Emmanuel Daniel:

China is not going to drive the world or define our future. And the reason it's going to be the US, from my perspective, is because the US handles the single most important commodity asset in human civilization today. And that is information.

James Robert Lay:

Greetings and hello, I am James Robert Lay and welcome to episode 271 of the Banking on Digital Growth podcast. Today's episode is part of the Exponential Insight series and I'm excited to welcome Emmanuel Daniel to the show. Emmanuel is the award-winning founder of the Asian Banker with offices in Singapore, Beijing, Dubai, along with representatives from around the world. He's also a writer, an entrepreneur and a consultant, and was recognized as a global top 50 Fintech influencer in 2021 and 2022. And today we're going to be diving into his new book, The Great Transition: The Personalization of Finance is Here to guide you, to empower you along your own journey of growth at your bank, at your credit union, or at your fintech. Welcome to the show Emmanuel. It is so good to share time with you today.

Emmanuel Daniel:

James, even before we started we were jiving so well. We've got a lot of ground to cover.

James Robert Lay:

We really do. And before we talk about the financialization of everything and maybe get into your book The Great Transition, I always like to start to show off on a positive note. What is going well for you right now, personally or professionally? It is always your pick to get started.

Emmanuel Daniel:

Well, I just got into Beijing. I spent seven months of last year, 2022, in the US, in different parts of the US and that was my first trip back after the pandemic. And so I got to see the US from an outsider looking back in and understanding what the US has become and what the US is to the rest of the world. What the US has become today... and this is just top of the mind take on this... it's been commoditized by big business. Whether I'm in New York or Seattle or San Diego, wherever I was... or Miami, what I saw was big business had commoditized everyday life in the US. And why do I say that? Because I come from other parts of the world where the GDP growth was anything between 5% and 12 to 13%. In China it was that for like 10 years in a straight row. Where these are countries which generated wealth, where people became wealthy very quickly and then settled into lifestyles with good infrastructure and all that in a very short period of time.

It was a shocking development and I as the founder of the Asian Banker, started in 1996 as an excuse as a magazine, to go out there and visit every country in the Asia Pacific region and to have an agenda which is financial services. And why financial services? Because banking... I call banking the cathedral industry. The industry that you have something to do with it from the time that you're born to the time you die. You know land in any country, meet the chairman or CEO of any major bank and you actually meeting the most important people in that country.

And then today we've shortened the name to TABInsights to do research and stuff and we have an office in Dubai and in London. We've become sort of global. And in terms of tracking the development of the banking industry, we've looked for common themes.

And the funny thing in the process in which I've built my business is that because we were covering Asia so well that we've had very interesting figures out of the US that was interested in what we did. I count among my friends, Barney Frank, who wrote the Dodd-Frank Act, as a very, very personal friend. I stay at his house, we gel together, we travel together and so on.

And then we've got Dick Kovacevich who build Wells Fargo, which is... no matter what you have to say about Wells Fargo today, it is one of the major institutions in the US. And that I can rattle off names in the US who I've come to know because they were interested in Asia. In other words, I've had access to them, which an average person in the US wouldn't have because in the US it's a crowded field, but they wanted to be here. I spend weeks with them and then it works back into what's happening in the US.

When I say I'm global, I work backwards. I work from the field and then back into the home country in that way. If you ask me what I'm wrapping my mind around a lot is the leadership of the US going forward. Now I am the one person who will tell you that, "No, China is not going to drive the world or define our future." And the reason it's going to be the US, from my perspective, is because the US handles the single most important commodity or asset in human civilization today. And that is information. It doesn't necessarily handle it well, because it's liberal, it's non-defined. It allows information to shape society and shape opinion and so on. It looks incredibly dysfunctional, but information is the asset that defines civilization today.

James Robert Lay:

I want to pause you here and I want to roll back on a few things that I think are really important to maybe get some context around. And when I look at context... Context is just one part of perspective. Perspective is gained through context and framing. And I think you're bringing a very important perspective here because your context of the world, your frame of the world, is just a little bit different. It's just how we see things. And when you mentioned Barney Frank, he provided one of the forwards for your book, Transition... Which is The Great Transition: The Personalization of Finance is Here.

