Thank you for participating in the online event to discuss the future of digital finance.

We were not able to get to all the questions you posed in the session. Below are our answers to the questions raised.

Thank you for your involvement. We will add you to our mailing list so you can keep up to date with what we're up to. Please let us know if you'd rather not be added.

Best wishes

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Regarding the focus on social values, which social values are ripe to tackle first for tangible impact within the financial ecosystem in UK and Europe?

This is a question that we would like to address in our follow-on work. In our report, we put forward an initial set of ideas of where there might be more social value to add within the financial services industry. But this is a very quick and dirty framework that we would like to develop further.

Any of you who would like to participate, or have ideas of those who might, would be very welcome.

Is it the time yet for STO (exchange of digital currencies)? What would be complications at the moment?

Digital currencies have not yet proven themselves as serious contenders in reliably carrying out the usual economic roles of sovereign fiat monies. We doubt they will ever be. At the moment they are fundamentally an asset class without proven properties of volume, liquidity, etc that an exchange would require.

You seem to envisage legislative and regulatory independence? At the same time we can envisage (hope for?) regulatory interventions with regards BigTech (aka Oz :-(maybe) ... what risk is there then that this might be impeded by emerging legislation and regulation if they are decoupled?

Re decoupling, we suggest two things.

First is that the regulatory function should be separate from any commercial function. The regulatory institutions must be focused on holding commercial entities to account not become involved in them as investors or any other way. Otherwise we get more Wirecards.

Second, what we are suggesting regarding the multilateral fund is that it has the ability to create a set of rules for the companies it invests in without having to wait for going through the complex legislative process. That does not mean that its rules should be at odds with any regulatory framework of government policies. It can do it all more quickly, but it should be aligned.

Johannes Vermeerstraat 81-2, Amsterdam 1071DP, Netherlands

If the proposed Fund is for the public interest - why not let the Public 'vote with their wallets', both contributing to investments, and 'deciding where the money goes'? Learning from Robin Hood episodes, but nonetheless democratization of finance is irreversible (or is it?)

There are already many FinTech initiatives that try to empower individuals to decide where their money goes. We don't know enough yet about how that works and how compatible it is with financial stability and protecting customers from making investments they don't understand and/or being taken for a ride by unscrupulous providers (which are not lacking). We shall have to see how that evolves and the balance of risks and benefits from 'democratizing' finance. Indeed, we still need to start understanding what democratizing finance really means.

Our intended fund is a component of industrial strategy. We believe that it should be subject to professional investment processes all within a publicly defined mandate to focus on social value.

Will the dispute between Facebook and Australia impact heavily impact the scene and what may be the consequences for a multilateral investment fund?

Our judgment is that the current FB/Aus spat will embolden governments worldwide to take action with regards to Big Tech. How and when remains to be seen.

Don't know how it will affect FinTech and the attempts by BigTech to get into finance.

Maybe another example to look at is Ant Financial that was stopped in its tracks by the Chinese government because it became too big and powerful.

Since there is no single standard that enables robust comparability between investments with green finance labels, how do you see fintech leading not just in creation of greater social capital but also natural capital?

Green finance is growing fast – with or without FinTech.

In our report we say that some people feel that FinTech can mobilize much more capital focused on restoring natural capital. Indeed, there are a number of peer-to-peer lending platforms and others that are focused on exactly that.

Others believe that access to capital is not the problem. The block is a lack of investible projects. Some have also suggested that there is already too much money chasing green projects resulting in an already present 'green bubble'. If that is right, FinTech will probably have little to add – or will fuel the bubble.

Is there not a disparity between "Fintech's promise" of innovation, as you describe it and the EU's seemingly natural tendency to seek to regulate financial services heavily?

There is always a tension between regulation and innovation.

Regulatory sandboxes are one way in which some of these tensions can be managed.

The second is for regulators to move beyond chasing the bad actors in the system, start imagining what sort of new structures they want to see emerge in finance and craft regulation to change the market in that direction.

But none of it is simple. Regulators also have to worry about financial stability, protecting consumers, etc., etc.

