FINANCING TOMORROW: BANKING ACROSS GENERATIONS (FT. SLAWOMIR KRUPA, CEO OF SOCIETE GENERALE)

Hosted by Kokou Agbo-Bloua
Societe Generale's Head of Economics, Cross-Asset & Quant Research

EPISODE 36

How did the banking system evolve from a simple bench—the very origin of the word "bank"—into the sophisticated institutions that drive the global economy?

Banks are more than just institutions. With over 4,000 years of history, they have played a pivotal role in powering industrial revolutions, transforming dreams into reality, and adapting to the evolving needs of clients across generations. From economic booms to busts, they have stood the test of time, channeling funding like the lifeblood of the economy and serving as critical cogs in the machinery of society. Banks have turned the alchemy of compound interest—Einstein's "8th wonder of the world"—into a driving force behind economic growth.

In this episode of 2050 Investors, Kokou Agbo-Bloua dives into the essential role of banks and the foundations of the global banking system. Through his analysis, he explores the power of compound interest, the history of banking and the evolution of business models and regulatory frameworks. Highlighting their role as financial intermediaries, Kokou unpacks how they contribute to societal and economic progress through fractional reserve banking.

Later in the episode, Kokou interviews Slawomir Krupa, CEO of Societe Generale, as the bank marks its 160th anniversary. Slawomir reflects on how Societe Generale has remained true to its mission of combining innovation with strength in its business model.

This episode is a compelling exploration of the past, present, and future of banking, offering fresh insights into how this age-old institution continues to influence our lives and economies.

SOCIETE GENERALE

2050 INVESTORS – EPISODE 36 SCRIPT

Financing Tomorrow: Banking Across Generations (ft. Slawomir Krupa, CEO of Societe Generale)

Sound Effects: The soft ambient background of Kokou's home office setting. Occasional clinks of a coffee cup, faint keyboard typing, and a gentle ticking of a wall clock in the background to create a sense of time.

Kokou: Hey, Siri, quick brain teaser for your circuit boards: How long would it take for my savings to double if I just sit back and let compound interest do its magic?

Siri: No need for a calculator, Kokou. Just use the Rule of 72, where the number of years multiplied by the interest rates must equal 72.

Kokou: [Snaps his fingers] Correct. The Rule of 72 is a banker's favourite party trick! It's an easy way to figure out how long it will take to double your money at a given fixed interest rate. All you need to do is divide 72 by the interest rate.

Siri: So, if you are dreaming of doubling your money in 10 years, you'll need a compound interest rate of about 7.2% as 72 divided by 10 equals 7.2.

Kokou: Spot on. On the flip side, with a more modest interest rate, say 4%, it'll take you about 18 years to double up, as 4 times 18, equals 72.

Siri: 18 years?! Wow!

Kokou: Your reaction reminds me of this quote by Warren Buffet who said, 'most people don't like to get rich slowly'. While this may seem slow, your investment is still doubling!

Siri: Which just shows that time really is money.

Kokou: Absolutely! The concept of the time value of money is key here. Money today is more valuable than money tomorrow, because of its potential to grow when invested. Interest is one of the most powerful forces in banking. Even Albert Einstein famously called compound interest the “eighth wonder of the world.” He also said, “He who understands it, earns it; he who doesn’t, pays it.”

Siri: That’s really insightful. I guess banks do understand a thing or two about the “eighth wonder of the world”.

Kokou: That’s right! Banks offer both sides. You can earn it via your savings account or pay it via a credit card loan. Banks act as the middlemen, harnessing the power of compound interest to create a win-win situation for both parties.

Siri: This is intriguing. Tell me more…

Welcome to 2050 Investors, the podcast that deciphers economic and market mega-trends to meet tomorrow’s challenges. I’m Kokou Agbo-Bloua, I head up Economics, Cross-asset, and Quant Research at Société Générale.

