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# Report on 2023 stocktaking of BigTech direct financial services provision in the EU

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Joint-ESA Report

# Contents

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|                                             |           |
|---------------------------------------------|-----------|
| <b>Executive Summary</b>                    | <b>1</b>  |
| <b>1. Introduction</b>                      | <b>3</b>  |
| <b>2. Results</b>                           | <b>6</b>  |
| <b>3. Potential opportunities and risks</b> | <b>10</b> |
| <b>4. Supervision and regulatory issues</b> | <b>15</b> |
| <b>5. Conclusion and next steps</b>         | <b>19</b> |
| <b>Annex I</b>                              | <b>21</b> |

# Executive Summary

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In 2023 the European Supervisory Authorities (ESAs) conducted through the European Forum for Innovation Facilitators (EFIF)<sup>1</sup> a cross-sectoral stocktake of BigTech<sup>2</sup> subsidiaries carrying out financial services in the European Union (EU). The work was carried out in accordance with the ESAs' mandate to monitor innovation in the financial sector, and as one of the EFIF's work priorities for 2023<sup>3</sup> as a follow-up to the ESAs' 2022 joint-response to the EC's Call for Advice on Digital Finance (the CfA response).<sup>4</sup>

The stocktake was performed via a survey to the National Competent Authorities (NCAs) represented on the EFIF (i.e., the same authorities as represented on the Boards of the three ESAs). Responses were received from 24 NCAs representing 21<sup>5</sup> Member States of the EU and 3<sup>6</sup> EEA States.

As a result of the stocktake, the ESAs have identified that BigTechs have subsidiary companies carrying out financial services in the EU payments, e-money and insurances sectors and, in limited cases, the banking sector. No BigTech subsidiaries were reported as carrying out financial services in the securities and markets sector. Compared to the results of previous mapping exercises carried out by the EBA/ESAs in 2021 and 2022,<sup>7</sup> BigTechs' direct financial service provision remains overall limited to date.

Regarding the related opportunities and risks, and regulatory and supervisory issues, NCAs reiterated the observations set out in the CfA response.

NCAs highlighted that some risks relating to intra-group interconnectedness may warrant policy actions in the event BigTech direct provision of financial services in the European market were to continue to grow. In particular, NCAs highlighted that the existing supervisory and regulatory framework applicable to BigTech financial services activities is typically activity-based rather than

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<sup>1</sup> See the page dedicated to EFIF at [Cross sectoral work | European Banking Authority \(europa.eu\)](https://www.eba.europa.eu/en/cross-sectoral-work).

<sup>2</sup> For the purpose of this report, BigTechs are 'large technology companies with extensive customer networks; they include firms with core businesses in social media, internet search, software, online retail and telecoms'. Full list of BigTechs covered in the 2023 survey: Alphabet (Google), Amazon, Ant Group (Alibaba), Apple, Baidu (Du Xiaoman), JD.com, Mercado Libre, Meta Platforms (formerly Facebook), Microsoft, NTT Docomo, Orange, Rakuten, Samsung, Tencent, Tesla, Uber and Vodafone.

<sup>3</sup> See EFIF 2023 Work Programme available at [joint committee work programme 2023.pdf \(europa.eu\)](https://www.eba.europa.eu/en/joint-committee-work-programme-2023.pdf)

<sup>4</sup> See Joint European Supervisory Authority response to the European Commission's February 2021 Call for Advice on digital finance and related issues: regulation and supervision of more fragmented or non-integrated value chains, platforms and bundling of various financial services, and risks of groups combining different activities available at [ESA 2022 01 ESA Final Report on Digital Finance \(europa.eu\)](https://www.eba.europa.eu/en/esa-2022-01-esa-final-report-on-digital-finance).

<sup>5</sup> Member States: AT, BE, BG, CZ, EE, FR, DE, EL, HU, IT, IE, LV, LU, MT, NL, PL, RO, SK, SI, ES, SE.

<sup>6</sup> EEA States: IS, LI, NO.

<sup>7</sup> In particular, in the context of the European Banking Authority's (EBA) 2021 report on the use of digital platforms: <https://www.eba.europa.eu/en/eba-sees-rapid-growth-use-digital-platforms-eu%E2%80%99s-banking-and-payments-sector-and-identifies-steps>

entity/group-based, which means that risks posed by intra-group interdependencies (e.g., financial, data, and technology) could be insufficiently mitigated due to an absence of applicable consolidation or conglomerates regulation/supervision.<sup>8</sup> However, BigTech direct financial service provision does not currently pose a threat to financial stability.

NCA's again highlighted deficiencies in notification practices regarding cross-border financial services, a recurrent issue that was also recalled in the CfA response, and called for additional steps to strengthen cross-border and cross-disciplinary supervision in relation to BigTech groups active in the financial sector.

In terms of next steps, as part of the EFIF 2024 work programme, the ESAs intend to further strengthen the cross-sectoral mapping of BigTech financial services activities and relevance to the financial sector via the establishment of a multi-faceted data matrix. The matrix is intended to provide a framework to monitor dynamically with more granularity the type and scale<sup>9</sup> of direct provision of financial service activities by BigTechs in the EU, their role as major technology providers<sup>10</sup> as well as the provision of gatekeeper platform services under the Digital Markets Act.<sup>11</sup>

The ESAs will continue the cross-disciplinary exchanges in order to further foster the exchange of information between NCAs and other relevant authorities (e.g., data protection and consumer protection authorities) involved in the monitoring of BigTechs' activities. This will help to further identify and assess opportunities and risks, especially when arising from intragroup and external dependencies, and to identify potential mitigation measures. The cross-disciplinary exchanges may include, where appropriate, discussions in relation to the harmonisation of supervisory practices in cross-sector and cross-border dimensions as well as engaging with relevant third country and international organisations.

Finally, as appropriate, the ESAs (individually or jointly) may carry out thematic analyses to increase supervisory visibility over specific activities in order to continue to foster a convergence in monitoring emerging activities and new trends (e.g., so-called 'white labelling' of products and services<sup>12</sup>).

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<sup>8</sup> Existing prudential consolidation and conglomerates supervision frameworks do not apply to the types of mixed financial activity group currently reported. For additional background, see further the CfA response available at footnote 4.

<sup>9</sup> E.g., cross-border activity, number of subsidiaries active in providing the relevant financial services, other functions in the financial sector.

<sup>10</sup> For example, if designated as 'critical third party providers' under the Digital Operational Resilience Act (DORA): <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32022R2554>

<sup>11</sup> Available at [EUR-Lex - 32022R1925 - EN - EUR-Lex \(europa.eu\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32022R1925).

