ANALYSIS

THE FINANCIAL INDUSTRY IN NEW COMMUNITIES

A post-Corona trend report on fintech and changes in the financial industry as well as the new threats and opportunities that affecting the Danish financial industry and its more than 60,000 employees.

By Nils Elmark, Incepcion, London - January 2022

'The financial industry in new communities' is a trend analysis written for Finansforbundet by Nils Elmark

EXECUTIVE SUMMARY:

No one knows exactly what the future will bring for the Danish financial industry and its employees, but no matter who you are, you have to try to get time on your side. You shouldn't fight trends and tendencies, you should take advantage of them. In this report, we describe 8 different trends that we believe employees and management in Danish institutions should know to be able to act proactively. These are the growth in:

Neo-banks or challenger-banks, as they are also called. There are currently 300 of them in the world and new ones are showing up every week.

New business banks, which only exist online and offer brand new services for small and medium-sized enterprises, such as financial management.

Tribal banks, which are primarily based on the customers' social and professional communities and have made it possible for the price of starting a new bank to plummet.

Neo-brokers, which have democratised customers' access to investing in securities, often as part of a new online community.

Embedded banking, which means that special trading platforms offer financial services that the banks previously had a monopoly on.

Deep tech, which shifts the technical focus from the customer dialogue to underlying IT systems, which are becoming more intelligent and self-learning.

Big tech, which are primarily technology giants from Silicon Valley that are in the process of taking over cash flows across national borders.

New digital business models, which are overwhelmingly superior to the way traditional banks do business.

The above trends are a new set of rules of the game; it's not about digitalisation - it's about understanding the new way the financial game board will work in the future. In this context, we look at the new rules in connection with four different themes which require a radically different approach if banks and their employees are to succeed.

Generation Z - the largest generation ever in history consisting of young people under the age of 23 who are creating their own business platform on social media, where parents never go, and where they have their own brands and their own payment systems. The banks are in the process of losing this generation and thus the future as well.

Cryptocurrencies - which are much better suited to the new digital economy than the kind of money that banks and society are currently using. The established financial world has spent the last 10 years rejecting cryptocurrencies, while a new generation has been experimenting with the use of digital money.

Sustainability - old technologies and a global focus on generating profit at almost any cost have put the planet and its nearly 8 billion people on the ropes. The world needs to be changed, and the banks have a key role in helping raise the money for the transition. But perhaps they should also consider their own role in society - a role that goes beyond making money.

Sovereignty - the Danish financial world, despite its modest size in the last half century, has established a brilliant infrastructure that it is in control of. In recent years, we have been selling off the family silver while simultaneously becoming increasingly dependent on U.S. suppliers and foreign investors. Perhaps we should consider 'being able to do it ourselves again'?

To summarise all these trends and developments, the conclusion is that we should not adapt our organisations and job descriptions - at least not in the long term. We have to start from scratch and do it all over again! It's what Amazon, Tesla and all the other tech lords are doing. They just have their stock price in mind.

Danish banks need to return to the original starting point: The community, and we need to think much bigger! Both amongst the management and the employees. As the report documents, the new business models are between 10 and 50 times as effective as the old ones; this does not mean that we have to cut back. It means we have to dream bigger.

NEW GAME BOARD FOR FINANCIAL EMPLOYEES

After a year and a half of the Corona crisis, where we desperately missed the time before the shutdown, it can be hard to imagine that the future will be radically different from where we left off. More digital perhaps, but we'll probably get back to a daily life similar to the one we had before the crisis?

Hardly - the pandemic has globally accelerated business development by 4-5 years.

Financial employees should be prepared to move onto a new game board where the rules are entirely different from the ones we have known for the past half century. The shift will be as fundamental as what we have seen in other industries: Letters have become emails, newspapers have been replaced by social media, everyone is now streaming music and movies from Spotify and Netflix; gone are the CDs, Fona and Blockbuster, and in ten years' time, petrol and diesel vehicles will be far outcompeted by electric cars. What might petrol stations look like?

The 21st century is being shaped right now, and instead of holding on to the way things were done in the past, we should all take the opportunity to take the next step towards a better world. The companies and technologies of the 20th century have brought the world to the brink of collapse. Therefore, we all need change - including in the financial sector - and we need to get ourselves in sync with the development so that we can play a part in it.

Many signs indicate that the financial sector will be reinvented within the next few years.

A new generation: We have a brand new generation on the way - Generation Z - which has been fully digital from birth. They grew up with a mobile with a cracked screen, and they have no tradition of going in to the bank or calling an insurance company. Everything they do starts with their mobile. They are on social media that their parents don't know about and if the financial sector does not capture the new generation now, the generation is lost forever.

Accelerated digitisation: During the Corona crisis, the world was forced to become more digital. We shop more and more online, although it is more pronounced in other places in the world than in Denmark. In China, online shopping now accounts for more than half of all consumption, in the U.S., it is 20 per cent and here in Denmark, it is said that e-commerce made its breakthrough during the Covid-19 shutdown and has grown by 50 per cent to around 6 per cent of total consumption. People are adopting completely new habits.

New financial technologies: The new financial technologies - fintech - have also created a new generation of banks and financial service providers. There is a lot of talk about neo-banks. There are about 300 of them at the moment and every week a new financial institution sees the light of day somewhere in the world. We are also seeing completely new players starting to offer financial services that the banks previously had a monopoly on.

A more present society: Finally, a picture is emerging of a more socially present society. We need to live in sustainable communities. After 30 years of hyper globalisation, we are beginning to question the Silicon Valley agenda - and the Chinese one. We need to be with people again - not just through a screen. And we need to create new safety nets in the new digital economy.

All in all, we are looking at a new generation of consumers with new digital behaviour, with an increasing focus on new kinds of communities that new young financial companies are aspiring to serve. It is on this new game board that the members of Finansforbundet will have to create their future.

This report describes the new future scenario that emerges when comparing global mega-trends and tendencies. We try to create a picture of where the world is heading and in the process, we hope to remove the fear of the future. The report also tries to uncover the new opportunities that are on the horizon and we try to identify what is needed to ensure that financial workers at all levels can have a good life in the new financial reality.

The report reviews the most important trends and we will shed light on 4 themes that will shape the financial future from different angles:

- Generation Z - the future universe of young people
- Cryptocurrencies - the new digital money
- Sustainability - a world in harmony
- The digital sovereignty - about our influence on the future

Finally, the report will draw the lines farther out and out to the sides. The future is not just something that happens - it is first dreamed of and then created by people.

8 IMPORTANT TRENDS IN THE FINANCIAL SECTOR

Trends are signs of change. They point to something new that is growing. Trends are breaks with the old patterns. Suddenly, someone starts doing things differently, and if you see the same thing in many places independently, you talk about 'mega-trends'. When we compare these mega-trends, we can sense the general outline of the future.

We have collected 8 international mega-trends that we think employees, managers, executive boards and boards of directors in the financial sector should know. Some of the trends can already be seen, others are further out in the periphery, but all of them will have an impact on how the development will take shape in Denmark.

The eight key trends are:

1. *Neo-banker or challenger banker*, as they are also called. There are currently 300 of them in the world and new ones are showing up every week.

2. *New business banks*, which only exist online and offer brand new services for small and medium-sized enterprises, such as financial management.

3. *Tribal banks*, which are primarily based on the customers' social and professional communities and have made it possible for the price of starting a new bank to plummet.

4. *Neo-brokers*, which have democratised customers' access to investing in securities, often as part of a new online community.

5. *Embedded banking*, which means that special trading platforms offer financial services that the banks previously had a monopoly on.

6. *Deep tech*, which shifts the technical focus from the customer dialogue to underlying IT systems, which are becoming more intelligent and self-learning.3

7. *Big tech*, which are primarily technology giants from Silicon Valley that are in the process of taking over cash flows across national borders.

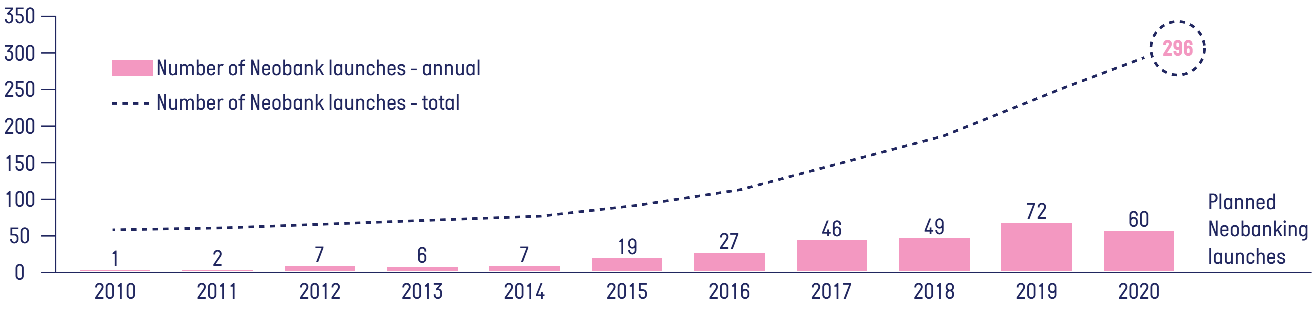
8. *New digital business models*, which are overwhelmingly superior to the way traditional banks do business.

