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Competition in Capital Markets – Note by Spain

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Spain

1. Introduction

1. The financial sector is of fundamental importance to any market economy, not only because of its contribution to GDP and its role in the economic cycle, but also because of its essential function in allocating capital. This latter dimension is especially relevant from a competition advocacy perspective, since the price, quality and availability of financial services influence the ability of firms in every sector to enter markets, invest, innovate and expand. Access to finance is particularly important for young, small and innovative firms, as it may determine whether a project can be launched or scaled up. Consequently, more affordable, varied and responsive payment, credit, investment and insurance services can strengthen competitive pressure throughout the economy, whereas barriers that constrain the depth and development of capital markets may ultimately weaken competition.

2. The CNMC has addressed these issues through its competition advocacy activities as summarised in this contribution, which is structured as follows. Following this first introductory section, Section 2 discusses the CNMC's market study on Fintech and its implications for access to finance, with a detailed examination of crowdfunding. Section 3 describes the CNMC's report on deposit remuneration and its relevance for household savings allocation and capital-market depth. Section 4 presents the main conclusions.

2. Fintech and alternative sources of capital

3. In 2018, the CNMC published a market study on the impact on competition of new technologies in the financial sector commonly referred to as the Fintech phenomenon[1]. Fintech can be defined as the disruptive application of new information and telecommunications technologies (ICT) to the financial system. Therefore, Fintech innovations are not mere incremental improvements of traditional business models (e.g. incumbents introducing mobile and online banking), but substantial and disruptive, introducing digital tools in the production function (e.g. big data and artificial intelligence) and changing the business model.

4. The analysis of the financial sector in the study recalled that information may be the most important input in the financial industry. The main innovation of Fintech is to take advantage of new technologies to exploit information more efficiently and thereby mitigate the information asymmetries that are particularly significant in financial markets [2]. Better use of data can reduce transaction and matching costs, mitigate information asymmetries, support more accurate risk assessment and hence enable services that were previously unavailable or uneconomic.

5. The study also analysed the impact of Fintech on the diversification and disintermediation of financial activities. Banks have historically played a predominant role in channelling funds (and providing payment services), with the alternative of direct finance through securities. Fintech represents a further stage in this process by allowing new entrants and business models to challenge traditional intermediation, unbundling

[1] https://www.cnmc.es/expedientes/ecnmc00118

[2] See sections 1 and 2 of the market studied and references included in those sections https://www.cnmc.es/expedientes/ecnmc00118

financial services and providing specialised solutions to segments underserved by incumbent institutions.

6. The CNMC identified several channels through which Fintech may improve competition and efficiency. Technological innovation can lower operating costs, improve personalisation, expand product variety and make financial activities more contestable by smaller entrants. It may also promote financial inclusion by widening access to finance for consumers and firms, particularly SMEs. These benefits are especially relevant for capital markets because they can increase the number and diversity of channels through which savings reach productive investment.

7. The study described different sectoral dimensions of the Fintech phenomenon: neo-banks, distributed ledger technologies (DLTs such as blockchain), improved payment systems, innovative forms of asset management and advice, crowdfunding and Insurtech. Innovations in all these fields are relevant to the issue of capital markets' depth and size. For instance, innovative forms of asset management and advice can facilitate households' investment in alternative financial products, deepening and expanding capital markets and allowing more funds to be channelled towards firms' investment. As for improved payment systems, they can allow better liquidity management by firms, releasing funds for more productive uses and investment.

8. Within Fintech subsectoral dimensions, crowdfunding is especially relevant for the topic of competition in capital markets. Crowdfunding can be defined as the peer-to-peer transfer of funds from a broad group of funders to a specific project or firm, generally through a digital platform and without direct face-to-face interaction. Setting aside projects associated with donations or rewards, for-profit crowdfunding or crowdinvesting includes peer-to-peer lending, equity crowdfunding, real-estate investment, debt issuance, invoice financing and hybrid models.

