DIGITALISATION TRENDS IN FINANCIAL SERVICES

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Digitalization in the financial services, new challenges and new opportunities

Digitalization in the financial services is profoundly reshaping the way markets work and challenges the whole set of financial regulation and supervision.

While regulators and supervisors labor to rightly frame the issues linked to cryptos, as illustrated by the FTX collapse, digitalization has also demonstrated how destabilizing it could be for traditional financial activities. Both the GameStop episode in January 2021 and the SVB crisis in March this year have illustrated how social media combined with fast digital transaction possibilities could trigger devastating runs, either in (GameStop) or out (SVB).

According to the SEC Staff report on the GameStop episode, in January 13-29 2021, the average GameStop shares traded per day increased by more than 1,400% over the 2020 average; on March 9 this year, customers withdrew in this single day $42 billion from SVB, nearly a quarter of the bank's total deposits, precipitating its closure.

Old patterns -- be it scam, market manipulation and short squeeze, or bank run -- but new increased scale triggered by the combination of social media and instantaneous transactions allowed by their digitalization. In the three mentioned cases neither the regulation nor the supervision have enabled to prevent the failure.

Nevertheless, it is fair to say that only the SVB case has really put global financial stability at risk, triggering an unprecedented reaction of Authorities, contradictory to their principles: bailing out depositors above the guarantee ceiling and opening a central bank facility collateralized by papers not priced at their market value (similarly to what SVB has done backing sight deposits with secure but long-dated bonds accounted for at amortized cost).

It should obviously invite us to review regulations and the way we supervised markets and financial intermediaries, taking more into account the speed and magnitude of possible trends.

Monitoring social media by financial supervisors and incentivizing the operators by holding them responsible for misuses are an obvious priority. In the EU it should be clarified that it is allowed by RGPD and that the Digital Services Act provides an efficient basis for enforcing such a monitoring.

While digitalization goes beyond domestic boundaries, one should consider banning reverse solicitation for retail customers. Reverse solicitation is a too lax concept and paves the way for many scams.

Since the speediness allowed by digitalization triggers increased liquidity risks, liquidity stress testing should be tightened and correcting tools should be adapted according to the specificities of the sector (LMTs, circuit breakers, moratorium ...).

Finally, regulatory arbitrages allowed by non-consistent regulatory frameworks (small and large banks, on and off venues, centrally cleared and pure OTC ...) should be prevented.

These cases illustrate how Public Authorities are mainly reacting to innovations in general and more specifically to the digitalization in the financial services sectors, torn between often contradictory objectives: increasing the efficiency of the services while reducing their cost, protecting retail customers, safeguarding financial stability, enhancing the competitiveness of domestic service providers ... we have just experienced how digitalization could dramatically accelerate a bank run and how influencers and social media could trigger a shift of capital flows towards very risky financial products for retail investors.

But in some cases, the digitalization process could also be at the initiative of Public Authorities in order to increase the efficiency of financial services. The digitalization of reporting is a good example in that respect.

By requesting the preparation of annual financial reports by companies listed on an EU regulated market in a Single Electronic Reporting Format (ESEF), the Transparency Directive has provided a quantum leap forward facilitating accessibility, analysis and comparability of annual financial reports. While the digitalization of financial reporting has been introduced on already existing reports, with the upcoming standards for sustainability reporting, digitalization is by now introduced from the beginning and to a large extent is an integral part of the standards. The CSRD requires entities to prepare their management report in the ESEF format. In its role as technical advisor, EFRAG needs to prepare at the same time the ESRSs and an XBRL taxonomy.

When you consider the high number of data points which could be requested from a large multi-sectorial corporation in its sustainability reporting, without appropriate tagging it will remain largely useless. It should reduce the cost of access to sustainability data and provide a better reliability in ESG ratings. It will become a basic tool for asset managers ... and for supervisors reviewing the consistency of financial products with their marketing presentation.

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The new frontiers of digital finance

The European Commission adopted a digital finance package in September 2020. The main objective is to achieve a competitive EU financial sector with access to innovative financial products, while ensuring consumer protection and financial stability. Financial regulation and supervision must ensure that all risks are properly covered along the 'same activity, same risks, same rules' principle.

