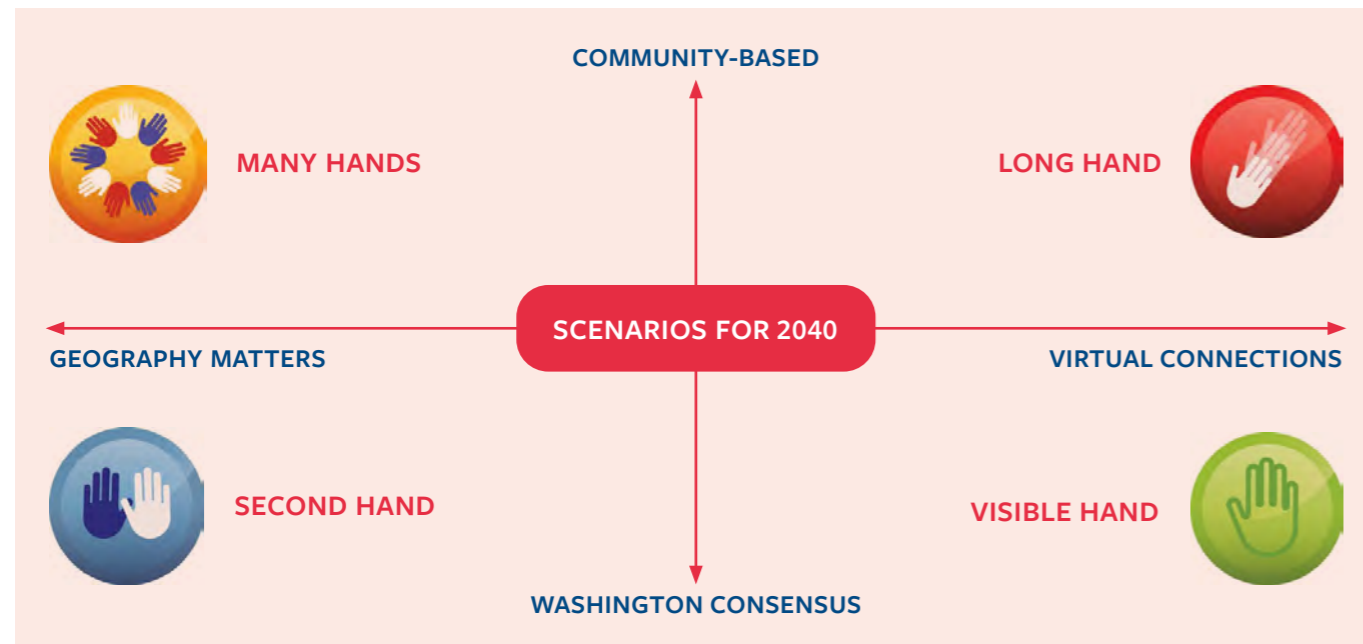


Banking on 2040

ALDERMAN & SHERIFF PROFESSOR MICHAEL MAINELLI'S SPEECH AT THE OCTOBER 2020 WORSHIPFUL COMPANY OF INTERNATIONAL BANKERS INSTALLATION EVENING



People are desperate for predictions. Doing a PhD in chaotic systems planning I concluded at one point that people need strategic planning just to feel better about the future. So ignoring many caveats about prediction, who is to say what the future holds, but remember I told you so.

Looking back 20 years, we spend time explaining to our children what it was like to make phone calls to arrange meetings, bring maps to find places, let alone what paper tape, punch cards, or even 'dialling' a number meant. Think back to 2000 or so and camera phones, USB flash drives, Toyota Prius, Blu-Ray, Facebook. 2005 or so, YouTube, Google Maps; the iPhone is 2007. Then deeper tech such as DNA analysis, stem cells, CRISPR, functional MRI, quantum computers, or transparent aluminium. Six months ago too many people ooh-ed and aah-ed over video-conferencing. We've had video-conferencing since the 1990s. Jitsi, Skype, and Lifesize arrived in 2003, Cisco's Telepresence and GoToWebinar in 2006, BigBlueButton in 2007, Bluejeans in 2009, Zoom in 2011, and Teams only in 2017.

But we're bad at looking to the future, as our unpreparedness for the obvious black elephant of a pandemic shows. Z/Yen's Long Finance initiative was inspired by a 1993 lecture by Professor Danny Hillis of MIT who said:

"When I was a child, people used to talk about what would happen by the year 2000. Now, 30 years later, they still talk about what will happen by the year 2000. The future has been shrinking by one year per year for my entire life. I think it is time for us to start a long-term project that gets people thinking past the mental barrier of the Millennium. I would

like to propose a large (think Stonehenge) mechanical clock, powered by seasonal temperature changes. It ticks once a year, bongs once a century, and the cuckoo comes out every millennium."

Which has led to the multi-million dollar Long Now project building such a clock on Jeff Bezos's Texas ranch. So let's pretend we can peek just two decades hence.

