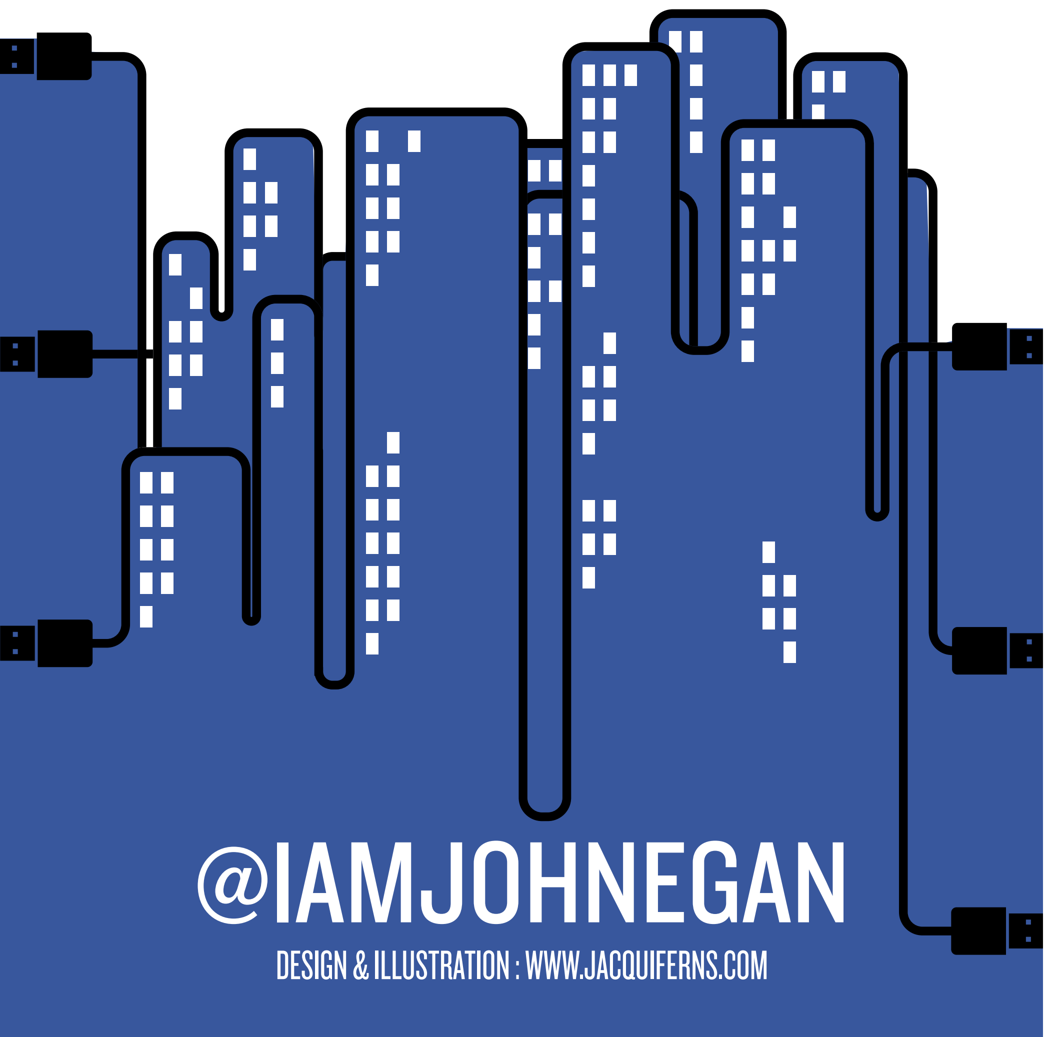
THE NEW NORMAL

THE FUTURE OF BANKING



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THE FUTURE OF BANKING INTRODUCTION

"If you want something new, you have to stop doing something old"
Peter F. Drucker

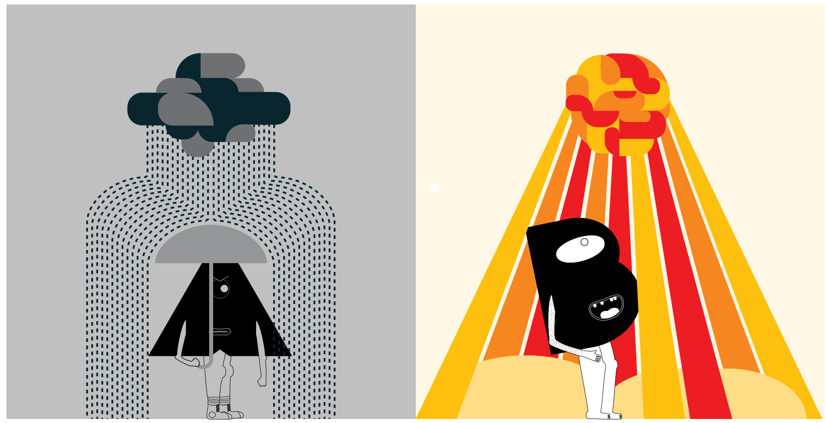
For some time, discussion on the future of banking has, unfortunately, been dominated by legislative reform and remunerative adjustments. A laboured debate on whether the banking industry is a broken arm of civic governance or the great evil of our time. Bankers have been castigated for being sociopathic megalomaniacs, governments for being recklessly antisocial and citizens for being needlessly irresponsible. But little has been said at all about what really matters; the future structure of the industry, its players and the inevitable influence of technology on the way we interact with finance and each other.

Banking is more than an industry and more than an employer; it is the oil that lubricates the engine of our economies. The methods we employ to reduce the friction of an exchange in wealth are an imperative part of our economic, cultural and civic development. But while banking may be integral; Banks are merely cogs, numerous, single minded and replaceable.

We have watched over the last half a decade, as banks worked tirelessly towards restabilising normality in an industry artificially sustained, seemingly obdurately oblivious to the reality that whatever the ***"new normal"*** happens to be it is very unlikely that it will entertain the archaic, inflexible and regressive presence of retail banks without substantial and permanent change.

That change will see the most significant shift in corporate capacity since the Second World War Stalwarts of the old guard will fall by the wayside, too inflexible to evolve, too scared to try. New players and ideas will emerge, many from the start-up community but mostly from adjacent industries. Those banks who survive will be entirely different entities. We will witness the rise of the Networked Bank, the rise of the platform, the rise of the user and ultimately, the accelerated demise of the traditional notion of Banks and Banking.

The purpose of what follows is to establish what that technology enabled ***"new normal"*** is likely to be: What happens when Google or Apple start a bank? How should we incorporate start-ups into innovation cycle? How do we leverage deep data to create smart products? How do we reduce the friction of capital exchange? The purpose is not to attack banking systems but to challenge their purpose, establish their merit and ultimately consider their future. This is the new beginning. This is imminent. This is banking 2.0. This is the New Normal.



Chapter I

THE FUTURE OF BANKING: WHAT IS BANKING

“A bank is a place that will lend you money if you can prove that you don’t need it” Bob Hope

One of the very many peculiar things about “Banking” is our inability to define it despite it being a concept most people feel quite comfortable with. Ask 10 people what Banking is and you’ll find it very difficult to establish a consensus, especially if those people are from different segments of society, be those differences regional, economic or social. The problem then becomes; how do we design and develop a new model of Banking if we can’t even agree on the purpose of the old model?

With this in mind I set out to establish just how different societal understanding of Banking could actually be. Over the course of 2 weeks I sat down with a Managing Director of a large European Bank, a member of parliament, an economist and a 23 year old engineer and asked them to *“to simply define Banking”*. The answers illustrated just how vast the gap between the bankers and the banked actually is.

1) Banking is the process of buying capital in bulk and selling it piece meal

2) Banking are the operational activities undertaken by Banks

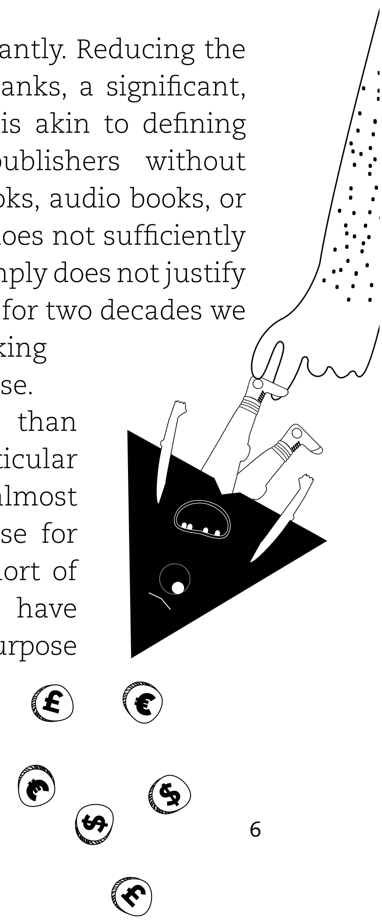
3) Banking facilitates trade in an economy by creating liquidity

4) Banking helps people manage their wealth

So very little consensus as to what Banking actually is. Given that we’ve recently been faced with the largest financial crisis in the history of the earth, based almost exclusively on the failings of one industry, it should concern everyone that we’re unable to actually clearly establish who that culprit was. Consequently, it seems unlikely that any attempts at rehabilitation will be successful.

So I turned, ultimately, to Google to solve this problem of definition. Entering the question “what is banking?” the first return identifies it as *“The business conducted or services offered by a bank”*, 2 points to the MP! A bank in turn, is defined as *“A financial establishment that invests money deposited by customers, pays it out when required, makes loans at interest, and exchanges”*. So the Banker confused Banking with Banks, which isn’t all that surprising really: It actually quite effectively encapsulates much of the problem within the industry over the last two decades. But my greatest concern is by that definition, banking cannot exist without the presence of banks, a financial establishment that accepts deposits – it should be noted then, that at no point did our definition consider the views of the 23 year old bridge builder.

It is the Banker who has erred most significantly. Reducing the definition of *“Banking”* to the activities of Banks, a significant, but single cohort of industry protagonists is akin to defining publishing by the activities of book publishers without considering magazines, self-publishing, eBooks, audio books, or defining the Media industry by TV News. It does not sufficiently encapsulate the purpose of the industry. It simply does not justify its existence and is therefore ineffective. But for two decades we have allowed Banks, the seller, to define banking at our, the customer, and ergo buyer’s, expense. Banking, you see, is about much more than deposits, but without establishing its particular purpose for the customer of today it is almost impossible to forecast or predict its purpose for the customer of tomorrow. Banks, as a cohort of industry protagonists and market makers, have failed catastrophically to both define their purpose and articulate why banks will be relevant to the customer of tomorrow



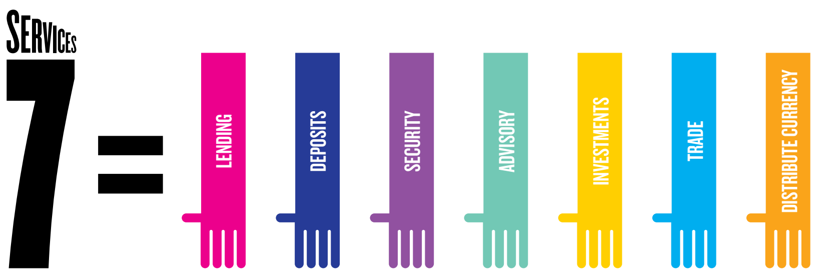
For some time this was an inescapable, unavoidable, immitigable fact of finance; that Banks were market makers and we as consumers could do little, if anything to affect their function despite this apparent lack of clarity. But then came new technology, globalisation and the internet: The rise of the innovative individual and the citizen migration to the digital community.

Consequently we have seen a surge in financial start-ups and alternative banking models enabled by the Internet and technology, particularly mobile devices. If *"Banking"* is just Banks, where do Peer to Peer lenders, Digital Wallets, Micro Payments and alternative currencies fit in? Banking is changing, beginning with its definition.

SO WHAT IS BANKING?

If we are to redesign Banking in a way that maximises value for its customers, it is imperative that we create a more dynamic definition: A definition which encapsulates the entire activities of the industry, its function and its purpose.