Our four strategic priorities are to overcome fragmentation, boost digital innovation, promote data-driven finance and tackle challenges linked to the digital transformation, such as cyber-risks.

The EU's Digital Strategy includes two Regulations on crypto-assets and digital resilience, as well as a Distributed Ledger Technology (DLT) pilot regime, which is already operational. As part of this DLT pilot, market participants will be able to experiment with issuing, trading and settling shares or bonds using blockchain technology. The Markets in Crypto-Assets Regulation (MiCA) was agreed by the EU legislators last June. MiCA is comprehensive legal framework for the supervision of stablecoins (asset referenced tokens and e-money tokens in the EU terminology), of other types of crypto-assets as well as of crypto-asset service providers. Publication is expected before the summer and the entry into application is foreseen 12 months (stablecoin rules) and 18 months (other parts) after publication.

The EU Digital operational resilience Regulation (DORA) establishes an oversight framework for critical ICT third-party providers and will strengthen financial firms' ability to withstand problems with the technology upon which they increasingly rely. DORA will start applying as of 17 January 2025, after the European Supervisory Authorities have delivered 13 draft technical standards, as mandated by the Regulation.

Looking into new areas, we are working on a European financial sector data space. Moreover, the Commission intends to propose a framework for open finance. The second Payment Services Directive will also be reviewed. These new frameworks will empower retail and business clients and get them control over the access to their data, as a key part of the European Financial Data Space. With the Digital Finance Platform, we want to improve the ability for innovative business models to scale up across the EU.

Finally, the Commission cooperates with the European Central Bank on the possible introduction of a digital euro to provide citizens and businesses with a safe, secure, innovative, and competitive means of making their daily payments. Whilst the decision to introduce a digital euro or not belongs to the European Central Bank, the Commission will propose the legislation necessary to accompany a digital euro later this year.

Technology is contributing to the break-up of previously integrated value chains. While most financial services have traditionally been offered by one provider, digital technologies allow firms to specialise in a particular leg in the value chain. This increases competition and may improve efficiency but could also makes value chains more complex and more difficult to regulate. The Commission is therefore paying particular attention to the principle "same risk, same rules, same regulation". At the same time, this may pose challenges in terms of practical implementation, as some technologies may require particular attention when crafting legislation. For example, existing rules do not always cater for DLT-based finance. The DLT Pilot regime is a good example of how we adjust the current system to allow DLT to function for trading, clearing and settlement. Overall, we strive to ensure that our regulatory interventions are sufficiently broad and technology-neutral to stand the test of time and be as future-proof as possible.

There is a risk that financial services migrate to digital environments with fragmented ecosystems, comprising interconnected digital service providers falling partially outside financial regulation and supervision. Digital finance may therefore make it more challenging for the existing regulatory and supervisory frameworks to safeguard financial stability, consumer protection and market integrity. The digital transition will profoundly transform our financial sector. Crypto assets are increasingly institutionalised, central bank digital currencies are being explored, decentralised finance is growing fast. The challenge will be to ensure appropriate regulation, ensuring high levels of consumer and investor protection.Digital finance is inherently cross-border and cross-sectoral. We aim to enable scaling up across the single market and overcome remaining fragmentation, promoting data sharing, ensuring cyber resilience, creating a European Digital Identity or regulating artificial intelligence.

Firstly, the role of technology providers will increase. To reflect this, we have introduced oversight over third party providers, with the new Digital Operational Resilience Act (DORA).

Secondly, as the boundaries between finance and other businesses are increasingly blurred, we are closely monitoring how large technology firms provide financial services themselves. Based on advice received by the European Supervisory Authorities, we are reflecting on additional measures to cater for specific risks linked to the provision of financial services by multi activity corporate groups.

Thirdly, we need to monitor new and emerging areas of innovation – notably decentralised finance (DeFi). Although the DeFi market remains small in relative terms, the area has seen considerable uptake over the past year.

The Commission is continuously monitoring the developments within crypto-asset markets (in particular DeFi). So far, it appears that most DeFi systems are decentralised in name only and still involve some kind of central entity – or intermediary. In case this entity performs one of the activities covered by MiCA, or by any other piece of our extensive EU financial services legislation, the rules will apply to them.

