

RESPONSE TO CALL FOR INPUT

CCIA response to FCA Call for Input about competition impacts from the data asymmetry between technology companies and companies in financial services

Summary

- Studying technology companies as a category, versus more granular, but also more complete, analysis of specific consumer-facing sectors, is likely to obscure more than it reveals.
- Expanding the scope of the FCA’s investigation to include wholesale markets is not likely to be worthwhile.
- To the extent that the FCA is interested in the impact of asymmetries between financial services and non-financial services businesses, it should take a holistic approach and review the extent asymmetries might impede entry from outside the financial services sector and therefore challenges to financial services incumbents.
- Open Finance should not be understood as a driver for data asymmetries between companies and there are analogous requirements developing in other sectors.
- Existing and incoming regulation (ex ante competition regulation notwithstanding) should be expected to limit the impact of any data asymmetries that do exist.
- The core business of most general technology companies is served by pro-competitive partnerships in financial services, not competing with them.
- There are many companies that have access to the kind of data (and tools such as AI and machine learning) held by general technology companies that are relevant for financial services. In considering potential market power relating to data asymmetries, and assessing the impact of any potential policy response, FCA and other regulators and policymakers should give full consideration to the potential for market solutions.
- General technology companies generally do not sell or share data, reflecting customer and regulatory expectations, but the other ways in which they share the commercial utility of that data through competitive markets should be taken into account. Additional requirements to share data could risk creating significant harm to consumers and trust in digital ecosystems.
- The FCA should focus on competitive dynamics within financial services, where general technology companies play a positive role. Challengers from outside the sector (particularly potential challengers) are by their nature much more likely to improve outcomes for consumers and over-reacting to the potential for scenarios where this is not the case will tend to protect incumbents.

Sectoral definition

- In most cases, “big tech” companies operate in wider sectors either as part of value chains (e.g. providing devices that complement mobile networks) or competing with

others. In most cases, the data held by the technology company mirrors the data held by other companies in that vertical value chain and/or horizontal sector:

- Companies offering mobile operating systems work with the same kind of data as network operators over the data such devices exchange over the Internet, subject to similar regulations around - for example - data protection and government access.
- E-commerce companies have the same kind of data as other retailers, e.g. purchase histories, with similar limitations versus financial services businesses (particularly card schemes and banks) in that they only see spending with that business and even the largest normally only account for a fraction of any given consumer's total spending.
- While there may be differences in the extent to which data is collected and accessible, reflecting the technological capabilities with which and context in which technology companies operate (i.e. online) these gaps are likely to blur over time. Technology companies make technology platforms and infrastructure available through public cloud services, with a strong market incentive to make that as accessible as possible for financial services and other non-financial companies (including supporting them in the transition from legacy IT, a commercial priority for cloud providers). At the same time, many companies in other sectors are working to gather equivalent data on offline transactions, e.g. supermarkets encouraging the use of loyalty cards which build more complete purchase histories (although again this will still be much less complete than the data held by some financial services businesses).
- In the limited scope in which technology firms engage in financial services markets directly, the data they generate by doing so is also often directly comparable to that generated by financial services businesses addressing similar consumer needs. In payments, for example, the data generated by a bank or a card scheme is likely to be similar or more expansive than (to the extent people use their online wallet for a subset of the transactions for which they use their debit or credit card) the data held by technology companies.
- ***Studying technology companies as a category, versus more granular, but also more complete, analysis of consumer-facing sectors, is likely to obscure more than it reveals.***

Q1: What are the competition or data-based competition issues arising in wholesale markets? Are these similar or different to the issues that we are considering in retail markets? Should we be expanding our scope to include wholesale markets?

- In wholesale financial markets, even more than in retail financial markets, technology companies are likely to work with existing financial services businesses and provide services, particularly cloud IT. As discussed later, this is generally likely to be pro-competitive, broadening access to high quality data and other inputs.
- Reflecting the earlier consideration in DP 22/5, there is less incentive for technology companies to enter wholesale financial markets where:

- new services will not support the overall function of the consumer- or enterprise-facing digital ecosystems they operate; and
- platforms are less likely to be able to address market failure in terms of distributing financial services to consumers (e.g. product search and comparison, or the expansion of access seen in developing economies).
- ***Expanding the scope of the FCA’s investigation to include wholesale markets is not likely to be worthwhile.***

Q2: To what extent does this data asymmetry hold between Big Tech firms and financial services firms in retail financial services markets? What are the nature and drivers of any data asymmetry that exists? Do you expect that data asymmetry to become more significant over time? If so, how?

