Unlocking Public and Private Finance for the Poor

# Technical Paper 2.1

# BigFintechs and the United Nations Sustainable Development Goals: the role of corporate governance innovations

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The findings of the Dialogue on Global Digital Finance Governance are packaged into three thematic areas:

## Theme 1

**BigFintechs and their impacts on sustainable development**

- Technical Paper 1.1 BigFintechs and their impacts on sustainable development
- Technical Paper 1.1B BigFintechs and their impacts on macroeconomic policies
- Technical Paper 1.2 Digital currencies and CBDC impacts on least developed countries

## Theme 2

**Corporate governance innovations**

- Technical Paper 2.1 BigFintechs and the UN SDGs: the role of corporate governance innovations

## Theme 3

**BigFintechs and international governance, policymaking and the SDGs**

- Technical Paper 3.1 Policymakers, BigFintechs and the United Nations Sustainable Development Goals
- Technical Paper 3.2 BigFintechs and international governance, policymaking and the UN Sustainable Development Goals: the SDGs in the international governance of finance
- Technical Paper 3.3 A principles-based approach to the governance of BigFintechs

# Executive summary

This paper discusses corporate governance of global digital finance platforms (BigFintechs) in relation to their societal impacts and effects on broader United Nations Sustainable Development Goals (SDGs), with a specific focus on innovative voluntary mechanisms, given that the industry is currently not regulated by particular sector-specific standards.

Our findings suggest that corporate governance innovations could play a role in addressing certain BigFintech impacts, especially in the absence of a broader regulatory framework for the sector. Some BigFintechs have already implemented voluntary mechanisms to address their impacts on the attainment of the SDGs. However, these mechanisms are mostly being advanced by individual players and are not inclusive of most stakeholders impacted by their externalities, particularly in developing economies.

These largely experimental measures point to a number of emerging examples for the BigFintech sector to consider to address a range of concerns about its social, competition, fiscal, environmental and other impacts. Indeed, these experimental measures point to interesting solutions that may provide new ways for BigFintechs to address existing concerns and support achievement of the SDGs, while regulators and policymakers adjust to digitization and sustainability-related risks.

The Dialogue on Global Digital Finance Governance was established by the UN Secretary General's Task Force on Digital Financing of the SDGs. During its investigations, the Task Force recognized that digitalization is not only reshaping the world of finance; it is also driving the emergence of a new generation of global, dominant digital finance platforms (BigFintechs) with increasing cross-border spillover effects on many areas of sustainable development across the world, particularly in developing economies.

The potential impacts of these platforms are both positive and negative, and one of the main challenges in addressing them is that existing policy approaches to BigFintechs have mostly focused on narrow, although important, financial stability, consumer protection and market integrity issues, and some aspects of data, Internet and competition regulation, but have remained largely disconnected from the broader SDG/ESG debate. Another issue is that the governing arrangements of such platforms have seldom involved developing economies, where their impacts are often strongest, and the potential for transformation is greatest.

The Dialogue was established to explore the nexus of BigFintechs and sustainable development. Its goal is to catalyse governance innovations that take greater account of the SDG impacts of BigFintechs and are more inclusive of the voices of developing nations. To this end, the Dialogue has produced a series of Technical Papers that bring new, complementary perspectives on these issues. The papers have been drafted by commanding experts in the field and have been peer-reviewed by leading institutions and academics.

The following paper is Technical Paper 2.1 under Theme 2.

The Dialogue on Global Digital Finance Governance is hosted by the Swiss and Kenyan Governments and stewarded jointly by the United Nations Development Programme (UNDP) and United Nations Capital Development Fund (UNCDF).

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# Rising concerns around BigFintechs

Over the last decade, digitalization has driven the emergence of a new generation of global digital finance players (BigFintechs), merging finance and technology to achieve scale. Some are originating from social media, e-commerce and technology companies providing regulated financial services; others from non-tech industries, existing financial institutions or large data, telecoms and infrastructure providers to the financial sector, native FinTech companies, and incumbent financial institutions seeking to transform into tech companies, from China's Ant to India's Paytm, Amazon in the United States, Mercado Libre in Latin America, ride-hailing services in Southeast Asia and mobile money platforms in Africa.[1]

