

# CALL FOR ADVICE ON DIGITAL FINANCE



10 SEPTEMBER 2021, 10:00 -12:30 CEST  
WEBEX



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- ✓ The floor will be given to the participants only at the moderator's request. Do not forget to turn off your video and microphone after taking the floor
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- ✓ In case of technical questions, please contact Matthias Guggenbichler via private chat

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## Welcome and introductory remarks

*Natasha Cazenave*

*ESMA Executive Director*



ESAs' WORKSHOP ON

# CALL FOR ADVICE ON DIGITAL FINANCE



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## Introduction to the Call for Advice on Digital Finance

*Jan Ceysens*

*Head of Unit, Digital Finance Unit*

*European Commission, DG FISMA*

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## ESAs preliminary findings in response to the EC Call for technical Advice on Digital Finance

*Prepared by EBA, EIOPA and ESMA staff*

# ESAs' approach to the CfA



## Current approach to concepts and terms

- **Platform** – any technological infrastructure that enables financial firms directly (or indirectly using a regulated or unregulated intermediary) to market to investors, and/or conclude with investors contracts for, financial products/services.

*Platform* aims to be both ‘model’ and ‘technology-neutral’.

- **Mixed activity groups** (MAGs) – group of undertakings (a parent undertaking and its subsidiary undertakings) conducting both financial and non-financial services.
- **BigTech** – large technology company with extensive customer networks; it includes firms with core businesses in social media, internet search, software, online retail and telecoms (FSB 2020 definition). BigTechs are a type of MAG.

## Methodology

- **Surveys and research** with Competent Authorities
- **Public consultations:** EBA survey to firms on digital platforms, EIOPA public consultations on insurance value chains, blockchain and open insurance, ESMA call for evidence on digital finance
- **Extensive outreach** to external stakeholders: +40 joint-ESAs bilateral interviews with a wide range of stakeholders
- Consultation of ESAs stakeholders’ groups
- Desk-based research

# ESAs preliminary findings

## Outline



### 1. Overview of key market developments



### 2. Opportunities and risks



### 3. Gaps and challenges



### 4. Potential ways forward

# Value chains in financial services

## Increased fragmentation and complexity

Growing interactions between incumbents, FinTechs and BigTechs/MAGs

Increased dependency on third-party providers

New data centric business models

Expanding range of products/services, cross border dimension

Phenomenon not new, but accelerating with digitalisation and technological innovation:

- Cloud outsourcing for data storage and data processing
- Use of tech for specialised services, e.g., client on-boarding, compliance checks, risk analytics, regulatory reporting
- Use of wider range of alternative/non-financial data, e.g., behavioural, IoT, social media and ESG data

# Digital platforms

Growing in use, varied business models

Search for **convenience**, on-line solutions to access products and services

Broader range of products/services available to **wider consumer base, cross-border**

Interconnectedness with **social media**

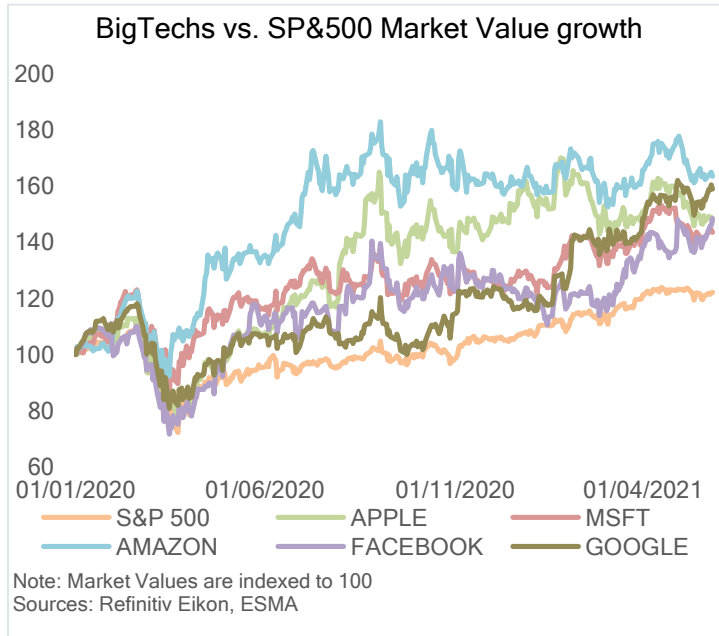
**Bundling** of different products/services

- Again, not new but accelerating with new technologies and digital transformation
- Incumbents under market pressure to adapt or be left behind
- Different business models:
  - One-stop shops
  - Neo-brokers
  - Fund distribution platforms
  - Etc.



