AAA assets 205, 208, 209
access to credit 26
ACCIION 71, 72, 80
acquiring bank 165–6
Advanced Internal Ratings Based
Approach (AIRB) 210–11
adverse selection 9–10, 29
credit derivatives 260–63, 264
agency problems 230
see also adverse selection; moral
hazard
aggressive innovation 8
aid organisations 75–6
Akerlof, G. 35
allocation efficiency 24–5
American Express 159
Anglo-Saxon banks 58–9
annual reports, analyses of 3, 46–60
Apple 175
arbitrage 25
Argentine debt crisis 271, 278
Armstrong World Industries 268
Arrow, K. 26–7
Artis, M. 125
asset-backed securities (ABSs) 6, 14, 17
credit default swaps on 256
traditional securitisation 10, 11–13, 22
asset growth 53–8, 59–60
asset management 6, 7
asset managers 258, 259
asset segregation 215–16
asset transformation motive (for
securitisation) 12–13
assignments 228
asymmetric information 9–10, 261–2
risks 35–6
attitudes towards innovation 3, 46–60
automated teller machines (ATMs) 4, 89–110
vs branches in Europe 90–92
loan/deposit spread and ATM
network size in Spain 92–3
non-price competition 93–104
balance-sheet constraint motive (for
securitisation) 13
Bank for International Settlements
(BIS) 7, 23, 30, 31, 226, 267, 268, 272
bank size 57, 121, 122
CDSs vs loan sales 233, 234, 236,
237, 238, 240, 241, 244
internet banking 134, 136,
139–40
bank-specific features 125–41
bankruptcy 256
banks
costs of payment instruments to
161, 162
motives for credit derivative
transactions 258–9, 260
role in internet payments 156–7
Bankscope 115
Barber, B. 294
Basel Accord 209, 270–71, 272
Basel II 210–11, 219, 273, 275
Basel Committee on Banking
Supervision 271–2
basket CDSs 254
Baumol, W.J. 153
Baxter, W. 159
BBVA 52
Bear Stearns 19
Bekkers, R. 182, 183
Belgium 58
benchmark-format covered bonds
201–2
see also covered bonds
Berentsen, A. 154–5
Berger, A.N. 95, 226, 227
Bergman, W.J. 270
beta (systematic risk) 296–300
billing systems 152, 152–3, 164
Bills, S. 185, 186
Birch, D. 113
Blennerhassett, M. 284
Blind, K. 176
Bloomestein, H. 8
BNP Paribas 217–18
Boehmer, E. 286, 312
Bolivia 73, 77
Bolt, W. 171
book orders, number of 295, 300, 301–2, 305, 308–11, 324
borrower–lender relationships 230–31
credit derivatives and 260–63, 264
Bosnia-Herzegovina 81
Bougie, D. 149, 158
Bowman, D.G. 284
branches, bank 89–110
ATMs vs branches in Europe 90–92
banks in the EU 119, 120
non-price competition 93–104
Brewer, E. 104
British Bankers’ Association (BBA) 228, 250, 251, 252
broadband technology 123, 124, 128, 141
Buffett, W. 1, 275–6
business method patents 183–6
central banks 149, 204
costs of payment instruments to 161, 162
debt obligations (CDOs) 10, 14–19, 22, 254–5, 274
collateralised 14
collateralised debt obligations (CDOs) 10, 14–19, 22, 254–5, 274
collateralised loan obligations 14
Colomer, N. 211
Comerton-Forde, C. 285
corporate barriers to PTT 282–3, 290–93
collateralised debt obligations 10, 14–19, 22, 254–5, 274
commercial banks 92–3
non-price competition 99–104
corporate barriers to PTT 282–3, 290–93
corporate barriers to PTT 282–3, 290–93
corporate barriers to PTT 282–3, 290–93
corporate barriers to PTT 282–3, 290–93
corporate barriers to PTT 282–3, 290–93
Commodity Futures Trading Commission (CFTC) 270
communication policies 46–60
communications industry 181–3
communications technologies 123, 124, 128, 141
communicators of innovation 51, 55, 56
reinforcing MFI’s 78–80
Compartamos 83–4
competition 31–2, 292
banks in EU countries 122–3
internet banking 128, 133, 134, 136, 140, 142
internet payments 153–64
