

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS  
COMPETITION COMMITTEE****Digital Disruption in Financial Markets – Note by Sweden****5 June 2019**

This document reproduces a written contribution from Sweden submitted for Item 5 of the 131st OECD Competition committee meeting on 5-7 June 2019.

More documents related to this discussion can be found at

<http://www.oecd.org/daf/competition/digital-disruption-in-financial-markets.htm>

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**JT03447261**

## Sweden

### 1. Introduction

1. Digitalisation is changing the behaviour of firms and consumers. The development of smartphones and internet access has contributed to a technological progress in many fields, including mobile communications, security protocols and the use of data to develop and offer new services. At the same time, existing products and services are provided in new ways and markets and to new consumers.
2. There are a number of firms which are specialised in developing new services and products that incumbent banks have not been offering their customers. FinTech companies are simplifying what has previously been considered difficult, expensive or boring, enabling everyone to access the product or service that best suits themselves.
3. In Sweden, the Fintech industry consists of a variety of different services offered by both new market entrants and established actors. There are some thresholds to overcome when establishing a new Fintech enterprise in Sweden. The main obstacle of entering the financial market and competing against the traditional banks, is the issue of not actually being one of the big traditional banks. The big incumbent banks in Sweden jointly own important infrastructure needed to compete against them. Access to necessary infrastructure enables the incumbents to control entry in some financial markets.
4. Consumers today are more or less fully mobile, at least in a potential sense with the functionality of smartphones and other home and mobile electronics. Consumers have options available to easily compare and switch providers of banking services, and competition should be intense to attract new customers. Even though banking services are now available on demand, a study that the Swedish Competition Authority (SCA) has carried out, shows that bank customers are still not prone to switch to a competing bank, even though they are not particularly satisfied with their current bank.
5. One aspect of FinTech's potential is to simplify what is widely considered cumbersome, such as switching customer's engagement in one bank to another. With an introduction of a service which compares different offers of financial services, the barrier to switch banks might become lower.
6. As the FinTech and the so-called BigTech industries are still fairly young, at least in a historical sense, many of the markets are still considered experimental, especially crowdfunding and the sharing economy. The financial industry has been overwhelmed by new services, e.g. new payment systems, niche banking services, crowdfunding platforms and comparison applications for credits, insurance and loans.
7. The disruptive nature of FinTech might change the way markets in the finance industry works and influence the rules by which actors behave. This in turn might change how consumers use traditional banking and financial services, creating pressure on the incumbents, if they are not able to adapt to the demand for the niche and specialised nature of FinTech services and products.

## 2. The development of Fintech in Sweden

8. Sweden has been fast to adapt new technology in the financial sector and one could argue that FinTech has emerged through the digitalisation of the incumbent banks and the technical development in mobile communication. Innovations in many fields have led to the current situation, allowing both incumbent banks and market entrants to offer new and improved financial services and products to consumers.

9. FinTech companies in Sweden offer services which range from platforms for crowdfunding, sharing economy, peer-to-peer lending to payment services and services comparing loans, insurance and food prices etc. The line between what defines a FinTech company and what separates it from being a bank, a tech company, a social network or a retail company is ambiguous as financial services can be offered in many different ways. Big technology companies are also more often branched into the FinTech industry by developing and offering their own payment and finance services to consumers.

10. The FinTech industry provides consumers with new tools to compare services and highlight ways in which savings in loans or consumer credits can be possible when switching banks or payment provider. However, the rate of which consumers switch banks in Sweden is still fairly low. Consumers tend to prefer to have their entire financial engagement in one bank, probably because it is convenient and they believe it is costly or cumbersome to switch to another provider of banking services.

11. If innovations in financial technology are considered disruptive to traditional business operations, there are always risks that incumbents see the market entrants as threats. As owners and operators of fundamental financial infrastructure in Sweden, the banks may start acting as gatekeepers to limit entry or hinder growth of firms that pose a threat to their profitability.

12. There will probably be many FinTech applications that will change the way consumers and firms act, and interact with each other and the line between what is considered Fintech, BigTech or traditional financial services will become more ambiguous. The use of various innovations and platforms will probably create new financial products and services. How this will affect competition is difficult to predict.

## 3. Swedish banks

13. The incumbent banks in Sweden have in some areas cooperated in developing and operating financial infrastructure that is essential to many FinTech firms. Systems for electronic identification (Bank-ID) and a mobile application for electronic cash transfers between both consumers and firms (Swish) are some examples. These systems are so far the main systems available for their respective services in Sweden and therefore it would be difficult for alternative providers to compete as they are provided to consumers at no cost.

14. The big Swedish banks have a high rate of return on equity, about the double of the weighted average of large European banks.<sup>1</sup> The high profitability can be explained by low costs and a high quality credit stock. The Swedish banks have similar or lower net interest rate margins than the weighted average of similar Nordic or European banks, but the

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<sup>1</sup> Fi:s Bankometern 2019:1

profitability is higher. This high level of profitability should fuel competition, incentivise market entry, and incentivise banks to offer more attractive offers to consumers.

