

ANDRÉ LÉVY-LANG

Founder and Chairman of the Louis Bachelier Institute, former CEO of Banque Paribas

Jean-Claude Trichet, President of the Académie des sciences morales et politiques, former President of the European Central Bank, Honorary Governor of the Banque de France

I do not open any discussion, I turn to the next speaker because I see that John is ready to intervene, André has the floor.

André Lévy-Lang, Founder and Chairman of the Louis Bachelier Institute, former CEO of Banque Paribas

Thank you. In his introduction note Jean-Claude mentioned about the embedded negative risks of the financial system, number five was cryptocurrencies. I thought I might make a comment on financial innovation in general and its impact on finance by starting with cryptocurrencies, looking at the numbers they are not a systemic risk. The numbers look huge, actually it is about roughly 1,000 billion, so one trillion Euros, that sounds like a huge number, roughly one half is bitcoin one half is the other cryptocurrencies, Ethereum and so on. However if you look at that number it is only half the balance sheet of Paribas Bank, so well yes, I checked the number, so it is not a systemic risk. Therefore it is different kind of risk of course because of fraud, the mafia and all this. It is speculators' money basically, it is not money by the way because it is not a payment system, actually it is not really as secret as people think because if you want to spend it the only way to do it is to go to a broker and get Dollars or Euros, that is how you get into the system.

However, looking at the financial innovation I think there is another one which is very important which started really in 2008 with the launching of the smartphones, which is payment systems. That is a major change because now electronic payments represent the major part of retail payments in every form, through credit cards, through phones, through the internet and so on. Clearly it has been an open field for the GAFAMs and of course for a number of startups in that area.

The reason the GAFAMs entered that field is because first of all the regulations for payment systems are not as strict as regulations for banks, as long as you are not a bank you can operate. Second, they get huge amounts of data and data of course is money for them because of the advertising which goes with it. The moment they get into banking then they get an avalanche of regulation in many ways, so in a way that is a barrier to entry to banking which protects the banking system. On the other hand the innovations are used by the banking system, going back to cryptocurrencies as you know they use the blockchain and there is a number of cases of private banks using blockchains for their own purpose. Therefore that is positive and negative.

To conclude on payment systems, I must say that it is indeed a threat for retail banking, but all banks have joined the crowd in terms of offering that system. In addition, as you know very well Jean-Claude, it gives ideas to central banks and the code is CBEM, central bank

electronic money, so far it has not been put in motion, of course bankers are really saying if you really do it all the way what do we do as banks? Therefore it may happen I think, from what I understand, but it may happen only to cover the problems of interbank, intercountry payments, international payments for small amounts which are indeed an area in which progress is needed. It is a different subject from all the macroeconomics we are discussing but it is very important impact, again but cryptocurrency is not a systemic risk, a moral risk maybe, criminal risk, but not systemic. On the other hand payment systems are a major revolution for retail banks and not only banks, insurance, fund management, the whole financial industry.

Jean-Claude Trichet

Thank you very much indeed André, you were concise and luminous. I have to say that as regards the cryptocurrency that would be issued by central banks, the VRS is working very actively on that. I take it that they consider that a major constraint is not to destabilize the banking system, that is clear. Therefore to try to have this electronic crypto-money exactly as the equivalent of the notes, which of course calls also for certain limitation, but it is, the start will probably be in this domain and they are very close to start the thing. Technically it has been totally explored, the blockchain that you mentioned is very well in order and you have several concepts, you know that better than anybody, but there are many, many concepts that can be utilized.

You were a little bit benign on the so-called speculative instruments, it seems to me that we really have a problem of fraud, of I would say illegal behavior, criminal activity, financing of terrorism and so forth, which remains underlying and I hope very much that the authorities will regain control because there has been a period of deny and neglect which was over-exaggerated.

Anyway, okay, thank you very, very much indeed André.