the payments association

connecting the future

DP 22/5: The potential competition impacts of Big Tech entry and expansion in retail financial services

FCA

October 2022

Response from The Payments Association

Introduction

The Payments Association welcomes the opportunity to contribute to the FCA Discussion Paper 22/5 "*The potential competition impacts of Big Tech entry and expansion in retail financial services*".

The community's response contained in this paper reflects views expressed by our members and industry experts recommended by them who have been interviewed and who are referenced below. As The Payment Association's membership includes a wide range of companies from across the payments value chain, and diverse viewpoints across all job roles, this response cannot and does not claim to fully represent the views of all members.

We are grateful to the contributors to this response, which has been drafted by Riccardo Tordera, our Head of Policy & Government Relations. We would also like to express our thanks to the FCA for their continuing openness in these discussions. We hope it advances our collective efforts to ensure that the UK's payments industry continues to be progressive, world-leading and secure, and effective at serving the needs of everyone who pays and gets paid.

With special thanks to:

- Abdel Badoui, WEX, Corporate Payments Business Development Director for EMEA
- Chryssi Chorafa, Founder & CEO, StarLiX
- Hugh Kingdon, Director, Fintechia Ltd

Tony Craddock
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The Payments Association

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The section numbering below corresponds to the numbering of the 'questions for respondents' in this paper.

Executive Summary If you would like to provide an executive summary to your response. Please provide it here.

In principle we believe that concentrating economic power into the hands of a few big companies increases the risk of oligopoly and price concentration and reduces incentives to innovate and improve service quality. We also believe this diminishes competition and impairs customer outcomes.

We also believe that the entry of Big Tech is likely to challenge the status quo and the roles of the existing big players, thereby creating healthy competition between the largest organizations. But as a trade body made up of organisations of all sizes, we encourage the adoption of solutions that enable competition and of regulation that ensures consumers benefit and smaller players can continue to play their role in the market.

Chapter 2: Background on Big Tech firms and our analytical approach

1. **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?**

We believe Big Tech will adopt a similar approach in economies that have similar regulation and financial infrastructures. However, similar doesn't mean identical. In countries like the UK, which are in many cases ahead of other developed economies, Big Tech companies will enter the market faster and provide broader services more quickly.

2. **Have we identified the right analytical approach?**

Neutral.

Please explain your answer.

Some of our members agree. Those of our members who have expressed disagreement believe that the analysis does not focus enough on the recognition of current harms pointing to gaps in the analysis undertaken.

Chapter 3: Payments

3. **Have we identified the key drivers for Big Tech firms to enter?**

Neutral.

Please explain your answer.

Some of our members agree that the drivers identified are correct. Those of our members who have expressed disagreement believe that other drivers should have been included, such as the many unresolved issues that persist in cross-border payments infrastructure, its security, harmony and the potential for economies of scale of the existing businesses.

4. **What competitive advantages and disadvantages do Big Tech firms have over existing providers and potential entrants, such as fintech?**

Some of our members have indicated some competitive advantages for Big Tech firms, such as:

1. Control over security hardware, logon credentials and data that could be used to identity users or evaluate credit risk
2. Control over channels to customers
3. Data on competitors and their customers
4. Data on consumer needs.

Other members have highlighted that payment-tech and cloud services firms should not be viewed separately. And that many fintech companies develop their payment-tech products on technology stacks using AWS or Microsoft Azure or Google Compute Engine. This may result in operational risks if this sector becomes monopolized by two or three companies. Hence, if the Big Tech firms, who offer cloud services, would offer payment services this could pose the risk of centralising all functions into one place. Centralising all functions into one place hinders pricing competitiveness, impairs customer user journeys and experiences, and prevents innovation.

Nonetheless, whilst fintech and other new entrants have drastically improved the financial services landscape in the last decade, the arrival of Big Tech firms has the potential to provide a robust development framework and additional resources that could transform the market in the next decade. The difference between these two drivers of change is that Big Tech firms tend to have a bureaucracy inherent within large organization, and this might prevent them from having their transformational effect.

5. **Have we identified the most likely entry scenarios?**

Neutral.

Please explain your answer.

While the most likely entry scenarios have been identified, some of our members think that those scenarios when a strategic acquisitions is made by a Big Tech when valuations are depressed should also be taken into account.

