

*Realizing the Digital Promise*  
**Briefing Note: Transformation in an Ecosystem of  
Regulators, BigTech, FinTech and More**

June 2021

Building on the IIF-Deloitte *Realizing the Digital Promise* series, we discussed the key findings of our latest report, [Transformation in an Ecosystem of Regulators, BigTech, FinTech and More](#), during a [webinar](#) with guest experts on June 3<sup>rd</sup>.<sup>1</sup> The project team of Michael Tang and Malte Borkenhagen of Deloitte and Brad Carr and Conan French of the IIF were joined by:

- Yasmeen Al Sharaf, Head of Fintech & Innovation Unit, Central Bank of Bahrain
- Zac Maufe, Managing Director, Global Retail Banking Solutions, GoogleCloud
- Maurizio Poletto, Chief Platform Officer, Erste
- Shawn Rose, Executive Vice President and Chief Digital Officer, Scotiabank
- Pablo Urbiola, Head of Digital Regulation & Trends, BBVA

This briefing note summarizes the major themes that emerged in the discussion.

## **Rapid Evolution of the Financial Services Ecosystem**

The fast adoption and growing importance of key emerging technologies—including cloud, artificial intelligence (AI), and digital identity—are forming the foundation of financial services and the new economy. Cloud was especially prominent throughout the discussion, and Shawn reflected on its growing role and value at Scotiabank:

*“Only three years ago, less than five percent of our transaction volume was cloud based. Today it is almost 60 percent ... Cloud to us is really the whole ecosystem and the whole transformation effort.”*

Zac explained that GoogleCloud is witnessing a real uptick and interest in cloud adoption by financial institutions (FIs), who are focusing on leveraging the power of cloud to drive their transformation and modernization:

*“There are some pretty amazing things that [cloud] starts to enable, particularly in the data space where the volume of data and then the promise of AI and ML [machine learning] starts to change what you can do in terms of gathering insights and actually driving more personalized, more one-to-one kind of experiences.”*

*“Digital is the oxygen of our business model.” – Maurizio*

*“We think of digital very similarly, but we refer to it as ‘substrate’—the soil from which everything grows.” – Shawn*

<sup>1</sup> Prior reports in this series looked at the internal and external challenges to digital transformation, as well as the key internal enablers for success. This third report examined the broader external financial services ecosystem, including regulators, policymakers, governments, investors, competitors, and alliance partners.

There is also a significant challenge for regulators to evolve at the pace of technological progress while maintaining their statutory objectives. Yasmeen observed:

*“There is more pressure on regulators ... to act fast and in an agile manner to accommodate emerging business models and technologies ... We see an emerging role for us to play, which is more to act as enablers of innovation and digitalization within the financial services sector while ensuring safety and soundness of the financial services sector without compromising financial stability and whilst ensuring that we have the necessary regulations in place to oversee and ensure consumer protection as well.”*

A collective effort is needed amongst all ecosystem participants to ensure the regulatory and business landscape move in sync.

## **Blurring of Traditional Industry and Regulatory Boundaries**

There was consensus that FinTech drove the first wave of disruption in finance and were a catalyst for innovation; however, BigTech is leading the current second wave of disruption and is likely to have a significantly larger impact on the market thanks to their scale, technological capabilities, and balance sheet. Already, BigTechs are driving industry convergence, raising important issues in how to protect consumers and promote fair, healthy competition across the globe. Pablo remarked that while BigTechs can provide impetus for greater innovation, financial inclusion, personalized services, and the emergence of new value propositions, there is a risk of moving to a financial sector in the future that is more concentrated and less competitive. Several speakers echoed this and warned that given BigTech’s competitive advantages, there is potential for a few of them to eventually dominate the market and become “too big to fail,” introducing systemic risk and threats to financial stability.

Catalyzed by BigTech’s foray into financial services, some policymakers are exploring a more comprehensive response and oversight, reviewing the notion of “same activity, same risk, same supervision and regulation” being sufficient. Yasmeen argued that in general, an activity-based approach is the best method for regulators to follow and that they must ensure that the provision of financial activities and services should be restricted to entities that hold an authorization or license to provide such services.

Pablo agreed on the principle of “same activity, same risk, same supervision and regulation,” while noting that a combination of activity- and entity-based approaches is necessary:

*“I think we really need to have a discussion on how to implement this principle in practice which is not moving to a pure activity-based approach to regulation; it is a combination of activity and entity based, but it’s very important that any difference in supervision and regulation is based on different risks and not just on the type of institution.”*

This also needs to be viewed in the context of this year’s renewed debate on entity- and activity-based regulation approaches, where BIS policymakers Agustin Carstens and Fernando Restoy have signaled an entity focus on BigTech firms.

Established FIs also need to integrate more into the digital economy and consumers' lives, and to the areas where customers want banking to take place. Maurizio underscored the importance of digital identity as a crucial enabler for this.

## Greater Global Convergence in Data Regulation

The economic value of data has soared in light of the rapid evolution of digital business models that are in constant need of quality data, but diverging regulatory trends and excessive cross-border data restrictions can limit the full potential of digital ecosystems and emerging technologies, curbing the optimization of financial services.

Several speakers emphasized that as the importance of digital connectivity grows and as the global regulatory landscape continues to increase in complexity, a framework is needed to allow for interoperability of data regimes in order to reduce friction and fragmentation and facilitate the regulated flow of data across borders. Yasmeen acknowledged the need for global coordination:

*"It's very essential ... to try to harmonize our regulations to avoid regulatory arbitrage ... and at the same time to reduce friction for innovators operating amongst different jurisdictions ... We need to understand how other regulators are overseeing the whole ecosystem. We need more clarity on privacy of data and [to see] whether we can come up with a uniform data privacy law ... We need to consider things like how other regulators perceive AI, cloud, and other emerging technologies, and how those emerging technologies can also satisfy the different regulatory requirements ... We need more international networks to bring regulators together."*

The need for cross-sectoral regulation also drew considerable focus. Pablo noted that the digitalization of the financial sector is intertwined with the digitalization of the overall economy:

*"The digitalization of the financial sector is not something separated from the rest of the economy. I think regulators are now realizing that the response to the transformation of the sector has to be more comprehensive in terms of being cross-sectoral. So going beyond the financial sector in terms of data policies but also how we regulate the digital platforms and digital markets."*

## Next Steps

Looking ahead, we will be publishing a supplement paper that will provide a "call to action" on how best to address the issues identified and allow the full potential of the digital economy to be realized. In developing this supplement, we will hold a series of focus groups with private and public sector leaders. To participate, please contact Mina Loldj ([mloldj@iif.com](mailto:mloldj@iif.com)). For more information on the series, please contact:

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