 DEFINITION AND SCOPE

**Question 2. Which financial advice/activities are the most impacted by the use of Big Data and what type of entities are making the use of Big Data? Is there a level playing field?**

The use of big data is often used as a competitive advantage for smaller incumbents entering the financial market. One issue in the debate concerns the implementation of the PSD 2-directive, which requires that all banks must open their core banking systems and share certain type of data with third parties.

For UNI Europa Finance (UEF), the level playing field remains an important principle to avoid regulatory arbitrage in the use of big data.

- All financial market players should be subject to the same rules and supervision, taking the issue of proportionality into account. The threat of further expanding the shadow banking sector is limited.

- National culture, practice and context needs to be considered and respected when deciding on rules and controls.

- It must be ensured that employees get quality training to meet the requirements of the digital evolution and how to handle and treat personal data in a neutral and secure manner.

It is UEFs impression that the increased use of big data will have an impact on a wide range of activities in the financial sector, primarily in everything to do with sales and advice, given the increased predictive abilities big data confers upon its holder.

In this way, product development, advertisement, customer interaction and wealth management will see big changes and change will be seen as well in the level of business retail customers will do with traditional financial institutions (banks and insurance companies) and newcomers (crowdsharing platforms, P2P lending etc.) respectively. This is also why there is such a need for, in the near future, proposing legislation that will set rules for the newcomers. Because even though their contribution to the total handling on funds in the EU is still limited, their potential to grow is great and national legislation will be developed if
no EU wide legislation is in place. So to avoid a fragmented market, which would even go against the idea of the CMU, EU level legislation should be drafted.

REGULATORY FRAMEWORK APPLICABLE TO BIG DATA

Question 6. Do you agree with the above short, non-exhausting list of applicable requirements?

Establishing and operating sound internal control mechanisms, efficient procedures for risk assessment and effective controls are all important to financial stability.

As financial institutions have since the financial crisis in 2008/2009 adapted extensive list of regulations in order prevent financial instability – it is important that all financial institutions that uses big data in their operations follow all the regulation necessary to prevent financial instability, ensure data and consumer protection. The paper states several provisions within EU financial legislation. The PSD-2, the IDD, Mifid 2, UCITS, Solvency 2 and CRD-IV are particularly relevant for financial institutions using Big Data technologies.

Technology has been one of the biggest disruption to the banking and insurance industry. Providing customer-focused banking experiences and the idea of personalized banking have been the latest trends both for the established sector and the Fin-Tech scene. That being said, the customers rights to their own information must remain paramount. Information about a customer/person must only be shared and used for specific purposes after the clear consent of the customer/person him/herself.

Big data applications that process personal data often evaluate some aspects of individuals, such as financial risks. When big data is used as a tool – employees must be informed on how to use big data applications which will not undermine data protection laws and align with customer demands and needs.

UEF has seen a general trend towards increasing demand on employees in terms of compliance and finds it important to make the regulatory framework on big data easy to apply for employees in the financial sector.

While on the topic of employees, it is important to address one of the arguments often advanced about Big Data being much better at giving accurate estimates than humans. This is often seen in relation to banks deciding whether to give customer a loan, and many proponents of Big Data usage will say that much more useful can be gathered from social media and the internet in general than can be known by a local banker sitting in front of the customer and furthermore computers will be less biased than a human employee. This might be true to some extent, but Big Data and computers are by no means infallible as they can miss subtle pieces of information that can only be gleamed during the live contact between humans.

POTENTIAL BENEFITS AND RISKS FOR CONSUMERS AND FINANCIAL INSTITUTIONS
Question 9. Do you agree with the description of risks identified for consumers and financial institutions?

