

Financial hub cities in the post-COVID era

Remarks by Himino Ryoza, the Commissioner of the JFSA, at the online panel discussion titled, "The future of financial hub cities in Asia," and hosted by the Economist Corporate Network on Monday 27 July 2020.

I agree with Eddie [Yue, the HKMA Chief Executive] that financial hub cities will continue to play key roles in the global economy in the post-COVID era. Financial hub cities provide opportunities for face-to-face interactions, an atmosphere of innovation, a culture of professionalism, and solid regulatory and transactional infrastructures. These elements grow together, reinforcing each other, and such accumulation will continue to be a valuable asset for the global economy.

Having said that, I also believe that the shape of financial hub cities will undergo a significant transformation over the coming period.

There are three main reasons.

The first reason is remote work. Since the last week of March, there has been an unprecedented level of new bond issues in the New York market. Bond issuances require close coordination between issuers, investors, underwriters, lawyers, regulators and others, but they have been done mostly by people working from home. This is amazing.

The existing human network must have helped, but the activities must also have created new trust among players through telecommuting. Going forward, technology will enable us to see and feel our counterparts even better, perhaps in three dimensions or through more sensory organs.

The second reason for the transformation of financial hub cities is the potential shift of emphasis from efficiency to resilience. While having a single center in one time zone is the most efficient form of financial service production, that is like putting all your eggs in one basket. Given the growing geopolitical, pandemic and other risks, market participants may consider building resilience through geographical diversification.

The third reason is decentralized financial technologies. So far, financial transactions have been largely administered by established institutions, such as banks, broker-dealers and exchanges, as a hub. It was easier to identify the locus of a transaction.

But decentralized financial technologies can greatly weaken the nexus between the physical place and the transaction. Take the example of bitcoins. Their protocol is updated by developers scattered around the globe, transactions are broadcast through nodes scattered around the globe, and the ledgers are updated by miners also scattered around the globe. Though the use of decentralized financial technologies is still in its infancy, they may have the potential to transform the notion of financial hub cities.

Financial hub cities in 2023 may look very similar to the way they look today, but in 2030 they may look totally different. The nature of competition among cities may also change. Flexible adaption to change will be among the key success factors. The JFSA, as the regulator of the Japanese market, is determined to transform itself as the market transforms.