A system that serves: Rebuilding finance for the future

Financial system vision Triodos Bank

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1 Introduction – The turning point

Triodos Bank

Money and finance connect people. They are the social technologies that allow us to trust one another beyond personal relationships, to exchange across time and distance, and to cooperate on a vast scale. We use them to fund our homes, our education, our energy systems and our shared future. When it works well, finance supports human dignity and ecological balance. But when it loses its sense of purpose, it can undermine both.

Triodos Bank was founded 45 years ago on a simple conviction: money can be used consciously to serve life. From its inception, Triodos Bank has sought to reconnect finance with its social meaning – to show that banking is not just a mechanical business of balance sheets and rates, but a moral and social activity. Every financial transaction is also a choice about the kind of world we want to create. Triodos Bank brings these ideals to life both by *Financing Change* and by attempting to *Change Finance*. This paper outlines the challenges we see in the financial system today, and what levers we see to solve them. In doing so, it provides a long-term vision that can serve as foundation for our *Change Finance* activities.

1.1 A system that has drifted away from its purpose

The financial system should serve the economy, and the economy should serve society. Yet right now, that order has been reversed. Finance has become an end in itself, a self-referential network of balance sheets and algorithms, more focused on extracting value than creating it.

We have a system that has become very large, yet not more useful. Financial assets and liabilities have grown to many times the size of the real economy. But this expansion has not translated into improved wellbeing or social stability. Instead, it has concentrated wealth, expanded debt and deepened our dependence on perpetual growth.

We have a system that has become very complex, yet not more stable. Layers of intermediation and speculative activity have made finance opaque and fragile. Shocks now travel instantly across borders and sectors. The crises of 2008 and 2023 are not anomalies, but symptoms of a system that magnifies its own vulnerabilities.

And we have a system that has become increasingly detached from people and planet. Finance rewards activities that promise short-term returns, even when they erode long-term resilience. It treats social and ecological systems as externalities, not as the living foundations of prosperity.

1.2 The social nature of finance

Finance is not an abstract mechanism. It is a social relationship built on trust, shared expectations and collective institutions. Every form of money that we use today depends on confidence – whether in a government, a central bank or a community that honours its promises. The stability of finance therefore reflects the stability of society. When social trust weakens, so does financial trust.

Throughout history, societies have reinvented their financial systems in response to changing needs. From local credit cooperatives to national central banks, international payment networks and digital currencies, each new layer of finance has emerged from human initiative. Sometimes changes were driven by a new social agreement about how to share risk and opportunity, or sparked by individuals seeing a commercial opportunity or inventing new technologies. But because these systems are complex and deeply interwoven with other parts of the economy, implementing intended change is never easy.

Financial systems are path dependent. Today's institutions are the result of centuries of incremental choices, crises and political compromises. They embody the interests and expectations of millions of actors, such as savers, borrowers, governments, investors and regulators, whose motivations are often misaligned. Even when the need for change is clear, reform is often difficult, especially when the costs are concentrated and the benefits are collective.

1.3 Why this moment matters

History also shows that financial systems can evolve – and that they usually do so at moments of profound disruption. The Great Depression led to the creation of modern central banking and financial supervision. The oil shocks of the 1970s ushered in a new era of global capital mobility. The 2008 financial crisis exposed the fragility of self-regulating markets and restored public oversight to centre stage.

We are now at a similar turning point. The ecological crisis is forcing us to confront the physical limits of an economy built on debt and extraction. Digital technologies are transforming the way money moves

and who controls it. Rising inequality and declining trust in institutions are testing the social contract that underpins the legitimacy of finance itself.

In this context, the question is not whether the financial system will change – it already is – but how and for whom. Will change be driven by crisis, or by conscious redesign?

1.4 Finance that serves life

This vision sets out Triodos Bank's answer. Based on what we have been advocating for over the past decades, we believe that finance must once again become a means to an end: a tool that enables societies to flourish within planetary boundaries. To achieve this, we need to rebalance the relationship between public and private roles, restore trust in money as a common good and ensure that capital supports the real economy rather than dominating it.

The rest of this paper sets out how this can be achieved. It is structured around three essential functions of finance that shape how money touches our lives every day. Each of these functions can either reinforce the current system or help transform it. Each holds the potential for renewal, if we are willing to rethink the rules and institutions that govern them. We examine the following three core functions:

1. **Facilitating payments for all –** ensuring that everyone can participate safely and affordably in economic life.

2. **Mobilising capital consciously –** directing savings and investment toward the transition to a sustainable, inclusive economy.

3. **Managing risk holistically –** building resilience in the face of ecological and social shocks.

Triodos Bank's vision is rooted in experience. For decades, we have financed real change – from renewable energy and organic agriculture to social enterprises and cultural initiatives. We have seen how finance can be reconnected to purpose when it is guided by values, transparency and trust. But we have also seen how difficult systemic change is, and how urgently it is needed.

This vision paper is therefore both a call to action and a roadmap to change finance: a call to recognise that finance is not a neutral backdrop but a central arena of transformation; and a roadmap for how it can evolve to serve our lives fairly, consciously and within the limits of our planet. Throughout the paper we propose levers for change: improvements of parts of the financial system that together amount to a transformation of finance. We believe it is possible to have a financial system that serves prosperous life for all on a thriving planet.

2 Why the financial system must change

The financial system is one of the most powerful organising structures in modern societies. It connects people, businesses and governments through webs of credit, investment and payment. When it works well, it directs savings into productive uses, enables smooth exchanges and helps society manage risk. Yet the system we have built does not only serve these purposes. It has become too large, too concentrated, too fragile and too disconnected from the ecological and social foundations of life on which prosperity ultimately depends.