The world of 2040 is not about pantomime nor paranoia, nor is it the world of 2020 extrapolated; it is a world we can imagine, with care. For most prognostication over two decades William Gibson is right, 'The future is already here – it's just not evenly distributed.' In other words we can imagine the future from what we see before us. Particularly if we avoid getting over-excited. For example, people laughed at Z/Yen extrapolating from 2007 to 2010 data that Chinese centres would join the top ranks of financial services.

You all have personal experiences of Roy Amara's law – 'We tend to overestimate the effect of a technology in the short run and underestimate the effect in the long run.' At the beginning of July, PayPal, founded in 1998, surpassed Bank of America, the second biggest bank in the USA, in market cap, worth more than every American bank except JP Morgan Chase. At the beginning of September 2020, the market capitalisation of fintech payments firm Square, founded in 2009, exceeded that of Goldman Sachs, the 151-year-old investment bank.

We could spend much time, too much time, on scenario planning. Our Long Finance work from 2011 has stood

the test of almost a decade. 'In Safe Hands? The Future Of Financial Services'* postulated four scenarios:

Many Hands suggests a societal structure defined by ethnic and religious groups. Globalisation has failed and democracy is thought to be unwieldy. City states have replaced failed states and constant mobility between these states is seen as normal.

Long Hand imagines a world where financial crises have melted down many western countries, budgets have been overloaded and general consumption has been severely restricted.

Visible Hand is a world which still has recognisable political and economic systems but has adapted considerably to population and resource pressures within conventional systems.

Second Hand proposes that, while we fragment, we still value democracy, free markets remain a prevailing concept, and the nation state still dominates. A 'muddle through' scenario.

Another approach is a classic four STEP look, social, technical, economic, and political. How are banks addressing societies' big issues, climate change and equality? How are banks moving to the next demanding level of technology? On economics and politics, do we understand the deep political implications of what looks like a technical and economic move, central bank digital currencies (CBDCs)?

CBDCs could cut to the core of banking soon (as Daniel Broby suggests on page 18). When the Bank of England comes and shows me a CBDC that they want me to use, and prove it's secure, why would I want to deposit it anywhere other than the Bank of England? CBDCs will raise intense, even unpleasant discussions about the nature of money and leverage. Fractional reserve banking is at risk as never before. So what should we keep our eyes on?

Mark Twain's contrarian, anti-portfolio saying (from Pudd'nhead Wilson) goes: "Behold, the fool saith, 'Put not all thine eggs in the one basket' – which is but a manner of saying, 'Scatter your money and your attention', but the wise man saith, 'Put all your eggs in the one basket and – watch that basket.'" So if you have to focus on just one thing in the basket, credit... remember Antonio Banderas in the film, *The Laundromat*, that 'Credit is just the future tense of the language of money.'

Discussions about inequality will continue to rise in volume and importance and financial services industry should take responsibility for a proper discussion of the role of credit in a modern economy more seriously. Banking leaders need to interrogate black elephants, such as:

- Why are we in business?
- Whom do we serve and why should they come to us?
- How is our 'mission' fit for purpose?
- Does our strategy align with our purpose?
- Do our executives and employees live our purpose?

*<https://www.zyen.com/publications/public-reports/in-safe-hands-the-future-of-financial-services/>

We need to show that bankers are interested in building a better society as a first step towards restoring credibility in financial services. We need to keep our eyes on credit. Personally, I would suggest a project to create a manifesto for 'Credit Creation In The Modern Economy: A Discussion Of Leverage, Economy, And Society'.

A 1992 Vision Into Action research project found that if good leaders didn't have a crisis, they manufactured one. We don't need to manufacture crises, financial services delivers a surfeit of them.

Society has many ways of solving resource allocation issues. Markets are one choice. We have a moral obligation to prove to society that the open market model is better than the alternatives, such as command-and-control, taxation, state-control, or a monopoly. We should police our markets ourselves for our own benefit; no LIBORs, PPIs, FX scandals, RBS GRGs, etc. We knew about them but left them for the regulator to discover, and then sat on them to boot.

A telling question with an uncomfortable answer, how heavily have governments leant upon the banking industry in the covid-19 crisis for economic recovery? The insurance industry?

To reconnect with our social purpose I believe our narrow focus should be on credit, but I would close by suggesting that credit should be embedded in a wider discussion, a moral dimension we should push more strongly - our **obligation to promote open markets**. Once we have chosen a market-based approach, as we have in financial services, we must prove to society it is working. Jokes about government guarantees or comments about 'privatising gains, socialising losses' hurt enormously. Perfect markets don't exist. We know the failures, lack of competition, information symmetry, agency problems, and externalities. We have a moral obligation to police ourselves and our markets. Not wait for regulators to catch some of us out.

And we can do it. Too much futurology is full of apocalyptic disasters, when most of human history over the past five centuries is a story of progress. As Macaulay said, "On what principle is it that with nothing but improvement behind us, we are to expect nothing but deterioration before us?"

Let's seize the day, and the discussions with society, not wait and hide.

Michael Mainelli is an Honorary Freeman of the Company.