THE PAYMENTS SHOW

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E79:
ANYTHING THAT CAN BE DIGITIZED, CAN BE FINANCIALIZED

GUEST
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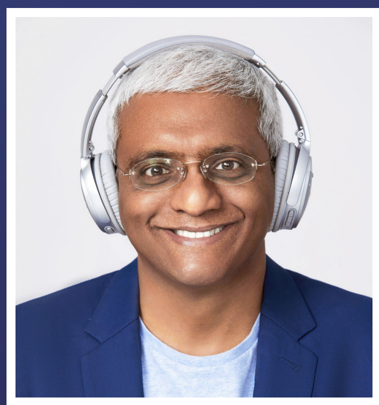

HOSTED BY
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[00:00:29] Introduction

[00:00:29] **Satwant:** Emmanuel, welcome to the payment show.

[00:00:32] **Emmanuel:** Thank you very much for having me on, Satwant.

[00:00:35] **Satwant:** if there was a guest who came on the show at the most appropriate time with what's going on in the world right now, I think now is the time when you're the right guest.

[00:00:42] **Emmanuel:** Oh my goodness. Yeah. Well, you know, since I wrote my book and had it published in October last year, what I've been seeing is you know, the, the reason for writing a book about the future is not so much to try and guess where it's going, but to go back to the first principles and, and identify what needs to happen you know, for different outcomes.

[00:01:02] So, so that's actually what my book was about. And, and there is so much happening in, in the industry today and in the world that we live in. You know, and it's very important not to be distracted by noise. But just go back to first principles and see whether we are in the general direction. You know, so, so please let's let's drill down to, you know, some of the topics that some of the issues that are happening right now.

[00:01:24] **Satwant:** Absolutely. Well, the number of things you can speak about is quite extensive. So I've had a, I've had a tough job to narrow down the focus for the show.

[00:01:33] Start: Founder of Asian Banker

[00:01:33] **Satwant:** so you're a thought leader in the future of finance and you've previously been an entrepreneur, you're currently a writer,

[00:01:41] and in essence, you're kind of on a quest to highlight, how financial technology is changing the roles of institutions and markets and. While pointing a global society in a sort of a different direction. And you spend your time urging industry leaders to prepare for the dysfunction that will pervade financial services as things into the next phase. So I hope that's an accurate kind of introduction to who you are and what you do.

[00:02:09] Please feel free to expand on it.

[00:02:11] **Emmanuel:** Let me package this a little bit more coherently for you, for your audience. I'm the founder of the Asian Banker for more than 28 years. I've been you know, traveling across the Asia Pacific region. And then, and then eventually we have an office in Dubai. We have you know, business in Africa.

[00:02:27] And, you know, and the name Asian and Banker. both fell apart. Like we were no longer Asian and we weren't covering just banking. But the early years enabled the Asian banker to be a calling card with which I was able to meet, become friends with some of the best leaders in banking and financial services both in Asia, as well as in the West.

[00:02:49] You know, very interestingly, some of my best friends. In fact, if you look at my book, the forward was written by none other than Barney Frank, who is a very dear friend the co author of the Dodd Frank legislations in the US. And the reason is that these are people who, when they come to Asia, they're looking for someone to show them around and, to give them a perspective.

[00:03:09] And, and so that's how my friendships with these industry stalwarts was built over time. So all of that put together enabled me to firstly understand the first principles of banking. And then came cryptocurrencies and, and decentralized finance and so on. And, you know, I've had a front seat view of some of the new players coming on stream both in, in the US as well as in China. And I started to think a lot about how is this transition going to, you know play out in, in the future of finance. And so that's why I put together that book and I'm still traveling today. I'm in Estonia and I was talking to some programmers today about work that they're doing with government in, in, in Estonia in, in the area of blockchain and so on.

[00:03:57] And, and so, I mean, piecing together an essence of who's doing what you know, both regulators as well as as players in constructing the future. So, so that's the my, you know, that's, that's how I package what I will have to say you know so what I will have to say comes from someone with a very strong sound Putting in traditional banking looking at all the elements that makes traditional banking what it is and then trying to figure out how digitization and decentralization is is shaping the industry.

[00:04:31] **Satwant:** Yep.

[00:04:31] Emmanuel's Book: "The Great Transition: The Personalisation of Finance"

[00:04:31] **Satwant:** And you've referred to your book a few times and that's The Great Transition. Is that the one?

[00:04:35] **Emmanuel:** The great transition, the personalization of finance is here. So I'm making an assertion that finance is increasingly becoming personalize at several levels. I'm saying that the technology itself it will eventually be moving away from platforms as we know them to be today to greater personalization.

[00:04:55] So the HTTP, the the worldwide web type of of a business model will eventually disintegrate into each of us you know, having our own platforms eventually. And then and, and with that transition comes the ability to transect value at a personal level. You know, the, the beauty of Crypto is that each of us can design and issue our own respective cryptos.