15. However, this is only true to some extent, at least in Sweden, where some entry into the financial industry has occurred over the past years, mainly in niche segments such as consumer loans and payment services that directly compete with the traditional banking products. Another area where entry could be expected, is in loans for housing, but the market shares are shifting slowly and only limited entry is observed.

16. The big incumbent banks in Sweden are traditionally the main operator of bank branches offering services for consumers to e.g. pay bills, deposit or take out funds and apply for loans. This is however rapidly changing as most of the traditional services are handled online by the consumers themselves. This in turn leads to less demand for physical bank branches as consumers prefer to handle their banking needs through smartphone applications or personal computers. Those consumers that still want to visit the bank are facing an increasing scarcity of bank branches in Sweden, especially the ones that handle cash.

17. The big banks are typically the ones with local branches, and as they are often considered essential to systematic financial stability, these banks are expected to offer traditional services, nationwide, but they are also facing competition from actors that do not have nearly the same costs for staff or branch infrastructure. In a near future, there could potentially be a true shift in how consumers use personal banking services, and then the competitive landscape may rapidly change.

18. Regulation in the financial industry is often derived from structures that have been formed from experience of times of financial instability or crisis affecting the integrity and stability of financial markets. FinTech market presence is in many ways still in an experimental stage, and it is hard to predict its impact on for example financial stability.

#### 4. Barriers to entry

19. Sweden is a technology intense country with high penetration rate of mobile technologies, and high levels of trust in banks and the Government. This should be a perfect foundation for innovation in the Fintech industry, and to a certain extent it is.

20. Some concerns have been raised about the de facto standard for electronic identification in Sweden, Bank-ID, being jointly owned and operated by the big incumbent banks. There is no viable alternative for electronic identification in Sweden and the Bank-ID system is used even by the public authorities' online services. Another system which is owned and run jointly by the big incumbent banks is the system for instant mobile cash payments, called Swish. Swish is widely used both for consumer-to-consumer payments, and consumer-to-business payments.

21. Access to both these systems are in many ways fundamental for establishing Fintech companies in Sweden as they are the only alternatives for electronic identification and instant mobile cash payments.

22. Market power in the financial industry is ambiguous and might not always correlate with market shares. The main incumbent banks in Sweden are not in excess of more than about 20 percent market share each. But as they have stable positions, and jointly hold about three quarters of total consumers' engagements in banks, market power is often implied. Banks in Sweden have the means and incentives to keep innovative and

competitive Fintech-entrants as far away from consumers as possible to maintain the market power and market shares. At the same time the incumbents need to adapt to meet the demand for innovative solutions.

23. As of today, no issues or complaints have led to any investigatory actions by the SCA, but occasionally there are complaints and raised concerns by market actors.

## 5. Regulatory changes that affect competition

24. One area that might become an interesting focus area is how the implementation of the 2<sup>nd</sup> directive of payment services (PSD2) will affect the market and actors ability to offer new services in Sweden, and the rest of the EU. To the best of the SCA's knowledge, only a few mainstream services directed to consumers are available, and they are mainly focused on structuring private economy, helping to understand streams of income, costs, subscriptions, insurance by using structured data from banks.

25. The most known application of PSD2 in Sweden is a FinTech company which is partly owned by two of the big incumbent banks in Sweden. The application uses structured data from consumers' bank transactions by offering consumers a service that gives detailed consumption patterns and categories purchases over time, to help organise personal finances. The application also presents offers from loan and insurance providers with the purpose to save money for consumers. As the service is jointly owned by incumbent banks, the objectivity behind an advice might be questioned, as there could be owner interest in what products or services are suggested.

26. Truly independent applications of PSD2 are yet to be seen in Sweden to a degree where the market power of incumbents can be challenged. It is however too early to assess how the directive will affect FinTech, or banks, as the finalisation of the implementations is still proceeding.

## 6. Relevant future regulation in the financial industry

27. As the financial industry is undergoing transformation, it is very common with regulatory changes in the financial sector, which are being formed, implemented or reviewed by the Government or by the authorities responsible for the enforcement of the legislation.

28. There is always a trade-off between free markets and what is considered necessary market intervention to handle what might be either market failures or to ensure financial stability. In Sweden, most of the services provided in the financial sector are provided by private actors, as the Government has taken the position that the market should provide what is demanded by consumers. When balanced with proper regulation, this can be very efficient, but it can also create unwanted situations where unprofitable services are no longer supplied.

29. One such example in Sweden is the decrease in use of cash as means of payment. Cash has to a large extent been substituted with mobile payments, cards or other alternatives. In some industries in Sweden, cash is almost impossible to use as means of payment, for example in public transportation, parking lots and even in some cases at major departments stores. The decline of cash payments in Sweden has many reasons, but mainly consumers are not demanding cash anymore as the alternatives are cheap and easy to use,

and the cost of handling cash for stores is becoming more expensive as well as it poses a security concern to the employees.

