

The Future of Banking in Italy: What Would Eco Say?

Going Long on Italy (A White Paper)

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To understand the future of banking in Italy (and what we can possibly do with the physical branch locations) you need understand the entire macroeconomic situation.

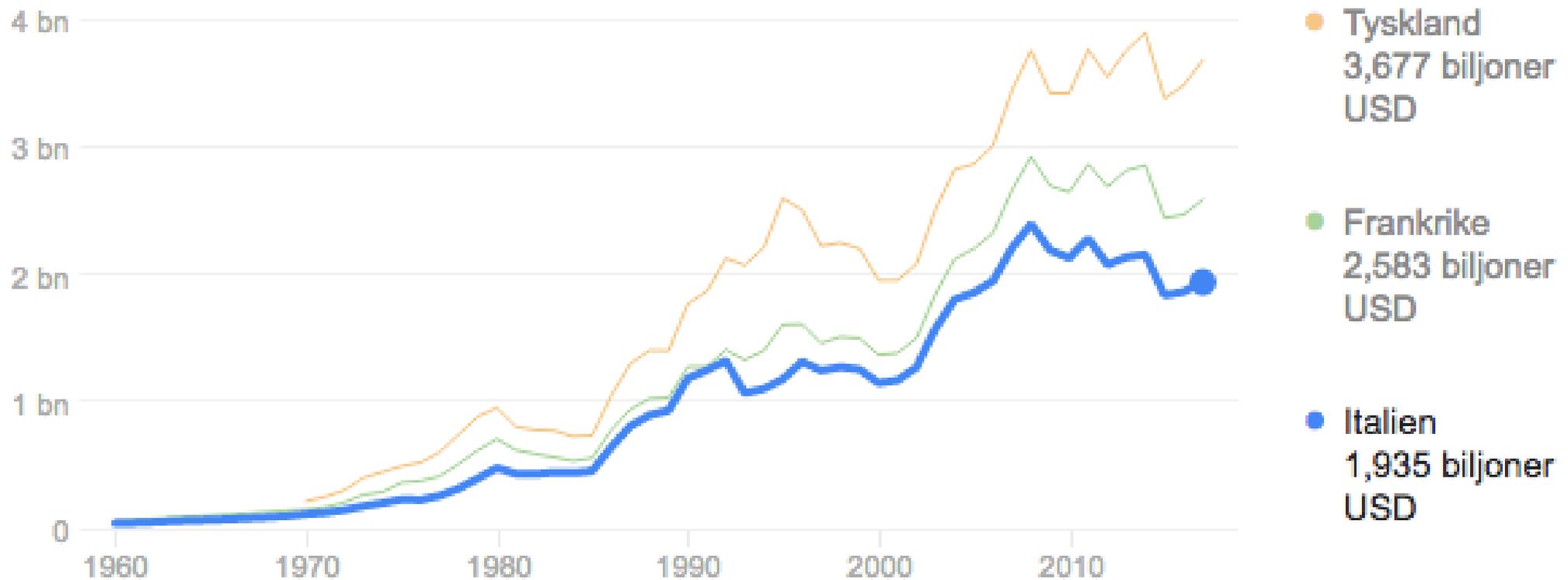
You also need to understand *physics*.

Italy — for lots of very good reasons that are relatively simple to understand — is mired in a no growth crisis; the country just posted another quarter of zero growth and what makes matters worse is that there is no credible economic plan to stimulate growth.

