Future Horizons

A compendium of thought papers
Introduction

The FCA Future Horizons Conference, April 7, is an innovative opportunity to explore the future of financial services and the sector’s role in the wider economy and society.

During the day we will explore hypothetical future financial and societal landscapes to draw out the implications, future risks and opportunities for society, financial services and regulation.

The potential futures which will be explored have been informed by insightful papers written by academics and other leading commentators, researchers and key financial services experts. This reading pack contains summaries of those papers which have helped inform these futures.

We approached authors from six perspectives: retail financial services, wholesale financial services, fighters of financial crime, socio-demographics, economic environment and the political environment. From this we identified eight important elements which are uncertain in their development and evolution and will impact financial services. These will be discussed during the conference.

It is important to note that the papers within this pack are not forecasts. They are experimental and plausible versions of the future based on existing analysis and research. They aim to challenge one or more widely held assumptions about the future of financial services and help provoke discussion.

Pre-reading this material is neither mandatory nor necessary, however may prove helpful and thought provoking.

We will be publishing these papers after the conference.

We hope you find the papers insightful and we would like to thank the authors of each paper for their valuable contributions.
## Summaries

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Summaries
1. The Future of Funding for Small and Medium-Sized Enterprises in the UK

Ross Brown & Neil Lee
University of St Andrews

This paper examines the changing landscape of funding for SMEs in the UK. The primary theme of the paper is rapid change - especially the systemic changes instigated by the global financial crisis and the use of new technologies. While mainstream banks continue to be the dominant players in terms of the overall volume of small business lending, these incumbents are beginning to face significant competitive challenges which are likely to boost competition. While this new environment will produce greater levels of competition in the marketplace for small business funding it is likely to present greater regulatory challenges for policy makers given the profusion of new financial providers offering a wider array of financial products to SMEs. This paper aims to synthesise, delineate and consider some of the key issues likely to confront SMEs, regulators and policy makers in the years to come. However, economic uncertainty caused by Brexit means that assessing these issues with any kind of precision is highly problematic.

Read the paper
2. Future Issues in Bank Taxation

Dimitris Chronopoulos, Anna Lucia Sobiech & John O.S. Wilson
Centre for Responsible Banking & Finance, University of St Andrews

The purpose of this article is to provide an overview of the current and future issues related to bank taxation. The basic claim of this paper is that bank taxation schemes are increasingly important as a regulatory tool to augment other forms of bank regulation. Furthermore, such tax schemes can provide an important source of government revenue, internalise the costs of financial crises and contain excessive risk-taking by banks. Understanding the effects and possible unintended consequences of bank taxation schemes is of relevance to government agencies tasked with regulating and supervising the financial services industry.

Read the paper
People’s interactions with financial services have changed dramatically over the past few decades. New firms, new products and of course the rise of the internet have changed the way that we manage our money. Evolution is not slowing down. We may be able to forecast to a degree the products and services that might arrive over the next few years, but what about beyond that? What will the future look like for the next generation? And how will different sections of society exploit new technologies, while others find themselves excluded?

This paper does not try to predict the future, but considers some of the opportunities and challenges that face us all, and asks - what role for the regulator?

Read the paper
4. IHS Markit Scenario on wholesale markets

David Cook
IHS Markit

Despite recent high profile pressure, the capital markets and investment banking (CMIB) industry remains lucrative with substantial revenue streams available and current incumbents relatively secure due to significant barriers to entry (including regulatory barriers). Despite enormous change within the industry, there remains significant potential for improvement and technical efficiencies. This is because, although back office functions and practices have changed beyond recognition, front office business models remain largely the same and account for significant expenditure. Innovative applications of technology also provide potential improvements in the compliance processes.

With further regulatory and political change coming and innovative applications of technology providing more options, it is likely that pressure for efficiencies in the front office and regulatory compliance will grow. Given the size of the revenue, small efficiencies could provide significant benefits for both the industry and the wider economy.

Regulators are also challenged by the changing world. The application of the regulation reform agenda will create new risks and increased burdens on themselves and the firms they regulate. Regulators face pressure to implement more effective regulation and control risk but also to consider how to mitigate the burden. Technological innovation offers solutions if they chose to embrace them. Through shared best practice solutions, the Regtech agenda could lower regulatory burdens without compromising regulatory standards, thus offering the potential to break the so-called regulatory cycle.