non-price see non-price competition
complexity 33
consolidation 119
consumer payment behaviour 153–4
contagion 31, 265–6
contemporary monetary systems 148–9
convenience effects 93–9
conventional CDOs 10, 14–17, 22
conventional covered bonds 215
cost to income ratio 57, 118–19, 126–32, 133–41
costs
cost savings 94–5
economics of payment instruments 153–62
of financial intermediation 23–4
counterparty credit risk 18, 33, 266–7
country-specific features 132–41
cover pool 201, 215–16
covered bonds 4, 199–223
assessing the credit risk of 208–11
attempts to define 213–15
common standards for 211–16, 218
concept 200–202
contribution to integration of European financial markets 219–20
expansion of covered bond market 202–4
regulatory and market developments 216–18
relevance in mortgage funding capital markets 204–7
credit card companies 161, 162
credit cards 160–61, 162
see also payment cards
credit default swaps (CDSs) 5, 17, 24, 229, 252–7
CDS indexes 20, 229, 255
counterparty credit risk 266
economics of banking 27–9
functioning 252–6
ISDA Master Documentation Framework 271
portfolio CDSs 11, 19–21, 22, 254
shifting credit risk 11, 19–21, 22
single-name CDSs 11, 19–21, 22, 229, 254
transaction documentation and settlement 256–7
credit derivatives 1–2, 4, 27, 31, 33, 250–81
development of credit derivative markets 251–2
and financial stability 251, 263–70
incentive problems 260–3, 264, 269–70
vs loan sales 3, 224–49
complements or substitutes 242–3
data and methodology 231–6
empirical analysis 236–43
similarities and differences 228–31
market participants and their motives for transactions 258–60
regulation 4, 270–75
risks inherent in credit derivative transactions 266–70
shifting credit risk 10–11, 13–21, 22
within the financial innovation theory 226–8
see also collateralised debt obligations (CDOs); credit default swaps (CDSs)
credit events 16, 18, 252, 253, 256
credit-generating innovations 6–7
credit guarantees 10, 11, 22
credit insurance 10, 11, 22, 36, 225
credit linked notes (CLNs) 254
credit risk 272
assessing for covered bonds 208–11
liquidity in 25
management and credit derivatives 258
credit risk transfer (CRT) 2, 5, 6, 9–21, 29, 224, 250
CDs vs loan sales 224–49
extent of 33, 34–5
instruments and mechanisms 10–21, 22
credit transfers 163
culture 58–9, 292
Cunningham, A. 182
current accounts 113
current exposure 266
Dankbaar, B. 45–6
Das, S. 226
DataTreasury Corporation 184–6
Dayton Peace Accord 81
de facto standards 175–6
Financial innovation in retail and corporate banking

de jure standards 176
debit cards 160–61, 162
see also payment cards
Debreu, G. 26–7
debt-equity swaps 7
debt financing 79
deconstruction 26
default correlation 273, 278–9
defaults 256
triggering premature defaults 36
defensive innovation 8
DeMsetz, R. 226
deposit interest cost 97, 99–104, 109–10
deposit rates 94–9
loan/deposit rate spread 92–3
deposits
microfinance 72–3, 78–9
and mortgage loans 206
deposits to total assets ratio 126, 128, 134, 136, 138
derivatives 2, 4
see also credit derivatives
descriptive statistics 296–303
desegregation of price levels 286, 290, 291, 294–5, 303–4, 308–11, 312
development finance 65–7
Dew, K. 54, 56, 58, 60
DeYoung, R. 111, 114
Diebold 185
direct access trading (DAT) 282, 283, 287–8, 289, 311–12, 313
see also pre-trade transparency (PTT)
disclosure policies 178
discontinuity factor 208
dispersion of risk 25
diversification 57
and credit derivatives 258
of loan portfolio 233, 235, 236, 238, 240
documentation and legal risk 267–8
