

THE USE OF DIGITAL PLATFORMS IN THE EU'S BANKING AND PAYMENTS SECTOR

SEPTEMBER 2021

Acceleration in the use of digital platforms

In the context of the response to the COVID-19 crisis, the EBA has identified a sharp acceleration in the digitalisation of both front- and back-office processes in the EU's banking and payment sector, with financial institutions increasingly developing or engaging third-party technologies to facilitate customer access to financial products and services through digital means.

Against this background, the EBA has observed a rapid growth in the use of digital platforms to 'bridge' customers with financial institutions. Growth is expected to further accelerate as financial institutions seek to satisfy customer 'search for convenience' and reduce costs, consistent with the core drivers of platformisation across all sectors of the EU economy.

In light of these developments, and in accordance with the EBA's mandates to monitor new and existing financial activities and to contribute to the establishment of a common European approach towards technological innovation, the EBA launched thematic work focussing on the increasing use of digital platforms by credit institutions, payment institutions and electronic money institutions (together 'financial institutions').

Consistent with the EBA's objective to ensure that the regulatory and supervisory framework is technology neutral and fit for purpose in the digital age, and recognising the disruptive potential of digital platforms, the core objectives were to:

- identify key market trends;
- facilitate knowledge-sharing between industry and competent authorities about opportunities and risks arising; and
- identify any cross-cutting regulatory and supervisory issues, including areas for potential future action, taking account of the priorities identified in the European Commission's October 2020 Digital Finance Strategy ⁽¹⁾ and the February 2021 Call for Advice on Digital Finance ⁽²⁾.

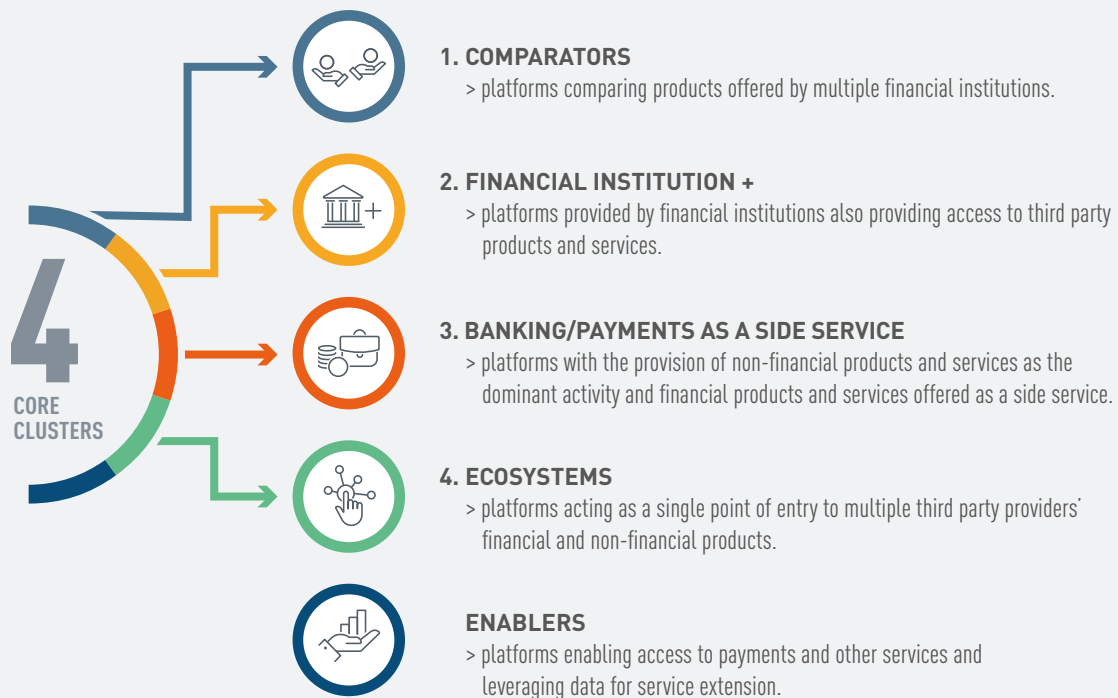
The results of this work are set out in the EBA's report on the use of digital platforms in the EU's banking and payments sector, published on 21 September 2021.

