



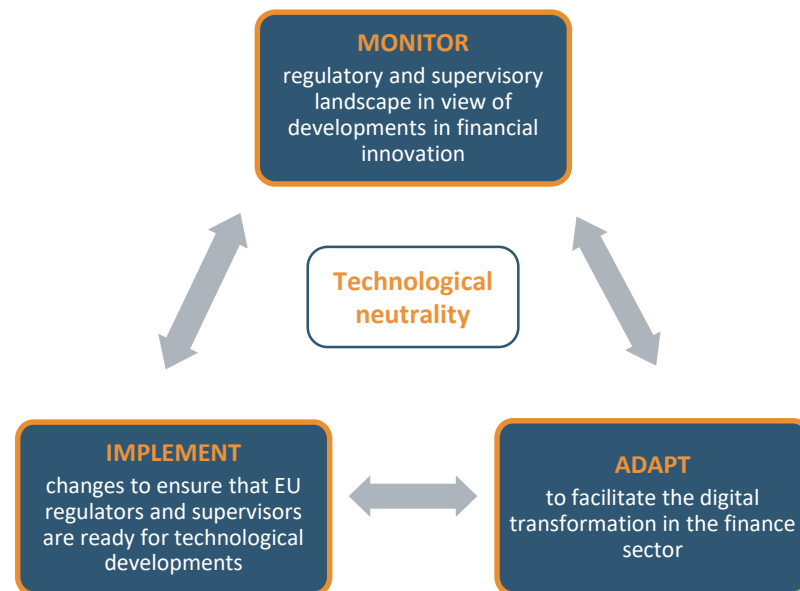
Big-techs, fin-techs and technological transformation in banking

Governing digitalisation in the banking sector

Nicola Yiannoulis, Digital Finance Team Leader, European Banking Authority

Introduction – EBA’s approach to digital finance

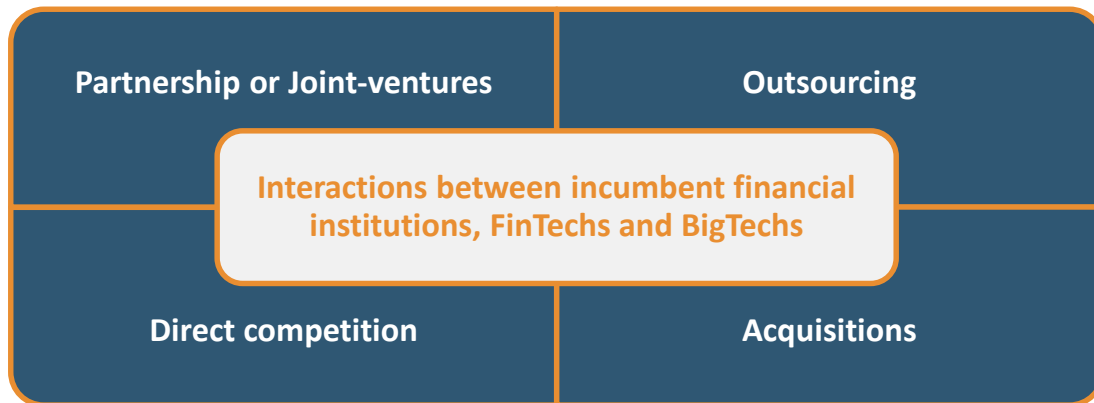
- European Commission’s **Digital Finance Strategy** and Digital Finance Package
- **EBA priorities on Digital Finance:**
 - to **support the scaling** of innovative technology cross-border **whilst ensuring high standards** of financial sector operational resilience and consumer protection
 - **Digitalisation-related work areas:** *Reg/SupTech, Digital Platforms, Digital Identities, AI, Call for Advice on Digital Finance, Regulatory perimeter...*
 - **FinTech Knowledge Hub:** statutory duty to **monitor financial innovation**
- Joint-ESAs’ **European Forum for Innovation Facilitators**, established in Jan. 2019 to **promote greater supervisory coordination and cooperation**



