FINANCIAL CONDUCT AUTHORITY

Feedback Statement

FS23/4

The potential competition impacts of Big Tech entry and expansion in retail financial services

July 2023

Contents

Moving around this document

Use your browser's bookmarks and tools to navigate.

To **search** on a PC use Ctrl+F or Command+F on MACs.

Request an alternative format

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Chapter 1

Introduction

1.1 Over the past few years, Big Tech firms have grown their presence in UK financial services, and they have the potential to increase that presence quickly. As part of our three-year strategy, launched in April 2022, we committed to identifying potential competition benefits and harms from Big Tech entry in financial services.

1.2 In October 2022, we published a Discussion Paper (DP 22/5) assessing potential competition benefits and harms arising from Big Tech entry and expansion in four retail financial services sectors – payments, deposits, consumer credit and insurance. The purpose of this paper was to stimulate a discussion about areas where Big Tech entry is likely to create the biggest competition benefits for consumers and areas where there is the greatest risk of significant harm if competition does not develop effectively. Table 1 below outlines the permissions held by selected Big Tech firms in financial services.

Table 1 – Selected Big Tech Permissions for UK Financial Services

	Categories of FCA Permissions						
Firm	Payments	E-money	Consumer credit	Insurance	Deposits	Mortgages	Pensions
Google	✓	✓					
Amazon	✓		✓	✓			
Meta/Facebook	✓	✓					
Apple	✓		✓	✓			

Source: FCA Register, July 2023

1.3 Five key themes emerged following our analysis in DP 22/5:

- Big Tech firms have the potential to enhance the overall value of their ecosystems with further entry and expansion in retail financial services sectors through innovative propositions.
- In the short term, a partnership-based model is likely to continue to be the dominant entry strategy for Big Tech firms. In the longer term they may seek to rely less on partnerships and compete more directly with existing firms.
- Big Tech firms' entry may not be sequential or predictable. Big Tech firms' ecosystem business models and conglomerate operations mean entry into one financial services market may create opportunities for expansion into complementary financial markets.
- In the short-term and possibly enduring longer term, Big Tech firms' entry in financial services could benefit many consumers. These benefits could arise from Big Tech firms' own innovations or by increasing other market participants' incentives to innovate, improve quality and reduce prices of financial products and services through increased competition.

- In the longer term, there is a risk that the competition benefits from Big Tech entry in financial services could be eroded if these firms can create and exploit entrenched market power to harm healthy competition and worsen consumer outcomes.

1.4 Since DP 22/5 was published in October 2022, there have been further developments as Big Tech firms' presence in financial services markets continues to increase both in the UK and other countries. Figure 1 summarises some of these developments. Annex 1 presents a selection of product developments both in the UK and internationally.

Figure 1 – Selected Big Tech developments in financial services since October 2022

October 2022
Publication of DP 22/5.

December 2022
Microsoft announce a 10-year strategic partnership for data and analytics and cloud infrastructure solutions with the London Stock Exchange Group (LSEG). Microsoft also acquire an estimated 4% equity stake in LSEG, and Microsoft's Executive Vice President of Cloud & AI Group has a seat at the LSEG Board.
Google and Splitit announce they will expand their partnership by adding Splitit Instalments to the Google Store in additional markets beyond Japan.

March 2023
Apple launch Apple Pay Later in the US, which is enabled through the Mastercard Instalments program and allows users to split purchases into four payments and repay their Apple Pay Later loans in their Apple Wallet.

April 2023
Apple announce that they are offering Apple Card holders in the US a 4.15% high-yield savings account with Goldman Sachs.
Meta announce that WhatsApp is launching a business payments service in Brazil enabling small businesses to sell goods to their customers through the WhatsApp chat application.

June 2023
Amazon add a buy now pay later (BNPL) option which can be offered by merchants on the Amazon platform in the US.

1.5 Given the continuous technological and regulatory developments and the fast-moving nature of digital markets, it is critical for us to be forward-looking and proactive as we develop our regulatory competition approach to Big Tech firms.

1.6 Governments and regulatory authorities globally are increasingly using regimes that seek to proactively prevent harm to complement existing competition law enforcement activity. This includes the Digital Markets Act (DMA) by the European Commission and antitrust bills considered by United States lawmakers, as well as other developments in Australia, South Korea and Japan. In the UK, the Competition & Markets Authority (CMA) has launched multiple investigations into the activities of Big Tech firms across various economic sectors.

1.7 We want to develop an effective competition approach for Big Tech firms in UK financial services that is coherent with the wider regulatory landscape, both in the UK and internationally.

1.8 DP 22/5 forms part of a wider programme of work in relation to Big Tech firms and digital markets more generally, which includes:

- Supporting the Government's work on creating a new pro-competition regime for digital markets, as part of the Digital Markets Unit (DMU).
- Engagement and collaboration with the Digital Regulation Cooperation Forum (DRCF) on digital markets issues and regulatory matters.
- Our joint work with the DRCF and the Bank of England on artificial intelligence (AI) in financial services.
- Our joint work with the Prudential Regulation Authority (PRA) and Bank of England on operational resilience and the role of critical third parties.
- Building out the Regulatory Sandbox and Innovation Pathways, to allow innovative firms and business models to enter financial services.

Who will be interested in this Feedback Statement

1.9 This Feedback Statement will be of interest to all market participants, potential entrants, and authorities with an interest in the potential competition impacts of Big Tech entry and expansion in financial services.

1.10 This Feedback Statement will be of particular interest to:

- Big Tech firms
- Established regulated financial services firms
- Smaller challenger firms (including fintech firms)
- Trade bodies of regulated firms
- Consumers
- Groups representing consumers' interests
- National and international competition authorities and regulators with an interest in digital markets.

1.11 This Feedback Statement sets out:

- A summary of responses to DP 22/5 and our response (Chapter 2).
- Our actions and next steps (Chapter 3).

