

Carolina Melches, Michael Peters

MORE MONEY, MORE POWER: BIG TECHS IN FINANCE

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Finanzwende Recherche
Motzstraße 32 | 10777 Berlin
info@finanzwende-recherche.de

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Carolina Melches is an economist specialising in digitalisation in the financial sector. Her area of focus is financial innovation and digital business models.

carolina.melches@finanzwende-recherche.de

Michael Peters is an economist specialising in macroeconomics and finance. He heads the Financial System and Real Economy department at Finanzwende. His focus is on the question of how we can create a financial sector that serves the economy and society.

michael.peters@finanzwende-recherche.de

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1 Abstract

The increasing influence of large technology companies, also known as **big techs**, already poses a **risk** for **consumers**, **fair competition** and our **democracy**. Companies like Amazon, Google and Apple are now offering financial services in the European Union. Chinese tech titans are also working hard to establish their services in the EU. The sponsorship of the UEFA Euro 2024 by the Chinese financial platform Alipay is a clear attempt to build brand awareness among European consumers. **However, the introduction of financial services by big tech companies threatens to exacerbate the problems surrounding their hegemony.**

Experience has shown that the financial services offered by big techs have a **great potential for growth and success**. In Southeast Asia and particularly China, the tech giants are deeply anchored in the financial sector. In this context, Alipay, Alibaba's payment app, is a textbook example of the unbridled growth of a technology company in the financial services sector. As a big tech subsidiary, Alipay not only enjoyed a clear **regulatory advantage** over traditional financial institutions, but also had access to **advanced technologies** and an enormous, pre-existing **customer base**. Today, Alipay accounts for half of all mobile payments made in China and is also making an effort to establish its services in the EU. Big techs are active in the US as well, offering a multitude of financial services, like instalment loans ("buy now pay later" offers), savings accounts and payment services. In the EU, they primarily offer payment services, and as of yet, these services have been less widely adopted.

The still relatively limited presence of the big techs in the European financial services sector should be seen as a chance to begin actively monitoring and regulating their entry into the financial services sector as early as possible. The speed with which they are gaining a foothold in the financial services market is creating new **risks** for **financial stability** and **consumer protection**. For example, it is possible that they will soon become too large and too interconnected to fail. This growth could also pose risks to consumers, e.g. in the form of price discrimination or unfair exclusion from financial services. By **addressing the risks at an early stage**, it may be possible to shape the future of our financial landscape in a manner that is decidedly more sustainable and positive for the market, society and democracy.

Neither the EU nor the US currently has a comprehensive set of regulations that address the special risks associated with the financial activities of the big techs. Therefore, it is necessary to develop a regulatory framework that takes these risks duly into consideration. In essence, two different models are conceivable:

- a) A **strict segregation of the financial entities from the core business** of the big techs: The financial services would be grouped under a financial holding company and supervised by one of the regulatory authorities in the financial sector. A restructuring of this kind would increase transparency and minimise possible contagion effects within the group.
- b) As an alternative, financial and non-financial activities could be included under one regulatory category, and **big techs could be custom regulated as entities**. This approach would not only be cumbersome to implement, but also require accurate knowledge of the complex corporate structures and associated risks.

Of these two models, the segregation approach is preferred. In both regulatory scenarios, cooperation between the various authorities and countries would be absolutely essential, as big techs operate across multiple sectors, and their reach is international. Regardless of the regulatory approach taken, the objectives should include a high level of consumer protection, the mitigation of systemic financial risks and the curtailing of big techs' **increasing power**.

