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Financial regulation and competition law & policy: fireside chat with regulators. A conversation with HKMA Deputy Chief Executive Arthur Yuen and Prof. K C Chan.

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Thank you for having me here today. There are few better places to have this discussion than Hong Kong, a highly competitive market economy, home to a vibrant financial centre. The topic of this fireside chat speaks to my experience as former central banker and financial regulator.

There are many common aspects to financial regulation and competition enforcement. Both are rooted in careful economic and legal analysis. Both focus on conduct by individual companies, but need to keep an eye on broader, economy-wide objectives, such as financial stability, innovation and sustainability. Both should stay away from elected politics while being mindful of societal priorities.

Tradeoffs may emerge between financial stability and competition that need to be carefully understood and managed. In my comments today, I will first discuss the relationship between central banks, financial service regulators and competition authorities. I will then focus on initiatives promoting competition and innovation in the financial services in Europe and in France, against the backdrop of Mario Draghi's report on European competitiveness. Finally, I will explain why big tech entering financial services make case for renewed cooperation between financial services regulators and competition authorities.

1. The relationship between central banks, financial service regulators, and competition authorities

Central bankers, financial regulators and competition authorities are strange bedfellows who have often been at odds with each other. To be fair, the relationship between financial stability and competition is a complex one. On the one hand, competition spurs efficiency and innovation, and empowers investors and depositors to decide where their money will be the most safely managed. On the other hand, it has long been argued that competition could harm the franchise value of financial institutions –a key ingredient of depositor trust, exacerbate the coordination problem of depositors/investors on the liability side, and increase risk taking. Indeed, a central pillar to competition is that it spurs firms being able to enter and exit, and unorderly exit of financial firms can trigger contagion and interrupt the provision of critical functions.[1]

In my view, the trade-off between competition and stability is compounded with central bankers' natural preference for ex-post efficiency (that is, retaining discretion to manage crises) over ex-ante incentives, while antitrust is the exact opposite: it is all about prevention and discipline, with few instruments to actually redress behaviour. When bondholder bail-in requirements were imposed in 2013 by the European Commission's competition arm to mitigate the moral hasard of government bailouts,[2] many European central bankers feared that it would increase financial instability. Central bankers have often tried to shield financial services from competition law enforcement. In France, it is only since 2003 that bank mergers have been subject to normal merger control.

It is fair to say that there has been a great deal of convergence in the last 20 years between financial regulators and competition authorities. One reason is the recognition that large financial institutions pose risks both for consumer welfare and for financial stability. After the Great Financial Crisis, financial regulators have addressed too-big-to-fail with capital surcharges on systemically important banks and a stringent supervisory framework. This amounts to a spectacular U-turn from the preceding decades, where bank size was seen as central to delivering the benefits of financial intermediation, such as data hoarding, risk pooling and liquidity provision.

Today, we see increased cooperation, for example, in weighing the balance of different policy objectives, including contestability and prudential needs in crafting procompetitive regulations. This is not to say that the relation between central bankers, financial service regulators, and competition authorities cannot be improved –far from it. I see at least three avenues for improvement:

First, we need more analytical work on issues of common interest. One recent example is the contribution of corporate profits to inflation (or « sellers' inflation »), a hot topic in 2022-2023 in the competition and central banking communities. Another example is the consequence of resolution regimes for competition among banks.[3]

Second, we need a shared assessment of the concentration of the financial sector and of its efficiency, which some argue has declined.[4]

And *third*, we should compare notes on an ongoing basis on the structure and conduct of large integrated groups which provide financial services but are active on other markets.

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[1] See S. Claessens, 2009. "Competition in the Financial Sector: Overview of Competition Policies", *World Bank Research Observer*, 24(1), 83–118; OECD, 2011. "Bank Competition and Financial Stability"; and X. Vives, 2010. "Competition and stability in banking", IESE Working Paper, WP-852.

[2] European Commission, 2013. Communication from the Commission on the application, from 1 August 2013, of State aid rules to support measures in favour of banks in the context of the financial crisis ('Banking Communication').

[3] B. Cœuré, H. Huizinga, E. König, J. Krahnen and J. Schlegel, 2024. "Winners and losers in bank resolution. Recent examples and a modest policy proposal", CEPR Policy Insight 134.

[4] Th. Philippon, 2015. "Has the US Finance Industry Become Less Efficient? On the Theory and Measurement of Financial Intermediation", American Economic Review, 105(4), 1408-38.

I wouldn't like to conclude this part without mentioning the complementarity between competition and monetary policy. Not only does competition exert downward pressure on prices, helping central banks to meet their objectives when inflation is above target, but it is also good for the transmission of monetary policy. When European Central Bank (ECB) President

Christine Lagarde spoke at the 15th anniversary of the *Autorité de la concurrence*, she noted that market concentration reduces the responsiveness of the economy to interest rate changes.[5]

2. Initiatives promoting competition and innovation in the financial services sector in Europe and France

Many financial mergers are reviewed by the European Commission rather than by national authorities, and antitrust cases have been relatively few. The *Autorité de la concurrence* has nevertheless leveraged its advocacy mandate to explore changes in the financial landscape. Recent examples are our market studies on fintech[6], on the pooling of climate risks in agriculture,[7] and on the insurability of French local governments.[8] Other European authorities have focused on competition in retail banking.[9]

There is a live debate in Europe on the links between competition and industrial policy, out of which I would like to pick two take-aways: first, the transforming role of regulation to make markets open and competitive, and second, the importance of procompetitive industrial policies. Financial services are no exception.

