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Summary Record: Working Party No. 2 on Competition and Regulation

Summary of discussion: Hearing on disruptive innovation in the financial sector

26 October 2015

Paris, France

This document prepared by the OECD Secretariat is a detailed summary of the discussion held during the Item VI of the 60th meeting of Working Party No. 2 held on 26 October 2015. More documents related to this discussion can be found at <http://www.oecd.org/daf/competition/competition-and-disruptive-innovation-financial-markets.htm>

Contact(s):

[Ania THIEMANN](#), Global Relations Manager, +(33-1) 45 24 98 87

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1. Summary

The **Chairman of WP2, Alberto Heimler**, opened the discussion on disruptive innovation in the financial sector by noting that in the future WP2 may continue with the theme of disruptive innovations in other sectors. Mr Heimler referred to the Disruptive Innovations background paper prepared by the Secretariat and underlined that the Secretariat paper provides a good framework for the discussion.

The **Chairman** then introduced the panellists for the discussion: Christine Farnish, chairwoman of the Peer-to-Peer Finance Association (from here on P2PFA) in the UK.; Anne Choné from the European Securities Market Authority (from here on ESMA); Adrian Blundell-Wignall, Director of the Directorate of Enterprise and Financial Affairs (DAF) at the OECD; Nicola Northway from Barclays Bank, UK, and Mary Starks from the Financial Conduct Authority of the UK (from here on FCA); he then gave the floor to **Christine Farnish**.

Christine Farnish started with discussing peer-to-peer lending in the UK. The UK is one of the three main peer-to-peer markets in the world along with the US and China. Peer-to-peer lending was invented in the UK, with the very first platform (Zopa) established in 2005. Since then, the market has grown quickly, and in 2011 the P2PFA was set up. The aim of creating the P2PFA was to establish a framework of self-regulation, in the context of general public distrust towards peer-to-peer lending platforms and against a backdrop of the UK government encouraging more competition in retail banking markets. The credit crunch of 2010 made it increasingly difficult for banks to extend credit to credit-worthy borrowers, which helped the growth of the peer-to-peer lending in the UK.

Christine Farnish continued by summarising the things that P2PFA does. P2PFA publishes its own standards and good practices, and posts them on their website. Peer-to-peer lending is still not well-understood, and therefore P2PFA aims to promote the general understanding. She explained that peer-to-peer lending is about the provision of debt, credit and loans with funding for loans coming from the crowd. It is not cash deposits or savings in a bank where both the risks and returns are low, or equity investments where the returns and risks are higher. Instead, it is as an asset class that lies somewhere in the middle.

The P2PFA currently has nine members (platforms) that together cover over 90% of the total market of peer-to-peer lending. The P2PFA only wants to have platforms as their members, and the members have to be willing to abide by their standards in order to support consumer confidence and trust.

The **Chairman** intervened and asked whether the members are independent platforms or whether there is a cross-ownership. **Christine Farnish** explained that their members are all independent platforms that compete with each other, although they are not all in the same particular segment of the market. She continued by emphasising the growth rate of the peer-to-peer lending. The sector is doubling in size in terms of loan flows every year. In the last three months alone (leading up to the meeting), their members lent new funds of half a billion pounds (GBP 500,000,000). In other words, the peer-to-peer lending sector now provides 3% of the total market of retail financial services. Although this is still a comparatively minor share, peer-to-peer lending is growing at a very fast rate.

Next, **Christine Farnish** discussed the lending products. Peer-to-peer lending offers digital products. Therefore anyone who has access to the Internet, whether they are lenders or borrowers, can use it. It offers a good price, because the cost of running this business – mainly the cost of the digital systems and a relatively small head count – is very low. It also offers a quality product because all the platforms invest a lot in their customer communications and management systems.

Christine Farnish then talked about the central principles of P2PFA self-regulation. P2PFA member platforms are required to have good governance. The platforms should have at least GBP 50,000 deposited in the bank in case they need to call on that money for any particular problem. They have to separate out their customer deposits from their

own monies. Members must be very prudent about managing their credit risk. They have to safeguard against fraud and money laundering. They need to have strong IT systems. They also have to disclose information honestly and clearly to customers on both sides and they have to be able to handle complaints. In the UK the term “peer-to-peer lending” has been defined in legislation which is an advantage as the concept does not have to be fitted into some existing systems for bank or asset management regulations.