In this episode of 2050 Investors, we delve into the fascinating world of banking, a key component of society and the global economy: from connecting investors and savers to funding infrastructure investments, corporate and mortgage loans. We’ll explore banks’ business models, their evolution throughout history, what happens when banks are left unchecked and the complex regulatory landscape in which they operate.

And to explore the future of banking, we are delighted to welcome Slawomir Krupa, CEO of Societe Generale as our guest. Slawomir will share his unique insights and perspective on the future of banks and how they can continue to thrive in a rapidly changing world as Societe Generale celebrates its 160th anniversary.

Let’s start our investigation.

Kokou: Siri, did you know that the word “bank” comes from the Italian word “banco”, meaning bench? Renaissance moneylenders did business on benches in marketplaces.

Siri: Yes, things have not changed much. Bankers do love to sit in front of their computers for long hours.

Kokou: You’re right!

Siri: But going back to your last point, the core energy powering the banking system is compound interests, the “eighth wonder of the world”. That’s wonder-full, pun intended.

Kokou: Ha! Yes indeed, savers earn interest, borrowers pay it. It’s the two sides of the same shiny coin. And banks, as financial intermediaries, sit in the middle, by connecting savers and borrowers: from pension funds and insurance companies to consumers, businesses, and even governments. They charge a higher interest on the loan they provide borrowers than the interest they pay to depositors, earning the difference. This is commonly known as the net interest margin.

Siri: Hold on a second, wasn't charging interest, or usury, forbidden and considered a sin in many cultures and religions?

Kokou: That's right, Siri. The moral concern was that profiting from lending money could lead to exploitation.

Here's what this article from the American Monetary Institute on the history of interest has to say: "The concept of interest originated from pre-urban societies like Mesopotamia, [around 2000 BCE], where loans were made in seed grains, animals, and tools, with interest reflecting the increased value of the original loan. The Ancient Oriental System introduced the charging of usury on metal loans, which was later regulated by central authorities. In Greek city-states, charging usury on coinage loans led to social issues, with Solon implementing reforms to address the problems.
Philosophers and religious thinkers, including Aristotle and the Scholastics, criticized usury, while various legal codes and religions, including Christianity and Islam, attempted to regulate or forbid the practice. Usury was viewed as an anti-social misuse of the money mechanism, with money seen as sterile and unable to generate more money".

Siri: Islamic finance still does not allow the charging of interest, or riba, today.

Kokou: That's correct, Siri. But alternative financing mechanisms such as partnerships, leasing, and profit-sharing agreements were developed under Sharia Law. Over time, however, interest became a widely accepted practice elsewhere in the world, through formal contracts that are essential for economic and societal development.
Take the word mortgage, for example, which dates to the 14^{th} century and is derived from the French word "mort" meaning "dead" and "gage" meaning pledge. So "dead pledge".

Siri: This sounds deadly!

Kokou: It's not as dark as you think. The term 'dead pledge' simply refers to the fact that the pledge ends, or dies when the obligation is fulfilled, or the property is taken through foreclosure. It's a metaphorical way to describe the end of the loan agreement. But you're right, it does sound a bit ominous!
Remember though, that without mortgages, most households would not be able to afford a house. Although, it's not without risk.

Siri: Thanks for the explanation. However, now we have credit cards with a 20% Annual Percentage Rate. I guess I'll stick with my savings account and earn interest and not pay it!

Kokou: That could be a wise choice, Siri. But remember, the interest you pay on a loan, or a credit card, reflects the risk that the borrower may be unable to pay back the debt. This risk is referred to as credit risk or the probability of default. The interest compensates the lender in case they do not get their money back.

Siri: Ah I see. So there's no such thing as a free credit then!

Kokou: Yup, no free lunch here. But the key point is to think of banks as enablers. They are at the heart of the economic system. Money flows through them like blood through the arteries, feeding every organ of our industries, and services. Without that flow, the whole system, our economy, would grind to a halt. Banks pump capital where it's needed most, powering economic growth and big societal transformations.

