

Financial Stability Institute



## **18th Annual NBP-SNB Joint Seminar** **Session 2: Fintechs and the provision of digital financial** **services**

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# Digitalisation and technological disruption

- Technological innovation in financial services is affecting all parts of the financial industry
- Developments bring opportunities but also challenges



- Balance between embracing innovation and addressing risks that merit public intervention
- Regulation as the main policy tool
  - Subject to relevant trade-offs
  - Level playing field, regulatory arbitrage, regulatory perimeter, etc
- Big techs in finance: possibly one of the most relevant challenges

# Big techs in finance

- Big tech business model
  - Characterised by strong network effects, and intragroup and external interdependencies
  - Three types of service: core services, financial services, and technological services
- Entry into finance
  - Started with payments before expanding into other financial sectors -- now involved in credit, banking, asset management and insurance etc
  - Big techs provide financial services through licensed subsidiaries in competition with traditional financial institutions or in partnership with them

Service offerings by big techs under analysis

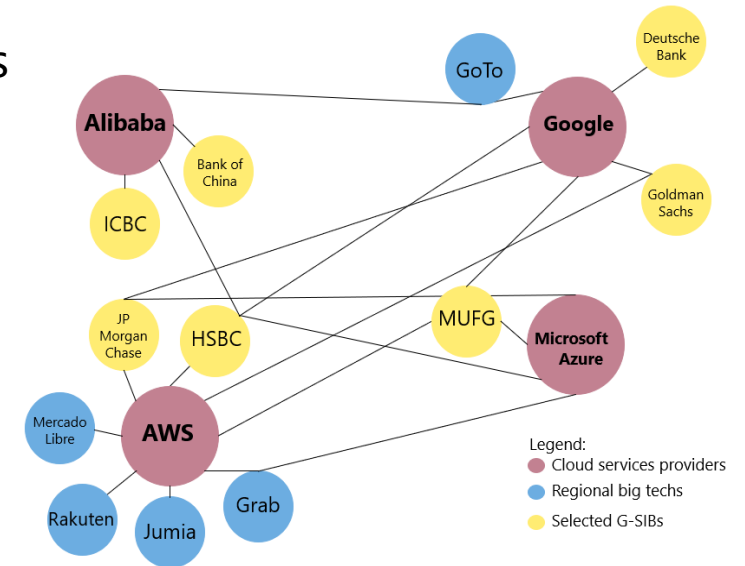
	Core services		Financial services					Technological services		
Big tech	E-commerce	Digital Consumer services <sup>#</sup>	Banking <sup>%</sup>	Credit provision	Payments	Asset management	Insurance	Cloud-based solutions <sup>*</sup>	Data analytics	Other <sup>&amp;</sup>
<b>Alibaba (Ant Group)</b>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
<b>Amazon</b>	✓	✓		✓	✓		✓	✓	✓	✓
<b>Grab</b>		✓	✓	✓	✓	✓	✓		✓	
<b>Jumia</b>	✓	✓		✓	✓					
<b>Mercado Libre</b>	✓		✓	✓	✓	✓				
<b>Rakuten</b>	✓	✓	✓	✓	✓	✓	✓		✓	✓

✓ Provision of financial service through big tech entity and/or in partnership with financial institutions outside big tech group in at least one jurisdiction.  
 # Social networks, mobility, deliveries and media services.  
 % The main activity of an entity engaged in banking is taking deposits, though regulations vary across countries.  
 \* This includes both cloud-storage and cloud computing solutions.  
 & Other technological services include, for example, telecommunication services, navigation services, digital workplace services.  
 Sources: BIS (2019); Citi GPS (2018); FSB (2019); IBFED and Oliver Wyman (2020); Van der Spek and Phijffer (2020); public sources; FSI.

Source: FSI Insights 44.

