

Summary of Banking Risks and Trends

1. Bank Failures and Risks

- Historical bank failures have been caused by industry-specific risks:
 - **1980s Savings-and-loan crisis:** Caused by maturity mismatching.
 - **1995 Barings Bank collapse:** Event risk from rogue trading.
 - **2008 Financial crisis:** Credit risk due to extensive exposure to debt.

2. Traditional Business Risks

- Most businesses face the risk of demand collapse due to rising costs or competition.
- Banks have historically been insulated from these risks because of:
 - High entry barriers.
 - Trusted brands and customer stickiness.
 - Access to vast customer data for risk analysis and marketing.
- However, technology and regulation are eroding these advantages.

3. The Threat of Efficiency

- Banks' legacy systems are expensive and inflexible compared to modern digital systems.
- New competitors leverage:
 - Scalable cloud technologies.
 - Cost-income ratios as low as 15–30%.
- Solutions for incumbent banks:
 - **Incrementalism:** Upgrading old systems (slow and costly).
 - **Greenfielding:** Building new digital banks from scratch.
 - **Third-party systems:** Outsourcing IT platforms for radical cost savings.

4. The Threat of Open Banking

- Regulations like PSD2 and GDPR mandate banks to share customer data with:
 - Customers.
 - Competitors and third parties (with customer permission).
- Implications for banks:
 - Loss of data as a proprietary asset.
 - Reduced customer stickiness as switching becomes easier.

5. Business Risk is for Business Leaders

- Banks retain advantages such as:
 - Trusted brands.
 - Compliance expertise.
 - Large balance sheets.
- However, risks are shifting from traditional banking risks to business risks.
- These require strategic responses from CEOs and the C-suite rather than traditional risk management tools.

6. No-Stack Banking (Exhibit 1)

- **No-stack banks:** Focus on brand, customers, and business while outsourcing technology.
- **Modern full stack digital banking platform:**
 - Provides hosting, analytics, and operational support.
- **Specialist partners (technology stack):**
 - Components like Kafka, Spark, and Hive enable real-time data processing and analytics.
 - Cloud-based platforms lower costs and improve flexibility.
- Advantages:
 - Cost-income ratios of 10–20%.
 - Agile and scalable solutions.