

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

Discussion Paper

DP22/5

October 2022

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Executive Summary

Big Tech firms' presence internationally and in UK financial services markets has been increasing with the potential to grow and change market outcomes quickly. Big Tech firms – usually including Facebook (Meta), Google (Alphabet), Apple and Amazon – can bring benefits to consumers of retail financial services

by effectively and fairly competing with incumbent providers, and other new entrants including fintech firms. They can provide innovative, efficient products and services. However, based on evidence from Big Tech firms' core markets and their expanding ecosystems, competition risks could arise in the future from them rapidly gaining market share, markets 'tipping' in their favour, and potential exploitation of market power that would be harmful to competition and consumer outcomes.

The purpose of this paper is to stimulate a discussion on the potential competition impacts identified using existing research to inform our approach to Big Tech firms. We want to hear views about areas where Big Tech entry is likely to create the biggest competition benefits for consumers and those areas where there is the greatest risk of significant harm if competition develops in a particular way. We are seeking to understand what our approach to Big Tech should be in the future as part of our commitment to shape digital markets.

We have focused our analysis on four retail sectors: payments, deposit taking, consumer credit and insurance. We have chosen these sectors because of their importance to consumers' financial lives and the potential competition impact Big Tech firms' entry and expansion could have on them. In the UK and globally, these are areas where Big Techs have already entered financial services. We have not focused on wholesale financial markets or technology services provided by Big Tech firms to financial firms such as cloud services.

While our discussion focuses on competition in retail sectors, this complements wider joint work by the FCA on online safety, consumer protection and financial stability in digital markets such as:

- Our joint work with the Prudential Regulation Authority and Bank of England on operational resilience and the role of critical third parties such as cloud services provided by Big Tech firms to support financial stability and growth.
- Our joint work with Ofcom through the Digital Regulation Cooperation Forum (DRCF) on online safety and financial fraud to protect consumers from scams.

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

Having examined the four retail sectors in scope, we find five key themes emerging.

- 1. Potential for Big Tech firms to enhance the overall value of their ecosystems with further entry and expansion in retail financial services sectors through innovative propositions.** The payments sector has often been the first point of entry, for example, Google Pay and Apple Pay. Over the longer-term, Big Tech entry is unlikely to be independent between financial services markets as entry into one market will create opportunities for expansion into complementary markets, with Big Tech firms' core and other activities playing a role.
- 2. 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 may look to bring more activities in-house and expand their service provision along the value chain through mergers and acquisitions, organic growth, or a combination to compete more directly with existing providers.
- 3. Big Tech firms' entry may not be sequential or predictable. While initial forms of entry may be hard to predict, once momentum builds, we might see significant market changes occur quickly.** Big Tech firms' ecosystem business models and conglomerate operations mean entry into one financial services market will create opportunities for expansion into complementary financial markets.
- 4. In the short-term and possibly enduring longer, Big Tech firms' entry in financial services could benefit many consumers.** These benefits could arise from Big Tech firms' own innovations as well as increasing other market participants' incentives to innovate, improve quality and reduce prices of financial products and services through increased competition.
- 5. 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.** This risk can arise given the characteristics of digital markets (including economies of scale and scope, limitations to switching and multi-homing, incumbent data advantages and network effects) and the characteristics and behaviours of Big Tech firms (including global scale and large user bases, rich data about their users with advanced analytics and technology, influence over decision making and defaults, ecosystems of complementary products and their strategic choices and investments). These characteristics can lead them to rapidly gaining market share, markets 'tipping' in their favour, and potential exploitation of market power.

We plan to publish a Feedback Statement in the first half of 2023, setting out our response and how we will develop our regulatory approach in response to the feedback received.

1 Introduction

- 1.1** Big Tech firms' presence in UK financial services markets has been increasing and with the potential to grow quickly. Given the potential implications for consumers and competition, we set out in our Business Plan a commitment to proactively identify competition risks and benefits from Big Tech entry in financial services. We want to better understand the emerging risks and opportunities to ensure that benefits to consumers are harnessed and important harms mitigated.
- 1.2** We define Big Tech firms in line with the Financial Stability Board (FSB): large digital companies with established technology platforms and extensive established customer networks. Our focus is on Google (Alphabet), Apple, Facebook (Meta) and Amazon in the UK as they have already entered financial services, in the UK or globally. These firms could expand further in financial services, and quickly, due to their large user bases, ecosystems, high market shares, and significant financial resources. Where relevant, we also draw lessons from other large technology companies including Big Tech firms that primarily operate in Asia and South America as part of our evidence base.
- 1.3** In this Discussion Paper we set out our analysis of the economic incentives driving entry by Big Tech firms; plausible Big Tech entry scenarios in UK financial services; and their potential implications for competition – both beneficial and harmful. We are mindful of third-party services provided by Big Tech firms to financial services firms, and consider this where there are direct links to competition in retail markets.
- 1.4** The aim is to provide an impartial view of both potential benefits and potential harms to competition. The entry scenarios outlined are indicative and based on our analytical approach to Big Tech entry. This includes an assessment of the incentives and barriers Big Tech firms face when considering entry and expansion into new markets and observed entry in other jurisdictions.
- 1.5** We focus on four retail financial services sectors when we apply our high level entry and expansion framework and our thinking on potential benefits and harms: payments, deposit taking, consumer credit and insurance. We have chosen these sectors because of their importance to consumers' financial lives and the potential competition impact Big Tech firms could have on these sectors should they enter or expand their existing presence. In addition, to date in the UK and globally, these sectors have been the areas where Big Tech entry has occurred.
- 1.6** This discussion will help inform our approach to, and understanding of, Big Tech firms, in the context of the new UK pro-competitive regime for digital markets and those of other jurisdictions such as the EU and the US, the UK's Future Regulatory Framework, and the FCA's new Consumer Duty. At the time of publication, the proposed secondary international competitiveness and growth objective is still being considered in Parliament, so we have not taken it into account in this Discussion Paper. We would need to consider its effect on our future regulatory approach, including on the impact of Big Tech entry.

- 1.7** At this stage we are not proposing any regulatory or policy changes. The purpose of this paper is to stimulate a discussion among stakeholders as part of our forward-looking and proactive approach to shaping digital markets.
- 1.8** The issues raised in this paper are for discussion only and do not represent the FCA's final views.

Context

- 1.9** Big Tech firms in the UK and around the world have been under active scrutiny from academia, media and regulatory authorities. Big Tech firms already have some FCA permissions for providing financial services and have been active in the payments and lending sectors.
- 1.10** We want to better understand the potential competition impacts from Big Tech firms' entry and expansion in UK financial services. These firms can bring benefits by effectively and fairly competing with incumbent providers, and new entrants including fintech firms. They can provide innovative, efficient products and services. However, based on evidence in Big Tech firms' core markets and their expanding ecosystems, there are competition risks arising from them rapidly gaining market share, markets 'tipping' in their favour, and potential exploitation of market power. This could be harmful to competition and consumer outcomes.
- 1.11** In this paper, our focus is on Big Tech firms' potential impacts on *competition* in retail financial services markets, both positive and negative. We are mindful of wholesale markets and the wider infrastructure provided by Big Tech firms to financial services where they have direct implications for the retail markets under consideration, such as the role of credit referencing in the consumer credit sector.
- 1.12** Shaping digital markets is a key priority for the FCA with a variety of work underway to mitigate important harms while enabling benefits to consumers. This includes:
- Supporting the Government's work on creating a new pro-competitive 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 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.

The competition regulatory landscape

- 1.13** Given the unique characteristics of Big Tech firms, governments in multiple jurisdictions are developing ex-ante competition regimes – regulating future conduct – to complement existing competition law enforcement (such as the Competition Act 1998).

- 1.14** In the UK, following the recommendations made in *Unlocking digital competition: Report of the Digital Competition Expert Panel (Furman Review)*, the Government has set up the Digital Markets Unit (DMU) within the CMA. The Government intends to give the DMU powers to oversee a mandatory code of conduct and implement pro-competitive interventions for firms that meet the definition of holding 'strategic market status'.
- 1.15** Similarly, the European Commission is implementing the Digital Markets Act (DMA), with an aim of limiting anticompetitive behaviour by 'gatekeeper' platforms. 'Gatekeepers' are large digital platforms that mostly intermediate between business users and end users, and operate in markets with economies of scale, stronger network effects and a lack of multi-homing.
- 1.16** US lawmakers are considering several antitrust bills that would affect Big Tech firms; however, these are yet to pass the House or Senate. In February 2019, the Federal Trade Commission also created a Technology Enforcement Division to monitor competition in digital technology-based markets.
- 1.17** Several other initiatives are being developed in Australia (reforming merger law and introducing proactive monitoring), South Korea (preventing app store operators from exploiting app developers) and Japan (introducing disclosure obligations and annual submissions to the Japanese Ministry of Economy, Trade and Industry).
- 1.18** Prior to the recent development of ex-ante regimes, Big Tech firms had been subject to several competition enforcement cases and market studies in multiple jurisdictions around the world and they continue to be scrutinised under competition laws. In the UK, in March 2021 the CMA opened an investigation into Apple in relation to the distribution of apps; in particular, the terms and conditions governing app developers' access to Apple's App Store. In June 2022 the CMA launched an investigation into Google's Play Store rules which oblige app developers offering digital content to use Google's own payment system for in-app purchases.
- 1.19** Recent market studies carried out by the CMA include assessing competition in online platforms and digital advertising, where the CMA concluded Google and Facebook have dominance in search advertising and display advertising markets. The mobile ecosystems market study found that there is an effective duopoly held by Apple and Google, in relation to mobile devices, mobile operating systems and applications that can be loaded onto mobile devices.
- 1.20** Ofcom announced in September 2022 that they are launching a market study into the UK's cloud sector, examining the position of Amazon, Microsoft and Google in cloud services. Ofcom will also start a broader programme of work to examine other digital markets and services, such as WhatsApp, Zoom and smart speakers.
- 1.21** While our discussion focuses on competition, Big Tech firms are also subject to regulatory regimes with differing objectives, including regulations related to data protection, conduct of business and operational resilience.¹ In July 2022, the CMA and Ofcom released a statement on how they will work together to address any issues of online safety and competition in digital markets. Understanding how such regulatory regimes interact is also important to ensure harms are effectively mitigated and benefits from innovation are realised.

1 Data protection regulations – EU's General Data Protection Regulation (GDPR), US legislative proposals including the Consumer Online Privacy Rights Act and the United States Consumer Data Privacy Act. Conduct of Business regulations such as the EU's Digital Services Act. Operational Resilience regulations such as the Digital Operational Resilience Act in the EU and the Significant Service Provider Program under the Bank Services Company Act in the USA.

Who will be interested in this discussion?

1.22 This discussion will be of interest to all market participants, potential entrants and authorities with an interest in payments, deposits, consumer credit and insurance.

1.23 It 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

Equality and diversity considerations

1.24 The analysis presented here is forward-looking and therefore we have limited evidence that enables us to understand with certainty the potential competition impacts on individuals with protected characteristics should Big Tech firms enter or expand in retail financial services in the future.

1.25 In other jurisdictions, such as in China and South America, Big Tech entry has contributed to reduce financial exclusion. Although the level of financial exclusion in the UK is lower, evidence suggests that digital platforms have improved financial inclusion, both in emerging and developed economies such as the UK.

1.26 We will continue to consider whether there are equality and diversity implications of the potential competition impacts raised in this Discussion Paper.

Next steps

1.27 Throughout this document, we have outlined key questions and areas where we would like input from stakeholders. We are inviting you to participate in this discussion by sharing your views on these issues. A full copy of the questions is available in Annex 1.

1.28 You can respond to us by emailing dp22-05@fca.org.uk, or alternatively use the contact details provided on page 2.

1.29 The discussion period will end on 15 January 2023. Following this, we will consider your feedback and plan to publish a Feedback Statement in the first half of 2023.

2 Background on Big Tech firms and our analytical approach

- 2.1** In this chapter, we introduce Big Tech firms and their business models. We consider Big Tech firms' current activity in financial services, in the UK and globally. Finally, we present our analytical approach to assessing plausible Big Tech entry and expansion scenarios into UK financial services markets, and the associated competition benefits and harms this might bring.

Big Tech firms' characteristics

- 2.2** We define Big Tech firms as 'large technology companies with established technology platforms and extensive established customer networks', following the definition by the Financial Stability Board (combining two sentences). Our focus is primarily on Big Tech firms that operate in the UK.
- 2.3** We consider Google (Alphabet), with core activities of search, advertising and phone operating systems; Apple, offering hardware devices and mobile ecosystem related services; Meta Platforms (including Facebook, WhatsApp, Instagram), in social media and advertising; Amazon, with core activities in e-commerce, distribution, logistics and cloud infrastructure; and Microsoft, with core activities in computer hardware, software and cloud infrastructure. Where relevant, we also draw lessons from other large technology companies, including Big Tech firms that primarily operate in Asia and South America, as part of our evidence base. Table 1 outlines the size of some of these firms and their core activities.

Table 1 – Key descriptive statistics and business models for Big Tech firms

Big Tech firm	Key statistics	Market capitalisation	Core activities
Global			
Google	2.5 billion monthly active users worldwide (2020)	\$1.5 trillion	Search engine Advertising Mobile ecosystem
Apple	72 million Apple Music subscribers 1.2 billion active iPhone units 745 million Apple services subscribers 507 million active Apple Pay users	\$2.4 trillion	Hardware devices Mobile ecosystem
Meta Platforms	2.7 billion active monthly users	\$445 billion	Social media Advertising chain
Amazon	200 million Prime members 300 million active users	\$1.1 trillion	E-commerce Distribution and logistics Cloud infrastructure
Microsoft	58.4 million Office 365 consumers 345 million commercial Office 365 seats	\$1.88 trillion	Computer software Cloud infrastructure Workplace productivity
Regional			
Alibaba	1.28 billion active consumers	\$293 billion	E-commerce
Tencent	1.8 billion monthly active users	\$410 billion	Social media Digital content
Mercado Libre	139.5 million unique active users	\$33 billion	E-commerce

Sources:

Google: <https://www.bis.org/publ/bisbull45.pdf>

Apple: <https://www.businessofapps.com/data/apple-statistics/>. Apple services include subscriptions to iCloud, Apple Music, Apple TV+, Apple Arcade, Apple News+ and Apple Fitness+.

Meta Platforms: <https://www.bis.org/publ/bisbull45.pdf>

Amazon: <https://www.bis.org/fsi/publ/insights44.pdf>; <https://www.statista.com/statistics/829113/number-of-paying-amazon-prime-members/>

Microsoft: <https://www.microsoft.com/en-us/investor/earnings/FY-2022-Q3/press-release-webcast>

Alibaba: <https://www.bis.org/fsi/publ/insights44.pdf>

Tencent: <https://www.bis.org/publ/bisbull45.pdf>

Mercado Libre: <https://www.bis.org/fsi/publ/insights44.pdf>

- 2.4** In addition to the core activities mentioned above, Big Tech firms are active in a range of other businesses which could impact their incentives to enter or expand in financial services. Big Tech have been referred to as tech or neo-conglomerates. Big Tech firms often operate with diversified ecosystems across multiple business lines such as, but not limited to, search, advertising, e-commerce, social media, virtual reality, and cloud infrastructure.²
- 2.5** Big Tech firms are often key providers in these markets. The Furman Review highlighted Big Tech firms' key role in online search (Google), social media (Facebook and Instagram), digital advertising (Google and Facebook) and online marketplaces (Amazon). The CMA's mobile ecosystems market study found Apple and Google hold a de facto duopoly over operating systems for both smartphones and tablets.
- 2.6** Concentration in these markets, and Big Tech firms' key role, has been widely discussed. It reflects both the characteristics of digital markets and the characteristics and behaviours of Big Tech firms themselves. In the Penrose Report, Big Tech firms are referred to as 'network monopolies' who benefit from network effects and access to data, particularly that of consumers. The Furman Review highlighted the importance of economies of scale and scope, data advantages for large incumbents (such as information asymmetries and feedback loops allowing personalisation), limitations to switching and multi-homing and network effects in driving concentration in digital markets. In combination, these could often result in digital markets 'tipping' in favour of one, or a few, firms.
- 2.7** Big Tech firms' success in securing and maintaining a key position in these markets reflects their characteristics and behaviours. These include their global scale and access to a large installed user base, rich data about their users allowing personalisation, advanced data analytics and technology, influence over decision making and defaults, ecosystems of complementary products and strategic behaviours, including acquisition strategies.
- 2.8** The Bank for International Settlements (2019) describes how Big Tech firms can become successful throughout three key stages of their life cycle: birth, where a technology firm attempts to attract a critical mass of users; growth, where the firm can benefit from network externalities; and maturing, where ecosystems and economies of scope are harnessed. While some Big Tech firms eventually become profitable global conglomerates, some firms choose to prioritise increasing their user base in the initial stages of their life cycle instead of revenues and profits.
- 2.9** For Big Tech firms that reach maturity, there are different approaches to monetising the products and services they provide:³
- Meta (formerly Facebook's) revenue is largely derived from advertising (98%) which is enabled by the vast number of users Meta has amassed, including through the strategic acquisitions of WhatsApp and Instagram. Meta's data advantages also allow them to provide highly effective targeting and attribution.⁴
 - Alphabet (the parent company of Google) similarly generates around 68% of its revenue from advertising, driven by its ability to build integrations with Android

2 An ecosystem could be thought of as products and services that are able to work in combination with each other, in a way that strengthens the value and functionality of each. CMA (2022) Mobile ecosystems market study.

