

Financial Sector Disruption

European Banking Authority Policy Research

November 17, 2021

Anil K Kashyap

- The Economics of Disruption Opportunities
- Proof of Concept: Explaining Existing Arrangements
- Impending Disruptions
 - Cryptocurrencies
- Stability Implications
- (Note: these are my views only and I am not speaking as an FPC member.)

Where do we expect disruption?

1. Status quo must create a profit opportunity for innovators
2. Innovation must respect (most of) the existing constraints

- Cross Border Payments example
- Three key forces that may create scope for disruption
 - Regulation
 - Fixed Costs
 - Network Effects

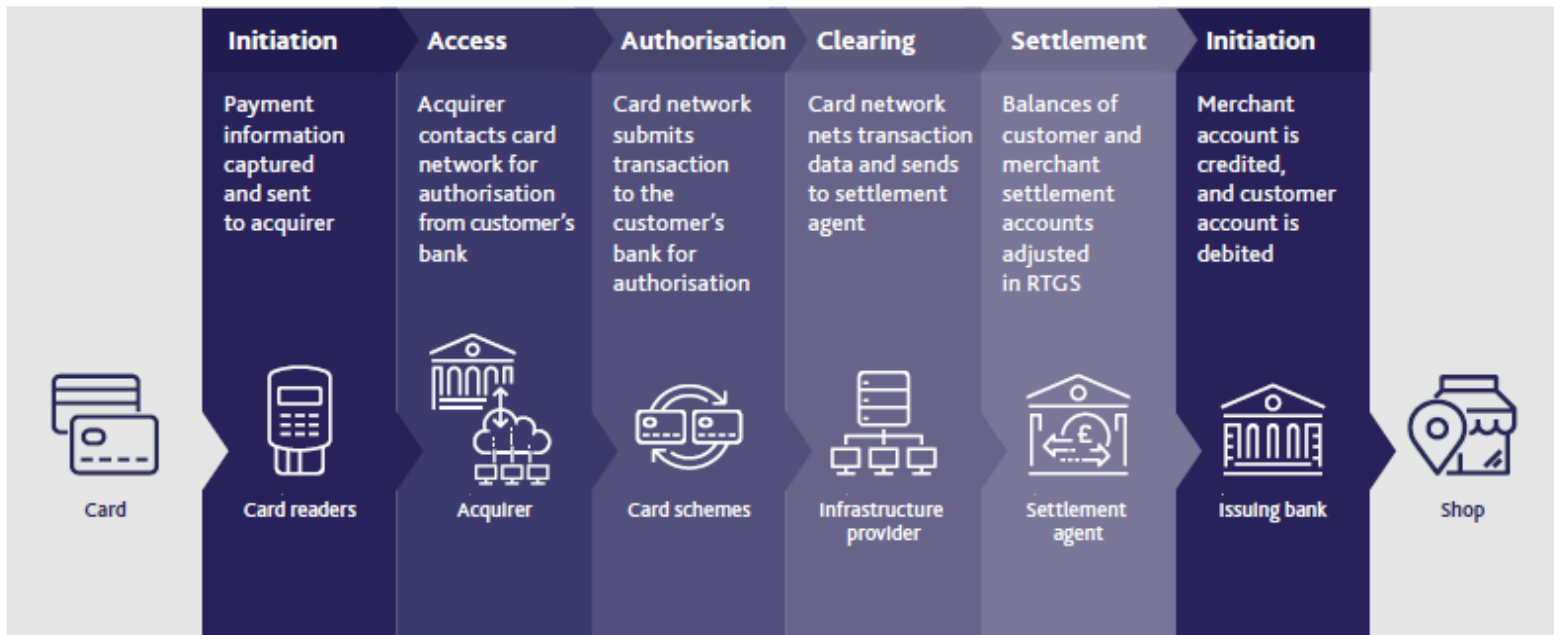
(This is not unique to financial services)

