BANK TECHNOLOGY NEWS

A PEEK AT WHAT'S AHEAD FOR BANKERS THROUGH THE EYES OF FUTURISTS

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The Futurists

Dr. James Canton et al. Forecast the Future of Financial Services

By Michael Sisk

While investors and analysts have the luxury of being hyper-focused on the next quarter's results, bank executives know that near-term results must be balanced with long-term strategic positioning. Like the best chess players, they must think several moves in advance.

With this in mind, *BTN* interviewed five well-known futurists who have given much thought to the macro trends that will shape the financial services industry. They offer a spectrum of insights, but two themes ran strongly throughout the discussions.

First, demographic shifts, particularly the aging population, will have far-reaching effects. Bernard Lietaer, a former official at the Central Bank of Belgium and the author of "The Future of Money," argues that alternative currencies – non-national currencies like the U.S. dollar – will develop to cope with the heavy cost of entitlement programs for senior citizens. Banks, he says, must find ways to play a role in development and administration of such alternative currencies.

Secondly, banks must respond aggressively to both traditional and non-traditional competitive threats created by new technologies. Dr. James Canton, CEO of the Institute for Global Futures, notes that Wal-Mart is rolling out financial services to their suppliers next year as part of an effort to better manage their own inventory using radio-frequency ID tags. "The largest retailer in the U.S. is creating a dollar-denominated global financial system," he says. "Banks need to understand how to play in this game." Sound advice.

Harry Dent Say Prepare for Boomers' Aging

For Harry Dent, the forces gathering to alter the banking industry can mostly be traced to the life cycle of the Baby Boomers. Dent, an investment strategist and author, whose most recent book is "The Roaring 2000s," is unabashedly bullish and believes a keen appreciation of Boomer needs and tastes will separate successful institutions from those that flounder.

He paints several broad trends. The first is that thanks to Boomer spending and increased productivity, the economy will be stringer in the second half of this decade than is generally believed. Second, financial services will be stronger than the overall economy as Boomers pick up their savings rate in preparation for retirement. The growth areas will be investment services, not lending and consumer finance. "Banks should be positioned for stronger growth, and growth will come from the investment side and retirement, more than mortgages and consumer finance," Dent says.

He says demographics show that people take out their largest mortgage at the age of 42, which just happens to be the average age of today's Boomer generation. What that tells Dent is that the country is entering a secular slowdown in home sales and prices, with Boomers focusing on saving and retirement. He notes that people accelerate their investing from their late 30s to 50s, with the peak rate of investment at age 54 – 12 years from now. People's peak net worth typically comes at age 64.

Dent argues that more of the middle-middle class, those with household incomes of $40,000 to $70,000, will be starting to save and invest; yet they will begin with very modest nest eggs. "There's a huge market in the middle class," he says. "There are tens of thousands of customers, and they're mostly sitting in banks and nobody's offering them services. Why's that? Even Vanguard group founder, John Bogle, says you cannot make money on accounts less than $3,000."

Bernard Lietaer Urges the growth of New Currency

In the view of Bernard Lietaer, the world's current monetary systems might not be utterly obsolete, but they are insufficient to cope with the way the world needs to conduct business. Indeed, 87 countries have experienced major currency crashes over the past 20 years, underscoring how fragile these systems are.

Lietaer argues that other currency systems – and by currency he means any agreement within a community to use something as a medium of exchange – tend to spring up and fill in the gaps. He notes, for instance, that two-thirds of British Airways miles are not traded in for plane tickets, but are used to purchase other goods, even groceries. Meanwhile, Pepsi-Cola brings back its Russian-generated proceeds not in rubles but in Stoli – vodka being harder stuff than rubles.

Lietaer is the former head of the Organization and Planning Department at the Central Bank of Belgium, where he was president of the Electronic Payment System, and the author of nine books, including "The Future of Money," He argues the development of alternative currencies will accelerate, especially with the aging of the worldwide population. That's because governments around the world, from Japan to German to the United States, have made proves to retirees they cannot keep and will be searching for ways to cope.

There are two classical solutions, Lietaer says: the Anglo Saxon solution, which is to reduce support to the elderly, and the German solution, which is to keep the promise and go bankrupt. Now, however, Japan is carving out a third way by creating a "caring relationship ticket."

"The unit of account is an hour of service to the elderly, such as buying groceries for them," he says. "You accumulate these in a bank account and can use them for yourself when the time comes, or you can send these accumulated units to your elderly mother on the other side of the country."

Japan has more than 600 such complimentary currency systems in place, while Germany is the embryonic stages of launching 50 of its own, he says. "Someone will have to administer these systems," Lietaer says, contending that "the future of the banking system is tied up in how it reacts to these possibilities."

David Zach Warns of Fickle Fads and Stresses a Focus on Trends

We live in an age where consumers are bombarded with so many choices and opportunities that one of the greatest tests of leadership in the banking industry will be discerning among fads, trends and baking principles, says David Zach, the founder of Innovative Futures and a former strategic planner at Northwestern Mutual Life.

