

Autoriteit  
Consument & Markt



# FinTech and Foreclosure in Payments

Michiel van Leuvensteijn

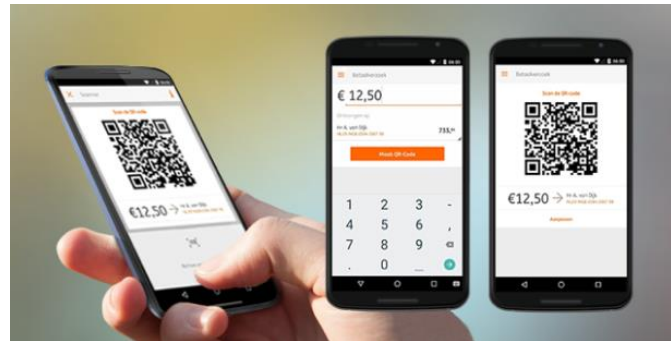
Monitor Financial Sector – 28 February 2018

# Objective of this paper:

- What are the risks of foreclosure by banks of FinTechs in the payment industry?
- Which instruments are available to limit risk of foreclosure?
- Relevance: FinTech may change competition in payments industry.
- Payments important area for FinTechs and new regulation (PSD2) is introduced.

# How do you pay?

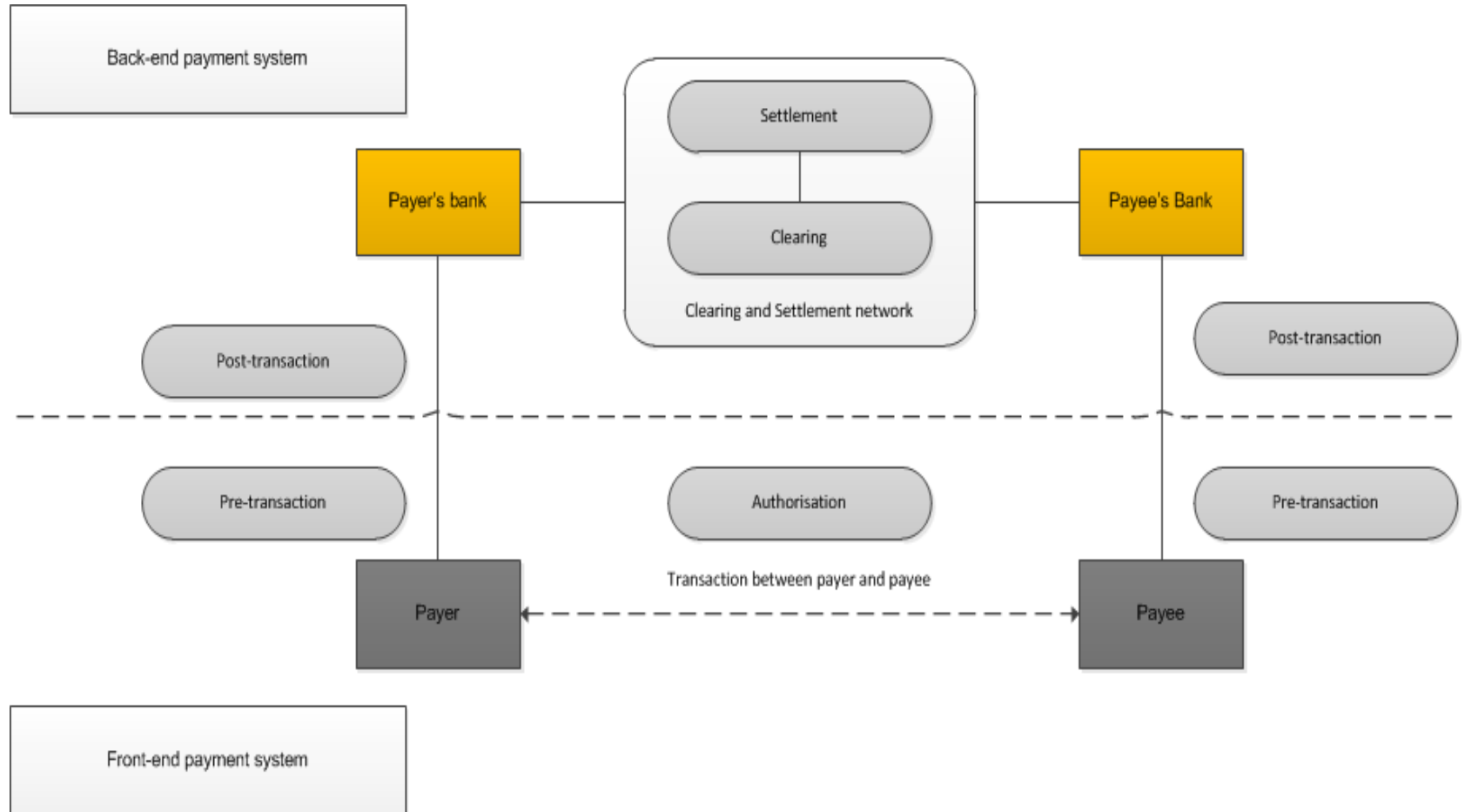
Over the counter (shop)



