

Fintech and Economic Performance

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Topics

- Impacts on Financial industry
- Blockchain
- ICO
- CBDC

Recent trend in Japan

- Fintech firms
- Open API
- Collaboration of banks
and fintech venture
firms
- These firms are important
- but, Fintech startup firms mainly focus on
new financial or payment services.

Potential Impacts on Efficiency

- Decrease the cost

and

- Improve the quality of financial service
 - more appropriate matching
 - better quality of monitoring
 - high quality of payment service

Impacts on Macro Economy

- For macro economic performance,
- Deposits should be allocated to (potentially) productive firms or investment opportunities.

**Does Fintech improve
lending technology or monitoring ?**

Strategy for major banks

- **Intermediary to Platform company**
- Are there **any special skills or assets** which can attract potential borrowers or firms in other industries ?

Sufficient amount of deposits?

For global companies?

Is there lock-in effect?

Strategy for major banks

- Banks become Platform Companies, if they can keep attracting those companies.
- Promote other industries not only by the direct financial services
(i.e. not just by lending)
- Provide meaningful information

Gathering Information

- **By providing payment services, it can gather very useful information and data.**
- **This is a key element of fintech.**
cf Chinese experience
- **Cashless is of course an important aspect, but the main point is the new information transmission process**
- **IoT may increase the information and data**
- **Of course, privacy is also important.**

Gathering Information

- Even Japanese banks did obtain those information, but they did not keep nor analyze the information.
- The system which can treat data appropriately is an important point to create Platform.
- For treating this information, blockchain is a potentially important technology
- For considering CBDC, this element becomes important.

Blockchain Technology

- Blockchain technology will change the industrial structure and our future drastically.
- There will be many business opportunities.

Key point of Blockchain

- Falsification of data becomes (almost) impossible.
- With very low cost.
- This property will make various business opportunities and new types of business.

Great Innovation

- Smart Contract is a key
- IoT + Blockchain + Smart Contract will change our economy and society
- may change organizations, intermediation...
- New industries will come out.

ICO

- Key element for the progress of blockchain
- But speculative coin is not necessary for blockchain.
- Coin is a tool to support the efficient barter transaction or intertemporal exchange.

Fraud or Bubble?

- **Now: Coins are bubbles**

Someone might feel a positive
fundamental value

But most of investors invest only for
speculative motivation, even though
they recognize the fundamental value
is zero

This is almost the definition of bubbles
in the economic
theory.

Even bubbles

- Even though they are bubbles,

they may have a positive impact on
growth rate or economic performance

- Hirano and Yanagawa(2017)
If financial market is
imperfect

Even bubbles

Martin and Ventura (2012)

bubble creation may have a positive effect if financial market does not exist.

If financial market does not work well, ICO may work as a substitute of financial market.

Possibility of Fraud

Negative points

- ICO itself may disturb the financial market.
- Bubbles might crush
- In particular, many issuers did not disclose true information (fraud)

Bubbles by regulation

- One big issue is that ICO becomes bubbles i.e. cannot promise future payments or benefits for avoiding the regulatory requirement.

Because of the regulation, ICO became unstable.

By appropriate regulation (lighter?), ICO with positive fundamental value can be distributed.

Possibility of Central Bank Digital Currency (CBDC)

- It is sometimes stressed the merit or demerit of CBDC comparing to Physical Currency (cash).
- However, it is also important to consider the difference between CBDC and Private Digital Currency (PDC).
- Is it better to issue a retail CBDC instead of PDC, or to issue both CBDC and PDC?

- PDC does not have to be crypto currency.
- PDC can be 100% “reserved” DC.

Importance of Innovation by Private

Sector

- Consider CBDC vs PDC
- One Key point is the possibility of technological innovation.
- If there is no technological innovation, or Central Bank can lead the innovation, CBDC may not disturb the innovation.

Importance of Innovation by Private

Sector

- However, there is a possibility of innovation about DC and payment system by Private Sector.
- CBDC might disturb the innovation.
- Promoting PDC may be a way to promote the innovation.

DC: New Information Transmission Mechanism

- DC has generated a new role of currency.
- Currency is a tool for transmitting information.
- This role might not be attractive for Central Bank.
- On the other hand, this role is very attractive for private companies.