<sup>12</sup> See Box 2 on White labelling / license-as-a-service.

# 1. Introduction

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## 1.1 Background and rationale

1. In view of the need identified in the CfA response to foster the monitoring of the direct financial services activities of BigTech groups, the EFIF identified as a priority for 2023 the need for an updated stocktake building on the ESAs' previous work.<sup>13</sup>
2. In particular, consistent with the CfA response, regular EU-wide monitoring is needed to improve supervisory and regulatory visibility over BigTech direct financial services provision in the EU (i.e., situations in which BigTechs have subsidiary companies carrying out regulated financial services in the EU), including any intra-group dependencies. This is to be distinguished from BigTech's indirect, albeit important, role in the EU financial sector as technology providers (e.g., cloud, platform, and artificial intelligence (AI)/ machine learning (ML) applications) which are not explored in this report.

## 1.2 Information-gathering, definitions and data sources

3. The stocktake was carried out by way of a survey, developed by ESA staff in consultation with European Commission staff, addressed to NCAs.
4. The survey scope related to 'BigTechs'. Consistent with the approach of the Financial Stability Board,<sup>14</sup> 'BigTechs' were defined as large technology companies with extensive customer networks, including firms with core businesses in social media, internet search, software, online retail and telecoms.<sup>15</sup> In previous EBA/ESA data-gatherings, the BigTechs identified were Amazon, Alibaba (Ant Group), Apple, Baidu (Du Xiaoman), Google, JD.com, Mercado Libre, Meta Platforms (previously Facebook), Microsoft, NTT Docomo, Rakuten, Samsung, Tencent. However, at the request of NCAs Tesla, Uber, Vodafone and Orange were added to the list of BigTechs within the scope of the survey.
5. For the purposes of the survey and this report 'direct financial service provision' means the carrying out of one or more financial services regulated pursuant to EU law (e.g., via a subsidiary established in the EU authorised as an e-money institution, payment institution, credit institution, insurance intermediary/undertaking).

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<sup>13</sup> See EFIF 2023 Work Programme at footnote 3.

<sup>14</sup> As defined in FSB Report [Bigtech Firms in Finance in Emerging Market and Developing Economies: Market developments and potential financial stability implications \(fsb.org\)](#).

<sup>15</sup> Ibid.

6. The survey was divided into eight parts which covered, respectively: (i) authorisation or registration of a BigTech subsidiary in the EU as home Member State for the direct provision of financial services, (ii) direct provision of financial services in Member States other than the home Member State (i.e., host states) via the right of establishment or freedom to provide services, (iii) partnerships of BigTechs with financial institutions for the provision of financial services, (iv and v) opportunities and risks arising from BigTechs intragroup dependencies, (vi) queries received via innovation facilitators, (vii) activities observed in third countries that might result in potential trends for the EU, and (viii) supervision and regulatory issues observed and additional remarks.
7. The survey was issued in July 2023 to EFIF members, comprising all NCAs represented on the Boards of the ESAs. 24 competent authorities<sup>16</sup> representing 21 Member States and 3 EEA State responded to the survey.
8. The ESAs analysed the responses received and complemented the analysis with additional information requests to NCAs, discussions with EFIF Members,<sup>17</sup> as well as with desk-based analysis.<sup>18</sup>
9. Chapter 2 of this report provides an overview of the results of the mapping (also reported in Annex I) of BigTech direct financial services provision in the EU. Reference is also made to observed third-country activities that might indicate possible future trends in the EU. Partnerships between BigTechs and financial institutions reported by NCAs are then presented, including white labelling/license-as-a-service models.<sup>19</sup> Chapter 3 provides an overview of potential opportunities and risks highlighted by NCAs in relation to BigTech intragroup and external dependencies. Supervisory and regulatory considerations, as reported by NCAs, are described in chapter 4 and chapter 5 concludes with next steps.

### 1.3 Limitations

10. The survey did not cover corporate structure and governance issues (e.g., ownership structure) or quantitative elements regarding the size of the financial services provided by BigTechs (e.g., number and value of payments transactions, value of risk covered by insurance contracts concluded, number of customers). When considering the provision of services in a cross-border fashion i.e., under the right of establishment or freedom to provide services, NCAs were required to report, to the best of their knowledge, whether BigTechs were providing such

<sup>16</sup> See footnotes 5 and 6.

<sup>17</sup> During EFIF Meetings held respectively in May, September and November 2023.

<sup>18</sup> With particular reference to BIS work on BigTechs.

<sup>19</sup> White labelling / license-as-a-service consists of a type of partnership between two companies, one of which (white label partner) offers financial services and products by entering into contractual agreements with a financial institution (white label provider), leveraging on their brand for the provision of financial services for which they are not licensed and benefitting from the license belonging to the financial institution they are partnering with. See Box 2 for further details.

services in their jurisdiction. It is recognised that NCAs may lack visibility over such service provide as a result of deficiencies in notification practices,<sup>20</sup> or limited information provided in notifications.

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<sup>20</sup> This is a recurring issue reflected on in the CfA response, available at footnote 4.

## 2. Results

11. This chapter sets out the results of the stocktake, including the BigTech subsidiaries authorised or registered to carry out financial services in the EU (both home and host footprints), and reported partnerships between registered/authorised BigTech subsidiaries and other financial institutions in the EU.

### 2.1 Authorisation or registration of BigTech group companies and 'home' and 'host' presence

12. Based on the survey responses received from NCAs, six<sup>21</sup> subsidiary companies of BigTechs are authorised as e-money institutions in five Member States<sup>22</sup>; two<sup>23</sup> subsidiary companies of BigTechs are authorised as payment institutions, another two<sup>24</sup> as credit institutions, three as insurance intermediaries<sup>25</sup> and two as insurance undertakings.<sup>26</sup>

