

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

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



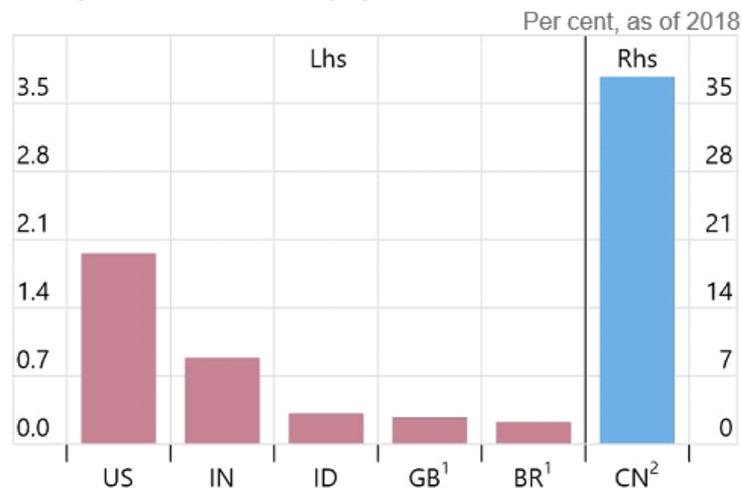
Background to the report

- 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

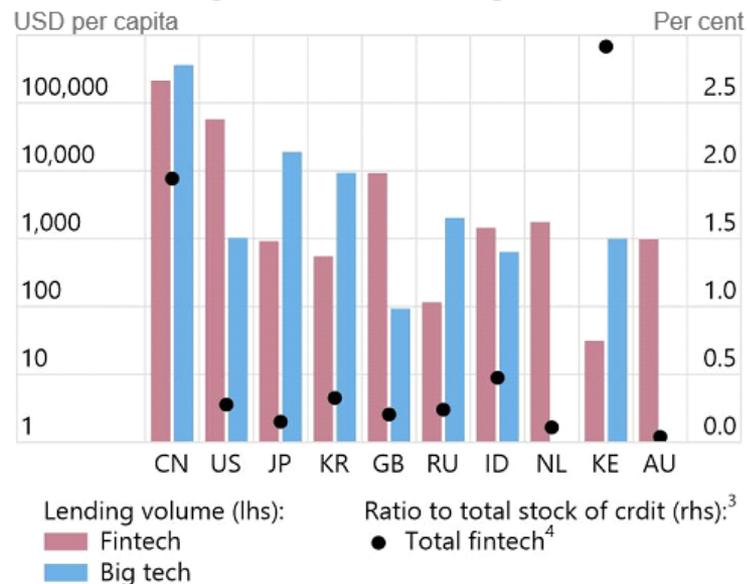
Trends and patterns

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

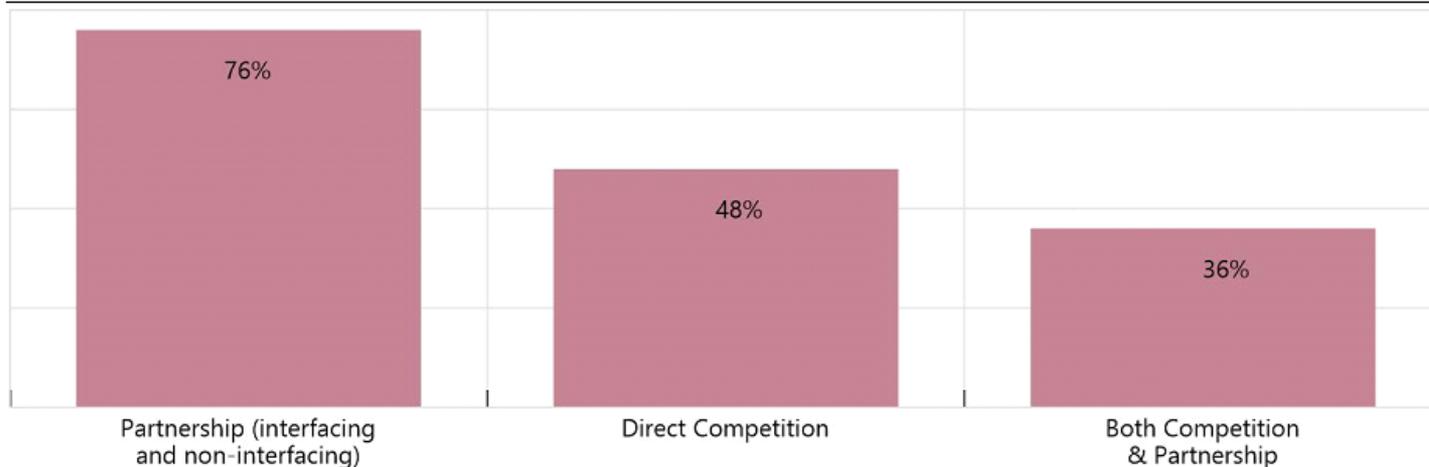


- Substantial presence in financial services in some EMDEs (e.g. payments in China) particularly through the provision of mobile money
- BigTechs offer a wide variety of services in EMDEs (e.g. small yet economically significant proportion of lending in some jurisdictions)

