

# BigTech firms in finance in emerging market and developing economies

Market developments and financial stability implications

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FSB Financial Innovation Network

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# The FSB's Financial Innovation Network

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- Monitors and assesses financial innovation
- Identifies and understands implications for financial stability
- c. 70 members; biannual meetings
- Substantial outreach with the private sector



# Background to the report

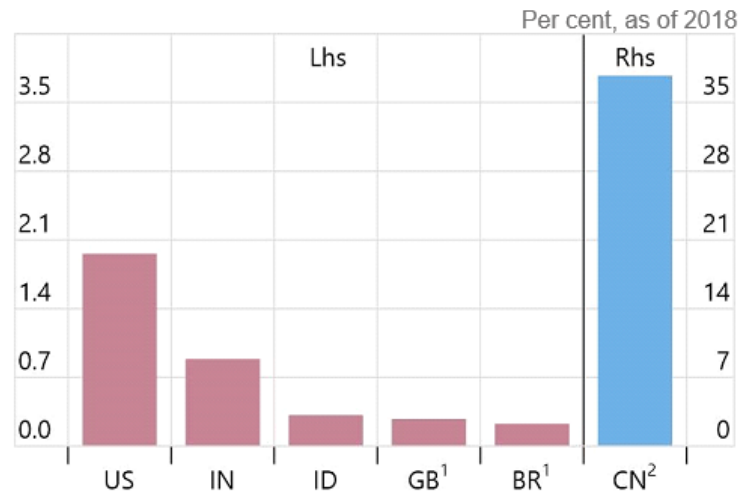
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- Commissioned following proposal by 2020 Saudi Arabian G20 presidency
- Follows report on BigTech firms global activities in December 2019
- Draws on survey of EMDE-members of FSB and its RCGs...  
(27 respondents; views on drivers, benefits and risks)
- ...and meetings with BigTech firms with significant EMDE business