1: NEO-BANKS OR 'CHALLENGER BANKS' IN GROWTH

Over the past five years, the traditional banks have been vastly challenged by young fintech startups in the form of "challenger banks" or "neo-banks", which, as the names suggest, are both new and challenging. They are 'disruptors', who started from scratch and built new online banking systems for a new generation of primarily younger customers. Today, there are about 300 neo-banks in the world and more than one new bank is popping up every week. The most well-known in Europe are the three British companies Revolut, Monzo and Starling, as well as the German N26. They all have about five years behind them and together have 30 million customers. In the U.S., the biggest challenger bank is Chime with 12 million users and in South America, NU Bank holds the growth record with 25 million users. Between them, there are also hundreds of smaller start-up banks, most of which have appeared within the past 3 years. Far from all the new players have their own banking license. Many typically have an e-money license that allows them to receive money, which they then pass on to a so-called white label bank that takes care of the money. In Scandinavia, the neo-bank generation is represented in particular by Lunar, but Danes can actually also open accounts in Revolut, N26 and several other foreign neo-banks.

Before the Corona crisis, the neo-banks invested heavily in growth, financed by venture capital, but now they are more aware of balancing the accounts as the influx of

Neobank worldwide launches from 2010



customers to the new banks flattened out during the Corona crisis. The neo-banks are typically lifestyle banks and during the lockdown period, people didn't really have any lifestyle. People also don't change banks during times of crisis. But that will probably change when society reopens.

The neo-banks have challenged the existing banks in several areas: they are young and innovative and have modernised the dialogue with the customers on their mobiles, in addition to not having expensive branches, and finally, their IT systems are often 'in the cloud'. For example, a bank like Starling in London doesn't have its own data centres, but has placed its software with Amazon Web Service, where Netflix also is - physically somewhere on the ring road outside Dublin! This means that even if an established bank decided to close all its branches, it would still have an expensive infrastructure - its "legacy systems", some of which were programmed in COBOL in the 1970s.

2: THE NEW BUSINESS BANKS

In the last few years, dedicated neo-banks for the self-employed as well as small and medium-sized enterprises (SMEs) have also popped up around the world. These are new online banks that specifically cater to the companies that are the backbone of the business community. The development started with retail 'challenger banks' for millennials, and now the concept has been transferred to the millennial generation's businesses. For example, the SME banks Open in India, Penta in Germany, Tide in the U.K., Aprilia in Norway and Qonto in France.

All these new business banks - and new ones are appearing all the time - are the result of small and medium-sized enterprises' dissatisfaction with the existing banks: Opening an account as an SME is too cumbersome and slow; it can take weeks at an established bank, while the new SME neo-banks often take just 5-10 minutes. The London-based Coconut Bank, which 100 per cent targets the 5.5 million British freelancers, says that they will make it easier to be self-employed than employed.

Most new SME banks focus on accounting and financial management. Open in India says directly that banking and accounting should run on autopilot. All movements in the account are essentially posted automatically. Order in accounting and finance has traditionally been the biggest challenge for self-employed and small businesses. There are two different approaches to accounting:

Subscription to an accounting system: The bank customer subscribes to an online accounting system themselves. This could be Free Agent in the U.K., and in Denmark it could be Billy or Dinero. Thanks to Open Banking - that is, the customer's ownership of their own data - the accounting systems retrieve the necessary accounting information directly from the company's bank accounts. But it can also be data from payment services such as PayPal. This way, the financial system places itself in and overshadows the banks, as the SMEs no longer have to visit the web pages of the banks. Therefore, the banks risk becoming a generic supplier in line with electricity from a power socket. For the same reason, in 2018 the banks NatWest & RBS bought the financial management system FreeAgent and now offer it free to their customers. Those who own financial management in the future own the customer.

Accounting integrated into banking service The alternative is for the new banks to develop their own accounting services which integrate directly with the app, as the financial platform for the young entrepreneurs is not the computer but the mobile. With the new banking apps, users send their invoices directly from their mobiles, and the bank is responsible for moving the money and keeping track of the amount of VAT and tax.

A major reason for the influx of new SME neo-banks is also branding. The new banks speak the entrepreneurial language, they themselves have grown up out of the start-up environment and do not have to translate adult banking language to young business customers. Neo-banks are an integral part of modern business culture. In most cases, you can directly see the difference between a manager in a 'challenger bank' and a traditional bank. One is in a T-shirt and sneakers, the other is in a suit and button-down shirt (if it is a man, of course!).

In addition, new companies today are often based on business models other than those for which the banks originally created their services. Previously, if a self-employed person were to open a store, it required premises, equipment, inventory and so on. In 2021, you can establish an online store based on "drop shopping" without inventory, you don't need your own office, you check in at a co-working space, marketing is done via social media and not via ads, and a lot of production and services are purchased on demand. The need to borrow has simply been reduced. The future is uncertain, so millennials and Gen Z also avoid incurring debt as much as possible.

The new 'SME neo-banks' have completely new services built into their software which makes the traditional business adviser redundant; in many cases, the business adviser will simply be in the way. Therefore, if business advisers are to be successful in the future, they must understand the new business models of their customers and be part of the new business culture and involve themselves much more strongly in the customer's problems and dreams. There will probably also be an industry shift where the distinctions between banks, financial management and insurance are blurred.

The first Danish neo-business bank, Kompasbank, got its banking license in the spring and is aimed at SME companies of between 5 and 250 employees who typically seek loans for capital investments, such as robots or other extensions of the production apparatus. The bank has developed its own central IT platform, located in the cloud with Amazon Web Service, and new products and services can be 'pinned' to the platform in the form of APIs. It is probably Denmark's first bank that is 100 per cent in the cloud, which means that it is without 'legacy' IT systems and therefore can match the big banks in price and perhaps even more importantly: It is possible to give business customers a much faster response to loan applications. As founder Michael Hurup Andersen says: The future is coming towards us at 400 kilometres per hour, and reacting quickly is more important than just price. European and Danish businesses need risk capital in the coming years to keep up with developments, and that is where we start. In the long run, we hope to further develop our new business bank to become a new form of operating system that supports businesses in all areas where they need financial assistance.

At the time of writing, Kompasbank has around 20 employees who are building a new bank that no one in Denmark has seen the like of, and to the question of what demands will be placed on future employees, Michael Hurup Andersen responds:

"Of course, not all employees can know everything that goes on in all corners of a bank, but we want employees to have a general understanding of the bank's processes. This means that we can push decisions out into the organisation and rely on each employee to help the bank achieve its goals.

I need employees who are constantly looking for new knowledge in relevant areas, such as new technology like blockchain and artificial intelligence, and at the same time ensure insight into the bank's customers and environment. We are not looking for employees who just do what they usually do, but who are looking for new methods and solutions, so that the bank is constantly evolving and delivering the services the customers need."

In other words, the director is looking for employees with an open mindset, an understanding of the bank's processes and customer needs combined with constantly updated competencies.

3: TRIBAL BANKING - THE NEXT WAVE OF NEO-BANKS

In recent years, global identity politics have created a new concept in rapid development: tribal banks. The concept of "tribal banks" refers to a bank that serves a group of people who feel a special sense of community. One of these new initiatives is the U.S. company Daylight, which is aimed at people who identify as LGBT+. It is an upcoming online bank, and the IT system hardly discriminates against its customers, but the awareness that you are a customer in a bank for and by LGBT+ people adds an extra dimension to the place where you put your money. Other tribal banks include First Avenue and One United Bank, which are aimed at Black customers, the latter bank with the slogan: "Black Money Matters".

In March 2021, the U.S. experienced a new identity crisis, where many Asians expressed that they were discriminated against in their surroundings and immediately another tribal neo-bank was launched. It is called Cheese and is aimed at Americans of Asian descent. One of the founders Ken Lian, who came to the U.S. in 2008, says that he started the new bank because he was tired of high bank charges and endless rejections every time he applied to open an account in an established bank.

