

## DIGITAL FINANCE STRATEGY



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## Promoting the digital transformation of Europe's financial services sector: harnessing opportunities and managing risks

The European Union is set to fully embrace digitisation in financial services. We are well-positioned to reap the benefits that the digital revolution offers to consumers, service providers and the wider EU economy, while at the same time ensuring that the increasingly digital financial system works safely.

The adoption of financial technologies is a major economic opportunity that stands to boost Europe's competitiveness and growth. With a single market of 27 countries and 450 million customers, along with a single

authorisation and passport system and a unified set of rules, the EU is in a unique position to encourage innovation and development in this sector.

Digital finance offers significant benefits to consumers and society. It can promote inclusion, increase digital and financial literacy and empower consumers by increasing choice and maximising control over their data. Financial technology has the potential to turn Europe into a global leader in digital finance, allowing us to shape the values that underpin developing technologies.

The Covid-19 pandemic has emphasised the importance of digital finance. Online identity verification has enabled consumers to open accounts and use multiple financial services at a distance, while growing numbers of consumers use digital in-store payments and make online purchases. The pandemic has demonstrated that consumers and businesses alike are ready to embrace digital financial services.

### Europe must seize the benefits of Digital finance for European consumers and companies, while monitoring its risks.

In September 2020 the European Commission published its Digital Finance Strategy. The Strategy takes into account the recommendations of the Expert Group on Regulatory Obstacles to Financial Innovation (a public consultation among 400 stakeholders) and a series of 30 online webinars gathering 6,000 people from across Member States that took place during the course of 2020.

The Strategy sets out four priorities for promoting digital transformation of the financial sector up to 2024:

1. tackling fragmentation in the Digital Single Market for financial services, in order to help European consumers to access cross-border services and

help European financial firms' scale up their digital operations;

2. ensuring that the EU regulatory framework facilitates digital innovation in the interest of consumers and market efficiency;
3. creating a European financial data space to promote data-driven innovation, in order to encourage the creation of innovative products for consumers and businesses; and
4. addressing new challenges and risks associated with the digital transformation.

The Digital Finance Strategy is accompanied by legislative proposals on crypto-assets and digital operational resilience, as well as a Retail Payments Strategy.

The Commission's data-driven agenda connects the Digital Finance Strategy with the European Data Strategy. A common financial data space will unlock the opportunities of data sharing in finance. Our priorities are to introduce standard formats for the disclosure of company and financial data, to support the uptake of innovative tools to facilitate supervisory reporting by regulated entities and to boost data sharing in the financial sector and beyond by expanding the Open Finance framework currently limited to the Payment Services Directive.

This will build on the crosscutting data framework to remove barriers across economic sectors, consisting of the 2020 legislative proposals on a Data Governance Act and a Digital Services/Markets Act, and the proposals for a Data Act coming up for 2021.

Across the four priorities of the Digital Finance Strategy, alongside the proposals of the Digital Finance Package, the Commission will promote digital finance and harness its opportunities for consumers and the financial sector alike. At the same time, we will ensure that consumers are protected and that the increasingly digitised financial system functions safely for the European economy as a whole.



## HARALD WAIGLEIN

Director General for Economic Policy,  
Financial Markets and Customs Duties,  
Federal Ministry of Finance, Austria

### DFS – Striking a balance between fostering innovation and a level playing field

“The future of finance is digital” are the introductory remarks of the Digital Finance Strategy put forward by the Commission in September 2020. The Covid-19 pandemic has shown that this is a matter of fact, nowadays more than ever. Digital financial services played a key role to avoid even more social and economic damage across the globe in the current crisis. There is no doubt that fostering digital finance will support Europe’s economic resilience and recovery. Therefore, the acceleration of digitalisation across sectors is vital in the upcoming Digital Decade. Strengthening our strategic autonomy in digital financial services will support Europe’s position in the worldwide economy and avoid dependencies which in turn contributes to European democracy.