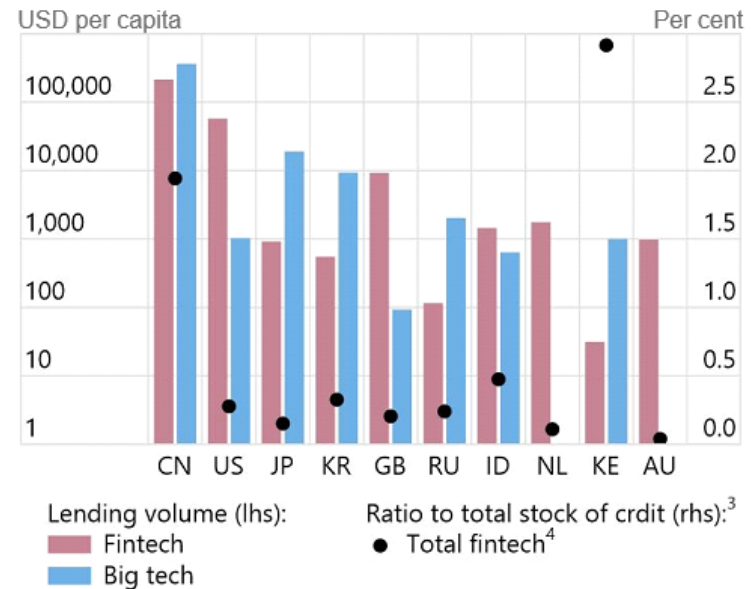
# Trends and patterns

## BigTech mobile payment and credit services around the world

Yearly volume of mobile payments to GDP



FinTech and BigTech credit in the largest 10 markets⁴

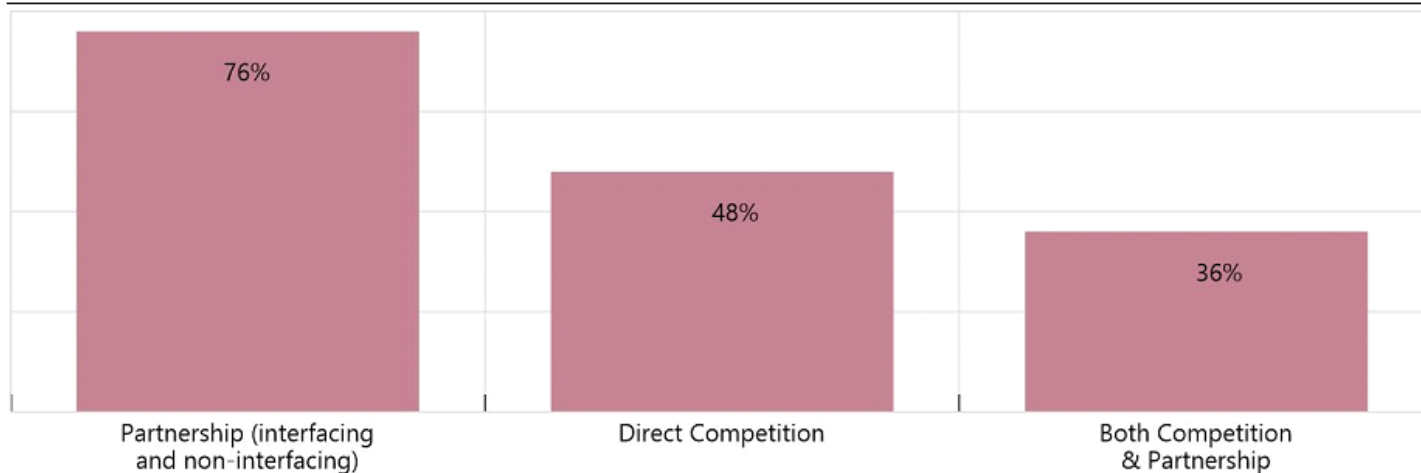


- Substantial presence in financial services in some EMDEs (e.g. payments in China) particularly through the provision of mobile money
- BigTechs offer a wide variety of services in EMDEs (e.g. small yet economically significant proportion of lending in some jurisdictions)

# Trends and patterns

## Modes of interaction between BigTech firms and incumbent financial institutions

As a proportion of EMDE survey respondents



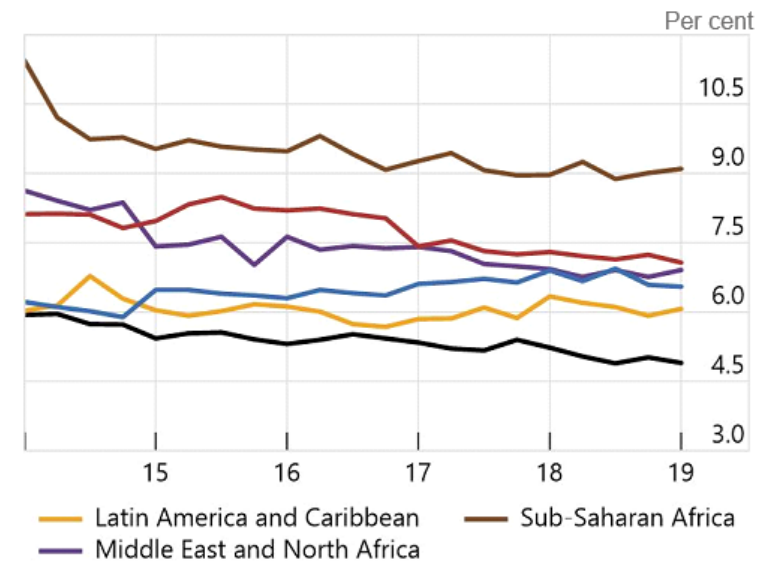
- **Direct competition:** Compete directly with incumbent financial institutions
- **Partnerships:** Collaborate with financial institutions to originate and/or distribute financial products, provide technology services and infrastructure including through:
  - **'Interfacing'** models where BigTech firms act as intermediaries between financial institutions and customers
  - **'Platform'** models where BigTech firms introduce providers of financial services to BigTech firms' (generally very large) customer bases

# Drivers: demand side

- Lower levels of financial inclusion (half of world's unbanked in EMDEs)
- High income remittances
- Younger, tech-savvy populations...
- ...attracted to lower marginal cost of financial services provided by BigTech firms