And this ties closely into data, it also ties closely into commoditization, which is something that you mentioned in your opening thoughts. And when you think about commoditization, we might think, "Well that's digitization." Digitization was really the tipping point here. And Peter Diamandis, he has written about his six D's. And you've got digitization that leads to democratization, that leads to demonetization, et cetera. And so now that ties us back into this point of data. And your perspective, it's the financialization of everything. Where does data and how we handle and are responsible with data... like you said that's a key part to consider here. How does all this play into the larger narrative, US China... Because like you said, you're bringing a different perspective here, which I appreciate.

Emmanuel Daniel:

Well, if you go back to first principles and your podcast, your community thinks a lot about digitization. Anything that can be digitized can be financialized, it's just that simple. Data can be digitalized, data can be financialized. And when you financialize everything, you'll find several things happening. I say this in my book. Actually, I refer to someone else, a historian who pointed out that mankind tried to tame every major beast in the world above a hundred kilograms and above and only manage to tame 17 of them. What we are going to see happening in financialization is that we'll try to financialize everything and then we'll find that we can only financialize some things and some things will not be financialized. But for the next hundred years, the world will go through a process of... because data defines everything we do. We'll try to financialize as many things as possible.

And the reason we've not been able to tame every beast above a hundred kilo kilograms... What's a hundred kilo... 200 pounds and above.

James Robert Lay:

220.

Emmanuel Daniel:

220 pounds and above is that... there are economic reasons. The reason the lion and the tiger you didn't get tamed is because it was economically not feasible. That is the only reason they stopped because they were wild or any of those reasons. Now, I think it was in 2014 that Jeff Immelt said that GE, which was a major manufacturer, will no longer generate its income from manufacturing. It would generate its income more from data. And the way it's going to do that is to put lots of more sensors in everything that it does, generate the data and then make that available to its customers.

James Robert Lay:

The internet of things coming online now.

Emmanuel Daniel:

Just following his thoughts, the internet of things is going to generate that amount of data and we are all going to try to financialize that data. Now, by the way, because of this ability to financialize data that actually gives an uptake on the US economy. I think that there are some analysts who say that the US economy right now is like 19, 20, 21 trillion dollars and it can become much, much larger than that. The thing is that it becomes larger because of its financialization, not because of any underlining asset or underlining ability to manufacture stuff.

Now that creates problems because the more divorced you are from any underlining asset, you become Muhammad ephemeral economy. Meaning that a lot of the assets are traded assets, it's financialized assets, it's markets and so on. There's a whole new universe that's being created that require new rules by which we interact with each other and so on.

James Robert Lay:

Well, I appreciate the idea of framing this conversation, once again, perspective around assets. Because historically up to maybe year 2000, that was maybe the beginning of this, maybe even it was 1994 when the internet hit mass consciousness, assets were viewed as something that... they were tangible.

In banking, you know, looked at your asset liability. You've got assets on the book, well that can be backed up by a tangible thing. A building, for example, a piece of machinery. But now when you're talking about digitization and data and financialization assets are becoming intangible. And I know there are some concerns around data and privacy, but you are looking here that... this idea of the financialization of everything, it's opening the doors to decentralize finance. And that's where things like blockchain come online, cryptocurrency. How does all of this, blockchain, for example, play into this narrative of data and responsibility of data?

Emmanuel Daniel:

Well, no, before we go there, I want to carry your viewers with us. Now in 1984, at the time of the first banking crisis after Bretton Woods. Okay, Bretton Woods ended in 1971 to 1973. And it took 10 years for the first US banking crisis. They call it the savings and loans crisis. At that time, if you looked at the balance sheet of any bank, they carried actual mortgages. And then there were several other crises that happened subsequent to that. 1984, 1987 was the securities crisis. The banks were carrying more securities than they were mortgages. By 1994, the Mexican crisis, there's a lot of trading assets on the balance sheet of the banks. And then 1997 was the Asian crisis. Was Asian banks borrow in dollars rather than in your domestic currencies. And when the dollar rates went up, the costs of borrowing went up.

