



Bank of Russia



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# ECOSYSTEMS: REGULATORY APPROACHES

Consultative report

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## EXECUTIVE SUMMARY

1. The Russian economy, similar to the rest of the world, is moving towards broader use of platform models and ecosystems.
2. Platforms infuse the economy with innovation and provide a better quality of life to the consumers – the majority of daily purchases can already be made online, with most goods being only a few clicks away. Often ecosystems offer solutions based on a single mobile application enabling the user to perform all the necessary operations. Accumulating big amounts of data allows ecosystems to build their clients' profiles and ensure seamless provision of services, as well as increase the accuracy of targeted offers of various products, customized to the needs of every user.
3. Platforms and ecosystems offer new opportunities for product and service providers as well. E-commerce platforms allow SMEs to reach a greater number of customers, eliminating geographical barriers to their business development.
4. Global ecosystems have emerged on the basis of major technological companies possessing considerable amounts of data and an extensive client base. Russia's special feature in this regard is that the financial sector is the leading force in developing ecosystems. Russian technological companies are also moving towards building ecosystems through expanding their range of services and starting to provide some financial products as well.
5. Unregulated development of ecosystems, however, may cause new risks for their participants, other economic actors influenced by their activities, and the economy as a whole. Among such risks are unfair competition and monopolization of certain market segments, discrimination against ecosystem participants, monopolization of technologies, unauthorized use of clients' personal data, and insufficient cyber security and protection from fraud. Ecosystems also often operate in the context of regulatory and tax arbitrage.
6. In a platform-based economy, data becomes the most valuable asset. Therefore, developing a regulatory framework for managing data – obtaining, using and storing it as well as ensuring the users' right to dispose of their data – becomes a key aspect of the governmental regulatory policy.
7. It is also important to highlight the risks for creditors and depositors of the core banks of bank-based ecosystems. Such risks are related to the banks first entering non-financial industries, including strategic risk, step-in risk, and information security risk. The Bank of Russia will issue a separate consultative report containing analysis of the risks accepted by the banks that are building ecosystems, as well as proposed regulatory requirements for such banks.
8. Regulators are now actively developing their policies with regard to ecosystems since the traditional mechanisms are becoming less effective, while new ones are still evolving. That said, according to international experience, if regulatory tools are employed too late, it leads to risk accumulation and requires radical measures, which are distressing for both the business and the society. Timely introduction of regulation, limitations and requirements seems to be the most favorable regulatory scenario.
9. In order to minimize the potential negative consequences of ecosystems growing in the Russian market with no oversight, it is necessary to take proper regulatory and supervisory measures, which would require amending the regulatory environment in the near future. Assessing risks that arise from the platforms' and ecosystems' activities would provide a flexible regulatory toolkit and ensure its timely adaptation to changing conditions.
10. Digital markets are highly dynamic, allowing for a faster takeover by certain ecosystems compared to traditional markets. Another possibility is a dramatic drop in the number of providers using

traditional business models and operating outside of platforms or ecosystems (including a decline among traditional financial institutions). New regulations should minimize corresponding negative consequences, the impact of such transformative processes included.

11. National regulation should also guarantee protection of a competitive environment in the domestic market as the dominance of global ecosystems may strengthen at a fast pace. The cross-border nature of foreign ecosystems' activities coupled with regulatory and tax arbitrage may result in them rapidly taking a dominant position in the Russian market.
12. The role of the government as a major actor in the platform solutions market should be transparent and predictable. Moreover, it is crucial for the government to level the playing field for all market participants and to ensure equal access to state information systems.
13. The optimal target structure of the Russian market would include at least several major national ecosystems competing with each other and foreign actors, as well as niche providers and smaller platforms meeting clients' needs beyond ecosystems, while challenging the leaders.
14. Regulators should focus their efforts on minimizing risks and supporting a competitive environment, including steps to prevent the emergence of artificial barriers for niche players and those playing catch-up, as well as promote innovation and maximize benefits to be gained by the country's population and business from the introduction of platform and ecosystem solutions to the national economy.