

# The FinTech Opportunity

Thomas Philippon

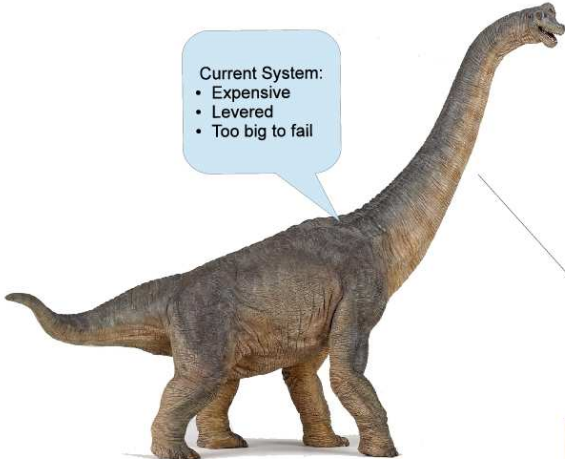
New York University, NBER, CEPR

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# Financial Regulation: Where We Are & Where We Want To Be

Current System:

- Expensive
- Levered
- Too big to fail

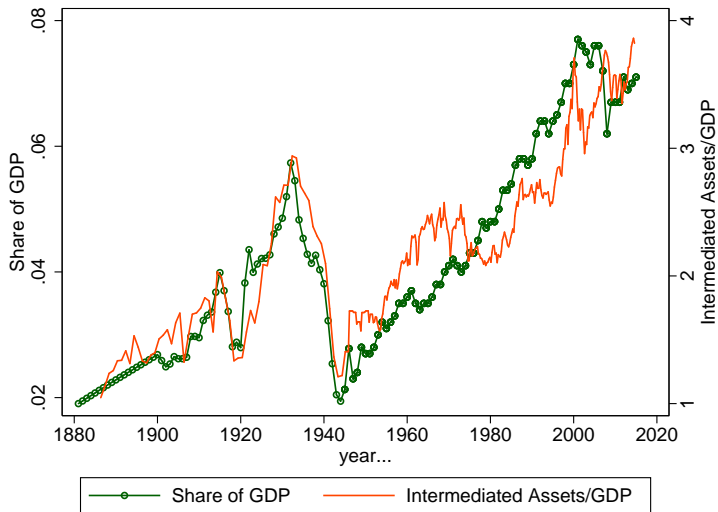


Desired System



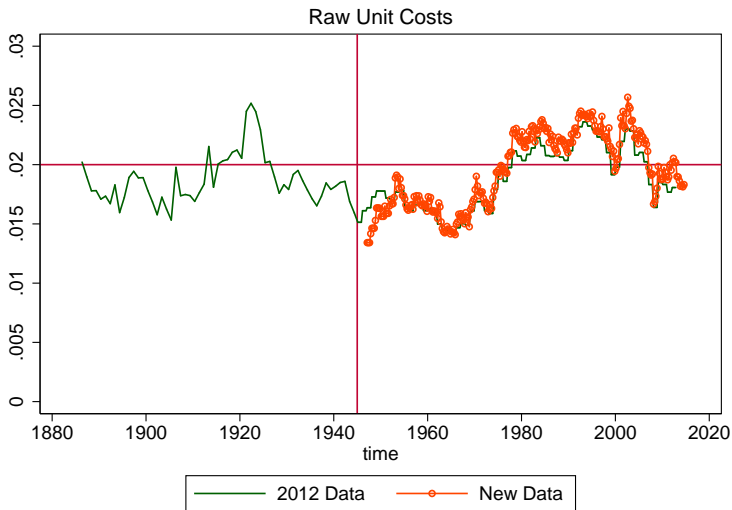
FinTech

# Financial Intermediation (in the U.S.)



Source: Philippon (AER, 2015)

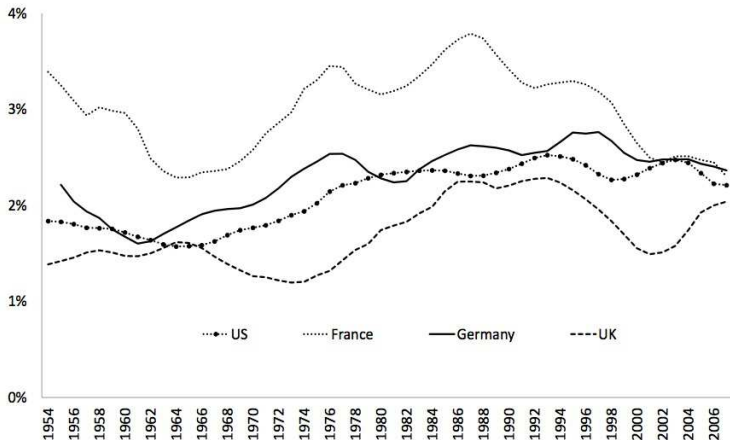
# Expensive Finance: Unit Cost in the U.S.



Source: Philippon (AER, 2015)

# Unit Costs, Global Comparison

Figure 2.5.1: National unit cost (4-year moving average)



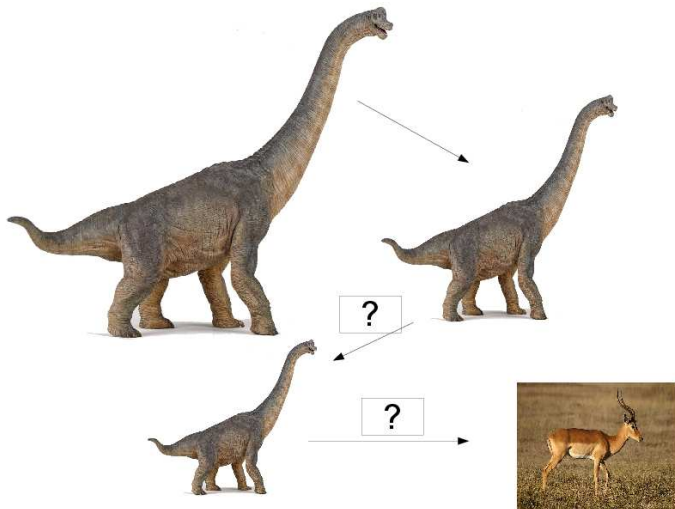
Note: US unit cost from Philippon (2012), level estimation. The US series does not use bank capital gains. Unit costs calculation details for Germany, France and the UK are provided in the preceding paragraphs of this section.