Digitalisation in the banking sector – Market trends

- **Main technological advances** steering digitalisation and transforming the finance competitive landscape, **an ICT intensive market**:
 - **connectivity**: internet and mobile technology
 - **cloud computing** in place of traditional centralised systems
 - **big datasets, network analytics** (AI, machine learning) and **alternative data** (e.g. search engine, e-commerce data)
- **Value chains** increasingly **more complex and fragmented** due to financial intermediation; **cross-border provision of financial services** facilitated by digitalisation:
 - **Payments**: PSD2/open banking fostered digital innovation (e.g. mobile wallets, biometrics) and competition
 - Financial firms leverage on **digital platforms** (e.g. comparators, ecosystems)
- Increasing use of **RegTech** in processes such as fraud prevention, AML/CFT, prudential reporting, ICT security, creditworthiness assessment

Digitalisation in the banking sector – interplay between market participants



Google and Deutsche Bank partnership to co-innovate through Google's cloud capabilities using AI and data analytics tools



Google Cloud

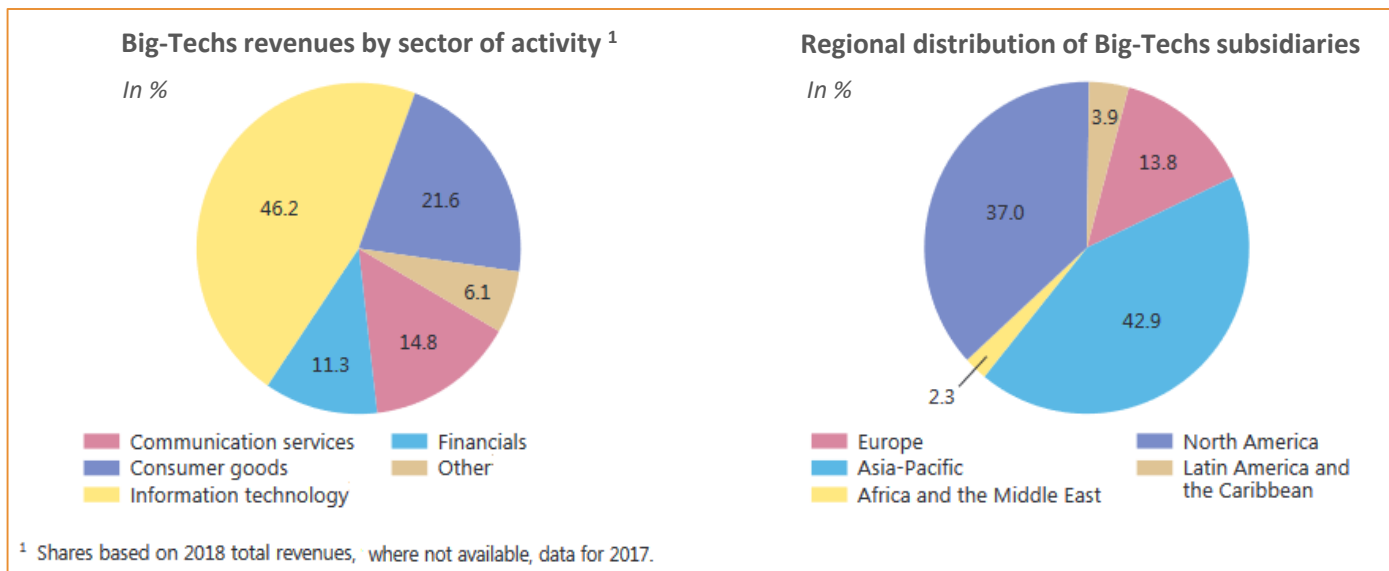


Deutsche Bank

- **Increased dependency on third-parties**, including unregulated firms

Big-Techs entering financial services

- **Provision of financial services by Big-Techs** in the EU still limited (marketing/distribution vs. final provision)
- It nevertheless requires **monitoring** (data-network-activities loop)



The sample includes:

