

UNLEASHING DATA-DRIVEN INNOVATION



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The role of data in the financial sector: a supervisory perspective

The EU AI Act represents a landmark regulatory attempt to ensure that AI technologies are deployed safely, transparently, and in alignment with European values. By categorizing AI applications based on their risk levels and imposing corresponding regulatory requirements, the AI Act seeks to mitigate potential harms while fostering innovation. In the financial sector, this is crucial as we increasingly rely on AI for tasks ranging from fraud detection to algorithmic trading.

Moreover, the EU's data frameworks, such as the General Data Protection Regulation (GDPR) and the Data Governance Act (DGA), have set high standards for data protection and established mechanisms for data sharing and governance. These regulations are designed to ensure that data flows within the EU are secure, ethical, and beneficial to all stakeholders. Last but not least, the proposal on a framework

for Financial Data Access (FiDA) aims to further streamline data access and reuse, enhancing the sector's operational efficiency and innovative capacity.

Looking ahead, the next European policy cycle should prioritize several key areas to facilitate the effective use of data. For example, the swift finalization of FiDA, followed by a clear and practical implementation roadmap, should represent one of the top priority in this regard, provided, however, that adequate collaboration with industry stakeholders is ensured to keep the framework both ambitious and feasible.

Against this backdrop, I would highlight three main areas of commitment, both for authorities and business entities.

The EU should promote the overarching policy objectives of data quality, governance and fairness. In particular, the EU should promote proper initiatives that promote common standards and best practices for data collection, processing, and sharing. This can be achieved through consistent incentive structures such as public-private partnerships that encourage financial institutions to share data safely and responsibly. Policies should also be designed to prevent data monopolies and ensure level playing field for all players, which will facilitate interoperability and trust among stakeholders. To unlock the full potential of data thus limiting possible negative impacts for the public and the financial stability, we need to strengthen the necessary risk culture underpinning proper data governance.

Strong data governance drives effective risk management and decision-making. Given the increasing operational complexity, the ability to effectively analyse both structured and unstructured data from various sources, aggregate it, and ensure its integrity is key to ensure business model sustainability: Comprehensive and accurate information allows business entities to make informed decisions regarding risk management. This should be complemented by proper data governance arrangements that would ensure the relevant risk data aggregation capabilities, which has been one of the main focus of prudential supervision over the past years.

Moreover, artificial intelligence significantly enhances business opportunities by improving data analysis. However, continuous oversight

is key to ensure proper allocation of roles and responsibilities together with the necessary check-and-balances mechanisms. Last, but not least, the "human-in-the-loop" concept ensures human judgment and oversight remain fully embedded in AI-driven processes, thus preserving overall accountability and full compliance with ethical standards.

Strengthening ICT risk management through strategic controls and digital resilience is essential to address new challenges. Informed business decisions related to digital transformation must also include proper consideration to firm-wide management of ICT/cyber risk, given also its increasing cross-cutting nature across the financial system and beyond.

Supervisors are fully aware of the significant effort required to intermediaries to the relevant regulation on operational resilience. However, we also acknowledge the need to preserve the wealth of good market practices developed through existing regulations and supervisory actions related to operational continuity.

**Strong data governance
drives effective risk
management and
informed business
decisions.**

Technological innovation impacts supervision too. SupTech tools facilitate massive data analyses beyond traditional reporting. For example, we currently consider together with the ECB potential operational synergies associated with their relevant use for on-site reports, shareholders' structures, extensive information related to the professional qualifications and integrity of individuals. We share similar challenges: the need to avoid unconscious biases and keep human judgement as well as significant implementation costs.

The journey ahead requires collective efforts to implement these frameworks properly, enhance data quality, promote data sharing, and ensure ethical and secure data practices. By prioritizing these areas, we can unlock the full potential of data-driven innovation.



NIKHIL RATHI

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Data, AI, Open Finance – The foundations for a revolution

Technology is playing an increasingly central role in financial services. Recent advances in Artificial Intelligence (AI) and growth in open finance technology have the potential to revolutionise the financial services industry. As a regulator with innovation at the heart of its work, our approach seeks to create an environment that facilitates safe and beneficial adoption of new technologies.