Read the paper
5. The Ageing Population and Financial Services

Hilary Cooper
The Finance Foundation

As the population switches to online and mobile banking and high street bank branches continue to close at an ever-increasing rate, the needs of older people are in danger of being forgotten. This paper summarises work by the Finance Foundation, who used interview evidence from 175 older people to give an insight into how the over 80s manage their day to day financial transactions. It reveals their worries about privacy, security and fraud when using new technologies, as well as the many physical and cognitive challenges they face when managing their finances on a daily basis, including at ATMs. Unless action is taken to provide a more supportive infrastructure and better-adapted tools for the over 80s, it is argued that even the more technologically savvy generations of the future will be at risk of permanent financial exclusion as their faculties and confidence decline.

Read the paper
6. Why the digital revolution needs established insurers

Mike Holliday-Williams
Direct Line Group

The insurance industry has built a world-leading UK insurance market precisely because of our proven ability to innovate, adapt and develop in the face of changing risk, customer preferences and technology. This paper examines the following four 'mega trends', all underpinned by the digital revolution, which will help determine how the industry meets the challenges of the next two decades:

**Big data** – the development of data – in terms of granularity, availability and functionality – is broadly positive for market incumbents prepared to innovate and invest as this embraces the industry’s skills and makes pricing more insightful and accurate.

**Two-way engagement with customers** – having trusted brands, being clear how customers’ data will be used and how they will be rewarded are important to get customers to enter new relationships with insurers. The digital revolution makes this easier, such as through telematics, connected homes, wearable devices and smartphone technology.

**Changing profile of the risks we insure** – driverless cars will not lead to the end of the industry as insurers are at the heart of understanding and engaging with this new technology. Whilst cyber risk is growing, it also presents opportunities for product development. Products also need to be tailored to more specific customer needs using increasingly accurate pricing.

**More diverse customer behaviours and preferences** – we are moving away from a 'one size fits all' approach to customers by developing increasingly tailored targeting of our products and services. It is possible we will see firms increasingly specialise in certain age brackets or socio-economic groupings although we also have to stay close to the common threads too. Rolling-out new propositions more quickly to customers will place new demands on how we manage risk.

Read the paper
7. Pensions

Baroness Jeannie Drake

In response to increasing life expectancy, a dramatic underlying decline in private pension saving and a targeted fall in state expenditure on pensions, the last Labour Government introduced a series of reforms, which were carried forward by the Coalition Government and continued by the current Government. The reforms were intended to increase the state pension age and encourage people to work longer; focus constrained tax resources on a flat rate state pension to provide a foundation for private saving; and reverse the decline in saving by the automatic enrolment (AE) of workers into a pension scheme.

There have been many positive developments: the state pension has been reformed, people are working longer; auto enrolment is resulting in millions more saving; more employers are engaged. But stresses and strains on the state and private pension systems continue.

State pension ages (SPa) are rising but a realistic increase in employment rates will make only a modest difference to dependency ratios. Future Governments will not row back from the published principle that people should expect to spend up to one third of their adult life drawing a state pension but recent increases in SPa can have a differential impact on socio-economic groups. A Government commissioned report is awaited on increasing the SPa in three contexts: affordability, fairness and fuller working lives, together with wider factors.

Increasing fiscal pressures result in a more fluid policy on the value of the state pension and GDP allocated to pensioner benefits over the long term. State exposure to longevity risk through the growing cost of health and social care is putting ever greater pressure on public expenditure.

At around £48bn, tax relief for private pension saving is one of the most expensive to the Exchequer. Given current fiscal demands, tension exists between the cost of tax relief and its role at the point of saving in supporting workers and employers to build an adequate level of pension savings.

Ten million workers will be newly saving or saving more by 2018 but changes in the structure of the labour market and the eligibility criteria for auto enrolment mean that a significant number are still not saving for retirement.

AE was introduced in a UK pensions market characterised by weak competition and low barriers to entry. Asymmetry of knowledge and understanding, conflicts
of interest, high charges, lack of transparency, mis-selling, scams and poor administration are some of the issues Government and regulators have sought to address. As regulation demands improvements of this market a growing number of statutory, regulatory and policy measures have been introduced to protect the saver but only by adding more complexity.