And then by the time you reached 2008, it was about the trading banks. It wasn't the main street banks in the US, it was the Wall Street banks that carried a lot more derivatives of underlying assets. What I'm saying in my book is that by the time we reach 2014 and then 2023, which is where we are today, if you look into the balance sheet of any banks, they carry more intangible assets and trading assets then they carry actual assets with underlining value. I want to carry your viewers with us on this journey.

Now the question is what will the global economy look like? What will the banking industry look like? Now parallel to the development of the balance sheet of actual banks was the development of digital assets. 2007... or 2008 was when bitcoin became a reality. Now whatever you think about Bitcoin, it's a genie that you can't put back into the bag. It went up to a trillion dollars. It now has fallen back now to about 800 billion dollars. But it's not the valuation that decides on the validity of Bitcoin or any cryptocurrency. It's actually the utility of it, the sheer energy. If you take any cryptocurrency, you take Solana or Cosmos. 300,000 developers working in an open source ecosystem to create functionalities. You can't beat that.

Now don't even start talking about the crypto winter and so on. Just think about the sheer energy that's going into the development of utilities. Now, we don't see the real life utilities coming on stream yet, but this whole thing called decentralized finance, it's actually a shadow banking system which is mirroring what banks do and trying to create a real economy around that. But that's where we are heading right now. That's how we have to read all the developments that have taken place so far. And then I'm making some conclusions from there. But let's take the thought to where it is right now on these points and then build it from there. And I've got a few things to say from there.

James Robert Lay:

Let's continue down this. And maybe also as we're going down this journey together, when you think about decentralization, when you think about the way that you framed it, kind of a shadow banking system, how could this play into a potential financial crisis? I know one of the things that you think about here is that it could be driven by public perception and digital communication. What's the danger?

Emmanuel Daniel:

If you just track the balance sheet of the bank, of any bank... and your bank is know this very, very well. Because they know their own balance sheet. And how it's morphed since 1984 to what it is today. Increasingly, the balance sheet carries ephemeral assets. And you will continue to build those ephemeral assets. In fact, last year the Bank for International Settlements put down the ground rules for which central banks can now carry cryptocurrencies on their balance sheet. And that's easily 3.5 trillion worth of assets sitting on the balance sheets of governments, of central banks around the world.

Now as that ecosystem gets developed, the rules by which these ephemeral assets... because let's just agree that cryptocurrencies don't have an underlying valuation or asset supporting them, and they're used for things like gaming, work, utilities and so on. And when you think about NFTs and so on, all of these comprise an ecosystem or an economy that is based entirely on perception. Which is what you and I believe to be of value even of a security for which the underlying value is the business or the profitability of a actual business. We've entered that economy today.

And just as 2008 were global trading banks getting into trouble because of derivatives, which were twice removed from underlining assets. The next banking crisis or the next economic crisis will be based on even more ephemeral assets. And there the rules of engagement changes dramatically. There are books that say, "This time is different." No, it's not different. It's based on an underlining asset. No, it's not. We've actually moved on and we need new rules by which we understand the phenomenons that we are creating.

James Robert Lay:

That is a key takeaway. Leadership keeps going back to the things that they know. And we've used this word a couple times now, it's perception, it's the context and the framing. We need new rules. What can a leader who is listening to this podcast do to gain a new perception of the new realities going forward into the future? Because we know in banking, people fear what they don't know. People fear what they don't understand. I think that's why the work that you're doing is so important because it's providing clarity. It's providing, "Hey, here are some things to think about." But knowledge alone is not power. It's being able to apply what you're learning going forward into the future. It's the knowing that leads to the growing. And so what can a listener do to continue to increase their knowledge in a world that is changing at an exponential rate? Because I know... and I've heard some leaders say this, "I've been doing this for far too long to learn something new today." And I'm like, "Well, that's a very dangerous place to be." What's your take on this idea of knowledge and knowing?

Emmanuel Daniel:

Big business has a way of distorting the future of not taking us on a linear path to where it should be taking us. They try to reinforce their role as an intermediary, all of that. I'm not saying that the future that I'm thinking about where is decentralized, where assets are ephemeral and so on is going to be a straight path. There's going to be a lot of distortions as we get there. One of the distortions we need to put our finger on and deal with is the whole question of intermediary. Which is what's the role of intermediaries going to be as we get into a digital future.