1.12 At this stage we are not proposing any regulatory or policy changes.

Summary of feedback

1.13 We received 41 responses from a wide range of stakeholders including Big Tech firms, regulated financial services firms, trade associations, challenger firms (including fintech firms), consumer organisations and research institutions.

1.14 In addition to formal respondents to DP 22/5, we held a webinar in November 2022 (available to view on-demand), as well as industry roundtable events in December 2022. These responses, and insights gathered through extensive stakeholder liaison, have been an important input into our understanding of how Big Tech firms' entry and expansion may impact competition in financial services markets.

1.15 There were several key themes arising from respondents' feedback and our engagement events in November and December 2022:

- **Differing Big Tech business models and strategies:** Most respondents raised that Big Tech firms are not a homogeneous group as they may have differing business models and strategies, and therefore they should not be considered as one. A subset of these respondents noted that Big Tech firms' incentives for entering or expanding in financial services may vary, depending on their ecosystem of core products and services. Some respondents also suggested that our 'Big Tech' definition should include large fintech firms that have to potential to grow and impact competition.
- **Refining our analytical framework:** Some respondents felt that, while DP 22/5 explored the most appropriate sectors, the analysis could be broadened to incorporate further sectors where Big Tech firms may have incentives to enter such as investment management, wealth management, micro-credit and crowdfunding services. A few respondents also stressed the importance of making a distinction between (a) the technology and its potential to improve financial services for consumers; and (b) the business model through which the technology is provided and its effect on competition in the financial services sector.
- **Data access and data sharing:** Given the competitive data advantages Big Tech firms have, various respondents raised that we should consider data access and data sharing in greater detail. Respondents highlighted that Big Tech firms have access to unique datasets (for example, browsing data, social media data and biometrics) which other financial services providers do not. Other respondents highlighted that issues such as data privacy and data ethics may also need to be considered further.
- **Big Tech activity at or beyond our regulatory perimeter:** Respondents raised that we may need to consider how we address potential challenges with Big Tech firms operating at the boundary or outside the regulatory perimeter, which may

include entering into partnerships. For example, where Big Tech firms provide technology to enable digital payment services or digital credit solutions, they should be regulated appropriately to ensure that consumers are protected, competition benefits are harnessed, and harms are mitigated.
- **Overlaps with regulators and other regimes:** Respondents highlighted that the FCA needs to continue coordinating with domestic regulators to address common challenges in digital markets, citing potential issues arising from the Big Tech firms' 'gatekeeper' status and data advantages. Given the global nature of these firms, respondents also suggested that the FCA should continue to engage with international regulators as we develop our competition regulatory framework.

Equality and diversity considerations

1.16 We have considered the equality and diversity issues that may arise from the proposals in this Feedback Statement.

1.17 Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010.

Our actions and next steps

1.18 In our three-year strategy, we committed to shaping digital markets to achieve good outcomes. Through this commitment, we have several market design policy initiatives already underway that, although not specific to Big Tech firms, aim to enable firms to compete more effectively, including competing with Big Tech firms as these enter and/or expand in retail financial services.

1.19 Figure 2 summarises these market design initiatives, and how they link to potential competition impacts identified by respondents.

Figure 2 – Our current market design policy initiatives

Risk	Initiatives	
Risk of Big Tech firms gaining and exploiting market power	**Open Banking and open finance** to support innovation and competition by facilitating data sharing and access to consumer data for the benefits of consumers and small businesses.	**Data sharing remedies being considered in the Credit Information Market Study** to promote competition in the sector.
Risk of benefits from Big Tech innovations in the consumer journey being offset by manipulation of behavioural biases	**Investigating digital consumer journeys to empower decision-making in consumers' best interests.** This includes the extent and nature of harms relating to sludge, dark patterns, and gamification of financial services.	
Competition risks outside the regulatory perimeter	**Developing an approach to artificial intelligence (AI)** alongside the Bank of England and PRA to support safe and responsible adoption.	**Our work on outsourcing and third-party data** with the Bank of England and PRA to manage various risks, including competition and concentration risks.

1.20 We have prioritised our ongoing programme of work to ensure we have the greatest impact. Having considered the responses received to DP 22/5, we are proposing three additional next steps at this stage.

- **Launch a Call for Input on Big Tech firms as 'gatekeepers' and key drivers, including the role of data sharing asymmetry between Big Tech firms and financial services firms, by the end of 2023.** Through this, we would like to gather information to assess the potential for Big Tech firms to gain market power in financial services. Our data sharing policy initiatives mentioned in Figure 2, although key to enable effective competition in financial services, do not sufficiently address the feedback received on asymmetry of data between Big Tech firms and financial firms. For example, Big Tech firms' access to users purchase behaviour, browsing/search history, social media activity, geolocation, as well as biometrics may place financial services firms and new entrants at a significant competitive disadvantage. This is an area that could have significant implications for how competition develops in financial services in the future. Therefore, we intend to gather further evidence to assess the nature and materiality of this risk.
- **Review our supervisory approach for Big Tech firms to improve how we monitor Big Tech activities within and outside our regulatory perimeter.** Big Tech firms are active across different financial sectors with complementarities between them and with the Big Tech firms' core products and services. We want to monitor Big Tech's activities in financial services in the most effective and holistic way.
- **Continue our work with the Government and the DMU as the Digital Markets, Competition and Consumers Bill passes through Parliament.** At the appropriate time, we will publish a memorandum of understanding with the DMU which will set out how we will implement the regulatory coordination provisions in the Bill.

1.21 Further detail on each of our current actions and next steps can be found in Chapter 3. We would like to thank all respondents for submitting their views to DP 22/5.

1.22 The responses we received were crucial in understanding developments in digital markets. We will continue horizon scanning and reviewing our actions to ensure that we are well-positioned to enable opportunities and mitigate risks arising from Big Tech entry and expansion in financial services.