3 All statistics derived from company 10-K reports submitted to the US Securities & Exchange Commission in 2021. Source: Visual Capitalist

4 CMA (2020), Online platforms and digital advertising: Market study final report

and embed Google software into products and services used by consumers and businesses.

- Apple generates the largest proportions of its revenue from the sale of hardware devices (ie iPhone, Mac and iPad account for 72% of all revenue) – Apple leverages its mobile ecosystem⁵ to contribute strongly to its revenue, through App Store charges, advertising and other services.⁶
- Amazon's business model is focused on e-commerce (50% of revenue) and third-party seller services (22% of revenue) – comprehensive data on consumer preferences, merchant sales and their established position as a marketplace enables this. Amazon's cloud computing service – Amazon Web Services (AWS) – is also a significant component of Amazon's profitability.
- Microsoft's business model is focused on Office products (24% of revenue), selling Windows software (14% of revenue) and their server products and cloud services, comprising 31% of revenue. Microsoft's competitive advantages in technology and software enables its position as one of the largest computer and technology companies in the world.

2.10 A further broad distinction in business models is the openness of Big Tech firms' systems. The CMA identified Apple's mobile ecosystem as tightly integrated and widely referred to as being a closed system, or a 'walled garden'. In contrast, Google's approach is generally more open regarding some aspects of its ecosystem.⁷

2.11 These differences in business models mean that each Big Tech firm will anticipate different opportunities to, and consequences from, entering or expanding in financial services markets. We highlight examples of the different ways Big Tech firms have entered or could enter or expand in our sector analysis in Chapters 3 to 6.

Big Tech firms' presence in UK financial services

2.12 In the UK, Big Tech firms have some FCA permissions⁸ to do business in retail financial services. Google, Amazon, Meta, and Apple have some payments permissions, and Google and Meta also have some e-money permissions. Apple and Amazon have some consumer credit and insurance permissions.

2.13 No Big Tech firm yet has permissions to provide products and services in deposits, mortgages, or pensions. At the time of writing, Big Tech firms would not need permissions to be indirectly active in financial services in some cases – for example, if they were involved in the provision of third-party services (eg cloud infrastructure) as an input to financial services. However, the FCA, the Bank of England and PRA recently published a Discussion Paper proposing statutory powers to regulate critical third parties under the Financial Services and Markets Bill. For reference, the FCA Perimeter Report outlines other examples of business models that are not currently regulated by the FCA.

2.14 Table 2 below summarises the permissions held by Big Tech firms in the UK.

⁵ The CMA's mobile ecosystems market study found that operating systems provided by Apple (iOS – 50-60%) and Google (Android – 40-50%) account for the majority of active smartphones in the UK between 2015 and 2021.

⁶ Other services include Digital content, Cloud Services, Payment Services, AppleCare, plus Licensing. CMA (2022), Mobile ecosystems: Market study final report and Annex C.

⁷ Although in practice Google is able to achieve similar outcomes to Apple, supported in part by various contractual and financial agreements it has in place with device manufacturers and app developers. CMA (2022), Mobile ecosystems: Market study final report

⁸ Financial services firms require permissions to carry out regulated activities in the UK.

Table 2 – Big Tech Permissions for UK Financial Services

Categories of FCA Permissions							
Firm	Payments ⁹	E-money ^{10 11}	Consumer credit	Insurance	Deposits	Mortgages	Pensions
Google	✓	✓					
Amazon	✓		✓	✓			
Meta/ Facebook	✓	✓					
Apple	✓		✓	✓			

Source: FCA Register, October 2022

2.15 Here is an overview of some Big Tech firms' financial service offerings in the UK:

- Digital wallets such as Google Pay and Apple Pay are among the most prominent payments technologies used by consumers.
- Amazon has acted as a credit broker in partnership with NewDay to offer credit cards to consumers, who earn Amazon Reward Points and gift cards (although NewDay has announced this arrangement is ending).
- Apple partners with Barclays to provide financing on Apple Store purchases and has recently acquired Credit Kudos, a UK-based fintech credit reference agency.
- In insurance, Amazon provides business insurance in collaboration with SuperScript and offers general insurance products provided by London General Insurance Company on its e-commerce site. Apple provides aftermarket breakdown cover for iOS devices (AppleCare) as a key insurance product.

2.16 In the US, the financial products coverage is similar to the UK, although the suite of lending products is wider, with one example being Apple's recent announcement of entry into buy now pay later (BNPL). In other jurisdictions, particularly in emerging markets such as China and South America, Big Tech firms offer a more diversified set of financial products, encompassing banking, insurance and consumer investments. Ant Financial's Alipay and Tencent's WeChat Pay account for 94% of the total mobile payments market in China. Both companies also operate insurance marketplaces (AntSure and WeSure respectively). Through their digital bank offerings (Ant Financial's MYBank and Tencent's WeBank), both technology giants are able to offer digital banking services, consumer loans and consumer investments. This is similar to Mercado Libre's offering in South America who provide a digital wallet (Mercado Pago), short-term loans (Mercado Credito) and investment products (Mercado Fondo).

Our analytical approach to Big Tech entry and competition

2.17 Our analytical approach to Big Tech entry and competition considers the following (see Annex 2 for further details):

9 For the purposes of our analysis, payments sector includes any of the following: money remittance, credit and debit card payments, account information services and payment initiation services. These can be held in traditional financial institutions (such as banks or building societies) or can be provided by fintech or Big Tech companies. [See overview of Retail Banking & Payments sector on page 11 here.](#)

10 E-money is defined as an electronic payment product where value is held electronically or magnetically, and payments using this value can be made electronically. A well-known example of this is Google Play Store credit.

11 E-money is regulated under the Electronic Money Regulations (EMRs) while payment services are regulated under the Payment Service Regulations (PSRs). Under the EMRs, the customer has a claim on the issuer for the monetary value which is issued on receipt of funds for making payment transactions, whereas the PSRs regulate Payment Services Providers (PSPs) and other payment institutions.

- The incentives and barriers Big Tech firms face when considering entry into new markets.
- The strategies Big Tech firms could use to enter new markets.
- The potential benefits and harms to competition.

2.18 Our approach assumes Big Tech firms' entry decisions are driven by the relative long-term costs and benefits of entry to the firm. Markets where there is potential for high long-term profitability and low costs of entry will be the most attractive options for Big Tech firms. When assessing the profitability, or return, from entering a new market, Big Tech firms will consider the market's structure, barriers to entry and existing providers' potential reactions. Big Tech firms' multi-product business models create another consideration. For Big Tech firms, entry may not be driven by the value of the new market itself, but the complementary value it generates for the firm's other products, services and ecosystem.

2.19 However, entry may not always generate positive value for the Big Tech firm. Aggressive entry and expansion could risk retaliatory behaviour from incumbents who may be customers of Big Tech firms' other products and services, such as cloud computing, analytics or advertising. As a result, Big Tech firms' existing commercial relationships and competitive dynamics with incumbent financial services providers are also likely to influence entry decisions.

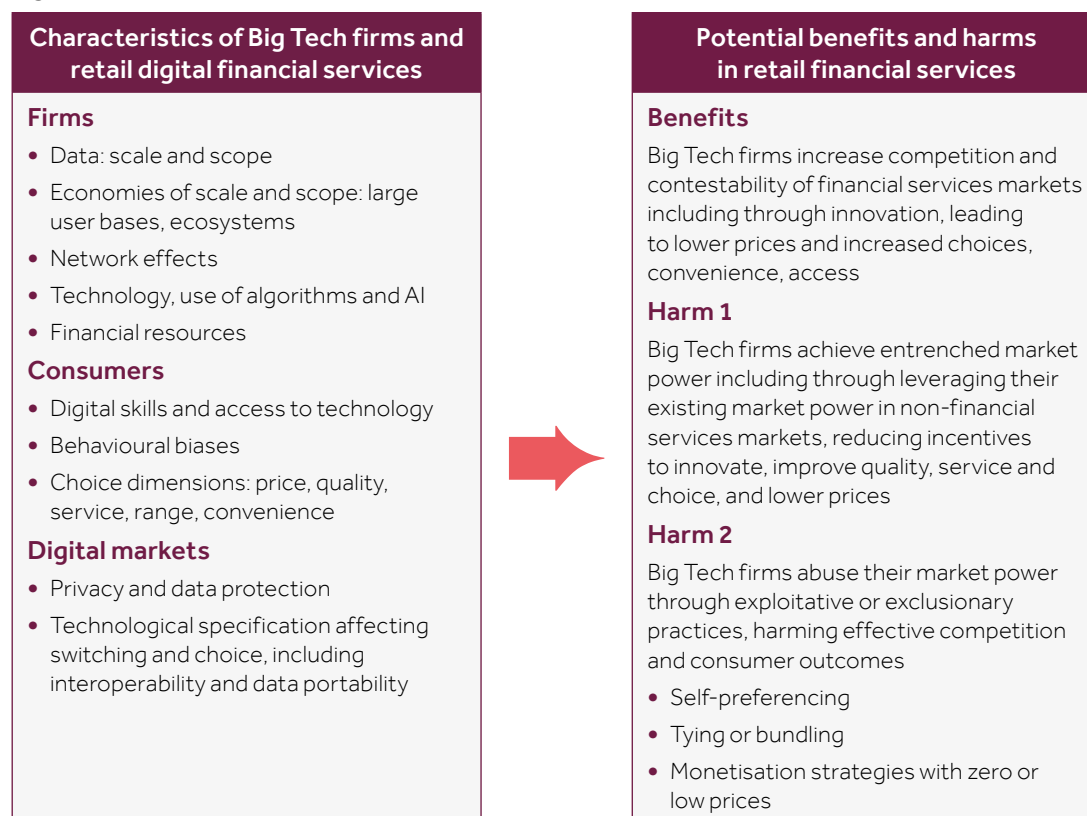
2.20 Entry into a market can be realised in many ways. A Big Tech firm will consider a range of options when contemplating the most appropriate, and profitable, route into a new market. Does it compete or collaborate? Innovate or replicate? Where in the value chain should it enter? Does it acquire an existing provider? These choices will inform the Big Tech's entry strategy. In considering potential entry routes into financial services markets, we distinguish between entry as a direct competitor to existing providers and entry through collaboration – including different commercial relationships Big Tech firms could have with existing providers.

2.21 Finally, we consider the potential implications for competition – both beneficial and harmful, from Big Tech firms' entry. Our Approach to Competition highlights that challenger firms are an important source of competitive pressure for established businesses, as well as bringing new ideas and innovation. However, innovation comes with risk.

2.22 Big Tech entry brings its own potential benefits and harms. Big Tech firms may be able to overcome entry barriers that other potential challengers cannot. However, Big Tech entry could also create potential dynamic risks to competition and consumer outcomes if it results in the creation of harmful market power or is achieved by leveraging market power from elsewhere.¹² The potential competition benefits and harms arising from Big Tech entry into financial services are summarised in Figure 1. These potential competition benefits and harms create a framework that is capable of being applied across the range of financial services sectors.

12 Entry could also create or further entrench market power in Big Tech firms' existing core markets.

Figure 1: Competition benefits and harm framework



2.23 In the following chapters we apply our analytical approach to four UK financial services sectors: payments, deposit taking, consumer credit and insurance. For each of the four sectors we identify plausible Big Tech entry or expansion strategies in the UK. Having identified plausible market entry scenarios, we then look at the potential competition benefits and harms that could arise.

2.24 In the long-term, significant changes could emerge in the way the 'physical' and 'digital' financial services operate and the resulting consumer propositions. Big Tech firms already play an important role in consumers' access to digital content. The [CMA mobile ecosystems market study](#) found that through their operating systems, app stores and browsers, Apple and Google act as gatekeepers to most UK consumers with mobile devices, and as a result can set the rules of the game for providers of online content and services. In future the *metaverse* – a digital reality – could become a place where increasing numbers of people interact and transact virtually, including with financial services firms and products. Big Tech firms are likely to play an important role in the metaverse. For example, Facebook Pay has recently been [rebranded](#) to Meta Pay as a first step toward creating a digital wallet for the metaverse. Our analysis has focused on nearer-term entry scenarios into existing financial services sectors.

2.25 It is important to note our analysis cannot predict future market developments with any precision, yet it creates a basis for understanding a range of plausible scenarios that may arise over the next few years.

Questions for discussion

- 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?

3 Payments

In 2021 card payments accounted for over half of all payments in the UK and over 80% of retail sales by value in 2020. The two major card schemes in the UK, Visa and Mastercard, together account for around 99% of all card payments, both by volume and value (2021). In June 2022, the PSR launched a market review of card scheme and processing fees to understand whether the markets are working well.

Cryptoassets have also been suggested as potential alternative payment systems. In April 2022 the Treasury confirmed that the Government intended to bring activities that issue or facilitate the use of cryptoassets as a means of payment into the UK regulatory perimeter.

We find **three plausible entry strategies for Big Tech firms.**

- **First, Big Tech firms could intermediate beyond their existing offering (digital wallets) to provide more services across the card schemes and capture more of the value chain.** Innovation has meant more firms are offering specialised payment services, making the value chain more complex (eg payment facilitators, acquirer processors and issuer processors). Big Tech firms could enter through one of these established functions, by offering services to existing firms, or through innovations such as 'Tap to Pay'.
- **Second, Big Tech firms could facilitate the adoption of non-card payment systems to compete with the card schemes directly.** A Big Tech firm, especially if it already had wide adoption of its digital wallet, could facilitate the adoption of payments through a non-card payment channel, such as Faster Payments. It could do this by integrating alternative payment options directly into digital wallets. In future some cryptoassets may also be used as a widespread means of payment.
- **Third, Big Tech firms could widen the scope beyond retail payment products through digital wallets.** Offering services such as peer-to-peer transfers (with technology such as tap-to-transfer) would serve more use cases and increase the volume of transactions processed through Big Tech firms' technology.

Card schemes have historically faced limited competitive threat from new payment networks given high barriers to entry, but innovation in interbank payments could weaken these barriers in future. Big Tech entry could help accelerate this process.

In the short term and maybe enduring longer, Big Tech firms' entry could drive low-cost take-up, secure a strategically important role in payment networks, and increase incumbent firms' incentives to innovate and offer better value payment services.

In the long term, a competition risk may emerge were the market to evolve so that Big Tech firms control access (and data) to a significant portion of transactions (consumers and merchants) through their grip of key mobile gateways, creating the potential for market power over in-person mobile transactions (and to a lesser extent for remote browser or app transactions). As gatekeepers to mobile based transactions, they could have the ability and incentive to exploit their market power.

Sector background

- 3.1** We define the payments sector broadly, to mean any infrastructure, technology or service that facilitates or enables the transfer of digital funds (we do not actively consider cash transactions). We consider alternative payment networks or 'rails' (card schemes, interbank and potentially crypto or central bank digital currencies), technology or services which complement payment networks (such as digital wallets, Apple Pay and Google Pay) and alternative consumer uses, such as payments for goods and services (remotely and in-person) and peer-to-peer transfers.

