

**Solutionism:
Why AI, Blockchain, and Whatever Is Next May Change Little to Nothing at
Many Banks**

by Charles Wendel

A few days ago the *Financial Times* published an article about how some African countries hope to leap over the past and close longtime gaps in quality of life by what is termed “leapfrogging” Quoting the FT, it is defined as followed: “In the words of a World Bank study, countries can make a ‘quick jump in economic development’ by harnessing technological innovation.”

Many banks and their Fintech competitors are pursuing technological innovations with the same leapfrog concept in mind. As discussed below, most will be frustrated at the limited results of their efforts.

The FT article goes on to summarize the attraction of leapfrogging as well as some constraints:

“Britain took 150 years or more, via an industrial revolution that harnessed water, wind and steam power, to move from an agricultural to an advanced economy. Japan achieved the same transition more quickly and countries such as Singapore, Taiwan, South Korea and China have taken just a couple of generations to leap from poverty to middle- or high-income status. The leapfroggers’ definition of technology tends to focus on the digital revolution and the power of ‘shiny new apps’, in Ms. Lunga’s phrase, to transform society. However, Robert Gordon, an economist at Northwestern University, says the greatest gains in productivity were made not through the internet and mobile phones, but in technologies that we now take for granted: indoor plumbing, roads and steam power.”

That article highlights the ability of many Africans to use app-based services like Uber, order takeaway food online, and transfer money. Millions have also leapfrogged over their lack of electricity to use solar power. However, the article quotes a Zimbabwean scientist: “There are places where there’s still no running water, but you can stream a video.”

The ‘shiny new apps’ phrase and the illusions it may encourage seem particularly relevant to banking. Also relevant is the concept of “ ‘solutionism’ “the idea that technology can fix even the most intractable of problems. Africa, according to skeptics, demonstrates equally the limitations of technological solutions in the absence of good government and basic infrastructure.”

Substitute “Banking” for Africa in the previous sentence and the essential challenge facing the banking industry become clear.

Bank management often looks for the next tech solution, the one that will provide the secret sauce that will leapfrog competitors and differentiate the bank. Last year it

involved partnering with Fintechs, this year it requires transformation to digital and use of AI. Next year, who knows?

That's not to undercut the critical importance of these tools, but too often these tools are introduced without the required change to organizational mind set, compensation, and other more mundane areas. Solutionism continues to be fueled by big consulting and IT firms. To go back to Africa for a moment, many consultants and IT firms are drawn to topics like Artificial Intelligence in much the same way that hyenas are drawn to weakened animals. They see an opportunity to exploit a bank's need and move from focusing on one "ism" or next big thing to another, as required.

Note that it is not just banks that may be subject to the illusions of technology-based leap frogging. A friend forwarded a August 13th Wall Street Journal article titled, "Fintech Crowd Dives into Subprime Credit-Card Lending." Get this: "The new entrants say their use of machine learning and artificial intelligence for underwriting helps them manage the risk. They also mostly extend small credit lines, often ranging between \$500 and \$2,000, limiting the scale of potential losses." My friend commented on the article by quoting a prior CEO he had worked with: "Banks get into trouble in three ways - bad loans, bad loans, and bad loans." Frankly, it is impossible to believe that all of these companies in areas like credit cards and small business are operating with the required discipline and self-analysis.

The FT article summarizes its focus with a line in which I have exchanged "banks and Fintechs" for Africa: "The rapid spread of technology has raised hopes for [banks and Fintechs], but digital services cannot take the place of good governance." Management may nod its head at the obvious truth of this statement, but many seem to lose their heads over the next big IT-based "innovation".