2.1 A system that has grown too large – and detached from the real economy

Over recent decades, finance has expanded far faster than the economy it is meant to serve. International evidence shows that global balance sheets and private net worth have surged relative to GDP, driven largely by asset price inflation rather than new productive capacity.[1, 2] This financial expansion has coincided with rising debt levels, repeated instability and a persistent shortfall in real investment for public goods and the transition needs highlighted by multilateral assessments.[3, 4, 5, 6] This means that more finance has not consistently delivered more value. As balance sheets grow and intermediation layers multiply, capital increasingly circulates within financial markets rather than reaching regenerative financing needs in the real economy: think energy transition, affordable housing construction, nature restoration and social care.

2.2 A system that has become too concentrated – and too powerful

Power within finance has become concentrated in a few large institutions. A small number of major actors dominate asset management[7]; card payments in Europe are primarily controlled by a limited number of US-based international schemes[8]; and in several EU countries, a handful of banks hold the vast majority of sector assets.[9] Concentration in markets is never a good idea; without competitive pressure, private profits often increase while costs to society rise. In finance, this concentration also confers quasi-public authority on private institutions: when their stability is synonymous with system stability, public authorities face pressure to support them during times of stress. The implicit backstops that follow lower their funding costs and reinforce incumbency, reducing competitive dynamism and diversity.[10] Moreover, dependence on a small number of foreign actors also undermines – in this case – Europe's strategic autonomy.

2.3 A system that has become too fragile – and too short-sighted

The same features that promise efficiency – speed, leverage and tight interconnectedness – also make the system fragile.

The financing that eventually reaches the productive, real economy is increasingly owned or provided by non-bank financial institutions (NBFIs)[11]. Although these institutions are poorly regulated, they are interconnected with the banking system. This erodes social relationships, while increasing opacity and fragility in the financial system. When shocks materialise, they can spread across markets within seconds. The global financial crisis and more recent banking turmoil have shown how quickly confidence can collapse once trust in balance sheets falters.

Financial stability is a public good. To stabilise this fragile system, central banks and governments have repeatedly had to step in to provide liquidity, collateral facilities and guarantees to prevent systemic failure. The asymmetry between public risk and private reward has become structural: profits are privatised, while losses are socialised.

2.4 A system transformed by digitisation – and a new struggle for control

The digital transformation of finance has deepened existing tensions between the public purpose and private power. New technologies such as instant payments, cryptocurrencies, stablecoins and tokenised assets have changed how money circulates, but not the logic that drives it. These innovations promise speed, inclusion and lower transaction costs. However, they have mainly expanded the role of private intermediaries and blurred the boundary between financial and technological domains, while also privatising for instance money creation.

Payment service providers and Big Tech companies now provide essential payment services to banks. Their reach, scale and data access give them systemic importance comparable to traditional financial institutions, but without the equivalent oversight or public accountability. In parallel, the emergence of private digital currencies and stablecoins creates new forms of "private money" that depend on public trust but operate beyond public control.[12] Together, this has created a triangular struggle between banks seeking to retain relevance, tech companies expanding into the financial sector and public authorities trying

to safeguard public interests such as stability and sovereignty. The outcome of this contest will determine whether the next generation of money and payments serves society as a public good or reinforces the dominance of a select few global platforms.

The challenge is not technological but institutional: we must ensure that digital finance evolves within frameworks of democratic legitimacy, transparency and resilience. Without that, the transition to digital money risks deepening concentration, eroding trust and entrenching the very fragilities it claims to solve.

2.5 A system disconnected from ecological and social realities

The same imbalance between private gain and public responsibility is visible in the way finance allocates capital. Financial flows continue to support activities that deplete natural capital, while investment in transition and social infrastructure remains insufficient.[13, 14, 15, 16] Subsidies and fiscal incentives for harmful and destructive causes still distort capital allocation, perpetuating business models that exceed planetary boundaries. Short-term incentives reinforce the problem. Financial actors and executives are generally rewarded based on their quarterly performance rather than long-term resilience. Risks that materialise over years, such as climate change, biodiversity loss demographic trends, remain largely invisible on balance sheets. The result is a cycle in which short-term gain takes precedence over long-term success.

This is not just an ethical failure; it also poses a material, existential threat. Ignoring ecological limits and social foundations distorts both value and risk. As a result, activities that erode resilience can appear profitable, while those that restore it seem costly.[17] Over time, this weakens economic stability, public trust and the essential foundations necessary to support life.

2.6 A system locked in by its own history

Why is change so hard, even when the need is obvious? Because finance is path dependent. Money, credit and payments are layered social institutions developed through a combination of law, technology and convention.[18, 19] The evolution from commodity money to fiat money – as well as from solely public issuance to a co-created form involving private banks – has produced a system designed for liquidity, growth and maximising private profit.

Reforms have stabilised past crises, but they rarely lead to a change in direction. Regulatory frameworks, payment infrastructures and market norms have co-evolved to reinforce the status quo. Network effects in payments and economies of scale in compliance and technology further entrench incumbency. Transformation is therefore difficult, even when the system's limitations are widely recognised.

Yet history shows that financial systems can change. Central banks, deposit insurance and monetary unions were all created in response to previous crises or challenges. The current moment, marked by ecological overshoot, social fragmentation and technological disruption, again calls for such systemic renewal.

2.7 A system ready to be rebalanced

The challenges we face are not isolated failures but symptoms of a deeper misalignment between finance and society. Of course, these problems can not be blamed on finance alone, yet the financial system is deeply complicit in them: it shapes the flows of money, power and risk that underpin the wider economy and so is partly responsible for these failures. Incremental reform alone will not be enough to address the problems. Finance today is relatively stable in form but destructive in function.

