequences

- Lower productivity growth
- Weaker long-term growth potential
- Lower resilience
- Europe losing ground in automation and advanced technologies

## Income per-capita and innovation

(comparable ppp terms)



## 2. Quantifying the strategic ambitions bill

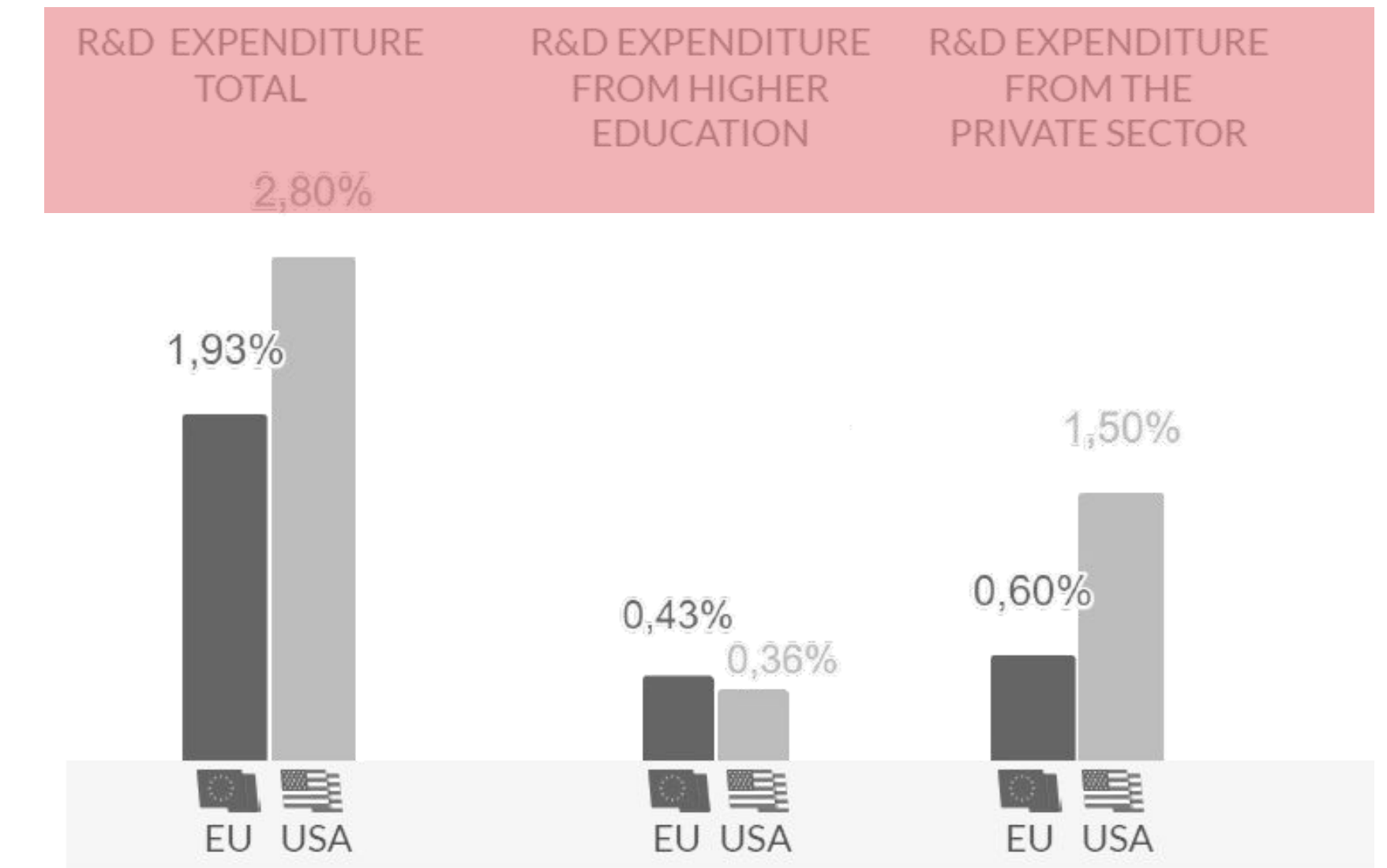
### Europe faces large structural funding requirements:

1. Investment must rise from 22% to 27% of GDP to converge to its peers
2. Additional annual funding need: €750–800bn per year.
3. Defence spending projected at:
  - €800bn by 2030 (2.9% of GDP).
  - >€1tn by 2035.
4. Infrastructure gaps: €2.5tn by 2030 (transport, energy, broadband).
5. Decarbonization requires 2.7–3.7% of GDP annually until 2030.
6. **Combined financing need: 4.5–6.5% of GDP annually through 2030.**

>>**Scale comparison:** roughly triple annual Marshall Plan during double the time in terms of investment relative to GDP.

### R&D Expenditure

(in % GDP, average 2016-2023)