Big Tech entry in Payments

- 3.2** Payments have been the natural starting point for Big Tech firms entering financial services in many jurisdictions around the world, including the UK. On e-commerce platforms, entry into payments helped to overcome the lack of trust between buyers and sellers. Payment services such as those provided by PayPal (owned by eBay) allow guaranteed settlement at delivery and are fully integrated into e-commerce platforms (BIS Annual Economic Report, Chapter 3).
- 3.3** In countries such as China, Big Tech firms have entered the payments value chain through directly providing payment services. For example, Alipay was created in 2003 to provide a quicker and more efficient payment method for both merchants and consumers on Alibaba. In the UK, entry into payments has focused on the provision of add-on services on top of existing infrastructure. For example, digital wallets and technology such as Apple Pay and Google Pay, where payment information is stored electronically and authenticated to facilitate making payments in-person (through Near Field Communications (NFC) technology integrated into mobile and wearable devices) and remotely (through web browsers and apps).
- 3.4** Our 2020 Financial Lives Survey (Figure 5.17), found 27% of consumers reported that they had used a mobile wallet or smartphone app that is not provided by their main current account provider, almost doubling since 2017. Many mobile phone and technology companies offer a digital wallet and contactless mobile payments.¹³ However two of the most prominent, given their effective duopoly in the provision of operating systems that run on mobile devices, are provided by Apple and Google (CMA mobile ecosystems market study final report). While the customer-facing experience is similar, the technological implementation and monetisation of the service is different.
- 3.5** Apple Pay and Google Pay operate a technology layer, providing identity authentication and verification services for consumers. This is not regulated as payment initiation, as it is outsourced by service providers. Apple Pay operates by producing a token on the device (stored in the 'Secure Element' chip) whereas Google Pay uses 'Host Card Emulation' to generate tokens online.
- 3.6** Differences in the technological implementation may play a role in Apple and Google's approach to monetising the service. While Apple requires direct partnerships with issuing banks, and charges a commission fee, Google Pay does not mandate

¹³ Amazon Pay allows consumers to use their Amazon accounts (with payment and address information) on third party merchant websites.

commercial relationships with banking partners in the same way as Apple. As a result, at present it does not charge commission to banks for accepting their cards.

- 3.7** Further, while Apple Pay is limited to Apple hardware devices and Apple's Safari web browser, Google Pay is supported across several browsers. Google also allows third party digital wallets access to NFC technology on Android devices, something Apple does not allow on iOS devices. The European Commission has opened an investigation into Apple's practices regarding Apple Pay.¹⁴
- 3.8** Both Apple and Google operate mobile app stores, which are marketplaces for buying and selling apps, connecting consumers and developers. Apple and Google monetise their app stores through requirements on certain developers to use proprietary payment systems to process in-app purchases, with commission of up to 30% for these transactions. For transactions which are handled by Apple in-app purchases or Google Play's billing systems, Apple and Google effectively act as the seller of the relevant in-app purchase and have the contractual link to the consumer.¹⁵
- 3.9** In March 2021 the CMA opened an investigation into Apple in relation to the distribution of apps, in particular, the terms and conditions governing app developers' access to Apple's App Store. In June 2022 the CMA launched an investigation into Google's Play Store rules which oblige app developers offering digital content to use Google's own payment system for in-app purchases.
- 3.10** Internationally Big Tech platforms also offer peer-to-peer payments. Both Apple and Google offer a pay contacts service in the US, directly integrated within their respective messaging apps – a feature not yet available in the UK.¹⁶ In some international markets Meta has also integrated payments directly into WhatsApp.¹⁷ In the US this was enabled using the Novi digital wallet and Paxos stablecoin, however the Novi pilot ended on 1 September 2022. This follows Meta's exit from the Diem (formerly Libra) project, following numerous attempts to launch a crypto wallet, firstly in Switzerland and later in the US.

Entry scenarios

- 3.11** From our assessment of the value of the payments sector to Big Tech firms, we hypothesise three (not mutually exclusive) entry and expansion scenarios:
- Scenario 1: Big Tech firms widen intermediation beyond the beginning of the payment transaction to capture more of the card schemes value chain.
 - Scenario 2: Big Tech firms integrate non-card payment systems into digital wallets.
 - Scenario 3: Big Tech firms widen the scope of payment products, or use-cases, that users access through digital wallets.

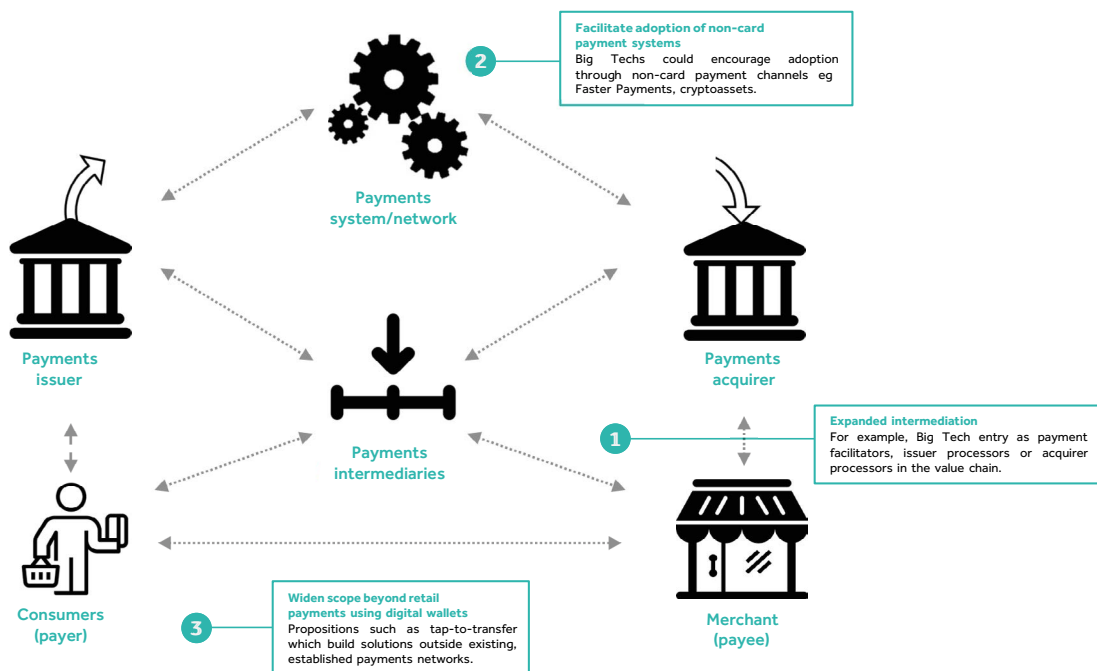
¹⁴ The investigation concerns Apple's terms, conditions and other measures for integrating Apple Pay in merchant apps and websites on iPhones and iPads, Apple's limitation of access to the Near Field Communication (NFC) functionality ('tap and go') on iPhones for payments in stores, and alleged refusals of access to Apple Pay.

¹⁵ Apps which offer 'digital' content must exclusively use Apple and Google's own systems. Apps which provide physical goods and services are able to use payment service providers or (on iOS) Apple Pay.

¹⁶ In the United States, Apple launched Apple Cash in 2021, allowing iPhone and Apple Watch users to send funds via iMessage.

¹⁷ In India via the Unified Payments Interface framework developed by National Payments Corporation of India. In Brazil via Visa and Mastercard networks with payments processed by Cielo.

Figure 2 – Big Tech entry into payments



In scenario 1, a Big Tech firm could provide more services across the card schemes, to capture more of the value chain.

- 3.12** Traditionally, operators of four-party payment schemes¹⁸ connected two service users (cardholders and merchants) via acquirers and card issuers. Innovation has meant more firms are offering specialised payment services, making the value chain more complex, for example with payment facilitators, acquirer processors and issuer processors.
- 3.13** A Big Tech firm could attempt to intermediate beyond its existing offerings, either by entering one of these established functions, or offering services to existing firms, or innovating a method to change the way the value chain works. For example, Apple has announced a 'Tap to Pay' feature to allow US merchants to accept Apple Pay and other contactless payments using an iPhone, with no additional hardware needed.¹⁹
- 3.14** If a Big Tech firm achieves widescale adoption of its mobile wallets and payment authentication and verification services, it could become a gatekeeper to cardholders. With further entry in other parts of the value chain it could also become a gatekeeper to merchants.²⁰ By controlling access to both service users, it may have a strong bargaining position to increase commissions and fees in its commercial agreements with partners, including other members of the card network.

¹⁸ In a 'three-party' or 'closed' system – such as the one operated by American Express – the issuer, acquirer and operator are the same entity.

¹⁹ Block/Square's share price was reported to have increased on the news it was partnering rather than competing with Apple by bringing Tap to Pay to Square sellers.

²⁰ This could be thought of as an *envelopment* strategy (Eisenmann et al (2011)): enveloping the card schemes into the Big Tech's mobile wallet with a view to foreclosing or defining the scheme operators' access to consumers and merchants.

- 3.15** Access to data is often cited as a key motivator for Big Tech entry into new markets – although it is unclear to what extent further expansion within card schemes would significantly increase the quality, exclusivity and timeliness of data a Big Tech firm can already obtain. This is particularly true in the context of Open Banking and open finance (extending open banking-like data sharing and third-party access to a wider range of financial sectors and products).
- 3.16** There are potential direct regulatory costs from expansion – potentially more stringent consumer protection, financial crime, capital and resilience requirements – but this depends on the extent to which the Big Tech firm conducts regulated activities itself or operates as a service provider to other regulated firms.

In scenario 2, Big Tech firms compete with the card schemes directly by facilitating the adoption of non-card payment systems.

- 3.17** While card schemes are the most popular payment channel, especially for retail purchases, they are far from the only option. As well as cash, there are three widely used interbank systems for different use cases: Bacs, CHAPS and Faster Payments. In future crypto based payment systems may gain wider adoption.
- 3.18** A Big Tech firm, especially if it already had wide adoption of its digital wallet and therefore the start of consumers' payment journeys, could facilitate the adoption of payments through a non-card payment channel, such as Faster Payments, by integrating alternative payment options directly into digital wallets. Open banking Application Programming Interfaces (APIs) can be used for data access to analyse account information and transactions, using Account Information Services, and initiate and receive payments, via Payment Initiation Services.
- 3.19** In future some cryptoassets or digital currencies may also be used as a widespread means of payment either leveraging an existing blockchain or other payment system or creating its own. Google and Apple are reported to be looking at cryptoassets (as are Visa and Mastercard).
- 3.20** Historically, card schemes have benefited from operating two-sided networks with high volumes, low marginal costs, and network externalities.²¹ Big Tech firms might be uniquely well placed to scale these high barriers to entry and encourage widespread adoption of a different payment system, using their technological expertise, large existing customer bases, ecosystems of complementary products and use of choice architecture including defaults.²² Compared to our first entry scenario, this scenario may have higher sunk investment costs. Direct competition from Big Tech may also incentivise incumbents to invest in technology which bypasses Big Tech firms' mobile and wearable devices, for example biometric technology. Amazon Fresh stores use in-store cameras and 'Just Walk Out' technology to charge customers. Amazon have also developed a palm print checkout system called Amazon One. Mastercard are developing a new Biometric Checkout Programme.
- 3.21** Integrating alternative payment options into digital wallets may not always be a substitute to card schemes. In some situations they may be complements. Apple's

21 Network effects mean that platforms become more valuable to their users as they grow, which in turn makes them a more attractive proposition to further prospective users. Entrants may need to attract a large number of customers to one or both sides of the entrant's platform.

22 Defaults apply a predefined setting that users are less likely to change.

recently announced buy now pay later (BNPL) 'Apple Pay Later' service will utilise the Mastercard network. Further when making payment choices, consumers may consider benefits beyond the convenience, speed and cost of the transaction itself. Some payment types – most notably credit cards, but also BNPL – involve credit. When making payment choices, consumers may take into account the perceived benefits of credit, including consumption smoothing, credit history and the additional consumer protections credit cards can offer (Consumer Credit is discussed further in Chapter 5).

In scenario 3, Big Tech firms widen the scope of payment products, or use-cases, that users access through digital wallets.

- 3.22** Retail or merchant transactions are a key reason consumers make payments. Scenarios 1 and 2 focus on Big Tech firms' potential expansion within retail payments. However, Big Tech firms could also increase the volume of transactions processed through their technology by supporting more payment use cases. For example, peer-to-peer transfers (with technology such as tap-to-transfer – direct wireless transfers between devices) or foreign exchange services.
- 3.23** Developing each additional feature would incur investment costs. However, they would strengthen the overall value of a Big Tech firm's ecosystem through complementarities and potentially reduce the need for third party apps – which may not be as strongly integrated into the Big Tech firm's ecosystem. Customers would have a stronger incentive to use Big Tech firms' own (first party) services, such as Apple's iMessage rather than competing messaging services such as WhatsApp. Facilitating international payments may be particularly valuable for a Big Tech firm's ecosystem, given their global user bases.

Potential competition benefits

- 3.24** **Big Tech firms' existing innovations in payments have already brought benefits** to some consumers. The Netherlands Authority for Consumers and Markets Report on Big Techs in the payment system highlighted **convenience and security as the main reasons for the adoption of e-wallets**. UK Finance found younger people are more likely than older people to use either Apple Pay, Google Pay or Samsung Pay – which has both potential positive and negative implications for access to payment services.
- 3.25** Arguably the sector has also become more contestable due to the existence of Big Tech firms that may have the ingredients to overcome the scale and network barriers which have historically limited competition to card schemes. **In addition to increased competition and potential efficiencies (for example through vertical integration²³) across the card scheme value chain, Big Tech firms can incentivise lower prices, higher quality and innovation from the scheme operators themselves.**

23 Vertical integration can be beneficial to the end consumers as it improves efficiency through enabling synergies and reducing costs at the different stages across the value chain whereas non-integrated firms would apply profit margins at each stage of supply. (FCA, Accessing and using wholesale data – Call for Input)

- 3.26** This can arise either because Big Tech firms' scale and technological expertise could make them a key enabler in driving adoption of interbank systems,²⁴ or because Big Tech firms' ability to act as gatekeepers to a significant share of the market gives them greater bargaining power to dictate the terms of access to their user base (the incumbent networks could be *enveloped* within Big Tech firms' ecosystems).
- 3.27** This countervailing **bargaining power could impose competitive pressure on incumbent networks which may benefit consumers**. For example, in early 2022 Amazon and Visa reached a global commercial agreement after Amazon considered restricting the use of Visa credit cards. Amazon might be thought of as a gatekeeper to consumer payments, not through its control of digital wallets, but through its share of the e-commerce market.²⁵

Potential competition harms

- 3.28** However, **we would be concerned if the market evolved such that a Big Tech firm created entrenched market power, for example becoming a gatekeeper for in-person or online transactions**, resulting in *reduced* incentives to innovate, improve quality, and lower prices, as well as the ability to engage in anti-competitive behaviour.
- 3.29** A Big Tech firm with entrenched market power could engage in *exploitative conduct* such as setting high prices to business partners (such as high commission rates to access, or advertise to, card holders or merchants) and reduced quality (such as including a large amount of advertising within consumers' digital wallets. Unlike the UK, in the US the Google Pay app has three components to it: 'Pay', 'Explore' and 'Insights').
- 3.30** They could also engage in exclusionary conduct, with the intention of preventing competitors from entering, growing, or remaining in the payments market. For example, self-preferencing their own services or restricting consumers' ability and incentive to multihome or switch digital wallets, through control of defaults, interoperability and third parties' access to hardware and software features.
- 3.31** **However, there are many unpredictable factors that will affect whether a Big Tech firm attains such entrenched market power.** At present there are a range of ways to initiate digital payments. For in-person purchases, options include physical cards, payment apps, unregulated BNPL providers, banking apps, and, in the case of Android hardware, manufacturers' digital wallets such as Samsung Pay. These product offerings can use similar technology to Big Tech firms (such as Near Field Communication – NFC) or alternatives such as QR codes.²⁶ For remote online purchases, consumers are often required to make a conscious choice (subject to devices, browsers and choice architecture) between methods such as Apple Pay, Google Pay, Amazon Pay, PayPal, unregulated BNPL providers and card options.