Siri: That's an interesting metaphor! Banks have indeed played a key role in historical events like industrial revolutions. But what about the crisis?

Kokou: Right. Take, for example, the reconstruction of Europe with the Marshall plan in 1948 after WWII. Or the housing bubble in 2008 that led to the subprime crisis. So just as with any heart, it needs to be healthy. Too much blockage, such as bad debts, can lead to a heart attack, causing bank runs or banking crises. That was the story of the Lehman Brothers bankruptcy.

Siri: So put differently, with 'the 8th wonder of the world' comes great responsibility!

Kokou: Well said. Banks have undergone many regulations to maintain the financial system's stability. But before we talk about regulation, I still want to highlight how crucial banks are with the following numbers.
In 2024, IBISworld.com recorded over 10,000 global commercial banks worldwide. Meanwhile, Statista states that global bank assets amounted to more than 183 trillion U.S. dollars, which is, in perspective, almost twice the world's GDP. US banks, specifically, held 24 trillion dollars in assets, equivalent to a whopping 84% of the US GDP.

Siri: Wow! That's enough to stretch dollar bills to the moon and back—multiple times.

Kokou: If you look at recent reports by the European commission, European banks held approximately Eur32 trillion in assets, which is 220% of GDP. The member states with the largest banking assets as percentage of GDP are France with EUR 9.3 trillion or 384% of GDP, followed by Germany with EUR 8.3 trillion or 241% of GDP, Italy with 208% and Spain in fourth place with 215%. It's worth noting that Swiss bank assets stood at a staggering 448% of its GDP.

Siri: These banks are truly giants! Some of them are labelled "too big to fail" for a reason!

Kokou : Absolutely! You're probably wondering why European banks are so much larger relative to the size of their economy compared to their US counterparts – 86% of GDP in the US versus 220% in Europe.

Siri: You've read my mind!

Kokou: Well, three key reasons. First, Europe has a bank centric financial system whereas the US relies more on capital markets, such as bonds and stock markets for corporate financing. Reports from the ECB reveal that in the US, 80% of corporate debt is financed through the bond market, while in Europe, this figure is only 30%. So bank loans make up roughly 70% of corporate financing.
Second, European banks operate on the universal banking model which means they offer a full range of services: commercial banking, investment banking and asset management under one roof. This is less common in the US.
And last but not least, one significant difference in the US mortgage market is the presence of Government sponsored enterprises such as Fannie Mae and Freddie Mac which own or guarantee 60% of mortgages. No equivalent institutions exist in Europe causing mortgages to remain on

banks' balance sheets rather than being securitized or sold to investors on the same scale as in the US.

Siri: US banks do seem to be more asset light indeed.

Kokou: That's a fair observation. Indeed, banks are diverse and come in various shapes and forms.
- First up, we've got Consumer Banks. They manage your savings, provide personal loans, and help you get that shiny new credit card.
- Then we have Commercial Banks. These are the go-to for businesses—whether it's giving out loans, credits, or treasury services.
- Next up, the Investment Banks. They specialise in large and complex financial transactions, such as underwriting, facilitating mergers and acquisitions, sales and trading activity in financial securities.
- And finally, the godfather of the entire banking system: Central Banks. They manage the nation's currency, oversee the banking system, and set the monetary policy. They serve as the lender of last resort to which national banks borrow from and lend.

Siri: I remember we discussed central banks in the "Fed up with carbon" episode.

Kokou: Yes, good memory Siri. Now, let's close the first part of this investigation with a brief stroll down memory lane by exploring the history of banking.
Let me check my study, I think I've got just what we need…

FX Sound of a chair being pushed back. A book being pulled off a shelf

Kokou: Ah here it is! "The Ascent of Money: A Financial History of the World" by economic historian Niall Ferguson. It's a fascinating read. [starts flipping through the pages] Just like biological organisms that evolve and adapt to their environment, banks today are the products of thousands of years of evolution, revolution, crises and regulations. Let's highlight some key milestones.