*Table 1: Stocktake results: MAGs as electronic money institutions (EMI), payment institutions (PI), credit institutions (CI), insurance intermediaries/undertakings.*

|                      | Group                            | Subsidiary                                      | Home MS | Host MS |
|----------------------|----------------------------------|-------------------------------------------------|---------|---------|
| E-Money Institutions | <b>Alphabet (Google)</b>         | Google Payment Lithuania UAB                    | LT      | 12      |
|                      | <b>Meta Platforms (Facebook)</b> | Facebook Payments International Limited         | IE      | 14      |
|                      | <b>Amazon</b>                    | Amazon Payment Europe SCA                       | LU      | 16      |
|                      | <b>Alibaba (Ant Group)</b>       | Alipay (Europe) Limited S.A.                    | LU      | 4       |
|                      | <b>Uber</b>                      | Uber Payments B.V.                              | NL      | 10      |
|                      | <b>NTT Docomo</b>                | DOCOMO Digital Payment Services AG              | LI*     | 3       |
| Payment I            | <b>Alphabet (Google)</b>         | Google Payment Ireland Limited                  | IE      | 13      |
|                      | <b>Tencent</b>                   | Wechat                                          | NL      | 2       |
| Credit I             | <b>Orange</b>                    | Orange Bank                                     | FR      | 3       |
|                      | <b>Rakuten</b>                   | Rakuten Europe Bank S.A.                        | LU      | 13      |
| Insurance            | <b>Tesla</b>                     | Tesla Insurance Ltd (undertaking)               | MT      | 1       |
|                      | <b>Vodafone</b>                  | Vodafone Insurance Limited (undertaking)        | MT      | 9       |
|                      | <b>Amazon</b>                    | Amazon EU Sarl (intermediary)                   | LU      | 2       |
|                      | <b>Apple</b>                     | Apple Distribution International (intermediary) | IE      | 2       |
|                      | <b>Orange</b>                    | Orange Slovensko (Intermediary)                 | SK      | /       |

\*LI: until 1 June 2022

<sup>21</sup> Alphabet, Meta, Amazon, Alibaba, Uber, NTT Docomo

<sup>22</sup> LT, IE, LU, NL, LI.

<sup>23</sup> Alphabet, Tencent

<sup>24</sup> Orange, Rakuten

<sup>25</sup> Amazon, Apple, Orange

<sup>26</sup> Tesla, Vodafone



13. Compared to the results of the data collection that informed the (2022) CfA response, the number of entities carrying out e-money activities and payment services slightly increased, while the subsidiaries licensed as credit institutions remain very limited.<sup>27</sup> Additionally, albeit attributed to the more extensive list of BigTechs in scope of the survey, more entities active in the insurance sector can be observed. At present, no BigTech subsidiaries appear to be active in the securities and markets sector.
14. Some NCAs also reported cases of other BigTech financial services activities. Among them, the involvement of BigTech in the provision of credit intermediation services in an ancillary capacity, the provision of payment services under PSD2 exemptions, and financial leasing services (see Annex I for the full list of reported financial services activities).
15. For completeness, some NCAs reported they had been approached via innovation facilitators (and similar engagement fora) by BigTechs with queries relating to banking licenses and to the provision of payment and other financial services. However, no further details were provided due to confidentiality restrictions applicable. Some NCAs indicated financial products and services in which they considered BigTechs may show an interest, based on precedents outside the European market and EU-based regulatory developments (see Box 1).

#### **Box 1. Possible future trends**

NCAs from a number of Member States indicated that BigTech financial services activities in the US may be indicators of futures trends in Europe, in particular, the provision of financial products to consumers and retailers beyond payment services.

Among them, partnerships or cooperations with financial services for the provision of buy now pay later<sup>28</sup> services, crypto-related services in the area of payments (e.g., via exchange services) and more specifically issuance of so-called 'stablecoins',<sup>29</sup> as well as the provision of digital wallets were mentioned. In particular, some NCAs noted that the entry into force of the EU's Regulation on Markets in Crypto-assets (MiCAR)<sup>30</sup> provides regulatory certainty to potential market entrants and may drive new entrants to the sector. In the digital assets area, one NCA also mentioned projects for tokenised identities to be used in financial services.

Two NCAs highlighted that in their view BigTechs in Europe are more likely to target professional clients (B2B), specifically in the e-commerce sector, for the provision of insurance products, credit and

<sup>27</sup> E.g., see data referred to in the EBA Report on response to the non-bank lending request from the CfA on digital finance (paragraphs 20 and 21) available at [Report on response to the non-bank lending request from the CfA on Digital Finance.pdf \(europa.eu\)](https://eba.europa.eu/media/default.aspx?category=1&id=123456789) and EBA Report on the use of Digital Platforms in footnote 7.

<sup>28</sup> Which is however already considered in the amendment to the Directive on Consumer Credits (CCD) approved by the European parliament, which foresees that '*providers of BNPL credit products below 200 EUR will need to conform to conduct of business requirements relating to matters such as pre-contractual disclosures and marketing materials*'. See text adopted by the European Parliament at [Texts adopted - Consumer credits - Tuesday, 12 September 2023 \(europa.eu\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32023R1114).

<sup>29</sup> See Box 2 where an example of stablecoin-as-a-service is provided.

<sup>30</sup> Regulation (EU) 2023/1114: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32023R1114>

payments, while they are more likely to remain primarily an infrastructure provider to facilitate the provision of financial services (by third party financial institutions) in the retail sector.

## 2.2 Partnerships between BigTech subsidiaries and financial institutions for the provision of financial services

16. NCAs were requested to provide information on partnerships established between registered/authorised group companies of BigTechs and other financial institutions for the provision of financial services.
17. In general, NCAs reported they are aware of (limited) partnerships between BigTechs and financial institutions and three of them highlighted partnerships in the form of white labelling/ license-as-a-service (See Box 2).
18. In one case, the partnership involves a messaging app which integrated an e-wallet to offer app users e-money transfer services. Additionally, some NCAs reported partnerships between Apple and several banks to make e-wallet solutions available to their customers, whereas two other NCAs reported partnerships for the provision of payment services on merchants' side. Other partnerships were identified with regards to services provided by BigTechs as a result of outsourcing arrangements for IT and similar services – these are out of scope of the stocktake and not considered further.
19. One NCA also reported a co-innovation partnership between a BigTech subsidiary and a financial institution, consisting in the commitment of both parties to combine their expertise, respectively in technologies and in financial services, with the aim of jointly developing new service offerings that can be marketed for their common commercial benefit.

### Box 2. White Labelling / license-as-a-service

White labelling / license-as-a-service consists of a type of partnership which sees the involvement of regulated or non-regulated companies referred to as *white label partners* that offer financial services and products through so-called *white label providers*.

White label partners usually enter into contractual agreements with credit, e-money or payment institutions using their own name for the provision of financial services for which they are not licensed. Those unregulated<sup>31</sup> white label partners can thus leverage the license belonging to the financial institution white label provider.<sup>32</sup>

<sup>31</sup> E.g., in the case reported above, where a messaging app (white label partner) offers financial services through an E-money institution (white label provider).

