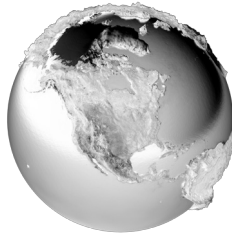


FORESIGHT



A FUTURIST EXPLORES THE
TRENDS TRANSFORMING TOMORROW

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WITH
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THE FUTURE OF BANKING: CUSTOMERS POCKET THE CHANGE

By the end of 2013, peer-to-peer lending services had issued \$2.4 billion in loans, and it's estimated that in 2014 the amount lent will more than double to \$5 billion. In the spring of the same year, Canada's Royal Bank hired IBM's Watson supercomputer as an engagement advisor to perform customer service; and DBS, a Singapore-based bank, revealed it would be using Watson to provide investing assistance to higher-end clients.

In late summer, Apple unveiled "Apple Pay" and announced it was teaming up with Target, McDonald's and three major credit card companies to allow consumers to make mobile payments via their smartphones and wearable devices. And then in the fall, PayPal and Dell both announced that they would begin accepting the digital cryptocurrency Bitcoin as a form of payment.

All of the aforementioned technological advances are in their early stages and will likely grow more influential by the end of the decade. The trends also suggest sweeping change for the banking and financial services industry in the coming years. As Bill Gates once famously said, "Banking will remain necessary in the future, banks may not."

The following scenario is a conversation between Stella, a 40-year old millennial and Brad, her 60-year-old wealth advisor, and takes place in the year 2020. Their discussion hints at many of the changes the financial services industry will need to make if it wishes to remain relevant in the future.

FUTURE SCENARIO

After reading the print edition of the *Wall Street Journal*, Brad sat down behind his desk and voice activated his desktop display. He asked to see the latest customer based alerts and the first item to appear was a report produced by his bank's "supercomputer" (it was actually a network of high-end machines located in data centers around the country and working cooperatively). Based upon structured and unstructured data culled from social media sites, credit cards and other public records, the supercomputer estimated a 67 percent probability that Stella, a client of Brad's for the past 15 years, was in the market for a small business loan.

Also in the report was information that Stella's husband, Mark, had been laid off as a lab diagnostic technician due to the continued automation of the health care industry. Brad wasn't expecting that, and could see how it might affect Stella's current financial decision process.

The computer advised Brad to contact her as soon as possible. It then checked with Stella's personal assistant device and asked, "Brad, she appears to be available for a video chat now. Would you like me to see if she's willing to have a brief conversation with you?"

"Yes. Thanks," replied Brad, forgetting for the moment that he was speaking with a machine.

Moments later he was connected to Stella via a secure video link. After exchanging personal greetings and engaging in some small talk in which Brad asked about Stella's father—who

had introduced the two shortly after Stella had graduated from college—the pair got down to business.

“I was just calling to check in on you. I wanted to see if there was anything regarding your banking or investment needs that I might help you with. Also, if you have time, I wanted to review your investment portfolio,” asked Brad.

“I’m glad you called. I’ve been meaning to call you, actually,” Stella said. “This is a little awkward, Brad, especially because I appreciate how much you’ve done for Mark and I these past few years, but I’ve been thinking about taking control of my own financial situation.”

Never one to over-react, Brad calmly replied, “What’s the issue? I value our relationship and would obviously like to see it continue. If I haven’t been serving you well, I’d welcome the opportunity to make it right.”

“Oh, it’s not your service, Brad. You’ve been great. Your investment advice has been good and when we needed to refinance our home last year your bank’s “one-click” e-mortgage was fast and convenient, and the interest rate was the lowest we could find. It’s just that I’m having a hard time justifying your annual fees—especially now that my smartphone does things like anticipate my impulse purchases and encourage me to save, instead of spend.”

“I see.”

“But that’s not all. My husband lost his job and we think now might be the best time to move forward with a business idea that we’ve been developing so we’re in the market for a business loan. We’re considering using CrowdSeed—the new peer-to-peer lending platform that we’ve seen offering other entrepreneurs competitive rates.”

“I’m sorry to hear about Mark’s job, but I’m glad that you’re thinking about starting a business,” replied Brad, knowing from his

bank's supercomputer analysis that this was a distinct possibility. "I think we might be able to offer an attractive rate. What kind of business are the two of you considering?"

Stella provided a brief explanation of her husband's idea of manufacturing a new nano-fabric capable of filtering out water-borne diseases and marketing it to people in Africa and Asia who had a low-income and couldn't afford the more expensive water purifiers now being sold there.