6. **How are current market participants likely to respond to entry by Big Tech firms? How might potential entrants' plans be affected?**

The entrance of Big Tech firms will certainly not be unnoticed, and we foresee that partnerships, mergers and acquisitions will take place, and that some companies unable to compete in this new arena will exit from market. We believe that most traditional Financial Institutions will adopt a 'watch and wait' approach, and only change their strategies once consumers and businesses start shifting. Others, like neo-banks and fintechs, will very quickly adjust their strategies and further innovate to remain competitive or partner with Big Tech firms to protect market share or remain relevant.

7. Have we identified the key potential competition benefits and harms? Who stands to benefit most? Who is most at risk of harm?

In general, we believe that Big Tech's entry will challenge some of our larger players and that smaller innovators and payment-driven startups will be at risk of failing. The combination of a recessionary macro-economic backdrop, imminent increases in corporation tax (19% to 25%), decreases in R&D claim benefits, and less access to international talent post-Brexit, will not encourage investment or innovation, nor accelerate small businesses' growth. This means that Big Tech companies will tend to have more resources and funds to take over more market segments and broaden their range of products and services. This is likely to prevent effective competition, which in turn negatively affects consumers, who will have little but to accept services and products from Big Techs.

In particular, one member has underlined how he report could do more on the current market harms in the area of payments, and gave the example of a global Big Tech (Apple Inc.):

1. Apple charges monopoly rents to banks on the use of Applepay which must be passed on to consumers in the form of higher fees or worse rates. Charging models may disadvantage Fintechs more than incumbents.

2. Apple does not open their NFC interfaces, which prevents a spectrum of valid services from reaching critical mass and being available to consumers, such as ticketing, electronic (keyless) access, micropayments, P2P NFC services and NFC crypto payments. As a result consumers benefit from access to a significantly reduced range of innovative services and higher fees/worse rates.

3. Apple enforces the use of proprietary in-app payments, leading to higher costs for app developers and consumers.

Chapter 4: Deposits

3. Have we identified the key drivers for Big Tech firms to enter?

Disagree

Please explain your answer.

We believe there is insufficient focus on the link between payments and deposits, and how crucial deposits are in order to send and receive funds.

4. **What competitive advantages and disadvantages do Big Tech firms have over existing providers and potential entrants, such as fintech?**

We believe they relate to data and security, access to investment funding, brand leadership and economies of scale.

5. **Have we identified the most likely entry scenarios?**

Neutral

Please explain your answer.

We do not wish to comment.

6. **How are current market participants likely to respond to entry by Big Tech firms? How might potential entrants' plans be affected?**

Current players can either compete head-on, collaborate or leave the field of play. We believe that most current market participants will decide to collaborate with Big Techs.

We envision that Big Tech firms will need to conform to equivalent compliance and regulatory requirements as current market participants. For example, those Big Techs that wish to provide virtual payment accounts and banking services should be regulated in the same was a current market participants, and follow all the existing rules that current providers of similar services have to comply with at the moment. They should also be treated similarly to their direct and indirect competitors.

Following questions:

Our members do not wish to comment any further.

About The Payments Association

The Payments Association (previously the Emerging Payments Association or EPA) is for payments institutions, big & small. We help our members navigate a complex regulatory environment and facilitate profitable business partnerships.

Our purpose is to empower the most influential community in payments, where the connections, collaboration and learning shape an industry that works for all.

We operate as an independent representative for the industry and its interests, and drive collaboration within the payments sector in order to bring about meaningful change and innovation. We work closely with industry stakeholders such as the Bank of England, the FCA, HM Treasury, the Payment Systems Regulator, Pay.UK, UK Finance and Innovate Finance.

Through our comprehensive programme of activities for members and with guidance from an independent Advisory Board of leading payments CEOs, we facilitate the connections and build the bridges that join the ecosystem together and make it stronger.

These activities include a programme of monthly digital and face-to-face events including our annual conference PAY360 and awards dinner, CEO round tables and training activities.

We run 5 stakeholder working Project groups: Inclusion, Regulator, Financial Crime, International Trade and Open Banking. The volunteers within these groups represent the collective view of The Payments Association members at industry-critical moments and work together to drive innovation in these areas.

We also conduct exclusive industry research which is made available to our members through our Insights knowledge base. These include monthly whitepapers, insightful interviews and tips from the industry's most successful CEOs.

See www.thepaymentsassociation.org for more information.

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