30. Should the issuance of cash from the central bank no longer be widely available as a means of payment in Sweden, only private payment service alternatives would be available in Sweden. There are political ambitions in Sweden to maintain the possibility to use cash for payments. There is for example a parliamentary proposal for a regulation, which has wide political support in Sweden, forcing some of the largest banks to bear the responsibility and cost of ensuring the nationwide provision of cash in Sweden. The legislative process is still ongoing before a mandatory regulation can be adopted by the Parliament, ensuring the provision of cash.

31. Other areas which are under investigation for sector specific regulation are crowdfunding and peer-to-peer lending FinTech innovations. Crowdfunding is becoming more popular as consumer investments, and a public inquiry has formed a proposal to regulate these new forms of micro financing services. The SCA was represented in a reference group with the aim to ensure competition neutrality. The legislative process seems however to be delayed due to the European Commission's proposal for a directive to regulate crowdfunding and peer-to-peer lending services.

## 7. The SCA's experience in Fintech

32. The SCA's experience of antitrust in FinTech is fairly scarce and comprise mainly of a high profile case involving automated stock brokering services. The case is still pending at the Patent and Market Court of Appeal.

33. The SCA pursued a case where the Swedish stock market operator NASDAQ shut a competitor out of the server building of the stock exchange. The competitor was dependent on being in close proximity to the stock exchange servers, because of its operation of trading stocks using automated trade robots. The distance to the servers caused lag times in trade communication, lessening the efficiency and competitiveness of that company.

34. As the company was not allowed close access to the server halls of the stock exchange, they filed a complaint at the SCA. An investigation was opened in 2010 and in 2015 the SCA filed a lawsuit against the operator. In January 2018, the Patent and Market Court found that NASDAQ had a dominant position but did not consider it had abused its position. The judgment has been appealed to the Patent and Market Court of Appeal where the oral hearing took place in March, the final ruling is currently pending.

35. The SCA's report on *Competition in Sweden*<sup>2</sup> discuss new digital payment services and how the modern banking system is evolving. As the line between the platforms of for example sharing economy, FinTech, BigTech and traditional banking is becoming more blurry, the report concludes that dynamic regulations are essential.

36. Although it is not a SCA project but still relevant – the central bank of Sweden, the Riksbank, is currently evaluating the possible need to implement a digital currency to counter the decreasing demand for cash in Sweden. The project aims to prepare both the central bank, but also Sweden as a whole in the case of a situation where cash no longer is a viable means of payment in Sweden. There are many questions still under investigation,

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<sup>2</sup> Report 2018:1 (<http://www.konkurrensverket.se/publikationer/konkurrensen-i-sverige-2018/>)

e.g. how the so-called e-krona finally will be presented, used, or even accepted. The Riksbank however sees potential in a digital central bank currency as it may facilitate payment service operators outside of the infrastructure of the incumbent banks, to improve competition in the industry of payment services.

## 8. Conclusions of the FinTech experience in Sweden

37. Given the fast moving environment of FinTech, the main conclusion of this discussion about the digital disruptions of FinTech is that the nature of innovation is very dynamic and mouldable to the conditions that are set by market actors, regulators and other factors that form the frame for firms to act in.

38. As Sweden has a relatively small population, the cost of developing infrastructure is relatively high per potential user. Jointly developing, owning and operating central market infrastructure can be an efficient way to satisfy the need for well-functioning systems, rather than having parallel systems for every operator which could have both a costly and negative impact on user experience. If competitors collaborate, the risk of anti-competitive behaviour is present and therefore competition neutrality and access to essential systems is of highest priority to regulators and the SCA.

39. Entrants in the financial technology sector are subject of substantial entry barriers. The regulatory entry barriers are mainly there to protect consumers and create solid foundations for financial stability, and are, at least in Sweden, weighed and remitted to relevant parties to ensure that there are no unreasonable entry barriers and that they do not lead to unnecessary market failures.

40. Competition in the financial sector could, and should increase with Fintech providing new innovations that might disrupt existing business models and force incumbents to act and adapt. The size of incumbents can also act as a disadvantage when developing new innovative services and products as they typically cannot innovate and implement new services as quickly as specialised FinTech companies. However, the incumbents might have the means to hinder new innovative actors from entering markets by not allowing access to infrastructure.

41. The most important task for a regulator when assessing existing regulation and forming new regulation, is to keep in mind that the financial sector is changing to a somewhat more decentralised structure. The balance of financial stability, consumer protection and to incentivise entry and competition in the financial sector is complex and must be prioritised by regulators.

42. The availability of modern technology enables innovators to challenge the incumbents by offering better and more refined products and services. The incumbents in the financial industry may however be difficult to challenge, as the market power that can follow with network effects and large organisations, can result in small firms with objectively better services and products being disadvantaged when trying to reach a critical mass of users to reach sustainability.

43. The role of the regulator is to ensure reasonable access to infrastructure and structured data. The SCA has yet to fully investigate the effects of the FinTech entry in financial markets, and how it might disrupt traditional competition and market structures.