Chapter 2

Summary of feedback and our response

2.1 In this chapter, we set out the feedback received to the questions posed in DP 22/5 under the following three areas:

- Feedback on our analytical entry framework and entry scenarios.
- Feedback on potential competition benefits and harms.
- Feedback on stakeholders' regulatory concerns.

2.2 A full list of the questions we asked in DP 22/5 is set out in Annex 2. The questions are listed in the order they were asked.

2.3 We received 41 responses from a wide range of stakeholders including Big Tech firms, regulated financial services firms, trade associations, challenger firms (including fintech firms), consumer organisations and research institutions.

2.4 We thank stakeholders for taking the time to respond to our Discussion Paper. A list of non-confidential responses is available in Annex 3.

Feedback on our analytical entry framework and entry scenarios

2.5 DP 22/5 presented our analytical approach to assessing plausible Big Tech entry and expansion scenarios in financial services. We considered the incentives and barriers faced by Big Tech firms; strategies Big Tech firms may use to enter new markets; and associated potential benefits and harms to competition. We assumed that the entry decision is driven by relative long-term costs and benefits of entry to the target market itself, as well as the overall value to their ecosystem of products. When assessing the profitability, or return, from entering a new market, we assumed that Big Tech firms would consider the market's structure, barriers to entry and existing providers' potential reactions. Based on our analytical framework, we developed plausible scenarios with the aim of understanding how competition benefits and harms may evolve in the future.

2.6 Most respondents agreed with our approach to developing the Big Tech entry analytical framework. Despite agreement on our approach, there were three key areas that most respondents asked us to consider in greater detail.

- **The overall value of Big Tech businesses, rather than the profitability they derive from specific sectors per se.** Most respondents agreed that the existing ecosystems of Big Tech firms' core products and services may affect their entry and expansion in financial services. A subset of these respondents argued that Big Tech firms may be able to offer rewards, incentives, and discounts through their existing ecosystems of products and services to consumers. This may result in greater incentives for Big Tech firms to offer financial services products. Other respondents argued that Big Tech firms may be able to leverage products and services in their core markets and create financial services products specifically for those needs. For example, given the rise of autonomous vehicles, Big Tech firms may consider creating car insurance and, therefore, create new markets for financial products (such as for new technologies) that supplement their core activities.

- **Big Tech firms are not one homogeneous group, and therefore, should not be considered together.** Even though most respondents noted the role of ecosystems, they also suggested that we need to consider the intricacies of business models, product strategies and commercial applications for differing Big Tech firms. For example, a few respondents noted that two separate Big Tech firms may apply a product and commercial strategy in different ways, and that these applications may have differing implications on competition. A minority of respondents asked us to consider distinguishing between pro-competitive technologies and innovations that benefit consumers, and the business models through which these technologies may be applied and affect competition in financial services.
- **Respondents felt that the analytical framework could be applied to further sectors.** Specific examples cited by respondents include investment management, wealth management, micro-credit and crowdfunding services.

2.7 Most respondents agreed with the entry drivers of Big Tech firms that were outlined in DP 22/5. **They also highlighted access to large user bases, additional revenue streams and monetisation of data in Big Tech ecosystems as key drivers for entry and expansion.** A few respondents agreed that Big Tech entry into those sectors is not profit-driven in the short term, but rather a way to supplement their services by improving their existing customers' experiences; for example, helping customers buy Big Tech firms' core services more conveniently. In addition, some respondents argued that regulation may prevent Big Tech firms from entering the financial services perimeter as they may lack the knowledge and experience of regulatory requirements and consumer protection standards that incumbent financial services firms have.

2.8 **There were three main factors that emerged when respondents assessed the competitive advantages and disadvantages of Big Tech firms:**

- Scale of operations, network effects, resources and negotiating power.
- Access to large and various sets of data.
- Consumer trust and loyalty.

2.9 Almost all respondents considered financial resources and scale of operations an obvious competitive advantage to Big Tech firms. However, the latter two factors were cited by respondents as both a competitive advantage and competitive disadvantage relative to financial services firms.

2.10 Most respondents viewed Big Tech firms' access to different types of data gathered via their platforms, as well as the software tools to analyse and use that data, as a significant advantage which allows them to strengthen their position as 'gatekeepers'. The types of Big Tech data mentioned included data on consumer preferences and behaviour, which they may be able to use for financial services in the UK due to higher levels of consumer adoption and confidence in managing finances online. In addition, respondents considered consumer trust to be another competitive advantage for Big Tech firms, arguing that the embedded nature of Big Tech firms in consumers' daily lives may create positive externalities for their financial products and services.

2.11 However, not all respondents agreed with this, with a few respondents citing the long-standing financial relationships that large financial services firms have with their customers. They argued that these relationships give rise to several data and consumer trust advantages for those financial services firms which they can use to promote and sell other services. Consumers' privacy and security concerns were also mentioned as factors which may limit the adoption of Big Tech financial services and products.

2.12 **Most of our respondents agreed that partnership-based models are likely to continue being the dominant entry strategy for Big Tech firms.** That is because, as noted above, Big Tech firms have competitive advantages in the consumer-facing element of financial services, as well as access to a variety of data. Therefore, respondents suggested that existing market participants have more incentives to set up pre-emptive strategic alliances with Big Tech firms to harness their expertise in technology and customer experiences. A few respondents further highlighted that partnerships and acquisitions may be preferred because of the additional regulatory obligations which Big Tech firms may have to comply with when directly entering financial services markets.

2.13 **Respondents provided mixed feedback when asked about the extent to which future entry was likely to follow a similar path to other countries**, with the majority of respondents noting that Big Tech entry will depend on three key factors.

- The role of the regulatory environment in the UK.
- The role of consumer behaviour and the increasing tendency of UK consumers to manage their finances online. For example, some respondents cited industry research showing digital payments trends in the UK have accelerated, especially after the coronavirus (Covid-19) pandemic.
- The business opportunities and existing competition in the UK market.