Online



# The payment system in a nutshell:

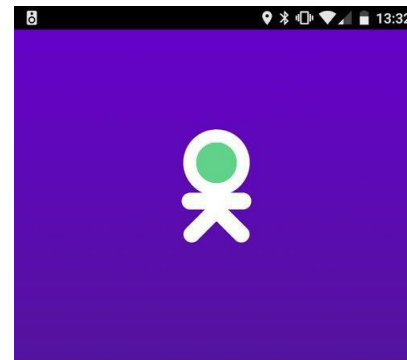
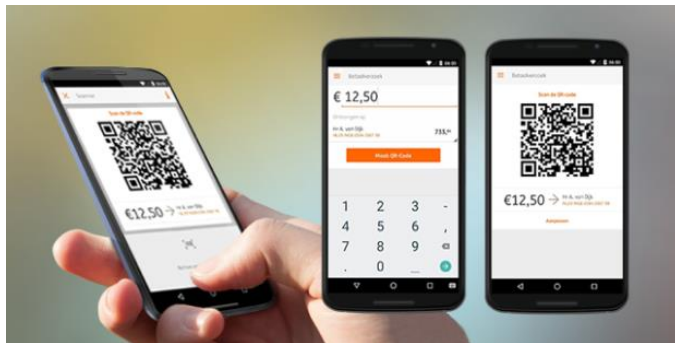
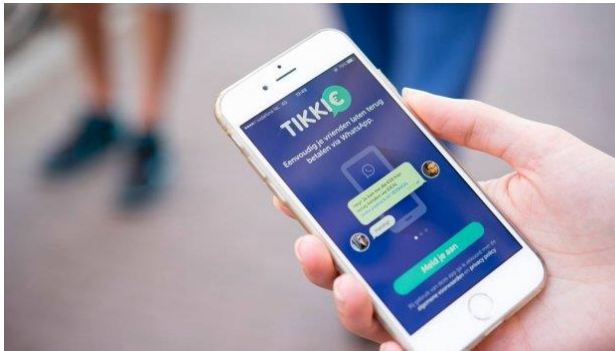


# Some FinTechs more important...

- Front-end and end-to-end providers offer new and better products and services to end-users (clients)
- Back-end providers and operators provide mainly efficiency gains for banks
- Innovation and competition is driven from the outside:
- Focus therefore on:
  - Front-end providers
  - End-to-end providers

# Front-end providers

- For example : payment apps (OK!), or digital housekeeping book.



## OK IS MOBIEL

Voor gebruik van de OK-app hebben we je mobiele nummer nodig.

 +31 Mobiel nummer

Stuur verificatie-SMS

## End-to-end providers

**PayPal**<sup>®</sup>



**Klarna**<sup>™</sup>

**AfterPay**<sup>®</sup>

Betalen doe je achteraf.

# When is there a risk of foreclosure

- Market power in the upstream market
- Potential Competitor:
  - upstream,
  - downstream,
  - or related markets.
- Incentive for foreclosure?
  - No reason because of complementarity
  - One-monopoly-profit argument relevant
  - Incomplete complementarity
  - Price discrimination
  - Regulation



# Application: Front-end providers

- Crucial input: information of payment accounts of clients
- Banks have market power in the upstream market, because they possess unique information of client
- Yes, FinTechs are competitors
- Incentive for foreclosure?
  - Services often complementary to bank
  - But it may diminish competition in the upstream market in the future.
  - Contact with customers is important for banks. (information)

# Application: Front-end providers

- Instruments:
  - Competition law article 6 and 24
  - PSD2: Access to account
- Role for ACM: Competition Law

# Recommendations front-end Fintechs

- Define the conditions under which access must be provided more precisely (DNB).
- The European Commission allows banks to receive compensation amounting to a maximum of the efficient costs.
- The government should introduce a banking license 'light' for fintechs, which would give fintechs the possibility of offering their own payment accounts.

# Application: End-to-end providers

- Crucial input: -access to payment systems (clearing and settlement)
  - Direct access to clearing and settlement => you need a bank license,
  - Indirect access: Payment account for businesses provided by bank.
- Banks have no market power in the upstream market for payment account for businesses.
- Probability that banks collude together seen as unlikely.
- So we do not foresee a foreclosure problem here.

# Application: End-to-end providers

- But we have instruments:
  - PSD2:
    - banks are required to provide payment accounts to Third party providers,
    - non-discriminatory conditions between client and third party.
  - Competition Law
- Role of ACM: Monitoring situation.

# Recommendations end-to-end providers

- Introduce a banking license ‘light’ for fintechs, which will give fintechs the possibility of gaining direct access to clearing and settlement systems.
- The definition of objectified criteria for access that match the risks arising from the activities performed by these institutions.
- Safeguard that, in the development of instant payments infrastructures in Europe, fintechs will be able to participate directly in the systems for clearing and settlement on equal and objective conditions.

# Conclusions:

- Foreclosure more likely for front-end providers than for end-to-end providers.
- Main instrument for the ACM is the Competition Law.