| BigFintech category | Examples of companies active in this category |
|---|---|
| **Payment platforms**<br>*Regional mobile money providers and global payment platforms*<br>**Alternative/crypto currencies and central bank digital currencies, bank cash on ledger** | *Ant/Alipay, Apple, Facebook, Fnality, Google Pay, JPM Coin, MTN, Paytm, central banks (e.g. People's Bank of China), Safaricom, Tencent (WeChatPay)* |
| **e-Commerce/marketplace platforms**<br>*Online platforms or marketplaces connecting sellers with buyers (products or services)* | *Amazon, Alibaba, eBay, Fiverr, Jio, Jumia, Reliance, Upwork* |
| **Social media platforms**<br>*Venturing into payments and social commerce* | *Facebook Novi/Diem, Tencent/WeChat* |
| **Data and cloud services**<br>*Providing data and infrastructure services to financial players* | *Amazon Web Services, Alibaba Cloud Services, Azure, Google Cloud, Ethereum, Microsoft, Next Gen DLT* |
| **TechFin platforms**<br>*Originating from tech players, venturing into financial services and digital livelihoods*<br>**Cryptocurrency exchanges** | *Airbnb, Amazon, Apple, Binance, Grab, Mechanical Turk, Uber* |
| **Incumbents/mature FinTechs**<br>*Digitalizing global banks and financial actors, in retail or wholesale* | *Blackrock, JP Morgan, Mastercard, SaxoBank, Swift, Visa* |

1 A. Mitha and D. Arner, 'BigFintechs, A New Paradigm', United Nations Capital Development Fund and United Nations Development Programme, New York, May 2021.

While there is little doubt that such developments have improved our lives in many ways, from supporting remote payments to allowing millions in lockdown to buy household essentials online during the COVID-19 pandemic, it is equally fair to say that BigFintechs have benefited and increased their size and influence during the pandemic. For example, Amazon published record profits in the first three months of 2021, up 220 percent compared to the same period the previous year.[2]

Similarly, Facebook's and Google's revenues have surged during the pandemic,[3] raising economic concerns and amplifying existing antitrust ones. Most notably, the European Commission has been investigating antitrust impacts of Big Tech and has issued a number of fines (some appealed and reversed). The European Union's planned Digital Services Act—likely to be the most challenging legislation to BigFintech dominance expected from the body—gives hope for the emergence of a common position on tech firms' use of citizen data.

On the other side of the Atlantic, a report by the US Congress Investigation of Competition in Digital Markets released in early 2021 also looked at Big Tech singularly from an antitrust perspective. Regulators are not focusing on governance of Big Tech or BigFintech as a potential solution to their societal impacts; instead, antitrust measures are seen as a priority (e.g. the Google antitrust case brought in October 2020 by the US Department of Justice). Yet the reorganization of tech platforms without explicitly considering their conflicts of interest—leading, for example, to unfair competition or abusive exploitation of data—may not solve underlying concerns around BigFintechs' negative effects on attaining the United Nations Sustainable Development Goals (SDGs).

As the world shifts towards digitalization, BigFintechs command a privileged market position. Most BigFintechs are indeed in a unique position to harness large numbers of users, unparallelled access to data and sophisticated algorithmic and technology-driven approaches to building financial ecosystems in the service of addressing customer needs more holistically and, along the way, fending off competitive pressures while taking economic rent.[4]

And where competition exists, it becomes the target of acquisitions, as evidenced by the massive talent grab by GAFAM (Google, Apple, Facebook, Amazon, Microsoft) in the artificial intelligence (AI) industry in 2019.[5] Beyond acquiring AI firms, the BigFintech (and Big Tech more generally) have adopted active and, by some judgements, aggressive acquisition strategies domestically but also in emerging markets, where they have acquired local competitors, which can be argued to have had an adverse effect on competition and also potentially on entrepreneurship in emerging markets.[6] In its report 'The Future of Corporate Governance in Capital Markets Following the COVID-19 Crisis', the Organization for Economic Co-operation and Development (OECD) argues that the systematic acquisition of smaller companies may have also contributed to drying up the pipeline of Initial Public Offerings (IPOs) for start-ups.[7]

In Dubai, for example, Careem, which in 2012 disrupted the local car transport sector, previously dominated by state-owned Dubai Taxi, was acquired by Uber in early 2021. Likewise, Souq.com, launched in 2005 with investment by the Saudi sovereign wealth fund and private Emirati investors, was acquired by Amazon in 2017. Even during the pandemic, the Emirati company Instashop was acquired by German Delivery Hero. This is also exemplified by Facebook and Google's recent investments in India's Jio[8] and Ant's acquisition of British payments group WorldFirst, a powerful signal of Ant's growing interest in foreign markets.[9]

BigFintech are also expanding horizontally across sectors, either directly or through acquisitions. One such example is Amazon's acquisition in 2017 of Whole Foods, an American grocery chain, which allowed it to venture into an industry in which it was previously not active. Such acquisitions have led to an effective sectoral spread of Big Tech and the disruption of dynamics in various sectors, which have been further exacerbated by the pandemic. Similar acquisitions of companies operating in vertically or horizontally integrated industries have further concentrated not only BigFintech but also other markets impacted by these acquisitions. This process of market and ownership concentration in the private sector has been highlighted by the OECD, which has called for further adaptation of government corporate governance frameworks to support a resilient recovery.[10]

2 K. Wiese, 'Amazon's profit soars 220 percent as pandemic drives shopping online', *New York Times*, 29 April 2021, https://www.nytimes.com/2021/04/29/technology/amazons-profits-triple.html.