Trends and patterns

Modes of interaction between BigTech firms and incumbent financial institutions

As a proportion of EMDE survey respondents



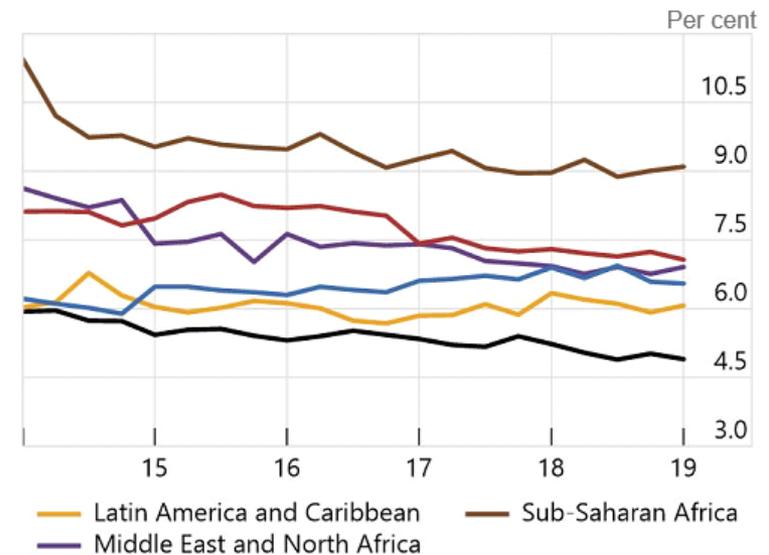
- **Direct competition:** Compete directly with incumbent financial institutions
- **Partnerships:** Collaborate with financial institutions to originate and/or distribute financial products, provide technology services and infrastructure including through:
 - **'Interfacing'** models where BigTech firms 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



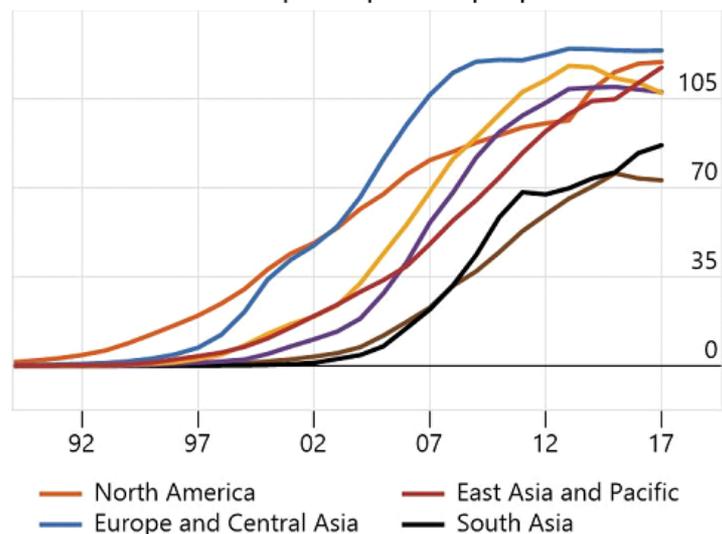
Source: World Bank.