P2PFA insists that all member platforms show returns to investors net of defaults, and net of any fees and charges. All fees and charges must be transparently disclosed. In this regard, P2PFA introduced a standardised methodology for calculating bad debt and defaults. From the end of 2015 all the members are also required to publish everything on their loan book. P2PFA also asks members not to discriminate between retail investors and institutional investors. Finally, none of the members can raise money for their own business purposes on their peer-to-peer lending website.

In terms of innovation and competition **Christine Farnish** mentioned the change in credit risk assessment models. She said that many of the traditional credit risk assessment models are now being refined, built on, and developed further by using new sources of data, including big data, social and behavioural data. Customer servicing standards are also very good, she added. Peer-to-peer platforms can turn around applications for loans in 24 hours or a couple of days at most. She also noted that the platforms can pass on their cost savings to customers on both sides and offer very good customer service levels with their modern digital systems.

She concluded her presentation by saying that at the moment barriers to entry are very low, there are lots of new platforms coming in and it will be very interesting to see how incumbents will respond.

The **Chairman** thanked the speaker for her presentation and asked whether there was any regulation when Zopa entered to the market or not. Christine Farnish replied that there were no regulations other than the need to get a consumer credit licence which was a relatively straight forward process at the time.

The **Chairman** then invited Anne Choné, who is responsible for monitoring financial innovation at the ESMA, to share the experience of her authority.

ESMA was created in 2011 to reinforce financial supervision across the European Union. ESMA forms part of an overall European System of Financial Supervision together with two other authorities, the European Banking Authority and the European Insurance and Occupational Pensions Authority, responsible for banks and pension insurance supervision in the EU, respectively. Anne Choné’s remarks focused on crowd funding and the virtual currency only in the context of security markets.

The core objectives of ESMA are investor protection, orderly markets and financial stability. With regard to competition and innovation, ESMA has two important roles. The first one is to improve the functioning of the internal market in the EU by removing barriers to cross-border activities. The second one is to create a true level-playing field in financial markets. She stressed again that creating a genuinely single capital market in Europe is one of the key priorities of ESMA, and that they want to foster alternative funding sources, including crowd-funding.

Anne Choné then focused on ESMA’s mandate to monitor financial innovation. As a regulatory body it is important that ESMA has a proactive stance towards innovation. When they look at innovation, they try to understand what benefits it could bring and whether there are barriers to those benefits that they can help to address. They also want to make sure that they understand the risks and how to address them in an effective and proportionate way. Therefore they set up a specific framework within ESMA to deal with financial innovation. However, having a proactive stance towards innovation is not without challenges: there are heterogeneous markets across 28 member states and as such, they need to remain flexible. The risks attached to new products or new processes are inherently difficult to measure, because of the lack of historical data. The benefits of an innovation can be time dependent, and in some cases innovations emerge because of the regulations.

ESMA monitors innovations in the markets, as illustrated by two examples. The first example was about equity crowd-funding. ESMA started to study the market in 2012, when the phenomenon was fairly new and when the volumes were fairly modest. They started by analysing the different business models and how they may evolve in the future. They looked at the risk for the investors, for the project owners, and also for the platforms themselves. They looked at the different pieces of regulation that were applicable to these activities and mapped how the different business models were fitting into the different pieces of legislation. Finally, they identified potential gaps and issues.

This work led to the publication of an opinion to the regulators of the member states, and an advice to the EU institutions. ESMA also published a Q&A on anti-money laundering, and established a supervisory forum with the regulators of the member states to help them to deal with the platforms in their jurisdictions.

Anne Choné also added that as ESMA continues monitoring the market. They realised that different member states started to implement different national regulations which has the potential to create barriers for cross-border activities and restrict the opportunity to achieve the scale that the platforms need. The work of ESMA has been instrumental in clarifying the regulation likely to apply to crowdfunding activities; its actions will be beneficial for all firms in the market, particularly for smaller ones that may not have the resources, such as large compliance teams, to analyse the regulation. In addition to that, the work highlighted the benefits of staying inside the regulation and of having a passport to do cross-border activities which is very important in terms of the scale and scope that the platforms need. Lastly, the work of ESMA has been beneficial in terms of identifying the gaps and issues for the legislators with a view to address them at a very early stage.