I have come to believe that modern Banking is defined through the provision of seven services which are necessary to provide economic liquidity; Lending, Deposits, Security, Advisory, Investments, Trade (Payments & Merchant Banking) and Distribution of physical currency.



The primary economic function of Banking, and ergo, its agents is the provision of liquidity to businesses and consumers. The Banking industry does this by leveraging the asset base it has, so as to sell more credit than it buys, making an intermediary margin in the process.

By providing liquidity in an economy, Banking allows wealth to appreciate at a similar rate to economic growth. This has been the industries function for hundreds of years and will remain so into the future, because that's what nations and international trade need it to do.

That, however, does not mean that structure of the industry will remain the same, because the structure of the Banking industry is determined by its consumers, not governments, corporations or economists.

Technology has facilitated the provision of more efficient methods of banking services. So much so that Banks no longer provide the seven services which traditionally constitute *"Banking"* in a comparably effective way. Companies who, due to regulation, have traditionally had nothing to do with Banking have entered the market as well as a plethora of new start-ups.

THE IMPACT OF TECHNOLOGY

The accelerating pace of technology, including internet and mobile devices, caused a rapid shift in consumer autonomy and aptitude. Advancements in technology have continuously facilitated the disintermediation of industries in an effort to make them more efficient, particularly in the macro humanist industries: food, housing (including utilities), communication, social, work, banking, transport. Improvements in these spaces lead to fundamental shifts in the standard of human living.

Over the last 2 decades, we have made significant technological improvements in each of these spaces, but significant regulation and political indebtedness has prevented banking from making commensurate progress. This has resulted in a free market impediment and a significant capabilities gap. Enterprise has attempted to address this technological trough by creating companies which efficiently utilise technology to create alternatives in each of the 7 services.

Banking alternatives aren't exactly a new phenomenon. There have always been alternatives in some form for those who couldn't access traditional products. Black market money lenders have been in operation for as long as money has existed and those *"Black Markets"*, are a perpetual reminder of market inefficiency, extra capacity and market opportunity. Within the Banking industry, money lenders serve a customer segment that was too risky to be a profitable proposition for traditional banks, but not anymore.

The internet is now making many of the traditional market barriers to banking redundant. It is making it easier for independent, unregulated companies to play an increasingly significant role in all of the 7 services of the Banking Industry. Over the last decade we have seen the emergence of crowd based reviews, suggestions and funding. It was only a matter of time before lending became part of that cohort Peer to Peer lending is a term referring to community based lending initiatives like prosper.com and lendingclub.com. These sites facilitate inter-member lending and borrowing at rates similar to and often better than Banks*, operating as a type of broker. Financial Advisory sites like Mint.com, Buxfer or Geezeo now offer users' significantly more comprehensive advice than a bank advisor can, in a manner that's far easier for customers to use. Payment mechanisms PayPal, Stripe, Google check out and most recently Visa's new v.me platform make it stunningly easy to buy things online. The list goes on. Each of the seven services of Banking is being more effectively served or will be more effectively served in the next decade by Bank alternatives. The one exception is the distribution of physical currency. Providing easy access to actual currency wasn't one of the original pillars of Banking, but since the late 70's it's become an increasingly fundamental part of the industry value proposition. But that too faces a dark horizon. Money, as a mechanism of exchange is archaic in our sophisticated world, a horribly inefficient impediment to trade, but ironically it lingers, sustaining an ineffective banking system, maintaining the status quo, with regulatory support, despite free market opposition. The fall of money will herald the fall of Banks and reformation of Banking in its wake.

CHAPTER 2

THE FUTURE OF BANKING: THE CALAMITY, THE COLLAPSE & THE CAUSE

"When the biggest, richest, glassiest buildings in town are the banks, you know that town's in trouble." Edward Abbey

It is important to distinguish between Banks and Banking. As previously mentioned, Banking is the structure that enables personal wealth to grow at a similar rate to economic growth by providing 7 services essential for the provision of liquidity in an economy. Namely, those services are:

1. *Security – To provide security of assets*
2. *Lending – To sell credit*
3. *Deposits – To buy credit*
4. *Advisory – To advise customers on their financial choices*
5. *Investments – To manage assets of wealthy clients*
6. *Trade/Payments – To guarantee, facilitate and act as a clearing house for international trade and payments*
7. *Distribution and access to funds – Simple and global access to wealth based in another region*

The great delinquency of modern banking is that its function often runs contrary to its requirements. That is to say, that Banking is the only industry that directly connects the administrative burden of statecraft with the civic burden of governance. A nation, and ergo a government requires banking to provide liquidity within an economy. The stubborn, often recalcitrant populace however, do not typically concern themselves with the macroeconomic liquidity requirements of the nation state.

The average citizen, the *"individual"*, does however, require access to wealth security, advisory and credit on a regular basis. The role of the banking industry becomes that of an intermediary balancing the financial sustenance requirements of the individual with the liquidity needs of the nation, or the *"collective"*. But banking must operate within the constraints of the legislation governing it, and obviously when a nation legislates, it does so to maximise value for the country as a whole, the *"collective"*, never the *"individual"*.

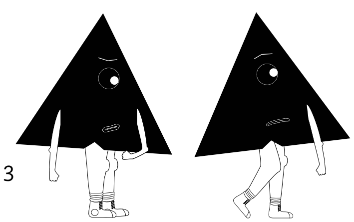
And for the longest time the legislation governing banking did not act as an obstacle to servicing the demands of *"the individual"*, well, at least the individuals who had access to the banking sector. For the longest time, legislation delivered national liquidity by reinforcing public trust in the Banking mechanism. Governments legislated that Banks needed a licence to accept deposits, must maintain specific liquidity ratios, must protect customer data and must have new products licenced by independent authorities, and consequently banks gained more and more customers, becoming more and more integral to the economy, thereby making deposits less and less risky and accordingly interest rates got lower and lower reducing the friction of trade in an economy, and increasing the pace of development (remember money lending rates are far higher than bank interest and can often have significant associated health and moral hazard). In effect, cheap interest rates meant easier access to funds, meant more stuff was bought and sovereign wealth grew exponentially, bringing technology, culture, education and society along with it. Customers demand, banks supply and the free market is satiated.

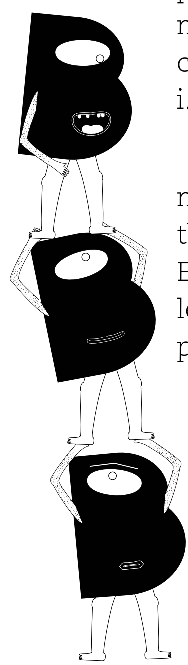
But when a country elects to artificially support the banking sector through the injection of unearned capital it effectively impedes the function of the free market. It creates what could be seen as an authorised, orchestrated oligopoly, a government controlled cartel. What we have seen over the last 5 years is a significant divergence in the needs of the individual and the collective. The needs of the individual have started to run contrary to the needs of the group. What's good for the goose is no longer, good for the gander.

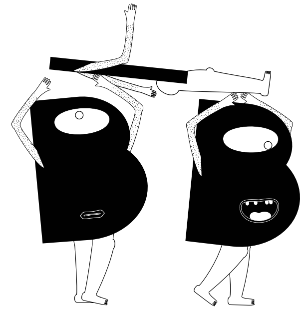
National need, specifically liquidity, required governments to intercede to ensure the survival of a system which had just been proved to be cataclysmically unsustainable. The government, the representative of the "collective" concluded that a bad system, artificially maintained and altered over time through legislation was better than no system or a blank slate. They accepted that growth would slow and even shrink, but nations would survive, peace and social order would be maintained and the collective would suffer the minimum aggregate discomfort.

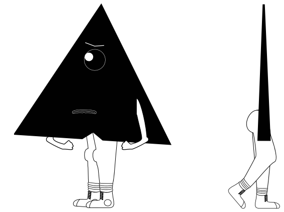
The *"collective"* is the amalgamation of all expected utilities for all individuals with purchasing power and right to representation, particular to a single jurisdiction, living dead or as yet unborn. Let's call the economic effect of this amalgamation of need and want *"the Collective Market"*. The collective, in the form of government, is expected and often obliged to hypothesise future requirements of the collective and establish provisions for them now. The individual, on the other hand, is not.

The millions of individuals who were suddenly excluded from the credit infrastructure, who no longer trusted their money was safe, who didn't believe the banks advice, who didn't think their investments were astute, who thought that the lack of bank investment in technology was negatively impacting trade or merchants who's bank was no longer a safe or cheap guarantor became impatient and began to look towards and create alternatives that 10 years ago technology would not have allowed us to create. This is what we call the Free Market; the amalgamation of all unhindered active utilities for all individuals with any access to a particular market place at a particular point in time. It is wholly representative of an individual's commercially actionable desires at a particular moment. In short, the *"Free*









Market" is what all of us want as single entities together and the *"Collective Market"* is what all of us want together as a single entity. The divergence between the Free and Collective Market has been the catalyst for what will eventually be the end of banks and the reformation of banking.

The reason being that the individual is only ever concerned with the economics of today; the economics of their own personal survival. Neither sustaining the bad banks or financial collapse is in the best interest of the individual. But in only one of these two scenarios is there a quantifiable pecuniary imposition on the individual in the form of higher taxes or public cut backs. The insinuation is that consequently the free market will look to develop alternative methods for satisfying customer need instead of paying for what they don't want, i.e. a Bank bailout.

Banking in its current guise can no longer provide a critical mass of the consumer base with the services it requires in the way it requires so as to prevent alternatives being created. Enough of the base has been pushed outside of the net to legitimise the development of substitutes. From mobile payments in Kenya to credit card payment tool Square, the fringe are developing innovations that are far outstripping the capabilities of traditional banks.

The divergence between the Collective Market and the Free Market is what is causing a technological and social revolution in Banking. It is forcing the 7 services of Banking to evolve in a way that fully integrates technology and networks, as demonstrated by peer to peer lending, crowd sourced financial advice, digital wallets and digital currency. The 7 services of Banking are not changing, but how we provide them are and banks are going to have to change radically if they hope to be part of the new order.

WHAT THE BANKING SECTOR CAN LEARN FROM THE MUSIC INDUSTRY

The pin stripe suits of the banking world and the t-shirts and jeans of the music industry may seem like unlikely bed fellows at first glance; one dull and pragmatic the other exciting and vibrant. One that seems to have remained the same for centuries, the other seems to change with the weather, with new acts, genres and superstars. But there are some remarkable similarities that could well be indicators relevant to the banking industry.

1. *Both industries were reluctant to embrace change*
2. *Both have been somewhat disintermediated by technology.*
3. *Both have used legislation to sustain their market position*
4. *The major players in both industries lost the trust of the customer*
5. *Both industries relied on the assets of others to profit*
6. *Both Banks and Labels acted as oligopolies actively working to prevent change*
7. *Both markets have shown an adaptability and aptitude for coping without the presence of the major industry players*

The real difference between the two is that despite some fierce lobbying from the music industry, they were unable to establish a narrative positioning them as fundamental to the economy in the same way banking did. Try as they might to suggest

otherwise, music hasn't suffered because of the internet, it has prospered. We don't have less music as a result of the internet we have substantially more. Now anyone, anywhere can record a song, post it online and potentially be the next Justin Bieber.

Admittedly, the days of Bands making 10 albums and being around for 20 years are likely gone, but why is that a bad thing? If the market gets bored of an act and wants something or someone else, well then it's only just that the new act should be rewarded for satisfying market need instead of synthetically maintaining the supply of acts without a corresponding demand. Gone are the days of labels dictating who we idolise and what we listen to. This is a far more democratic and responsive industry as a result of technology. Technology which has shifted power from the supply side to demand side, and therein lies the problem.

The Music industry was traditionally controlled by the labels; the intermediaries. The labels didn't actually create the asset; they just sold it, just like banks. The Artist created a product, the customer wanted it and the labels managed the transaction, taking huge margins and controlling user consumption in the process, just like banks. And everyone was OK with that because the only way to buy music was to buy a record or a cassette or a CD. The labels had a complete monopoly, controlling the relationship between buyers and sellers, just like banks. But if there is a unilateral first law of economics it's that when presented with 2 methods of transaction, buyers will always, as a group, opt for the one with the least friction, the simplest route from A to B. That's the real definition of rational behaviour.