2 More Money, More Power: Big Tech in Finance

The world's biggest tech companies, including Amazon, Alphabet (Google), Meta (Facebook), Alibaba, Tencent (WeChat) and Apple, have long since established themselves as market leaders in their core business areas.^a Big techs' core businesses include social media (Facebook^b), search engines (Google), online marketplaces (Amazon, Alibaba^c) and technology (Apple). Together, these companies create around four times more market value than the combined market capitalisation of the 40 DAX companies.¹ Globally, Google accounts for over 80 per cent of the search engine traffic on the web.² As of 2023 (Q4), Apple was manufacturing a quarter of the "wearables" sold worldwide. Nearly two-thirds of the Chinese population uses the social media platform WeChat.³ The Chinese online marketplace Temu is a new player that catapulted itself into the top 20 of the largest online platforms in the EU within the first six months of rollout.⁴

All of these big techs have a huge customer base and are known to exploit their dominant market positions. In Brussels alone, the digital industry spends more than €113 million a year on lobbying in the EU institutions.⁵ Big techs are working hard to prevent the introduction of stricter rules for the digital industry and to further expand their economic and political power. They collect and analyse data and try to influence the competition on their platforms.

Now, these tech giants are expanding into the financial services sector and threatening to become even more powerful. Until now, this expansion has been taking place largely under the social and political radar. The financial services market is particularly attractive for big techs: By providing financial services, these companies can accumulate valuable financial data and earn additional revenue, increasing their power over the market, society and politics.

The business model used by the big techs is based on the unique combination of big data, interwoven activities and network externalities. This combination functions as a growth engine: With the help of data analysis, big techs can develop a wide range of highly tailored financial services that attract new users. The resulting feedback loop drives the growth of the tech giants and guarantees their overwhelming success in the financial services market.

In addition, big techs can cooperate with traditional banks in the early phase of their entry into the financial services sector to circumvent complex and costly financial regulations. Such cooperation often serves the interests of both parties: The big techs collect financial data and fees by providing the client-side technology, or "front end", while the financial institution acquires new customers. One example of this is the Apple Card, a credit card issued by Apple that was developed in cooperation with the banking giant Goldman Sachs.⁶

a For purposes of clarity, the big tech company Alphabet, parent company of Google, will hereinafter be referred to as **Google**; Meta Platforms Inc., parent company of Facebook and formerly Facebook Inc., will be referred to as **Facebook (Meta)**; and the Ant Group, affiliate company of the Chinese big tech Alibaba Group and parent company of the financial app Alipay, will be referred to as **Alipay** or the Ant Group.

b Meta Platforms owns Facebook, Instagram and WhatsApp.

c In this paper, Alibaba and the Ant Group (Alipay) will occasionally be referred to as a single big tech. However, the Ant Group (Alipay) was actually founded by Alibaba and later spun off as a separate firm. The Alibaba Group still retains a 33 per cent stake in the Ant Group but no longer exerts control over its operations.

The extent to which big techs have entered into the world’s financial services sectors varies.

The main factors affecting their growth in this area include the amount of competition in the respective financial services market and whether or not the market is in their country of origin. Chinese big techs are firmly footed in the financial services sector in Asia, and particularly China. Today, two tech giants (Tencent and Alibaba’s Alipay (Ant Group)) account for more than 90 per cent of all mobile payments made in China.⁷ Initially, the expansion of China’s big techs into the financial services sector was more of a necessity than a strategic decision: In the 2000s, the financial infrastructure in China was very rudimentary, and the country had no secure online payment infrastructure.

The payment services that Chinese big tech companies had initially developed out of necessity turned out to be a strategic gold mine.

In 2004 Alibaba, which was China’s largest e-commerce platform at the time, launched its own payment service, Alipay.⁸ Within a few years, it had become the world’s largest financial technology company (Ant Group). This growth continued unchecked until regulatory changes were implemented for Chinese tech companies, requiring their financial divisions to follow the same rules and regulations as traditional banks.⁹ Today, Alipay is the largest online payment provider in China, with a market share of more than 60 per cent.¹⁰

In Western markets (the US and EU), big techs’ entry into finance has been significantly slower, owing to the fierce competition.

In these regions, the vast majority of individuals have bank accounts and credit cards. Accordingly, the demand for additional financial services is limited. However, be it in China, the US or the EU, payment services represent the gateway through which big techs are entering financial services markets. For a long time, the payment services offered in the US and EU were poorly developed and overpriced. The quasi-duopoly of Visa and Mastercard still dominates today’s market, with margins of up to 50 per cent.¹¹ In this context, new providers such as the payment platform Paypal, as well as big techs, have been able to establish themselves and develop alternatives that are more attractive and convenient.