downscaling projects 74–5
Drake, D. 77
Drew, S.A.W. 44
drivers of financial innovation 7–9, 42–3
Drucker, S. 230, 231
Duffee, G. 35, 225, 226, 231
Duffie, D. 268
Durbin, M.P. 258
E-gold system 149
economics of banking 2, 27–9
efficiency
financial innovation and 2, 23–7
MFIs 68–9
vs stability 29–33
Electronic Clearing House 186
electronic payments 89, 91, 96–7
on the internet see internet payments
electronic trading systems 284–6
employees, number of 119, 120
Enron 36
‘Entropia Universe’ 150
equity financing 79–80
equity-generating innovations 6, 7
equity tranche 15–17, 254–5
Ericsson 180
estoppel, doctrine of 179
euro 186–7, 204
see also Single European Payments Area (SEPA)
Euronext Paris Stock Exchange 286, 291–2
European Bank for Reconstruction and Development (EBRD) 80
European banks
annual reports and attitudes towards innovation 3, 46–60
ATMs vs branches 90–92
CDs vs loan sales 231–43, 244, 248–9
European Commission 159, 160, 176, 180
European Conference of Postal and Telecommunications Administrations (CEPT) 182
European Covered Bond Council (ECBC) 213, 214
European Patent Office 174
European Payments Council (EPC) 187, 189–90
European Telecommunications Standards Institute (ETSI) 182, 183
European Union (EU)
Basel Accords and covered bonds 209–11
## Index

Capital Requirements Directive (CRD) 210, 213–14, 221
covered bonds and integration of financial markets 219–20
intellectual property rights 173–5, 180, 180–83, 186–90
Market Abuse Directive 219
online banking in EU countries 114–24, 125
Payment Services Directive (PSD) 171, 187
SEPA 147, 171, 173, 175, 186–90
standard setting 176, 180, 180–83, 186–90
stock markets regulation 313
UCITS Directive 212–14
Evans, D.S. 175
expenditure on communications technology 123, 124, 128, 141
exposure, limiting 25
exposure at default 210
failure to pay 256
fair, reasonable and non-discriminatory terms (FRAND terms) 179
Federal Reserve Bank of New York 274
fee income 98–9, 99–104, 109–10
motive for securitisation 13
financial assistance projects 73
financial infrastructure 273–4
financial innovation 1–40
context 1–4
defining 41–2
drivers of 7–9, 42–3
and efficiency 2, 23–7
functional approach 5–7
implications of 21–33
intellectual property and 173–5
loan sales and CDs within theory of 226–8
problem areas 33–6
relevance of 3, 41–62
shifting credit risk 9–21, 22
and trading 284–6
types of 4–5
financial market structure 119–23
Financial Services Authority 32–3
Financial Stability Forum 30, 37
Finland 114–24, 125, 140
First Data Corporation 186
first loss (equity) tranche 15–17, 254–5
first-to-default CDSs 254
Fitch Ratings 82, 208, 252
floor trading 284–6
fluctuating volatility 303, 307, 308–11
Focault, T. 286
Foley, P. 113
foreign bank branches 122, 123
Foundation Internal Ratings Based Approach (FIRB) 210–11
Frame, W.S. 42, 43, 60
France 58, 158, 199, 203
François, A. 158
Frino, A. 284
fully informed traders 292–3
functional approach 5–7
funded CDSs (credit linked notes) 254
funding of financial institutions 6, 7
motive for securitisation 13
Fung, K.W. 284
Furst, K. 113–14
fuzzy cluster analysis 125–32, 142
game moneys 149–50
Gardener, E.P.M. 227
Gazé, P. 149
geographic diversification 233, 235, 236, 238, 240
Germany 58–9, 199, 201, 203
Ghose, A. 163
global regulatory framework 275
global system for mobile communications (GSM) standard 176, 181–3, 188, 191
globalisation 1, 31
Golin, J. 208–9
Gondat-Larralde, C. 113
Goodhart, C.A.E. 148
Google 164
Gorton, G.B. 227, 230
