Outsourcing of Banking Services and economic dependence on Third Party Providers[1]

Francesca Altamura[2]

draft version

1. Digital Transformation in the Financial Sector and the Evolution of Credit Disintermediation Processes

Over the last few decades, technological advancements have introduced remarkable transformations across multiple aspects of our daily lives. This has fostered the emergence of what is commonly referred to as the "digital innovation ecosystem."

In particular, the digital progress has transformed the traditional banking and financial sector, by allowing new competitors to provide innovative products and services based on consumers' expectations and needs. Innovations such as smartphones and digital technologies have particularly revolutionized the payment services sector.

The payment services sector is, within the broader financial system, the segment that has been most directly and rapidly affected by technological innovation. This is due, in part, to its active involvement in (re-)regulatory processes, which inherently presuppose a close interconnection between legal frameworks and technical dimensions[3].

Evidence of this can be found in the fact that, in recent years, the payment services sector has been the subject of regulation at the EU level—first with Directive 2007/64/EC, and only a few years later with Directive (EU) 2015/2366 (PSD2[4]), adopted precisely with the aim of aligning the European regulatory framework with the phenomenon of the digital revolution. The underlying rationale guiding the drafting of this Directive was therefore to promote the spread of technological innovation for the development of new forms of payment services, while ensuring a level playing field for both established and new payment service providers[5].

In fact, the key aim of the PSD2 is to promote competition in an environment where new players such as FinTech startups and a new generation of payment products and services are emerging. In order to encourage further competition, PSD2 requires banks to grant third party access to their customers' accounts and payment services securely following customer consent. These services pose a challenge to the traditional model of banks' operation because they allow external entities, called Third Party Providers, to obtain information, and initiate payments from consumer payment accounts operated by these banks.

More clearly, according to the XS2A rule enshrined in the PSD2, account servicing payment service providers (especially commercial banks) allow TPPs to access real-time data on users' accounts as well as provide access to such accounts by executing payment orders initiated via payment initiation service providers interfaces, provided that the account is accessible online and the customer has given his/her explicit consent.

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[2] Post-Doc Fellow of Comparative Private Law, University of Bari "Aldo Moro"

[3] F. Ciraolo, Open Banking, Open Problems. *Aspetti controversi del nuovo modello dei "sistemi bancari aperti"*, in *Rivista di diritto bancario*, ottobre/dicembre 2020, p. 611

[4] Direttiva (UE) 2015/2366 del Parlamento europeo e del Consiglio del 25 novembre 2015 relativa ai servizi di pagamento nel mercato interno, che modifica le direttive 2002/65/CE, 2009/110/CE e 2013/36/UE e il regolamento (UE) n. 1093/2010, e abroga la direttiva 2007/64/CE (Testo rilevante ai fini del SEE), consultabile al seguente link https://eur-lex.europa.eu/legal-content/IT/TXT/?uri=CELEX%3A32015L2366

[5] D. Gammaldi, C. Iacomini, *Mutamenti del mercato dopo la PSD2*, in *Le nuove frontiere dei servizi bancari e di pagamento fra PSD2, criptovalute e rivoluzione digitale*, a cura di F. Maimeri, M. Mancini, Banca d'Italia. Quaderni della Ricerca Giuridica, 2019, p. 126

The interoperability is actualized through the deployment of secure application programming interfaces (APIs), which interact with non-banking institutions acting as third-party providers

(TPPs) to allow them to access the customer's bank account data and initiate payment services as Account Information Service Providers (AISP) and Payment Initiation Service Providers (PISP).

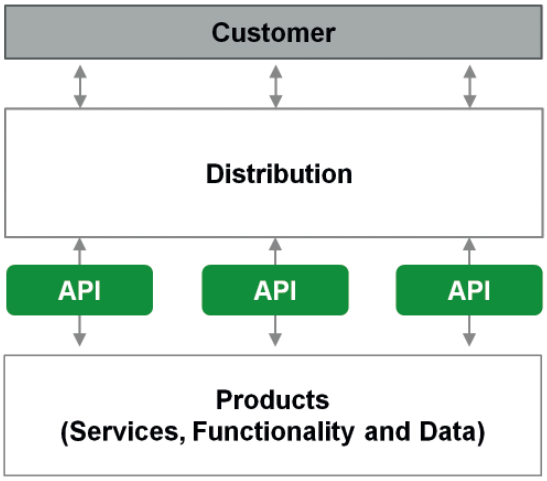

Fig. 1: APIs are the pivot between products and distribution.
Source: T. Egner, Open APIs and Open Banking: Assessing the Impact on the European Payments Industry and Seizing the Opportunities