[00:05:20] In fact, only today someone said to me that each of us can be our own bank you know, which is going even further than what I did. But all these are not just cliches. The technology is leading us there and then it has repercussions in the way in which you know, fintechs will need to identify opportunities and so on.

[00:05:39] Now the fintechs, the early iterations of the fintechs. They they started by suggesting that they were going to disrupt the financial services industry. They were, that banks were going to be history and all that, and that's not what happened. In the end many of the peer-to-peer players ended up, in fact, almost all of the peer-to-peer players in the US in, in the uk you know, started applying for bank traditional banking licenses.

[00:06:01] So the question is what was going on there? and I'm saying that. With data and analytics that, that that there will be a second iteration of the, the peer to peer model and that the focus should not be on traditional products as the banks saw the products to be. And so I make assertions such as that if the product doesn't change, nothing changes. and then, and then take it from there.

[00:06:24] Industrialisation vs Digitisation of Finance

[00:06:24] **Satwant:** Agreed. Yeah. A lot of the fintechs have simply innovated to the point which the bank should have been doing anyway. You know, nice UI, UX, pleasurable user experience, but they should have been doing that anyway. It shouldn't have taken the startups to do that in my view.

[00:06:38] **Emmanuel:** That's correct. And there's a huge difference between the industrialization of finance and the digitization of finance. The industrialization of finance, even if it's digital, was all about doing what the banks always do, faster, better, cheaper with a better UX. You know, whereas the digitization of finance it has got a fundamental transformation about it which is that so I make, I make assertions like this up.

[00:07:04] I say that anything that can be digitized can be financialized you know, and, and what I mean by that is that today with data becoming the economy with companies as large as GE, which is used to be a real, you know, real economy. manufacturing company saying that a percentage of its business will start to be based on the data it generates from all of its activities and putting in internet of things that capture these data.

[00:07:34] You know, if, if anything that can be digitized, can be financialized now whether it'll be successful is another story and which which then creates a different economy that we will value and and if big big businesses are saying that, Entire economies are also moving in that direction.

[00:07:52] The bureau for Economic Analysis in the US in 2013 restated the composition of GDP in the US to start including more ephemeral assets such as franchises, entertainment, software licenses, intellectual property, all of that. And, and then they're very likely. To start adding data assets as an as a component of the GDP and as these things become more financialized entire GDP start to look different.

[00:08:22] So so we are heading in the direction where the ephemeral you know, components of the economy are going to be much more definitive, meaning that it's going to be more valuable than the real economy.

[00:08:34] Market Economy > Network Economy

[00:08:34] **Satwant:** Yeah, I totally agree. And so many parts of the West, the financial plumbing doesn't even scratch the surface of what. Can be realized value wise and GDP through digital products and services. I mean, selling mp3 music or streaming music or movies, whatever it's, it's only just scratching the surface.

[00:08:55] I mean, you can, if you could do microtransactions, I've talked about that in my podcast, several times in the past, just as a simple thing, such as if every single one of us has our own website and if somebody reads it. You could receive a fraction of a penny for that time that somebody read one of your articles or listened to your podcast or something. That could create billions, if not trillions of dollars of value. It's just one example.

[00:09:18] **Emmanuel:** Absolutely. And, and, you know as we move from the net, from the market's economy to the network economy we will lose certain things. but gain you know, things immeasurably more valuable. I was in Poland just a week ago and Beyonce was in Poland that week, okay? And I, we didn't check each other's calendar! and, and I was kicked out of my hotel because the hotels were super fully booked for, Almost a week, like five days or something like that. There was no flights in and out of Warsaw. There were no no buses to the next you know, to Lithuania, which is where I was going to. You know, and I was, I was just taken aback how just one you know, one superstar, one entertainment superstar could literally cripple an entire city for a few days, for two nights of shows.

[00:10:10] And to think that when we were moving from, long playing records where, you know, and each, each each vinyl was cost like 35 bucks to, digital forms of, of distributing music. Which cost nothing and yet when you have millions of them and put out there and it network that you can create superstars that that are, you know, a force to be reckoned with you know, an economic force to be reckoned with far more than in the days when All we were doing was trying to distribute you know, vinyl records.

[00:10:41] So what I say to the bankers is this, and I, and I have this analogy in my book, which is that you know, Kodak invented the the digital camera and, and there are pictures of that. It looks like a huge tissue box. And that was 1995. But then it was so in love with its traditional 35mm physical film and it continued to advertise that and so on.

[00:11:06] 2001 Sony, put out the digital camera to consumer, for consumer use with the CyberShot. 2007 iPhone was invented, and 2010, Kodak went into liquidation. and what I'm saying to bankers is look at your product sets and see the ones that you love the most. That's the one that is going to be disintermediated, that's going to be disrupted in a way that is profoundly beyond your widest imagination.

