



BANKING ON THE FUTURE

FOR CHRIS
SKINNER,
IT'S SIMPLE:
GO DIGITAL
OR GO HOME,
AND FIN TECH
IS LEADING
THE WAY





Profile

Author, commentator, and sought-after speaker Chris Skinner has been working in banking and insurance technology since the early 1980s, including stints at Wang Computer and NCR Corporation. Skinner has always looked to the future of banking and the opportunities and challenges new technologies bring. He has written 10 books on different aspects of banking, including *The Digital Bank: Strategies to Launch or Become a Digital Bank* (2013). Based in Great Britain, Skinner chairs the Financial Services Club, is chief executive of Balatro LTD and co-founded thefinanser.com, which regularly features his blogs. Skinner recently shared some of his views with EMI.

The global financial industry is experiencing new innovation and Fin Tech has recently been taking center stage. Could you define Fin Tech in your own words? It must be much more involved than simply saying “payment by mobile phone.”

Fin Tech is the integration of finance and technology. For most, it means making the financial markets Internet-ready, as many bank and insurance systems were built before the Internet was invented or without a consideration of customers accessing those systems directly through the Internet 24/7.

IT companies used to be providers (or supporters) of technical methods for financial companies, such as e-banking and mobile-banking for banks. Now more IT companies are entering the financial business arena on their own to meet customers' needs directly. What triggers do you think have forced the IT companies to change? What differentiations and strengths do you think IT companies have in financial business in this new era? And could you give some examples of specific companies?

Financial companies are becoming IT

companies and IT companies are becoming financial companies. This is exactly due to the previous answer—Fin Tech integrates finance and technology. But there's more to this than that basic statement, as two specific technologies are changing the game, and I call this the Internet of Value or the ValueWeb, if you prefer (the title of my next book). The ValueWeb allows anyone, anywhere, to exchange value with anyone else, anywhere else, in real-time for almost free.

Historically, banks have created systems that are slow. An international payment takes days to process for that reason. But mobile has changed all of this. Mobile technologies and specifically the mobile

Internet, are allowing all of us to connect directly through the network one-to-one with each other. In other words, seven billion people living on Earth can create electronic connections with each other today. Once you do that, you can exchange information and build relationships and, most importantly, trade. However, you cannot trade if it is expensive to pay, and so the ValueWeb creates new ways to pay.

In particular, there needs to be a way to pay that is cheap and real-time, not expensive and slow. That is why the development of bitcoin and the blockchain has been transformational. The blockchain will allow anyone, anywhere, to transfer value global-





ly to someone else for almost free, in real-time, because it is an Internet ledger of transactions that is trusted and free. This technology is now being built into the banking system by companies like Ripple, Eris and Erethreum, and will soon be the de facto way to pay. This is why the two technologies of mobile and blockchain are the drivers of the Fin Tech revolution.

By way of example, in 2014 \$13.2 billion was invested in Fin Tech startups by venture capital funds. In 2013, it was \$4 billion and before that less than a billion. Why would VCs invest so much? Because they can see the returns. In 2014, there were 36 new Fin Tech startups like Lending Club, Stripe, Funding Circle and Square, with over a billion dollar valuations. The year before, only 12 and next year probably over 100. These new companies are using the mobile Internet to create new peer-to-peer connections for crowdfunding and lending and new payment systems through technologies from APIs (Application Program Interfaces) to the blockchain. In fact, a third of the Fin Tech firms are focused upon P2P (peer-to-peer) value connections like Zopa and TransferWise whilst a third are focused upon payments like Klarna and Traxpay. These firms are really changing the game and the result is that banks will lose money. A Goldman Sachs report on the future of finance published in the first quarter estimates that banks will lose over \$10 billion of profitability—about 20% of the market—in the credit line of business alone over the next few years as customers defect to peer-to-peer lenders like Ppdai and Alibaba, so this is critical change to the financial system.

Then what kind of future are the traditional financial companies facing? As stated in your book *Digital Bank: Strategies to Launch or Become a Digital Bank*, it is not only a crisis but also opportunity for them.

What differentiated strengths can they exert under the new circumstance that digitized financial services are pushing into our everyday lives? What new format of financial service can they provide to customers? Do you see any specific financial players who are successfully and innovatively adapting to this new circumstance?

