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Digital transformation and competition in the financial sector

Expansión

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In recent years we have witnessed profound changes in the structure of a number of business sectors as a result of the emergence of new digital competitors. The audiovisual content industry and the retail trade are now facing a completely new competitive landscape, which has led to some business models that had seemed solid being displaced by the strength of new entrants.

The impact of digital transformation is also being felt in the financial sector, albeit more gradually, partly due to the weight of financial regulation, which discourages the entry of new players. Little by little, new companies involved in what is known as fintech have been successfully competing in certain segments, such as payments, while more recently, large technology companies have begun to integrate financial products into their digital ecosystems, which has great disruptive potential for the sector, both because of their size and because their ecosystems have a highly dominant position in the markets in which they operate. The ultimate reach of this disruption is uncertain and will depend largely on how the regulatory and competition framework evolves. Digital ecosystems are likely to become more involved in the distribution and marketing of financial products than in their final provision, at least in more regulated areas such as deposit taking.

The integration of financial services into these digital ecosystems poses challenges for financial stability, competition and consumer protection. On the one hand, some activities could be concentrated among a very small number of players, making their infrastructure critical. On the other hand, the separation of the production and distribution of financial services could discourage some incentives and generate moral hazard problems in the granting of loans or dilute some responsibilities regarding consumer protection.

Financial regulators and supervisors need to monitor market developments closely, identify emerging risks and, where necessary, adjust the regulatory framework in a way that ensures financial stability and consumer protection while promoting a level playing field for competition, thus avoiding risks becoming too concentrated in the more opaque recesses of the financial system. In an environment which involves the coexistence of different types of suppliers and business models, this means moving towards a regulatory and supervisory framework based more on activities and risks than on the type of entity.

In the digital economy, data are the main raw material, which means rules are required to facilitate their portability between companies when consumers so wish. And the role of data protection and competition authorities is vital in preventing companies from undermining the rights of data subjects or abusing their own market position to restrict competition.

National and sector-based policies will find it difficult to take on companies and digital ecosystems that are global and cross-sectoral. In Europe, the European Commission has cross-border powers to protect the internal market, the standards of which tend to be taken as a benchmark in other countries or regions. That is why the EU's approach to data regulation and competition policy is of great relevance to the global discussion.

The European framework is one of the world's best data protection guarantors and empowers consumers to share their data among providers. The problem is that it does so asymmetrically: while the new Payment Services Directive (PSD2) obliges banks to provide new payment providers, which could include the internet giants, with access to data in real time and in a standardised manner, the latter, which are merely subject to the transversal framework introduced by the General Data Protection Regulation (GDPR), are only obliged to share them in a non-standardised manner and with a considerable delay. It is important to avoid such imbalances, which can exacerbate the trend of digital markets towards concentration within a few large companies that accumulate large amounts of information and extend their power from one market to another.

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