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Financial Market Innovation

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1/ WHAT IS FINANCIAL INNOVATION?

- Product innovation: => Derivatives, tranching, etc.
- Systems innovation: => Processing power, collateralization platforms, etc.

2/ WHY FINANCIAL INNOVATION?

- Increasing globalization and risks
- Incomplete markets / Information asymmetries
- Response to tax and regulation
- Decreasing transaction/marketing costs
- Technological stimulation

3/ WHO INNOVATES?

- Investment Banks/Professionals: => Innovators earn higher market share/profit than followers
- Protecting Financial Innovation: => Imitation is rapid

4/ FINANCIAL INNOVATION AND SOCIETY?

- Expectation of society: => Financial innovation can help to boost returns on savings and to transform wealth into a stream of annuities
- Positive view: => Financial innovation is viewed as the “engine” improving the performance of the “real economy”
- Negative view: => Financial innovation can lead to financial disasters
- Checks and balances: => Regulation and risk controls