- Alibaba
- Alphabet
- Amazon
- Apple
- Baidu
- Facebook
- Grab
- Kakao
- Mercado Libre
- Rakuten
- Samsung
- Tencent

Source: BIS (2019), *Annual Economic Report*

Big-Techs entering financial services

Licences held by BigTechs in selected jurisdictions

B = banking licence
C = credit licence
P = payments licence

Market presence in partnership or joint venture with other FIs

BigTech has entity within group that holds financial licence

Shareholding of BigTech in these banks is below 50%

BigTech offers financial services both through partnership or JV with other FIs and has entity within group that holds financial licence

Licence held	Brazil			China			European Union			United Kingdom			United States		
	B	C	P	B	C	P	B	C	P	B	C	P	B	C	P
amazon															
Apple															
FACEBOOK															
Alphabet Google															
ANT GROUP Alipay															
Bai 百度															
JD.COM															
Tencent 腾讯															
mercado libre															
docomo															
Rakuten															

Source: BIS (2021)

Opportunities and risks stemming from digitalisation

Opportunities

- Greater **convenience**, enhanced access for users of financial services
- Enhanced **efficiency and flexibility** at financial firms
- Accelerating **innovation**, higher quality products at potentially lower cost
- Increased competition, enhanced **Digital Single Market**
- Enhanced **financial inclusion** (consumers, SMEs)

Risks

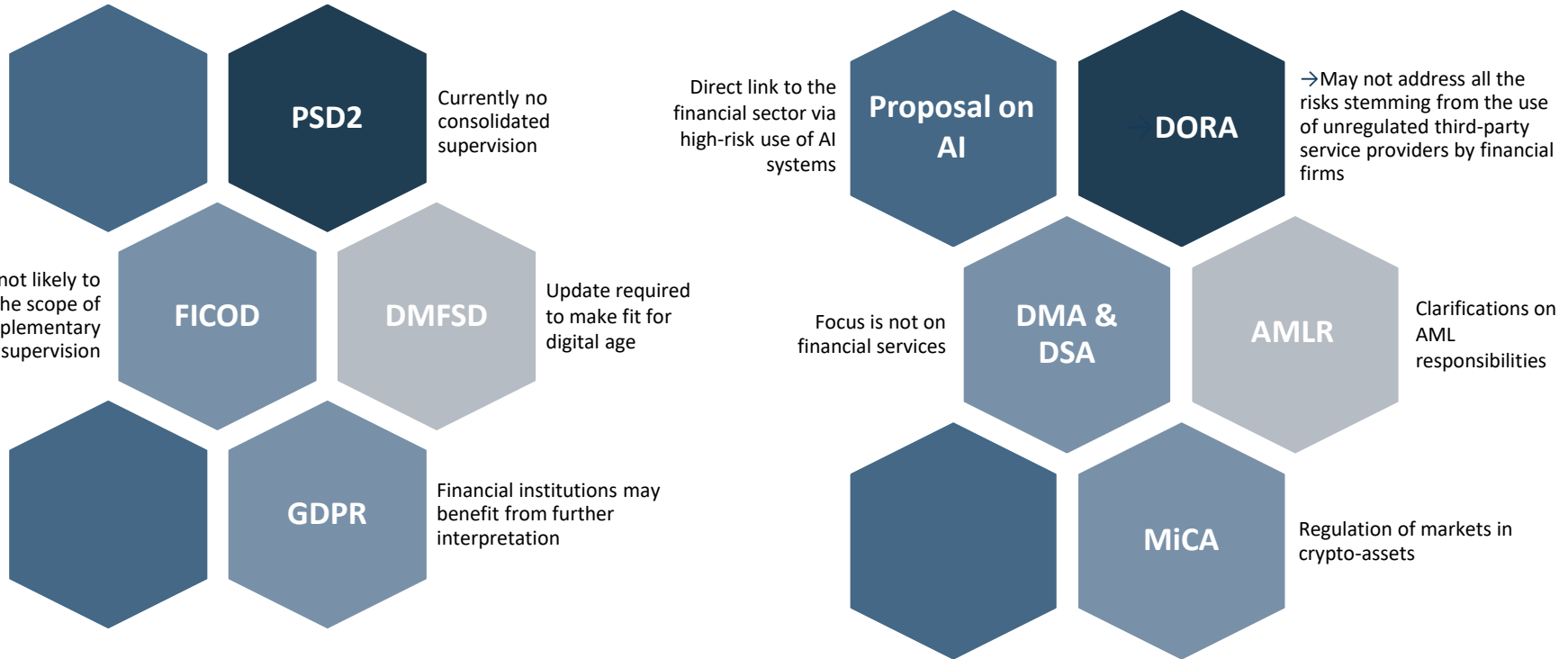
- **ICT risks:** digital operational resilience, cyber-security, outsourcing and third party risk management
- Potential for **consumer detriment** (e.g., unclear with whom customers are contracting, insufficient financial/digital literacy)
- Risks in relation to the access, storage, use of **customer data**
- **Concentration and interconnectedness risks:** dominant position of certain providers
- Competition, level-playing field issues
- New forms of **ML/TF risks**