- We can broadly consider three kinds of data that are used in financial services:
 - **“Back office” data:** consumer contact details, account numbers and other data needed in order to operate financial services.
 - **“Outcomes” data:** this might relate to insurable losses, defaults on loans or other outcomes which it is commercially valuable to predict.
 - **“Predictor” data:** these are the many indicators that might be used in building more-or-less sophisticated models to predict outcomes, either for specific customers and products, or at a less granular level.
- Incumbents might enjoy an advantage due to having more **back office data**, reflecting existing relationships with customers, and this (in part) what Open Banking is intended to address. This kind of data is generated in the course of providing financial services and, to the extent there are asymmetries, outside companies (including technology companies) will tend to have less access to this data than incumbent financial services providers (Open Banking, at least at present, can be understood as an attempt to mitigate that asymmetry).
- Incumbents might enjoy an advantage due to having more **outcomes data**, reflecting their longer history of providing financial services to specific customers or customers generally for the relevant financial services. Again by its nature this kind of data is generated in the course of providing financial services and, to the extent there are asymmetries between the two sectors, technology companies will tend to have less access to this data.
- **Predictor** data is where technology companies will have access to potentially useful datasets, reflecting their own interactions with consumers. However datasets that might plausibly predict financial services-relevant outcomes are:
 - **Not rare.** Financial services businesses will often have such data (e.g. equivalent data on consumer transactions, often more complete) and a wide range of non-finance companies will also have equivalent data.
 - **More substitutable.** To the extent that these datasets are being used to model the lifestyle, attitudes and other relevant characteristics of the individuals being loaned, businesses being insured and the like almost any personal data might be

suitable. That data is held by a very broad range of companies and potentially held by many more (see response to Q5).

- **Dependent on other datasets.** Even if an indicator might, in principle, be a good predictor of relevant financial services outcomes, whether it is useful in practice can only be discovered using outcomes data. This means there will be an information asymmetry (over the value of data held by technology companies, i.e. whether there is an asymmetry) in favour of financial services businesses, which can more readily anticipate and test which kinds of indicators are useful. This creates a further practical barrier to exploiting any purported data advantage enjoyed by technology companies and, combined with the other factors above, explains why such asymmetries have not been a source of market power and are not likely to become a source of market power.
- ***To the extent that the FCA is interested in the impact of asymmetries between financial services and non-financial services businesses, it should take a holistic approach and review the extent asymmetries might impede entry from outside the financial services sector.***
- Despite Open Banking having been in place for some time, our consultation with members suggests they are not using it as a source of data and do not anticipate doing so. As the call for input notes, the data provided also does not presently provide a holistic view of a customer's finances (particularly key events that might allow a company - in the technology sector or otherwise - to reliably leverage other datasets). Even if Open Finance develops from here, it will reflect a wider pattern (which includes technology companies) of governments exploring "smart data" opportunities (as in the current [proposed UK revisions to data law](#)), balanced against the impacts on incentives to build new networks and technical and other costs. There is no reason to expect a particular asymmetry between financial services companies and other sectors.
- In many relevant scenarios, there will only be an asymmetry to the extent that technology companies are not competing in financial services markets. For this to become a problematic source of an asymmetry over time would require scenarios in which technology companies compete in financial services much more than they do now, but in a form that would not render them subject to Open Banking requirements for the relevant data. This would rule out many of the potential scenarios in which asymmetry might arise identified elsewhere in the FCA's call for input and earlier consultation, where data is generated by financial services provided by technology companies (subject to the same regulation as that which applies to dedicated financial services businesses). If a new regulatory requirement applies to payment services, for example, it will not exclude technology companies that provide regulated payment services.
- If programmes such as Open Finance were only acceptable from a regulatory perspective if they applied evenly across all sectors - regardless of consumer appetite, practicality and wider policy justification - then the likely outcome is that those requirements would not go ahead or be severely limited in their ambition. This would harm the interests of consumers and favour incumbents.
- Broadly speaking, the principle should be that to the extent businesses operate as - for example - retailers - they should be treated as retailers, if they operate as banks they should be treated as banks. Open Finance should be judged on its own merits.

- ***Open Finance should not be understood as a driver for data asymmetries between companies and there are analogous requirements developing in other sectors.***

Q3: Are there regulatory (or other) constraints that mitigate or prevent: the asymmetry of data between Big Tech firms and other firms in financial services, or the adverse impact of this data asymmetry on competition?