Rebalancing the core functions of finance means:

- ensuring that payments and money creation serve citizens safely and fairly
- directing capital toward productive and regenerative investment
- managing ecological risks to build resilience

This is not about dismantling markets but about redesigning them so that public purpose and private initiative reinforce each other. Diversity, transparency and accountability are essential features of a financial system that contributes to wellbeing within planetary boundaries.

Finance must again be recognised as a social institution – a collective infrastructure grounded in trust and law. Its legitimacy depends on serving life rather than extracting from it. The next section sets out the principles that can guide this transformation.

3 Money and payments as a public good

The power of finance is built on trust, and that trust begins with money. Every financial relationship, from lending to investment, ultimately depends on a well-functioning system of money and payments. When citizens can safely exchange, store and transfer value, the economy operates smoothly. When that trust falters, the economy wobbles, and the consequences cascade through society.

Today's payment system embodies much of what has gone wrong with finance more broadly: excessive concentration, blurred public–private boundaries and growing dependence on private infrastructures for what are, fundamentally, essential public services. Understanding and reforming this system is therefore a critical step towards a financial sector that serves society as a whole.

3.1 Why payments matter

A well-functioning payment system is the foundation of any economy. It enables exchange, supports trade and underpins the credit that fuels investment. It is, in many ways, the circulatory system of modern economic life. Invisible when healthy, immediately felt when blocked.

However, payments are not just technical operations; they are expressions of collective trust. Most people assume that the balance in their bank account is as safe as cash in hand. In reality, those balances are private money – claims on commercial banks – guaranteed partly because public institutions stand behind them. This fusion of private activity and public backing makes both the payment system and banks powerful yet fragile.

3.2 Problems in today's payment system

The traditional structure of payments gives banks, especially big banks, a privileged position.[20] They simultaneously create money through lending and provide the accounts through which payments are made. Because society cannot tolerate a collapse of everyday payments, governments extend explicit and implicit guarantees to the banking sector. Deposit insurance and central bank liquidity facilities make private money appear risk-free and also socialise part of the sector's risk-taking through implicit subsidies as well as the costs of public intervention.[21]

The shift from physical cash (public money) to digital deposits (private money) privatises the monetary base further, intensifying this public-private entanglement. In the eurozone, only a small share of money in circulation is now issued directly by the central bank. The rest depends on the stability of commercial banks and, ultimately, on taxpayer guarantees when crises occur.

Digitalisation has also reinforced concentration. Payment systems are networks with strong economies of scale. In Europe, two US-based companies handle most card transactions, while large technology companies facilitate an increasing share of online payments.[22] Their dominance allows them to charge high fees and thereby extract rents from merchants and consumers, while Europe's dependence on foreign infrastructure weakens its strategic autonomy.

Meanwhile, banks have also been assigned the role as gatekeeper to the financial system through compliance obligations, such as Know Your Customer (KYC) and Customer Due Diligence (CDD) regulations. The purpose of gatekeeping in the payments system is to detect financial crime, but multiple problems arise from placing this function with banks. First, each individual institution repeats these checks when someone tries to become a client, creating inefficiency. Second, banks are often cautious about ensuring compliance with this regulation, which means they sometimes exclude people who aren't criminals, such as those without formal identification or a fixed address. Access to the payment system is essential for social inclusion, so we should try harder to ensure everyone has access.[23] Third, implementing these processes involves economies of scale, advantaging bigger banks over smaller ones. This reduces diversity within the banking sector, which hurts both capital mobilisation and resilience (see chapter 4).

3.3 Digital and other experiments: cryptocurrencies, stablecoins and complementary currencies

Technological innovation has spurred attempts to address these problems. Cryptocurrencies, stablecoins and complementary currencies each claim to make payments faster, fairer or more inclusive. Their rapid rise shows both dissatisfaction with the current system and the enduring appeal of monetary experimentation. But none of these have proven to be a reliable form of currency.

Cryptocurrencies such as bitcoin shift trust from institutions to technology. While their distributed ledgers make fraud difficult, they come with enormous

energy costs and high volatility. They are rarely accepted for payment, and their prices fluctuate far too much to serve as a stable store of value. In practice, they have become speculative assets traded through new intermediaries rather than genuine alternatives to money.[24]

Stablecoins seek to overcome volatility by pegging their value to state currencies like the dollar or euro. However, they rely on private issuers whose reserves and governance are often opaque. Without robust supervision, they risk "stablecoin runs" – the digital equivalent of a bank run – and can undermine monetary sovereignty by shifting liquidity into privately controlled currencies.[25]

Complementary currencies, by contrast, pursue social objectives. Local exchange systems, time banks and community currencies aim to strengthen reciprocity, support local economies or reward sustainable behaviour.[26] Their reach is usually limited, but they provide useful experiments in aligning money with purpose. When well designed, they demonstrate that exchange can be organised around social and ecological goals, not only profit.

These digital and community experiments highlight an essential truth: trust in money is ultimately collective and political. Technology can improve efficiency, but it cannot replace the public guarantees and shared conventions that make money credible.

3.4 Public options: A public payment system and a digital form of public money

Payments are a public good, and they require public infrastructure. A public payment system for the eurozone could ensure low-cost, secure and interoperable transactions while strengthening European autonomy. Brazil's Pix system offers a successful precedent: state-operated, instant and widely accessible, it has increased competition among banks and promoted inclusion by enabling transfers through simple identifiers like phone numbers or email addresses.