## Cost of remittances by region

Average cost of sending USD 100 to different regions



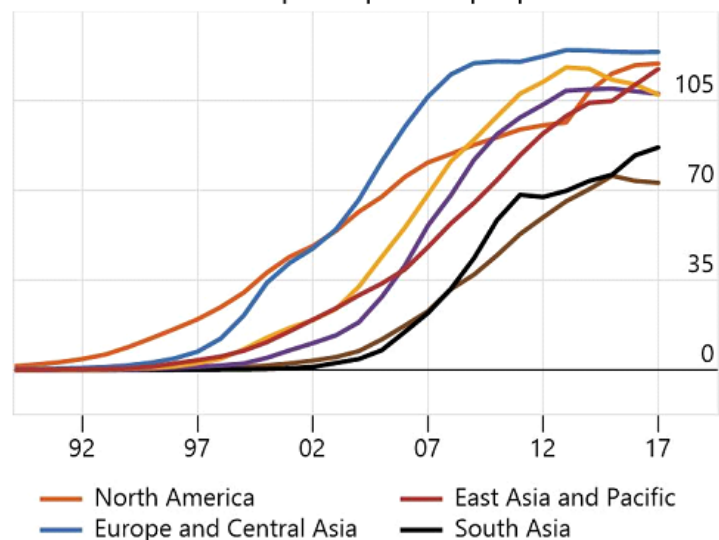
Source: World Bank.

# Drivers: supply side

- Growth in mobile phones and internet provides opportunities to access underserved markets and creates significant data (and with it opportunities to complement core business models for BigTech firms)
- Regulation can create a favourable environment (i.e. e-money issuance)
- Some governments have provided incentives and infrastructure (faster payments systems, digital identity technology, open banking, innovation facilitators)

## Mobile phone access is rising worldwide

Mobile cellular subscriptions per 100 people



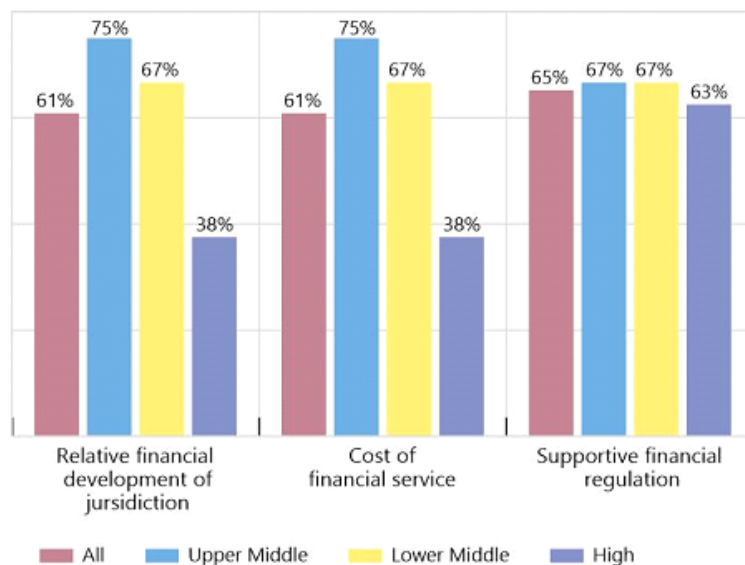
Source: Feyen, Frost, Natarajan and Rice (2020); World Bank.

# Drivers: supply side

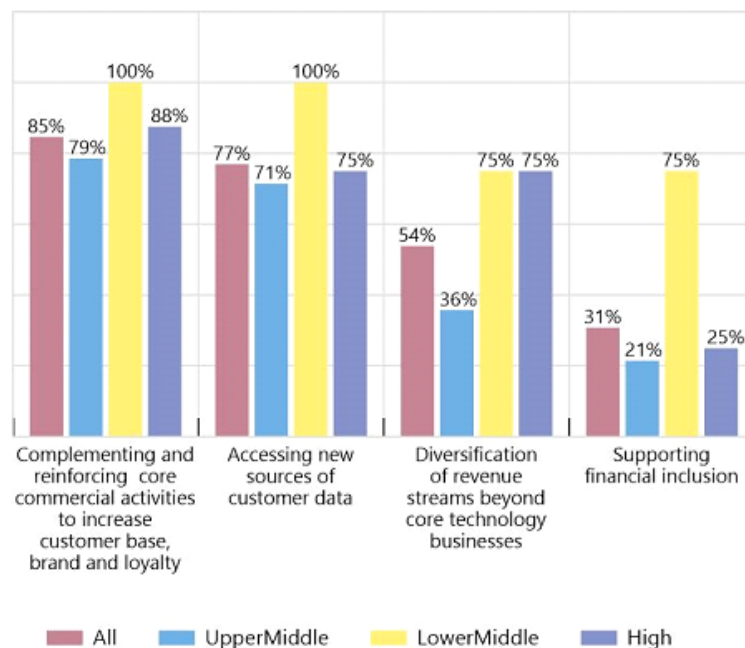
## Supply-side drivers of BigTech firms' activities