[00:11:34] Deposits > Digital Wallets > Stablecoins

[00:11:34] **Emmanuel:** And then in my chapter on that, on, on that I identified and I, it took me two years to go to think through which of the banking products so called and, and was ready for disruption. And I put my finger on deposits and I said that you know, the deposit industry, in the old days, it was all about, you know, putting your money in a bank account and the compounded interest preserves your wealth if not builds on it you know, and then came all all of the digital wallets of all kinds, you know, the bank digital wallets The super app digital wallets the talco digital wallets in different countries in different forms and so on you know, and then the other extreme of the digital wallet business are the cryptocurrencies the tokens which are not even fiat money, but a token of value in its own right which does not even need an intermediary to transact between two people.

[00:12:28] And, and you see that you have a whole range of digital wallets today. Then I asked myself, so where do you think this is going? And I said that, you know, if if the whole deposit business is collapsing it's going to get into a phase where banks are going to be scrambling to reinvent their relevance in the deposit business.

[00:12:49] And so I came to the conclusion that it is not in inconceivable, okay? It is not inconceivable that banks will one day compete with each other to issue their own stable coins. now, when I say that, I then go back to, you know, where the rubber meets. Okay, what will, what are the elements that need to be in place to get there?

[00:13:11] One of the elements is that when you think about stablecoins today the biggest issue in stablecoins is not it's not the technology itself. In fact, the technology has been has been, you know, improving and, and becoming more resilient. The issue was governance and that is the, the companies that issue these stablecoins cannot be trusted.

[00:13:30] We, it's very difficult to audit them and, and to hold them to account and so on. And then when I think about it, you know what? Banks are the most trusted institutions, they are regulated and if anyone can provide the, the governance structure for for stablecoins, it will be banks you know.

[00:13:47] And then when you think about what, what needs to happen, what the, the, the, the kind of competition will define stablecoins. It's utility. And it and it then moves the industry from being a preservation of wealth to utility. And, and that, that transition is already underway and all I'm doing is sitting on the sidelines and watching it unfurl.

[00:14:10] Even as you see debates in the, in Congress the, the, the juxtaposing of the FDIC, the OCC in the U. S. The different regulators trying to figure out how to regulate deposit taking companies which, you know, which states have rules in place that enables this and which prevent them. You, you take all of that into account and then you see the industry slowly unfurling. Uh, And I think that it's heading in that direction unless someone tells me otherwise.

[00:14:40] Physical and Digital Multiverse

[00:14:40] **Satwant:** Yeah. it became apparent, after the crypto craze of 2019 it became apparent that, you know, stable coins were. The key thing of interest to businesses, which is, the main focus of this podcast anyway, helping businesses to sell more and more easily. So it's an interesting concept that you think that potentially, you know, one model could be that each bank introduces their own stable coin because it's fast, obviously almost instantaneous, but I don't know how that would work in reality.

[00:15:10] **Emmanuel:** Well, in, in reality we are now entering a ecosystem which requires us to function both physically and digitally. You know, we are going to be operating and existing in a multiverse In our universe you know, we will be transacting with each other you know, in person as well as in, in, in digital form. And in digital form, it's not just sending instant payments to each other, but also making payments in the Metaverse, in gaming platforms, and so on.

[00:15:41] So... The, the thing is that we need, we are already in, in a, in an ecosystem where we need tokens that we can use. and when you look at the energy that goes into creating applications on tokens whether it's, Tezos or you've got Providence and you've got a whole range of tokens out there.

[00:16:03] And even Binance, for that matter you have hundreds of thousands of application developers you know, building on these platforms and, and all you need is to turn that into a token of value that can be transacted. And then the applications fall in place.

[00:16:19] Weakness of CBDCs vs Open Source App Development for Stablecoins

[00:16:19] **Emmanuel:** Now, what governments try to do is to try and come up with synthetic versions of them, which what central bank digital currencies are. But central bank digital currencies just cannot compete with the energy of the open source application development that's taking place in the token universe. You know, and, and that is why... The stable coin model is the more compromised model that still preserves the value of fiat currencies as well as digitize them and democratize them. Meaning that, you know, every player can define exactly how they want to use it you know, and then also, of course, there's this question of being anonymous that you know, that the state cannot track each transaction. So all things put together I think that bank issued stablecoins is the future.

[00:17:06] Debanking and Censorship vs Central Bankers

[00:17:06] **Satwant:** yeah, actually that touches on a really important note. I said at the beginning of the show why it's so relevant for you to come on right now at this moment in time. You've probably seen in the news media, over the past few weeks, a UK politician, Nigel Farage has been denied banking services and for his business as well.

