

## Season1-Episode: Big Tech & Central Banks in 2023 with Ole Rummel

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### Journey into the future

Xenia's parents reside mainly in the USA; however they make sure to visit Xenia and the kids in Germany as often as possible. They usually stay for a couple of weeks, enjoy their big family time during the summer and winter break, then travel back to the USA. The kids especially are delighted with those semi-annual visits and await them every holiday.

Preparations for those visits are usually discussed deeply between the Millers and Xenia's parents. This afternoon Xenia receives a video call on her laptop from her parents. "Hello Dears, our plane is next weekend!" Melanie and Christie rush over and start celebrating excitedly "Yay! We are awaiting you, Granny and Poppy" The grandparents called to plan trips with the kids during their stay. "We want to go to the funfair, and a water park!" say the kids. Finally, after the Covid restrictions are removed, the kids are very happy to be planning their trips with their grandparents once again. "And don't worry we are not forgetting your gifts little darlings" adds Granny.

Now that trips are planned, Xenia's parents want to make a deposit to the Millers for their upcoming stay, trips and more gifts for the kids. Thomas tries to convince his in-laws that this is not necessary, but Xenia knows they will not let this go, as usual. The grandparents suggest "What about using a digital wallet service? They are much easier to use. Do you use one already?". Thomas answers, saying they are using Orange Pay, as it has been proven the easiest and most efficient. „I also know that the exchange rate in Orange Pay is much better than at the bank “, says Thomas. "Oh, even we do not deal with the bank directly anymore “, is the grandparent's answer. Now everything is planned for next week, both families say bye-bye, the girls wave at the screen, "Bye Granny, Bye Poppy, till next weekend!".

**Agnes Kunkel:** Doctor Ole Rummel, Welcome to Part 2 of this threefold episode of 2023.

After this more general discussion about the impact of COVID-19 on central banks in Asia and all over the world, in this part we will have a closer look on Big Tech. These extremely wealthy and powerful companies know so much about us and understand themselves as the force thriving and shaping our future. All of this sounds a little bit as if two systems of high self-esteem and power are meeting, maybe even clashing here; big Tech thinking in global dimensions, disruptions, and on the other hand, central banks think typically in a more national system of currency and economic stability, do we have to watch out for these big tech companies and

what might happen if these companies get more ground during or after pandemic like COVID-19?

**Dr. Ole Rummel:** Thank you Agnes, thank you for the question. I mean this is one of the biggest questions we are faced with at the moment. I would slightly change the statement and say that there are two and a half systems or two and a half players coming together. So we have on the one hand the big tech companies, as you mentioned the sort of the Alibaba's, the WeChat's, the Apple's, I mean we know who they are, the Facebook's and so on and so forth. I think primarily they are up against national governments in the first instance, because these big tech companies have sort of rules of competition and taxation rules, so there are lots of areas where governments are affected. Then there are the central banks in the middle; because some of the issues having to do with the big tech companies also affect central banks. So we have two big bullies on either side and then we have the little simple banks in the middle getting pressure put upon the central banks from governments and from the big tech companies

**Agnes Kunkel:** when we think now about this special crisis of COVID-19, I guess there is the big chance that we will have somewhat slow recovery in economy, let's say in the core economy, maybe in automotive and these important industries as well, and this might have influence on the banking system as when big companies fail serving credits, this might have a bad effect on banks. Is there a threat that these big tech companies could go and buy banks that are in trouble?

**Dr. Ole Rummel:** Thank you Agnes for the question. That is another very good and very tough question. I mean, I think it's well worth keeping in mind that a lot of these companies are enormous in terms of the influence and in terms of their power, but they are actually really not that big and there are also of all sorts of questions about the nature of work. If you are employed and you work in an Amazon warehouse, what's the quality of Labor there or in Google itself? It's a big company, but Google itself is not that big, however they have this sort of outsized power. And to be honest, in terms of them buying a bank, that is theoretically obviously possible, and I couldn't rule out that someone like Apple, who already has the Apple payment systems, follows this up either with creating its own bank or with buying a bank. However, there are certain obligations that come with either buying a bank or creating a bank, which is again sort of competition. Would a government allow a big tech company to take over a big commercial bank and what is the business rationale? Or can the big tech company make a good rationale for taking over a big bank?

There's a reason why there is a banking license. Banking licenses are not cheap. You need to be a licensed bank. You need to have management that is what's known as fit and proper. So the authorities actually look at managers at banks, whether they have the right qualifications for

the job. And there are concerns for society as a whole. We know that some of these big tech companies have been very cavalier about keeping private data and the use of private data. So the idea of one of these companies owning a big bank and having access to our private banking information I know makes some governments around the world very uncomfortable. Of course it's in the nature of our free market system that, if they wanted to buy a bank and they have the means to buy a bank, they can buy the bank. But is this something that really is in the public interest? I don't know, no one has tried it yet, but I would feel pretty uncomfortable about the idea of a bank that belongs to one of the one of the big tech companies. I know that I probably didn't answer your question, but this is probably the best I can give you right now.