In an explanation of why she thought her and her husband would be able to secure the crowdsourced funds, she went on to say, "Over a billion people still lack access to a safe water supply. As mobile devices and high-speed Internet access have taken root across the developing world there are now hundreds of millions of people capable of making micro-payments with secure digital currencies on their phones. We believe we can still make a fair profit if we charge \$3 per square foot of fabric. This won't make us wealthy, but if we can make a decent living and help make the world a better place in the process, that's all we really need."

"That's exciting, Stella. It sounds promising. What kind of rate do you think you can get on CrowdSeed?"

"Well because Mark lost his job our risk profile has increased, so we're looking at a rate of about 8 percent. But Facebook is offering us a rate of 7.5 percent."

"Stella," replied Brad in a lecturing tone, "I'll warn you again—as I did when we last spoke—Facebook and other non-traditional lenders such as Amazon, Google and Wal-Mart might be able to offer you attractive rates but that's because they are using your personal data in other ways to make money off of you."

Brad added, "Now, my bank also collects data—and, of course, we too are in the business of making money—but our long-term goal is not to sell you more stuff but rather to help you

achieve your long-term financial goals.”

“I know,” said Stella. “But money is money and if we can save \$50 or \$100 per month on our loan payments, what’s not to like? Plus my smart devices are doing a great job of protecting me from the offers that those retailers and social media companies are always sending me.”

“I tell you what. Let me have our analysts and software look over your profile and crunch some numbers and I’ll get back to you in a few minutes. While we’re waiting perhaps we can go over your portfolio.”

Brad’s computer picked up on the request for loan information, researching available interest rates for Stella. In a lighter tone, Brad then added, “In the process I’ll also try to convince you why it’s in your best interest to stay with our banking and wealth advisory services.”

“It’s the least I can do,” replied Stella. Almost apologetically, she added, “I want you to know that it is nothing personal. With the change in Mark’s employment status, and all of these new tools and options, I’m just watching every dollar we spend more closely.”

“I understand and that’s exactly what you should be doing. But let me begin by reminding you that, on average, our bank has reduced fees by 50 percent since 2015. And during this period, we have continued to serve our community quite well. In fact, over the past four years we have added an estimated half million people who were previously considered poor risks or “unbankable”.

“I know and I appreciate what you’ve done by helping so many people save money, buy their first homes and start small businesses. It’s just that the fees and extra charges are still more than I’d like to pay. For instance, I know that you and the other bankers are still working in a luxury downtown offices instead of

virtual offices and I have a hard time paying for what I consider to be your bank's unnecessary overhead."

"That's a fair point," replied Brad, "but I'd remind you that we have slashed the number of branch offices by 70 percent since 2016. We still keep a few offices because we happen to believe that while video calls such as the one you and I are on now are great, there is still tremendous value in having face-to-face meetings with our clients and with the bank's employees working together in the same building."

"In fact, next Tuesday we're bringing in a world-renowned neuro-economist to our downtown office to share with our clients proven strategies to help them and their adult children save more. If you'd like, I'd be happy to send you and Mark an invitation. If you can't make it, you can also stream it live or watch it later when it's convenient for you."

"That sounds interesting. Let me check with him to see if he's available."

"Another reason our fees can't go much lower," continued Brad, "is because our overhead provides real value. With our new authentication methods that use iris, voice and vein identification, we have eliminated the need for passwords with any of our services. Our computing and artificial intelligence systems are also state of the art and we've hired an elite team of data scientists. Together, they have not only reduced client losses by 40 percent by better identifying and preventing fraud, but we are one of only a handful of firms that have beat the S&P benchmark over the past five years. So I'd argue that while you can find your own "artificial advisor" software programs to help you with your banking and investment needs, they won't be anywhere near as sophisticated as ours or have as much access to all of the current global market data. The money we make you more than covers the fees you pay." Brad could see Stella nodding her head in agreement.

“Lastly, I’ll acknowledge that you can lower your business transaction costs by relying more on digital currencies but I’d simply remind you that in spite of some impressive advances, digital currencies are still volatile, prone to hacking and capable of quickly losing value. You use and invest in such currencies at your own risk.”

Stella again nodded her head, replied, “That’s fair,” before adding, “I’m beginning to see your point. Is there anything else that I might not be considering that could help convince me to stay with you and the bank?”