2.14 Some respondents supported that Big Tech firms may prefer to use tried and tested approaches from other jurisdictions as they seek to minimise potential risks which may arise from attempting novel entry or expansion strategies in the UK market.

2.15 Referencing the **UK regulatory regime** specifically, some respondents across all stakeholder groups noted that the UK is already an attractive market for Big Tech firms, and regulations such as the Appointed Representatives regime may incentivise further entry by Big Tech firms as it enables entry via partnerships with financial services firms. On the other hand, other respondents outlined that the UK regulatory regime is stricter and more developed in comparison to other jurisdictions, and therefore regulation may disincentivise entry and expansion for Big Tech firms. Additional regulations affecting market entry cited by respondents include, but are not limited to, the Data Protection and Digital Information Bill, Consumer Duty obligations and the new pro-competition regime for digital markets.

2.16 **Some respondents highlighted that existing Big Tech entry into financial services provides some evidence as to how incumbents may react to further entry.** Respondents noted incumbents may react by innovating in the consumer experience and providing human-based support and advice. For example, in the payments sector, respondents suggested that market participants may attempt to integrate with payments processing systems more closely or acquire start-up technologies in payments processing to compete more effectively with Big Tech firms.

2.17 Finally, respondents identified several **complementarities between financial services markets that enhance incentives for Big Tech entry and expansion**. Most respondents to this question referenced data as the factor driving complementarities within financial services sectors. For example, in deposit taking, it was argued that firms may offer consumers searching for higher yield investments products such as money-market or bond funds as an extension of providing wallets or savings accounts.

2.18 Respondents also argued that data derived from a Big Tech firm's core markets can create complementarities with financial services sectors. For example, in the insurance sector, respondents suggested that access to a range of user data could enable Big Tech firms to make more precise risk assessments using highly sophisticated predictive technologies. A minority of respondents also argued that the underlying technologies employed by Big Tech firms create complementarities alongside new entry strategies and business models.

Our response

We acknowledge the various views received in relation to our analytical framework. In DP 22/5, our analytical framework assessed the overall value of Big Tech ecosystems and noted that Big Tech firms are not homogeneous, even though they may share common features. This heterogeneity may impact how entry and expansion occurs in financial services. At our authorisations and supervisory gateways, our approach considers individual firms' business models and strategies when assessing applications to provide regulated financial products and services. Our approach at the gateway also allows us to consider likely complementarity issues with other financial services markets, especially when Big Tech firms are present across multiple sectors.

In relation to analysing further financial sectors, through our Innovation teams we will continue our horizon-scanning activities to better understand how future entry and expansion may evolve. To develop a holistic understanding of these firms, we will continue to engage with domestic and international regulators both bilaterally and through forums such as the DRCF and Global Financial Innovation Network.

Further details about our actions and next steps can be found in Chapter 3.

Feedback on potential competition benefits and harms

2.19 In DP 22/5, we found that in the short-term (and possibly enduring longer term), Big Tech firms' entry in financial services could benefit many consumers. These benefits could arise from Big Tech firms' own innovations or by increasing other market participants' incentives to innovate, improve quality and reduce prices of financial products and services through increased competition.

2.20 In the longer term, we identified a risk that the competition benefits from Big Tech entry in financial services could be eroded if these firms can create and exploit entrenched market power to harm healthy competition and worsen consumer outcomes. This risk can arise given the characteristics of digital markets and the characteristics and behaviours of Big Tech firms. These characteristics can lead to them rapidly gaining market share, markets tipping in their favour, and potential exploitation of market power. We asked respondents for their views on the key potential competition benefits and harms we identified in our analysis.

2.21 **Overall, respondents had diverse views on the benefits suggested in DP 22/5.** Some respondents noted that Big Tech entry has the potential to improve customer engagement, as well as make a positive contribution to the end-user experience. According to a subset of these respondents, Big Tech firms have utilised technology which has already brought a wide range of benefits to consumers across a range of markets, including by enhancing security in accessing financial services.

2.22 A minority of respondents also noted that DP 22/5 underplays the benefits that technology companies could bring, particularly in the context of improving the end-user experience for digital financial services. Some respondents disagreed with our conclusion that these benefits may be eroded by competition harms in the longer-term. These respondents outlined that enhanced consumer value arising from innovations or efficiencies from partnerships are likely to continue in the long term.

2.23 Other respondents argued that we had overstated the potential benefits in our assessment and suggested that we would need to consider harms which may offset these benefits in greater detail. This may include harms arising from consumers' behavioural biases, Big Tech firms' access to and use of data as well as precise profiling of consumers. These harms may result in greater exclusion and discrimination, particularly for vulnerable consumers.

2.24 **Most respondents agreed with the competition harms identified in DP 22/5.** The responses focused on three key areas:

- **Big Tech as 'gatekeepers'.** Multiple respondents noted that competition harms arise from Big Tech acting as 'gatekeepers' in the way they provide services on their platforms; for example, where Big Tech firms operate online stores for mobile applications or online marketplaces for e-commerce. A subset of these respondents noted that these firms even act as 'pseudo-regulators' with control over the products, services and participants on their platforms. Respondents outlined that this could give rise to higher costs for accessing the platform (or unconstrained pricing behaviour), restricted choice for consumers, imbalanced bargaining power in favour of Big Tech firms and the ability to mandate conditions of access and use for platform users (both businesses and consumers).