9. From the perspective of competition in capital markets, crowdfunding can be particularly important because it offers an alternative to traditional channels. SMEs and nascent firms lack the size or the reputation to issue debt or equity and may face demanding regulatory requisites to participate in these markets. Therefore, bank lending is the most common source of borrowing funds for small and nascent firms but at the same time they can be credit-constrained due to information asymmetries (banks would tend to apply conservative credit standards due to adverse selection and moral hazard[3]). Credit rationing may be especially acute for innovative firms.

10. That is why crowdfunding can be especially valuable for risky but potentially productive projects and for firms whose intangible assets or limited track record restrain their access both to bank credit and to direct debt or equity financing.

11. Crowdfunding has two main possible dimensions to fund projects, lending (debt) or equity:

- Regarding peer-to-peer lending, it can offer some advantages vis-à-vis traditional bank lending. It is typically based on digital platforms that operate without extensive physical branch networks, thereby reducing costs. Furthermore, innovations in information management (with big data techniques, artificial intelligence…) can improve borrower assessment, credit scoring, project rating and portfolio management. Platforms can increase the pool of projects and resources,

[3] See sections 1 and 2 of the market studied and references included in those sections https://www.cnmc.es/expedientes/ecnmc00118

allowing investors to diversify their exposures and borrowers to diversify their funding.

- As for equity crowdfunding, it can address some limitations of conventional equity finance. Early-stage equity is inherently risky and is often supplied by a relatively narrow group of venture-capital investors and business angels with the expertise and wealth needed to diversify. By improving information processing and project selection, an equity-crowdfunding platform may broaden the investor base, facilitate smaller and more diversified investments and allow retail investors to participate in the financing of innovative firms. Investors may also provide feedback or other qualitative inputs to projects through the platform ecosystem. This feedback may be valuable for other investors, improving the efficiency of fund allocation.

12. The study identified gains for both providers and recipients of capital. Investors may benefit from lower intermediation margins, potentially higher returns and more accessible portfolio-diversification or advisory services. Borrowers and investee firms may obtain finance more quickly and with lower transaction costs, reach a wider, and potentially more international, investor base and become less dependent on traditional bank credit. Because interaction does not require physical proximity, crowdfunding can also reduce geographic constraints on access to finance.

13. Crowdfunding may generate wider procompetitive effects. An increase in the supply of finance can alleviate credit rationing and support entry in downstream product markets, where finance is a necessary input. It can also place competitive pressure on adjacent financial activities. Crowdfunding is therefore not merely an additional distribution channel: it can exert downward pressure on intermediation margins and financing costs while promoting service quality and personalisation; it expands the volume of funding available, while making the financing ecosystem more diverse and contestable.

14. Information and network effects are central to this model. Compared with bilateral bank lending, crowdfunding can make the amount of funding attracted by a project more transparent. Reaching a funding target may provide a signal that helps the firm obtain additional resources from banks, business angels or venture-capital investors. Platforms may screen, assess and rate projects, assess borrowers' creditworthiness and track records, recommend investments according to investors' risk profiles and diversification needs, and provide mechanisms to address default and liquidity risks.

15. Network effects can reinforce these efficiencies. Investors may value platforms offering a broader range of projects, while firms may value platforms with a broader investor base and less dependence on any one funder. A larger community may improve project evaluation and increase the presence of sophisticated investors whose decisions provide information to others. These effects also give platforms incentives to maintain the confidence of investors and firms through screening, monitoring, disclosure and appropriate risk management.

16. However, the study also identified risks. Crowdfunding may expose a larger number of less sophisticated investors to risky projects, fraud, borrower default, business failure, herd behaviour and illiquidity. Agency problems may arise if a platform earns fees from originating and distributing projects without retaining a meaningful financial exposure to the risk of the projects concerned. Transparency can reveal commercially sensitive information about entrants, and established firms or Big Tech companies may use platforms to monitor, influence or acquire potential competitors. Network effects can also generate market concentration and winner-takes-most dynamics, making entry by new platforms difficult.

17. With all these factors in mind, the study recommended in general embracing the Fintech phenomenon given its potential to foster competition and efficiency, also in the case of crowdfunding.