3 N. Zainab Hussain, S. Dang and E. Culliford, 'Facebook benefits from pandemic ad spending but Apple could spoil its party', Reuters, 28 April 2021, https://www.reuters.com/technology/facebook-quarterly-revenue-beats-expectations-2021-04-28/.

4 'How internet giants damage the economy and society', *Financial Times*, 24 October 2019, https://www.ft.com/content/17460a66-1592-11e8-9e9c-25c814761640.

5 P. Sawers, 'How the 'big 5' bolstered their AI through acquisitions in 2019', VentureBeat, 23 December 2019, https://venturebeat.com/2019/12/23/how-the-big-5-bolstered-their-ai-through-acquisitions-in-2019/.

6 A. Kole, 'US and Chinese tech firms increasingly play a game of Pac-Man', LSE Phelan US Centre blog, 7 November 2020, https://blogs.lse.ac.uk/usappblog/2020/11/07/us-and-chinese-tech-firms-increasingly-play-a-game-of-pac-man/.

7 S. Celik and D. Blume, 'New OECD Corporate Governance Reports and the G20/OECD Principles of Corporate Governance', Harvard Law School Forum on Corporate Governance, 15 July 2021, https://corpgov.law.harvard.edu/2021/07/15/new-oecd-corporate-governance-reports-and-the-g20-oecd-principles-of-corporate-governance/.

8 M. Singh, 'Google invests 4.5 billion in India's Reliance Jio Platforms', TechCrunch, 15 July 2020, https://techcrunch.com/2020/07/15/google-invests-4-5-billion-in-indias-reliance-jio-platforms/.

9 'China's Ant Financial agrees to buy WorldFirst in $700m deal', *Financial Times*, 14 February 2019, https://www.ft.com/content/31b05cfa-303d-11e9-ba00-0251022932c8.

10 S. Celik and D. Blume, 'New OECD Corporate Governance Reports and the G20/OECD Principles of Corporate Governance', Harvard Law School Forum on Corporate Governance, 15 July 2021, https://corpgov.law.harvard.

Inevitably, market concentration leads to more data concentration, which in turn fuels data monetization practices that can put consumers at risk and challenge existing competition frameworks based on price. Notably, the process by which data are harvested by BigFintechs and, more broadly, corporate AI applications has been and continues to be of interest to both regulators and civil society stakeholders. While progress has been made in the potential of AI applications for data harvesting and processes, particularly for advancing new types of information-based, collateral-free financing, concerns have been raised around AI's failings, notably the implicit gender, race and other biases.

The process of setting governance standards for AI applications, which a McKinsey report estimates to add up to 16 percent to global GDP by 2030,[11] began with the adoption of an AI governance framework by Singapore in 2019, the first country to do so. Since then, other countries have followed suit, and efforts have also been made at the multilateral level by the European Commission, which issued a first-ever legal framework on AI in April 2021,[12] significantly more advanced than its first effort in this area in 2018, 'Draft ethics guidelines for a trustworthy AI'.

In parallel, some progress has been made in addressing the aforementioned biases, both in a sector-specific context (e.g. the insurance sector)[13] and in cases of individual companies where regulators and enforcement tribunals have pronounced themselves, either prohibiting specific technologies or issuing fines to companies that have used technologies which give unfair preference to a certain demographic segment of the population.[14]

Perhaps data concentration is the issue that has attracted the most attention in recent months. BigFintechs have indeed undergone much scrutiny from regulators, both in China and in the United States, but also in the European Union, India and other markets. Their outsized market power and the colossal amounts of data they command have raised eyebrows and triggered strong regulatory responses which vary from one jurisdiction to another.

From the European Union's new 'Digital Services Act Package', which fosters competition among digital services providers and protects digital consumer rights, to the United Kingdom's new code of conduct to govern dominant tech platforms,[15] to the US Department of Justice's filing of an antitrust lawsuit against Google on Internet search and advertising markets, to the US Federal Trade Commission's recent antitrust action against Facebook, and China's move on BigFintech platforms and e-commerce triggered by their systemic relevance, regulators' attention is increasingly focusing on BigFintechs.