# Tech entering financial services

## Still limited but potential to scale up quickly



Limited **direct provision** of FS in the EU

Multiple factors possibly **withholding** MAGs/BigTechs

But requires **monitoring** (data and network effects)

# Tech entering financial services

## Licences held by BigTechs in selected jurisdictions

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



Brazil



China



European Union



United Kingdom



United States



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   支 Alipay			✓	✓*	✓	✓			✓			✓			✓
Baidu 百度				✓*	✓	✓									
JD.COM					✓	✓									
Tencent 腾讯				✓*	✓	✓									
mercado libre			✓												
docomo							✓		✓			✓			
Rakuten							✓		✓			✓			✓

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%

✓ Market presence in partnership or joint venture with other FIs and has entity within group that holds financial licence

# ESAs preliminary findings

## Outline



1. Overview of key market developments



2. **Opportunities and risks**



3. Gaps and challenges



4. Potential ways forward

# A host of opportunities

## Value chains

Enhanced efficiency and  
flexibility at financial firms

## Digital platforms

New distribution channels,  
efficiency gains in  
distribution

## MAGs/BigTechs in finance

One-stop shop for consumers

- Greater **convenience** and enhanced access for users of financial services
- Accelerating **innovation** and shorter time-to-market in financial services
- Increased competition, enhanced **Digital Single Market**, open finance
- Better financial products and services at potentially lower costs
- Enhanced **financial inclusion**

# Potential new sources of risks

## Value chains

High dependency on third party providers

## Digital platforms

Certain platform features may raise investor/consumer protection issues

## MAGs/BigTechs in finance

Potential for uneven playing field between MAGs and financial groups

- New forms of **ICT and operational resilience** risks
- Potential for **consumer detriment** (e.g., not clear with whom customers are contracting, aggressive sales techniques, insufficient financial/digital literacy on the part of customers)
- Risks in relation to the access and use of **customer data**
- Possible **concentration** and **interconnectedness** risks (dominant position of certain providers)
- **Competition and level-playing** field issues
- New forms of **ML/TF risks**

# Discussion



- What are your views on the key market developments and risks and opportunities?
- Have you observed/do you have experience with other market developments?
  - Have you seen other engagements between third party providers and regulated firms?
- Are you aware of any other risks and opportunities?

# ESAs preliminary findings

## Outline



1. Overview of key market developments



2. Opportunities and risks



**3. Gaps and challenges**



4. Potential ways forward

### 3. Gaps and challenges



	Value Chains	Platforms	MAGs, BigTechs
Potential lack of regulatory certainty for firms and supervisors (e.g., less clear delineation between regulated and unregulated services) + certain requirements not entirely suited to a digital context (e.g., disclosures, complaints handling mechanisms)	✓	✓	✓
Supervisory coordination challenges between home/host authorities, across sectors and geographies, and possibly other authorities (data protection, competition, cyber security)	✓	✓	✓
Oversight challenges (e.g. gaps in the oversight framework, lack of relevant information to monitor potential build up of risks)	✓	✓	✓
Some tech providers not within scope of AML/CFT legislation or not understanding well their obligations	✓	✓	✓
Challenges in the application of current governance and conduct rules	✓	✓	✓
Existing frameworks for group supervision (CRR and CRD, Solvency II, FICOD) not capturing/adaptable to MAGs			✓
Potential risk of an uneven playing field	✓	✓	✓
Evolving nature of phenomenon and insufficient resources at regulators/supervisors complicates monitoring	✓	✓	✓



