

Imagine is a song by English rock musician John Lennon from his 1971 album of the same name. Its lyrics [here](#) encourage listeners to imagine a world at peace without the barriers of borders or nationality and to consider the possibility that the whole of humanity would live unattached to material possessions. Well when it comes to the future of banking, imagine if there were fewer banks -or none. This too is possible, though admittedly hard to conceive -partly because banks are so visible. Picture the horizon of any big city and the skyscrapers in view are usually banks, and their physical dominance symbolizes their importance. Banks are bigger than ever, and the total assets of the world's biggest banks are worth approximately \$128 trillion, dwarfing the world's gross global product of \$84.5 trillion.



And yet a world without banks is also visible on the horizon. As never before, their role is under threat from new technology, capital markets and even the public sector. Central bankers have seen tech giants develop quicker and easier payment platforms that could pull transactions out of the banking system. Digital payments may bring the end of cash, while digital central-bank money could prove to be a systemic dis-intermediary to the traditional relationship between banks and customers -the one where the bank owns a permanent record of the entirety your consumer choices.

Such a development -cryptocurrencies issued directly by the world's central banks, would require a new architecture that promises a reckoning for the traditional banking sector. Economist Joseph Schumpeter opined that "economic action cannot, at least in capitalist society, be explained without taking account of money, and practically all economic propositions are relative to the *modus operandi* of a given monetary system". Yet it is possible to see a future in which banks play a smaller role, or even none at all, with

digital money and deposits provided by central banks, financial transactions carried out by tech firms and capital markets providing credit. State issued digital currencies and private payment platforms are inherently more efficient and could bring banking to millions too poor for the traditional banking system. Further, it would remove the systemic risk that too-big-too-fail financial institutions have on national economies. By cutting out the middlemen, greater efficiencies could be realized, by removing the tax that banks represent on the movement of capital every day.



Banking and capitalism are closely linked. Economists still debate why Britain industrialized first, but it is hard to conclude that the alchemy of banks turning idle deposits into engines for investment played a part. The question is what happens if central banks play a bigger role instead? Will a central omni-bank replace the traditional banking system we have known for the past two centuries? The evolution of money and monetary systems are more than a topic of interest for those of us in Financial Services, but one that will shape all our lives going forward. A world with banks sounds like a

dream, but Lennon's song Imagine includes the instantly recognizable words, "you may say I'm a dreamer, but I'm not the only one...". For more on banks as seen through the lens of rock'n'roll, I've included a YouTube link <[here](#)> to Bruce Springsteen's Shackled and Drawn. Take note of his take on fat-cat bankers in verse seven:

*Gambling man rolls the dice, working man pays the bills
It's still fat and easy up on bankers hill
Up on bankers hill the party's going strong
Down here below we're all shackled and drawn*

Be safe, be well!

Martin
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