

Capital Markets Union and the fintech opportunity

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The financial intermediation landscape in Europe is changing slowly

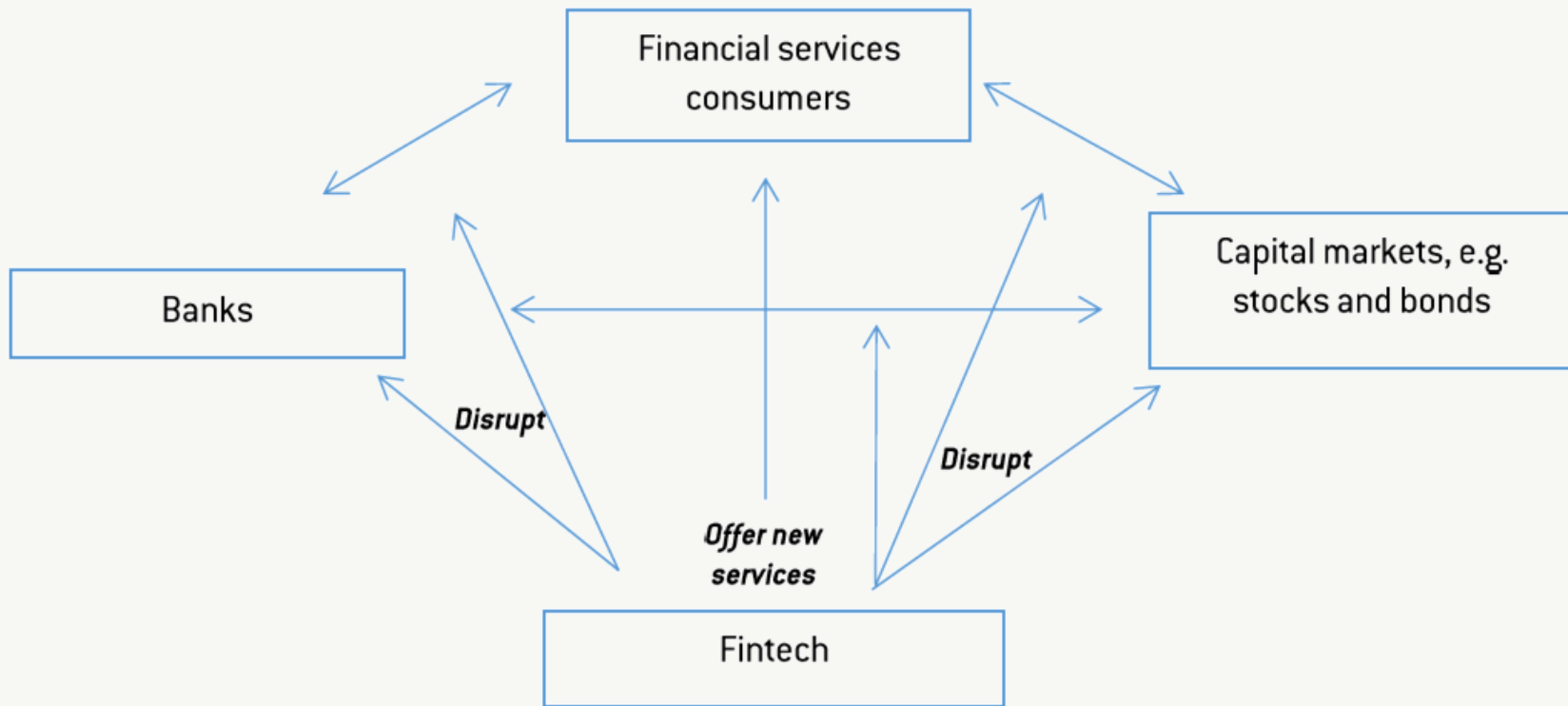
- CMU important “flagship” initiative.
- Long policy discussion: “Lamfalussy” report in 2001: some issues still discussed
- Why CMU?
 - Two benefits of deeper capital markets (Langfield & Pagano 2016)
 - growth
 - financial stability
 - Cross-border capital markets can absorb shocks
- Major changes in banking policy framework
- Yet, financial system change is slow (Véron and Wolff 2015, Wolff 2017)
- **Two ongoing developments have the potential to significantly alter Europe’s financial system: Brexit and “Fintech”.**

What is “fintech”?