“Well, let’s see... I’d also remind you that as someone you’ve known and worked with for more than 15 years I’m sincerely interested in your financial well-being, not just in chasing commissions and management fees. For example, remember a few years ago, when you and Mark were considering financing a second car? Who was it that advised you that you could eliminate over \$6000 a year in car payments, fuel and insurance by foregoing the purchase of an automobile and using a car-sharing service instead?”

“That’s a good point, Brad. Thanks for reminding me. I’ve always appreciated the personal attention and interest you’ve given us and I have to admit that not every banker would put their client’s financial interests before their own.”

“That’s not exactly a ringing endorsement of my profession,” said Brad laughing. “But, seriously, I will end by offering you some compelling visual evidence that your portfolio has beaten the market eight of the past ten years.” Using software that allowed Brad to project information onto Stella’s video display, he showed her a series of charts and graphs that documented how her investments had outperformed the general market by more than 3 percent, which netted her almost \$75,000 in additional gains.

“Wow.”

“Wow, is right,” said Brad. “I’d say that those returns more than cover my fees. In fact, I’m confident I can continue to help you grow your money.”

“I’m all ears,” said Stella.

Continuing, Brad said, “Based on our analysis, you might be surprised at my next recommendation for your retirement portfolio. I’m going to suggest that you and Mark lower your exposure to the utility sector—which we believe is poised to significantly under-perform the market in the coming years due to continued advancement in renewable energy sources and micro-grid technologies, and reinvest that money in a peer-to-peer lending fund. The latter isn’t going to make you rich but our system estimates it’ll return six percent over the coming twelve months. That beats keeping your extra money in cash and watching inflation nibble away at it.”

“You mean to tell me that you want to invest in some of the very companies that my husband and I are considering for a loan?”

“Yep,” said Brad. “I hate to admit it but some of those peer-to-peer companies are doing a great job of vetting unconventional loan applicants and they are filling a need that traditional banks still aren’t doing a good job of covering.”

Again, Stella shook her head. Impressed at how quick Brad was to identify and adapt to new opportunities.

“Now let’s get back to your loan,” said Brad. “Our big electronic brain has crunched the numbers and I’m sorry to report that we can’t match the rate you can get on CrowdSeed.”

Stella was a little surprised. “Can I ask why?”

“Sure,” said Brad. “Since you’ve been candid with me, I’ll be candid with you. Our software has identified three other companies that are already in more advanced stages of developing

similar technologies, and our analysts don't calculate your ability to compete very favorably."

"But now let me say this. I know you and Mark, and one of the reasons why my bank is still in existence is because we believe in our community. I'd encourage the two of you to do more due diligence on your business plan and if you do take the CrowdSeed loan, and if your company needs additional capital to grow, my bank would love to grow with you. I'm confident that in time you will have more data to convince our computers, and we'll be able to beat the rate you're getting from the peer-lending services. Also, I know how socially conscious you and Mark are, so I think we should schedule a time to all get together and discuss some of the new ways you can begin to create a lasting legacy. We have some incredible options for doing the most amount of good in the world with what you have, such as leveraging the power of your donations using micro-loan platforms and through creating online matching programs for causes you care about. I know that helping people around the world is much more important to you two than possibly having your name on a building someday. I can help you find the best ways to do that, in addition to the other services you already enjoy. Sound fair?"

Stella gently nodded, and said, "That's fair. In the meantime, I'll keep my money with you but you'll have to continue convincing me of the value you're providing."

"Of course. Good luck with your new business and hopefully I'll see you Tuesday at the presentation."

— BONUS QUESTIONS —

Would you ever consider taking out a loan from a peer-to-peer lending platform? Would you ever consider investing in such a platform?

Do you believe that by 2020 artificial intelligence will be capable of providing you better financial advice than a financial service professional?

If mobile payments and digital crypto-currencies are proven to be safe, effective and reliable, can you envision accepting them as a form of payment? How might such currencies allow unconventional business to succeed?

How frequently do you visit a physical bank or credit union? Do you believe your behavior will change in the coming years?

How might technology continue to change the consumption and purchasing habits of people in the future? For example, if car-sharing or boat-sharing services continue to become more popular, how do you think it would impact the loan and banking system?

How might non-traditional or “shadow banking” companies such as Google, Apple, Wal-Mart, Facebook and Amazon transform the financial services industry?

Does “Big Data” represent a threat or an opportunity to the banking industry? What about an individual’s rights to keep their personal information secure?

How do all of these possibilities, and the possibility of living to well over 100 due to rapid advancements in health care, affect your ideas about saving and retirement?