# DIGITAL FINANCE: IS THE EU KEEPING PACE?

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## Digital finance priorities: competitiveness, scale and EU strategic autonomy

The Commission's approach to digital finance rests on a clear ambition: an EU financial system that is innovative, competitive at scale, and able to act on its own terms. Delivering on that ambition takes predictable rules, support for innovation, and the scale to compete globally. Following up on the EU Digital Finance Strategy, we have built the foundations: the Markets in Crypto-Assets Regulation (MiCA), the Digital Operational Resilience Act (DORA), and the Distributed Ledger Technology (DLT) Pilot Regime.

MiCA is now fully in place and working broadly as designed, with around 21 licensed stablecoins and over 200 Crypto-Asset Service Providers (CASPs) authorised across a wide range of Member States. The DLT Pilot Regime, by contrast, has seen limited uptake, held back by restrictive scale and scope, perceived complexity, and uncertainty about its duration. DORA has established a common framework for technology risk, bringing the largest technology providers under EU oversight. None of this is an end-state: our objective is to keep the EU open to new technologies while containing risk and keeping Europe globally competitive. Artificial intelligence is set to reshape financial services, and our frameworks - from DORA/ICT risk management to the AI Act - need to stay fit for purpose as deployment of agentic AI accelerates and quantum computing moves onto the horizon.

Stablecoins illustrate why this matters. Rapid market developments mean the topic merits a broad reflection: we want MiCA to remain a predictable, proportionate framework that allows crypto-assets to develop while balancing innovation with investor protection and financial stability and guided by the principle of technology neutrality. We have launched a public consultation to check that MiCA's implementation is consistent, proportionate and still fit for purpose.

A second priority is the tokenisation of financial markets, which will become an important part of future financial markets infrastructure. Done well, it can support broader access to capital, cheaper issuance, easier transferability, and more efficient collateral management and securities settlement - in a market that today remains fragmented. The review of the DLT Pilot Regime is a strong step in that direction. We aim to increase its flexibility, scale and scope, alongside the interoperability and efficiency of trading and post-trading infrastructure. This is not a technical adjustment; it is a strategic lever to shift market conditions from experimentation to market-wide deployment, supporting a competitive digital ecosystem with cross-border integration and deeper liquidity.

Without a wholesale central bank digital currency as the safest settlement asset, tokenisation will keep running up against its limits. We therefore fully support the ECB's Pontes and Appia projects, which chart the long-term direction of EU financial markets infrastructure and the digital asset ecosystem. Additionally, as a digital form of central bank money, the digital euro will give Europe a resilient, sovereign payment infrastructure of its own, while strengthening the international role of the euro.

There are other areas where the EU digital finance framework can work better. Digital innovation often cuts across sectoral regulation, creating overlapping requirements that call for simplification - a workstream we are actively pursuing.

**The EU's next digital finance priorities must marry openness to innovation with strategic autonomy.**

Finally, EU strategic autonomy is becoming an increasingly central thread running through all of this. We remain committed to openness, cooperation and international convergence. At the same time, Europe needs to be able to develop and scale digital solutions under its own rules and in line with its own public policy objectives. This is true in payments, digital assets and settlement, but just as much in the compute, cloud and AI infrastructure that increasingly underpin financial services.

Taken together, our priorities for the years ahead come down to three objectives: making sure our framework remains fit for purpose as technology and markets evolve; reaping the full benefits that digitalisation and innovation can bring to a genuine Savings and Investments Union and ensure EU strategic autonomy in digital finance.


# VOJTECH BELLING

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## Innovation first, regulation where it matters

Regulation is often described as being one step behind innovation. That is usually meant as criticism, but it need not be. Innovation requires space before it requires rules. It thrives where new ideas can be tested, challenged and refined without unnecessary barriers. That also means simplifying regulation and reducing compliance burdens. Most major technological innovation of recent decades emerged before dedicated regulatory framework existed for it. In fast-moving sectors, regulation is often reactive, responding once innovation reaches a scale that creates material risks for consumers, market integrity, financial stability or effective competition, not before. That is not a weakness of regulation, but the proper sequence. The purpose of regulation here is to address real risks, not to anticipate every possible technological development or win a race to regulate first.