But it is not only in the U.S. that we are seeing the new phenomenon. In Germany, a Muslim bank has popped up, Insha, which follows Sharia law and, amongst other things, does not charge interest. There are four million Muslims in Germany and 20 million throughout Europe. Yet another example of tribal banking is the new German bank, Tomorrow, which is aimed at customers who want green sustainability, and of course the bank has a credit card made of wood, not plastic, not even recycled plastic.

The interesting thing about 'tribal banks' and lifestyle banks is that they communicate with the 90 per cent of the customers' identity that was previously irrelevant to banks. What does the customer's sexual orientation or ethnicity have to do with the bank when she has to get a car loan? For the new banks, however, it means everything. Before Daylight was even fully established, the bank invited customers on the 'waiting list' to attend a Zoom lecture by the two 'drag queens' Kyke and Lagoona, who talked about how they planned their private finances and pensions. The future customers had to pay 15 US dollars to hear the lecture. For the new bank and its customers, it was no longer a matter of fees and interest - that was all long past. Now Daylight was focusing on putting its new community together - and the customers were willing to pay.

The fact that in the future it is possible to choose a bank based on one's identity is partly due to the fact that the central banking software can now be purchased as a shelf product. This has made the cost of starting a new bank plummet. The concept is also called Banking as a Service (BaaS), and there are a number of fintech companies offering finished banking solutions. You almost just have to come up with the name and logo. With the new BaaS concept, you can start a new bank in under 12 months for DKK 10-

20 million. The fintech supplier often sets up with a white label bank in the background. This is the case with the British company Mambu and the German company Solaris.

It is an interesting development, because now it is no longer purely the professional banking competencies or extensive IT capabilities that are the biggest challenges. It is the ability of the founders and employees to communicate with and brand their new bank for a new community.

4: NEO-BROKERS - DEMOCRATISING INVESTMENT

Most people might remember the price explosion of the U.S. GameStop stock, which, at the end of January, was stormed by tens of thousands of small investors from the social platform Reddit. This was in protest against the hedge fund Merlin Capital 'shorting' the stock in the expectation that it would fall. Therefore, in an action directed at Wall Street, ordinary investors threw themselves at the share, the price of which skyrocketed by 1,500 per cent in a short time. - this was stirred up along the way by Elon Musk, who shouted "Gamestonk!!" on Twitter - without anyone fully knowing what it meant. Merlin Capital had to throw all its capital into speculation and only survived because it was assisted by other investment funds.

The small investors, with a total of 3 billion US dollars in the account, had beaten Wall Street on their own turf thanks to the Robin Hood investment app, which probably has close to 20 million young users trading shares for the ridiculously low charge of 0.000119 US dollars per share. Robin Hood was founded seven years ago by Bulgarian Vladimir Tanev and is designed for mobile phones, and it has meant the same for the stock market as the neobanks have meant for the next generation of bank customers. For the same reason, Robin Hood is also called a neo-broker. Robin Hood got 2 million new users during the stock storm in January to February, but they were not the only ones growing. The Chinese neo-broker Webull was also downloaded a million times in a week.

In Europe, we have similar apps that offer commission-free stock trading. In Germany, the first neo-broker popped up in 2019. It is called Trade Republik and in one year, it has increased the number of employees to 280. 12 months ago, it had 150,000 customers, and it is realistic to believe that the number of customers has now doubled, after the German Robin Hood look-alike most recently entered the French market. The idea is that ordinary people should be able to invest modest amounts on equal footing with investment funds instead of having the money standing at zero or negative interest rates.

The same democratisation is seen with the so-called 'robo-advisers'. The large Danish banks have their own robot advisers, e.g. Danske Bank's June and Nordea's Nora, but around the world, the robots are popping up like mushrooms in the forest and many with fees that are far below the Danish ones. The market for robot advisers is growing by 30 per cent a year, and many people see robot advisers as a competitor to 'private banking', which will soon be the only area where the banks actually make money. But the real thing is that, where you currently have to have a million in wealth to get investment advice from your bank, the robots open up to the 95 per cent of customers who do not get advice.
The new democratising neo-brokers are also moving investments out into the community. On the investment platform public.com, you are greeted with the words: "Invest in stocks. Learn from others. We make the stock market social - follow the other investors - discover companies you can trust - invest only what you can afford." And on the platform Ypulse, which wants to make investment a social event, it is said that 18 to 22-year-olds get investment advice on social media four times more often than 40-year-olds. And one third of young people use YouTube or TikTok when they want to know where and how to invest. This means that in the future, banks will have to engage in social media, where the young people are, and participate in their communities.

5: EMBEDDED FINANCE - WHEN FINANCIAL SERVICE BECOMES BUILT-IN

When you buy a Tesla in the U.S., it comes with its own built-in insurance; the car purchaser does not have to find an insurance company, because Tesla has its own. Swedish Volvo - which is Chinese-owned - has just announced that from 2030 they will only sell electric cars and only sell them online. They will also be guaranteed to have both insurance and financing built-in.

The concept is called "embedded finance". This means that non-financial companies are taking over the role that banks and insurance companies had in the past. They want to control the entire customer experience and cash flow. VW also has its own bank, and of course, they also want to cut into the banks' profits if they can.

There are many other examples of embedded finance. PayPal handles payments for 28 million online stores which have traditionally had to go to the bank to get their growth financed. That is no longer the case. PayPal has long since introduced their Business Loans and has thus taken over a substantial part of the loan market. The same goes for Chinese AliPay, which has developed into a lending giant for more people than there are living in the U.S. and Europe combined. They know the borrowers better than the banks and are constantly looking for new earnings opportunities and, like all the other digital payment intermediaries, they have grown during the crisis. In fact, PayPal hopes to develop a "super app" that integrates mobile payments, shopping, investment and savings. PayPal, which Elon Musk also helped start, began by moving money from a credit card to a bank, and now they are trying to push the banks out and take over the entire value chain.

In the U.S., there is an app called Acorns, which in recent years has helped people save and invest by rounding up amounts when they buy in. Thanks to Banking-as-a-Service, they have now been able to issue their own payment cards so that they no longer have to deal with small money, but an entire paycheck.

New financial technology has meant that many of the traditional banking businesses have gradually become integrated into products in an 'on-demand economy', where consumers have to have their needs met quickly and easily. So while a large number of players are thinking about how they can incorporate "banking and insurance" into their products and services, should financial companies maybe start to think about which radical new services and products they can integrate into their banks and insurance companies?

Many retail businesses are also looking to develop new financial services that banks used to be alone in. Most recently, the world's largest store - Walmart in the U.S. - established a partnership with PayNearMe, a digital payment platform for cash! Walmart, for good reason, has not closed its cash registers like many banks, and now through the new partnership the chain offers their customers the ability to pay bills, e.g. rent, with cash when checking out at the cash register. It's a huge step for millions of American families who rely on cash.

In many parts of the world, especially in the Nordic countries, there is widespread mistrust of people who pay cash and 'the system' - whoever that is - wants to have digitised payment flows so that they can control people. The same attitude does not exist in the U.S., where it is seen as a business opportunity to help people who choose to use cash.

It is worth mentioning in this context that the pandemic has caused the credit concept of "Buy Now Pay Later" (BNPL) to boom, especially amongst Gen Z and young Millennials, who account for 75 per cent of online payment purchases. In reality, BNPL is just a consumer loan in disguise, the customer cannot afford to pay it all and then pays in instalments. It was Swedish Klarna that really got the BNPL party started and now has 90 million customers and 2 million transactions per day. In Australia, they have AfterPay, which offers the same as Klarna, and which the U.S. payment giant Square has just purchased to USD 29 billion. The other major payment giant, PayPal, is not going to be a spectator, which is why they have now introduced PayPal Divide, which offers to split customers' payments into four interest-free instalments. This in turn has kickstarted Apple, which does not want the others to get away with all the consumer loans, and so in cooperation with Goldman Sachs, they have now introduced Apple Pay Later - also offering payment in four instalments. Why is this phenomenon popping up right now? Partly because we have the financial technology to handle the new online consumer loans, partly because the young generation does not have credit cards like their parents, they have debit cards that only work when there is money in the account.

6: DEEP TECH - THE NEXT FINTECH WAVE

Within the past five years, fintech has moved many features from the bank branches out to the bank customer's mobile; in popular terms, traditional customer service is automated across iPhones and Android, and many of the manual payment processes are digitised. This can be called "shallow tech" or surface technology. This technology is well organised. Now, fintech development is moving on to "deep tech", which is to say all the bank office functions that go deep into the banks' IT systems and that customers do not see.

These are technologies such as 'machine learning' - 'artificial intelligence' and 'blockchain technology'. There are new technologies that can be used to detect money laundering, to detect cybercrime and to make it easier to comply with the endless stream of rules that flow out over the financial sector daily at a speed of 'one new rule every 17 minutes".

