

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
COMPETITION COMMITTEE**

Digital Disruption in Financial Markets – Note by the Russian Federation

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This document reproduces a written contribution from the Russian Federation 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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1. The last few years in the field of provision of financial services, as in other areas of the economy of the Russian Federation, there has been a rapid development of various digital tools designed to improve and optimize provided services.
2. At the same time, it can be noted that mainly the large market players in certain segments of the financial services market compete through the digitization of processes of interaction with consumers. At the same time, the FAS has not received any complaints on restriction of competition in the field of digital financial markets yet.
3. Digitalization of the financial services market, in connection with the optimization of the processes of providing these services, in the opinion of the FAS, undoubtedly has a positive effect both for financial organizations and for consumers of their services as a whole.
4. In the Russian Federation, there are a number of program documents aimed at creating a legal framework for digital technologies (for example, the national program "Digital economy of the Russian Federation"¹; The main directions of development of financial technologies for 2018-2020²; the Action Plan ("road map") on the development of competition in the sectors of the economy of the Russian Federation and the transition of certain areas of natural monopolies from the state of natural monopoly to the state of a competitive market for 2018 - 2020³).
5. To implement these documents, financial regulators (the Ministry of Finance of the Russian Federation and the Central Bank of the Russian Federation) are working on the adaptation of legislation in the field of financial markets to new digital processes.
6. For example, a draft federal law "On digital financial assets" has been prepared, the purpose of which is to legally implement definitions of the most widely used financial assets created and/or issued using digital financial technology.
7. The FAS is also working to adapt the antimonopoly legislation to new challenges of the digital economy. In particular, the FAS prepared and submitted to the Government of the Russian Federation the so-called "fifth antimonopoly package", aimed, among other purposes, at protecting the Russian segment of the digital market.
8. The proposed antimonopoly regulation will mainly affect owners of digital platforms - large sites that belong, for example, to Amazon, as well as online commerce-related organizations, such as, for example, Alibaba Group.
9. It is also planned to expand the immunities (neutralities) already established in the antimonopoly legislation for small and medium-sized businesses. It means that antimonopoly restrictions will not apply to organizations that own a digital platform, or

¹ <http://government.ru/info/35568/> (Russian version only)

² [https://www.cbr.ru/Content/Document/File/44185/onfr_2019-21\(project\).pdf](https://www.cbr.ru/Content/Document/File/44185/onfr_2019-21(project).pdf) (Russian version only)

³ <https://digital.gov.ru/uploaded/files/1697-r-ot-16082018.pdf> (Russian version only)

several similar (substitutable) digital platforms, if the revenue from their activities for the last calendar year does not exceed RUB 400 million (EUR 5.5 million)⁴.

10. The ongoing work on the improvement of financial and antimonopoly legislation together in terms of digital technologies will help to achieve optimal regulation in the relevant field, which is aimed at stimulating the emergence of new technologies, including by ensuring transparent rules in the market.

11. Here are examples of new technologies in the financial market for which legal foundations are currently being created:

- creation and operation of systems for remote retail distribution of financial products (“Marketplace”);
- introduction by the subjects of the financial market of open software interfaces (Open API);
- creation and operation of fast payment platforms.

12. According to the information posted on the official website of the Bank of Russia, the Bank together with other market participants launched the Marketplace project⁵. The project is aimed at organizing a system of remote retail distribution of financial products (services) and registration of financial transactions.

13. The Marketplace project is designed, on the one hand, to ensure equal access of service users to the financial market, on the other - to create background for the development of a competitive environment and optimization of financial services. Among the advantages of the project is the improvement of the financial accessibility, in particular due to the removal of geographical restrictions. At the same time, users will receive remote access to 24-hour financial services and a wide range of financial products. The product range will include bank deposits, government and corporate bonds, units of mutual funds, compulsory liability insurance and mortgage loans. In the future, it can be expanded at the expense of other credit, insurance, investment and other financial products.

14. The project implementation does not involve government investments in creating elements of the Marketplace system, its realization will be based on market principles. The role of the regulator is to contribute to the creation of a favorable regulatory environment for the effective functioning of the system. In preparing the regulatory legal acts, the experience of pilot launches of the system on priority financial products and analysis of business models of its participants will be taken into account.

15. The infrastructure of the system will be integrated with a platform for remote biometric identification, which will make it possible to transfer financial services to a digital environment and increase their level of accessibility for consumers. During the creation of the Marketplace system, other innovative projects such as standard open interfaces (Open API) and the Fast Payment System will also be used.

16. The system of fast payments is a service that allows individuals to instantly (24/7) transfer money to themselves or other individuals using their mobile phone number, regardless of the bank in which the sender or recipient has opened his accounts. For this operation banks of the sender and recipient should be connected to the Fast Payment

⁴ <https://fas.gov.ru/publications/17455> (Russian version only)

⁵ https://www.cbr.ru/finmarket/market_place/ (Russian version only)

System, and access to this system would be possible through the mobile application of such banks both from a smartphone or tablet, and from a computer.

17. This service commercially operates since January 2019. At the first stage of work, citizens will be able to make transfers between their accounts and other persons, and already in the second half of 2019, it will be possible to make payments through the Fast Payment System in favor of legal entities, for example, for goods and services, including using QR-codes⁶.

18. The expected effect from the implementation of these projects is to increase competition in the financial services market, including by reducing both the costs of providing financial services and the switching costs between various financial institutions for consumers of these services, as well as improving the digital infrastructure of the financial market, associated with the emergence of new digital channels for the provision of financial services (increased access).

