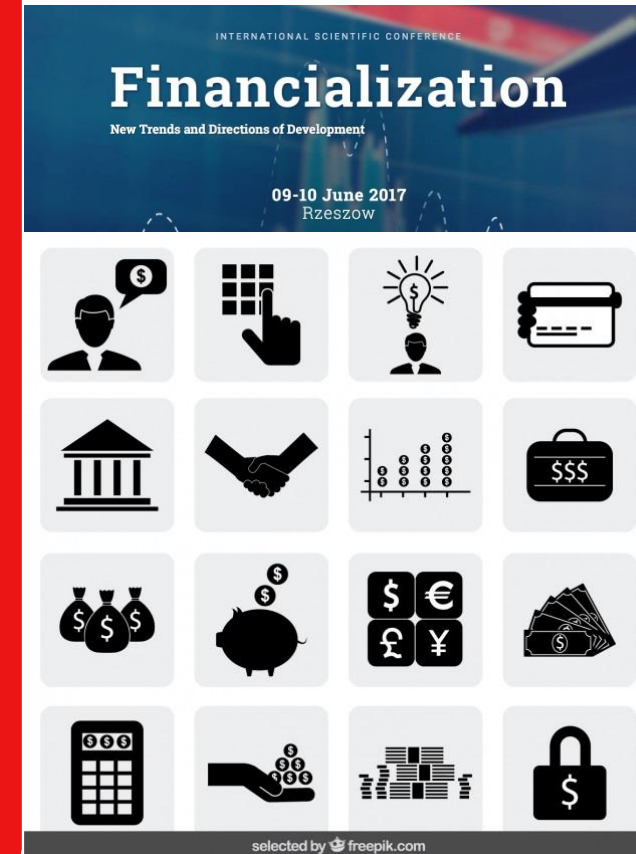


# The two faces of financialization

Monika Marcinkowska



UNIVERSITY  
OF LODZ





# Financialization

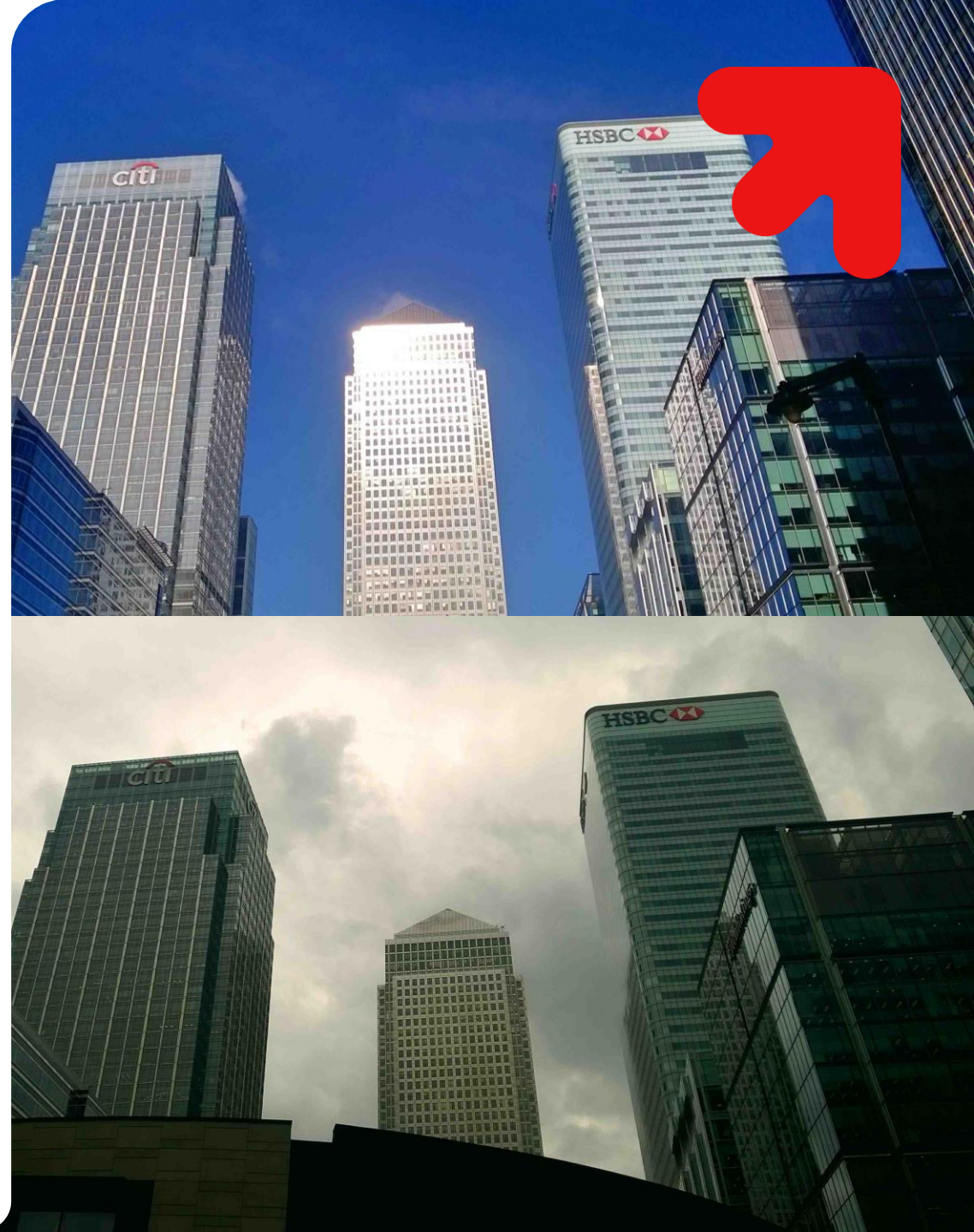
Financialization refers to the increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operation of the economy and its governing institutions (Epstein, 2001).

Financialization transforms the functioning of the economic system. Impacts (Palley 2007):

- ✓ elevates the significance of the financial sector relative to the real sector,
- ✓ transfers income from the real sector to the financial sector,
- ✓ contributes to increased income inequality and wage stagnation.

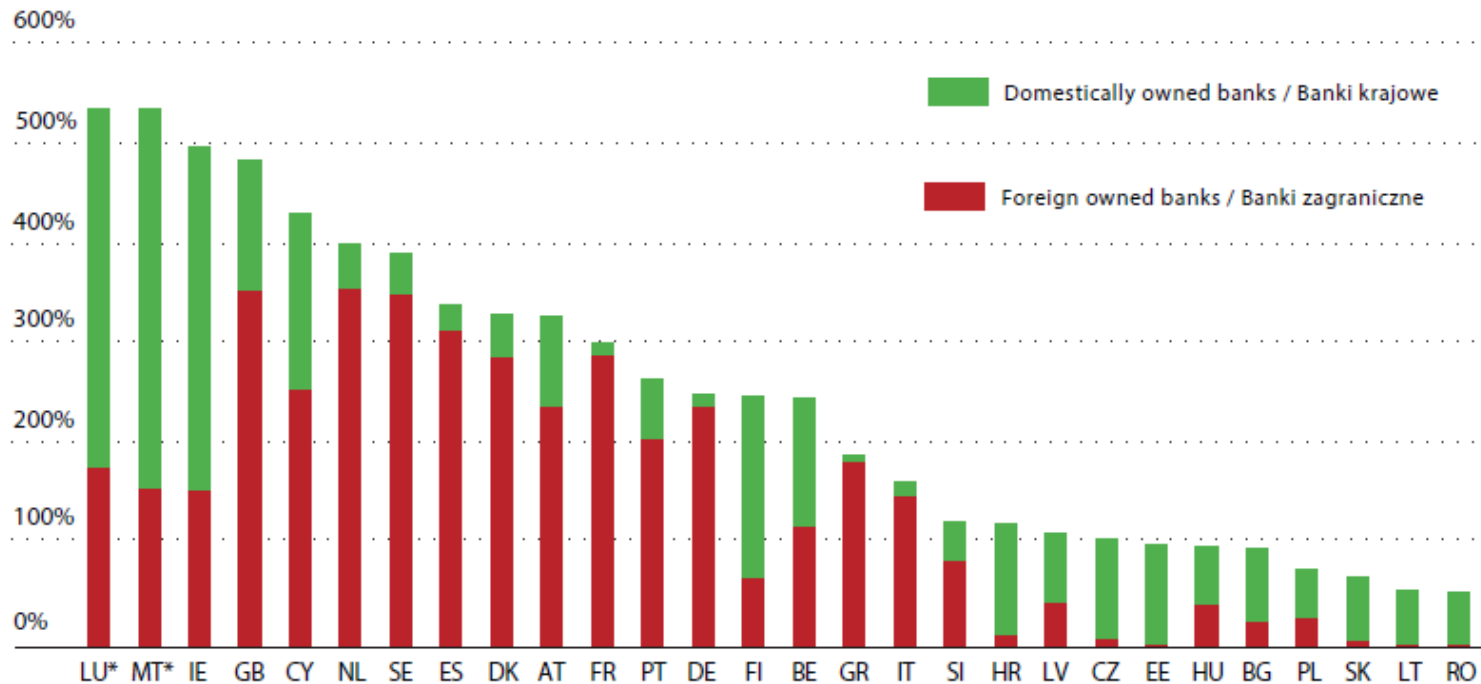


# Face one: Finance is everywhere



# Big banking systems

Total consolidated assets of banks / GDP (2013)

