

The FinTech Opportunity

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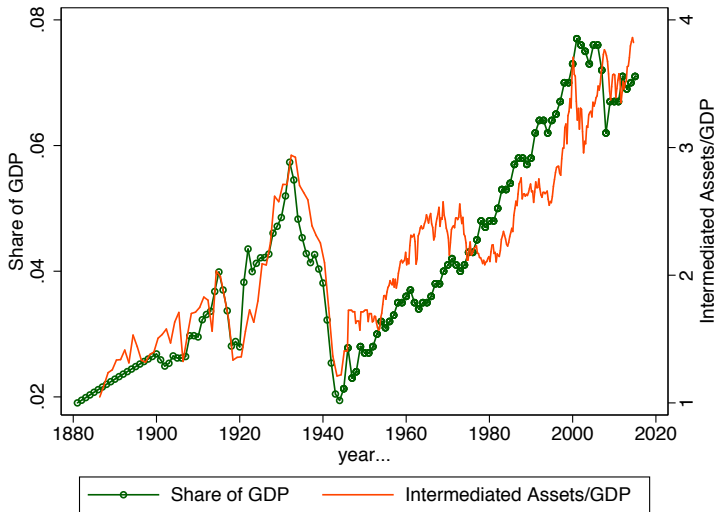
What Can FinTech Do for Us?

- A lot ... but will not happen by itself
- My points
 1. Financial intermediation is risky *and* costly; high rents and/or inefficiencies.
 2. Current regulations (Basel 3, Solvency 2,..): useful but will not solve structural issues
 3. FinTech will help only with right incentives: focus more on entrants, less on incumbents

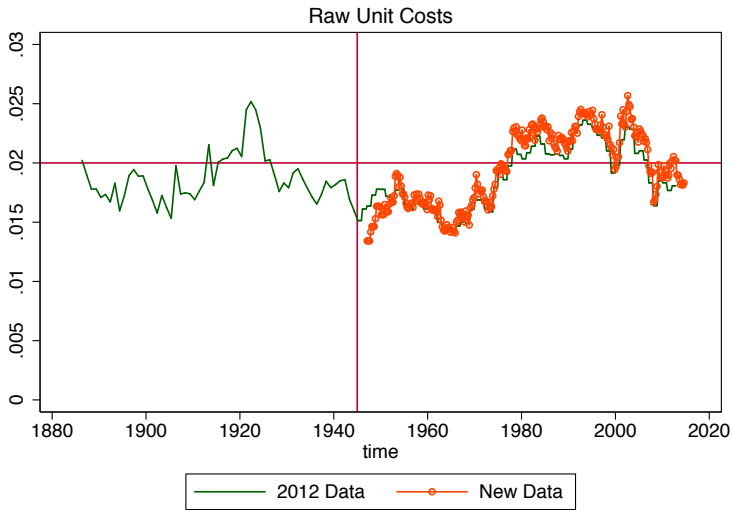
Point 1

Finance is too expensive

Financial Intermediation (in the U.S.)

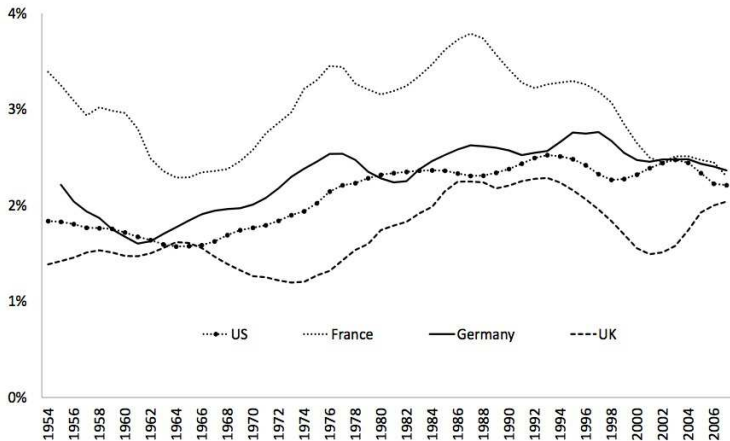


Unit Cost (U.S.)



Unit Costs (Bazot, 2014)

Figure 2.5.1: National unit cost (4-year moving average)



Note: US unit cost from Philippon (2012), level estimation. The US series does not use bank capital gains. Unit costs calculation details for Germany, France and the UK are provided in the preceding paragraphs of this section.