Now, big techs’ payment services, particularly Apple Pay and Google Pay, are widely available in the US and EU. In 2023 more than one in ten US Americans used Apple Pay.¹² In the US, Google, Apple and Amazon all offer credit cards, savings accounts and instalment loans – i.e. “buy now pay later” services – for their users. For this purpose, Apple has even established its own financial services subsidiary in the US.¹³

In the EU and Germany, big techs have mainly been offering payment services

(Apple Pay, Google Pay, Amazon Pay, Meta Pay) (as of 2024). This is primarily due to the fact that these regions are not their home markets. Nevertheless, these payment services are widely used and accepted. In a 2023 survey on mobile payment practices, nearly half of all respondents in Germany reported having used Apple Pay, and more than 30 per cent said they used Google Pay on a regular basis.¹⁴ Tables 1 and 2 provide an overview of the current financial services offered by the big techs in and outside of the EU.

Table 1: Financial services offered by big tech companies in the EU

	Alibaba (Ant Group)	Tencent (WeChat)	Apple	Amazon	Alphabet (Google)	Meta (Facebook)
Payments	■	■	■	■	■	■
Deposits						
Lending			■	■		
Insurance			■	■		
Investments						

■ Services offered in the EU

Source: BankingHub, financial services categories served by Big Techs, last accessed on 15 April 2024.

Table 2: Financial services offered by big tech companies outside the EU

	Alibaba (Ant Group)	Tencent (WeChat)	Apple	Amazon	Alphabet (Google)	Meta (Facebook)
Payments	■	■	■	■	■	■
Deposits		■	■			
Lending	■	■	■	■	■	
Insurance	■	■	■	■	■	
Investments	■	■				

■ Services offered outside the EU

Source: BankingHub, financial services categories served by Big Techs, last accessed on 15 April 2024.

3 Alipay: From Tech Giant to Financial Services Giant

Alipay's development in China prior to 2020 serves as a prime illustration of big techs' explosive growth potential in the world of financial services. Alipay is China's largest payment app and the world's most advanced big tech in the financial services sector. It was launched in 2004 as a payment service of the Chinese big tech Alibaba before being spun off as a separate entity (Ant Group) in 2011.¹⁵ Over time, Alipay began to introduce additional financial services, like lending, asset management and insurance. Within a few years, it had grown from a pure payment service provider to what was at the time the world's largest fintech company.

Alipay, similar to Paypal, is a platform that provides a digital wallet through which funds can be sent and payments can be made for both online and offline purchases. In addition, the app offers a complete ecosystem of its own financial services and third-party applications. For example, with a click, customers can invest in money market funds or purchase additional insurance for a product when making a payment. They can also choose to pay for a product in instalments or top up a prepaid mobile phone directly through the app. Today, Alipay offers more than two million mini-applications, i.e. products and services, within the app.¹⁶ The aim is to serve as a kind of *financial super app* that provides consumers with a one-stop shop for all their financial needs.

Within less than ten years, Alipay was able to become one of the most influential players in China's financial services market. Nearly half of the Chinese population is active on the platform.¹⁷ In 2020, 15 per cent of all consumer loans and 5 per cent of all loans made to small and medium-sized enterprises (SME) in China came from Alipay.¹⁸ Each year, the payment service processes transactions worth more than 110 per cent of China's gross domestic product.¹⁹ In 2017 the company's own investment fund Yu'E Bao, in which customers can invest spare cash from their digital wallets, became the world's largest money market fund. Within six months of its launch, more than 43 million Alipay customers had invested in the fund.²⁰

The reason for Alipay's rapid rise as a player in the financial services sector lies in the fact that Alipay was a big tech subsidiary. As such, Alipay enjoyed not only a clear **regulatory advantage** over traditional financial institutions, but also access to **sophisticated technologies** and an enormous, pre-existing **customer base**.

