FUTURE BANKING 451

by Steve Brown

It has been said that a person's commercial worth is their ability to predict the future. If true, mankind lost a huge asset with the passage of Ray Bradbury. Aside from an accomplished writer of both books and screenplays, Bradbury was an extremely accurate futurist and the first to predict the iPod, the fall of newspapers, the invention of ear buds/Bluetooth headphone, flat screen TVs, and, of course, the ATM. Bradbury's brilliance was his ability to colorfully place technology into a political and social context. Bradbury was the first to recognize the "butterfly effect" in that small changes today, can have large implications tomorrow. To pay homage to him, we predict 5 trends from his work that will change the future of how we bank: 5) Goodbye Branch: They are too expensive for what banks get. If we don't have to look our stockbroker or insurance agent in the eye, why do we need to go face to face with our banker? As Bradbury might say, "It's not that branches are an anathema to the banking model, it is the lack of customers in branches that is the anathema." 4) Goodbye Online: 40Ys ago Bradbury thought the computer will be something that we carry with us at all times and is always connected. He's right and the future of banking will revolve around mobile, both the phone and the tablet. The concept of everyone "getting onto the internet" will be laughable as the internet will be everywhere and always "on." 3) Movement Interface: The scene in The Minority Report where Tom Cruise waives his hands in the air to navigate screens on a digital wall is already a reality and was foreseen by Bradbury. Tablets, phones and "wall screens" will have sensors to pick up your movements so you can check your balances and transfer money all with 2 hand movements. 2) Artificial Intelligence: A central technology theme throughout Bradbury's work was the marriage of computer intelligence, predictive analytics and human interface. Banking applications will predict, recommend and execute financial transactions without human interaction. Bills will be paid automatically if they are in line with historical usage. If they are not, they will be further analyzed and then flagged for review. Applications will learn spending, borrowing and payment practices of their user and build in both fraud prevention and anticipatory recommendations. 1) Subscription Banking: In his work "The Pedestrian," Bradbury highlighted the central theme that technology will impart systemic loneliness and wariness from having to pay constant attention to screens. We can relate, which is why we think the banking model will move from a transaction-based model where fees are often paid per transaction or monthly, to an annual subscription-based service with a "membership" similar to how a country club operates. The bank will give their customers a context within a socio/economic organization that will give them a sense of belonging. Collective knowledge will help drive financial education, while banks will take on more of a financial leadership position to help guide and comfort their customers. In Fahrenheit 451, Bradbury describes newspapers dying after the public's attention span moves shorter. It was not lost on us that Bradbury's death first broke on Twitter with the majority of people never clicking into the story for the details, as the sound bite headline was good enough. Banking, like the future that Bradbury predicted, will have to bridge that gap between providing customers the proper stimulus to capture their attention, making it simple for the customer so they are not overwhelmed and providing "benign oversight" to protect and comfort our customers. As Bradbury said, "We are an impossibility in an impossible universe." The future holds a myriad of impossibilities that will soon become possible.

BANK NEWS

Beige Book

The Fed's compilation of regional economic factors showed "Small- to medium-sized banks in the district report increased loan demand in all categories to a more widespread degree than at any time since the mid-1990s."

Overstatement of the Day

At the Congressional hearing, the OCC said that despite having 65 regulators onsite at JP Morgan, "Inadequate risk management was the main cause" of the $2B+ loss.

Basel III

The Fed will vote on Basel III capital rules today that will remove an exemption that allows banks to not count unrealized gains/losses in their AFS (available-for-sale) portfolios against capital. Going forward, banks will now have to flow through these gains/losses to the capital account.

Closure Costs

Bloomberg is reporting that a survey of the 10 largest banks by Consumers Union finds closing an existing account can cost as much as $55. The survey found none of the banks will make a free same day transfer to another bank; all charge for wires (about $30) and all charge for certified checks (about $10). Meanwhile, some charge a $25 fee if a customer closes an account within 90 days of opening it.

ID Cards

Citigroup will begin issuing digital identification badges to global gov't employees that will double in the future as payment cards. Citi is the first bank in the space and sees an opportunity in the $260B market to compete with Verizon, Northrop Grumman and VeriSign.