In a single bold move without prior consultation the Government gave individuals greater freedom on how to spend their pension savings, unconstrained by any obligation to secure an income stream in retirement. It overturned a long established principle of public policy that workers who saved and employers who contributed were supported through favourable tax relief, because pensions secured an income stream. Reliance on ever more complex regulation to protect the consumer exercising freedom together with an unsettled, untested policy on advice and guidance place further strains on the pension system.

The paper examines what could influence the future and how this could play out.

Further increases in the SPAs are anticipated and fiscal demands may constrain the future value of the new state pension but a rising SPAs needs to be accompanied by measures to increase the employment rate (pre and post SPAs), as part of meeting the economic cost of increasing life expectancy.

A challenge for the Government is how to balance current fiscal demands with building a sustainable pensions system. It is uncertain how public policy will evolve in supporting the employer incentive to contribute and the individual incentive to save over the long term.

AE has been a compelling behavioural intervention, harnessing inertia for the public good and getting millions to save. The Government is reviewing AE policy: coverage, contributions and value for money; but the appetite for changes targeted to increase savings could be constrained by economic uncertainties.

As Government and regulators seek to improve the functioning of the market the number of interventions is rising, leading to ever more complexity. The governance of the private pension system remains a challenge. Whether the public policy reaction to ‘freedom and choice’ is sufficient to help people to make better decisions is untested and outcomes are uncertain.

Public policy decision making is now predicated on dividing pensions into two elements, a saving phase and a drawing down phase. At the saving phase policy recognises the behavioural biases which inhibit optimum decision-making. At the drawdown phase policy expects behaviours to be dramatically different with individuals bearing the responsibility for making optimum choices. The safeguards for the saver given this responsibility may well not be sufficiently underpinned.

Read the paper

Paul Flatters
Trajectory

The future impact of ‘disruptive’ technologies – somewhat by definition – are among the most difficult phenomena to forecast. Developments that are genuinely disruptive, that herald a step change or a paradigm shift, do not lend themselves to many traditional forecasting methods that are based on trends and continua (e.g. econometric modelling).

In writing this paper we have developed a methodology for thinking about the future impact of disruptive technologies that combines demographic analysis and forecasts (about which we can have a high degree of confidence) with an audit of candidate disruptive technologies. By including more reliable socio-demographic factors, we increase our confidence in the forecasts and futures thinking beyond a purely technology-based analysis.

Our approach is based on three analytical strands:

- An analysis of each generation’s relationship with technology (access, use, confidence in using, trust in technology etc.)
- An analysis of the financial needs of each generation
- An audit of candidate disruptive technologies and how the different generations might respond to them, considering the earlier analyses

The paper provides a summary for some key candidate disruptive technologies, such as Robo-advisors and Cryptocurrencies, but our framework could be applied to any new technology that your organisation is considering. It will help you to think through which groups in society have a need for the technology, allied with the access, skills, confidence and trust to embrace it. These are the key determinants of the technology’s potential.

Read the paper
In a more competitive retail financial services market built around new technologies, products will, over time, become more commoditised and price differentials will erode. As a consequence, firms will increasingly compete on the basis of trust and culture. This is because consumers will only embrace new technological developments where they trust the provider – and only those firms with the right culture will inspire such trust.

So this paper argues that ten years from now, the winners and losers in retail financial services markets will be determined by a mix of technological capabilities and consumer trust – but trust will clearly be the key factor. While new technologies will enable innovative banking services, consumers will prefer to use services in which they have confidence because they trust the provider.

The winners in retail banking will therefore be those firms that are successful in building and maintaining trust – these are likely to be the firms with the most deeply embedded customer-centric cultures.