A product developer from the neo-bank Monzo said that banks have traditionally set up general rules that warn the banks - and the customer - that they may be exposed to cybercrime or money laundering. The same guidelines have been set for all customers and companies. It is a primitive way of doing it, because we are not all alike and all have different behaviours.

What Monzo and many other banks are working on is developing individual profiles for all customers: For some customers, daily transfers of money abroad are perfectly legitimate, for others, it is money laundering. This is where 'deep tech' comes into the picture. Using artificial intelligence, the IT system can learn to know the difference between customers - what triggers a red light for one might be a green light for another.

In its annual letter to shareholders on 7 April 2021, Jamie Dimon, the head of the largest bank in the U.S. JP Morgan Chase, wrote: "there is simply no speed that is fast enough to teach JP Morgan's employees to use 'machine learning'."

Every 10th financial employee in the financial sector is engaged in 'compliance', i.e. ensuring that legislation is complied with; this is probably about 4,000 full-time employees, which corresponds to the workforce of the Danish fishing fleet. In principle, 'compliance' does not directly provide value for the customers or the bank, and we will see growing efforts for automation within this area. Understanding the customer's profile and needs is not only important in terms of 'compliance'. If you understand your customers right down to the individual, you will also be able to provide a better service.

One last thing: Banking customers are growing older as digitisation increases. How do we ensure that our older or more vulnerable citizens, who are the least IT-competent, are not cheated or make manifestly wrong decisions when we force them in front of a screen to manage their money?

This has led British dementia researcher Dexter Penn from University College London to establish a new start-up, Kalgera, to prevent vulnerable people from making inappropriate or downright disastrous financial decisions. Dexter Penn says that an increasing number of elderly people and people with dementia are being cheated and experiencing financial abuse, which he wants to help stop. Therefore, Dr Dexter has developed an algorithm based on artificial intelligence that identifies 'financial vulnerability' in the bank's customers, and advises the bank or the customer's relatives if something looks wrong. The system will typically identify situations or behaviour where the person is being exposed to cybercrime or questionable sales. Kalgera is Greek and means "good old age", and Dexter Penn is on the list of the U.K.'s Top 100 tech startups.

7: BIG TECH - THE ELEPHANT IN THE ROOM

In English, you have the expression - the elephant in the room - which means the issue everyone knows is there, but no one dares say out loud, like in Harry Potter, where you are not supposed to say the name 'Voldemort'. This is the case with major tech companies like Apple, Facebook, Google, Amazon, Microsoft and Tesla. Their influence is crushing. In the Corona year 2020, the value of the 6 companies rose by 3 trillion US dollars to a total of 8 trillion - and none of the companies have a bank!

They would probably be good at banking. They have more customer information than any other companies and know exactly whom it pays to loan money to. This is why the U.S. monopoly authorities are effectively keeping Silicon Valley out of the banking market. Jack Ma - founder of Alibaba, the Chinese counterpart to Amazon, had the ambition of being a bank for China as a whole until January of this year, but the enterprising entrepreneur got his wings cut by the government in Beijing and disappeared from the spotlight overnight. Jack Ma's power had become too great. But the fact that the tech giants are not establishing banks does not mean that they will not absorb a growing share of the cash flow in the future. Many of us have either Apple Pay or Google Pay on our mobiles and Amazon offers its own credit card, as do the other two giants. Most recently, Google launched its Google Plex, where mobile users not only connect their bank to Google Pay, they can open accounts from Google Pay in currently 11 banks that are part of the cooperation. Google is also betting on 'remittances', i.e. international money transfers. Facebook dreams of launching its own currency and also has its own payment service, they have relaunched peer-2-peer payment in South America, a type of mobile pay, and during the pandemic, Apple bought the Canadian tech company Mobeewave with the aim of turning any iPhone into a payment terminal.

The tech giants are unlikely to open banks for many years, but they are increasingly conducting "banking", that is, offering customers financial services as part of their business. Amazon already provides operating loans to many of its customers, as do the tech giants PayPal and Square, the latter of which is the owner of Twitter. Uber has established its own payment system between the customers, drivers and Uber itself, and in the U.S., the company offers a Visa payment card to anyone who wants one. Airbnb is also rumbling about the idea of loans to homeowners, and why shouldn't they? Airbnb homeowners are rated by tenants almost daily, so the tech company knows better than the credit unions who is in control of their homes.

When the tech giants enter a new field, they come in strong. In China, the country's largest insurance company, Ping An, went together with the two largest social media companies Alibaba and Tencent to form the first purely online insurance company. Within four years, it had 450 million customers - 60 per cent in the age group 20 to 35 years.

8: THE DIGITAL BUSINESS MODEL IS ACCELERATING

The Corona shutdown has accelerated financial digitisation worldwide. Throughout the world, the consumption of cash has fallen in favour of electronic payments, and whether the customers have wanted it or not, they have had to settle their banking business online for 18 months, possibly with a bank employee who was sitting at home at the kitchen table.

All in all, it has gone very well - so the reaction from virtually all bank executive boards has been the decision to reduce the number of branches by between 20 and 50 per cent in the coming years. A number of the major international banks have also announced that the home workplace has come to stay. One of the world's largest banks, HSBC in London, has decided to reduce their office space around the world by 40 per cent and with Barclays, in the future only 13 per cent of employees will come to the office every day.

In addition to declining interest income, what is challenging the banks is the new fintech business models. Where an established bank typically has a branch network and an old IT system that is heavy to maintain, the new challenger banks and financial disrupters have no branches and a new flexible IT system that is typically 'in the cloud', that is, on a server owned by one of the big tech companies. This typically gives the new banks ten times the efficiency in their business processes! An employee in the neo-banks Revolut or N26 can currently serve around 6,000 customers, while in the established banking giants Barclays or BBVA, they have one employee per 600 customers. And theoretically, there is no limit to how many customers they can serve if everything is done through automated processes.

In 2019, the British company Revolut hired its first Danish employee, and the same year the company announced that they had 50,000 Danish users, which highlights the potential of the new online business model. The Chinese neo-bank WeBank similarly claims that it only costs 49 cents a year to service a customer - in a traditional U.S. bank the cost is 20 U.S. dollars.

The entire business philosophy of the new online banks is also different. They see themselves as a platform, integrated with social media: Many established banks experience that they are becoming "un-bundled", i.e. that competitors pick off the customers from the established bank that are easiest to serve, and leave the established bank with the complicated tasks. Swedish Klarna, which has also opened a bank in Germany, offers consumer loans, and Stripe offers operating loans to online stores, and loan applicants do not have to fill out lengthy applications with financial accounting. The loan is provided using an algorithm based on the company's history with Stripe.
What are the neo-banks doing about it? Obviously, they start selling what e.g. Amazon would otherwise sell or take in other products that the banks have never sold before. N26 has just announced that in the future it will offer its customers insurance via the bank's trading platform. The attitude is that if car dealers offer financing, then we as a bank would rather start selling cars. Revolut has hired the first 'commercial executive' to investigate how the bank can make money in new ways from the currently 16 million customers they are in dialogue with virtually every day. It was similarly interesting to note that in July, Danish Lunar hired a chief product officer with a past in Ikea and Spotify respectively - not an experienced banker.

The challenge for the banks will be the redefinition of the business. Established banks - Danish and foreign - can endlessly fire employees, but will never be able to compete with neo-banks on price. But this does not mean that the banks cannot find a new place. It is worth thinking about that almost every time a bank branch closes on a street corner, a new café opens. Jyske Bank scratched the surface but did not implement the idea. While the banks have been closing branches all over the world in recent years, 19,000 new co-working spaces have popped up where modern self-employed workers do their business from. That is more than the closed branches. The banks and their employees need to work more creatively with their business development. One of the largest banks in the U.S., Capital One, has opened 45 cafés around the U.S. in recent years and another half dozen are being planned.

The banks have traditionally seen their role as money lenders, but the money has always been lent so that people and companies can realise their needs and dreams. If money is not the only problem to reach the goal, then what can the banks help with?

THE FUTURE HIGHLIGHTED IN FOUR THEMES

No one knows for sure what the future will hold; we were reminded of this on 11 March 2020, when the Danish Prime Minister shut down the country and all plans and strategies were abandoned.

But anyone could have played with the idea of a pandemic before then, which Bill Gates actually did in a TED talk on 3 April 2015. In order to make the task clear, it pays to frame our reflections on the future in themes. For example, if in the future employees' abilities to serve customers in branches is converted to office communities, what will the employees be able to do then? If the banks decide to expand internationally, what skills will be demanded from the financial employees of the future? If we are betting on 'tribal banking', then what should we do?