DeFi in the Ethereum ecosystem appears to have re-invented all existing financial instruments in about a year. What impact will this have on the current financial system?

This could be described as necessary condition but not as sufficient condition to have impact on the financial system.

The financial system first and foremost needs to be stable and there should be a lender of last resort, central banks, to underwrite it.

DeFi in any shape and form lacks these characteristics. The infrastructure of banks, fund managers, insurance companies, exchanges, etc. that form the financial system are not ready for such transformation. We need to remember from other industries that security and risk are as important as technological cutting edge.

Concorde is the fastest airplane but is not in use after a major accident.

Does your definition of Europe include the UK? Interested in some further reflections on UK and EU post-Brexit - or UK vs EU, seen from both sides.

We have defined 'Europe' as Europe NOT the EU (Europe is not just the EU in our view – though the EU would like it to be so).

We find it hard to envisage Europe being competitive with China and the US if the EU sets up its own walled garden and excludes the UK and Switzerland – the two most advanced European countries in this space. But the EU may well do that because ideology so often trumps common sense.

Our approach interprets the EU's stated desire for 'open strategic autonomy' as indeed being 'open' to collaboration with others. But it may not be. It may just be empty words like the supposed belief in 'subsidiarity' while continuing to try to centralize everything.

As for UK-EU relations, we are currently in the immediate post-divorce state where everyone is upset, hyper-sensitive and defensive. The EU has shown its own insecurity by being seemingly determined to see the UK fail to show just how essential the EU is. The UK seems determined to plough its own furrow to show that it can thrive without the EU. Our sense is that, at the moment, the UK would be more willing to collaborate with the EU (outside EU structures) than the EU might be willing to collaborate with the UK.

We hope that all this is temporary and that emotions will subside. But who knows?

Digital assets seemed lost in the fiat world. CBDCs, dollars, gold, crypto are all subject to a wide range of "opinions" because they do not have auditable, immutable intrinsic value with full provenance. Funnily enough shares have intrinsic value, and the value is underpinned by measurable value and consensus. So, the tokenisation of real value based upon consensus should be the benchmark of value and trust. Not the smoke and mirrors of more fiats. Is that not the real issue? It removes "russell conjugations" and the vagaries of bogus markets and bogus opinions. Put me in a box with likeminded people who agree on the intrinsic value of our assets and its centrally held immutable archive.

Whether financial securities like shares have 'intrinsic value' is debatable. In a financialized world, stocks simply become tradable financial instruments the value of which is just a matter of supply and demand and increasing financialization through derivatives, hybrid financial instruments, etc. The link between stock prices and the underlying 'value' of the enterprises is now more or less broken. As is the link between the performance of capital markets and the real economy. Investment managers still try to maintain some of the fiction that there is a strong link to underlying economic value. But it really is very tenuous. As the GameStop rollercoaster has shown.

We found out pretty clearly in 2008 that derivatives such as mortgage-backed securities and credit derivatives had little intrinsic value.

This is financialized capitalism where financial 'value' is created through financial engineering not through real economic value. Most often such value is not actually 'created' it is taken from other places (*eg.* natural capital) and converted into financial value that gets funneled to a relatively small section of the population.

I think we're well past 'gold standard' type thinking. The only real 'value' left is market confidence. And we know just how fragile that is.

The core issue around this is what will money look like in 5 years? Public money, private money, real money, real assets, and its regulation.

Of course, nobody knows.

We are not particularly sold on 'private money' as becoming overwhelmingly important in a 5-year time frame (if by private money you mean cryptocurrencies, Facebook's Diem, etc).

CBDC's are more interesting and they have the potential to transform the banking system out of all recognition.

Will central banks and fractional reserve banks be able to maintain their control over "money"?

That will be a policy choice. If governments are determined to maintain control of money, they can easily do so. If other forms of 'money' are to take off, they have to be enabled by public policy. No amount of bright ideas will take off unless so enabled.

So, yes, they will be able to maintain control. The question is whether they will choose to do so.