Building on this logic, a central bank digital currency (CBDC) could provide citizens with a safe, digital form of public money – a direct claim on the central bank. When properly designed, it would combine the stability of cash with the convenience of electronic payments, anchoring trust in a public institution rather than private balance sheets.[27] In our preferred model, CBDC would be distributed through both public and private payment providers, with no or low interest rates at public payment providers and gradually increasing holding limits. It would give everyone the option to store and transact in risk-free digital money, allowing deposit guarantee schemes to be phased out over time. Depositing funds in a commercial bank would then become a conscious choice to accept a modest risk in exchange for return and impact, rather than a default necessity. To guarantee financial stability, such a transition should be carefully managed, and bank supervision frameworks should also be adjusted to reflect these changes. If executed well, this separation could make banks more competitive and diverse, directing their focus towards productive lending instead of payment monopolies.

3.5 Governance and access: Centralised KYC/CDD and inclusiveness

Ensuring integrity and inclusiveness in this new system will require institutional innovation. We propose a centralised, publicly governed European or national authority for KYC and CDD checks. Instead of each bank repeating the same procedures, a single public body could maintain a secure database accessible to licensed institutions. This would reduce duplication, lower compliance costs and minimise unjust exclusion from financial services. Basic accounts to hold modest amounts of CBDC could be made available to all residents, including those without passports or fixed addresses, ensuring universal access to the payment system.

3.6 Restoring trust in money

The evolution of money and payments mirrors the evolution of society. Over time, public trust has been delegated to private institutions whose incentives do not always align with the common good. The next phase of financial reform must therefore restore money as a public good: resilient, inclusive and anchored in shared responsibility.

Re-establishing public purpose in payments will not mean suppressing innovation. On the contrary, it will create a stable foundation that allows private actors to innovate responsibly. By combining technological progress with democratic oversight, Europe can build a monetary system that serves people, not the other way around – a system where trust is renewed because it is once again deserved.

4 The misallocation of capital

Mobilising capital is one of the core functions of finance. Once a stable system of money and payments is in place, finance should channel savings into productive investment such as building homes, restoring ecosystems and creating opportunities for people and communities. This process connects today's wealth with tomorrow's wellbeing.

At its core, mobilising capital is about turning savings into investment and maintaining the liquidity that keeps economies moving. This intermediation can take many forms ranging from local bank loans to global bond markets, depending on the amount of capital required and the level of risk involved.[28] Public capital can also play a role when private markets fail or there is a need to achieve public objectives, such as an energy transition.[29]

Currently, these mechanisms do not work as they should. Capital flows have grown enormously, yet the real economy struggles to attract the long-term investment needed for transformation. Meanwhile, it is still relatively easy to finance unsustainable activities. The result is an abundance of financial wealth but a shortage of productive, regenerative investment. In the following section, we identify five structural problems that explain why finance so often fails to serve its public purpose. We focus on financial system changes, ignoring real economy shifts like the removal of harmful subsidies or the introduction of stronger sustainability regulations.

The first two problems are related to which goals capital chases. The first problem describes how finance increasingly supports the sale of existing assets, rather than the generation of something new. The second problem shows that even when finance facilitates economic activity today, it rarely focuses on regeneration – restoring depleted resources or building resilience for the future. Because the impacts are not financially material in the short term, they are largely neglected by the financial system. We then look at three more problems in mobilising capital. The reliance on issuing equity for early-stage financing allows shareholder interests to dominate over those of all other stakeholders. The consequences of this narrow focus are evident in public companies: managers are rewarded for increasing shareholder value rather than societal value, and shareholders aren't even liable for the damage 'their' companies cause. We then discuss how the key markets that are supposed to mobilise capital have become oligopolistic. This weakens competitive discipline, distorts incentives for the big players, and makes them powerful beyond real accountability. Last, we signal that some financial instruments that can serve a genuine purpose, have come to be used primarily for speculative profit chasing.

4.1 Too much unproductive capital

Over recent decades, global financial assets have grown several times faster than world GDP. Much of this growth has been driven not by new productive investment but by asset price inflation, especially in real estate and securities. Credit creation increasingly finances the purchase of existing assets rather than new productive capacity. This is *unproductive finance*: it moves money between owners without expanding the economy's ability to produce goods and services. By contrast, *productive finance* supports the production, sale and consumption of real goods and services – investments that raise the economy's long-term capacity and resilience. Every healthy financial system contains both types, but the balance has shifted decisively toward the unproductive side.[30]

One key reason is the transformation of the banking industry. Traditional "originate-to-hold" lending, in which banks kept risk on their own balance sheets, has largely been replaced by an "originate-to-distribute" model. Through securitisation and other credit-risk transfers, banks package loans, especially mortgages, and sell them to investors. This process allows them to free up capital by holding less risk.[31] At the same time, non-bank financial institutions (NBFIs) such as asset managers, hedge funds and private credit vehicles have taken over much of the system's risk-taking and maturity transformation, often outside the scope of bank regulation.[32] This interconnected relationship is reciprocal: banks often provide credit to NBFIs, enabling them to engage in lending or investing in the real economy.

This shift has made finance larger but not more productive. Banks now concentrate on collateral-rich lending that can be securitised and sold, while NBFIs absorb these assets in search of yield or engage in the riskier lending practices. Too much unproductive finance produces a self-reinforcing loop: higher prices raise collateral values, enabling even more lending to buy assets, which in turn raises prices.

Prudential regulation reinforces the pattern: low risk weights for mortgage and sovereign lending make these assets capital-efficient, while entrepreneurial or transition projects appear costly and risky.[33, 34] And because NBFIs depend on market liquidity and are connected to banks, public authorities often intervene

in crises to prevent disorderly deleveraging. This intervention effectively socialises downside risk while preserving the fee-driven model that fuels unproductive finance.