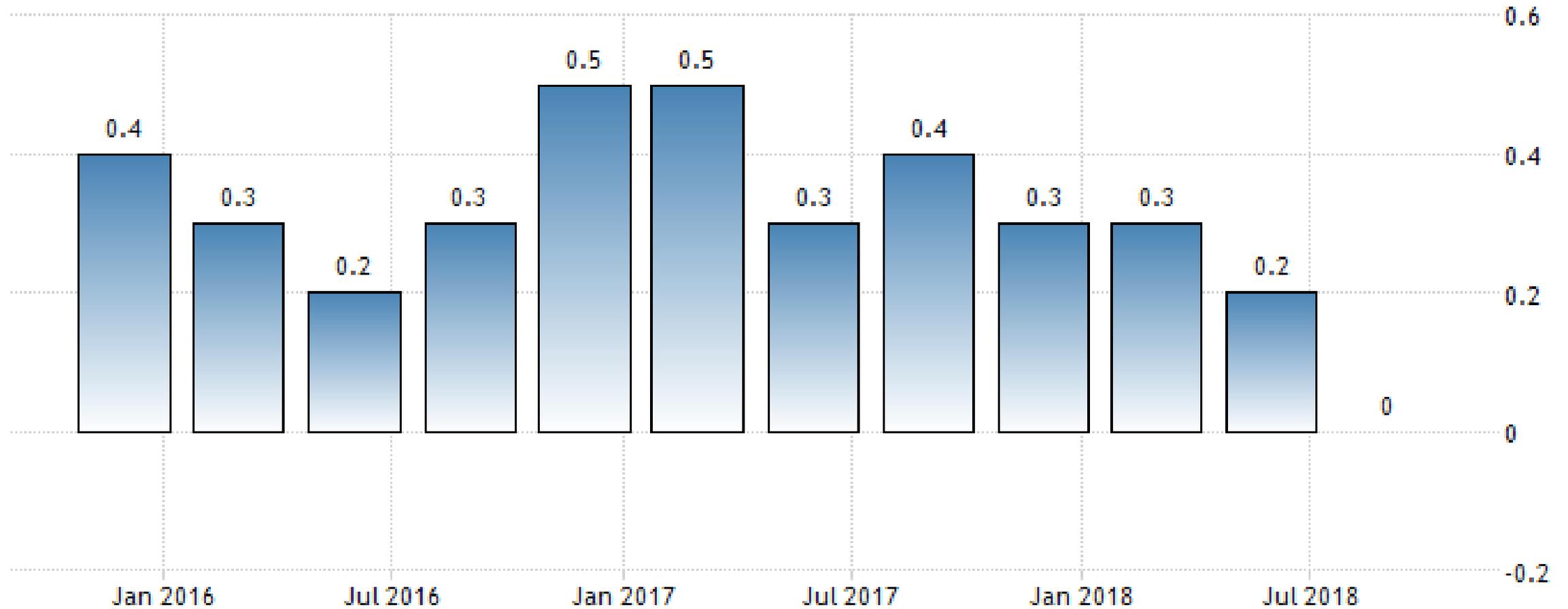
The country is in *real time systems collapse*.

Italien / Bruttonationalprodukt

1,935 biljoner USD (2017)