Our existing technology-agnostic, principles and outcomes-based approach to regulation places clear responsibilities on deployers of AI systems to act with accountability and in the interest of consumers. This provides a strong and proportionate baseline to effectively supervise firms while giving them the flexibility to innovate.

Given the transformational, cross-sector nature of AI, the FCA cannot – and is not – tackling this topic alone. We are collaborating closely with a wide range of international partners and are following important international developments like the EU's AI Act with interest. We will also be engaging with the UK Government as it develops its proposals for binding regulation for developers of the most powerful AI models.

The FCA has experience of supporting innovators through our regulatory and digital sandboxes. Since the launch of our Regulatory Sandbox and Innovation Pathways services in 2014, we have received over 370 applications. By creating an environment where new technological propositions can be tested safely and responsibly, including providing access to high-quality synthetic data (artificially generated data designed to mimic real-world data), we can empower firms to foster technology exploration. We are also launching an AI-specific sandbox which will further enhance the data available for users and regulators.

Through our AI TechSprints, we have been exploring solutions to address industry challenges. Most recently, we explored AI-powered solutions to help detect evolving forms of market abuse, and in particular more complex types of market abuse that are currently difficult to detect, such as cross-market manipulation.

In addition to supporting firms, such initiatives also help regulators decide how they might consider deploying AI to assist in their own responsibilities. AI is not just changing markets, but also the way we regulate.

Access to quality data is a pre-requisite for development of both AI and open finance. Synthetic data is an area of particular focus. Our Synthetic Data Expert Group aims to provide unique insights into use cases, opportunities and challenges this technology poses. It also assesses the ability of AI to generate synthetic data. It can enable responsible innovation, including solutions to issues affecting regulators such as financial crime and fraud.

The parallel development and support for open finance and a smart data economy will increase the possible data sets that firms can use. This will help create new or improve existing services. We welcome the announcement of the UK's Digital Information and Smart Data Bill and support a regulatory framework for smart data to be in place as soon as possible. This Bill should facilitate the scalable and sustainable growth and development of open banking. Developing open banking will set the foundations for the growth of open finance.

We encourage and support innovation by firms, for example, through new products in open banking payments and the development of APIs to share open banking data. The right regulatory environment will enable us to explore appropriate regulations to promote open finance as both legislation and use cases progress. We are encouraging

stakeholders to experiment and test use cases within open finance.

Regulators have a unique position when it comes to not only utilising data, but also ensuring that firms can access the data they need to innovate. One area of consideration is the competition implications of Big Tech and accompanying data asymmetries, explored in our feedback statement published in April. Data asymmetries in financial services could reduce competition, reduce innovation, and lead to worse outcomes for consumers. For this reason, we will continue to monitor Big Tech's activities in financial services and take proactive steps towards developing a regulatory approach.

**Access to quality data
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The intersection of AI, Big Tech, and open finance while representing a new frontier should not represent an unwieldy challenge for regulators. By encouraging innovation and promoting safe competition, the FCA aims to foster an effective and proportionate regulatory regime in the interests of consumers and market integrity.



PETRA HIELKEMA

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The EU's data and AI landscape for insurance: a work in progress

The insurance sector is approaching a data-driven evolution. Artificial Intelligence (AI) and advanced analytics have the potential to reshape business models, enhance customer experiences, and optimise risk management. From its inception, the industry has relied on record-keeping and statistical analysis to assess risk, price policies, and manage claims. The advent of digitalisation has exponentially expanded the volume, variety, and speed at which data is available. Solvency II has already established a framework to supervise data use and IT risk management by insurers. The recent AI Act reinforces this existing practice, adding further requirements for high-risk AI applications.

EU regulations such as the GDPR and the Data Governance Act establish a foundational framework for data sharing, while FiDA specifically targets the financial sector, aiming to ease consumer access to and control over their data. The proposal aims to put consumers in the driver's seat over what financial data to share, with whom, and for what purpose.

While the concept of data sharing is not new, FiDA is proposing to formalise and streamline this process. By establishing standardised protocols, FiDA could enable granular control and easy retrieval of consent by consumers of their data. This freedom to transfer data between different platforms and services will potentially break down data silos and empower consumers. Meanwhile, leveraging richer datasets, insurers could develop more accurate risk assessments, which could lead to more tailored products and competitive pricing. Furthermore, the sector could gain deeper insights into consumer behaviour, preferences, and financial health through data-driven insights, thereby enhancing consumer experiences and streamlining operations.