Starting with regulation, an important piece in Europe has been the second Payment Services Directive (PSD2), which has opened our payments market to non-bank payment services providers and mandated access to client data through application programming interfaces, with strong safety safeguards. Thanks to PSD2, we have a vibrant and competitive market for payment services. A key element of this success has been that it has regularly been re-evaluated and updated – in line with the OECD's Competitive Neutrality Recommendation – and this has been done in cooperation between financial regulators and competition authorities.[10]

Another example is Regulation (EU) 2023/1114 on Markets in Crypto Assets (MiCA). The French Parliament and Financial Market Authority have pioneered the implementation of the directive, making Paris a leading market for digital assets.

Turning to industrial policy, I strongly believe that one of its main functions should be to promote public or private infrastructures that lower barriers to entry. In our market study on generative artificial intelligence (AI), we have advocated easing AI startups' access to public

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[5] C. Lagarde, 2024. "Competition policy in a changing world". Speech at an event to mark the 15th anniversary of the Autorité de la concurrence, 5 November.
[6] Autorité de la concurrence, 2021. Opinion 21-A-05 on the sector of new technologies applied to payment activities, 29 April.
[7] Autorité de la concurrence, 2022. Avis 22-A-06 concernant un projet d'ordonnance portant développement des outils de gestion des risques climatiques en agriculture, 25 juillet.
[8] Autorité de la concurrence, 2025. "At the request of the Senate Finance Committee, the Autorité de la concurrence has published an opinion on the local and regional public authority property insurance sector", 27 January.
[9] See e.g., Autorité belge de la concurrence, 2023. Avis relatif aux services bancaires de détail, 10 November.
[10] OECD, 2024. Competitive Neutrality Toolkit : Promoting a Level Playing Field.

supercomputers, so as to lower the bar to enter the upstream AI market.[11] Likewise, digital identity infrastructures such as Aadhaar in India or iAM Smart here in Hong Kong are key rails on which a digital financial stack can be built that is open, secure and interoperable. Following this lead, the European Commission has put forward proposals for a European Digital Identity Framework.

Looking ahead, the ECB's digital euro will be a common interoperable platform around which a new payments ecosystem can organise. At the front-end of the financial system, it will allow banks and other financial services providers to deploy innovative digital solutions for their customers, such as digital wallets combining central bank and commercial money. And at the back-end, it will improve the plumbing of the system and allow for a safe expansion of DLT-based finance.[12] In this respect, I welcome ECB initiatives to settle DLT-based transactions in central bank money,[13] building on successful experiments by the Bank for International Settlements' (BIS) Innovation Hub, including here in Hong Kong.

On a less positive note, the concerns expressed by Mario Draghi in his report on European competitiveness[14] apply with equal force to the financial services sector. In an earlier report on the future of the EU's Single Market, Enrico Letta highlighted that the massive savings of European households are not being fully leveraged to meet the EU's strategic needs and a large portion is diverted abroad due to the fragmentation of our financial markets[15]. Our companies should be able to tap a single pool of capital across Europe, and invest based on risk and return rather than on nationality. To address Letta's and Draghi's concern, we need to complete Banking Union, and to take decisive steps towards a Capital Market Union.[16] Defensive statements by national politicians on cross-border bank merger projects suggest that a change of mindset is still in order.

3. The impact of tech giants entering financial services and regulatory alignment

The entry of big tech companies in financial services has further reinforced the case for cooperation between financial regulators and competition authorities.

As already said, the Great Financial Crisis has prompted tough constraints on bank size. As nature abhors a vacuum, non-bank intermediaries, such as asset managers and money market funds, alongside with fintech and big tech companies have stepped in to fill the gap. Although the share of financial services in big techs' revenues remains small (3.6 % in 2022 according to BIS research[17]), it is expanding fast across a range of services: payments, credit, "buy now, pay later" and other new services, and –most prominently in China– money market funds. Besides,

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[11] Autorité de la concurrence, 2024. Opinion 24-A-05 on the competitive functioning of the generative artificial intelligence sector, 28 June.
[12] B. Cœuré, 2021. "Central bank digital currency: the future starts now". Speech at the Eurofi Financial Forum Ljubljana, 10 September.
[13] European Central Bank, 2025. "Eurosystem expands initiative to settle DLT-based transactions in central bank money", 20 February.
[14] M. Draghi, 2024. The Future of European Competitiveness, 9 September.
[15] E. Letta, 2024. Much More Than a Market. Report to the European Council, April.
[16] C. Lagarde, 2023. "A Kantian shift for the Capital Markets Union". Speech at the European banking Congress, Frankfurt am Main, 17 November.
[17] F. De Fiore, G. Cornelli, L. Gambacorta and C. Manea, 2024. "Big tech, financial intermediation and the macroeconomy", November.

big techs acting as gatekeepers may control the distribution of third-party financial products and of payment, investment and asset management apps.