- **Accessing Big Tech datasets.** Some respondents raised competition concerns that may arise where other market participants are unable to access Big Tech datasets. This feedback was more prominent in the consumer credit and insurance sectors, particularly when data is used in the pricing of risk or affordability. Respondents also argued that Big Tech firms have significant technology resources, sophisticated algorithms, and a unique ability to aggregate and combine different categories of data collected on their platforms. They also noted that Big Tech firms are able to access Open Banking data, but no reciprocal arrangement exists for financial services firms to access Big Tech data. Respondents argued that this may cause asymmetry to data access and a potential one-way data flow that allows Big Tech firms to capture a larger market share, relative to other financial services firms.
- **The use of partnerships.** A handful of respondents noted that certain types of partnering strategies employed by Big Tech firms might themselves lead to discrimination. This can occur if Big Tech firms are able to dictate how competition evolves in the remaining market and foreclose competitor firms. Some respondents noted that specific Big Tech partnerships may facilitate the bundling of products and services.

2.25 While DP 22/5 primarily focussed on competition impacts, respondents raised how Big Tech firms may give rise to issues affecting our other priorities:

- **Consumer protection:** Some respondents noted that Big Tech entry may lead to financial exclusion of vulnerable consumers, particularly in cases where consumers can be profiled, or consumers are geographically excluded from accessing online services. Defaults, choice architecture and algorithms were also noted by respondents as ways in which consumer harms may arise.
- **Operational resilience:** A few respondents suggested Big Tech entry will improve security and detection of fraud in financial services. On the other hand, some respondents noted that cyber security incidents arising in other sectors may have an impact on financial services if these are concentrated among a small number of providers.
- **Data privacy:** A minority of respondents commented on data privacy harms, including the risk that personal data may be repurposed (e.g. for marketing) and that inaccurate, out of date information may cause financial harm to consumers.

Our response

We appreciate the wide range of views from respondents regarding potential competition benefits and harms arising from Big Tech entry and expansion in financial services. In relation to harnessing benefits, the FCA Innovation Hub continues to support financial services firms in launching innovative products and services that have the potential to provide longer-term benefits for consumers.

We also acknowledge the feedback received on potential competition harms. We note that the unique characteristics of Big Tech firms have already caused concerns and have resulted in several competition enforcement cases in multiple jurisdictions, including the UK. The CMA has launched investigations for suspected breaches of competition law by Big Tech firms and has carried out market studies in online platforms and digital advertising, as well as in mobile ecosystems. In April 2023, the Government, recognising the need to prevent harmful practices that hold back innovation and growth by a small number of tech firms with far reaching market power, introduced into Parliament the Digital Markets, Competition and Consumers Bill. The Bill aims to give the CMA the tools to address such concerns. We will continue to be proactive and consider any potential issues that relate to financial services, such as the concerns raised by respondents in relation to data advantages of Big Tech firms which are particularly relevant to the consumer credit and insurance sectors.

In DP 22/5, we focussed on competition impacts but we acknowledged there are other issues that merit consideration. Our current policy programme includes other initiatives that address issues beyond competition, such as the development of a regulatory regime for Critical Third Parties (CTPs) and our ongoing work to investigate digital consumer journeys.

Further details about our actions and next steps can be found in Chapter 3.

Feedback on stakeholders' regulatory concerns

2.26 In DP 22/5, we outlined that governments in multiple jurisdictions are developing competition regimes that proactively prevent harm to complement existing competition law enforcement. In the UK, this is in the form of the new pro-competition regime for digital markets, established by the Digital Markets, Competition and Consumers Bill that was introduced in Parliament in April 2023. In the European Union, the Digital Markets Act (DMA) entered into force in November 2022. There are several other regimes under development in the United States, Australia, South Korea and Japan, among other jurisdictions. We asked respondents for views on how regulatory boundaries may affect the entry or expansion decision by Big Tech firms.

2.27 **Overall, respondents felt that the FCA should ensure that we are able to effectively supervise Big Tech firms** and effectively apply our threshold conditions, given these firms may be based in international jurisdictions. In addition, a few respondents outlined that it is crucial to adopt a balanced, evidence-based regulatory approach, which protects the interests of consumers while not harming incentives to innovate. Key themes that were identified by multiple respondents are outlined below.

Creating a level playing field

2.28 **Most of the respondents outlined that the FCA's priority should be to ensure that there is a level playing field for all firms in financial services.** These respondents suggested that Big Tech firms should be subject to the same requirements and regulations that other financial services firms currently are. A minority of respondents highlighted that by using innovative technologies, Big Tech firms may be more agile in comparison to incumbents, who typically face more governance and regulatory checkpoints.

2.29 While most respondents were in favour of an activity-based approach to regulation, a few respondents suggested that Big Tech firms should also have entity-based regulations imposed, in a similar style to the Global Systemically Important Financial Institutions (G-SIFIs).

The regulatory perimeter

2.30 **Respondents outlined that the FCA will need to consider how its regulatory perimeter evolves following the entry and expansion of Big Tech firms in financial services.** Most of these respondents argued that Big Tech firms prefer to operate outside, or at the boundary of, the financial services perimeter as it minimises the amount of regulatory oversight placed on them. Other respondents noted that Big Tech firms are predominantly technology companies and not financial services firms, and they operate where they see the most value-add to their products and services. As business models and strategies for financial services develop in the future, respondents outlined that the FCA will need to align its regulatory perimeter.

2.31 A few respondents flagged that the financial services regulatory perimeter is dynamic. They argued that, even though Big Tech firms may currently provide products and services that sit outside the regulatory perimeter, over time regulators may seek to bring these activities into the regulatory perimeter.

2.32 A minority of respondents raised that in some cases, regulation may also offer opportunities for Big Tech firms to enter financial services. For example, the introduction of Open Banking and open finance regulations may incentivise entry for Big Tech firms into financial services and help overcome a previous barrier to entry.

Data access and sharing

2.33 **Multiple respondents cited open finance and open data as future potential developments which may influence Big Tech firms' entry and expansion decision.** Some respondents outlined that facilitating access to Big Tech data may improve outcomes in financial services by allowing incumbents to provide products and services that better compete with those of Big Tech firms. This view was echoed by other respondents who suggested that mandating data sharing could allow more positive outcomes to be created across the industry.