"If you can get a grasp on what doesn't change – the principles – you can more easily understand what can change. It's a great B.S. detector," Zach says. "You can see that, yes, that's merely a fad, or, yes, that's a trend. We think everything is moving very fast, when a lot of things don't move at all."

Banking principles include creating products of value, providing security, offering investment opportunities and being trustworthy – the pylons of banking that all new opportunities must buttress.

But even fads can be put to good use, he says, though managers have to know they are fads. Faddish concepts in advertising can be a useful way to connect with consumers. But fads can be too seductive, he says. Branding is a prime example. "Marketing does not create value, it lets you know what the value is there," he says.

Just as important as recognizing fads is recognizing trends. It's critical, for instance, Zach says, that banks recognize how technology is changing the way that money moves and inserts itself in these new modes. A prime example is radio-frequency identification tag technology, essentially the next generation of bar codes, which will allow for much more efficient inventory management. "We've gotten to the point where the information about money is probably as valuable as the money itself," he says.

Another trend – one that many banks are fighting against given the reemphasis many have put on opening new branches – is the recognition that "handling money costs money," a fact that will become more acute as technologies make managing money and information more efficient.

Banks will need to refocus on the opportunities provided by these technologies. “The wealth is in making the new connections, in seeing across borders,” he says. “It’s not a matter of thinking outside the box. It’s getting in a different box and talking to the people there.”

Dr. James Canton Predicts the Rise of the Affluent Hispanic Middle Class

Demographics, technology, hyper-competition and emerging products are the four broad forces that will shape financial services in the years to come, according to Dr. James Canton, CEO of the Institute for Global Futures, a San Francisco-based think tank that advises Fortune 1000 companies on innovation and strategy.

We’re in the midst of probably the most significant changes in the financial services industry in 100 years,” he says. “It’s the convergence of these four forces that will shape the map of the future for financial services.” And it will shape the way financial services institutions do business, too, as they respond to ever-changing marketplace and customer base.

On the demographics front, Canton, like other futurists, cited the aging of 77 million Baby Boomers; but he also highlighted the impact of the growing Hispanic population in the United States. This is a growing demographic shift, he argues, that is still poorly understood by the banking industry. “There will be the emergence of a robust, affluent Hispanic middle class,” he says. “The marketing of financial services to Hispanics is very embryonic. But you can’t do business in Miami unless you speak Spanish.”

As far as technology, it will continue to reshape the industry through the use of new innovations such as wireless technology. “When you look at Boomers, Generation X and Generation Y, if there’s one universal trend, it’s their embracing of technology.”

This predilection on the part of many younger and middle age consumers, in turn, needs to alter the way banks view themselves, the role they play, and the alliances they enter to create new products. “More banks need to be more entrepreneurial,” he says. “Banks have to start to realize technology is more than about productivity or communications, it’s about a competitive advantage.”

By way of example, he points to an electronic portal recently set up as a joint venture between the Student Loan Finance Corporation and US Bank as a way to process student loans and squeeze out inefficiencies. Lastly, banks must be on guard for competition from unlikely quarters, such as Wal-Mart, which plans to offer financial services to its suppliers next year.

Dr. James Bellini: Compliance Begets More Customers

Successful banks of the future will marry, through technology, two of the most vexing and expensive challenges of today: regulatory compliance and customer relationship management. So says Dr. James Bellini, a member of the global future forum, who holds a Ph.D. from the London School of Economics, and was the first British member of the U.S.-based futurology think-tank, the Hudson Institute.

Bellini argues that the array of compliance issues facing the financial services industry today on both sides of the Atlantic continues to grow ceaselessly and diverts from managing their business.

“IT will be vital in creating effective compliance systems but the problem will be the impact on management priorities,” he says. “Sarbanes-Oxley will certainly impact the U.K. and EU financial industry because all big players here have a U.S. footprint. The U.K. Financial Services Agency has also brought in a raft of new and pretty tough regulations since 2000, and the EU authorities in Brussels are also bringing in new rules. On top of this, the banking industry sector has to deal with Basel II capital adequacy requirements.”

Yes, building compliance systems and managing the business for growth can be done in tandem, since at the heart of many compliance challenges is the issue of “knowing your customer.” The silver lining here, Bellini says, is that knowing your customers for compliance reasons can dovetail nicely with knowing your customer for marketing and customer-service purposes. Unfortunately, many have been slow to catch onto this. “For most financial services operators, the compliance issue is seen as separate from proactive CRM,” he says.

CRM is not optional, Bellini says, citing research conducted by the Global Future Forum that shows a clear trend toward aspirational buying habits. In a marketplace crowed with commoditized products, people make decisions “on intangible values or associations surrounding a product,” he says. So understanding customers through CRM becomes a key way for firms to tell their story in the right way to the right potential customers. In other words, while compliance systems allow a firm to better know its customers, CRM allows customers to better know the firm.