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Technological disruption: the policy response

Regulation

Technological disruption implies three main structural changes in the market for financial services. First is the modification of the production process for traditional financial services, which now rely more on digital delivery channels and services provided by third parties. Second is the availability of new products (like digital or tokenised assets) that leverage more decentralised issuance, trading and settlement processes. And third is the emergence of new players, like tech companies, that benefit from data and technological advantages to compete with traditional financial institutions.

Those developments generate many opportunities but also risks which might impede their ability to support social welfare. At times, there is a relatively complacent view on the required scale of the regulatory response.

Frequently repeated slogans such as "same activity, same risk, same regulation" represent a relatively optimistic view according to which the existing regulatory approaches would still be roughly valid in the new technological environment if their scope of application is extended to the new products, the new production processes and the new players.

In many cases, this adjustment of the regulatory perimeter is an essential first step, but it may not be sufficient. For instance, in the crypto world, the adjustment of the regulatory perimeter to include related service providers can hardly effectively address the risks posed by decentralised platforms, where transactions and back-end procedures are conducted through automatic protocols (smart contracts) whose beneficial owners cannot be easily identified.

As to new production processes of regulated institutions, the current rules on operational resilience and, in particular, outsourcing controls clearly fall short of limiting the risks posed by the increasing reliance on the services, like cloud computing, offered by a few (big tech) providers. The large concentration of this market calls for direct regulatory intervention on cloud service providers themselves and not only on the banks demanding those services.[1]

Finally, any new entrant providing regulated services (like payments or wealth management) is normally subject to the corresponding activity-based regulation.

The problem is that when those new providers (like big techs) are also active in other financial and non-financial markets, there could be interdependencies and conflicts across activities which might not be well addressed by activity-by-activity regulation. When this is the case, you may need new bespoke entity-based rules for those multi-activity players.[2]

In sum, technological disruption calls for a significant regulatory revamp, which entails much more than simply adapting old rules to the new technological environment.

Supervision

Actually, even introducing new well defined rules that attempt to directly address all relevant financial stability implications of the technological disruption would hardly be enough either. The policy response should also include an adaptation of oversight procedures.

This is particularly important in the case of banking regulation. The main channels through which technological developments affect banks' safety and soundness are probably the challenges they pose to preserving banks' operational resilience and the sustainability of their business models as they face tougher competition from new tech players. While those risks could eventually affect banks' solvency, they cannot be more effectively addressed by standard capital requirements. There is simply no sensible level of capital that could compensate for a significant disruption in banks' ability to deliver critical services to their clients. The same could be said of the sustainability of banks' business models. In fact, a bank's difficulties to deliver sufficient return to its equity holders can hardly be addressed by requiring that bank to hold more equity.

> **Technological disruption calls for a significant regulatory and supervisory revamp.**

Therefore, the increased importance of technological risks points to the need for a supervisory framework in which the role of direct risk-preventing management actions will be enhanced. While quantitative capital and liquidity requirements need to remain at the core of the prudential regime, the technological disruption support the move towards a possibly more intrusive and forward-looking, but also less capital-centric, bank prudential framework.

[1] J Prenio and F Restoy, "Safeguarding operational resilience: the macroprudential perspective", FSI Briefs, no 17, August 2022.
[2] J Ehrentraud, J L Evans, A Monteil and F Restoy, "Big tech regulation: in search of a new framework", FSI Occasional Papers, no 22, October 2022.

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Time to recognise that digitalisation in financial services is a market reality

There is a wealth of opportunities through the digitalisation of the financial sector, from faster payment flows to wider choices for consumers. On the other hand, we must also bear in mind that digitalisation is spurred not necessarily by legislation, but by circumstance, and there are risks that may be associated with it that we are either coming to discover, fearing, or yet to even consider.

From the perspective of a policy maker, what is most important is that we strike the right balance in facilitating innovation, from our micro and small businesses right through to large multinational companies, while at the same time taking proportionate action to address and potentially anticipate any clear risks to those same businesses, consumers and the financial industry as a whole.