Gottlieb, C. 219, 272
Grameen Bank 65, 71, 72, 86
Greenbaum, S.I. 227
greenfield projects 75–6
Greenspan, A. 1, 23, 30–31, 170
group lending 71–2
GTZ 73
guarantees, credit 10, 11, 22
Financial innovation in retail and corporate banking

Hannan, T. 94
Harborne, P. 45
Harrod, J. 212
Hasbrouck, J. 285
Haubrich, J.G. 227, 230, 240
Haud, H. 285
Hayek, F.A. 150
HBOS 217
hedge funds 250, 258, 259, 265
counterparty credit risk 266–7
need for code of practice 275
Heffernan, S. 93–4
Herfindahl–Hirschman index 233, 235
Herfindahl index 122
Hernando, I. 114
Herrera, H. 54
high–low range 296, 301–2, 303, 307, 308–11, 326
highly leveraged transaction (HLT) loans 229–30
hold-ups, patent 177–8, 179, 181
housing purchase loans see mortgages
HSBC 217–18
Humphrey, D. 89, 171
Hunt, R.M. 186
IBM 175
identification of counterparties 286, 290, 291, 294–5, 303–4, 308, 309, 310, 312
IKB Bank 277
implicit pricing 4, 99–104
implied license, doctrine of 179
IMS Health case 180
incentive problems
credit derivatives and 260–63, 264
risks related to incentives problems 269–70
microfinance as a network of 67–70
incomplete contracting 36, 261–2
index CDSs 20, 229, 255
individual-based lending, microfinance and 71–2
information asymmetry see asymmetric information
information efficiency 25
infrastructure, financial 273–4
initial public offerings (IPOs) 83–5
innovation index 47, 49–53, 54–7
inside money, bank monopoly on 150–51
institution building 67
‘instrument’ innovation 5
insurance companies 258, 259
insurance innovations 6, 7
integration of financial markets 37
covered bonds and integration of
EU financial markets 219–20
intellectual property rights (IPRs) 4, 170–98
and innovations in financial services 173–5
law and economics of 173–81
role in standard setting 176–81
setting standards for SEPA 186–90
standard setting in the communications industry 181–3
standard setting in US financial services 183–6
Interamericana Development Bank (IDB) 67, 73
interbank loans 79
interchange fees 159–60
InterDigital 182–3
interest cost, deposit 97, 99–104, 109–10
interest rates 133, 141
loan/deposit rate spread 92–3
microfinance and 78, 84
non-price competition and loan/deposit rates 93–9
Internal Ratings Based Approach (IRB) 210–11
international financial institutions (IFIs) 79
international supervisors 274
International Swaps and Derivatives Association (ISDA) 272, 276–7, 278
Master Documentation Framework 271
Internationale Project Consult (IPC) 72, 80, 81
internet access and use 123–4, 125, 128, 141
internet banking 3, 53, 111–45
and bank performance 113–14, 118–19
comparative analysis 124–41
cluster analysis 125–32
panel analysis 132–41
in EU countries 114–24, 125
internet payments 4, 146–69
development of 149–53
new retail payment economy 164–6
new type of competition 153–64
retail payment industry facing
product innovations 148–53
interoperability standards 171–2, 175–6
Interpay 161, 162, 167
INTESA 80
Ireland 204
Asset Covered Securities (ACS) Act 2001 204
issuing bank 165, 166
Italy 58
internet banking 114, 114–24, 125
iTraxx index 20, 255, 276
Iversen, E.J. 183
Jackson, W. 104
Jayawardhena, C. 113
Johne, A. 45
Katz, M. 175
Katz Technology Licensing 184
Keys, B. 35
KMB 80
Knight, M. 31, 36
Kumar, P. 44, 54
Korea Stock Exchange 285
Kuttner, K.N. 164
labour costs 127, 128, 134, 136, 139
labour productivity 133, 141
laches, doctrine of 179
Lascelles, D. 59
Latin America 67, 72, 74
legal documentation risk 267–8
Lemley, M.A. 172
lemons problem 35, 225