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Traditional financial firms have a problem, in that they were built in the last century and focused upon the physical distribution of paper through a localized network focused upon buildings and human hands; the new players are focused upon the digital distribution of data through a globalized network focused upon software and servers. The difference is that the new players can transact the same services—loans, mortgages, insurance, wealth management, investments, payments—at a fraction of the cost of the old. As a result, the old companies cannot compete with the new if their cost models are ten times more expensive because of their many buildings and staff structures. So they have to move rapidly from physical to digital.

Moving to digital is not simple however. For many financial firms it means ripping

out their current systems that were built for physical operations and replacing them with digital structures that are Internet-enabled. Even if that is done, it means going one step further and changing management and leadership to get digital. I often say that banks are led by leaders who delegate digital to function or person—the Head of Digital. How can you delegate the future of the bank? So the leadership team must start with digital as their focal area, and the change management to become digital at their core.

That is tough, as it means a key understanding of building financial systems and structures where digital Internet services are the core of the firm and humans and buildings sit upon those digital foundations. Too often, I hear firms that talk about channels and functions, and realize that their thinking is that digital is being added to their buildings and humans as an overlay. It is completely wrong thinking, as digital firms think digital first and then work out what buildings and humans need to sit upon that digital structure.

This is the reason that I can only name a few firms that think this way. Digital titans are obvious—Alibaba, TenCent. Digital financial firms are not so obvious but a few are out there—mBank in Poland, Commonwealth Bank of Australia, ICICI Bank in India— but they are few and far between, and even these banks are not truly digital yet. In the digital age, customers expect and demand one-to-one personalized digital service.

For China, Eastern Europe and Africa, it is said that low rates in credit card use and underdevelopment of financial service infrastructure naturally lead to the successful development and growth of Fin Tech in the region. However, in Korea, the general public uses credit cards to pay and has easy access to ATMs and Internet banking, and



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stock investments are more common. Do you believe the expansion of Fin Tech and digitized technology is still an inevitable path in countries like Korea, where the financial service infrastructure is already well established?

Fin Tech is going to adapt and change everything everywhere, based upon the mobile and value exchange technology of the blockchain I've described. In developed markets like Korea, you will see similar changes to those I see in Japan, Europe and America vis-à-vis direct peer-to-peer payments, funding and credit.

More intriguing, in some ways, are the developments we are seeing in China, Eastern Europe and Africa. These economies are still developing, and a key here is financial inclusion. There are five billion people who have no banking or are under-banked today. They have been excluded from the system in the past because to service them was too expensive. Building branches in areas where people are poor and there's no profit to be made didn't make sense. However, now through the mobile Internet and blockchain, seven billion people are being connected to an elec-

tronic system that is cheap, easy and real-time. That means that the whole planet will be able to communicate and trade one-to-one. Goat farmers in Ethiopia will be able to sell goat products – leather hides or crafts made from goat hide—to Korean buyers via QQ pages, Wechat photos, text messaged payments and Alipay logistics. That is an amazing new world and amazing new concept. Everyone on this planet can buy and sell anything with anyone, anywhere.

So the whole concept of how we live on this planet changes with it. That will be as transformational in Seoul, where people will



be connected to things they never thought of connecting with before, as it is in London, Paris, Mumbai, New York, Tokyo and Shanghai.

Welcoming gestures from individual customers and investors are triggering the popularity of Fin Tech. What factors and aspects of the Fin Tech do you think are attracting people? What merits and values can people expect from it, from the perspective of the customer, and investor?

There are three fundamental pieces to Fin Tech which the firms that are winning understand: connectivity, simplification and personalization.

Connectivity allows anyone to trade with anyone, anywhere. Simplification takes away the old complexities of markets and makes them easy by dealing with just a small part of that market. For example, for many Fin Tech companies they are just taking one process—lending, paying, buying, investing—and making that one piece sim-

ple. What is different is that they are simplifying the basics of finance, not trying to be all things to all people which is what traditional firms have been. It's a little like the Ubers or Alibabas who provide platforms to connect people who need to get from A to B or who need to buy something from people who have the car or the product you need. These middle-ground intermediaries act as the global or regional or national data hubs to connect the person who needs something with the person who has it, direct, one-to-one, through software and servers. That's what the simplification game is all about.

Finally, there's personalization which then becomes the differentiation. Personalization is all about making sure you remember what the individual did last time to make it easier for them to do it next time and, for the data intermediary, that's easy as they've got the data. Airbnb, Facebook, Google or whoever, know where you stayed, what you posted or searched for

last time, and therefore just make it easier and easier each time you touch their service by repeated and simplifying that process on a personalized basis. That's what banks and insurers need to do: connect, simplify and repeat by making it personal. These are the basics of attracting and retaining the customer in the digital age.

