

# How Covid-19 is drastically changing digital finance

Digital finance was already a fast-changing place before Covid-19. After the pandemic, expect more government intervention. A changing appreciation of data may have strong implications for finance as well



The Covid-19 pandemic will eventually pass, but not before disrupting vast swathes of the global economy and making its mark on digital finance.

## 1 Bigger government role

The increased role of government in the economy and financial sector is likely to persist to some degree. Before Covid-19, the changing geopolitical landscape had already made policymakers aware of the strategic importance of vital domestic infrastructure, including communications and payments. Governments are now also looking into data, an area already identified as a strategic priority by the European Commission earlier. In finance, governments have quickly established huge guarantee schemes to see businesses through the crisis.

*It will take years to wind down the increased public role in finance*

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Even in a best case scenario, it will take years to wind down this increased public role in finance and the broader economy. A renewed debate on the division of labour between public and private sectors in finance will likely flare up, once the dust settles.

## 2 Reduced foreign dependence

Calls for autarky (e.g. in producing face masks) may fade quickly, but both businesses and authorities will look for less complex cross-border supply lines and smaller foreign dependencies, as Covid-19 demonstrates their fragility, but also on national security grounds. At the same time, governments have also been made acutely aware of the need for high quality communications infrastructure, e.g. to facilitate working from home. Countries with leading positions in the required technologies (think China and 5G) will be aware of their good negotiating position.

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*Authorities realise digital platforms are playing useful roles in locked down societies.*

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Finance has grown into a business with complex cross-border linkages. This ranges from financial ties to IT outsourcing and supervision. These international, sometimes global linkages, were already critically scrutinised by authorities, a development that may intensify post-Covid-19. How bigtech's endeavours in finance fit the revised picture, remains to be seen. National authorities e.g. in Europe were increasingly critical about bigtech before the pandemic struck, but also realise that major digital platforms have become an important part of daily life and are playing useful roles in locked down societies.

## 3 Cybersecurity

The switch to working from home has stretched across corporate and national network infrastructures. With resources reallocated to keeping the show on the road, this exposes businesses (and an already heavily burdened health care sector) to increased cybersecurity risks, such as ransomware attacks and data leaks, but also to things like fake news. We have to reckon with the possibility that bad actors use security gaps today to establish a presence, only to exploit this presence later on, when it suits them best. To counter this threat, cybersecurity may be expected to move up the policymakers' agenda. Given that cybercrime knows no borders, it is best fought at the international level. In the EU, while there is an EU agency, there is no deep cooperation as in markets and finance, for example. That might change in the future.

## 4 Faster adoption of digital interactions in retail

On the retail end, we expect the adoption of digital finance technologies to accelerate post-Covid-19. Many people have had no other choice than to acquaint themselves with ways to do business digitally – ranging from video conferencing to exchanging documents securely by digital means, or paying contactless to minimise physical contact.

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## *Identity verification via video call may become accepted practice rapidly*

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We expect identity verification via a video call to become accepted rapidly. In the medium term, this may provide a boost to digital-only financial intermediaries, and may accelerate the demise of brick-and-mortar financial shops.

### **5 Focus on inequality and financial inclusion**

The pandemic has put new focus on inequality in society. Digital financial intermediaries may be asked to intensify their efforts towards financial inclusion, e.g. by improving access to financial products for groups such as the self-employed, temporary workers and small and medium-sized enterprises (SMEs). Access for these groups is hindered by the limited availability of financial data and the high costs of processing them. One way to go about this is to augment financial data with a diversity of non-financial data sources.

### **6 Changing attitudes vis-à-vis data**

Until recently, data debates centred around things like privacy and the question of whether people are comfortable paying for platform services with their data. While people may not like the idea when they think about it, in practice they continue to use said services. Several European governments are currently considering tracking location, health and other personal data for Covid-19 control monitoring and personalised health advice (e.g. to self-quarantine). There are other examples where data sharing could be useful in a lockdown society. Acutely arising liquidity needs due to the lockdown have demonstrated the need for quick credit checks. In the absence of readily available financial data, alternative (platform) data may [prove very valuable](#).

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## *People may reconsider the potential gains of sharing data and the need to protect users and society at large from data abuse*

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While data protection and usage monitoring remain paramount, far-reaching data sharing may be temporarily acceptable to most given the challenge at hand. But after the pandemic too, people may reconsider the value of data, the potential gains of sharing this data and the need to protect users and society at large from data abuse. Such shifting views may in turn enable new business models such as data guardians (a function that prima facie banks might be in a good position to fulfil), and may accelerate the establishment of legal frameworks to govern data sharing and protection.

## **Conclusion: Don't stop thinking a step ahead**

The coronavirus pandemic is such a fundamental and monumental shock that it will have a lasting influence on digital finance. In particular, and in no particular order, we see shifts in the relationship between the public and private sector in finance, changes to global interconnectedness, the need for increased cybersecurity cooperation, an acceleration of

digitisation, an increased focus on financial inclusion and shifting attitudes towards data. For both financial intermediaries and policymakers, it is wise to start thinking about these tectonic shifts too.