However, across the board challenges and risks remain. Data security and quality are paramount, as the aggregation of vast amounts of financial data could lead to breaches that undermine consumer trust. There is also a risk that products and services resulting from data shared and reused by third parties, such as insurance dashboards, may be incomplete and provide consumers with misleading information.

Consumers are increasingly conscious of their data. Thus, safeguarding sensitive information, while demonstrating transparency and accountability, will be vital. Not all data that insurers have can be disclosed and EIOPA is ready to help identify the insurance data that can be shared securely. This clarity will ensure that FiDA fosters innovation without compromising consumer trust.

Cyber risk is another critical issue, given the increased potential for attacks targeting sensitive financial information. Additionally, there is a risk of financial and digital exclusion, particularly for individuals without access to the necessary digital infrastructure or skills to participate fully. The increased data access granted to BigTechs under the proposal might stifle competition and raise privacy concerns, as these entities could potentially exploit their market dominance.

Finally, while the availability of more data allows for more precise risk assessments and individual pricing, it could contradict the principle of mutualisation, which is based on the pooling of risks. Mutualisation plays an important role in bolstering societal resilience as it spreads the risk of potential losses across a large group, making insurance more accessible and affordable, especially for those with higher risks or limited means. Mutualisation stabilises the insurance market while protecting individuals from

the full impact of insured events. The more that data is used to differentiate, the less the risk is shared, and this could result in discriminatory pricing practices, disproportionately affecting vulnerable consumers. And although these challenges are not unique to FiDA, they could be accelerated if they are not tackled effectively.

It is important to embed the right consumer protection measures and supervision. While immediate priorities should be on the implementation of the AI Act and finalising FiDA, further consideration should be given to robust consumer protection measures and supervision to safeguard consumers' best interests. To address potential risks, supervisory efforts could prioritise digital ethics and the prevention of dark patterns and biases.

**Advantages for
consumers extend to
placing data control
and ownership firmly
in their hands.**

Therefore, while collectively the EU's data and AI landscape provides a solid foundation for enabling data use and sharing in the insurance sector, the success of these initiatives will depend on their effective implementation and the prioritisation of key areas. Further considerations, including consumer protection, privacy, and security, will be essential to ensure that the operational conditions for data-driven innovation are in place. By addressing these priorities, the European insurance sector can harness the full potential of open finance and AI, driving innovation and delivering better outcomes for consumers and businesses alike.



ALEX IVANČO

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International standard setting is the norm for global industries

You might have experienced trying to explain to your parents or relatives how a smartphone works, what are the benefits over a classic one. With kids, it might be the exact opposite, you just try to limit their time and access, hoping that they don't override your password. Sometimes it feels the same trying to establish future-proof rules for digital finance without the benefit of the crystal ball, hoping that common sense, decency would be enough.

Financial sector is regulated, for reasons that vary from protecting stability of the system to the protection of its weakest part. Some would argue that with bank secrecy laws in place there is no need for GDPR or any other extra protection of your personal data in your banking account. Or that with licensing and supervision paramount in the financial sector you don't expect practices that constitute a breach of the fundamental rights to be tolerated. So why do we need to introduce new rules or technology specific ones?

Most of the non-regulated economy sectors witnessed changes, that are yet to be seen fully in their pace and impact in the financial sector. Part of the reasons for the delay might be that the old rules are prohibitive, unfit for digital era. That the system is calibrated to always warrant compliance first rather than account for the benefits of the new technology. While others might argue that the existing rules protect incumbents from the competition rather than clients from malevolent actors. Either way it seems that the regulator indeed has to revisit the rules.

Globally, jurisdictions approach open finance framework differently: putting digital ID in the center as in the case of Australia, mandating financial institutions to start exchanging data in a fixed time period as in Brazil or inviting the financial sector to come up with a data exchange standard as in Switzerland. One would expect international coordination in the private sector to be taking place for a long time, as these initiatives are nothing new or unexpected, and international standard setting is otherwise the norm for globally interacting industries.