Proportion of survey respondents by jurisdictions' income group<sup>1</sup>

Factors identified as driving BigTech firms' financial service activities in EMDEs



Factors identified as 'important motivations' for BigTech firms' to provide of financial services in EMDEs





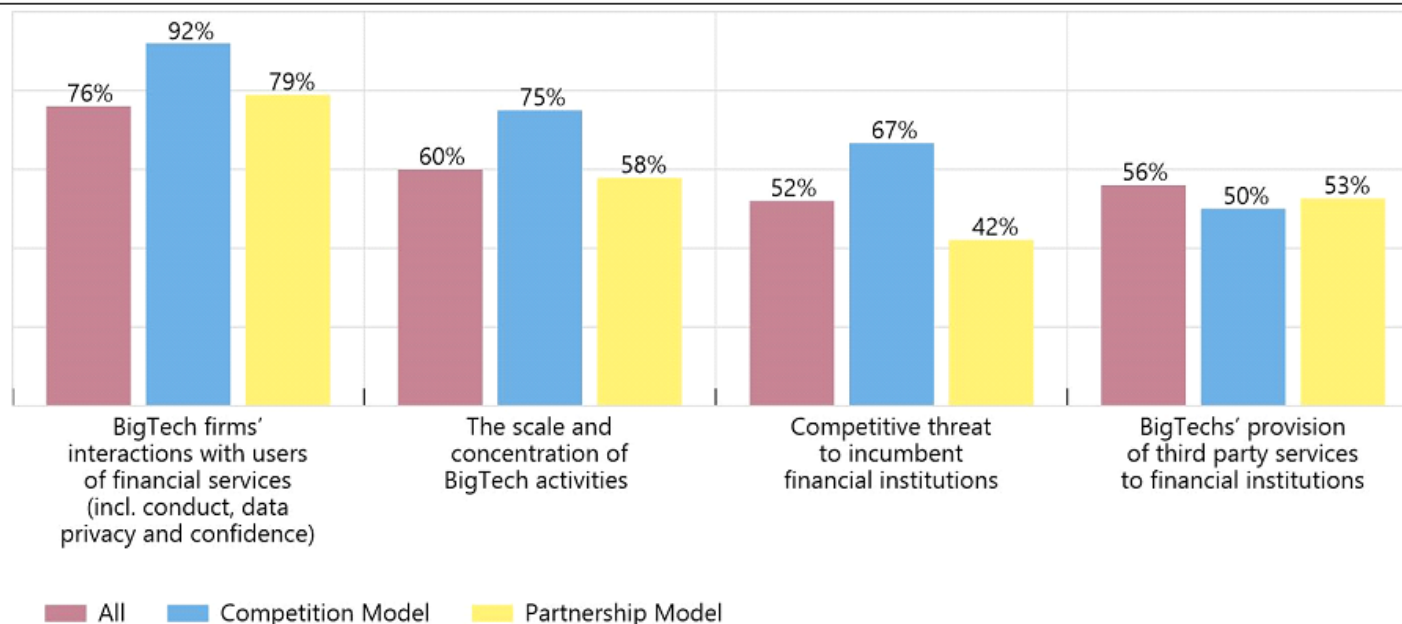
# Benefits

- Financial inclusion and consumer welfare (e.g. BigTechs may serve a market that incumbents traditionally do not yet serve)
- Increases in the efficiency and tailoring with which financial services are provided (technology can lead to cheaper, more convenient and better tailored products)
- Economies of scale across different product lines (BigTech firms' activity in AEs usually focuses on payments; but that in EMDEs covers multiple product lines)
- Incumbent financial institutions might benefit from the positive effects of competition (e.g. incentives for innovation) or from partnerships (e.g. leveraging analytical tools or digital infrastructures)