²⁴ The PSR has set out in their strategy an ambition to unlock the potential of the interbank systems so that they present a viable option to accept greater volumes of retail payments, and UK payments have sufficient diversity and rivalry. The PSR has stated that a viable alternative to card schemes in retail payments would mean a more competitive market. Also see HMT (2021) [Payments Landscape Review](#).

²⁵ It also included a 'joint commitment to collaboration on new product and technology initiatives to ensure innovative payment experiences for our customers in the future.'

²⁶ QR code-based payments work by scanning barcodes between the retailer's POS terminal and the mobile device to communicate payment details. Payments are made over the card networks. However, because these services are usually retailer-specific, they can only be used within the relevant retailer's stores. The PSR found in 2018 that 2D barcodes have limited adoption and acceptance countrywide, and NFC technology is already well established.

- 3.32** If Big Tech firms succeeded in securing entrenched market power for their digital wallets and payment services, this may be due to their ability to incentivise adoption in their existing user bases, including by creating network externalities from consumers and merchants operating on the platform; using their ecosystems to offer consumers convenience and integration with complementary services; and driving low cost adoption through use of choice architecture and knowledge of consumers' behavioural biases. Adoption could also be driven by a Big Tech firm leveraging its market power in an adjacent or complementary market.
- 3.33** If these factors do lead to significant competitive advantages for Big Tech firms in payments, then there is still potential for Big Tech firms to impose a competitive constraint on each other. However, the CMA has observed limited effective competition between Apple and Google, as users rarely switch between iOS and Android. Contestability may become driven by 'hardware' including competition in the market for mobile devices, wearables, and biometrics.
- 3.34** Overall, Big Tech firms' existing innovations in payments have already brought convenience and security benefits to consumers. Further expansion could increase competition across the card scheme value chain and incentivise lower prices, higher quality and innovation from the scheme operators themselves. However, competition risks may arise where Big Tech firms have market power, reducing incentives to innovate, improve quality, and lower prices, as well as the ability to engage in anti-competitive behaviour.

Questions for discussion

- Q3:** Have we identified the key drivers for Big Tech firms to enter?
- Q4:** What competitive advantages and disadvantages do Big Tech firms have over existing providers and potential entrants, such as fintech?
- Q5:** Have we identified the most likely entry scenarios?
- Q6:** How are current market participants likely to respond to entry by Big Tech firms? How might potential entrants' plans be affected?
- Q7:** Have we identified the key potential competition benefits and harms? Who stands to benefit most? Who is most at risk of harm?

4 Deposits

As of 2020 there were about 97m personal current accounts (PCAs), covering 96% of the adult population. The 'big 4' account for about two thirds of PCAs.

Over the past few years, the increased pace of digitalisation, the low interest rate environment, reduced regulatory barriers, as well as the pandemic, have supported new entry.

Our Strategic Review of Retail Banking Business Models (SRRB 2022) however identified significant room for increases in competition and innovation through easier sharing of consumer data in a secure and convenient environment via Open Banking or open finance.

We find **three plausible entry strategies for Big Tech firms.**

- **First, a Big Tech firm could enter as a distributor** in partnership with a deposit taking or e-money issuing firm (a form of 'white label' distribution, as has taken place in the US with Apple's Cash card) or, in the longer term, as an open platform or marketplace matching the Big Tech firm's user base with a range of competing deposit taking institutions.
- **Second, enter as an e-money institution (EMI), directly providing an e-money account to consumers** which may appear to consumers as similar to a PCA.
- **Third, enter with deposit taking permissions.** PCAs also provide banks with low cost lending funds, suggesting PCA entry would take place in conjunction with credit market entry. We consider this less likely at this point given the regulatory costs. Big Tech firms might follow the model of some digital challengers, which began as e-money firms before later obtaining deposit taking permissions.

In the short term and maybe enduring longer, Big Tech firms could overcome scale, brand, and consumer disengagement barriers which affect competition in the PCA market. This would be facilitated through their user base, access to capital, data and ecosystem advantages.

In the long term, a competition risk may emerge were the market to evolve so that Big Tech firms control a significant pool of deposits, creating the potential for market power. This could arise by Big Tech firms becoming gatekeeper platforms, or by securing significant market share through a PCA (in a white label partnership) or an e-money account, with limited potential for future competition in or for the market. With control over a significant pool of depositors, there is a risk of exploiting such market power and engaging in anti-competitive conduct, as well as wider potential risks to the market more generally.

Sector background

- 4.1** To consider a range of entry scenarios, we define deposit taking broadly, to include consumer-facing products such as PCAs, savings accounts, and e-money accounts. Our definition of deposit taking in this paper is wider than the regulatory definition of deposit taking, where money accepted is repayable to the customer and can be lent to someone else, and is associated exclusively with banks, building societies and credit unions.²⁷
- 4.2** Historically PCAs (and Business Current Accounts – BCAs) have been the foundation of large-scale retail banking business models, providing access to low cost and stable funding, revenue from fees and charges (such as overdraft, interchange and customer fees), and cross-selling opportunities (ie selling savings accounts, lending products and other services to PCA customers). As of 2020 there were about 97m PCAs, covering 96% of the adult population. The 'big 4' (Lloyds Banking Group, Barclays, HSBC and NatWest) account for about two thirds of PCAs. Four percent of UK adults use an e-money account.²⁸ E-money accounts may appear similar to a PCA to consumers, but have significant differences, for example regarding consumer protections.²⁹ We do not explicitly consider Business Current Accounts (BCAs) in our analysis at this point.

Big Tech entry in deposit taking

- 4.3** Big Tech firms' existing activity in the UK deposit taking sector has been limited to date. Their entry decisions may be influenced by the competitive dynamics of their existing commercial interactions with deposit-taking incumbents. The FCA's Financial Lives Survey found that in 2020, 88% of 18-24 year olds banked using a mobile app, up from 73% in 2017, and usage of mobile banking apps was growing in older populations: up from 1% in 2017 to 14% in 2020 for those aged 75+, and up from 10% to 24% for those aged 65-74. The CMA's mobile ecosystems market study found that Apple and Google hold an effective duopoly in relation to mobile devices, mobile operating systems and applications that can be loaded onto devices.
- 4.4** There are commercial relationships between Big Tech firms and deposit taking incumbents. The NatWest Group reported in March 2022 that it was collaborating with Amazon Web Services. Using machine learning and data analytics services, NatWest Group reported that it hopes to derive new insights and be able to predict and adapt to customers' future banking needs across the bank's retail, wealth and commercial operations.
- 4.5** In the US Apple offers an Apple branded Cash card. The card acts as a store of e-money and facilitates peer-to-peer transfers via Apple's iMessage system. Apple's banking partner is the issuer and takes on the associated operating and regulatory costs.³⁰ In October 2022 Apple announced a new savings account, provided by Goldman Sachs, integrated with their Apple Card. In November 2019, Google announced that they would be launching Google Plex – a digital, mobile-first solution to open bank accounts in partnership with Citibank. Google would provide technology and app design, allowing users to open

27 Bank of England (2019) How banks are authorised in the UK

28 Financial Lives Survey 2020, Weighted data tables, 3. Product ownership Part 1 (Table 7, 11)

29 In May 2021 the FCA sent a Dear CEO letter to e-money firms stating the FCA were concerned that many e-money firms compare their services to traditional bank accounts, but do not adequately disclose the differences in protections between e-money and bank accounts.

30 Services provided by Green Dot Bank. In April 2022 the Cash card switched from operating on the Discover network to Visa network.

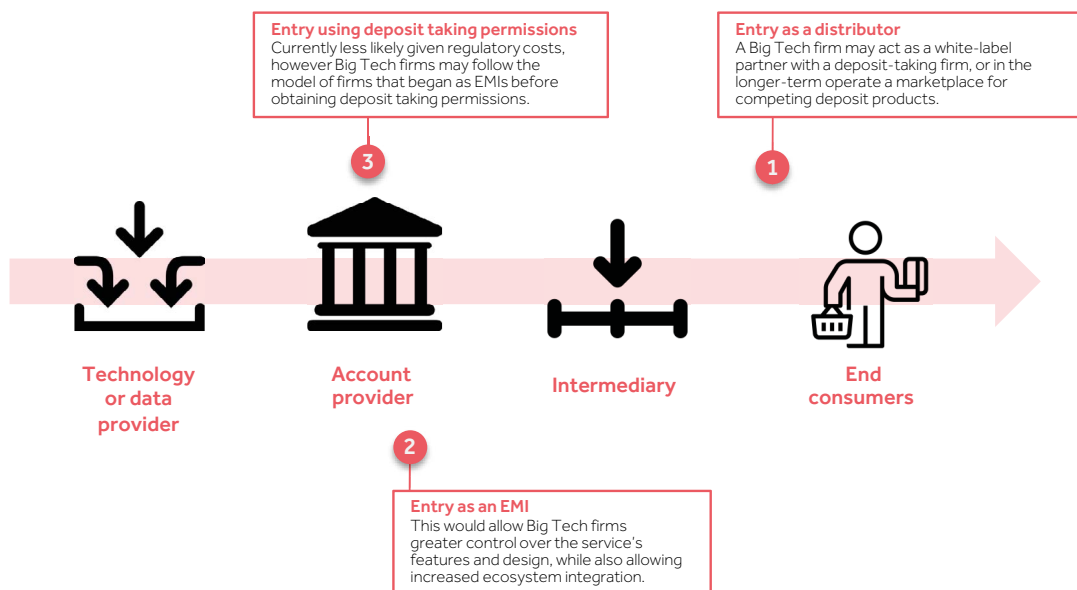
accounts. However, in 2021, US-based media outlets reported that Google was cancelling the project.

Entry scenarios

4.6 From our assessment of the value of the deposit taking markets to Big Tech firms, we hypothesise three plausible entry scenarios. These scenarios could be considered a strategy for incremental expansion into deposit taking.

- Scenario 1: Big Tech firms enter as a distributor in partnership with one or more deposit-taking or e-money issuing financial services firm.
- Scenario 2: Big Tech firms enter as EMIs, providing an e-money account directly to consumers.
- Scenario 3: Big Tech firms obtain the relevant regulatory permissions and offer a PCA directly.

Figure 3 – Big Tech entry into deposit taking



In scenario 1, a Big Tech firm could enter as a distributor in partnership with one or more deposit taking or e-money issuing financial services firm.

4.7 A Big Tech firm could provide the interface and customer relationship for consumers to access financial services provided by a financial services firm. One form of this strategy is exclusive distribution (or 'white-label') entry, such as the Apple Cash card. An alternative strategy could be to operate by matching the Big Tech firm's users – and their deposits – with competing deposit-taking institutions, facilitating switching between them in a two-sided platform or marketplace.

4.8 Deposit-taking or e-money distribution would take advantage of a Big Tech firm's brand and large user base. Adoption could be further incentivised by creating complementarities with other elements of the ecosystem, increasing consumers' valuation of the overall service. The Big Tech firm might earn revenue from charging

fees or commission or monetising data. Depending on the precise activities that the Big Tech firm undertakes, it may not need to be regulated, lowering the potential cost of entry.

- 4.9** The FCA Perimeter Report highlights that deposit aggregators – firms that provide intermediary services to retail consumers with savings accounts – can offer a convenient service for customers to spread deposits across different banks and building societies, to get the best interest rates and maximise FSCS protection. Deposit aggregation is a growing market and is not in itself a regulated activity. This could be another potential entry route for Big Tech firms.

In scenario 2, a Big Tech firm could enter as an EMI, providing an e-money account directly to consumers.

- 4.10** Under this scenario, a Big Tech firm would obtain the relevant e-money permissions and launch an e-money account directly. Although this would bring additional operational and regulatory costs, it would also provide Big Tech firms with further revenue potential and greater control over the service's data and features. It may also allow closer integration within the Big Tech firm's ecosystem, strengthening customers' value and commitment to the ecosystem as well as creating potential supply side efficiencies, particularly in payments.
- 4.11** This second entry scenario could be a natural extension of the first, *if* the Big Tech firm has partnered with an e-money firm (as opposed to a regulated deposit taker). For example, after initially partnering, Big Tech firms may choose to bring the partner's share of the value chain in house, through replication of the financial services firm's products and permissions, or potentially through acquisition. Without the relevant regulatory permissions, the Big Tech firm would not be allowed to use the funds to lend in credit markets. Therefore, in the long run, it might follow the example of some digital challengers, beginning as an e-money institution (EMI) and later seeking deposit taking permissions, as in scenario 3.

In scenario 3, a Big Tech firm could obtain the relevant regulatory permissions and offer a PCA directly.

- 4.12** From a consumer's perspective, e-money accounts and current accounts may appear to have similar functionality. However, there are important differences. In May 2021 the FCA highlighted that we were concerned that many e-money firms compare their services to traditional bank accounts, but do not adequately disclose the differences in protections between e-money and bank accounts. In particular, that the FSCS protection does not apply. Aside from FSCS protection, one of the advantages of offering a bank current account is the ability to pay interest on deposits. In a low interest rate environment this may not have been a significant point of differentiation. However, in a higher interest rate environment, it might be harder for e-money accounts to compete with bank current accounts that pay interest.
- 4.13** Obtaining deposit-taking permissions would also enable a Big Tech firm to enter complementary markets, such as consumer credit, offering overdrafts and issuing credit cards. PCAs provide banks with low cost lending funds, suggesting PCA entry will be related to credit market entry. All of these factors would improve the Big Tech firm's PCA product offer and help it compete with existing providers and secure market share.

- 4.14** However, one significant cost is regulatory: deposit taking has risks for both consumers and financial stability, so current accounts have significant oversight and capital requirements.
- 4.15** Overall, being a regulated deposit taker is a more significant, costly, and therefore riskier entry strategy than entering as an e-money firm, which would already offer many of the same payment integration and ecosystem benefits. As a result, we consider it less likely that a Big Tech firm will offer PCAs, at least until it has an established e-money presence first.

Potential competition benefits

- 4.16** **Across all scenarios Big Tech entry, or its threat, has the potential to increase the intensity of competition, putting competitive pressure on incumbents to improve the customer experience, lower prices or innovate.**
- 4.17** Big Tech firms may be able to overcome the scale, brand and consumer disengagement barriers which have limited entry and competition in the PCA market. The competitive pressure digital challengers have exerted on the 'big 4' incumbent banks may wane if they struggle to develop a long-term sustainable business model. Big Tech firms' user base, access to capital, data and ecosystem advantages may enable them to enter the PCA market at scale, exerting greater and longer competitive pressure on incumbent banks than digital challengers.
- 4.18** Big Tech platforms or marketplaces, allowing users to compare alternative PCA or e-money providers with lower search and switching costs, and improved matching, could put competitive pressure on existing providers to compete for customers by offering lower fees and charges (or higher interest rates) and higher quality.
- 4.19** Entry also has the potential to change the nature of competition or lead to new pricing models. Although the free-if-in-credit (FIIC) model has a nominal price of zero, customers do face fees and charges, 'rewards', and potential differences in interest rates (which may become more significant in a higher interest rate environment).

Potential competition harms

- 4.20** **However, we would be concerned if the market evolved such that a Big Tech firm gained entrenched market power, by controlling a significant share of consumers' deposits – whether a PCA or an e-money account – or a Big Tech firm became a gatekeeper to a significant share of deposits.**
- 4.21** A Big Tech firm with entrenched market power could engage in exploitative conduct by setting high prices to business partners (such as high commission rates to access depositors) and reducing quality (such as lower quality customer service and reduced access to branch networks). They could also engage in exclusionary conduct, with the intention of preventing competitors from entering, growing, or remaining in the deposit taking market. A Big Tech firm could attempt to keep its position by bundling its deposit taking offering with other parts of its ecosystem.

