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From blockchain to ESG: elevating the digital economy conversation

A post-event report on:

Future of Money 2021

Executive summary

The financial services sector, long seen as one of the most conservative verticals in business, is undergoing a revolution. Venerable banking institutions are embracing cutting-edge technologies such as blockchain and artificial intelligence. New entrants are dispensing with branch networks and in-person service. And banking services are now being provided by companies that aren't even in the sector. It is a time of immense change—and opportunity for those that know how to adapt.

In December 2021, Reuters Events brought together thought leaders from across the industry at Future of Money 2021, a virtual event looking at the trends that are coursing through financial services today and creating the conditions for a new industry tomorrow. This report reviews the main themes of the event, from the influence of technology to the relevance of environmental, social and governance principles in the future of money.

Responsibility and sustainability in banking

The definition of banks and financial services providers is blurring as the industry engages with technology, developing new partnerships based around data integration. This means the banking and tech sectors will be increasingly dependent on each other, according to Roman Regelman, BNY Mellon's senior executive vice president, chief executive officer of asset servicing and head of digital, speaking at Future of Money 2021.

"It's not about buying or selling a project," he says. "It is about solutions, connecting technologies to really have the right, future-proof operating model. These partnerships are all about one thing: delivering a holistic value proposition to the client."

At the same time, the financial services sector—along with other industries—is being pushed to embrace higher levels of sustainability and social responsibility. For example, financial services players can foster inclusion "through making their services more accessible to underserved communities, creating products that nudge customers to do the right thing, but also directly as employers," says Noeleen Cowley, partner at KPMG.

Digital natives and challenger brands are contributing to this effort by striving to better understand customer needs. For instance, at Varo Bank "we spent a whole year just talking to customers, trying to deeply understand what were the pain points and how could we build a better bank," says Colin Walsh, chief executive officer.

Mainstreaming crypto assets and digital currency

One of the components of that 'better bank' model is increasingly likely to be cryptocurrencies and other digital assets. Consumers around the world are engaging with digital currencies such as Bitcoin in a way that makes it hard for traditional financial services providers to ignore.

This landscape is already vast and is continuing to expand into areas such as central bank digital currencies (CBDCs), says Todd Ehret, senior regulatory intelligence expert at Thomson Reuters. "Digital assets are an expansive universe, that go far beyond Bitcoin," he says. "How this new area will intersect with regulation is becoming a monumental challenge."

While the notion of CBDCs and similar instruments may seem new, jurisdictions from China to the Bahamas have been studying their introduction for years now as part of moves to foster financial inclusion, says Nicole Sandler, head of digital policy at Barclays. Interest has surged further in the wake of COVID-19, she says. "During the pandemic you have seen a decline in cash across lots of jurisdictions, if not most of them," Sandler says. "The drivers are really important, but there are also some key concerns."

One is that central banks cannot afford to make mistakes with currency, whether digital or not. Thus, when looking to launch CBDCs, "from a reputational risk perspective, it's important the correct testing is done beforehand," says Sandler.

Customer-centric solutions in digital banking and finance

Growing competition in the financial services sector is leading to a race to develop offerings that meet customer requirements. This is something banks already excel at, notes Titi Cole, chief client officer and head of global operations and fraud prevention at Citi. "Financial services is incredibly important [in] helping people achieve their goals and dreams around the world," she says.

Now, digital technology offers the promise of allowing for the delivery of these services with new levels of convenience and efficiency. "Finances are incredibly important to everybody," agrees Tim Welsh, vice chair at US Bank, yet "very few people wake up in the morning with the goal of banking that day."

Instead, he says, "they want to live their life. It's a huge opportunity to help our clients achieve their dreams in a way that doesn't require lots of time and create lots of anxiety."

One way this is happening is through embedded finance, where financial products are offered by non-financial players. These companies are helping to introduce new, more efficient ways of working to the sector. "If you take stock of financial services today, it's still a bit like 1999," says Matt Henderson, Europe, Middle East and Africa business lead at Stripe. "More than half of business users, when they set up an account, have to go into a branch [and] have a face-to-face meeting."

Regulation of evolving financial services

One of the biggest challenges for the rapid evolution of financial services is that new business models and increased reliance on data are creating situations that are not always adequately covered by regulation. "The next wave of technology and data-centric obligations is upon us," says PJ Di Giammarino, an independent regulatory technology authority with JWG Group, a platform for joint working groups. "We don't know how to account for that risk."

Regulators are striving to understand the risks associated with financial technologies, such as vulnerabilities in cloud services, and the fintech providers themselves, because they often rely on heavy use of customer data. In Europe, for example, the European Commission is looking to adopt a legislative proposal for a new open finance framework later this year. "This is one of the most important topics to crack," says Olivier Guillaumond, global head of fintech at ING.

"Consumer data is owned by corporates, not by the customer," he says. "For us, giving back that power to the consumer will be a huge step forward. This direction has already started but it's only for a sub-set of data: only payment data, and only one direction."

Giving consumers more power over their data will stimulate competition, Guillaumond argues. "The company with the best product and the trust of the consumer will get the data and the benefit from it," he says.

Strategies for emerging tech trends

Faced with a dazzling array of new technologies, from blockchain to artificial intelligence, financial services providers are grappling to understand which tools can add greatest value to operations. Focusing on a single innovation, such as blockchain, can risk missing out on potential benefits from other advances.

"It's important to note that blockchain is exciting and has huge potential, but it's not always the answer," says Lory Kehoe, global director of digital assets and blockchain at BNY Mellon. "We must look at blockchain as a tool in a suite of tools that are available."

Blockchain is nevertheless a transformational technology for financial services and should not be viewed as a threat, Kehoe says. "The way BNY Mellon is looking at it is as an opportunity to seek out new ways to collaborate, innovate and, most importantly, bring best-in-class services to our clients, like we have been doing for the last 237 years," he says.

The bank is seeing growing interest in digital assets such as cryptocurrencies, he says, with the global market capitalization of crypto rising from $1 trillion to $2.5 trillion in just 90 days. This has led the BNY Mellon to speak to clients about possible applications involving distributed ledger technologies (DLTs) and similar concepts. "What our research found is that DLT solutions offered opportunities for automation," says Kehoe.

"That resonated with us and with our clients."

Outlook and conclusions

What emerged from the two days of expert views in Future of Money 2021 was a picture of an industry that understands the potential of technology and is working hard to incorporate it into day-to-day operations. This trend is arguably progressing fastest among digital natives and embedded finance players, but the panel contributions from industry heavyweights such as Barclays and Citi indicate that traditional banks, too, are on board with the need for change.

Reuters Events will be tracking the progress of the sector at Payments Summit Europe 2022. See you there.