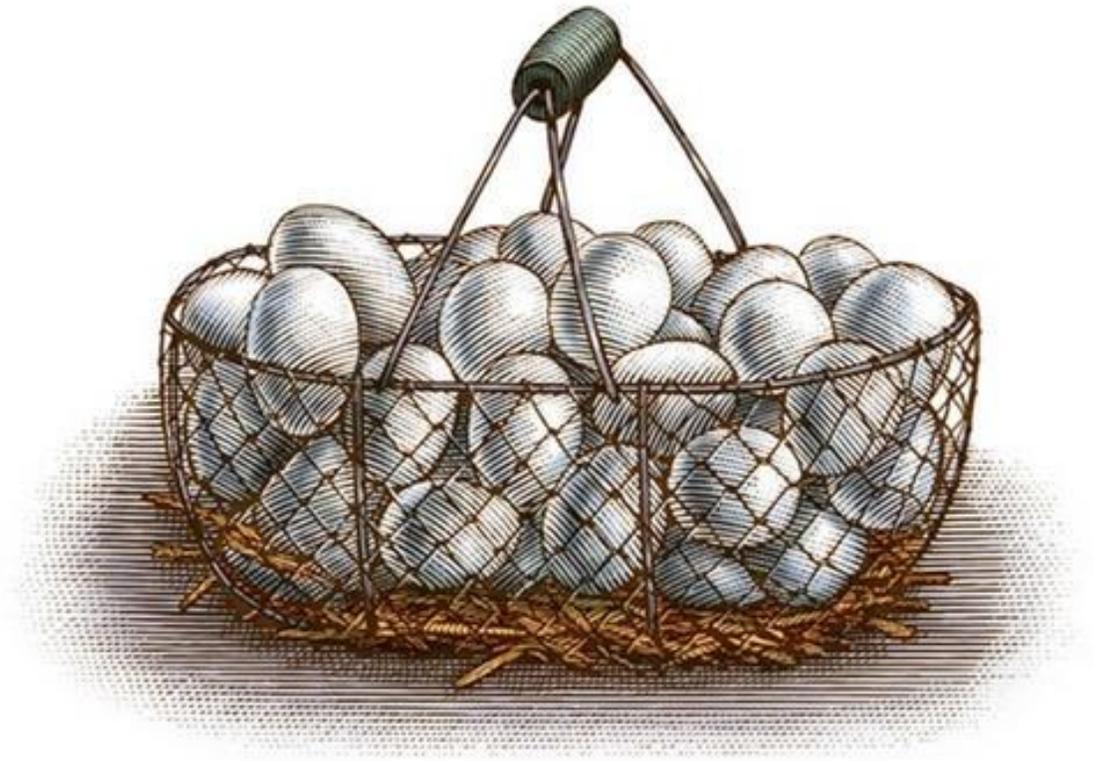
ITALY GDP GROWTH RATE



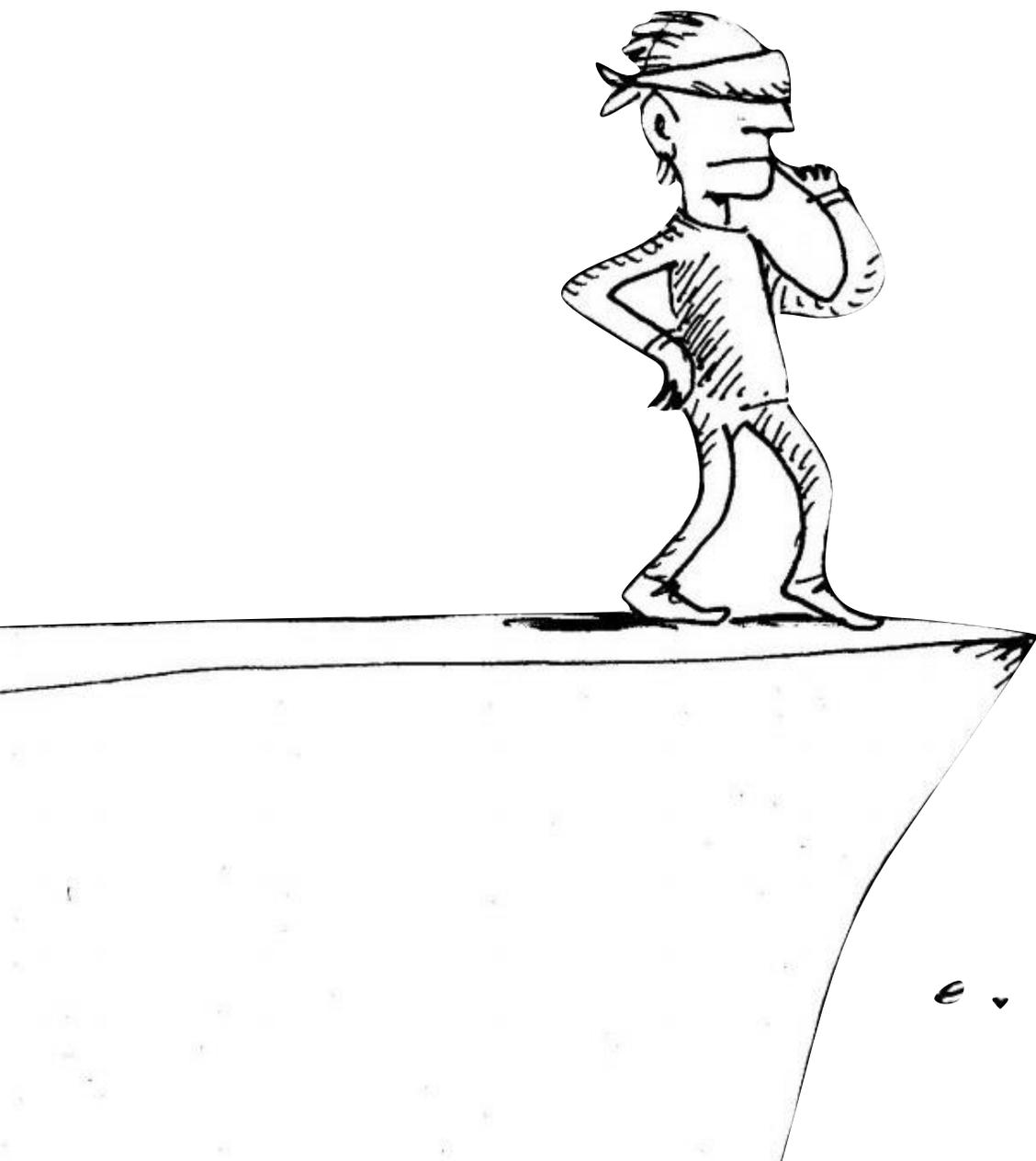
SOURCE: [TRADINGECONOMICS.COM](https://tradingeconomics.com) | NATIONAL INSTITUTE OF STATISTICS (ISTAT)

The best metaphor is to imagine a basket of eggs that has been pushed off of a cliff in a dense fog.