For years, Alipay was able to continue expanding as a technology company with minimal regulations and establish itself in the financial services sector. The lending and asset management services were provided by traditional banks, with Alipay functioning as an intermediary. At its peak, 98 per cent of its consumer loans were underwritten by partner banks.²¹ As a result, the Ant Group was able to operate as a de-facto bank, collecting high fees and financial data with practically no risk. This model also contributed to the increasing complexity of the financial services sector.

From day one, Alipay – as the payment infrastructure of Alibaba’s platforms – had access to millions of customers. Today, the Alibaba Group, the Chinese equivalent of Amazon, serves more than one billion annual active consumers on its retail marketplaces.²² For these users, opening an account with the company’s own payment platform was an obvious choice.

Backed by the tech giant Alibaba, Alipay was able to access advanced technologies and customer data. Over a period of several years, Alipay could develop convenient products at unbeatable prices. Asset management services could be provided so cheaply that, prior to 2020, customers were able to transfer amounts as small as one yuan (€0.13) into the money market fund.²³

Alipay’s meteoric growth came to an abrupt stop in 2020 due to an act of state intervention. A mere 48 hours before the Ant Group’s planned initial public offering, which was set to mark the largest IPO of all time, Chinese regulators forced the company to halt the flotation. Chinese officials justified their actions by pointing to the increasing systemic risk posed by the technology giants in the financial services sector.²⁴ However, there were also political reasons for the timing and severity of the Chinese regulators’ targeted campaign against the Ant Group. Far-reaching restructuring measures and regulatory changes by the Chinese authorities followed.

One objective of the regulatory initiative was to force Alipay to restrict its activities to its core business as a payment service provider.²⁵ The lending business had to be spun off, and the Ant Group restructured into a financial holding company. In essence, the Ant Group was required to implement extensive regulatory requirements with provisions similar to those applicable to banking institutions. The regulations also mandated the sharing of credit scoring data with the government and other banks. For this purpose, a separate personal credit reporting company with public and private shareholders was established. In 2020 the Alibaba Group and Ant Group were forced to terminate their data sharing agreement.²⁶ Subsequently, the growth of the Ant Group stagnated, and its market value fell by 75 per cent, suggesting that the previous expectations of high market returns had been closely linked to the synergies between the previously interconnected business units, i.e. the use of financial data to inform marketing strategies.

Since the 2020 regulatory changes that put a ceiling on Alipay’s growth in China, the company has been focusing on international expansion. In the EU, Alipay will be in the spotlight as one of the sponsors and official payment partners of the UEFA European Football Championship in the summer of 2024. This sponsorship deal provides significant benefits to Alipay: For example, on the official ticketing website, tickets for the Euro 2024 matches could only be purchased using a credit card or Alipay.

The sponsorship of the UEFA Euro 2024 is undoubtedly an attempt by Alipay to expand its brand awareness to European consumers. Currently in the EU, Alipay is used almost exclusively by Chinese tourists or Chinese citizens living in Europe.²⁷ Moreover, Alipay has been expanding its international services continuously since the regulatory crackdown in 2020 and can therefore be expected to make deeper inroads into the European financial services sector.

4 Risks Associated with Big Techs in the Financial Services Sector

Many factors that contributed to Alipay's rapid success in China also apply to big techs in the EU. The still relatively limited range of financial services offered by big tech companies in the EU represents an opportunity to address potential risks early on, as their entry into the financial services industry means that their scope of influence is expanding into another area of political and social relevance. This fact raises several fundamental questions. For example, is this expansion even desired from a societal perspective? And if allowed to proceed, how can it be guided towards a path of sustainability and social responsibility? The current situation in the US provides insights into potential development trajectories for financial services and the forms they may take. However, it is also important to consider what has happened in China, in terms of the big techs' advanced stage of development and the risks at the political and geopolitical level. These risks extend to users' personal safety and consumer protection, as well as to the systemic level and to institutions like the market and democracy.

First of all, financial data compromises the users' rights to privacy and self-determination. The problems associated with big techs' handling of user data are already widely recognised and have garnered some degree of political attention. However, the newly gained access to financial data could present more opportunities for misuse, particularly as it represents the premier league of personal data. Financial data provides insight into political views, health status, hobbies, social activities, living conditions and many other aspects of our private lives. It can be used for optimising a company's existing range of products in the non-financial services sector, as well as financial products. The use of highly sophisticated technologies to analyse large volumes of data could exploit behavioural biases to manipulate consumer preferences.

