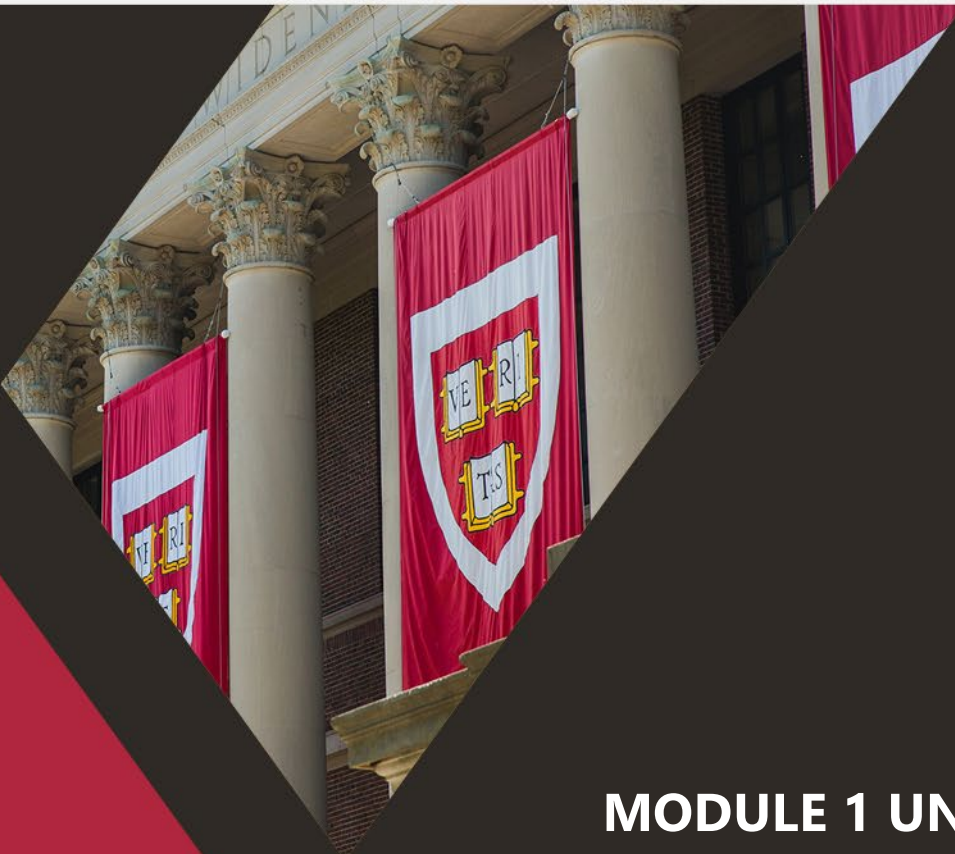




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## **MODULE 1 UNIT 4**

### **Video 1 Transcript**

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LAUREN COHEN: Is your credit card, your wallet, even your bank destined to be replaced by this? [Professor Cohen holds up a mobile phone.] Well, if you're to believe that in Module 1 the cases that we covered, so Ant Financial, Scotiabank and a lot of other firms on the FinTech payment revolution, then that's exactly what's going to happen. So what I want to do is chat a little bit about what we did in Module 1 and what we think the big open questions are in payments and FinTech's influence on that industry.

So look, from online shopping to digital payments, to now moving into digital wallets and other parts of how we do every type of our purchase, FinTech is having an impact. So even today, many people can't go a single day without being touched by FinTech and that's just going to increase. Right, it started in, interestingly enough, not in the US, or in Europe, where we see a number of banking innovations, but in China and other parts of Asia, and that could be the kind of recipe that we see going forward.

CHRISTOPHER MALLOY: No, exactly. So when I was on my sabbatical in China, in 2017, a common refrain I would hear from people is, why is the rest of the world so far behind China? And an anecdote that a few people said, well, it's because the rest of the world went from desktop computers, to laptop computers, to mobile, and China went straight to mobile and everything is mobile now. All payments are done mobily. Everything is completely more efficient than even in the US.

COHEN: Yes. And so it makes you think about two things. First, where's the next innovation coming from, right? And so if China had this huge advantage in that it didn't have all this pesky infrastructure and so it could leapfrog everyone else, then is it in turn going to be leapfrogged in the next innovation? So do we see the next innovation coming from somewhere that even is less encumbered by the infrastructure China's now built?

MALLOY: Yes, exactly because one of the points they would make was, the reason this took so long to take off in the US is because we have an established banking system in the US, and there's just a regulatory architecture that is just very hard to unwind, whereas in China, you're just building it straight from the infrastructure. And so getting adoption through social media and through mobile is almost immediate.

COHEN. Yes.

MALLOY: Now that lesson, will that happen in other developed countries, is not as obvious. It's sort of hard to imagine you can transport the China model to Africa and other parts of the world.

COHEN: Right, right. And the thousand-ton train kind of coming down the tracks here though that we have to deal with, is government, right. And so, it turns out you can – banks and the financial system, they're pretty important players in nearly every country, and it's hard to disintermediate them, but with enough push, you can disintermediate them. How do you do that to government? Right, because this could move everything – as we saw in the module, this could affect currencies, right. This could affect the actual fiat that's being used, and will governments let that happen?



MALLOY: Exactly. That political economy question's is a deep question. It's not obvious that other countries will allow some of the things that have happened in China to happen in their countries as well.

COHEN: Yeah, but can they stop it? Right. Like if these things really happen and they go across borders, then maybe the governments can't do anything about what's going on.

MALLOY: I agree, I agree.

COHEN: And so look, I think the big takeaway from these cases that we talked about, from the module in general, is going to be just how important and just how quickly we can see disintermediation from these FinTechs. And in looking forward, these FinTechs are almost surely going to keep kind of leapfrogging each other and going to keep having a deeper and deeper impact on our wallets and what we do. In some sense, they've taken the person out of personal banking, right. And the big question that you have to face, is look, no matter who you are, you're going to be touched by this, right. And so, even if you don't want to innovate in this industry, even if you don't want to buy a firm that's in this industry, you have to sell a good and service and that good or service is going to have to be bought through one of these mobile payment systems.

MALLOY: Exactly. There's no way to escape the –

COHEN: Yeah, so you can't –

MALLOY: ...influence.

COHEN: You can't not be an expert in this, and if you do, then you jeopardize potentially, your business kind of falling off the wayside.

So the big open question that we want you to wrestle with, is what part of the world is going to lead the next innovation wave in FinTech and payments? So up to this point, we've seen that China has really been the global leader in FinTech and payments. But who's next? Is that going to come from China, or somewhere else completely? And the reason it's so important to get that right is that if you can predict who that next leader's going to be then you're going to know exactly where to look for the next big innovation and you can be early on in riding that wave.