Source: Bazot (2013)

# What did NOT happen in Finance

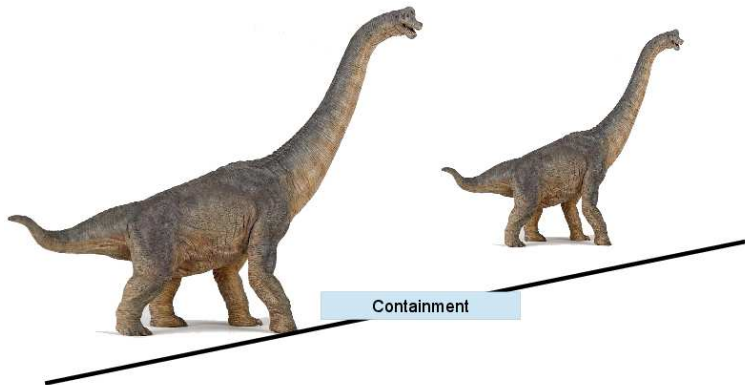


## Current Strategy Has Run Its Course



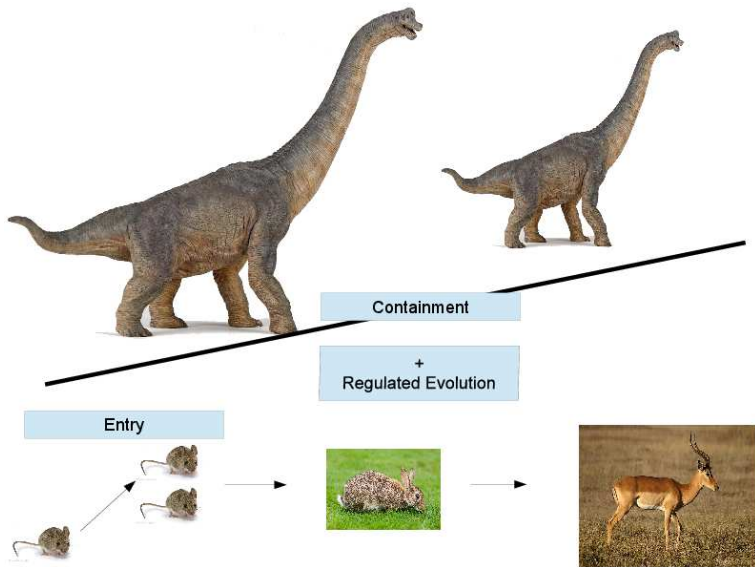
Will not work: entrenched interests, coordination costs, intractable design problem

# My Proposal: Regulated Evolution





# My Proposal: Regulated Evolution



# What Can FinTech Do For US?

- Lower costs
  - e.g. robo advisors (Fisch, Labouré & Turner)
- Democratize access & Improve decisions
  - Poores (Klass & Perelman; Callaway)
  - Olds (Munteanu, Axtell, Rafih, Liaqat & Aly)
  - Steven Polansky, Peter Chandler, and Gary R. Mottola (2018),
- Lower risk, rely less on debt
  - Tech solutions more equity friendly
  - Square, PayPal loans, Holberton School tuition

# This Will Not Happen Automatically

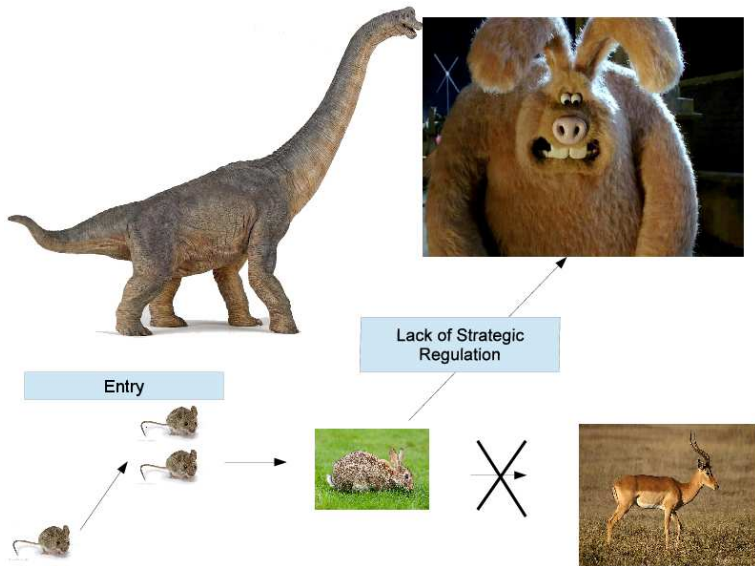


Lack of Strategic  
Regulation

Entry



# This Will Not Happen Automatically



# Challenges

- Data
  - Cyber risk (Rouse, Levine, Itami, & Taylor)
  - Ethics & genetic information (Klitzman)
- Legal framework
  - Investment advisors (Baker and Dellaert)
- Dealing with Mistakes
  - Driverless finance?