[00:17:23] Then a few days ago it came out that the chancellor was denied a bank account by Monzo, which is a UK startup bank. And what shocked me the most was yesterday. I saw in the headlines of one of the newspapers when I was out shopping that suppliers to the UK Ministry of Defence have also been denied bank accounts. So it's become a national security risk. And this is all in the space of maybe 10 days or so. And so, you know, to me, one of the most important things to also discuss on my show was talking about decentralization, sovereignty, and how important that is, because like you said you could get censorship and what is already happening. And if somebody doesn't agree with you on something, you could be a target of, as Nigel Farage said, become a non person. So that's quite scary.

[00:18:12] **Emmanuel:** Yeah, I mean, that that already happened. There's a huge disconnect between central bankers and society.

[00:18:19] And central bankers are not elected officials. They, they in fact relish in their role that, that they have, which is unaccountable to anybody but themselves. In fact, central bankers set their own KPIs, their key performance indicator, which is you know, the central bankers get together and in Basel, in, in the Bank for International Settlement.

[00:18:42] And let me tell you it's almost like a love fest. Okay. They all over themselves, over each other to, to you know, to get on the latest Fed that they, they, they all agree on and then, and then push it along. They did that with inflation targeting, which was a pet idea of the New Zealand Central Bank many years ago.

[00:19:04] And today, even the U. S. You know, Federal Reserve Bank you know holds itself to account to keep inflation within two percent. Now, why two percent? Nobody, there is no science to this. You know, it's just a, a, a, a team that was started in New Zealand and then became like, like a religion to all central banks on the world. And the same thing with central bank digital currencies.

[00:19:26] CBDCs Have Failed Already

[00:19:26] **Emmanuel:** You know, it started as an experiment first in countries like Uruguay. And I was very happy when I finally went to Uruguay, met the governor who was responsible for the CBDC project there, and who, who put it quietly aside.

[00:19:40] You 2017 or something like that. And, and I was curious why Uruguay put it aside. And I think that, well, they didn't, the answer I got was that you know, that it that it was technology that they wanted, didn't want to work on it was a distraction at that time. It didn't serve any real purpose for Uruguay, the economy as it was.

[00:20:00] But then the Chinese started to you know, like this technology and that was in 2014 and then they spent time experimenting with it. The, the wonderful thing is that you know, there are a number of pilots that the China central bank digital currency project is still is still a pilot after many years because I, my take is that they're too afraid to make it go fully live because you know, the, the, the repercussions on the banking system they nobody wants to take responsibility for it at this point. And the countries that have gone alive, Barbados Bermuda and Jamaica the central bank governors tell me that the take up is abysmal.

[00:20:41] That is it's, there is just no take up for a number of reasons. The the, the the, the, the banks are resisting them because they don't see the revenue you know, potential for central bank digital currency. currencies. I mean, the thing about these little Caribbean islands is that the bank's main source of income is every time an American tourist swipes his credit card.

[00:21:03] You know, and it's a gigantic source of income. It's you know, the whole system makes money from it. And then you want to replace it with, with with a central bank digital currency where Is effectively free for the for the user and the bank is not even relevant in the process, Right. And then in the midst of all this canada had this truckers riot in in ottawa and and and the state Sorry,

[00:21:26] **Satwant:** the protests.

[00:21:28] **Emmanuel:** the protest, right?

[00:21:29] And the state did exactly that. They, they froze the accounts of the truckers. And, and Canadians just went berserk and said, No, we were not, we're not going to allow this. And yet, Canada, the, the central bank in Canada is one of the major players in, in experimenting with central bank digital currencies.

[00:21:46] So you got a huge disconnect. Between what the state is doing and what the feel of the ground is. And the United States, of course you know Janet Yellen issued the white paper on on central bank digital currencies, so disconnected with public perception. It's, it's unbelievable. You know, so.

[00:22:05] So, I think that, I think the public is just waiting for the central bankers to come to another level where they bring it up and then it will become a topic for discussion and I think it will be thrown out of thrown out of of the equation.

[00:22:19] But also more important than, than than public perception is the march of technology development. Not only have we gone open source and you know, not only have we gone API, open source APIs we have also gone no code open source APIs. Just imagine the amount of energy that we're putting into the hands of ordinary people to define their own tokens, how their applications will look like and so on.

[00:22:50] Banks Missed the API Revolution

[00:22:50] **Emmanuel:** So what banks should be thinking is the other way around, which is what happens when the customer or the user has control over how he wants to design his finances and then work backwards into what they need to do. And what I say in my book is this. The banking industry totally missed the API revolution. Because while companies like Microsoft and Adobe and SAP and all the software companies were democratizing the access to the monolithic technology by allowing, you know, ordinary people to build their own APIs, Thousands of them, right? In the case of, I think Adobe was, at one time I read 50,000 application development people working on working on, on, on creating access to their, sorry, it was Salesforce, right? 50,000 users building applications on their, on their, on their platform. The banks were treating API Developers

I call them. They were treating them as patch solution vendors. Okay, meaning IT vendors whose only job is to solve a legacy problem that exists within the bank. and, and then they missed that whole API revolution. And that API revolution then went into blockchain APIs. and banks missed that too.