The Italian economy is the basket, Italian businesses and private citizens are the eggs, and *the fog is the limits of our capacity to perceive “the future” or “a future,” any future at all.*



The Italian government is ineffectual and intellectually bankrupt. It is also systemically corrupt and myopically self-interested, driven by outdated ideologies that it are draining the energy of the country and “tribalizing” an already highly hyper-tribal country even further.



The government has no
plan to provide the
conditions that make
growth possible. The
current budget standoff
with Brussels is prima facie
evidence of the pathetic
state of Italian leadership.

So...

**Italian banks have to
provide the parachute.**

But is that what we're
talking about in Italian
banking circles these days?



No.

Currently there is so much transformation (and historical and psychological resistance and systematic inertia and ennui) in the banking sector, that the primary goal of the bank (*to conserve and aggregate capital within an economy to stimulate growth while making a tidy profit*) has been subsumed by the fear and loathing brought on by digital disruption.

Italian banking is gripped by (real) fear of *disintermediation*.

Digital transformation is leveling the playing field and allowing third party providers to enter the marketplace and eat the bank's *pranzo*.

What is the response?

Superficial fixes, remedies, experiments.

Limited explorations of limited use-case narratives and theories that are in turn driven by a foggy hope that a few technological tools will paper over the systemic issues and stave off the TPPs.

Yes, technology will save Italian banking, but probably not in the way you think it will.

The truth is that the playing field is NOT really being leveled. Not really.

Not yet at least.

Not yet.

There exists a very idiosyncratic constellation of factors and forces that Italian banks can still leverage for their survival, but not for long so don't get too comfortable:

1. history/ stability
2. regional identity/ regional specificity
3. familial bonds: business, life planning (housing)
4. local political affiliations
5. dependable/ productive local corruption/ graft
6. *local branch outlets!*

I call this constellation...

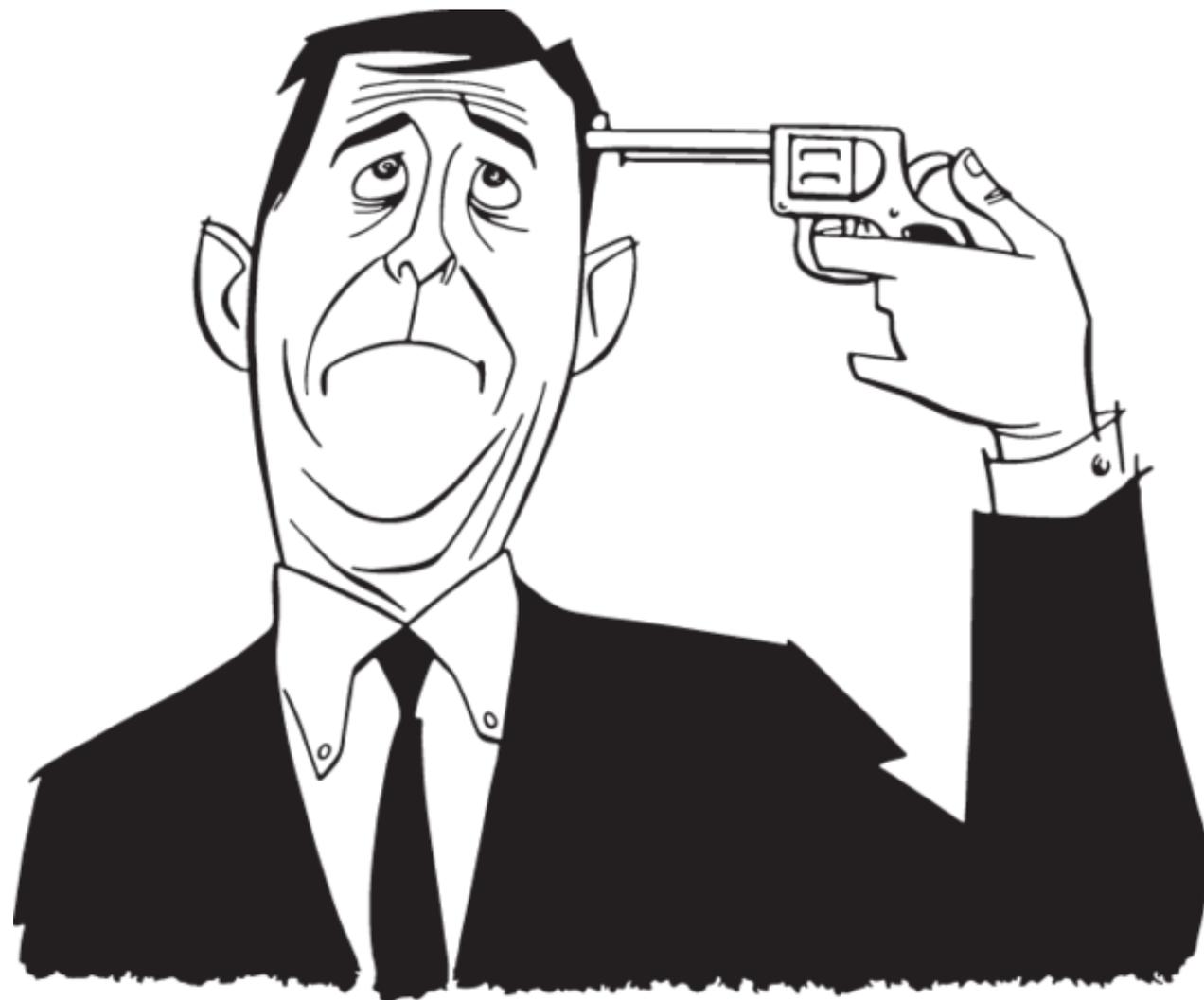
Trust.