### 3. An investing and financing problem

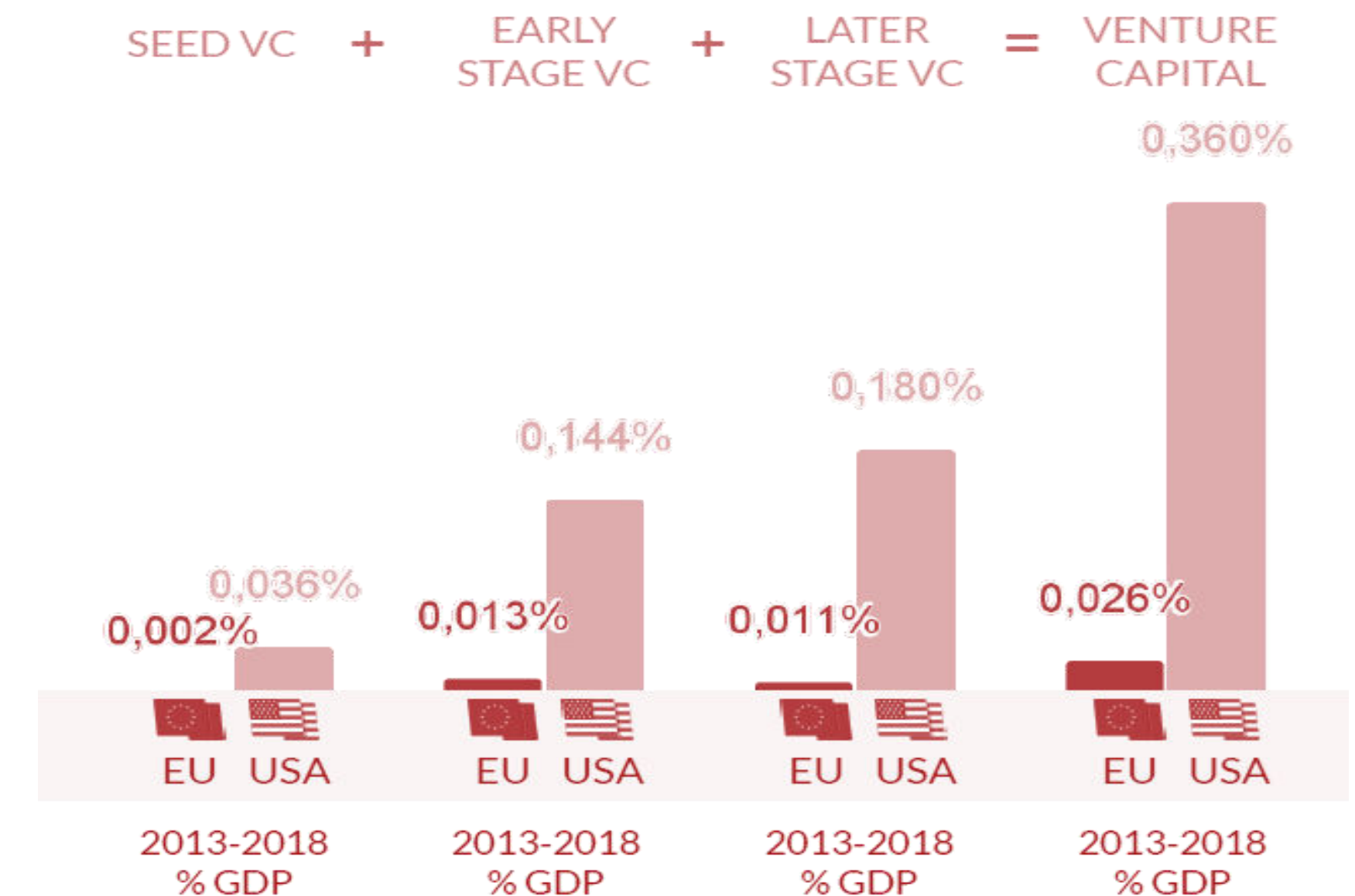
#### Europe faces multiple hurdles

1. EU capital markets shallow, fragmented and bank dominated rendering innovative firms short of risk capital
2. Private capital markets and VC activity are too scarce
3. The problem lies in the financial system (capital markets too shallow and illiquid, fragmented across jurisdictions and dominated by bank credit and not equity)
4. Inexistent single market for risk (securisation markets never recovered)
5. Cross border insolvency rules remain misaligned
6. Incentive problem matters too: PAYG systems and low returns

Leading to:

- European innovators struggle to scale and end up finding funding in the US markets
- Meanwhile Europe who is the largest saver exports capital through a CA surplus, providing funding to the US through the financial account (Europe saves 15% of disposable income producing annual flows of c.a 1,5 trillion Euros. Its financial wealth is 40 trillion whereas in the US its 4-5% Savings Rate and 118 trillion FW)

#### Funding of SME and scale ups



## 3b. An investing and financing problem

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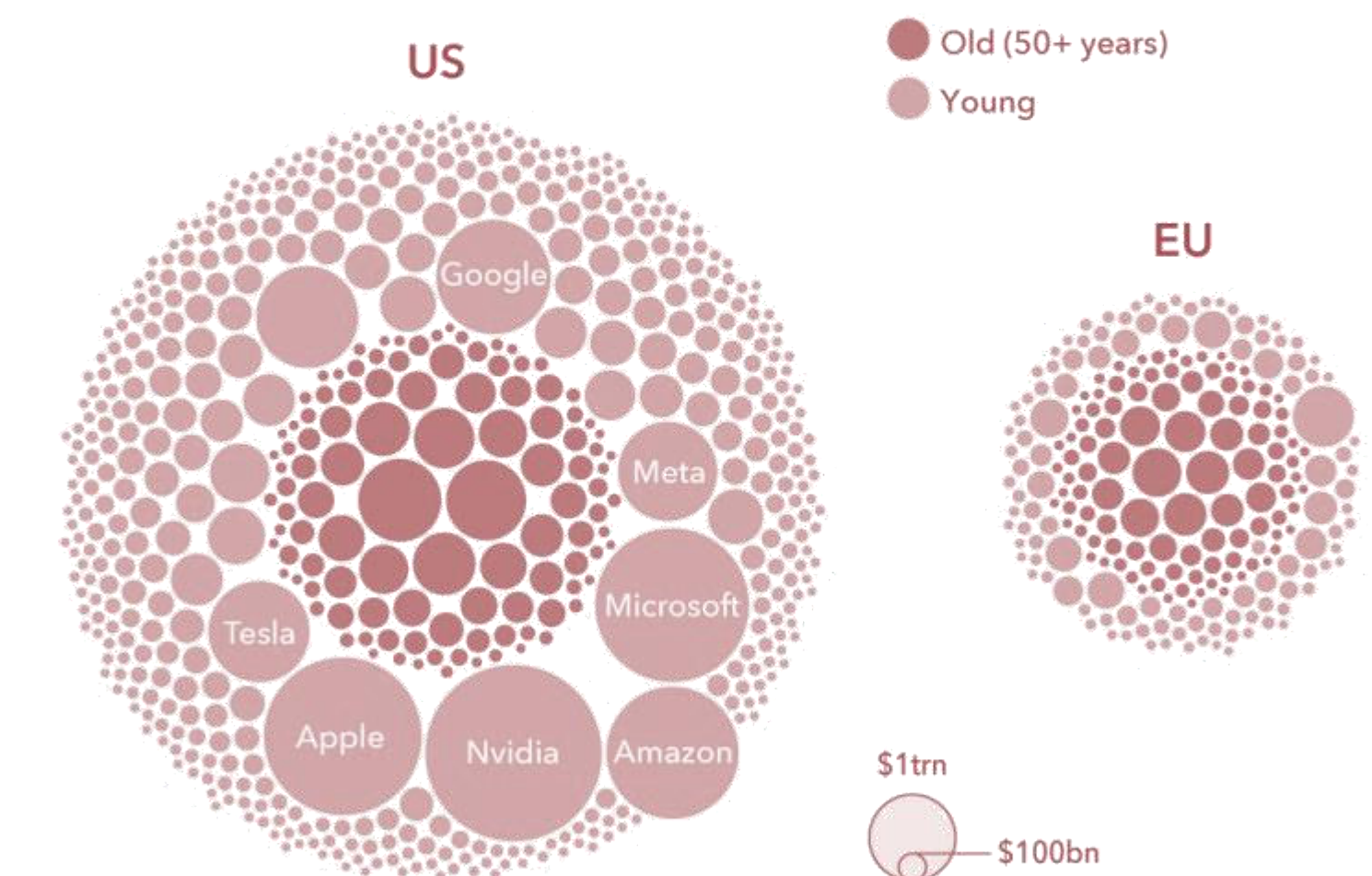
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### Funding of SME and scale ups

#### Young US companies grow faster and become larger than in Europe

Market capitalization by firm, billions of USD



Sources: Orbis and IMF staff calculations. Note: Sample includes firms with \$10bn+ market caps as of January 2026, excluding financials and insurers.

