

Policy Vision

# Making the EU Digital Single Market a reality for European consumers and businesses



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The European Union has the potential to lead the revolution towards tech-driven, fully digital financial services, providing consumers and businesses with new and innovative ways to manage their finances safely and securely. Home to several fintech companies that are active across borders, Europe is well equipped to challenge global competition.

However, while significant progress has been made in fostering digital financial services over the past years, the current regulatory framework across the EU internal market still leaves rooms for improvement in harmonisation. Activities of today's digital players are still largely governed by rules written in an analogue era for companies with brick and mortar branches whose business did not expand beyond national borders. These regulatory standards significantly hamper fintechs' ability to scale up cross-border and keep Europeans from benefiting from fintech solutions. In order for the EU and its companies to become champions on a global scale, these barriers need to be removed in favour of harmonised regulation.

- We want all European consumers and businesses to enjoy equal opportunity in accessing digital financial products.
- We encourage proportionate regulation that supports fair competition and a level playing field.
- We want to increase users' trust through transparency.
- We want to ensure Europeans always benefit from the most cutting-edge technology.

**We want a true EU Digital Single Market**  
**where all European consumers and**  
**businesses are enabled by education and**  
**technology to access and benefit from**  
**innovative financial services.**

# DIGITAL FINANCE

The European FinTech Association (EFA) welcomes EU's initiatives in the Digital Finance space, such as the move from Open Banking to Open Finance, increasing the participation of retail investors and promoting digital ID solutions. These will serve as a catalyst for further competition in the financial services market - which, ultimately, will be of great benefit to all European users.



## 1. Establishing clear data sharing rules for the success of Open Finance

To help users confidently use the benefits of Open Finance, it is key to establish strong and clear rules on data sharing. Users must be able to see where their data is, understand who has access to it, and retain the power to easily revoke their consent at any time. They should not have to go through multiple dashboards to understand current access rights. Ensuring that customers have meaningful control over the use of their personal data is essential to guarantee the lawfulness of data processing. This is all the more important against the background of fostering greater financial literacy among European citizens: Clarity on use of data will encourage European citizens to confidently make use of Open Finance.

## 2. Empowering retail investors in the EU by making investing more accessible, transparent and inclusive

The Capital Markets Union cannot become a reality without a meaningful inclusion of retail investors. Digitalisation and Fintech solutions can help foster retail investment in the EU and legal frameworks need to adapt to empower and protect retail investors.

Digitization can lead to a democratisation of access to investment products and services for all retail investors regardless of where they are located. This should be supported by regulation that does not differentiate between digital and non-digital solutions, as well as further harmonisation of rules to avoid fragmentation across the EU, allowing for wider access to innovative financial services and products.

## 3. Advancing a European digital identity to improve the customer journey

The European eID solution would have substantial benefits for harmonisation across the EU and enable FinTechs to have broader market access, reduce regulatory costs, and more easily scale-up cross border. More importantly, European citizens will experience a more effective, safer, and inclusive customer journey.

- Develop a user-oriented identity ecosystem: Users should be at the centre of the future digital identity framework, having full control of what parties get access to their data, when and for how long.
- Facilitate the use of reusable identities across the single market: Reusable identities are critical for the digital transformation of the European single market. Notified eIDs and the creation of the European Digital Identity Wallet are good first steps, but for a true single market, citizens should be able to have access to the same reusable identity solutions across the EU.
- Create a single market for qualified trust services: Step ups to the qualified trust services regime are creating a fragmented eIDAS regime within the EU Single Market. The EU should strive towards a truly harmonised qualified trust service regime where providers are expected to meet the same standards across the EU. It will be key to ensure requirements are proportionate and allow for innovative, customer-friendly and fully digital solutions for identity creation.

# DIGITAL PAYMENTS



EFA strongly supports the EU's aim to encourage a more innovative and competitive EU retail payments market and calls for the completion of the EU digital single payments market. The EU should work towards an innovative, competitive payments landscape, allowing consumers and businesses to benefit from new products and services, as well as more secure payments across the EU.

## 1. Ensuring the active participation of Fintechs in creating European payment policy

Fintech solutions are increasingly widely used by many consumers and businesses across the EU, and should play a crucial role in shaping the rules that govern new and digital payment methods. This would help futureproof new payment methods and instruments, facilitate the distribution of any new payment methods to consumers and businesses, and drive acceptance and trust. From pan-European Instant Payment solutions to the Digital Euro, new payment initiatives should involve Fintechs from their inception, as the main drivers of innovation in the European payment ecosystem.

## 2. Innovative, open, interoperable payment infrastructures that promote competition for the benefit of all European consumers and SMEs

To promote the adoption of EU's payment initiatives and provide innovative new rails for payment firms across the EU, non-discriminatory and proportionate access to payment systems, including a path to direct access to TARGET2, TIPS and the Digital Euro, should be granted to all players, with the relevant safeguards. This will promote competition and enable the development of innovative payment solutions, benefitting more European citizens and businesses. Outdated rules and restrictions that exclude Fintechs from essential infrastructure are no longer relevant in the current landscape.

## 3. Improving competition within and between payment systems to the benefits of consumers and businesses

Ensuring diversity among payment players is essential for competition and reducing prices for consumers and businesses. Transparency and full fee disclosures are critical to empowering consumers and businesses to make informed decisions, especially for cross-border payments. Consumers and businesses should have the freedom to search and switch between providers for better pricing and services, without lock-in or high termination costs. New innovative payment methods should not be priced at a 'premium', as this may hinder their adoption. Furthermore, IBAN discrimination is still a prevalent issue that harms both consumers and businesses wanting to operate across borders.