Warning: If Italian banks don't take up this challenge and transform holistically, if they stay cloistered and closed-minded then yes, the field will be leveled and Italian banks will begin to collapse and we know what that looks like (consolidation and contraction).

New entrants into the marketplace will move faster and with highly differentiated products that will be based on their “digital first” business models that are themselves driven by multiple, robust non-banking revenue streams.

Italian banks must reclaim their true mission, or they will slowly pull the trigger that will destroy their relevance in the marketplace forever.

For Italian banking this is an *existential moment*.



So let's revisit this claim:

The primary goal of the bank is “*to conserve and aggregate capital within an economy to stimulate growth while making a tidy profit.*”

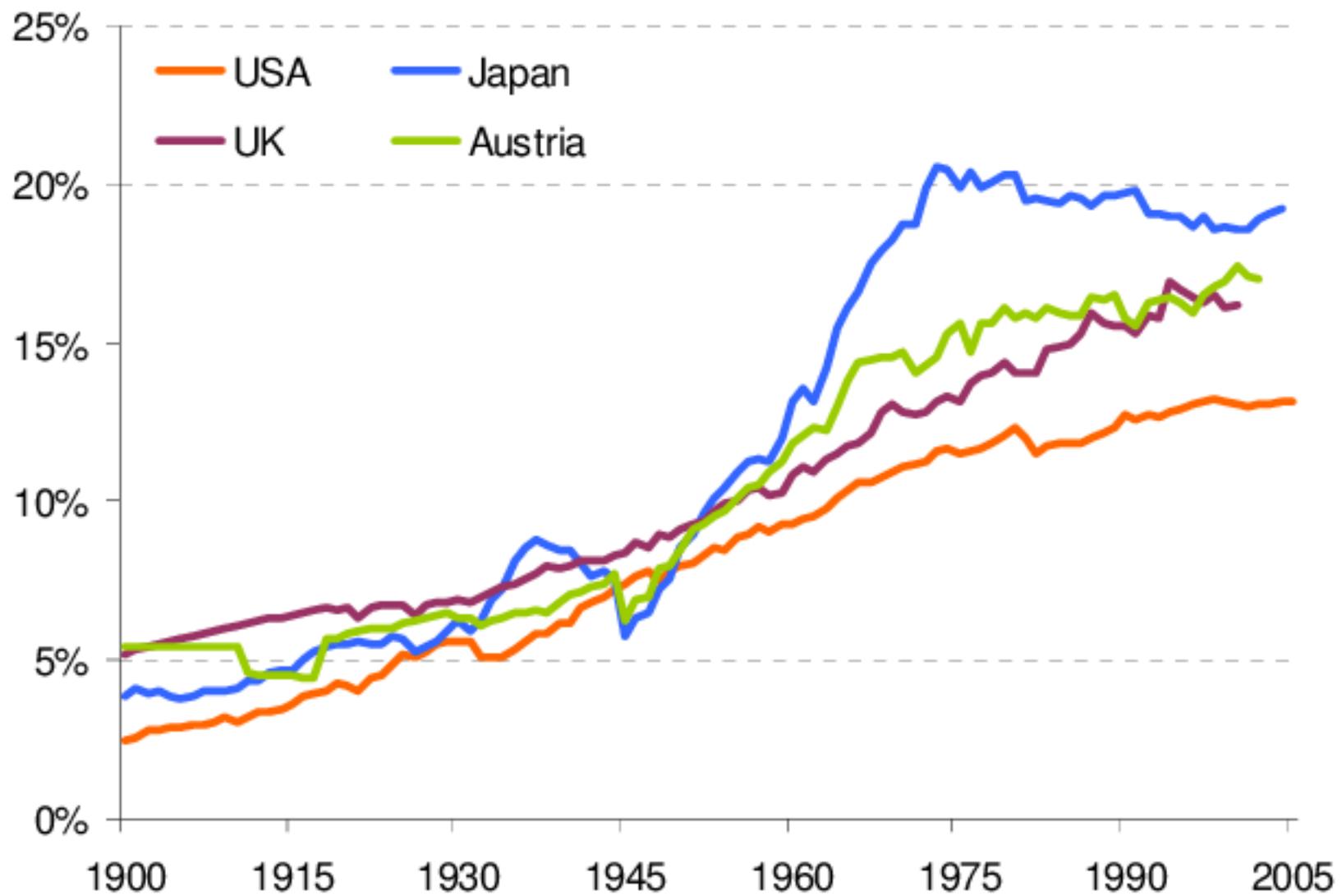
IF — and it's a big if — banks agree that this is their primary mission then fulfilling the mission requires a little more insight.