In effect, risk has migrated from banks to markets, but since both are interconnected, banks remain exposed. The system may appear safer for individual institutions, but it is actually more fragile in aggregate and is still poorly connected to productive investment. Asset inflation benefits existing owners, widens inequality and diverts resources from sectors that could expand real economic capacity. In short, more finance no longer means more prosperity; it often means more fragility.

4.2 Capital doesn't chase impact

The first problem concerns where finance flows, while the second concerns what it seeks. Even when money reaches the real economy, it rarely aims for impact.[35] Investment decisions continue to be guided by financial risk and return, not by ecological or social value. Truly regenerative finance integrates ecological and social value with financial return. However, projects like renewable energy, affordable housing, nature restoration or care services often struggle to attract funding because their benefits are collective, uncertain or realised only over decades.

This is not simply a matter of investor preference; it is embedded in how we measure value. Modern finance translates almost everything into short-term, quantifiable metrics – cash flows, volatility, yield – that capture private, priced outcomes but ignore public ones. Activities that generate systemic benefit but modest or no immediate profit appear unattractive, while extractive or speculative ventures look "efficient" because their costs are borne elsewhere.

Efforts to correct this through sustainable finance have only partly succeeded. ESG ratings and disclosure regimes increase transparency but are not sufficient by themselves to move capital. Green bonds and sustainability-linked loans are on the rise, but they still represent a tiny share of global assets. For most large investors, benchmark performance outweighs real-world impact.

Supervisory frameworks also lag behind. Prudential authorities primarily view climate and environmental issues as *financial risks* to be managed, not as *systemic risks* that finance itself can either amplify or mitigate.[36] Without a mandate to assess the real-world impact of financial flows, supervisors inadvertently reinforce short-termism: they safeguard the stability of existing institutions rather than the resilience of the system as a whole.

Blended-finance initiatives – in which public funds de-risk private investment in transition sectors – show promise but remain too limited and fragmented to shift the overall allocation of capital.[37] Public resources are mostly used to protect private balance sheets rather than to steer genuinely transformative projects.

The result is a form of impact blindness, where capital chases what is easy to price rather than what is essential to sustain.[38]

Markets that reward liquidity and scale systematically undervalue transformation, because transformation is messy, long-term and context-specific.[39] Unless market prices fully incorporate impact, which we believe they never will, finance will continue to optimise within a shrinking space of safety and ignore the foundations on which that safety depends.[40]

4.3 The bias towards shareholder models

Finance does not just move money; it defines what is valued within the real economy companies it finances. In recent decades, the shareholder-value model has become the dominant form of corporate governance, narrowing the purpose of enterprise down to maximising financial returns for investors. Share price has become the yardstick of performance, eclipsing long-term value creation for employees, communities or the environment.

This orientation is reinforced by the legal architecture of capitalism itself. As Katharina Pistor shows, corporate and financial power is "coded in law".[41] The corporation's legal privileges – especially limited liability and the separability of the corporate entity from its owners – shield shareholders from the social and ecological consequences of their decisions. When profits are privatised and losses socialised, incentives naturally tilt toward short-term extraction.

Within companies, executive incentives amplify the bias. Managers are rewarded through stock-based pay and pressured to meet quarterly targets. Share buy-backs and dividend payouts take precedence over productive reinvestment, while investments in employees, innovation or sustainability are treated as costs rather than assets. Financial markets reward these behaviours: companies that prioritise long-term

purpose are often penalised with lower valuations or higher capital costs.

Alternative governance models – cooperatives, steward-owned enterprises, employee ownership and public-interest companies – demonstrate that other forms of value creation are possible.[42] Yet they remain marginal because accounting rules, tax regimes and investment mandates are designed for transferable shares and liquidity, and because early-stage investors simply prefer the power that comes with shareholder-centred companies.

By defining success through shareholder return and legally insulating owners from accountability, the current system privileges financial performance over public purpose. It encourages the pursuit of value extraction rather than value creation and limits the capacity of business to contribute to ecological and social transformation.

4.4 The dominant market structure in finance has become oligopoly

Across key parts of the financial system, market power has become concentrated in a small number of large institutions. In banking, similar patterns exist across Europe, where a handful of incumbents dominate lending and deposit taking and have become "too big to fail".[43] Their stability is now treated as a public good, granting them quasi-public protection even though profits remain private.

In asset management, three global firms – BlackRock, Vanguard and State Street – collectively hold major stakes in most listed companies. What began as a low-cost service for savers has created an unprecedented concentration of ownership and voting power, giving these companies a quiet but decisive influence over corporate strategy worldwide.[44]

These oligopolies did not arise by accident. Network effects, economies of scale in technology and data[45], and post-crisis regulation[46] that increased compliance costs have all favoured large players over smaller or mission-driven institutions. Payment systems, for example, naturally reward size and interoperability; supervisory regimes apply uniform standards, unless a company is big enough to develop its own alternative model. In banking, crisis-era mergers were often encouraged to stabilise markets, further entrenching incumbents. In asset management, passive investing automatically channels new inflows to the largest funds, magnifying concentration with every market boom.

The consequences are systemic. Concentration weakens competition, leading to higher costs and lower service quality for households and small businesses. It entrenches market and political power in a few balance sheets that shape credit conditions and corporate governance alike. And it heightens stability risks: when a small cluster of institutions dominates, a failure or loss of confidence in one can quickly cascade through the system, forcing public intervention. Smaller cooperative or public-purpose banks face structural disadvantages, such as higher regulatory costs, limited technology access and shrinking market share. These challenges reduce the sector's overall diversity and adaptability.

This concentration blurs the line between public and private power. Restoring diversity and contestability in finance is not just a matter of market efficiency but of rebalancing private influence and public responsibility.