IMF

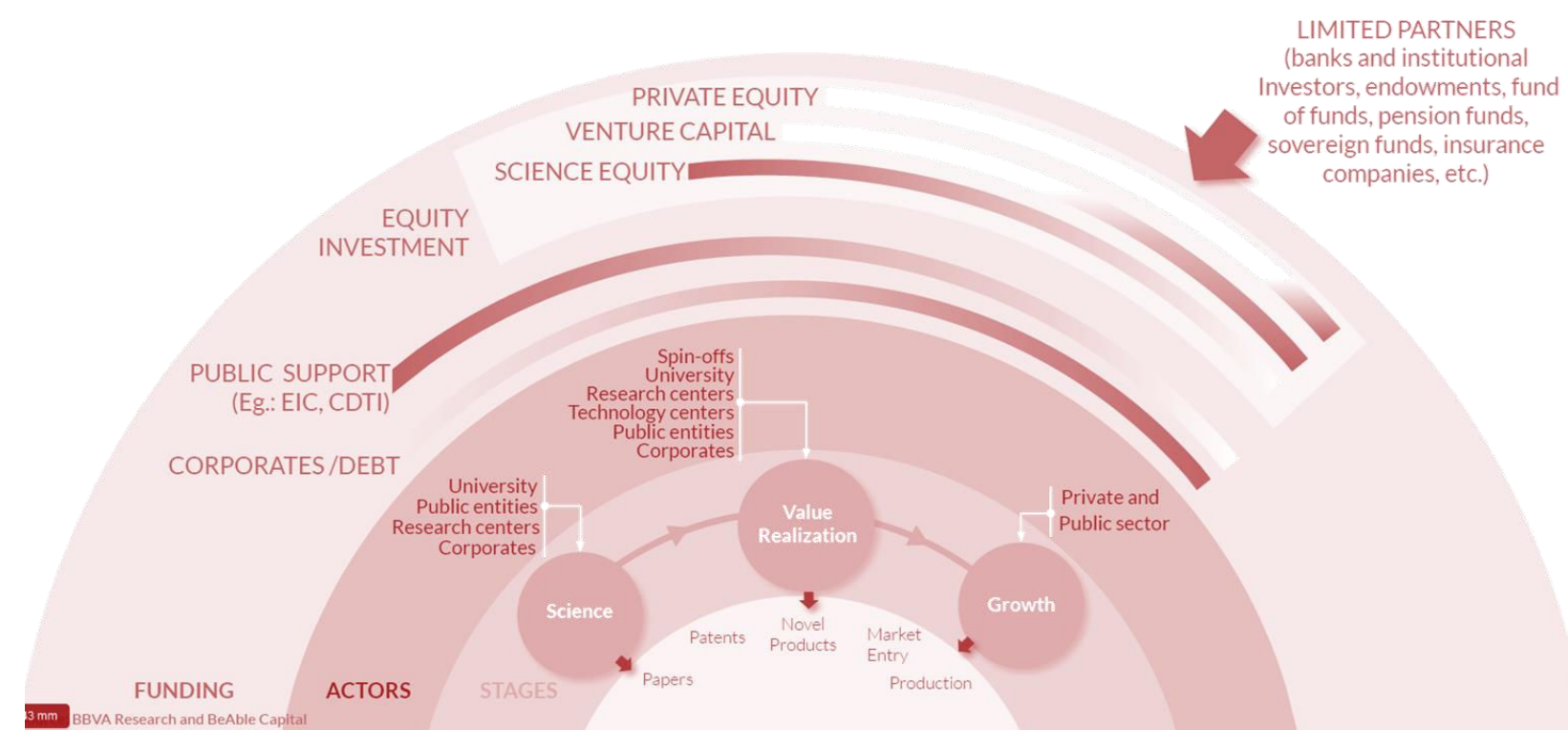
<https://www.imf.org/en/blogs/articles/2026/03/12/europe-can-regain-its-productivity-edge-by-scaling-up>