So the internet happened and MP3's were born. A music product, that didn't necessitate the presence of physical distribution. A method of delivery that meant I didn't have to go to a shop, find my CD, line up, purchase with real money, buy CD racks, find a space for it and make sure it wasn't damaged; a way to buy music directly from the producer - Napster was inevitable. People don't want to break the law but when presented with a delivery option that is infinitely easier than the alternative... Well we all saw what happened

The Music industry was all at once obliterated and democratised by the internet. For the first time ever, musicians could record and post their work online and we as users could see bands from all over the world whenever we want though sites like YouTube. We could talk about them on forums, interact with them on their website or blogs and subsequently Facebook and Twitter, and after all that, we could download their music, for free! It was great!

But Labels have a lot of money and lobbied heavily for government support through legislation. They insisted that people who downloaded music from sites like Napster were criminals and should be treated as such. Like the Banks, they failed to recognise the "New Normal". Instead of putting money into legal platforms to compete with Napster, they invested a fortune in pursuing and convicting 14 year olds. Napster should have been like a flare going off for the music industry, showing them exactly where music consumption and technology were likely to intersect; a perfect blueprint for what they should have been building, but instead they ploughed their resources into fighting progress. Napster wasn't hurting music; it was hurting the labels and highlighting their inability to adapt. With inefficiency indicators like that, it was only a matter of time before a technology company would enter the fray and restore order, building a legal alternative to Napster. Cue iTunes.

The important thing to understand when considering the rise and fall of the music industry is that music is free. Any assertions to the contrary are misplaced. Apple don't sell music to customers, they sell access to a platform that makes user's lives easier. Apple sell me the ability to search for, locate, sample, establish trust though reviews, buy, download, upload and listen all in the space of a minute through a really nice, legal user interface which also gives me info on special offers, othersimilar bands etc.

What the music industry needs to realise is that music files are just the hook to sell other products to a captivated market. PSY of Gangnam style fame will make $8.1m this year from YouTube ads and associated revenues on one song! You see, the internet disintermediated the labels. They just weren't needed anymore, not in their former guise anyway. There will probably always be a need for image and strategy consultants, financial management and event planning in the music industry but they are superfluous elements and they certainly shouldn't control the relationship between buyer and seller.

SO CAN BANKS LEARN FROM THE MUSIC INDUSTRY?

Absolutely. The music industry is the blueprint for every banks survival. At the core of the music industry's decline is the story of how a bully put its own wishes ahead of the market and still

believed that he could force customers to like him by paying government to punish people for not coming to his birthday. But it is also a story of birth and renewal, the emergence of a more independent, dynamic and democratic supply of music. Who amongst us would swap our iPods for Walkmans, Spotify for mix tapes, iTunes for music shops, YouTube or Vevo for Top of the Pops. The bully that was the music industry failed to realise a few key fundamentals.

1. Progress is inevitable – The harder you fight it, the more expensive it gets and the more dependent you become on the old ways.

2. Technology helps you make more money, not less

3. The function of an intermediary is to reduce friction on behalf on the customer – if you can't do this, then why are you there?

4. Legislation is expensive and ultimately useless. Anything that impedes market fluidity will be circumvented, so is the course of a downhill river.

5. For an intermediary to lose trust is to lose everything

6. There is only one way to sell to customers, there are many ways to sell to users.

Bankers! Incompetence; your inability to acknowledge imminent change will be your "Napster Moment". Your real competitors are coming. They know you can't satisfy your market. You've already taken the legislative route in an attempt to scare your customers into regressive cooperation. However, it is your steadfast refusal to acknowledge your understanding of this "New Normal"; your hubris, that will result in your "Virgin Megastore moment" and an inevitable changing of the guard. Beware, P2P lending has made far more money than Napster ever did and it does it legally! The flare has been fired.

Any bank that hasn't yet commissioned research on the decline of the music industry is probably going to cease to exist as a

viable market player in the next 10 years. A failure to learn from the mistakes of others is a sign of either incompetence, hubris or perhaps both. If all the bankers out there reading this can't see themselves when looking in the mirror of the music industry, it's only because government stands in your way, but that won't last forever. I'm sorry to be the bearer of bad news for all you lovey bankers out there who have failed to realise that change is coming; everyone's laughing at the joke, except you, because you're it.

CHAPTER 3

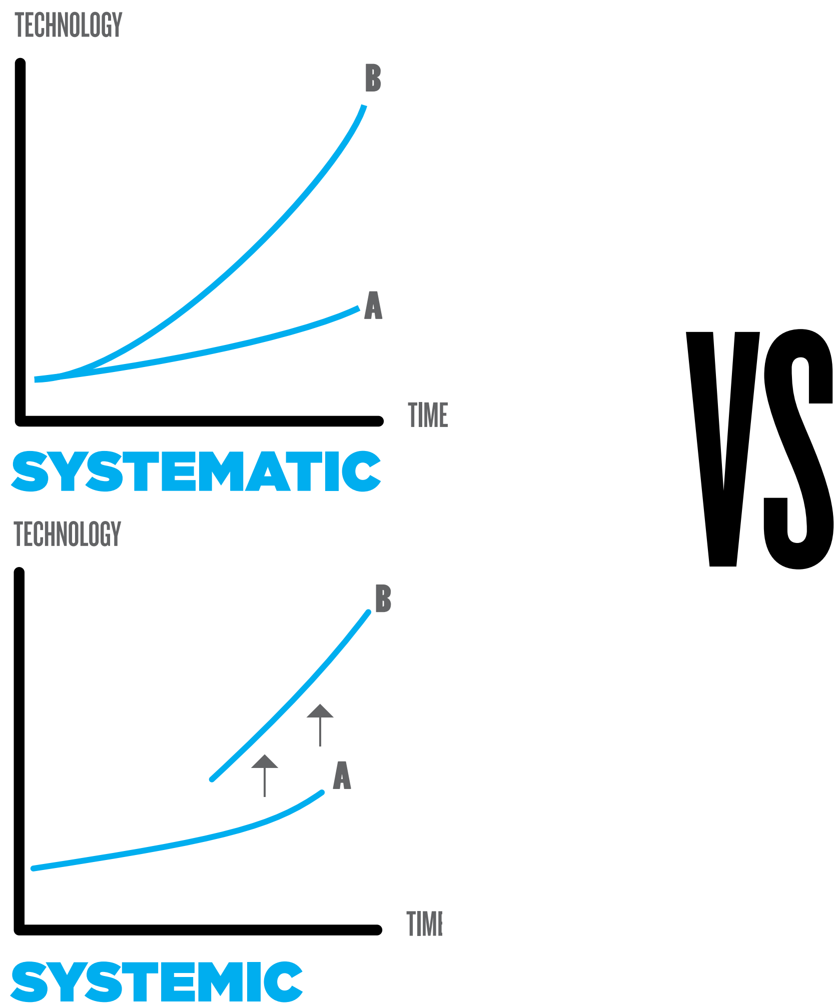
THE FUTURE OF BANKING: THE FUTURE OF BANKS & FASTER HORSES

"If I had asked people what they wanted, they would have said faster horses"
Henry Ford

Intro: There are two types of innovation; systematic and systemic. Systematic innovation is a process of continuous and incremental innovations along a company or industry specific curve (Industry Innovation Curve – IIC). The most significant impact a systematic innovation can have is to alter the trajectory of the IIC. Systematic innovations are nearly always focused on efficiency; think about improvements in camera film during the 80's, cordless home phones in the 90's or blue-ray DVD's in 00's. Systemic innovation however, is a transitional innovation that moves a company or industry from one IIC to a new curve due to improvements in effectiveness and will often result in the obsolescence of the previous product; see digital cameras, cell phones, Netflix or in Henry Ford's case, the automobile. When Henry Ford mentioned faster horses, he didn't mean that customers should be excluded from the innovation process, just that the customer role in innovation lies specifically within the systematic innovation space. Ultimately, systemic innovation is the burden of the company and failure to deliver systemic innovation will invariably result in an organisation or industry's decline.

If an organisation considers customer data or sentiment when considering product or service innovations, they are immediately limiting themselves to the parameters of that particular product or service and the constraints of the company to deliver improvements.

Considering customer data and sentiment restricts an organisation to innovations to ideas and concepts the uneducated customer thinks might be feasible and compatible with the way they live their life at this particular point in time. Customer data will not ideate on concepts that might be relevant or effective in 3 years from now, because customers are only concerned with now, never next; it is the role of the organisation to be concerned with next. Ask a customer how they would improve their laptop and they might have said *"make it lighter"* or *"improve the screen"* or *"increase the storage"* because they are all existing demands. It is unlikely that sentiment or user data would have suggested tablets, touch screens or cloud storage, systemic shifts



in the IIC, creating entirely new demands and making many old products redundant.

Banking now finds itself in a position where banks have provided a small number of customer-led systematic innovations in the last decade in the form of online banking, self-service banking and mobile apps but has fundamentally failed to deliver any systemic innovation. Banks have made the process of dealing with a Bank more efficient but have failed to make Banking more effective. If Banks are to survive, they don't need faster horses; they need cars.

It is important, given the public perception of the financial sector, to distinguish between Banks, the institutions and Banking, the industry. Banking is broken but it is necessary to reduce friction in capital markets. Banks, on the other hand, are organisations struggling to cope gracefully with the burdensome inevitability of their own demise. It is becoming increasingly likely that banks in their current form will cease to exist in 20 years. Retail Banks are almost functionally obsolete. The traditional bank functions of savings, deposits, investments, security, trade, advice and financial management are almost all being fulfilled more efficiently by existing companies in peripheral industries. These organisations have the wherewithal to execute traditional banking services more effectively and deploy them in a manner which is significantly more cognisant and in tune with the lives and needs of their customers. The single remaining function of banks which, cannot be easily replicated, is the widespread availability and distribution of actual currency.

Banks have long acted as proxies for the Banking Industry, so much so that it has become difficult to establish where one ends and one begins. So much so that for many, *"Banks"* encapsulate or even define "Banking". But Banks are just agents, providing the 7 services the industry offers, namely Security, Lending, Deposits, Advisory, Investment, Trade and Distribution of Currency. Their monopoly on their provision of these services has been dictated by their ability to accept deposits.

We've come to address them as banks because of legislation. Legislation requires that a company have a licence in order to accept deposits. Therefore Banks are identified through their ability to accept and guarantee wealth, not their ability to lend, advise, secure etc. The consequence has been that conceptually we may not have noticed the massive emergence of alternatives within the 7 services that constitute the banking industry.

Of these 7 pillars, 5 have become easily replicable because of the internet, one of them, security of wealth, is still a couple of years off (but inevitable) and another, *"Distribution and access to funds"* relies on enormous capital outlay for distribution and consequently is difficult and cumbersome to replicate. Banks, therefore, rely on two things to sustain their existence, 1) The circulation of physical currency and 2) Customer Trust in the institutions within the Banking sector.

As long as governments could ensure, through regulation, that Banks were operating in the best interests of consumers, customers had no reason not to trust them, no reason to find alternatives. The combination of customer focused regulation and standard free market practices would ensure that anyone operating in opposition to market demands would be eradicated. But the synthetic injection of capital into the banking industry since 2008 has created a cadre of government protected oligopolists within the adjacently free market.

What has become clear is that there was expectancy on the consumer side that the bank would check financial products on their behalf and only sell them what it was appropriate for them to buy. At first glance, this may seem contrary to rational retail practice and philosophy; let the buyer beware etc. but we have seen over time that in areas where expertise is required, risk is high or ambiguity is prevalent there is a premium paid for ethical behaviour. We don't expect a Bank to deliberately mis-sell us the wrong product because it would be ethically reprehensible to do so, much like we don't expect a doctor to mis-prescribe us medicine intentionally, yet this is what we saw happen consistently throughout the banking sector: The deliberate mis-selling of products to uneducated clients who believed the banks were working on their behalf.