A second example was about distributed ledger technology, the technology that underpins virtual currencies. **Anne Choné** did not go into details and said that the approach that they took was very similar to the one just described for crowd-funding, and that they are still in the process of analysing the potential benefits and the risks for the markets. She concluded her presentation by saying that innovation can foster competition. It can decrease costs to customers, but it can also create new challenges and risks for regulators that need to be managed.

The Chairman thanked **Anne Choné** and asked whether the work that the ESMA is doing will have some implications for member states in terms of how they should address the challenge of crowd-funding. **Anne Choné** replied that the role of the ESMA is to foster supervisory convergence in the EU. By publishing its opinion, ESMA aims to help different regulators in the member states apply the different regulations in a consistent manner. She added that they issued an advisory note to the EU institutions – the Parliament, the Council and the Commission – advising them to look at these gaps and issues that ESMA identified, and to consider ways to address these. The ESMA also holds a supervisory forum with regulators from the member states to help them deal with the issues that they face on a day-to-day basis.

The **Chairman** then gave the floor to **Adrian Blundell-Wignall** to make a presentation about block chain technologies. **Adrian Blundell-Wignall** started by noting that he had been asked to talk as though nobody knew anything about Bitcoins. He explained that a Bitcoin is one of the many virtual currencies. It is an electronic token which is not linked to any sovereign legal tender. It has no intrinsic value – it is not linked to gold or any commodity. Its price has been very volatile. There is a fixed number of Bitcoins: 21 million which are hidden in the Internet ether. Half of them have been discovered so far. New bitcoins are found solving mathematical algorithms, a process called “mining”. In order to claim ownership of a Bitcoin, a person digitally signs it through a computer and then puts it into a container called a wallet, and that wallet is encrypted.

The **Chairman** intervened and asked about the originator of these 21 million bitcoins in the web and what they gain. **Adrian Blundell-Wignall** replied that the originators gain something from the bitcoin, which is potentially a cause of concern, because they probably kept some for themselves and the price has risen since they were launched.

Adrian Blundell-Wignall explained how to make a transfer of Bitcoins. A person claims ownership to a Bitcoin by digitally signing it. A person signs a Bitcoin with a digital signature. The digital signature will be his/her private key. When digitally signed, a Bitcoin will have a public address/key that anybody can see. That public key is often a numeric key which is generated by hash functions, a kind of encryption method which is very hard to break. When a person signs a bitcoin with the private key, it will go into the block chain. Afterward, the people running computers all across the world, they come in and verify that this is a valid transaction. Once it has been verified by the block chain, the transaction between two people can take place and be finalised in seconds.

Adrian Blundell-Wignall then explained the basic features of a Bitcoin transaction. The transaction can be used to purchase goods and services directly from anyone with a Bitcoin address. It removes the need for a trusted intermediary such as a bank or an insurance company, and this is the single most important feature of Bitcoins transactions. There is an issue of anonymity with Bitcoin transactions. It is possible to hide the ownership, and tracing what happens in these transactions can be difficult. For instance, a large percentage of Bitcoin transactions today are being used for gambling. The Financial Action Task Force at the OECD has warned that Bitcoins can be used for supporting terrorism finance and money laundering.

In order to clarify the magnitude of disruption from bitcoin transactions **Adrian Blundell-Wignall** compared them with credit card transactions. For credit card transactions, there is a fee which consists of the interchange fee and the processing fee, and on average it amounts to roughly 2.5% of the transaction costs. According to McKenzie & Co., in 2014, the dollar amount of credit card transaction fees for banks was USD 1.7 trillion globally (North Africa USD 0.4 trillion, APAC USD 7.7 trillion, EMEA merging Europe and Africa, USD 0.5 trillion, and Latin America, USD 0.2 trillion). By contrast, a Bitcoin transaction is essentially a costless transaction, and it is direct and very quick.

Adrian Blundell-Wignall then discussed the Ripple protocol, which is a real-time gross settlement system, currency exchange and remittance network. He compared a cross-border monetary transaction works with a bank transfer. Expatriates living in Paris may send money to Australia, which can take 2-4 days, and they never know what the exchange rate is going to be until the bank in Australia tells them. However, Ripple protocol transactions work very differently, and in a way more amenable to node anonymity and clarity. When a set of new transactions arrives on the ledger, that is a proposal. The nodes go through a voting process and start discarding invalid transactions. When they reach an 80% consensus, which would mean effectively 100% certainty, they consider the transaction as closed and correct. And this takes seconds. Ripple has a currency called XRP. XRP is not like Bitcoin which has a value and can be exchanged for dollars and used for speculation. XRP is an internal currency used within the system to prevent abuse.