In China, the sharing of credit and user data by big techs is even required by law.²⁸ In 2019 the German Federal Office for the Protection of the Constitution warned of political espionage by Chinese intelligence agencies, which reportedly had access to customer data from Chinese payment apps like Alipay.²⁹ In this context, the Bank for International Settlements stated that big techs' handling of customer data threatens personal privacy, consumer choice and political discourse.³⁰

New methods of assessing users' creditworthiness pose risks of unfair exclusion and price discrimination. Big techs are able to develop new ways of assessing consumers' creditworthiness by combing different customer data from their core and financial-services business. In the best-case scenario, these algorithms should be very accurate, as they are based on large volumes of data. However, if the new methods have not fully matured, or if they develop biases, there is a real risk that consumers could either become over-indebted owing to the erroneously positive results of credit checks or be unfairly excluded from certain financial products in the case of erroneously negative results. In addition, the use of machine learning and artificial intelligence for automated credit approval could copy, reinforce or exacerbate existing biases and inequalities (algorithmic discrimination). A study of the US mortgage market showed that machine-learning-based credit scoring models resulted in higher interest rates for minority borrowers than other communities.³¹ It is also conceivable that customers with higher risk profiles could be excluded from certain insurance products.

Within very short time frames, big techs can become systemically relevant financial market players that are too big to fail. Owing to their large customer base, big techs can quickly take on a central role in the global financial system with importance for the functioning of the real economy. During crises, precarious situations could arise in which the state would be forced to either stabilise the whole corporation or risk a dangerous interruption of systemically important financial services, with incalculable consequences for the real-economy companies that are dependent on the provision of these services. The savings account that Apple introduced in the US in 2023 is a good example of big techs' ability to expand rapidly in the financial services sector. Apple only provides the front end, with Goldman Sachs running the accounts and offering the essential banking framework. Three months after the launch, Apple reported deposits totalling US\$10 billion.³² In this context, Apple itself is not subject to any prudential financial requirements, e.g. concerning risk management, equity buffers and deposit guarantees.

The cooperation with traditional banks leads to increases in the level of interconnectedness and complexity of the financial services sector.³³ Through activities like financial intermediation, big techs perform the same functions as financial-services or insurance companies without being subject to the same regulations.³⁴ In this context, they serve as important points of interconnection between the players in the financial system. Owing to these interconnections, any internal problems experienced by the big techs (e.g. cyberattacks or technical issues) could have contagion effects on the financial institutions in the background. These interdependencies are difficult to regulate effectively.³⁵ However, this regulation is essential, because if millions of people could only access their finances through big techs, then technical problems like cyberattacks on the computer systems of big techs, or even their collapse, would be of systemic importance. Big techs that are already "too big to fail" would then also be "**too interconnected to fail**". It is not unlikely that institutions like these could expect to receive government aid in crisis situations.

The new revenue sources further enlarge the financial resources of the big techs, giving them additional power. As early as 2020, the four big techs Alphabet, Apple, Facebook (Meta) and Amazon together already held more liquid assets than five of the eight globally active and systemically important banks of the euro area.³⁶ These assets may continue to increase through revenues, e.g. from the intermediary, lending or deposit business, allowing the companies to invest in technology and innovation, or even spend record sums on lobbying, think tanks and law firms. The civil society initiative LobbyControl reported that, during the period in which policymakers in Brussels were weighing new regulations for digital platforms in the EU, the big techs Google, Amazon, Facebook (Meta) and Apple spent a combined total of nearly €23 million on lobbying.³⁷ This financial power is disproportionate and can undermine democratic structures and processes.