- 4.22** Although digital challengers have gained market share in PCAs, the SRRB highlighted that digital banking does not appeal to all consumers and is likely to co-exist alongside other business models for the foreseeable future. Moreover, PCAs with digital challengers are more often secondary accounts, and more often held by (younger) consumers with smaller deposits, which makes them less profitable. A Big Tech entrant would be likely to face similar challenges.
- 4.23** Nevertheless, a Big Tech firm has advantages that may not be available to other firms in the market. In future, if the primary role of PCAs is transactional (facilitating digital payments and transfers) and the costs of switching became very low, a Big Tech firm could operate a marketplace, where deposit takers compete for the Big Tech firm's depositors.
- 4.24** Big Tech firms may also have competitive advantages relative to incumbents through economies of scale and scope, data and technology advantages and potential cost synergies from operating digital wallets and payment services. Big Tech firms can also create additional consumer value by integrating PCA or e-money accounts within their ecosystem of complementary products and services.
- 4.25** However, it seems plausible that some incumbents (and future market participants) can still exert a strong competitive constraint on Big Tech firms in the medium term. Traditional large banks benefit from their own large customer bases, and their ability to differentiate themselves through brand recognition and trust, branch networks and, depending on what the Big Tech firm may offer in future, the advantages of FSCS protection, interest payments, and close connection to complementary products such as insurance, mortgages, and credit. Digital challengers may find it harder to differentiate themselves from a Big Tech product.
- 4.26** If a Big Tech firm did succeed in creating entrenched market power through capturing a significant share of PCA customers, there is a risk that digital challengers could be forced from the market. Traditional retail banks could be left to serve high-cost customers through their branch networks, potentially resulting in exit, branch closures (implying a reduction in access to cash) and a higher cost of banking for this portion of the market. As a result, a smaller volume of deposits would be available to incumbent banks, with implications for overdrafts, loans, credit cards and mortgage markets.
- 4.27** The FCA Perimeter Report also highlights that while deposit aggregation offers benefits to consumers, there are also risks of consumer harm, including regarding FSCS protection. There could also be liquidity risks to banks and building societies accepting deposits from deposit aggregators, for example where there is a concentration of deposits from a small number of aggregators who might move them at the same time.
- 4.28** Overall, Big Tech entry, or its threat, has the potential to increase the intensity of competition, putting competitive pressure on incumbents to improve the customer experience, lower prices or innovate in the short term or enduring longer. However, in the long term a competition risk may arise if the market evolved such that a Big Tech firm gained entrenched market power controlling a significant share of deposits.

Questions for discussion

- Q3:** Have we identified the key drivers for Big Tech firms to enter?
- Q4:** What competitive advantages and disadvantages do Big Tech firms have over existing providers and potential entrants, such as fintech?
- Q5:** Have we identified the most likely entry scenarios?
- Q6:** How are current market participants likely to respond to entry by Big Tech firms? How might potential entrants' plans be affected?
- Q7:** Have we identified the key potential competition benefits and harms? Who stands to benefit most? Who is most at risk of harm?

5 Consumer credit

About 80% of adults use FCA-regulated credit and loan products, with overdrafts, credit cards and personal loans the most widely held products. Over the last few years, we have also seen significant growth of unregulated Buy Now Pay Later products due to the increased popularity of online shopping and flexible payment options.

We find **three plausible entry strategies for Big Tech firms**.

- **First, enter as a credit broker.** Credit broking is a step Big Tech firms have taken already, making use of their large user base to introduce consumers to credit cards or to finance partners. There are different ways Big Tech firms could enter as credit brokers: through an exclusive partnership with one lender (or a very small range of lenders); or as a platform for search offering consumers choice from a range of lenders.
- **Second, as a provider of Buy Now Pay Later (BNPL) or alternative credit products to facilitate purchases on their own platforms**, taking advantage of user data and purchase history as a simple form of credit reference, and potentially expanding to allow purchases at third-party merchants and retailers, to expand use of the Big Tech firm's payment method (for data and commissions) – but at greater credit risk.
- **Third, as a credit reference agency.** Big Tech firms have data on behaviour and past purchases that may enable them to create a credit score with significant predictive power and coverage. This can be sold to lenders or used in-house.

In the short-term and maybe enduring longer:

- **Big Tech entry could help consumers make more effective decisions** by driving improved security and convenience as well as information and analytics.
- **Big Tech entry could lower search and switching costs**, putting competitive pressure on existing providers to lower prices (interest rates) and increase quality (improved terms and conditions).
- **Big Tech firms' access to data, as well as their artificial intelligence and machine learning capabilities, may result in the development of innovative creditworthiness and affordability models**, reducing the need for collateral, improving efficiency and potentially promoting financial inclusion by widening access to credit, including for 'thin file' consumers.

In the long-term, a competition risk may emerge where:

- **In broking or BNPL provision, a Big Tech firm could gain market power by leveraging its user base from its digital wallet or online marketplace, without necessarily having the superior product.** It could self-preference (itself or a partner lender) if acting as a marketplace model of broking. This could lead to poor choice and higher prices for consumers.
- **If the Big Tech firm's data became a key input to CRAs, or to Big Tech firms' own credit scoring models, then in the long run it could gain a competitive advantage in the credit information market by restricting access to this data and technology.**

Sector background

- 5.1** To consider a range of entry scenarios we consider credit-related activities and consumer facing credit products. Credit-related regulated activities include entering into a regulated credit agreement as a lender, credit broking, providing credit information services, and providing credit references. The FCA's Financial Lives Survey 2020 found that in February 2020 around 80% of adults used FCA-regulated credit and loan products with overdrafts, credit cards and personal loans the most widely held products.
- 5.2** The FCA Perimeter Report highlights that over the last few years we have also seen significant growth of unregulated Buy Now Pay Later (BNPL) products. This is partly due to the popularity of online shopping and flexible payment options becoming increasingly popular with consumers.
- 5.3** The Woolard Review found that although unregulated BNPL was around 1% of the total credit market by value, it had accelerated very quickly, more than trebling in size in 2020. In June 2022, the Treasury published its response to a consultation setting out potential options on the scope and form of regulation for BNPL, confirming its intention to consult on the draft secondary legislation toward the end of the year. The FCA continues to work closely with the Treasury to help shape the new regulatory regime.

Big Tech entry in consumer credit

- 5.4** To date Big Tech entry into the UK consumer credit sector has been through partnerships, in particular as brokers rather than lenders.³¹ Amazon has offered a credit card in collaboration with NewDay Ltd, including a reward scheme integrated with Amazon's Prime service. However, this partnership is reported to be ending.
- 5.5** Amazon has also partnered with Barclays to offer customers Instalments by Barclays – a reusable credit account that lets customers spread the cost of purchases over £100 across fixed monthly payments. Amazon also offers Monthly Payments with Amazon, the option to pay for Amazon-sold products and devices in monthly instalments with no financing cost and no application. Both Google and Apple partner with lenders to offer financing on purchases made on their stores. In 2022 Apple acquired Credit Kudos, a UK-based fintech that uses open banking data to provide an alternative credit score and make credit decisions.
- 5.6** In the US, Amazon has partnered with Bank of America and Marcus by Goldman Sachs, acting as a broker through which Amazon Marketplace sellers can access loans – Amazon Lending is also available in the UK. Apple partnered with Goldman Sachs, who act as the issuer for Apple Card, a credit card integrated within Apple's ecosystem with consumer facing spending analytics.³² More recently, Apple announced in June 2022 a US BNPL product, Apple Pay Later, which will reportedly offer loans directly to consumers instead of financing through a banking partner (although Apple will still work with partners to access the Mastercard network). Worldwide, depending on the precise definitions used, Big Tech credit provision is approaching or has even overtaken

31 Under the existing regulatory framework, where a business introduces a customer to a lender with a view to the customer entering into a regulated credit agreement, the business will be undertaking the regulated activity of credit broking.

32 Goldman Sachs reported in August 2022 that it was co-operating with an investigation by the Consumer Financial Protection Bureau into its credit card business.

fintech credit provision (Bank for International Settlements, 2019). The largest market for Big Tech credit is China, through companies such as JD.com, Alibaba's Ant Group, Baidu's Du Xiaoman, and Tencent's WeBank (Bank for International Settlements, 2020).

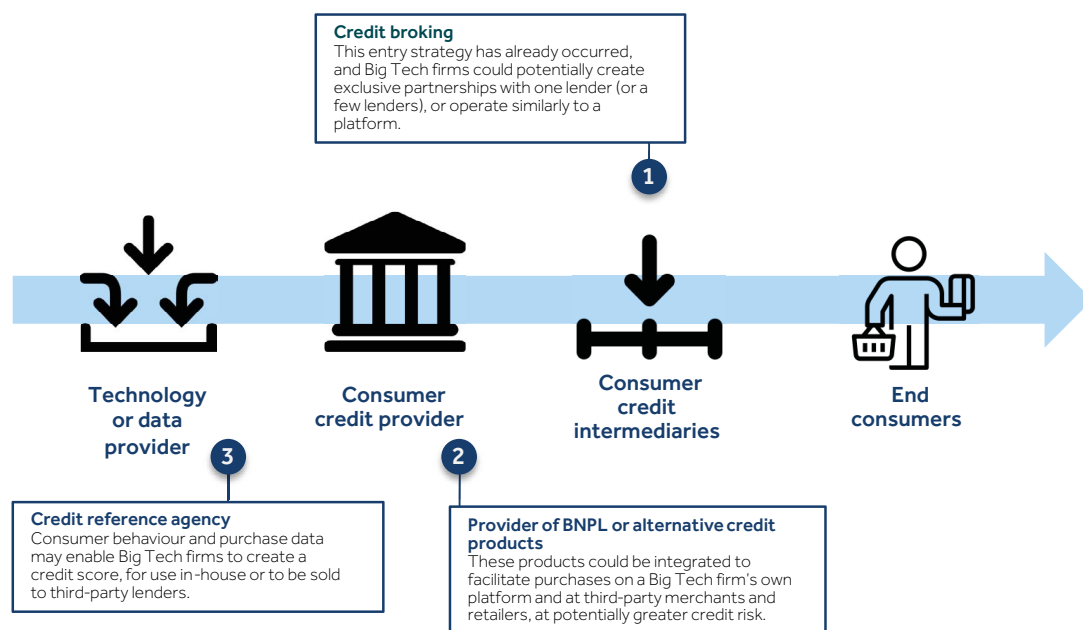
Entry scenarios

5.7 From our assessment of the value of consumer credit to Big Tech firms, we identify three plausible entry scenarios:

- Scenario 1: Big Tech firms enter as credit brokers, introducing consumers to lenders.
- Scenario 2: Big Tech firms enter as credit lenders, directly offering unregulated BNPL or alternative credit products.
- Scenario 3: Big Tech firms enter through credit referencing.

5.8 There could be synergies between the entry scenarios, in particular credit referencing facilitating effective business models in credit broking and lending, and credit broking facilitating entry to credit lending – so these scenarios are not independent.

Figure 4 – Big Tech entry into consumer credit



In scenario 1, a Big Tech firm would enter as a credit broker.

5.9 Under this scenario, Big Tech firms would enter introducing consumers to a lender to obtain a credit product such as a credit card or an unregulated BNPL product. This takes advantage of the Big Tech firm's large customer base and low acquisition costs. The regulated credit provider takes on the associated risk, operating costs and compliance costs.

- 5.10** Big Tech firms could enter as credit brokers in various ways, including through exclusive partnership with one lender (or a very small range of lenders); or as a platform for search, offering consumers choice from a range of companies; or introducing consumers to one lender from a panel.
- 5.11** Big Tech firms with e-commerce platforms may introduce consumers to alternative payment options and credit providers at point of sale. Although alternative credit providers could also be presented to users in digital wallets, or more generally on platforms through which consumers make purchases (such as browsers or apps). However, introducing could also take place independently from purchase decisions.
- 5.12** In the exclusive partnership model, there are different levels of involvement. At the least involved end, a Big Tech firm can simply point consumers towards a credit company to facilitate payments. At the more involved end, it can put its own branding on products ('white labelling') or be involved through provision of consumer interface, potentially strengthening the customer's relationship with the ecosystem.

In scenario 2, a Big Tech firm offers unregulated BNPL or alternative credit product, including the financing of the lending.

- 5.13** Big Tech firms could provide credit through unregulated BNPL to facilitate purchases of their own products, such as Apple products, or products from their own platforms, such as products purchased on Amazon. This could benefit the firm's core business, by facilitating retail purchases. A more expansive form of entry is to offer BNPL as a general payment method (perhaps available through a firm's digital wallet) for products from other retailers too – as Apple have recently announced via their US Apple Pay Later product, which leverages the Mastercard network for purchases made online and in-person.
- 5.14** The scope of credit products Big Tech firms directly provide is likely to be related to wider entry decisions. Entry into deposit taking may create the incentive, finance and regulatory permissions to offer complementary credit products such as overdrafts and credit cards. Through PCAs, banks gain access to large volumes of low cost and stable funding necessary to compete in the mainstream consumer lending markets.
- 5.15** When lending, Big Tech firms may make their own risk and affordability assessments. Given many Big Tech firms have access to large quantities of data about their users (big data) as well as artificial intelligence and machine learning capabilities, Big Tech firms may be able to develop innovative models when assessing the riskiness of borrowers. For example, the Bank for International Settlements suggest data from e-commerce platforms could be a valuable input into credit scoring models. It has been reported that Apple's acquisition of Credit Kudos could support its entry into BNPL.

In scenario 3, a Big Tech firm enters credit referencing.

- 5.16** A Big Tech firm could use its user data and analytics capability in two ways to enter this space. It could create a proprietary model of creditworthiness, by creating its own credit score, and then participate in the credit referencing market, in competition with the existing credit referencing agencies (CRAs) – or potentially provide consumer facing

credit information services to their own users. Alternatively, it could collaborate with one or more CRAs to provide the data it holds on its users, to be used in their models.³³

- 5.17** The FCA's Credit Information Market Study (MS19/1) is assessing how the sector is working now and how it may develop in the future.

Potential competition benefits

- 5.18** Big Tech firms' entry into consumer credit could benefit consumers through their innovative products and services, both directly and through the incentives this creates for existing providers to innovate. **Big Tech entry could help consumers make more effective decisions** by improving security and convenience as well as information and analytics.
- 5.19** Big Tech platforms, allowing users to compare alternative credit providers with **lower search and switching costs, and improved matching**, could put competitive pressure on existing providers to compete for customers by offering lower prices and higher quality.
- 5.20** **Entry as a lender could directly impact the intensity of competition, especially if Big Tech firms' competitive advantages create cost efficiencies**, which could result in lowering interest rates or improving fees, terms and conditions – including in unregulated BNPL.
- 5.21** Big Tech firms' access to data, as well as their artificial intelligence and machine learning capabilities, may result in the development of **innovative risk and affordability models, reducing the need for collateral, improving efficiency and potentially promoting financial inclusion by widening access to credit** (BIS, 2022 and BIS, 2019).
- 5.22** If a Big Tech firm successfully created a competitive credit referencing product – both in terms of coverage and model accuracy – then this could **provide significant information on 'thin file' consumers and put competitive pressure on existing providers to increase coverage**.

Potential competition harms

- 5.23** However, we would be concerned if the market evolved such that a Big Tech firm gained entrenched market power. For example, if a Big Tech firm secured a significant and persistent share of a consumer credit product, became a gatekeeper to a significant share of credit consumers or controlled access to consumers' credit risk and affordability assessments.
- 5.24** One potential harm from a Big Tech firm entering credit broking as a marketplace is that it could self-preference (to itself, if it entered directly as a provider of credit, or to a partner credit provider), possibly using choice architecture.³⁴ For example, it could

33 Here we discuss the possible developments *in principle*, without analysing the potential reputational and legal barriers to this use of data.

34 CMA Behavioural Hub: Online Choice Architecture: How digital design can harm competition and consumers

promote its preferred credit provider to lower-risk consumers and promote other credit providers to higher-risk consumers, thus gaining significant control to affect market outcomes.