There are worries about the bubble risks that Fin Tech might bring. Crowdfunding and P2P lending services, for example, could damage the participant's assets and security when regulation and supervision processes are incomplete and are not well-managed. What is your view on the side effects and the negative potential and risk that the digitized financial technology would bring?

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Right now, there's a lot of downside to the Fin Tech bubble. People are starting to trust brands that are unregulated, and they are not aware of the risks. MtGox is a great example. MtGox was viewed as a store of value by many, and they assumed that their value store was guaranteed. It wasn't, and when MtGox went under, thousands of bitcoin investors went bust. MtGox lost \$500 million in investments with no recourse, guarantee or reimbursement.

That's just plain wrong, and it's why financial markets are regulated. Banks and insurance companies work hard at compliance, audit and regulation because it is compliance, audit and regulation that give them their licence to provide a store of value. I find it hard to believe that consumers don't understand this, but maybe because it is not clear and underscored. If you store your savings in an Internet brand because you like that brand, you have zero guarantee of your money being safe.

This is critical in understanding the difference between the Fin Tech guys, who claim you don't need banks and insurers anymore. You need the financial system to provide stability and confidence. Without it, you have nothing.

For emerging countries, what kind of technology and business capability should be available for companies that plan to penetrate or do business in the region?

For emerging economies, the two technologies that are transformational are mobile and blockchain. Mobile provides inclusion for everyone cheaply and easily. Blockchain provides the transmittance of value cheaply and easily via mobile in real-time. This is why these two technologies will rapidly upscale these economies because suddenly those who have no access to financial transactions or markets can transact and play. A person who has an idea, a craft, an ability, anything can transact now

with anyone and sell that idea, craft or ability. You could never do this before because that idea, craft or ability was limited to the locality of your community. Many people in that locality would know about that idea, craft or ability. They might even buy it once, but that was seriously limiting, as the idea, craft or ability could [not] be sold many times.

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That is the transformation of mobile and blockchain. Anyone, anywhere now has the ability to sell any idea, craft or ability to anyone else, anywhere else on this planet. That is incredible and amazing and is unlimited by the banking system or even the governance system.

It is why Dee Hock, the founder of Visa, describes the blockchain as the future of not only payments, but of governance. It is here and now. We have connected the planet. This is amazing, so get with the program and work out how your institution, company, competency and capability can play a part in this transformation or be excluded and die.

Could you propose three keywords for the financial market player facing digital industrial revolution?

Core, humans and culture. Financial services institutions must first create a digital core. They then need to work out what role people play in supporting that core by, for example, engaging in customer relationships through remote digital outreach via social media. Then, if they are using social media, they must have a culture whereby the humans understand how to build relationships through digital outreach. Can you really be relevant to your target audience on their QQ page? That's the key. Core, humans and culture.

As a specialized analyst in financial markets, you have researched various cases of innovative companies that drove the digital transformation of today's financial industry. Could you describe which case has impressed you the most?

Well, the one I keep coming back to, because it showed commitment, is mBank in Poland. What is commitment? Most institutions participate and play with the idea of digital. They are not committed. They run pilot programs and tests. They don't bet the bank but mBank did just that.

mBank is actually a company called BRE Bank, a bank that had operated in Poland since 1985. BRE Bank launched the first Internet banking platform in 2000.

They were seen as the market leader for innovation back then and gained a lot of popularity. Then, in 2009, Alior Bank launched Alior Bank Sync, a cool social mobile app. BRE Bank looked old and slow, and lost customers to Alior Bank as a result, bearing in mind that BRE Bank had been the technology market leader as the first Internet bank in Poland. So the CEO took a really brave decision and decided to relaunch BRE Bank as a digital bank. He brought in a new digital leader from Microsoft, invested heavily in the development of a new mobile, social bank platform



and launched this platform in summer 2013.

Now, the reason this impresses me most is not because the bank launched a digital bank service but because they threw away their 30-year-old bank brand. They got rid of the BRE Bank brand and launched anew as mBank. All the branches were rebranded—the ones they kept—and the new mBank became seriously cool. As a result,

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they've won global awards for innovation everywhere, but when it comes [down] to it, all they did is create a mobile, social bank fit for the Internet age. Every financial firm has to do this but, unlike mBank, most banks don't have the guts to make the change. That's the thing. Does the leader of the firm—the CEO—have the guts to commit to digital 100%? If they don't, does the firm have a future? I doubt it.