Siri: Sounds like a plan.

Kokou: First milestone, Ancient Mesopotamia, around 2000 BCE—The Code of Hammurabi. This was one of the earliest written codes of law setting rules around lending and borrowing, including maximum interest rates.

Siri: So, basically, the first financial regulations?

Kokou: Exactly! Fast forward a few centuries to the 7th century BCE, in Lydia, that's in modern day Turkey. King Croesus set the first standardised gold and silver coins, making it easier for people to trade and do business with one another.

Kokou: Now, second milestone… [flipping through the pages] 15th century in Florence. The Medici Bank was considered the birthplace of modern banking, with one of the most sophisticated banking networks in Europe, offering services such as loans, money transfers, currency exchange and making international trade more reliable.

Siri: Incredible to think this was 600 years ago!

Kokou: Indeed, time flies. Now, third milestone. [flipping through the pages] In 1609, the Dutch introduced fractional reserve banking at the Bank of Amsterdam. This innovation allowed banks to lend more than they hold in deposit and finance economic growth, but also increasing their size.

Siri: I guess this was the "supersize me" moment for the banking industry.

Kokou: That's a good way to put it. Now, for the fourth milestone, let's head to...

…1694! That's when the Bank of England was established, introducing the concept of central banking. The Bank started issuing banknotes backed by gold reserves, a system known as the gold standard.

Siri: In Gold We Trust!

SFX: flipping through the pages

Kokou: Now the next four milestones were defining moments in the history of banking regulation, following major crises. [SFX book pages] In 1933, the Glass-Steagall Act was passed in response to the 1929 financial crisis. The act separated commercial and investment banking, to protect consumers from risky speculation. However, it was repealed in the 1990s during the era of banking deregulation.

SFX: flipping through the pages

Kokou: Then, 1971. The world was on a gold standard until President Nixon ended the direct convertibility of the U.S. dollar to gold in response to the Vietnam war, which depleted the US gold reserves. This was known as the "Nixon shock". This move brought the Bretton Woods system to an end, paving the way for floating exchange rates, where currencies are valued based on supply and demand.

Siri: Currency now depended on the credibility of the government and its central banks.

Kokou: Exactly, Siri. We replaced the dogma "In Gold we trust" with "Full faith and credit of the US government". The birth of fiat currencies, which have no intrinsic value but the trust we have in the issuing government.

SFX: Another page turns

Kokou: Next up: 1989. The Basel Accord created international regulatory standards setting minimum capital requirements for banks to enhance stability.

Siri: This did not help prevent the Great financial crisis of 2008 and the bankruptcy of Lehman Brothers…

Kokou: Good point. This is why more regulations were put in place after 2008. The latest update, Basel III, was in 2013 and Basel IV implementation will start on 1st January 2025. You also had other regulations such as Dodd-Frank and the Volcker Rule.

SFX: Page turns again

Kokou: And finally, 2015. The Paris Agreement marked a turning point—not just for the climate, but for finance too. Banks stepped up to support green initiatives with new products like green bonds and sustainable funds.

Siri: So, using greenbacks to make the planet greener!

Kokou: Indeed, banks have a crucial role to play in financing the energy transition!

Siri: 4000 years of History and they still stand the test of time!

SFX: Soft closing of the book

Kokou: [satisfied sigh] And that's a wrap on our history lesson! To quote Maya Angelou: "You can't really know where you are going until you know where you have been!"

SFX: book being placed back on the shelf.

Siri: I have another one for you "Those who cannot remember the past are condemned to repeat it!" That's George Santayana.

Kokou: Love it! The important message to remember here is that our financial system evolved from barter to the gold standard, and now to fractional reserve banking. Fractional reserve banking is really the core principle of banking. It allows financial institutions to lend more than their actual reserves, effectively creating money through the multiplier effect, which lets banks finance the massive economic growth we have seen over the past century.