So, thanks to PSD2 Directive, the European Union has become the main point of reference in the regulation of Open Banking.
Open Banking represents a new business model that enables the sharing of customer-permissioned data by banks with third parties which is leveraged to build applications and services that provide faster and easier payments, greater financial transparency options for account holders, new and improved account services, and marketing and cross-selling opportunities[6].
Open banking has the potential to transform banking services and bank business models. In fact, within this transformed technological and industrial landscape, both the necessity and the opportunity for financial institutions to resort to solutions provided by third parties have progressively increased over time.
Traditionally, banks have not only provided their customers with products but have also been responsible for the distribution of these products. In this traditional scenario, the bank controls the entire product and distribution chain.
Open Banking redefines both product and distribution as the principles, technologies and agreements of Open Banking allow for new possibilities[7].
The shared delivery of banking services by banks and Third Party Providers is enabled by the use of application programming interfaces (APIs), which allows to synchronise and connect the database or services of a bank with different third-party applications or programs. APIs in open banking are 'about letting third parties build applications and services around the platforms of the financial

[6] Bank for International Settlements, *Report on Open Banking and Application Programming Interfaces*, Novembre 2019, p. 4; disponibile al seguente link: https://www.bis.org/bcbs/publ/d486.pdf
[7] EBA, *Open banking: advancing customer-centricity. Analysis and overview*, 2017, p. 25

institutions'. In other words, by decomposing the banking value chain, APIs enable service creation and distribution by third party providers[8].
In this new scenario, the bank creates the service, while an external party (e.g. traditional channels or Fintechs) distributes the service to the customer, who is often also a customer of the bank.
Traditional banks therefore have several ways of integrating IT services into their business activities.
A first approach consists in the autonomous production of technological services. The decision to develop in-house the technologies required for the automation of business activities is, in fact, the most complex (and consequently the least pursued) option, due both to its high costs and to the organizational complexity it entails. Such an approach would require the establishment of a specific internal division composed of highly specialized professionals.
Alternatively, incumbent firms wishing to rely on technological services may resort to external provision, thereby gaining access to highly specialized technical expertise situated within an independent organizational structure primarily devoted to the production and commercialization of high-tech systems.
This external provision may occur in two distinct ways: the intermediary may acquire innovative start-ups specialized in the production and marketing of high-value technological systems (intragroup provision), or, alternatively, it may entrust a third party (either a natural or legal person) with the performance of functions necessary for the provision of technological services, through outsourcing practices[9].
This evolution has led to the progressive emergence of new actors, new forms of enterprise, and new business models, such as:

- the so-called *neobanks*, that is, fully digital banks without a physical branch network, operating exclusively through applications and websites;

- *FinTech* companies, innovative firms offering new and targeted services, primarily within the banking sector;

- *TechFin* companies (including *BigTechs*), leading firms in the technology industry capable of exploiting their technological expertise both as providers of technology and as direct suppliers of financial services[10].

All this entails the progressive downsizing of the role of traditional operators, through the trend known as "credit disintermediation", whereby incumbents are increasingly marginalized by newcomers in sectors where the latter provide next-generation financial services. Indeed, the traditional banking model—characterized by the production and distribution of services under the bank's full control of the entire value chain—is gradually being replaced by an ever-growing "disaggregation" of the financial intermediation value chain into multiple segments, each occupied by actors capable of offering specific products and/or services that, precisely by relying on new digital technologies, "disintermediate" traditional operators[11].