# 4. Limited firepower

Unless additional resources are liberated

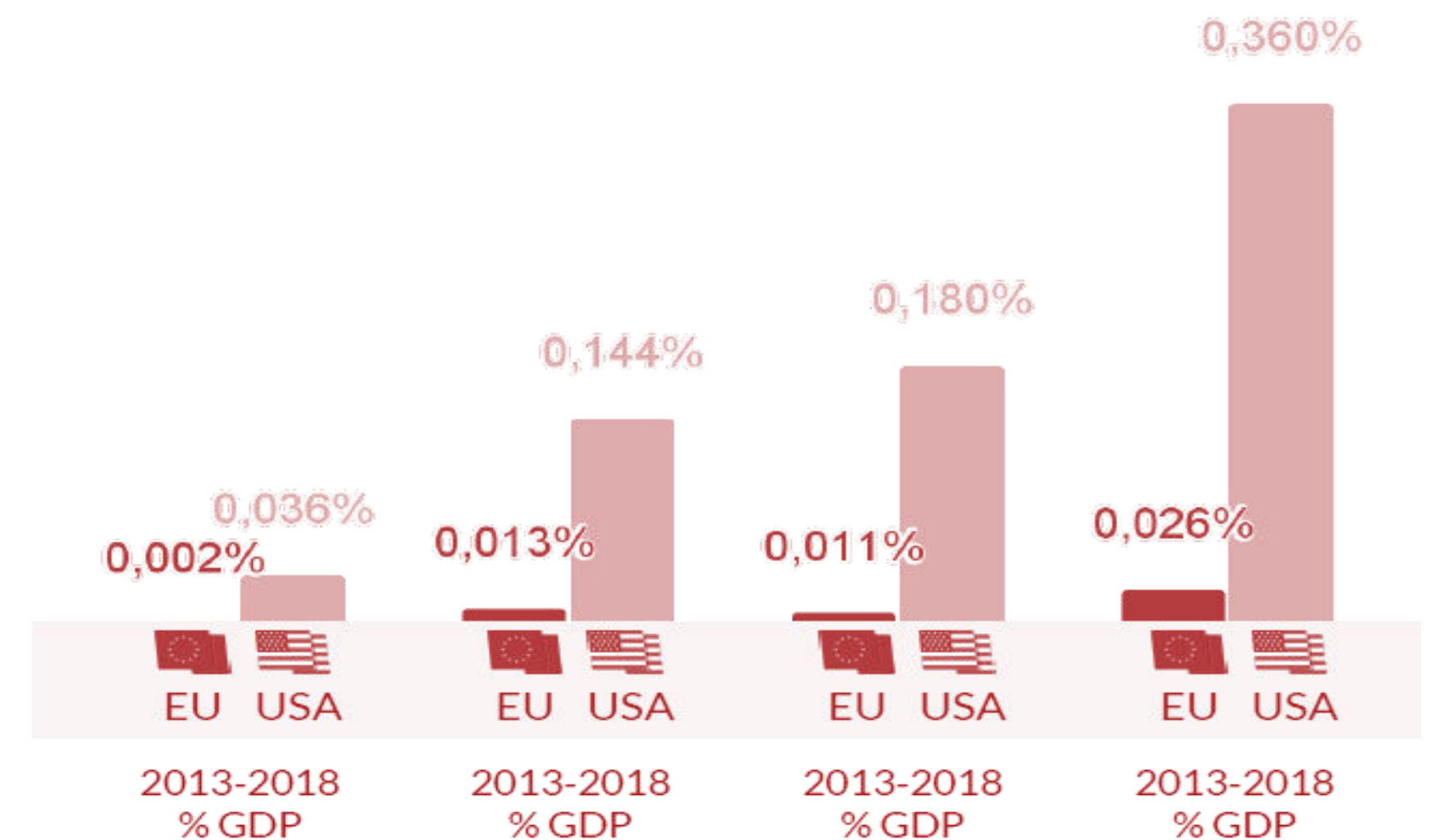
1. SIU will take time to consolidate
2. Securisation (and thus the risk sharing market) has a bad press
3. Single Financing Instrument politically sensible (despite Covid precedent)
4. Banking Union elusive due to national interest

Innovation involves a complex funding route where specialized equity investors play a pivotal role in the success of the value realization



## Funding of SME and scale ups

$$\text{SEED VC} + \text{EARLY STAGE VC} + \text{LATER STAGE VC} = \text{VENTURE CAPITAL}$$

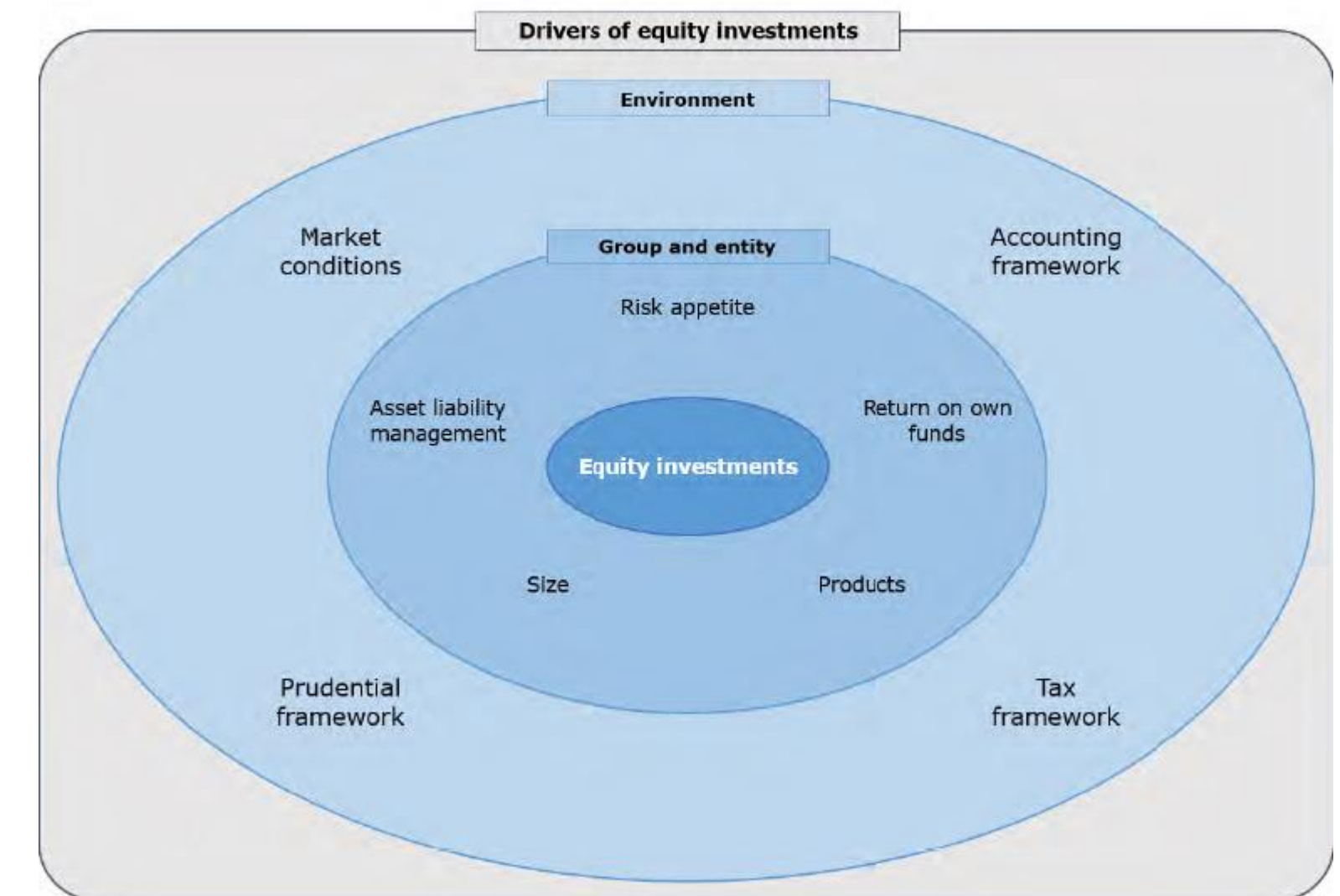


## 5. Possible role of the insurance and pension sector

### Institutional Investors: Untapped Capacity across the EU

1. Insurers and pension funds represent the main scalable source of long-term capital.
2. European insurers hold €9.5tn in assets.
3. Act as bridge between households (savings) and capital markets, as they provide long term savings and pension products that are suitable for long term and illiquid capital deployment (such as infrastructure, R+D, defense, re-skilling, etc.)
4. They account for ~70% of retail investment via pensions and savings products.
5. Allocation to private equity and venture capital remains limited at ~10% of portfolios, constrained by capital charges and fragmented rules.
6. Do it correctly rather than assuming the perils of regulatory arbitrage\*

### Potential drivers of equity investments



## 6. An investing and financing problem (EC's recs. as of 2019)

Equity investment by insurers and pension funds is determined by a combination of structural, regulatory, and market factors rather than a single driver.