[00:24:09] So. You know, so the technology has been evolving a lot of depth and, and community you know building ecosystems around the way in which technology is developed these days and, and the banks have missed all of that and now we've arrived at a point where the user will decide how he wants to interact with the bank you know, and, and the banks that do a couple of things.

[00:24:36] One is they need to recognize that the data that sits outside the institution is more important than data that sits inside the institution. The data that sits inside a bank is static, is historical. It's one dimensional and it tells you nothing about the lifestyle, the, the profile of the customer base.

[00:24:57] And there's so much more data from the outside. which provides the bank with a lot more understanding of who the customer is, how to productize and so on.

[00:25:06] Cybersecurity Risk and Innovation Through Crisis

[00:25:06] **Emmanuel:** And then on top of that the risks that are coming on stream because of of the internet you know, cyber risk. The solution to cyber risk is to be networked even more networked than you are now. The solution is not to close a door the code the solution is to create many more nodes that that gives you the the sense of being able to validate transactions, understand your where the risks are coming from and, and, and pinpoint customer profiles. So I think that banks are fighting, the banking industry is fighting a losing battle and then there comes an inflection point, and the inflection point sometimes is from social upheaval of some kind.

[00:25:47] And that is also why, by the way, I say in my book that the future of finance is not built on purpose or by design the future of finance is actually built, out of dysfunctionality it is out of crisis that we make breakthroughs to the next level. And if you look at the history of finance in the last 100 years every time we get a new regulation or a new financial infrastructure, or even an innovation such as the federal deposit. FDIC, the Federal Deposit Insurance Corporation all markets the, the futures markets and so on. They were all designed to create greater stability, safety, and settlements in the banking industry. And so look out for the next crisis. To understand what the innovations will be and what the next breakthrough in how finance will look like will be.

[00:26:38] Social Credit Scores

[00:26:38] **Satwant:** Yeah. so you're preaching to the choir with everything you've just said in terms of, you know, CBDCs will fail. the future is decentralized and the sovereign individual, but I'm going to counter that because I find the allure of, of central control, It's quite appealing to politicians in the West.

[00:26:55] I mean, you talk about New Zealand earlier. I mean, Jacinda Ardern, I mean, she was almost following hook, line and sinker what China were doing, social credit, you know branding any questions of the lockdowns as misinformation and you name it, right. So I want to counter everything you've just said just to play devil's advocate. So, so in, so in China. I believe pretty much no one who actually lives there uses cash. They're all using the digital apps, such as WeChat, Alipay, et cetera. And you've got an authoritarian, obviously communist government. And I'm struggling to see how that central control and that social credit, if you're a bad person in the government's eyes, not going to work. Because it is working there. And, a lot of Western leaders love what they see. So I would counter to say, well, that disproves everything you've just said, right?

[00:27:48] **Emmanuel:** Governments would love to have more control and you know, the China story needs to be broken down into different periods to understand where it's coming from and where it's going and... around the world.

[00:28:02] You know, right after Kobe, I've been traveling like you wouldn't believe on. I've been to very dysfunctional countries like Burundi, for example, and I'm seeing the most dysfunctional countries suddenly the State is competent more competent than they used to be. Because they're all very proud of themselves in, in, in the way in which they handled COVID you know, that, that even in the most dysfunctional, you know, countries you know, they put in place procedures, processes. They work, they save people and so on.

[00:28:33] So we now live in an age where the state is increasingly competent, and we need to factor that into our thinking. And it's not just a communist state. It's it's, you know, just broadly across... across the board you know, all kinds of states. I'm here in Estonia and the state here is very competent. They, they put together technology digital infrastructure that is world class and the country is too small. It's 1. 2 million people to, to for any big business. to, to create what the state has created. So let's take labels out. It's not just communist. It is the, the, a bit, the, the competency of state of the state has increased dramatically. Even in the U S when you look at Florida or Texas or Delaware the ability to for the state to support you know, whether it's, you want to incorporate a business or you want to start a legal proceeding, many of these things are digital today. And ordinary people enjoy the idea that a competent state makes for greater efficiencies in society and so on.

[00:29:38] China

[00:29:38] **Emmanuel:** And, and China achieved that mainly in the period between 2010 and 2014. And the interesting thing is the reason China achieved you know, mass adoption of, digital payments, which is Alipay and WeChat. And by the way, I spend a lot of time in China. I have an office in Beijing and I've been, I've had a front seat view of the development of China since 2000 including personalities that I'm, I'm, I'm friends with. You know, and so this, this and these are friends in regulation who were asking me in 2014 how do you regulate a deposit taking company?