Are the services being offered equitable and ethical?

That's a broad question – and with so many different services out there.

In general, we suggest that nothing is or ever can be totally equitable – though we can work towards that direction and be more equitable.

Ethical – well this is a commercial space with multiple players some of whom will be more ethical than others.

Digital finance is all about decentralisation and the removal of monopolies by CBs and their banking partners.

CBs, by definition, will always be 'monopolies' as they are an arm of government.

How they handle the banking system and whether digitization will change that remains to be seen.

CBs and banks have failed in innovation, job creation, public services, identity management, value denomination. They need to evolve or be replaced.

The question is what will force evolution?

The FinTech promise was a shake-up of the whole system. We haven't seen it yet on a large scale. And it won't happen unless policy makers and regulators encourage/allow it to happen.

We can have as many bright ideas as we want. But at the end of the day this is a highly regulated industry and its future will primarily be shaped by the regulatory framework.

I grew up with both "economics" Paul Samuelson and "Roman Catholicism", Pope John XXIII. I've rejected both for their lack of social value!

Samuelson certainly has been superseded – along with Friedman. Few of their doctrines are taken seriously today.

As for Pope John XXIII, no comment.

The citizen and customer are going to be the supreme arbiters of value. Social media is "open source" lobotomy.

Citizens certainly have a lot more power today than they had in the past. We shall see if/how they use that power as regards to finance.

Citizen/customer power is already changing many industries. How it will affect finance is trickier as finance is largely about trust and people are more reticent about entrusting their money to what may be fly-by-night outfits.

Also, most people don't really understand finance, so they tend to be either hyper-cautious or reckless.

How can fintech address the problem of the shrinking of local community banking - where relationships, local knowledge and needs is important?

This is an important issue.

One of the characteristics of the digital world is that the importance of 'place' disappears. You can transact with anybody anywhere.

There are therefore at least two possible outcomes.

What we previously called community banking will become replaced by digital banking that does not have to be based there but can provide the services that community banks used to provide but doing it remotely. This is one of the aspects of the much vaunted 'financial inclusion' promises of digital finance.

Alternatively, digitization will further increase the distance between communities and their finance providers, local knowledge disappears, and small communities will be stranded more than they are now.

If we want the former not the latter, it requires a collaborative public/private effort.

What do you see as the major weaknesses of current fintech models? How should they be addressed?

There are many weaknesses.

First is the fact that financing comes from institutions with short term time horizons and focused primarily on short term financial returns. That leaves little space for the social value conversation.

Second is that much of the FinTech startup ecosystem originates from 'tech' rather than 'fin'. This results in tech doing what it does – gamification, looking for eyeballs and activity rather than fundamental value, hooking people in through pings and dings, etc. All great fun I'm sure. But hardly world changing.

The flipside of that is that too many FinTech companies have insufficient depth in finance knowledge and capabilities and insufficiently experienced management teams. That said, they need to find a balance between building the finance experience they need without letting the hiring of experienced people lock them into the old way of doing things.

Then there are the obvious issues like weak balance sheets, lending through unproven risk management mechanisms based on what may be an excessive belief in their own algorithms, etc.

Finally, stratospheric valuations based largely on hype associated with the generic label 'fintech' may have been nice for a while but have already come back to bite some. What our friend Bill Janeway calls the Unicorn Bubble.

Collaboration may be a good objective for FinTech within Europe but how is the separation achieved to ensure the minimal contagion of financial and economic risks?

Good question.

Our suggestion is that there is collaboration between the willing and able. In that we would include an established and reliable system of financial oversight and regulation having to be present in any country that wishes to be included. Jurisdictions with weak systems (*eg.* weak AML enforcement, weak financial stability oversight systems, etc) would not be eligible to join.

Contagion is, of course, always a risk. But we believe that our system that focuses on including only the willing and able carries much less risk than, for instance, a capital markets union in the EU where every country will be included irrespective of their capabilities.

Will digital finance in Europe be a formidable barrier for any EU Members considering a "Brexit"?

There are enough barriers to EU-exit for other member states with or without digital finance.

