

# **THE UNBEARABLE LIGHTNESS OF BANKING'S FUTURE**



# Technological innovation is fundamentally reshaping the banking industry, with disruptive forces presenting potentially life-threatening challenges to traditional business models.

For those banks, though, that embrace these new technologies, the fundamental instability of banks that has caused crises in the past, driven by overleverage, duration mismatches of assets and liabilities, and poor underwriting and risk management, could be addressed.

These new technological developments may suggest an alternative, lighter future for banking that reduces the need for oversized balance sheets and capital bases.

The reality is that technology and automation have already fundamentally reshaped many of banking's core businesses. Engineers now fill floors once dominated by traders and salespeople. However, the opportunities presented by newer technologies, particularly machine learning and other artificial intelligence-based performance improvements, are only now beginning to be captured.

Artificial intelligence's promise for risk management, for example, is profound. Banks must learn to gather and capitalize on large amounts of both structured and unstructured data, which are proliferating in today's interconnected world. Using machine learning applications, banks can now extract intelligence from this big data. Trends and cause-and-effect relationships that are not obvious to the human eye become visible, and AI, therefore, becomes the competitive central processing unit of the system.

A risk management system with predictive capabilities that are less reliant on pure historical patterns and human emotion could provide a smarter means of insuring against future risks.

Competition is another factor driving technological change at banks. Smaller and more agile fintech companies threaten to disrupt traditional banking models. JP Morgan CEO Jamie Dimon once famously remarked, 'Silicon Valley is coming to eat our lunch.' Banks are investing heavily in and experimenting with promising new technologies, such as blockchain, as well as exploring new business models for lending, payments clearing, asset management, and insurance.

Banking's traditional role as intermediary is being reimagined and reengineered. It will take courage, but the winners in this new age will be those that abandon (in time) old business models. Consumers will increasingly dictate conditions, interacting directly with their peers without the need for banks in between.

This new paradigm, involving many stakeholders, is not an end in itself but enables the creation of a solution that addresses, in efficiency and effectiveness, the demands of consumers.

Technology shows the way for banking to be reinvented with a much lighter footprint. Think of the advent of Uber in transportation (asset-less, it does not own cars), or of Airbnb in hospitality (it does not own hotels), or of Facebook in media and entertainment (it does not own content)—asset-less and therefore light.

Can a bank best manage risk, the real factor of production in the global financial system, without having financial assets, and corresponding liabilities, and related financial leverage, risk-weighted assets, imbalanced durations between sources and uses... and therefore without securitization, derivatives, and a massive balance sheet?

Imagine P2P lending models in credit or in payments, or robot advisory in asset and wealth management, or global finance initiatives (e.g. crowd funding) and general insurance (e.g. P2P insurance for communities of profiled people) that directly connect multiple stakeholders, translating data and information into intelligence and thus into solutions and new value—through a process of digital and business transformation that we call 'synapsization.'

## ASSET LESS, BRAIN HEAVY

In our view, this synapsization is driven by five key elements, or building blocks. Data, the structured and unstructured information that is the 'new oil' of the digital economy, is at the heart of this transformation. Applied analytics provide the ability to mine this data and get intelligence out of them. Enlarged ecosystems, composed of multiple stakeholders, can enjoy greater interconnectivity. And through these processes, new business solutions and models are thus created, either by design or by chance.

Finally, synapsization may only be successful if the bank—without the need for a substantial balance sheet of its own—builds a new brand identity and credibility (cyber trust) to optimally match the sources and use of capital in this new virtual world.



TABLE 1: THE SYNAPSIZATION FRAMEWORK: BUILDING BLOCKS



These are the key elements of the 'business transformation' that could happen to banks and to their economic system, allowing them to remain competitive, overcoming the threats from new challengers.

In the end, though, whether traditional banks, with all of their regulatory, historical, and other burdens, can realize this vision is the ultimate question. Already technology companies, with little to no financial assets on their balance sheet and no regulatory supervision from banking authorities, are seeking to exploit the potential of these new technologies. Alibaba's Ant Financial is the most valuable fintech company in the world, worth an estimated \$150 billion. Amazon is providing payment services and loans to merchants that offer their goods on its website. It can monitor, in real time, the health of their sales and cash flows, and the 'likes' of current clients and prospects. It can even hold their products as collateral, as they are already physically hosted in Amazon warehouses. Which bank can currently match such a powerful lending proposition?

Is there a future in which bankers themselves, if not banks, disappear altogether? Advances in artificial intelligence could become industrializable across each of the main value chains of the international banking system, creating, in time, 'singularity' banks. Credit could be granted by omniscient machines that know our future business plans down to the smallest detail. Stock picking becomes decided by algorithms capable of interpreting how the proverbial beating of a butterfly's wings in Brazil will affect pharmaceutical companies in Japan, or agri-food companies in Kenya. A future for banking that is not only more and more asset-less, but also human-less.

The challenge for banks is not only to remain competitive and survive the threat of technological disruption, but also to retain control of their destiny. However they respond, though, the future of the global banking industry promises to be much different, and lighter, than it is today.

## **FOR MORE INFORMATION CONTACT:**

### **Claudio Scardovi**

Managing Director  
+39 348 3182 185  
cscardovi@alixpartners.com

Claudio is the author, most recently, of *Singularity Bank: AI and Runaway Transformation in Financial Services*, Bocconi University Press, 2019.

## **ABOUT US**

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

The opinions expressed are those of the author and do not necessarily reflect the views of AlixPartners, LLP, its affiliates, or any of its or their respective professionals or clients. This article "The unbearable lightness of banking's future" ("Article") was prepared by AlixPartners, LLP ("AlixPartners") for general information and distribution on a strictly confidential and non-reliance basis. No one in possession of this Article may rely on any portion of this Article. This Article may be based, in whole or in part, on projections or forecasts of future events. A forecast, by its nature, is speculative and includes estimates and assumptions which may prove to be wrong. Actual results may, and frequently do, differ from those projected or forecast. The information in this Article reflects conditions and our views as of this date, all of which are subject to change. We undertake no obligation to update or provide any revisions to the Article. This Article is the property of AlixPartners, and neither the Article nor any of its contents may be copied, used, or distributed to any third party without the prior written consent of AlixPartners.