OPINION

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Data Sharing through MyData Services: Implications for Big Techs' Fair Competition

With the launch of MyData in January 2022, Korea is expected to see the financial platform market serving as an intermediary between financial institutions and consumers growing further. This would trigger fierce competition for the market among big techs, fintechs and financial institutions. The adoption of open banking by the EU and UK was primarily driven by their policy goal of spurring competition for financial innovation. The open banking system aims to allow fintechs or big techs to gain access to consumer data held by financial institutions once a consumer gives consent. This has enabled many fintech startups to make a foray into the financial services industry by offering distinctive services underpinned by consumer financial data. However, some researchers have raised concerns that the current open banking regime could undermine its goal of encouraging competition because it also enables big techs that have already retained big data to benefit from data sharing by financial institutions. Open banking should play a crucial role in fostering competition for financial innovation and giving financial consumers a wider range of choices. To this end, it is worth considering devising a policy measure to require big techs to open up their data based on the principle of reciprocity.

With the launch of the MyData service by the Korean government in January 2022, a wide range of service providers including financial institutions, big techs, fintechs, telecommunications companies and mobile phone manufacturers have begun to offer the service. As intermediary platforms for tailored financial services based on customer financial data, MyData service providers could bring about substantial benefits such as lower transaction costs and improved convenience to financial consumers through innovative services. This

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means a competitive market that spurs innovation of financial intermediary platforms plays a critical role in increasing the benefits of consumers. Against this backdrop, this article intends to explore how to create a competitive market for MyData service providers by analyzing open banking's data sharing policy.

MyData service: growth and prospects

In January 2022, a total of 28 firms—including traditional financial institutions involved in banking, insurance and credit card sectors, big techs and fintechs—were approved as MyData service providers by the Korean government. They could have access to consumer financial transaction data scattered over multiple financial institutions if consumers give them consent to do so. These firms would act as an intermediary between financial institutions and consumers by offering asset planning services or recommending products based on financial data analytics. The number of government-approved MyData service providers reaches 59 as of October 2022, which has more than doubled in just nine months.[1)] Given that 29 business entities are currently waiting for approval, the number is likely to increase rapidly going forward. MyData subscriber count as of April 2022—three months after its official launch—reaches 25,960,000. By business sector, the fintech sector, rather than the banking sector, has garnered the largest subscriber base. Specifically, big techs and fintechs have the highest subscriber number of 11,010,000, with 7,210,000 for banks and savings banks and 6,530,000 for credit card and lending companies.[2)] Considering the number of current subscribers and participating institutions, the platform market intermediating between financial firms and consumers is expected to thrive further, for which big techs, fintechs and financial services firms would engage in fierce competition.

Background of the EU and UK's open banking adoption

The open banking system initially adopted by the EU and UK has been brought into many countries including Australia, Japan and Korea. As is the case with other countries, Korea has based its open banking regime MyData on the system used by the EU and UK. Open banking

1) See the website of the Credit Information Companies Association.

2) The Dong-A Ilbo, April 27, 2022, MyData serving as a financial assistant at hand has secured 26 million subscribers in just three months.

aims to allow third-party providers (TPPs)—fintechs and big techs—to access consumer transaction data held by financial institutions once consumers give consent to such access, by requiring them to provide standardized open application programming interfaces (APIs).

The adoption of open banking by the EU and UK was primarily driven by their policy goal of fostering competition for financial innovation. Since their first appearance in the marketplace around the 2010s, fintech startups have launched customized services for asset management and financial product comparison which are underpinned by big data analysis techniques, AI and machine learning, with the focus on reducing transaction costs and enhancing convenience for financial consumers. Policy makers had high expectations for such services to spur competition and innovation in retail banking. Despite innovative services, however, fintech startups faced difficulties in entering the market because they were unable to get their hands on consumer transaction data held by financial institutions. As sharing of such data may lead to intensifying competition and loss of profits, there were few incentives to accept fintechs' request for access to data. Against this backdrop, policy makers decided to design a regulatory system to ensure fintechs' access to financial data, rather than leaving it to the market.

The CMA's 2016 Retail Banking Market Investigation[3)] that has influenced the UK's open banking system points out consumers' strong adherence to financial institutions they have been dealing with. The report has found that financial consumers have trouble switching financial firms, partly driven by the non-portability of transaction data. Financial institutions have earned excess profits from higher fees by leveraging such non-portable data. Accordingly, the UK financial authorities intended to boost competition in the retail financial sector through open banking designed to grant consumers the data portability right.

