

## DIGITAL FINANCE TRENDS AND PRIORITIES



### FAUSTO PARENTE

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### Digital transformation in insurance: lessons learned and future priorities

Digital sectoral legislations and horizontal frameworks adopted during the previous European legislature have laid the groundwork for a more resilient, innovative, and consumer-focused financial sector. Therefore, further refinement and prioritisation are needed to ensure objectives are fully achieved, particularly in safeguarding consumer interests.

The implementation of these frameworks underscores the need to balance risk mitigation and innovation. DORA, for instance, is being crucial in enhancing the operational resilience of financial entities, essential for consumer trust in an increasingly digitalised world and amid geopolitical tensions. However, concerns exist that administrative burdens, particularly for smaller insurers, could stifle innovation.

Similarly, MiCAR has provided clarity for crypto-assets, creating a regulatory framework that promotes innovation while addressing risks such as market manipulation and consumer fraud. Yet, applying it to decentralised finance (DeFi) remains complex, with concerns about consumer protection. The borderless and decentralised nature of DeFi poses challenges for regulators and insurers, particularly in ensuring transparency, fairness, and accountability.

For insurers that rely heavily on data, the interaction between sector-specific digital laws and broader frameworks like GDPR and the Data Act has highlighted key lessons. While these frameworks aim to harmonise the digital single market, challenges of overlapping requirements exist, which add on complexity and hinder consumer protection. Greater coherence and consistency between sector-specific and cross-sectoral rules is needed. For example, GDPR's data protection requirements sometimes clash with the need for data-driven innovation in insurance, such as personalised products. Moreover, beneficiaries of insurance or pension products are not necessarily the policyholders, which is not always recognised in legislation. Further, while the AI Act only applies to health and life insurance, Solvency II applies to the use of AI for all insurers, requiring careful monitoring when implementing the AI Act for health and life insurance. Thus, sector-specific guidelines are needed to address the supervision of other lines of business, to ensure convergent EU supervision and that AI doesn't lead to excessive segmentation or exclusion of certain consumer groups.

Priorities for the European Commission should focus on effectively implementing existing legislation, including the AI Act and FiDA. Ensuring these frameworks are operational, will be crucial for the sector's development. For instance, the FiDA framework needs to be rolled out in a way that enhances data sharing and interoperability while safeguarding consumer rights, especially regarding data ownership and consent. Ongoing oversight is also essential to ensure digital innovations align with regulatory standards and consumer interests remain

### Digitalisation offers opportunities, but challenges must be managed to protect consumers.

protected. This includes regular assessments and updates to existing regulations as the digital landscape evolves. EIOPA's Expert Group on data use is well-positioned to contribute to these efforts, offering insights into the role of data in insurance and helping to shape a regulatory environment that fosters both innovation and consumer protection.

Meanwhile, enhancing digital infrastructure is vital for integrating new technologies and services within the insurance sector. Many insurers are still burdened by legacy systems, hindering their ability to take full advantage of digital advancements. Addressing these challenges through targeted investment will be key to ensuring a competitive and innovative insurance landscape. The Commission could prioritise equipping consumers with the knowledge and tools to navigate new technologies and products. Empowering consumers to make informed decisions is essential for maintaining trust and ensuring fair outcomes. The digital transformation of the insurance sector progressed significantly during the previous legislature, but consumer protection must keep pace with innovation. While frameworks such as DORA, MiCAR, and the AI Act have provided a solid foundation, further efforts are needed to address emerging risks, clarify regulatory uncertainties, and support innovation in a way that prioritises consumer interests. EIOPA stands ready to support these efforts and continue to contribute to a regulatory environment that fosters innovation, resilience, and consumer protection.



## SIMONAS KRĖPŠTA

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### Striking a balance between market development and risk management

Digitalisation and the rise of fintech have significantly transformed the European financial services landscape, bringing widespread and rapid change. These advancements have benefitted consumers immensely but have also posed challenges for financial supervisors tasked with identifying and addressing emerging risks.

Lithuania has been at the forefront of this fintech evolution. By prioritising financial innovation at the governmental level and fostering collaboration between institutions and private entities, the country has created a regulatory environment that supports innovation and accelerates the growth of fintech startups. This effort has resulted in a thriving ecosystem that includes more than 250 licensed financial institutions and supportive companies.

In 2014, Lithuania introduced one of the first regulatory regimes for crowdfunding. Five years later, the country witnessed the rapid growth of neo-banks, electronic money, and payment institutions. These developments have enhanced competition, increased the availability of financial services, and improved accessibility for consumers.