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[8] A. Odorivic, *Open banking: between cooperation and competition*, in https://anali.rs/?lang=en; R. Pellitteri et al., *L'Open Banking nel sistema dei pagamenti: evoluzione infrastrutturale, innovazione e sicurezza, prassi di vigilanza e sorveglianza*, in Banca d'Italia. Mercati, infrastrutture, sistemi di pagamento, n. 31, Marzo 2023, p. 7;
[9] L. Rocco di Torrepadula, *L'outsourcing bancario dei servizi di "credit scoring" algoritmico*, in *Banca Impresa Società*, p. 2
[10] G. Pitruzzella, *Fintech e i nuovi scenari competitivi nel settore finanziario, creditizio, assicurativo*, in *Bancaria*, 6, 2018; A. Manganelli, A. Perrucci, *Servizi di pagamento e finanziari. L'impatto delle grandi piattaforme digitali, fra innovazioni tecnologiche ed evoluzione normativa*, in *Analisi Giuridica dell'Economia*, 1, 2025, p. 246
[11] F. Ciraolo, Open Banking, Open Problems. *Aspetti controversi del nuovo modello dei "sistemi bancari aperti"*, in *Rivista di diritto bancario*, ottobre/dicembre 2020, p. 613

2. Vertical integration vs vertical dis-integration: a Law & Economics perspective

As previously observed, the increasingly pervasive and widespread diffusion of recent technological innovations, together with the emergence of new market entrants - traditionally outside the category of regulated operators - are progressively prompting supervised entities (such as credit institutions and banks) to resort to so-called "third-party relationships", a term denoting the diverse practice of outsourcing activities, services, and functions.

Outsourcing refers to the transfer of processes and activities, that were previously performed within the firm, to an external provider, with the objective of enhancing the efficiency of the outsourcing company, thereby enabling it to focus on its core business activities[12].

The phenomenon began to spread as early as the 1960s[13], when firms resorted to outsourcing primarily as a means of reducing operating costs arising from internal inefficiencies, often due to a lack of specialized skills and resources. Over the years, however, the decision to adopt outsourcing practices has taken on a new dimension, moving beyond the sole objective of cost efficiency. Companies increasingly seek access to new knowledge and capabilities required to manage increasingly complex organizational processes. For this reason, outsourcing has become a strategic tool that supports the digital transformation of firms most affected by the ongoing technological revolution[14].

From a law and economics perspective, outsourcing can be conceptualized as a "make-or-buy decision". A firm, in conducting its activities, may decide either to internalize the production of the goods or services it requires (vertical integration) or to procure them from the market (vertical disintegration).

Why do some firms choose a vertically integrated structure, while others specialize in one stage of production and outsource the remaining stages to other firms?

Coase's transaction cost theory of the firm provides a foundational framework for understanding firm boundaries arguing that the latter are shaped not only by technology but also by the relative costs of transacting within the firm versus through the market.

In the Coasian framework[15], the decision to organize transactions within the firm instead of on the open market depends on the transaction costs involved.

Completing transactions involves various costs and risks, which depend on the nature of the transaction and the suitability of alternative governance structures.

The market mechanism entails certain costs, such as discovering relevant prices, negotiating and enforcing contract and so on. Thanks to vertical integration, entrepreneur may be able to reduce these transaction costs by coordinating these activities himself.

However, internal organization involves other kinds on transaction costs, namely problems of information flow, incentives, monitoring and performance evaluation.

As a consequence, the choice between market and hierarchical governance is determined by a tradeoff between the transaction costs of market exchange and those of internal governance. If the sum of all costs is cheaper inside the firm than outside, the firm internalizes the production of the goods, manages the means of production, and asserts control over its workforce, thereby

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[12] M. Maugeri, *Esternalizzazione di funzioni aziendali e «integrità» organizzativa nelle imprese di investimento*, in *Banca Borsa Tit. Cred.*, 4, 2010, p. 439; S. Monticelli, *I contratti per l'esternalizzazione dei servizi e le tutele*, in *Europa e dir. priv.*, 2, 2011, p. 481

[13] In 2023, global spending on outsourcing was estimated at $731 billion. See 2023 Global Shared Services and outsourcing survey. (n. d.), Deloitte United States, available on https://www2.deloitte.com/us/en/pages/operations/articles/shared-services-survey.html

[14] J. Hätönen, T. Eriksson, *30+ years of research and practice of outsourcing – Exploring the past and anticipating the future*, in *Journal of International Management*, 15(2), 2009, p. 142 ss.

[15] R.H. Coase, *The nature of the firm*, in *Economica*, vol. 4, n. 16, 1937, p. 386 ss.

establishing the boundaries of the firm. In contrary, if the total costs are lower externally, the firm sources the means of production outside in the market[16].

A significant part of the theoretical and empirical work within the transaction cost economics tradition has focused on relation-specific investments and their interaction with other transactional attributes, such as uncertainty, product complexity, and information asymmetries[17].