Read the paper
The political economy problems facing us are complex, intractable and in many cases deepening. The financial crash in 2008 has changed our political economy in ways we do not yet fully understand, but it is increasingly recognised as a watershed. The events of 2007-8 were the most serious financial crisis since 1929, and it brought a concerted policy response from governments. Every possible lever that could be pulled to avert it was used, including zero interest rates (ZIRP), quantitative easing (QE) as well as more traditional measures such as bank nationalisations and fiscal stimulus. The financial meltdown that was widely feared was averted, but at the cost of a serious recession in 2009, the worst downturn since the 1930s. It contrasted markedly with the experience of the previous sixty years during which recessions were shallow and short-lived, eighteen months on average. This time there has been no quick or sustained recovery. The slow-down in growth has lasted already for almost eight years, and emergency policies like ZIRP and QE are still in place. In the three hundred years since the Bank of England was established interest rates have never been so low, and despite a limited uplift in US rates there is no early prospect of significant change either in the UK or in Europe.
11. From pipes to platforms: imagining an Uber moment in the financial services sector

Imran Gulamhuseinwala, OBE
Ernst & Young

Uber is a prime example of a new kind of business model commonly referred to as a ‘platform’. Uber, like Airbnb, Facebook, Alphabet’s YouTube, Amazon and Apple’s iPhone, uses connectivity to bring together consumers and producers in an open ecosystem. Platform businesses are reinventing and then dominating industry sectors, as well as taking opportunities from under the noses of incumbent providers.

The conventional wisdom is that financial services is unique and somehow immune to its own Uber moment. In our “Uber scenario”, we seek to challenge this viewpoint. We take the view that financial services is not fundamentally different to the transport or telco sectors (or indeed the media, music, hotel, travel and e-commerce sectors). We will make the case that financial services actually lends itself well to a platform-based architecture in which consumers can conveniently and confidently acquire financial services, and producers can seamlessly access consumers. In this scenario, we believe a platform-based structure offers significant utility to consumers and to the real economy (and could indeed be integral to the growth and sustainability of the emerging digital economy).

Read the paper
12. Financing inequality

Deborah Hardoon & Kaori Shigiya
Oxfam

This discussion paper seeks to identify some of the way in which the structures, institutions and activities of the financial sector relate to economic inequality. It draws on a range of evidence which suggests that in a country like the UK, we should be extremely concerned by the way that the current financial sector influences inequality, with research finding that larger financial sectors – such as in the UK - have more of a regressive impact. This paper explores some of the ways that the financial sector favours those with extreme wealth and high incomes whilst penalising and holding back those at the bottom of the distribution. From financial products and vehicles, which offer wealthier people a better deal, to the socially useless activities such as High Frequency Trading, which transfer value to financiers from ordinary citizens, this paper draws attention to the many potential distributional consequences of financial activity.

Part one of the paper describes the links between the financial sector and inequality. Part two of the paper hypothesises what this might mean if we continue with business as usual for the next decade. Part three suggests ways the financial system could be reconfigured to work better for all of society, in particular, every regulatory and policy decision should be analysed for its implication on inequality and the interests of all citizens instead of just its impact on the finance industry. The companies and individuals that make up the ‘financial sector’ should also take responsibility for creating the norms, standards and rules that repurpose financial firms to serve the real economy and society, whilst international recognition of the risk of rising inequality and the contagion between financial sectors and race to the bottom needs global agreements.

Read the paper
13. Bank Dis-Intermediation – The Role of eCommunities

Alessandro Hatami
The Pacemakers

The Banking industry is going through profound changes. These changes have been triggered by many factors including: changing customer appetites, more demanding regulation, technological advances and increased competition. Much has been said about the emergence of a new class of FinTech bank challengers. This paper explores another potentially formidable type of competition coming from existing digital communities – these include social networks, hardware manufacturers, online retailers and telcos.

E-communities are able to use technology to reach their existing customers with financial services bundled with their core offering, providing a vastly superior customer experience than that the banks are able to. This approach could vastly strengthen the challenge of the start-ups and result in the redefinition of the existing bank-customer relationship.