<sup>32</sup> This type of partnership involving a regulated and an unregulated entity is mostly observed in the context of payments and e-money services provision, whereas as far as insurance services are concerned, observed cases usually involve two regulated entities, where the non-financial entity eventually becomes insurance intermediary.

This type of partnership represents a potential opportunity for BigTechs, which are then able to make available products and services without having to be directly authorised and leveraging on their strong brand and customer base.

An example of white label partnership (albeit involving two regulated financial institutions) which was recently observed is that of PayPal and Paxos for the provision of stablecoin-as-a-service.<sup>33</sup> In particular, PayPal launched its stablecoin, PYUSD which is however issued by Paxos. In this way, PayPal leveraged on its brand and identity to enter the crypto market exploiting Paxos.

Paxos is in fact a company offering blockchain infrastructures to enterprises, offering services among which stablecoins issuance and crypto brokerage.

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<sup>33</sup> See [PayPal USD \(PYUSD\) - Paxos](#).

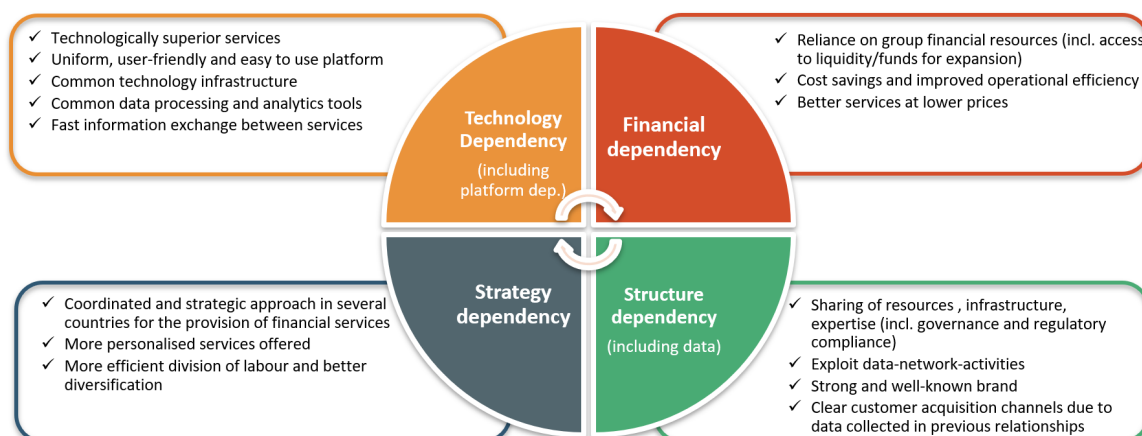
### 3. Potential opportunities and risks

20. In general, BigTechs leverage common data pools and infrastructures that may help them gain a competitive advantage in markets for a variety of non-financial and financial services.<sup>34</sup> This can present both opportunities and risks, which are described in this chapter of the report, based on NCA inputs referring extensively to the CfA response and complemented with recent works published by the Bank for International Settlements (BIS), Financial Stability Board (FSB) and the Financial Stability Institute (FSI).

#### 3.1 Potential opportunities

21. BigTech intragroup dependencies arise, among others, from (i) the common use of technological infrastructures (including platform dependency both in the provision of financial services and other non-financial services), (ii) intra-group financial dependencies, (iii) structural dependencies, specifically regarding client data, and (iv) strategy dependencies. These intragroup dependencies can offer potential opportunities (see Figure 2).

Figure 1: Potential opportunities arising from intragroup dependencies



22. In relation to **technology dependency**, BigTechs can exploit group-wide capabilities to provide technologically superior services through more uniform, user-friendly and easy-to-use client interfaces such as platforms at scale.<sup>35</sup> At the back-office they usually share common technology infrastructure, data processing and analytics tools as well as interoperable systems. That allows them to generate improved operational efficiency and, as a result, to leverage economies of scale to build or invest in technology and to provide better user experiences at potentially lower prices to consumers.

<sup>34</sup> In fact, MAGs are usually involved in a core activity (e.g., e-commerce), financial services as well as technology services.

<sup>35</sup> See EBA's Digital Platforms Report in footnote 7.

23. In terms of **financial dependency**, BigTechs can leverage group financial resources, including to meet liquidity needs and raise funds for expansion or other investments. Thanks to balance sheet scale, they may have enhanced possibilities to reallocate funds internally, where needed. Few BigTechs have credit institutions as part of their groups and therefore are not limited by prudential consolidation rules which may otherwise impact decisions on how to allocate resources internally.
24. Wider **structural inter-dependencies** may also be leveraged to competitive advantage. NCAs reported, for example, that BigTech groups may share governance and regulatory compliance teams. This may offer opportunities, especially in terms of governance, as it could result in a deeper understanding of the group's activities, economies of scale and network effects, resulting in more holistic approaches to business strategy (see further the next paragraph). Structural dependencies may bring benefits in terms of **data-network activity**, allowing the various entities to benefit from shared datasets to improve and expand the services they offer. In fact, group dependencies enable the exchange and use of data collected in the various group activities (e.g., communication, technology, financial services) to provide consumers with more tailored and improved services and products, as inferred from their preferences and behaviour. Linked to that, data collected in previous relationships allows them to build clear customer acquisition channels. Lastly, structural dependency may facilitate in brand visibility.<sup>36</sup>
25. Finally, concerning **strategy dependencies**, opportunities may arise as a consequence of coordinated and strategic approach in several countries to the placement of financial and non-financial services. Lastly, the possibility to use customer data across the group may allow<sup>37</sup> BigTechs to obtain a net competitive advantage insofar this enables them anticipate customers' needs and thus to offer a wider and highly personalised plethora of services.<sup>38</sup> BigTechs may use such data to perform more effective creditworthiness assessments, thus potentially enhancing financial inclusion.

## 3.2 Potential risks

26. While potential opportunities mostly referred to intragroup dependencies, potential risks reported by NCAs relate both to intragroup dependencies and to external dependencies.

