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Financial Services Forum

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A skeptic's perspective on FinTech

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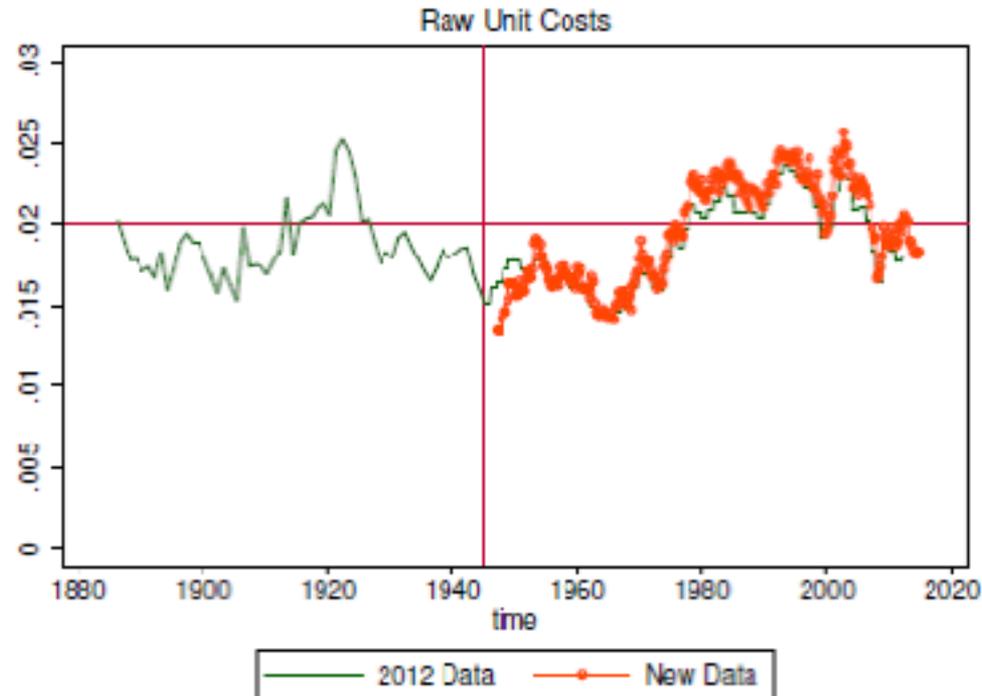
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Fintech will produce significant productivity gains

- The benefits will be captured privately (not passed on)
- Most of the action is in lending and payments
- Gains in lending mainly from extending services
 - Especially underdeveloped markets
- Gains in payments obscured by rise in use of credit
 - Socially very expensive/undesirable
- Blockchain benefits from anonymous trust
 - Not very helpful in finance

Finance big: but productivity gains retained

Figure 2: Unit Cost of Financial Intermediation



Source:
Phillipon 2017

Lending and Payments dominate Fintech

Table 1: Size of revenue pools and profit pools in finance (\$b)

	Banking	Payments	Insurance	Wealth	Infrastructure
Revenue	89	4	51	21	10
Profit	36	1	14	7	4
Mark-up%	40	25	27	33	40

Table 2: FinTechs by type (% of number of entities)

	Financing	Payments	Other	Wealth
Europe	49	23	19	9
United States	55	18	18	9

Sourced:

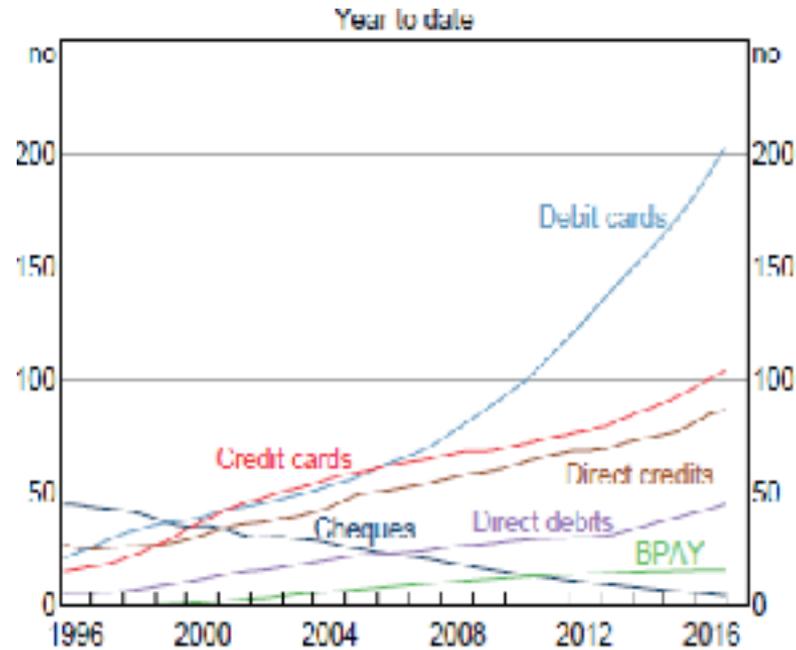
1. From Industry Super submission to FSI;
2. from Haddad and Hornuf (2016)

Value of additional lending

- Households already heavily indebted
- Most businesses have few problems accessing finance
 - Few social gains from additional lending
- Group of smaller businesses have limited access to finance
 - Possibly 10% are constrained
 - Possible increase in business lending >\$10b
 - Potential increase in annual value add >\$5b

The problem with payments

Non-cash payments (m)



Source: ABS; ANZ; BPAY; RBA

Resource costs

	\$ Per Trans	Trans (m)
Cash	0.51	6100
Effpos	0.70	2388
BPAY	0.73	336
Debit	0.94	895
Credit	1.34	1661

Source: RBA DP 2014

Blockchain

Santander (2015): “Our analysis suggests that distributed ledger technology could reduce banks’ infrastructure costs attributable to cross-border payments, securities trading and regulatory compliance by between \$15-20 billion per annum by 2022” (P15).

Financial Times: “Swift said it had tested a “private confidential ledger” It expressed concerns about how practical it was “not least because the 28 banks that ran tests on the system required the creation of 528 sub-ledgers to avoid confidential information being seen by rival banks”.

Conclusion

- FinTech is likely to improve productivity in finance
- Many of the benefits will be captured by insiders
 - Both incumbents and entrants
- Public policy should focus on how to pass the benefits through
- Pro-competitive policy to do this is severely constrained by prudential concerns