The incredible rise of Ant Group in China, the issues that have emerged since its aborted IPO at the end of 2020, and now the new Information Technology Rules released in 2021 by the Ministry of Electronics and Information Technology in India[16] raise other questions about the regulation of BigFintechs in emerging markets, and the considerations, beyond purely technical regulation, that might be at play which radically alter the future of the industry. Questions are also being raised about capital markets that have benefited immensely from the listing of tech firms, including BigFintechs.

But these are not the only concerns. In question are BigFintechs' societal impacts, from the erosion of the tax base in countries where economic value is extracted through tax arbitrage—an issue that has been championed by the OECD with its proposal of a minimum global tax rate[17]—to digital governance concerns such as data governance, personal privacy and biases in algorithms, to negative effects on quality of work and sustainable livelihoods, to effects on freedom of choice through behaviour manipulation.

Many of these issues are fundamentally linked to social welfare and human rights, and are hence directly or indirectly connected to the SDGs. Indeed, analysis by the Danish Institute of Human Rights shows that more than 90 percent of the SDG targets are intrinsically linked to specific provisions of international and regional human rights instruments and labour standards.[18]

edu/2021/07/15/new-oecd-corporate-governance-reports-and-the-g20-oecd-principles-of-corporate-governance/.

11 J. Bughin, J. Seong, J. Manyika, M. Chui and R. Joshi, 'Notes from the AI frontier: Modeling the impact of AI on the world economy', Discussion Paper, McKinsey Global Institute, 4 September 2018, https://www.mckinsey.com/featured-insights/artificial-intelligence/notes-from-the-ai-frontier-modeling-the-impact-of-ai-on-the-world-economy.

12 European Commission, 'Europe fit for the Digital Age: Commission proposes new rules and actions for excellence and trust in Artificial Intelligence', Press release, 21 April 2021, https://ec.europa.eu/commission/presscorner/detail/en/ip_21_1682.

13 OECD, 'The Impact of Big Data and Artificial Intelligence (AI) in the Insurance Sector', OECD Publishing, Paris, 2020, https://www.oecd.org/finance/Impact-Big-Data-AI-in-the-Insurance-Sector.pdf.

14 N. Rissanen, 'Artificial Intelligence: Don't Let a Biased Algorithm Ruin Your Business', Castrén & Snellman, 14 January 2021, https://www.castren.fi/blogandnews/blog-2021/artificial-intelligence-dont-let-a-biased-algorithm-ruin-your-business/?utm_source=Mondaq&utm_medium=syndication&utm_campaign=LinkedIn-integration.

15 Government of the United Kingdom, 'New competition regime for tech giants to give consumers more choice and control over their data, and ensure businesses are fairly treated', Press release, 27 November 2020, https://www.gov.uk/government/news/new-competition-regime-for-tech-giants-to-give-consumers-more-choice-and-control-over-their-data-and-ensure-businesses-are-fairly-treated.

16 The IAPP, 'Information Technology Rules, 2021 suggest big changes for Big Tech in India', *The Privacy Advisor*, 27 April 2021, https://iapp.org/news/a/information-technology-rules-2021-suggest-big-changes-for-big-tech-in-india/.

17 OECD, 'Tax and digital transformation', https://www.oecd.org/going-digital/topics/tax/.

18 K. Charamba, D. Arner and A. Sergeev, 'Technical Paper 3.2: BigFintechs and international governance, policymaking and the United Nations Sustainable Development Goals: the SDGs in the international governance of finance', United Nations Capital Development Fund and United Nations Development Programme, New York, https://www.undp.org/sites/g/files/zskgke326/files/2021-06/UNDP-UNCDF-TP-3-2-BigFintechs-and-International-Governance-Policymaking-and-the-United-Nations-EN.pdf.

To these SDG-related concerns can be added environmental considerations. At a time when BigFintechs are announcing ambitious net zero commitments,[19] questions are being asked about their broader ecosystems and supply chains,[20] many of which are operating in developing economies where policy frameworks are sometimes weaker.

Questions can and have indeed been raised as to what institutional investors are doing to address environmental, social and governance (ESG) concerns and SDG priorities in the BigFintech sector, many of which are naturally intertwined. Climate disclosure is currently dominating that agenda, alongside gender and racial diversity,[21] whereby institutional investors are becoming increasingly vocal, in particular in developed markets. This is evidenced by the California State Teachers' Retirement System's ongoing campaign to change Exxon Mobil's board of directors for its failure to make sufficient investments in climate-friendly technologies.[22] A relevant question is whether they are playing this role in other, less developed capital markets.