Adrian Blundell-Wignall underlined the fact that very big organisations are adopting the Ripple protocol and gave some examples. The world's largest open bank payment technology, Earthport, has joined Ripple. Online banks are beginning to use the Ripple protocol as well. A German bank called Fidor is already using Ripple. Westpac and Northbank in Australia have also decided to join the Ripple network.

Adrian Blundell-Wignall then mentioned some regulatory points. He started with a decision of the European Court of Justice (ECJ) stipulating that there is no VAT for Bitcoin. The Financial Crimes Enforcement Network and the US Treasury specify that financial service providers are classified as money transmitters, and hence they are subject to federal and state registration, recording, reporting, and know-your-customer rules. He also added that central banks may take a dim view of crypto currencies in part to protect their seigniorage.

Adrian Blundell-Wignall finally discussed cybercrime which is considered to be the biggest risk facing the financial system. Private institutions and central bank payment institutions can all be subject to cyber-attacks and their back-up sites would go down as well because they use the same architecture as the main servers. In this regard he argued that since Ripple is based on a completely different architecture which is less vulnerable to this kind of cyber-attack, it is useful to encourage the Ripple type systems.

The **Chairman** thanked **Adrian Blundell-Wignall** and asked whether he was able to give some valuations for Bitcoins.

Adrian Blundell-Wignall replied that a Bitcoin is currently about 400 dollars. 50%-60% of them have been discovered, and therefore 11 million times USD 400 (=USD 4.4 billion) would be the value of the Bitcoin, he added.

Adrian Blundell-Wignall also emphasised that for him the true way to think about the size of the Bitcoins and Ripple is to consider the size of the payment system business, i.e. the revenue and the profits of the correspondent business. He added that McKenzie & Co. is forecasting that by 2019 the payment systems revenue will be USD 2.3 trillion which is quite a lot of money that the banks, the credit card companies etc. will not like to give up. Encouraging the distributed ledger technology as opposed to Bitcoins is important and has already started.

The **Chairman** thanked **Adrian Blundell-Wignall** for his presentation and gave the floor to Nicola Northway.

Nicola Northway started by noting that Barclays Bank has always been an innovative institution that introduced the first ATMs and credit cards in the 1960s, and debit cards in the 1980s, and more recently mobile banking and mobile payments into the UK market. She said that the market is changing. Examples are mono-line payment providers, PayPal, Apple Pay, peer-to-peer lending, crowd-funding, contactless payments, Ping it and Paym (Barclays mobile payment technology). She agreed with the previous speaker that block chain distributed ledger technology is going to have very significant applications.

Nicola Northway explained that legislative change helped to innovate, even in spaces which are really quite traditional, and introduced the example of cheque imaging technology. A new regulation changed the system for cheque processing in the UK. The new law will allow images of cheques to be exchanged between banks, so that a physical piece of paper does not have to be transported. People can take a photograph of it and pay it in via mobile banking apps which will speed up the clearance of the funds into their accounts.

Nicola Northway also pointed out that what distinguishes the UK market from others is the fact that financial technologies are receiving government focus and encouragement. Barclays is working with the financial technology sector and trying to anticipate what the next development is going to be. They do not know which technology will reach critical mass and therefore they need to remain broadly involved and plugged in to the financial technology developments. She also stated that new entrants should not need to replicate the existing parties' legacy systems. Rather, the existing parties need to invest to keep pace with these new entrants who are often swifter.

Nicola Northway also emphasised that this is a challenge for competition authorities and argued that competition authorities have to keep up with the pace of change and the implications of these types of developments. Competition authorities have to be regulating banking and financial services in the same way as they regulate the technology sectors. Competition authorities need to respond to the change in marketplace and consider in what ways these things impact the market stability. She also added that the UK's regulating authority has reduced regulating requirements for some of the new entrants, so that some of the capital and liquidity requirements have not been imposed on the new entrants.

Nicola Northway explained that they are trying to meet the changing habits of the customers. She said the customers want their banking delivered faster, smarter and using the technology that they use every day. People want to use smartphones, apps, through which they can transact as quick as possible. They do not want to go to a bank branch but rather to transact online in real time.