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 identify technology, open banking, innovation facilitators)

Mobile phone access is rising worldwide

Mobile cellular subscriptions per 100 people



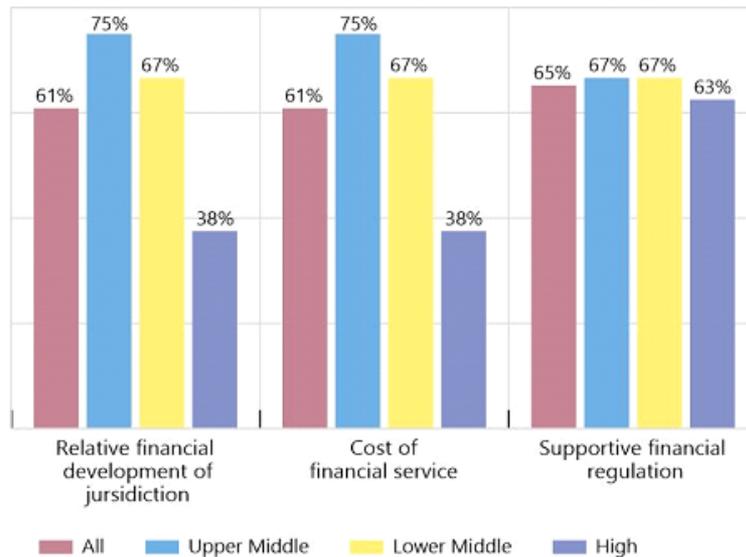
Source: Feyen, Frost, Natarajan and Rice (2020); World Bank.

Drivers: supply side

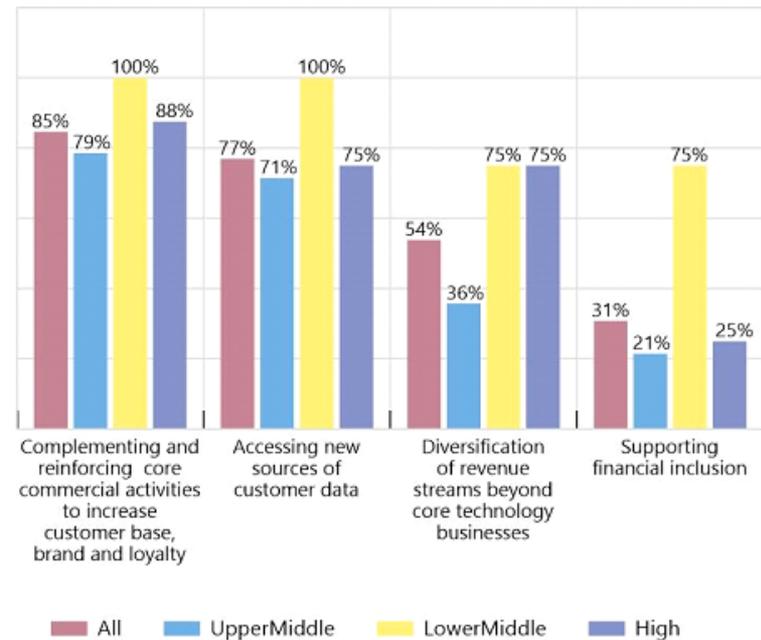
Supply-side drivers of BigTech firms' activities