Now, what I've done in my book is I've provided some guidelines or some dimensions by which we can perceive the future. Now, one of the things I've figured out, and I appreciate it from someone I learned from. His name is David Ronfeldt, and I put his chart into the book. Which is that he said that civilizations move from one phase to another. And there are essentially four phases, tribal to institutional, from institutional to markets and then markets to networks.

Now, he wrote this paper in 1994 when the most developed technology was a fax machine and he had not got sight of the network world that we today have sight of. What I took away from his paper... and his paper had nothing to do with finance, but I superimposed how finance was evolving. I could see that what we are dealing with today, the rules of finance that are current to the markets economy, we need to pay attention to that, the rules are in place. When you have a Warren Buffett or a Charlie Munger saying that crypto is all fake and you need to look at the underlining business around it and so on... and they're not wrong because they exist and they operate within the market's economy.

And there's a new phenomenon that's evolving, which is the network economy for which the Warren Buffets of the world are not the purveyors. You need new sets of rules, you need new sets of eyes to see what the rules of engagement are in the network economy. In the network economy, for example... And this is what David Ronfeldt says... and I borrow his ideas into my book and I say that in the network economy, the crime is not fraud, which is what we see today in terms of securities fraud. What Sam Bankman-Fried did with the securities fraud in his token was a markets economy fraud, which is he was fraudulent. Where else if he was actually operating in the network economy, fraud takes on a different dimension. You see in the network economy, you and I will have access to same sets of information. The traditional thought will not be applicable. In other words, you can see what I'm doing.

In fact, that's exactly what happened, which is all of us could see what Sam Bankman-Fried was doing as he was moving his assets for one platform to another and financed and taken over some of the assets and then tried to sell it. All of that was open to everyone. But what we were not able to see, which is a rule in the network economy, is deception. Which is that you and I may know exactly what we are doing, but we don't know why we are doing it or we don't know the intentions behind it. The nature of fraud changes as a result. The point here is that we shouldn't use rules that we are familiar with in the markets economy trying to decipher or to define how the economy would work or how society itself will work in the network phase.

James Robert Lay:

I think right there it's continuously learning... There is a futurist that said, "The illiterate of the 21st century will not be those who cannot read and write, but those who cannot learn, unlearn and relearn." And it's going to continue at an exponential pace. When you think about what was happening the 1870s, 1880s, REL was starting to grow, but what was going on right next to REL was communication transformation. It was the telegraph. And that telegraph then gave way to telephone, which now leads us all the way back to this idea of the network economy here. And so if you were operating like it was 1923 in 2023, we know philosophically and intellectually we can't do that. But now going ahead into say 2033, there's going to be some major transformations happening. And a lot of people... We got the rise of AI. November 30th, 2022 was when open AI released chat GPT.

I think that's like an internet moment right there. Because it's like, "Wow, we've been talking about AI, we've been experiencing AI through Alexa and through Siri, but now it's a whole different perspective." Once again, the context and framing has changed. Another area that I want to dive into is financial inclusion. Because you believe the biggest lie that you've been told and where the real responsibility lies is a great setup here. What's your take on financial inclusion going forward into the future because of all of the disruption that is happening, AI, job displacement... But at the same time there will be job creation too. Things that in 1994 think about all the jobs that did not exist then that exist today. I think the same will be true. We're just going to have to continuously reinvent ourselves as individuals, as teams, as organizations, perhaps even at more of a macro scale. But where does financial inclusion lie into this narrative tied back to data, decentralization and really the financialization of everything.

Emmanuel Daniel:

This question you're asking me about financial inclusion is about the sheer noise there is in the industry. And the sheer noise that is in society trying to decipher this journey that we are on. And because of the noise, we need dimension, we need context to understand what exactly is it that we are dealing with. This thing about financial inclusion is that I'm saying to the people in the platform economy... which is the platforms that technology makes available, whether it's social media or supply chain and all kinds of transaction platforms that exist today... that the whole idea of platforms is to onboard as many users as possible and then to monetize them. What has happened is that we've created a few lies in order to popularize these platforms to make them look like innocuous. But what we are intended to do, and anyone who is trying to build a digital platform today is trying to onboard thousands if not millions of customers, users onto their platform.