The EU digital finance framework already provides a solid foundation. Nevertheless, debate too often begins with the question of how to regulate the next technology. It should begin one step earlier: whether new regulation is needed at all. Not every innovation creates a regulatory challenge, and not every uncertainty calls for an immediate legislative response. Rules may make markets safer and more predictable, but they do not invent technologies, attract investment or persuade firms to innovate in the EU: on the contrary, if introduced too early or applied too rigidly, they may encourage firms to develop and scale products in other, more welcoming jurisdictions. That distinction should guide any assessment of the EU digital finance framework. In other words, regulation is a means, not an objective.

For the EU, the challenge is thus not to regulate more, but to regulate better. The EU should focus on simplifying existing rules, reducing unnecessary compliance burdens and preserving Europe's competitiveness in global digital finance. Regulatory reform must not be treated as a one-way process in which every review produces new obligations. Any further adjustments should be based on a thorough impact assessment including whether existing rules are still fit for purpose.

Supervisors also have a key role to play. By providing regulatory clarity, encouraging early dialogue and applying rules consistently, they can reduce uncertainty for innovators without introducing new regulations. Various sandboxes, innovation hubs and dedicated contact points have already shown their value by helping firms test new ideas and move more quickly from pilot projects to market deployment. These practical tools should become a standard part of the European supervisory framework, supported by the exchange of best practices across Member States.

The EU also needs to look beyond its own borders. Closer cooperation with the United States and key Asian jurisdictions is especially vital. Digital finance is global, and a regulatory perspective cannot stop at the edge of the Single Market. Tokenised securities offer a telling example of a broader problem: while many jurisdictions recognise similar concepts, there is no global consensus on what constitutes a security, and even within the EU, similar instruments may fall under different national regulatory regimes, creating unnecessary uncertainty while making cross-border innovation more difficult.

Recent developments in AI illustrates the limits of a purely regulatory response particularly well. The recent Anthropic Mythos case showed that, following a U.S. export control decision, the EU had little influence over access to one of the world's most advanced AI models. It also highlighted that regulation alone can neither guarantee access to frontier technologies nor eliminate the risk of their misuse. Europe's long-term competitiveness depends on ensuring that an innovation can emerge, scale and remain in Europe.

**Innovation flourishes where regulation provides certainty without becoming a barrier to growth.**

Regulation remains necessary to protect consumers and markets, yet Europe's technological leadership will ultimately depend on its capacity to innovate, invest and cooperate internationally. At the same time, Europe must recognise today's global reality: the world's leading centres of digital innovation are largely located outside the EU. Rather than trying to shape technological development through legislation alone, the EU should adapt to this environment, strengthen international cooperation and ensure that Europe becomes a place where innovative businesses choose to build and scale their products.

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# Technology changes the core of finance

Digital transformation in financial services is an open-ended process with marked regional variations. Differences are rooted in historical development paths. Institutions introducing novel solutions find it far more difficult to adjust quickly to subsequent waves of innovation. Scrapping a complex system that absorbed a considerable amount of resources is a difficult business decision. From a commercial perspective, this was not a dramatic problem when technologies took years to evolve and financial institutions were not pushed by competitors to embrace new solutions on a constant basis. Today the business reality is much different.

With the exponential development of digital technologies, change arrives fast and everywhere.

Financial institutions, especially banks with long histories, must find a new modus operandi to exist under these conditions. The challenge goes much deeper than service provision, touching the core of how banks operate and structure their business models.

Technologies fundamentally alter how the financial world works across three key dimensions, and they have to be taken into consideration when establishing the new operating model.

First, automated operations and AI-based services drive marginal operating costs toward zero, creating intense competition not only for traditional institutions but also for digital-native platforms that must discover new ways of earning profits. Second, core technological infrastructure, algorithmic modeling, and AI cybersecurity are no longer back-office expenses, but serve as the primary competitive moat. Third, liquidity management must adapt rapidly. Digital banking and instant messaging enable hyper-fast capital flight, compressing liquidity crises into hours. Moreover, while regulations protect against cyclical credit downturns, they offer little defense against technological irrelevance of an organization that is not able to adapt to AI reality.

Is the European Union moving fast enough to address these issues? No country can keep pace with every vector of change. The EU's performance can nevertheless be evaluated against two factors: how the EU fares compared with other regions, and how it performs relative to its own purpose of change.