The proposed priorities in the Digital Finance Strategy hit the bullseye. Avoiding fragmentation in the Digital Market and creating a European financial data space in the financial

sector is paramount. This will facilitate the upscaling of Europe’s vibrant FinTechs and promote data protection which is a prevailing topic due to uprising cloud service providers. Therefore, we welcome the Commission proposals put forward in the Digital Finance Package. Yet, the future regulatory frameworks need to be technology neutral and future proof as the pace is high in the digital sector and new technologies are emerging on a constant basis. Especially, DORA will contribute to a safe environment for digital services around financial institutions. MiCA on the other hand is already internationally rewarded as a standard setting framework in the sphere of crypto-assets. Another priority addresses artificial intelligence in the financial sector. In this context, we should not forget the strong interconnectedness across sectors that goes hand in hand with artificial intelligence. Thus, the bigger picture of digital services should always be taken into account.

Smart contracts and the ecosystem surrounding these should not be underestimated in the regulatory framework as the field is rapidly evolving and risks are not yet fully assessed. In this context, innovative phenomena such as DeFi should be thoroughly examined in order to understand the concepts and the technology and potentially address them on European or even international level as borders are almost non-existent in this realm while of course preserving the dynamic setting.

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### The acceleration of digitalisation across sectors is vital in the upcoming Digital Decade.

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“Code is law” is a well-known quotation ascribed to Lawrence Lessig, US professor of constitutional law. In many fields of digital finance, we see aspects of this doctrine. Think of Bitcoin for example. No court, no competent authority is able to enforce a rightful judgement if it is not compatible with the code. If a private key is lost, no judge will move a bitcoin. Decentralisation, in some cases, renders lawmakers and authorities stranded. But if only code is law, then democracy is in danger. It should be the legislator who defines the rules and authorities should have

appropriate tools in order to execute them in a proportionate manner treating all market participants equally. A level playing field should also be provided in an ever more digital world of financial services.

A good example is Open Banking. As Big Data was already in the past and will in future be the driver of many digital finance developments, PSD II was a major step taken by the EU legislator in order to explore the concepts, address the right issues and unleash the potential of financial data. Now it lies with the customers to make use of it. Technical interfaces will facilitate the exchange of this data. This might help preparing the ground for new business models – hopefully many European companies and Citizens will benefit. On the other hand, we shall not overlook that also other big players, especially Big Tech firms possess extensively valuable data that should mutually be readily available, at the request of the customer.

Summing up, legislators and regulators need to closely follow technical developments in digital finance and draw the appropriate and proportionate conclusions at the right moment. We know it best, it’s a balancing act.



## ISABEL GUERREIRO

Head of Digital Europe,  
Banco Santander

### Digital at the core of Santander's ONE Europe strategy

European banks are facing many simultaneous challenges – the prolonged pandemic, lower-for-longer interest rates, the need to accelerate innovation with new players competing for the customer attention and existing profit pools, and finally the potential cyber-security and data protection risks.

The Digital transformation is one of the critical enablers that will allow banks to face those challenges, but to be successful we also need new rules to allow Europe to be truly competitive and lead this transformation.

At Santander we aim to be the world's best open financial services platform with three strategic pillars: the development of a digital native consumer lending business; the launch of a disruptive payments company, PagoNxt; and Santander One Europe, creating scale to leverage the substantial investments made in recent years to automate and digitalize our processes.

We welcome the Digital Finance Strategy launched by the European Commission last year and share its objective to “embrace digital finance for the good of consumers and businesses”.

From my point of view, the Commission is rightly pointing at some of the fundamental changes to enable the digital European economy: data, facilitate de migration towards a modular IT architecture and the implementation of the “same activity, same risk, same rules” principle.

