Banking: tech and effects

Q&A with Chris Skinner, CEO of The Finanser.
In your opinion, what is the single biggest technology trend to disrupt financial services in 2020?
Artificial Intelligence. Yes, it’s been around a while and yes, it’s not new, but it still has huge potential to unleash advantages that are, as yet, untapped. Most banks, for example, talk about AI as chatbots. A chatbot is about as intelligent as my dog. In fact, less than that: about as intelligent as my favourite tree, the Oak. It’s been around a long time, but doesn’t talk or think like us. It’s primitive compared to what we will see. AI will reach a level soon where banks could run their operations with a third of the people and twice the effectiveness because it can embrace compliance and regulation automatically, service and deal with customers with empathy, and alert and deal with risks pre-emptively. That’s where the disruption will come from because the banks that realise this will have a real upper hand over the banks that think AI is just chatbots.

How do you see the relationship between fintechs and large financial services organisations developing in the coming years?
Most relationships between fintechs and big banks is an inequitable deal. The fintech needs the bank and the bank feels they don’t need the fintech. That will change as banks mature in their thinking. Today, many banks are sniffing around the fintech world trying to find out how they think, what they do, the way they work and whether there’s anything there worth copying. Tomorrow, banks will spend far more time investing in fintechs, and mentoring and working with them. This will be driven by Open Banking and the fear of new competition from challenger banks and their ilk.

You’ve said when it comes to banking leadership - that banks have all the ‘fin’ but not enough ‘tech’. Can you elaborate?
It is quite clear that banks do not take technology seriously enough. Nearly every bank board, leadership team, management and C-level that I meet have really good people who
understand money and finance, but hardly anyone who understands technology and engineering. If you now think we live in the age of the digital bank, then half the bank should be digital. Not just at the operational level, but at the leadership level. I’ve only met a few banks that have that balance and leadership, and they’re called challenger banks.

You argue that big tech giants won’t become big banks, what do you see happening?
Big tech wants profit and focus upon things that drive more commerce on their platform. Making it easy to pay or easy to expand commerce on their platform is their focus. That’s why Amazon Pay, Google Pay and Facebook Pay are all happening and then it expands into lending and credit. Today, PayPal and Amazon are some of the largest lenders in the world. But that’s not banking. That’s payments and lending. If a big tech giant wanted to get into full-service banking, then they would land in a water of heavy regulation that would bog them down. It would be like quicksand for a big tech giant. All of their innovation, speed and vision would be stifled and cut. As a result, any big tech giant that wants to do banking will partner with a bank, rather than becoming a bank themselves.

How is technology changing financial advice?
It’s getting much better. For the average person – not your high net worth individual but the average Joe or Jane on the main street – they now have access to financial advice that they never had access to before. They can get investment advice from robo-advisors, credit advice from comparison sites, financial advice from bank chatbots and more. None of this was accessible when the average person dealt with the average bank on the main street. All they had then was access to an advisor who knew little and would try and sell you whatever was in their bag. That’s why the UK’s PPI scandal happened. Today, consumers are much better equipped to deal with technology thanks to technology and, specifically, thanks to the internet.

You believe the traditional bank branch is here to stay, why?
Even with my answer above, money is still a disturbingly difficult part of our lives. It controls and can ruin our lives if we don’t have enough of it. If you cannot pay your bills, your taxes, your rent, it can be soul-destroying. Money controls our lives. Bearing in mind the import of that statement, if you start to get money, you may not know how to control it. You may feel out of control or want help to keep it under control. As you deal with big money decisions, it can be frightening. Getting your first income; thinking about your first savings; dealing with buying your first home; looking to make more money through investment; all of these things can be deeply disturbing when you’ve never had to deal with these things before. Therefore, the role of a physical contact with a real human will remain important for most people forever, as money is a psychologically disturbing part of our lives. You need a counsellor for that. It’s not about advice. It’s about peace of mind. That’s why branches will always be important, so that you can deal with a real person in a physical place.

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Chris Skinner blogs daily at thefinanser.com