Academic discussions about big techs' data superiority driven by open banking

Once a consumer gives consent, the open banking allows fintechs or big techs to gain access to consumer transaction data held by financial institutions. This has enabled many fintech startups to advance into the financial services industry by offering distinctive services underpinned by consumer data. However, some researchers have raised a concern that the current open banking regime could undermine its goal of encouraging competition because

3) CMA, 2016, *Retail Banking Market Investigation*.

open banking also enables big techs with big data to benefit from data sharing by financial firms.

De la Mano and Padilla (2018)[4] suggest that with information superiority driven by open banking, big techs are highly likely to monopolize the lending platform market, thereby expanding non-performing loans and threatening financial stability. Big techs would assume no responsibility for non-performing loans because unlike banks, they only intermediate loans through their platforms. For this reason, the researchers expect big techs to focus more on quantity than quality in their loan business. It is also notable that big techs are incentivized to excessively increase loans as a way of profiting from e-commerce or acquiring customer information for advertising, which they think could lead to a deterioration in the quality of loans. They also express concerns that if big techs take up a greater share of the loan market, banks could put priority on the quantitative growth of loans, rather than qualitative improvement, due to competitive pressure from big techs. De la Mano and Padilla underscore the need for big techs' data sharing to alleviate the risk of their monopolization in intermediary platforms for retail banking.

Di Porto and Ghidini (2015)[5] criticize the current open banking practice that favors big techs and assert the need for data reciprocity as follows. First, financial services firms would increase their investment in data analysis once they have access to consumer behavior data, as is the case with big techs. Second, if these firms are given data by big techs, they would be rewarded for their consumer data sharing. Third, if big techs gain the upper hand in retail banking by using data provided by financial institutions, their competitive advantage would be the result of open banking's favorable treatment, not their own financial innovation.

Both De la Mano and Padilla (2018) and Di Porto and Ghidini (2019) presume that big techs would gain a competitive edge over banks from open banking's data sharing. But big techs' entry into the financial sector is in its early stage and there is no empirical evidence about their penetration into retail banking. For these reasons, Borgogno and Colangelo (2021)[6] argue that ex-ante regulation of big techs is hardly justifiable and could limit competition in the financial

4) De la Mano, M., Padilla, J., 2018, Big tech banking, *Journal of Competition Law and Economics* 4(4), 494-526.

5) Di Porto, F., Ghidini, G., 2020, "I access your data, you access mine"; Requiring data reciprocity in payment services, *IIC-International Review of Intellectual Property and Competition Law* 51(3), 307-329.

6) Colangelo, G., Borgogno, O., 2021, Open banking and the ambiguous competitive effects of data portability, *Competition Policy International, Antitrust Chronicle*, April.

services industry. The researchers also assert that banks, rather than big techs, are likely to play a gatekeeper role in retail banking as they have formed a longstanding relationship with customers and gained their trust and loyalty. Furthermore, fintech startups are working alongside incumbent banks, which could contribute to boosting large banks' competitiveness. Hence, if ex-ante regulatory measures targeting big techs remove competitive pressure for traditional banks, the current oligopoly of large banks would be solidified going forward. In this respect, the researchers find it desirable to monitor how open banking changes the market's competition structure before devising policy measures to regulate big techs.

Policy direction for MyData data sharing

Korea's MyData service centers around financial policies for data sovereignty, higher financial inclusion and financial innovation.[7] As stated above, however, it could have a significant impact on competition in the financial services industry, depending on its data sharing mechanism. Notably, consumer data held by big techs could serve as valuable resources for financial firms or fintechs to enhance their financial services. Exclusive use of such data by big techs may be undesirable in that it could undermine the level playing field for fair competition and financial innovation. Another purpose of big techs' data sharing is to grant the data portability right to consumers, which serves as an essential driver of competition in the retail financial sector In this sense, it is worth considering an open banking policy ensuring that big techs open up their data based on the principle of reciprocity.

7) Financial Services Commission, January 5, 2022, Financial data spread over multiple financial institutions could be managed safely, quickly and conveniently starting from this year, press release.