Such themes allow us to explore the future within a framework of boundaries and provide a more general understanding of contexts. In this report, we have chosen to look at 4 different themes that present different views of the future and illustrate the new requirements and opportunities that the author of the report believes employees in the financial sector will benefit from understanding.

- Theme 1: Generation Z - the future universe of young people
- Theme 2: Cryptocurrencies - the new digital money
- Theme 3: Sustainability - a world in harmony
- Theme 4: Sovereignty - the desire for self-determination

THEME 1: TIKTOK BANKING - GENERATION Z'S NEW UNIVERSE

We have for good reason discussed millennials over the past five years, that is, the generation between 25 and 40 years old who have been the main suppliers of new energy in society. They are familiar with the 'old' world while being technological superusers. They are the bridge builders between the old society and the new, and as such are a 'hybrid' generation.

However, more interesting are the successors of the millennial generation: Generation Z.

Generation Z was born between the Amazon year 1997 and the Tesla S year 2012. In other words, half are schoolchildren and teenagers and the other half are actually adults and between 18 and 24 years old. They grew up with a mobile in their hand. They are the 'mutants' who are fully integrated with their smartphones and linked to their 'tribe' via social networks. They have probably never fixed a bike or changed a light bulb, but they can maintain a social network over media that their parents have never heard of.

Gen Z is currently uninteresting for the banks, because there is not a lot of money to get, but they represent the future and, together with the 'millennials', in 5 years' time they will constitute the majority of the workforce, and if the banks do not start taking an interest in Generation Z, it may well be the generation that is going to kill the banks: They will become the mutant banking killers! in the same way that their predecessors, the 'millennials', dealt the final death blow to the CD player, newspapers, Kodak and Fona.

In London, the world's most sophisticated banking market, where new ideas are constantly being tested, 60 per cent of all Generation Z already have an account in a neo-bank today, and Incepcion's calculations indicate that there will probably be 100 per cent adoption by 2025. This means that in 4-5 years' time, a new generation of Londoners will have entrusted their money to online banks that did not exist when they were born. Development in London is 3-4 years ahead of the rest of Europe, so there is still time for Danes to adapt, but it is hard to argue that Danish Gen Z'ers won't follow their peers elsewhere in the world.

But it is not enough for banks and their employees to move their websites out to young people's mobiles, because Generation Z is establishing an entirely new consumer behaviour and lifestyle which in no way resembles the physical world for which the banks were developed at the time.

Earlier this year, a new U.S. online bank STEP was launched. It is aimed at teenagers and the front figure of the bank's campaign was the influencer Charli D'Amelio, who was only 16 years old, who was also herself an investor in the new bank. Her first update on the new bank got 3.4 million likes! Charli also excels by being the first influencer with over 100 million followers on the new Chinese-created social media TikTok, which has over 1 billion users in the world, 600 million of whom are in the West.

A survey of 20 random European bankers in February revealed that only one had been on TikTok, which, along with Instagram, is Gen Z's preferred social platform. There are 2.5 billion Gen Z'ers in the world and 500 million of them are on TikTok. This is a reality that has come about in just two and a half years. A Canadian study shows that 40 per cent of all teenagers in Canada are on TikTok.

TikTok users upload millions of short 15-second videos every day, and TikTok's fabulous success has forced other social media platforms to change their strategy. YouTube, Twitter and Facebook have all felt compelled to introduce similar short videos on their platforms. Silicon Valley has suddenly become a follower rather than a trendsetter.

TikTok has created a new financial trading place for teenagers: Shopify, which is Amazon's toughest e-commerce competitor, has just entered into an agreement with TikTok so that 1.7 million small e-commerce shops can now sell directly on the new platform, and to complete the picture, TikTok has applied for a banking license so that they can offer financial services to young users on the new platform. Shopify has also launched their own payment system, ShopPay.

A giant new online universe is thus being created for the future, where consumer behaviour is completely different from what adults are familiar with. No physical stores - brand new online players and completely different brands.

Let's take a quick detour over to the virtual cosmetics market, where we see a pattern that can soon be applied to the financial market. 5-6 years ago, new cosmetics brands began to appear online: One of them was Glossier, started by the influencer Emely Weiss, who explains: "Many young girls feel like Julia Roberts from Pretty Woman when shopping in established stores. They are not taken seriously. That's why I started Collier, a brand created for a new generation that is used to shopping online.
Glossier is a so-called DTC brand (direct-to-consumer), and the global market for DTC brands in cosmetics and fast fashion has exploded since 2015. 9 out of 10 "beauty brands" purchased online are DTC brands that grow out of social media, often driven by influencers. We are no longer just talking about e-commerce but social commerce. In other words, the old established brands, but also e-commerce platforms such as Amazon, are coming under pressure from a new generation of customers, platforms and companies. It is the platform economy in pure culture, where money follows social media.

But can't the established companies just buy the young upstarts? Not necessarily, because the price of the new startups is growing exponentially. The cosmetics giant Shiseido, who slept in, had to pay the equivalent of DKK 5 billion in 2019 for the online brand Drunk Elephant to be able to get access to the next generation; and another cosmetics giant Coty had to pay DKK 3.5 billion to take over 51 per cent of the DTC brand Kylie Cosmetics, otherwise they would have lost access to the future. The brand was created in 2016 by the super influencer Kylie Jenner from "The Kardashians" when she was just 17 years old. Her business model is brand new and says something about what the future may bring.

Kylie Jenner is not only a front figure like Charli D'Amelio, no, she owned the billion-dollar business and controls both production and distribution. All functions are outsourced to subcontractors, so Kylie Cosmetics Inc., with a value of over USD 1.2 billion, needs just twelve employees to develop and manage the new DTC empire. On the old game board, you bet on 'economies-of-scale' - the bigger you are, the cheaper and better you can produce - in Kylie's world, they operate with 'economies-of-unscale'. The smaller you are, the less you are bound by the past and can cobble the future together via your network - the latter is really the only thing you need, coupled with your ambition!

Kylie and all the other influencers show that the dialogue with their 'community' is the key to everything. If you understand your 'crowd', you also know what they need, and you can sell everything they need, even if you're just 16 years old. The first million-dollar brands have already started to grow out of TikTok. For example, the British twins Shanae and Renae Nel, the twinfluencers, have launched their own lip gloss - twingloss, naturally - on TikTok, and are now both are double-digit millionaires.

Why is it relevant to describe this development in fashion and beauty? What does this scenario have to do with the future of the banks? Everything, because the above examples are a 'blueprint' of the future. This is how the businesses of the future will increasingly emerge, and this is how future consumers will behave. New social media creates new economic platforms, and if you are not on these platforms as they pop up, you are left out.

Unfortunately, this is happening under the radar of the established banks right now. Charli D'Amelio has 34 million followers on Instagram and 100 million on TikTok. How many adults know of her? In comparison, Danske Bank has only 2,840 followers on its Instagram account, and not a single update has been posted yet. The only thing Danske Bank follows on Instagram is Danske Bank Careers. Charli D'Amelio is probably a bigger future threat for Danske Bank than Nordea - but no one gives her and the other influencers a thought.

The other established banks shouldn't be cocky - the picture is the same all the way around. NO ONE is in sync with the next generation. Even the new challenger banks like Revolut, Monzo and N26 have only a few teenagers amongst their customers.

Both the banks' senior management and employees should ask themselves the question: What is my role in the new Gen Z universe, which is currently expanding at the speed of light? What do I need to know to serve a new banking generation?

All the old banking virtues, from proper accounting to understanding rules and laws, are still a prerequisite, but they no longer win the young customers of the future.