2.34 A few respondents specifically noted that further consideration may need to be given to the type of data that is shared by Big Tech firms, as not all data is likely to be useful for providing financial services and products. A few respondents urged the FCA to conduct further analysis and evidence gathering to understand which data accessible by technology companies is relevant to developing retail banking products and the potential remedies that could be introduced. A minority of respondents suggested that the FCA could consider ring-fencing financial services aspects of businesses from the remainder of Big Tech businesses as a future policy action.

2.35 A few respondents suggested that existing data protection regulations such as the General Data Protection Regulation (GDPR) may limit the extent to which both financial services and Big Tech firms are able to merge or link data generated across various parts of their business. A minority of respondents noted that under GDPR, data use limitations prevent data use that is incompatible with the original purpose that it was collected for.

Regulatory coordination

2.36 **Various respondents noted the role for greater regulatory coordination with both domestic and international regulators, given the wide range of products, services and regions that Big Tech are active in.** Respondents suggested that better cooperation mechanisms with specific regulators, and through the DRCF, will improve the FCA's ability to identify trends, assess market-wide competition issues and consider the best way to supervise and enforce the regulatory perimeter.

2.37 Most respondents noted engagement between the FCA and the DMU is important in ensuring that harms are effectively mitigated, should they arise. A few respondents specifically mentioned that the DMU should act as a one-stop shop to provide timely intervention into the market when potential issues arise. Other respondents raised that ensuring that there was clarity over which authority's competition powers apply was an important consideration to avoid duplication.

2.38 Some respondents also outlined that new mechanisms may be needed to monitor Big Tech firms in financial services. A minority of respondents recommended that we should consider creating an expert group on Big Tech and financial technology which would provide advice and recommendations on regulatory approach. This group could perform a similar function to the European Commission's Regulatory Obstacles to Financial Innovation Expert Group.

Other regulatory considerations

2.39 Beyond these key themes, several other issues were raised:

- **Merger review:** Alongside other regulators, the FCA would need to consider how best to review mergers and acquisition activity, considering that this is a plausible entry strategy for Big Tech firms in financial services.
- **Impact on other regulatory priorities:** Respondents noted that while DP 22/5 focussed on competition, there are other considerations such as operational resilience and consumer protection which regulators will need to consider in greater detail.

- **International competitiveness:** Several respondents flagged that, as global companies, Big Tech firms have access to multiple markets across multiple jurisdictions. These respondents suggested that the FCA should consider in greater detail how future regulatory proposals may impact investment decisions in UK financial services, relative to other regions.
- **Big Tech as 'pseudo-regulators':** A few respondents outlined that Big Tech firms are able to act as 'pseudo-regulators' on their own platforms, and therefore regulators may need to consider that unfair access restrictions are not imposed as part of Big Tech practices.
- **Consumer-focussed lens:** A few respondents highlighted that the FCA should consider the impact of any proposals on those who are vulnerable or digitally excluded and consider any regional disparities which may arise from Big Tech entry and expansion in financial services.

Our response

We welcome the various recommendations proposed by respondents on our future regulatory approach. We agree that a level playing field is needed for firms in financial services, and our current activity-based regulatory approach ensures that specified rules apply equally to all firms engaged in the same activity.

We proactively assess our regulatory perimeter and make recommendations to the Government where we consider there may be gaps in legislation and our perimeter needs to evolve. For example, in 2021 we strongly supported the inclusion of Buy Now Pay Later services in our regulatory remit and, in the meantime, used our existing consumer protection legislation to mitigate harms and deliver positive changes. Our annual perimeter report describes specific issues we see around our perimeter and the action we're taking in response. Under the Financial Services and Markets Act 2023, the Treasury can designate certain third parties as Critical Third Parties (CTPs) and, following their designation, we will be able to make rules for, and gather information from them in connection with the provision of services to firms and financial market infrastructure firms (FMIs) in the financial services sector.

We also note that we have concurrent competition powers under the Competition Act (1998) and the Enterprise Act (2002) which allow us to address competition harms that arise in financial services beyond our regulatory perimeter. The regulatory coordination provisions envisaged in the Digital Markets, Competition and Consumers Bill will also allow us to raise concerns and make recommendations to the DMU in certain circumstances; for example when we consider that the CMA is most suitable to take action to address a potential harm.

We acknowledge the extensive feedback we received on potential ways to address the harms arising from the Big Tech firms' data advantages and consider that this is an area that merits further exploration. We also agree with the need for regulatory coordination with domestic regulators as well as internationally. We are already engaging with domestic regulators on these matters, including through the DRCF, and with international counterparts.

We acknowledge the need to consider the impact of Big Tech firms on issues beyond competition, and we have numerous ongoing policy initiatives to address these. Our regulatory approach to Big Tech firms will also have regard to the new secondary international competitiveness and growth objective, which forms part of our Future Regulatory Framework (FRF) Review. In addition, as flagged by respondents, we agree that mergers and acquisitions present a plausible entry strategy for Big Tech firms in financial services and, while we do not have merger review powers ourselves, we will continue to work closely with the CMA to ensure that our sectoral expertise supports the effective exercise of its merger review powers.

More details on our proposed actions in relation to these matters can be found in Chapter 3.

Chapter 3

Our actions and next steps

3.1 We asked for views on the potential competition impacts we identified in DP 22/5 to inform the development of our regulatory approach to Big Tech firms. In this chapter, we set out our current actions and next steps, having considered all recommendations and suggestions provided by respondents.

Our current actions

3.2 We have several market design policy initiatives underway, as detailed in Table 2 below, that seek to enable effective competition in digital markets. While these are not specific to Big Tech firms, they aim to enable firms to compete more effectively, including competing with Big Tech firms as these enter and/or expand in retail financial services.

3.3 Table 2 summarises these market design initiatives and their relevance to the potential competition impacts identified in DP 22/5 and in the feedback received by respondents.