The simple answer is these questions is that the European financial sector is not moving fast enough in any regard. When seen as one region European financial institutions do not take sufficient advantage of technological possibilities or the regulatory push intended for the sector.

Open banking is a telling example. The second Payment Services Directive (PSD2), enacted to spur fintech innovation and foster new services, suffered from fragmented implementation and poorly performing APIs. Incumbents' fear of competition from rival banks or rising fintechs was among the main culprits. While the new PSD3/PSR framework should amend its predecessor weaknesses, a decade has been lost to agile non-European competitors. Furthermore, the proposed Financial Data Access (FIDA) framework—conceived to make us of the abundant data troves sitting in the databases of traditional financial institutions—was again delayed and diluted, mainly by fears of the big techs capturing economic value.

> **AI challenge goes much deeper than service provision, it touches the core of how finance work.**

Regulation built on the assumption that rules should primarily protect consumers or domestic companies is like shooting oneself in the foot. For the past decade, DG FISMA was set to establish competitive rules to further digitalization by promoting open data access, encouraging modern technologies, and reduction of foreign supplier dependence. Yet, single market rules cannot substitute for unified political will. The siloed national champions of digital payment solutions, such as BLIK, Bizum, or iDEAL, are a telling example of this limitation. Similarly, European payment sovereignty will be difficult to achieve if policy merely focuses on replacing non-EU services with local alternatives.

In a world where AI is the defining factor, European companies and regulators need to think ahead rather than reactively. Europe leads in user experience design, where consumers enjoy some of the most digitally advanced retail banking applications. Yet, the European financial sector cannot remain stuck at Level 1 AI. To yield net productivity gains, artificial intelligence and other technologies must be embedded directly into the core of financial operations.

This cannot happen entirely out of regulatory control, but many protective rules in finance are already present in the system and simply need to be extended to the AI world without writing entirely new laws. This could drastically reduce the time-to-market for digital legislation that is so urgently needed today.

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# Accelerating digital finance in the EU: openness as the path to competitiveness

Cloud infrastructure, artificial intelligence (AI), secure data-sharing and the modernisation of legacy IT systems are reshaping the financial sector. These technologies are the practical foundations of a competitive, resilient and innovative EU financial sector and wider economy.

The drivers are tangible. Cloud allows firms to replace large, fixed capital outlays with flexible, pay-as-you-go capacity, delivering cost savings, scalability and faster innovation. It strengthens operational resilience, reducing unplanned downtime compared with legacy environments. It underpins sustainability and AWS infrastructure is up to 4.1 times more energy efficient than traditional on-premises data centres.

Cloud also unlocks business agility by shortening the time needed to launch new products. AI and machine learning sit at the heart of this transformation, powering fraud detection, market surveillance, customer personalisation, faster underwriting and the automation of manual processes, all made possible by the cost-effective compute that cloud provides.

Technology providers and how they work with the financial sector are central to this shift. The valuable role providers can play is to democratise access to advanced capability, offering a genuine choice including, when it comes to AI models, access to a secure infrastructure and the tools to customise them safely. Services such as Amazon Bedrock already gives the financial sector access to hundreds of models from multiple technology providers, so that no single model-level disruption can interrupt their AI capabilities. This works best when it combines the provider's engineering depth with the institution's domain expertise and regulatory accountability. With this collaboration comes scrutiny and AWS understands the rationale for frameworks such as the Digital Operational Resilience Act (DORA) – aiming to help Europe build a financial sector that is both dynamic and secure.

Against this backdrop, the recently announced European technological sovereignty package and the Cloud and AI Development Act (CADA) reflect a legitimate ambition: to strengthen the continent's computing capacity and reduce strategic vulnerabilities. The critical question is how they are pursued. Measures designed to build capability and expand infrastructure will leverage existing best practices; but measures that exclude technology providers based on where they are headquartered, rather what they deliver, risk raising costs, slowing innovation and undermining the competitiveness agenda they are meant to serve.

To be competitive on the global stage, organisations need the freedom to choose the best technology for a specific task, wherever it originates, and the ability to switch providers when needed. The EU's own competitiveness ambitions, from the Savings and Investment Union (SIU) to its start-up and scale-up strategy, depend on remaining open to global innovation, investment and competition. Restrictions on non-European investments or infrastructure would deter the very capital and talent EU is working so hard to attract.