Today, Lithuania is one of Europe's leading fintech hubs. Its payment sector serves over 30 million clients across the EU – remarkable for a country with a population of just 2.9 million. Consumers enjoy benefits like cross-border services, instant payments, and user-friendly apps. With the MiCA regulation and the opportunities provided by AI on the horizon, even more progress is expected.

However, innovation comes with the emergence of new risks. Therefore, robust mechanisms are needed to detect and manage novel risk factors. Lietuvos bankas has adopted an innovation-friendly approach by analysing fintech products and services from both the technical and business model perspectives. This ensures that adequate risk averseness and safeguards are in place. The focus now is on improving market maturity through active dialogue with market participants, offering consultations, providing training, and sharing best practices. Additionally, supervisory activities are being enhanced to uphold high standards and address irregularities in a timely and decisive manner.

Looking at the possible future development of the financial sector in Europe, I see two major challenges standing in the way of innovation: the fragmented EU single market for financial services, and the lack of a fully integrated supervisory and regulatory framework. Despite undeniable progress over the last few decades, the EU's financial market retains significant trade barriers, as highlighted by recent IMF estimates. Addressing issues like the elimination of IBAN discrimination and the expansion of cross-border access to financial products

will require a dedicated effort. From a regulatory perspective, good examples such as the Single Supervisory Mechanism (SSM) and the establishment of the Anti-Money Laundering Authority (AMLA) demonstrate the potential to reduce national fragmentation and improve cross-border risk management in other fields, namely capital markets.

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Fifteen years after the global financial crisis and the subsequent major regulatory reforms, now is the right time to assess their effectiveness. It is crucial to preserve initiatives that deliver tangible benefits while refining those that hinder competitiveness. In Lithuania, we are currently engaging closely with market participants and reviewing the national regulatory framework. Our focus is on simplifying regulations while upholding strong risk management and consumer protection standards. If adopted across Europe, this pragmatic approach could drive the emergence of a more innovative and competitive financial market.



## BARBARA NAVARRO

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### Digital finance in 2025: Trends, challenges, and policy priorities

Global systemic banks must navigate a complex landscape where fintech companies, established tech players, and decentralized finance are reshaping financial services. To remain competitive, banks must harness emerging technologies, collaborate with market disruptors and adapt to shifting regulatory demands where the name of the game and priority of the New European Commission is Competitiveness.

#### 2025 Digital finance top global trends

Embedded finance has become mainstream. Consumers and businesses access payments, lending, and investment services directly through e-commerce platforms, ride-hailing apps, and social media networks. Banks increasingly adopt Banking-as-a-Service (BaaS) models, leveraging open APIs to collaborate with fintech companies rather than compete against them.

Technology giants have expanded their footprint in digital finance, leveraging vast user data and AI-driven insights. Their dominance in digital payments, cloud banking, and AI-powered financial services intensifies competition with banks. With UX and convenience as their core strengths, big techs challenge traditional financial institutions by offering frictionless and personalized financial experiences. Trust is the main anchor that allows traditional players to hold an advantage.

Artificial intelligence is a cornerstone of financial services in 2025, revolutionizing fraud detection, credit scoring, and customer engagement. AI-driven robo-advisors provide hyper-personalized investment solutions, while predictive analytics optimize risk management.

Quantum computing, though in its early stages, holds the potential to revolutionize financial modeling, risk assessment, and encryption, presenting both opportunities and cybersecurity risks for financial institutions.

Instant cross-border transactions have become a reality, driven by DLTs and Central Bank Digital Currencies albeit the US has pushed the brake in the latter favoring the rise of stablecoins. Governments and financial institutions are deploying CBDCs to enhance financial inclusion, improve payment efficiency, and reduce dependency on cash. While CBDCs offer benefits, they also introduce risks related to monetary policy control, cybersecurity, and financial stability.

#### Policy priorities of the new Commission for a better-regulated digital finance ecosystem

The past legislative mandate in the European Union saw the introduction of mass digital legislation and horizontal frameworks aimed at fostering innovation while ensuring financial stability, consumer protection, and cybersecurity.

Key regulations such as MiCA, DORA and the Data Act have shaped the digital finance landscape. However new challenges and gaps have emerged. While the EU has taken a proactive approach to risk mitigation, some regulatory measures may have inadvertently created compliance burdens, mainly for smaller players but also for larger European ones

A more tailored, risk-based approach could help strike a better balance between fostering innovation and mitigating systemic risks. Harmonizing enforcement across Member States and reducing administrative burdens and costs, for all, small and large European players, should be a key focus in the next political cycle.