According to the transaction cost economics, the governance of contractual relationships is shaped by the need for specific investments (asset specificity) that parties may undertake to support their trading relationship.

Asset specificity refers to the degree of customization of the transaction. A transaction is highly asset specific if it cannot readily used by other companies. In other words, relation-specific investments are investments which, once made, have a value in alternative uses that is less than the value in the use originally intended to support a specific trading relationship[18].

After specific investments have been sunk, a potential «hold-up» situation is created, which means that asset specificity increases switching costs and limits outside options, making it more difficult for the party that has made relation-specific investments to find reasonably equivalent alternatives in the market.

As a result, such investments create a condition of bilateral dependence, which is the differences between the value of the investment in its intended use and its next best alternative use[19].

Another situation in which economic dependence is deemed to arise concerns cases where one party must access inputs that are under the exclusive control of the counterparty, making the latter an unavoidable commercial partner. Superior bargaining power is analogous to market power, and the stronger party may abuse its position not only by imposing unfair terms, but also by refusing to enter into a contract[20].

So, in contexts characterized by low asset specificity and limited transaction frequency, governance through market arrangements constitutes the more efficient solution. By contrast, where uncertainty prevails, investments exhibit a high degree of specificity, and transactions occur on a recurrent basis, hierarchical governance is generally more effective in constraining the opportunistic conduct that would otherwise emerge[21].

3. Outsourcing of banking services: opportunities and risks

As we seen above, conventional industrial organization theory predicts that when parties in a supply chain have to make transaction-specific investments, the risk of opportunistic behavior by their counterparties will drive them away from contractual relationships and toward vertical integration. However, recent practice is moving away from vertical integration: producers today recognize the impossibility to maintain cutting-edge technology in every field required for the success of their

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[16] P.G. Klein, J.F. Rossi Mazzoni, *The make-or-buy decision revisited*, in *Handbook of new institutional economics*, ed. by C. Menard, M.M. Shirley, 2nd edition, Springer Nature, Cham 2025, p. 449; G. Colangelo, *Superior bargaining power, antitrust, and digital markets: a transaction cost economics perspective*, in *ICLE Working Paper*, 2025, available ar SSRN: https://ssrn.com/abstract=5337349

[17] O.E. Williamson, *Transaction-cost economics: the governance of contractual relations*, in *The Journal of Law & Economics*, vol. 22, n. 2, 1979, p. 233 ss.; Id., *The Economics of Internal Organization: Exit and Voice in Relation to Markets and Hierarchies*, in *The American Economic Review*, vol. 66, n. 2, 1976, p. 369 ss.

[18] P.L. Joskow, *Vertical integration*, in in *Handbook of new institutional economics*, ed. by C. Menard, M.M. Shirley, 2nd edition, Springer Nature, Cham 2025, p. ; C. Fill, E. Visser, *The outsourcing dilemma: a composite approach to the make or buy decision*, 38(1) *Management decision* 43 (2000), p. 46

[19] P.L. Joskow, *Vertical integration*, in in *Handbook of new institutional economics*, ed. by C. Menard, M.M. Shirley, 2nd edition, Springer Nature, Cham 2025, p. 426

[20] G. Colangelo, *Dipendenza economica e mercati digitali*, in *La nuova stagione dell'abuso di dipendenza economica*, a cura di G. Colangelo, V. Minervini, Bologna 2023, p. 201

[21] A. Pezzoli, *L'abuso di dipendenza economica e la concorrenza. Analisi economica di un ibrido?*, in *La nuova stagione dell'abuso di dipendenza economica*, a cura di G. Colangelo, V. Minervini, Bologna 2023, p. 139 ss.

products. As a consequence, we observe a vertical *dis*-integration in a significant number of industries, even in the financial and banking industries[22].

It is now widely acknowledged that traditional intermediaries are unable to pursue in-house innovation strategies, making the "third-party relationship" the only feasible and efficient mode of technological sourcing.

Although internalization of activities within a single financial and banking services firm overcomes principal-agent and asymmetric information challenges, the reduction of transaction costs due to innovation technology changes the boundaries across firms and sectors, breaks and reshapes the traditional supply chain of financial services that becomes more disaggregated. As a consequence, the boundaries of the firm changes and the production chain for financial services becomes more disaggregated. In this way, financial services can be unbundled and re-bundled in order to maximize profits and minimize the burden stemming from the regulatory framework; new entrants may also add new services, increasing the number of activities and players of the value chain[23].