If the political volatility of big techs in the financial services sector hadn't been clear enough before, the failed digital currency project Diem (formerly known as Libra) drove the message home. Facebook (Meta) had hoped to revolutionise international payment systems and replace national currencies with its own global currency and financial infrastructure. These plans were vehemently opposed by policymakers and regulatory authorities from around the world. The reasons given for their resistance included uncertainty about value stability and the associated risk of loss to consumers. The most important concern, however, was the potentially global scale of the project if successful: In this context, policymakers at the time saw Diem as a serious threat to the monetary and financial sovereignty of states.³⁸

Foreign big techs in the financial services sector can become a threat to the EU's strategic autonomy. The platforms of the foreign big techs are increasingly becoming critical infrastructure for economic activity in the EU. In the process, spheres of influence are emerging for the home countries of the big techs – in this case, the US and China – which can be used for exerting geopolitical influence.³⁹ This situation could seriously jeopardise the EU's digital sovereignty and strategic autonomy.⁴⁰ Furthermore, crises, political developments and sanctions policies in the home country could have an indirect effect on the activities of the big techs in the EU.

In other areas of critical infrastructure, debates have long been raging around the integration and dependency of foreign service providers. In 2023 the European Commission classified the Chinese telecommunications company Huawei as a security risk for the EU in light of the company's network expansion. In the words of Thierry Breton, European Commissioner for Internal Market: "We cannot afford to maintain critical dependencies that could become a weapon against our interests."⁴¹ Similar developments have been observed in the healthcare sector, where bottlenecks in the supply of medicines sourced from China and India during the COVID-19 pandemic led Germany to include provisions on the independent production and supply of pharmaceutical products in its National Security Strategy.⁴² The payment systems used in the EU are also critical infrastructure, serving as the basis for all economic activity. Accordingly, it is surprising that, to date, Alipay's role as a big tech financial services provider has received virtually no attention in the discussion about the EU's dependence on China.

5 Consequences and Possible Regulatory Responses

An appropriate regulatory framework will be crucial for minimising the risks posed by big techs in the financial services sector in this part of the world.

However, when it comes to financial regulations in the EU, big techs are still operating largely under the radar. And moreover, owing to their dominant economic positions and lobbying clout, big techs have always presented a major challenge for policymaking and regulatory supervision. To date, the EU's regulation and supervision of large tech companies has been focused on consumer protection, data protection and fair competition. For example, in early 2024 the European Commission hit Apple with a landmark €1.8 billion fine for violating antitrust regulations in its App Store.⁴³ Most recently, the EU became the first region worldwide to adopt a comprehensive regulatory framework to regulate the digital space and in particular large platforms. This "Digital Services Package" includes the Digital Markets Act (DMA) and the Digital Services Act (DSA), primarily covering competition aspects, consumer protection, cybersecurity, the use, privacy and sharing of user data and the strengthening of users' fundamental rights online. The European Markets in Crypto-Assets (MiCa) regulation laid down the first guidelines for the issuance of stablecoins, like the planned private currency Diem (Libra), by private companies. Otherwise, big techs' financial services and the associated risks are only partially and inadequately covered by regulations. Big Techs, with their unique business models, also fall through the cracks when it comes to the supervision of financial conglomerates in the EU.

To date, big techs' financial activities in the EU have only been subject to activity-based regulation. In this context, subsidiaries apply to the supervisory authority in the respective EU member state to receive licences for the financial services they wish to offer, e.g. payment services and electronic money. Obtaining a licence and carrying out these activities is linked to certain regulatory requirements, such as business management, anti-money laundering and consumer protection. A licence for payment services makes it possible to offer a variety of services like deposit and withdrawal transactions, payment transactions and account information services, just to name a few. An electronic money licence entitles the holder to issue so-called e-money or digital currency.^{44,d} None of the big techs mentioned in this paper hold a banking licence in the EU, primarily because such a licence would require them to meet a strict set of regulations, like minimum capital requirements and regulatory supervision of the entire group, including its core business.⁴⁵ Table 3 offers an overview of the licences held by big tech companies in the EU.

d E-money is defined as any monetary value stored in electronic (including magnetic) form, representing a receivable from the issuer that is issued against payment of a sum of money in order to make payments within the meaning of section 675 f(1) sentence 1 of the German Civil Code (Bürgerliches Gesetzbuch) and is accepted by other natural or legal persons other than the issuer.