Another concern is whether institutional investors can effectively play that role in companies with multiple voting classes where founder-shareholders have a controlling vote. This has been an issue in the context of a recently defeated resolution around climate change and diversity tabled by Amazon employees.[23] Understanding and addressing multiple voting class shares appears critical in this context. The International Corporate Governance Network, an umbrella organization of global institutional investors with USD55 trillion under management, has long advocated for a one-share-one-vote structure or, at a minimum, sunset provisions on multiple class shares.

Addressing these issues and aligning BigFintechs with the SDGs will require enhanced international governance which goes beyond financial stability and consumer protection to also address negative societal externalities and sustainable development outcomes. It also requires corporate governance innovations that address the challenges of Big Tech, some of which are specific to the sector, while others such as multiple class shares are also present in other sectors but are exacerbated in the tech/BigFintech context.

## Corporate governance challenges of BigFintechs

Corporate governance of BigFintechs presents many challenges, as it relates to their impact on sustainable development. While many actions, although insufficient, have already been taken in response to the climate crisis, and more biodiversity-related actions will come after the Task Force on Nature-related Financial Disclosures[24] completes its work, the governance of sustainability still faces multiple challenges.

Existing corporate governance frameworks are relatively vague in requiring or motivating boards of directors to articulate a robust sense of corporate purpose which includes not only an understanding of sustainability factors likely to affect both the company and its stakeholders, but also the company's broader effects on sustainable development, including through its supply chains and extended ecosystems throughout the world.[25] At the same time, it should be recognized that some progress has been made in European countries such as France and Germany, where various reforms have taken place around corporate purpose, as evidenced by the introduction of the *entreprise à mission*[26] in France.

This articulation would constitute a sound basis for board governance and accountability to stakeholders, and in turn calls for the nomination of directors who have an understating of sustainability-related trade-offs. Currently, the boards of most BigFintech are not particularly tech- or sustainability-savvy,[27] which reflects the fact that they are subject to the same governance standards as other listed companies, and that many boards feature the interests of both their founding shareholders and the private equity firms that have been instrumental in launching these companies.

In the specific case of BigFintechs, sustainability considerations could be integrated in different ways, from establishing board committees concerned with specific aspects of sustainability, to appointing specific senior roles in the company (i.e. Chief Artificial Intelligence Risk Officer), to establishing subsidiary boards at the national

19 T. Quinson, 'Tech Companies Are Setting the Most Ambitious Net-Zero Goals', Bloomberg Green, 7 April 2021, https://www.bloomberg.com/news/articles/2021-04-07/tech-firms-are-setting-the-most-ambitious-net-zero-goals-green-insight.

20 K. Foster, S. Blakstad, M. Bos, S. Gazi, C. Melkun and B. Shapiro, 'Technical Paper 1.1: BigFintechs and their impacts on sustainable development', United Nations Capital Development Fund and United Nations Development Programme, New York, https://www.undp.org/sites/g/files/zskgke326/files/2021-06/UNDP-UNCDF-TP-1-1-BigFintechs-and-Their-Impacts-on-Sustainable-Development-EN.pdf.

21 This is the case in the United States in particular, where some states such as California have mandated for publicly listed companies to have at least one board member of an underrepresented racial background to be appointed by 2021.

22 K. Doron, 'Statement on ExxonMobil's loss of $22 billion in 2020', CalSTRS, 3 February 2021, https://www.calstrs.com/statement/statement-exxonmobils-loss-22-billion-2020.

23 E. Perry, 'Amazon Employees for Climate Justice vow to persist despite defeat of their resolution and snub by Jeff Bezos', Work and Climate Change Report, 23 May 2019, https://workandclimatechangereport.org/2019/05/23/amazon-employees-for-climate-justice-vow-to-persist-despite-defeat-of-their-resolution-and-snub-by-jeff-bezos/.

24 See https://tnfd.info.

25 International Corporate Governance Network, 'Viewpoint: Governance of Big Tech', https://www.icgn.org/sites/default/files/ICGN%20Viewpoint_Governance%20of%20Big%20Tech%20_0.pdf.

26 A new form of company with statutory social or environmental objectives. The term was introduced in 2015 to translate the practice of 'benefit corporations' existing in the United States since 2010.