- Fintech is the label for new technology-enabled businesses in financial services. It is the use of innovative information technology in financial services. No universally accepted definition.
- Enablement of fintech down to computer power, intelligent algorithms & AI, availability of massive data and storage through the cloud, and mobile hardware that provides constant accessibility.
- Main segments
 - (1) Alternative financial intermediation including peer-to-peer, alternative lending and crowd-funding
 - (2) Payment systems, transfers and settlement
 - (3) Personal finance such as robo-advising
 - (4) Insurance

Fintech has potential to improve and disrupt financial intermediation and change its structure

Figure 1: Fintech disrupts financial intermediation at various levels leading to further changes in financial system structure.

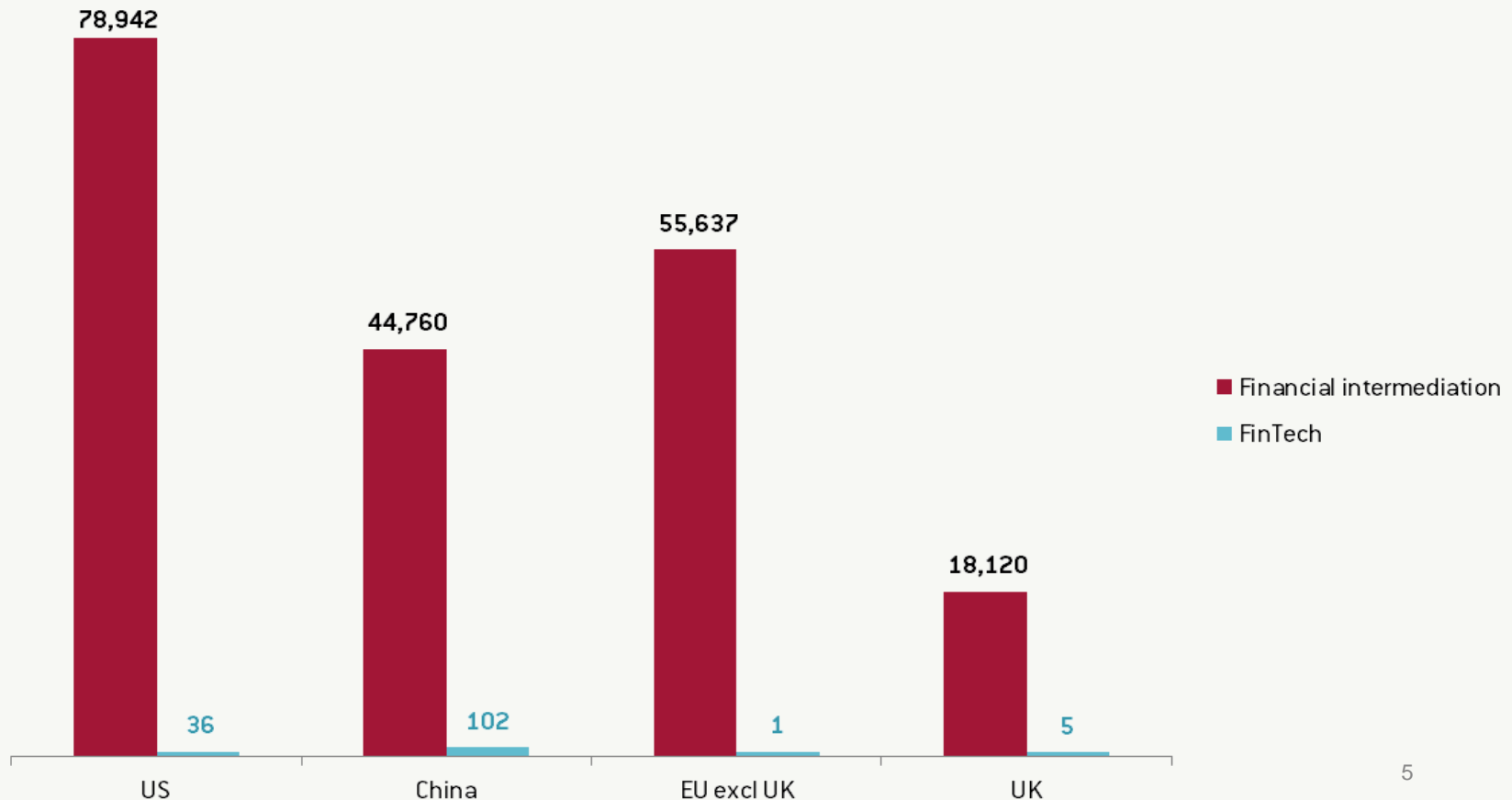


The challenge is to foster the “good” disruption while preventing the “bad” disruption.