lender–borrower relationships see borrower–lender relationships
lending, microfinance
incentive problem 68
innovations 71–2
Lerner, J. 44, 54, 183–4
leveraged buyouts (LBOs) 230
liability management 6, 7
licenses 179
liquidity
CDs vs loan sales 234, 235, 237–40, 241
in credit risk 25
liquidity-enhancing innovations 6, 226–7
liquidity risk 267
liquidity shock of 2007 30, 32–3, 33–4, 265–6, 274
Llewellyn, D.T. 5, 8, 12–13, 26, 42
LML Payment Systems 186
loan diversification 233, 235, 236, 238
loan insurance 10, 11, 22, 36, 225
loan loss provisions 127, 128, 134, 136, 138–9
loan quality 233, 234–5, 236, 238, 240, 241
loan rates 94–9
loan/deposit rate spread 92–3
loan revenue 97–8, 99–104, 109–10
loan sales 11
vs CDs 3, 224–49
complements or substitutes 242–3
data and methodology 231–6
empirical analysis 236–43
similarities and differences 228–31
within the financial innovation
theory 226–8
loan trading 10, 11, 22
Long Term Capital Management
(LTCM) 267
loss given default 210
Madhavan, A. 286
mandatory technical standards 176
see also global system for mobile
communications (GSM) standard; Single European
Payments Area (SEPA)
Market Abuse Directive 219
market discipline (self-regulation) 271–2, 275
market integration 37, 219–20
market liquidity risk 267
market power 94–5
market standards 218
market tipping 175
Masala, F. 23, 26, 34
Massively Multiplayer Online Role-Playing Games (MMORPG) 149–50, 164
MasterCard 159, 160
Mastroeni, O. 201
maturity 210
McAndrews, J.J. 164
McNamara, R. 66
means of exchange 148–9
means of payment 148
Mengle, D. 254
mergers and acquisitions (M&As) 230
Mester, L.J. 151
Mexico 77–8, 84
mezzanine tranche 15–16, 255
Mian, A. 35
microfinance 3, 63–88
  commercialisation as the recent focus of innovations in 76–85
  definition and illustrations 64–5
  innovations in 70–76
  as a network of incentive problems 67–70
  origins and place in development finance 65–7
microfinance institutions (MFIs)
  incentive problems 68–70
  refinancing of 78–80
microfinance investment vehicles (MFIVs) 79–80, 81–3
micro-payments 163
Microsoft 175
mild communicators of innovation 51, 55, 56
Miller, M. 270, 284
Minton, B.A. 225
mispricing risk 268–9
mixed business model for internet banking 111–42
Molyneux, P. 44
monitoring 35
Moody’s Investors Service 208
moral hazard 9–10, 29, 35–6
  credit derivatives 260–63, 264
  moratorium 256
Morrison, A.D. 231, 261
mortgage backed securities (MBSs) 206, 207, 211, 219, 220, 221
mortgages 121, 122
  covered bonds 219–20, 221
  integration of EU financial markets 204–7
  relevance in mortgage funding capital markets 204–7
motivation
  credit derivative transactions 258–60
  financial innovation 8
  securitisation 12–13
Motorola 182
multidisciplinary work groups 45–6
multilateral trading facilities (MTFs) 287–90
multi-state bank holding companies 240
NASDAQ Stock Exchange 285–6
National Association of Securities Dealers (NASD) 292
national culture 58–9, 292
national supervisors 273–4
net interest income to average assets ratio 234, 235, 236, 239, 240, 241
Netherlands, the 58, 217
network industries 171
  interoperability standards 171–2, 175–6
  standard setting in communications 181–3
Nier, E. 113
Nieto, M. 114
Nokia 180
non-governmental organisations (NGOs) 66–7, 69
  upgrading 73–4
non-interest costs 127, 128, 134, 136, 139
non-interest income 126–7, 128, 134, 136, 138
non-price competition 93–104
  convenience and other non-price effects on loan/deposit rates 94–9
  implicit pricing and productivity explanations 99–104