It requires an understanding of where we are historically, and an understanding of *physics*.

The last 300 years of industrial activity has been the story of increasing **aggregate efficiency**: aggregate efficiency is the “ratio of useful to potential physical work that can be extracted from materials.”

Better workers, better performing machines, better infrastructure and systems and systems integration has marginally increased that metric over time, *but you would be surprised to see this charted historically over the last century.*

Does anyone know how much useful work we get out of every step of conversion in our current, hyper-modern, oh so cool, hip, “digital,” supposedly efficient, global economic paradigm?



aggregate-exergy-to-work-conversion-efficiency

At every step of conversion in the value chain we are **losing over 80% of the energy, material, and value.**

“During the period from 1900 to 1980 in the United States, aggregate energy efficiency...steadily rose along with the development of the nation’s infrastructure, from 2.48 percent to 12.3 percent...leveling off in the late 1990s at around 13 percent with the completion of the Second Industrial Revolution infrastructure. Despite a significant increase in efficiency, which gave the United States extraordinary productivity and growth, nearly 87 percent of the energy used in the Second Industrial Revolution was wasted during transmission.”[5]

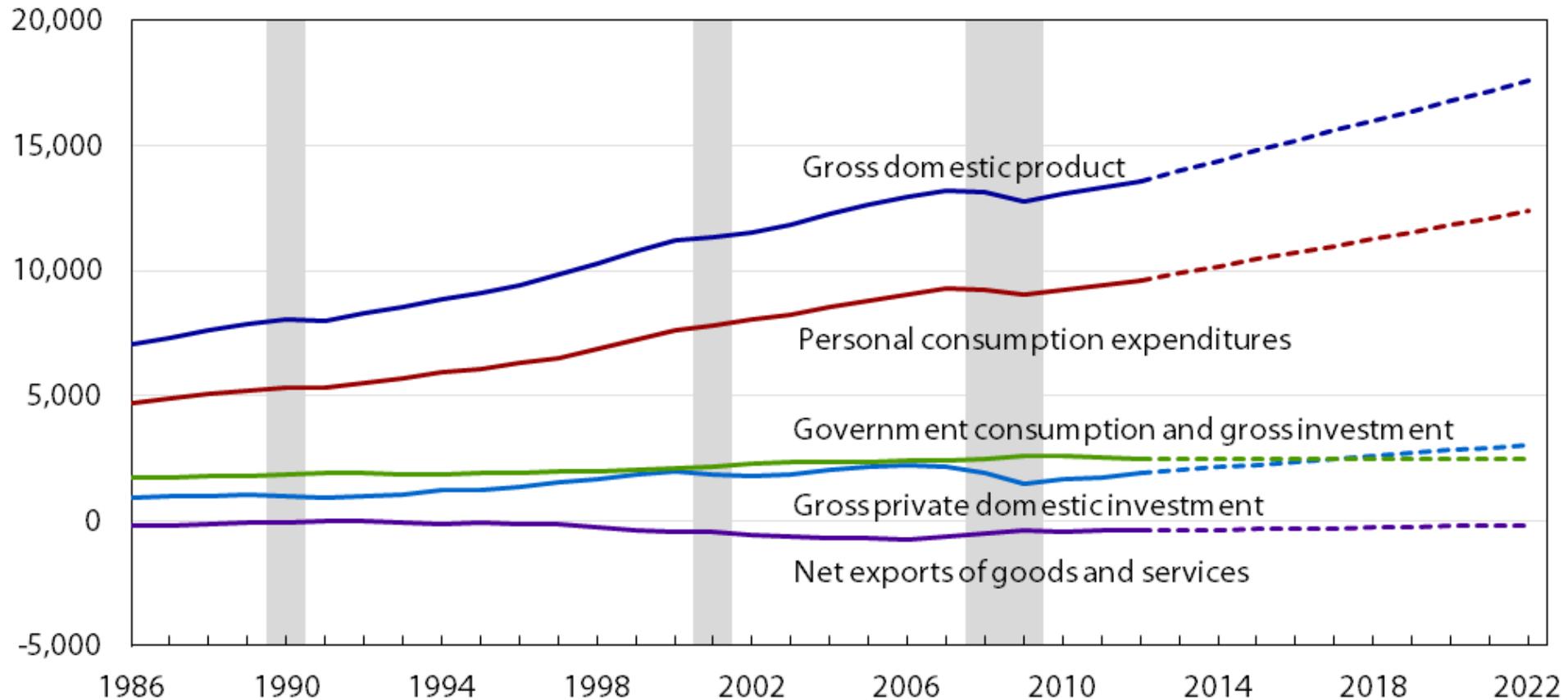
You know this is true.

