Discussion of “Electronic finance: reshaping the financial landscape around the world” by Claessens, Glaessner+Klingebiel

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Disclaimer: Any views expressed are only the discussant’s own

This paper...

- Takes us for an exciting stroll through the global village's financial supermarket...
- with the watchman on the side
- Addresses many important issues on how the financial system evolves in response to the IT revolution and other factors…
- and addresses many relevant policy options

Points for discussion

- What is e-finance?
- Is there a difference between e-money and e-finance?
- What makes banks special?
- Different notions of safety nets

What is e-finance ?

- Important to structure our ideas
- “Transactions in which funding for an economic activity is provided through an electronic communication medium (ECM)”
- ECMs: 1) phone, 2) closed computer net-works, 3) Internet (open network), 4) chip or other cards
- Financial instruments basically the same (“direct” finance, “indirect” finance)

What is e-finance ? (cont.)

- Differences: distribution channels
  [a) personalised, b) impersonalised] and technical execution
- “weightless economy” in the financial sector
- Conclusion:
  progress in e-finance<changes in financial systems

e-finance vs. e-money

- e-finance: funding for investment or consumption (credit)
- e-money: payment execution, transactions
- cards as MOE imply SOV, SOV not necessarily MOE

e-finance vs. e-money (cont.)

- if cash card balances redeemable at par and transferable, then similar to deposit with issuer (e-money=e-finance)
- if not redeemable, then more similar to a banknote (with variable denomination)
- hence, e-money and (e-finance) related with monetary policy
- not entirely appreciated in the paper

Strengthen analysis of e-money

- Part 1: “Recent trends” about e-finance
- Part 2: “Policy implications” mainly about e-money !?, but not monetary policy !?
- “Survey of electronic money developments” by Committee on Payment and Settlement Systems (BIS, May 2000), ample info.
- Strengthen ANALYSIS about e-money in Part 1 before jumping to policy concl. in 2

Speciality of banks

- in relation to financial stability
- Past: short-term retail deposits, long-term loans
- Present: 1) short-term funding from wholesale interbank market, long term loans+securities trading; 2) involvement in large-value payment business
- Systemic risk?
- Special risks not retail deposits or retail payment systems

Different notions of safety nets

- Investor/consumer protection: deposit insurance with upper bound, private investor compensation schemes
- Systemic stability: lender of last resort
- Safety <u>nets</u> mainly refer to ex post intervention
- Different from pre-cautionary ex ante policies: financial regulation and supervision (but related through incentives)

Other points

- Give more guidance on the literature
- Eliminate long lists of financial sector developments unrelated to e-finance/money
- Discuss also “indirect” e-finance (electronic trading systems), interesting developments in EU for example
- Give sources of data

Other points (cont.)

- Paper mainly about industrial countries, only some information on emerging markets
- Update: Deutsche Börse-London Stock Exchange merger didn’t happen in the end (table 2)