4.5 Useless and misused instruments

A well-functioning financial system should provide tools that help the real economy manage risk, fund investment and allocate capital efficiently. Over time, however, financial innovation has become detached from these purposes. Many instruments now primarily serve trading, arbitrage and balance-sheet engineering rather than genuine economic value creation.

Derivatives are a clear example. The global derivatives market is enormous,[47] yet only a part of these contracts hedges real-world exposures. Many corporate users employ derivatives to manage genuine economic risk, but a significant share is purely speculative. Such speculation can have harmful spillover effects on the real economy, such as when excessive trading in commodity derivatives contributed to volatile food prices.[48] These speculative and sometimes leveraged hedges circulate within finance itself, amplifying interconnectedness and fragility.

Financial complexity also erodes transparency. Each layer of intermediation – investment vehicles, funds of funds, synthetic exposures – adds opacity and fees while widening the gap between savers and productive investment.[49] For supervisors and policymakers, this makes it difficult to see where risks accumulate. Yet regulation still treats "innovation" and "liquidity" as inherently positive, even when they make the system more fragile.

The outcome is an abundance of instruments but a shortage of purpose. Finance has mastered the art of engineering risk but has forgotten its function of enabling productive investment and social resilience.

A system that multiplies finance but not value

Taken together, these five problems show how the financial system has grown larger, faster and more complex, yet less able to serve the economy or society. Too much capital circulates within finance itself, and too little reaches productive, regenerative use. Incentives reward short-term gain, shareholder extraction and scale, while diversity, impact and genuine innovation are crowded out. The outcome is a system that multiplies financial wealth without expanding real value, concentrating power while diffusing responsibility.

Restoring finance to its public purpose requires more than incremental reform. It means redesigning the mechanisms that create, allocate and govern capital so that private initiative and public responsibility reinforce one another. The next section sets out how this re-orientation can take shape – how finance can again become a means to shared prosperity within ecological limits, rather than an end in itself.

5 Reorienting capital towards regeneration

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In the previous section, we diagnosed the main failures of the financial system, and in this section, we outline how its core functions – money creation, intermediation and risk management – can be re-aligned with public purpose. The goal is not to shrink finance but to redirect its scale and creativity toward real, regenerative value creation. An outcome of that goal would probably be that finance shrinks. Change must start from within existing institutions yet be guided by public purpose and democratic legitimacy.

Reorienting capital means adjusting incentives for financial institutions and reforming ownership structures and governance so that finance once again serves society rather than the other way around. The following five directions correspond to the five problems identified earlier.

5.1 Refocus finance on productive investment

To make finance truly serve the real economy, intermediation itself must be redesigned. We believe banks and other financial intermediaries should operate within short credit intermediation chains that directly finance the real, productive economy. Shorter chains support relationship-based financing, enabling financial institutions to assess borrowers or investees holistically rather than through abstract models. This re-embeds financial relationships in social relationships and can lower borrowing costs for clients.[50] Less interconnectedness between financial institutions also makes the financial system more resilient to shocks.[51] For investors, shorter intermediation chains mean more transparency, allowing then to know better where their money goes.

Banks in Europe are particularly well placed to finance the real economy directly. They are well-supervised, most people hold their deposits with them and they retain the unique ability to create money through lending. Other financial institutions, such as private lending funds that raise money directly from investors, can and should also play a role in these short intermediation chains, provided their activities remain transparent and aligned with productive investment.

Regulatory frameworks should be recalibrated to incentivise banks to lend directly to the real, productive economy, while safeguarding stability. A higher overall capital ratio would help because stronger buffers enable banks to extend more credit to small and medium-sized enterprises and other productive businesses that may seem riskier on paper but generate more real economic value. Stability would also improve if banks increased the maturity of their liabilities, for instance by offering more attractive rates on fixed-term savings accounts. The introduction of a digital euro as risk-free alternative could strengthen this reorientation of banks towards societally useful risk-taking.

As banks become better positioned to lend directly to productive sectors, supervision should actively discourage the interconnectedness between banks and non-banks. Such separation would help shorten credit intermediation chains and contain the systemic risks that stem from banks being interconnected with less regulated financial institutions. Consistent with this logic, securitisation should not be used as a tool to sell off a bank's assets, as such transfers only lengthen intermediation chains and distance finance from the real economy.

5.2 Make finance regenerative through democratic governance

Finance doesn't just need to flow to the real, productive economy – it needs to become regenerative. Regenerative finance refers to finance that truly incorporates ecological and social impacts. This requires a clear vision of what a desirable real economy looks like. Such a vision inevitably involves trade-offs, for instance between social and ecological impacts.

We do not believe that single numerical policy targets can holistically steer economic development, nor that pricing all externalities is possible or desirable. Instead, a democratically governed guidance regime should be developed to orient finance in the regenerative direction. This would not entail deciding which specific projects receive funding or at what rate. Instead, it would focus on setting broad priorities, such as encouraging renewable energy projects while discouraging fossil fuel expansion.

Inspiration for a European credit guidance regime can be found in the French Banking Control Commission, which implemented a strong and effective credit policy between 1945 and 1984, directing lending towards democratic priorities.[52] Guidance could be applied through a wide range of policy instruments, from loan-to-value ratios to sectoral credit floors and ceilings.[53] Adjusting capital requirements to include a forward-looking component is one option, as is further greening of monetary policy operations.[54]

While defining priorities should be defined democratically, we believe it is essential that a guidance regime includes punitive measures alongside promotional ones. Politically, it is often easier to promote regenerative projects than to penalise destructive projects. Yet, a transition can only succeed if phase-out accompanies build-up.