- 5.25** In BNPL, a Big Tech firm might be able to leverage its market share in mobile ecosystems to promote its own BNPL offering as a default or prominent option, which could be integrated with its other core activities and apps. This could lead to a large market share, to the detriment of competition. Similarly, if a Big Tech firm were able to use its brand and e-commerce capabilities to operate as a large marketplace for credit, it might be able to charge higher prices to firms which ultimately increases the cost of credit to consumers.
- 5.26** If a Big Tech firm's data became a key input to CRAs, or to Big Tech firms' own credit scoring models, then in the long run it could gain a competitive advantage in the credit information market by restricting access to this data and technology. In this scenario, a Big Tech firm could alternatively offer its creditworthiness assessments to its partner lender(s) only, while acting as a broker, to gain a competitive advantage in the broking market – or not offer them to competitors at all, if acting as a lender.
- 5.27** Overall, in the short term and maybe enduring longer, Big Tech firms' entry could put competitive pressure on credit providers to lower prices and improve quality by lowering search and switch costs, or by directly providing innovative credit products. Big Tech firms access to data and their technological capabilities could result in more efficient risk assessment models, potentially widening access to credit. However, in the long term, a competition risk may emerge if the market evolved such that a Big Tech firm controlled access to a significant share of credit consumers, or their credit risk and affordability assessments.

Questions for discussion

- Q3:** Have we identified the key drivers for Big Tech firms to enter?
- Q4:** What competitive advantages and disadvantages do Big Tech firms have over existing providers and potential entrants, such as fintech?
- Q5:** Have we identified the most likely entry scenarios?
- Q6:** How are current market participants likely to respond to entry by Big Tech firms? How might potential entrants' plans be affected?
- Q7:** Have we identified the key potential competition benefits and harms? Who stands to benefit most? Who is most at risk of harm?

6 Insurance

Four out of five UK adults have one or more general insurance product. Motor and home insurance are the main non-life insurance lines, accounting for three quarters of the total retail general insurance sector.

We have identified **two plausible entry strategies**.

- **First, entry as an intermediary: this includes marketplaces (price comparison websites (PCWs)) and brokers.** Intermediaries allow consumers to search and compare insurance products, which Big Tech firms monetise by charging a commission or fee to insurers. Big Tech firms may have a relative competitive advantage over traditional price comparison websites as they are able to use observed consumer data to personalise recommendations. Some consumer-facing post-sale activities such as completing a claims form may also be included in this entry definition.
- **Second, entry as a provider of data or business services**, for example as a provider of consumer data to underwriters. Even though these providers fall outside of the FCA regulatory perimeter, we included these in our assessment as they provide a critical input to market participants in the insurance sector.

We have identified direct entry (where Big Tech firms would be responsible for underwriting and executing insurance contracts) as a less likely entry strategy in the short term. Even though Big Tech firms have access to a large amount of capital, underwriting insurance contracts would involve further regulatory and underwriting risks reducing the overall value of entry to their ecosystem.

In the short term and maybe enduring longer, Big Tech entry in the insurance sector, particularly as an intermediary (broker or marketplace), could lead to beneficial changes of the value chain through:

- Access to predictive technologies, with likely positive spillover effects on incumbent insurance providers.
- Creation of new origination channels for newer forms of insurance such as on-demand insurance, which is where consumers only purchase insurance when it is required eg by the mile car insurance.
- Big Tech entry could also lower search and switching costs, increasing competitive pressure on existing providers.

In the long term, competition risks may emerge if the market evolved such that data gathered by Big Tech firms is negatively used in insurance underwriting, therefore impacting access to insurance for specific cohorts of consumers, eg as the 'pooling' of risks is eroded. This risk would be heightened if Big Tech firms have access and use data from their wider businesses, putting incumbents and potential entrants at a disadvantage, to the detriment of competition and consumers.

Sector background

- 6.1** The FCA's [2020 Sector Views](#) reported nearly £100 billion total gross written premiums for 2018 (including Lloyd's at 37% of this total). Our Financial Lives Survey data shows that 4 out of 5 UK adults have one or more general (ie non-life) insurance product.³⁵ Motor and home insurance are the main non-life insurance product lines, accounting for three quarters of the total retail general insurance sector and generating around £18 billion in gross premiums in 2018 ([FCA General Insurance Pricing Practices](#)).
- 6.2** In the analysis to follow, we apply Big Tech entry to insurance generally. While we do not focus on specific products, Big Tech firms' recent announcements, including driverless cars³⁶ and assistive technology in motor vehicles suggests the motor insurance industry may be complementary with Big Tech firms' other business lines. In addition, Big Techs firms have access to significant real-time data through smart devices integrated into homes – if Big Tech firms were to provide home insurance, this provides a natural complementarity to extract data. Similarly, increased use of wearables (eg smart watches) could encourage Big Tech firms to enter the health insurance market with a real-time dataset to input into insurance decisioning models.

Big Tech entry in insurance

- 6.3** At present, Amazon and Apple are the only Big Tech firms with FCA permissions to provide products and services in insurance. The majority of entry into insurance has been providing aftermarket breakdown and insurance cover for purchases made through their respective platforms. Amazon offers insurance products provided by London General Insurance Company on its e commerce store and acts as an introducer for these products. Amazon also has a partnership with Superscript to provide business insurance. In October 2022, Amazon announced the launch of [Amazon Insurance Store](#), offering consumers a way to search for home insurance products from three partner insurers. Apple's provision of AppleCare, a suite of device insurance products underwritten by AIG UK, is another example of entry into the insurance space. In the future, the provision of motor and home insurance products could follow a similar model.

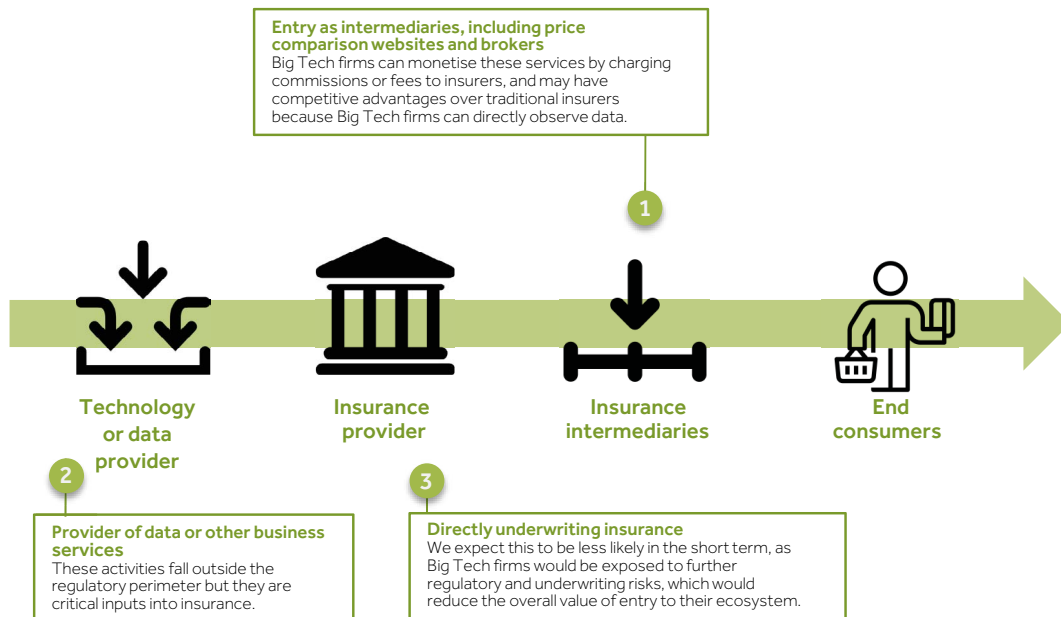
Entry scenarios

- 6.4** In our analysis, we identify three potential entry scenarios in the insurance sector:
- Scenario 1: Entry as an intermediary (including price comparison websites (PCWs) and marketplaces). Some consumer-facing post-sale activities such as completing a claims form may also be included in this entry definition.
 - Scenario 2: Entry as a provider of third-party data or business services.
 - Scenario 3: Entry as a direct insurer, responsible for underwriting and executing insurance contracts.

35 Retail general insurance products include home (buildings and contents), motor, pet, travel, home emergency, breakdown, mobile phone and gadget insurance.

36 See Google's [Waymo](#) and Amazon's [Zoox](#).

Figure 5 – Big Tech entry into insurance



In Scenario 1, Big Tech firms may enter the general insurance market as an intermediary, acting as a broker or marketplace.

- 6.5** They would primarily be responsible for providing information and comparison services, arranging or advising on insurance products, and acting between the insurer and consumers. These could be either as a broker or marketplace.
- 6.6** Access to consumer data and large user bases could prompt some Big Tech firms to enter as intermediaries, such as brokers, where they can use their access to consumers and their data for risk assessments and matching with the incumbent direct insurance providers. Different monetisation models are plausible here, through partnering up with insurers and other parties in the insurance value chain, with services ranging from data and risk analytics to technology solutions for the incumbent insurers, distributors, and other firms in the supply chain.
- 6.7** For non-life insurance more broadly, another plausible entry scenario could be driven by incentives to provide insurance for their own products and services. For example, Apple partners with AIG UK to provide AppleCare, a suite of aftercare products for Apple hardware devices. Under this arrangement, Apple acts as a broker, managing claims and carrying out the service for consumers, but AIG UK remains responsible for underwriting the insurance contracts. This is one example where Big Tech firms may have an incentive to provide insurance for products already in their ecosystems.
- 6.8** When entering as a marketplace, such as a PCW, a Big Tech firm connects retail consumers to other insurance businesses, with different possible business models and monetisation arrangements. Access to a large user base, potentially low customer acquisition costs, and insights into consumer preferences and behaviour (such as through social media or search activity) provide a competitive advantage to compete in the PCW space. WeSure, an insurance agency operated by Tencent, operates as a marketplace in the Chinese market, partnering with major domestic insurance

companies. Ren Huichuan, Senior Adviser at Tencent Group highlighted how Tencent has built its competitive advantages by lowering barriers to insurance, integrating insurance into other aspects of Tencent's business and maximising customer value.

- 6.9** On the other hand, risks of cannibalising existing revenue streams (such as compromising advertising revenues) could limit the incentives to enter as a competitor PCW or marketplace. Google acquired BeatThatQuote.com in August 2011 to create Google Compare, a comparison marketplace for motor and travel insurance, among other products. In 2016, they exited the market, reportedly shifting focus to developing their advertising businesses.

In Scenario 2, Big Tech firms enter as a provider of third-party data or business services.

- 6.10** Big Tech firms could have incentives to enter higher up the supply chain in the provision of data and business services. If Big Tech firms provided consumer data to insurance businesses, they would not require an FCA permission because the regulated insurer or intermediary is responsible for how data is used to execute and organise business contracts. The provision of this data by Big Tech firms can help insurers originate and organise insurance contracts more efficiently, however it may have implications for competition as Big Tech firms are upstream input providers of data to downstream insurers and intermediaries.

In Scenario 3, Big Tech firms could enter as a direct insurer, responsible for underwriting risk themselves.

- 6.11** However, our assessment indicates this scenario is less plausible in the short to medium term. In the UK, we have not seen Big Tech entry in insurance directly. There are two potential reasons why this may be the case:
- Big Tech firms do not have an incentive to expose themselves to unnecessary risks, capital requirements, and regulation when their competitive advantages lie elsewhere. For example, Big Tech firms, due to their data and consumer base advantages, might have strengths and incentives in providing data and risk assessments to underwriters, brokers, and other firms in the supply chain, as opposed to carrying out underwriting themselves.³⁷
 - Consumers' awareness of the premiums they pay, and margin pressures faced by incumbent insurers may disincentivise direct entry by Big Tech firms into insurance. With a lack of significant benefits, a partnership entry strategy may appear more plausible in the short to medium term.
- 6.12** However, in the longer term, Big Tech firms may choose to enter insurance where there are missing markets for products or services they provide – for example, providing insurance at scale for driverless cars.

³⁷ Possible examples include Amazon with their data on consumer purchase behaviour, Meta with their insights of user preferences, or Alphabet with their location and travel data, as well as use of home security technology.

Potential competition benefits

- 6.13 The entry of Big Tech firms in insurance can create positive impacts on competition and innovation, through technology and predictive analytics.** In the intermediation entry strategy, Big Tech firms could create positive spillover effects on incumbents in the value chain as they can take advantage of predictive technologies to reduce costs of organising and executing insurance contracts. While insurers may also have some of these technologies, Big Tech firms' ability to observe and infer data directly (eg consumer risk aversion) is likely to help their ability to execute insurance contracts relative to insurers. In addition to this, predictive technologies also help to improve matching between consumers and insurers, providing policies and insurance products that better meet the needs of consumers.
- 6.14 They may also create new distribution channels away from those used by traditional insurers improving efficiency in the market and meeting different consumer needs,** such as linking insurance to Internet of Things (IoT) devices. In the example of motor insurance, telematics could be used to facilitate a Big Tech firm's offering of on-demand insurance (eg short-term cover for borrowing a family member or friend's car). The use of new technologies, combined with IoT devices could improve access for consumers by fulfilling the needs of those that had previously been excluded from the traditional insurance market.

Potential competition harms

- 6.15 We would be concerned if Big Tech firms are able to embed themselves as gatekeepers with their data advantages, ecosystems and access to large user bases,** thereby putting incumbent and potential entrants in insurance at a competitive disadvantage, to the detriment of competition and consumers.
- 6.16** As intermediaries, Big Tech firms may be able to gain market power if they are able to take advantage of their large user bases (for example, through a significant point of sale role in e-commerce) or have access to predictive technologies, which combined with accurately observed data, can assist in personalising consumer recommendations. While incumbent insurers may also have access to predictive technologies, the data used by insurance companies is often provided by consumers, whereas Big Tech firms can observe data from consumers' activity on their respective platform, improving the quality of risk assessments.³⁸
- 6.17** Big Tech firms' business models often mean that they form part of an ecosystem, allowing Big Tech firms to cross-subsidise and cross-sell insurance products in addition to their core products and services, which insurance companies may not necessarily be able to do. This, combined with the ability of Big Tech firms to observe data and sell insurance as part of their ecosystems, could lead to Big Tech firms gaining market power.
- 6.18** If Big Tech firms were to compete both as intermediaries and third-party data providers (considering data is a critical input into insurance), there is the potential that this leads to exploitative conduct against other insurance businesses, for example

38 The Information Commissioner's Office (ICO) published a Discussion Paper looking at the implications of big data, and identified three broad categories of data: (1) provided data, (2) observed data and (3) derived data.

through selling data to insurers, but only offering it at high prices and thereby creating margin squeeze. These implications are exacerbated in the data provider case if Big Tech firms impose restrictions affecting competition in the downstream markets between insurers and intermediaries because of a reliance on Big Tech firms.

6.19 There may also be exclusionary conduct that Big Tech firms engage in, reducing competitive pressures in insurance markets, which would be a concern if Big Tech firms were active in these markets. For example:

- Vertical foreclosure – refusing to partner with cohorts of insurers or intermediaries in favour of those that Big Tech firms already have arrangements with, thus dampening competition for insurance. This could occur in both the broker and marketplace scenarios.
- Self-preferencing – if Big Tech firms operated a marketplace, they may choose to self-preference products they are involved in providing (regardless of whether these are directly provided by a Big Tech firm with an insurance permission, or in partnership with an incumbent insurer or intermediary). There may also be a concern with Big Tech firms using their data advantages to only insure low-risk consumers who are less likely to make a claim, thereby diverting higher-risk consumers to competitors.
- Bundling or tying – a Big Tech firm active in insurance could link the sale of insurance to the purchase of its existing products. For example, Big Tech firms active in hardware could bundle aftercare insurance for all their device purchases, which reduces competitive pressure in the device's aftercare insurance market by excluding competitors. This is most likely in the broker scenario.

6.20 **However, there are several factors which may mitigate a Big Tech firm's ability to gain market power.** General insurance products currently have multiple distribution channels – for example, motor insurance can be sold direct to consumers, but may also be sold via car manufacturers and price-comparison websites. Some of these distribution channels have strong brand recognition among consumers, and therefore this may limit the ability of Big Tech firms to gain market power as either intermediaries or marketplaces. Big Tech firms may not wish to risk revenues from their core services, such as advertising revenue from incumbent insurance providers.