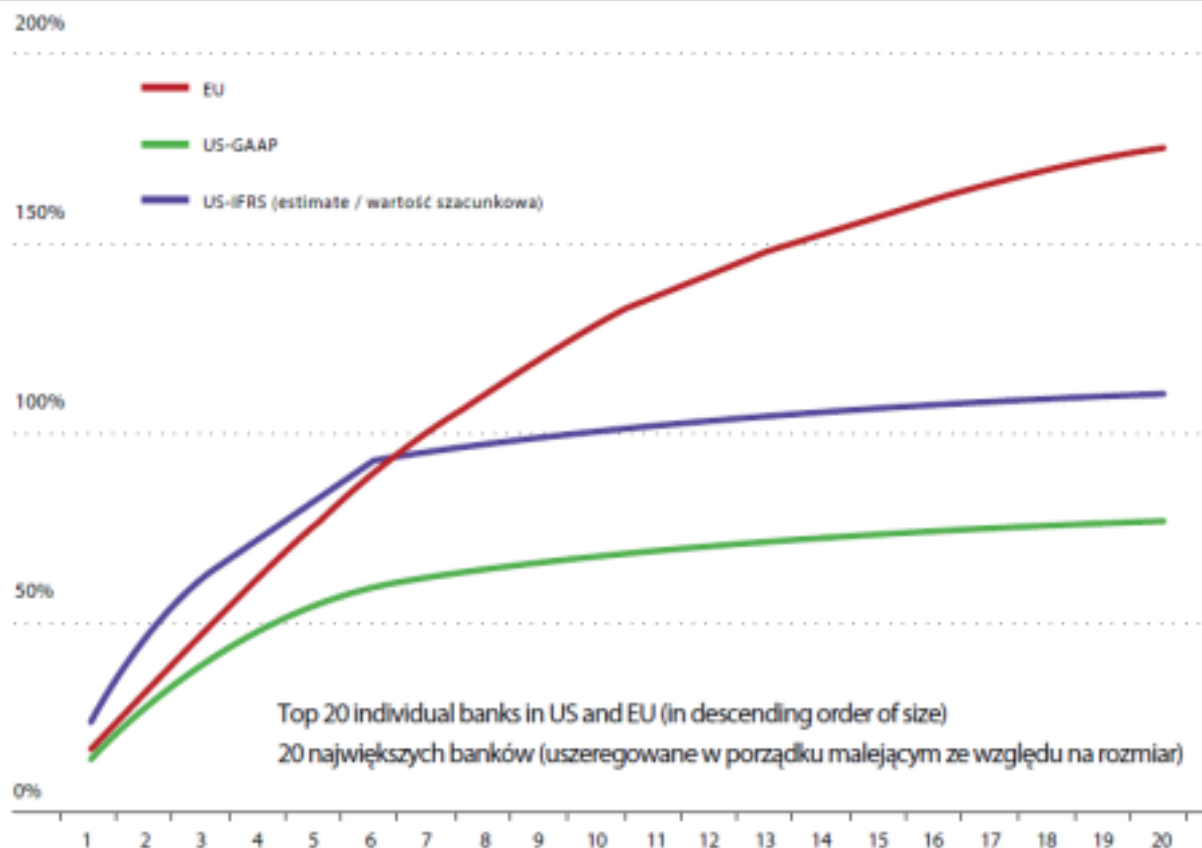


Sources: ECB consolidated banking data and the IMF World Economic Outlook.

Źródło: Skonsolidowane dane bankowe EBC i IMF World Economic Outlook.

# Big banking systems

Bank assets / regional GDP (2012), cumulated on top 20 banks

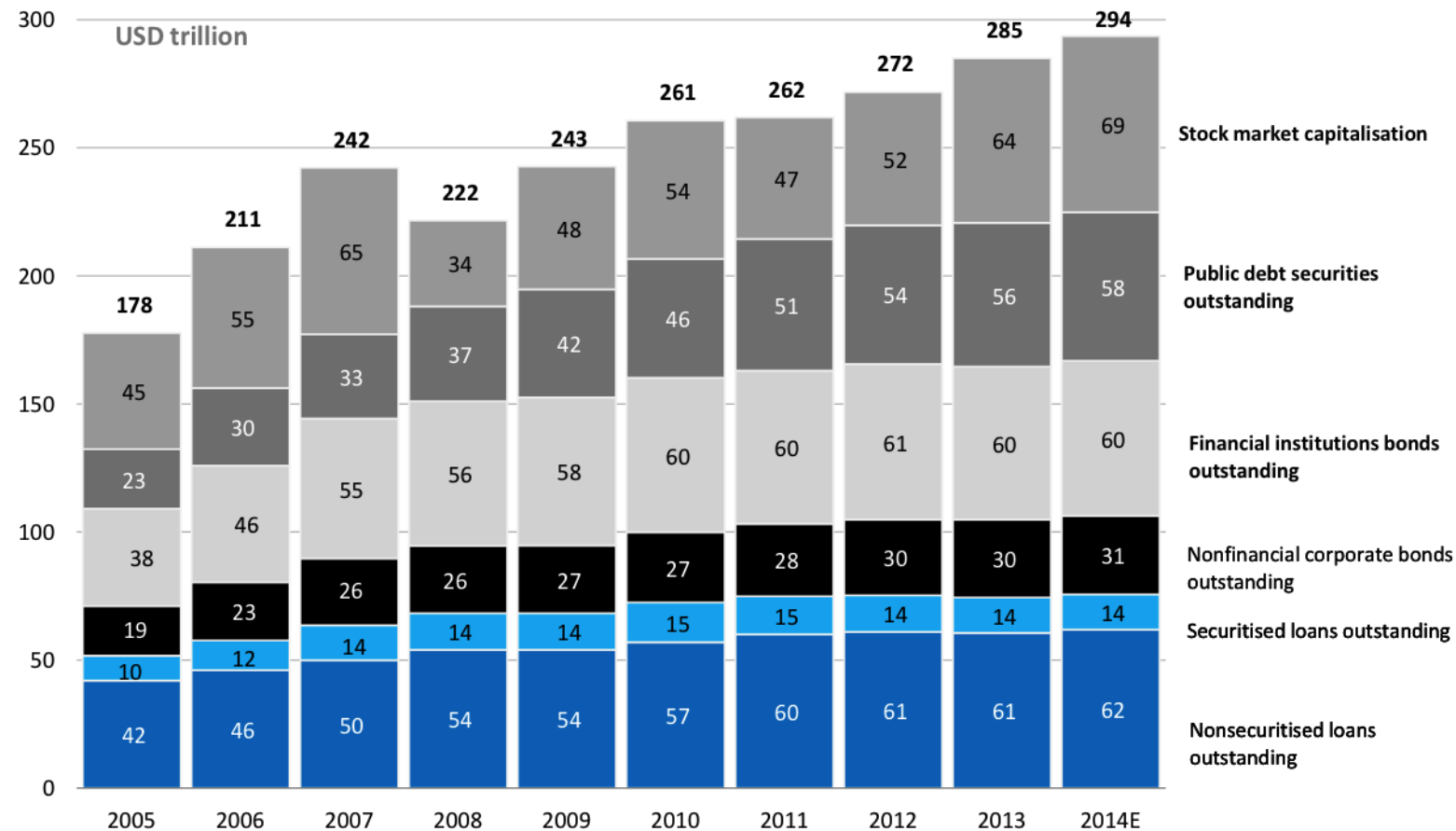


Source: Bloomberg; IMF.

Źródło: Bloomberg; MFW.

# Growing financial assets

## Stock of global financial assets

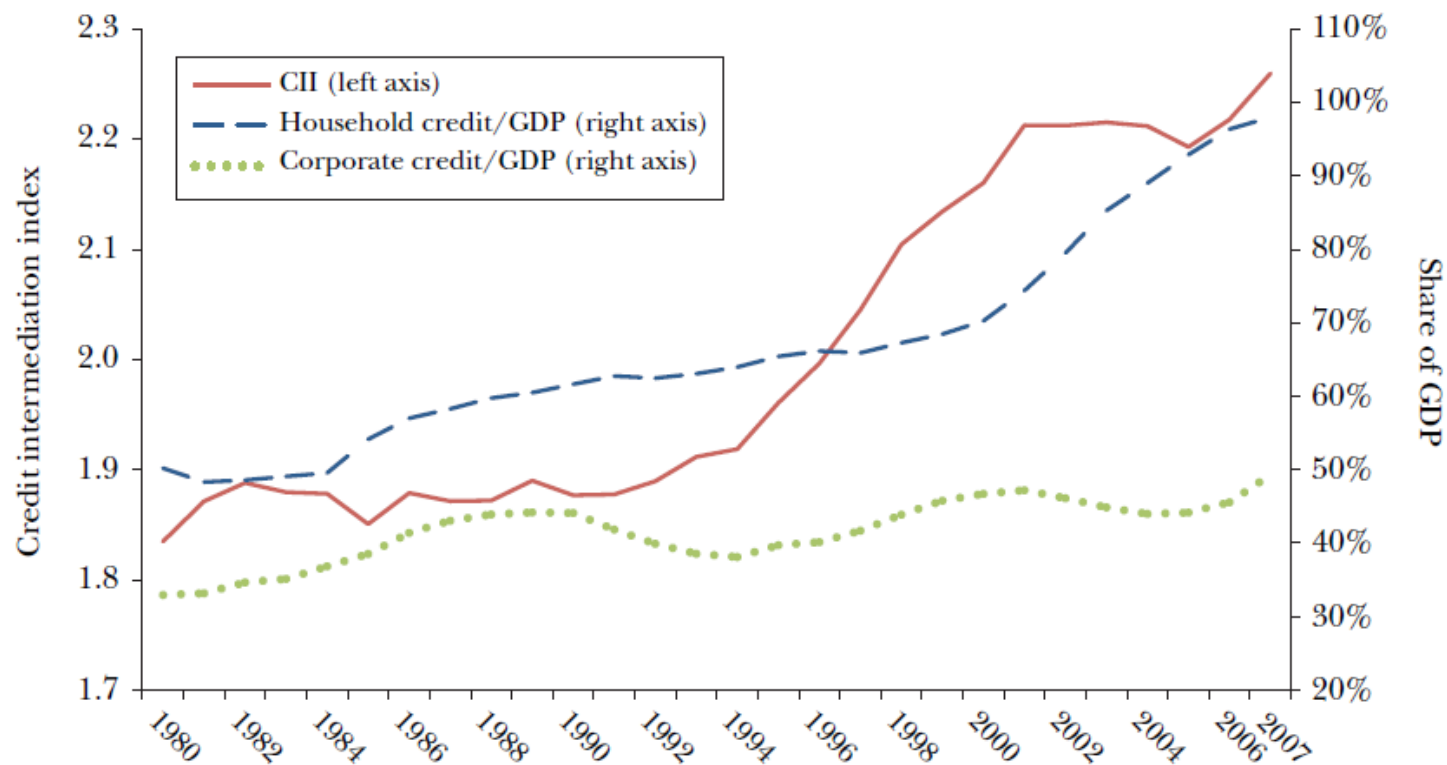


Source: McKinsey Global Institute, Haver, BIS, Deutsche Bank estimates



# Growing debt

## Household and corporate credit / GDP



Source: Flow of Funds and author's calculations.

Notes: The Credit Intermediation Index (CII) is equal to the ratio of gross credit to net credit to end users (government, households, and nonfinancial firms). Household credit and corporate credit are from Table L1 of the Flow of Funds.