Proportion of survey respondents by jurisdictions' income group¹

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



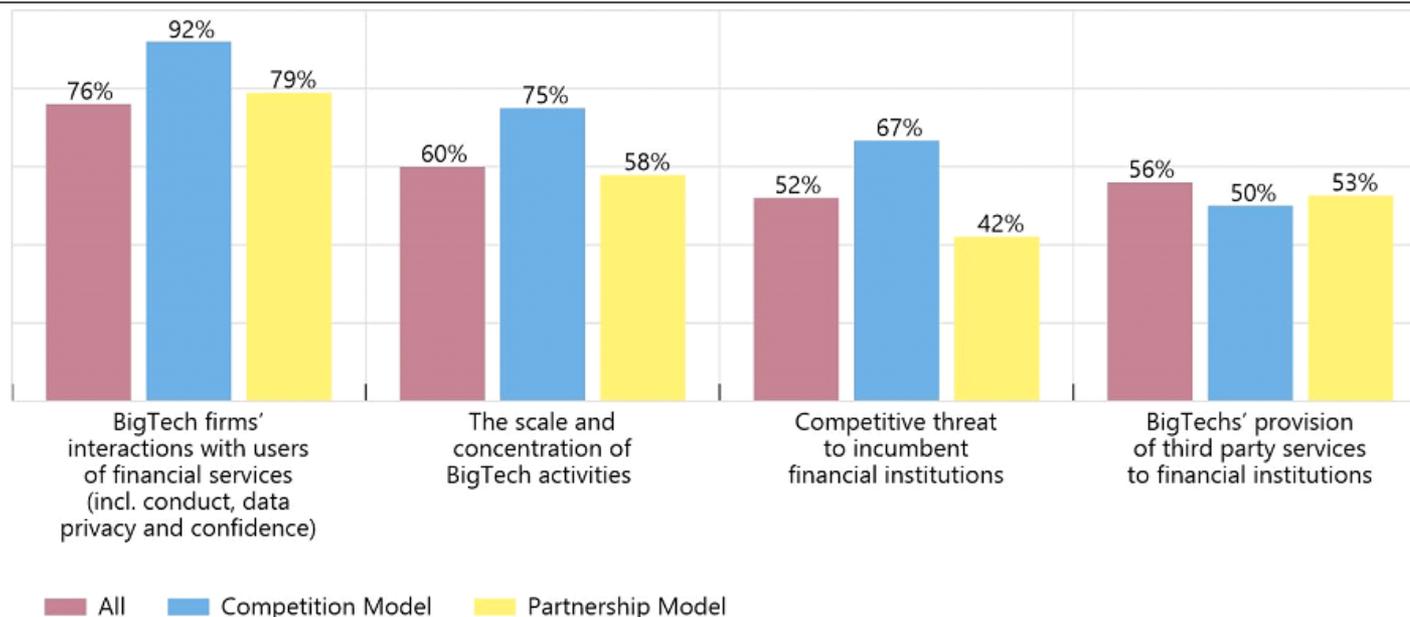
Benefits

- 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



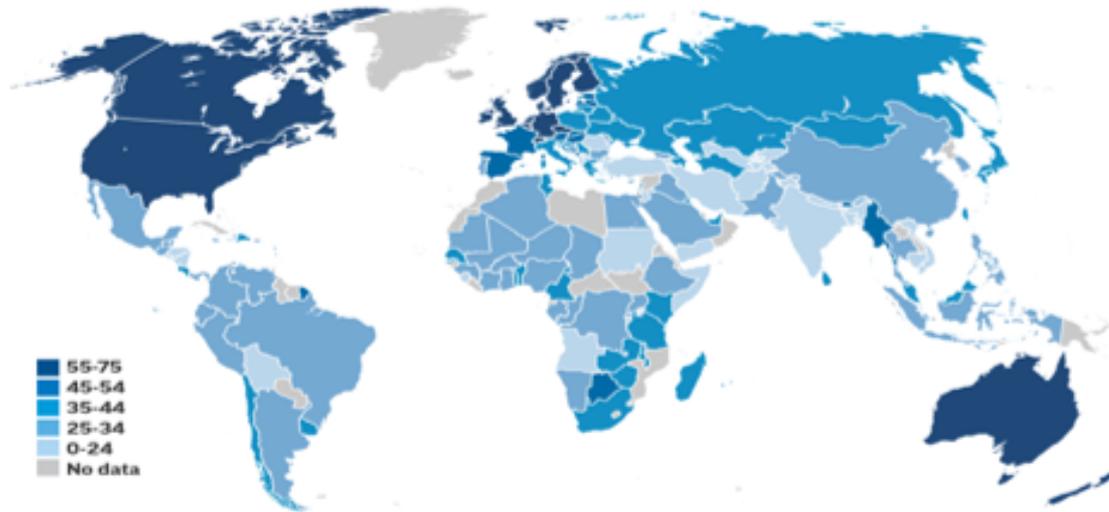
- Scale and competition – tendency to dominate certain markets or operate within an unequal playing field in some regulatory or supervisory environments; disruption could have FS implications;
- Disruptive effects on incumbent financial institutions and their funding
- Operational risks, particularly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