6.21 The ability to gain market power is also dependent on the type of business model used by Big Tech firms. Specifically, for insurance, understanding data regarding a consumer's risk characteristics is crucial to assessing and executing insurance contracts – in this case, companies which have access to large amounts of (real-time) data may be better suited to entering as insurance intermediaries. For example, a hardware producer that has access to health data may be more successful at entering the insurance value chain, in comparison to an e-commerce provider who has access to consumers' purchase histories.

6.22 Overall, in the short-term and maybe enduring longer, there may be positive spillover effects and creation of new distribution channels for insurance products. However, in the long term a competition risk may emerge if the data gathered by Big Tech firms and used in insurance underwriting reduces access to insurance for certain cohorts of consumers.

Questions for discussion

- Q3:** Have we identified the key drivers for Big Tech firms to enter?
- Q4:** What competitive advantages and disadvantages do Big Tech firms have over existing providers and potential entrants, such as fintech?
- Q5:** Have we identified the most likely entry scenarios?
- Q6:** How are current market participants likely to respond to entry by Big Tech firms? How might potential entrants' plans be affected?
- Q7:** Have we identified the key potential competition benefits and harms? Who stands to benefit most? Who is most at risk of harm?

7 Conclusions

- 7.1** In this Discussion Paper we have looked at the plausible scenarios for Big Tech entry in financial services, with a focus on payments, deposits, consumer credit, and insurance. We have presented our initial understanding of potential benefits from increased competitive pressure from Big Tech firms as well as scenarios where competition may evolve in ways that create competition risks.
- 7.2** Based on our analysis on these four retail financial services sectors, we begin to see some common themes emerging.

Further growth and expansion likely from strong complementarities

- 7.3** While payments services are often the first entry point in financial services, Big Tech firms in the UK operate across multiple financial services sectors. Big Tech firms are able to grow and expand both within a sector and across financial sectors because there are strong complementarities that enhance the incentives for Big Tech firms.
- 7.4** For incumbent providers, on the demand-side, personal banking has allowed banks to complete credit risk and affordability assessments with ease, meaning banking, payment and credit needs can be assessed together. On the supply side, providing more products increases the economies of scale and economies of scope, offering more opportunities for cross-selling and lowering customer acquisition costs.
- 7.5** Enhancing these complementarities could be a contributing factor to Big Tech firms' expansion in the years to come. However, Big Tech firms may also be able to experience and introduce new complementarities. Over the longer-term, therefore, Big Tech entry into a financial services sector is unlikely to be independent or isolated from other financial services markets. Entry into one market will create opportunities for expansion into neighbouring, complementary markets.

In the short term, partnerships are preferred

- 7.6** Based on the framework that we have developed, and available market evidence, partnerships appear to be the preferred route for Big Tech firms to enter and expand in financial services, at least in the short-to-medium term. There is less incentive for Big Tech firms active in the UK to enter directly to provide financial services, which contrasts with other markets such as in China and South America. [BIS \(2019\)](#) suggest that in the payments sector, this is due to the prominence of credit cards and payment systems in the US and other advanced economies.
- 7.7** However, another contributing factor could be the differing regulatory regimes between the UK and other jurisdictions. Partnerships with incumbents in the UK, where the regulatory regime is activity-based, mean that Big Tech firms are only regulated for the activities they perform in the value chain. As a result, if Big Tech firms view

regulation and compliance associated with direct entry as costly, partnering with incumbents who assume the regulatory responsibility is likely to continue to be the preferred entry strategy.

Organic growth and acquisitions to come?

- 7.8** In the medium-to-longer term, Big Tech firms may choose to enter financial services more directly by attempting to capture more of the value chain. One potential way for Big Tech firms to do this is acquisitions. While Big Tech firms' financial services acquisitions are still a relatively small proportion of all acquisitions, recent activity by Big Tech firms suggest this is where they anticipate future value from financial services expansion.
- 7.9** Apple's acquisition of Mobeewave in 2019, which reportedly allowed them to acquire³⁹ the technology and talent to develop Tap to Pay, is one such example of how future entry may occur. However, developments in the UK such as the UK's pro-competitive regime for digital markets (which is proposed to include reporting of most significant transactions prior to completion) and the CMA's revisions to the Merger Assessment Guidelines may impact future entry strategies used by Big Tech firms. In November 2021 the CMA found that Facebook's (now Meta Platforms) completed acquisition of Giphy may give rise to competition concerns in both the supply of display advertising in the UK, and in the supply of social media services worldwide (including in the UK). As a result, Facebook was required to sell Giphy.
- 7.10** Another option is to slowly bring value chain activities in-house. For example, if a Big Tech firm were to provide a buy now pay later product, they may initially partner with an incumbent to provide the financing. After developing some expertise and understanding of the industry, they may obtain their own regulatory permissions. Such expansion in the value chain may be a deliberate, longer-term strategy for entry into financial services.

Opportunities for positive competitive pressures

- 7.11** The entry of Big Tech firms in the financial services value chain is likely to create two main types of positive competitive pressures. In situations where Big Tech firms are partners alongside incumbents in the value chain, the increased operational and technological efficiencies could result in lower prices and better provision of financial services. The entry of Big Tech firms as partners may also help to increase access for consumers who are currently digitally excluded via their large consumer bases. Big Tech firms may also improve access to financial services for specific sub-groups of consumers, who are perhaps currently unserved or underserved by incumbent firms.
- 7.12** In situations where Big Tech firms compete directly with incumbents, they may further incentivise incumbents to embrace digital technologies and digital distribution, reducing costs of provision. Facing additional competition by Big Tech firms, incumbent firms may increase their use of digital technologies – banks may increasingly decide to integrate digital solutions and cloud technologies which not only

³⁹ Where a company acquires another for its technology, patents, talent or vision, as opposed to the financial performance of a firm.

reduce costs of providing financial services, but also improve the quality of service for consumers.

- 7.13** Big Tech firms may also be able to create new dimensions along which financial services firms begin to compete in existing markets, or in the extreme case, create markets for new products, thus spurring on additional innovation in financial services.

Potential for longer-term market power

- 7.14** While we are yet to see Big Tech firms gain market power in most aspects of financial services, in each of the sectors we have highlighted, there are two key factors which may influence how competition in the market develops.
- 7.15** First, if Big Tech firms can exploit their ecosystems by attracting consumers to their financial services products, and later lock consumers in, this could be a credible way to gain market power and use it to lessen competition and harm consumers. Across all four sectors that we have studied, Big Tech firms may be able to lock consumers into their ecosystems, thus reducing competition.
- 7.16** Second, the access to, and use of, consumer data has been highlighted in each of the sectors under study. The use of consumer data is two-fold here:
- Big Tech firms may be able to act as data providers to incumbents and fintechs, and potential entrants, in existing financial services.
 - Big Tech firms may use financial services and other data themselves in ways which harm competition and consumers.
- 7.17** We would be concerned if data can be used exclusively by Big Tech firms, who are also able to place data access restrictions on incumbent providers or potential entrants. Big Tech firms' access to unparalleled data, and an ability to combine data across their ecosystems provides them with a unique competitive advantage that incumbents and fintechs do not possess.
- 7.18** There are clear overlaps here between the remit of the FCA and other regulators and authorities, so future engagement with the DRCF and other bilateral engagements will be crucial to effectively minimise competition risks arising from this longer-term market power.

Questions for discussion

- 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 1

List of questions

- 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 2

Our approach to assessing Big Tech entry in financial services and potential competition impacts

1. In this annex we present a conceptual framework to understand:
 - The incentives and barriers Big Tech firms face when considering entry into new markets.
 - The strategies Big Tech firms could use to enter new markets.
 - The potential impact Big Tech firms' entry could have on competition, by assessing the benefits and harms to competition from entry.
2. In developing this framework, we adapt a broad evidence base to reflect specific Big Tech firms' characteristics and behaviours.

Entry through acquisitions

3. One approach to entering new markets is to acquire an existing company. Mergers and acquisitions form a key strategy for Big Tech firms. The [Furman Review](#) highlighted Big Tech firms' acquisitions of:
 - Businesses that could have become competitors (such as Facebook's acquisition of Instagram).
 - Businesses that give their platform a strong position in a related market (such as Google's acquisition of DoubleClick, an advertising technology business).
 - Data-driven businesses in related markets which may cement the acquirer's strong position in both markets (such as Google acquiring YouTube and Facebook acquiring WhatsApp).
4. The US Federal Trade Commission found Apple, Facebook, Amazon, Google and Microsoft made over 800 non-registered acquisitions between January 2010 and December 2019 (although few of these were in financial services).⁴⁰
5. In explaining their acquisition motivations, Big Tech firms often emphasise the importance of acquiring patents or technology, talent and vision rather than the financial performance of the acquired firm. This is sometimes referred to as an 'acquihire', and Apple's recent acquisition of Credit Kudos, an open banking fintech providing credit referencing services is a potential example of this. Apple's recently announced Tap to Pay on iPhone feature – allowing US merchants to accept contactless payments using an iPhone – was reportedly facilitated by the acquisition of Mobeewave in 2019.

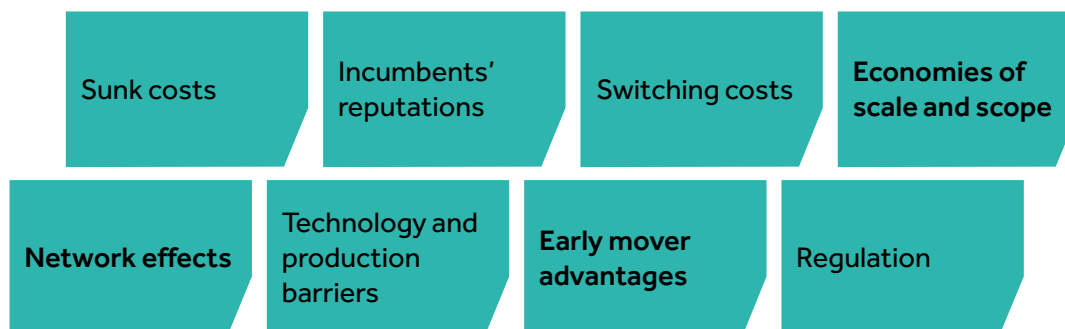
40 [Federal Trade Commission \(September 2021\)](#)

6. The CMA can investigate mergers between organisations, to ensure that they do not result in a substantial lessening of competition. In 2021 the CMA adopted revised Merger Assessment Guidelines, highlighting that revised guidelines were needed to reflect the way markets have evolved and changed since the previous guidelines were published in 2010. The revised guidelines provide for a more dynamic approach to assessing mergers. As well as considering evidence on how firms compete today, the CMA is likely to assess how competition is expected to develop in the future. The revised guidelines also place more emphasis on competition over elements of a product which are not the price, such as service, quality or innovation. The CMA has opened investigations into Meta's acquisition of Giphy as well as Microsoft's acquisition of Activision Blizzard.
7. While observed and reported acquisition strategies provide insightful evidence for Big Tech entry motivations, we have focused on a generalised analytical framework which can be consistently applied across multiple firms and sectors.

Entry incentives and barriers

8. Our starting point is that entry and expansion decisions can be considered within the framework of a financial investment decision. Decisions are dependent on the relative costs and benefits of entry. If quantified and monetised this could be assessed in a discounted cash flow model using financial appraisal methods. However, a quantified model requires a large amount of firm and market specific data and would be subject to significant uncertainties, including firm-specific discount factors and synergies. We do not attempt to develop a quantified model.
9. We assume markets with the potential for high long-term profitability and low costs of entry will generally be the most attractive entry options to firms.
10. Costs increase with the barriers to entry a firm faces – features of the market that give incumbent firms advantages over potential competitors. The behaviour of incumbent firms can itself create or strengthen a barrier to entry, resulting in structural and strategic barriers. Common barriers identified across digital and non-digital markets include those in Figure 6.⁴¹

Figure 6: Common barriers to entry



41 See 8.41 of the CMA's Merger Assessment Guidelines

11. Big Tech firms' characteristics could enable them to overcome barriers which have historically limited entry but create new barriers once entry has been successfully achieved, including:
 - Economies of scale and scope which can prevent small scale entry, and generally require large scale entry to expand the market, or substantially replace existing providers, with the associated risk and investment costs this brings.
 - Network effects which require entrants to attract a large number of customers to one or both sides of the entrant's platform, which can make entry both costly and risky, especially in the presence of larger incumbents.
 - Early mover advantages include data advantages which allows incumbents to hone, improve and personalise their products making it difficult for entrants to replicate in a timely manner.
12. Alongside barriers to entry and incumbents' responses, in assessing the profitability, or return, from entering a new market, entrants will also consider the market's features or structure. A small or declining market may be unattractive even with low barriers to entry. To assesses the long-term profitability potential of a market, entrants might consider the *forces of competition*, including rivalry among existing firms, the threat of new entrants or substitute products and the bargaining power of buyers and suppliers.⁴²
13. Big Tech firms' multi-product business models create another unique consideration for their entry decisions. For a Big Tech firm, entry may not be driven by the value of the new market, but the spillover impact, or complementary value, it generates for the firm's other products, services and ecosystem (see Figure 7).⁴³
14. Spillover benefits from product diversification include cost efficiencies through scale or scope economies, access to data to improve products and services through feedback loops or monetised through advertising, and demand-driven returns to scale and scope (complementarities which increase consumers' valuations of the ecosystem as a whole).
15. Spillover costs from product diversification include revenue dilution through product substitution or 'cannibalisation' (customers leave the Big Tech firm's old products in favour of its new one). Alternatively, incumbent providers in the new market could be Big Tech customers elsewhere (such as cloud computing or advertising) and retaliate by switching providers.⁴⁴ Product diversification can also result in diseconomies of scope, as well as greater external oversight and reputational risk – especially if there is a risk of failure in the new market, which could damage the wider brand.
16. We refer to the 'value' of entry, rather than profitability, to reflect the fact a Big Tech firm's short-term objective could be expanding and engaging users (including through the 'market for attention' which, for example, can drive advertising-based business models), data gathering and use, or some other strategic objective (with a view to attaining profitability in the longer term).

42 M. Porter (2008) 'On Competition'.

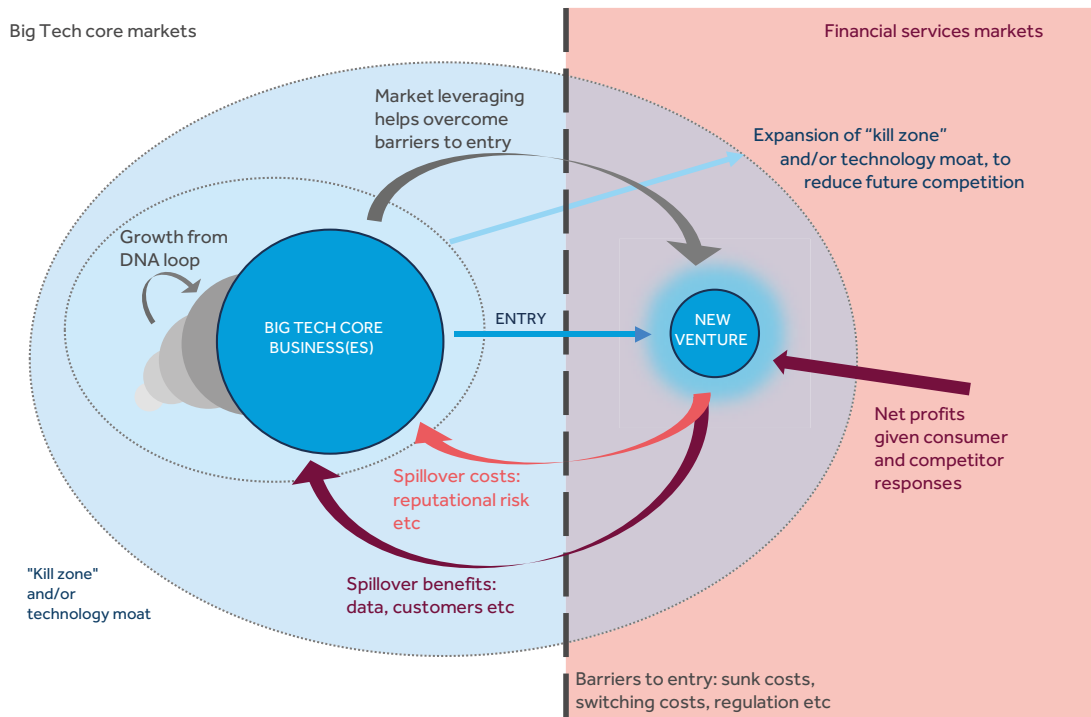
43 Including the potential for entry to raise barriers to entry and create or reinforce dominance in the Big Tech firm's core products and services.