**Agnes Kunkel:** Yeah, you mentioned the most important point. Where is the rationale behind buying such a bank? The rationale could be, to tear it apart to keep maybe the client or the customer base and to shut down all But as you said now maybe Google is by the amount of employees a small company compared to some big branch and commercial banks. But when you say OK, I tear it apart. I sell the commercial part of serving industry clients to someone, I close all the branches in the field and I keep just the important information part and maybe flow of money from my Ali Pay or Apple Pay or Google Pay or whatever to some other banks.

**Dr. Ole Rummel:** Indeed, because you would give them even more power in terms of them owning a big bank and having all that information readily available, what are they going to do with that information? I mean most likely this is how many of these companies make their money; with monetizing data and information, selling that information. I agree with you that they would be interested in the customer base and use that for some purpose. But why should a computer company that makes computers and phones own a bank. I can just see an argument for something like Amazon that deals with online shopping or Alibaba or someone like that. But something like Facebook, which is fundamentally a communication system, what would they do with a bank acquisition?

**Agnes Kunkel:** Maybe promote their Libra idea?

**Dr. Ole Rummel:** I was just thinking that! If you remember their white paper, which I think came out in April of this year, they did say that what they want to do is make the transfer of money as easy as sending a text message abroad, so there may be some similarities between whatsapping our friends and family all over the world and Whatsapping money across the world. But it's sort of a big stretch to me. And again, it seems to me like one of these big tech companies have run out of other things to do and they need sort of a new market and new business model and finance seems to be a popular new area to expand into. They've expanded into all other all other areas. So what remains is the finance.

**Agnes Kunkel:** China is on the forefront on these. Do Ali pay, We chat and so on have some restriction from government side?

**Dr. Ole Rummel:** There is a reason why these companies grew so quickly and grew so rapidly and became so big, which is that, I won't deny the fact that initially they addressed a lack of existing technology. Credit cards were never big in China, so these companies saw an opportunity to fill a hole, so to speak, to fill a gap that existed in the Chinese market. And they did this. They did this really well on the back of the database of the client base, so both in case of Alibaba the online shop and in terms of WeChat on the Tencent phone network. They had an existing database and they grew very quickly, and my hat off to them for their growth in terms of identifying a market opportunity. I think at first the Chinese authorities were quite happy for them to fill those roles to provide these services. We will also probably have a chance to talk either in this podcast episode or on the next podcast about having a national champion or having an international champion which became a source of pride up until last year and I think pretty much a year ago or so, maybe a little bit more. I think the Chinese authorities realized that these companies are really, and this might be the wrong word to use, but they are really monsters there. Monsters in their own market and they are increasingly becoming very big players in other countries as well. So you can use Alipay in Malaysia. I understand from you that you can use Alipay in Germany

**Agnes Kunkel:** In some chains, especially where you have these beauty stuff for tourists. Some of these chains started to accept Alipay Here in Germany.

**Dr. Ole Rummel:** So there's been a global expansion of Alipay, which is an expansion or an illustration of China's might and China's power. But these institutions have grown very big very quickly. I believe it's Alipay who started to offer financial services and they have an enormous portfolio. I don't quite remember how big it is, but they have a sizable portfolio, I think of either insurance products or of pension products. These companies are increasingly raising important regulatory issues for Chinese authorities. And there was some attempt last year to put some break on the expansion of these companies by the Chinese authorities.

**Agnes Kunkel:** When we come back to our central idea of COVID-19, what will COVID-19 cause in these markets then? I understand that of course we will see more online and this will help these big tech companies. But you would not expect some moves or active moves into the banking system.

**Dr. Ole Rummel:** Agnes, I have to tell you I'm pretty old-fashioned in this regard, and having lived in many different countries, having experienced different banking systems, I don't quite trust, and this could be the wrong word, how these players operate? They leverage off the database that they have of you. They know your shopping habits. They know what you like to read. They know what you like to buy. They have some idea of how you pay and do you pay on time? Do you pay in full? So they have all this information available from you on the basis of which they use some sort of artificial intelligence machine learning algorithm to determine whether you are a good credit risk or not. Maybe this is the future of banking, but the role of banks is to identify how good a credit risk you are and when the bank gives you a loan, its second role is to monitor the repayment of the loan or making sure that you repay the loan. I just don't know how this is going to scale up to the universe of Alipay or any company. I don't want to single out only the Chinese companies in terms of a giving you a loan. Whether this algorithm that they have is the best way of identifying you as a credit risk or not and then monitoring, is debatable to me. As I said, I'm sort of old-fashioned. There's no human involvement in this, if I have a question, I don't know who I would talk to, I would probably talk to some call center somewhere, where all my information is on a screen. Or I talk to one of these bots about my loan. This may be fine, but what if something goes wrong? What if there's an error in the payments, like in your little story that the person hasn't been paid, or if there was a glitch in the system, where there was a hack, I don't want to know how many times per day these big tech companies are attacked by hackers. Obviously the same is true for traditional banks, but I would like to think that the human touch matters.