# Potential risks

## Risks to financial stability identified by survey respondents associated with BigTech firms' provision of financial services

Risks rated moderate/large as a percentage of survey respondents



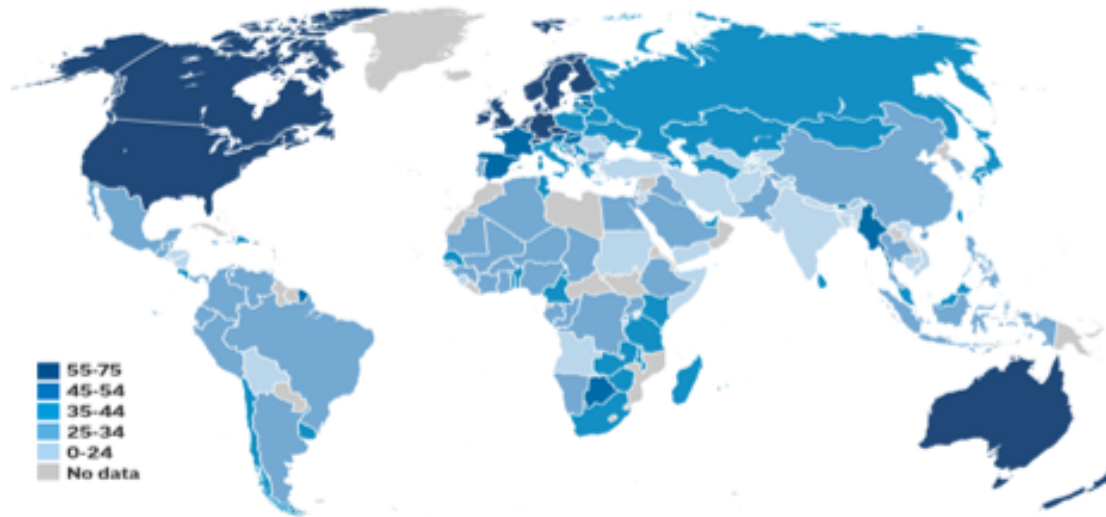
- Scale and competition – tendency to dominate certain markets or operate within an unequal playing field in some regulatory or supervisory environments; disruption could have FS implications;
- Disruptive effects on incumbent financial institutions and their funding
- Operational risks, particularly in rural areas, and where providing third-party services

# Potential risks (2): consumer protection

## Global Variation in Financial Literacy

Percentage of adults who are financially literate

per cent



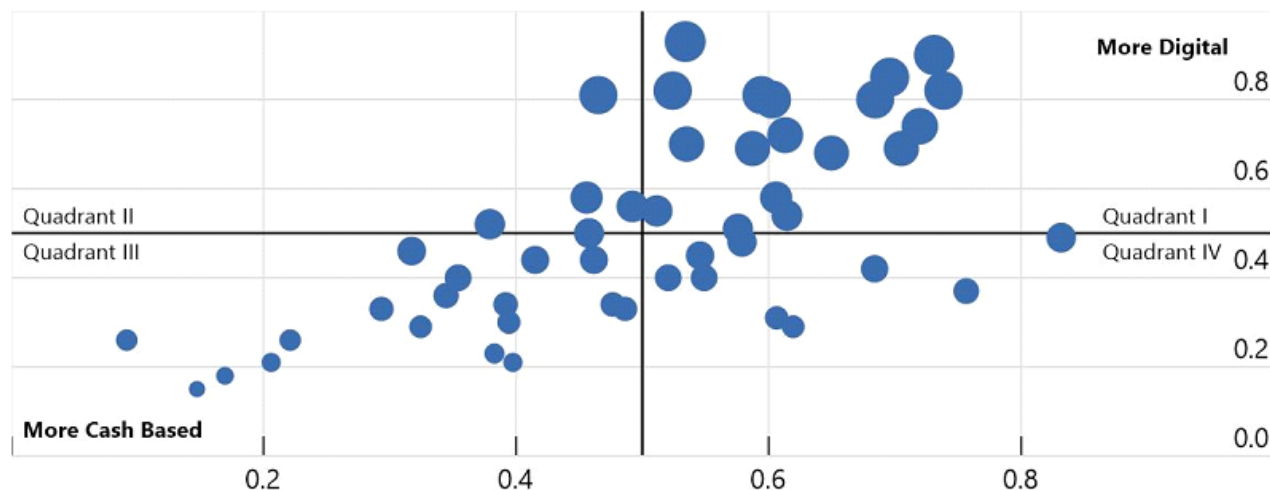
Source: S&P Global Fintech Survey (2015).

