AGEFI

**** **Efficient financial centers rely on innovation and technology**  Edouard François de Lencquesaing DG d'EIFR et président de Netmanagers

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The global crisis is more or less over. The G20 has absorbed the lessons of the crisis. Financial stability issues have been addressed and solutions are being implemented. The G20 l triggers next steps of the global program: How to better finance growth? How to face the new balance between classic banking & credit and capital market services? What is the role of long term investment? How will it face the global challenge of pensions, infrastructures and sustainable economy in a climate change context?

The answers to those strategic questions are not in the “sky” or in any global abstractions. The answers are in our hands at the local level - obviously under the umbrella of common principles & best practices.  This umbrella will leverage economies of scale and minimize fragmentation & regulatory arbitrages that are sources of risk and competitive bias.

The real economy needs a competitive financial industry as finance is the fuel for growth. The financial industry is “infrastructural” for the economy. This competitive financial industry is rooted in strong and efficient financial centers. All over the world these financial centers concentrate the necessary expertise, talents and financial powers. It is true for advanced countries and even more so for emerging countries. Those centers are not just in competition with each other. In fact they belong to a complementary global network that accompanies the necessary globalization of this new multipolar world. It is a necessity for the real economy to spark the best conditions in order to accelerate the construction of such a network. This increased global density will enable financial services to be offered as near as possible to its users: investors, corporate, SMEs & issuers.

Emerging efficient financial centers are a necessity for the world and for their countries. Is it a dream or a potential reality? In many places, it is already definitely an emerging reality. This reality implies a dual dynamic, top down and bottom up. The top down approach is aimed to structure the ecosystem, the collective financial strategy, and the regulatory framework this include market infrastructures’ strategy, securities ownership for domestic & foreign investors….

A final comment about the necessity to structure the Financial center: A Financial Center is not an abstraction! It is “something” that is situated between the top down and the bottom up forces and that optimizes the result in the interest of the “real economy”, the society. It is a facilitator whose aim is to give coherence to all these forces that create divergent tensions that weaken and even block the process. A Financial Center should be materialized through a body that brings together those forces (political authorities, regulators, corporate, investors, banks, insurers…) to provide a collective vision and action~~.~~

The bottom up approach is based on market forces, innovation, and entrepreneurship. From a bottom up perspective, the idea is to define the best conditions to boost innovation in finance. Finance is an industry and as any other industry, to maintain its competitiveness, it must permanently adapt its processes or leverage new technologies to serve its customers. A vibrant financial center must be able to concentrate innovative talents and create an environment and a framework to boost innovation. What is finance? It is a big engine or a collection of engines that transforms instructions into executed orders, transforms short term deposits into long term credit, transforms customer risk into more secured assets or contracts (the use of derivatives for example..), and proposes payment services. It “intermediates” financial needs along a chain of users (from banks, brokers, fund managers…) in a “many to many” relationship. Its intermediation process is based at the center on market infrastructures which are a combination of technological highways and central “factories”. The optimization of this “spaghetti network” implies the creation of market infrastructures such as payment clearing systems, securities clearing, depositories, central banks as custodians of central bank money. This engine or collection of engines is based on computers with sophisticated IT. In our dematerialized and interconnected world today, all the above financial functions are complex and are challenged by speed conditions, low cost, high resilience & security.

Innovation is key to face these challenges and to give a nation a competitive financial tool to serve its competitive economy. Innovation is not just a question of pride but also of sovereignty!

Innovation at the core of the financial industry is an incredible opportunity for countries that have little or no legacy systems, practices or habits based on older technologies. It allows jumping to the new world and competing with the older players. An illustration is the development of mobile phone payments in Africa to substitute for an inexistent classic payment system.

In finance, the challenge is to create a real and necessary dynamic in this sector which is not exactly of the same nature as in other industries: Laboratories in the financial industry are not as tangible !

Financial centres should address two priorities: to create a financial cluster dynamic and to accelerate the transfer of technologies from abroad and, for example, from France.

**The financial innovative dynamic**

It is clear that innovation is not the result of a “miracle”. It needs a specific context to be optimized, it is the result of policy and implies a managerial process. In France we faced this dilemma. Our answer has been that Paris EUROPLACE, the French financial center, created a financial cluster : FINANCE INNOVATION. The objective of this cluster is to organize the collective conditions to trigger an innovation process that generates concrete business projects and entrepreneurial initiatives among start-ups, existing SMEs or large institutions. The cluster is not a substitute to private innovative strategies among institutions which are the natural outcome of competition. It is a facilitator that creates the proper climate as is the case in the US in Silicon Valley. The cluster will organize the proper incentives to orient research in universities driven by business needs. Then it will structure the difficult interrelations to leverage / transfer the results of this research to the business world prompting entrepreneurial ventures. It will define processes to generate projects (projects factories), then coach those projects to viability and accompany the financing curve by helping the optimization of business presentation and contacts with financing structures. By identifying the most innovative contributors in the domain of finance and by managing the emulation between those entrepreneurs creates another source of creativity and dynamic. The result is the creation of a virtuous circle that attracts ideas and talents.

**The technology cross border transfer**

Is it necessary to reinvent the wheel? Technology transfer can occur by encouraging foreign start ups, which have stabilized domestically their technology, to see a great advantage in accelerating their own critical mass. For a financial centres the question is to play a role in the global club of financial centers by accelerating its time to market,and leveraging to its advantage the new best practices; escaping most of the intermediate stages that have created a costly legacy. This cross fertilization process may also contribute to accelerate the virtuous circle.

From the French perspective, this dynamic is crucial for both parties in a win-win partnership. The idea is to accelerate this process and to define a proper strategy to optimize the conditions that will give reality to this project. “Houses of innovative finance” where those entrepreneurs will find facilitating services to fill local gaps and minimize the cross border venture risk could be a tool to explore.

**Paris EUROPLACE is reinforcing this dynamic**

The financial industry is fundamental to trigger growth and to trigger the repatriation of domestic capital. Trust is key. It relies on a proper set of regulations based on global best practices. It relies also on advanced “tools & technologies” that create the proper secured environment for transactions processing and financial risk monitoring. It relies on proper financial instruments including derivatives, capital markets financing models, including private placements, funds and mutual funds. All those instruments imply secured and responsible innovation. Those are the challenges for emerging financial centers: not alone, but as a member of our club of financial centers since innovation is also based on cross fertilization of cultures, practices, and research with some sense of general interest. Trust is the challenge of the G20 and the most important lesson of our historical world financial crisis. Existing success stories are there to demonstrate that it is not a dream, but a reality under construction: An entrepreneurship venture triggered by a “valley ambiance”. Go for it!

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