19. Simultaneously with the improvement of legislation in order to develop competition in the commodity markets, the FAS is conducting activity aimed at preventing potential violations of the antimonopoly legislation in the future. In particular, at present, the antimonopoly regulation is based on the tasks of developing and implementing mechanisms to prevent possible violations of the antimonopoly legislation in order to reduce the possibility of events that adversely affect the competitive environment in the markets, as well as on the whole, to ensure and stimulate business practices which would promote competition in the financial services market.

20. The development of such a preventive mechanism, in addition to the beneficial effect on the competitive environment, can also help to reduce administrative burden on market participants and to reduce antimonopoly measures and imposition of administrative fines for violating the antimonopoly legislation.

21. The FAS is conducting work aimed at legal implementation of the institution of mandatory opinions of the antimonopoly body on the assessment of standards (rules) of professional associations and self-regulated organizations in the financial market whether there is a potential for restricting competition.

⁶ <https://www.cbr.ru/PSsystem/sistema-bystrykh-platezhey/> (Russian version only)

Annex 1: Note by the Bank of Russia

In 2017, the Bank of Russia worked out Guidelines for the financial technologies development in 2018 – 2020.

The strategy defines the main approaches in the field of financial technologies, including:

- legal regulation of FinTech;
- development of digital infrastructure (digital biometric identification, fast payments system, financial marketplace, DLT platform, cloud services and other);
- transition to electronic interaction between the Bank of Russia, government authorities, market participants and their clients;
- development of “Regulatory Sandbox” for experimentation with innovative financial technologies, products and services;
- international cooperation;
- cybersecurity;
- development of human resources.

The Bank of Russia set the following goals in Guidelines for the financial technologies development in 2018 – 2020:

- promoting competition in the financial market;
- improving availability, quality and range of financial services;
- reducing risks and costs in the financial sector;
- improving competitiveness of Russian technologies.

With respect to the digital infrastructure, the Bank of Russia has already launched digital biometric identification, fast payments system, carries out pilot projects on DLT platform “Masterchain”, pilot project with “Digital profile” platform is planned for 2019, “Marketplace” platform is expected to be launched by the end of 2019.

According to Deloitte (2018), as of the end 2018, Russian fintech market is estimated at 54 bn rubles (USD 825 mln) with approx. 12% growth compared to 2017. The most common services provided by Russian fintech companies are:

- Infrastructural solutions (digital identification, processes automatization, chat bots, API, cybersecurity, etc.) – 19%;
- Investment (P2P-lending, crowdfunding, crowdinvesting, securities platforms with trading tutorials, etc.) – 16%;
- Payments (online payments, merchant acquiring, mobile points of payment, payment aggregators, etc.) – 14%;
- Loyalty services (advertising platforms, marketing analytics, cashback services, etc.) – 12%;
- Lending (online lending, real-time POS-lending, etc.) – 11%;
- Management accounting (online accounting and bookkeeping, etc.) – 10%;
- Marketplaces – 6%

- Scoring – 6%;
- PFM platforms – 5%;
- Other (digital banks, risk management) – 1%.

Bank of Russia received no complaints from incumbents with regard to competition-related issues.

Digital transformation of financial sector in many ways influences both the organizations and their clients. Particularly, it facilitates transformation towards faster and more convenient service provision when customers can easily switch between different service providers offering the best terms and, hence fosters the competition by reducing switching costs.

At the moment, fintech companies as well as BigTechs are regulated in the same manner as traditional financial institutions, hence if they perform a licensed activity they are obliged to comply with all the requirements set for this type of activity (including prudential regulation, competition law or consumer protection) and to receive the necessary license.

To promote the digital transformation of financial sector the Bank of Russia conducts several infrastructural projects:

Digital identification

The establishment and development of a digital identification platform is a necessary condition for transforming financial services into a digital environment and developing digital and mobile banking services.

The digital identification platform was launched in the middle of 2018 and allows banks to provide financial services remotely by using the Unified System of Identification and Authentication (USIA) and Unified biometric system.

As for now, digital biometric identification allows credit institutions to open accounts, make money transfers and provide credits to individuals without their physical presence with the use of their biometric data (voice & face). In the second phase, the remote provision of services will be extended to non-bank financial institutions as well as the government and other service providers.

Fast payments platform

Given the active development of digital interactions between individuals, the growing electronic commerce and digitalisation of traditional institutions, convenient and instant cashless settlements are becoming an essential condition in the financial market.

As a response to all the trends above, the Bank of Russia has launched a fast payments platform that is aimed at developing the payment services market, removing interbank barriers to transfers between individuals, providing innovative and convenient financial services to consumers, improving the attractiveness of cashless settlements, and decreasing the cost of transfers for the end users.

Fast payments platform was launched in January 2019 and enables real-time P2P and Me2Me transfers, 365/24/7, through different channels, with transparent rates and rules, using a mobile telephone number. Later in 2019 C2B payments (including payments for goods and services, bills, government and municipal payments) with convenient identifiers like QR codes and tax reference number will be launched.

Marketplace for financial services and products

The establishment of a marketplace for financial services and products is aimed at developing the competition in the financial market and improving the convenience, transparency and speed of accessing financial products for the customers.

The marketplace will provide all market participants with an opportunity to offer their financial services and products on the platform, and will enable customers to search for required services using new technologies (e.g. robo-advising). The platform's capacities will include analysis of customers' needs and providing personalised offers to them.

After screening the offers through marketplace customers will be able to receive the selected services remotely by using digital biometric identification. The pilot project of the platform will be launched in 2019.

Digital profile

Digital profile is a platform for the use and exchange of data from public and other sources.

The platform will provide citizens with the ability to manage their data online – transfer it on request or withdraw, as well as provide convenient, secure and fast data exchange between citizens, the state and business and will contribute to the quality and accessibility of services for end users, as well as increasing speed and transparency in the provision of data by providing the ability to manage digital data consent. The pilot project of the platform with banks and insurers will be launched in 2019.