Robin Greenwood and David Scharfstein, *The Growth of Finance, Journal of Economic Perspectives—Volume 27, Number 2—Spring 2013—Pages 3–28*

# Too much finance?

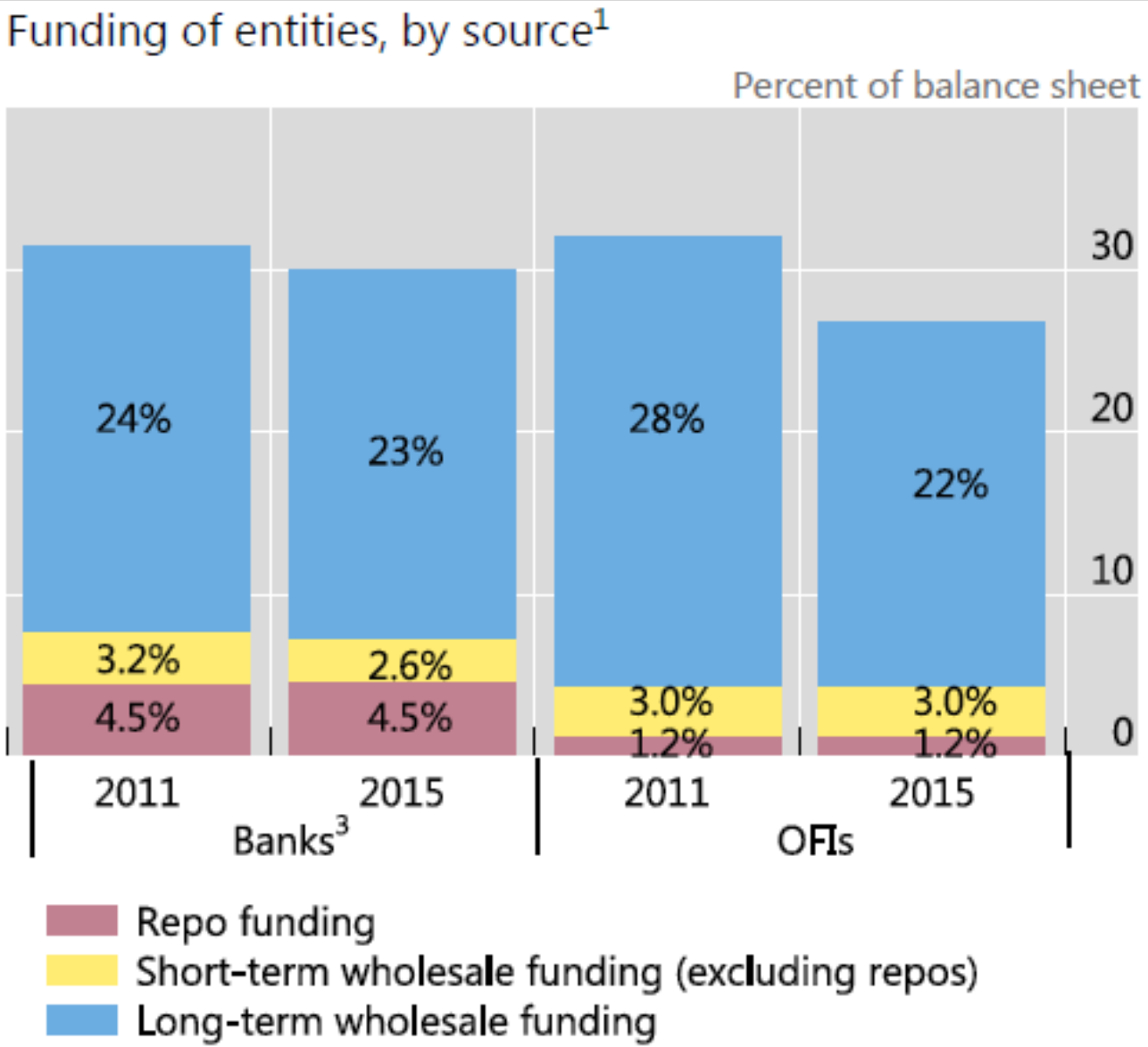
*J. Toporowski:*

***In an era of finance,  
finance mostly finances finance***



J. Toporowski, *The Wisdom of Property and the Culture of the Middle Classes*, [w:] *Why the World Economy Needs a Financial Crash and other critical essays on finance and financial economics*, Anthem Press, New York 2010



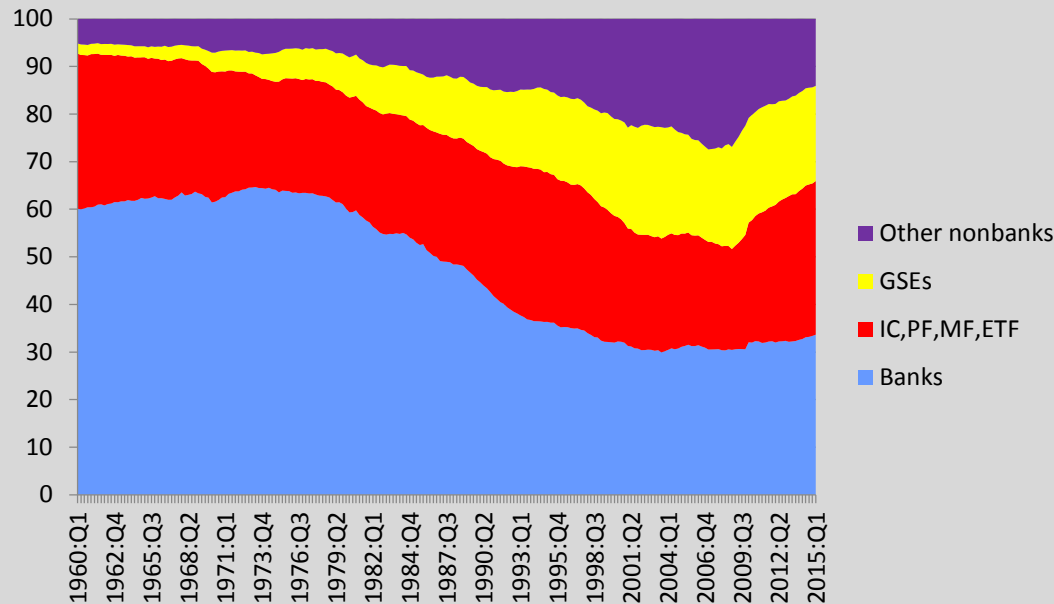


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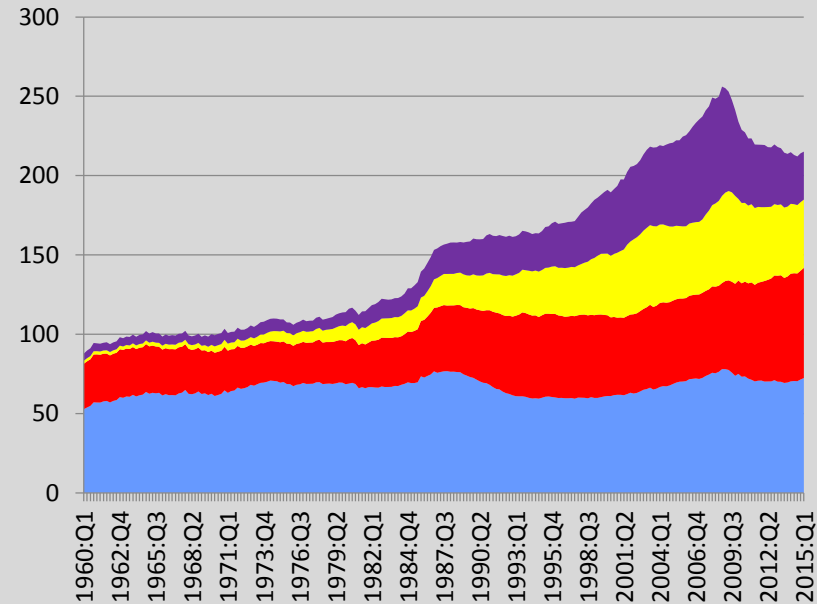


# Overall indebtedness – example from the USA

Share of credit outstanding



Share of GDP



**Credit outstanding:** domestic private nonfinancial sector debt (43%), domestic government debt (27%), domestic financial sector debt (24%), foreign bonds held in US financial system (5%)

**IC.PF.MF.ETF** = insurance companies, pension funds, mutual funds, exchange-traded funds

**GSEs** = government-sponsored enterprises

**Other nonbanks** – issuers of asset-backed securities, finance companies, mortgage real estate investment trusts, broker-dealers, funding corporations, holding companies

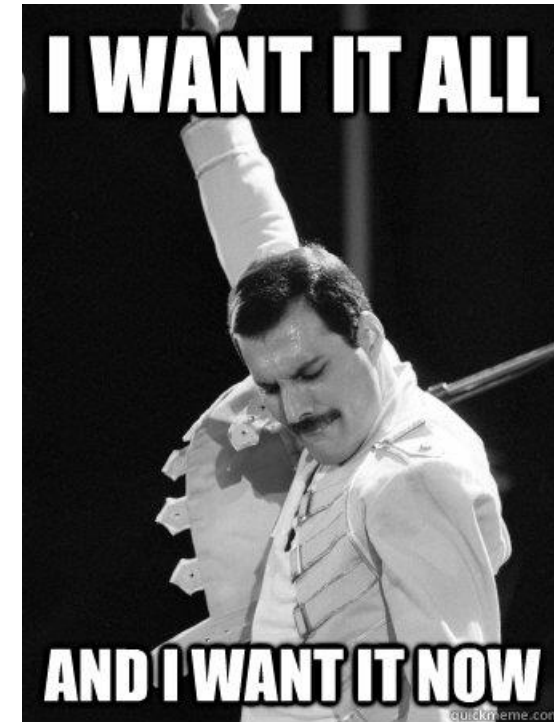


[Shutterstock](#)



## Overall indebttness

- ✓ huge debt
  - governments (the state)
  - enterprices
  - households
- ✓ what's the reason?



