Banking Risks Analysis

Article Summary

The digital revolution in retail banking has largely happened, and several megatrends are driving these developments.  
AI technology will likely only become evident within the next 12 to 18 months, but banks that can successfully implement it will benefit from large competitive advantages.  
Senior executives must be able to explain how AI is being used in their businesses, a major challenge in a fast-moving area.  
Investors are the banks' ultimate stakeholders, and failing to accommodate their appetites for sound ESG credentials imposes a major new burden on banks.  
The banking industry will need to adapt radically to the "E", balancing numerous commercial and regulatory concerns, and vetting products' environmental credentials.  
Competition regulations and enforcement are a formidable challenge for banks as they try to adapt to changing government regulations.  
Shadow banking and private credit have grown enormously in recent years.

Key Insight

Key Risks:  
  
1. Failure to adapt to the "E" environmental aspect of ESG (Environmental, Social, and Governance) could negatively impact the Federal Reserve Bank's ability to attract investors.  
2. The Federal Reserve Bank's ability to attract and retain investors could be impacted by an inability to accommodate their appetites for sound ESG credentials.  
3. Inability to successfully implement AI technology could result in the Federal Reserve Bank falling behind its competitors and losing competitive advantage.  
4. Inability to demonstrate how AI is being used in their businesses could result in a lack of understanding among senior business executives, a major challenge in a fast-moving area.  
5. Inability to adapt to changing government regulations related to competition and compliance could expose the Federal Reserve Bank to legal risks and penalties.  
6. The growth of shadow banking and private credit could pose a competitive threat to the Federal Reserve Bank.  
7. Outdated core banking systems may limit the Federal Reserve Bank's ability to accommodate modern services, such as open banking and instant payments, which could negatively affect customer satisfaction.  
8. The emergence of online-only subsidiaries of traditional brick-and-mortar banks could pose a threat to the Federal Reserve Bank's traditional business model.  
9. A potential U.S. central bank digital currency (CBDC) could impact the Federal Reserve Bank's ability to manage and stabilize the value of the U.S. dollar.  
10. The Federal Reserve Bank's ability to manage the risks associated with a potential CBDC could be affected by a lack of public understanding and perception.