Harmonized regulations for cross-border digital payments can improve efficiency and reduce regulatory arbitrage. Central banks and financial regulators must collaborate on interoperability standards, AML protocols, and monetary policy coordination to ensure seamless global transactions.

#### Conclusion

The digital regulatory wave has laid a strong foundation for digital finance in the EU, but adjustments are needed to refine existing regulations, enhance supervisory effectiveness, and ensure financial services remain competitive and innovative. Striking the right balance between innovation and risk mitigation remains a challenge, particularly in areas such as AI governance, DeFi regulation, and cybersecurity oversight. The EU Competitiveness Compass provides a strategic roadmap for fostering digital transformation, but implementation and regulatory coordination will be critical in ensuring that financial digitalization supports both growth and stability.

#### Digital finance should enable competition under a simplified regulatory framework.

In the next political cycle, policymakers must prioritize regulatory clarity, supervisory modernization, and cross-sectoral cooperation to ensure the EU remains a global leader in digital finance. Additional guidelines and harmonized enforcement mechanisms will be essential in reducing compliance burdens and fostering innovation across the financial ecosystem.



## GILLES MOËC

Chief Economist – AXA Investment Managers

### What legislative framework to facilitate innovation?

AXA has been serving 95 million clients across more than 50 countries for the last 40 years. Data has been at the heart of AXA's business expertise for many years, allowing underwriters to adequately assess risks faced by clients and manage potential claims that may arise. Enhancing digitalization, is thus essential to our operations, enabling us to leverage data to the benefit of our clients and the society at large.

As innovative and efficient solutions matter to our clients, the use of digital tools is one of the key pillars of the AXA strategy. For example, Artificial Intelligence (AI) provides added value in process automation to facilitate our clients' journey with robotic process automation and optimal claims recognition in claims management. The AXA Digital Commercial Platform (DCP) also exemplifies well innovation aimed at better serving our commercial line clients. It combines technology with strong risk management expertise to help companies anticipate and manage multiple crises, like climate change and geopolitical threats. One service offered by AXA DCP is AXA Wildfire, a wildfire management service that relies on AI and geospatial analysis, evaluating over 20 risk factors to provide risk maps and analysis updated on a regular basis and which therefore enable tailored prevention advice.

Such innovative developments can be facilitated by a legislative framework that considers the European competitiveness objective in policymaking. As highlighted in Mario Draghi's report on the Future of European Competitiveness, closing the innovation gap is a key imperative for enhancing EU competitiveness. Indeed, when the pandemic struck, the ECB estimated that the digital economy stood at a bit more than 6% of GDP in the EU, against more than 8% in the US. Given the role this sector can play in boosting productivity across the whole economy, supporting the development of digital activities is key to narrowing the gap in growth dynamics which has widened across the Atlantic. The new European Commission (2024-2029) also put innovation as a central element of its Competitiveness Compass, focusing on various technology sectors, including artificial intelligence, semiconductors, quantum technologies, clean energy technologies, space technologies, as well as connected and autonomous mobility.

However, it is fair to recognize that the EU Digital Legislative Framework has developed rapidly in recent years and became complex and dense. Overly complex and redundant regulations lead to high costs for companies, potentially hindering innovation, and stifling competitiveness. Based on our insights and practical experiences with the implementation of the EU Digital Legislative Framework (including GDPR, DORA, and the AI Act), the current priority should be to implement already adopted regulations and avoid adding further complexity through unnecessary Level 2 guidelines and delegated acts. This is particularly crucial for the EU AI Act Level 2 legislation,

as numerous cross-sectoral guidelines are anticipated in the coming years, alongside EIOPA's proposed guidance on interpreting insurance sector legislations in the context of AI systems.

Simplification will help safeguard the competitiveness of the European industry. The European Commission's agenda for simplification, beginning with the Omnibus Simplification Package for Sustainable Finance, presents an opportunity to consider simplification within the Digital Framework as well.

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**Insurers are keen developing innovative digital solutions that matter for their clients.**

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When evaluating the need for potential new digital regulation, we would recommend a step-by-step approach based on specific use cases, while also adapting to the geopolitical landscape and international developments. For example, the proposed framework for Financial Data Access (FIDA) appears misaligned with the European Commission's goal of reducing complexity on companies to enhance competitiveness. Trialogues on FIDA are about to start and if at one point, the proposed regulation might hamper the EU competitiveness goal, EU policymakers should maintain the flexibility to consider the withdrawal of FIDA as an option.

Dialogue among all stakeholders, including consumers, is essential for identifying where simplification in the EU Digital Legislative Framework is necessary to enhance the EU competitiveness. This will enable the insurance sector, among others, to continue developing innovative prevention and protection solutions that matter to their clients.