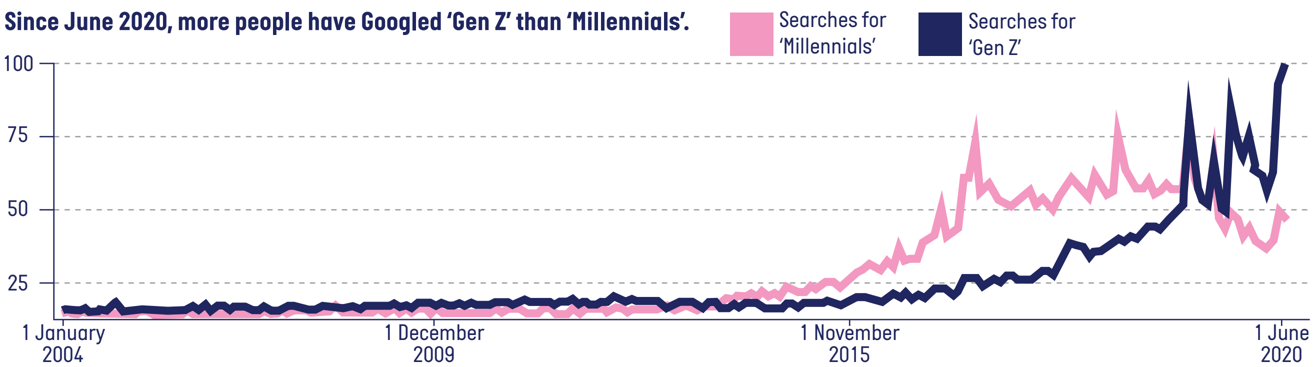
The author of this report saw a case of how two young British girls at a checkout in a sandwich shop suddenly discovered that they had both paid with the neo-bank Monzo's payment card, after which the two girls gave a 'high five' from one queue to the other. Their 'coral red' payment cards don't actually do anything more than any other plastic card - except for hitting with a new generation's lifestyle. But it's also a milestone. For the new Generation Z'ers, identity is of central importance; you don't spend a fortune on a designer bag to flash a credit card the same as your parents. Gen Z wants banks that are on their mobile and support their identity and community affiliation.

A few years ago, a Russian neo-bank popped up: Rocketbank, which was aimed at "rebellious young people and computer geeks". The founders of the bank told us that 60 per cent of the employees were game developers and experts in social media who happened to offer 'banking' as well. The German bank Fidor took the perspective a little further and recently said that they were now just a tech company with a banking license. And from a bigger perspective, the President of China's largest insurance company Ping An said that "we are now no longer an insurance company, we are a tech company".

That the new banks see themselves as software providers is demonstrated, for example, in the way they price their services. With them, customers increasingly pay a monthly subscription - they are talking about 'subscription based banking'. The new generation of young people is likely to subscribe to a bank like they subscribe to Netflix and fitness. And if they think another bank is more in sync with their needs, the young consumers simply switch subscriptions and move the money over to the other neo-bank. Most also have accounts in several banks.

In the new Gen Z ecosystem, there is a need for completely new types of employees, competencies and cultures. There is a need to attract more young people - there is a need for employees who are familiar with social media; there is a need for employees who know marketing and branding, there is a need for new businesspeople who can experiment with new business areas - and there is a need for technology people who can design the new system, and finally at the top of the organisation, there is a need for managers who, much more than today, can take the bank on adventures and dare to experiment.

Since June 2020, more people have Googled 'Gen Z' than 'Millennials'.



THEME 2: CRYPTOCURRENCIES - THE FUTURE OF MONEY IN A DIGITAL WORLD

Hugo Frey Jensen, then-director Danmarks Nationalbank, said in 2018 that cryptocurrencies would never win broad acceptance, never end up functioning as a normal means of payment or create a parallel economy - and for the same reason cryptocurrencies did not cause sleepless night for Nationalbanken's executive board. And in May 2021, the statement was backed up by the current Director of Danmarks Nationalbank, Lars Rohde, with an updated statement that he would be tempted to ignore cryptocurrencies. The statements seemed more political than professional. When business leaders say "I don't believe in that", they actually mean "I would rather not believe in that" or "other people should not think that I believe in that".

At the beginning of the year, the payment giant PayPal announced that in 2021 they would let its 350 million users save and pay with cryptocurrencies, including Bitcoin. This immediately inspired the world's largest cryptocurrency exchange, Coinbase, to issue its own Visa debit card so that their customers can also use the digital currencies as a means of payment when shopping. And at the end of March this year, Visa announced a global alliance with the company Crypto.com and introduced a pilot project which would lead to Visa customers being able to pay effectively with cryptocurrencies.

Elon Musk also wanted to join the party and Tesla went out and bought USD 1.5 billion worth of Bitcoin and announced that if you wanted, you could buy his electric cars with Bitcoin in the future - which caused the price of Bitcoin to go up another 14 per cent. He then 'discovered' how much power Bitcoin uses, and abandoned the currency, which fell, after which the world's owners of Bitcoin collectively became USD 350 billion poorer in one afternoon.

During the Corona crisis, Bitcoin and other cryptocurrencies tripled their value, which explains why people in Argentina are crazy about cryptocurrencies: The country's inflation during the same period eroded the Argentine peso to 14 per cent of the original value, keeping the local national bank director awake at night, and in Venezuela, the inflation is of disastrous proportions, which has almost made Bitcoin the national currency, which is also true of a handful of other South American countries. In El Salvador, Bitcoin is recognised as a normal means of payment.

The cryptocurrencies can do something that the traditional currencies cannot. They were created for the 21st century digital world and had a total value of over 2 trillion dollars in mid-August 2021. Everyone is talking about the 4th industrial revolution - the Internet of Things - and the global marketplaces, where information and goods flow freely. During the Corona crisis, retail over national borders increased by 25 per cent. Why should money not flow just as freely?

Mark Zuckerberg noted two years ago that if a dollar was to be transferred abroad it took an average of 5 days and cost 7 cents. He would like it to happen as quickly as sending an email and at the same price - that is, for free. Therefore, in 2019, he proposed his own cryptographic currency, Libra, which would be backed by the U.S. dollar and thus obtain a stable exchange rate. Zuckerberg's universe comprises 2 billion people on the earth who are linked together via Facebook, Instagram and Whatsapp, and the American would like these many people to start trading more with each other, and if it happened with Libra as a means of payment, payments could be made free of charge and at the speed of light across national borders. From a technical standpoint, the solution is better in every way than how we do things today. But this is where the U.S. authorities put their foot down, as the Chinese authorities did with Jack Ma and Alibaba.

Mark Zuckerberg was in full swing building his own economic empire on his social platforms that could operate independently of all the banks and national banks in the world. They would simply be cut out of the equation. To create a little distance from the project, Libra changed its name to Diem, but the German Finance Minister Stoltz stated dryly at a G7 conference that this was just cosmetics and that "a wolf in sheep's clothing is still a wolf" and of course neither Europe nor Germany could accept Libra/Diem's entry into the market before the regulatory risks were properly investigated. It was a hard 'no' from all the judges on the panel, because of course no government leader wants to let their country subject their dreams and ambitions to the tech giants. But they face a huge challenge: Cryptocurrencies are far more efficient than the old currencies and keeping crypto out is like blocking mp3 files to hold on to CDs.

The first cryptocurrency was Bitcoin. It appeared in 2009 just after the financial crisis and its unknown creator Satoshi Nakamoto created it with the clear intention of decentralising cash flows and cutting the banks out of the process. Not a nice thought if you are a bank or an employee of one.

The foundation of Bitcoin was and is blockchain technology - a software network that acts as a type of 'general ledger' where all transactions are written down. But, where traditionally the banks have guaranteed that all information in the databases is correct since the Merchant of Venice, the blockchain program is constantly being shared in identical copies to lots of different servers on the network. The long and short of it is that experts agree that you can't cheat with the content of a blockchain program. This is why organisations are increasingly using blockchain to ensure traceability in everything from diamonds and food to the contents of all the Maersk containers in the world. Bitcoin and the thousands of other cryptocurrencies are just the so-called "tokens" that are put on the blockchain system and in this context are comparable with 'electronic gold' - it has value because we have adopted it.

Cryptocurrencies such as Bitcoin can be used as an investment, but are also used for nearly instant money transfers. Regular currencies are exchanged for crypto and, when they arrive, are immediately exchanged for another currency. An example of this is BitPesa, which is a Kenyan fintech company specialising in money transfers via Bitcoin and which brings financial infrastructure to bankless areas. They are approved by the British Financial Conduct Authority and it works through the sender purchasing an amount in Bitcoin, e.g. in Coinbase (try it yourself), transferring the money to their BitPesa app on their mobile, and then sending the money to another BitPesa user. The fee for a transaction is three per cent of the amount. But there are lots of other fintech companies around the world that are based on what is called "blockchain remittance" in modern fintech language - i.e. crypto-based international money transfers. Western Union takes ten dollars to transfer 200 dollars, while the crypto company Bitso only takes one dollar for every 1,000 dollars migrant workers send home. A giant success is Ripple, which handles international payments for established banks and the service has its own currency/token by the same name. In February 2021, the largest bank in the U.S., JP Morgan Chase, launched its own blockchain-based currency JPM Coin to streamline its own dollar payments and money transfers.

Germany's third-largest neo-bank is called Nuri, and it is Europe's first regulated blockchain bank, which is trying to eliminate the differences between traditional money and cryptocurrency. (Try to open an account - it takes less than five minutes). And in September 2020, Kraken, which is the first crypto stock exchange, got a U.S. banking license. In other words, it can operate on an equal footing with all other banks, just based on digital currencies.

