What is the real meaning of disintermediation?
The need for a political economy for financial disintermediation

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"De-leveraging" and "Uberisation of banking" are two aspects of financial disintermediation.

Disintermediation in the classic sense of the word is a fundamental change whereby credit financing is replaced by market financing: investors and borrowers come into direct contact on the financial markets. In market financing, banks play the role of intermediaries by placing securities issues with investors.

Disintermediation, which is sometimes called the "**Uberisation of banking**", refers to the direct access to a client without using the services of a bank. This term is not entirely appropriate, as the main challenges of digital disruption for banks concern the replacement of the bank as intermediary, or the addition of other intermediaries between the bank and the client. What we are seeing is more of a "**bookingisation**": these new intermediaries aim to use the banking infrastructure, the payment system for example, and capture a part of the value chain.

Disintermediation of financing: do we want to force the banks to choose between the market and credit?

Banks continue to play a major role in the European economy: bank lending represents almost two-thirds of corporate debt in the euro zone, compared with less than one-third for US firms. This is why there is pressure for more market financing and less credit financing, which as a direct result of post-crisis regulatory decisions, requires a debate at European level that goes beyond the initial work on the Capital Markets Union.

Since the financial crisis, banks have had to adapt to regulatory changes encouraging them to modify their role in financing the economy, through the strengthening of capital and liquidity requirements, as well as via pressures on balance sheet size (leverage ratio). This has led to a change in the method of financing the euro zone economies, from an intermediated model to a more disintermediated model.

While the move towards disintermediation is already visible in financing, the picture varies considerably between different countries and firms of different sizes. France stands out among the euro zone's major economies as a country where bond financing is rising sharply, while bank lending has shown almost continuous growth since 2009. The proportion of bank lending compared with market financing is currently 61%/39% for French firms, compared with 70%/30% at end-2009. This largely refers to large companies which have access to market financing, whereas SMEs and especially micro-businesses remain highly dependent on bank loans. French corporate and investment banks are among the European leaders in assisting corporate clients on the markets[1].

[1] See "Repères d'économie bancaire", *Revue Banque*, edited by Valérie Ohannessian and Timothée Waxin.

This prompts a real question on the subject of a political economy: should and could Europe move towards the system of financing currently seen in the US, with a lot more market and less bank lending?

Such a question has never been put to the political decision-makers. And yet, it is a political issue, and has been perceived and expressed as such by the French president Emmanuel Macron: ***"I would like to see the main solvency, liquidity and capital ratios for banks and insurance companies being discussed at European level at Ecofin each year, and ground rules being laid down with economic financing targets."***

This "non-political decision" nonetheless has significant consequences. First, market financing is inherently more volatile, and European firms have little preparation for this, and second, Europe does not currently have sufficient market infrastructure to cope with a massive and rapid shift from bank lending. The European Commission has shown it understands this by launching plans for the Capital Markets Union. But this would still be inadequate, as Europe has not really given itself the means to properly develop its capital markets. This is clear in the securitisation sector, which largely explains the difference in the way financing works in the US and in Europe. The US market is particularly reliant on the role of the government-sponsored enterprises Freddie Mac and Fannie Mae, which make large-scale purchases of loans from US banks and package them into securities. Nothing like this exists, nor is envisaged, in Europe.

That's why this subject needs to be tackled at economic and political level. To my knowledge, there is no economic basis to clarify this. What sort of credit/markets mix would we want? How would we put ourselves in a position to achieve this? How would we manage the transition, particularly for SMEs, which don't have the same access to market financing as large companies? While these questions are not being asked, there could be a very high cost to the European economy. They need to be addressed urgently, before Basel puts a further squeeze on bank lending in Europe!

Tech disintermediation: the "bookingisation of banks"?

Let's take the example of payments. The revised payment services directive (DSP2) requires banks to offer new digital players access to their clients' current accounts free of charge for the purpose of providing account aggregation services (account position summary) or third-party payment (making payments from your accounts yourself). This is not really "disintermediation" or "Uberisation"; it's more a case of new intermediaries placing themselves within the value chain: this is why we should talk about "bookingisation".

This approach poses major economic and political challenges, in terms of cyber security, as well as the use of personal data, infrastructure and economic independence.

The banking sector is required to protect its clients' funds and data. On the other hand, the digital world has a culture of "open data", and the business model of digital firms is based on the monetisation of client data and paid-for services. Are clients ready for this? The protection of clients is the source of vast swathes of financial regulations to which finance sector firms (intermediaries) are subject. Is this regulatory approach compatible with the "disintermediation" which could threaten the existence of regulated financial intermediaries?

In terms of payment infrastructure, modernisation and security requirements represent billions in past and future investment for the banks. Whereas each time a market has been opened up to competition (electricity, railways, telecoms), it has been carried out on the basis of detailed economic approaches encompassing infrastructure and financing issues, no such thought has been given to the banking infrastructure!

While the discipline of competition is extremely important, we mustn't be naïve, because the challenge is of an entirely different nature: after the FinTechs come the GAFAs, the global digital platforms where the centres of decision-making are in neither France nor Europe…[2]

The French banking model can adapt to these changes

The French universal banking model means that banks can assist their clients with credit or market financing. If the regulations do not create further competitive disadvantage – and that is unfortunately one of the challenges of Basel – French banks will be able to play a full role.

Banks participate in the digital sector. They are integrating innovation and are highly active in the FinTech ecosystem that is flourishing in Paris, and they do not fear competition from digital. But there is no room for complacency – much more debate is required on all these issues.

[2] See: "L'avenir de notre liberté", *Eyrolles*, by Jean-Hervé Lorenzi with Mickaël Berrebi and "Les cinq étapes du déni" by Nicolas Colin (http://salon.thefamily.co/les-cinq-étapes-du-déni-a7a06072c9fc).