- Existing data regulation will limit the potential to aggregate data for new purposes. While there will be settings in which such data combination is legal and appropriate, based on principles established in EU GDPR, these limitations will further diminish the potential for technology companies to leverage data from other settings to establish market power.
- To the extent data law is changing, as noted above, it is changing in ways that are likely to further mitigate the potential for asymmetries between financial services providers and other businesses, particularly with the extension of Open Finance-like initiatives in new settings.
- Given the potential for ex post competition policy (ex ante regulation notwithstanding) any business strategy premised on exploiting data asymmetries would face additional risks alongside the market dynamics described in the last section. This will be less likely where either:
 - the technology company is a challenger entering a new sector, mitigating advantages enjoyed by the incumbent; or
 - the practice is otherwise pro-competitive; it might create countervailing benefits by reducing data asymmetries between competing financial services providers (e.g. enabling challengers to advertise to customers incumbents can reach through their existing relationships).
- To the extent that tech firms work with financial services businesses, those best-placed (or with the greatest incentive) to work with technology companies are those with fewer legacy systems (or needing to compete with incumbents enjoying other advantages). This means the role of technology companies is generally likely to be pro-competitive.
- Existing, planned and potential regulations add to the market dynamics (discussed in Q5) that would mitigate any market power emerging from data asymmetries between technology companies and financial services providers.
- ***Existing and incoming regulation (ex ante competition regulation notwithstanding) should be expected to limit the impact of any data asymmetries that do exist.***

Q4: We are seeking evidence that shows the value of the data that Big Tech firms collect from their core digital activities and/or when these are combined with financial services data in financial services. Please give specific examples.

- Given the overall breakdown of their revenues, value will be greatest for general technology companies where activity supports advertising, enterprise and other cloud

ICT services and/or consumer sales (depending on the firm). This will be where the commercial value of data is greatest for those companies (and their customers).

- Opportunities with respect to financial services are therefore likely to fall into these categories:
 - Financial services is a valuable segment within digital advertising - this is broadly pro-competitive to the extent that advertising is most valuable to challengers who lack pre-existing customer relationships and reputation. This is where data on consumer preferences is likely to be most valuable.
 - Financial services companies are significant customers for Cloud IT services, subject to the challenge transitioning from legacy IT systems where continuity is critical. This is where the greatest data might be exchanged but, unlike consumer services, this is monetised through enterprises paying not through the data held as a result.
 - Many consumer services are enhanced by integrating financial services - e.g. smoother processes for accessing credit can improve an e-commerce proposition; and peer-to-peer payments can enhance social networks (and diminish problems such as fraud to the extent consumers do not have to make arrangements entirely on their own). In this case, any data is likely to be relatively procedural and to the extent it is used it would be in supporting other elements in the core business.
- Crucially, all of these interactions are ones in which technology companies either have a direct commercial interest in working with financial services companies as customers, or in which their primary interest is a smooth customer experience to support wider digital ecosystems (versus a core source of revenue). To the extent the interest is reducing frictions in the ecosystem, working with existing providers is generally likely to produce better outcomes as consumers are able to, for example, use their existing preferred payment services.
- ***The core business of most general technology companies is served by pro-competitive partnerships in financial services, not competing with them.***

Q5: Can you provide information on alternate data sources that financial services firms can replicate or substitute for Big Tech firms' data. Please give specific examples.

- Many of the kinds of data held by general technology companies (i.e. expressions of consumer behaviours and preferences attached to individual profiles) are held by a very broad range of companies (including many companies not understood as “big tech” - e.g. media companies). Deloitte [research](#) for Meta Platforms (then Facebook) in 2017 found that the average consumer had data relationships with 24 companies, many of them material with that number likely to rise over time. For those using a broad range of digital services is typically over 60 and as many as 100. Unless there is specific evidence to the contrary, the FCA should assume that non-financial services specific data is generally likely to be substitutable among those other data relationships.
- Credit Reference Agencies are described in the call to input as a potential source of data asymmetries, but the function of those (and other existing and potential) data sharing initiatives actually limits the potential for such asymmetries. Credit Reference

Agencies and similar initiatives will allow a broad range of firms to access those substitutes for technology company data.

