FSB FINANCIAL STABILITY BOARD

Press release

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FSB reports consider financial stability implications of BigTech in finance and third party dependencies in cloud services

The Financial Stability Board (FSB) today published two reports that consider the financial stability implications from an increasing offering of financial services by BigTech firms, and the adoption of cloud computing and data services across a range of functions at financial institutions.

BigTech in finance: Market developments and potential financial stability implications

The entry of BigTech firms into finance has numerous benefits, including the potential for greater innovation, diversification and efficiency in the provision of financial services. They can also contribute to financial inclusion, particularly in emerging markets and developing economies, and may facilitate access to financial markets for small and medium-sized enterprises.

However, BigTech firms may also pose risks to financial stability. Some risks are similar to those from financial firms more broadly, stemming from leverage, maturity transformation and liquidity mismatches, as well as operational risks.

The financial services offerings of BigTech firms could grow quickly given their significant resources and widespread access to customer data, which could be self-reinforcing via network effects. An overarching consideration is that a small number of BigTech firms may in the future come to dominate, rather than diversify, the provision of certain financial services in some jurisdictions.

A range of issues arise for policymakers, including with respect to additional financial regulation and/or oversight. Regulators and supervisors also need to be mindful of the resilience and the viability of the business models of incumbent firms given interlinkages with, and competition from, BigTech firms.

Third-party dependencies in cloud services: Considerations on financial stability implications

Financial institutions have used a range of third-party services for decades, and many jurisdictions have in place supervisory policies around such services. Yet recently, the adoption of cloud computing and data services across a range of functions at financial institutions raises new financial stability implications.

Cloud services may present a number of benefits over existing technology. By creating geographically dispersed infrastructure and investing heavily in security, cloud service providers may offer significant improvements in resilience for individual institutions and allow them to scale more quickly and to operate more flexibly. Economies of scale may also result in lower costs to clients.

However, there could be issues for financial institutions that use third-party service providers due to operational, governance and oversight considerations, particularly in a cross-border context and linked to the potential concentration of those providers. This may result in a reduction in the ability of financial institutions and authorities to assess whether a service is being delivered in line with legal and regulatory obligations.

The report concludes that there do not appear to be immediate financial stability risks stemming from the use of cloud services by financial institutions. However, there may be merit in further discussion among authorities to assess: (i) the adequacy of regulatory standards and supervisory practices for outsourcing arrangements; (ii) the ability to coordinate and cooperate, and possibly share information among them when considering cloud services used by financial institutions; and (iii) the current standardisation efforts to ensure interoperability and data portability in cloud environments.

Notes to editors

The digitalisation of finance has the potential to significantly change the functioning of the global financial system. As part of its ongoing work to analyse structural changes in the financial system, the FSB has already published reports on decentralised financial technologies, crypto-assets, FinTech and market structure in financial services, artificial intelligence and machine learning in financial services, and FinTech credit.

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory, and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Randal K. Quarles, Governor and Vice Chairman for Supervision, US Federal Reserve; its Vice Chair is Klaas Knot, President of De Nederlandsche Bank. The FSB Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.