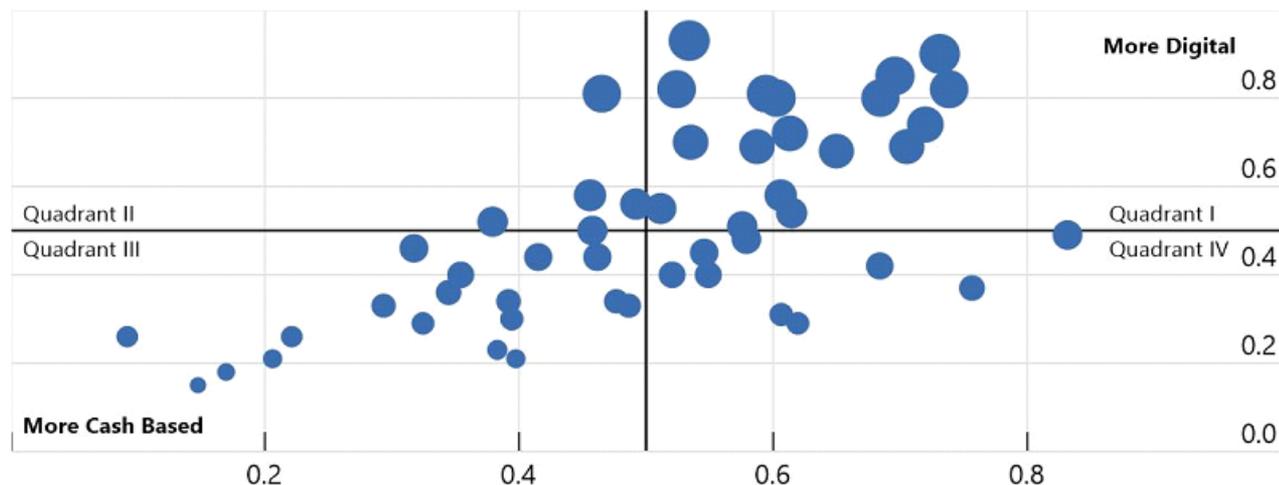
Source: S&P Global FinLit Survey (2015).

- 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



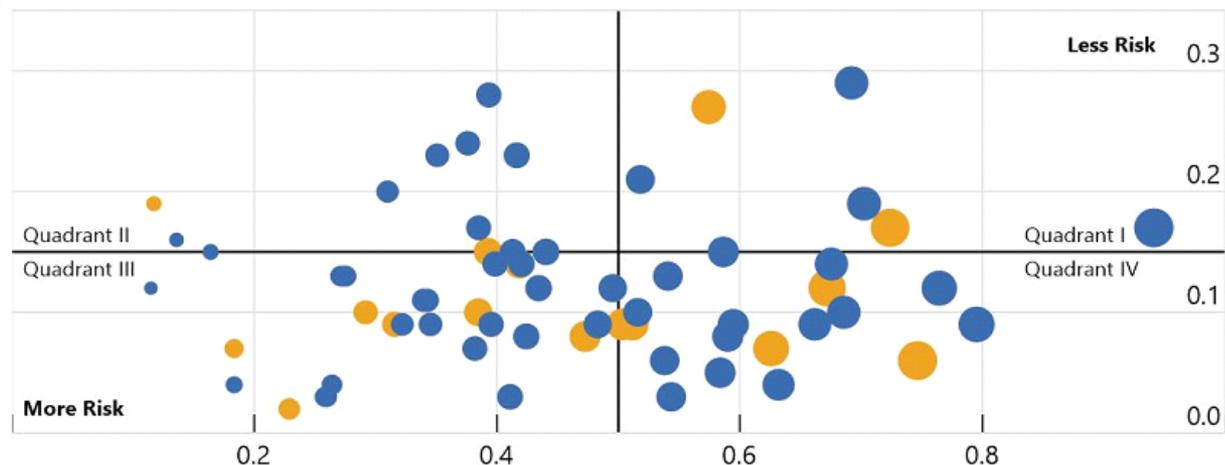
Source: World Bank Group.

- 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 jurisdictions' 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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