27 K. Doron, 'Statement on ExxonMobil's loss of $22 billion in 2020', CalSTRS, 3 February 2021, https://www.calstrs.com/statement/statement-exxonmobils-loss-22-billion-2020.

level.[28] These corporate governance approaches would call for clear formulation (voluntary, mandatory, country-specific, international etc.) while addressing the question of proportionality and flexibility.[29]

Indeed, an important issue is how specific governance/compliance arrangements, and even anti-corruption processes, get implemented from parent company to subsidiary level. Another consideration is that issues around AI might be more relevant to certain contexts, while issues related to cybersecurity and privacy might prevail in others, leading to different governance frameworks and arrangements.

Many resources are available which can help BigFintechs integrate sustainability and development considerations in their governance, from the United Nations B-Tech Project[30] to the ethical innovation work advanced by the World Benchmarking Alliance. At the same time, the integration of stakeholder considerations has not been adequately addressed, especially considering the variety of stakeholder groups which BigFintech affects in emerging markets, where they may not have the same legal powers as those where the parent company operates (e.g. Indian users of Google Pay).

An evolution towards broader stakeholder representation (through representative directors or stakeholder advisory boards consisting of employees, suppliers and civil society partners) might help address societal impacts. Some companies in the sector, such as Facebook, have already moved towards this approach with the creation of a parallel oversight board, which in some way echoes a dual board structure typical of the German corporate governance model.

Fundamentally, the ownership structure of BigFintechs is another challenge, often amplified by multiple class share structures and voting rights[31] which, while effective at providing businesses with room for critical agility and innovation in fast-moving markets, are also limiting accountability to minority shareholders and preventing required adjustments to governance structures over time, as would be reasonable to expect of any company.

28 A. Kole Amico, 'Size matters when it comes to big tech', Aspen Institute Italia, 2 December 2020, https://aspeniaonline.it/size-matters-when-it-comes-to-big-tech/.

29 OECD, 'Flexibility and Proportionality in Corporate Governance', OECD Publishing, November 2018, https://www.oecd.org/corporate/flexibility-and-proportionality-in-corporate-governance-9789264307490-en.htm.

30 OHCHR, 'B-Tech Project', https://www.ohchr.org/EN/Issues/Business/Pages/B-TechProject.aspx.

31 R. Tallarita, 'High Tech, Low Voice: Dual-Class IPOs in the Technology Industry', Discussion Paper No. 77, Harvard Law School, Cambridge, MA, May 2018, http://www.law.harvard.edu/programs/olin_center/fellows_papers/pdf/Tallarita_77.pdf.

As such, this concentration of power in the hands of a few founders is but a reflection of growing market concentration.[32] In some instances, such as the Snapchat listing, which occurred with non-voting shares for the first time in the history of modern capitalism, questions can be raised as to the impact of the technology sector, which, as was argued earlier, plays a key role in the entry of Big Tech into finance, in changing the underlying philosophy of shareholder capitalism.

Fierce competition between stock exchanges, notably in the wake of Brexit and the London Stock Exchange's (LSE) bid to remain relevant in the global capital market landscape, has further amplified the debate about multiple class shares and tech company listings. Specifically, the LSE recently proposed to change its rules for Premium Segment listing to allow multiple class shares with sunset clauses, which elicited an outcry in the investor community. Other jurisdictions (France, Portugal, Netherlands, Italy) are exploring loyalty voting shares, where investors who hold shares for two years receive double the vote, as a potential solution.

How BigFintechs approach and calibrate their corporate governance in response to emerging challenges and concerns will determine how they are perceived by the public and treated by regulators. In the context of a fragmented regulatory space and the lack of comprehensive approaches to their governance, they have an opportunity to use better governance to address conflicts of interest which will not be resolved by pure competition policy. Advancing such voluntary mechanisms to maximize their positive impacts and mitigate their negative effects, particularly in developing countries, might produce better outcomes than competition-based solutions.

## Emergent trends in voluntary mechanisms

With mounting public pressure and awareness, different businesses, both from within the Fintech sector and outside, have attempted to manage their broader societal impacts in various ways. Some of these attempts have unfolded as a response to specific regulatory requirements—for example, those developed by the Task Force on Climate-related Financial Disclosures for the financial sector.

32 International Corporate Governance Network, 'Viewpoint: Governance of Big Tech', https://www.icgn.org/sites/default/files/ICGN%20Viewpoint_Governance%20of%20Big%20Tech%20_0.pdf.