The banking regulator defines outsourcing as «arrangement of any form between an institution, a payment institution or an electronic money institution and a service provider by which that service provider performs a process, a service or an activity that would otherwise be undertaken by the institution, the payment institution or the electronic money institution itself»[24].

Financial institutions are increasingly taking advantage of outsourcing to lower costs and acquire higher-quality services to sustain their competitive advantage.

Between 2023 and 2024 banks on average increased their outsourcing budget for ICT services by 2.1%, although share of ICT services decreased (from 49% to 47%) due to an expansion of outsourcing budgets devoted to other services, such as payment services (10%) and cash management services (8%)[25].

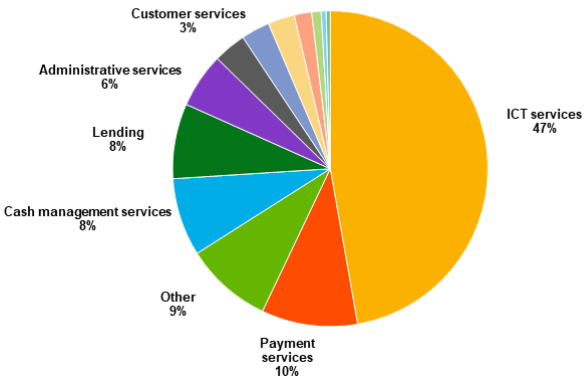

Fig. 2: Distribution of budget spending by category (percentages)
Source: https://www.bankingsupervision.europa.eu/press/supervisory-newsletters/newsletter/2025/html/ssm.nl250219_2.en.html

[22] R.J. Gilson, C.F. Sabel, R.E. Scott, *Contracting for innovation: vertical disintegration and interfirm collaboration*; 109(3) *Col. L. Rev.* 431 (2009), p. 434

[23] E. Feyen and others, *Fintech and the digital transformation of financial services: implications for market structure and public policy*, in BIS Paper 117, 2021, p. 2; M. Lanotte, M. Trapanese, *Financial intermediation and new technology: theoretical and regulatory implications of digital financial markets*, in Banca d'Italia. Questioni di Economia e Finanza. Occasional Paper, 2023, p. 22 s.

[24] EUROPEAN BANKING AUTHORITY (EBA), Orientamenti in materia di esternalizzazione, EBA/GL/2019/02, 25 febbraio 2019, par. 12, reperibili in www.eba.europa.eu.

[25] European Central Bank, *Outsourcing trends in the banking sector*, February 2025, available on https:// www.bankingsupervision.europa.eu/press/supervisory-newsletters/newsletter/2025/html/ssm.nl250219_2.en.html

The main economic reasons driving financial system operators to outsource highly technological services may relate to objectives such as: i) cost containment; ii) focus on core business and strategic activities; iii) acquisition of know-how and expertise not available internally; iv) expansion of their commercial offering with innovative products; v) timely deployment of new services in rapidly growing segments; and vi) creation of a relatively lean capital structure.
The use of services provided by third parties primarily supports the operations of smaller institutions which, due to more limited resources for technological investment, are able to contain costs and remain competitive in the market[26].
Cooperation models between small banks and Fintech firms have become a pivotal strategy; indeed, it represents a highly promising avenue for both parties.
The main reason for the proliferation of partnership arrangements is the many advantages they bring to both parties. When cooperating with an established bank, fintechs can take advantage of certain banking services or infrastructure, which saves them significant costs and decreases time-to-market.
Conversely, by collaborating with fintechs, traditional banks are able to extend their product range and gain access to new markets by making use of third-party provider platforms and services. Incumbents benefit from FinTech's technological expertise: due to fintech innovations which can help banks enrich their service offer, or improve their distribution channels and customer experience.
Partnership arrangements between banks and fintech firms may take on various forms, including simple joint ventures, but they may also involve more advanced technology-based ways of integrating new business models or services in the established bank's portfolio, mainly via open banking[27].
While the advantages of market outsourcing are undeniable, there is also evidence that outsourcing has generated new risks.
The main risks include: 1) operational risk, which arises when an issue affecting a service provider may impact the activities of the financial entity; 2) cyber risk, occurring when inadequate security policies of a provider may facilitate attacks on the financial entity, potentially compromising service availability, as well as the confidentiality and integrity of data; 3) reputational risk, which emerges if a provider engages in conduct that may damage the financial entity's reputation[28].
Some of these risks also stem from the fact that more financial institutions are relying on a small group of vendors: for example, companies outsourcing cybersecurity functions can select from only a small number of third-party suppliers for IT-related tasks[29].