The upshot being that banks who propagate poor practice, mis-selling, and antiquated business structures and strategies are artificially sustained by finance they have not earned.This has undermined consumer trust in the ability of the government to effectively police Banks and their activities and consequently undermined consumer trust in deposit based banking.

Traditionally, the response of the market to inefficiency is abandonment, boycott and the creation of alternatives and that's exactly what we've seen over the past 18 months with the emergence of a number of bank transfer programmes, in particular "Bank Transfer Day" and "MoveOn.org". In the period September 29th to November 1st 2011, CNN Money reported that an estimated 650,000 customers moved approximately $4.5bn dollars out of Banks into credit unions in what I would suggest is a minor indicator of the free market's plan B. One organised group involving religious congregations, unions and community groups, The New Bottom Line (NBL) have been actively encouraging individuals and organisations to transfer their savings to credit unions and community based initiatives because of what they see is a lack of trust.

The result was:

Fr Eduardo Samaniego, the Jesuit pastor of Most Holy Trinity Catholic Church in San Jose, California, protested Bank of America's foreclosures against parishioners and locals by moving $3 million of parish funds to a local credit union.*"As a community, we no longer have faith in Wells Fargo bank,"*

Fr Jesus Nieto-Ruiz stating that *"Wells Fargo had been slow to helped Oakland homeowners with loan modifications to help them save their properties"*. In response, the church moved all of its deposits, worth $125,000, from Wells Fargo, and closed the account.

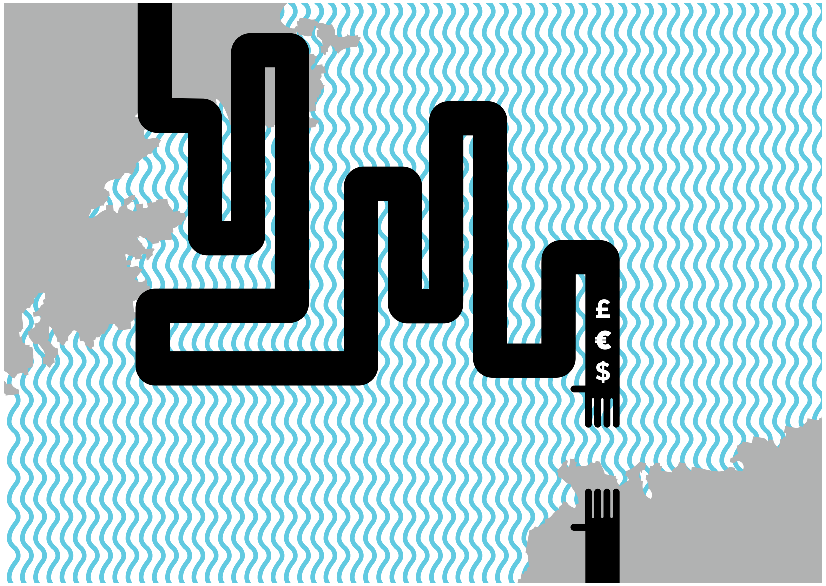
The City of Binghamton moved nearly a half million dollars from JP Morgan Chase in an effort to make a statement about the company's banking practices (Nov 2011).

The LA Voice, the coalition of clergy leaders representing 30,000 people from churches, synagogues, and mosques in California pledged to move $2 million and end a collective 200 years of business with Bank of America and Wells Fargo (Nov 2011).

The city of Buffalo announced that it would move the entirety of city funds, some $45 million dollars, to the local First Niagra Bank. Delaware District Councilmember Michael LoCurto said *"I think this move was both a fiscally-responsible, smart decision and also a socially-conscious, community-minded one. The two are not always at odds and I'm pleased that the City will be investing more in a local bank that has demonstrated its faith in Western New Yorkers and a commitment to helping our region grow,"* (May 2012)

The significant transfer of accounts and customers, more so than savings, is indicative of adjacent market trends towards online autonomy and financial intermediary repurposing. $4.5 billion dollars is not a significant figure when compared to banking as a whole, but it is a large number of voices in a hyper communicative world. That is a lot of blog's, Facebook comments, tweets and podcasts. It is enough actionable data to grab the attention of those with the ability to create alternative models of banking like peer to peer lending, which has recently surpassed the £1bn mark.

Not unlike the music industry, Banks are being dis-intermediated by the market place who are creating more efficient, trusted, alternatives to connect buyers and sellers on-line. Peer to Peer lending, Reviews and Advisory are replacing small



loans and bank advisors. The internet has reduced the typical time it takes to get financial advice from days to hours, the time it takes to secure personal loans from weeks to days and the time it takes to secure business investment months to weeks through websites like kickstarter.com and indigogo.com. So what then, is the current purpose of a Bank? The purpose of a bank is to give me access to my wealth anywhere any time through the distribution of actual currency.

But the future of money is also bleak. The production price of currency is astronomically high. Governments make a net loss on most small currency, particularly in the face of rising commodity prices, security and logistical infrastructure and most of all inflation. Year on year, you're actual currency is worth less but costs more to make. The production and administration of real currency is unsustainable, it is a massively inefficient mechanism of exchange particularly when you realise we no longer need it. Imagine if shops didn't need tills, banks didn't need security vans and you didn't need to find an ATM. We have begun to see the emergence of digital currencies especially in the gaming world where in-game currency has real world value, but also with alternative currencies like Bitcoin which is used to fund Wikileaks. The eventual replacement of currency will herald the end of the traditional bank.

Having learned little from the likes of Apple, Google and Amazon who learned to win by putting the platform first, Banks continue to drive revenues into distribution. 49% of European bank costs are related to the administration and servicing of actual physical banks, and only 12% is IT related, flip those percentages and watch a company thrive. Banks insist that they need to maintain a presence on the ground to service their complex financial products but companies like Ikea have shown that it's possible to simplify traditionally complicated products through platform development and customer engagement; In France Ikea kitchens can be found in 1 in every 3 homes, with only one Ikea store for every 2.2 million people, even though 20 years ago furniture retailers insisted that a kitchen couldn't be sold without an advisor due to its inherent complexity (Ref: Porn for Bankers, Hans Eysink Smeets).

Banks, in their current guise do not have a future. They do not have a future because they effectively fulfil only 2 of the 7 value proposition requirements the market asks of them, because they lack trust, because they struggle to innovate and because their inability to meet customer requirements has led to the creation of a number of viable alternatives. The idea of a single institution fulfilling all the functions of the banking sector in the future appears less and less likely. It is probable that we will see an influx of new players into the banking industry over the next decade, Mobile Telco's, Apple, Google, Amazon, Ikea, new Start-ups are all likely. Traditional Banks, if any survive, will become less arbitrage and more intermediary focussed. Their function will be as a value adding intermediary rather than that of the oligopolist, creating and maintaining peer reviewed communities of many diverse buyers and sellers; we will see the emergence of Networked Banking and the growth of peer to peer lending, open innovation platforms, revolutionary business models, the creation of bespoke products specifically for individual customers, and ultimately an almost frictionless industry called Banking due to the eradication of superfluous impediments called Banks.

THE CASE FOR OPEN INNOVATION

Open Innovation is the idea that companies should leverage external as well as internal ideas to succeed, sharing risk and reward. It acknowledges the internal limits of talent, resources and culture and often requires a company to market its problems in order to identify the most appropriate solution. Traditionally open innovation has been restricted to technically sophisticated organisations and industry like pharmaceuticals, but the emergence of the *"start-up"* as a dynamic and nuanced indicator of amalgamated consumer trends has established open innovation as a viable tool across industries, maybe none more so than Banking.

Banking is ideally placed to utilise open innovation concepts to revolutionise the industry. An industry being relentlessly and manically pushed by start-ups and excitedly pulled by adjacent interests towards a more customisable, platform based experience. Two separate cohorts, one indicative of consumer based trends and one representative of large industrial capacity for innovation, dictating the trajectory of the future of Banking. But the problem remains that while one is capable of speed, it is incapable of scaled innovation and the other, while positioned perfectly to affect great change is incapable of moving fast enough to do so.

By combining the two forces, that which pushes and that which pulls, Banks could successfully navigate the cumbersome size and bureaucracy of big organisations. By providing a platform for external start-ups within the company structure, Banks can rapidly prototype, test and develop new products all the while establishing themselves as the agents of progress within the industry; a large company on the bleeding edge of both innovation and trends. So what are the benefits of Start-up focused Open Innovation for Banks?

Rapid prototyping: Start-ups have only months to develop a functioning pitchable product. The Bank can potentially initiate, develop and roll out a significant number of viable, tested, location based new products every year.

Reduced cost of innovation: Investment in start-ups tend to be extremely cheap and typically take the form of equity or a convertible note. Banks can reduce their innovation or product development budget significantly by relying on start-ups to synopsize consumer trends and product development

Limited risk/High return: The potential cost of the strategy is completely front loaded and known from the outset or point of investment, while there is a continuous long tail potential return due to the equity investment in the companies. Banks invest a small amount at the outset with high potential returns if they either buy the company, utilise the product or the company is sold elsewhere. So even if the company is sold to a competitor, your bank still wins.

Global Trends: Having these open innovation platforms in different locations around the world can give the company an exceptionally unique understanding of global consumer trends and distinctions between regions. What types of start-ups are emerging from different jurisdictions establishes an accurate synopsis of customer needs in that area. Banks with a presence on 4 or 5 continents can establish an accurate overview of the industries global development, divergence or convergence over the next number of years by monitoring start-up activity and characteristics.

First Mover Advantage: Given that the technology developed within the space is in some way proprietary, either through equity, rights of first refusal or other clauses your Bank will be the first bank globally with an opportunity to implement the new product. Your bank could create and control the next credit card, digital wallet or ATM

Community Development: Open innovation platforms create a sense of community and loyalty amongst the companies who take part in the programme. They become advocates for the facilitating company and develop mutually beneficial relationships between those who innovate and those who implement.

Centre of Excellence: Such platforms act as a lightning rod for start-ups, investors, thought leaders and industry frontrunners in the space, a convergence of influence, controlled by your company.

Conversely, these platforms are also good for the start-up. They have access to industry leaders, capital, specific sector based knowledge and the implementation process. The specificity and focus of the programme makes success for the start-up far more plausible. In all likelihood, open innovation platforms are expected to be a significant driver of start-ups in the future: Think Nike, developing a programme for sports technology start-ups, Shell creating a programme for energy start-ups, The New York Times initiating a programme for new publishing start-ups or indeed a Bank building a platform for banking and finance start-ups.

What would the programme look like? In all likelihood it would likely be a 6 month programme, investing somewhere in the region of $50,000 in up to 10 companies per location. At the conclusion of the 6 months, the companies would pitch for investment to industry specific investors or would be absorbed by the Bank itself. For a bank with an international presence who opened 10 of these accelerator programmes, they could create up to 200 new products a year for just $10m, while retaining a gross investment of $1m in the companies. One company who has already implemented a similar programme successfully is Telephonica.

Telephonica's accelerator programme, Wayra, which opened in 2011 invests in start-ups specifically in the mobile space. In just 18 months they have opened 12 academies across the world and become the global leader in TelCo innovation by focussing on start-ups. Elsewhere, the Irish Times, recently finished its first digital challenge programme; a six month incubator for start-ups in the publishing space. In retrospect, it was inevitable that large organisations would at some point try to leverage the dynamism of start-ups through the capital of conglomerates. What is yet to be established is whether or not it will be the Banks great redeemer or the tool which companies in adjacent industries will utilise to invalidate Banks once and for all.