<http://www.quickmeme.com/meme/35wamn>



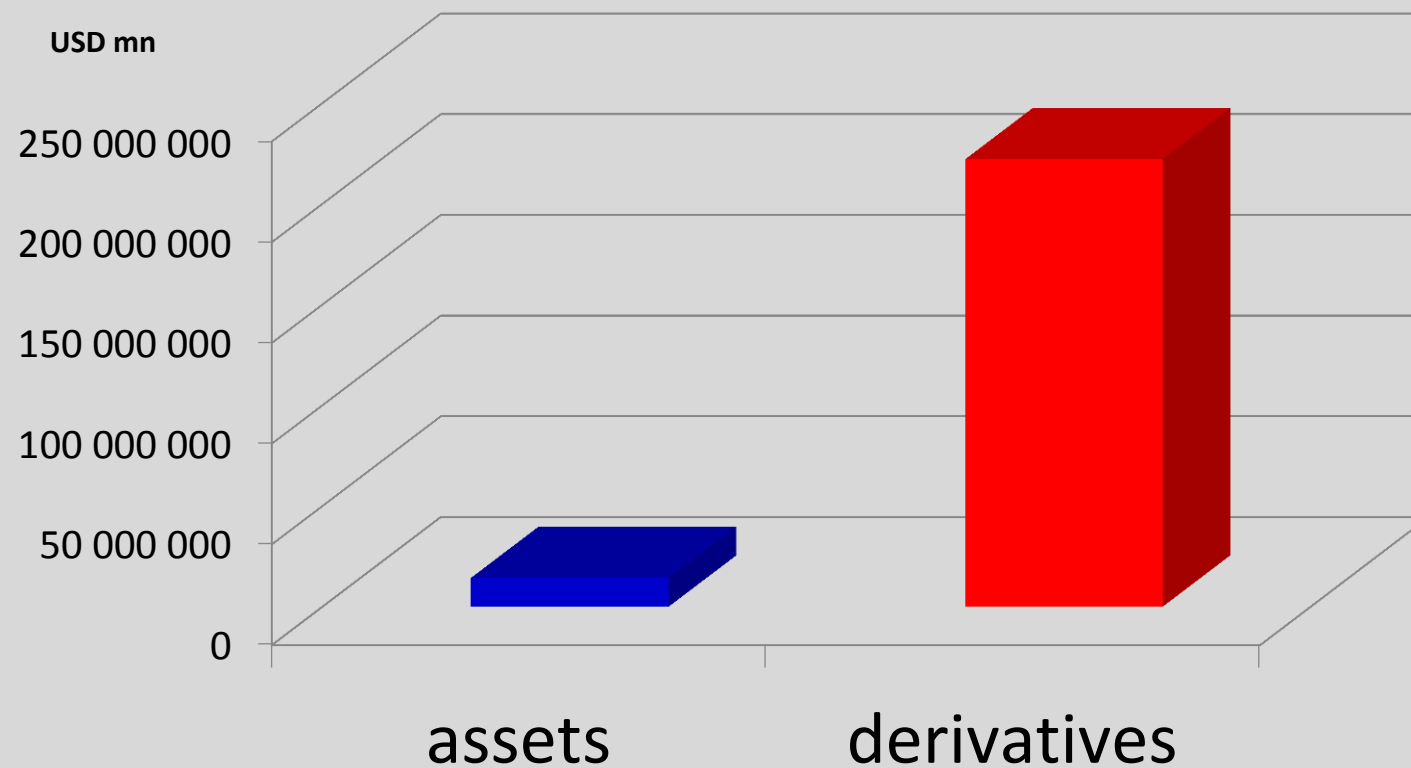
<https://genius.com/Julie-dawn-cole-i-want-it-now-annotated>





# Derivatives ("Financial Weapons Of Mass Destruction")

Top 25 US Banks have 222 trillion dollars derivatives exposure



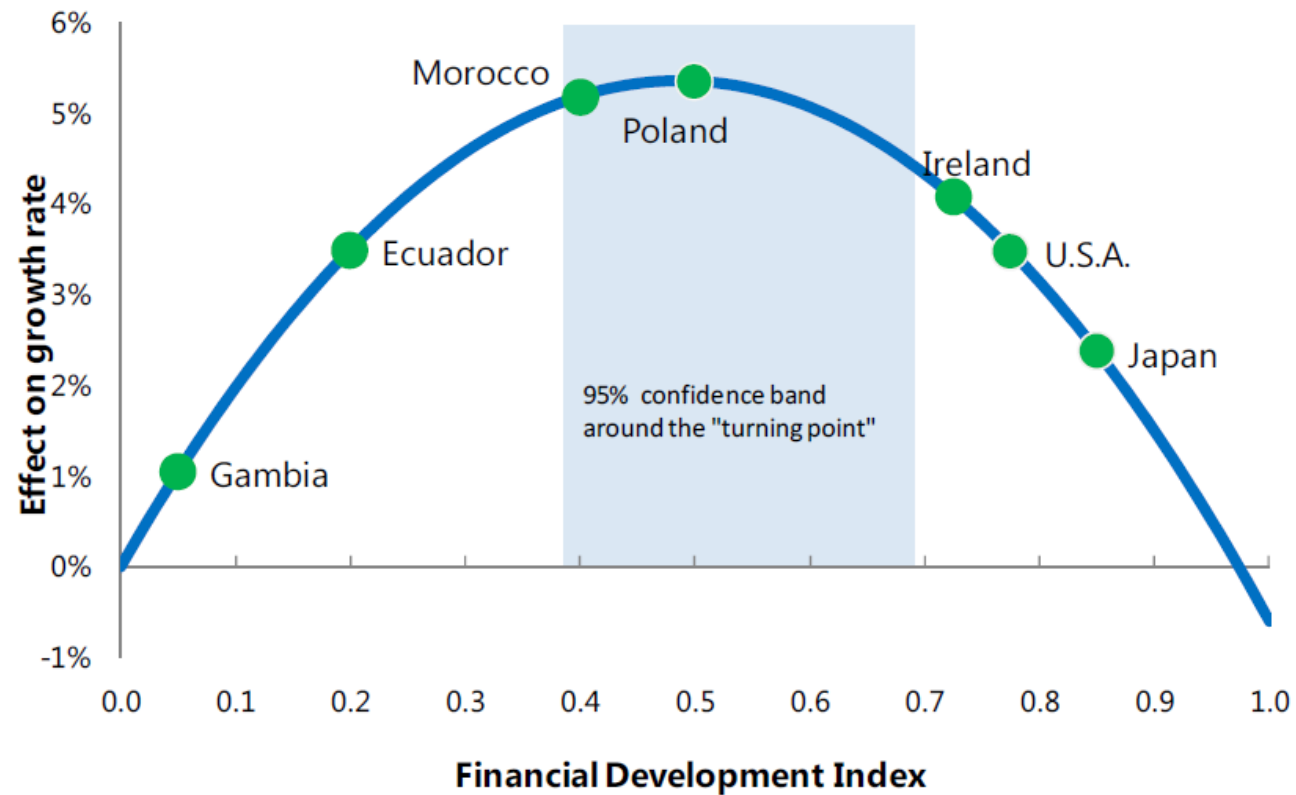
# Too much finance?





# Too much finance?

Figure 7. Financial Development Effect on Growth



IMF STAFF DISCUSSION NOTE

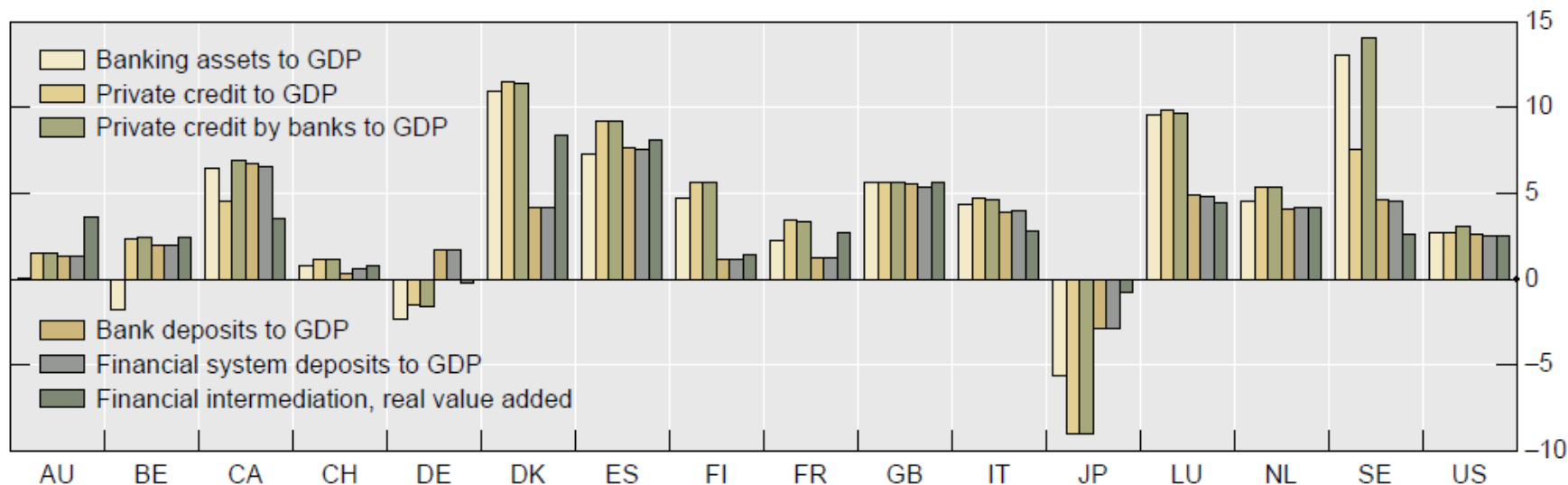
**Rethinking Financial Deepening:  
Stability and Growth  
in Emerging Markets**



# Too much finance?

## Financial sector growth in advanced economies

2000–08 average, in per cent



AU = Australia; BE = Belgium; CA = Canada; CH = Switzerland; DE = Germany; DK = Denmark; ES = Spain; FI = Finland; FR = France; GB = United Kingdom; IT = Italy; JP = Japan; LU = Luxembourg; NL = Netherlands; SE = Sweden; US = United States.



Why does financial sector growth crowd out real economic growth?

by Stephen G Cecchetti and Enisse Kharroubi

Monetary and Economic Department



# The real effects of financial sector growth

- ✓ the growth of a country's financial system is a drag on productivity growth. That is, higher growth in the financial sector reduces real growth. In other words, financial booms are not, in general, growth-enhancing, likely because the financial sector competes with the rest of the economy for resources.
- ✓ credit booms harm what we normally think of as the engines for growth – those that are more R&D intensive.

More finance is definitely not always better!

Why does financial sector growth crowd out real economic growth?

