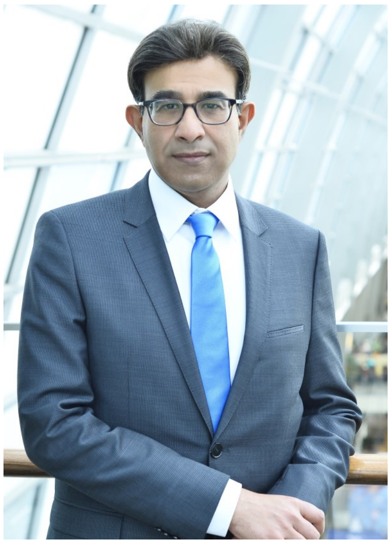
REVOLUTIONARY CHANGE IS UPON BANKING AND FINANCE

"The industry of banking and finance is not only entering the age of algorithms but also the age of disintermediation."



In this exclusive interview, Arshad Rab, Chief Executive Officer, European Organisation for Sustainable Development (EOSD), spoke to Jide Akintunde, Managing Editor, Financial Nigeria magazine, on the disruption of conventional finance and the future of the financial services industry.

Jide Akintunde (JA): The disruption of the financial services industry is underway. Is this something that will prove ultimately evolutionary or revolutionary in the provision of financial services?

Arshad Rab (AR): For centuries, the provision of financial services was the sole domain of banks. But that is no longer the case. Financial services are now increasingly being provided by technology companies, heralding the tectonic shift currently taking place.

The industry of banking and finance, as we currently know it, will cease to exist and this will happen much faster than many of us think. So, if we look at the emerging big picture, we can conclude that the change in the financial services industry will indeed prove to be revolutionary.

JA: Why is this happening?

AR: The disruptive nature of technological change is reshaping every aspect of our lives. We have entered the age of algorithms and artificial intelligence (AI) and computer machines are taking over much of the work humans currently do, significantly, including decision-making. Therefore, the technology companies are in a much better position than the banks to take full advantage of latest innovations and make banking and finance their business domain.

On the demand side of financial services, we are also experiencing a radical shift in the customer behaviour. Today, we all expect things to be done much faster than say five years ago. For example, people have problems in understanding why in this digital age, banks need days to transfer money. We can of course offer reasons for the time lag such as regulations for clearing houses, but most people will not be satisfied with such explanations. The customers of today want money to be transferred instantly; they would like loan decisions to be made quickly; and they want to be able to enjoy banking services from any device, at any time and from anywhere.

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Another factor influencing financial services is the growing population of young people who are tethered to mobile devices. The services that are not available on those devices are simply non-existent as far as the younger generation are concerned. This generation, quite often referred to as millennials – which generally means the people born between 1980 and 1997 – are becoming entrepreneurs, decision-makers and customers. They need technological and speedy solutions much more than the older generation. And the centennials, those born after the millennials, are now a big market for consumer electronics and IT products and services. In the next few years, they will be one of the largest customer groups for financial institutions.

And let me also underscore a very key point: The competitive edge that the algorithms and artificial intelligence-driven technologies enjoy is that they are much faster and less prone to errors than humans – including in making decisions – making them very attractive for the financial services they offer.

So, **one could argue that what is happening currently, particularly the proliferation of algorithms, artificial intelligence and blockchain, will make banking more a business of technology companies than of the banks**. Referring back to your first question, **this is a revolutionary change in the history of banking and finance.**

JA: What is the real hope of a better future of banking and finance that is deliverable by the disruption of conventional finance?

AR: There are two words that immediately come into my mind: Inclusive and democratic. First, through the use of technology, banking services are being made available to unbanked and underbanked customers at affordable costs. The massive and fast growth in inclusive banking and finance, to a large extent, is because of technological advances.

Secondly, I can see the emergence of banking for the people, of the people and by the people. For example, if we look at crowd funding or peer-to-peer real-time payment solutions, you can clearly see that **the industry of banking and finance is not only entering the age of algorithms but also the age of disintermediation**. The role of financial intermediaries, be it commercial banks, development finance institutions or other intermediaries, will continue to reduce. And as blockchain technology becomes real, the financial services industry will experience historic disintermediation. This will make banking and finance more democratic than ever before.

