

THE BANK OF 2040

Global

Legal Briefings - By **Tony Damian**

The pace of change in global banking is unparalleled. Rapid advances in technology, combined with many other developments, will more likely mean that the bank of the future will look very different to the bank of today. In this article, the Global Bank Review peers into the crystal ball, with the help of some insights from current bank leaders, to see what those changes and challenges mean for the bank of 2040.

TECHNOLOGY

Undoubtedly one of the major challenges and opportunities facing banks globally has been the nature and pace of technological change. Technology has been at the forefront of the industry, having transformed the ability of banks to provide services where previously they were unable to do so.

Indeed, the impact of technology has been so extensive that it raises an interesting question: are banks indeed “banks” or are they technology companies?

The Chairman of the ANZ Banking Group Limited, David Gonski AC, told the Global Bank Review that while banks have banking as their core activity, “I believe banks are technology companies and I think they always have been. The essence of what banks have always done is that they have been an intermediary. And an intermediary, if you think about it, is technology.”

There seems little doubt that banks will need to continue to address the technology question.

Part of the core mission of banks over the next two decades will be to identify and apply productive technology.

Mr Gonski also told the Global Bank Review that, “The coming of artificial intelligence and indeed many of the IT-enabling functions will be greatly advantageous to banks. It will allow banks to provide a service more quickly.”

It is safe to say that the bank of 2040 will have at its disposal new ways to connect with and serve its customers, and that those banks that can do that, as well as utilise the vast tracts of information made available to them, will be the ones that succeed.

COMPETITORS

Related to the technology question is the emergence in the financial services sector of new entrants and services. These new entrants have thrown into stark relief the question of which companies will be the competitors of banks in 2040?

The breadth of participants in the financial services sector is wider, and is likely to continue to widen, over the coming decades. However, whether that will translate into the large technology companies like Apple and Facebook, or new start-ups, becoming true “banking” competitors remains to be seen. The reasons for a moment of pause are twofold.

First, jumping to the conclusion that these companies will become banking competitors ignores the threshold issue of the additional regulation that comes with a leap into the world of banking. Mr Gonski told the *Global Bank Review*:

“If I was sitting on the board of Alphabet which owns Google, or Facebook, the big decision I would have to make is: do I want to remain unregulated except perhaps in relation to anti-trust or whatever, or do I want to get into the regime of regulation? Regulation for banks involves equity levels which can reduce massively the returns of a publisher, a company like Google. My guess is that whilst regulation like I know it and like I expect it to continue and increase stays there, that there will always be a place for banks and they will not be competing in banking with the people like Google and Facebook.”

Second, there are of course a wide and widening range of financial services that can be provided that do not involve banking. But the impact of new entrants in those areas needs to keep in mind the possibility if not likelihood that they will be subjected to an increased regulatory focus. That will have an impact on the ability of those companies as they seek to make an entrance into broader financial services or indeed banking activities.

It is also likely that traditional banks will seek to meet the challenge. The Chief Executive Officer of the Commonwealth Bank of Australia, Ian Narev, told the *Global Bank Review* that new entrants “will have a high degree of confidence in their ability to enter and compete successfully in new markets but they’re not going to find unaware traditional competitors unwilling to compete.”

The bank of 2040 is likely to see a wider range of competitors in some aspects of their business. But in traditional banking, it should not be assumed that the major banks of that time will be Apple, Amazon and Facebook.

CUSTOMERS

Increasingly able to connect with their bank in new ways, the customer of 2040 will demand and likely receive an ever more sophisticated range of services that utilises their personal data, preferences and needs in a way that simply doesn't happen today. If banks get their use of data right, the results in terms of the customer experience could be transformational. Armed with the foundation of that information, the bank of 2040 will be able to provide services that will allow it to assert itself in fields of play well beyond a simple bank-customer relationship as we know it today.

The flipside of the customer equation is that the ability of customers to share their voice in relation to their experiences with banks will continue to increase. Technology enables the relationship, it will also keep it honest.

An interesting part of the customer question, for those who have grown up with "the bank of 1980", is what will happen to branches? Branches will still be a relevant part of the service offering and network, though they will barely resemble the branches of years gone by. On the future of bank branches and their role over the next two decades, Mr Narev said:

"We don't know what their role will be and so we need to experiment. And our current hypothesis is we will still need physical points of presence, they will just need to be used differently. They'll be used more for people who want to come in and chat, they'll be more consultative, they'll have more technology and they'll be less transactional."

REGULATION

Since the global financial crisis, the pendulum of regulation has swung decisively and extensively in favour of greater regulation. It is likely that the pendulum has not reached all of its way, though as described earlier in the *Global Bank Review*, there have been moves towards some revisitation of regulation by the Trump administration in the US.

What will the regulatory landscape look like for the bank of 2040?

While there will be periods of divergence in global approach as domestic agendas in particular countries take precedence from time to time, given the increasingly global connectivity of the banking sector, we see the longer term trend involving more rather than less of a global approach to the key regulatory areas.

One area that we do see a difference in over the next two decades is the breadth of matters over which regulation extends. In particular, we expect to see third party stakeholder concerns across a range of issues find a way into the regulation that banks will need to deal with day to day. From climate change, to greater regulation around the use of finance proceeds (the demand chain, versus the supply chain) to enhanced disclosure regimes through to even more scrutiny on remuneration, the bank of 2040 will find itself regulated across greater fields of activity and concern than before. Some of that regulation may apply across business generally, but even in those areas, banks may prove a fertile testing ground for governments to apply new measures.

Technology will also be an area receiving increased regulatory attention over the next two decades. Facilitating the use of technology to improve retail customer outcomes, to create wealth and to help to manage risk, without reducing investor protections will be a focus. Regulators will also need to work hard to ensure that they keep up with the rapid changes across products and market structures. That will include managing the risks of technology based products and services provided by unregulated entities.

PEOPLE AND LEADERS

What does all of this mean for the people and leaders of the bank of 2040? There are a few things to call out on this front:

- First, there will be a continuing increase in the diversity, in terms of a whole range of factors, of the leadership of banks, as well as their workforces. Mr Narev told the *Global Bank Review* “If you do not have workforces and leaders that are representatives of the communities you exist to serve, you can’t be successful.”
- Second, among the skills required for bank leaders will be an understanding of technology as we continue to see rapid and far-reaching technology driven changes in the industry.
- Thirdly, leaders of banks will need to continue to have the skills and ability to manage the wide array of stakeholders, stakeholders whose views and voices will become louder and more demanding over the next two decades: As Mr Gonski observed, “Now, the CEO is more someone who has to bring together with a firm hand, but a conciliatory thinking, all sorts of stakeholders. Making profit is not the only thing you have to do.”

IN CONCLUSION

It is a time of unprecedented change for banks. Technology, the competitors that might bring as well as the potential for a transformational customer experience, all suggest the bank of 2040 will have evolved from the present day into a very different looking enterprise. An intense regulatory focus will continue to be a backdrop against which those changes are set. And presiding over all of it will be the bank leaders of 2040, who will need to navigate all of these changes as well as increased stakeholder needs to successfully steer the course for the banks of the future.

This article currently appears in the [Global Bank Review 2017](#) publication.

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KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



TONY DAMIAN
PARTNER, SYDNEY

+61 2 9225 5784
Tony.Damian@hsf.com

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