Siri: But it's a risky business. Hence the risk of bank runs when people lose confidence and want their money back all at once.

Kokou: Exactly! Banks essentially borrow short term deposits to lend into long term illiquid assets. This is called maturity transformation. To prevent these metaphorical heart attacks, regulations like the Glass-Steagall Act and Basel III, we spoke about earlier, were implemented.

Siri: A sort of pacemaker to control the tempo of the risk taking?

Kokou: Fitting analogy. So, let's break down a few key regulations that serve as those pacemakers for the banking system:

1. First, the Liquidity Coverage Ratio (or LCR)—think of it as the emergency fund. It ensures banks have enough liquid assets to keep them afloat if they face short-term liquidity shocks.
2. Then there's the Net Stable Funding Ratio or NSFR: this one ensures long-term stability by requiring adequate stable funding out to one year.
3. Next, there's the Leverage Ratio. It's like a safety belt, limiting excessive borrowing and requiring banks to maintain a capital base to keep things stable.

4. And finally, there’s the Risk-Weighted Assets or RWA framework. It assesses the riskiness of a bank’s assets and sets the minimum amount of capital they need to withstand any financial stress coming their way.

Siri: Wow! Good luck surviving with all of those!

Kokou: Well, some banks have survived for centuries by adapting and becoming a force for good. They’ve seen it all—plagues, wars, market crashes—and they’re still standing.

Siri: Adaptability is key. But what about the future? There are challenges like climate change to finance, an ageing population to serve, artificial intelligence and digital banking to contend with. So, how will banks adapt?

Kokou: All great questions. And that, my friend, brings us to our special guest, Slawomir Krupa, CEO of Societe Generale. Societe Generale is one of Europe’s leading financial services groups created in 1864, with over EUR 1.5 trillion in assets, operating in 65 countries with 126,000 employees.

Kokou

Hello, Slawomir.

Slawomir

Hello. How are you? Kokou.

Kokou

Very good. Thank you so much for joining the show. We are thrilled to have you with us today to share your insights on the future of banking. But before we dive into the subject matter, can you tell us how your journey with Societe Generale began?

Slawomir

Well, right out of college, I started working at the Inspection Department, which is a bit of a specific animal in the French banks, mostly ordered with some management audit component as well. That's how I started. A little bit by accident, if I have to be completely honest.

Kokou

Excellent. Well, this year, Societe Generale is celebrating its 160th anniversary. What's your secret to longevity?

Slawomir

Well, the bank's secret to longevity, I think, is to have been set up by entrepreneurs with a very clear purpose, that of supporting the revolutionary change that was happening at the time in the middle of second half of the 19th century or the transformation linked to the industrial revolution, and to have embraced right from the beginning this idea that banks support those who transform the economy, who innovate, who invest, who take risks, and that we are there to support their endeavours, their dreams, their vision for the future. Having, right from the start, thought about our mission and about our business as being this cog of others making things happen, I think was visionary in the sense that this is at the core of banking. This is the most noble purpose of banking. I think throughout the 160 years, we have stayed true to this purpose, and we have ourselves innovated a lot to be better and better at helping others achieve their goals and again, their own potential. I think this is the deepest secret, so to speak, of our longevity, being true to our core purpose for 160 years.

Kokou

Well, that's fascinating. It's almost close to two centuries. But now the podcast is called 2050 Investors. How do you prepare the bank for the future in 2050 or even the next 160 years?

Slawomir

Well, listen, I think our current sequence, so to speak, because obviously the 160 years were made of all kinds of ups and downs and crises and new opportunities, phases of fast development and fast growth and phases of some form of compression, of soul searching, etc. And in the end, the current sequence is one, and thank you for putting the question the way you did, is one for the next decades, not one for the next three years. And this is why we started this current roadmap with the idea of we need to have the right amount of capital, right? The bank's raw material, the fundamental scarce resource with which a bank does its job every day is capital. And you have to have the right amount so that you're not too sensitive to all the cycles, that you have all the means to absorb, right?, in a business which is fundamentally about risk-taking, that you are able to absorb all kinds of ups and downs that happen in your markets, with your clients, et cetera, in your diverse countries you're present in. And so being strong, having the strong foundation as a bank with the right amount of capital is the first prerequisite, right?