Data is a core asset in the digital economy. It enables companies to improve their products, better serving customer needs and expanding their reach to enter new sectors/markets. Our financial ecosystem is diverse, with a wide range of participants. These now include non-financial companies like tech platforms, who can leverage users' financial and non-financial data to innovate and enrich their financial products and services. We believe access to the data that users generate and agree to share should be made available across sectors, in a symmetrical fashion, to drive innovation and ensure a level playing field.

### Digital transformation continues to be the key to success for European banks.

We have seen the benefits of sharing of data on payments as part of the revised Payment Services Directive, and there is no reason why non-financial data from other sectors should not follow the same example and be made widely available, to further benefit consumers and businesses. We need to work towards enhancing data sharing and openness across and within sectors, of course in compliance with data protection and competition rules.

To accelerate the digital transformation, we must move quickly towards modular IT architecture, which will allow for closer collaboration with other players. Our regulators could support this by creating an oversight framework for critical third-party Cloud services and their providers that meets the supervisory expectations.

Santander continues to make strides on improving our Digital offering, innovating to surpass customers' expectations and meet their evolving needs. We operate with customer's interest in mind, following a robust risk framework and always observing regulatory requirements. In the market

we see non-financial service players specialising in a particular leg of the value chain and becoming intrinsic part of the Financial Services ecosystem. With that in mind, I believe it is important for the European Supervisory Agencies to assess whether to apply a more proportional approach over those activities to safeguard financial stability, consumer protection, market integrity, fair competition, and security. I believe on the use of the “same activity, same risk, same rules” principle to take us closer to the level playing field we seek.

The Digital Finance strategy also includes measures to promote digital innovation and facilitate the adoption of key technologies for the financial sector such Artificial Intelligence, block-chain and digital identification. This coincides with other related initiatives such as the Data Strategy and the Digital Services package. We expect the Commission to work horizontally to address the new dynamics at work in our economy, which are so important to the future of the European Union and its citizens.

I welcome and support the European Commission proposals and hope that they can be agreed quickly. In our digital world, time is of essence.



## BJØRN SIBBERN

President European Markets,  
Nasdaq

### Digitalisation for sustainable and inclusive growth

I appreciate and support the European ambitions to continuously develop the regulatory framework, enable innovation and leveraging opportunities with technology to create more inclusive, efficient and secure markets.

There is tremendous potential to leverage data sharing technologies in the fight against financial crime – including money laundering, fraud and terrorist financing. Over the past year, Nasdaq launched its Automated Investigator for AML for banks, as well as recently acquiring AML solutions provider Verafin, one of the world's largest players that offers cloud-based, artificial intelligence and machine learning tools for cross-institutional, multi-channel analysis to combat financial crime.

Verafin sends alerts to its bank customers when unusual transactions occur, and then facilitates data sharing and joint data investigations to fully scrutinize the behavior. In addition, Verafin performs data analytics across all clients' data to deliver insights offering a tool that significantly improves the detection of money laundering cases. There needs to be a

regulatory framework for sharing data, or financial institutions are unlikely to take full advantage of data analytics.

I welcome exploratory regulatory projects that allow to test innovative initiatives. In order to find the right balance between innovation and investor protection, these initiatives should be limited in scope as well as time, should strictly justify exemptions to current regulations, should be conducted in a transparent way – towards supervisors as well as the wider industry – and should also be evaluated after the specified time. These principles should be applied for instance to the digital ledger technology (DLT) pilot project.

On the private investor side, digitalization is everything. Sustainable and inclusive growth will only happen if private investors can be digitally connected to capital markets. One reason that Nasdaq's Nordic growth markets, First North, have been so successful is a relatively high proportion of retail participation. Smaller investors have been able to be part of the growth journeys of the companies coming to market. The online retail brokers offering services in the Nordics play a vital part in the financial ecosystem. It is crucial that the European market structure allows for efficient and safe participation of both larger and smaller investors.