The ideal situation from a digital standpoint is when the customers stop exchanging for old-fashioned money, but keep the cryptocurrencies in their 'wallet' on their mobile. This is probably a long way off in the future, but the potential of cryptocurrencies is underscored by the recent stock listing of Coinbase, which the largest trading venue in the U.S. for Bitcoin and Etherium. Coinbase has 56 million registered customers, and its market value after the stock listing is USD 86 billion, which is almost twice as much as A.P. Møller Mærsk, which is the world's largest shipping container company.

As young people would say: Crypto can do anything. The British singer Imogen Heap has put all her songs on blockchain, and every time a fan downloads and pays for her music, the record label, the musicians, the technicians, and anyone else who contributed to the process all get their money based on a pre-arranged distribution key. There is no need to send invoices, there is no intermediary, and it does not matter where in the world the music is listened to. Everything is handled by her blockchain and the cryptocurrency automatically goes where it should.

Obviously, the national banks of the world are aware of the advantages of cryptocurrencies in a digitalised world, and the Bahamas launched its own digital dollar, the Sand Dollar, which only exists in the electronic universe. The new currency is governed and regulated by the Central Bank of the Bahamas. China is also working on introducing a digital currency for its 1.4 billion inhabitants and in December 2020, 50,000 lucky Chinese citizens were able to put 200 e-yuan into their mobile wallets in a test project, and this spring the government decided to extend the test to another half a million Chinese citizens. The U.S. Federal Reserve is similarly working on a digital dollar, just as the EU is working on plans for a digital euro in 2025. The Swedes will also have a digital krone - Denmark seems to be holding out.

An official digital currency issued by the central bank can change the current economic structure. Currently, money is created when the bank provides loans to, e.g. homeowners; it is money that the bank borrows from the national bank and that the organisation "Gode Penge" says: We have a monetary supply created by loans, which can create housing bubbles. The only money directly created by Danmarks Nationalbank is cash, but in the future, it will also be e-kroner, if it comes. Because, like the Bahamas' 'Sand Dollar's and China's 'e-yuan', it will be issued directly by the central bank.

What will this mean? Will the government maintain the banks as intermediaries and as being responsible for all functions covered by the banks? Or will the government deposit a greater share of the new money directly in the citizens' NemKonto in Danmarks Nationalbank and gain greater control over the money supply?

Along with many others, none of these questions have been resolved. Everything is open and for the time being, we have only been experimenting with a new digital infrastructure for a little over ten years. But it is worth noting that the banks are actually no longer simply threatened by bottom-up disruption from the young startups; they may also turn out to be threatened from the top by the central banks' digital currencies. Thriving in this new digital universe is not a matter of age or understanding existing technology, it is a matter of openness and curiosity about new things.

A couple of years ago, a group of 'senior bankers' visited one of London's financial development centres, and for fun they downloaded a Bitcoin app to try to try to buy their lunch in a café called NimComSoup, where they accepted payment in Bitcoin. When one of the bank directors came to the checkout, his courage failed him, he didn't know how the Coinbase app worked and instead of admitting his ignorance and learning something new, he quickly pulled out his usual Visa card.

This is where either the threshold to the future is crossed, or where you hold on to the old economy. Taking one step out of your comfort zone makes the whole future. If you have paid for your lunch with Bitcoin just once, you are already in the new universe. It doesn't require a university education or lengthy courses. As Troels Kløvedal said: The adventure begins when you're not sure whether you're standing on the right platform at the station.

THEME 3: THE SUSTAINABLE FUTURE...

From a global perspective, the 20th century is in liquidation. The modern industrialised world began about 100 years ago with a number of new technologies: We got electricity introduced in earnest, we got internal combustion engines, cars, airplanes and wireless communication and with these new technologies, we built the welfare society in the West. We have now pushed the old technologies to the breaking point, Theme 3 is about being on the verge of causing the planet's environment and climate to collapse. People's way of living on Earth is no longer sustainable, but it's not just about the climate and environment - it's the whole package. We are not lucky for our lives on Earth!

First: the inhabitants of the world generally agree that the planet's climate change is a problem. In fact, there are only three per cent genuine climate deniers. Somewhat surprisingly, the Nordic countries are at the bottom when it comes to assessing the size of the problem. In our opinions, around 50 per cent of all people between 16 and 74 years old believe that climate change is "a very or extremely serious problem"; but if you ask people in, for example, Chile, Kenya or South Africa, 9 out of 10 inhabitants say that the problem of climate change is very or extremely serious. There are people and communities who feel the changes more than we do!

A Swedish fintech company Doconomy is working to establish a system that links measurement of CO2 emissions with people's daily consumption. If you buy a pair of jeans, for example, you are also responsible for emissions of 26.8 kilos of CO2 - and where other payment cards have a set limit on how much money you can withdraw per day, Doconomy's credit card has a limit on how much carbon dioxide you can use per day. Suddenly, the bank enters a completely new role as adviser on the customers' desire for green behaviour.

Second: A sustainable global society encompasses much more than the climate. Covid-19 has been the overriding problem in 2020, but if we see it as just a temporary crisis, then there are still huge global challenges to address. The five biggest problems are:

- Poverty and social inequality
- Unemployment
- Crime and violence
- Corruption
- Lack of health care

And if we dive into the problems that arise in the workplace, we encounter growing stress amongst employees, many people feel isolated and alienated in society and fear an unpredictable future.

There is an urgent need to create new sustainability across the world community and the task is considerable: 100 years ago, when we started building a modern world, there were 1.6 billion people on the planet, now there are 5 times as many, and we need to re-design global society within perhaps 20 years. Compared to the construction of the 20th century, the new development task is ten to 20 times more extensive. This can only be achieved through a modernised financial sector that is driven not only by profit, but also has a genuine interest in and ambition to make the world and society a better place to live.

It is said that agriculture needs to make a green transition, and that food must not be transported around the world. A Walmart press release from 2008 says that American food is generally transported 2,400 km before being eaten by consumers, therefore the supermarket chain said that in the future it would buy more locally produced goods.

A few years ago, a vertical nursery appeared in Clapham in southern London - Growing Underground - it is located 33 metres underground in an old bunker from World War 2 and, through modern technology, it grows CO2-neutral and unsprayed vegetables that are sold to restaurants and supermarkets in the local area. So how has it been financed? This has happened through crowdfunding - where local and other interested investors inject risk capital. Interested parties can invest from £10 and up. The crowdfunding model is in fact a modernisation of the Danish cooperative, which we seem to have forgotten. The people who grow and eat the food also help invest in the production apparatus. This is sustainable at all levels and is competitive with international producers who do not create jobs, pay taxes and fly products in from abroad.

Crowdfunding is expected to grow globally by 16 per cent per year in the coming years, but the funding method will continue to have a marginal impact on the national economy, although the Covid-19 crisis has increased interest - for the driving force of crowdfunding is not in the dream of becoming a millionaire, but the desire to participate in a project that increases the quality of life of one's society. Many of the major tech giants we see in the world and in the financial sector are instead driven by venture capitalists, who want to disrupt what is established and who expect to grow their investment 40-50 times. They don't put their capital in a local café. But, people in the local area who need a new café will probably want to invest a manageable amount.

Covid-19 has taught us that sustainability is not about moving production and jobs to China because it is cheaper - on the contrary, we have rediscovered the qualities of moving closer together and maintaining the influence on development. And that is where crowdfunding takes on new meaning. It is interesting to see that a number of the neo-banks that have popped up in the past five years have almost all been over crowdfunding. A while ago, the small new business bank Coconut took stock of its customers, all of which are freelancers, and the bank was able to see that 40 per cent of its customers were also investors. This is similar to the traditional picture from the Danish local banks.

Equity-based or 'equity crowdfunding' in English is difficult in Denmark for two reasons: Firstly, there is no Danish platform and secondly, Danish legislation makes it almost impossible for startups to seek investment through crowdfunding. Danish legislation is simply designed based on the 'old economy' and forces both Danish entrepreneurs and investors to British, Swedish or Finnish crowdfunding platforms.

A couple of years ago, a crowdfunding adviser gave a talk about how to best and most successfully conduct a crowdfunding campaign, which is as complicated as conducting a branding campaign through influencers on social media. After the talk, a banker who was present asked why his bank did not advise its customers on crowdfunding. The banker responded that banking didn't know anything about it and in general, crowdfunding was not something the financial sector dealt with.

"I didn't do it two years ago when I was studying biochemistry at university either", Khyrsten replied dryly. She is generally paid ten per cent of the capital she helps the entrepreneur raise.

