



The Bank of Tomorrow

Marsh hosted a roundtable discussion focussing on *The Bank of Tomorrow — The Evolution of Banking, Digital Disruption, Risk, and Risk Transfer*.

The discussion explored what the bank of the future might look like and delved into the changes needed to achieve it. It also looked at the potential challenges an evolution of this nature would create for banks' risk exposure and how insurance may respond following the transfer of these new risks. The discussion group thought that the fundamental banking services would not see significant change, with traditional functions remaining in place, including:

- Taking customer deposits.
- Lending money to individuals, businesses, and institutions.
- Facilitating payments both domestic and international, and the flow of cash.
- Providing financial and risk management advice to individuals, businesses, and institutions.
- Facilitating access to and functioning of capital markets.
- Providing access to a range of additional financial products and services.

It was agreed that whilst the core role of a bank was unlikely to change significantly, the session discussed how these core services may be provided in the future.

Chaired by David Nayler
(Marsh Financial Institutions
Industry Practice Leader)

Facilitated by Tom Jaeggi
(Marsh Risk Consulting)
and Ariel Berman
(Marsh Financial Lines Head)

Panellist Ffion Flockhart
(Global co-head of Cyber
at policyholder law firm
Norton Rose Fulbright)

Panellist Dr Adam Sanitt
(Head of Disputes Knowledge,
Innovation and Business Services
at Norton Rose Fulbright).

Changes

During the discussion, there were a number of factors identified as drivers for anticipated change:

1	CUSTOMER EXPECTATIONS ON DIGITAL EXPERIENCE		<ul style="list-style-type: none">• Access banking services anytime, anywhere, limiting opportunities for face-to-face contact.• Changing habits, expectations, and demographics.• Ease of use of digital services – seamless and bespoke experience.
2	COMPETITION IN HIGHER MARGIN AREAS		<ul style="list-style-type: none">• Competition from financial technology (Fintech) in fee-generating transactional areas, like international payments.• Peer-to-peer lenders competing in specific segments.
3	BIG DATA UTILISATION		<ul style="list-style-type: none">• Need to fully utilise available data to make good business decisions, provide tailored service to customers, and manage risks (eg spotting fraudulent activities).• Use of new tools and techniques with machine learning.
4	AUTOMATION DRIVING EFFICIENCY AND MANAGING RISK		<ul style="list-style-type: none">• Significant efficiency and performance gains can be achieved through technology, minimising the risk of human error.
5	INNOVATION - BOTH IN-HOUSE AND WITH THIRD PARTIES		<ul style="list-style-type: none">• The 'bank of the future' will need the infrastructure and organisation to react and innovate quickly.• Likely to be established in conjunction with third parties, with services in the cloud.
6	COLLABORATION AND BLURRED LINES BETWEEN BANKING AND OTHER SERVICES		<ul style="list-style-type: none">• Increased competition from non-banks.• Opportunity to use customer relationship to meet broader set of needs.
7	WORKFORCE OF THE FUTURE		<ul style="list-style-type: none">• Increased demand for a workforce that understands and can use new technologies.

A discussion of distributed ledger technology - blockchain - saw this as a solution to some of the banking industry's inefficiencies, rather than being a game-changer in and of itself. However for some parts of business (e.g. trade credit) blockchain is viewed as something that could be revolutionary rather than evolutionary. The discussion on Artificial Intelligence (AI) and robotics in banking quickly honed in on the role of banks in society and the key need for customers' trust – not just in the bank, but in the currency, and the financial system itself. There was a feeling that the trust in AI-delivered content and advice would develop over time, and that it would be received differently by each generation.

Trends

The need for banks to innovate and implement the outlined changes was seen as key, as transformation was seen as an essential response to an evolving world and changing trends. Banks would need to leverage big data to make better decisions and to drive efficiencies through the great use of automation and robotics. There was an anticipation expressed during the event of some disruption to the part that banks play in facilitating payments and the flow of cash – but there was also a feeling that many banks would be happy for these cost and labour-intensive areas to become more simplified, automated, and even outsourced.

The trends identified would create significant opportunities yet also give rise to both new risks and implementation risks, a number of which were identified as being in the following areas:

- **Cyber risk** (both risk of outage, and corruption and loss of data).
- **Strategic and business risks** (e.g. investing in the wrong technologies, or not investing at all).
- **Third party risk** (e.g. risk of accessing services through the cloud).
- **Key person risks** (e.g. reliance on a few key individuals who understand the systems).
- **Execution risk**
 - The need to rationalise core banking systems – with some banks utilising more than 20 operating systems.
 - Legacy systems - highly bespoke historic mainframe systems may have proven reliable in the past, but are often Common Business Oriented Language (COBOL) based (a programming language that is now rarely taught), and do not adapt well to the increasing customer expectations of a digital solution.
 - Cloud reliance concerns – regarding the aggregation risk of data in specific clouds, and also the developing regulation and cross-border legal complexities.
- **Data holding and related risks**
 - The wholesale holding and mining of big data by AI was seen as both an advantage and a risk; an advantage in better facilitating the tailoring of products and services for both retail and commercial customers, and a risk due to exposure to customer claims borne out of the holding and mismanagement of data.
 - Data security – this was seen as an exposure that was subject to both internal error and third party attack, which could lead to significant costs, lost management time, and reputational damage.
 - Increased reliance on platforms, AI, and big data – a concern over system outage and error leading to potential losses that could be suffered by customers and the bank itself was highlighted, with professional indemnity insurances and business interruption insurance flagged as needing to develop to respond to the risk.
 - Corruption.
- **Legal & Regulatory Burden**

The fast developing regulatory changes were divided into two main areas:

 - Operational:
 - Payment Services Directive PS2, General Data Protection Regulation (GDPR), Anti-Money Laundering (AML), Know Your Client (KYC), Markets in Financial Instruments Directive MiFID2, Single Euro Payments Area (SEPA), Dodd-Frank, Fair and Accurate Credit Transactions Act (FACTA), European Markets Infrastructure Regulation (EMIR), Net Stable Funding Ratio – Basel III (NSFR).
 - Balance Sheet:
 - Capital, leverage, Total Loss Absorbing Capacity (TLAC), Living Wills, Net stable funding ratio (NSFR) / Basle III, Euro Commission Banking Union, Deposit Insurance, Financial Services Compensation Scheme (FSCS).

Whilst the forum was not designed to undertake a detailed review of the main financial institution insurances, the key risk transfer insurance products were referenced in the discussion and there was general agreement that the insurance market and the solutions that it provides will need to develop at a similar pace to the banking industry itself. The “systemic” risk to banks rested in the concentration of decision-making and advice in one system or algorithm that could lead to multiple errors for multiple customers. RegTech and internal AI control systems – that capture AML and sanctions breaches, and help to identify frauds – are already being rolled out and will make many banks a better risk proposition from an insurance perspective; these advancements may also help automate the data-gathering for an insurance renewal.



In conclusion, the discussion can be summed up in several key takeaways:



Change is constant, and the banking world is changing faster now than ever before – and it will never change as slowly as it is now.



Disruptive technologies and companies are both a risk and opportunity for those banks that are positioning themselves strategically – be that by their accelerator programmes or by acquiring the information technology through Merger and Acquisitions (M&A) activity.



Banks on legacy mainframes that are not compatible with the new technology are at a disadvantage, but the project risk of a new platform being rolled out is something that needs to be extremely carefully managed.



The nature of bank losses and errors will change as technology develops, but the key risk component would remain – the negligent, fraudulent or incompetent employee or sub-contractor however in the future this would include when using or programming the AI.



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