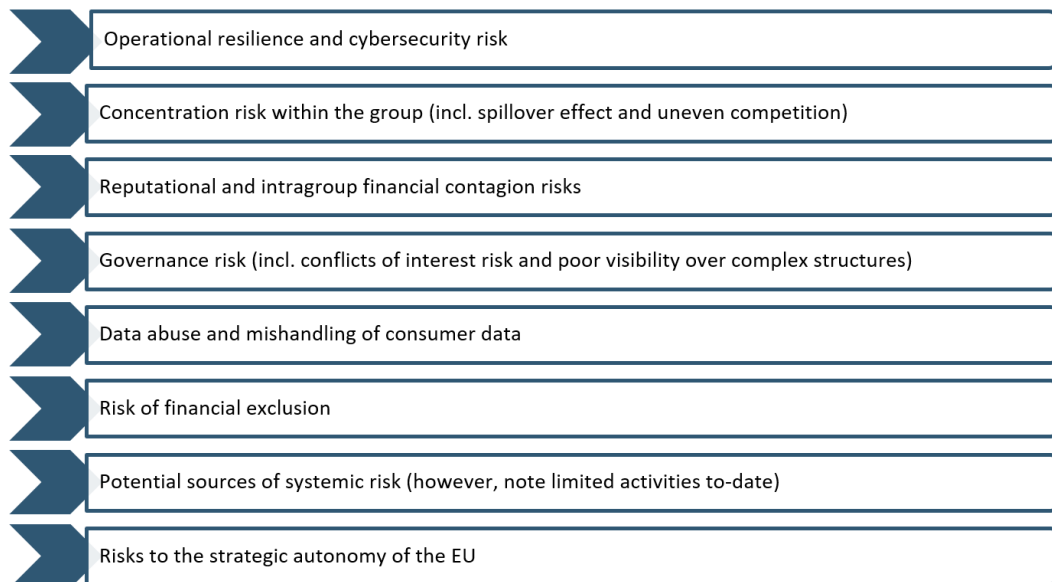
<sup>36</sup> See BIS occasional paper [Big Tech Regulation - in search of a new framework \(bis.org\)](#) and FSI Insight paper [Big tech interdependencies – a key policy blind spot \(bis.org\)](#).

<sup>37</sup> In compliance with requirements set in the GDPR, Digital Markets Act and Digital Services Act respectively available at [EUR-Lex - 02016R0679-20160504 - EN - EUR-Lex \(europa.eu\)](#), [EUR-Lex - 32022R1925 - EN - EUR-Lex \(europa.eu\)](#) and [EUR-Lex - 32022R2065 - EN - EUR-Lex \(europa.eu\)](#).

<sup>38</sup> For example, as reported in the recent BIS Publication 'Big techs in finance' (Available at [Big techs in finance \(bis.org\)](#)) how data are exploited depends on the core activities provided by groups. When the core activity is e-commerce-related, data combined are of financial and of consumer habit nature. Instead, those operating mainly on social media, would collect data on individuals and on their preferences, as well as data related to their connections. Finally, when the core activity is related to search engines, data focus would be on users' preferences inferred from online research.

Although those inherent to intragroup dependencies have been analysed more in detail, NCAs also highlighted potential external ones.

*Figure 2: Potential risks arising from intragroup dependencies*



27. In general, NCAs remarked that the risks highlighted in the CfA response<sup>39</sup> are still valid.

28. Sharing the same technology infrastructures, including software, data and customer interfaces, as mentioned, can constitute a key advantage for the development of BigTech ecosystems.<sup>40</sup> However, this also implies **operational resilience and cybersecurity risks** which, combined with the management of large data pools, may make the group subject to higher risk of cyber-attacks or operational outages.<sup>41</sup>

29. In relation to this risk, NCAs also reported **reputational risk** in the event of a successful cyber-attack resulting in large-scale data loss or corruption. This could lead to a loss of investor or consumer confidence that could result in **spillovers** impacting multiple business lines, including potentially any financial services offered by BigTech group companies. This may cause, for example, the rapid withdrawal of funds with scale, and potentially systemic,

<sup>39</sup> See EBA's Digital Platforms Report in footnote 7.

<sup>40</sup> This includes, among others, cloud services centralization. Additionally, BigTechs may establish/run common proprietary payment systems. Those are crucial to ease connection across business segments. See FSI Insights report in footnote 36.

<sup>41</sup> Nevertheless, it should be taken into account that BigTechs do not lack the resources to invest in the highest quality cyber security systems.

effects.<sup>42</sup> Reputational spillovers may also arise also as a result of financial difficulties or failure of one of the group's entities. Overall, these risks could pose **financial contagion risk**.

30. **Governance** sharing does not only come as a potential opportunity (see section above) but may also come as a risk, including from potential conflicts of interest and from the risk of insufficient management attention to, or expertise on, relevant risks. Additionally, in many cases the organisational structure may be opaque, with subsidiaries operating in multiple sectors and across different jurisdictions.<sup>43</sup>
31. **Data abuse and mishandling of customer data** risk was also mentioned and derives from the fact BigTechs may hold vast amounts of personal data<sup>44</sup> and processed<sup>45</sup> data leveraging multiple data sources. Entities in the group may acquire data from different sectors according to the entity's business activities. The same data collected from one entity for one purpose, say non-financial, may be upon the consent of the consumer shared across the group and re-used for different scopes, including of financial nature (e.g., credit scoring<sup>46</sup>).<sup>47</sup> For instance, access to personal data from social media enables BigTech groups to tailor advertising of 'own' products and services exploiting observer customer preferences, or estimated financial profiles maximising and exploiting the extractable value from that customer (i.e., price discrimination). Moreover, consents by customers to data sharing within the group or with third parties may be provided absent a full appreciation of the value of that data and parties and purposes for which it may be shared (e.g., via 'click through' terms and conditions).
32. Several NCAs noted that **risks of financial exclusion** may arise, for example, in the event of providing 'digital-only' access channels for financial services, or pricing practices, based on affordability assessments across markets leveraging large pools of customer data.
33. Looking beyond intra-group dependencies, some risks may arise from a **growth of partnerships** between BigTechs and financial institutions creating external dependencies as well. These may be financial, operational, and/or reputational.<sup>48</sup> For instance, in the context

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<sup>42</sup> It should be considered the enter in force of DORA in January 2023, which will apply in 2025. DORA comes in fact to strengthen the IT security of financial entities and enhance the resilience of the financial sector in light of the increasing dependency of financial entities on technology and tech companies to deliver financial services. It covers financial institutions in the EU in a cross-sectorial manner, e.g., covering credit institutions, insurance companies and investment firms as described in Article 2 of the Regulation. See [Digital Operational Resilience Act \(DORA\) \(europa.eu\)](#) and [EUR-Lex - 32022R2554 - EN - EUR-Lex \(europa.eu\)](#).

<sup>43</sup> See BIS Occasional Paper in footnote 35.