Others have been the result of voluntary mechanisms that individual companies have implemented at the corporate governance level as an attempt to address their impacts on the SDGs, sometimes with greater emphasis on environmental SDGs but also including economic and social SDGs. A notable example of social SDG impact is social media platforms' adverse effects on children's cognitive development, which has been highlighted by research.[33]

Across all markets, BigFintechs have recently advanced voluntary mechanisms, and for some, corporate governance innovations. Some examples include the following:

**Establishing external oversight models.** In a major step towards relinquishing ultimate decision-making power on thorny societal issues, Facebook's Chief Executive Officer (CEO) established the Facebook Oversight Board. This board is funded by Facebook through a USD130 million trust, consists of a 20-person panel made up of journalists, academics and politicians, is primarily focused on content moderation issues and acts as a 'Supreme Court' of sorts. While its sincerity, motivations and principles have been questioned,[34, 35] it points to a new inclination towards external oversight models around societal concerns. Another example is Microsoft opening a mission to the United Nations to advance multi-stakeholder solutions to global challenges, thereby inviting external inputs into its own governance.

As imperfect as these self-regulatory processes may be according to critics, they underline the pressing need to balance public interest decisions, which are essentially about the SDGs, with commercial interests. Whether self-regulatory approaches can be trusted or whether external regulatory oversight is indeed needed, which might require a significant overhaul, the experiment is paving the way for new possibilities and evolutions which range from bringing more platforms under the same external governance umbrella, to embedding such arrangements in statutory regulation, to enhancing existing regulatory architecture for real counter-power, to the sector itself coming up with more self-regulatory models.

**Broadening stakeholder base to include various interests.** An interesting case of designing a more inclusive stakeholder membership is the Diem Association,[36] which is responsible for the governance of the Diem network. Although the project was reportedly conceived by Facebook, its current governance consists of diverse businesses and non-profit organizations with some level of representation of developing-economy interests through US-based entities focused on advancing financial and digital inclusion around the globe. Members make key decisions for the Diem network, essentially run as a public utility, with Facebook's private interests represented by Novi. Although an imperfect attempt at bringing a more inclusive developing-economy lens into the governance of Diem, this example demonstrates what might be possible in the future.

**Transferring powers through decentralization.** One approach propounded by Twitter to transfer some of the responsibilities that fall on digital platforms (e.g. social media), particularly as it relates to intermediating basic human rights, is to decentralize its operations. This idea is underpinning Twitter's new decentralized social network, still at the design phase.[37] Through decentralization, power would be transferred into the hands of participants, who would self-regulate content and other aspects based on self-interest. While this approach alone does not guarantee positive societal outcomes without robust governance mechanisms embedded in the design, it has the merit of pushing the frontiers of what is possible with decentralized approaches.

**Putting privacy in the hands of users.** Apple's decision to let users decide whether they agree to their data being shared across apps, released with iOS14, has been well received by many organizations, including Amnesty International and Human Rights Watch.[38] Whether the change was motivated by Apple's own interests, as claimed by competing app-based platforms, or originated from genuine concerns around privacy and responsible use of data on the part of brokers and online advertisers, it certainly expresses the company's new focus on data governance issues and is an example of self-regulation.

**Direct board oversight over specific SDG issues.** An unprecedented resolution from Alphabet's shareholders pushed the company to consider establishing a human rights risk oversight committee to help anticipate and oversee adverse human rights and societal risks of its technologies.[39] A similar resolution filed by Facebook shareholders illustrates how seriously the

33 I. Cataldo, B. Lepri, M. Jin Yee Neoh and G. Esposito, 'Social Media Usage and Development of Psychiatric Disorders in Childhood and Adolescence: A Review', *Frontiers in Psychiatry*, 13 January 2021, https://www.frontiersin.org/articles/10.3389/fpsyt.2020.508595/full.

34 M. Wood, 'Is the Facebook Oversight Board something anyone actually needs?', Marketplace, 10 May 2021, https://www.marketplace.org/shows/marketplace-tech/is-facebook-oversight-board-something-we-act

35 H. Murphy, 'Facebook's Oversight Board: an imperfect solution to a complex problem', *Financial Times*, 17 May 2021, https://www.ft.com/content/802ae18c-af43-437b-ae70-12a87c838571.

36 See https://www.diem.com/en-us/.

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38 D. Leprince-Ringuet, 'Apple's new privacy tool lets you choose which apps can see and share your data. Here's what you need to know', ZDNet, 28 January 2021, https://www.zdnet.com/article/apples-new-privacy-tool-lets-you-choose-which-apps-can-see-and-share-your-data-heres-what-you-need-to-know/.

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issue is taken by shareholders and paves the way for the integration of a broader set of goals into board oversight structures. However, the influence of shareholders is also limited by multiple class share structures, as discussed earlier, which calls for broader reforms.

**Self-discipline rules.** The Chinese Ant Group recently published self-discipline rules which aim to strengthen consumer rights protection and construct ethical standards. Measures stipulate, for example, that small and micro business lending platforms should guide borrowers to use funds reasonably and prevent the funds from flowing into stock and property markets.[40] This is an example of context-responsive self-imposed governance.

