

Headline: Fintechs are no challenge to behemoths: Nobel Laureate

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Fintechs are No Challenge to Behemoths: Nobel Laureate

Technology by itself is not sufficient to create trust, says Robert C Merton

Our Bureau

Mumbai: Fintech companies from the Silicon Valley can enable betterment of services but the belief that they can be a threat to established institutions such as banks and investment advisory firms is a myth, said an Economics Nobel Laureate.

"Trust is essential for user adoption of financial services. Technology by itself is not sufficient to create trust," Robert C Merton, professor at Sloan School of Management at Massachusetts Institute of Technology, told the audience at the RH Patil memorial lecture.



ROBERT C MERTON

Professor, Sloan School of Management, MIT

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The assertion by Merton, who had played a key role in the development of the rational school of economic thought, should come as a reality check for many investors and entrepreneurs who have been betting that financial technology could challenge big banks.

Fintech with technology alone will be challenged in disrupting services and products that are "inherently opaque (that is, cannot be made transparent) such as financial advice, solutions and many integrated financial products. The only means of providing those services and products is through trust," he said.

Merton was among renowned economists who developed the options-pricing model, along with peers Fisher Black and Myron Scholes, which became the tool for

Wall Street to develop exotic derivative instruments. Although they served the purpose of hedging risks, unregulated mushrooming of derivatives was blamed for the 2008 financial crisis.

He also advocated a new bonds scheme called 'Selfies' to fund pension plans and infrastructure in countries like India which lack long-term funding for projects. Such bonds are very long-term in which returns are linked to the standard of living and the coupon is payable only after a long period, say 10 or 15 or 20 years later.