[00:30:14] And I was thinking, wait, we all use WeChat now. And how is it that the, the, the top regulator is... still, you know, struggling through this this, this concept. And the reason is that Alipay was was a creation of Ant Financial, which is Alibaba incorporated in a province called Hangzhou and and Hangzhou government you know, supported and protected that company while it scaled up.

[00:30:39] You know, it took a while before the national government was able to put in place regulation, and even after they put in place regulation that was on the website, they couldn't even enforce it. And the enforceability only came in 2018 or so, you know, so about 2018, 'cause 20 14, they started putting in place the, the infrastructure. By 2018, they, they were able to regulate.

[00:31:01] And so you're not going to see the kind of freewheeling innovations in China as we did in that short period between 2010 and 2014. And 2010 2014 was also the period in which the mobile device had matured. In fact, if you take 2007 as the year that that iPhone was invented, It took three years before it matured and then that is why Alipay and, and, and WeChat just took off as native to mobile while and I say this in my book, while you know, platforms like Amazon and, and and Facebook were still trying to make the transition from desktop to mobile.

[00:31:42] and so now we are entering yet another phase from mobile to multiverse. So the, it's an open it's an open game as to who, which player from which country will, will arise to, to dominate this space. The Indians had in invented introduce personal identity the Aadhaar scheme, which was a variation, I mean, which is a different approach from the Chinese so that it won't be the platforms that will provide the ubiquity, but that the fact that you have your own identity means that you can go on to any platform and then the platform game is. Is democratic. That will be it's a huge competition between the different platforms. So, and that is alternative to the Chinese model.

[00:32:27] Now the thing is this, that the power of the state to provide convenience infrastructure and ubiquity, is tempting to many people in many countries. The Americans right now struggling or rather are trying to wrap their minds around pay Fed, FedNow, right? And, and it's funny because the, the arguments in the U. S. is that FedNow is like a backdoor entry for, for CBDC in America. But I'm trying to tell my American friends that FedNow is simply instant pay of the traditional banking account. There's nothing CBDC about it. And, and so. The U. S. is trying to get to the point is everyone else, or rather the countries which have instant pay to, to the same level so they, they can kill the, the, the checking account. But it's the state that is driving that right?

[00:33:18] So, so the, the role of the state is not just China that, that that the state will have more control. I think that around the world, ordinary people will give up a lot of their freedoms for convenience and ubiquity you know, and and then. It's only when you start seeing the state failing that, that people will start calling into question what the role of the state is. So right now, we are in a, in a period of history where I call, which I call the ascendancy of the state.

[00:33:50] Dysfunctional Economies: The United States

[00:33:50] **Satwant:** Okay. Interesting perspective. coming back to what you were saying about how states are changing and becoming more competent. You, you also got a position that how dysfunctional economies, not stable ones are now shaping the future of global trade and commerce. So is that similar to what you, is that along the lines of what you were saying earlier, or is that different?

[00:34:14] **Emmanuel:** Yeah, it's just to continue what I was saying and you know, when I, when I say dysfunctional economies, the most dysfunctional economy I'm thinking about is the United States. You know, the United States is a very structured,

[00:34:27] very well regulated economy, okay? But the, the moments when it... makes its changes is when it's dysfunctional.

[00:34:35] So the most dysfunctional aspect of the U. S. economy right now is that two years ago the total debt of the U. S. Rose to about 31 trillion, and the total GDP of the U. S. is about 21 trillion, which means that the ability to meet its debt is now a moot point and it's forever going to be a moot point.

[00:34:57] So I'm saying that... That the, the debt, that the debt is the economy. You know, let's not ever discuss this idea that, oh the U. S. has to balance its budget or any of the countries, the major economies Japan, China. have to balance their budgets. In fact, China, the debt to economy GDP is in the range of 300% you know, which is much, much higher than the U s. And Japan is it's much higher than that too.

[00:35:25] So So the thing is that, when you really, when you sit down to think about it the fact that countries have the ability to issue fiat currency puts them in debt immediately. The idea of a currency note is it's an IOU note. The state is saying to you that here is, here's a note you know, when you give it back to me, I will give you the same value back you know, so so the thing is that when, when a state is able to issue a lot of that node basically they are just issuing more debt and, and the ability of the state is to issue debt indefinitely, right? So, now What that means is that we now need to start absorbing this idea that entire economies are going to be built on the back of debt and that countries that raise debt will now need to raise treasury bills or some form of debt instrument that others will want to invest in.

[00:36:19] Digitised Debt Instruments

[00:36:19] **Emmanuel:** And with that competition the best debt instruments are the ones that are digital that then can go out and can be traded freely in the open market in the global marketplace the united states has a Advantage over all other countries in the world in that its own debt is the highest rated the highest trusted and it and in order to maintain that position it needs to digitize his debt It's just as simple as that, you know and and out of desperation at some point it will make policies that will facilitate that digitization.

