

Digital Finance: is the EU moving fast enough?

1. State of play of digitalisation in the European financial sector

An industry speaker considered that, although the EU has demonstrated strong regulatory leadership in digital finance through initiatives such as MiCA - establishing a pragmatic, cross-border framework for digital assets suited to a rapidly evolving environment - these rules have not yet translated into significant market adoption, scalable products and infrastructure, or tangible economic outcomes. In the current highly competitive global market context, the key objective is now to ensure an effective and consistent implementation of the regulatory framework, including through the rapid issuance of guidance, in order to make digital asset rules operational in practice and support experimentation.

In addition, digital finance innovations such as tokenised money, tokenised collateral and blockchain-based settlement infrastructures are likely to become an integral part of mainstream financial markets within a relatively short timeframe, rather than remaining separate segments. These developments should therefore be integrated into the broader financial system under appropriate regulation and supervision, in a way that is both safe and commercially viable.

A regulator noted that, while assessing whether the EU is moving "fast enough" is inherently subjective, it is clear that the EU is not advancing as quickly as other major regions in the digitalisation of its financial sector. The EU has made significant progress, notably through the establishment of a strong regulatory framework, which plays a key role in building investor trust and supporting innovation. There are also numerous projects emerging from EU fintechs and the use of regulatory sandboxes across Member States. However, sufficient scale and speed of adoption have not yet been achieved. This reflects both persistent market fragmentation in the EU and broader structural challenges, including comparatively less developed venture capital ecosystems and capital markets.

The US has not yet reached full scale in digital finance but is progressing more rapidly than the EU. It benefits from deeper capital markets, stronger financing capacity, leading infrastructure and technology providers, particularly in cloud and AI, and a supportive political environment, all of which may contribute to faster scaling, even though its regulatory framework remains incomplete. At the same time, uncertainties remain regarding the ability of US providers to expand internationally at scale in the absence of a consistent regulatory framework at the global level. Asia presents a different model, characterised by stronger public sector support, more integrated financial and technological ecosystems, and a more "digital-first" approach across

the population, particularly among younger generations. This contributes to faster adoption compared to both the EU and the US.

An official emphasised that traditional financial institutions and systems in most EU Member States are already highly digitalised, meaning that the technological and market foundations for further innovation are largely in place. The key challenge now lies in achieving sufficient scale. This requires greater market integration and standardisation, building on ongoing European initiatives such as the digital finance package, PSD3 and the Payment Services Regulation. Beyond digitalising existing financial activities, there is also a need to develop new types of financial services that fully leverage new technological capabilities, such as digital assets and programmability.

2. Adapting the EU regulatory and supervisory framework to digital finance

2.1 Simplification and coherence of the EU regulatory framework

An industry speaker stressed that regulatory simplification is essential for Europe to move to a leading position in terms of digital innovation. A recent report indicates that around 42% of technology budgets in Europe are allocated to compliance and that more than 80% of firms have experienced rising compliance costs in recent years, driven inter alia by overlapping regulatory frameworks including DORA, NIS2, GDPR and national rules. This complexity creates uncertainty, particularly for smaller firms, and can slow down the adoption of technologies such as cloud and AI. Simplification and resilience are not contradictory but complementary objectives, and clearer implementation guidance is needed.

An official agreed on the need to simplify rules at EU level. On-going omnibus initiatives are welcome, but they should focus more on the root causes of complexity rather than its symptoms. The main issue in the EU digital finance framework is not the volume of regulation, but insufficient coordination between financial rules and horizontal digital legislation related to AI, data protection and cyber risk. These overlapping requirements create complexity and legal uncertainty, further compounded by the involvement of multiple competent authorities at both EU and national levels, potentially with differing supervisory expectations.

In theory, these frameworks are meant to be complementary, as digital regulations are typically product or activity based, whereas many financial

regulations are entity based. In practice, however, this distinction is not clear cut. For example, a mobile banking application subject to CRA is also an integral component of a bank's IT infrastructure, bringing it within the scope of DORA and NIS2 and leading to potential duplication and inconsistencies, notably in areas such as incident reporting. Similar overlaps arise between requirements on ICT third-party risk under DORA and supply chain security under NIS2, as well as in the treatment of AI systems used for credit scoring, which fall under both the AI Act and the Consumer Credit Directive.

