

AI WILL BENEFIT SWISS BANKS, BUT NOT THE WAYS ONE MIGHT IMAGINE

“If I had to bet on which would be the leading professions in the years to come, Swiss bankers would be on the list!” This prediction by Laurent Alexandre, the founder of the Doctissimo.fr website, may come as a surprise to some. The Frenchman was on a visit to Geneva a few days ago to attend a conference on artificial intelligence (AI) organised by Union Bancaire Privée (UBP). He is known for straight-talking, and did not seem especially intent on flattering his audience, criticising banks for their shortcomings in other areas such as their failure to keep up with technological advances. Among French-speakers, Mr Alexandre has one of the highest media profiles in terms of raising awareness of the opportunities and dangers of new technologies. Although AI is expected to deliver progress, it also carries with it numerous threats. “Whoever leads in AI will rule the world,” said Vladimir Putin last year. Elon Musk has gone even further, claiming that AI will cause World War III.

Increasing the value of neutrality and security

Although Laurent Alexandre has a less alarmist view, he still believes that AI is bound to make the world less stable and secure. Naturally, therefore, it will increase the value of and the need for neutrality, confidentiality and security. That is particularly the case for the world’s wealthiest people, and those features form the very foundations of Swiss banks. “Almost a decade after banking secrecy ended, we can clearly see that Swiss banks are still number one in wealth management, largely because of those attributes,” said Mr Alexandre. The same attributes will prove vital in addressing several trends in future. We will now take a closer look at four such trends.

“Datapolitics”: the new geopolitics

China is making great strides in both economic intelligence and censorship with the help of AI, which is giving the government even greater control over information. “People used to think that censorship was a barrier to technological progress. But using artificial intelligence, it’s possible to adopt a much more selective form of censorship: allowing business and technological ideas to circulate, while clamping down on political opponents. China is also starting to sell its technology to certain countries in Asia and Africa.” Mr Alexandre told his audience that the Financial Times had published at least 20 articles in the space of just over a year expressing concerns that China would overtake the US in terms of expenditure on AI. That will soon be a reality.

The end of “cuddly idealism”

Laurent Alexandre believes that the “cuddly idealism” that characterised the early days of the internet is now out of date. “History shows the same pattern with each major technological advance: when radio, television or even aviation were developed, people thought they would spell the end of wars and ideological confrontation, because these technological advances would bring people together and allow them to talk to each other. Naturally, people thought the same thing about the internet. However, that is very far from the current reality.” Worse still, the opposite seems to be happening with the rise of extremism, particularly of the political and religious kinds.

Big tech: modern privateers

Laurent Alexandre believes that today’s tech giants are modern “privateers”, working in league with governments like those private warships authorised by the king to capture enemy merchant ships in another era. In the US, those giants are referred to using the acronyms GAFA (Google, Amazon, Facebook and Apple) or NATU (Netflix, Airbnb, Tesla and Uber), while China has BATX (Baidu, Alibaba, Tencent and Xiaomi).

These “privateer” oligopolies will become even stronger because, unlike first-generation tech companies, they have the benefit of AI, which is putting up major entry barriers. “It takes a huge amount of data and technology to achieve a decent standard of AI. That means that we probably

have around 10 companies in the entire world that will be providing AI services in the years to come.” AI also rewards horizontal structures, because a company like Google can recoup the cost of its AI investments from numerous divisions – with activities spanning the internet, genetics and self-driving vehicles – which is not possible for a bank or carmaker.

The importance of human interaction in private banking

As regards security and cybersecurity, human interaction will become increasingly important according to Laurent Alexandre, given that it is currently very easy to produce fake videos and falsify data, even biometric data. “Artificial intelligence has its limits. This is where wealth managers have an edge: they know their clients well and develop long-term relationships with them. In the future, client authentication will probably involve recalling shared memories that cannot be faked.”

Investing in technology: avoiding the pitfalls

For Laurent Alexandre, a key factor for successful companies and managers is to be smart when it comes to innovation: “the ones that show resilience and durability are the ones that avoid the pitfalls!” Julien Leegenhoek, equity analyst specialising in the tech sector at Union Bancaire Privée, seems to share this view. He believes that it is important to treat fashions and novelties in the tech sector with a healthy dose of scepticism. “In 2012, many people thought that the video-game industry was dead, but it has grown tremendously because of innovation in both consoles and online gaming.” Conversely, he has seen excessive enthusiasm for certain trends such as 3D printing and blockchain, or for certain companies such as GoPro. Mr Leegenhoek thinks that investors should watch other segments that are less consumer-oriented but still growing rapidly, such as companies specialising in customer relationship management (CRM) software and those developing machine-to-machine language. Tech investors must also keep their distance from the major indexes. “Indexes are not perfect and are regularly adjusted. In the MSCI indexes, for example, Amazon is still not classified in the tech sector but in the consumer discretionary sector, despite the reclassification currently underway. Netflix, on the other hand, has finally been included in the newly created ‘communication’ sub-sector.” Finally, investors should not be scared of big numbers. After Apple and Amazon’s market capitalisations broke through the trillion-dollar barrier this summer, can they continue rising in value? “I am not aware of any economic theory stating that the size of a company is limited, and we are now in a ‘winner takes all’ situation. As a result, it is entirely possible for these companies to become more valuable,” the analyst concludes.

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