# Who benefits?

## U.S. Financial Profits as Percentage of Corporate Profits of Domestic Industries, 1955–2015



<https://monthlyreview.org/2016/07/01/the-profits-of-financialization/>

***Who benefits?***  
***Is finance more available?***

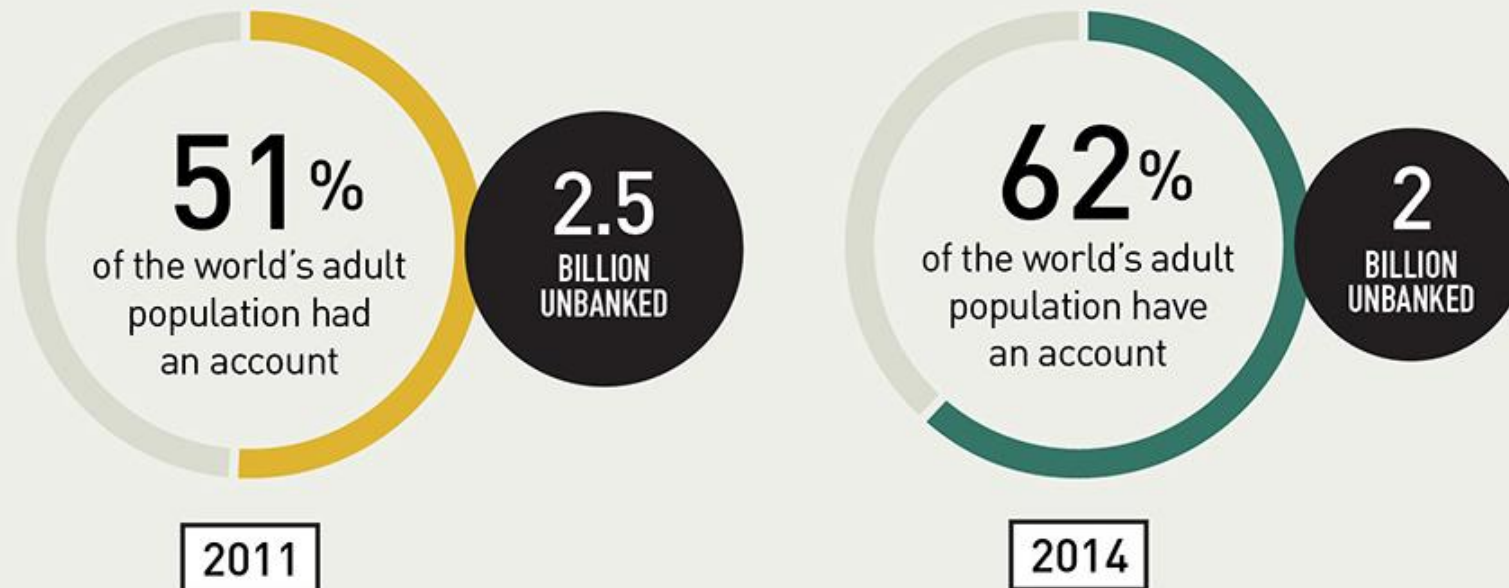




# Financial inclusion

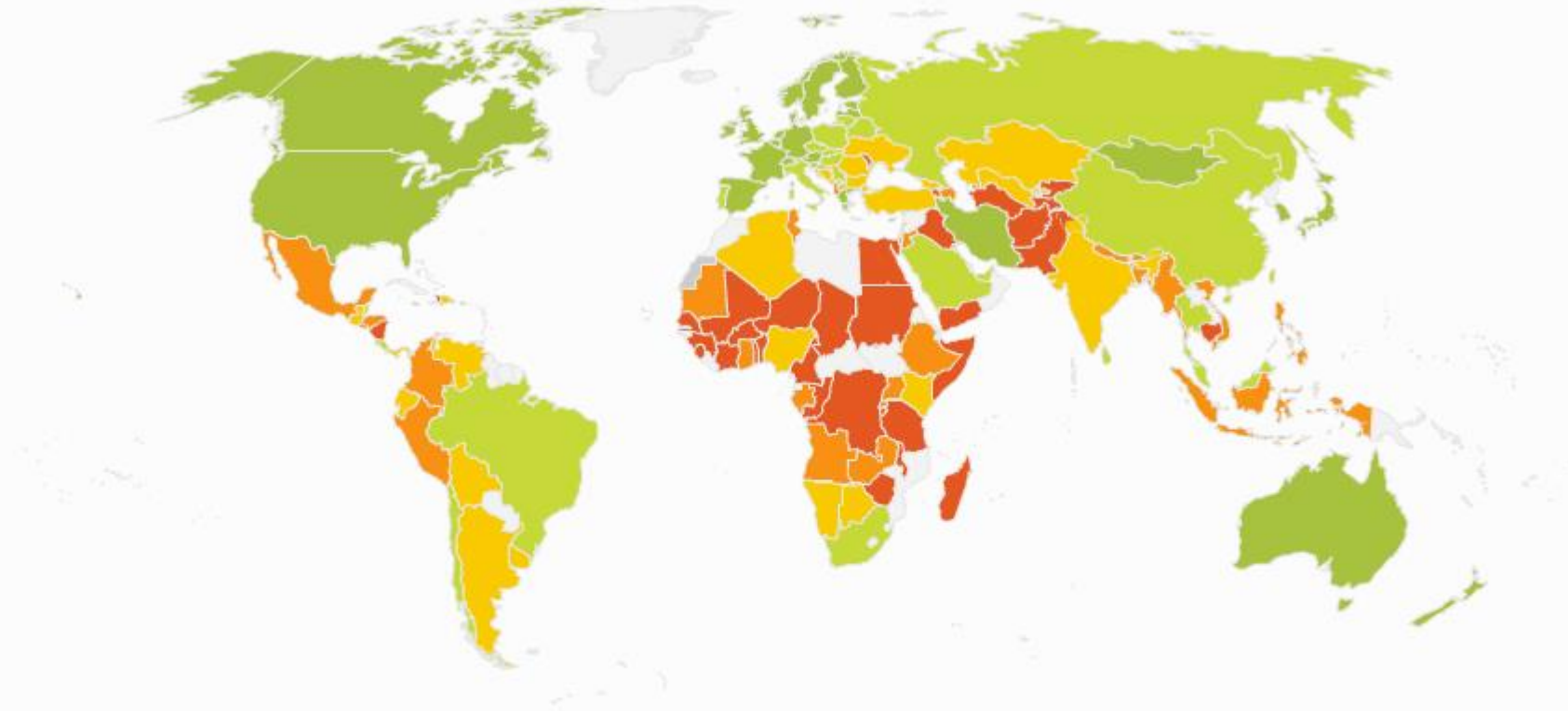
## THERE HAS BEEN SIGNIFICANT GROWTH IN FINANCIAL INCLUSION

More adults have an account (with a financial institution or mobile money service) now than three years ago.



GLOBAL FINDEX 2014

# Financial inclusion



GLOBAL FINDEX 2014

Comments:  
Indicator: Account at a financial institution (% age 15+) [ts]  
Year: 2014  
■ No Data ■ 0 - 20.0 ■ 20.0 - 39.0 ■ 39.0 - 63.2 ■ 63.2 - 87.5 ■ 87.5 - 100

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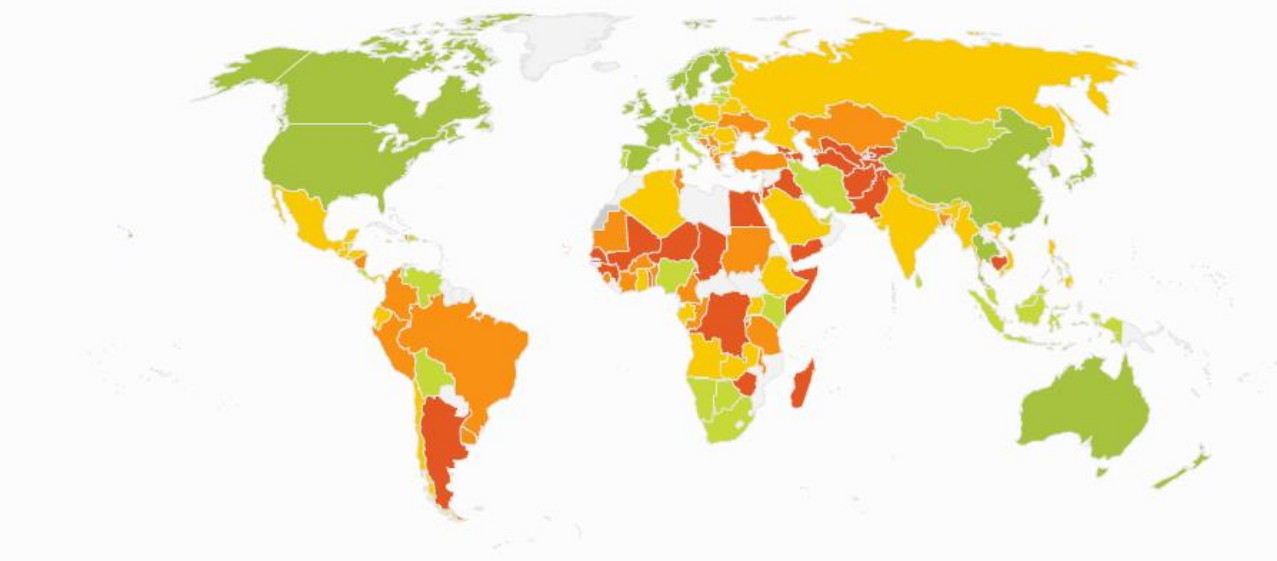




# Financial inclusion

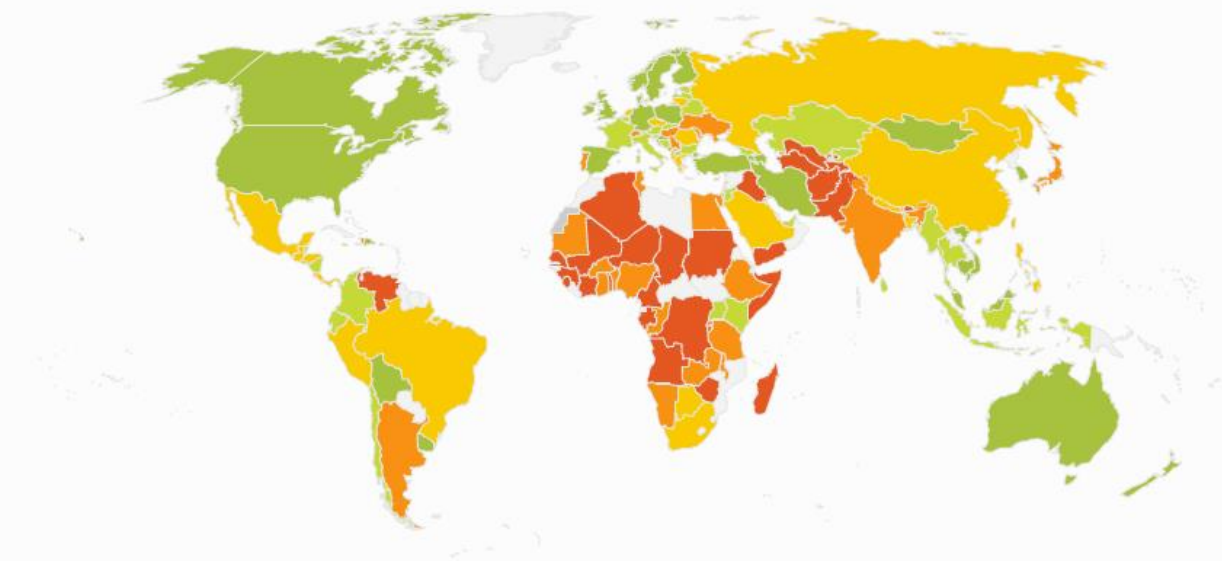
## Formal savings

## Formal credit



Comments:  
Indicator: Saved at a financial institution (% age 15+) [ts]  
Year: 2014  
■ No Data ■ 0 - 6.83 ■ 6.83 - 12.7 ■ 12.7 - 21.6 ■ 21.6 - 34.6 ■ 34.6 - 78.5