This challenge can be addressed in two ways, the official suggested. The first, and potentially the most straightforward, would be for EU institutions to more explicitly take into account interactions across regulatory frameworks when drafting rules *ex ante*, and to reinforce supervisory convergence efforts *ex post*. The second would be to exempt financial institutions from overlapping obligations based on the *lex specialis* principle (i.e. giving precedence to sector-specific financial rules over horizontal legislation where they impose equivalent requirements). While the digital omnibus introduces some simplification tools, such as a single entry point to streamline cyber-related reporting across frameworks, it does not sufficiently address these structural regulatory issues, which should become a priority for EU policymakers.

2.2 Enabling scaling, innovation and competitiveness

An industry speaker emphasised that fostering safe digital innovation requires ensuring that it takes place within the EU rather than in offshore jurisdictions, from where unregulated firms may offer services into the European market, and allowing digital activities and infrastructure to scale domestically. This implies making regulatory compliance commercially viable and ensuring that firms operating under EU frameworks are not placed at a competitive disadvantage.

Progress in enabling firms to build, experiment and scale digital finance solutions within Europe remains too slow, particularly in areas such as tokenisation. While the Market Integration and Supervision Package (MISP) proposes improvements to the DLT pilot regime, these may take several years to be fully implemented on the ground, risking the EU being outpaced by competitors. Maintaining innovation within the EU also requires providing sufficient certainty and the right incentives for global players to commit capital and talent to Europe. Overall, a more dynamic approach is needed, not by loosening standards, but by combining legal clarity, faster implementation, regulatory flexibility and openness to experimentation, to enable Europe to remain competitive and lead in the next phase of digital finance innovation.

An official observed that the EU regulatory framework will inherently struggle to remain fully fit for purpose, as technological developments consistently outpace legislative processes. This explains the recurring need for reviews and simplification initiatives such as omnibus packages. While the digital omnibus is a positive step, in simplifying and clarifying existing rules, faster legislative processes are needed for the most urgent initiatives, notably the MISP, which aims to deepen capital markets

in Europe and support digital innovation in these markets. Other key priorities at EU level include the development of pan-European payment solutions, where the digital euro could play a catalytic role, and the enhancement of the DLT pilot regime to support the development of tokenisation and the associated digital infrastructure in Europe.

A second industry speaker considered that the current EU regulatory approach to digital finance, which often begins with rule-making before use cases and experimentation are sufficiently developed, may limit innovation, particularly in emerging areas such as AI where benefits and risks are not yet fully understood. Rather than systematically introducing detailed legislation upfront, greater reliance on guidance and more flexible approaches could support adoption more effectively. It is also important to ensure that regulation does not require excessive resources to implement and monitor, as this may divert capacity away from innovation and undermine the competitiveness of the EU market.

Regular reviews are also needed to adjust existing frameworks where necessary, as technologies evolve. While the simplification efforts of the digital omnibus are welcome, they do not ensure that the framework remains fit for purpose. In the case of the AI Act, the application of requirements for high-risk systems has been delayed, due in particular to outstanding technical standards and the need for further clarification, but this has not been accompanied by a broader reassessment of the rules.

2.3 Operationalising regulatory sandboxes

An official noted that regulatory sandboxes, which provide an environment for fintechs to test innovative ideas, are an effective tool to foster innovation. However, their implementation in the EU has been constrained by the highly harmonised nature of financial regulation, which limits Member States' ability to grant derogations from existing EU rules and reduces the effectiveness of these frameworks. As a result, innovation hubs and sandboxes established by national competent authorities (NCAs) have so far produced limited outcomes beyond improving dialogue and cooperation between regulators and innovative firms. As recognised in the Council conclusions of 2020, further operationalising sandboxes would require EU-level experimental clauses, providing NCAs with a legal basis to allow controlled derogations and case-by-case flexibility to test innovative technologies.

Another official concurred that, for domestic sandboxes to be effective, they need to allow derogations from EU rules, as financial legislation is increasingly harmonised at EU level. This would require introducing the concept of an EU regulatory sandbox or enabling national authorities to grant targeted derogations from EU legislation. Experience with national sandboxes to date shows that their main value lies less in regulatory flexibility than in fostering structured dialogue between supervisors and market participants, improving understanding of technological developments and market trends, and supporting a cultural shift towards innovation within supervisory authorities. More broadly,

this suggests a different approach to rule-making at EU level, relying less on prescriptive ex ante regulation and more on iterative test and learn approaches.