Of course, the Euro is a huge barrier for those in the Eurozone.

There are no other EU countries that are in the same situation in the UK – a G7 economy, good at innovation, with its own reserve currency, independent minded, a nuclear power, a permanent seat at the UN security Council, strong historic links across the globe, never quite comfortable with a European project that was always counter-cultural.

It's hard to imagine many, or maybe even any, other countries following the UK out unless the EU truly starts to collapse under its own weight. There is too much historical and emotional baggage for the others.

But hey, who knows? What happens when Le Pen gets the presidency in France and Salvini the premiership in Italy?

The issue for the EU is not necessarily who wants to leave, but rather what tangible benefits is the EU going to bring to citizens going forward that ensure that members want to stay. That is the existential issue to which the bloc does not yet have an answer.

The bloc risks falling into the same mindset as previous authoritarian regimes like the USSR where people were kept in by increasing the difficulties associated with leaving rather than focusing on providing the benefits that make people want to stay. If that mindset takes hold, it would be disastrous for the EU.

What would be the role of Central Banks in a multi-lateral investment fund?

We see CBs as regulators, currency issuers and focused on monetary policy. Some governments may choose to raise funds to invest through their CB. But we see no direct role for CBs.

In a fund unmoored to existing multilateral political structures, who would decide on the social values to be fostered?

In our proposal, the fund would not be unmoored.

Public money is invested, and it is up to the investors (including governments) to design the fund's mandate and, within that, agree parameters for social value.

Once that mandate is agreed, then the fund should invest in appropriate opportunities within that mandate. There is no need for government involvement in the actual investment process. And we would recommend against that if one is to avoid different governments trying to favour their own home-grown companies.

How can you get consumers involved if they often do not really understand the underpinning of products and services offered to them? To what extent digital literacy fit in your framework?

Digital literacy and digital access are issues for digital finance in general. There is a big challenge to ensure that we don't create a class of digitally excluded people. It will be difficult. But it will also likely be time limited as younger people are ever less likely to be digitally illiterate (assuming the digital infrastructure is present and reaches everyone).

More problematic is financial exclusion. Not just for access issues. Many people are financially excluded simply because they have no money, and no amount of digitization is going to fix that. But also, as you say, because the vast majority of people are not financially literate. Removing the friendly bank manager or building society staff to help you along is problematic. And it won't be resolved by better explanations on one's phone and being unable to get through to any kind of human being (ever tried speaking to anyone at Amazon?).

There is a school of thought that the branch-based banking model will make a comeback as these gaps become more obvious. Indeed, we are seeing some of it already.

Maybe it won't come back through the traditional banks but there may well be openings for new banks to emerge with a different business model and none of the legacy costs. Bank branches may disappear, but supermarkets and other high street outlets will not. They could be the new banks.

Concerning the question of purpose of fintech: are there immediate lessons to be learned from what customers are doing; where they are putting their money and how transactions are being handled? (especially a 'younger' generation eg. 25-55)

It's probably too early to tell.

We know that more of them have been drawn into speculative investments (GameStop, Bitcoin, etc) – and maybe we should consider that to be more similar to online gambling than financial services.

Many believe that there will be a big move to investing in areas of social value. Those in the environmental world believe that, given the chance, many will support environmental projects. Not enough evidence yet to know whether this will be real or is simply wishful thinking from activist groups who believe that everyone is as passionate as they are about the cause.

Which is the most powerful force in defining social purpose and driving its rapid application: Government? Institutions? The public?

In a functioning democracy, the definition of social value is constantly contested between all of those groups and more (including business). It changes over time as social mores and perceptions evolve.

In a world of social media and other broad avenues of communication, everyone has more of a voice than they might have had in the past.

Government is then the final arbiter of social value as it translates to policy since our elected representatives are the only ones who have the democratic legitimacy to make such decisions.

In authoritarian regimes, the regime is the sole arbiter of social value. What anyone else thinks is largely irrelevant.

For more, much more, on all of this, you can look forward to Joe's book to be published early next year.

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