"The Gig Economy" is the economy based on self-employed people and freelancers who go from project to project. The expression comes from the rock music world, where a commitment is called a 'gig'. It is an Uber economy with free market forces, and more and more people are expected to make their money in the new economy. An EU report says that ten per cent of the workforce currently gets its jobs from online platforms such as Uber, Wolt or Deliveroo. Some claim that it gives greater freedom to freelance workers, but others feel that it is stressful to not know what they are earning tomorrow, and the existing financial and labour market system rarely takes 'the gig workers' into account. They are the beginning of a new proletariat - the precariat - that is, those who have jobs, but live on the edge. It could be the bike messenger, the journalist or the academic going from project to project. In the U.S., one third of the workforce is already gig workers, and in a decade, more than half are expected to be. The situation is not so bad in Denmark or Europe, although the curve is increasing, and in southern Europe, more than one third are already independent.

Most banks are aware of the need for a sustainable transition and have designed programmes and projects to help with the liquidation of unsustainable activities in favour of new green and sustainable projects. This represents new opportunities for banks but also opportunities for losing goodwill. Money laundering has cost the big banks dearly in fines and loss of goodwill, and unsustainable investments can do the same.

A new report from World Animal Protection accuses Europe's 10 leading banks for billions in investments in companies behind the illegal clearing of the Amazon rainforests to the detriment of the climate, human rights and biodiversity. Amongst other things, HSBC has a hot potato to deal with in the form of the Brazilian company JBS, which slaughters no less than 35,000 cattle a day and has been boycotted by Nordea Asset Management.

Several of the banks talk about their green profile, which some critics, however, call 'greenwashing'. If the customers of the future really believe that they want to support 'sustainable banking', half-hearted large banks may find it difficult compared to, e.g. the Dutch Tridos Bank with branches in a number of European countries. 'Sustainable banking' is not just some of the activities, it IS the activities. Tridos Bank only provides loans to customers if they can prove that the money is going to promote cultural, social and environmental sustainability. It is 'purpose banking', similar to German Tomorrow, which is also aimed at a sustainable future.

Of the startups that has seen the new opportunities in sustainable investment is Danish "Make!mpact", which helps investors find sustainable investments within the 17 UN Sustainable Development Goals. The interesting thing about the establishment is that it was not really investment experts who developed the system - it was young gig-workers with very different backgrounds who created the IT system that they thought should exist if they were to use it themselves. In other words, Make!mpact does not speak professional language to the next generation of ethical investors, the fintech startup was instead born for its purpose and grows out the market of the future.

THEME 4: DIGITAL SOVEREIGNTY - THE BATTLE FOR INFLUENCE ON THE FUTURE

In January this year, the founders of the Berlin insurance startup Clark enthusiastically said that they had just gotten almost half a billion kroner in fresh capital for further expansion. Behind the injection was Chinese tech giant Tencent, which now invests as much in Europe as in the United States. For example, they have considerable capital in the French business bank Qonto and the popular payment app Lydia.

In 2018, Tencent, together with Allianz, invested 160 million dollars in the German neo-bank N26, which was originally financed by another Chinese venture fund, Horizon from Hong Kong and the venture fund Valor, which is owned by Peter Thiel, one of the founders of PayPal. When Tencent went in as an investor, N26 had less than one million users. On 31 January this year, the bank announced that it was now represented in 25 countries and had just achieved a customer count of 7 million and was quietly eating its way into the U.S. market.

Peter Thiel has invested in 43 European startups; in addition to N26, these also include Qonto, German Trade Republic, British Wise (before Transferwise), Swedish Spotify and actually also Danish Samlino, which helps consumers find the best offers. And the pattern is clear: Thiel invests in business models that can disrupt the established financial companies, and he has a nose for choosing the right thing and the financial muscles to implement the project.

One of Germany's most creative fintech growth houses, Finleap in Berlin, got a capital injection a few years ago from China's giant online insurance company Ping An, which thereby got its finger on the pulse of Europe's fintech development. And while Tencent and Ping An are signalling that they are increasing their European venture investments, Ant Financial is also appearing on the scene. In January of this year, the Chinese announced that they were establishing a new investment fund of 100 million dollars to support European startups. The unfriendliness with the United States has shifted the Chinese focus to Europe.

Another example is the Norwegian-developed browser Opera, which has about 380 million users, who the owners understandably do not want to go unexploited. In February of this year, the company announced the launch of its own startup, Dify, a digital 'wallet' built into the browser for e-commerce and discount schemes. Later, the plans are that Opera will offer consumer loans and other forms of payment. Dify will first be rolled out in Spain and later in the rest of Europe. In 2016, Opera was taken over by a Chinese consortium for USD 600 million.

The latest example of a foreign takeover of European infrastructure is Visa's acquisition of the Swedish fintech startup TINK, which is an open banking platform. Earlier this year, Visa tried to take over the U.S. open-banking platform PLAID, which was in fact the toughest competitor of Visa and Mastercard. However, the U.S. Department of Justice intervened as, in their opinion, the acquisition would have created a monopoly for payments. Instead, Visa turned its attention to Sweden and bought Plaid's largest European competitor TINK.

This development raises the question of future European digital sovereignty. It concerns the EU, it concerns Chancellor Merkel, and it should also concern European and Danish banks and politicians: Danish banks are being challenged by startups funded by foreign capital - Chinese, American, Arabic or Russian - and if these are the new winners, then where is Danish digital independence?

Where are the Danish investments in fintech?

Copenhagen Fintech has calculated that in Denmark, a total of DKK 1 billion is invested in fintech companies per year. A sharp increase since the start of 2014, but compared to the banks and insurance companies' other investments, it is small money. For example, Sydbank bought Alm. Brand's banking business for DKK 1.2 billion to gain access to 50,000 customers - a deal that could have been enough to cover Denmark's total fintech investments. Lunar has attracted DKK 700 million in venture capital and has used it to establish itself in the Nordic region with a preliminary 200,000 customers and in principle has endless growth potential. Another example is Tryg's acquisition of Codan for DKK 35 billion - the company could have invested in 50 startups of Lunar's size for the same money. The focus amongst the Danish financial sector is clearly not investment in new business models but investment in the familiar, for the purpose of consolidating and creating 'economies-of-scale'.

Since then, Lunar has looked outwards and has raised an additional USD 210 million in fresh capital from Chinese Tencent, Swedish Kinnevik - and to defend the Danish colours: Bestseller!

Digital independence must also be viewed in relation to the sale of Danish infrastructure. Nets was sold to Italian Nexis in the autumn of 2020, and they had already sold payment service to American Mastercard. The pattern is directly comparable to Kommune Data, which became KMD, which was sold to a private equity fund, which then sold KMD to Japanese NEC. Two pieces of Danish-developed infrastructure sold abroad, while the new generation of fintech solutions seems to be without a clear Danish imprint.

Mastercard and Visa have a growing impact on Europe's cash flow. Four out of five European electronic payments are handled by the two payment giants, so 31 European banks are currently working to establish a new payment infrastructure in Europe, where half of all payments are actually still made in cash. The project is called the European Payment Initiative - it has EU support but still lacks a name - but the main objective is to wrest payments away from the Americans and create "payment sovereignty", i.e. payment independence. Are Dankort and Mobilpay also in the picture? Dankort has lost a lot of market share in recent years and new and cheaper terminals are offered by iZettle, which PayPal bought from the Swedes a few years ago.

European payment independence is under severe pressure. Because while we've been scared of the Americans, the Chinese have moved onto the field - onto the football field. One the main sponsors during Euro2020 was Chinese Alipay, which allegedly signed an 8-year sponsorship contract of EUR 200 million with UEFA. After this, it will be difficult for the "European Payment Initiative" to gain a place in the awareness of European consumers. In parallel with this, during the European Football Championship, we also saw a swarm of Chinese sponsors for the teams, including TikTok and AntChain, which is Alibaba's blockchain company.

The next IT challenge is called "US Cloud supremacy", i.e. U.S. superiority in server and data storage. The 'data clouds' that everyone is talking about are owned by Microsoft, Google, IBM and Amazon and they float over American soil. In other words, all the vital data that Europe generates is under U.S. administration, which is worrying in most areas. This is equivalent to Denmark being one of the world's leading shipping nations, but not being able to build our own ships.

The Russians determined in May that if Facebook and Twitter did not store the Russians' data in Russia, they would be fined for non-compliance and eventually faced with other restrictions.

The problems are huge and not easy to tackle. Europe does not currently have the power to replace the major U.S. tech giants; there are no European companies that can deliver a cloud that in any way matches Amazon Web Service or Microsoft Azure. But the problem is relevant: What is Danish and European independence in the financial infrastructure if we continue to let the rest of the world decide how we should adapt?

TREND

THE FINANCIAL INDUSTRY IN NEW COMMUNITIES

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