Even with democratic guidance, not every regenerative goal is suitable for return-seeking finance. Public and common pool goods, such as biodiversity or clean water, are clear examples.[55, 56] Public actors sometimes try to commodify these goods in order to attract private finance, but such efforts are often cumbersome: every impact must be quantified for market dynamics to align with public purpose. Relying on non-return seeking money instead, such as taxes, is usually more effective.

A guidance regime should therefore assess not only whether goals are regenerative, but also what type of money best fits each goal. Similarly, when governments engage in blended finance, they should be explicit about what role they take. Subsidies to catalyse investments can make sense, but only if they remain temporary. Where public actors co-invest structurally, risk and rewards should be shared fairly, with clear impact conditionalities included in the deal terms.[57]

Public banks and investment institutions do not always need to blend their financing to advance societal interests. In many cases, they can act directly and effectively on behalf of the public. Requiring impact disclosures from financial institutions remains important so that clients know where their money goes. However, the playing field between regenerative and destructive financing should be levelled. Reporting requirements should apply equally to all institutions, not only to those that are impact oriented. A *'dirty taxonomy'* and related disclosure obligations would help make harmful activities more visible.

Duplication of work between financial institutions could be reduced if a basic set of impact data was collected centrally for SMEs, analogous to the centralisation of KYC and CDD procedures we proposed in the chapter on facilitating payments. Finally, we recommend that institutions seeking to accelerate transitions consider transformative impact in addition to standardised and backward-looking impact indicators.

5.3 Reform equity shares

Replacing traditional equity shares with financing instruments that limit cumulative returns and voting power for investors would allow for more balanced governance structures within organisations. This, in turn, would enable companies to really orient towards their long-term mission and the interest of various stakeholders, rather than focusing narrowly on short-term shareholder value.

Open-ended profit loans are one such instrument. These are loans without a fixed maturity date, repaid from profits until a defined cumulative payback is reached. The lender may also negotiate a temporary role in the organisation's governance as part of the agreement. Wider adoption of such instruments could support the development of organisations that are *sustainable by design*. This could also be catalysed through the creation and promotion of legal structures for such organisations, which currently only exist in a few countries.[58]

Existing equity shares, however, still embody an imbalance between potential risk and return. This could be addressed by introducing absolute caps on the cumulative shareholder returns, ensuring that financial participation remains proportionate to real value creation.

5.4 Promote competition and diversity

The most straightforward step towards a more competitive banking sector is to dismantle the scale advantages created by regulation. Centralising KYC/CDD and introducing a digital euro would move in that direction. The internal ratings-based approach currently allows larger banks to hold less capital than smaller ones; eliminating this approach would help reduce the regulatory bias to scale. Finally cross-border competition within Europe could be strengthened by removing legal barriers and creating a truly level playing field.

To promote a diverse financial sector as well, supervisors could offer bespoke regulatory regimes for certain types of niche banks, for example waiving concentration limits in specific cases.[59] Such banks can develop deep expertise in particular markets without becoming excessively large and powerful, and their diversity would make the system as whole more resilient.

In both banking and asset management, policies could also additionally disincentivise scale. Taxes that increase in proportion to an institution's relative market size could serve this purpose, while explicit market concentration limits could also be explored.

5.5 Ensuring proper use of financial instruments

To ensure financial instruments are only used to support genuine regenerative needs, market regulation and supervision must be strengthened. Instruments that are used purely for speculation, such as synthetic ETFs, could simply be banned. Others that can serve legitimate risk management purposes, but are often used speculatively, such as currency hedges, could be subject to buyer requirements, allowing sales only to those with demonstrable currency exposure. Finally, financial transaction taxes could help to curb excessive speculative and high-frequency trading.[60]

Five steps towards regenerative capital

Together, these five solutions could turn finance into a truly regenerative force. By enabling banks and other financial institutions to finance the real, productive economy directly, finance becomes purposeful and better embedded in social relationships. Democratic guidance can help steer capital towards truly regenerative goals, with impact-oriented institutions that go beyond these minimum requirements.

Providing alternative instruments to equity shares and promoting different forms of ownership and governance would embed long-term impact considerations throughout the real economy. Policies that actively reduce the scale advantages in key financial markets could improve their functioning, and diversity-promoting policies could enhance resilience. Finally, ensuring that financial instruments are used only for legitimate, productive purposes would help ensure that all finance ultimately serves the real economy.

6 Managing ecological risks

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Well-functioning risk management is essential for enabling the rest of the financial system and, by extension, economic life as a whole. In this chapter, we do not examine risk management in the same depth as we did for mobilising capital. Instead, we focus on the areas where current risk management and insurance fall short most clearly: the risks associated with ecological crises.

6.1 Problems in managing sustainability risks

Traditional risk management techniques underestimate sustainability risks. This limitation is embedded both in financial institutions and in regulation such as capital requirements, which rely on backward-looking data to estimate future risks. Yet sustainability risks have little or no historic precedent, making such data unfit for the task. Estimating these risks is inherently difficult as they are deeply uncertain, non-linear and mutually reinforcing.[61]

Central banks and supervisors have acknowledged this, yet progress remains limited.[62] Sustainability risks are still barely reflected in banks' capital requirements, even though potential losses could be significant even in the short-term.[63, 64]

Meanwhile, private insurers struggle to incorporate sustainability risks for much the same reasons. As a result some risks are becoming simply uninsurable, leaving people exposed to harms and financial losses they did not cause themselves.[65] Since insurance often serves as the bedrock for other financial activity such as obtaining loans, the retreat of insurers could echo throughout the financial system, for instance through depressing asset values.