**1. Market conditions are the main driver.** Equity investment depends on expected returns, dividend yields, volatility, interest rates, and the overall economy. Low interest rates and strong economic conditions encourage more equity investment, while financial crises lead to lower risk-taking.

**2. Asset–liability management (ALM) shapes strategy.** Insurers and pension funds match investments with the timing and structure of their liabilities. Institutions with long-term liabilities can usually hold more equities.

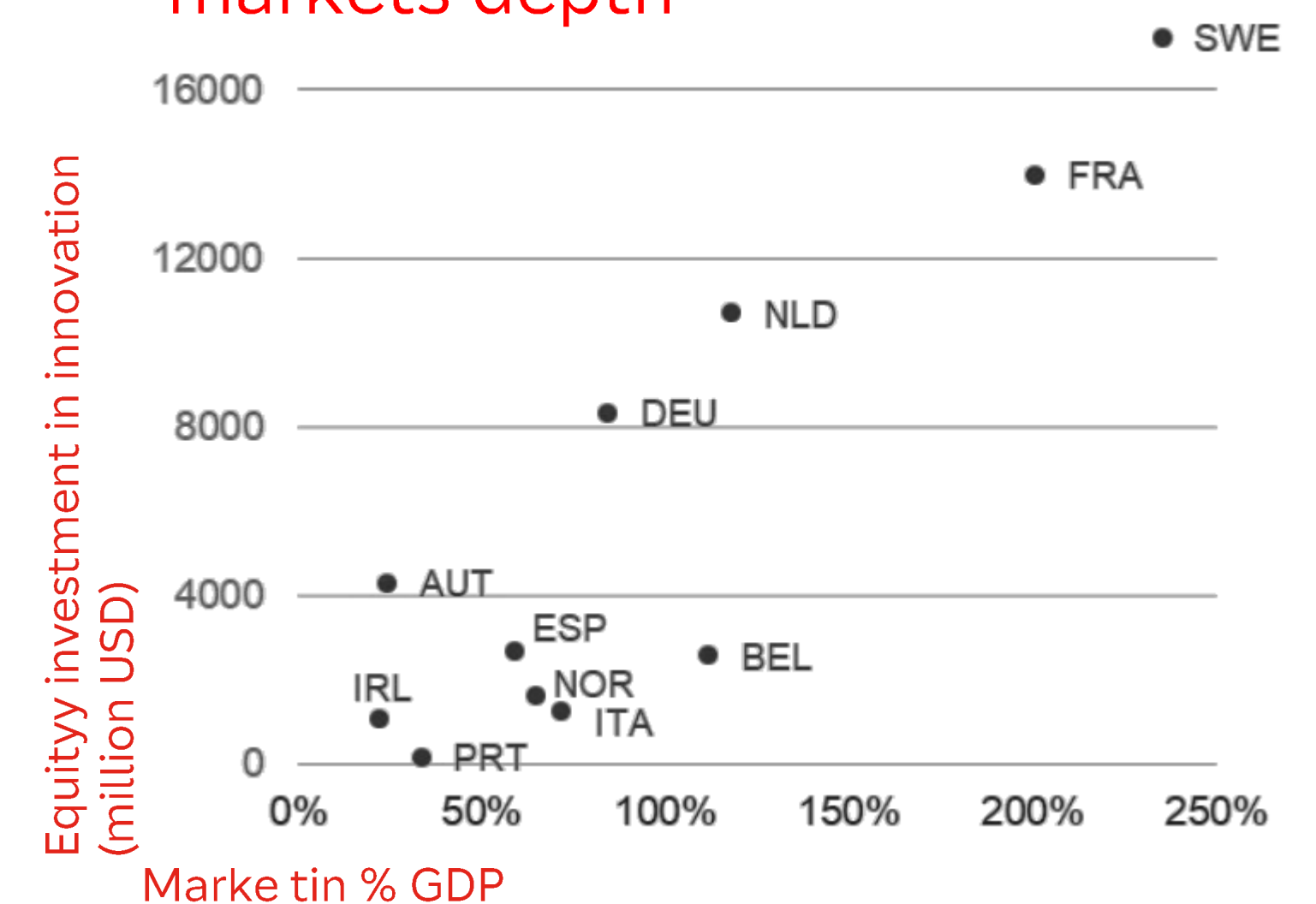
**3. Regulation influences portfolios.** Capital requirements and solvency rules affect how much equity institutions can hold because equities often require higher capital and increase balance-sheet volatility.

**4. Accounting rules affect incentives.** Market-value accounting can increase short-term financial volatility, which may discourage insurers from holding large equity positions.

**5. Institutional characteristics and products matter.** Company size, business model, and the type of insurance products affect risk tolerance. Products where policyholders bear the investment risk allow greater equity exposure.

**6. Taxation has a smaller impact.** Taxes on dividends and capital gains may influence short-term allocation decisions but are less important than market conditions or regulation

### Equity Investment and capital markets depth



Equity exposure in insurance companies and pension funds depends mainly on market conditions, their liability structures, and regulations, which is why they usually hold relatively small equity allocations.

## 8. Limits to the participation

### Regulatory Frictions Limiting Capital Deployment

1. Solvency II capital charges penalizing equity and long-term risk assets (require large capital buffers against equity and private market assets such as venture and growth capital).
2. Inconsistent accounting treatment of intangibles under IFRS versus US GAAP.
3. Fragmented insolvency and tax frameworks EU wide.
4. Complex procedures and nil pan-european vehicles hinder investment in SMEs and Scale ups
5. Restrictive investment mandates
6. Difficult valuation of intangible assets pertaining innovation, hinders the use as collateral in financing risk capital
7. Limited financial incentives for voluntary pension accumulation.
8. Underdevelopment of PII and PIII limits the supply of long-term capital

# 7. Current initiatives and policy priorities

## Policy priorities

1. Complete Capital Markets Union and harmonize insolvency frameworks.
2. Further reduce prudential barriers for long-term and SME investment.
3. Promote voluntary pension systems to deepen capital pools (PII and PIII, collective saving schemes).
4. Reform tax and accounting treatment of intangible assets (IRFS vs US GAAP).
5. Improve retail investor education and simplify disclosures.

