2018

Japan–U.S. Symposium on Building the Financial System of the 21st Century
Trumponomics and Financial Deregulation: Impact on International FIs
Trumponomics

• Is there a coherent program?
  – Fiscal: tax cuts plus increased spending
  – Regulatory agenda: pro-growth, based on cost-benefit
  – Trade agenda: “fair and reciprocal”
    • Highly confrontational – effective tactic or threat to global system and trust?
    • Is core objective containment of China?
    • Desire to make currency central element of trade agreements

• Effects
  – Increased growth, lower regulatory burden
    • Is rapid growth sustainable?
  – Regulatory effects
    • How much change for large FIs?
    • Are “regulatory vacuums” (fintech, non-banks) opening door to next crisis?
Diverging Approaches to Regulation

• Dilemmas of financial regulation
  – Stability (Europe) vs. growth (US, Japan)
  – Function vs. entity
  – Principles vs. rules
  – What constitutes a level playing field?

• International coordination
  – Is US willing to abide by international agreements?
  – Is US still able to set global agenda?
    • Importance of US-Japan cooperation
  – Will there be sufficient trust to cooperate in crises?
Key Issues for Regulators

• Fragmentation
  – Derivatives: onshoring of clearing by EU in reaction to Brexit
  – Ringfencing of bank capital
  – Overlapping and contradictory regulations

• Risk migration
  – From banks and insurers to fintechs, non-banks, asset managers
  – Are we creating conditions for the next crisis?

• Insurance
  – If Solvency II is basis of global regulations, will stunt ability to invest in growth assets
  – Fintech incursions – JFSA is way ahead
  – Postal insurance still privileged relative to private sector

• Data and Regulation
  – Data protection and privacy
  – Data localization

• Uncertainty as regulatory regimes diverge
  – What rules will apply to Japanese and other foreign bank subsidiaries in US?
  – How will US-EU divergence be managed for multinational FIs?
International Cooperation

- Financial industry increasingly globalized, but regulation less coordinated
  - Implications for crisis management: is US more isolated and/or vulnerable?
- US-Japan cooperation
  - Common preference for growth-oriented regulation
  - Opportunities for cooperation to push growth to top of G20 agenda
- Bilateral vs. multilateral
  - Trump has stated preference for bilateral
  - Will this be stumbling block to global supply chains and regulatory cooperation?
    - Particularly for electronics and IT, where security is implicated
    - Provisions of bilateral agreement can serve as *templates* for broader cooperation
      - Perhaps US-Japan FTA is an opportunity for both countries to set precedent
  - Will CFIUS be just China-focused or will it affect FDI from Japan and elsewhere?
Financial Technology and Banking: Threats and Opportunities
What Do We Mean by Fintech?

- Client-facing vs. operational
  - Not all fintechs are alien disruptors
  - Fintech can also improve existing FI operations and functions (trading, ledgers, credit assessment, KYC, etc.)
- Some key disruptive technologies
  - AI and Big Data – credit rating, trading, roboadvising, etc.
  - Distributed ledgers – not just cryptocurrencies; record-keeping and settlement probably more important
  - Platformization – Etherium, etc.
- What is unchanged?
  - Trust remains key to financial intermediation
  - Many fintech functions are just more efficient ways of managing standard tasks
- What is different?
  - New products and services
  - New algorithms and sources of data
Uses and Implications

- Cryptocurrencies
  - Public vs. private vs. token
  - Are they currency or asset?
  - Should private cryptocurrencies even be allowed?
    - Money laundering, tax evasion concerns
    - Potential impact on monetary policy

- Distributed ledger technology experiments
  - ASX declaration (and postponement)
  - Shipping, trade finance, custody, post-trade settlement
  - Still testing within and among traditional FIs

- Insuretech
  - Biometric verification
  - Claims adjustment through Big Data, AI, sensors
  - Streamlining processes and client-facing technologies

- Fraudulent activities
  - May damage reputation of fintechs, slow down innovation
Regulatory Challenges

• Whom to regulate?
  – When does a fintech become a regulated FI?
  – How to regulate platforms and vendors?

• Regulation vs. innovation
  – FIs need to understand regulatory environment
  – Many fintechs see themselves as tech firms, lack understanding of financial or legal context
  – Regulatory sandboxes as intermediate

• What to regulate
  – Data security and privacy
  – Prudential
  – AML, KYC
  – Resilience planning
Regulatory Challenges, cont.

• Fintech risks
  – Herd behavior stemming from common strategies
  – Unforeseen consequences of new, unproven data and algorithms
  – Fraud and consumer protection

• Regulators’ capabilities
  – Knowhow and tech capabilities
    • Regulators around the world need to improve
    • Via own staff or public-private advisory mechanisms
    • Investor education
  – Cross-border cooperation
    • Whose jurisdiction? How to manage?
Other Issues

• **Who wins and loses?**
  – Redistribution of value from traditional FIs to new actors and clients
  – Tendency of scalable tech toward concentration
  – Small FIs likely to lose out
    • Rising concentration in finance
    • Reliance on platforms – small banks may become just servicers
  – Generational issues affect implementation, demand for fintech services

• **Japan issues**
  – Are Japanese FIs and software firms up to the challenge?
    • Need to develop skills
    • Even large FIs playing catch-up; must embrace change
  – Japanese people still love cash
  – Japan is ahead of the game but regulatory framework still a work in progress
    • Learning from Mt. Gox and Coincheck
    • ICOs still not allowed
    • Sandboxes not yet in place
UPCOMING EVENTS

Europe-U.S. Symposium
*Paris, France*
March 20-22, 2019

China-U.S. Symposium
*Washington, DC*
June 5-7, 2019

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