FSB FINANCIAL STABILITY BOARD

As prepared for delivery

14 July 2023

Policy issues concerning BigTech and FinTech, including the Third-Party Risk Management Framework

G20 Finance Ministers and Central Bank Deputies Meeting

G20 Side event, 14 July 2023

Introductory remarks by John Schindler, Secretary General, Financial Stability Board[1]

Thank you to the Reserve Bank of India for putting this event together to discuss the important topic of policy issues concerning third-party risk management and the opportunities and challenges brought about by the entry of BigTech and Fintech firms into financial services.

Financial institutions have long relied on outsourcing and other third-party relationships. In recent years, the extent and nature of interaction with a diverse ecosystem of third-party service providers has evolved, and we have seen a sharp increase in financial services being provided by BigTech and FinTech firms, an area of particular relevance to emerging market economies. Rapid advances in technologies have brought many benefits to financial services and end-users. The benefits are extensive and include new platform-based business models, increased efficiencies, lower prices, and in many cases improved access to financial services to those underserved by traditional financial services providers.

During the COVID-19 pandemic, use of third-party technologies and services enabled financial institutions to shift to a remote work environment, to offer financial services through digital platforms, and, in some cases, to enhance cyber security. Meanwhile, financial institutions are increasingly using third parties to take advantage of progress in big data, artificial intelligence and machine learning.

But these technology-driven changes have also introduced risks to financial institutions that they need to manage effectively, and this may require a revised regulatory and supervisory approach in some cases.

We have two interesting panels today: the first panel will discuss policy issues associated with third-party dependencies and the second panel will discuss BigTechs and Fintechs with an

---

1 The views expressed in these remarks are those of the speaker and do not necessarily reflect those of the FSB or its members.

international presence, their foray into financial services, and the opportunities and challenges these present.

Before I hand over to Mr Saurav Sinha, from the Reserve Bank of India, to begin the discussion on third-party risk dependencies, I would like to say a few words about the FSB's work on enhancing third-party risk management and oversight, including our recently published consultation paper on that topic.

The FSB has been committed to developing an understanding of how innovation is transforming financial institutions and markets. This slide provides an overview of the work the FSB has done monitoring the financial stability implications of the entry of large technology firms into financial services and third-party dependencies. In 2019, we published a report looking at third-party dependencies in cloud services, which explored the risks to financial stability stemming from the scale of services provided via the cloud and the small number of globally dominant players providing such services.

We followed this up with a survey of member jurisdictions. This next slide lists some of the issues we identified from this survey.

- First, constraints on financial institutions and supervisors' rights to access, audit, and obtain information from third parties.
- Second, financial institutions' management of sub-contractors and supply chains.
- Third, the possibility of systemic risk arising from concentration in the provision of some outsourced and third-party services to financial institutions.

The results of this survey led to a broader discussion on the management of outsourcing and third-party risks. We published a discussion paper on these issues the following year.[2] The feedback we received from this culminated in our proposed toolkit for enhancing third-party risk management and oversight, which we published a few weeks ago.

Let me elaborate on the purpose of the toolkit, which is three-fold. It seeks to:

1. reduce fragmentation in regulatory and supervisory approaches to financial institutions' outsourcing and third-party risk management across jurisdictions and sectors;
2. strengthen financial institutions' ability to manage outsourcing and third-party risks and, by extension, the resilience of the financial system as a whole; and
3. facilitate coordination among relevant stakeholders (i.e., authorities, financial institutions and third-party service providers). The work could also help reduce the compliance burden and costs for both financial institutions and third parties.

[2] See Financial Stability Board, *Regulatory and Supervisory Issues Relating to Outsourcing and Third-Party Relationships: Discussion paper*, November 2020.

The toolkit focuses on two areas:

1. common definitions and terminologies on outsourcing and third-party risk management across sectors and jurisdictions; and

2. a set of tools for financial authorities, financial institutions, and service providers. These tools aim to improve financial authorities' ability to oversee financial institutions' increasing reliance on service providers that authorities or financial institutions deem critical. This includes principles-based criteria for identifying critical third-party service providers. It also includes assurance mechanisms and key information that financial institutions and authorities may obtain from critical service providers. I want to highlight that a particular focus of our work is on disruption to critical services or service providers that could pose risks to financial institutions, and in some instances, to financial stability.

The toolkit is flexible and risk-based, enabling financial authorities and financial institutions to take into consideration their own circumstances. These circumstances include the legal framework and specific features of the financial services sector in their jurisdictions and how that affects the financial stability implications of third-party dependencies and the entry of large technology firms into financial services, including in cloud services. At the same time, the toolkit seeks to promote comparable and interoperable approaches across jurisdictions. The toolkit is technology neutral and is designed to complement and build on relevant existing standards and guidance by international standard-setting bodies and financial authorities, but not replace them. As part of this consultation, we are holding a virtual outreach event for stakeholders on Friday 21 July. Details are on our website. We will incorporate this feedback into a set of final recommendations, which we plan to publish in Q3.

I look forward to today's discussion.