- Any technology company seeking to establish market power through its access to data would need to have access to distinctive data versus:
 - existing data held (or potentially held) by financial services providers;
 - existing data sharing within financial services;
 - potential data sharing within financial services, i.e. creating new equivalents to Credit Reference Agencies; and
 - potential data sharing between financial services and other non-financial businesses (including other technology companies).
- This substitutability also applies to the tools with which data can be analysed, such as AI and machine learning. Financial services providers use such techniques in their existing business (e.g. in detecting fraud), many tech companies (both well-established and relatively new) are building AI systems and thanks to a strong commercial incentive (in the form of enterprise revenues) they share those tools with other sectors (including financial services).
- These market responses to actual or potential market power affect the plausible path to a technology company establishing durable market power through data asymmetries. Unless a company holds data that is distinctive versus actual and potential competitors (including by aggregation between businesses) and particularly valuable in providing a particular financial service (very unlikely for datasets generated with other purposes in mind):
 - any business strategy premised on these data asymmetries is likely to be risky or at best time-limited; and
 - to the extent a business does establish market power in this way, any market power is likely to elicit a response and be mitigated by dynamic competition.
- While some datasets held by financial services companies (e.g. financial track records for particular customers with respect to particular products) might be distinctive enough they confer market power, this is very unlikely to be true for technology companies in financial services. By their nature, the data these companies hold is not specific to financial services products.
- All of this is likely to be a part of why such strategies have not been followed by technology companies thus far. Our consultation with members suggests that they are also not under active consideration.
- ***There are many companies that have access to the kind of data held by general technology companies that is relevant for financial services. In considering potential market power relating to data asymmetries, and assessing the impact of any potential policy response, FCA and other regulators and policymakers should give full consideration to the potential for market solutions.***

Q6: Can you provide evidence on the extent to which competitor financial services firms can access Big Tech data. Where relevant, please outline any contractual terms or conditions that are placed on financial services firms for accessing this data.

- Technology companies generally do not share or sell datasets themselves, reflecting consumer expectations and regulatory constraints. However, financial services companies can still functionally access that data, via:
 - Services that provide access to its effect, particularly advertising. This reflects a general trend where there will be a commercial incentive to share the benefits of data that is likely to be more profitable than trying to enter every sector. It is more attractive for technology companies to help financial services providers sell financial services rather than entering the market themselves. Given rising competition in the digital advertising sector (with the rapid growth of the TikTok and Amazon advertising businesses and new entrants such as video-on-demand platforms) this is likely to continue. Cloud services providing access to algorithms trained against wider data sets (potentially customised with customer data sets) would be another example.
 - Regulatory requirements, e.g. data portability or smart data provisions. While, like Open Finance, these should often not be understood as means to redistribute data they could provide a means to build services that utilise such data and - in a similar way - may grow over time when and if that is appropriate.
- To the extent this data sharing is limited, it reflects that financial services providers do not compete with general technology companies, which do not offer financial services on a material scale. If this changed, there is no reason to think that general technology companies would not share data in a similar manner to financial services companies (in part because they would be subject to the same regulatory oversight).
- If additional data sharing were required, this would need to be done cautiously and with a very robust rationale (likely based on actual market power and consumer harm, not scenarios in which it might occur in the future). Data sharing requirements could harm consumers to the extent it increases the potential for breaches or other misuse and it could undermine trust, causing customers to avoid beneficial (and pro-competitive) interactions with digital ecosystems.
- **General technology companies generally do not sell or share data, reflecting customer and regulatory expectations, but the other ways in which they share the commercial utility of that data through competitive markets should be taken into account. Additional requirements to share data could risk creating significant harm to consumers and trust in digital ecosystems.**

Q7: Can you provide information, including examples and analysis conducted, that would show whether the competition benefits and harms that we have identified are emerging or are likely to emerge in the future, as well as any other competition impacts?

- Given the minimal role that financial services companies play as competitors in financial services markets right now, the competition harms identified are generally not emerging.
- Benefits, however, have emerged including more easily scalable access to infrastructure via cloud services and a greater ability for challengers (including new services launched by established providers) to reach customers.
- This is not surprising given the practical role digital ecosystems can generally play in enabling competition and the many barriers, described in response to earlier questions, to general technology companies exploiting purported data asymmetries. While it is difficult to rule out any outcome entirely, there is no reason to expect those barriers to diminish and some (e.g. regulatory requirements for data sharing) are likely to grow over time regardless of further FCA action on the basis of this call for input.
- ***The FCA should focus on competitive dynamics within financial services, where general technology companies play a positive role. Challengers from outside the sector (particularly potential challengers) are by their nature much more likely to improve outcomes for consumers and over-reacting to the potential for scenarios where this is not the case is more likely to protect incumbents.***

Q8: Do you have views on ways regulation can enable competition benefits to materialise while mitigating potential harms?

- The FCA should look to ensure that there are as few regulatory barriers as possible (subject to other imperatives, such as consumer safety) to financial services companies working with general technology companies. This might include: taking a supportive attitude to transitions to cloud infrastructure; and avoiding unnecessary obstacles to challenger financial services advertising. This will generally enhance consumer outcomes directly but also enhance competition by reducing fixed costs and distributional obstacles to building new financial services.