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Taking the example of trade or trade finance, such a coordination is taking place there for a long time. Industry-led ICC proposals are submitted to the UN bodies. UNCITRAL Model Law on Electronic Transferable Records (MLETR) that introduced a global legal framework for DLT based digital assets in 2017 was recently adopted by the UK and France. Similar development can be expected in technical standards. What ISO TC are you part of? And your competitors? EU Data Act might be the basis for sectoral frameworks such as FIDA, so why not expect the data standards from other industries to do the same, especially in the case of

nonappearance of significant industry proprietary activity. ESAs might be good partners, but it is the industry that should lead the way.

It is good to remember the ambitions of the EU strategy for digital finance, that is to bring to the consumers, SMEs and CMU the benefits of the digitalization. New geopolitical risks require new approaches for the protection of data and its processing, but the new rules should not block neither delay access to the benefits of the new technologies.

We need to focus on digital literacy and financial literacy. This is not completely new. While customers have the right to switch to a different TelCo operator with their existing telephone number, they might face difficulties when trying to share their data or roaming consumption information with a competitor for the purpose of a better offer. Technical solutions should allow clients full control over their data, ensuring privacy and security, in order to build trust first. Only then there can be a free decision of these customers to engage, share data fully or partially, with the view to benefit from their processing.



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Unlocking innovation in financial services: leveraging Data and AI for superior customer value and operational efficiency

The financial sector stands to benefit immensely from the effective use and sharing of data, unlocking numerous opportunities for innovation, efficiency, and improved client services. Access to comprehensive and high-quality data empowers financial institutions (Fis) to make more informed decisions by extracting patterns and insights. This capability enhances business strategies, optimizes client offerings, and improves risk management. Data-driven automation significantly streamlines financial processes, reducing operational costs and minimising errors. For example, robotic process automation (RPA) can handle repetitive tasks like transaction processing and compliance reporting, allowing human resources to focus on strategic activities. Additionally, a consolidated view of client assets enables institutions to offer highly personalised services, tailoring recommendations, investment strategies, and risk

management plans to individual profiles. Data analytics also plays a crucial role in identifying potential risks early and managing them proactively, enhancing the overall stability and resilience of financial institutions.

AI is a powerful tool that can enhance data utilisation in the financial sector, contributing to improved decision-making, efficiency, and client services. AI algorithms excel in predictive analytics, forecasting market trends, customer behaviour, and investment opportunities by analysing vast amounts of historical data. Machine learning models can help to identify potential credit defaults, and detect investment risks, enabling data-driven decisions. AI-powered natural language processing (NLP) can process and analyze unstructured data from various sources like news articles and social media, helping institutions stay informed and adjust strategies accordingly. RPA leverages AI to automate repetitive and mundane tasks, freeing up human resources for more complex roles. AI algorithms can also detect anomalies and patterns indicative of fraudulent activities, providing robust protection for clients and institutions by analysing transaction data in real-time to identify suspicious behaviour.

The European Union (EU) has implemented several frameworks to promote the effective use of data in finance, including the EU AI Act and various data governance initiatives. These frameworks aim to balance innovation with regulatory oversight, ensuring the responsible use of data and AI in the financial sector. The EU Financial Data Access (FIDA) framework, proposed by the European Commission, grants consumers and small and medium-sized enterprises (SMEs) the right to authorize third parties to access their financial data. This initiative expands open finance beyond payment account data, fostering innovation by enabling third-party service providers to offer new and enhanced financial services while ensuring consumer protection and data privacy. The EU AI Act provides guidelines for the development and deployment of AI technologies, emphasizing transparency, accountability, and risk assessment. While encouraging innovation, the Act sets clear boundaries to ensure AI is used ethically and responsibly. Financial institutions can leverage AI within these guidelines to enhance their operations, provided they adhere to principles of transparency and accountability.

The EU Data Act and other frameworks facilitate data sharing and re-use across sectors, aiming to create a single market for data. These initiatives ensure data availability and

accessibility while maintaining high standards of data protection. However, challenges remain, such as establishing effective Financial Data Sharing Schemes and ensuring consistent implementation of these frameworks across member states. To fully realize the potential of data-driven innovation in the financial sector, additional measures are needed to address challenges related to data access, quality, and standardization, and to foster a collaborative environment for data sharing. Ensuring data accuracy, completeness, and consistency is crucial for reliable data analytics, and institutions should invest in robust data quality management practices. Common data standards are essential for interoperability and seamless data exchange between systems and institutions. Harmonising data formats, definitions, and taxonomies can facilitate efficient data sharing and integration, requiring collaboration between regulatory bodies, industry associations, and financial institutions. Encouraging data sharing through incentives can promote innovation and collaboration within the financial sector. Regulatory support and industry collaboration are vital to creating a conducive environment for data sharing, and incentives could include tax benefits, funding for joint research initiatives, or recognition programs for institutions that actively participate in data-sharing efforts.