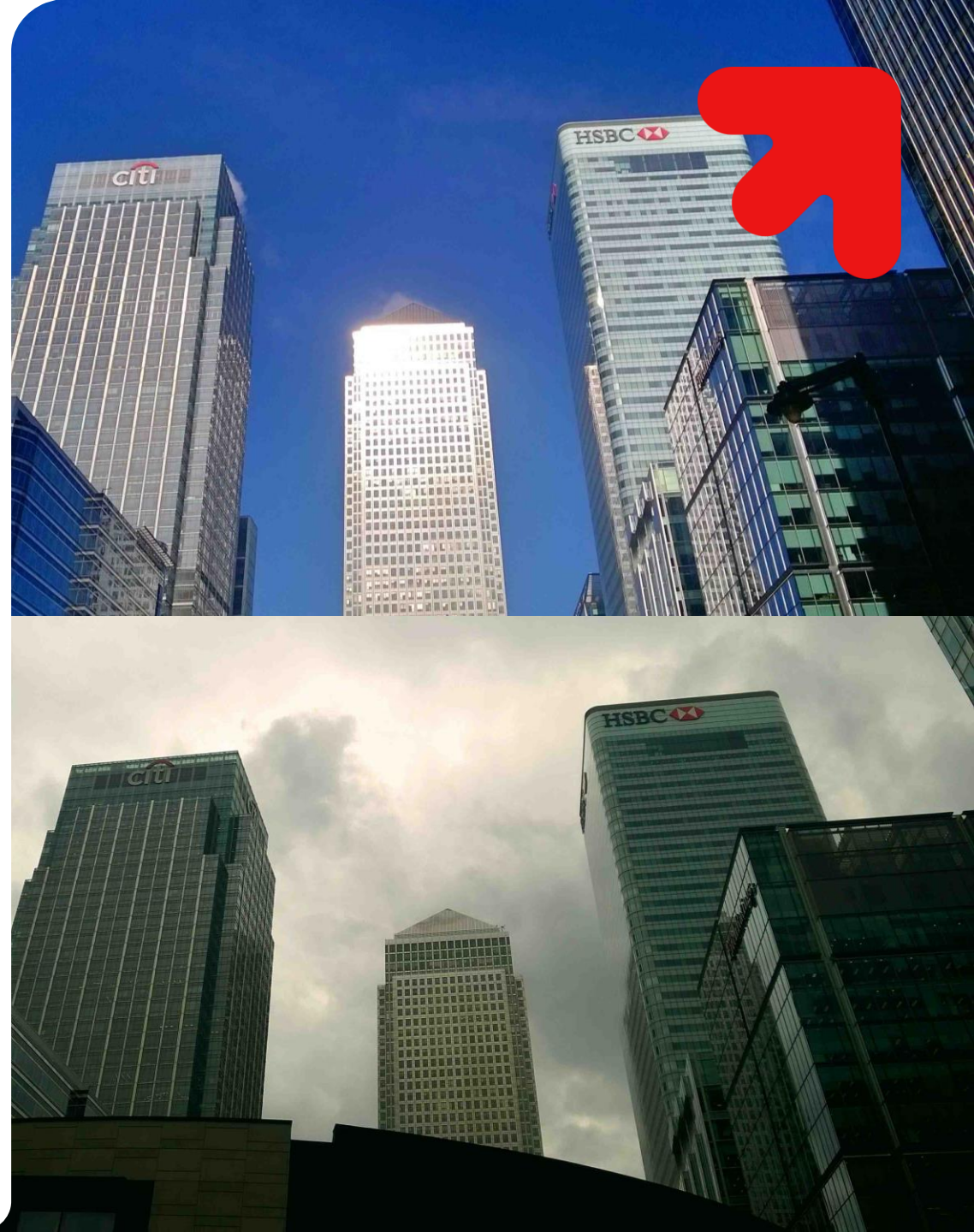
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Comments:  
Indicator: Borrowed from a financial institution (% age 15+) [ts]  
Year: 2014  
■ No Data ■ 0 - 4.39 ■ 4.39 - 9.49 ■ 9.49 - 13.1 ■ 13.1 - 18.0 ■ 18.0 - 40.6

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# Face two: Finance is everyone



## Shadow banking

- ✓ non-bank financial intermediaries providing services similar to traditional banks
- ✓ unregulated activities by regulated institutions

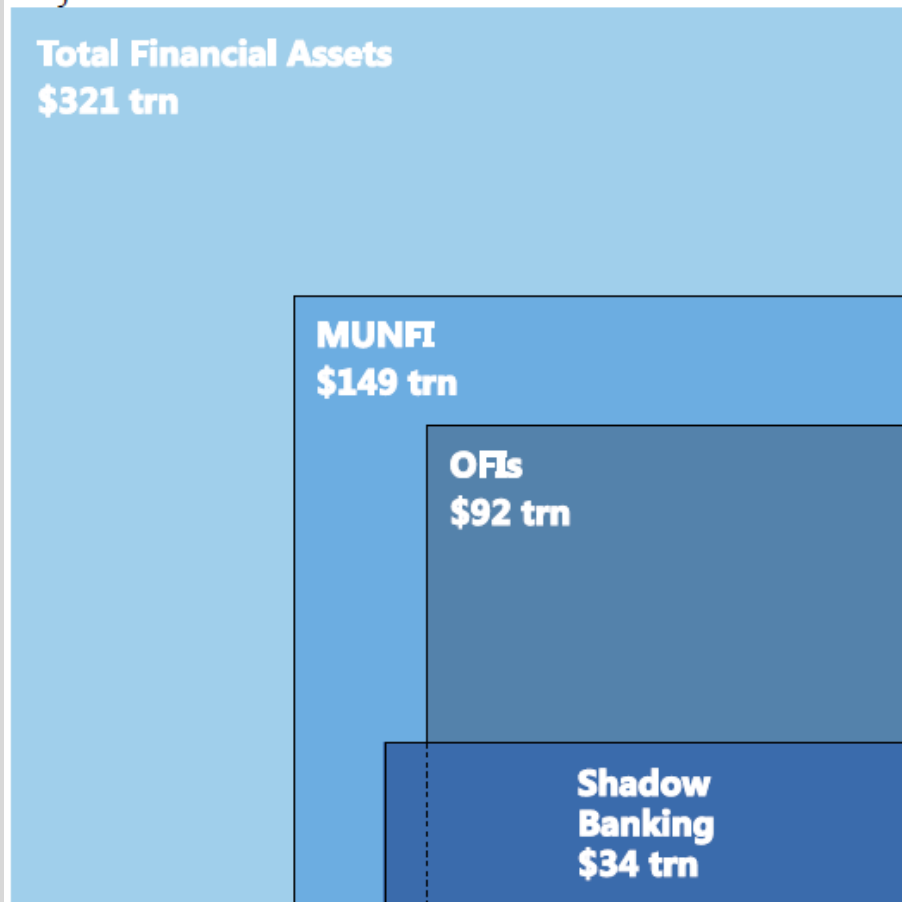
## Fintechs

- ✓ financial technology firms
- ✓ innovative products, processes, applications, platforms in financial services sector

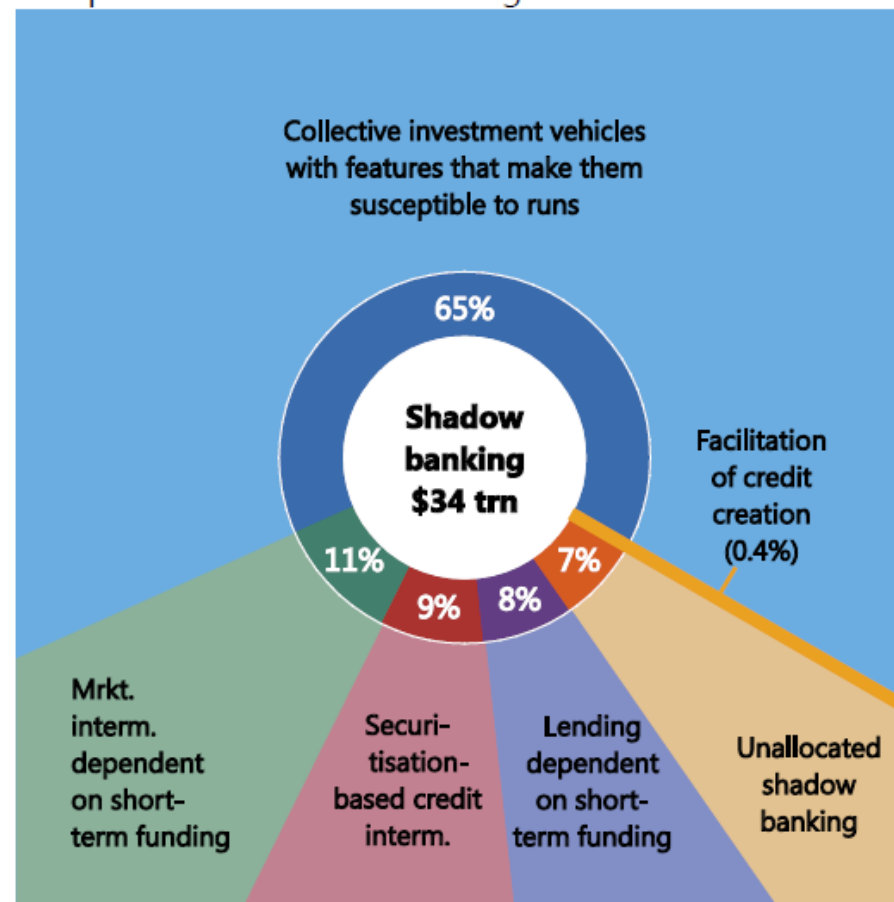


# Shadow banking

21 jurisdictions and euro area<sup>1</sup>



Composition of shadow banking<sup>2</sup>



MUNFI = Monitoring Universe of Non-bank Financial Intermediation, includes OFIs, pension funds, and insurance corporations; OFIs also includes captive financial institutions and money lenders; Shadow banking = narrow measure of shadow banking, net of entities which are prudentially consolidated into banking groups.