**Being able to choose the best technology for the task will support the EU's competitiveness ambition.**

There is a path that meets the mutual interests we all have in building a resilient, competitive and innovative EU. Investment in EU data-centre capacity, skills, and interoperable standards builds real choice and competitiveness. A proportionate, risk-based and internationally interoperable regulatory approach would ensure resilience without fragmentation. And a level playing field, open to global technology providers competing on merit, delivers the choice and innovation that EU financial institutions and their customers deserve.

By pairing investment in its own capabilities with the global investment already present, the EU can meet its goals of a secure, competitive and innovative economy. That path will accelerate the scaling of digital finance across the EU and ensure the benefits are felt right across the EU economy.

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# Europe's digital finance success depends on scale

Digital finance in Europe is often discussed as a race against other jurisdictions, yet the most consequential race is the one Europe runs against its own potential. The Union holds an asset no competitor can replicate: 450 million consumers under a common legal order, a common rulebook and a financial passporting system that allows firms to operate under a single banking licence. On those foundations, European financial markets have already digitised at remarkable speed, with tens of millions of Europeans now opening accounts, paying, saving and investing entirely digitally, often across borders, on terms that were unimaginable a decade ago. Europe's challenge is no longer inventing digital finance innovation, but scaling it.

What stands in the way is fragmentation. European rules on payments, data, AI and emerging technologies are among the most complete in the world, and robust European supervision makes the institutions subject to them stronger and safer. The difficulty begins where common rules stop meaning the same thing in practise: uneven enforcement of key EU rules and principles, supervisory expectations that shift at internal borders, long and divergent authorisation and notification procedures, national layers added in transposition, and persistent practices limiting the full realisation of the Single Market, such as IBAN discrimination. A bank serving the whole of the Union must absorb each of these frictions market by market. Therefore, these are a tax on scale, paid most heavily by the firms most committed to the single market, and refunded to no one.

The remedy lies less in new legislation than in regulatory consistency. A European rulebook that is recognised and applied consistently across all member states would do more to strengthen the competitiveness of European finance than any new regulatory framework, at essentially no fiscal cost. The potential is not theoretical: even in today's imperfect single market, European champions in financial services managed to grow and scale at global level. Consistent application of the EU rulebook would multiply that result. This is what the simplification agenda can usefully mean in finance: enforcing what exists before creating what is new, requirements justified by risk rather than by business model, and proportionality measurable in authorisation timelines. The arrival of EU supervisory bodies, such as AMLA, points in this direction: for activity that is genuinely cross-border, supervision at European level means one rulebook, one set of expectations and one communication channel.

Trust will determine how far any of these reaches. According to EBA and ECB fraud data from December 2025, annual payment fraud in the EEA has reached 4.2 billion euros, rising 17% year on year. Payer manipulation now drives over half of all fraudulent credit transfers, and users bear roughly 85% of those losses[1]. Left to piecemeal national responses, fraud will not remain a payments problem: it will erode confidence in the European financial system itself. Because most scams start upstream, through an ad, a message or a phone call, and they cannot be defeated at the final payment endpoint. Preventing this requires every actor in the digital value chain, platforms and telecom operators included, to carry responsibility proportionate to their ability to intervene, and it requires those defending consumers to share real-time intelligence across borders and sectors as fluidly as attackers already do. The forthcoming PSD3 and PSR framework will matter less for what it adds than for how consistently it is applied: if enforced as one market, with effective data-sharing mechanisms, it can restore consumers' trust in their financial providers; applied unevenly, it will hand fraudsters exactly the gaps they exploit today.

> Europe's challenge is not creating digital finance innovation, but letting it scale.

None of this requires Europe to look beyond its own agenda. The Savings and Investments Union has already defined the prize: Europe is home to some 33 trillion euros in private savings, predominantly held in currency and deposits[2], and no channel can reach 450 million savers more affordably than except digital distribution.

A financial system built in Europe, for Europe, depends on no one else for what matters most: institutions licensed, supervised and competing from within the Union's own legal order. What is missing, beyond the innovation, the rulebook, and the supervisory architecture, is the scale the single market was created to provide. Unlocking this potential simply requires Europe to permit the market to deliver.

1. *EBA and ECB, 2025 Report on Payment Fraud, December 2025*
2. *E. Letta, "Much More Than a Market", April 2024*