

Financial Gatekeepers and Competition

Lessons from “Big Tech”

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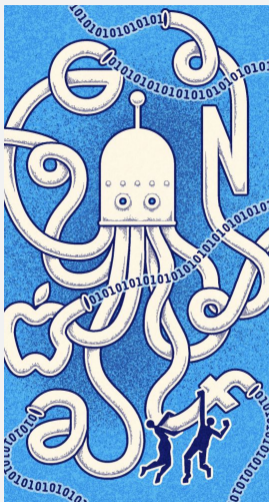
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Rebooting UK Financial Regulation for a Post-Brexit World Conference



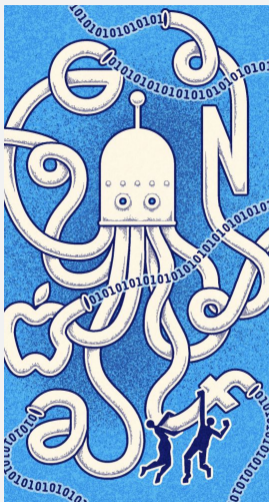
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Matt Kenyon/FT, 2018

- ▶ Technology is reaching ever-deeper into every aspect of life.
 - ▶ Driving many aspects of the policy agenda.
 - ▶ ‘Disrupting’ traditional sectors of the economy.
 - ▶ Enabling new classes of product or service.

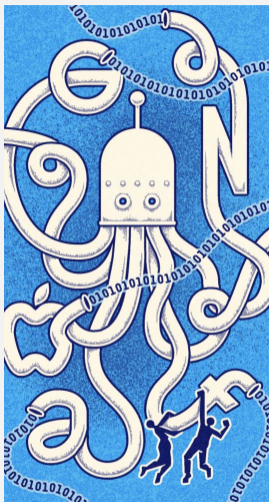
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 - ▶ Intermediated products and services.
- ▶ Whether entry by tech firms or adoption of ‘tech-style’ business models by traditional finance firms:
 - ▶ regulation in this space is a moving target,
 - ▶ lessons to be learned from two decades of ‘big tech’ policy,
 - ▶ likely need for coordination between emerging tech and finance policy agendas.

Plan

1. Some of the major economic forces at work in tech markets.
2. Implications of these forces for market outcomes and policy, likely to spill-over into finance.
3. Direction of travel in the broader landscape of industrial policy.

Force 1: network effects

A product or service is said to exhibit **network effects** if it becomes more valuable to end-users when more people use it.

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Some regulatory implications:

- ▶ “Natural monopoly” products and link to competition.
- ▶ “Better to ask forgiveness” strategies.
- ▶ (In)compatibility strategies and open standards.
- ▶ If market tips to a foreign firm, jurisdictional and geopolitical issues.

Force 2: platformisation

A **two-sided platform** is a kind of intermediary that enables *direct* interactions between two distinct groups.

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- ▶ Cross-subsidisation to solve the chicken-and-egg problem.

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Some regulatory implications:

- ▶ traditional business models disrupted by platform strategies that bring all the baggage of network effects.
- ▶ platformisation of a service fragments traditional targets for regulation.
- ▶ assignment of responsibility/liability.
- ▶ platforms act as rule-makers and the problem of governing the governors.
- ▶ platforms acting as both umpire and player.

Force 3: data and personalisation

Tech and financial markets share the features (i) **data** plays an important role, (ii) product offerings are often **personalised** based on that data.

- ▶ Implications for consumers are ambiguous: can lead to better products or enhanced extraction (“exploitation”).
- ▶ Data can create network effects, with attendant issues.
- ▶ Can create economies of scope and conglomerate effects.

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Some regulatory implications:

- ▶ Transactions involve the exchange of *data* as well as money and services. Link across data protection and consumer protection regulation.
- ▶ Data use and personalisation often conducted by algorithms. Raises issues including responsibility, transparency / auditability, collusion.
- ▶ Hyper-personalisation can make exploitative practices / discrimination harder to detect.

Force 4: attention economics

The online marketplace is in many ways a **market for attention and information**.

- ▶ Gatekeepers (often platforms) play a key role in directing attention.
- ▶ In complicated, multi-dimensional decision problems, important question of which information is salient.

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Some regulatory implications:

- ▶ Bias and disclosure/neutrality obligations.
- ▶ “Hollowing out”.
- ▶ Obfuscation/shrouding.
- ▶ Special role for regulators in protecting “disengaged” consumers.
- ▶ Consumers have access to new sources of information (discussion forums, blogs, foreign media) that are harder to regulate.

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Some regulatory implications:

- ▶ Manipulation of these systems (e.g., fake reviews).
- ▶ Reputational lock-in.
- ▶ Decentralised fragmentation of systems without trusted third-parties.

The future

What does the future landscape for tech policy look like? Competition policy offers some clues:

1. New issues that we need to learn to recognise and incorporate into existing short-run policy practice.
2. New phenomena that need to be understood and may require extension of the short-run policy paradigm.
3. Tech-specific issues in need of long-run regulation.
 - ▶ Well-targeted interventions.
 - ▶ Protect the good as well as regulating the bad.
 - ▶ Ensure that success is rewarded and innovation possible.
4. Tech issues are becoming whole-economy issues, with common themes that spillover across regulators.
 - ▶ Liability norms.
 - ▶ Fiduciary obligations.
 - ▶ Regulation of network natural monopolies.