<sup>44</sup> Personal data are defined in Article 4 of GDPR as 'any information relating to an identified or identifiable natural person ('data subject'); an identifiable natural person is one who can be identified, directly or indirectly, in particular by reference to an identifier such as a name, an identification number, location data, an online identifier or to one or more factors specific to the physical, physiological, genetic, mental, economic, cultural or social identity of that natural person'.

<sup>45</sup> Processing is defined in Article 4 of GDPR as 'any operation or set of operations which is performed on personal data or on sets of personal data, whether or not by automated means, such as collection, recording, organisation, structuring, storage, adaptation or alteration, retrieval, consultation, use, disclosure by transmission, dissemination or otherwise making available, alignment or combination, restriction, erasure or destruction'.

<sup>46</sup> This in turn may potentially come with financial exclusion consequences, above all in the case in which machine learning models are used for that.

<sup>47</sup> Subject to the prohibitions and requirements imposed by the Digital Markets Act.

<sup>48</sup> As mentioned also in the 2022 FSI Insights report in footnote 36.

of ‘white labelling’ where a financial institution provides a product or service that is sold ‘branded’ with a BigTech brand, consumers may lack an understanding of with whom they are ultimately contracting – posing particular challenges in the event of the need for complaint or redress (e.g., in the case of ineffective disclosure of terms and conditions via the BigTech distribution platform<sup>49</sup>).

34. NCAs also mentioned intragroup and external dependencies might be a possible **threat to financial stability in the event direct financial services activities were to increase**. One respondent observed the potential lack of level playing field between BigTechs and more traditional institutions as a consequence of, for example, increased competition on the viability of incumbents’ business models, for instance having implications on financial institutions’ profitability. Considering BigTechs reliance on massive customer base, the increase in the direct provision of financial services could reach a scale and concentration for which their failure or disruption (e.g., also in terms of operational resilience) might further contribute to enhanced financial stability risks.<sup>50</sup>
35. Finally, some NCAs mentioned potential **risks to the strategic autonomy of the EU** in the event of growing concentration of market power by groups that do not have their head offices in the EU. These risks could be off-set by requirements to establish subsidiary financial entities locally, but issues may still arise from, for instance group-wide governance decisions, off-shoring of data centres etc.

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<sup>49</sup> See EBA Report on the use of Digital Platforms available at footnote 7 and Joint-ESA response to the Call for Advice on Digital Finance in footnote 4.

<sup>50</sup> See FSB 2019 Report [BigTech in finance: Market developments and potential financial stability implications \(fsb.org\)](https://www.fsb.org/2019/03/BigTech-in-finance-Market-developments-and-potential-financial-stability-implications/)



## 4. Supervision and regulatory issues

36. NCAs were invited to identify supervisory and regulatory issues in the context of the market developments and potential opportunities and risks described in the previous chapters of this report. NCAs provided extensive feedback, again highlighting many of the points set out in the CfA response to which reference is made in this chapter.<sup>51</sup>

Figure 3: Supervisory and regulatory issues and cooperation needs

| Supervision Issues                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Regulation Issues                                                                                                                                                                                                                                                                             | Discussion, exchange of views, cooperation                                                                                                                                                                                                                                     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Poor <b>notification</b> practices</li> <li>• Poor <b>visibility</b> over intra-group connections</li> <li>• Challenges in <b>identifying relevant supervisory counterparts</b> on a cross-disciplinary and cross-border basis</li> <li>• Challenges in <b>monitoring BigTechs'</b> direct provision of financial services</li> <li>• Challenges in <b>identifying white labelling</b> and associated opportunities and risks</li> </ul> | <ul style="list-style-type: none"> <li>• Existing regulatory framework does not take into account <b>aggregated risks arising from interdependencies from new types of mixed activity group</b> and may need revision if BigTech direct financial services activities were to grow</li> </ul> | <ul style="list-style-type: none"> <li>• Need to <b>improve communication</b> among financial sector supervisors of BigTechs</li> <li>• Need to <b>promote dialogue between supervisors</b> across disciplines (e.g., re data protection, competition authorities).</li> </ul> |

### 4.1 Supervision issues

37. As mentioned in Chapter 2, the mapping exercise highlighted that the majority of BigTech subsidiaries carrying out financial services activities leverage their right to passport their services cross-border. The provision of services on this basis is typically required under EU law to be notified to the home authority and then transmitted by that authority to the host.<sup>52</sup> However, NCAs highlighted that, as a general issue, **notification practices regarding cross-border provision of services can be unreliable** (notifications are used by the home authorities to communicate to host authorities the business intentions/activities). Recalling previous ESA reports and advice,<sup>53</sup> NCAs noted that this issue is not limited to BigTechs and is more widely observed across the financial sector. Deficiencies in notification practices can create serious challenges for home and host authorities in terms of monitoring financial activities, and

<sup>51</sup> See Joint-ESA response to the Call for Advice on Digital Finance in footnote 4.

<sup>52</sup> For example, see Article 35 of the Capital Requirements Directive (Directive 2013/36/EU).

<sup>53</sup> *Ivi* (51), paragraph 125 and JC of the ESAs (2019a), Report on cross-border supervision of retail financial services available at: [final report on cross-border supervision of retail financial services 1.pdf \(europa.eu\)](https://www.europa.eu/press-room/media/36844/esa-joint-report-cross-border-supervision-retail-financial-services-1.pdf)

ensuring compliance with the applicable requirements, particularly on conduct of business issues which varies from jurisdiction to jurisdiction. For instance, it was reported of subsidiaries notifying their home NCA about their intention to provide the same services in all Member States, but where services were provided in only a handful of Member States. Conversely, in other cases, services were provided in more Member States than had been notified to the home authority, highlighting **poor notification practices**.

