

Competition Division
Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

By email



9 January 2023

Dear Sir/ Madam,

DP22/5 – THE POTENTIAL COMPETITION IMPACTS OF BIG TECH ENTRY AND EXPANSION IN RETAIL FINANCIAL SERVICES

The Panel welcomes the opportunity to respond to the ideas set out in the discussion paper published in October 2022. We have focused our feedback on potential entry scenarios, competition benefits and harms and the potential impact of regulation.

Potential entry scenarios

Q5: For each of the four sectors we have studied, have we identified the most likely entry scenarios?

The entry scenarios for Big Tech firms appear plausible and resonate with many of our observations on what we are already seeing in the sectors. In the consumer credit sector for example there are instances of Big Tech firms entering as credit brokers, as BNPL and development into a credit reference type strategy. There are also signs Big Tech firms may be looking to enter via partnerships and signs of potential interest in open banking.

Potential competition benefits and harms

Q7: For each of the four sectors we have studied, have we identified the key potential competition benefits and harms? Who stands to benefit most? Who is most at risk of harm?

The potential benefits of Big Tech entry as presented in the DP are compelling. Big tech clearly has the potential to improve processes, save time and make the customer journey experience less disjointed. Building on this, simplification of products and streamlining of processes is likely to help build customer engagement, and alongside this the entry of Big Tech 'known brand' firms could also help build trust in the sector.

A primary concern is the potential for oversimplification and overreliance on automation which could have the unintended consequence of guiding consumers towards products and services which may not be suitable for their needs. Consumers considering insurance and protection products for example could be steered towards non advised rather than advised comparison solutions. It is important to recognize that in some cases elements of complexity will require advice.

Streamlining access to consumer credit could also encourage take up by those for whom it may not be the most appropriate solution. Enabling comparisons and product switching may reduce the cost to the consumer but this needs to be balanced against affordability and consideration of good outcomes in the context of the consumer duty.

Where there are partnership arrangements, it will be important that the consumer has a clear line of sight on who/which firm they are contracting with. There is a need to be mindful of the end-to-end customer journey and provide transparency on data ownership and associated risks.

Q4: For each of the four sectors we have studied, what competitive advantages and disadvantages do Big Tech firms have over existing providers and potential entrants, such as fintech?

Our key observation is that the volume and range of data Big Tech firms have access to, and their experience and capability in monetizing this through analytics and AI, potentially provides Big Tech firms with significant advantage over the rest of the market. There is the potential for regulated entities to be pressured into uneven partnerships. There may be rationale for opening up access to Big Tech data, particularly in consumer finance, to enable an even playing field and support healthy competition. For example, the potential for Big Tech firms to make use of user data and purchase history as a form of credit check in the consumer credit sector has the potential to undermine the recent progress fintechs have made accessing open banking data previously confined to banks.

In the longer term, the risk that monopolies could emerge is of concern, potentially affecting the viability of smaller firms and negatively impacting on consumer choice.

Impact regulation has/could have on big tech entry and expansion

The regulators will need to work closely together to monitor developments relating to the entry of Big Tech firms in financial services with a view to identifying trends, and particularly being alert to early indicators of unhealthy competition/signs of assertion of dominance within sectors. Particular focus will be needed on where to establish the regulatory perimeter, balancing promoting healthy competition alongside protecting consumer interests.

We would be happy to discuss any of these points further.

Yours sincerely,

[signed]

Andy Mielczarek
Chair, FCA Smaller Business Practitioner Panel