JA: We see that in e-payment there is tension between conventional banks and the telcos. Also, the regulatory and consumer protection frameworks for fintechs are, at best, work in progress. Should the efforts at resolving the issues assert competition or cooperation?

AR: The role of regulators should continue to be about protecting the public interest. There can and there should be no compromise on this issue as we transform from conventional to digital banking and finance. In the emerging scenario, there is a dire need for actions that can create a level-playing field for both incumbents and new players such as the financial technology companies.

Since there is a real prospect that few big tech giants will dominate the financial services industry within the next few years, we need policymakers and regulators to act fast to ensure safe, fair and competitive markets and to avoid market domination by a handful of powerful players. A good regulatory framework, as always, will promote competition. This is in the interest of the society and in the long-term interest of all the current and future players.

Now, talking about cooperation, this is currently being led more by market dynamics than by regulatory pressures. A growing number of incumbent financial institutions are closely collaborating with small and medium-size fintechs to overcome technological challenges. In fact, this is one of the top trends happening today and some of the banks have even started to acquire fintech startups. Nevertheless, there will still be existential threats looming over the incumbents, including the big financial sector players.

Technology, market conditions, regulatory framework and socio-economic and political climate will continue to change extremely fast. However, the organizational structure and business processes of the incumbent financial sector players are not very responsive to the fast-changing environment, at least not in comparison with the fintechs.

JA: One issue that has been little highlighted is that disruptive finance can be zero-sum. While the fintechs are already helping to drive down the cost of financial transactions -- especially remittances, aggregate labour in the financial services industry can be eroded. Do you have concerns about this trade-off?

AR: There is no doubt that a lot of work done today by humans will be done by robots in all sectors of the economy, and the financial services industry will not be exempted. But do we have a choice? Since we know that digitization of everything is unstoppable, it is time to move forward and meet the challenge head on. This means embracing the technological innovations and getting ready to benefit from the digital economy.

For instance, imagine if we could soon free up almost 50 percent of the world's human resources by taking them away from doing monotonous tasks and deploying them to do creative work. And imagine if we could enable majority of the world's workforce to unleash its true talent and potential, all because for the first time in human history, it is now possible to do so – thanks to technology. And let there be no doubt: All monotonous jobs can be and will be taken over by robots.

Nonetheless, my concern is not about the threat that technology poses to human labour. We cannot “undigitize” the economy or halt further developments, anyway. I am earnestly concerned that governments, regulators, businesses and society are not realizing the pressing need to take immediate and resolute actions to ensure a smooth transition to the age of algorithms and artificial intelligence. The danger of mass unemployment and destabilizing markets is real but preventable, provided we act fast and smart.

So, I am calling for urgent actions and inviting the stakeholders to work together to create a win-win outcome and not wait till the water runs dry.

JA: The EOSD has been encouraging financial institutions in the global South to embrace Sustainability. What would be your message to African banks on how they should continue to position for the future of banking and finance?

AR: This is a difficult question to answer in few words. However, I would like to suggest that banks must embrace technology and use it to its full potential. But let me hasten to add that investments in technology alone is not enough because it is very challenging to keep up with the fast pace of technological change. For the incumbents, it will be too tough to compete on the basis of technological edge with the tech giants and other fintechs entering financial industry.

In my opinion, the financial institutions, irrespective of their location, size and infrastructure – and in addition to full-scale digitization – need to focus immediately on true value creation for all stakeholders. The successful financial services providers will be those that deliver real socio-economic value in their communities and to society at large, while fully recognizing the natural environment as one of the key stakeholders. This is not only the right thing to do from a moral perspective. But, at the end of the day, this is where the battle for survival will be won or lost.

For any questions or comments, readers can contact Mr. Rab through e-mail: a.rab[@]eosd.org