At least I think you do.

In any case, it's pretty easy to prove that is is **TRUE**.

Figure 1. Nominal gross domestic product and final demand, 1986–2012 and projected 2022

Billions of current dollars



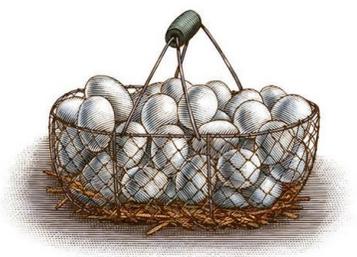
Note: Shaded regions represent recessions as designated by the National Bureau of Economic Research. Turning points are quarterly.

Sources: Historical data, U.S. Bureau of Economic Analysis; projected data, U.S. Bureau of Labor Statistics.

Measures of Labour Productivity in the UK, Index (Q4 2007=100)



Do I even need to pull a graph for Italy?



Let's go back to the banks:

By understanding and appreciating aggregate efficiency, Italian banks can refine their mission...

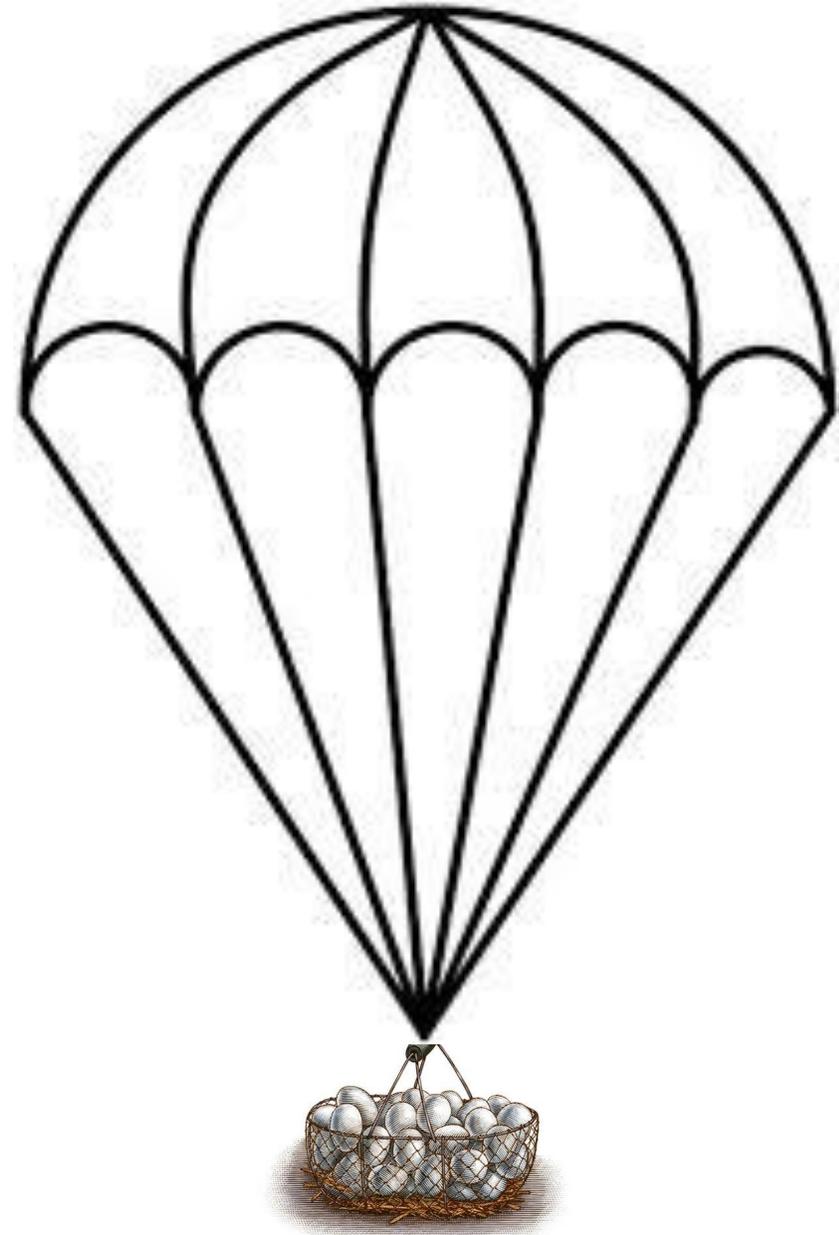
Italian banks must conserve and aggregate capital and stimulate growth *by infusing capital to businesses and individuals that **can prove they can increase their aggregate efficiency and find new value in their value chains.***