Read the paper
The implementation of EU Market Abuse Regulation is the latest key development in a long history of piecemeal reform of the law relating to insider dealing and market manipulation. In an effort to respond to the considerable challenges posed by fragmentation of financial markets, the rise of high frequency and algorithmic trading and a succession of market conduct scandals, the legislation has lost sight of the underlying policy rationale for insider dealing and market manipulation prohibitions. As a result, the regime is under considerable strain in coping with changing market structures, is unable to provide clear answers to basic questions and is a source of ever increasing ambiguity for market participants. The future requires a re-think of the underlying policy rationale for regulating insider trading and market manipulation and a re-balancing of market conduct prohibitions and regulation of market structure. The focus should be not on seeking to “future proof” the market conduct regime to deal with the myriad of challenges that market innovation will present over the coming years. Instead a fundamental re-examination is required of why we regulate the use of inside information in modern financial markets and what should be the preserve of market manipulation offences rather than structural market regulation.
The current architecture of financial regulation is out of step with the evolving global landscape of financial services. Global financial standards tend to respond to the prerogatives of advanced economies, but large developing countries play an increasingly important role as stakeholder and innovator in the global financial system. Moreover, even the world’s poorest developing countries are deeply integrated into global finance, so decisions made in international standard-setting bodies have substantial implications for their economic development. We analyze regulatory developments in the areas of prudential banking, anti-money laundering, and shadow banking to show how global financial standards are essential and well-intended, but entail negative repercussions for inclusive growth in developing countries. In our outlook for the future of global financial regulation, we advocate for sustained global coordination and propose three specific reforms: First, standard setters move away from an exclusive focus on financial stability to the pursuit of the twin goals of financial stability and inclusive economic development - the equivalent of a Taylor rule for financial regulation. Second, reforms should be geared towards greater formal representation for developing countries. And third, we propose the transformation of an existing regulatory institution into a standard-setting body for fintech.
16. Challenges in Countering Fraud, Money Laundering and Bribery in the Financial Sector between 2020 and 2030

David Kirk
McGuireWoods London LLP

1. Current reality – Fraud is the most common form of crime in the UK, and combating it presents difficult challenges for law enforcement, regulators and businesses. The financial sector has found itself both villain and victim in this world. The fallout from the global financial crisis has left banks struggling to cope with huge losses and massive fines. Board members and senior management are being targeted and made accountable as never before. Payment Protection Insurance mis-selling, Libor and Forex investigations have exposed malpractice on a grand scale, and consumed Enforcement resources.

2. Stresses and strains - The financial regulator’s role in taking action against the regulated sector presents significant difficulties. From case selection to investigation to litigation, the problems mount up, whether the matter is dealt with as a regulatory breach or a criminal act.

3. Future influences - Changes may be made to the criminal process, including jury trial. Forms of alternative dispute resolution may be introduced, following on from the Deferred Prosecution Agreement. New offences will be needed to meet the threat of new types of offence, particularly in the world of Cyber Crime. Corporate crime is being rethought, with a new type of offence – the failure to prevent – being rolled out. Consideration is being given to the differing merits of the ‘identification principle’, vicarious liability and strict liability as the tests for corporate liability. Bribery has received an enormous amount of attention in the last seven years, and anti-money laundering legislation is set to be overhauled and brought up to date. Systems and controls will be increasingly under review
4. Challenging assumptions - How banking will look, and what challenges it will face, in the third decade of the 21st century, are almost impossible to predict. One can only assert, with some confidence, that there will be a mixture of old-fashioned fraudulent activity, new-fangled ways of parting people and institutions from their money, and ever more subtle ways of subverting financial regulation. The digital world will play an increasing role in facilitating crime, and law enforcement, and banking systems, will be playing catch-up. The role of senior management will receive ever increasing scrutiny, with ‘accountability’ being enforced with greater diligence. The importance to the UK economy of the banking sector will continue, and therefore ensuring that the regulator is maintaining a correct balance between strong and light touch regulation will be key to the success of its mission.

Read the paper
The purpose of this article is to provide an overview of the current and future trends in unsecured consumer debt in the UK. The basic claim of this paper is that consumer debt issues are increasingly important as a source of funding for UK households. Substantial changes in the behaviour of consumers and in the traditional functions of financial intermediaries as credit providers have led consumers to face completely new challenges. Understanding these changes in a rapidly changing world could be beneficial to undertake preventive and corrective actions to guarantee a fair access to unsecured debt products for the UK population.