CHAPTER 4

THE FUTURE OF BANKING: NEW WORLD ORDER

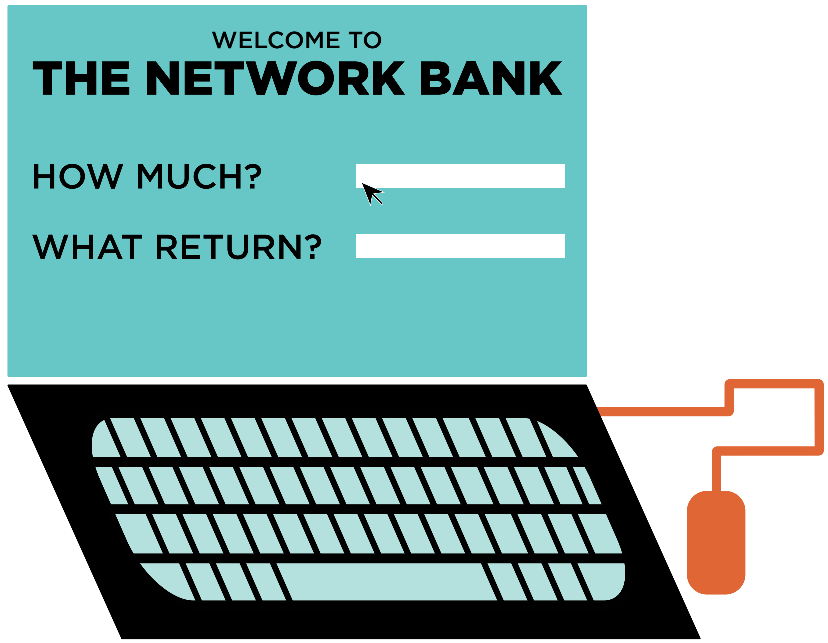
"...With something so important, a deeper mystery seems only decent."
John Kenneth Galbraith

The decline of the neighbourhood retail bank will give rise to a new world order of banking protagonists. Technology will fill the experiential vacuum between banks, deposits legislation will be circumvented and networks will dictate industry winners and losers. The current protagonists of the banking sector are behemoths whose huge power stems from industry barriers to entry, permission based access to credit and personal deposits; characteristics which the internet is systematically sidestepping. Peer to Peer lending, Crowd Funding, Digital Wallets and Currencies, Payments technology and Networked Banking will redefine an antiquated industry.

A *"New World Order"* will emerge within the Banking sector over the next 2 decades; a technologically enabled cohort of leaders made up of the more dynamic of the old world banks, adjacent industries and start-ups. Banking will be mobile, Money will be digital, Branches will be exceptions and deposits will be an unnecessary balance sheet risk. Banking will be diversified, products customisable, service reviewable advice will be crowd sourced and ultimately Banks will be *"User-driven"*, *"Open"* and *"Networked"*.

The Networked Bank is a platform based bank focused on users rather than customers. It's a conceptual banking structure where individual banks act as intermediaries, facilitating capital flow between its users and is likely to be at the core of the business model of adjacent industry entrants. Instead of accepting deposits and giving loans, the Networked Bank focuses on coordinating loans between their enormous user-base. Instead of depositing your earnings, the bank breaks up your deposit into hundreds of thousands of units and coordinates a series of loans based on your own risk appetite, resulting in varying rates of return, completely defined by you the user. You get to create your own investment products and the bank earns an intermediary free. The enormous user base means portfolio diversification is almost perfect and risk, return and price can be predicted with extremely high accuracy. So the user who wants to create a product that earns 8% return with a 5% guaranteed return over 1 year can create that product and so on. The product range is infinite and completely at the discretion of the user, resulting in a far more liquid capital environment and solving the *"working Joe's investment dilemma"*.

The *"working Joe's investment dilemma"* is the gap between returns on deposit accounts and wealth management or the stock market. Working Joe has less than $50k in savings and $200k of debt, in this he is typical. He can earn in the region of $1,500 interest per annum with his bank and pay somewhere in the region of €15,000. Working Joe is continuously and irrevocably



a net loser with the arbitrage monopoly that is interest driven bank products. Joe wants to earn more on his savings but doesn't have enough savings to consult an investment manager and feels the stock market is too risky. There is a complete vacuum in the space between low yielding deposit returns and risky stock market play. Through Networked Banking Joe can find cheaper loans, and more importantly can create an investment products more in line with his own appetite for return.

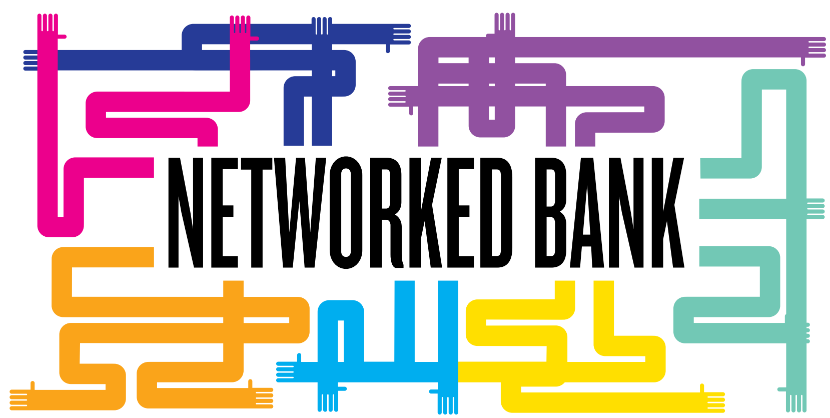
Banks already have most of what they need to build this type of platform: credibility, brand awareness, capital, government support, millions of customers already on board, terabytes of data on every customer, and billions of annual transactions. But transitioning customers to users requires a significant shift in perception. Banks have millions of "customers", all operating as autonomous entities, all buying and selling credit from and to a single institution, but never interacting with each other. But this isn't about social interaction, it's about networked interaction; an amalgamation of resources for the betterment of the market. Social is about sharing, Networks are about efficiency.

Maybe the single most significant philosophical shift of banking's "*New Normal*" is the very pronounced and deliberate transition from customers to users; the shift from vertical interaction to horizontal experience. The proliferation and acceptance of the internet means that banks are no longer the single mechanism of exchange between buyers and sellers of credit.

Conceptually, customers are individuals who buy from you; users on the other hand are individuals who buy through you. If your company buys in raw material and uses that material to produce a product by adding value, then you're likely to have customers. If your organisation buys a finished product from one market and sell it as in into another, then the only way you can add value is through a platform and consequently you should have users. Banks don't actually add value to credit, i.e. they don't fundamentally change or improve the credit they bought through deposits before selling it as loans, and accordingly they should be user focused through platforms, not customer focused through service. Banks shouldn't be trying to sell you anything, they should be trying to help you sell.

The problem with customer focused banking is that banks will only provide a small range of products to a very large number of people, like someone selling Christmas trees, a few different types of tree to suit everyone who comes looking. But banking is a utility; it's something we all need and because we all need it, there exists a staggeringly wide range of distinctive demands and risk profiles. The products and services that we actually want from a bank are the culmination of every other aspect of our life; what we earn, what we eat, where we live, what we like, who we like, how we communicate, to who we communicate, how we perceive risk, and reward, what we want, what we dream, what we fear; all of these factors combine to create a ultra-specific set of needs for a banking customer. No two customers are the same and yet we all get force fed the same narrow set of products!

Think of chocolate. I walk into a shop I can choose from literally hundreds of different bars of chocolate to satisfy, what is in essence, a very simple need: Hunger. Despite being a significantly smaller industry and of substantially less import, (although this point has been argued in editing) the chocolate industry is far



more understanding of customer need than banks are. Simply put, P2P banking, digital wallets, online payments and advisory all exist because someone wanted almonds in their snickers.

A User-centric bank prioritises customisation as a matter of course. Sellers are given the freedom to create products however they see fit as long as it meets the platforms Terms & Conditions, thereby providing buyers with a much more comprehensive market place. Think of Amazon; Amazon sells their own products but compliment that offering by letting anyone sell alongside them, creating a massively dynamic and broad market place. If I'm buying a book, I can choose from a range of prices, conditions, sellers, editions and versions and Amazon's user reviews act as online quality control ensuring I'm educated and protected.

A User-focused based bank can concentrate on maximising the amount of actual credit transactions by perfectly matching buyers and sellers through mobile, online, user orientated platforms, not by selling homogenous products to heterogeneous customers. A user focused bank understands that traditional banks are intermediaries; they buy a product from one market and sell it into another without adding value. A user focused bank understands that traditionally, barriers like legislation and capital outlay prevented alternatives but now technology is mitigating that problem. Ultimately, a user focused bank acts as a conduit and charges you for providing the product not for the product itself.

The conventional relationship between Bank and Customer is vertical, dictatorial and rooted in user prompted interactions. Its whole mode of operation is geared toward selling as many products as possible, not towards selling as much credit as possible. It removes all power and choice from the customer and forces them to subscribe to a rigid, mass market approach when it's no longer necessary. It leaves a tremendous amount of capital on the table by mismatching and mis-selling to customers.

Why can't you log in to your bank account to request a loan at 6% for 5 years with a 4 month moratorium and irregular payments because you're an extremely low credit risk? This single set of institutions is incapable of providing products which can satisfy the market to the point that alternatives are not both attractive and feasible. These alternatives will originate in two primary spaces; Start-ups and adjacent industry.

ADJACENT INDUSTRIES – THE BLEEDING EDGE OF INNOVATION – THE FORCE THAT PULLS

Adjacent Industries are industries peripheral to the core business of the constituent companies but capable of, or necessary to reduce transaction friction. As the protagonists in adjacent industries grow, they usually begin to migrate vertically as well as horizontally. Traditionally, legislation prohibited and available technology prevented companies from moving vertically into the banking sector, but over the last decade we have seen the likes of Tesco and Toyota move into financing, Telephonica launched the "money card" and Google created a digital wallet and payments platform. Given that the primary purpose of banking is to make it easier for us to buy and sell stuff, it appears increasingly likely that more of these large companies will target vertical acquisitions allowing them to disintermediate financing where possible, creating a more fluid and controlled transaction experience. The likes of Google, Apple, IKEA, Amazon, Zynga and Vodafone all have the capabilities, the capital and the customers to expand vertically into the banking space.

Large companies are the primary innovative force within any industry, they have the greatest access to capital, talent and technology and accordingly they are the force that pulls. This might seem anathema to what we have been encouraged to thing since the start-up boom in the early 2000's but it's worth bearing in mind that technology products can only make the transaction experience for other products more efficient. They do not, in and of themselves, create value. Pharmaceuticals, Robotics, Capital Equipment, Construction, Communications, Computers, Tell Cos etc. all start as small companies and can of course be innovative in their approach to business but it's not until they are more substantial entities that they can invest the capital required to make significant leaps in product innovation.

START-UPS – THE BLEEDING EDGE OF TRENDS – THE FORCE THAT PUSHES

Start-ups on the other hand are the force that pushes, the force that prods, the force that prompts innovation within an industry. They are the harbingers of change, but like the pace setter in a distance race they are rarely contenders in the medal hunt, usually having dropped out earlier in the contest, unable to compete with the elite. Despite what start-ups like to think about themselves they are rarely innovative in any area other than design. They almost never have access to the business or technical skills of a larger company but they do represent the bleeding edge of trends. Start-ups are the direct responsive consequence of consumer demand. They are representative of opportunities which appear in the gaps when technologies

in adjacent industries evolve at different paces and they are usually started by someone who has encountered a problem and found peers with similar problems. Start-ups can move fast, extremely fast: Start-ups can release multiple iterations of a product a year, refine it, redesign it and redevelop it, all in accordance with almost immediate customer feedback. The problem with start-ups though is that although they are fantastic indicators of industry migration they are rarely capable of fulfilling their potential and competing with the bigger players. For the thousands of start-ups that take on a problem, very few of them will be significant payers. Many of them will be absorbed by larger companies or fail to scale. So while start-ups have a significant impact on the trajectory of an industry by virtue of the fact that they are phenomenal indicators of market trends they are very rarely a competitive industry force.

THE OLD WORLD BANKS – THE EDGE THAT'S BLEEDING– THE FORCE THAT'S MOVED

As technology and regulation evolve, Banking will be forced to change. What that change looks like will be defined primarily by consumer trends as represented by start-ups, the force that pushes and innovation at large companies in Adjacent Industries, the force that pulls.

One thing looks almost certain; Banks in their current form are unsustainable by every metric. If it wasn't for Government support, most of the western world's banks would have been wiped out. So if many of the traditional banks services will be more effectively delivered by start-ups and adjacent industries in the future, will there still be banks and what will they look like?