Global Shadow Banking Monitoring Report 2016



# Shadow banking

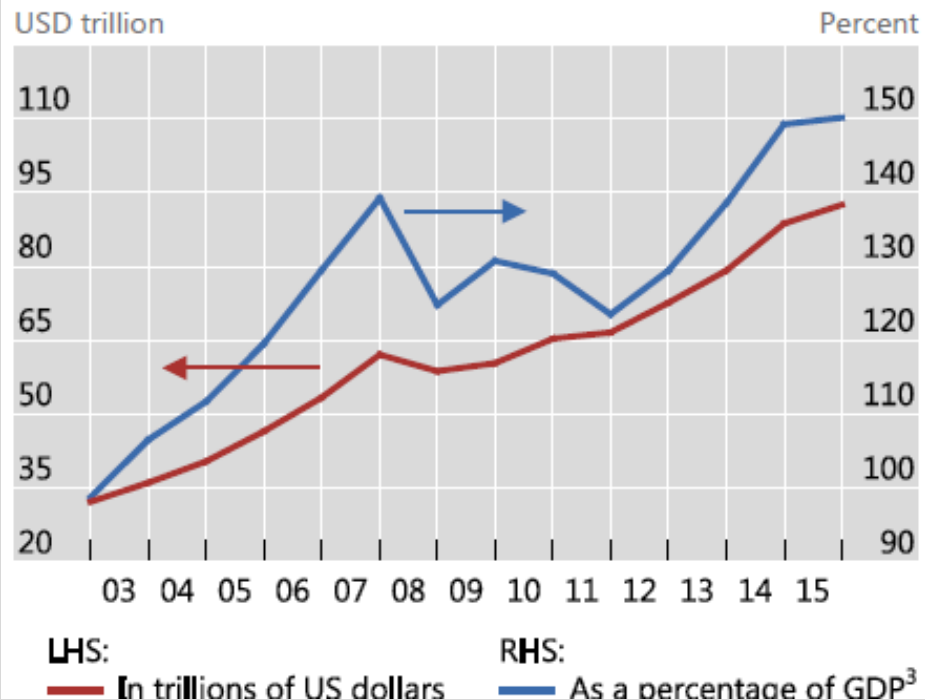
	Total global financial assets (FAs)	Central banks	Banks <sup>1</sup>	Public financial institutions	Insurance corporations	Pension funds	OFIGs <sup>2</sup>	Financial auxiliaries <sup>3</sup>
<b>Size in 2015</b> (\$ trillion)	321	24	133	13	28	29	92	1
<b>Share of total global FAs (%)</b>	100	7.4	41.6	4.2	8.6	9.1	28.8	0.3
<b>Growth in 2015</b> (year-over-year, %)	3.7	8.3	2.4	6.9	3.5	3.0	4.3	6.7
<b>Growth 2011-14</b> (compounded, %)	6.0	8.0	3.1	4.1	6.9	7.0	10.0	11.1

Based on historical data included in jurisdictions' 2016 submissions. Exchange rate effects have been netted out by using a constant exchange rate (from 2015). <sup>1</sup> All deposit-taking corporations. <sup>2</sup> OFIs also includes captive financial institutions and money lenders. The 2011-14 compounded growth rate of OFI assets may also reflect improvements in the availability of data for some OFI subsectors over time on a jurisdiction level. <sup>3</sup> Financial auxiliaries consist of financial corporations that are principally engaged in activities associated with transactions or with providing the regulatory context for these transactions but in circumstances that do not involve the auxiliary taking ownership of the financial assets and liabilities being transacted (SNA 2008).

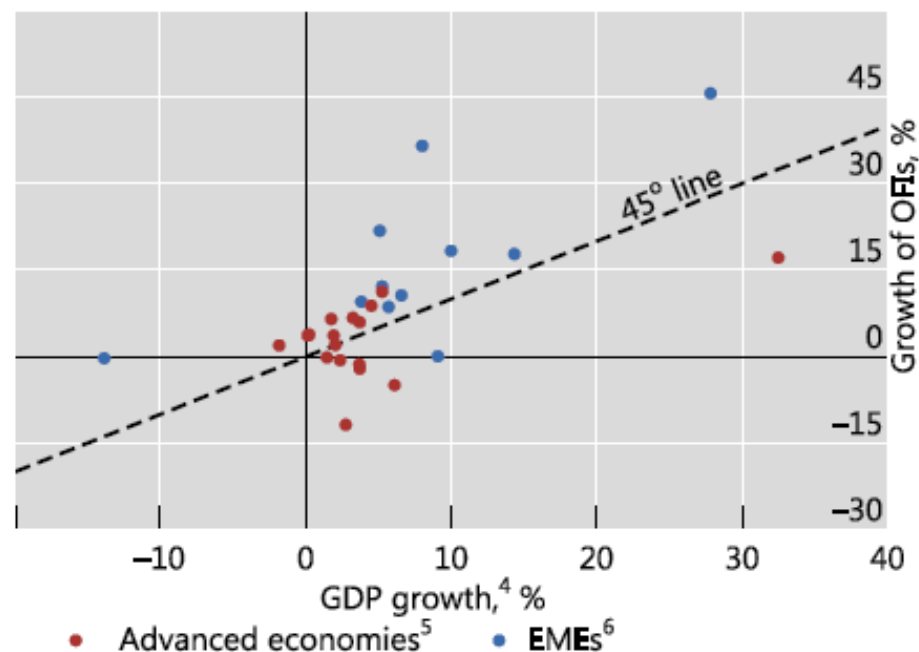


# Shadow banking

Assets of OFIs<sup>2</sup>



Growth rate in 2015



Global Shadow Banking Monitoring Report 2016

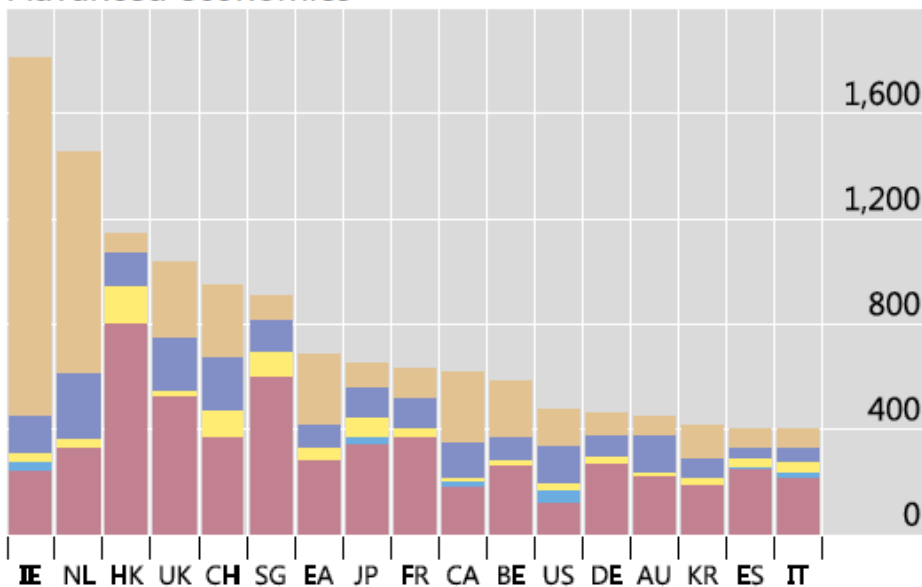




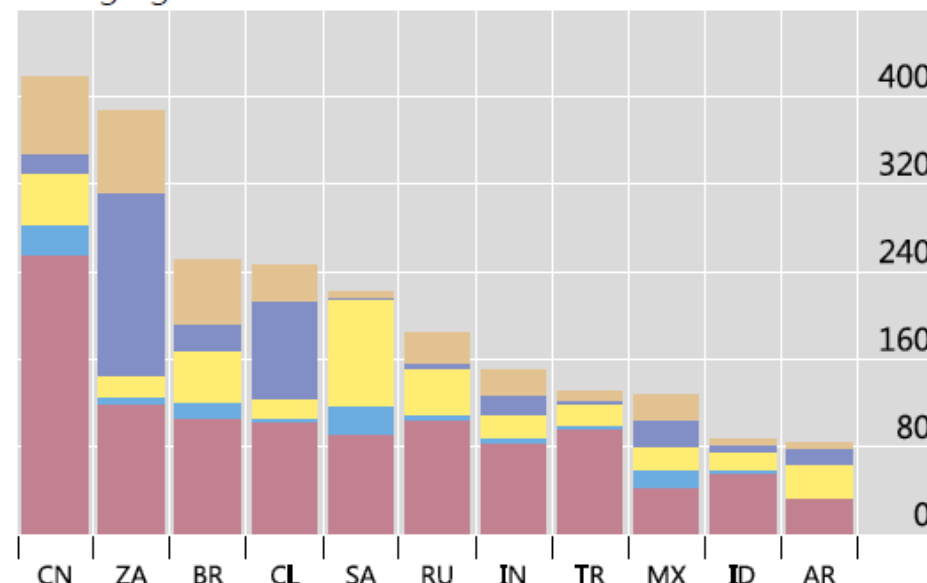
# Composition of financial systems

## % of GDP

Advanced economies



Emerging market economies



Legend:  
 Banks<sup>2</sup> (maroon)  
 Central banks (yellow)  
 Public financial institutions (blue)  
 Insurance corp. and pension funds (orange)

Other financial intermediaries<sup>3</sup> (orange)

AR = Argentina; AU = Australia; BE = Belgium; BR = Brazil; CA = Canada; CH = Switzerland; CL = Chile; CN = China; DE = Germany; EA = Euro area as a whole; ES = Spain; FR = France; HK = Hong Kong; ID = Indonesia; IE = Ireland; IN = India; IT = Italy; JP = Japan; KR = Korea; MX = Mexico; NL = Netherlands; RU = Russia; SA = Saudi Arabia; SG = Singapore; TR = Turkey; UK = United Kingdom; US = United States; ZA = South Africa.