Table 2: Market design initiatives

Potential competition impact	Current policy initiatives
Market Power: Risk of Big Tech firms gaining and exploiting market power in financial services	**Open Banking and Open Finance:** Open Banking allows regulated financial firms to access customer payment accounts with their explicit consent, typically using APIs, to extract data and/or initiate payments. Open Finance would extend Open Banking-like regulated third-party access across all regulated financial services and products. These initiatives aim to increase competition and innovation in retail financial services and have the potential to transform financial services. During this year, we will continue to progress our work through the Joint Regulatory Oversight Committee on the future of UK Open Banking, along with the Treasury, the Competition and Markets Authority (CMA), and the Payment Systems Regulator (PSR). In April, we published views and recommendations on the future entity and an activity roadmap. The roadmap outlines a two-year work programme to further grow open banking and move to a sustainable and scalable model. Later this year we will publish views on the design of the future open banking entity. We will also publish a summary of the Open Finance sprint that took place in late 2022 and continue to support the Government in their smart data proposals, including by considering how the future framework for Open Banking could be scalable for future data sharing options.

Potential competition impact	Current policy initiatives
	Data sharing and data access in the credit information market: One of our Big Tech entry scenarios was entry in credit and credit referencing. In this area, as part of the Credit Information Market Study, we are considering a package of remedies including a mandatory reporting requirement for FSMA-regulated data contributors to share credit information with designated Credit Reference Agencies (CRAs); having a common data format when credit information is reported; and reviewing the principles of data access (currently determined by the principle of reciprocity). These data sharing type remedies aim to address data coverage and quality issues existing in the market whilst enabling firms to compete more effectively, including with Big Tech firms. **Regulatory and innovation developments:** The Bank of England, FCA, PSR and Government's work on stablecoins and digital assets (where regulatory proposals have been introduced), the development of technologies such as blockchain, and the possible development of a future central bank digital currency, may lead to new payment methods or systems being introduced as a result.
Behavioural biases: Risk of benefits from Big Tech's innovation in the consumer journey being offset by manipulation of behavioural biases	**Sludge, dark patterns and gamification:** We will continue to investigate digital consumer journeys across priority areas to ensure consumers are empowered to take decisions in their best interest. This includes the extent and nature of harms relating to sludge, dark patterns, and gamification of financial services through analysis of large-scale data and experiments. Therefore, there is work in place should this risk start to emerge and become a priority area.
Perimeter: Competition risks in financial services from Big Tech firms' activities outside our perimeter	**Outsourcing and Third-party data:** As mentioned in DP 22/3, supervisory authorities can also assess the level of concentration on a third party for the provision of services (such as a Big Tech firm) when considering whether to recommend that third party for designation as a Critical Third Party (CTP) to the Treasury. Although concentration is not inherently problematic, it can be an indicator of competition risks. To enable such an assessment, we, jointly with the Bank of England and the PRA, intend to consult on a centralised framework for collecting certain information on firms' outsourcing and third-party arrangements in order to manage the risks they may present to the PRA/FCA's objectives, including concentration and competition risks in addition to operational resilience risks. This includes informing the designation process to identify the critical third parties to the UK financial services sector. **Regulatory approach to AI:** We, jointly with the Bank of England and the PRA, are considering how policy and regulation can best support the safe and responsible adoption of AI in financial services, where Big Tech firms are amongst the providers of AI systems. We will publish a Feedback Statement to Discussion Paper on AI (DP22/04). These discussions will support the development of the regulatory approach to AI.

3.4 In addition, we consider that the Consumer Duty alongside the Senior Managers and Certification Regime (SMCR) will contribute to help us manage the potential competition risks identified once Big Tech firms have entered, ensuring a level playing field. The Duty will create a fairer and more consumer-focused playing field on which firms can compete and innovate in pursuit of good consumer outcomes. Where the SMCR is applicable, the most senior people in a firm, including Big Tech firms authorised under the Financial Services & Markets Act 2000 (FSMA), can be held accountable if they did not take reasonable steps to prevent or stop a breach of our requirements. The Big Tech firm authorised may, however, be a small subsidiary and the SMCR would not generally apply to the senior management of the Big Tech parent.

3.5 We will continue to monitor Big Tech firms' activities in financial services to assess whether further policy changes may be needed to enable competition benefits while mitigating competition harms. As a member regulator of the DRCF, we will continue to share insights regarding our respective interactions with key firms in digital markets. This is reflected in the DRCF's 2023/2024 work plan.This collaboration will assist us with our horizon-scanning work and will help us identify potential areas of joint working and cooperation, while informing our regulatory approach towards Big Tech firms.

3.6 Finally, we have already had a range of international engagement with a variety of regulators in jurisdictions where Big Tech firms are active and provide financial services. This has helped us understand the potential competition benefits and harms and share our thinking with our international counterparts. As we develop our work, we will seek to continue engaging with our international counterparts as the market and our approaches develop. We also want to ensure that we play an active role in any future discussions with global policymaking bodies given the international nature of these markets.

Next steps

3.7 Given this ongoing programme of work, we have assessed how we prioritise and adapt our future actions to have the greatest impact. We are proposing three additional next steps to supplement our current actions informed by the feedback we have received.

- **Call for Input on Big Tech firms as 'gatekeepers' and key drivers including the role of data asymmetry between Big Tech firms and financial services firms.** Through this action, we aim to gather information to assess whether Big Tech firms have the potential for future market power in financial services.

  The data sharing policy initiatives mentioned in Table 2, although key to enable effective competition in financial services, do not address the feedback received on asymmetry of data between Big Tech firms and financial services firms (e.g. Big Tech firms' data such as users' purchase behaviour, browsing/search history, social media activity, geolocation, as well as biometrics). Respondents told us that this places financial firms and new entrants at a significant competitive disadvantage.