Effective data use and AI drive innovation, efficiency, and personalized services.

In conclusion, the effective use and sharing of data in the financial sector presents significant opportunities for improved decision-making, operational efficiency, personalised services, and enhanced risk management. AI technologies amplify these benefits through predictive analytics, NLP, RPA, and fraud detection capabilities. The EU AI Act and data governance frameworks provide a foundational basis for data-driven innovation, promoting responsible and ethical use of data and AI. However, additional measures, such as ensuring data quality, standardisation, and fostering collaboration through incentives, are necessary to fully leverage the potential of data in finance. By addressing these challenges, the financial sector can unlock the full value of data, driving innovation and delivering superior services to clients.



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AI and Data Sharing for a competitive european financial sector

Information has always been at the core of the banking business. Yet, digitization has enormously increased the availability and value of data, thanks to advances in cloud computing and AI. Consequently, data from existing or prospective customers has become an increasingly valuable asset for nearly any business. It can be leveraged for customer acquisition, cross-selling, personalization, or advice, both within the sector where the data was generated and across different sectors. For example, data from e-commerce marketplaces can be used to provide credit or insurance products to either side of the marketplace.

Against this background, facilitating the sharing of customer data (with the users' consent) through data sharing regulations can promote innovation and competition. However, it can also introduce competitive advantages or disadvantages between players if the regulations impose asymmetric obligations. This is often the case with sectoral regulations such as PSD2 or FIDA, which impose data sharing obligations only on players from one sector but allow third-parties to access such data without bearing similar

obligations for their own (non-financial) customer data.

This is why we have long been calling for a horizontal, cross-sectoral approach to data sharing. Yet, the EU has so far only taken some steps in that direction, introducing data sharing obligations for just a few more sectors (large digital platforms, IoT products, electricity meters) and setting very general conditions for data sharing in the horizontal Data Act. As the new regulation on “open finance” (FIDA) is now being negotiated by the legislators, and the forthcoming EU Commission will define new political priorities in the coming months, it is crucial to stress the importance of avoiding asymmetries in sectoral regulations and moving towards a more horizontal, cross-sectoral approach to data sharing. Introducing reciprocity requirements in FIDA—requiring third-parties from other sectors to also make their own customer data available if they want to access data under FIDA—would be a step in the right direction, if coupled with a market-driven, step-by-step approach to the implementation of data sharing.

Facilitating data sharing in a consistent and horizontal manner is all the more important amidst the exponential growth in AI, including Generative AI, which is further increasing the potential to extract value from data. Otherwise, the already existent competitive asymmetries due to sector-specific data sharing regulations would be exacerbated. On the other hand, to harness the potential of AI, which is essential for the competitiveness of the EU financial sector, we need a regulatory and supervisory environment that supports the development and adoption of this technology.

**Amidst AI surge,
consistent data sharing
is crucial for EU financial
sector competitiveness.**

The recently adopted AI Act is very relevant for the financial sector, as some specific use cases, such as the credit scoring of natural persons, are designated as high-risk. The AI Act also regulates providers of General Purpose AI models, which many financial institutions will increasingly rely on for the adoption of this technology. Since the AI Act is the first of its kind internationally, its implementation should be flexible enough to deal with unexpected issues in a way that does

not harm the adoption of AI in Europe. Additionally, as the financial sector is already highly regulated, it is essential that the AI Act is implemented in a way that is consistent with the overall financial regulation and supervision. To that end, financial authorities should have a leading role in the interpretation and supervision of the AI Act regarding financial activities, avoiding overlaps or inconsistencies coming from multiple authorities.

