ITALIAFINTECH

Response to call for evidence “Single Market Strategy 2025”

Introduction

ItaliaFintech would like to thank the European Commission for the opportunity to contribute to the Single Market strategy for 2025: in a European economic context characterised by innovation and competitiveness and by a challenging and dynamic technological evolution, we believe it is of crucial importance to strengthen the Single Market with the aim of guaranteeing the free movement of people, goods, services and capital between the EU Member States.

In recent years, the fintech sector has experienced a rapid growth and innovation, transforming the financial landscape and offering new opportunities for consumers and businesses. As the European Union strives to create a more integrated and efficient Single Market, it is essential to address the main obstacles to the cross-border provision of goods and services in the fintech sector in order to foster a competitive and resilient financial ecosystem that supports sustainable growth and innovation.

Main Obstacles to the Cross-Border Provision of Goods and Services in the Fintech Sector

A strong and competitive financial sector is crucial to provide companies with the funding they need to grow, meet the challenges of transition and improve global competitiveness.

In particular, the Association intends to focus on certain aspects of relevance in the area of financial innovation and fintech that could represent an obstacle to the cross-border provision of goods and services as well as lead to increased compliance costs.

In particular, there are differences in **authorisation and licensing requirements** between European countries that could make international expansion of fintech companies more complex. Indeed, some countries require fintechs to maintain a certain level of capitalisation in order to obtain an operating licence, and these requirements can vary widely, making it difficult for companies to meet the conditions in each jurisdiction. Moreover, the procedures for obtaining a licence may differ in terms of complexity and duration. Some countries may have quicker processes, while others may require longer lead times and more detailed documents.

In addition to that, **compliance regulations**, such as, for example, those related to data protection, money laundering prevention, KYC and cybersecurity, can vary significantly, causing fintech companies to constantly adapt to ensure compliance in each country in which they operate. The fintech sector faces significant hurdles when expanding cross-border, particularly due to regulatory fragmentation, infrastructure limitations, and consumer adoption challenges. Overcoming these requires strategic partnerships, compliance automation, and innovative financial technologies that facilitate interoperability and security.

In this context, **supervision and monitoring** of fintech activities also often differ between countries: regulators have different approaches to supervision, including the frequency of inspections and reporting requirements.

Finally, **the costs associated with obtaining and maintaining a licence** can vary widely between countries: some countries may impose high fees or frequent renewal costs, increasing operating costs for fintech companies and making long-term investment planning more complex.

Recommendations and best practices

With reference to the current situation and with the aim of implementing a strengthening of the Single Market, we endorse the following suitable proposals for overcoming the main obstacles to the cross-border provision of goods and services in the fintech sector:

- **Strengthening competitiveness within the EU Single Market**: In the current environment, technology, and in particular its application to the financial sector, is evolving at an unprecedented pace. Innovation in areas such as artificial intelligence, blockchain, digital payments and decentralised finance is constantly redefining market dynamics, creating new opportunities but also new challenges. In such a changing landscape, adopting rigid and static measures risks quickly becoming ineffective or even counterproductive. It is crucial that regulations and regulatory strategies are designed with a dynamic approach, able to adapt as quickly as technological innovations develop. This is the only way to ensure a balance between progress, security and stability in the financial system. Governments, institutions and industry players must therefore work together to build an agile regulatory ecosystem based on clear principles but flexible enough to evolve harmoniously with technological progress. This means promoting dialogue between innovators and regulators, testing new models through experimental approaches (such as regulatory sandboxes), and constantly updating policies to prevent them from becoming obsolete. The goal must be to create an environment conducive to growth and competitiveness, without compromising investor security and system stability. In an ever-changing world, only rules that are able to evolve at the speed of innovation will ensure a sustainable and inclusive future for the financial and technology sectors. Harmonisation of financial regulations is a crucial step to foster innovation and growth as well as to make it easier for investors to assess and finance fintech companies by reducing the risks associated with regulatory and compliance differences. Increased investment in the fintech sector and greater availability of capital for companies would be the main benefits. Moreover, 15 member countries, including Germany, the Netherlands, Poland, and Spain, have not yet transposed CSRD - Corporate Sustainability Reporting Directive, creating further fragmentation of the single market and competitive disparity within the European Union. There is a need for an instrument to mainstream industrial policy and adopt *a more pragmatic approach*, minimizing the production of new rules. This should start with a *European budget more oriented towards policies that support the green transition*.