The Fintech market is small...

- In all major jurisdictions, the **volume** of alternative finance is **very small compared to the size of financial intermediation**. It is particularly tiny in EU and largest in China.

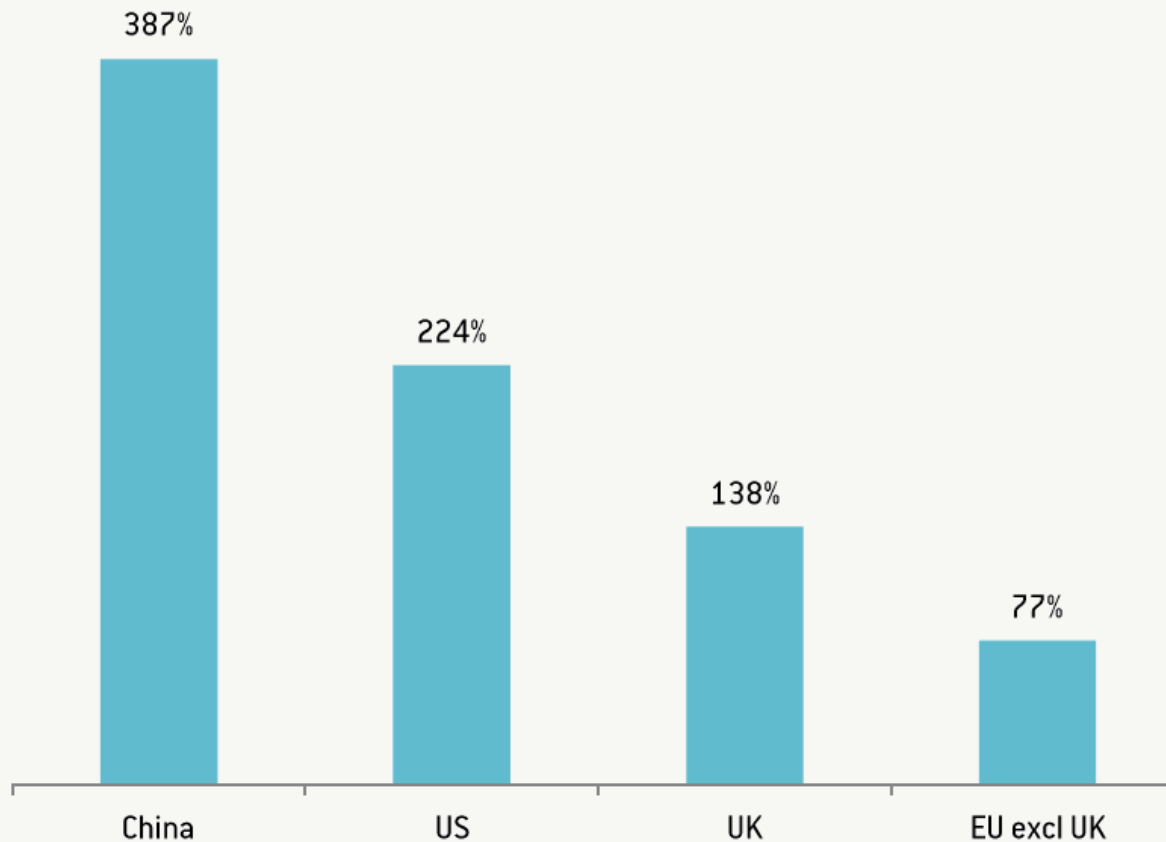
Figure 2. Size of Fintech and financial intermediation, 2015 (USD bln)



... but growing quickly

...but the **growth rate** of Fintech has **exceeded that of capital markets**.
EU27 again lags behind China, US, UK.

Figure 3. Average growth rates of Fintech (%) in 2014-2015



Implications and policy conclusions

- Fintech can **profoundly change financial intermediation in its current form**, by **lowering the cost of financial intermediation** , providing **different products** and offering **different consumer experiences**.
- The question is whether fintech will disrupt the financial system in a way that will decrease or increase undesirable properties
- To date, fintech has contributed little to European financial market integration but it could become more important.
- “Techfin” or the entry of large internet tech giants in fintech in particular could be a game changer.

Four central policy questions

Issue 1: Should fintech markets be European or national?

Issue 2: What regulatory approach?

Issue 3: Does the EU need an institution to oversee fintech?

Issue 4: A new “Lamfalussy” group?

Thank you.

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