Read the paper
18. Meet EVA – Your enlightened virtual assistant and the future face of the invisible bank

Warren Mead
KPMG

Banking today is hidden from view, obscured behind our day-to-day lives, only surfacing at pivotal moments; getting a job, moving home, retirement. By 2030, technology will drive a fundamental shift in banking. It will change from being hidden to completely invisible. This ‘Invisible Bank’ will be buried in a broader, more digital, connected way of life. Meet EVA, Enlightened Virtual Assistant, and our vision of the future of invisible banking.

Driven by the evolution of artificial intelligence, EVA will combine banking seamlessly with our everyday routine. She will be constantly available and can be personalised to your needs, helping you live a comfortable, efficient and well-balanced life.

Our vision for retail banking in 2030 is one of a disaggregated industry – with three distinct components.

- The first layer, EVA, is the platform layer. She combines all of the many other services provided by smart tech with banking.
- The second layer is the product, which will become more flexible and customer centric.
- The process layer will bring a new wave of utilities to operate the transactional infrastructure of banks.

Technology is an unstoppable driving force and banking is only at the beginning of its transformational journey. The Invisible Bank is one possible future of how that journey will play out and EVA is a challenge to examine the potential challenges and opportunities it may bring.

EVA represents a future challenge to banking but if navigated well, it has the potential to offer an array of opportunities for your business. Our report outlines how you can exploit those opportunities.
Activities
- Customer interface
- Brand, marketing
- Quality, assurance & product selection

Players
- Dominated by global technology players

The Invisible Bank
- Manufacture product
- ‘Own’ balance sheets
- Security/custody of assets

Players
- Low cost scaled banks
- Niche providers, such as Fintech

Process Layer
- Facilitate payments
- Manage administration and certain regulatory processes, eg. AML/KYC

Players
- Centralised utilities
- Major outsourcers
- Fintech

Customer view

Read the paper
Cybercrime is the security challenge of our age that is radically enabling malicious activity on a global scale. The central argument of this paper is that financial cybercrime development in the next five to ten years will continue to grow, and will be defined by the on-going failure of the wider community to have a lasting strategic impact against the crime type. Pockets of excellence will emerge; defined by those who can invest, adapt and embrace the full spectrum new models of security required, from a new partnership perspective to new agile and holistic capability development within institutions. However, the fundamentals of the new cyber agenda, the low-cost reward model of the crime-type, the scale of targeting and an ever-increasing global attack surface will mean that only those that invest the most will find any solace in the cybercrime landscape in the medium-term.

[Read the paper]
20. A novel and quantitative perspective of the SEC

Juan Pablo Pardo-Guerra
University of California, San Diego

This paper covers my research on the interactions between regulation and technological change in financial markets. The paper focuses on the United States and uses computer-aided techniques to analyze the speeches of SEC commissioners throughout its history. In doing so, it argues that the SEC is captured by a legal logic of regulation that subordinates discussions of technology to matters of disclosure and enforcement. This accounts, I argue, for the SEC’s relative failure in regulating market technologies in recent decades, despite having the congressional mandate that it would need to do so. Preliminary evidence suggests that the story in the UK and Europe is similar, though with some minor difference in regulatory styles and paths.

For this workshop, the paper matters for the following reasons:

1. There is no doubt that markets will continue to become more reliant on technology to increase efficiencies. The push for real-time settlement is an example, as is the push to move more derivatives onto order books. These changes involve expanding the scope, operation and speed in the interest of costs, efficiency and interconnectivity. Indeed, this is an old story: focus on how to reduce trading costs are central to such things as the mechanization of the back office in the 1960s and the automation and the demutualization of stock exchange in the late 1990s and early 2000s, for example.

2. The challenge, however, is about the type of regulation that we need for these markets. One possibility is to set the breaks on innovation by, for example, dictating tick sizes or minimum resting times, two options that have been considered by the SEC in the United States. These forms of regulation, however, will invariably create pressure to innovate around them, creating further complexities and sources of opacity in the market—an arms race, of sorts, where regulations beget innovations that try to work around the objectives of the regulation. This is, in my view, entirely undesirable.
3. A different option is to reshape the way financial regulation is done. So far, financial regulation has been concerned mostly with either 1) macroeconomic stability; 2) investor protection; 3) innovation in contracts. There is very little work within regulatory institutions on market technologies (other than surveillance) and even less historical memory. The great challenge for financial regulation is not the speed or efficiency of markets, but the deeply embedded logics that have driven financial regulation over the past five to eight decades.