[00:36:53] Because that's exactly what it's done in the past! The U. S. Decoupled the currency against the price of gold in 1971. Because it just couldn't meet that obligation anymore you know, and, and like that all in the, all through the past the great depression, the 1913 crisis and the civil war crisis it's been issuing that indiscriminately.

[00:37:17] And then creating the institutions to be able to to distribute that debt and to trade in that debt you know, and and that's been the story of the of the us, all along And so i'm just waiting for the next inflection point. And it's in this economy where Digitizing is the right thing to do to take it to a new level and, and to make the U. S. economy continue to be relevant to the rest of the world.

[00:37:41] You know, and we think of the U. S. as a failing state but it's been a failing state from its inception. You know, its debt has been increasing and and, and its ability to export debt is what holds it together.

[00:37:54] The Next Major Crash: Driven by Digital Communications and Perception

[00:37:54] **Satwant:** Yeah, that's interesting perspective. I never thought, thought of it that way. And, and, and I want to follow on from the comment you just made and previously as well, that it's, it's crisis that drives big change in terms of money and payments. And, one position you have is that the next financial crisis, maybe it'll be driven by public perception and digital communication. And I think we've kind of seen a little bit of a glimpse of that when we had the GameStop stock what do they call it? The stock run or whatever last year or the year before. And so is that kind of what you mean?

[00:38:31] **Emmanuel:** Well, that was that was kindergarten stuff and then Silicon Valley Bank

[00:38:35] **Satwant:** Oh, yeah, of course,

[00:38:37] **Emmanuel:** On the, on the back of, of a tweet from Peter Thiel 80 billion worth of deposits just disappeared on a Sunday you know, so we are already in, in the, in the realm of perception as a driver for you know, of the, of the financial services industry you know, so.

[00:38:56] And and it's no longer underlining assets or underlining balance sheets that that decide or create the issues that the banking industry needs to face.

[00:39:06] So that's the price of digitization. You know, and as digitization continues further the, the creation of assets. Are based, creation and destruction of assets will be based on ephemeral considerations such as perception.

[00:39:24] And in fact, when you think about it, and so the way in which I argue this with the bankers is that just look at how the Basel regime has evolved over time. You know, the traditional bankers like to say that this time it's not different. It's, it's always the same you know, story, which is bubbles and then they pop and so on.

[00:39:43] Well, this, it is different in that the asset Base of a bank in 1984 were traditional mortgages. That was bus one. The, the asset base of the banks in you know, nine, 2000 bus, bus two was was markets and traditional assets and you know traded assets you know, futures and derivatives of of of mortgages.

[00:40:08] That's why you have the three pillars. Right? And of Basel 2. And then came Basel 3 where the, the, the the Basel regime had to start including you know internal ratings internal ratings and advanced ratings. Where the valuation of the assets can't be determined you know, in a textbook manner. It is it is subjective. So they, they were asking the, the regulators are now asking the banks to value their own book because even banks don't know how much assets that they're carrying. In fact, if you ask any CEO what is their derivatives exposure is at any one day there, there is not a single CEO I've known and I've watched many of them at press conferences they just stumped because they, they have no clue how many, how much derivatives that they are carrying on their books on any one day! And many of these derivatives are debts of other banks. So you have got a systemic risk involved as well. So

[00:41:05] **Satwant:** correct, correct me if I'm wrong. Isn't that what Monte Carlo simulations was supposed to model? Well, maybe I've got that wrong.

[00:41:12] **Emmanuel:** So yeah, to create to create a valuation at any one point in time and it, and it well, it's, it's a fiction you know, and and they tried to their best, but the, the problem, the thing about multicolor simulation is that it assumes several, standards or several you know reference points that, that you can that you can make an evaluations.

[00:41:35] And today those reference points are disappearing you know, and and, and the balance sheet yesterday will look different from the balance sheet tomorrow. So you know, and it's, and it, and it can be driven by something as simple as a tweet. You know, so, so the bank, if the balance sheet of a bank is.

[00:41:52] is evolving means that the, the nature of the next economic crisis or the next you know, banking crisis will no, no longer be based on any fixed tangible assets.

[00:42:05] In fact, 2008 was already intangible because it was, it was derivatives of derivatives and between the trading banks, not between the main street banks. And so the next crisis will be even more ephemeral than that.

[00:42:20] **Satwant:** Well some great insights there. Thank you. I could talk to you for the next three hours, I think. So I really appreciate the hour we've had so far, and I think I want to end on one question, and then we'll just finish on one light thing.

[00:42:33] UX, UI and Conversion

[00:42:33] **Satwant:** You know, this, this podcast is to help businesses if they want to sell more easily and convert their sales, be it online or in store. Coming back to that whole UX and UX and UI side of things. Is there one or two comments you'd like to end on for that audience maybe things to watch out for or things to do or, or anything else that I might not have thought of in the next sort of six to 12, 24 months?