Recent market events have demonstrated some of the risks of the digitalisation of the financial services sector. During the 2007-2008 financial crisis, when we saw runs on deposits, they tended to play out over a number of days. However, 15-16 years later, we are seeing that if a run happens, as was the case recently with the Silicon Valley Bank, depositors can withdraw their money within hours. Word spreads quickly in our 24-7 digital world. This is a circumstance we must get accustomed to and adapt our frameworks to suit.

However, I am of the belief that the potential benefits of digitalisation far outweigh the risks. Processes become quicker, consumers have more options, particularly considering cross-border disruptive innovators in the sector such as e-banks or trading platforms in the form of Apps.

The new technology we see appearing can also bring advantages in both trust and ownership of financial data if addressed correctly by businesses and also legislation. For example, DLT has the potential to drastically speed up settlement speeds, smart contracts can bring extra financial security to both businesses and consumers.

I am also of the view that regulatory and supervisory technology has great potential to meet the regulatory challenges brought about by the adoption of new technologies in the financial sector. Often, we see that it takes our regulators and supervisors more time to adapt new ways of approaching their tasks, but I believe that in such a fast-paced development of the sector, this should be thoroughly and rapidly studied.

In terms of legislation, we have already adopted the first main proposals from the Commission as regards their digital finance package. The DLT pilot regime offers a lot of potential in a suitable environment for industry and supervisors to explore whether and how this technology can be used to improve the financial services offerings in Europe. We can also learn from the experience of jurisdictions such as Singapore in this respect.

The MiCA and DORA frameworks offer a regulated space for activities that already exist and which we are able to have an initial assessment as regards risks. The MiCA framework, together with the amendments to the Transfer of Funds Regulation, provide for trading in crypto assets, a pioneer for large markets. They will hopefully pave the way for other markets across the world to follow. The DORA framework will give some further certainty for citizens and industry participants as regards cyber security and resilience, and I believe that again we have a good balance between innovation and addressing potential risks.

One aspect that is very important to me is avoiding a silo-style approach to cross-cutting legislation. In that respect, it is of the utmost importance that the outcome on the EU's new AML framework align with what has already been agreed under MiCA and the TFR. This is particularly relevant given the fact that MiCA will come into full application before the AML provisions, and any deviation of the AML rules can create uncertainty. I fear that fewer companies, and particularly smaller crypto-asset service providers, will seek authorisation under MiCA then, leaving consumers less protected.

The potential benefits of digitalisation far outweigh the risks.

We are only at the initial stages of our foray into regulating the digitalisation of the financial sector, and the traditional finance sector is already wrestling with decisions on how far to match the new challengers in the area of Fintech. The Commission will come forward with a number of new proposals for the sector.

All of these proposals will need to consider the impact of the digitalisation of the economy, and we need to look at past experiences, how other jurisdictions are approaching this trend and also the specificities of our own single market in order to maximise opportunities while minimising risk for citizens, businesses and the financial service industry across Europe.

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Digitalisation of European banking with customers at the heart of development

If you are a Nordea customer, information about your account, a direct link to your savings adviser, tracking of all your payments, and maybe an application for a mortgage, is all there at your fingertips via your phone or laptop. Advances in digital technology have changed the way people interact with banks and the development of customer needs and expectations.

For Nordea this means our customer services experts can spend more time guiding our customers through their first home purchase, providing advice in a life crisis, or spending time making a suitable savings plan, and spend less time on data entry and administration. The developments in our digital offerings mean that customers can more easily get an overview of their finances which contributes to financial literacy.

The EU has over the past decade introduced several regulatory measures to foster innovation within the financial services space, to increase competition and contribute to better and more secure services for the end user. PSD2 is one such example which has facilitated increased competition and better customer experience through the access provided to Third Party Providers (TPPs). In fact, Nordea has seen increased traffic both on our own platforms and traffic through TPPs following the implementation of PSD2.

At the heart of new and upcoming regulation such as Open Finance is data sharing and the idea of the data economy. Data sharing, although beneficial, raises several important questions regulators must tackle: How do you prevent fraud, and avoid increased risk of ID theft and other cyber risks? How do you ensure the existence of business models to incentivise high quality data and continued services to European customers and businesses? When, and in what areas, is standardisation a necessity, and when does it have the potential to kill innovation?