  net effects on bank pricing 101–4
non-registered members of stock exchanges (NRMIs) 288–90, 290, 292, 293
Nordea 115
Nordhaus, W. 176
Northern Rock 26, 34, 277–8
Nova 186
novations 228
NTP 186
obligation acceleration 256
obligation default 256
Odean, T. 294
off-balance-sheet business 4
online banking see internet banking
online trading (OLT) 287–8
opacity 34
see also transparency
open–close range 296, 300–303, 306, 308–11, 325
open-loop payment card systems 159
open outcry systems 284–6
operating cost 95–7, 99–104, 109–10
operational risk 268
order number 295, 300, 301–2, 305, 308–11, 324
organisational factors 45
other income to average assets ratio 234, 235, 236, 239, 240, 241
outside money, bank monopoly on 149–50
overhead/profit before tax 126–32, 133–41
oversecuritisation 12
ownership of MFIIs 68, 69–70

Packer, F. 205
panel analysis 132–41
Paris Stock Exchange 285
partially informed traders 292–3
participations 228
Partnoy, F. 272
patents 44, 170
disclosure of pending 177
hold-ups 177–8, 179, 181
and innovations in financial services 174–5
US 44, 170, 179, 183–6
see also intellectual property rights
Pavel, C.A. 226

payment cards 148–9, 151–2, 163, 165–6
analysis of use of payment instruments 158–61
networks 156–7
see also credit cards; debit cards
payment instruments
analysis of use of 157–62
bank monopoly of 151–2
economics of 153–7
see also electronic payments;
internet payments; retail payments
payment protocols 151–2
Payment Services Directive (PSD) 171, 187
PayPal 150–51
Pencacci, G.G. 227, 230
performance see profitability
performance-based pay 69
person-to-person online payments 152–3, 163–4
Phillis, D. 226
phone trading 287–8
physical settlement 21, 256, 269
point-of-sale (POS) terminal 165
portfolio CDSs 11, 19–21, 22, 254
portfolio management 26
portfolio preferences 24
'post-contract' innovation 5
potential future exposure 266
pre-trade transparency (PTT) 282–326
data and methodology 294–6, 318–20, 323–6
financial innovation and trading 284–6
market microstructures suitable for short-term traders 286–90
preliminary descriptive statistics 296–303
regulatory and commercial barriers of 282–3, 290–93
relationship to liquidity/volatility indicators 303–11
price to book value 56–7
price levels, number of 286, 290, 291, 294–5, 303–4, 308–11
price risk 5, 6, 9
pricing
implicit 4, 99–104
Financial innovation in retail and corporate banking

net effects of non-price competition on bank pricing 101–4
of risk 24
of mispricing 268–9
principal–agent problem 36, 261–2
Prins, C. 182
private capital, in microfinance 78–85
private information 290
probability of default 210
process innovation 4, 29, 63
ProCredit-Holding (PCH) 81–3, 84–5
product innovation 4, 63
microfinance and product design and product range 72–3
retail payment industry 148–53
productivity
explanations of non-price competition 99–104
labour productivity 133, 141
profitability
asset growth, financial innovation and 53–8, 59–60
CDs vs loan sales 234, 235–6, 239, 240, 241
internet banking and 113–14, 118–19
project design 73–6
project sponsor 75–6
protection buyers 252–4, 258, 259
relationships 261–3
protection sellers 252–4, 258, 259
composition 260, 261
relationships 261–3
protective innovation 8
protocols, payment 151–2
public information 290–92, 313
Puigvert, J. 125–6
pure business model of internet banking 111–42
Puri, M. 230, 231
QQ coins 150
Qualcomm 179, 180
Rajan, R.G. 30, 32
realised volatility 296, 301–2, 303, 307, 308–11, 326
reasonable and non-discriminatory terms (RAND terms) 179
