

Lecture Report

The first lecture of the Todai Finance Innovation Program was held on April 18th, at the Daiwa Ubiquitous Computing Research Building located within Hongo Campus of the University of Tokyo. The program has been newly established this year by Finatext Ltd / Nowcast Inc. in conjunction with the Center for Advanced Research in Finance (CARF), as an initiative to nurture the next generation of talent who will shape the financial system of the near future. It consists of 15 lectures by guest speakers, all of whom are experts in their respective fields, to be held throughout the course of the year (April 2017 – February 2018).

The first lecture on “The Economy and Finance” was lead by Atsuo Akai, chairman of Nowcast Inc. and visiting professor at the Research Council of the Comprehensive Research Organization at Waseda University, who also serves as the Director of the Todai Finance Innovation Program. The main points of discussion in the first lecture included, the characteristics and issues of the Japanese Financial System, the differences between the financial system in the United States and Japan, and the challenges facing the creation of a successful financial system for the near future.

Characteristics and Issues of the Japanese Financial System

The Japanese financial system has long been centered on financial intermediaries and public debt. Although previously multiple players were present in the system, providing funding at different risk levels, recent global crises and the subsequent tightening of regulations has lead to the current financial system centered around megabanks and regional banks. The issuance of public debt has compensated for the lack of risk money available, however, the unsustainability of such practices calls for a new solution. This mismatch of the supply and demand side for funding calls for the development of a multi-layered financial system, in addition to the mobilization of the approximately 1500 trillion yen in individual assets of Japanese citizens that is largely laying dormant.

Differences between the financial system in the United States and Japan

The comparison between the figures of U.S. Credit Market Debt / GDP and Japan Credit Market Debt / GDP highlights how household debt accounted for a far greater percentage of the total credit market debt in the United States compared to Japan in the period leading to the financial crisis of 2008. At the center of the financial crisis were subprime mortgages, with long-term mortgages

being packaged into short-term structured products through the Asset –Backed Commercial Paper (ABCP) conduit among others.

Meanwhile, the government debt in Japan is steadily growing, while the percentage of the total debt held by corporates and households is gradually decreasing. Without provision of long-term funding or risk money by the financial system, important projects such as city planning, investment in infrastructure, regional development, promotion of innovation, and disaster recovery cannot proceed.

Creation of a successful financial system of the near future

Up until recently, the field of Economics has been regarded largely as a humanities subject, however, recently science and technology is playing an increasingly large role in the field, with the prime example being the emergence of new trends such as Fintech. Hence, this program will place emphasis on the utilization of science and technology to address current issues that the financial system faces, and consequently help to shape the financial system of the near future. Without such adaptation to new needs and trends, Japan risks being left behind and isolated from the rest of the world in a manner similar to the Galapagos Islands. Therefore, from the perspective of science and technology, it is necessary to identify where exactly the current financial system is running into walls, and providing proposals in order to overcome such barriers. It is not hard to imagine how such implementations or ideas stemming from the sciences and technologies could possibly bring about a new paradigm in finance.

Finally, the program organizers have collated a list of reference books and recommended books from each lecturer, and this list is to serve as a bible for participants in the program to grasp the forefront of the current financial system as well as the developing Fintech trend. The reference books serve to provide participants with a core understanding of the topics to be covered in each lecture, so that the lecture itself may be dedicated towards in-depth discussions of the issues at the forefront of each field. Hence, it is highly recommended that each reference book be read in advance of the corresponding lecture. On the other hand, the recommended books list was constructed by asking lecturers what they were currently interested in or fascinated by, providing participants with insight into what the people working at the frontline of each field are currently turning their attention to. Although these recommended books may not be of direct relevance to the content of the lectures, they serve as an invaluable opportunity to place oneself at the frontline of economic and financial thinking.