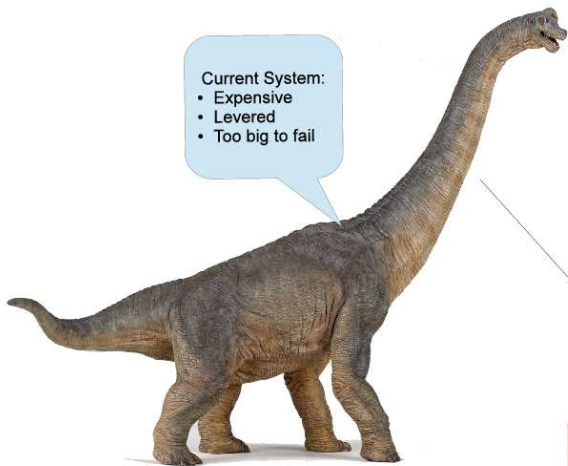
Finance: Risky and Expensive

- Risky
 - short term debt, TBTF
- But also expensive
 - rents, lack of entry, “innovations” that increase user cost, misselling of financial products
- More credit is not the solution to our problems (Cecchetti and Kharroubi, 2012; Levine, 2015)

My Summary of the Existing System

Current System:

- Expensive
- Levered
- Too big to fail



FinTech

Desired System



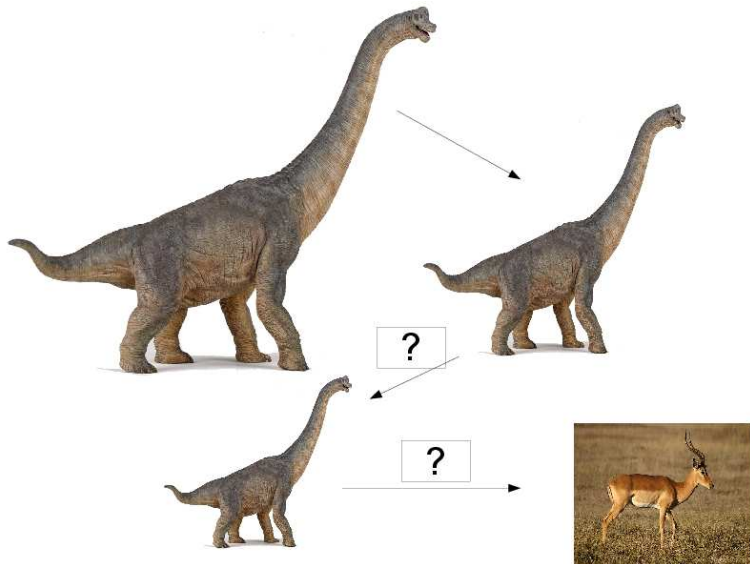
Point 2

Current Regulatory Approach Has
Run Its Course

Current Regulations

- Improvements: more equity, multiple metrics, stress tests, systemic risk, SIFIs. Ingves (2015)
- Outstanding issues
 - capital (Admati et al., 2013; Admati and Hellwig, 2013)
 - runnable claims Cochrane (2014)
 - TBTF

Current approach will not get us where we need to go



embedded distortions, coordination costs, incredible design

Point 3

FinTech: An Opportunity,
Not A Guarantee

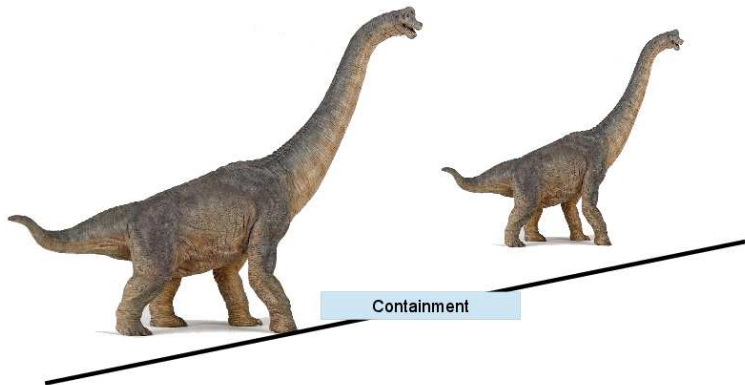
Payment Systems: No Need for All This Debt

- Natural entry point for FinTech (remittances)
 - Credit cards: concentrated markets with high rents
 - We would like FinTech to lower these costs
 - But they could do more
- We do not need all these runnable claims any more
 - Historical reliance on short term debt contracts
 - The heart of every financial crisis
 - But today's technology is ready
 - You could pay groceries with mutual fund shares
 - Regulation is not ready
- Early choice, easy choice
 - MMMF: what if we had impose floating NAV 30 years ago?

