



## Santiago Fernández de Lis

Head of Regulation, Banco Bilbao Vizcaya Argentaria (BBVA)

# Competition and innovation in a changing world: a key role for public policy

The steady evolution of financial services can make it easy to forget that the sector has always been shaped by the adoption of new technology. The information and communication innovations of the 20th century brought waves of digitalization: the move from paper to electronic records, credit cards, ATMs, electronic trading, and eventually wider access to internet banking at the turn of the millennium.

But the latest changes in technology have spread more quickly than those before and have transformed more rapidly the economic and social landscape. In the space of little more than a decade some 3 billion people have acquired a smartphone and always-on internet access.

One of the most striking consequences has been the supercharged growth of a new digital platform economy, with the breaking and rebuilding of value chains across almost every industry. And much of the new value has come from being able to capture, analyse and put to use the data generated by the huge increase in digital interactions.

According to an often used metaphor data is the new oil. The metaphor is misguided (among other differences oil is scarce and data grow exponentially), but in any case, data is at the heart of the digital economy and its use - and reuse - will continue to be central to innovation and value creation across industries.

The good news for the financial sector is that new digital channels, data sources and analytical techniques can offer an opportunity to better reach customers and improve services. A more complete picture of customers' needs and behaviours could allow for personalised products and more holistic financial advice. The right datasets could allow credit risk models to be refined, offering the possibility of expanding credit to underserved customers like SMEs, or the development of new green financial products, aimed at helping customers with their transition to a more sustainable economy.

However, to deliver this, firms face the challenge of a new, uneven digital playing field. One where customer relationships are shaped by and channeled through dominant platforms and ecosystems, and where useful data is not always able to flow to where it can deliver the most value for customers.

Public policy has a clear role to play here. And the European Commission has recognised this, with its digital and data strategies and AI white paper published in February 2020 forming key pillars of its support for Europe's digital transformation. The execution of this strategy is now key.

First, the Commission should take robust action to safeguard future digital competition and innovation, with new ex ante rules for significant digital platforms. This should include guaranteeing fair terms of access for other firms, including to hardware functionality, and greater control for users over their data. Individuals and firms should be able to share their platform data easily, securely, in real-time and on a recurrent basis with whom they wish. This would reduce lock-in effects and facilitate data reuse in other sectors.

Second, the Commission should apply this sharing principle to other valuable personal data such as data from utilities and smart home devices, by implementing its proposal for enhanced personal data portability in the forthcoming Data Act.

PSD2 has enabled this kind of sharing in the financial sector for payments data. And although it is still bedding in, it offers a useful lesson: standardised, dedicated interfaces, such as APIs, are key to secure and effective sharing.

Finally, the EU should focus on supporting the development of AI applications in Europe, as it is essential to a competitive economy. The EU regulatory framework is already comprehensive. Authorities should therefore avoid the risk of over-regulation and concentrate on solving concrete problems, such as clarifying how to meet existing requirements and supervisory expectations on unfair discrimination, explainability and interpretability.

The European financial sector will continue to build on a long history of innovation and adapting to change to deliver value for its customers. The right policy measures now can help to ensure that this is a success. ●