

# Financial sector reliance on 2-3 big tech cos poses major risks: Axis Bank CEO

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Companies providing software and other technology support like cloud services to the financial system are trickling down to a few, which can create major systemic risks later, according to a top banker.

"Companies which are providing software, platforms and cloud systems to the banking and financial system are trickling down to a few," Axis Bank managing director and chief executive Amitabh Chaudhry said addressing an event on corporate governance.

It was organised by ex-Sebi chairman M Damodaran's advocacy Excellence Enablers here on Thursday.

Going a step further he warned that "the country's banking system now relies on two three big companies for their software service requirements, and this can lead to emerging risks in case these companies stop investing and ensuring that those platforms are adaptable to this new world".

Chaudhry said such concentration is leading to pressure on the banking system to invest in technology in order to take care of the macro requirements.

"We have to bear all the cost. Again, it comes down to someone doing something and we've to ensure that there is sustainability and resilience. So, the inter-connectedness is causing problems now," he added.

Noting the dominant role of large non-banking technology companies, or bigtech, and financial technology firms in the financial system, the Reserve Bank had in June issued draft guidelines on outsourcing of IT and IT-enabled services by the regulated entities.

The regulator's aim is to ensure effective management of risks in outsourcing IT activities, such as network security, cloud computing, application service providers etc.

In the past, the Reserve Bank had warned that bigtech can scale up rapidly and pose risks to financial stability, which can arise from increased disintermediation of incumbent institutions.

The RBI paper had also issued a draft paper specifying norms pertaining to the use of cloud computing services and outsourcing of the security operations centre. It had then proposed that entities be required to set up a risk management framework for the outsourcing of IT and IT-enabled services, and the risks associated with it.

Such complex intertwined operational linkages between bigtech firms and financial institutions can lead to concentration and contagion risks and issues relating to potential anti-competitive behaviour, the central bank had said in the June 2022 edition of the financial stability report.

The RBI paper has said owing to their large size and clientele, big tech poses serious barriers in creating a level-playing field to promote innovation in financial technology and have the financial muscle to withstand competition. Also, due to their adoption as third-party service providers, they have become the underlying platform on which a host of services are offered.