Financial Sector Disruption
European Banking Authority Policy Research
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• 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!