Returning to the question of competition authorities and regulators, **Nicola Northway** argued that it is important that competition authorities and regulators allow flexibility. If regulatory authorities have a too-restrictive approach then it stifles potential innovation which would mean potentially stifling something which could benefit the consumers. She also maintained that it is important to think about fraud and safeguards from fraud, and to get the flexibility and the balance right. She said that Financial Conduct Authority (FCA) in the UK got that balance broadly right, and certainly is really trying to find ways to allow people to come into the market, while still protecting the consumers. Finalising her presentation, she mentioned that she had been quite surprised to see the enormous volume of alternative finance per capita in the UK in a recent OECD paper compared to other countries, which may be the positive result of the approach adopted under UK regulation.

The **Chairman** thanked **Nicola Northway**. He then commented on the USD 1.7 trillion revenue from payment systems which was shown in a slide by **Adrian Blundell-Wignall**. He said it is really a challenge for regulators and competition authorities to make sure that there is effective competition to compete away those rents. He then gave the floor to Mary Starks from the FCA.

Mary Starks started with pointing out the difference between the first Internet revolution and the current wave of digital innovation. While the first Internet revolution brought online banking and online shopping, the current wave of digital innovation is bringing a much more diverse set of ideas and therefore, she added, the potential for disruption will go further than simply automating processes. She also mentioned about how much the global investment in financial technology ('FinTech') is growing. It tripled to USD 12 billion in the last year. The US is taking the biggest share, but it has grown extremely fast in Europe, particularly in the UK and Ireland. She also noted that the UK government is extremely supportive of innovation in financial services and that government has appointed an Envoy for FinTech who is tasked with championing innovation in financial services.

Mary Starks then talked about the role of the FCA in fostering innovation in financial services. The traditional view of the regulator's role in innovation is probably to stay out of the way and not to try to pick winners. She underlined that they are not trying to pick winners. The UK FCA is very unusual amongst financial regulators in having a competition mandate. She underlined that promoting competition in the interest of consumers has been a statutory objective of FCA since 2013. Their role is to empower consumers to make good choices, but also to ensure that the markets are open to entry and innovation.

Mary Starks explained that the FCA has historically taken a risk-based approach to regulation, targeting the sources where the biggest potential detriment lies which naturally leads to spending a lot of time with firms that have many customers. The competition mandate requires them also to stand in the shoes of a very different population of the new entrants and challengers and really try to understand how they experience regulation, and to see whether frameworks provide the right kind of protection, giving customers confidence to use these new businesses, and whether they allow enough room for innovation.

Mary Starks then discussed the Innovation Hub, a unit within the FCA which is geared entirely towards working with innovative businesses. Innovation Hub, she explained, does two things. The first one is to provide direct support to innovative firms, particularly to very small firms who cannot start a conversation with the regulator. This is highly important as new business models will not necessarily fit into regulations, and when a firm has got something really new, it cannot see its way through the existing rule book. However, the FCA can help them with that. The second one is to try to make sure that the frameworks remain suitable for innovation. In this regard the FCA has issued a call for inputs, asking firms to tell them about the specific regulatory barriers they face when they are innovating using digital and mobile solutions. The FCA is currently going through the responses and they will provide feedback at a later stage.

In its first nine months of operation **Mary Starks** continued, the Innovation Hub provided assistance to 144 firms. They had requests for assistance for more, but they had some criteria to choose which firms to help. The criteria include that the firm has to be innovative, it has to have done some regulatory research of its own already, it has to have a genuine need for support, and lastly, it has to provide consumer benefits. At this point, she underlined that they are interested in consumer-facing innovations as oppose to innovative tax planning or financial regulatory arbitrage.

Mary Starks then explained the process of “informal steer” that they have done for those 144 firms. Informal steer differs from the normal individual guidance where what has been provided is legally binding. An informal steer is sort of fast and frank feedback to the firms about the regulatory implications of their business model. It is not binding, nonetheless she noted, the firms are finding it extremely helpful. She also added that they are running various events such as three-day forums on the topic of robo-advice and so on.

Mary Starks continued with the Payment Systems Regulator (PSR). PSR is a subsidiary of the FCA and was set up in response to a series of ongoing challenges with the payment systems in the UK. The government gave PSR objectives to promote three things: the interests of service users, competition, and innovation in payment systems. While the first two of those objectives are reasonably standard for a regulator, the innovation objective is quite unusual, she noted. PSR will look to pursue its innovation objective by dealing with the issue of access to the payment systems, by removing barriers to competitive innovation, and ensuring that that innovation takes the needs of all the system users, including new users and challengers, into account. She underlined the importance of this particularly in the FinTech context. She said about 40% of the FinTech activity in the UK relates to payment.