We want to understand better the nature and materiality of this risk because it is likely to be one of the key barriers to effective competition against Big Tech firms in the future. As a result, we propose to launch a Call for Input by the end of 2023 to gather further information in areas such as (a) the extent to which data accessible by technology firms are relevant to developing financial services products; (b) the potential impacts of this Big Tech data usage on competition; and (c) potential ways to ensure that competition continues to work well, should these data advantages of Big Tech firms exist. We will also use this Call for Input to ask for evidence on other significant factors that could lead Big Tech firms to become 'gatekeepers' in financial services.

- **Review our approach to supervision of Big Tech firms to improve how we monitor Big Tech activities, both within and outside our perimeter.**
  As noted in DP 22/5 and highlighted by respondents, Big Tech firms are large companies with huge technological resources, with presence across multiple sectors with multiple products. Given these unique characteristics, we are considering our supervisory approach to Big Tech firms to ensure that we monitor Big Tech's activities in financial services in the most effective and holistic way, considering their business models, characteristics, and cross-sectoral presence.

- **Working with the Government and the Digital Markets Unit on the new pro-competition regime for digital markets.**
  In April 2023, the Government introduced the Digital Markets, Competition and Consumers Bill to Parliament. Among other provisions, the Bill proposes to empower the DMU to impose conduct requirements and make pro-competition interventions in respect of firms that have 'Strategic Market Status' (SMS). The Bill also recognises the importance of regulatory cooperation in respect of the new regime by providing coordination mechanisms with certain sectoral regulators, including the FCA. These include mechanisms to facilitate consultation with the FCA where the FCA has a concurrent competition law remit. The Bill also envisages that we have power to make a recommendation to the CMA in certain circumstances.

  Our intention is to continue to work closely with the Government and the DMU as the Bill passes through Parliament. As recognised by the Government in its May 2022 consultation response with regards to the new regime, we and the DMU aim to set out the detail of how we will implement the regulatory coordination provisions through a memorandum of understanding. Establishing a close collaboration with the DMU will allow us to identify issues early and assist with mitigating any harms effectively.

Annex 1

Selected Big Tech presence in financial services

Region	Firm	Payments and e-money	Deposits	Consumer credit	Insurance
UK	**Google**	Google Pay Google Play Store credit		Google Store Financing through Klarna	
	Amazon	Amazon Pay		Amazon Lending Instalments by Barclays Monthly Payments with Amazon	Amazon Insurance Store Amazon Protect
	Meta	Meta Pay			
	Apple	Apple Pay		Acquisition of Credit Kudos Apple Financing with Barclays and PayPal Credit	Apple Care (underwritten by AIG UK)
International	**Google**	Google Pay (global)		Google Store Financing (UK, US, Japan, Germany)	
	Amazon	Amazon Pay (US, Europe, Japan)		Amazon Lending (global) Amazon Instalments (global)	Amazon Expert Protection Plan (US)
	Meta	Meta Pay (global)			
	Apple	Apple Pay (global)	Apple Cash Card (US)	Apple Pay Later (US)	AppleCare (global)

Sources

Google: Google Pay, Google Play Store Credit, Google Store Financing

Amazon: Amazon Pay, Amazon Lending, Amazon Instalments, Amazon Protect, Amazon Expert Protection Plan, Amazon Insurance Store

Meta: Meta Pay

Apple: Apple Pay, Apple Cash Card, Apple Financing, Apple Pay Later, AppleCare

Annex 2

Questions asked in DP 22/5

Q1: In your opinion, will Big Tech firms in UK financial services follow a similar path to other countries? What factors would make the UK experience similar? Or what reasons may exist for Big Tech firms to look for new approaches in the UK?

Q2: Have we identified the right analytical approach to assessing Big Tech entry and competition?

Q3: For each of the four sectors we have studied, have we identified the key drivers for Big Tech firms to enter?

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?

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

Q6: For each of the four sectors we have studied, how are current market participants likely to respond to entry by Big Tech firms? How might potential entrants' plans be affected?

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?

Q8: If Big Tech firms enter and expand in financial services, will they create new complementarities between markets or their activities that we have not identified?

Q9: Will the ways in which Big Tech firms enter and compete in the UK financial services markets be significantly influenced by regulatory boundaries? Does this differ across the four sectors we have studied?

Annex 3

List of non-confidential responses to DP 22/5

Amazon UK

Apple

Association of British Insurers

British Retail Consortium

Capital One (Europe) plc

Centre for Competition Policy (response by Professor Jens Prüfer and Dr Andrea Calef)

Chartered Insurance Institute

Circle Internet Financial

City of London Corporation

Compare the Market

Confused.com

Electronic Money Association

Experian

FCA Practitioner Panel

FCA Smaller Business Practitioner Panel

Finance & Leasing Association

Financial Services Consumer Panel

Hargreaves Lansdown

Information Commissioner's Office

Innovate Finance

Investment & Life Assurance Group

Lloyd's Market Association

Lloyd's

Lloyds Banking Group

Meta

Movement for an Open Web

Personal Investment Management & Financial Advice Association

RSA Insurance Group

Teya

TechUK

The Consumer Council (Northern Ireland)

The Financial Inclusion Centre

The Investment Association

The Payments Association

The Investing and Saving Alliance

Vanquis Banking Group

UK Finance

Annex 4

Abbreviations used in this paper

Abbreviation	Description
AI	Artificial Intelligence
API	Application Programming Interface
CMA	Competition & Markets Authority
CTP	Critical Third Parties
DMA	European Union Digital Markets Act
DMU	UK Digital Markets Unit
FMI	Financial market infrastructure firms
FSMA	Financial Services & Markets Act (2000)
FRF	Future Regulatory Framework
GDPR	UK General Data Protection Regulation
GFIN	Global Financial Innovation Network
G-SIFI	Globally Systemically Important Financial Institutions
PSR	Payments Systems Regulator
PRA	Prudential Regulation Authority
SMCR	Senior Managers & Certification Regime
SMS	Strategic Market Status

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