38. Some NCAs reflected on the fact that the majority of financial services carried out by BigTech activities are subject to activities-based regulation (e.g., payment services, e-money issuance etc), and without any frameworks for wider consolidated or conglomerates supervision. This means that **NCAs may have poor visibility over intra-group connections** (e.g., infrastructure, data, funding) that may be relevant to financial entities within the group and suggested that better supervisory visibility over intra-group interconnections is needed as first step, and no or poor availability of supervisory powers to address any identified issues as a second step. Potential new powers to mitigate cross-entity/group risks may be appropriate in the event BigTech direct financial services activities were to further scale (e.g., to address aggregated conduct or prudential risks). In fact, MAGs are characterised by complex group structures, with a global footprint. Although this feature is not unique to BigTechs, supervisory challenges of BigTechs are further emphasised when supervision of financial services at group level lays outside of the EU.<sup>54</sup>
39. Relatedly, some NCAs noted **challenges in identifying relevant supervisory counterparts on a cross-disciplinary and cross-border basis** (e.g., competition authorities, data protection authorities etc), for the purposes of identifying risks and challenges and coordinating potential supervisory actions to mitigate these issues. In this regard, several NCAs referred to the CfA response,<sup>55</sup> which highlighted the **need for more structured dialogue between different supervisors of BigTech groups active in financial services**.<sup>56</sup>
40. Some NCAs also suggested to establish a **set of criteria to facilitate the monitoring of the significance of BigTechs in financial services (both direct and indirect roles)**. This could include the types of services carried out, number of the users engaged, number of EU financial institutions with which there is a specific partnership, and specific risk factors. The criteria could then be applied to help assess the systemic relevance of these groups in terms of market stability and level playing field, and potential risks. Such criteria, and monitoring pursuant to those criteria, could help further inform any need for changes to the regulatory framework, especially in light of the quantitative data gaps in relation to track the size of BigTechs activities.

<sup>54</sup> BigTechs often have their headquarters in few countries among which the United States and China, but provide services in other economies, including in the EU.

<sup>55</sup> See Joint-ESA response to the Call for Advice on Digital Finance in footnote 4.

<sup>56</sup> Ibid.

41. One NCA also noted that it would be helpful to **carry out further thematic analysis to the trend of white labelling** (see box 2), albeit the NCA acknowledged that this is a broader trend and not limited to BigTechs.

## 4.2 Regulation issues

42. The existing regulatory framework revolves around a bottom-up approach, whereby regulatory regimes apply to the financial activities in which BigTech subsidiaries are active, regulating risks specific to these activities. However, some NCAs noted that **the ‘bottom up’ approach does not take full account of the aggregated risks that may arise from interdependencies**. As set out in the CfA response,<sup>57</sup> this issue may warrant further attention in the event that BigTech direct financial service provision becomes more relevant, for instance, by way of revisiting the scope of conglomerates or consolidated supervision rules.
43. One NCA also mentioned **potential techniques to enhance the regulation and supervision of BigTech groups** referred to in works published by the BIS. These include a ‘segregation approach’, an ‘inclusion approach’<sup>58</sup> or a hybrid combination of the two. The ‘segregation approach’ would consist of a structural approach that would require BigTechs to be grouped under the business model of a financial holding company and to which prudential requirements could be applied.<sup>59</sup> This approach aims at minimising the risks arising from intragroup dependencies (across financial and non-financial entities) by imposing specific ringfencing rules. The ‘inclusion approach’ on the other hand would involve the creation of a new regulatory category specifically for BigTechs with significant financial activities, to which group-wide requirements on governance, conduct of business, operational resilience and, where appropriate, financial soundness would apply.
44. Several NCAs also noted that **level playing field considerations** are also potentially relevant. In particular, NCAs noted that banking groups are subject to prudential consolidation, and mixed banking and insurance groups are subject to conglomerates supervision.<sup>60</sup> However, BigTech groups with different types of financial intermediary in the group are not subject to any similar arrangement (by virtue of typically not having within the group a bank). As a result, BigTech financial groups are not subject to regulatory obligations or supervision structures, potentially giving rise not only to uncovered risks, but also level playing field considerations.<sup>61</sup>

<sup>57</sup> Ibid.

<sup>58</sup> See, BIS Occasional Paper in footnote 36 reporting respectively Restoy (2019) and Zamil and Lawson (2022).

<sup>59</sup> This may help, among others, to spot potential conflicts of interest arising between the needs of the parent entity (involved in the core service) and legal requirements to which the subsidiary entity is subject as a financial services provider).

<sup>60</sup> See Financial Conglomerates Directive (FICOD) (Directive 2002/87/EC) available at [EUR-Lex - 02002L0087-20210626 - EN - EUR-Lex \(europa.eu\)](https://eur-lex.europa.eu/lexuris/ui.do?collection=uri_0001&document=02002L0087-20210626-EN).

<sup>61</sup> See, the CfA response (in particular, recommendations 7 and 8) available at footnote 4 and FSI Occasional Paper, Big tech regulation: In search of a new framework, Ehrentraud et al (2022) available at [Big tech regulation: in search of a new framework \(bis.org\)](https://www.bis.org/publ/otc202201.htm).

## 4.3 Discussion, exchange of views, and cooperation

45. Overall, NCAs remarked that they consider **communication among financial sector supervisors of BigTech subsidiaries providing financial services could be improved**, with a **common information exchange system**. Such common information exchange system would be in place for high level scanning. In fact, this would imply major information sharing between home authorities responsible for the supervision of different subsidiary companies carrying out financial services. This could improve supervision over intra-group interdependencies. NCAs indicated support for enhanced dialogue **between financial supervisors and other authorities**, notably data protection and consumer protection authorities.<sup>62</sup>
46. Some NCAs suggested the EFIF as a potential **horizontal structure to promote supervisory dialogue both in cross-sector and the cross-border dimensions**, however some others envisage a different ad-hoc supervisory setting for this type of discussion.
47. Overall, NCAs remained supportive of the findings set out in the CfA response and the proposals to further enhance monitoring financial sector and cross-disciplinary supervisory dialogue in the setting of EFIF.<sup>63</sup>

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<sup>62</sup> Big techs offer a diverse range of services and thus, their activities fall under several different regulatory authorities. In particular, central banks and financial regulators have a mandate for the stability of the financial system, while competition and data protection authorities have a broader, cross-sectoral mandate. These institutions have not traditionally had strong interactions, and as such, it can be challenging to coordinate policy for big techs.

<sup>63</sup> These recommendations included: 'ensuring effective regulation and supervision of mixed activity groups; strengthening supervisory resources and cooperation between financial and other relevant authorities, including on a cross-border and multi-disciplinary basis; and the need for the active monitoring of the use of social media in financial services'. See Joint-ESA response to the Call for Advice on Digital Finance in footnote 4.