Mary Starks explained that the FCA is currently seeing innovation in peer-to-peer lending, crowd funding, retail foreign exchange, banking using mobile and other channels, payments, block chain technology, support services in terms of credit scoring and verifying identity. Some technologies are disruptive. She explained that there are a lot of businesses who are geared towards people who have recently arrived in the UK. A firm called Air she continued, is gathering a range of data to create a proxy UK credit record so that these people can get a mortgage or a credit card without having lived in the UK long enough to perform these operations. Another theme she mentioned was about easier payments which have really got a lot of potential to change the way that money is given to charities, schools etc. Another theme she mentioned was about building the technology needed to run a bank and sell it off the shelf to anyone who wants to start a bank. She said, there has been some progress on that in the US but they are still waiting to see it take off in the UK.

Mary Starks believes that FinTech in the UK is mainly in the business of keeping traditional financial services on its toes, rather than posing a sort of real existential threat. It still operates on quite a small scale relative to traditional banking. She also pointed out that none of the recent developments that were discussed at the hearing really threatens to displace the core economic activity of big banks, which is borrowing short and lending long.

The **Chairman** thanked her and announced two interventions by the delegations of the EU and Canada. He then invited the delegate from the **European Union** to make a presentation on payment services.

The delegate from the **European Union** pointed out three reasons why Internet payments matter. The first reason is that this is an area where real disruptive innovation in the EU is taking place in terms of technology, business models and its impact on the markets. The second reason is that there are repeated and strong efforts by the incumbents, i.e. the banks, to stop this innovation, and that thirdly this is an area where the EU has worked extensively using their competition and regulatory powers to establish a level playing field, particularly in terms of security. He also underlined that easy, cheap and secure Internet payments are essential for the digital single EU market.

Among the means of Internet payments, the delegate from the **European Union** started with the credit cards. He said although widely used in the EU, credit cards are cumbersome (fees for merchants are around 1.5%-2.5%), and highly insecure. PayPal which is relatively secure is another alternative. However it is more expensive to merchants and not widespread in the EU.

The delegate from **European Union** continued with another alternative, credit transfers. Although they are cheap, secure and free (no fee for the payer or the merchant), credit transfers have two major problems. The first one is that it is cumbersome; you have to fill in a payment order with an IBAN, the account number of the merchant, your account number, the address, the amount, the reference for the underlying transaction. The second problem is that in most countries in the EU, with the notable exception of the UK, it is slow. For the euro area countries it is normally next day settlement. Therefore, he said, they have seen the development of a new service called 'payment initiation service providers' (from here on PIS). In order to make a payment with this new technology, you are directed from the merchant website to the PIS website. Most of the payment order is then completed automatically by the PIS (merchant's IBAN number, the amount, any references etc.) You just have to fill in your own IBAN number and the authorisation code that you get from your bank.

The delegate from the **European Union** explained that while some PIS are bank-related, others are bank independent and that The European Payments Council (from here on EPC) regroups most of the major banks that are active in the payments market. The aim was to allow the PIS to work together under an e-payments framework. Then, the EU received an informal complaint from a bank-independent PIS saying that the proposed e-payments framework may exclude them from the market. The EU opened proceedings in 2011 and worked with the EPC to try to resolve it through commitments. The key discussion focused on the banks' desire to have contracts with PIS in order to let them work with their own customers. The EU thinks that banks are not providing any service and there are no increased costs from the presence of these PISs. The EU also thinks that this would de facto allow the banks to select their competitors and to exclude anyone with whom they do not want to compete. In the end, the EPC stopped its work on the framework, and the EU closed its proceedings in 2013.

In July 2013, the EU forwarded its proposals to change the Payments Services Directive. The main change that the European Commission proposed was to increase the level of security for Internet payments, and secondly to provide a level playing field to PIS. The European Commission also called for dynamic authentication and the identification of the PIS as payment institutions, meaning that they are supervised by banking supervisors and they have many of the same rights and obligations as legal banks, but in a simplified form.

The Payment Services Directive was expected to enter into force in December 2015. Provisions on authentication would enter into force in June 2019. The delegate from the **European Union** also mentioned that interchange fee regulation which will impose caps of 0.2% and 0.3% for interchange fees will have an important effect, because it will reduce significantly the banks incentives to block PIS.

