

# Big data in finance, Big worry?

## FACTSHEET

### 🗨 The data age

Arguably the most important commodity in the world is now data. Information about our preferences, our habits, our expenses or our interests has become the bread and butter of an entire industry that is hoovering it up every time we get on the internet or reach for our smartphone. The idea behind the data economy is to provide us with more targeted and relevant adverts, services or products.

### 🗨 What will change in retail finance?

Sectors such as banking, insurance or investments are going to throw up more and more offers, services and products supposedly tailored to one's needs and background. For example, based on the data these companies gather on a consumer's recent travel history and actual driving behaviour, the consumer would receive a personalised car insurance offer. More detailed information about past and existing debts could, for example, provide sweeping changes to whether consumers get accepted or rejected when they apply for a loan or car insurance.

Consumer data stemming from on-line behaviour, geolocation tools, electronic payments and wearable devices is fuelling a gold rush, which is already impacting consumer's daily financial lives. A telling example is banks requesting access to data stored on consumers' mobile phones (like contacts or pictures) to install a mobile banking app.<sup>1</sup>

### 🗨 What's the risk?

While financial firms claim there will be benefits for consumers, they also trigger huge questions about privacy, fairness, and whether some consumers will not be excluded from the world of retail finance in the long run.

There are several major risks:


1. The data collection could be happening when we don't know it, or understand the consequences.
2. Irrelevant or sensitive data could be taken into consideration and negatively affect an outcome for the consumer.
3. Vulnerable, riskier, privacy-minded or low-income consumers end up getting excluded from certain markets, for example in insurance or credit.
4. Increasing personalisation of offers could decrease comparability and reduce competition.

**In the US, one credit card company admitted considering individual consumers who were using their cards for marriage counseling or therapy to have a bigger credit risk based on its experiences with other consumers and their repayment histories.<sup>2</sup>**

In the insurance area, the individualisation of risk profiles is bound to have fundamental implications for the principle of solidarity and risk pooling, affecting more vulnerable consumers. Consumers with higher risk profiles, for example in health insurance, might face unacceptably high premiums for basic insurance policies or may find themselves unable to find coverage.

<sup>1</sup> Test-Achats, the Belgian consumer organisation, has been contacted by several consumers who were surprised by their bank's requests which wants to access data stored on their mobile phone to install a mobile banking app.

<sup>2</sup> <https://www.ftc.gov/system/files/documents/reports/big-data-tool-inclusion-or-exclusion-understandingissues/160106big-data-rpt.pdf>, p9.



Research from Dutch consumer organisation Consumentenbond found that premiums for Pay-As-You-Drive schemes (PAYD) were substantially higher than traditional car insurance premiums and that average consumers with fair driving practices were mostly better off with traditional insurance cover.<sup>3</sup> Consumentenbond has already received complaints<sup>4</sup> from consumers barred from obtaining an insurance policy, often based on questionable data such as having a ‘bad’ postal code.<sup>5</sup>

UK consumer organisation Which? conducted an undercover investigation into the trading of data, and found that very sensitive information (including financial data) was available to purchase for firms with potentially bad intentions.<sup>6</sup>

## What does the law say?

The current regulatory framework, especially the General Data Protection Regulation (GDPR), sets out principles for the use of our data. However, the increasing complexity of big data analytics and its effect on market outcomes will require further clarification in the specific area of financial services.

In the US, 15 states have banned or restricted price discrimination because it allows insurers to use a variety of non-traditional factors to price risk. This can result in consumers with otherwise identical risk profiles paying different prices for the same coverage.<sup>7</sup>

## Recommendations

We call for specific guidance from the EU on how the principles coined by the General Data Protection Regulation (GDPR) should be implemented in retail finance.

- Sensitive data should not be used or shared without the consumer’s explicit consent and should only be used for explicit, limited purposes.
- Firms should not be able to force the consumer to consent, allowing them to share the data with other parties, or to use the data for other services beyond the service they provide.
- The consumer needs to know if a financial institution is using data or intends to use data that has not been provided directly by the consumer or that does not come from its direct relationship with the consumer.
- Consumers have the right to carry their personal data over to another provider.

In addition, BEUC calls on policymakers to investigate whether there are types of data, used in financial services which:

- require greater disclosure and/or clearer approval (explicit consent) from the consumer.
- should not be collected or processed for pricing or marketing purposes from an ethical point of view e.g. certain parameters in health insurance, a marital status for car insurance or social media data in credit assessments.

<sup>3</sup> <https://www.consumentenbond.nl/binaries/content/assets/cbhippowsite/gidsen/geldgids/2016/nummer-7---november/gg201611p20-rijstijlverzekeringen.pdf>

<sup>4</sup> <https://www.consumentenbond.nl/juridisch-advies/andere-onderwerpen/privacy-data/kredietchecks-bedrijven-screenen-klanten>

<sup>5</sup> <https://www.consumentenbond.nl/juridisch-advies/andere-onderwerpen/privacy-data/kredietchecks-bedrijven-screenen-klanten>

<sup>6</sup> <http://www.which.co.uk/news/2017/01/how-your-data-could-end-up-in-the-hands-of-scammers-460123/>

<sup>7</sup> Federal Insurance Office, Report on protection of insurance consumers and access to insurance, 2016, p6.