[00:42:58] **Emmanuel:** The one thing I'd say to FinTech players is this, that finance is not a ux industry. Although UX seems to you know, create new opportunities, at the end of the day, finance is still a balance sheet based business. Your cost of funds is still a much more important component in your strategy than than technology or.

[00:43:22] or user design and so on. So for example the buy now pay later fiasco that just ended right through that whole process, I was saying to myself you know, you're only as good as the cost of your funds no matter how much UX you put into enabling people to, you know, to be able to, you know, to get into a installment program instantly at a point of sale you know, and, and then you're, you're dealing with high risk customers. So your cost of funds better be good enough to be able to you know, manage the cost because high risk means high cost. They're going to be defaulting a lot. You know, and in that way you can apply that to anything you do in finance. And I think that that's something that I'll, I'll say to FinTech players, just understand that finance at the end of the day is more balance sheet than it is technology.

[00:44:16] **Satwant:** Thank you. Great stuff.

[00:44:18] Emmanuel's Next Book: "Winning Civilization"

[00:44:18] **Satwant:** So I'd like to finish with your next book. I think it's tentatively titled the winning civilization. Maybe you want to chat about that for a few seconds and, if people want to get in touch with you. What's the best way, be it web or any appearances you might be making in your travels.

[00:44:38] **Emmanuel:** Yeah.

[00:44:39] So you know, as I was ending my previous book, my first book I came to the, came to the realization that if finance is going to be personalized, entire societies are going to be personalized. You know, and, and that if finance at the end of the day is information that is transacted between two people, in other words, if you and I can have a video call for free and pass information to each other for free, we should be able to transect value for free. You know, that's how simple finance is. Finance is a piece of information.

[00:45:13] And then I started taking a look at entire societies and how they're handling information as a core asset of the economy. And today, with with OpenAI and ChatGPT, you are actually looking at entire civilizations that are going to look different based on how they manage information. So that's my next book, The Winning Civilization. I think that many of the countries that I spend a lot of time in the U. S. China and, and now Africa, increasingly I see that, that energy that desire to be a defining civilization. So then again, I break it down to their comp its components and, and look at how they handle information to make a guess as to which countries or which communities will will succeed better than others.

[00:45:59] And I hope to give that out as a as a thinking point, as a way of structuring our thinking in trying to guess how civilizations will work out.

[00:46:09] **Satwant:** Yeah. Fascinating.

[00:46:10] **Emmanuel:** You can see all of that in my blog which is emmanueldaniel.com. It's a good place to start and then whatever I write you know, gets I put it there and then it, I, I distribute it on my social media and so on.

[00:46:22] **Satwant:** I'll, I'll put the link in, in the show notes.

[00:46:24] So I'm definitely going to pre order that book if it's if it's out there in some form in your newsletter or something, cause that, that, that I totally agree, I mean, if you look at how information's managed today, you know, with all the data breaches and what have you, it's just not, it's just not considered a top priority by so many organizations.

[00:46:43] But, but now I think people are trying to. Are starting to see the value of it because companies like Twitter and Reddit are, are shutting down their APIs or charging a lot more for it. So, people are starting to recognize the value of what they hold. And you're going to see these gated, gated communities of, of silos of data. The value will be released in other ways.

[00:47:07] **Emmanuel:** Yeah, we are trending towards the ability to manage our own platforms, right? And someone said to me today become our own banks. And then I asked him, what do you mean by becoming our own banks? He said, well, you, you decide who you want to interact with, what your products would look like. And, you know, and then you create your own network.

[00:47:25] So we are trending towards that, but that journey is a long one because I don't see intermediation going away just like that. You know, in fact, even in, in this even in decentralized finance there's a lot of centralization that, that needs to disintegrate. It needs to crumble in order that we see greater personalization.

[00:47:47] So that, that's the journey worth looking at, even as we add a lot more. data and processing power to AI and, and machine learning.

[00:47:58] **Satwant:** Great stuff. Well, thank you, Emmanuel. That was really fascinating. Just over an hour. And you know, you're very welcome back in future for a part two, if you want to but yeah, wish you all the best and maybe I'll see you on your speaking gigs around Europe, maybe one day as well.

[00:48:13] **Emmanuel:** Yes and happy to be back you know when, when there's something important happening. I like having my ideas tested and, and you know, and, and either reinforced or if I'm wrong, I'm happy to be you know, shown up to be that, but I think the first principles of which I've written my first book so far, so good, it's, it's going exactly as I imagined.

[00:48:33] So thank you for this opportunity.

[00:48:35] **Satwant:** Good stuff. Thank you. Cheers.

[00:48:38] **Emmanuel:** Yes.