Nordea does not have all the answers, however, a few priorities and concerns are worth mentioning:

- As more banking services are performed online, the risk of cyberattacks and data breaches increases. Data sharing, if not done right, has the potential to further increase the risk of ID theft, data breaches, privacy, cyber and information security risks. As banks are subject to financial regulation and bank secrecy laws, sharing data outside the banking sector to non-regulated entities could further increase the risk of breaches and generate liability issues. These challenges must be addressed in the development of any data sharing framework. Again, the customer must be the core of the regulatory development. Every customer must be able to trust that their data is safe.

- New regulation should strive to avoid asymmetries of data access, which currently exist between the financial sector and other sectors. To truly get the potential from a data economy, data sharing must be cross-sectoral. The Data Act, described as a building block in the Commission's strategy, is an important initiative in this work.

- A lack of harmonisation across member states hampers innovation and halts true competition across borders and between incumbents and new players. Particularly, in the digital space where location is not an issue, a harmonised rulebook across Europe would contribute to creating a stronger European data economy for the benefit of customers and people in Europe.

- Competition and innovation also depend on a level playing field. The principle of same activity-same risk-same rules must continue to be the core of policy-making and should also extend beyond policy formation and into the operations and priorities of supervisory activities.

- Finally, to understand, address and solve the challenges of an increased digital banking sector, the industry needs relevant skill sets and competencies. Banks, regulators and supervisors must therefore do their utmost to train and retrain, recruit and retain people and talent.

In some cases, we are trying to regulate for a future we are only seeing the contours of.

Can we future-proof regulation or even banking services? Probably not. In some cases, we are trying to regulate for a future we are only seeing the contours of. In the future, the main challenge for EU regulators and banks alike, will be to find the right balance between the customer needs and expectations on the one hand and risks related to increased data sharing and speed of services on the other.

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Accelerating the digitalisation journey in European securities markets

Our world is increasingly digital, and it is transforming how we work. When I asked ChatGPT, the well-known artificial intelligence programme, how digitalisation is transforming the European securities industry it confirmed that:

"Digitalisation is leading to increased automation of securities trading, settlement and clearing processes. This has resulted in faster and more efficient transaction processing, reducing the time required for trade settlement and reducing the risk of errors."

Indeed, digitalisation is already a success story in reshaping European securities markets, and the pace of change is only accelerating. In recent years, we have experienced a raft of changes which, ultimately, have been providing greater efficiency, accessibility, and transparency to market participants.

Take, for example, the emergence of new trading platforms, such as multilateral trading facilities, over the past two decades. These were enabled by digitalisation and gave new channels for market participants to trade securities. This, in turn, has created more competition, giving rise to new fintech entrants to challenge traditional market structure and business models, and fostering a higher pace of innovation by all players.

Likewise, the advent of digitalisation has improved access to information for market participants, with real-time and trusted data leading to more transparency and improved efficiency.

There is more to come. At Euroclear, we also believe that leveraging digitalisation and data can enable positive shifts in ESG finance.

Ultimately, trustworthy ESG data will be key for both issuers and investors to meet incoming regulatory reporting standards, such as the Sustainable Finance Disclosure Regulation, and to meet new governance requirements, such as those embodied in the Shareholder Rights Directive II.

While so many advancements have already happened, tomorrow's securities landscape will continue to be shaped by new technology, such as distributed ledger technology and artificial intelligence. If used wisely, such innovations have the potential to accelerate the modernisation of the securities market, providing greater automation, accuracy, and speed to enable new business models and customer solutions. In parallel, customer demand for digital and data-enabled services will only grow as we are all accustomed to being digital first in our daily lives.

That's why it is important for the European securities markets to actively explore new areas of possible value creation. For example, digitalisation and the tokenisation of assets can enable Central Bank Digital Currencies where we have already seen – and, at Euroclear, actively participated in –some interesting experiments. Such a sandbox approach of experimenting together is sensible with such an important and complex ecosystem.

