



Consultation reply: The use of Big Data in Financial Institutions

Nordic Financial Unions (NFU) welcomes the discussion paper by the ESMA/EIOPA/EBA on the use of big data in financial institutions.

NFU is a lobbying organization promoting the interests of Nordic financial trade unions in Europe. NFU is the voice of 150.000 employees in the Nordic financial sectors, through our seven member unions.

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 more used as a competitive advantage for smaller incumbents entering the financial market. One issue in the debate concerning the implementation of the PSD 2-directive mandates that all banks must open their core banking systems and share certain type of data with third parties.

For NFU, 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.
- National culture, practice and context needs however to be considered and respected when deciding on rules and controls.
- The growing financial shadow sector needs to be in the same scope of regulation as the established financial sector, otherwise a level playing field will not be a reality.

Managerial decisions due to both legislation and digitalization processes are common procedures for employees in the financial sector. It needs to be ensured that these employees get quality training to meet the requirements of the digital services and how to handle and treat personal data in the right manner.

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.

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.

NFU have 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.

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?

NFU 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, NFU 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 continue to be crucial even in the digital age. As digital tools are being developed – there is a need to give enough time to employees to adapt and develop their skills in the digital age
- 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

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 interest of employees into account and make use of the employee dimension.

Question 16. How do you believe Big Data could impact the provision of advice to consumers of financial products?

In the Nordic region, we seen some companies embrace technology such as the use of 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 work force can be significant and could create potential job losses. NFU believe 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. The workforce in the Nordic financial sector has been through and adapted to technological changes at a fast pace.

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

Recent Nordic research shows that customers in some of the most digitalized countries still want to have a close face-to face relationship with their financial advisors in the digital age (ref: [Z-generation study in Denmark](#), [Swedish Quality Index survey - the digital dilemma](#)). Both show that even young people who are eager to engage in digital financial services– such as automated financial advice tools can be characterized as – want to consult an advisor face to face while making big financial decisions (either via video or in person).

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?

NFU 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-continent.

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.