

Deloitte Banking Alert

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ESAs' increasing interest in monitoring of BigTechs' financial services activities

The European Supervisory Authorities (EBA, EIOPA and ESMA – the ESAs) published on 1st of February a **report that sets out the results of a stocktake of BigTech direct financial services provision in the EU**. The report identifies the types of financial services currently carried out by BigTechs in the EU pursuant to EU licences and highlights inherent opportunities, risks, regulatory and supervisory challenges. The ESAs will continue to strengthen the monitoring of the relevance of BigTech in the EU financial services sector, including via the establishment of a new monitoring matrix.

Background

In 2023 the ESAs, via the European Forum for Innovation Facilitators (EFIF), conducted a cross-sectoral stocktake of BigTech subsidiaries providing financial services in the European Union (EU) as a follow-up to the ESAs' 2022 response to the European Commission's Call for Advice on Digital Finance. The stocktake showed that BigTech subsidiary companies currently licenced to provide financial services pursuant to EU law mainly provide services in the **payments, e-money and insurance sectors and, in limited cases, the banking sector**. However, the ESAs have yet to observe their presence in the market for securities services.

To further strengthen the cross-sectoral mapping of BigTechs' presence and relevance to the EU's financial sector, **the ESAs propose to set-up a data mapping tool within the EFIF**. This tool is intended to provide a framework that supervisors from the National Competent Authorities would be able to use to monitor on an ongoing and dynamic basis the BigTech companies' direct and indirect relevance to the EU financial sector.

General overview of BigTech involvement in the financial markets

The EBA has performed a stocktake of BigTech subsidiaries carrying out financial services in the EU, leveraging on a survey to the NCAs (National Competent Authorities). The main findings are:

- Six have e-money institutions in the EU, and two have payment institutions. Another two have credit institutions, three have insurance intermediaries, and two have insurance undertakings. No BigTechs are active in the securities and markets sector.
- The entities leverage their right to passport their services cross-border, but notification practices are unreliable and pose challenges for home and host authorities.

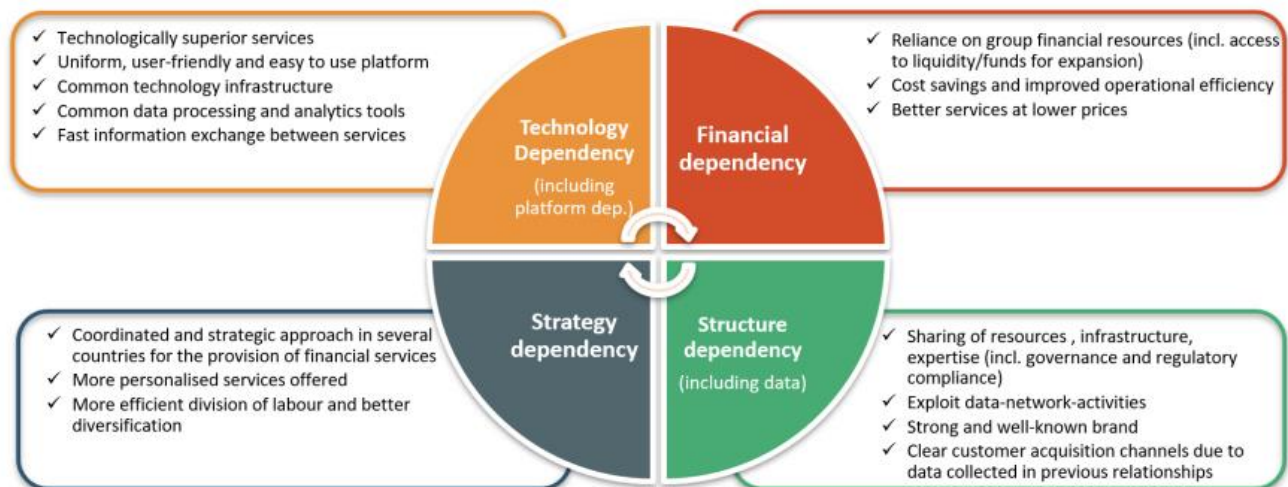
- All BigTechs have established partnerships with financial institutions for the provision of financial services, such as e-wallets, buy now pay later, crypto-related services, and white labelling.
- All of the reviewed companies may show interest in new financial products and services in the future, based on precedents outside the EU and EU-based regulatory developments, such as MiCAR (Markets in Crypto-Assets Regulation).

Potential opportunities and risks

In general, BigTechs leverage common data pools and infrastructures that may help them gain a competitive advantage in markets for a variety of non-financial and financial services. This can present opportunities, as well as risks.

BigTech intragroup dependencies arise, among others, from:

- the common use of technological infrastructures (including **platform dependency** both in the provision of financial services and other non-financial services);
- intra-group **financial dependencies**;
- structural dependencies**, specifically regarding client data; and
- strategy dependencies**.



Source: [Report on 2023 stocktaking of BigTech direct financial services provision.pdf \(europa.eu\)](#)

While potential opportunities mostly referred to intragroup dependencies, potential risks reported by NCAs relate both to intragroup dependencies and to external dependencies. The NCAs have also highlighted possible external dependencies on top of the thoroughly scrutinized internal ones.

Potential risks arising from intragroup dependencies are:

- operational resilience and cybersecurity risk;
- concentration risks within the group (including spillover effect and uneven competition);
- reputational and intragroup financial contagion risk;
- governance risk, including conflict of interest risks and poor visibility over complex structures;
- data abuse and mishandling of consumer data;
- risk of financial exclusion;
- potential sources of systemic risk;
- risk to strategic autonomy of the EU.

Report conclusions

In its report, ESAs identify the supervisory and regulatory issues related to BigTechs' direct financial service provision, based on NCAs feedback:

- the existing regulatory framework is activity-based and does not take full account of the aggregated risks that may arise from intragroup dependencies, especially when the group's head office is outside the EU.
- there is a lack of level playing field between BigTechs and traditional financial institutions, as the former are not subject to prudential consolidation or conglomerates supervision and may have competitive advantages due to their access to data and technology.
- there is a need for more structured dialogue and cooperation between different supervisors of BigTechs, both within the financial sector and across disciplines, such as competition and data protection authorities.
- more granular and dynamic monitoring of BigTechs' activities in the financial sector are also necessary with regard to their role as technology providers and gatekeeper platforms, as well as their systemic relevance and potential risks.

Next steps

The next steps to be taken by the European Forum for Innovation Facilitators in 2024 include:

- establishing a multi-faceted data matrix to better structure the mapping of BigTechs' direct financial service provision in the EU, and tracking their relevance and impact on the financial sector.

- continuing the cross-disciplinary exchanges with other relevant authorities to further identify and assess opportunities and risks, and to identify potential mitigation measures.
- keeping under review the recommendations set out in the Call for Advice response in light of any market changes and considering potential techniques to enhance the regulation and supervision of BigTech groups.

For further questions regarding the aspects mentioned in this alert, please don't hesitate to contact us:



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