UEF finds that there could be some potential risks for both consumers and employees in the use of big data. To lower some of these risks, UEF would like to highlight the following issues in relation to sales and advice:

• A sound, trusting and sustainable relationship between employees and customers in the financial sectors is vital to the well-functioning of the financial market

• Conflicts of interest must be avoided – the pressure to sell must not impair on the client’s right to be given accurate information and good advice

• Financial companies must provide employees with the adequate skills, time, and resources to be able to inform the clients and give good advice on financial products

• Aggressive sales targets and merit rating systems are counterproductive to customer protection and qualified advice, and they must be avoided in the financial sectors

• Rules on distribution and selling practices should not increase the administrative burden of individual employees. Further administrative requirements risk decreasing the quality of advice and service to customers

• Competence development for employees will increasingly be crucial in the digital age. As digital tools are being developed – there is a need to leave enough time for employees to adapt and develop their skills

• Some of the risks relating to outsourcing key IT-functions of financial services should be evaluated as this could potentially be detrimental for consumer protection and reputational status

• The way in which companies collect data should be monitored and customers made clearly aware that their data is being collected

• Attention must be paid to the way in which companies use big data to set prices, as the availability of much more specific geographical data etc. can potentially facilitate more rampant discriminatory price setting than seen before.

Question 10. Is the regulatory framework adequately addressing the risks?

Employees are the ones who sell financial instruments to customers and advising customers on financial solutions. To work effectively, financial regulation must take the competence and well-being of employees into account and ensure that they have the knowledge and tools they need to perform their jobs in a safe and appropriate way. So aside from ensuring the proper working conditions obtained for finance employees are maintained, there is also the question of the protection of personal data. Fortunately, we have in Europe a relatively strong protection of personal data compared to other regions of the world, and it is UEFs opinion that this should not change. Especially in a time when even the previously most insignificant piece of personal data increases in value for companies.
Question 16. How do you believe Big Data could impact the provision of advice to consumers of financial products?

Advisors based on the IBM Watson platform has already begun appearing in the Nordic region, with some companies embracing technology as the robot Amelia - which can respond to customers’ simple inquiries. The use of robo-advice is expected to increase in the future and the impact on the workforce could be significant and will cause job losses. UEF believes that the social partners have a joint responsibility to promote a solid dialogue at the national level and stimulate the debate on the social effects of digitalization. Whether this is a desirable development for everyone involved is questionable. Of course the employers will be able to cut costs in the short run, but there are still significant costs involved with running software, not least in the form of necessary updates and bug-fixing. These costs will of course be borne by the customer, who in all likelihood will not see much of a reduction in prices. This has certainly been the case over the last years even with companies claiming to be able to offer cheaper services the more work customers put into buying their products themselves, yet prices never went down due to this fact, only once competition increased was a change seen. And with studies having proven that there is still a significant percentage of retail customers wanting to have human interaction when making big financial decisions, it is doubtful if their wishes will be met when all that will be available to them is robo-advice (ref: Z-generation study in Denmark, Swedish Quality Index survey - the digital dilemma, both studies show that even young people are eager to engage with robo-advisors, but still want to consult a human advisor face to face when making big financial decisions). This is why it is essential for companies to maintain a dual possibility, whereby customers can interact with the robo-advisor if they wish, but can also be referred to a human advisor if so wished.

The ethical standards of financial advice remain an important issue in the age of big data and digitalization. E.g. financial advisors in the Nordic region are trained in so-called authorization schemes that educate employees on how to give financial advice.

POSSIBLE EVOLUTION OF THE MARKET

Question 20. What are the greatest future challenges in the development and implementation of Big Data strategies?

A possible great challenge is what effect big data will have on our labour market and that is an issue that must be considered by decision makers. An important aspect is the issue of life-long learning, the use of big data should not compromise and lead employees in the financial sector into unemployment – big data should be used in a complementary manner to the existing tools to serve customers.
Question 21. Are any other measures and tools needed? If so, what are they and what should they cover?

UEF believes that the use of data needs to be secured, both in regards to outsourcing processes but also in regards to free-trade agreements, ensuring that data is not sold or traded cross-continents.

Question 22. The development of Artificial Intelligence and Blockchain in relation to big data processes?

Both AI and Blockchain technique are trends that will increase in magnitude over the coming decade. In this respect our main concerns are the effects these trends will have on employability and financial stability. Trust and stability in the financial sector remain more important than ever and this can only be preserved by ensuring that employees are taught how to properly work with AI and vice-verse. Blockchain technology should in the meantime help to ensure a high level of security in the system, although its uses and associated benefits will have to continuously be closely monitored to avoid misuse. The problem that will be encountered in relation to self-learning AI is that it will require a lot of information to properly learn, and some of this data will inevitably have to be personal data. It is therefore ever important that strict data protection guidelines are adhered to.