18. The study also recommended reconsidering the rationale for some forms of regulation (such as physical-presence obligations or certain minimum-capital requirements, where these were not deemed necessary and proportionate) given Fintech's potential to manage information and capital more efficiently. In the specific area of crowdfunding, the study also questioned whether broad limits on project size, number or type were always justified, particularly where investor-level exposure limits or suitability requirements could protect less sophisticated investors more directly.

19. The market study recommended that regulation should be activity-based and not entity-based, avoiding reserves of activity for particular categories of entities. In the same vein, the study advocated for a technologically neutral regulation (very relevant in open banking, payments and insurance)

20. Finally, the Study recommended the adoption of a regulatory sandbox to allow innovative models to be tested under supervision and generate evidence before determining the appropriate regulatory response, rather than imposing restrictive requirements in the absence of evidence regarding the effects of these innovative forms of service provision[4].

3. Household savings role in deepening capital markets

21. In 2024, the CNMC approved a report examining the factors affecting bank deposit remuneration[5].

22. Although the report focused on competition in deposit markets, its analysis is also relevant to capital-market depth because household savings ultimately provide an important source of funding for productive investment. The underlying data end in June 2024, meaning the report does not extend into the easing cycle that began later that year.

23. The report noted that deposits represented 35% of the financial assets of Spanish households in the first quarter of 2024, compared with 31% in the euro area. It also found that the recent pass-through of official interest-rate increases to deposit remuneration had been slower and less complete in Spain than in comparable euro-area economies. The econometric analysis suggested that concentration could have a negative effect on the pass-through of policy rates to deposit remuneration, although the estimated effects were small. The report therefore stressed that concentration alone had limited explanatory power and that demand-side characteristics and the availability of substitute financial products also mattered.

24. The competitive pressure exerted by products that are partial substitutes for deposits was found to be limited. Investment funds are largely distributed by the same traditional credit institutions that market deposits. Other substitute products available through capital markets, including Treasury bills, had grown rapidly but still accounted for a limited share of household financial assets. The range of effective alternatives available

[4] The CNMC has recently issued a specific regulatory report on the financial sandbox https://www.cnmc.es/prensa/ipn-sector-financiero-20250725

[5] https://www.cnmc.es/sites/default/files/editor_contenidos/20250115_NP%20Informe%20dep%C3%B3sitos_eng.pdf

to depositors was therefore narrower than the nominal range of financial products might suggest.

25. The report also identified relatively low levels of financial literacy among Spanish households compared with most euro-area countries. Limited financial knowledge may reduce consumers' ability to compare offers and may make them less willing to invest in products that are more complex than bank deposits. Together with search costs, weak comparability, account-portability frictions and a lack of confidence in online financial services, this may keep savings in low-remunerated sight deposits even when alternative products offer a different risk-return profile.

26. These findings have a direct implication for the topic of competition in capital markets, and their size and depth. The limited investment in products alternative to deposits can imply that fewer savings are channelled towards corporate bonds, securitisations, collective investment vehicles and other instruments that can ultimately finance firms. In this sense, demand-side frictions in retail savings markets can contribute to shallower capital markets and to a narrower, less diverse funding for small, nascent, innovative or high-growth firms.

27. The CNMC therefore recommended:

- Facilitating access to a broader range of deposit products and other financial products that may act as substitutes for deposits.
- Mitigating the information problems faced by customers by strengthening financial education and transparency, thereby improving the comparability of financial products and enabling better-informed decisions.
- Reducing switching costs between institutions by improving account-portability mechanisms and reducing the administrative burdens and other obstacles associated with placing deposits with foreign institutions.

4. Conclusions

28. Capital markets are important not only because they provide financing to firms, but also because they influence the degree of competition throughout the economy. Access to capital affects the ability of new and innovative firms to enter markets, challenge incumbents and expand their activities. From a competition advocacy perspective, policies that increase the availability and diversity of financing sources can therefore generate benefits well beyond the financial sector.