Asset Management: Will Robots Do Better?

- Human advisors have a terrible track record
 - Fees have not declined because people have been pushed into high fee products (Greenwood and Scharfstein, 2013)
 - Pervasive conflicts of interest, generalized misselling: Bergstresser et al. (2009), Chalmers and Reuter (2012), Mullainathan et al. (2012), Foà et al. (2015)
- Robots will have issues
 - But codes are easier to verify
 - If “age>70 & educ<HS then propose X”
 - Deep legal challenges
 - Liability risk can scare many startups

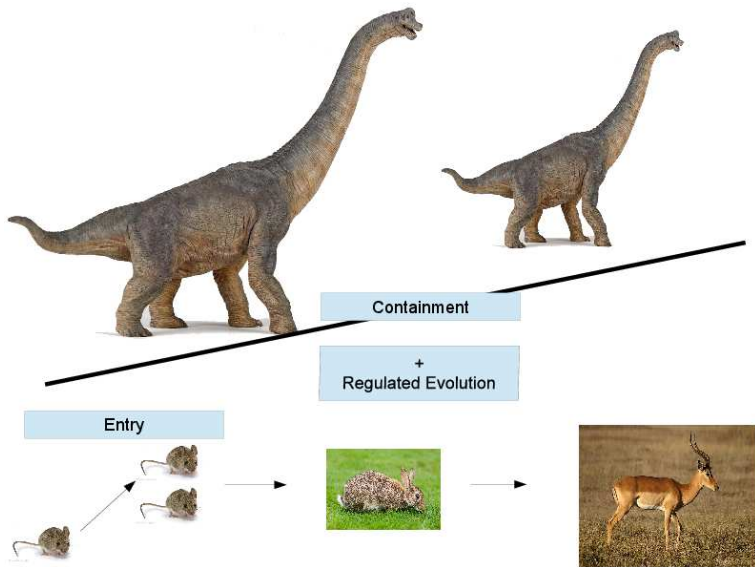
My Proposal



Containment



My Proposal



This Will Not Happen Automatically

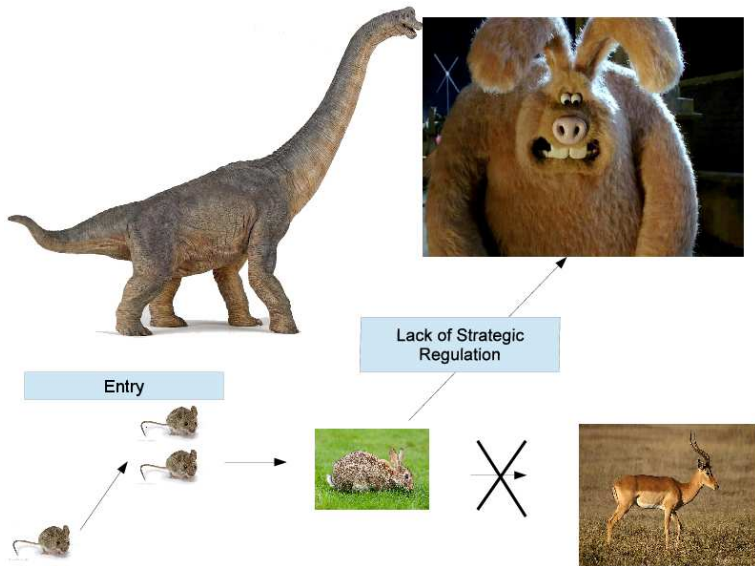


Lack of Strategic Regulation

Entry



This Will Not Happen Automatically



FinTech Opportunity: Regulatory Principles

- Keep incumbents in check with high equity ratios
 - tendency to drift over time
- Be suspicious of acquisitions
 - what would have happened if Airbnb had been bought by Hilton or Marriott?
- Encourage entry in concentrated markets dominated by large incumbents
 - clearing and settlement, custody, ... banking
- Promote low leverage systems
 - while the industry is still young

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