And then the people who are financing the development of those platforms, the venture capitalists and so on are expecting that you will monetize them at some point. This whole idea of financial inclusion is predicated on the belief that you must put on whoever a million poor people on these platforms and then monetize them. The intention is not to create a new reality where poor or the disenfranchised become enfranchised or create a new ecosystem of their own, it is to profit from them.

Now, why is that important? Because there are different ways which are not platform centric by which you can empower the poor, the disenfranchised, the unbanked and the underbanked and so on. And they already exist in the analog world. And I say that and I describe them in my book. In Bangladesh for example, there was a banker and he got a Nobel Prize for it. Muhammad Yunus, he just got six women together in villages and lent money to them and created an entire economy that today makes Bangladesh on a per capita basis larger than India it's neighbor because it's a viable ecosystem to build a banking system on. And it had nothing to do with technology, nothing to do with platforms. It's just being faithful or true to the culture or to the local community, to the local DNA as it were, where people are trying to build ecosystems around close communities that exist outside Fiat currencies and technology and all of that. The whole idea of the platform economy is to onboard as many people as possible and then to monetize them.

James Robert Lay:

We can look at it objectively, this is what we're seeing, this is what we're observing. And if this is what we're seeing, this is what we're observing I think you make a very interesting point around community. And I've been talking a lot on this podcast about building community, empowering community, whether the community be the physical world, whether the community be the digital world. There's multiple ways to look at community now. But when we talk about empowering people and looking beyond just the platform of growing a large user base and then monetizing them because then the cycle continues to repeat itself. The future is based upon the decisions that we're making in the present, which we can learn from the past. What is the path forward? Where are the great opportunities within the financial services world at a macro level to maybe write a new chapter going forward into the future here?

Emmanuel Daniel:

Society is not necessarily benign and benevolent in that way. What I really feel... in fact, I'm depressed after having written this book because what I see happening is that society is heading towards a very narcissistic ecosystem. Where all of us becoming selfish and opportunistic about how we view value, how we view wealth and so on. The big question now is that what kind of society do we want to create? There are ecosystems which are highly protected and close ecosystems that work very well for themselves. But by in large, the large economies, whether they're China or the US or the large... India and Brazil and so on, we are being driven by the need for capital to onboard as many people as possible and then to monetize them. In that scenario, there are attempts at creating sustainable ecosystems. Now, one of the nice things that I saw happening during the pandemic was this thing called play to earn gaming for example. Where local communities were participating in games and then generating income that they traded off for real cash and then went out to buy their groceries and stuff like that.

That here they were doing something very digital in this gaming [inaudible 00:32:54], but it resulted in them being able to feed themselves when the entire economy was closed. And it happened in several very, very difficult countries. This journey towards using digital to generate income that is real, that's what we want to look forward to, but that's still work in progress. Because that model actually had some elements that were not quite well-developed. The whole idea of digital economy, the whole idea of cryptocurrencies for example, one of its weakness is that it's based on a kind of a Ponzi element, which is crypto is only worth something if the value keeps going up. A game is only worth something if the tokens that you generate has Ponzi element in it.

Now, when we move into the network world, the tokens that we use as currency in transacting in the network world may well have no value in it. What we are seeing in the markets world where crypto can go up to $65,000, when we move into the network world, it'll be valued more for its utility rather than for its monetary value. We are in transition at the moment. That's why I called the book The Great Transition. The funny thing is that when I gave the title of the book, then I googled it and there were a hundred books with the name The Great Transition. We are all trying to say that there's something that happens in society, which is a great transition from here to there, except that mine is the great transition that is facilitated by finance. It's the personalization of finance that is going to define how entire society's going to hold together, going to be defined.

James Robert Lay:

The danger around this could also be an extreme rise of narcissism. And I think the canary in the coal mine is looking out at what's going on in the social sphere. The idea of influencers and that whole narrative. And you said something that I think is just... I want to pause and maybe wrap up on this thought here. It's how we look at wealth. What is wealth? I've been thinking a lot about this myself and I've been in the industry now for 21 years. Wealth, maybe it's five dimensions of wealth it's been just something floating around in my head. Of course there is financial wealth, but then there's also physical wealth, there is mental wealth, there is relational wealth. And there's more to this I think that if we get people to have that conversation... And I'm starting to see some of this within the industry. I just interviewed a commercial banker in the United States and she has grown a TikTok audience as an individual of over a million people.