## 4. Addressing financial crime and fraud risks

The EU should take an outcomes-based and holistic approach to combat fraud, ensuring that all intermediaries are made responsible for addressing the cause of payments fraud. Additionally, technology and digital tools can help create a safer and more secure payment market for consumers and businesses. Regulation that focuses on delivering safe outcomes should enable payment firms to use digital tools, such as machine learning and biometrics, to understand customers better and detect fraud.

## 5. Maintaining and enhancing a pro-innovation and proportionate payments regulatory framework

The EU's payment rulebook has enabled a rich ecosystem of diverse business models. The regulatory framework should continue to allow firms to apply for the most appropriate regulatory licence based on their objectives and be calibrated for effective regulation and supervision based on the nature and volume of their activities. Harmonisation can address challenges such as diverging approaches across Member States in implementing Directives, such as PSD2, leading to competitive challenges for Fintechs based on their location. Moving requirements into directly applicable Regulations can help reduce complexity and ensure equal treatment of supervised entities and same levels of consumer protection across the EU.

## DIGITAL ASSETS

EFA believes that an appropriately regulated market for digital assets can encourage responsible innovation in the interest of the EU financial markets and consumers. We welcome the certainty afforded by the adoption of the Market in Cryptoassets

Regulation (MiCA) and ongoing work to formulate regulatory approaches in other policy areas that affect digital assets, such as anti-money laundering and payment rules.

We acknowledge recent turbulence in the digital assets market. In our view, with the continuous evolution of the digital assets market and the introduction of an appropriate regulatory framework, industry and the public sector will jointly achieve greater stability and maturity.

We believe that the following key steps can help the EU create a thriving, innovative and robust digital asset market:

### 1. Protecting and encouraging responsible innovation

The digital asset market is complex and broad. While EFA welcomes the regulatory clarity that is provided by MiCA and other regulatory regimes, we are concerned that the services provided by responsible market participants, many of whom are already regulated, are being conflated by policymakers with unregulated high risk propositions. We encourage policy-makers to engage with the fintech industry to better understand how the Fintech market is incorporating digital assets in its services.

### 2. Bespoke regulation to support competition and innovation instead of “one size fits all” approaches

Regulation should be based on evidence and data, addressing specifically identified harm to consumers or markets. Regulation should avoid ‘one-size-fits-all’ approaches, since these do not create a level playing field. Instead, they advantage established incumbents over new market entrants and start ups. Rather, de minimis approaches should be used, and regulations should be designed to address specific identified problems with “consideration of alternative solutions and unintended consequences”, as set out in the G20/OECD High-Level Principles on Financial Consumer Protection. This would help attract innovative businesses to the EU.

### 3. Maintaining risk-based anti-money laundering requirements while ensuring consumer safety

EFA is encouraged by the certainty that some of the risk-based provisions of the proposed AML package and Transfer of Funds Regulation will bring to the digital asset market. However, all digital assets and related services are not equal and do not inherently bear the same de facto high risk profile. Regulating digital assets is a complex task, but it is crucial for ensuring the safety of consumers. Policy-makers should recognise the distinctions between different products and services and this nuance should be reflected in regulation.

### 4. Protecting Open Source to advance technology and innovation

Open source development has played a crucial role in the growth and advancement of technology, fostering innovation and collaboration among developers worldwide. This has been particularly evident in the emergence of decentralised finance (DeFi), which is built on open source software. Attempts to limit the growth of DeFi would be misguided and could undermine the benefits and potential that open source development brings to society.





# ANTI-MONEY LAUNDERING

EFA supports a harmonised, pan-European AML policy regime which allows companies to conduct customer due diligence efficiently and effectively, leveraging technology and centralising efforts where possible to avoid duplication.



## 1. Harmonised AML Rules for a Single Market

Harmonisation of AML rules across Europe will strengthen the Single Market by making it more straightforward for innovative European companies to scale their products and services across jurisdictions. This can be delivered through a clear AML Regulation, which ensures that companies can work with a single rulebook across Europe, and a strong AML Authority, which ensures that this rulebook is interpreted and enforced consistently.

## 2. Promoting the use of technology to improve Customer Due Diligence

EFA believes that companies should be able to leverage innovative technologies, such as remote onboarding and machine learning, where they are able to make CDD more effective, more efficient, or both. In this way, companies can contribute more to the fight against financial crime, and also deliver their services to end-users at better prices.

## 3. Enabling specialisation in Customer Due Diligence for increased effectiveness

The EU's AML policy regime should allow for specialisation in the conduct of CDD. Specialisation can drive increased effectiveness, helping to counter criminal exploitation of Europe's economy, and to reduce the margin Europeans pay for regulatory compliance costs on everything they buy. These benefits are particularly impactful for smaller and younger businesses. Regulated and performed responsibly,

CDD outsourcing and sub-outsourcing, as well as cooperation between obliged entities and within group companies, can help European businesses operate more efficiently, without compromising on essential efforts to counter financial crime.

## 4. Strengthening and Connecting Beneficial Ownership Registers to bolster and streamline AML efforts

EU Member States should maintain comprehensive and up-to-date ultimate beneficial ownership (UBO) registers that are interconnected through a central mechanism for easy and simultaneous access by obliged entities to comply with the CDD obligations under the AML Regulation.

Centralising UBO registers will improve the efficacy and efficiency of AML efforts, and reduce variability in their quality. Few companies – particularly younger, smaller companies – are as well-positioned to solicit, verify, and cross-check this information as a government entity could be. Companies should be able to rely on the information in government registers for compliance. This can increase transparency, accountability and rigour.