# ESAs preliminary findings

## Outline



1. Overview of key market developments



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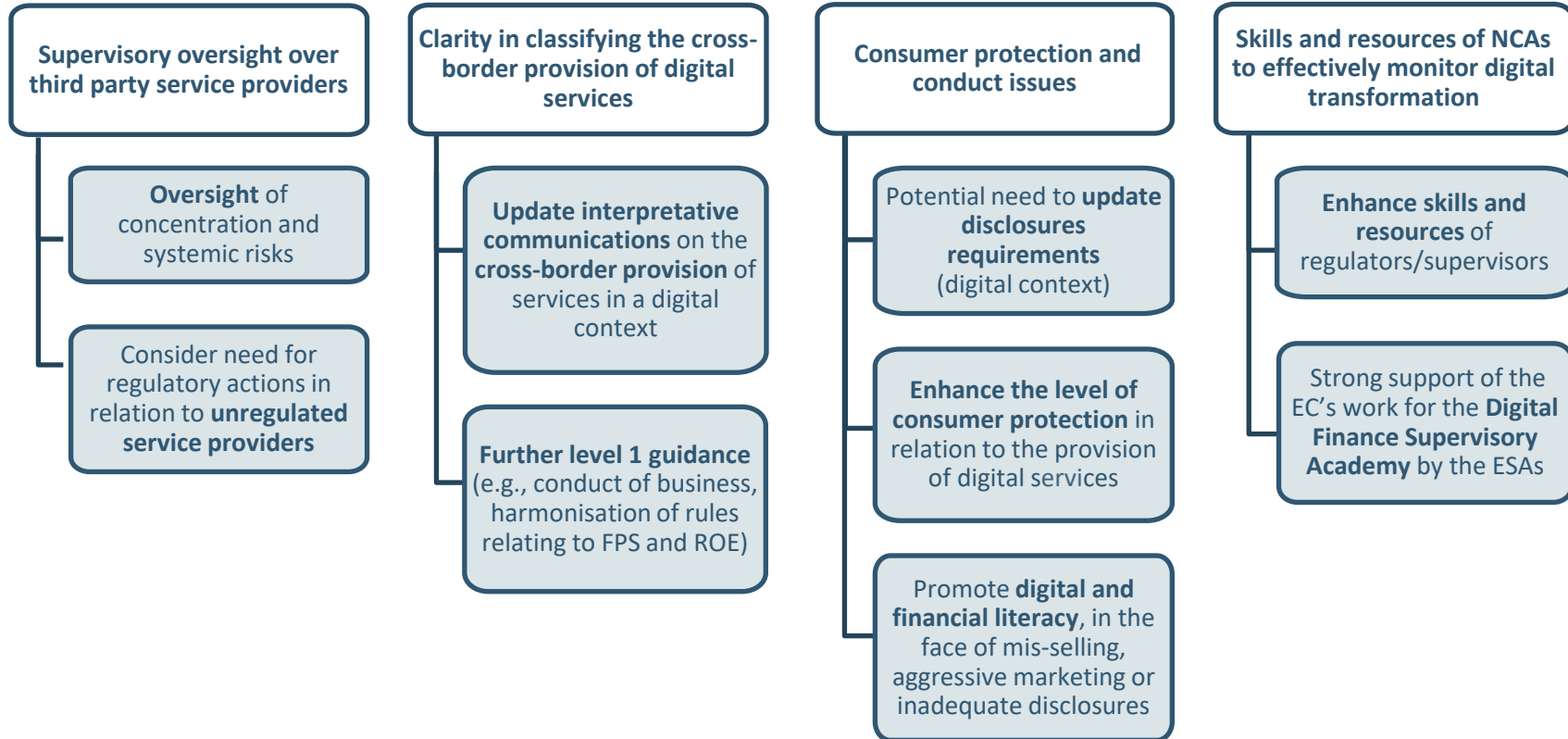
4. **Potential ways forward**

# 4. Potential ways forward



# 4. Potential ways forward

## 4.1 Possible recommendations to EC (cross-sectoral)



# 4. Potential ways forward

## 4.1 Possible recommendations to EC (cross-sectoral)

### Coverage of MAGs by sectoral prudential consolidation rules

Update of sectoral prudential consolidation regimes to ensure they adequately capture MAGs

### Systemic, interconnectedness risks posed by MAGs/BigTechs providing financial services

Consider holistic entity-based supplementary regulation for MAGs entering financial services and reaching a substantial market share