3.1. Abuse of economic dependence in the bank-third parties relationship

As we seen above, outsourcing in banking sector represents an organizational choice - at times preferred, and often necessary, if not indispensable - to gain access to new technologies. However, the new forms of interconnection among different actors (financial intermediaries, non-regulated operators, and technology service providers) may lead to a strong economic dependence on third party providers, resulting in lock-in effects, that refers to the situation in which, once an organization has selected a IT service provider, either it cannot move to another provider or it can

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[26] E. Cerrato and others, *I fornitori di tecnologia nel sistema dei pagamenti: evoluzione di mercato e quadro normativo, in Banca d'Italia. Mercati, infrastrutture, sistemi di pagamento*, 2024, pp. 9-10
[27] L. Enriques, W. Ringe, *Open banking, outsourcing and bank-fintech cooperation*, in *Competition and Payment Services. Conference Papers*, Banca d'Italia. Quaderni di ricerca giuridica, December 2022, p. 89 ss.
[28] E. Cerrato and others, *I fornitori , op. cit.*, p. 11
[29] J.A. McCahery, F.A. De Roode, *Governance of Financial Services Outsourcing: Managing Misconduct and Third-Party Risks*, in *European Corporate Governance Institute (ECGI) - Law Working Paper*, n. 417, 2018, p. 2

change providers but only at great cost, due to the terms of a contract, a lack of feasible alternatives or technical features[30].
The notion of economic dependence can be defined as the absence of sufficient and reasonable possibilities of switching to other undertakings[31].
Contrary to the assessment of a position of dominance, which takes place in the context of a given relevant market involving multiple actors, the assessment of a state of economic dependence focusses on a bilateral relationship. Indeed, economic dependence is not related to the structure of the market (as would typically be the case for abuses of dominance) but instead to the bargaining power of two (or more) contractual partners. So, economic dependence corresponds to a form of relative market power, in contrast to absolute market power, which typically triggers competition law enforcement.
Showing a state of economic dependence is not enough, as it must also be shown that there has been an abuse of this state.
The abuse of an economic dependency is a legal notion that refers to a situation in which one party to a transaction abuses their relative power over the other. The purpose is to protect weaker parties from abuse by stronger parties[32].
Proving an abuse of economic dependence does not require demonstrating a dominant position in a relevant market. Upon closer examination, what distinguishes abuse of economic dependence from abuse of a dominant position is that the former does not require either the definition of the relevant market or proof of dominance[33].
However, economic dependence is not unrelated to market structure, especially in the context of digital markets.
The problem of economic dependence and imbalanced bargaining power is, indeed, exacerbated in what regards digital platforms, which hold significant market power, giving them a superior bargaining position over their business partners. As a consequence, there is a considerable risk that such platforms may exploit their dominant market position to impose unfair trading conditions. This dynamic generates significant power imbalances between contractual parties engaged in vertical transactions within digital markets[34].
In the banking sector, a clear example of third-party dependence is represented by the innovations introduced in the payments system by PSD2, whose overall architecture increasingly suggests a rising intensity of financial institutions' dependency on third parties[35].
Platforms often serve as essential selling infrastructures for financial services providers: for this reason, firms' dependency on a limited number of critical third parties for key services within the financial services sector has increased in recent years and continues to do so.
A critical factor is the concept of asset specificity, which influences the complexity of the relationship between the financial institutions and the service providers. The concentration of skills

