Opinion **European banks**

Banks jump on to the fintech bandwagon

Data sharing between financial institutions and tech companies puts consumers at risk

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Rana Foroohar SEPTEMBER 16, 2018 61

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Call me a Luddite, but I have always agreed with former US Federal Reserve chairman Paul Volcker that the ATM has been the most useful innovation in finance of the past few decades.

So I will watch this week's Senate banking committee hearings on fintech with trepidation. The hearings will be the first chance to dig into the Treasury department's summer report on the sector, which talks approvingly of data sharing among technology companies and big banks to create efficiency, scale and lower consumer prices.

The report puts rather less focus on the systemic risk and predatory pricing that could emerge if the world's largest technology companies and the biggest banks on Wall Street share consumer data. (Just imagine if your Facebook page had a checking account attached. What could go wrong?)

Given the deregulatory stance the Trump administration has taken so far, that's no surprise. But it is alarming, nonetheless. The Treasury paper's diagrams of the way platforms and banks might share a consumer's financial information, in order to offer "personalised" products and services, remind me of the complex illustrations of credit default swaps that triggered the 2008 financial crisis. Complexity of that sort always makes me nervous — it leaves so much room for the party with more information to obfuscate.

The blending of platform technologies, big data, artificial intelligence and consumer finance is only the latest and most turbo-charged combination of banking and commerce. Prior iterations, enabled by 1990s financial deregulation, did not end well.

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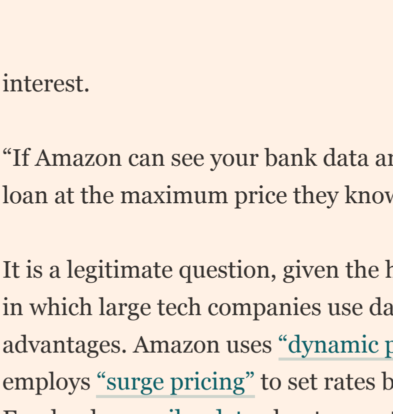

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Take Goldman Sachs's experiment with aluminium hoarding, that came to light in 2013. The bank had bought up thousands of tons of aluminium and was moving it between warehouses (which it had also bought) in order to control the release of commodity supply. According to some industry estimates, this added between \$3.5bn and \$5bn in costs to American shoppers over three years.

The Cornell University professor whose work first sparked serious media interest in the topic, Saule Omarova, will be speaking at the fintech hearings this week. Her latest research raises questions about whether the blending of big tech companies and finance is in the public interest.

"If Amazon can see your bank data and assets, [what is to stop them from] selling you a loan at the maximum price they know you are able to pay?" Professor Omarova asks.

It is a legitimate question, given the history of big banks, and more recently, the manner in which large tech companies use data to reap what many believe are unfair advantages. Amazon uses "dynamic pricing" to profit from public sector contracts, Uber employs "surge pricing" to set rates based on customers' willingness to pay, and Facebook compiles data about users that they have not themselves shared. Google has tracked users even if their privacy settings ought to prevent it.

Some people do not worry about any of this. They feel that it is a fair trade to exchange data for convenient goods and services. But it is impossible to know what is fair in these cases. None of us can see inside the algorithmic black boxes of the largest technology companies. It is one thing for a company to know my vacation shopping patterns or what media I like; it is another for them to access my entire financial history, including my investments.

Many people already lack confidence in making financial transactions and in personal wealth management. Why else would so many of them still be paying above average fees for such services? Imagine how vulnerable some consumers might be if their bank notices that they have \$9,000 sitting in a savings account. How many would respond to a pop-up ad urging them to move their money into a wonderful new higher yielding investment vehicle?

Too bad the Trump administration has already gutted the Consumer Financial Protection Bureau, which looks after retail customers who have disputes with banks. The Treasury's fintech proposals suggest they will have plenty of new issues to dig into.

Data portability — the ability of consumers to share their data with multiple private and public sector institutions — does have some advantages. But the accompanying risks, particularly when it comes to sensitive areas like financial or healthcare data, argue for a cautious approach.

The EU started allowing data sharing among big banks and tech companies earlier this year, but it required very clear opt-in and opt-out provisions to protect consumers.

So far very few European banks have actually used the new data sharing rules to sign deals with the biggest tech companies. That may be because the banks still remember lessons learnt during the financial crisis, about how complexity and opacity in what seem like everyday transactions can blow up wildly (who thought bad debt would ricochet from Iceland to Iowa?). But I doubt it.

Probably they are merely a few paces behind their US counterparts, many of whom are already jumping on the fintech bandwagon with all too much zeal.

rana.foroohar@ft.com

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