Many of the existing stalwarts will survive but only if they can adapt to both technological and legislative conditions. Government will legislate away traditional banks because no government can afford a repeat of the last 5 years. This will be made infinitely easier by the emergence of new alternatives and opportunities for traditional banks to transition their business models into less potent organisations. The core of this transition will be the Networked Bank – a bank focussed on users not customers.

Banks are like a wealthy but obnoxious partner; you become so dependent on them to sustain your standard of living that you can't extricate yourself from the relationship when it sours. Customers resent being dependent on banks but feel like they have few alternatives. Compare that reality to the likes of Google, Facebook and Apple, all of them larger companies than most banks, whose users freely elect and enjoy their products despite an abundance of alternatives. We're not dependent on Google, Facebook or Apple yet we choose to use them. These companies have learned to win by putting the platform first, and platforms have users not customers. They allow us the freedom to dictate the terms of the relationship and the flexibility and dynamism to tailor our own experience. Banks, on the other hand, oblige us to select from a homogenous product offering, with little input flexibility or discretion. They make it difficult to buy the products and are almost archaic in their distribution methods. Banks don't need branches because customers want them; customers want them because Banks can't function without Branches.

THE FUTURE OF BANKING: SMART BANKS

"It is not by augmenting the capital of the country, but by rendering a greater part of that capital active and productive than would otherwise be so, that the most judicious operations of banking can increase the industry of the country"
Adam Smith

When I shop online, Amazon recommends books that I might like based on previous purchases; Google filters my search based on geography and preferences; iTunes on what other similar users bought; Facebook on who I interact with most. All of these companies use data they collect to improve my experience: The platform is subject to constant improvement and becomes increasingly predictive through user interaction.

These companies can make incredibly accurate predictions about our lives through aggregating and testing data on how we use their platforms. Facebook know who is having an affair and when someone will leave their job. Google can predict elections and the success of products and movies before they're even launched. They can do this because they have extremely large and broad user bases, often created and developed through social mechanisms, searching for and interacting with each other through content and transactions. They can also make accurate predictions on how to best deliver their own products. They can deliver what users want in a way they want, when they want. What if they used these same principals to build banking platforms: What would it look like if the world's largest technology companies started banks?

THE APPLE IBANK

A beautifully designed, online, mobile, user friendly, community driven, platform based bank; The Apple iBank, a bank run by a huge, cash rich, dynamic, integrated, trusted, customer focused, geographically diverse company; a genuinely terrifying concept for Bankers the world over. The intriguing thing is that all the components for the iBank are already in place; a market place, an exceptional multi user platform, trust and credibility. A truly user focused bank. So how would it work?

The iBank, as you might imagine, places a significant emphasis on dashboard design and user experience. Every user has access to a comprehensive financial planning tool to give them an unparalleled level of insight into their financial situation now and in the future. It notifies you when you may need to increase credit facilities or when there are high value lenders that match your risk profile. It even monitors macro-economic data like commodities prices and political stability in tandem with your personal information in order to tell you when it's the best time for you to buy new computers, cars and apple products.

The Apple iBank credit market would operate as a restricted P2P lender, managed wholly through the existing app store interface under "Finance Apps". Apple don't actually provide many financial products themselves, instead they manage the platform and allow "app creators" to develop financial products. Apple's role is to ensure that all products meet and maintain a high standard. In return Apple takes a percentage of every transaction, much as they do now.

The apps themselves are the iBanks *"loans"* and *"deposits"*. Producers create apps for users to *"buy"* or *"fill"*. You want a loan for a car, just click the drop down for *"financial apps"* > *"Car Loans"*, scan through all the different amounts and repayment options, pick a couple of different ones, compare them in your financial planner and pick the one that works best. Want to make a deposit? Just click on one of the products to *"Fill"*. These are individuals and companies looking for loans; All of them looking for different amounts, with different risks at different rates of return. You choose whether you want to deposit all your money with them or just some of it. Check out the other customer reviews and previews if you're unsure about the borrower. The iBank can facilitate the risk profile and investment appetite of everyone through the hundreds of thousands of apps in the iBank. You can even buy insurance apps to minimise your exposure to riskier borrowers.

GOOGLE – ANDROID'S PIGGYBANK

Google, the technology behemoth, advertising titan and boss of the World Wide Web is the company that not only defines the internet, but an entire generation of people. For many, Google represents the rapid democratisation of knowledge and the potential of smart data, the tectonic rupture which catalysed a following tide of technology innovations. Google is most well-known for 5 products, Search, Gmail, YouTube, Chrome and Android or said another way; how we find information, how we communicate information, how we watch information and how we interact with information at home or when we're mobile, so is it any surprise they'd want to control how we trade information as well?

Google have access to more data than any other private company on the planet, they can spot trends and predict behaviours incredibly accurately. Google can spot things like outbreaks of sickness, gambling odds, traffic congestion and even predict elections with alarming accuracy. It goes without saying then that Google, even more so than Apple, can use macro-economic trends and micro economic data to create the world's smartest, most pragmatic, lifestyle orientated bank .

The Piggybank, like all future banks, is a P2P credit platform facilitating lending between millions of different customers globally. But unlike others, Google provides completely free banking for users through the Android store, Google Play: No fees whatsoever on the demand side. The Piggybank, is of course, a multi-platform model. Google's actual customers, the bodies corporate, are on the supply side. Just like on search, where companies bear the cost burden of the product; the Piggybank's primary revenue is advertising. Why advertising you wonder?

Well Google is an advertising company; it's what they're great at. It's also what distinguishes them. Traditionally, one of the primary differences between Google and Apple is that Apple's customers are its users, but Google's users are its assets and for that reason we get to use Google products for free. Google don't care what device you own, only that you have access to the internet. Whether its search, Apps, Wallet, Docs, YouTube etc Google's online dominance has ensured that the internet has remained free for buyers. So Google's primary asset is its users and Google makes money by selling access to those users. As those users, we get great products for free in exchange for information about what we like, what we do and how we live our lives.

But there are genuine problems with Google's advertising model. Google, as an advertising platform, attempts to develop products in a way that users are encouraged to interact with sellers, and ultimately purchase from them. When users search on Google, they are presented with a list of what are intended to be relevant ads, based on where you're located geographically, what your search terms are and what's locally popular. The problem however, is that Google advertise to us on every single search we do even though only a very small percentage of our searches are for items that we're looking to buy, on the internet, at that specific point in time.

When you think about it, most of our searches on the internet are information based rather than transaction based, meaning we get bombarded with a lot of useless ads at a time when we don't want to buy anything. The problem, as it stands is that Google is a reactive, rather than predictive advertiser. It relies on the user imputing information before it presents the user with options. The problem with that is that when a user is forced to search for something on the internet they have already started to picture specifically what it is that will satisfy them in their head and are far less susceptible to suggestive, spontaneous advertising. Effective advertising happens after the customer has identified a need but before they begin to consider a solution.

This particular predicament is difficult to mitigate because Google currently lack the degree of control necessary to insert themselves directly between buyer and seller. The only person who can be between the buyer and seller is the person who controls the funds and at this point Google are the unfortunate 4the player, after the buyer, the seller and the bank.

By creating a smarter Bank, Google can make themselves a fundamental part of the purchasing decision, leveraging both demand and supply side information to reduce transactional friction and therefore cost.

For example; Paul is a Piggybank user. Paul also uses a number of Google's other products like Docs, Google Wallet and Google maps. Paul can see from his analytics that his average lunch time spend at work on a Friday is €12.50, but it's coming to the end of the month and Paul's bank balance is lower than a usual due to an impromptu weekend away with friends 2 weeks ago. Google can see from Paul's Google maps positioning what affordable restaurants are within a 5 minute walk of the office and can send Paul advertisements specifically for him 1 hour before lunch. Google can even look at Paul's shopping lists and lunch items over the last number of months and make sure he only gets advertisements which consider his current diet. These advertisements can even incorporate discounts and vouchers.

What's more; if Paul is going to lunch with friends and they too are Piggybank users, the Piggybank can suggest a restaurant which takes the rest of the group into account as well. If the group accept Google's suggestion; Google reserves a table at the restaurant and gets paid a commission by the restaurant based on the predicted spend of the group.

Granted there are privacy concerns which will need to be mitigated, but humans have long demonstrated an indomitable appetite for the shortest route between A & B and if Google create a product which makes our lives as users comprehensively more efficient, adoption will be practically absolute. What the above illustrates is that a Google bank is not just a revolution in advertising but possibly a practical necessity to boot.

GOOGLE LABS

Because Google don't charge fees on banking activities there is a huge opportunity for Google to be a dominant micro lender. Google can create unique products like discretionary hyper-local, micro-lending arrangements where I as a user can specify, for instance, that if I have a current account surplus over a stated level 7 days prior to my being paid, then Google can lend that money out at a specified rate to someone who needs it. My current account is now an asset that can return an income significantly in excess of current deposit interest rates.

Google can also do some funky things to integrate their existing products:

Google Search: Used in the Piggybank to help you find the best possible borrowers, lenders and investors based on your specific risk profile.

G-chat/Gmail/Hangouts: All of Google's customer service is done through G-Chat, Hangouts and Gmail

Google Docs: Docs introduces a simple list function which allows you to co-create shopping lists which Google populates with local prices and purchasing options

Google Chrome: Google chrome introduces new feature allowing users to click on any item they see and Google chrome will search the internet for the details of the product, videos, best possible prices and reviews and put them all into a short report in Google Docs for you whenever you want it

Google +: Google launch a Flattr type product on Google+. You put a monthly sum towards your Google+ account. Every time you share something you donate a part of that sum to the content producer. Put $20 minimum into your account every month and get access to customisable Piggybank products. Google revolutionise fund raising, obliterate Kickstarter and other crowd funders. Make serious inroads against Facebook

Google Wallet: Google launch their own range of money cards through the wallet which you can top up whenever you want through the banking app. To incentivise use, Google subsidise internet roaming rates for users dependent on how much they use the card. Users begin to neglect physical currency in favour of inter-jurisdictional money cards.

Google Checkout: No fees on transactions between Google money cards and Google checkout

Google Trends: Aggregated Google Search data is used to help you budget for things like rises in fuel and food prices. In addition, Google launch a premium, tiered investment product using Google data to make investments

Google Analytics: Because you're using Google Money Cards and checkout, Google Analytics can help you do some really sophisticated predictive budgeting. Because you use your Google money card while grocery shopping, Google analytics can tell you what sort of price hikes to expect in the products you usually buy and what are feasible alternatives. This is your Piggybank dashboard and this is where advertising becomes valuable.

INTELLIGENT DATA AT THE GOOPLE BANKS

Apple and Google (Goople) collect so much usable data on us that the Apple iBank or the Android PiggyBank could be the world's most effective life coach. Somewhere on a server in Cupertino or Mountain View California is enough raw data on users for Apple or Google to be so much more than the world's prettiest bank.

They have access to everything from what we listen to, to our technical capabilities, to indicative metrics on our net worth, to how far we travel every year. What we want people to know

about us to our deepest secrets. Indeed, Goople collect so much Data about us as users that their Banks would be able to make exceptionally accurate personalised, financial recommendations over a significant time period.

Makes complete sense, right? But the Goople Bank can do more than make accurate recommendations to us on financial products. The iBank or the PiggyBank can help us determine the efficiency of every financial decision we make, anywhere, anytime. It can help us establish how to live our lives with a level of financial control, foresight and prudence that we couldn't access any other way.

By taking some statistically significant variables into account like the user's personal level of debt, account balance and monthly salary growth, overlaying that with supplemental information like our music tastes, media consumption, internet usage, app purchases etc the iBank can make accurate recommendations on everything from birthday presents to how many children you should have. Let me tell you how:

By establishing some basic financial parameters and comparing them with tastes, age and productivity metrics the Goople financial planner can predict how much, you the user, are likely to earn over a month, a year and even over your life time.

Take Joe for instance. Joe is 32, in a relationship (with Jane), earning €50,000 a year in the financial services industry. The Goople Bank can see from Joe's income that Joe's salary has only increased in line with the rate of inflation over the last 6 years and he has been paid by the same employer for that period of time. It is apparent that Joe is not being fast tracked, Joe is not in demand, Joe is average.