## 5. Conclusion and next steps

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48. The results of the stocktake show an increasing presence, albeit still at a low base,<sup>64</sup> of BigTech subsidiaries as direct providers of financial services in Europe, notably in the areas of payments and e-money. BigTechs directly providing insurance services have been reported as well. However, this seems to reflect the additional BigTechs added to the scope of the analysis.<sup>65</sup> Conversely, the stocktake results do not identify a presence of any BigTech subsidiaries with authorisation to carry out financial services in the securities and markets' sector.
49. NCAs do not observe financial stability risks flowing from the direct financial service provision to-date. However, they reiterated the potential risks from any potential further increase in these activities, as well as the regulatory and supervisory challenges highlighted in the CfA response.
50. NCAs call for continued efforts in the setting of the EFIF to further strengthen the monitoring, on a cross-sectoral basis, of direct financial service provision by BigTechs, including by establishing a multi-faceted data matrix.<sup>66</sup>
51. The envisaged matrix is aimed at better structuring activities mapping, including to monitor the type and scale of direct provision of financial service activities by BigTechs in the EU. It is intended to provide a dynamic and more granular framework to improve the visibility over BigTech activities in the financial sector, not only capturing their role as direct financial service providers, but also combining other data sources (as and when available) in compliance with any applicable confidentiality obligations to track the relevance of BigTechs to the EU financial sector (e.g., as technology providers and gatekeeper platform providers). The matrix will be established in the context of the EFIF starting from 2024.
52. NCAs also called for continued cross-disciplinary exchanges, in the setting of the EFIF, with other relevant financial and non-financial regulators and supervisors, in particular competition and data protection authorities following the entry into force of the Digital Markets and Digital Services Acts.<sup>67</sup>
53. In light of the findings set out in this report, these actions will be taken forward by EFIF as part of its work programme in 2024.

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<sup>64</sup> See footnote 27.

<sup>65</sup> Compared to the previous results four subsidiaries of BigTechs belonging/relating to the insurance sector have been reported (Orange Slovensko s.a., Tesla Insurance Ltd, Vodafone Insurance Limited, Amazon EU Sarl). As remarked in this Chapter and in Chapter 2, this is largely attributed to the more extensive list of BigTechs in scope of the survey.

<sup>66</sup> E.g., encompassing financial services directly provided by BigTechs, critical technology services provided by BigTechs to the financial sector and gatekeeper platform services under the DMA.

<sup>67</sup> See the DMA and DSA in footnote 37.

54. Finally, while no urgent need for regulatory changes in relation to BigTechs direct financial service provision was identified, the recommendations envisaged in the CfA response<sup>68</sup> are still to be considered valid and fit-for-purpose in light of the current BigTech activities and potential future developments. The EFIF will keep under review the recommendations in light of any market changes.

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<sup>68</sup> See Joint-ESA response to the Call for Advice on Digital Finance in footnote 4.

# Annex I

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## Result of Stocktake on BigTechs

**Alphabet** (Google) has two subsidiaries – one authorised as an e-money institution in Lithuania (Google Payment Lithuania UAB) and another as a payment institution in Ireland (Google Payment Ireland Limited). Relevant financial services are carried out under the right of establishment or freedom to provide services in 12 MSs/EEA States in relation to e-money activities and in 13 MSs/EEA States in relation to payment services.

**Amazon** has two subsidiaries with authorisation to carry out financial services in the EU: one an e-money institution (Amazon Payment Europe SCA) and another an insurance intermediary (Amazon EU Sarl) in Luxembourg; the right to ‘passport’ services as an EMI is leveraged to provide services in 16 MSs/EEA States and as an insurance intermediary in two MSs/EEA States.

**Meta Platforms** (Facebook), **Uber** and **NTT Docomo** have subsidiaries that are registered as e-money institutions respectively in Ireland (Facebook Payments International Limited), Netherlands (Uber payments B.V.) and Liechtenstein<sup>69</sup> (DOCOMO Digital Payment Services AG), and passported their services to other 14, ten and three member states respectively.

**Alibaba** has its subsidiary Ant Group registered as an e-money institution in Luxembourg (Alipay Europe Limited S.A.) and operates under freedom to provide services in four EU member states. According to the EBA EMI register, the subsidiary has been however accorded the permission to passport its services in all EU countries.

**Tencent** has a subsidiary (Wechat) licensed as a payment institution in the Netherlands and is providing its services in two other Member States. Similarly to the Alibaba case, according to the DNB register it has been accorded the possibility to passport its services to other EU Member States.

**Rakuten** has a subsidiary Rakuten Europe Bank S.A. authorised as a credit institution in Luxembourg, and provides credit services in host capacity in other 13 Member States.

**Orange** has two subsidiaries – one authorised as a credit institution license in France (Orange bank) and another as an insurance intermediary in Slovakia (Orange Slovensko). Orange bank carries out credit services under the right of establishment or freedom to provide services in three MSs/EEA States.

Finally, **Vodafone**, **Tesla** and **Apple** have subsidiaries providing financial services in the insurance domain. Vodafone Insurance Limited and Tesla Insurance Ltd are insurance undertakings

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<sup>69</sup> Till June 2022; no additional information on home country were disclosed.

authorised in Malta. Apple Distribution International is instead an insurance intermediary authorised in Ireland. They all provide their services in a host capacity respectively in other nine, one and two member states.

Some NCAs also reported cases of MAG activities that do not fall in the categories mentioned so far. Among them, one Belgium NCA indicated that Tesla Belgium and Orange Belgium are registered for the provision of credit intermediation services, which are however performed in an ancillary capacity.<sup>70</sup>

Microsoft, Orange<sup>71</sup> and Apple<sup>72</sup> also provide payment services in a limited capacity, according to PSD2 exceptions.<sup>73</sup>

Apple Pay provides e-wallet services for which authorisation or registration for the provision of financial services is not needed.

Finally, Tesla also provides financial leasing service for which it was authorised in Germany.

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<sup>70</sup> Meaning that their activity as credit intermediaries is not the main purpose of their trade, business or profession. Additionally, according to the Belgian Law, according to Directive 2008/48/EC on credit agreements for consumers. Examples of this type of credit intermediation is the provision of credit for the purpose of selling goods e.g., car or electronic products sales.

<sup>71</sup> Orange Slovensko a.s., Orange Polska Spółka Akcyjna

<sup>72</sup> Apple Distribution International

<sup>73</sup> Microsoft provides payments services online, under PSD2 exemption (Art. 3 (l)) in SK, IE, AT. Orange is a provider of electronic communication networks in Slovakia and Poland, providing services under PSD2 exception (Art. 3 (l)). Apple Distribution International provides also services in Belgium under PSD2 exemption (Art. 3 (k (i))), and in particular in relation to the issuance of Apple giftcards, i.e., tokenisation service whereby the Apple Pay application tokenises a card after which the payment is executed by the issuer of the card according to PSD2 provisions.