Local branches become the AE improvement planning and information centers to help Italian businesses and private citizens flourish.

In the process the banks will make a tidy profit but they will do so much more...

Italian banks will...

1. Galvanize the bonds of trust that already exists with their customers and make it impossible for TPPs to disinter-mediate.
2. Save the country.
3. You need more than that?

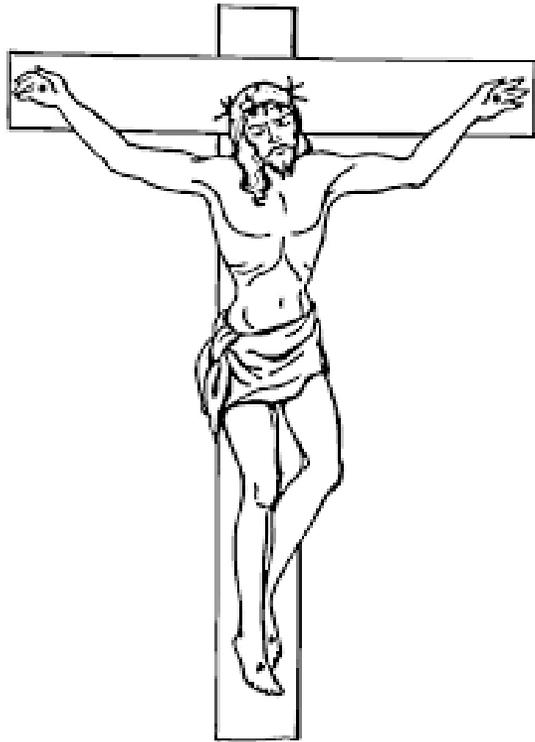


I call this plan **Reboot Italia.**

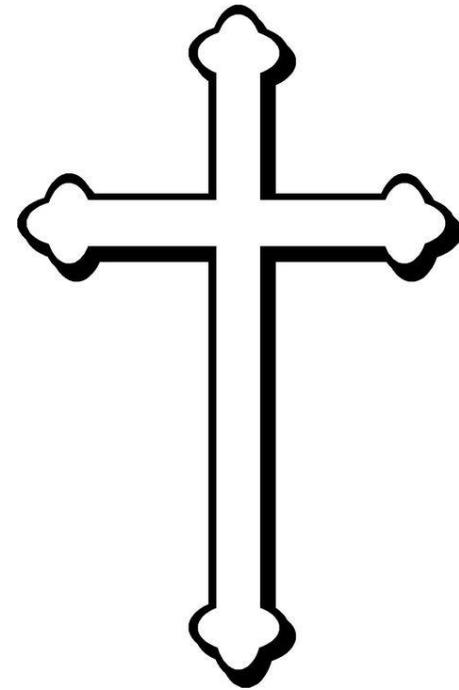
This is the parachute.

So what would Umberto Eco say about the future of Italian banking, including the physical locations?

OLD



NEW



The End.