Table 3: Financial services licences held by big tech companies in the EU

	Alibaba (Ant Group)	Tencent (WeChat)	Apple	Amazon	Alphabet (Google)	Meta (Facebook)
E-money	■			■	■	■
Payment services		■			■	
Credit services						
Insurance			■	■		

■ Licences for financial services held in the EU

Source: EIOPA, Joint ESAs report, last accessed on 24 April 2024.

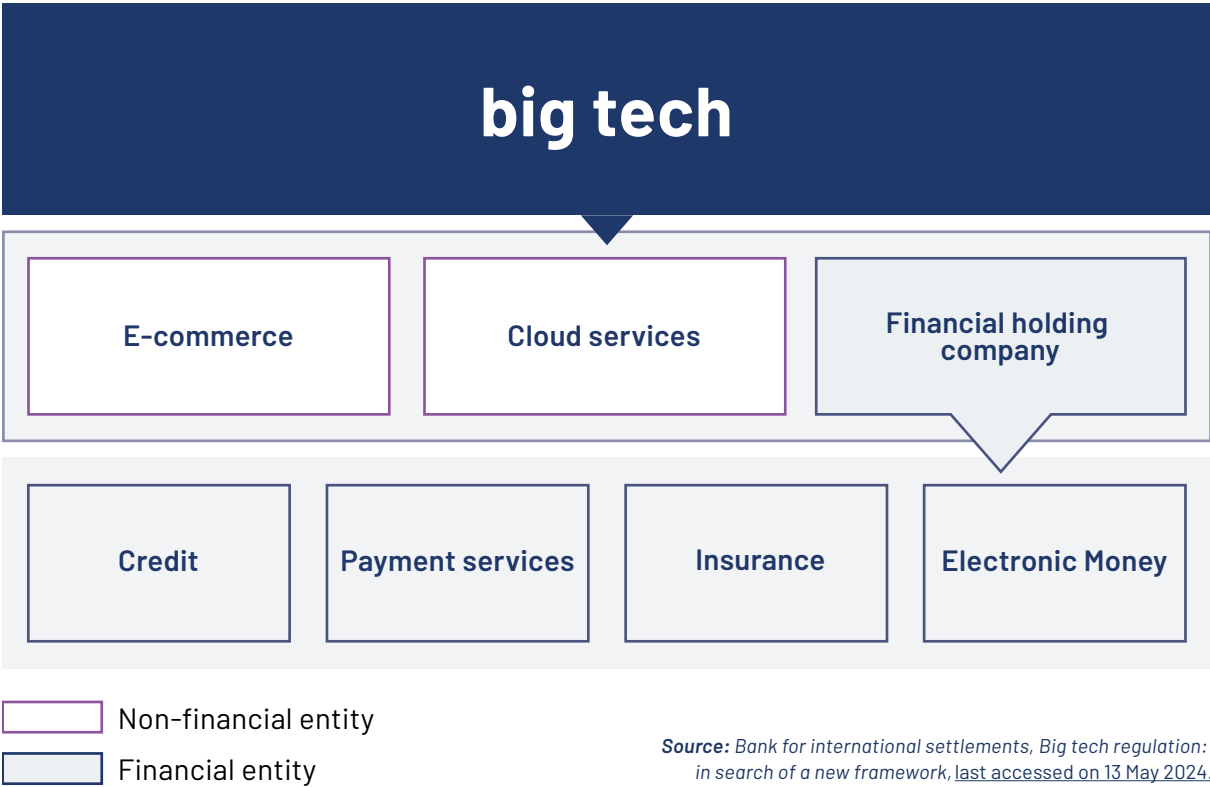
Owing to the fact that the respective supervisory authorities only supervise the licenced part of the corporation, i.e. the subsidiary, risks at the corporate level go unrecognised.⁴⁶ These risks arise from the size of and interactions between the many business sectors in which the big techs are active. The complex interconnections within the groups of such companies can also pose a risk of contagion effects within the group. At the same time, supervisory authorities, whose focus is limited to the subsidiary, have no insight into potentially high-risk interactions with other divisions of the corporation. The insolvency of Wirecard AG in 2020 offers a prime example of this phenomenon. Although the subsidiary Wirecard Bank AG was subject to banking supervision, there was no holistic supervision of the technology company Wirecard AG – in spite of the fact that its core business was financial services.⁴⁷

The current regulations need to be updated to reflect the new reality and the presence of new players in the financial services sector. In this context, the lack of supervision at group level is a particularly significant challenge. Supervisory authorities, academics and policymakers are currently discussing what exactly such a regulatory framework could look like.