For its part, the AI Office should focus on promoting experimentation with AI through sandboxes and testing in real-world conditions, ensuring that providers of General Purpose AI systems collaborate with financial entities willing to adopt their technology, including potentially for high-risk use cases. Additionally, new competition challenges related to AI providers should be monitored, particularly as generative AI becomes more prevalent and a few large players dominate this space. Adjustments to regulations like the Digital Markets Act (DMA) may be needed in the future to address the emergence of gatekeepers in generative AI applications. Although the DMA currently does not explicitly cover standalone generative AI services, it does regulate how AI systems are integrated into core platform services. Nevertheless, it should be explored whether it may be necessary to extend the scope of the DMA in the future.



JACQUES BEYSSADE

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The EU AI and data framework should not put our competitiveness at risk

According to the European Commission, Artificial Intelligence (AI) is one of the most important applications of the data economy, with data serving as the fuel for training and improving AI algorithms. Both AI and data are priorities of the *digital Finance strategy*, with the ambition to play a leading role globally in data driven innovation. The choice to establish a strong regulatory framework around AI and Data is underpinned by political and economic objectives, resulting in a double bet: First, giving confidence to users to embrace AI-based solutions so that businesses are allowed to develop them, by defining the world's first comprehensive AI law based on EU values and fundamental rights. Secondly, creating a solid data-driven economy, by being the first jurisdiction in the world to impose access and sharing of a wide scope of financial data within the financial sector.

We fully share the view expressed by the Belgian Presidency of the Council in its *conclusions on the Future of EU Digital Policy*, that it is imperative to prioritise the effective and efficient implementation of the numerous EU

legislative acts adopted in recent years to strengthen the Digital Single Market.

One crucial aspect of implementing the AI Act revolves around standardisation efforts led by the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC). These bodies are tasked with delivering European standards by April 2025, including standards on risk management systems for AI systems. For entities like banks, this will necessitate an articulation with current procedures and practices, requiring additional effort to ensure compliance with the new regulations. Equally imperative is ensuring that standards and guidance account for the financial sector's specificities and requirements, aligning with existing, robust risk management and supervisory processes for a seamless integration with established practices. Ensuring that horizontal workstreams arising from the AI Act are functional for the banking sector is vital.

The ESAs' role in monitoring financial innovation may also lead them to issue guidelines. This additional layer of soft regulation will complicate an already complex ecosystem. Therefore, effective coordination among DG CONNECT, DG FISMA, and the ESAs is crucial to avoid overlapping guidelines with different approaches and concepts. Such overlaps could increase administrative burden, reducing resources for businesses, and hinder innovation.

Banks and other Financial actors are fully aware that Open Finance and AI hold significant potential for innovation: in an increasingly competitive and evolving market, the financial sector is developing voluntary ecosystems with diverse stakeholders to create value through new models of collaboration and innovation.

The Financial Data Access framework (FIDA), currently under discussion, should reach its initial goal of supporting the emergence of strong European market players without unbalancing existing data-sharing ecosystems. It also crucial to not facilitate unfair competition from non-EU data-advanced players. In the same conclusions cited above, the Belgian Presidency underlined the need to thoroughly assess the impact of any new legislative initiative to prevent the risk of hampering an agile and innovation-friendly European Digital Single Market.

With these risks in mind, we are concerned about the deep weaknesses of FIDA's impact assessment, in which the Commission acknowledged that "*it is difficult to make quantitative predictions*

about its benefits at the whole economy level". Imposing a regulation of such a wide span without having the necessary proper assessment of its impacts does not provide all the guarantees needed by the market, customers and citizens. We therefore welcome the Council's cautious approach reaffirmed in its June progress report. It should be noted that some concepts are inconsistent from one piece of legislation to the other.

Regarding the global competitive landscape and the already strong position of non-EU players on data and AI, Europe cannot afford to miss its double bet.

Priorising the implementation of the numerous EU legislative acts is key.

We are concerned by the recent findings of the European Court of Auditors that EU AI investment is not keeping pace with global leaders. Additionally, with FIDA, as proposed by the European Commission, Europe would be the only jurisdiction in the world to foresee the big bang opening of such a wide perimeter of financial data at once. This represents a major risk both for economic players and for customers.

As AI and data continue to reshape industries worldwide, the EU must ensure that its regulatory framework does not unexpectedly disrupt natural market balances and put EU competitiveness at risk.

The targeted consultation on artificial intelligence in the financial sector should help the Commission to prepare adequate guidelines in close coordination with EU players.