**Embedding societal mission into articles of association.** Danone was the first listed company to adopt the entreprise à mission model under French law, embedding the related legal framework within its articles of association and developing new governance arrangements to oversee its environmental and societal goals.[41] This is in line with Danone's objective to become B Corp[42] certified globally. Germany has recently also adopted a similar legal modification to its corporate law, allowing companies to integrate stakeholder interests into their purpose and hence for boards to oversee this expanded set of interests.

**Adoption of benefit governance.** Benefit corporations are traditional for-profit organizations which opt into an expanded purpose, realigned fiduciary duties and additional transparency around impact. From a corporate governance perspective, it means that the company must balance the interests of multiple stakeholders, including employees, consumers, government, investors, suppliers, local communities etc. Several companies have already voluntarily adopted this status, including Danone, Lemonade and Amalgamated Bank. Under such an arrangement, directors are provided legal protection to balance financial and non-financial interests.

**Fair pay and disclosure of compensation.** Pay transparency, particularly on the issue of equal pay and gender equality, is gaining ground in the European Union with the proposal by the European Commission to advance an enhanced legal framework.[43] As these pay measures become a core area of focus, BigFintechs have an opportunity to anticipate regulation and take voluntary action. While companies such as Mercado Libre seem to have already taken significant action to reduce the gender gap in both representation and pay,[44] working actively to close the remaining 2 percent salary gap, others are still failing to address the issue—for example, in the UK.[45]
In addition to the above-mentioned measures already adopted by some BigFintechs, governance solutions can be 'borrowed' from other sectors such as the banking sector, which features systemically important institutions regulated by a separate sectoral standard (the Basel standards on corporate governance). These standards contain relevant concepts such as a Chief Risk Officer (CRO) role, which in the context of BigFintech can be translated as a Chief Technology Officer (CTO) role. The 'fit and proper standard' for bank board directors is another potentially interesting avenue to explore.

At the same time, national governance approaches such as dual-tier boards present in the Germanic legal tradition can also be considered in an attempt to integrate stakeholder representation in the decision-making process. Other national governance innovations, such as the role of a director representing minority shareholders, could also be considered with a stakeholder focus. However, these concepts would need to be confronted with the legislative frameworks in countries where BigFintechs are domiciled to ensure their legal coherence. The latter observation demonstrates the need for international coordination at the sectoral level that could resolve such issues as the Basel Committee model addresses banking stability and governance concerns at the supra-national level.

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44 Mercado Libre, 'Sustainability Report 2018', Mercado Libre, Buenos Aires, 2018, https://investor.mercadolibre.com/static-files/b4f4df6f-2daa-40a6-8502-ef37308b260b.

45 W. Bedingfield, 'Here are the gender pay gaps at Apple, Facebook and Google', *Wired*, 5 April 2019, https://www.wired.co.uk/article/gender-pay-gap-2019-uk-figures.

# Lessons for SDG-aligned corporate governance of BigFintechs

Governing BigFintechs for sustainability will require a mix of regulatory and voluntary self-governance approaches. Traditional corporate governance approaches are making progress with ESG integration, which is a reasonable yet insufficient proxy for the SDGs, but they are making the application of certain practices from parent company to subsidiary level discretionary.

Ensuring that BigFintechs support sustainable development in both their headquarters and their entire geographic footprint will require significant regulatory coordination. In the meantime, BigFintechs could be inspired to advance corporate governance actions and voluntary mechanisms to mitigate their societal impacts and broader effects on the SDGs, ahead of regulatory enforcement.

Examples that were discussed in the previous section show that there are interesting experiments and new solutions to be further explored. While individual initiatives might not suffice, and might appear self-interested, industry-wide approaches might generate better results but would add a layer of complexity.

Integrating a broader range of stakeholders in governance, including developing-economy stakeholders, represents an interesting avenue to explore. The more systemic role of BigFintechs in conflict-affected or resource-constrained States—for example, in providing effective channels for remittances and international aid—stresses the importance of more inclusive and sustainability-aligned governance.

All in all, it ultimately boils down to willingness and responsibility: the choice is now in the hands of boards and senior executives of BigFintechs to step up to the challenge. A lack of leadership in this space will only increase the regulatory backlash that BigFintechs will inevitably face over the coming months—notably where the threat of regulatory break-up following antitrust investigations (e.g. of Google) looms large. At the same time, antitrust action alone will not address potential conflicts of interests or sustainability-related concerns that call for governance solutions.

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