This supplementary supervision could cover:

1. **Governance** – sound risk management and internal control mechanisms
2. **Intra-group transactions and risk concentrations** – reporting
3. **Cooperation framework** among authorities (financial, competition, data, consumer protection, AML/CFT) – a pan-European level framework may be more efficient than colleges of NCAs; consider also non-EU coordination

### Structured cooperation framework between relevant authorities

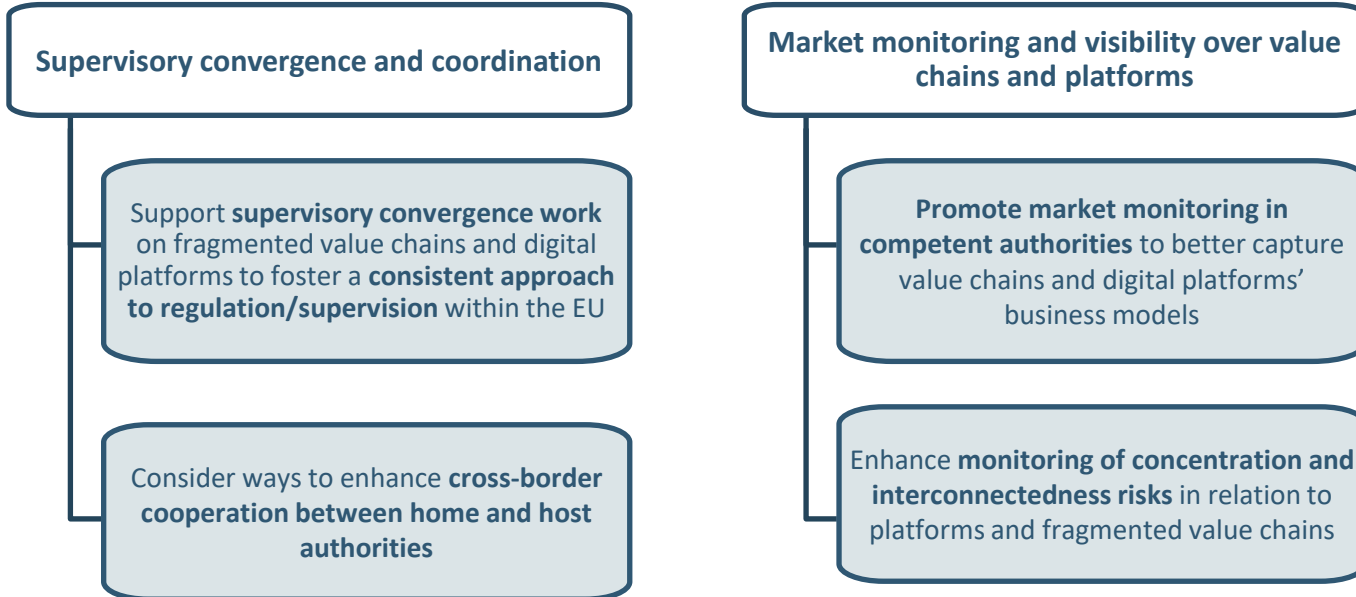
Enhance structured cooperation between financial supervisors and other authorities (data protection, competition, health, mobility, etc.) in relation to financial institutions' material dependencies on tech providers and platforms

Relevant for those entities that do not fall into supplementary entity-based regulation specified above

Consider existing cooperation models and EFIF as a **forum for coordination**

# 4. Potential ways forward

## 4.2 Further work for the ESAs (cross-sectoral)



*Note: the recommendations above are without prejudice to possible complementary recommendations to the EC*

# Discussion



- What are your views on the regulatory and supervisory issues identified?
- Are there other issues that EU regulators/supervisors should consider?
- Which of those issues would you see as most pressing?
- Do you agree with the proposals?
- Do you have practical recommendations on how best to address these issues?

# Next steps



- **September 2021 – January 2022:**

Finalisation of Report and Advice to the European Commission

- **End of January 2022:**

Final ESAs report on value chains, platforms and mixed activity groups to be published and submitted to the EC

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## Thank you for your input today!

### ESA contacts:

- **EBA:** [FinTech@eba.europa.eu](mailto:FinTech@eba.europa.eu)
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