⁽¹⁾ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX-52020DC0591>

⁽²⁾ https://www.eba.europa.eu/sites/default/documents/files/document_library/About%20Us/Missions%20and%20tasks/Call%20for%20Advice/2021/962632/Request%20for%20technical%20advice%20to%20ESAs%20on%20digital%20finance.pdf

WHAT ARE DIGITAL PLATFORMS?

There are lots of different types of digital platforms but, in its work, the EBA has focussed on 5 main types of technological infrastructures that serve as 'bridges' between financial institutions and customers.



What are the key results of the EBA's assessment?

Platformisation presents a range of potential opportunities for both EU consumers and financial institutions, for instance in terms of improved accessibility of financial services and reduced cost, and offers significant transformative potential.

However, as set out in report, challenges and risks also arise stemming from new forms of financial, operational and reputational interdependencies. Supervisors are facing challenges in monitoring market developments and any risks arising from these interdependencies.



To address this issue, the EBA sets out in the report steps to enhance supervisory capacity to monitor market developments (see further next steps).

The EBA also sets out findings and recommended actions relating to:

- consumer protection and conduct of business requirements;
- AML/CFT;
- data protection and privacy.

Has the EBA identified a need for any legislative changes?

The EBA has not identified the need for any specific legislative changes at this stage, taking account of existing European Commission legislative proposals in the areas of digital operational resilience, digital markets and digital services [3].

However, the EBA highlights its previous recommendations [4] for the European Commission to update its interpretative communications relating to when a digital activity should be considered as a cross-border

provision of services. Clarity will support financial institutions and competent authorities in determining how an activity carried out using a digital platform is to be treated under EU and national law, including as regards the application of:

- consumer protection and conduct of business requirements;
- notification requirements, which provide the foundation for better visibility over the cross-border provision of services.

[3] Proposal for DORA: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020PC0595>.

Proposals for the Digital Services and Digital Markets Acts: <https://digital-strategy.ec.europa.eu/en/policies/digital-services-act-package>

[4] EBA October 2019 report on potential impediments to the cross-border provision of banking and payment services: <https://www.eba.europa.eu/eba-calls-european-commission-take-action-facilitate-scaling-cross-border-activity>

The EBA also highlights previous observations about divergences in consumer protection and conduct of business requirements at the national level which may pose potential impediments to the scaling of cross-border services using digital platforms and other innovative technologies.

What are the EBA's next steps on digital platforms?

In 2022 the EBA will help competent authorities to deepen their understanding of platform-based business models and the opportunities and risks arising by supporting competent authorities in:

- developing common questionnaires for regulated financial institutions on digital platform and enabler use. This approach will facilitate tailored and proportionate information-gathering against a fast-evolving market;
- sharing information about financial institutions' reliance on digital platforms and enablers in order to facilitate coordinated EU-wide monitoring.

Additionally, the EBA will continue its efforts to foster the sharing of supervisory knowledge and experience about digital platforms and enablers on a sectoral and multi-disciplinary basis, including via actions under the coordination of the EBA's Fin-Tech Knowledge Hub [5].

[5] <https://www.eba.europa.eu/financial-innovation-and-fintech/fintech-knowledge-hub>

CALL FOR ADVICE ON DIGITAL FINANCE

The European Commission's Call for Advice on digital finance mandates the ESAs to provide to the EC technical advice on the following issues:

- more fragmented or non-integrated **value chains**;
- **platforms** and bundling various financial services;
- **mixed activity groups**, namely groups providing both financial and non-financial services;

The ESAs response will be published in Q1 2022.

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