4. What my paper alludes to, then, is the importance of rethinking the way regulators work. This involves not only focusing more on technology in a generic manner, but building competencies, expertise, and alliances that would allow regulators to more effectively shape the structures of securities markets. Consider, for example, the issue of 'technology hubs' raised by the organizers. Disclosure-enforcement logics will not work with these. Rather, what might work is fomenting innovation while keeping a strong grip of the development of standards and devices. This could involve expanding efforts to certify market platforms and market organizations using public market infrastructures; it may also involve certifying technology-related professionals working in the industry; but it may also involve closer oversight and control over standards in financial markets. One of the key standards of communication (FIX), for instance, was largely developed outside the regulatory sphere, despite the fact that it had tremendous consequences on the shape of securities markets globally.

5. The danger, then, is not technology per se, but rather the way we approach its regulation. This is what I want to impress upon the workshop’s participants: the urgency to think about financial regulation as the regulation of safety-critical technologies, rather than the regulation of promises and debts.

Read the paper

Andrew Procter
Herbert Smith Freehills LLP

The paper anticipates challenges and opportunities in the detection and prevention of market abuse in 2022.

Improved technology will aid wrongdoers but that same technology and advances in medical science could aid in detection and prevention.

Read the paper
22. Financing the Transition – How Climate Change Could Impact the Financial System

Nick Robins
UN Environment Inquiry

Climate change is one of the most disruptive forces shaping the 21st century and will have an increasing impact on macroeconomic performance, financial system stability and capital allocation over the next 5-15 years.

Finance ministries, central banks and financial regulators are taking action both to understand the implications and ensure that the transition to a low-carbon and resilient economy is as orderly, timely and efficient as possible.

A number of serious barriers continue to act as brakes to mobilizing the finance required to deliver the transition, including mispricing, information asymmetries and short-termism.

Set against these are a group of positive accelerators, notably the spillover benefits of climate action for other priorities (such as human health), rapid technological improvements and the strengthening of social norms in favour of decarbonization.

Based on these trends, a fictional Fast Track scenario is laid out, suggesting the key features of how a rapid transition to a low-carbon, resilient economy could play out in the financial system in terms of impacts on assets as well as on financial policy.

This scenario helps to challenge some of today's assumptions, notably that climate disruption is distant in time, largely driven by developed countries, has limited implications for financial authorities and is set apart from questions of financial culture and conduct.

Read the paper
23. Whatever happened to crowdfunding?

Peter Smith

Alternative forms of finance, including crowdfunding, have proliferated in recent years. Crowdfunding is seen by many as (i) key to providing financing for SMEs and early-stage businesses in the economy; and (ii) part of the fintech wave of disintermediation of traditional financial players.

The development of crowdfunding has not been consistent across countries. The extent of the problem, or opportunity, varies. The article looks at market developments in major jurisdictions before exploring the developing UAE market.

The key challenge for any crowdfunder is to achieve sufficient scale to become, and remain, profitable. Can a P2P lender find enough 'quality' borrowers for the crowd to lend to? Are there enough companies seeking equity for an equity crowdfunding platform to be able to reach its breakeven point? Can platforms manage the stresses this creates while serving their end investors properly and managing the conflicts of interest they face effectively? Or can crowdfunding platforms only succeed by becoming a conduit for institutional money, rather than the retail crowd? Factors driving future development will be (i) Interest rates; (ii) Institutional participation; (iii) Regulatory climate; and (iv) Deal flow.

The article concludes that, for lending, crowdfunding is not the disruptor it is perceived to be and will develop into a niche proposition for investors with high-risk tolerance or risk blindness. Similarly, the business model for equity crowdfunding never really existed and this model will disappear in its current form. Holding periods are too long, transactional activity too low and capital amounts involved too small to make for a profitable business case. Regulation will likely prevent the emergence of an international standard-bearer of great scale, the 'Facebook' of crowdfunding.

All views expressed in this article are those of the author and do not necessarily represent the views of the Dubai Financial Services Authority or of any other body with which the author is associated.

Read the paper