

# The delicate matter of disruption

*Alex Fraser, chief executive of The London Institute of Banking & Finance, believes that education has a big role to play in tackling disruptive threats to financial stability*

**C**reative destruction is the “essential fact” about capitalism, the Austrian economist Joseph Schumpeter famously wrote. He believed that industries “mutate” over time and in a way that is hard to second-guess because the process is “organic” – a constant force of internal renewal. Schumpeter is often presented as a champion of monopolistic big business since he argued that large companies with many resources drive technological development. But he was not interested in a party line: he said he wanted to make his readers think. He pointed out, for example, that regulation of large industries is an “extremely delicate” problem. The question now is whether that problem has become even more delicate – particularly in financial services, where many assumptions and traditional business models are being disrupted and the end result may not be creative.

Regulators have always had to make decisions that can ripple out in unexpected ways. Some effects look fairly linear – if banks become more active in mortgage lending, for example, there may be more house building – but most are highly complex. Climate change, for instance, is a major threat to financial stability but financial regulators have relatively limited information on climate-related financial risks and, even if they were omniscient, they are not necessarily able to shape the markets as they see fit. What they do is try to drive debate on the best way forward.

The Bank of England (BoE), for example, has launched a climate financial risk forum to “build capacity and share best practice across financial regulators and industry”. It will meet three times a year. The reality, though, as Mark Carney, governor of the BoE, has said, is that real progress on preventing climate change will come down to coherent government policy. The disruption that the world faces from global warming is beyond the capacity of one sector, or segment of society, to understand and solve on its own. All of us have to act.

Global warming is not the only significant disruptive force that financial services – and society – face. The huge capacity of big tech to gather and analyse data is, potentially, a radical challenge. Credit, insurance and investment will always be needed but the companies that now provide them could fall by the wayside as big tech takes over.

It may not happen like that, of course. The Bank for International Settlements pointed out in its report, *Big Tech in*

*Finance*, published in June this year, that the entry of big tech into financial services “presents new and complex trade-off between financial stability, competition and data protection” and that regulators “need to ensure a level playing field” between the tech companies and banks. Regulators welcome the lower costs and greater reach that fintech promises, but are wary of the potential risks, some of them systemic, as well as the difficulties of reaching even “clear and uncontroversial” aims in cross-border and cross-sectoral discussions.

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The sort of complex problems that global warming and big tech pose – and the need for not just technocrats but society as a whole to engage in finding a way forward – brings me to the importance of the role of educational bodies such as The London Institute of Banking & Finance. We were founded in 1879 by bank staff to help them gain expertise and recognition. We still aim to educate professionals and to advance banking and finance, but our focus now is wider: on lifelong learning for all. The children who take our financial capability courses in school will know how to manage their own finances, but also appreciate what the financial sector actually does and why. As adults, they should be able to ask informed questions. Answers to those questions will come from professionals who continue to develop their own knowledge over their careers.

If financial education is done right, it can help us all take our place as informed citizens. Now, perhaps more than ever, we should all engage in the debates that disruption brings if we are to find creative, not destructive, ways forward. ■

**Special series of articles on disruption begins on p11**



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