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[30] G.A. Lewis, *The Role of Standards in Cloud-Computing Interoperability*, Carnegie Mellon Software Engineering Institute, October 2012, p. 1
[31] T. Tombal, *Economic Dependence and Data Access*, in 51(1) *International Review of Intellectual Property and Competition Law* 70 (2020), p. 74
[32] OECD, *Purchasing power and buyers' cartel*, 2022, p. 31
[33] G. Colangelo, *Superior bargaining*, op. cit., p. 8, R. Alimonti, M. Johnson, *Abuse of economic dependence and its interaction with competition policy: the economics perspective*, 21 *Competition L. J.* 87 (2022), p. 88
[34] S. Scalzini, *Economic dependence in digital markets: EU remedies and tools*, 5(1) *Mkt & Competition L. Rev.* 81 (2021), p. 83; Q. Li, C. Cauffman, *Abuse of relative dominance by digital platforms: a law and economics perspective*, 74(3) *GRUR International* 217 (2025), p. 225
[35] C. Porzio, G. Sampagnaro, *Rischi delle banche connessi a FinTech*, in *Le nuove frontiere dei servizi bancari e di pagamento fra PSD2, criptovalute e rivoluzione digitale*, edited by F. Maimeri, M. Mancini, Banca d'Italia. Quaderni della ricerca giuridica, 2019, p. 338

and knowledge offered by a few vendors may leave institutions dependent on the supplier's expertise, which is often difficult to assess[36].
Dependence and imbalanced bargaining power characterise business relations with all platforms, including small ones. However, what distinguishes relations with gatekeepers, is the particularly strong level of dependency and the important scale of power imbalance, which together with unfair conduct engaged in by these gatekeepers can have serious harmful effects on the business users and customers[37].
BigTechs are important third-party service providers for financial institutions all over the world. The activity of BigTechs as both suppliers to, and competitors with financial institutions raises problem related to third-party dependencies due to their dominant market power in some markets: the higher a bank's dependency on small number of globally dominant players providing such services, the more bargaining power the latter may have[38].

4. Concluding remarks

The widespread adoption of digital technologies is fundamentally reshaping how customers interact with the financial system. These technological advancements have created opportunities for technology firms to expand their footprint in the financial sector, driving demand for innovative methods of payment, borrowing, and savings.
Tech firms, including BigTechs and FinTechs, have come to deliver various financial services that are typically provided by banks. These services allow users to access payment, credit or depository services ("banking services")[39].
The growing involvement of technology firms in banking services has reconfigured the structure of value chains within the banking sector. Historically, banking has operated through an integrated, vertically organized value chain. However, the entry of tech firms has led to the emergence of an expanded and more distributed banking value chain.
While this distributed model introduces new opportunities, it also creates significant challenges for both banks and supervisory authorities. Investments in digital infrastructure and partnerships with third-party providers have, over time, fostered a substantial dependence of financial system operators on a limited number of globally dominant service providers. In particular, BigTech firms pose distinct challenges due to their scale, bargaining power, and the potential limitations of banks' oversight capacities.
Third-party dependencies is not a new issue, it remains an evolving area for supervisory authorities due to the heterogeneity of services provided and the changing ecosystem.
One possible solution could be to resort to the instrument of contractual arrangements between banks and third parties. In theory, contracts are structured to mitigate agency problems that arise in the outsourcing of products and services. Indeed, a longterm relationship with a service provider is considered a highly effective structure for mitigating risks when large, specific investments are made[40].

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[36] HM Treasury, *Critical third parties to the finance sector: policy statement*, 2022, available on https://www.gov.uk/government/publications/critical-third-parties-to-the-finance-sector-policy-statement/critical-third-parties-to-the-finance-sector-policy-statement
[37] Commission Staff Working Document, *Impact Assessment Report. Accompanying the document. Proposal for a Regulation of the European Parliament and of the Council on contestable and fair markets in the digital sector (Digital Market Act),* {COM(2020) 842 final} - {SEC(2020) 437 final} - {SWD(2020) 364 final}
[38] J. Harasim, *FinTechs, BigTechs and Banks - When Cooperation and When Competition?*, 14 *J. Risk Financial Manag.* 614 (2021)
[39] Financial Stability Institute, *A two-sided affair: banks and tech firms in banking*, Bank For International Settlement, october 2024
[40] J.A. McCahery, F.A. De Roode, *Governance of Financial Services*, op. cit.

As authorities contemplate the regulatory and supervisory response to fintech, developments need to be examined in light of the needs in each market. Some of the issues related to disaggregation and the incorporation of new players into financial product value chains can be addressed through regulatory guidance on governance of partnerships and outsourcing, including clear allocation of responsibilities and supervisory reporting, applied to each individual institution[41].

[41] BIS paper, *Fintech and the digital transformation of financial services: implications for market structure and public policy*, Bank fo International Settlement, 2021 p. 35