reference entities database (RED) 268
reference obligations 256
refinancing of MFIs 78–80
registered members of stock exchanges 288–90
regulated markets 287–90
see also pre-trade transparency (PTT)
regulation
covered bonds 4, 216–18
credit derivative markets 4, 270–75
and financial innovation 37, 227
and hedge funds 267, 275
regulatory barriers to PTT 282–3, 290–93
regulatory dialectic 42, 43, 227
relevance of financial innovation 3, 41–62
empirical analysis 46–50
financial innovation, asset growth and profitability 53–8
results of qualitative analysis 50–53
repudiation 256
reputation effects 54, 240
research and development (R&D) 45, 60
EU countries banks 123, 124
expenditure and internet banking 128, 141
Research in Motion (RIM) 186
responsive innovation 8
responsiveness 24
restrictive covenants 230
restructuring 256, 269–70
retail payments 4, 146–69, 187
industrial organisation 153–64
new retail payment economy 164–6
product innovations and 148–53
retail sector, costs of payment instruments to 161, 162
retail traders 288, 290, 291–2, 293
return on assets (ROA) 55, 56–7
return on average assets (ROAA)
credit derivatives vs loan sales 234, 235, 236, 239, 241
internet banking 115–18, 126–32, 133–41
return on average equity (ROAE)
credit derivatives vs loan sales 234, 235, 236, 239, 240, 241
internet banking 118, 126–32, 133–41
return on equity (ROE) 55, 56
returns of stock indexes 296, 297, 298–9
Rhyne, E. 77
Rice, T. 151
risk
dispersion of 25
inherent in credit derivative transactions 266–70
unbundling of 5, 26
see also under individual forms of risk
risk management 25, 263–5
credit derivatives vs loan sales 3, 224–49
regulation of credit derivatives 273
risk pricing 5, 6, 24
risk-transferring innovations 4, 5, 6, 25, 38, 226
see also credit risk transfer (CRT)
risk-weights 210–11
Roger, E.M. 41
Russia 80
debt crisis 271, 278
Russia Small Business Fund 80
Saar, G. 285
Santander 52
Santomero, A. 37, 93, 154
Saunders, A. 229
savings 72–3
savings banks 92–3
non-price competition 99–104
scarce interest in communicating innovation 51, 55, 56
Scarpetta, S. 132
Schiesl, M. 182
Schmalensee, R. 175
Schmiedel, H. 171
Schmookler, J.A. 8
Schoroth, E. 54
Seater, J.J. 154
secondary markets 1
CDSs 19, 21
Secure Sockets Layer (SSL) 151
securities dealers 259
securitisation 4, 7, 24, 254–5
cash 254, 255, 276
economics of banking 27–9
synthetic 254, 255, 276
traditional 10, 11–13, 22
self-regulation (market discipline) 271–2, 275
senior tranche 15–16, 254–5
services 45
settlement 21, 256–7, 269–70
Shamroukh, N. 44
Shapiro, C. 175
shocks 30–31, 32, 264
systemic shock of 2007 30, 32–3, 33–4, 265–6, 274
short-term traders 286–90
Shy, O. 156–7
Silber, W. 8, 41
Simaan, Y. 285–6
Single European Payments Area (SEPA) 147, 171, 173, 175
setting standards for 186–90
single-name CDSs 11, 19–21, 22, 229, 254
small and medium-sized enterprises (SMEs) 53
Snellman, J. 89
social costs of payment instruments 160–61
Société Générale 52, 60–61
Sørensen, C. 125–6
Soros Development Fund 80
Spain 58, 199, 203, 207
internet banking 114, 114–24, 125
technological innovation 94–104
convenience and other non-price effects on loan/deposit rates 94–9
implicit pricing and productivity explanations of non-price competition 99–104
loan/deposit rate spread and ATM network size 92–3
special purpose vehicles (SPVs) 12, 13, 14, 15, 18–19
specialist banks 204–5
spectrum filling 8–9, 26–7
stability 2
credit derivatives and 251, 263–70