This new disruption raises a range of fresh issues for financial stability and for competition. In our 2021 fintech study, we highlighted the competitive risks associated with the main digital platforms strengthening their market power or locking consumers into their ecosystems, but also the risk that traditional banking players may eventually be pushed aside by newcomers enjoying a lot more regulatory leeway.[18]

To be fair, traditional financial services actors, such as banks and card networks, also have conglomerate business models, benefitting from economies of scope, particularly by offering multiple products to customers, and thus presenting ecosystem effects. These actors may also benefit from high barriers to entry and expansion, mainly as a result of regulation, and elements of non-price competition that can be used as sources of rents. Yet, in some jurisdictions, banks have sought to match social networks data, including through partnership with big tech companies, with banking data to have a better understanding of their clients, bridging information asymmetries. This speaks to the unparalleled competitive advantage big techs have in collecting and using data.

Indeed, big tech companies can overcome limits to scale in financial services provision by using user data from their existing businesses.[19] Financial regulators have identified positive consequences for credit allocation – such as the ability to mine more data and better assess SME and household credit risk, saving scarce collateral[20] - and for financial inclusion, by giving households access to new digital services, even when unbanked.[21] Competition authorities can however see the risk that big techs will leverage the power of data and client networks *across their activities* to build moated castles, foreclose competitors, and impose unfair commercial conditions on competitors, merchants and a captive user base. As my former BIS colleagues like to say, the self-reinforcing loop between Data, Network externalities and Activities, is the DNA of big techs.

This will require a new dialogue between financial regulators and competition authorities, one that focuses not only on big techs' activities but also on their structures and conduct as entities,[22] and on their incentives to act as conglomerates. Let me highlight a few areas of interest:

- *Data segregation.* In many jurisdictions, the use of data may be restricted for privacy, copyright or national security reasons. In Europe, the Digital Markets Act goes some way towards banning the combination of client data collected by core platform services (such as search engines, operating systems and social networks) with data collected by other services, mitigating the risks to competition. Careful scrutiny will remain warranted of possible exclusionary or exploitative conduct. At the same time, we should be mindful of possible adverse effects of data restrictions on innovation and efficiency.

[18] Autorité de la concurrence, 2021, *op. cit*.
[19] A. Carstens, 2023. "Big tech in finance. Forging a new regulatory path". Speech at the BIS conference "Big techs in finance – implications for public policy", Basel, Switzerland, 8–9 February.
[20] L. Gambacorta and coauthors have compared lending by Ant Group and by traditional commercial banks to 2 million Chinese firms. L. Gambacorta, Y. Huang, Z. Li, H. Qiu and S. Chen, 2020. "Data vs collateral". BIS Working Paper 681.
[21] See e.g., F. Boissay, T. Ehlers, L. Gambacorta and H. Shin, 2021. "Big techs in finance: on the new nexus between data privacy and competition", BIS Working Paper 970, October
[22] A. Carstens, op. cit.

- *Interdependencies* between financial services providers. In some jurisdictions, financial regulators and competition authorities are concerned about the relationship between traditional financial services providers, such as banks and card networks, and new entrants.[23] In mobile payment services, traditional providers have kept a strong footprint despite fintech and bigtech entry. Indeed, outside of China, there are few examples where new entrants have built an autonomous infrastructure. In other words, mobile payments have complemented rather than substituted traditional payment providers. Even when autonomous infrastructure has been built (such as in China), users may still rely on banks or payment cards to move money in and out of the network.[24] The exception is in jurisdictions where mobile payment services have leapfrogged the need for banking services for previously unbanked populations, promoting financial inclusion. However, in some instances, this has led to monopoly or oligopoly by the alternative (e.g. telecom) payment provider. How new technologies, such as on-chain payments, will change the competitive landscape remains an open question.
- *Interconnectedness.* Financial regulators and competition authorities should map out interdependencies beyond the financial system, e.g. through providers of telecom, data, IT or cloud services, which are neither big techs nor financial institutions. Such interdependencies have consequences for financial stability and operational risk, as well as for market power and the risk of collusion.

Let me conclude. Today's challenges warrant us to rethink the collaboration between central banks, financial regulators and competition authorities. Horizon scanning is of the essence, building on the excellent base provided by central banks and regulators' analytical strength and competition authorities' market studies. International cooperation will also be key. Competition in payments and other financial services has been identified a a priority by the OECD Competition Committee. Be sure that we will reach out to the financial regulatory community when preparing for our discussions.

Thank you for your attention.

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[23] See e.g., United States of America v. Visa Inc, No. 1:24-cv-7214, New York Southern District Court, 24 September 2024.

[24] Autorité de la concurrence, 2021, op. cit.