- **Supporting European Startups by creating a Level Playing Field**: the fintech sector is predominantly composed of startups, making it essential to create a level playing field through policies that support their development. Currently, fiscal and economic incentives vary greatly across the EU, creating disparities: it is essential to create a *uniform regulatory framework* for fiscal incentives aimed at research, development, and innovation (R&D&I) across all EU member states to promote competitiveness, innovation, and sustainable growth. Another critical issue is the ability to participate in *public and private tenders*: the requirements are so stringent that they do not allow young companies to participate, hindering the development of new entrepreneurship. To address these challenges, it is crucial to *harmonize fiscal and economic incentives across the EU, ensuring that startups have equal opportunities to thrive*. Additionally, *simplifying the requirements for participating in tenders would allow more startups to compete, fostering innovation and growth in the fintech sector*. By creating a supportive environment for startups, the development of new and dynamic businesses that contribute to the overall competitiveness of the European market can be driven forward.
- **Promoting technological innovation in the energy transition and creating a European Digital Single Market**: the world is changing so rapidly that measures capable of evolving at the speed of innovation are needed. In the financial sector, this means adopting flexible and adaptive regulatory frameworks that can keep pace with technological advancements. Emerging technologies such as artificial intelligence, blockchain, and digital currencies are transforming the way financial services are delivered and consumed. To harness the full potential of these innovations, it is crucial to implement policies that not only support but also anticipate future developments. This includes fostering a culture of continuous learning and adaptation within regulatory bodies, encouraging collaboration between public and private sectors, and investing in research and development. Moreover, it is essential to create an environment that promotes experimentation and innovation while ensuring consumer protection and financial stability: digital transformation based on AI and blockchain has the potential to significantly accelerate the energy transition and consequently transform the European Single Market. The increasing integration of Dlt (blockchain) and AI is paving the way for a future full of exciting opportunities. Although emerging technologies may seem complex, the benefits they offer in terms of efficiency, security and transparency are significant and within reach of anyone willing to explore them. Indeed, the creation of a European Digital Single Market based on Dlt (blockchain) would offer numerous benefits, including fairer taxation,

efficient reporting tools, transparent and simplified information and the ability to calculate taxes accurately.

- **Building a Digital Capital Markets Union (CMU**): this involves creating a cohesive and efficient framework for capital markets across Europe, leveraging digital technologies to enhance integration, accessibility, and transparency. Developing and implementing consistent regulations across Member States to ensure a level playing field. This includes harmonizing rules for digital securities, investor protection, and market conduct.
- **Establishing a strong regulatory framework for the fintech sector:** as fintech companies continue to drive innovation and financial inclusion, it is crucial to ensure a regulatory environment that supports sustainable growth, cross-border scalability and consumer protection. Greater harmonisation, coordination and proportionality in European regulation is essential to ensure a fair, competitive and efficient single market. European and national institutions must actively cooperate to reduce discrepancies and improve the effectiveness of the regulatory framework. To ensure the effectiveness of the common regulatory framework, it is crucial to strengthen the harmonisation of supervisory standards, to avoid disparities in the application of rules. In addition to that, coordination between national authorities and European institutions, such as ESMA, EBA and EIOPA, to improve consistency in supervisory decisions is absolutely crucial and so discussion between regulators, promoting a shared approach and reducing the risk of market fragmentation. Regulatory enforcement must take into account the principle of proportionality, balancing: a) regulatory burden and firm size, to avoid excessive compliance costs for SMEs compared to large financial groups; b) efficiency and market protection, so that regulatory obligations are tailored to the objectives of stability and transparency; c) flexibility in application, allowing for reasonable adaptation according to the characteristics of different sectors and jurisdictions.
- **Cooperation between regulators:** the Association believes that greater cooperation between regulators in the various European countries would be beneficial. The aim of such cooperation would be to ensure a uniform application of regulations and the creation of common guidelines.

In conclusion, these proposals aim to create **a more integrated and efficient Single Market, fostering innovation, competitiveness, and sustainable growth within the EU fintech sector.** By addressing regulatory differences and promoting cooperation, we can ensure a thriving environment for fintech companies to expand and succeed across borders. In this light, a proactive regulatory strategy, strong partnerships, seamless technology integration, and localized market adaptation can enable European companies that invest in compliance automation, cybersecurity, and strategic alliances to have a competitive edge in global fintech markets.

by consumers, families and companies. The association represents a point of reference for institutions and the regulator and in 2020 co-founded EDFA - European Digital Finance Association, the European association for fintech, which brings together fintech associations from the main European countries.