Strategic Update: The Financial System 27
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Geopolitical concerns Vs technological advancement

Two years ago, at a similar Dalian session about technological developments in the financial sector, all the excitement was about innovation, and worries about the geopolitical risks of such innovations were almost completely absent. Today, despite the unstable global situation following Brexit in Europe and the election of Donald Trump in the US, 90% of the room still chose tech as the priority when polled.

But the geopolitical concerns are very real. The main reason for the huge increase in disparity between the top and the bottom earners in the US over the last 25 years is automation. If you look towards the future of development in the financial sector, more automation is coming, likely leading to more dissatisfaction among low earners. There are reports that jobs in certain categories will completely vanish. Whether or not that will actually happen only time can tell, but big changes are coming.

However, geopolitical and technological concerns need to be balanced. Technology is disrupting some aspects of the geopolitical scene, but at the same time, this disruption is inspiring tech-based solutions. What's important is for financial organizations to be ready to adapt to what's on the horizon, and individuals to use the technology available to them to become more financially fluent.

Regulation of FinTech

The emergence of FinTech, especially in China, has allowed financial resources to be allocated and distributed to a much wider cross-section of society. However, with little regulation in the industry and a weak rule of law, some companies are acting unscrupulously, for example selling risky products to ill-advised older investors.

When new products emerge they can fall through the gaps of regulation. When it's too late and scandal arises, no regulatory body wants to claim responsibility and clean up the mess. This conundrum could be largely avoided if the activity, rather than the institution, was regulated.

Blockchain still a long way off for the financial sector

Blockchain is a buzzword at this year's forum, but we're still a long way from seeing the technology provide benefits in the financial sector. Banking and insurance are complex animals, and we're likely to see blockchain put to work in other industries first.

Slow uptake is not because of the technology itself or its capacity, but the lack of any universal standards. If it's going to be adopted, the whole industry needs to get on-board under a common set of regulatory and legal standards.

As China already runs on cashless pay system such as AliPay and WeChat, it's likely that blockchain technology will be adopted more quickly there. However, while China has the manpower, the public does not necessarily have the trust in the institutions. Blockchain may be adopted more quickly, but not without some road bumps.

AI is already here, but only partially

Already machines are being used to simulate millions of data points in a second, for example, when assessing whether a client is high risk or low risk. Essentially, however, it's still up to the lender to explain the results and decide whether or not to approve the mortgage. Augmented intelligence, where machines learn on their own and can be completely trusted to make decisions, is a long way off. We need to double up our trust in machines before we hand more responsibility over to them.

Whether or not AI is fully implemented in the banking sector depends on how companies choose to work with it, how the government regulates it and how far society accepts it. Again, just like blockchain, its adoption will be slow and steady.

What does the future hold?

There is likely to be more automation of manual, repetitive processes, leaving humans to make more delicate, cognitive decisions.

We expect to see more FinTech companies and incumbents working together. Regulation is a huge burden for banks but it also provides a strong barrier to entry. Most FinTech companies wouldn't want to have to conform to bank regulations, but many are being absorbed into larger companies. This model of partnerships is likely to continue into the future.

More peer-to-peer leading is also expected, providing a way for individuals and organizations to unitize underused assets. A slow adoption of "Uber-like" models is likely to emerge in the financial sector.

Humans will still be very much involved. There will be a human referral society where people share information about financial products online. It will be digitally triggered but very human in nature. Man plus machine is better than either on its own. You may trust a machine to make movie recommendations, but would you trust it to tell you which house to buy or where to put your life savings?

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Disclosures
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