



MÄRTEN ROSS

Deputy Secretary General for Financial Policy and External Relations, Ministry of Finance, Estonia

Opportunities and challenges of the European Digital Finance Strategy

Does the European Digital Finance Strategy (DFS) identify the main drivers for accelerating the digitalisation of the EU financial sector?

In many respects the DFS is indeed directed towards right priorities in enhancing competitiveness, facilitating innovation and addressing risks of European financial services. The focus on interoperability and broader infrastructure seems clearly heading to right direction. Ongoing digitalisation itself and improving the efficiency of using its opportunities by reducing costs and using digital transformation as for example artificial intelligence is simply a must.

Moreover, the pandemic (as one catalyst for change) has clearly shown more than ever the importance of secure, stable and efficient digital financial services that meet customer needs. For example, instant payments are new reality even without regulatory action and outdated services lose naturally their place in the market. Digital transformation and open data enforce also European Green agenda and therefore strengthen synergy of both efforts and promote recovery of Europe.

Are there any missing points and do the DFS proposals have any downsides or limitations that need considering?

Obviously, it is worth stressing that any digital finance strategy and underlying regulatory initiatives are meaningful only if they target not just new tech and infrastructures, but as well the traditional banking, capital markets and their infrastructures to promote their competitiveness. Europe would benefit even more if introducing new and innovation friendly rules would be at least one step ahead of private sector initiatives and forward-looking compared to actions of other global public players.

In that sense DFS itself is only a part of the real digital strategy. True, it is in many respects already broader than most of its predecessors and this is welcome. For example, it is only logical that there is more focus on wider infrastructure issues including cross-border problems of distant on-boarding and related improvement needs on customer due diligence requirements or potential “IBAN-discrimination” issues.

However, “digitalization” of more traditional financial market areas like securities market functioning or registry keeping frameworks

are as important for digital agenda as narrower questions. Therefore, forthcoming reviews of MIFID and CSDR are as important elements of the strategy.

Digital transmission goes of course hand in hand with some challenges, which in the long run might turn out to be positive for both the real sector, the private customers and businesses, but also the financial sector stakeholders if the readiness to transform and to change the business models is sufficiently there. Nowadays, the traditional banking sector is not only competing with traditional competitors, i.e. other banks, but also for example with start-ups and global Fintech companies. This is one element that in turn pushes towards more efficient and reliable cross-border solutions. In addition, refinement of risk management and preparedness to incorporate more profound interconnectedness and interdependencies in financial markets and emerging cyber risks into the framework is simply essential. Substantially risen cyberattacks on financial sector institutions across the EU during the pandemic is only one source and example.

What are the priorities in terms of impact and feasibility?

The more widely used and secure the (new) innovative solutions are, the better. This would serve the real needs of our economies and increase the customer confidence and satisfaction in financial services, which has to be the ultimate goal of the DFS. Furthermore, progress in single digital identification, i.e. a single solution across Europe is critical in order to advance global competitiveness of Europe and promote the functioning of the internal market. The challenges and concerns about privacy and security need to be addressed to alleviate the resistance in some Member States.

As regards to the EU’s digital finance initiatives, one should support novel business models and instruments that have emerged in this digital era and the joint efforts undertaken at the EU level to address the field of cryptography and digital euro.