# Risks for financial stability

- From provision of financial services
  - Interdependencies and conflicts between financial and non-financial activities
  - Opaque partnerships with financial institutions
  - Participation in potentially disruptive digital-money related activities
- From provision of tech services to financial institutions
  - Critical role for operational resilience of financial sector
  - Systemic implications due to the limited number of providers
- From concentration dynamics
  - Impact on market contestability and tendency towards market dominance
  - Increased vulnerability of the financial system through excessive concentration



Source: FSI Insights 44.

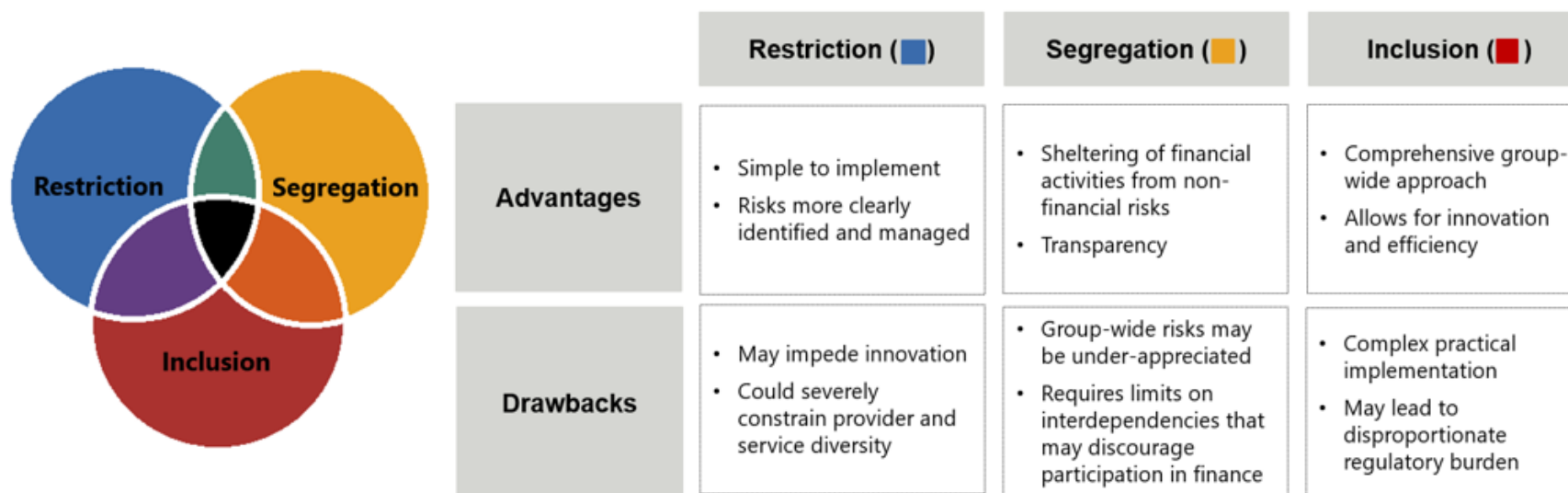
# Current regulatory approaches

- Mostly a piece-meal approach
  - Developments in different policy domains
  - Focus on regulated financial subsidiaries: regulated on basis of (mostly activity-based) sectoral regimes
  - No true “group-wide” requirements
  - Few controls for interaction across legal entities
- Emerging regulation for some specific activities
  - Issuance and provision of services related to stablecoins
  - Provision of critical services to financial institutions (eg cloud)
- Emerging entity-based regulation in the area of competition



## In search of a new framework

- Specific entity-based regulatory regime for big techs with significant financial activities needed
  - Target interaction across all big tech's activities
  - For financial activities, choose between three regulatory approaches



Source: FSI Occasional paper by Johannes Ehrentraud, Jamie Lloyd Evans, Amelie Monteil and Fernando Restoy.

- *Segregation* of financial activities (with ringfencing measures) is simpler but also more radical than *inclusion* (entailing specific group-wide requirements for big techs as a whole)
- Need to weigh effectiveness, intrusiveness and complexity
- Need for international standards





# Thank you

## References

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