## Current initiatives

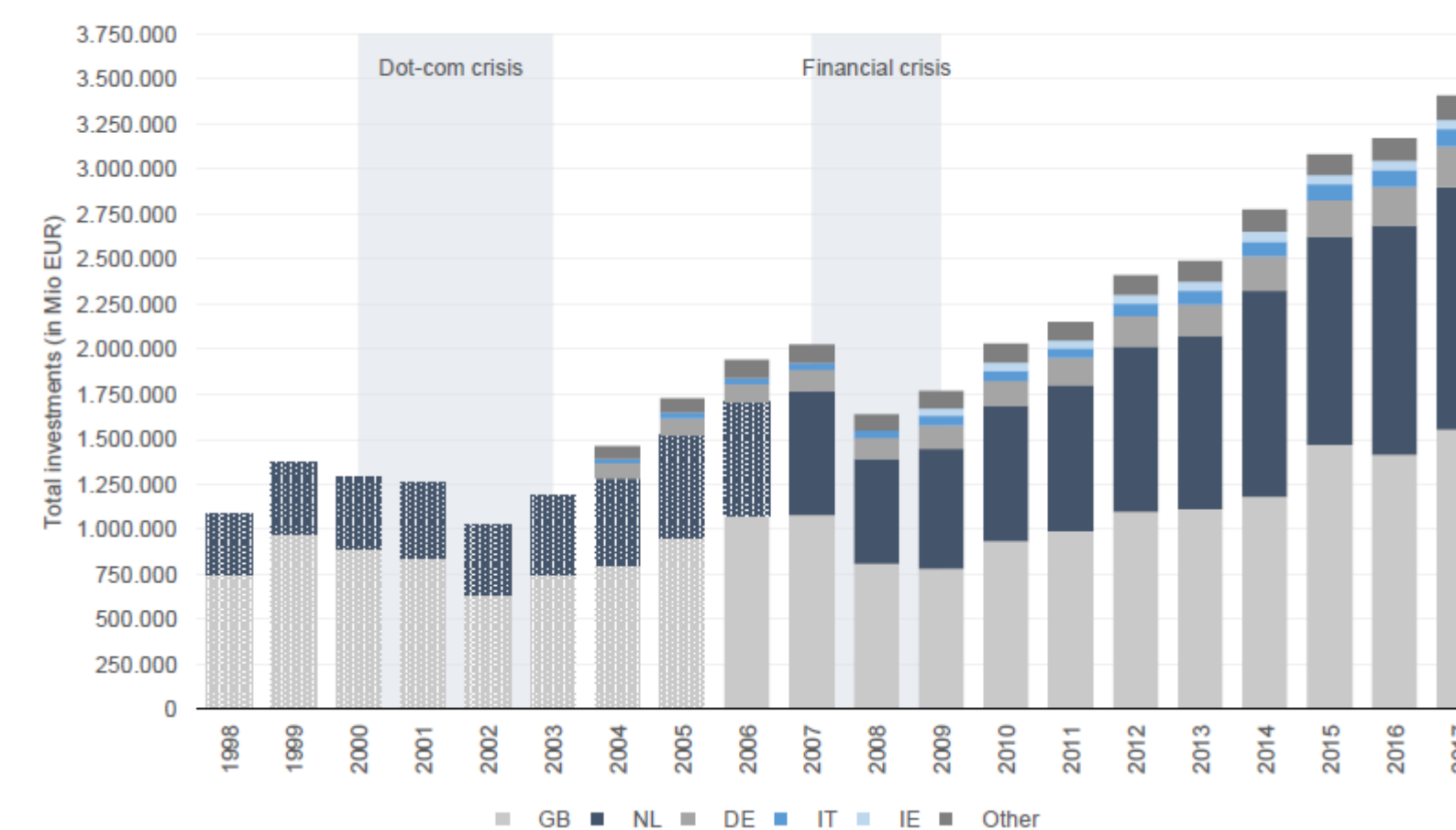
1. Capital Markets Union and Savings & Investments Union initiatives.
2. Solvency II reform:
  - Lower capital charges for long-term equity.
  - 22% preferential risk factor for equity held  $\geq 5$  years.
3. Improved treatment of securitisations.
4. Development of EU-labelled savings products to channel funds domestically.
5. Exploration of public-private fund of funds structures.

## 9. Policy priorities and implications. Reforms in motion.

### To mobilize pension and insurance capital

1. Promote Pillar II and III pension savings; remove tax penalties and double taxation.
2. Harmonise accounting treatment of intangibles to reduce valuation bias.
3. Further relax Solvency II capital requirements for long-term equity.
4. Broaden insurers' investment mandates and risk tolerance parameters.
5. Improve regulatory treatment of private equity and intangible-intensive investments.
6. Encourage co-financing frameworks with public and multilateral institutions.
7. Develop pension-linked liquidity products such as reverse mortgages and retail long-term vehicles.
8. Improve investors education and streamline product information (mifid similar)

Figure 51 – Total investments pension funds across EU Member States (incl. defined contribution schemes)



# 10. Consequences of action or inaction

## **1. If pension and insurance capital is mobilised:**

- Long-term funding for innovation, defence and green transition becomes viable.
- Scale-up gaps in technology sectors narrow.
- Productivity and incomes rise.

## **1. If reforms stall:**

- Savings remain locked in low-yield deposits.
- Intangible underinvestment persists.
- Competitive gap with the US widens.
- Strategic autonomy erodes.

# Takeaway

Europe does not suffer from insufficient savings. It suffers from institutional rigidity. Expanding funded pension pillars and recalibrating insurance regulation could transform dormant wealth into long-term growth capital. Without that shift, strategic ambitions remain fiscally and structurally constrained.

**Thank you**

 **mapfre** Economics

## 8b. A view from the collaboration Banks and insurance:

The Danish Compromise provides a regulatory advantage in bank-insurance integration that could be leveraged more broadly. It creates a regulatory advantage because it reduces the capital penalty for banks that own insurance companies under the Capital Requirements Regulation

### Why this matters:

#### 1. Avoids full CET1 deduction

Normally, a bank's equity stake in an insurer must be deducted from CET1 capital, which penalises bancassurance structures.

Under the Danish Compromise, the exposure is risk-weighted instead of deducted, lowering the effective capital cost.