The iBank and the Piggy Bank knows what industry Joe works in because he inputted it in his Goople account information somewhere just after he got the job. But even if he hadn't, average Joe owns a Smart phone and Apple or Google can see from the map function that Joe travels to the financial district at 8am every weekday morning. The Bank can then establish from some fairly simple algorithms what average Joe's lifetime salary is likely to be. They can establish relevant predictive variables like the music Joe likes to listen to, what sort of apps he downloads and how much money he spends, and cross section that with macro-economic data, employment trends and search metrics. They can see how much debt he maintains and how fiscally responsible he is. Through social functions they may even be able to tell if he's from a wealthy family an if there's access to alternative incomes. From all this information the Goople Bank can create a completely bespoke financial management and purchasing schedule for Joe, for free.

This tool is a paradigm obliterator. This simple, free to access financial planner will be the greatest financial tool customers have ever had and it cannot be imitated by the banks. It can, for all intents and purposes, make all our financial decisions. For example, the iBank or the PiggyBank will be able to tell Joe what groceries to buy in what shops based on preferences, proximity, traffic and weather. It can tell him where the special offers are on the things he usually likes. If he lives in a high crime area it can tell him the safest time to go shopping at, if there are any police around and even the likelihood of there being an incident en route. It can sync with public transport systems, shop stock levels and even identify how busy the shop will be when Joe gets there. It can even help Joe stay healthy by integrating health apps which generate alternative reduced calorie shopping lists and take the next closest option so he can get a walk in.

But the Goople Bank can do even more. It can integrate Joe and Jane's accounts and help them choose affordable holidays that are within their combined budget, suggest date nights and anniversary presents and even recommend the appropriate time for Joe to pop the question, help Jane figure out how much they should spend on the wedding and ultimately establish how many kids Joe and Jane can afford to have given the cost of raising a child in the city or country where they live.

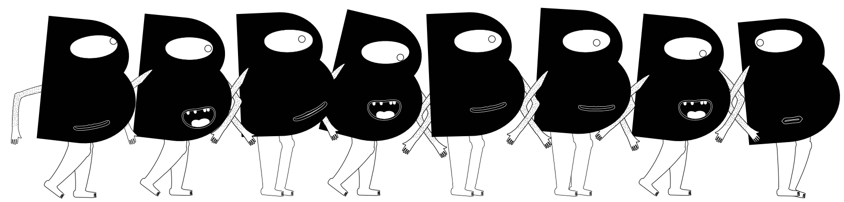
The Smart Bank could be your Life Coach, your Mentor, your Personal Trainer, your Teacher, so much more than a bank and it's inevitable. If conventional banks stubbornly refuse or indeed stagnate to the point where change is no longer feasible; this is the future that will replace them.

Can traditional Banks actually compete with the iBank or the Piggy Bank?

Facebook has over 1 billion users, over 300 million people search Google in any 24 hour period and Apple sell more iPhones every day than there are babies born. The iPhone is 6 years old, just 2 years younger than Facebook and 8 years younger than Google. Wells Fargo is the 23rd biggest bank in the world. It has 70 million customers. It took them over 160 years to accumulate them. Conventional banks can no more compete with the smart banks than horses could with the Model T.

IS THE NETWORKED BANK THEIR ONLY CHOICE?

There are no absolutes in any context, but there are extreme likelihoods, predictable dependencies and degrees of statistic confidence. Conventional retail banking is unsustainable as they themselves have demonstrated. The model is no longer compatible with technology, legislation, society or business and must change in accordance with this evolution. The Networked bank is just the simplest most feasible transformation for a traditional Bank. So, while not their only choice, it may be their only chance.



THE FUTURE OF BANKING: THE SAVE YOUR BANK PLAYBOOK

"Good bankers, like good tea, can only be appreciated when they are in hot water" Jaffar Hussein

Despite all of that, it would be somewhat discourteous of me to document and criticize the failings of the banking industry without making some effort to establish a solution. What follows is step by step survival guide to help Banks across the world survive the impending, systematic, industry focussed, technology led, user orientated, data based, government enabled, culling. It's easy to follow, simple, dynamic enough to be homogenously applicable and will be addressed at greater length in my next book *"The Save Your Bank Playbook"*.

Step 1) Think like Telephonica: Create an in-house Open Innovation Platform

Step 2) Act like a Start-up: Get Lean, shut down branches. Get rid of offline customers

Step 3) Spend like a Geek: Significantly increase spend on IT infrastructure

Step 4) Recruit like IDEO: Hire design staff and give them autonomy

Step 5) Work like an Alchemist: Turn customers into Users. Launch a Peer to Peer lending Platform

Step 6) Behave like Google: Maximise number of users, not sales

Step7) Sound like a Super Hero: Sole purpose is to reduce capital transaction friction between users

Step 8) Build like Facebook: Focus on Data accumulation

Step 9) Experiment like World of Warcraft: Investigate and trial digital currencies

Step 10) Lead like a Swede: Make sustainability a priority

THE FUTURE OF BANKING: BANK LABS

"Never innovate to compete, innovate to change the rules of the game"
David O. Adeife

In addition to the playbook and a hypothesis of what Google and Apple's bank might look like, I have created a number of alternative technology based banking business models to illustrate the broad number of Banking alternatives we are likely to see over the next 5 years.

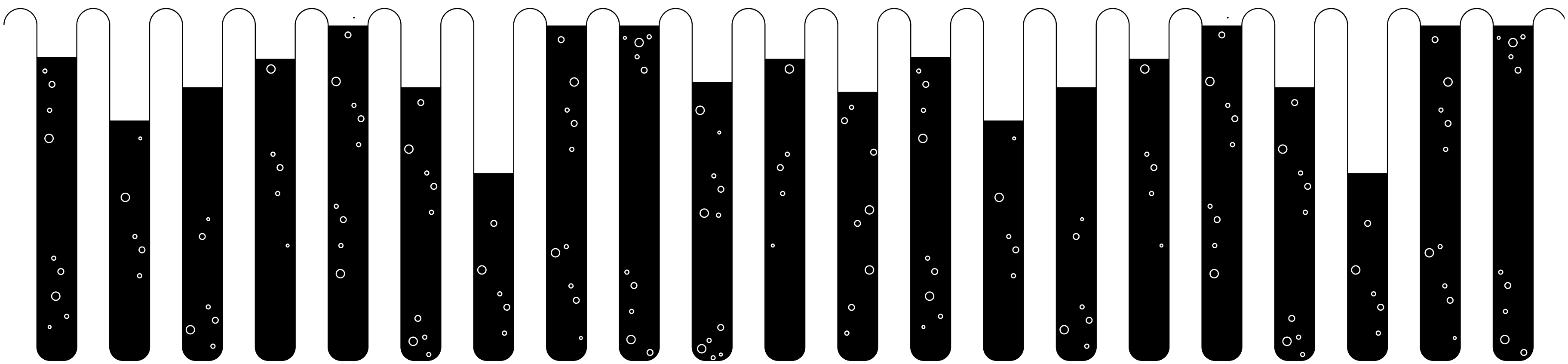
RYANAIR – THE LOW COST BANK

A Bank that doesn't charge for Banking. Core to Ryan Air's business model is their reluctance to charge any sort of significant margin on their core function. i.e. Flying people places. Instead, Ryan Air actually separates their core business from their core revenues. Customers don't pay for flights they pay for comfort and customisation.

The Ryan Air Bank works the same way. You the customer don't get charged a margin on financial products. You get them at cost, ensuring that Ryan Air are consistently the lowest cost provider in the market. If you want a loan, a credit card, a savings account or an overdraft, you fill out all the forms yourself online and any mistakes suffer a monetary penalty. You also pay a fee to be provided with an ATM or laser card, another fee for access to ATM's in different countries than where you opened the account, another fee for transferring money to other accounts etc . There are no Branches and if you want to talk to customer support you have to call a premium rate phone line.

The online component of Ryan Air's Bank is besieged by advertisements and optional extras. Trying to pay bills online will have you greeted by banners asking if you want to buy insurance? Or a pension? Or Investments? Or an umbrella? Of course, being a customer of Ryan Air's low cost Bank entitles you to privileged access to flight sales, instant priority boarding, a bottle of water when you take your seat and maybe even discounts on in-flight merchandise.

Ryan Air is belligerently honest about what it offers passengers. It does exactly what it says on the tin. Flights may be cheap but Ryan Air have the youngest fleet of planes in Europe.



It may drop you in a field 100 miles from where you want to go but they told you that before you booked and they got you there safely. Ryan Air's bank is the same; you will not be treated to a high standard of luxury or customer service. You will not get frequent correspondence in the post, they will not help you in renegotiating payments but if all you want is somewhere to put your money safely, then this is your Bank.

ZYNGA-BANKERS ANONYMOUS

Zynga is an online games company that makes most of its revenue not from selling the games but from in game purchases to facilitate game advancement. The Zynga Bank is a Bank that operates on the same principals.

When a user signs up to the Zynga bank they get to choose exactly how their bank will appear to, and work for, them. To begin with, the user can choose from one of a number of different aesthetic themes. This first theme is free and relatively basic. The theme will dictate the platform appearance, customer service, social integration and the range of products available to that user.

Take for instance, Andrew who is 22, just out of college, with no dependents, no savings and a low salary. When Andrew signs up for his account online he downloads an app to his phone. Andrew likes football so one of the first things he does is choose a football themed skin with images of his favourite players. Next he chooses the product fit which best suits him; Andrew selects a theme that gives him access to a low cost overdraft, a $600 credit card limit, a laser card, no phone support, special offers and early access to gigs and matches and movie screenings and a standard deposit account. These are all basic facilities which Andrew has free access to when signing up. Alternatively, if Andrew was a 45 year old, highly paid, father of 3, he may have opted for an architecturally themed, high yielding savings account, no overdraft and a $3,000 credit card as his basic option.

In order to further customise his account or access new products Andrew now has to earn what are essentially loyalty points from the bank through engagement. There are a number of different ways you can earn points: having your salary paid into your current account, being an active contributor to the help forum, customising new themes, putting money into a savings account every week, keeping your credit card balance paid off, not going into unauthorised overdraft, paying a loan back on time, buying a new product from the bank, engaging with bank affiliates and even regular or constant interactions and log ins.

The user gets in app currency or points for being a good customer. These points can then be used to further customise everything from the appearance of your dashboard to the range of products you have access to. Earn enough points and you can access car loans, mortgage products, attentive customer service, Customisable cards, increased credit limits, cheaper loans, and high yielding deposit accounts or cash some of your points in for gifts like tickets to events sponsored by the Zynga Bank.

The Zynga bank uses the aesthetic themes you elect for your dashboard for advertising. Andrew is likely to see a lot of Dashboard based sports advertising as a result of his graphic scheme. Andrew gets more points the more often he logs in and therefore the more ads he sees and potentially clicks on. He can of course use his points to get rid of or diminish the level of advertising over time if he so wishes.

For those who are so inclined they can buy more points so they can customise their Dashboard or have access to competitions or events that may only be available to users with a certain number of points. The Zynga bank keeps you loyal by getting you to invest in building your own experience. It is unlikely you'll switch banks if you have amassed a high number of points or have invested heavily in designing your own banking products. Ultimately, the Zynga bank is a fully customisable bank and interface that rewards you for being a good customer

MATCH.COM – MATCH BANK

The Match.com Bank uses comprehensive algorithms to match borrowers and lenders in a peer to peer environment. Unlike other P2P lenders who will facilitate the loan over thousands of different borrowers, Match.com will match specific borrowers and lenders based on similar interests and risk profiles. Take, for example, a bakery who needs a £20,000 bridging loan in Surrey. Match.com will be able to match that borrower with a number of lenders looking to lend to small businesses in Surrey. These individuals could be anyone from people who specialise in Bakeries or bridging loans to other cash rich local businesses hoping to support the community to wealthy individuals with ancestral roots in the area. The goal of match.com is to create a working relationship between borrower and lender which will help the business or individual develop into the future.