**Agnes Kunkel:** This reminds me of a story from my life. We had a local bank here in the little town where I'm living and it was very well organized. It was not very big, but it was very well organized and we have these system, as you know from these Sparkassen which are in these regional organizations and interestingly the organization above was not integrated was not so well run. And it was decided we have to merge our little nice, very well organized little bank into this bigger structure. And the biggest structure didn't work, so it was merged again into the unique Sparkasse, and when I'm now trying to reach out for my account manager then I am in the hotline of the Munich Bank and someone tells me dadadum and if I'm lucky, I am transferred back to my person here in the local town and if I'm not lucky then I'm in the loop in the hotline so. Yeah.

But I understand now of course, when you think about this fascination of the finance sector when you are a big trading company like Alibaba like Amazon and that stuff. Of course when you have means to bring via consumer credits, your customers to buy more would be nice. And if you are able to draw the interest from that loan, and by the way you are in a better position to rate the risk of the loan by your power, then of course there could be a fascination for stepping into finance. And maybe this fascination was the idea behind Facebook talking about Libra as

Facebook has in contrast to Ali Baba or Amazon, big threats in these normal business models. As you maybe remember, there was some sort of strike against Facebook doing no ads on Facebook for a few weeks or so. I don't understand what was behind, but the I guess the big fear was the affectivity of ads on Facebook is not so big as at the moment as people want.

**Dr. Ole Rummel:** I mentioned this rideshare company Grab .They started off with a ride share company. There's a similar company in Indonesia called GoJak. GoJak is now starting to offer loans to their drivers. In all these rideshare apps drivers are being rated; they get between zero to five stars. So if you are a good driver and you have a very high rating, that's sort of a good sign and this company will now give you money, will give you credit to buy a new car, so this is sort of a win, win situation. It fits really well together that an app or a company providing the drives, will also allow you to buy a new car and you have all the information available. You have the feedback from the customers. How much money does the driver bring in every day? How many hours does he work per week and all of this information?

**Agnes Kunkel:** Big tech or tech companies, which are established in other areas and Industries, like new artificial intelligence and rating stuff, they might have easier way to enter the financial market and I'm very curious what we will see in the next years. Would this shift to online, that's in any case caused by COVID-19, make it happen that we see new players in the financial area?

**Dr. Ole Rummel:** Yes and no. I think and again, especially in my region, there are some different approaches and there are different approaches in Europe as well. So some countries are much more positive about these companies than others. For example, Switzerland is quite keen on these companies. One ultimate step under current regulation, and I will return to this point in a minute, is whether these companies accept a deposit. Will that regulation have to change? Are the banks of the future very different from the banks that we've had for 800 years or this sort of system of a bank, which we first had in medieval Italy as a deposit taking institution.

Maybe regulation is too slow or is lagging behind and has to catch up. But it's a problem that has been with us for many years, but what is the balance? How do you draw the balance between these big tech companies that may be beneficial to society. How do we know that they've crossed into activities that are not beneficial? So on the one hand, you want these companies to do what they do, and they're very good at it, and the public demonstrates that these services are highly valued. But at some point these companies overreach. And they may go into areas that are not appropriate or where they don't have the same expertise. But you don't want regulation to be heavy handed. You don't want regulation to be too tough. So far regulation has drawn a very fine line. Maybe regulation has to be tougher. Maybe the

boundaries of what is a bank and what isn't have to be redrawn. Maybe we should have a broader definition of a bank as sort of any entity offering financial services of any sort.

**Agnes Kunkel:** Ole That would be a wonderful bridge to our part three.

We have now discussed in Part 2 of COVID-19 and central banks the big Tech companies, Apple Pay alipay, Amazon and these type of companies, as we wanted to have a look or on the dark side of the system and talk about maybe fraud-less systems, money laundering, and small fintechs flowing under the radar of regulation and as you just mentioned, what is a bank, is a bank institution that accept deposits and what is the wallet for an ice cream shop?

I'm curious to hear from you in our third part talking about the COVID-19 and Fintech. What is a bank, what do we have to do to regulate. And what is the downside, especially fraud, money, laundry and maybe other criminal activities in the bank banking system. So thanks so far Ole.

**Dr. Ole Rummel:** My pleasure.