An effective and efficient regulatory approach is to require the segregation of financial services from the core business and their grouping under a financial holding company (FHC).

The FHC, as a parent institution, would be subject to comprehensive supervisory requirements for the entities held by it (see Figure 1). The regulations could determine the degree of segregation between the FHC and the other parts of the big tech group.⁴⁸ For example, restrictions could prohibit the use of group-wide technology by the spun-off financial services unit. It would also be conceivable to ban all data-sharing between the financial and non-financial parts of the group (ring-fencing). The segregation could even be implemented at the global level, in which case, all financial activities worldwide would be grouped under an FHC. If this level of segregation were politically undesirable or impossible to implement, the separation could be required in individual jurisdictions, such as the EU.⁴⁹ Another option is to completely prevent big techs from entering the financial services sector. Regulations to this end could require a structural separation between the big techs and their financial services units or prohibit big techs from offering any kind of financial services.

Figure 1:



A segregation approach would be not only comparatively simple to implement, but also advantageous in light of the speed with which big techs are able to expand into the financial services sector. Such a measure would make the organisational structures more transparent and protect the financial-services part of the big techs from the risks posed by other business areas. Accordingly, this approach would be aimed at minimising the risks arising from interdependencies between the financial and non-financial activities of the group.⁵⁰ The introduction of this type of regulation would in all likelihood significantly reduce the attractiveness of financial markets for the tech giants.⁵¹ However, it would also ensure that their business models in the financial services sector are based not on the exploitation of regulatory gaps and loopholes, but on safe and competitive products.

A similar approach has already been taken in China in the context of the regulation of the Ant Group. Although the regulations in this case may have been politically motivated, the Ant Group example shows that the implementation of this approach can succeed in curbing the rapid growth of big techs in the financial services sector.

An alternative possibility under discussion is the comprehensive supervision of the big tech group, including their financial services divisions. For this option, the financial activities could also be grouped into a financial holding company. However, all interactions between the FHC and the parent company would be regulated and supervised at the whole group level. The group would be subject to requirements related to company management, codes of conduct and resilience in times of crisis. Developing a regulatory framework of this kind would pose a major challenge, as it would have to cover all possible corporate structures and eventualities. The complexity of this approach and the necessity of international cooperation between various regulatory authorities would make its implementation considerably more difficult.

Owing to the speed with which big techs are able to expand in the financial services sector, an appropriate regulatory framework for the financial activities of the big techs must be developed without delay. In all scenarios, effective cooperation between not only the different supervisory authorities – e.g. the financial market supervisory authority and the data protection and consumer protection authorities – but also countries and jurisdictions would be essential, as the business models of the big techs are mostly cross-sectoral and their scope international. However, the relatively early stage of their entry into the European financial services sector should be seen as a chance to actively monitor and help shape this process early on, in order to mitigate the risks and prevent the need for corrective measures in the future.

The failed digital currency project Diem (Libra) is proof that big techs have already recognised the potential of the financial sector for expanding their power. Accordingly, we can expect to see further initiatives of this kind in the future. The experiences from China and the US can help policymakers and regulators in the EU discuss appropriate conditions and take the respective precautionary measures early on.

The fact is that big techs have already become too large and too powerful, and their entry into financial services will only serve to exacerbate this situation. Governments and (financial) supervisory authorities must work with civil society and academia to develop crash barriers and rein in the big techs in the financial services sector. The aim should be to profit from the innovation and potential while protecting consumers, financial stability and our democratic processes.

Endnotes

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