

## BigTech in finance brings big risks and benefits

BigTech's move into financial services offers both benefits and dangers to consumers and the banking system, **writes Jeremy Gaunt**



### Vast potential

BigTech companies as yet get only a small part of their revenue from providing financial services, but the potential is vast, bringing both benefits and dangers to consumers and the banking system.

Speaking at a seminar on technology and finance, experts from academia, business and the banking industry said that regulation was needed to protect people from the dangers, but it must not crush the ability of new start-ups to innovate.

The seminar, which took place on the Greek island of Rhodes on 19 September, was held under the auspices of the Think Forward Initiative and the Centre for Economic Policy Research. It was part of a series looking at technology and how people around the world spend, save, invest and generally feel about money.

"People are feeling the benefit of digital banking, but there is clearly some reticence about some of the newer things coming through," Mark Cliffe, ING Group's chief economist and head of global research, said.

## BigTech's role in finance is currently limited

Much attention has been paid to the rise of digital finance, or FinTech, over the past few years, with the widespread use of mobile payments, cryptocurrencies, crowdfunding and other technologies. More recently, focus has been on the potential of BigTech companies -- Facebook, Amazon, Alibaba, Google and the like -- getting involved with their large capitalisations and huge consumer data haul.

Facebook's announcement in June that it was launching its Libra digital currency was a milestone on this route. This has electrified the debate about the use of consumer data. Cliffe noted that consumers' trust in the banks' handling of their financial data might present an opportunity to compete with BigTech as guardians of their other data.

Finance, however, as yet only plays a minor role in BigTech, according to Leonardo Gambacorta, head of innovation and the digital economy at the Bank for International Settlements, sometimes called the central bank for central bankers.

"Financial services are only a small part of BigTech business," he told the seminar. "Only 11% of BigTech revenues come from financial services."

He also noted that lending by technology companies is only 0.5% of the global amount of credit. Even in China, where the sector is most advanced, tech credit amounts to only 3% of overall lending.

This means, however, that there is plenty of scope for scaling up -- something that was clearly of concern to Tomasso Valletti, a professor of economics at Imperial College, London, and until recently chief competition economist at the European Commission.

"BigTech companies are trying to learn about us and capture our attention," he said. "The business model is pay-for-display."

## Risks to consumers

The danger for consumers, Valletti said, is that if a BigTech company merges a search for a car with the search for a loan -- quite easy given the data available to it -- it is likely to recommend the lender who pays the most to display on its site.

Valletti also noted that competition for banks has come from FinTech services which have no need to offer all services and can cherry pick. "They have been skimming the cream by unbundling services," he said. "However BigTechs are trying to re-bundle in new ways again, by creating a bottleneck and making sure they are the gatekeeper of it. This will not be in the interest of the consumer."

"There is good regulation and bad regulation," said panellist Devie Mohan, co-founder and CEO of Burnmark, a data and research company that works on tech with banks, start-ups, regulators and investors. "Good regulation can support the FinTech ecosystem effectively, and encourage innovation and competition with strong frameworks, while bad regulation has the power to destroy innovation especially due to a fear of how they handle their competition with banks or customer data."

Mohan advocated the use of so-called regulatory sandboxes and supervisory technology, or

SupTech, to ease the transition. The former is a small-scale framework for testing new FinTech without heavy regulation, while SupTech firms use Artificial Intelligence to allow finance industry supervisors to manage risk and monitor markets.

## Changing preferences

Technology, meanwhile, has much to offer when it comes to managing peoples' finances, particularly filling the gap between mainstream bank lending and high-interest payday loans.

Gambacorta, for example, noted that many of the places where FinTech has taken off are like China, where few people had bank accounts. The Chinese government has also introduced rules to stop such things as discriminatory lending behaviour.

Mohan noted that some FinTech had been developed specifically to help refugees who would not normally qualify for loans given their current circumstances.

But she did warn that the tech landscape could change rapidly.

"Kids aged below 15 are moving away from Facebook and Instagram and are starting to have (misgivings about) Snapchat. Kids quickly move to apps that are not used by older teenagers or those in the 20s and 30s" she said.

That meant that those planning major investments in FinTech may be doing so for an audience that changes attitudes faster than the market can keep up.

"We can plan ahead and try and predict what a BigTech platform is going to do," Mohan said. "But what if the next generation doesn't use it?"

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