And I said, "Why do you do this?" And she's an immigrant to the US. She's Iranian. I said, "Why do you do this?" She said, "I want to give people a chance." "I want to give people the same chance that I was given." "I want to help them." And it's this idea she's taking everything that she has learned as an attorney, as a commercial banker now to transfer this knowledge to other people, to provide them with a new perspective as they're just scrolling through Instagram or TikTok. And that right there is helping other people.

What does it end up in dollars and cents? How does it end up on the balance sheet? I don't know, maybe it's too early to tell. Maybe it will, maybe it won't. But we're now talking in all of these intangibles today. As we wrap up looking at the macro picture because you shared, I want to send people away with a positive perspective. How can they place a positive deposit through the work that they're doing into their themselves? Maybe it's their team, maybe it's the organization, maybe it's the communities that they're serving through the work that they're doing. As a financial brand leader, what's one thing that they can do next to continue forward down a positive path?

Emmanuel Daniel:

Just in the last two months, I've been to 12 countries and I was shocked to see the amount of inflation being generated in a variety of countries as different as Paraguay in South America, Italy in Europe, Malaysia, in Southeast Asia. Inflation is creeping up on a whole range of societies that is going to redefine what we are going to hold onto for dear life as wealth.

Yes, if you have a house that's wealth. If you have cash, oh my goodness, it's going to cost like five or 10 times more to buy what you bought just last year. And it's the result of everything that's happening worldwide with central banks issuing more debt and more currencies and so on. And then there's your friend who thinks that she's generating value by building her own digital presence as it were. I think that all of us are looking for stability. We are looking for community, and we are looking for trust.

Because of technology finance is becoming increasingly personalized. What that means is that the power is increasingly in the hands of the individual to deal with who he wants to deal with, when he wants to deal with, and he can even bypass traditional institutions to create those interactions. Now, what the interactions will mean at the end of the day in terms of livelihood, in terms of stability, is still being defined. But I think that each of us have to look after what we consider to be of personal value in addition to the fact that the individual is becoming empowered to manage his interactions and relationships. Managing interactions and relationships do not necessarily mean generate wealth. But if you look after that well, I think that's the intention and the future that we need to build for ourselves. It puts a lot of emphasis and responsibility on the individual like never before in civilization.

James Robert Lay:

That's where I think within financial services, there's such a tremendous opportunity to provide help, to provide hope, to provide clarity, because the antithesis of clarity is confusion. And when one is living in a continuous state of confusion that then leads to conflict, that then leads to chaos. And so I recommend for the dear listener, pick up a copy of The Great Transition: The Personalization of Finance is Here. It'll take this conversation, go much deeper. Emmanuel, speaking of conversation, I appreciate the knowledge that you've shared today in our conversation. How can someone just connect with you to continue that conversation, pick up the book, where can they do that?

Emmanuel Daniel:

My blog emmanueldaniel.com. If you got my name right and it's one word. Has everything you need to know about the book. But also on my blog, I've been writing subsequent material, which is thinking that I've been doing as a result of having written this book. I'd say that the first person it transformed was me. That I'm actually building my own ideas into the future.

And just one more point I wanted to make here was that the most cruel thing that any government or state can do to its people is to deny digital access to finance because that's a prerequisite for generating your own wealth today. And I say this because there are governments around the world that say, "Oh, cryptocurrency is bad so we will have to restrict our people from accessing digital assets in general." When they do that, they're actually blocking their own people from defining their own future. And that's cruel. And some regulators, even the US, have been saying that we need to restrict non-high net worth individuals from high risk investments and so on. No government in the world has the purview to understand what's high risk and what isn't in the digital world.

James Robert Lay:

It's a great point to wrap up on Emmanuel. Thank you so much for joining me for another episode of Banking on Digital Growth. This has been a lot of fun today.

Emmanuel Daniel:

Thank you very much. It's was a pleasure

James Robert Lay:

As always. And until next time, be well, do good and make your bed.