

DIGITAL FINANCE: IS THE EU MOVING FAST ENOUGH?



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Regulatory clarity and supervisory convergence to unlock digital innovation

European financial intermediaries are moving decisively towards digitalisation, although the speed and depth of this transformation vary significantly across sectors. In areas such as payments and retail banking, digital technologies have already reshaped market dynamics, customer expectations and operational models. Conversely, other segments of the financial system, such as capital markets or pension funds, are still in the first phase of their digital transition. In these sectors, digital solutions such as distributed ledger technology, advanced data analytics or AI-driven risk assessment are often confined to pilots or ancillary functions, rather than being embedded into core business models.

These discrepancies highlight that digital finance in the EU is not a single transformation, but a set of sector-specific transitions moving at different speeds. For more decisive progress in all sectors, European institutions should address three main factors slowing down digitalisation: legal uncertainty, structural regulatory complexity and the current fragmentation of DLT asset ecosystems.

Firstly, a significant brake to digital innovation in the financial sector lies in the legal uncertainty created by the overlap between horizontal digital legislation and sector-specific financial regulation. Financial institutions are frequently confronted with overlapping requirements stemming from different regimes, applied by different authorities and based on partially misaligned objectives. The often unclear relationship between DORA, NIS2, the Cyber Resilience Act and the AI Act is one of the most emblematic examples of this fragmentation. Different taxonomies, overlapping obligations and unaligned supervisory expectations between financial authorities and bodies responsible for cybersecurity or AI governance create uncertainty and operational complexity. This fragmentation risks undermining the very scalability that EU digital finance policy seeks to promote. Without clearer alignment between financial supervision, cybersecurity requirements and AI governance obligations, firms may adopt defensive, compliance-driven approaches rather than fully leveraging digital innovation. To prevent this outcome, European institutions should address these issues *ex ante*, by drafting clearer and more coordinated rules, and *ex post*, by establishing permanent coordination mechanisms between competent authorities at both European and national level. While the Digital Omnibus includes promising elements, such as the single entry point,

it does not yet resolve the most significant interpretative and coordination challenges between the EU digital and financial legislative frameworks.

Secondly, driving innovation also requires a willingness to rethink regulatory approaches and adopt more flexible tools, such as regulatory sandboxes. Simplifying not only the regulatory framework but also the way in which rules are produced would represent a meaningful step forward. Earlier coordination between legislators, supervisors and market participants could prevent misalignments before they materialise, reducing the need for corrective guidance at a later stage. In this respect, the broader use of regulatory sandboxes could support the design of more proportionate and innovation-friendly rules that reflect real market practices, rather than abstract regulatory assumptions, and can further strengthen the interaction between supervisors, incumbents and new market entrants. Alongside more structural simplification, closing open legislative files and focusing on effective implementation would help reduce uncertainty and allow institutions to plan long-term digital investments with greater confidence.

Europe needs regulatory coordination, not more rules, to scale digital finance.

Thirdly, since the issuance of most tokenised financial instruments remains small in scale and largely illiquid, European institutions should actively support the development of a truly European digital capital markets union, where assets and cash can coexist on one or more interoperable ledgers, enabling scale, liquidity and cross-border participation.

Ultimately, coherence is becoming a competitive factor in itself for Europe's digital financial markets. Without it, innovation risks remaining fragmented, local and unable to compete on a global scale. Thus, to guide the next phase of development, European and national policymakers should prioritise coherence, coordination and constructive public-private interaction, shifting the focus from rulemaking quantity to regulatory quality and effective implementation.



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Accelerated cloud adoption in financial services will support EU competitiveness

The European Union's financial sector stands at a critical juncture in its digital transformation journey. While progress is evident, there are still further opportunities for the EU to harness the full potential of cloud technologies and enhance global competitiveness.

AWS customers using cloud cite scalability advantages that allow them to expand capacity to meet increased demand; enhanced operational resilience through improved availability, security and reduced downtime; business agility enabling rapid deployment of new products, geographic expansion and feature enhancements; and sustainability gains by reducing the environmental impact of IT operations and cost savings compared to on-premise infrastructure.

Currently, less than 15% of IT spending is directed toward cloud services with the majority of workloads remaining on-premise. There is enormous potential for transformation. However, customers frequently cite regulatory uncertainty and compliance costs as barriers to digital acceleration – a challenge that demands attention from policy and regulatory stakeholders at forums like EUROFI.

AWS is committed to building and supporting the EU's digital finance ecosystem through infrastructure investments. AWS has nine Regions across Europe, and earlier this year we launched the AWS European Sovereign Cloud backed by a €7.8 billion investment. These investments provide the infrastructure necessary for financial institutions to scale their digital operations while maintaining data sovereignty and meeting stringent European requirements. AWS is also democratizing access to artificial intelligence through services like Amazon Bedrock, which enables financial institutions to access and test multiple foundation models without massive upfront investments, accelerating innovation across financial services institutions and enterprises of all sizes.

However, there are still areas where policymakers and regulators can further enable the industry. First, regulatory simplification should be a priority. Complex or fragmented regulatory frameworks impose high compliance costs – approximately 40% of IT budgets are spent on compliance costs – particularly impacting smaller firms with limited legal and technical resources and disincentivizing AI and cloud adoption. Overlaps between DORA, NIS2, GDPR and various national frameworks can create unnecessary complexity.

Second, the skills gap represents a fundamental constraint. With 56% of businesses citing digital skills shortages as limiting innovation, and only 25% possessing strong AI capabilities for confident assessment and deployment (<https://www.unlockingeuropesaipotential.com/>), Europe faces a human capital challenge that infrastructure investment alone cannot

solve. Accelerating progress requires sustained, collective focus across public and private sectors on digital adoption, skills development, infrastructure, entrepreneurship, and digital transformation.

Third, legacy system modernization and data infrastructure improvements remain incomplete. Many institutions face data quality and integration challenges that prevent them from fully leveraging cloud capabilities, creating a technical debt that compounds over time.

From a regulatory perspective DORA represents a significant milestone in harmonising operational resilience requirements across the EU, consolidating fragmented national provisions into a robust framework with direct oversight of Critical Third-Party Providers (CTPPs). However, implementation challenges are emerging and guidelines risk fragmenting the intended harmonization. This pattern—where well-intentioned supervision creates layered complexity—undermines DORA's core objective of regulatory simplification.

Cloud computing is not merely a technology choice - it enables business competitiveness.

The fundamental principle should be that simplification and resilience are complementary, not competing objectives. Reducing regulatory friction strengthens the financial ecosystem by enabling firms to focus resources on security and innovation rather than navigating conflicting requirements. The EU's financial sector possesses the talent, institutions, and infrastructure to lead in digital finance—but this needs to be supported by a regulatory environment that enables rather than constrains this transformation. As part of this cloud computing is not merely a technology choice—it enables business competitiveness and this should be embraced to ensure the EU's objective for growth and innovation can be achieved.