Global Shadow Banking Monitoring Report 2016

# THE FINTECH ECOSYSTEM

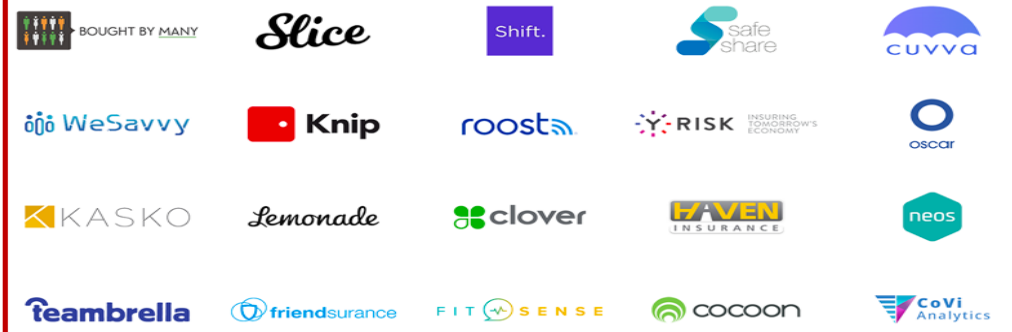
## ROBO-ADVISORS & PERSONAL FINANCE



## BLOCKCHAIN & BITCOIN



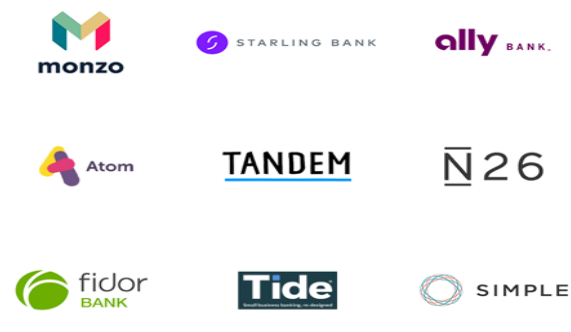
## INSURTECHS



## REGTECHS



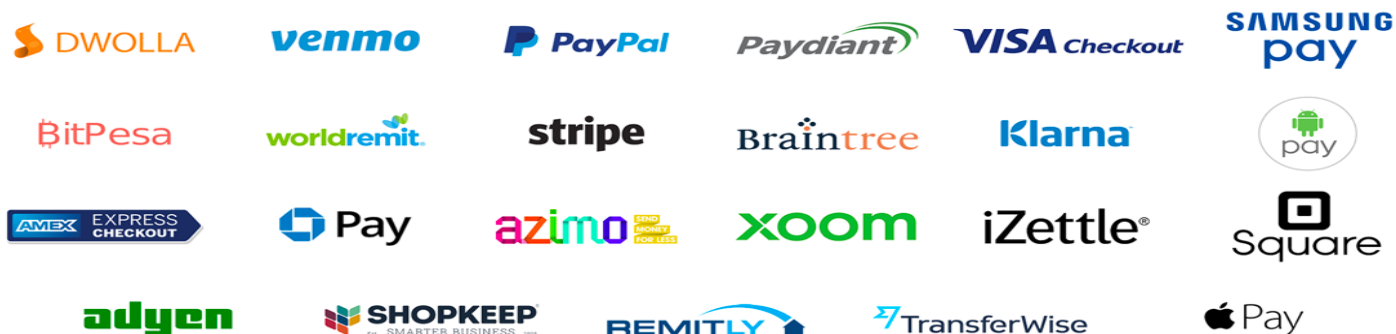
## DIGITAL BANKS



## ALTERNATIVE FINANCE



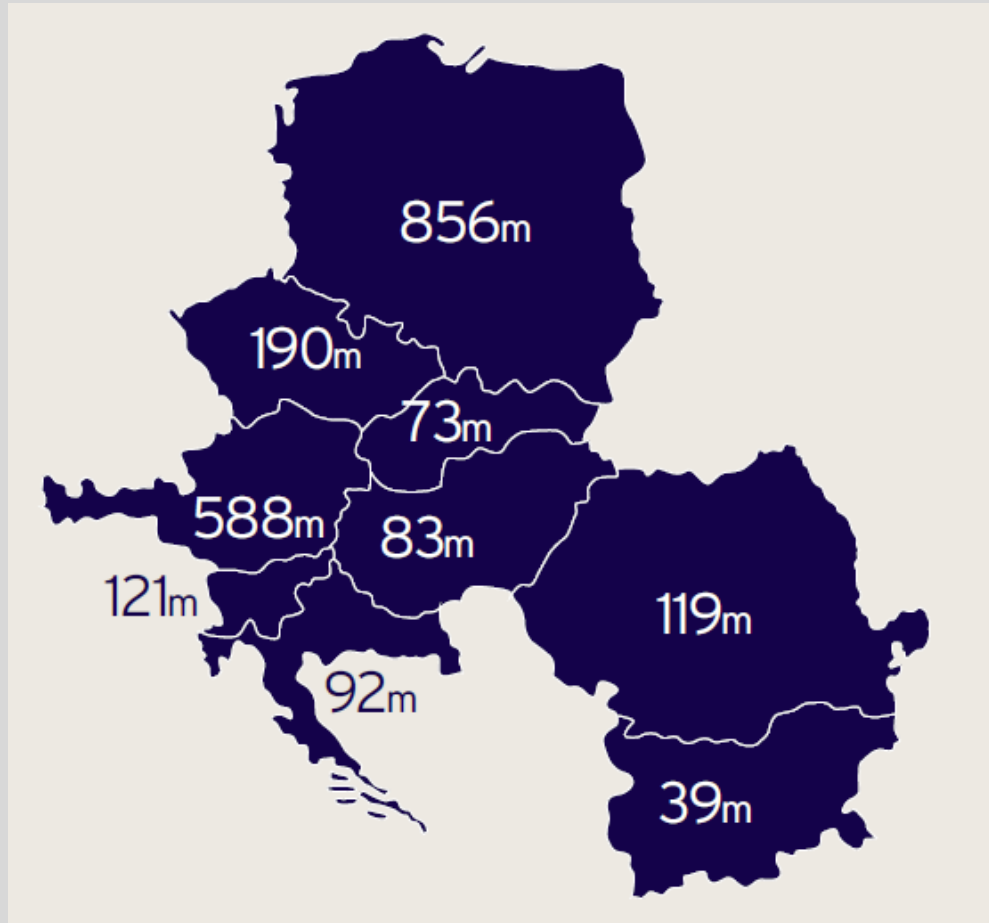
## PAYMENTS & REMITTANCES



Source: Company Websites, BI Intelligence

BI INTELLIGENCE

## Estimated FinTech market in CEE countries: EUR 2,2 bn



## Consequences for banks

Estimated reduction of revenues

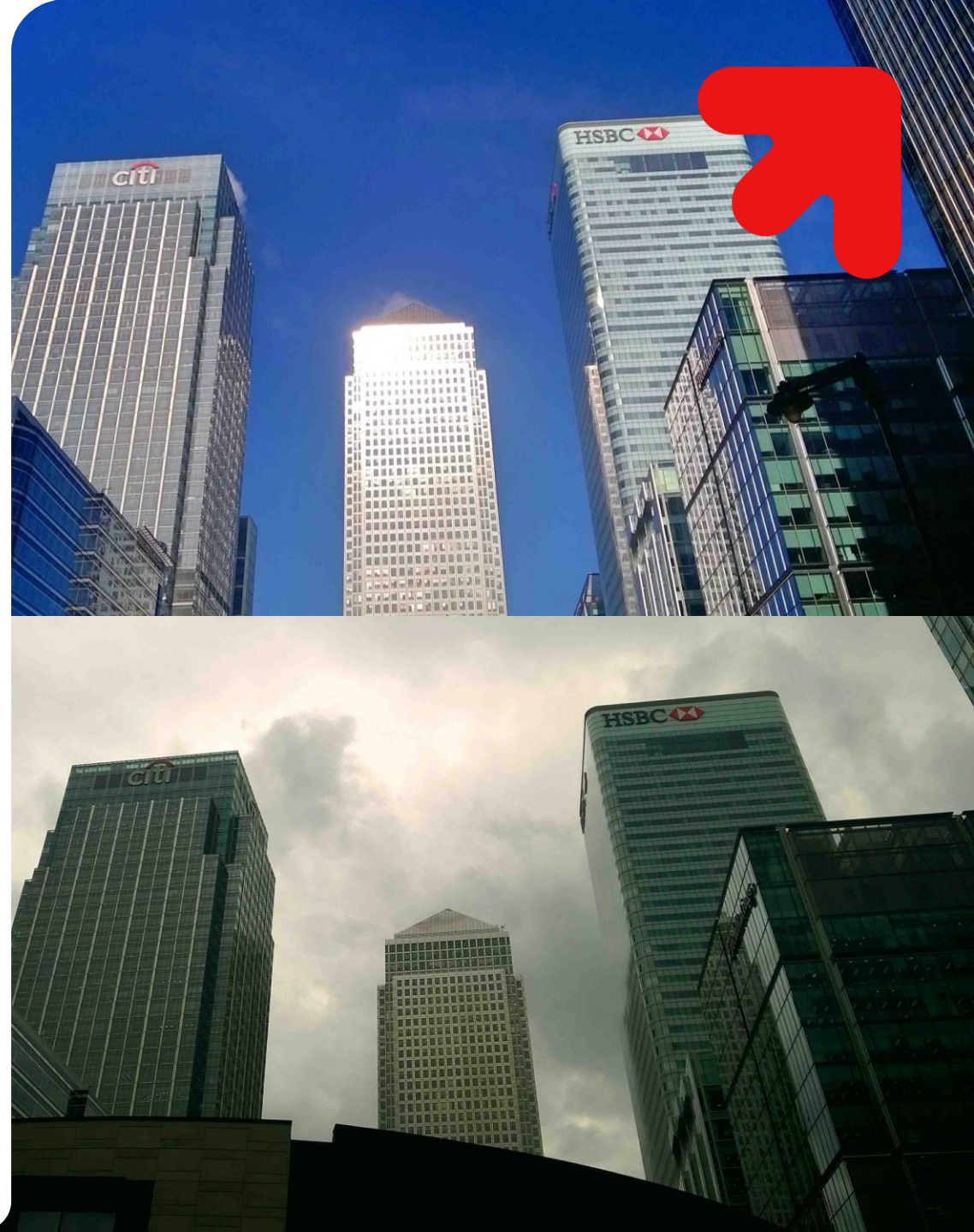
✓ in 2013: ~31%

✓ in 2016: ~**44%**

# Consequences

How the financial  
system changes?

What actions should be  
taken?







## Potential consequences and risks

- ✓ Financial conglomerates & holdings, packed financial products
- ✓ Greater interconnectedness of financial firms -> higher systemic risk
- ✓ Disintermediation
- ✓ Income transferred from real economy to financial sector
- ✓ In case of many financial products no „real” value is created
- ✓ Difficulty of financial assets valuation -> less reliable financial statements
- ✓ Higher inequality
- ✓ High portion of financial services outside the regulated system
- ✓ Greater financial and operating risk, higher volatility, less predictable markets (‘black swans’ happen more often)
- ✓ The problem of „too”
  - too big to fail, too important, too complex, too many, too interconnected



# Potential consequences and risks

- ✓ The risk of overregulation and underregulation in certain areas
- ✓ Threat of regulatory arbitrage
- ✓ 'Regulatory tsunami' and 'regulatory dialectics' lead to weaker regulations
  - it is always be possible to find regulatory gaps
  - set of regulations is like a patchwork
- ✓ Ineffective supervision
- ✓ Eventually regulations will not be able to reach their main objectives:
  - sound & stable financial system
  - consumer protection







At some stage we may  
see that the king is  
naked



# Potential scenarios?

- ✓ the next global financial **crisis is almost certain**
- ✓ its size and costs will be much higher than any previous
  
- ✓ the whole financial system needs deep **restructuring or even redefinition**
- ✓ back to basics -> narrow banking, simple financial products
- ✓ new approach to regulations
  - the scope of consumer protection?
  - functional (cross-sectoral) regulations?





**The only possible  
solution:**

*... back to basics?*



## Banking – back to basics

- ✓ **simple** financial products
  - perhaps even narrow banking?
- ✓ relationship & partnership banking
- ✓ **etics and accountability** as the basic principle
  - ethical banks cannot be ‘alternative banks’



## Regulation – back to basics

- ✓ new regulatory system
- ✓ simple, consistent regulations
- ✓ same rules for the same kinds of activity
  - functional (cross-sectoral) regulations?
- ✓ scope of regulation vs. free market
  - question of desired consumer protection





# Financial system functions

	Banks	Insurers	Investment funds	...	FinTech
Payments system for the exchange of goods and services	... REGULATIONS ...				
The pooling of funds	REGULATIONS				
Transfer economic resources through time and across geographic regions and industries	REGULATIONS				
Manage uncertainty and control risk	REGULATIONS				
Provides price information (helps coordinate decentralized decision-making)	REGULATIONS				
Provide ways for dealing with agency problems (asymmetric-information and incentive problems)	REGULATIONS				





**Or perhaps no regulation is necessary**  
*... back to free banking?*



# Thank you!

## Questions, comments?

**monika.marcinkowska@uni.lodz.pl**