Proof of Concept

- Explaining current and past arrangements:
- Credit Card Lending
- Cross Border Payments
- Title Insurance

Proof of Concept, continued

- Historically, Bank Branching and ATM Networks
- Domestic Payment Systems



Impending Disruptions

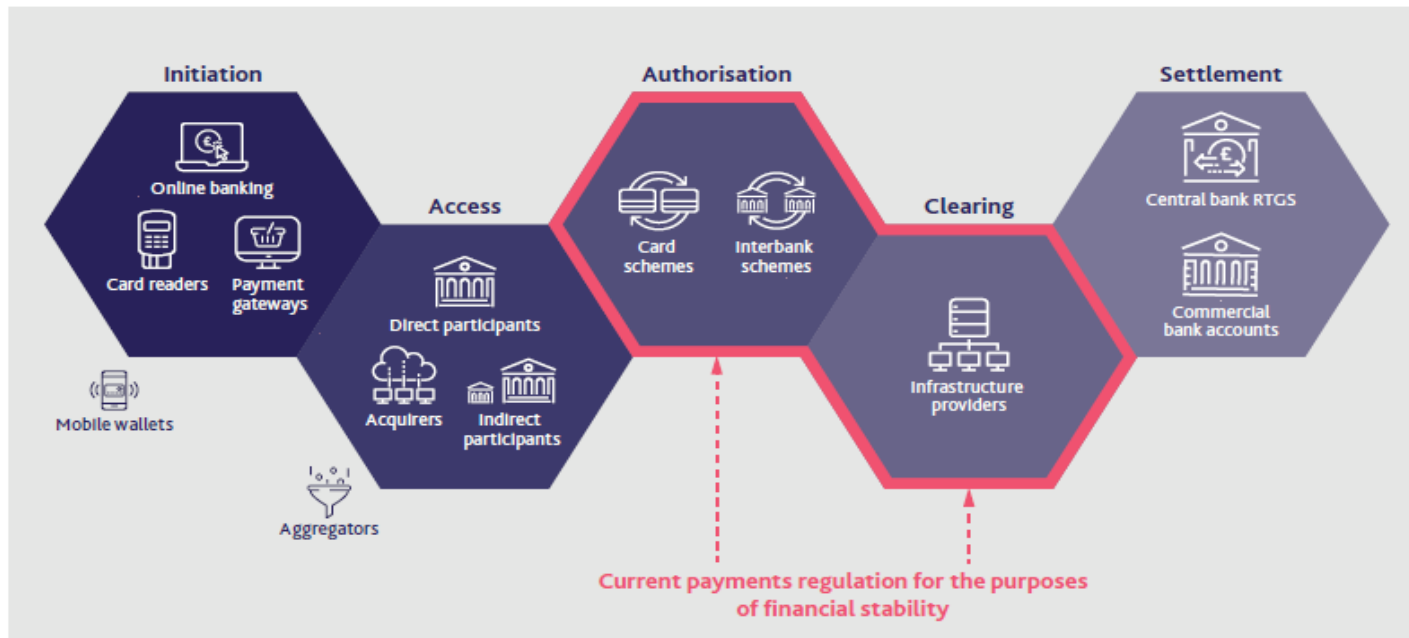
- Cross Border Payments
- Small Business Lending
- Title Insurance

Cryptocurrencies

- See [Cunliffe 2021](#)
 - Differentiate backed and unbacked assets
 - Banks today are not really directly exposed
 - Broader financial system is becoming increasingly indirectly exposed
 - Stablecoins are very different
- Unbacked cryptocurrencies are an answer in search of a problem – be careful!

Stability Implications of this “Framework”

- Figuring out the value proposition of new innovations is helpful for doing cost benefit analysis
- If “race to the bottom” is the value proposition be suspicious
- Identifying where disruption is likely is valuable



Stability Implications of this “Framework”, cont.

- Will cash-flow based lending enhance procyclicality?
- Does removing fixed-costs promote competition or does it increase concentration via network effects?
- Thanks for your attention!