consequences of increasing credit derivative activity 263–6
efficiency vs 29–33
MFIs 68–9
Standard & Poor (S&P) 208
standard setting 4, 170–98
Financial innovation in retail and corporate banking

common standards for covered bonds 211–16, 218
communications industry 181–3
financial services in the US 183–6
interoperability standards in network industries 171–2, 175–6
model of a monopoly standard setting organisation 178, 197–8
role of intellectual property 176–81
SEPA 186–90
standardisation 229–30
Standardised Approach (SA) 210–11
Stanton, K. 151
State Street Bank and Trust Co. v. Signature Financial Group 170
stock markets 3, 282–326
equity stock market microstructures suitable for short-term traders 286–90
financial innovation and trading 284–6
pre-trade transparency see pre-trade transparency (PTT)
Storey, C. 45
Strahan, P 226, 240
strategic interactions 154–7
stress tests 273
strong innovation communicators 50–51, 52–3, 54–6, 59
‘structured’ covered bonds 212, 213
sub-prime loan crisis 265–6, 274
Su, A. 35
Sullivan, R.J. 113
syndication of loans 10, 11, 19, 22, 232
synthetic CDOs 10, 17–19, 22, 229
synthetic securitisation 254, 255, 276
systematic risk for stocks 296–300
systemic shock of 2007 30, 32–3, 33–4, 265–6, 274
Tarkka, J. 156–7
teams, multidisciplinary 45–6
technical assistance projects 73
technical implementer 75–6
technological innovation 4, 89–110
banking services in Europe and the loan/deposit rate spread 90–93
convenience and other non-price effects on loan/deposit rates 93–9
implicit pricing and productivity explanations of non-price competition 99–104
technology
communications technology and internet banking 123, 124, 128, 141
and financial innovation 8, 227–8
internet access and usage and internet banking 123–4, 125, 128, 141
telephone calls, costs of 128, 141
Tencent 150
text analyses 46–60
Thakor, A.V. 227
therebucks 150
Thompson, J.R. 225, 226
Thomson, J.B. 240
Tier 1 ratio 234, 235, 236, 238
Tobin, J. 153
Tokyo Stock Exchange 285
Toronto Stock Exchange 286
trading activity 3, 282–326
financial innovation and 284–6
see also pre-trade transparency (PTT)
trading tools 287–8
trading volume 295, 300, 301–2, 305, 308–11, 323
traditional model of banking 27–9
traditional securitisation 10, 11–13, 22
tranches 15–17, 254–5
transparency 37, 275
increasing opacity 34
stock markets and see pre-trade transparency (PTT)
trend volatility 300–303, 306, 308–11
Tressel, T. 132
‘trickle down’ 66
Tse, Y. 284–5
Tufano, P. 44, 54, 56, 58
Turnbull, S.M. 44, 54
two-sided markets 157, 159
UCITS Directive 212–14
Udell, G.F. 226
unbundling of risks 5, 26
unfunded CDSs 254
unfunded (synthetic) CDOs 10, 17–19, 22, 229
Unit-DESA 71–2, 78, 86
United Kingdom (UK) 59
covered bonds 199–200, 203, 217
internet banking 114–24, 125, 140
United States (US)
Check Clearing for the 21st Century Act 2003 185
Commodity Exchange Act (CEA) 270
Futures Trading Practice Act 1992 270
internet banking and profitability 113–14
patent law 179
patents 44, 170, 183–6
standard setting in financial services 183–6
stock markets and PTT 292, 293
sub-prime loan crisis 265–6, 274
universal banks 204–5
upgrading projects 73–4, 75
valuations 34
Van Horne, J.C. 42, 44–5
Vermeulen, P. 45–6
Visa 159, 160
volume, trading 295, 300, 301–2, 305, 308–11, 323
Von Pischke, J.D. 63
Wagner, S. 174
WaMu (Washington Mutual Inc.) 215, 222
welfare gains 41
White, L.J. 8, 42, 43, 60
Whitesell, W.C. 154
wrong way risk 266
Young, M. 113
Yunus, M. 63, 86
Zabotina, T. 284–5
Zhang, W. 125
Zhou, C. 35, 225, 226, 231