6.2 Improving the management of sustainability risks

Before discussing how to deal better with sustainability risks, it is important to stress that preventing further risks from arising is the best possible risk management. Sustainability risks, such as those stemming from climate change and biodiversity loss, could ultimately threaten the stability of societies and economies. The only rational response to such existential risks is a strong precautionary approach aimed at preventing further damages.[66] The guidance regime we advocated in the previous chapter could provide such an approach.

Even with this precautionary stance, sustainability risks are already materialising and more will come. Effective risk management will therefore need to rely on forward-looking techniques such as scenario analysis. Given the uncertainty surrounding these risks, prudence requires using the highest plausible damage estimates when calibrating scenarios. These techniques already exist, but they should be made mandatory across the entire financial system, including both the supervision of financial institutions and the credit ratings produced by rating agencies.

Where damages occur, the guiding principle should be that polluters pay. Sustainability damages are not disasters occurring at random; they have been caused by excessive resource use and pollution primarily by the wealthiest segments of the global population. And the greatest harm is borne by countries in the Global South.[67] Fair compensation, both within and between countries, is therefore justified.

Finally, there are opportunities to leverage insurance mechanisms to mitigate and adapt to sustainability risks. When insurance premiums can be used to prevent damage rather than merely compensating for it after the fact, this creates a genuine win-win situation, especially given feedback loops involved.[68] Encouragingly, several industry initiatives are already moving in this direction.

7 Conclusion and levers for change

The financial system should serve the economy, and the economy should serve society. Yet today, finance no longer fulfils that purpose. The system has grown too large, too detached from the real economy, too fragile and too focused on generating short-term private profits. Public authorities are repeatedly forced to step in to safeguard financial stability, while ecological and social impacts remain systematically disregarded.

It does not have to be this way. Finance has taken many forms throughout history. At its core, it is a social technology that facilitates trust and exchange. When designed well, it can embody and strengthen social relationships rather than erode them. To protect public interests, we must reclaim public purpose and control. The shortcomings of today's financial systems are not just problems, they are opportunities for transformation. The task ahead is to reshape finance so that it once again serves people and planet.

In this vision paper, we have evaluated finance's three main functions and identified key levers for change: opportunities to make finance serve society better. Many of these levers for change would strengthen each other. While we describe them all in isolation, they would only reach their full potential to transform the system when implemented jointly.

7.1 Money and payments as a public good

- Introduce a public payments system and a digital form of public money: Payments are a public good and therefore require public infrastructure. A publicly governed payments system could ensure low-cost, secure and interoperable transactions while strengthening European autonomy. A CBDC could complement this by giving citizens access to a safe digital form of public money, combining the stability of cash with the convenience of electronic payments. Inclusiveness could be enhanced by offering basic accounts linked to simple identifiers such as an email address or a phone number. A CBDC with low or no interest rates, introduced gradually, could rebalance public trust and private risk-taking in banking. Over time, this could support a more diverse and resilient financial sector.

- Centralise KYC/CDD for efficiency and inclusiveness: A centralised system for KYC/CDD procedures would reduce duplication and lower compliance costs across the financial sector. Equally important, it would help to prevent unjust exclusion from the payments system by ensuring consistent and fair access standards for all citizens and businesses.

7.2 Reorienting capital towards regeneration

- Refocus finance on productive investment: More finance must flow into productive investment in the real economy. This requires short intermediation chains, where banks and alternative financial institutions raise funds from savers and investors to finance the real economy directly. Shorter chains strengthen social relationships, improve transparency and make the system more resilient. Raising generic capital requirements for banks and reducing interconnectedness with NBFI, such as by limiting securitisation, would help redirect finance to the real economy.

- Make finance regenerative through democratic governance: Finance should become regenerative, incorporating ecological and social impacts into decision-making. The most effective way to achieve this is through democratically guided direction of financial flows, grounded in institutional innovation and inspired by examples from the past. Such a guidance regime would not dictate every investment but instead embed democratic priorities at a higher level.

- Reform equity shares: Finance holds power over how most companies operate because ownership and governance are dominated by shareholders. To rebalance this, we need to mainstream alternative ownership models, such as steward-owned or employee-owned companies, and create financial instruments that align with their missions. Legal innovation in corporate forms and the promotion of long-term, capped-return instruments could enable companies to pursue their missions without being bound to short-term shareholder value.

- Promote competition and diversity: Oligopolistic financial markets serve no one but the incumbents. Strengthening competition among banks in Europe starts with dismantling institutionalised scale biases, such as the internal ratings-based approach, and removing cross-border barriers for banks and asset managers. Supervisors could foster diversity by offering bespoke regulatory regimes for niche banks that serve niche markets and increase system resilience. Policies that disincentivise excessive scale, like progressive taxes tied to market share

and explicit limits on market concentration, would further enhance competition.

- Ensure proper use of financial instruments: Most financial instruments can serve legitimate purposes, but many are frequently used for pure speculation. Instruments with no productive use should be banned outright, and those that can be misused, such as derivatives, should be sold only to buyers with demonstrable exposure. A financial transaction tax would further curb speculative and high-frequency trading, helping ensure that all finance supports the real, regenerative economy.

7.3 Managing ecological risks

- Adopt forward-looking risk management: Traditional, backward-looking risk management techniques severely underestimate sustainability risks. A precautionary approach should guide policy to prevent these risks as far as possible. Where risk management is required, it must rely on forward-looking methods using the highest plausible damage estimates. These approaches should be embedded throughout the entire financial system for supervision, capital requirements and credit ratings alike.

- Make polluters pay: As sustainability risks increasingly materialise, costs must be shared fairly. The guiding principle should be that polluters pay, both within and between countries. Those most responsible for resource depletion and emissions should bear the costs of the damage they have caused. This includes compensating communities left exposed by insurance retreat, who face not only environmental harm but also financial loss.

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