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Mr Dietrich Domanski
Secretary-General
Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Dear Mr Domanski

Re: FinTech and market structure in financial services

The Institute of International Finance ("IIF") welcomes the Financial Stability Board ("FSB") report *FinTech and market structure in financial services: Market developments and potential financial stability implications*, published on February 14. This report is a welcome addition to current policy discussions, and it rightly identifies the major policy issues.

The report recognizes some important distinctions, most notably the different market and competitive dynamics associated with the smaller so-called "FinTech" companies as opposed to "BigTech" firms. We also commend the FSB for emphasizing the risks for institutions that do not keep pace by adopting technologies such Cloud, as well as on the risks posed by fragmentation and barriers in data flows, each of which are prominent areas of focus for the IIF.

The nature of digitization and disruption necessarily makes this a highly dynamic space, and one where any thorough analysis needs to be sustained and continually updated. It is in this context that as we commend the FSB for its report and its analysis to date, we concurrently wish to highlight two significant topics that warrant further investigation, and we propose some next steps. These two key topics (which have a degree of intersection) are:

1. Data sharing frameworks, and potential impacts on competition; and
2. Tools for identifying and responding to rapid market shifts.

On both of these topics, it is important to consider not only the stability of institutions, but also the stability of the provision of services to customers.

Data Sharing Frameworks and Competition

Open banking frameworks offer an opportunity to empower customers with more control over their data, allowing them to share it between different players, and to benefit from innovative data-driven services. But where open banking also seeks to expand competition, structural asymmetries in personal data frameworks may prevent this objective from being realized.

The FSB report rightly identifies the ability to use "proprietary customer data from their non-financial operations" as one of the competitive advantages of BigTech firms in the direct provision of financial services, and as one of the factors that distinguishes them from other FinTech firms. Access to vast amounts of customer data, network effects and economies of scale can create barriers to entry and increase concentration in certain digital markets, reinforcing the FSB's conclusion that "while BigTech firms could represent a source of increased competition for incumbent financial institutions, in some scenarios, their participation may not result in a more competitive market over the long term." Open banking frameworks can enable those large digital players to gain access to new types of customer data (in many cases starting with payments transactions), which they exclusively can aggregate with their existing customer datasets, as the IIF described in July 2018.[1]

The customer empowerment heralded by open banking should not be limited to the financial sector; customers could similarly benefit from commensurate access to transactional data from other sectors, including the likes of digital commerce, media, social networks and telecommunications. As traditional industry boundaries become increasingly blurred, there should be symmetrical obligations on all firms participating in an open data environment, always as directed by the customers. One example of a customer-centered, multi-sectoral approach is Australia's Consumer Data Right (CDR).[2]

We acknowledge that this issue extends beyond the scope of the FSB and some of its members, but it is important that financial services authorities are attuned to the implications of narrow, sector-specific data sharing frameworks, given the potential implications for market structure and ultimately stability.

Next Steps: As a topic for further research, we encourage the FSB (and other bodies, such as the Basel Committee on Banking Supervision) to examine the symmetrical or otherwise characteristics of the various open banking / data sharing frameworks that are being developed or implemented around the world, specifically in terms of their potential impacts on competition, market structure and financial stability. The IIF stands ready to contribute to such an exercise.

Identifying and Responding to Rapid Shifts

We share the FSB's view that the entrance and expansion of BigTech firms into the financial services market has not yet reached the point of posing a systemic risk in most jurisdictions, but that it may in the future. Where the FSB rightly calls out the need for ongoing vigilance in monitoring such developments, there are two further steps that need to be progressed in support of this.

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[1] IIF, *Reciprocity in Customer Data Sharing Frameworks*, July 2018, https://www.iif.com/portals/0/Files/private/32370132_reciprocity_in_customer_data_sharing_frameworks_20170730.pdf

[2] Australian Government, *Open Banking: customers, choice, convenience, confidence* (known commonly as the "Farrell Report"), December 2017, https://treasury.gov.au/sites/default/files/2019-03/Review-into-Open-Banking-_For-web-1.pdf

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Firstly, existing approaches to monitoring may be insufficient. Noting the rapid pace of change that has already been observed where BigTechs have expanded in markets such as China, this vigilance needs a forward-looking approach, and to be tooled accordingly. The speed to market that BigTech firms have demonstrated in the past when launching new products outside of the financial services area shows that an adequate policy response could be needed quickly. Traditional monitoring is often founded in observations of official statistics that are often reported with a lag, might simply lack the agility to offer a timely policy response to mitigate systemic risks.

Secondly, it is essential to have policy responses ready to be rolled out quickly when needed, such that the FSB and its members can be proactive if and when a dramatic shift in the market quickly occurs. The FSB rightly identified that BigTechs' participation may not result in a more competitive market over the longer term, and we reiterate that this consideration of stability needs to include views of the provision of services and market integrity. This potential for critical stability impacts means that it is vital to have a 'toolkit' of potential policy responses planned and ready, including policy instruments that reach beyond banks.

Of course, the IIF recognizes that enhancing monitoring practices and developing a set of forward-looking monitoring tools and policy responses are not easy tasks, and they demand the combined expertise of multiple stakeholders. The nature of digital disruption brings us to new territory, and nobody has all the answers; across industry and the regulatory community, we are all learning together. We further recognize that any case for pre-emptive actions needs to be balanced with the equally important desire to not unduly deter innovation. Nevertheless, the dynamic and agile environment makes it important to know what signs to look for, and have advance visibility of what corrective actions might be appropriate.

Next Steps: To advance these needs, both of (i) developing a more proactive and far-reaching set of dynamic tools for monitoring, and (ii) preparing the 'toolkit' of available policy responses, the IIF proposes to hold a series of ''Scenario Workshops' together with the FSB and other relevant stakeholders.

This would be an opportunity to devise, simulate and analyze various scenarios of emerging financial services and their effects on the system. The guiding objective would explicitly not be to prevent other actors from entering the financial services market, but to build a sustainable environment in which innovation is balanced against the legitimate interests of customers and financial stability.

The IIF would be pleased to convene a group of industry, regulatory and other stakeholders for this activity, for instance on the occasion of the IIF Annual Membership Meeting in Washington in October, and/or at the FSB headquarters in Basel, or hosted by one of our members in a major financial capital.

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To reiterate, the IIF commends the FSB on its substantive analysis, and we share many of the views and concerns identified. It is a mutual interest of the industry and regulatory community to ensure that we have sustainable competition in the market, and stable and continuous delivery of services to customers. Where the dynamic environment presents new challenges for these objectives, we need to progress on this together.

The IIF looks forward to working with the FSB and its members in continuing this important endeavor. We welcome further discussions, and if you have any questions, please contact either myself (bcarr@iif.com) or my colleagues Pablo Urbiola (purbiola@iif.com) and Adrien Delle-Case (adellecase@iif.com). We will also engage directly on our suggested next steps.

Yours Sincerely,

Brad Carr,
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