Challenges for supervisors



- **Regulatory certainty** – delineation regulated/unregulated services, legal definitions in a digital context
- **Supervisory coordination** across jurisdictions, sectors and other relevant authorities
- **Oversight** – market and risks monitoring
- Application of **governance and conduct** rules
- **AML/CTF** legislation
- Group supervision – Big-Techs out of scope of sectoral **prudential consolidation rules** (CRR/CRD, FICOD)
- **Level playing field**
- Need of enhanced **resources** and capabilities at supervisors

Regulation: EU-legislation relating to digital finance

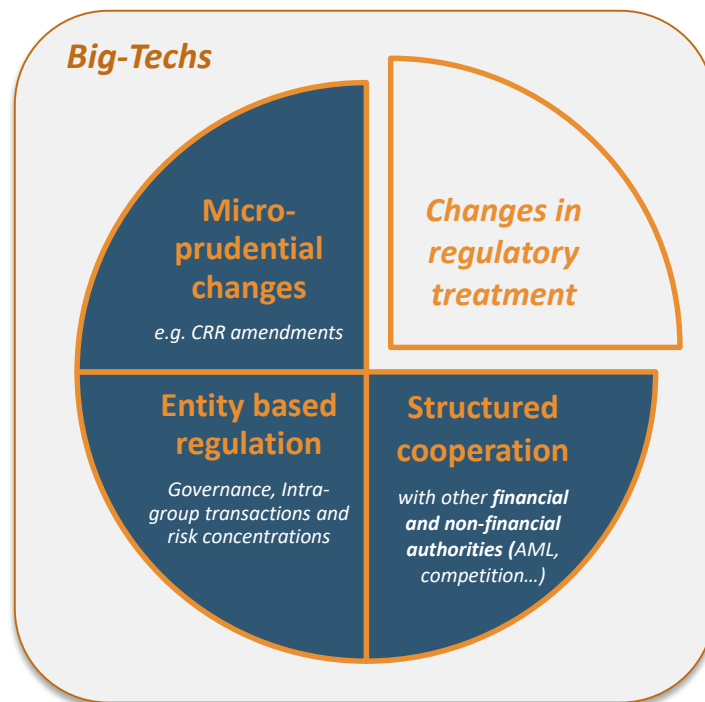


Note: Not an exhaustive list of legislation

Proposals for the way forward – regulation and supervision

Market-wide

- **Clarity** in classifying the *cross-border* provision of digital services
- **Consumer protection, conduct** issues
- Supervisory oversight over **third party service providers**
- Enhance **skills and resources of NCAs** to effectively monitor digital transformation





EUROPEAN BANKING AUTHORITY

Tour Europlaza, 20 avenue André Prothin, CS 30154
92927 Paris La Défense CEDEX, FRANCE

Tel: +33 1 86 52 70 00

E-mail: info@eba.europa.eu

<https://eba.europa.eu/>