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PANEL
Financial innovation:
implications for competition,
regulation and monetary policy

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Financial Innovation on Competition and Regulation

- What is new?
 - New tools
 - AI&ML automating: pricing, selection, recommendation
 - Digital ledgers and smart contracts
 - But no A-General-I!
 - New players
 - Specialized players (Fintechers) unbundling financial services with disintermediation, different business models
 - BigTech (e.g. GAFAM) global players loaded with data and relying on different business models

Financial Innovation on Competition and Regulation

- Effects of new tools
 - *Competition*
 - Automation: certain source of efficiency for fin. markets
 - What can go wrong?
 - Automating pricing can lead to autonomous collusion
 - A. selection can lead to biases
 - A. recommendation can steer to market dominance (“Buybox”)
 - *Regulation and Supervision*
 - AI difficult to interpret (explainability), but can be tested
 - RegTech SupTech! But needs intl. coordination (BIS!)

Financial Innovation on Competition and Regulation

- Effects of new players
 - *Competition*
 - More players welcome for cost-stagnating fin. markets
 - Unbundling source of competition and new risks
 - BigTech merging financial/non fin. data, market tipping?
How levelling the playing field?
 - *Regulation and Supervision*
 - Always balance innovation/efficiency and risk mitigation
 - But Reg/Sup must keep pace (specialized units) and understand new *business models*
 - Difficult but key task: where are the new risks?

Financial Innovation on Competition and Regulation

- Understand the business model: is the source of profits?
 - Must track source of revenues/costs and risks
 - E.g. how making money with P2P lending (BIS-FSB 2017)? Or in AI-optimized payment system?
 - E.g. “zero profits” firm and (too) fast growing firms...
 - Important: source of profits → source of (new) risks
 - Both Fin/Bigtechers make this novel and complicate
 - Also for internal management
 - Outsourcing+disintermediation: (also) new risks