#### 2. Improves capital efficiency

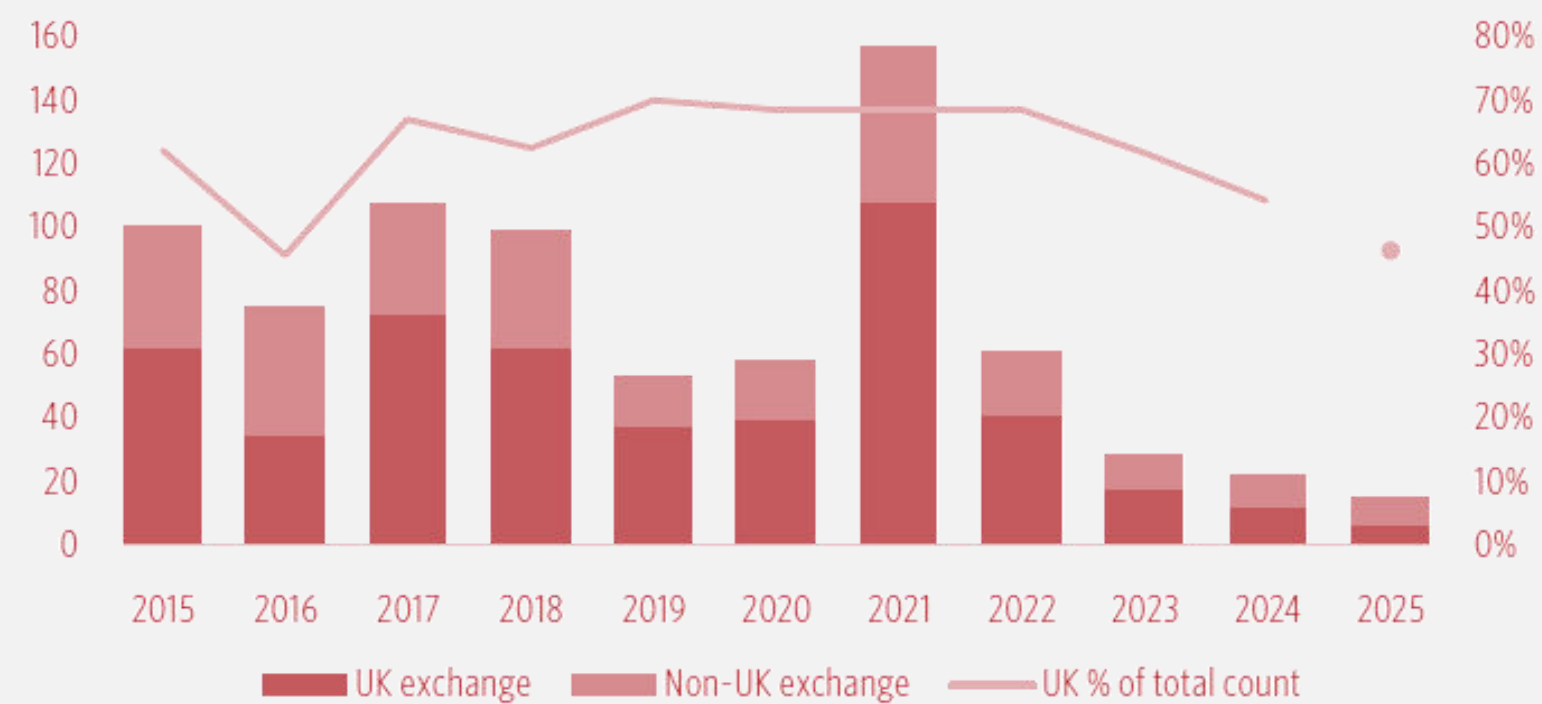
Banks can hold insurers without eroding regulatory capital, which improves group ROE and balance-sheet efficiency.

#### 3. Encourages bank-insurance integration

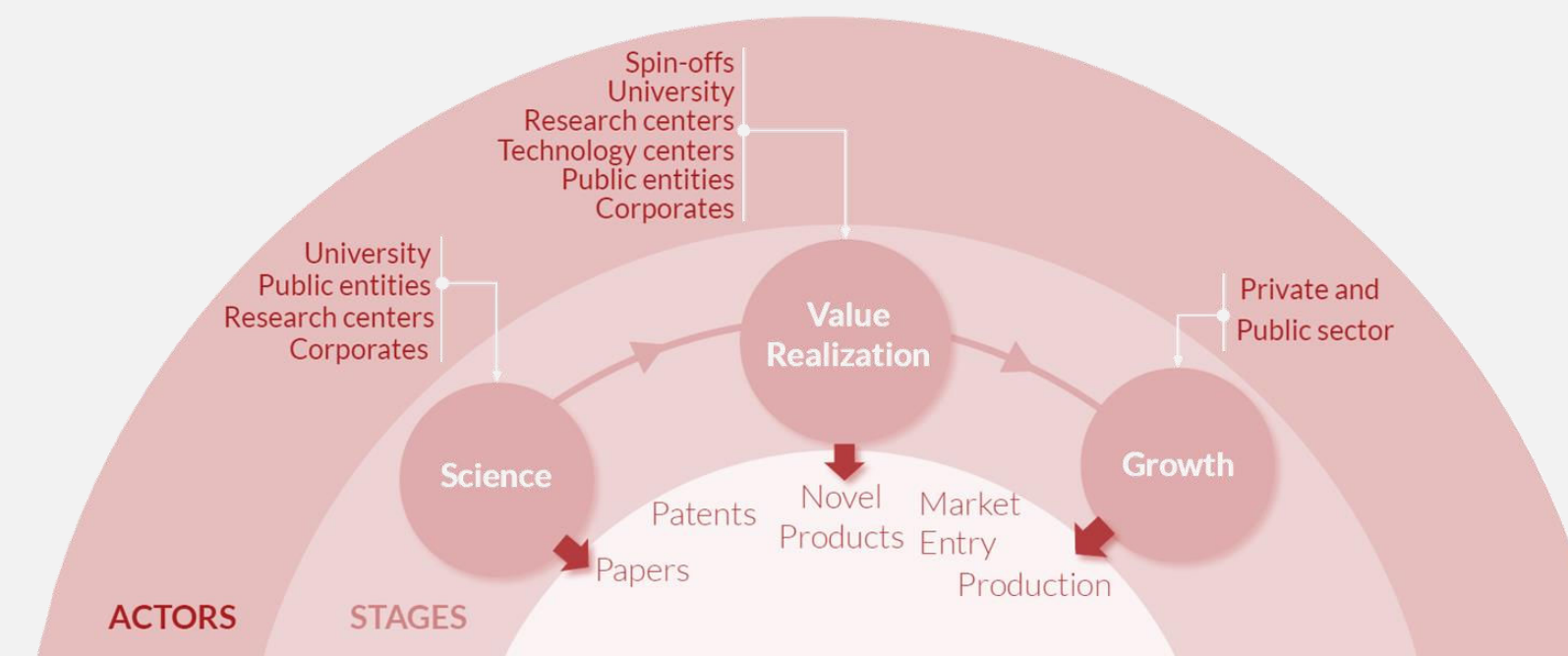
By reducing the prudential penalty, the rule makes bancassurance and financial conglomerates more attractive.