An industry speaker suggested that sandboxes should place greater emphasis on accelerating the transition from supervised experimentation to the scaling of commercially viable digital solutions, with clearer pathways from pilot to full authorisation, faster delivery of interpretative guidance, and greater ability to test use cases in live but controlled environments.

2.4 Adapting supervision to digital markets

A regulator emphasised the need to rebalance efforts between regulatory work and supervisory guidance in light of the rapid evolution of financial markets driven by digitalisation. Supervisory tools and processes also need updating to be fit-for-purpose. Supervisors in the EU currently have less flexibility than their counterparts in other jurisdictions to provide timely guidance and adapt rules to market developments. This issue is being considered in the context of the MISP, notably through efforts to strengthen supervisory flexibility and convergence. Digital markets also require digital supervision, including systems and expertise to monitor technologies such as DLT and AI, which may require significant investment in supervisory capabilities. Given budgetary constraints, this represents a major challenge that will need to be carefully anticipated and managed to ensure that the supervisory architecture remains effective.

An official noted that strengthening supervisory cooperation is essential to ensure a consistent interpretation of rules across jurisdictions and avoid operational barriers for firms operating across the EU. This requires further supervisory convergence rather than full centralisation.

3. Drivers and enablers of digital finance

Panellists highlighted a number of operational drivers that may support the development of digital finance, as well as the importance of ensuring an adequate financing of innovation.

3.1 Operational drivers of digitalisation

An industry speaker observed that, while the EU financial sector is making tangible progress in its digitalisation, competitiveness remains a concern, as already highlighted in the Draghi and Letta reports, and significant untapped potential persists, particularly in the adoption of cloud technologies. Legacy systems and outdated data infrastructures continue to limit the ability of firms to adopt and scale modern technologies.

Cloud services have strong potential to support digital innovation and enhance the global competitiveness of financial institutions. Currently, less than 15% of IT expenditure is allocated to cloud services in the EU, with most workloads still remaining on premises. Cloud adoption should therefore be further encouraged, as it is no longer an optional service, but an integral component

of firms' business strategies and a key driver of competitiveness and growth.

The industry speaker also highlighted the significant digital skills gap in the financial sector and the need for greater investment in skills development. A majority of firms (56%, according to a recent survey) report shortages in digital skills, while only a minority (25%) have strong AI capabilities enabling confident deployment.

A regulator identified additional enablers to support the development of digital finance, including advancing open finance and facilitating the adoption of distributed ledger technology (DLT) within market infrastructures. This requires continued progress on the proposals under the MISP, including the review of the DLT pilot regime and adjustments to CSDR and the Settlement Finality Directive to ensure greater technological neutrality.

3.2 Access to adequate financing

A regulator noted that a key enabler for accelerating the digitalisation of the EU financial sector is the development of a stronger venture capital environment and deeper capital markets to finance digital projects. The Savings and Investments Union initiative should contribute to this objective by reducing fragmentation and enabling capital markets to scale further. Lessons can also be drawn from Asian jurisdictions such as Singapore and Hong Kong in terms of public sector support.

Wrap up

The Chair summarised that, based on the discussion, progress in digital finance in the EU is significant but remains insufficient in terms of speed and scale. Europe should ensure that the development of digital finance increasingly takes place domestically, while remaining open to external investment and innovation. This requires regulation to strike the right balance between enabling innovation and addressing associated risks, while recognising that markets evolve faster than regulatory frameworks, which therefore need to be continuously adapted. In this context, greater use of regulations rather than directives could improve consistency and reduce implementation delays. In addition, reviews must also ensure that frameworks remain fit for purpose, support competitiveness and enable effective supervision, beyond the ongoing simplification efforts.

The discussion also indicated broad agreement that the EU has established a generally sound regulatory framework for digital finance, although further fine-tuning is required. Comments also emphasised the importance of effective implementation of the rules. Greater coherence is also needed between financial regulation, digital frameworks, such as the AI Act, DORA and EU and national data frameworks to avoid inconsistencies and interpretative challenges, supported by enhanced cooperation between European and national authorities. Strengthening supervisory capabilities and digital tools was also identified as a priority, reflected notably in the proposal to assign supervision of crypto-asset service providers (CASPs) to ESMA under the MISP.