



The Next Generation of Financial Conglomerates: BigTech and Beyond

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The structure of the EU financial sector is changing....



REGULATION



TECHNOLOGY & DATA



NEW ENTRANTS

... and new types of mixed activity group are emerging...

... with new combinations of:

- financial services
- financial and non-financial services (e.g. BigTechs)

... but our frameworks for group supervision reflect more traditional combinations of activity...

- group consolidation (e.g. Solvency II, CRD/CRR)
- supplementary supervision - financial conglomerates (FICOD)

Focussing on FICOD (Directive 2002/87/EC)

FICOD defines 'financial conglomerate' by reference to two different scenarios:

- one where a 'regulated entity' is the head of the group or subgroup;
- one where at least one of the subsidiaries in the group or subgroup is a 'regulated entity'.

In either scenario conditions regarding the materiality of the financial (ie, banking, investment and insurance) activities must be satisfied in order to qualify as a financial conglomerate and at least one entity within the group or subgroup must be within the insurance sector, reflecting the predominant structure of EU financial conglomerates at the time FICOD was adopted.

'Regulated entity' means a credit institution, insurance undertaking, reinsurance undertaking, investment firm, asset management company, or an alternative investment fund manager.

Focussing on FICOD (cont.)

For financial conglomerates a system of supplementary supervision exists which is intended to overcome potential supervisory blind spots that may otherwise exist in the event reliance were placed solely on sectoral supervisory frameworks.

The objective is to ensure enhanced risk surveillance coupled with mechanisms to coordinate supervisory actions thereby enable the early identification, surveillance and management of horizontal risks in relation to regulated entities in the group e.g.

- financial risks
- operational risks arising from weaknesses in internal control mechanisms

Focussing on FICOD (cont.)

But when we look at the scope of FICOD vs market developments we can see there are limitations to the existing framework in terms of:

- **firms within the group covered** (FICOD only provides a supplemental supervision framework in relation to ‘regulated entities’);
- **types of supervisors around the table** (FICOD provides a structured supervisory cooperation between financial supervisors and not other types of supervisors e.g. data protection authorities);
- **scope of groups covered.**

This means that we may lack visibility over important risk transmission channels within new forms of conglomerates, which could impact financial soundness of individual business units or the conglomerate as a whole, causing detriment to consumers, and ultimately financial stability.

Way forward

FICOD itself needs update, e.g. considering:

- the combinations of financial activity that must exist as a pre-condition to engage FICOD;
- the thresholds for determining the materiality of financial services activity;
- the scope of firms subject to supplementary supervision.

Structured supervisory coordination frameworks such as FICOD provide good inspiration as we consider how to facilitate supervisory cooperation (on a multidisciplinary and multi-jurisdictional basis) in relation to new types of mixed activity group, including BigTechs.

The European Supervisory Authorities (ESAs) are considering issues relating to mixed activity groups in their response to the European Commission's Call for Advice on Digital Finance (response to be published early in 2022).

Reference materials

The Next Generation of Financial Conglomerates: BigTech and Beyond:
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3693870 (also published in the JIBFL Vol 35 – No. 10 (Nov 2020))

EC February 2021 Call for Advice on Digital Finance:
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

ESA [presentation](#) on interim findings (September 2021)