It will be important to stay coordinated across European financial markets and avoid unnecessary risks in a desire to "win the race" for digitalisation. Indeed, the European Commission's Action Plan on Financial Technology (FinTech) acknowledges the growing importance of digitalisation in financial services and calls for a harmonised approach to support innovation and investment in the sector.

As always, the regulatory context will be a critical enabler of European securities markets' digitalisation journey, and we are building on strong foundations.

Such innovations have the potential to accelerate the modernisation of the securities market.

The implementation of the Markets in Financial Instruments Directive II (MiFID II) in January 2018 and the Shareholder Rights Directive II (SDR II) in September 2020 have driven market participants to digitize their processes and workflows to comply with new reporting and transparency requirements. The emergence of new regulatory regimes such as the Digital Operational Resilience Act (DORA) will further accelerate the digitisation of the securities market. Considering these drivers of evolving customer demands, technology advancements and regulatory developments, a new phase of digitalisation for securities markets may be ahead of us.

The potential impacts on the securities market value chain and market structure could be far-reaching. While there are risks and challenges, digitalisation can continue to unlock substantial benefits – from cost savings, to improved efficiency, to greater transparency, and more.

As Eric Schmidt, the former CEO of Google, once said: "The future is digital. We can either sit back and wait for it to happen, or we can embrace it and lead the way." For me, there is only one option.

NICLAS NEGLEN

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Promote consumer choice in EU: opportunity to embrace outcomes-based regulation

In recent years, the digitalisation of the financial services industry has provided European consumers access to sustainable credit, new payment options and healthy financial tools. For the sector this much-needed innovation is helping to reduce costs, speed up access to capital, improve transparency and promote financial inclusion.

At Klarna, we are on a mission to help people save time, money and worry less by restoring the original purpose of payments and banking - putting the consumers best interest first and accelerating commerce through increased consumer choice, transparency, and cost-effectiveness. We are taking on the $16 trillion-dollar global payments industry that costs society an outrageous $440bn annually.

We commend the important work started by the European Commission in adopting the digital finance package and engaging in major revisions of consumer credit rules, payment services and open finance, and other key digital policies to facilitate access to financial services. However, upcoming regulatory frameworks must not hold back on Europe's promise of championing digital transformation of the financial sector.

European consumers deserve better

Consumers' financial preferences and needs are changing, with the cost of living crisis raging and prices at a 40 year high. People are looking closely at their finances, thinking about how they can save money and find better options than personal loans charging up to 48% in interest. Access to lower cost alternatives to high-cost credit is more important than ever. Unsurprisingly, consumers of all ages and demographics are now opting for interest-free BNPL, which is already a fairer and better value choice, putting money back into their pockets.

At the same time, consumers are frustrated to see their personal and financial data locked-in by incumbents and big tech companies, reducing their ability to choose the products and services that best serve their needs and decide who to share their data with. They want to access financial services that reflect the way they live their lives - seamlessly across borders and platforms. Financial firms should compete for customers by delivering value, not by locking away data. Open banking, which is part of Klarna's DNA and connecting over 15,000 banks globally, offers significant benefits for all consumers - and we believe it is the future of banking.

An opportunity to get it right

Europe wants to strengthen its competitiveness and promote an ambitious digital finance agenda. We believe there is a timely opportunity to warrant that the digital policies currently in the making are future-proof and avoid regulatory loopholes that would disadvantage consumers and businesses.

Effective EU policy must promote mobility and choice; regulate outcomes, not inputs; and be proportionate to the risks. This will simplify compliance with regulatory requirements, unlock the potential for more growth-driven innovation, as well as make the EU regulatory framework more coherent. This is not about reducing regulation - it is about making EU regulation more effective and fair. We welcome regulation that sets a standard for providers to meet but does not prescribe how those standards should be met, forcing the industry to think about how they can best drive good consumer outcomes.

EU needs smarter rules; customer-centric Open Finance model enables consumers to control their data

To expand as a digital finance hub, the EU needs to opt for smarter regulation, especially when it comes to the data consumers might want to share and the possibilities that entail. A customer-centric Open Finance model would enable consumers to control their data and decide who they allow access to. With the PSD2 reboot and the Open Finance framework, the European Union has a huge opportunity to redesign a regulatory environment that enables local fintechs to compete, innovate, and deliver maximum value for European consumers. We advocate for data mobility, free of charge and easily done, becoming readily available for all consumers. We believe this should be the core of the revision, enabling much needed new and innovative services to deliver the best outcomes for consumers and society, and bringing healthy competition to traditional banks in Europe.

