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RBI Warns against allowing Big Tech firms into financial services.

Lecture by: MD. FIROZ ALAM

RBI Warning Comes at a time when the Indian government has been embroiled in a tussle with Big Tech firms over compliance with India IT rules.

Synopsis

Entry of Big Tech firms — Apple, Amazon, Google, Facebook and Microsoft — into financial services could present challenges in maintaining adequate stability and governance of the ecosystem.

RBI says in its biannual financial Report, July 01, 2021

Mumbai: Entry of the so called Big Tech companies in financial services in emerging markets such as India could present challenges to regulators towards maintaining adequate stability and governance of the ecosystem. The Reserve Bank of India said on Thursday. The central bank monopolistic practice, anti-trust issues, cyber security risks, and challenges around data privacy as key concerns that could emerge.

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Big Tech offers a wide range of digital financial services of several advanced and emerging market economies.

" RBI said in its biannual financial stability report. " While this holds the promise of supporting financial inclusion and generating lasting efficiency gains concerns have intensified around a level playing field with banks, operational risk, too big to fail issues, challenges of anti-trust rules, cyber security and data privacy.

Big Tech is a term used for the five most dominant information technology firms in the world — Google, Amazon, Facebook, Apple and Microsoft — that have market capitalisation ranging between \$1 trillion and \$2 trillion, each.

The RBI statement comes at a time when the Indian government has been in a tussle with Big Tech firms, most notably micro-blogging app, Twitter, on implementation of its newly issued intermediary guidelines and Digital Media Rules.

Amazon, Google, and Facebook's WhatsApp are active participants on India's real time payments network Unified Payments Interface, or UPI. Both Amazon and Google also have enabled financial intermediary services such as loans and card payments on their payment platforms.

RBI Warn against Big Tech in financial services

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The banking regulatory has categorised likely challenges arising from participation of Big Tech in financial service in three broad categories.

- 1) First, they many different (non financial) lines of business with sometimes opaque overarching governance structures.
- 2) The central bank said, "Second they have the potential to become dominant players in financial services."
- 3) Third Big Tech are generally able to overcome limits to scale in financial service provision by exploiting network effects.

The RBI emphasised that the best ways for financial regulators and global central banks to supervise these companies is by setting down an international standard based on coordination of rules.

It also recommended an 'entity based prudential regulation' approach where in operations of each Big Tech firms are scrutinised independently against a set of predetermined standards.

"For central banks and financial regulators financial stability objectives may be best pursued by blending activity and entity based prudential regulation of Big Tech."

RBI said "Furthermore, as the digital economy expands across borders,

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International coordination of rules and standard becomes more pressing.

9 The Central bank said "an activity-based approach" is already applied in areas such as anti money laundering (AML) and combating the financing of terrorism (CFT) across jurisdiction.

10 Interestingly, the national payments Corp of India - an RBI regulated entity - which owns UPI in November 2020 had introduced a market share - capping rule for third party apps on UPI where no single company could have a volume exposure of greater than 30% in any given quarter from 2022.

11 At the time, NPCI had said the rule was introduced to combat monopoly and competition risks. Both Walmart's Phonepe and Google pay corner over 85% of the UPI volume.

12 Separately, companies such as Google, Facebook, Amazon have also applied to set up their own payments networks in India under the RBI's newly launched umbrella Entity framework (NUE).