44 On the other hand, if the Big Tech firm is the supplier of a scarce, costly-to-substitute input to a financial services firm, this could put the Big Tech firm in a stronger position. Big Tech firms and financial services incumbents can interact in several markets, sometimes as competitors, sometimes collaborators, and sometimes as suppliers and customers, which adds another dimension to the competitive dynamics.

The Financial Stability Institute paper *Big tech interdependencies – a key policy blind spot* highlights the complex interdependencies between Big Tech firms and financial services firms.

17. Entry decisions will also reflect important dynamic considerations, including the Big Tech firm's expectations of, and response to, the future of technology, competition and regulation. Entry could take place in currently unprofitable markets, but which the firm believes have strong profitability potential in future, especially if there are early mover advantages. It could also be driven by the need to invest in one market to open-up further entry into complementary markets at a later date.
18. Entry may also reflect a desire to defend or extend the profitability of the firm's core products and services against potential future threats. For example, acquisitions which build a 'moat' around a core profitable product or service, by widening the services provided in the firm's ecosystem and requiring potential competitors to compete on multiple fronts. Or ensuring a firm has access to key emerging technology, skills and knowledge. There are also said to be 'killer acquisitions', where large digital companies acquire smaller innovative ones in spaces adjacent or overlapping with their main activity to eliminate potential future rivals.⁴⁵

Figure 7: Summary of Big Tech entry decision



Entry strategies

19. In discussing entry incentives and barriers, we did not consider how entry takes place, or distinguish between different types of entry. Treating entry as a binary event is helpful when considering entry broadly, but less so when considering specific potential entry routes into existing markets.
20. In practice a Big Tech firm will consider a range of options when contemplating the most appropriate, and profitable, route into a new market. Does it compete or collaborate with incumbents? Does it innovate or replicate? What business

or monetisation model does it pursue? At which point in the value chain does it enter? What mode of entry does it use, such as start-up or de-novo entry, mergers, acquisition, or joint venture? These questions will have dynamic components too. Collaborative entry may be a cost-effective way of securing a presence in a market from which technology can be tested, trust and data gained and from which the Big Tech firm can expand into a direct provider role over the longer-term. The decisions a firm makes over how it will enter a market will inform its entry strategy.

21. The Financial Stability Board makes a distinction between entry through 'direct competition' and 'partnerships', with direct competition occurring when a Big Tech firm competes directly with incumbents, and a partnership occurring when there is a relationship between a Big Tech firm and (at least one of the) incumbent financial institutions.⁴⁶ In considering potential entry routes into financial services markets, we follow a similar approach. We distinguish between entry as a direct competitor to existing providers and entry through collaboration.
22. Under the 'collaborator' definition we consider a number of alternative relationships between Big Tech firms and existing providers, reflecting differences in how and where Big Tech firms enter the value chain. These vary by sector, and can include entry as a broker, marketplace intermediary in commercial relationship with many firms, white labelling, acting as a distributor or agent, and in some cases offering specific technical services. Although we do not consider upstream technical services such as cloud computing, the FCA has published a joint Discussion Paper with the Prudential Regulation Authority and Bank of England on the role of critical third parties such as providers of cloud services and their impact on operational resilience.⁴⁷ Ofcom announced in September 2022 that they are launching a market study into the UK's cloud sector, examining the position of Amazon, Microsoft and Google in cloud services.

Potential competition benefits and harms

23. The final element of our framework is the potential impact Big Tech firms' entry could have on competition. There have been important contributions to the discussion of digital competition and Big Tech firms, including the Furman Review, the Digital Markets Unit, the Stigler Committee on Digital Platforms, the OECD Handbook on Competition Policy in the Digital Age, and the Investigation of Competition in Digital Markets, as well as the CMA's Online platforms and digital advertising and Mobile ecosystems market studies, and competition law enforcement cases. We draw heavily from these sources to inform our assessment of the potential benefits and harms from Big Tech entry into financial services markets.
24. The FCA's Approach to Competition highlights that challenger firms are an important source of competitive pressure for established businesses, as well as bringing new ideas and innovation. In markets where challengers cannot enter or grow, established firms tend to be less responsive to customers, less efficient and less innovative.
25. The FCA's Strategic Review of Retail Banking Business Models (SRRB) found that the entry of digital challengers with innovative mobile apps, which make the experience of banking easier, more convenient and help consumers manage their money, had

⁴⁶ BigTech Firms in Finance in Emerging Market and Developing Economies.

⁴⁷ See our Discussion Paper on Operational resilience: Critical third parties to the UK financial sector.

resulted in established banks slowly losing market share in Personal Current Accounts (PCAs). In response, larger banks have adopted digital innovation in PCA banking, which has improved service quality for many consumers, even those who did not switch.

26. The SRRB also highlighted the benefits driven by innovations in payments. There has been entry from new payments firms offering a diverse range of different services. These include e-money wallets, cryptocurrency offerings, foreign exchange services and money remitters, Payment Initiation Service Providers and Account Information Service Providers, Buy Now Pay Later (BNPL) providers and others. Many of these innovations are positive for consumers, providing increased choice and lower prices, such as in foreign exchange. In addition, some firms which started off as payment providers have become, or applied to become, deposit-taking institutions.
27. Big Tech firms' entry has already brought benefits to financial services customers. The Netherlands Authority for Consumers and Markets Report on Big Techs in the payment system highlighted convenience and security as the main reasons for the adoption of e-wallets. UK Finance found nearly a third (32%) of the adult population had registered for at least one mobile payments service in 2021, with younger people more likely than older people to use either Apple Pay, Google Pay or Samsung Pay.
28. However, innovation comes with risk. New products and new firms can fail. Our Approach to Competition sets out that the FCA's role is to support new entry and innovation within a controlled environment to ensure an appropriate level of consumer protection.
29. Given the unique characteristics of Big Tech firms, Big Tech entry brings its own potential benefits and harms. Big Tech firms may be able to overcome entry barriers that other potential challengers cannot, through a combination of innovative, high-quality products and services, their scale and scope, and their data and ecosystem advantages. However, Big Tech entry also creates potential dynamic risks to competition and consumer outcomes if it results in the creation of harmful market power (or entry is facilitated through the leveraging of market power in other markets).⁴⁸
30. Concentration and market power are not inherently harmful. The success of a small number of firms can reflect the fact they offer more innovative products, integration that benefits consumers, or greater efficiency. Market power can sometimes be the deserved temporary reward for 'winning' a market on merit, for example after investing in research and development to develop a superior product. However, entrenched market power can result in harm, especially when it results from anti-competitive behaviour, is incontestable by new entrants, and is exploited to the detriment of other market participants.
31. Many digital markets are global and history suggests that Big Tech firms can achieve dominance rapidly. The distinct features of digital markets may result in competitors finding it difficult to enter and displace incumbents. Generally, in winner-takes-all or winner-takes-most markets of this kind, competition *in* the market is weaker, but competition *for* the market can be stronger. Big Tech firms' competitive advantages, in addition to potential anticompetitive conduct, could lead to one or a few Big Tech firms capturing large market power in a given market.

48 Entry could also create or further entrench market power in Big Tech firms' existing core markets.

32. The exploitation of market power through anti-competitive practices is often categorised as either:

- **Exclusionary behaviour:** conduct by a firm with the intention of preventing competitors from entering, growing, or remaining active in the market. For example, exclusivity, self-preferencing and refusal to deal. In 2017 the European Commission fined Google €2.42 billion for abusing its market dominance in search by giving an illegal advantage its own comparison shopping service. In September 2022 the European Union's General Court largely confirmed the European Commission's decision that Google imposed unlawful restrictions on manufacturers of Android mobile devices and network operators to consolidate its dominant position in search.
- **Exploitative behaviour:** conduct by a firm to extract additional benefit at the expense of other market agents – typically consumers – who are reliant on the firm. Unlike exclusionary abuses which harm consumers indirectly by reducing competitive offerings in the market, exploitative abuses directly harm consumers. In many digital markets, where end users enjoy 'free' or zero monetary cost services, firms can exploit users through non-price characteristics, such as degrading the quality of service or exploiting consumers' data and privacy. However, exploitative *pricing* is also possible, especially in multi-sided markets where business users (such as advertisers or third-party retailers) pay to access a platform and then pass on higher costs to their own customers. Firms can also learn and exploit behavioural biases of end consumers.

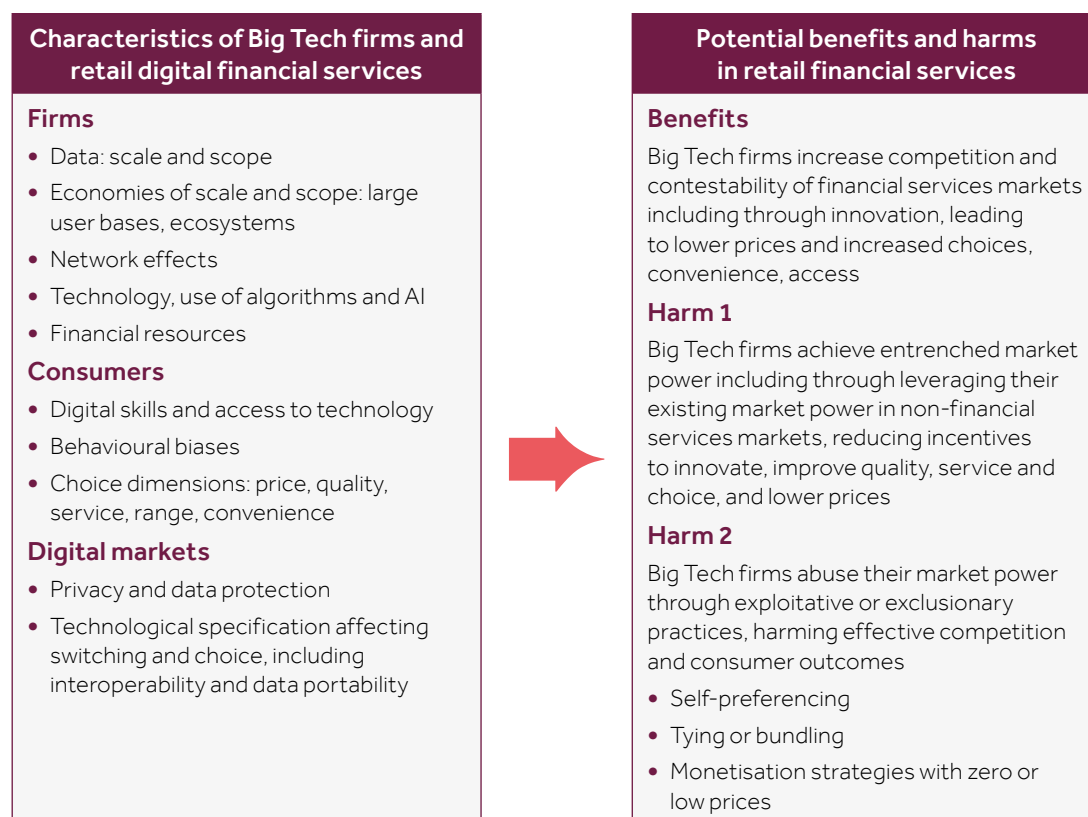
33. In creating a new pro-competition regime for digital markets, the Government found that there is an increasing body of evidence, both in the UK and internationally, that some of the largest tech companies are exploiting their market power in a way that is causing persistent material harm to their business users and end users. This includes reduced quality, choice and innovation as well as higher prices. The Government highlighted a number of examples where the exploitation of substantial, entrenched, and relatively incontestable market power by Big Tech firms has led to material harms for consumers. We present a selection of these examples below:

- Reduced quality, such as Facebook showing more adverts relative to organic content (arguably reducing the users' quality of experience). Ad impressions per hour on Facebook rose from 40-50 in 2016 to 50-60 in 2019.
- Higher prices, such as Apple and Google charging up to 30% commission on some in-app purchases.
- Lack of control over, and poor return for, data collection, such as the lack of competition for privacy or payment for data in search and social media.
- Reduced innovation, such as Apple and Google's control of in-app purchase systems deterring entry into the app market.
- Poor terms for business users, such as over half of surveyed Amazon marketplace retailers reporting restrictions on communication or resolving disputes.

34. If and when Big Tech firms enter financial services, they can bring benefits, at least in the short-term and maybe enduring for longer, to consumers by effectively and fairly competing with incumbent providers, and other new entrants including fintech firms. They can provide innovative, efficient products and services. However, based on what we have seen in Big Tech firms' core markets and their expanding ecosystems, there

are competition risks arising from them rapidly gaining market share, markets 'tipping'⁴⁹ in their favour, and potential exploitation of market power. This could be harmful to competition and consumer outcomes in the long term if not immediately. The potential competition benefits and harms arising from Big Tech entry into financial services are summarised in Figure 8.

Figure 8: Framework for assessing competition benefits and harms



49 The Furman Review notes that 'in many cases tipping can occur once a certain scale is reached, driven by a combination of economies of scale and scope; network externalities whether on the side of the consumer or seller; integration of products, services and hardware; behavioural limitations on the part of consumers for whom defaults and prominence are very important; difficulty in raising capital; and the importance of brands'.

Annex 3

Abbreviations used in this document

Abbreviation	Description
API	Application Programming Interface
BIS	Bank for International Settlements
BNPL	Buy Now Pay Later
CBDC	Central Bank Digital Currency
CHAPS	Clearing House Automated Payment System
CIMS	Credit Information Market Study
CMA	Competition and Markets Authority
CRA	Credit Reference Agency
DRCF	Digital Regulation Cooperation Forum
DMA	Digital Markets Act
DMU	Digital Markets Unit
EMI	E-money Institution
EMRs	The Electronic Money Regulations 2011
FCA	Financial Conduct Authority
FIIC	Free-if-in-credit
FSB	Financial Stability Board
FSCS	Financial Services Compensation Scheme
GDPR	General Data Protection Regulation
IMF	International Monetary Fund
IoT	Internet of Things
NFC	Near Field Communications

Abbreviation	Description
OECD	Organisation for Economic Cooperation and Development
PCA	Personal Current Account
PCW	Price Comparison Website
PSD2	Payments Services Directive 2
PSR	Payment Systems Regulator
PSRs	The Payment Services Regulations 2017
SRRB	FCA's Strategic Review of Retail Banking Business Models
TSP	Technical Service Provider

Glossary of terms

Barrier to entry	A specific feature of a market that gives incumbent firms advantages over potential competitors.
Big data	Broadly defined as: the use of new or expanded data sets, new technologies to generate, collect and store data and advanced analytical techniques.
Big Tech firms	In this paper we define Big Tech firms as large digital companies with established technology platforms and extensive established customer networks.
Bundling	A firm offers multiple products together, inseparably.
Contestability	Contestability refers to the threat of challenge by new entrants. In theory, incumbents can feel competitive pressures even where existing competition in the market is relatively weak, provided potential competition for the market, or contestability, is sufficient.
Demand side	Consumers or customers, typically thought of in aggregate.
Economies of scale	A cost advantage that occurs as output levels increase.
Economies of scope	A cost advantage that occurs as the range of products produced increases.
Killer acquisitions	The theory that large digital companies acquire smaller innovative ones in spaces adjacent or overlapping with their main activity to eliminate potential future rivals.
Market leveraging	When a firm uses its established position in one market to build a strong position in a second market, for example by bundling its products.
Near Field Communications	Short range wireless communication technology.
Network effects	Platforms become more valuable to their users as they grow, which in turn makes them a more attractive proposition to further prospective users.
Self-preferencing	A firm can leverage their position to provide advantages to their own products or preferred partners.
Supply-side	Firms or suppliers.
Tipping (of the market)	The tendency of one system or product to pull away from its rivals in popularity once it has gained an initial 'edge'.
Tying	A firm sells one product conditional on the consumer also buying a second product.
White-labelling	When one firm brands and sells the products produced by a second firm.

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