# Some successful stories

## Public listing count by exchange region



## The complex route of innovation



## UK pension system funding innovation (example)

The pension system is being deliberately **redirected to finance innovation and private economic growth** by channeling long-term retirement savings into private markets such as venture capital, growth equity, infrastructure, and private credit.

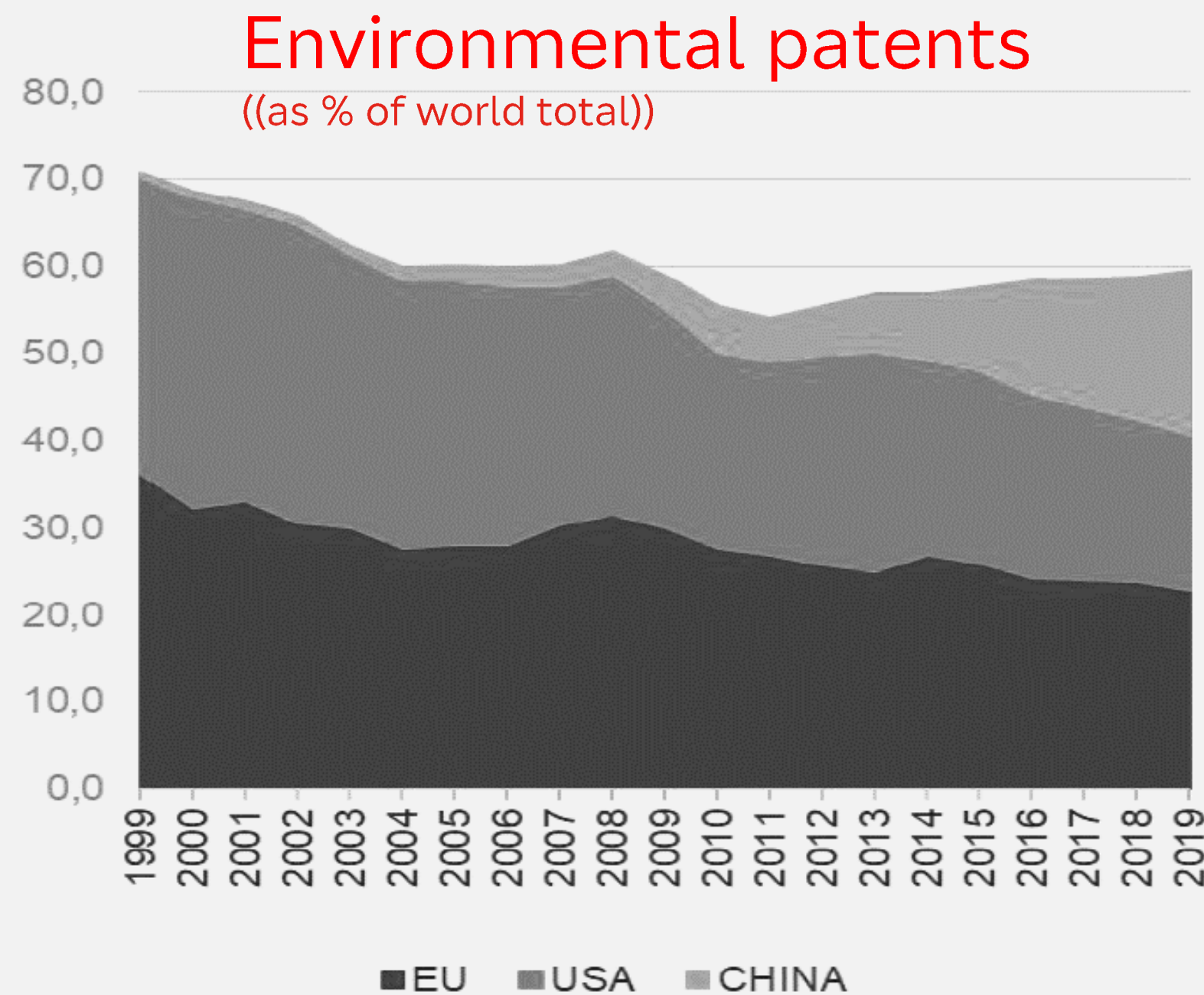
### Mechanism:

Policymakers aim to mobilize large pools of pension capital, particularly from **defined contribution (DC) pension funds**, and allocate a portion of these assets to **illiquid investments that fund innovative companies and strategic sectors**. Reforms such as the Mansion House Compact and Accord encourage pension funds to invest **5–10% of their portfolios in private markets**, potentially unlocking **£50–£74 billion by 2030**, much of it directed toward UK companies

Examples: National Employment Savings Trust and “Smart Pension”, multiple insurance participation

## Regional distribution of listed equity investments for Dutch and British defined benefit pension funds

Region	Dutch pension funds (%)	British pension funds (%)
Domestic	1.4	36.8
Euro area	9.7	13.1
Other European Union	2.4	2.3
Other Europe	10.1	4.8
Northern America	47.7	22.9
Asia	21.3	16.0
Latin America & Caribbean	3.6	1.6
Oceania	2.7	2.2
Africa	0.9	0.4



Technology and innovation are essential, EU world leader in the initial states a lager in the up scaling

## (\* ) Worrysome insurance and re insurance practices regarding private credit due to regulatory arbitrage

- Institutional investors are increasingly concerned about the financial strength of life insurers owned or backed by private equity (e.g., Apollo, Blackstone, Golden Gate), many of which are also linked to reinsurers.
- These insurers have systematically shifted portfolios toward **private credit**, often via captive reinsurance vehicles in jurisdictions like Bermuda or the Cayman Islands, gaining capital flexibility but increasing **opacity, illiquidity, and valuation risk**.
- Uncertainty around asset quality, true liquidity, and capital adequacy is prompting some investors to consider **withdrawing capital**, raising the risk of **liquidity stress**.
- In adverse scenarios, some entities may lack sufficient capital buffers to absorb outflows, potentially triggering **contagion across insurers and reinsurers**.
- This is not neutral for policyholders: deteriorating solvency could translate into **higher default risk on annuities and life insurance obligations**.
- European insurers under **Solvency II** have more constrained exposure, but **indirect contagion risks remain** via market valuations, spreads, and investor sentiment.