- Consumers may be less familiar with financial services, and be offered inappropriate products or subject to less scrupulous behaviours
- Issues concerning customer data (including that acquired from non-financial service business)
- Issues concerning customer rights and safeguarding of customer funds

# Cross-country comparison

## Drivers of BigTech firms' provision of Financial Services in EMDEs

Availability of infrastructure vs financial inclusion



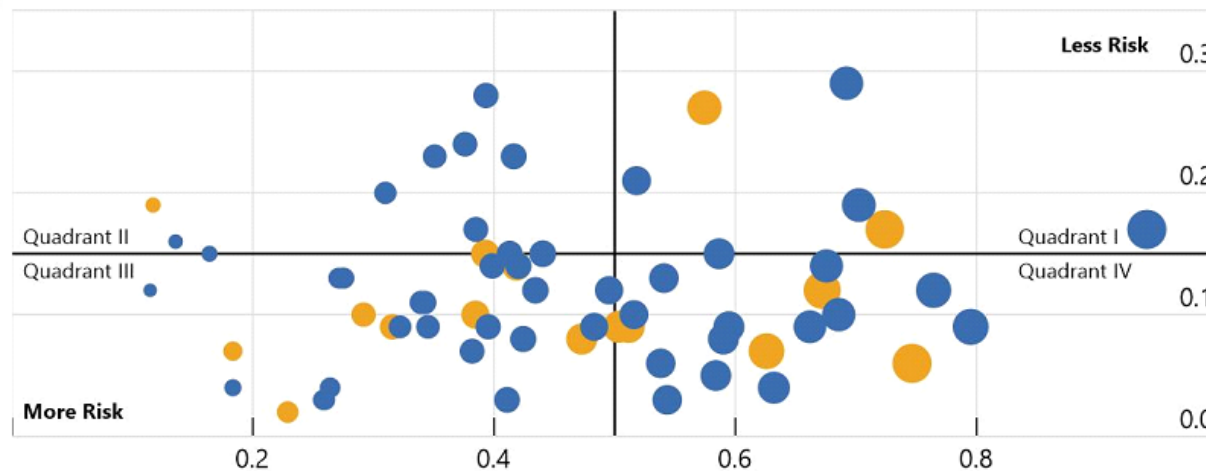
Source: World Bank Group.

- Financial inclusion (y-axis),
- The strength and availability of financial and digital infrastructures (x-axis);
- The strength of the legal and regulatory environment for non-bank and e-money issuance (which corresponds to the size of the bubbles).

## Cross-country comparison (2)

### A comparison of selected risks to financial stability arising from BigTech firms' extension of credit in 65 EMDE jurisdictions

Robustness vs access to credit






Source: World Bank Group and Bank of International Settlements.

- The proportion of adults that have borrowed from financial institutions (y-axis);
- The robustness of each jurisdiction's credit-related legal framework and probability of banking system default (x-axis);
- The ease with which potential borrowers can access credit (bubble size).
- Those highlighted in yellow and are those where one (or more) BigTech firms provide credit.

# Policy implications

- EMDE experience illustrates the positive role of regulation
- Implications differ depending on mode of interaction with incumbents
- Importance of international cooperation (potential for BigTechs to achieve scale rapidly in financial services, including across borders)
- Same risk – same regulation (e.g. activity-based or risk based regulatory approaches depending on the services introduced by BigTech firms or the size of BigTech activities)
- Data governance (e.g. the ability to leverage customer data, the role of robust data governance frameworks)
- Implications for operational risk (e.g. dependencies of non-FMIs) and consumer protection (e.g. safe guarding of customer funds)

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