As Klarna continues to put customers at the heart of everything it does on its mission to accelerate commerce and disrupt the massive trillion dollar retail banking industry, we call on Europe to provide the grounds to support the digital transformation and innovation of financial services through outcomes-based regulation.

PETRA HIELKEMA
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Digitalisation in insurance: keeping track on current pace of change

Data is the raw material for insurers who have always used data analytics to inform underwriting decisions, price policies, settle claims and detect fraud. However, the availability of data has exponentially increased, and traditional data sets are combined with new data sets derived from social media, the Internet of Things, weather reporting, and wearables. The capacity to store and process data has also multiplied. It helps to transform raw material into insights and these insights into new digital business models.

Growing digitalisation has accelerated the fragmentation of the insurance value chain. Insurers pursue new forms of cooperation and increasingly turn to innovative third-party service providers for quick and efficient access to new technologies and business models. While the so-called BigTech entrance into the EU insurance sector remains limited so far, it has the potential for a quick scale-up.

Digital platforms have also emerged. They offer convenience by bundling financial, insurance and non-financial products and services from different providers. The growing adoption of Artificial Intelligence (AI) and the use of data exchanges governed by standardized Application Programming Interfaces (APIs) facilitate the development of enhanced front and back-office processes and online access. APIs also enable open finance and insurance business models that may facilitate industry-wide innovation and increase the agility of businesses in responding to changes in customer needs and expectations.

There are new opportunities for consumers and businesses. Outsourcing allows insurers to focus on core services, leading to flexibility and efficiency gains. Digital platforms enhance convenience through 24/7 access to a wider range of products and services. This is likely to be attractive to firms who, thanks to the internal market and freedom to provide services regime, could tap into a broader customer base, including cross-border. BigTechs can leverage network effects to reach a wide range of consumers, including some that may be otherwise underserved.

New risks and supervisory challenges also emerge. The growing reliance on tech companies can create new types of operational risk. Digital distribution channels, coupled with sometimes aggressive marketing techniques, e.g. focused on so-called 'dark patterns' or leveraging on social media, may also exacerbate risks to consumer protection.

The entry of BigTechs into insurance may further create concentration risks and raise level playing field issues for incumbent financial groups, requiring a stronger supervisory focus on both prudential and conduct, product oversight and governance and value for money issues.

While the first question policymakers face is almost always: 'is regulation necessary?' for supervisors the better question is: 'how can we keep abreast of changing markets and their risks?' There is a need to focus on digital developments and ensure supervisors are equipped with the right skills – an understanding of new technologies, emerging business models, front and back-office processes. Supervisors cannot always wait for regulation as business models do not wait for regulatory change. In addition, digital innovation spreads quickly across sectors and borders.

To keep supervisory skills up-to-date, last year the European Commission together with the European Supervisory Authorities and the Florence School of Banking and Finance launched a new EU Supervisory Digital Finance Academy. It offers a training programme to supervisors, enabling them to deepen their understanding of the complex digital transformation impacting finance.

Supervisors need to focus on digitalisation and ensure that they are equipped with the right skills

EIOPA is also constantly engaging with stakeholders, old and new, to get views on market trends, and recently launched a structured Digitalisation Market Monitoring survey on developments including the growth of digital distribution, adoption of AI or blockchain, the identification of cyber risks, as well as on possible areas where regulation and practice do not neatly fit together. A natural next step is to turn market intelligence into support for supervisors. Hence EIOPA continues its work on digital business model analysis, open insurance, and AI. As a supervisor, EIOPA also needs to make sure that regulation remains relevant. This means adopting a 'same regulation, same rules, same risks' approach while remaining technology neutral.

Supervisors that have a good and up-to-date oversight on market developments, with good cooperation between themselves and those driving change can support sound progress for the benefit of the European economy, its citizens and businesses. The current pace of change makes it one of the key challenges.