The delegate from the **European Union** concluded his presentation by stressing that the EU will continue to monitor the action of banks hindering the development of PIS. He said that although the banks may believe that there is possibly a public interest in excluding some new entrants, this is not a role for banks but a role for the public authorities.

The **Chairman** thanked the delegate from **European Union** and asked whether the date he mentioned is the approval or entering into force date for payments service directive.

The delegate from the **European Union** explained that political agreement was reached in May, 2015. It is expected that it will be published and enter into force as a directive in December. There will be a 2-year transitional period for most elements, and there will be an additional 18 months for the key elements about PIS.

The **Chairman** thanked and invited the delegate from Canada to take the floor. The **Canadian** delegate described the recent submission of Competition Bureau to the Canadian Department of Finance concerning the payment systems in Canada. The Bureau submission had a particular emphasis on new products coming to the market. The Bureau's submission touched on three issues in particular. One, consumers should be able to easily switch between different payment services and methods. This will encourage firms to compete on price and quality. Two, the Bureau would not hesitate to take action against anticompetitive abuses. And third, companies should be able to participate in pro-competitive collaborations.

In order to show the pro-competitive outcomes of the collaborations, the delegate from **Canada** discussed the Interac case. Interac is a national payment network that was founded in 1984 by some of Canada's largest financial institutions. The Interac network is the foundation of the debit card system in **Canada**. The Canadian financial institutions helped the network to establish common standards which enabled interoperability. However, the delegate from Canada continued, the structure of the network was such that safeguards were needed to prevent abuse of dominance by the members. To this end, the competition tribunal following an application by the bureau issued a consent order in 1996 to ensure that other firms could use the network. The consent order later became a consent agreement and ensured open access to the Interac network by relaxing membership restrictions. The consent agreement has been amended more recently to ensure the system keep up with changing market conditions by relaxing rules regarding Interac's governance and business structure. The delegate from **Canada** also underlined that the Interac example shows how collaborating can lead to pro-competitive outcomes and how important it is to ensure that risks of anticompetitive collaborations are recognised early to ensure that they are not used to limit competition.

The **Chairman** thanked the delegate from **Canada** and opened the floor for questions. Sean Ennis from the **OECD Secretariat** noted that the UK had given a statutory responsibility for promoting competition to its financial regulator. He said this may have a relation with the fact that the volume of alternative finance per capita in the UK is more than twice as large as in any other European country.

The **Chairman** added that not every financial service regulator has the mandate to promote competition and said that if the issues could be addressed in the same way, similar developments may take place in other countries as well. The Chairman gave the floor to the delegate from the Netherlands.

The delegate from **Netherlands** noted that they conducted a study on the entry barriers in the banking market, and as a result of this study, the Ministry of Finance ordered a second study about the regulations for small banks. This study has also led to recommendations for a license which would allow smaller banks to enter to the market under less vigorous obligations. He said, very small banks have exactly the same IT system requirements as the big banks. He also added that competition in the banking system is lacking in Netherland, there are only three big banks and foreign banks all left the Netherlands. He also mentioned the debate on crowd-funding regulation in the Netherlands and said that it is important to distinguish what should be done and what should not be done with regulations to avoid restrictions on innovation.

The **Chairman** agreed with the remarks of the delegate from Netherlands on the necessity of having a pro-competitive agenda in the regulatory process in these markets. He gave the example of Italy where crowd-funding legislation has been passed. In the legislation he continued, there is a provision saying that whenever crowd-funding is used, 5% of the equity that is being sold should be sold to investors – to banks or to incubators – and that provision is making crowd-funding as expensive as the regular equity funding financing. He concluded that even a legislation promoting new developments may also create less competitive markets for safety reasons.

The delegate from the **UK** intervened again to follow up on Sean Ennis's observations. He explained that in the UK FCA was given the competition objectives long after the other sector regulators received them. That is, competition has always been embedded in sector regulator's objectives. In the financial markets, he said, the concern was initially about financial stability. However, there is a growing understanding that one can pursue both financial stability and being competitive. He added that these objectives being embedded in sector regulators make their task as the competition regulator easier and more effective.

The **Chairman** made closing remarks. He noted that this is an area subject to quite impressive innovation and things are changing quite rapidly. Therefore the issue of how regulation can enable or restrict such innovation should be kept in mind and could well be addressed in the future when appropriate.