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**Leveraging  
opportunities with  
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The plans for a European Single Access Point (ESAP), has the potential of facilitating cross-border investments by allowing any investor to access any issuer's information in a one-stop-shop. For this, it is crucial that the ESAP will truly provide hassle free access for investors, at no added cost for issuers. If on the contrary the access point becomes complicated to use for investors, and if new costs are added to issuers, the ESAP project risks unfortunately deterring issuers from using the public capital markets, contrary to the policy intentions of strengthening the European capital

markets. We therefore have to be quite careful on the way the ESAP is framed.

The global pandemic has tested the whole industry. In addition to coping with huge volumes and volatility on our exchanges, we have all been challenged to manage a remote workforce and engage with clients across the globe facing their own struggles. Technology has been a tremendous support as we have worked to remain resilient. Policymaking needs to continue to allow the next steps. Not only will innovation equip technology companies like Nasdaq to deliver top quality products and services to our customers, but they will position the whole industry to adapt to changing business environments.



## MÄRTIN 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.

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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.



## SEBASTIEN RASPILLER

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Ministry of the Economy,  
Finance and the Recovery Plan,  
France

### The European Union should offer new digital opportunities in financial services and payments

At the end of September 2020, the European Commission presented a new strategy for digital finance, which includes a set of measures for the next four years in order to grasp all the potential of digital age across the economy, by fostering competitiveness and innovation of our financial services.

The strategy comprises several legislative proposals, on retail payments, crypto-assets and digital operational resilience, articulated around four main priorities: removing fragmentation in the Digital Single Market, adapting the EU regulatory framework to facilitate digital innovation, promoting a data-driven finance and addressing the challenges and risks with digital transformation.

After the entry into force of this ambitious package, the European Union will offer new opportunities in financial services and digital payments, while ensuring the protection of data

and the resilience of the entire system. France, of course, is fully committed in this ambitious program.

On the issue of crypto-assets, which will be addressed through the MiCA regulation, we hope to develop a harmonized Europe-wide framework to secure the digitization of financial services. The Commission's proposal, currently under discussion, already contains positive elements regarding provisions on crypto-asset service providers, and an experimental approach proposed by the Commission to allow the development of the use of Blockchain for financial instruments.

We believe more discussion are however necessary with regard to stablecoins (EMT and ART in the Commission's proposal), for which we support a very ambitious response from the EU. Two priorities seem essential to us: preserving our sovereignty by prohibiting all monetary creation and protecting consumers, with strong requirements on the reserve.

The retail payment strategy is also a step in the right direction. It will make it possible to implement numerous measures in a coordinated and phased manner, such as the improvement of cross-border payments or pan-European instant payment solutions, and thus meet strong expectations on these topics.

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### Cyber-attacks could lead to systemic financial instability or general disruption of economic activity.

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The pandemic, with the development of remote working, has highlighted the importance of taking the cyber threat into account in the coming years, and this is why we much welcome the draft DORA regulation. Cyber-attacks against highly interconnected international financial entities could lead to systemic financial instability or general disruption of economic activity. Recent attacks have illustrated the ability of attackers to intervene by using highly sophisticated methods, on an unprecedented scale.

Some service payments can pose cyberrisks, as recent Target-2 incident made it clear. France is

fully committed to this fight, which will be essential to foster sound digitization and competitiveness and has also announced a national strategy for cybersecurity mobilizing 1 billion euros.

Beyond this broad European strategy, it will be important to go further and pursue our reflections in complementary areas, such as open data, artificial intelligence, or quantum technologies. On this last topic, it appears indeed that the financial sector is the area that will be the most rapidly affected by these technologies, with estimated benefits within 10 years.

The exponential increase in the computing power of quantum computers could make it possible to envisage several use cases such as predictive analysis for the detection and prevention of fraud, optimization in portfolio management, risk analysis for liquidity management, etc. In France, a national strategy in this area has been announced recently in order to improve our expertise on this technology, foster innovation and develop solutions in a multitude of areas, including financial services.