BETFAIR - BANKFAIR

Betfair is a quintessential money market exchange platform. It is also a secondary market, meaning the actual financial product originates elsewhere, typically at a large bank or financial institution. Users can buy and sell debts and deposits on an open market place. Traders try to make a profit through knowledge of interest rate movement and monetary policy. A trader who thinks interest rates in the Eurozone will go down at the next ECB meeting will look to buy fixed deposit rate accounts and sell them after the announcement whereas a trader who expects rates to go up might try to sell a variable rate loan. This is no different from international money market exchanges but at a much smaller level and accessible to everyone.

IKEA - FLATBANK

IKEA are known for a relentless emphasis on price and customer service: A globally recognised and trusted brand with real market dominance and a unique business model but what if IKEA opened a bank? What would it look like. The interesting think with IKEA is that they've already disproved some conventional Bank practices like the Branch model. Banks maintain that branches are a vital component of their value proposition due to the inherent complexity of their products. But IKEA has shown that by simplifying traditionally complex products you can significantly reduce distribution and refocus staff on customer service instead of customer selling.

IKEA would launch its bank globally without any real jurisdictional distinction. The IKEA bank in the UK would look much the same as the branch in Norway or the one in the US. But the IKEA branch would be a rarity; one super branch for every 500,000 to 2,000,000 citizens. IKEA already provide 1 in every 3 kitchens in France despite only having one store for every 2 million French citizens. IKEA bank would guarantee the best prices on credit by stripping out many of the overheads associated with traditional banking.

IKEA Bank simplifies traditional loan products dramatically by "Flatpacking" Credit. IKEA Bank sells credit in €500 chunks which you can buy easily and cheaply at a fixed rate with the click of a mouse online. The first €500 credit is charged at the risk free rate for a 6 month term and every additional €500 you require is charged at an increasingly higher rate with an additional 6 month term on the total principal. They don't ask you for the purpose of the loan.

You're ability to borrow is established through your IKEA furniture purchases as measured by your IKEA loyalty card. For every €500 borrowed, the customer has an additional €25 off their next IKEA purchase over €250. If you have never bought from IKEA before, the maximum you can borrow is €500 and must be guaranteed by a credit card with at least €1,000 available at the time of the loan. The maximum you can borrow at IKEA is 10,000.

Like IKEA furniture, the IKEA bank makes world class financial planning software available to you for free. The planning software is completely integrated into your account dashboard so you can understand the ramifications of any loan or financial product by establishing cash outflows, inflows and discretionary income well into the future

IKEA bank identifies points where human support is essential and strips it from everywhere else, thereby removing many of the agency problems that exist within the sales functions at existing banks. IKEA staff are not there to sell you financial products, instead they're only there to ensure you buy the most appropriate product. IKEA Bank has fantastic financial planning software to show you cash flow impact of all financial products, eradicating confusion and the asymmetric sales relationship at conventional banks and enabling an unparalleled level of transparency.

PRICE LINE – NAME YOUR OWN PRICE BANK

Priceline pioneered the "Name your Price" Model for travel organising where vendors bid to meet the prices customers set for hotel stays and air tickets. But how would it work at a bank?

The Price line Bank allows users to determine and quote the terms they seek themselves for all of those services. If a user wants to borrow $5,000 at 6% or deposit €20,000 at 5% they can name those terms and major banks can then bid on the custom. Terms proposed under the name your own price program are not disclosed by the name of the vendor, which protects suppliers by not linking them to the discounted quotes that may otherwise affect the prices they typically charge. Customers don't know who they're actually banking with until they confirm the transaction.

GROUPON – THE DAILY DEALS BANK

Groupon works by offering users a single discounted deal every day. The deals are often discounted by more than 50%, passing incredible value on to the customer. Groupon leverages social networks to create buzz about the deal by making sure it's only accessible after a certain amount of purchases, thereby encouraging sharing in order to activate the deal. They also incorporate extra incentives like making the deal free if you can get a certain number of your friends to buy the deal as well and cap the exposure by putting a time limit on when the deal can be used – in effect, Groupon sell you the customer a Call Option, or the right to buy at certain price within a certain period of time.

Groupon don't actually sell any of their own products; they are purely a market platform for vendors and customers. They take a margin on the discounted sae price in return for giving vendors unique market access and penetration with the local social support of Groupon. In effect, they take a brokerage fee for arranging the purchasing option. So how would the Daily Deal Bank work?

Like Groupon, the Daily Deals Bank sells options: Options to buy uniquely discounted, loss leading financial products like money cards, customised credit cards, free foreign exchange transactions and high yielding deposit accounts. Larger banks use the Daily Deals Bank to acquire new customers and increase social media penetration.

AMAZON – THE RIVER BANK

Like the E-Bank, the River bank is another Long Tail P2P bank which relies on massive product inventory and user reviews. What differentiates the two is that Amazon's River Bank also supplies a significant number of its own products direct to customers as well as providing a market place for independent sellers. Trust is substantiated through a transparent product by product and user review system. For a user seeking to lend they can read reviews and information about the borrower before confirming the transaction. The River Bank can then make accurate recommendations to borrowers, lenders and producers based on their preferences and previous transactions.

MCDONALDS BANK BURGLAR

McDonalds was the original franchise success story. By ensuring consistent standards and business practices across restaurants, Ray Croc inspired a global industry.

But it was sub-leasing where McDonalds became the force they are today. McDonalds lease the property, and sell rights to the brand to a franchisee. The franchisee incurs an annual fee for brand usage in addition to the sub-lease payments – simple.

McDonalds hold the banking licence and bare ultimate responsibility. So the McDonalds BankBurglar gives everyone a chance to own a bank. Anyone who can afford the down payment and the franchise fee can be a bank manager in their town.

PLAYSTATION'S PAYSTATION

The Sony Playstation provides a sophisticated platform for other companies to create the products for. Sony builds the hardware and allows other companies to create the games to sell on their platform, taking royalties for every sale.

The PayStation provides an awesome online banking platform and credit market. Other suppliers, approved by Sony, can buy or sell credit through the PayStations market interface.

WALMART'S MONEYMART

Walmart's Moneymart is a Banking aggregator. It sells products from hundreds of other banks through a massive financial retailer. It buys the products cheaply in bulk securing preferential credit terms from a plethora of different sellers and sells them low cost to you the customer. Your account is with the Moneymart so although JP Morgan Chase, Barclays or Michelle the micro lender from Seattle may be the originating producer you deal only with the Moneymart.

Moneymart does have branches, really huge branches usually in pretty rural towns instead of big cities. Rural inhabitants who usually only have 1 or maybe 2 banks to choose from have a full slate of banking options at their disposal. These huge Moneymarts dominate these local towns and undercut any competitors who try to move in. But although the Moneymart provides some stiff competition for conventional competitors it also provides a platform from other banks from around the world to enter the U.S market.

MAD-BIDS

Mad-Bids is an auction site that gives users an opportunity to buy things like cars, phones and laptops at incredibly low prices. A user could buy a new car for as little as a few hundred dollars; But there's a catch! Every bid raises the price by a stipulated amount and you pay for every bid you make. If, for instance, a car is for sale which retails at $15,000 and you have 1000 people making an average of 10 bids each at $2 per bid, and the car sells for $1,200, the seller will receive $21,200, a profit of $6,200 – not too shabby!

So how does it work at a Bank? You sell loans and credit facilities the same way! Auction off a $20,000 loan or a 0% credit card and see what happens. Incentivise bids by creating a loyalty programme which translates bid quantity into higher yielding deposit accounts – the kicker being that people who bid a lot won't have all that much money to save.

RAFFLE BANK

By selling tickets to product raffles, the raffle Bank can give customers a chance to secure interest free loans and savings accounts with much higher interest rates than usual. It can even provide Mortgages from 2-3% cheaper than you can find at other banks.

The Bank can do this by cleverly restructuring their own revenue streams. Banks make money by lending. They give out a lot of credit now in the hope that the principal plus a profit gets paid back over time. That interest rate incorporates the banks profit margin. By promoting an attractive product offering the bank can effectively sell interest free credit and make their profit now. For example:

The Bank sells an interest free loan of say, $15,000 over a 3 year term. If the loan was given at 10%, the bank would make $1,500 simple interest per year in interest over the term of the loan for a total of $4,500. By raffling off the loan at $5 per ticket, the bank only needs to sell 900 tickets in order to significantly reduce its risk and cover interest costs up front. $5 isn't a whole lot of money when the customer takes into account that they're in the market for a loan anyway and the $4,495 saving they could make if they won.

By raffling off cheap products, banks can make profits up front with almost zero risk while creating some fantastic customer focussed narratives within their user base.

E-BAY'S E-BANK

The ultimate P2P bank: A long-tailed, auction based banking model where any individual can sell a single specific product at an established price. Imagine an exchange platform where you could buy and sell one off credit facilities, advisory, trade guarantees, currency and security services easily and immediately. Products are sold to the highest bidder through an auction, ensuring the highest price possible at that particular time for the seller. Take Marie for example; Marie has a small import/export firm. She needs merchant banks to issue letters of credit and Bank Guarantees so she can do business in international jurisdictions. Recently, Marie has had an opportunity to expand her business interests into Africa and South East Asia where her Bank has no presence. Instead of developing relationships with local banks she can buy the letters of credit and trade guarantees from reputable local sellers on the E-Bank platform, who actually know the environment. In addition, Marie can buy advisory services easily from local sellers.

Or Sean, who uses the E-Bank just like he uses E-Bay. Sean buy's $10,000 chunks of credit at 9%, breaks it up into €250 pieces and sells it as micro lending into developing regions at 25% return.

The E-Bank charges a fee on every transaction and doesn't actually concern itself with the business of credit management. Their sole focus is the development and maintenance of the platform for the users. They advocate on behalf of aggrieved customers and help make deals as smooth as possible.

AIRBNB'S MONEYBNB

The AirBnB model is pretty simple: You buy credit off a normal bank, say $20,000 but you only use $15,000.You still have to pay interest on the entire $20,000 to the original lender despite the fact that you're not using $5,000 of the facility. Well the MoneyBnB allows you to sell access to that €5,000 to other borrowers who need it in a hurry for a short period of time. The MoneyBnB relies heavily on reviews and voluntary information about the users, and typically those users are reputable and respectable individuals. To improve security, the MoneyBnB might only be available to AirBnB users with more than 3 positive reviews. Because neither the MoneyBnB or the users actually take a deposit, no banking licence is needed and no party is subject to any major banking legislation. Each lender lends to users within their own city. The role of MoneyBnB is to provide the platform that provides an easily accessible, relatively low cost, local emergency funder.

Ultimately, the original borrower can make significantly more interest on his or her extra $5,000 than they will pay the original lender. Just like in the real world where people often use AirBnB to cover their rent, the MoneyBnB can be used to pay the original loan.

QUIRKY

Anyone can submit a potential financial product at the Quirky Bank. The community, i.e. the banks other customers and Quirky staff then rate the ideas and the one with the highest score becomes a Quirky product. Quirky then share the revenue of that product with creator and the people who voted on the concept. Users can suggest products within different categories, from ideas for loan products to customised designs for bank cards to mobile banking apps and Money Cards which they can use with local transport or parking schemes.

FLATTR – COMPLIMENTARY BANKING

Flattr is a micro donations site. You pay a small fee every month and can donate parts of that fee to content that you like. At the end of the month, your fee is split between all the items you liked and Flattr take a 10% commission.

The Flattr Bank is a social bank for people funding projects. At the Flattr bank you can only open a current account to begin with. When you open your account you can access the full spectrum of projects and content created by other Flattr users and donate to those you like. The more you donate on Flattr, the more financial products that become available to you. Top donators get interest free lending, customisable banking collateral, affiliate deals and high yielding, accessible deposit accounts. There are no banking fees or charges whatsoever at the Flattr Bank, instead they make all their money off donation commissions.

About The Author

John Egan is the CEO of Archipelago and sits on University College Dublin's Innovation Academy board of studies. He has worked in finance in the US and Europe and has previously started and sold businesses in the engineering sector. He is the Dublin ambassador of Sandbox, the Irish ambassador to ICUE and the Dublin curator of the World Economic Forum Young Global Shapers. You can find out more about John at www.iamjohnegan.com or @iamjohnegan