So we're in that journey, and I hope that my successors and our successes will continue with this idea that you need to have strength so that you can lend it on to your clients and to your own future in terms of having the maximum flexibility from a strategic perspective, both in terms of, again, being very competitive with clients, very aggressive with clients in terms of supporting them, once again, but also in terms of supporting your own story. You have to be strong to support a strong story. And so that's really the number one thing. And the second thing I would say, obviously, this could go on and on for hours, this conversation, but I think if I sum it up, the second is to do everything to future proof the bank. And so capital is one thing. I spoke about this, but the second one is, how do you organise yourself? What kind of technology do you invest in? so that all the major, massive change that is ahead of us because of the transition from an energy perspective, because of the obviously waiting revolution stemming from the development of AI. How do you make sure that from a culture mindset of the company, of its people, from a technology foundation and technology technology solutions, you're ready to grasp this change and be, again, on the forward foot when these things happen, instead of being on the back foot and in some a remediation and lagging behind your competitors and behind where the clients want you to go.

So trying to think as, how do we make this thing as adaptable as possible? And again, starting with the mindset of the company and of its people, going down to technology. How do we make sure that we're able to embrace change instead of being defensive about it?

Kokou

Well, that's a brilliant way of putting it. Putting yourself in a situation where you can choose and you have choice as opposed to constraints and when you have limited choices in your decision making.

Slawomir

Absolutely. I think in psychology, I'm not an expert at this, but in psychology, it's actually described, you do have types of mindset. When you're looking at something, you can either see something as how it limits you and put constraint on you, and you can have a mindset which looks at the exact same thing and you see opportunity and possibility. I think if I use this image, it's extremely important, especially for a bank, frankly, for any corporate, but for a bank to be in that second mindset, right? When something happens, even if it seems at first as an adverse development, be it regulatory or market or what have you, be in the position structurally to see the opportunity and the possibility in this challenge.

Kokou

I think it's a growth mindset versus scarcity mindset perspective. This actually makes me think about this quote that says, We don't inherit Earth from our ancestors, we bore it from our children.

This leads me to the second question, which is climate change. It's been defined by many world leaders as an existential threat to humanity. How can banks play a more decisive role in financing the energy transition?

Slawomir

I think I do. First of all, I do share the view that this is an existential threat to us. Unfortunately, I guess we are all seeing more and more anecdotal evidence every day of how things are changing from this perspective. In terms of our natural environment and the materialisation of climate risk already. So I'm starting from there. Then it's really a combination of two things, right? When you're a bank like us, which has decades of leadership and history in the oil and gas, natural resources, space, you have, first of all, to question your role in that particular sector, right? Are you, even before helping the development and the building of a more sustainable world, you have to ask yourself. You cannot avoid asking yourself the question, are you helping by doing what you're doing, or are you not helping? And I think from this perspective, and this is why we took some bold decisions in terms of reducing some of our business, it was obviously really sad on some level, right? When you have the mission statement that you have that I described at the beginning of supporting your clients through decades of all kinds of changes, this time around, we had to make a difficult decision of stopping some of our businesses and actually of exiting some of the clients who did not have, because there were, for instance, pure players in the extraction of fossil fuels, didn't have a path to change because of the very nature of their business.

And so we've done that. And so we first said we basically recognise that this position, the scientific position of we don't really need new capacity, new fields in terms of oil and gas production in the context of the transition. And it's a very important scientific fact. If you embrace this idea, then you have to reduce your footprint in terms of the upstream business. And so that's one thing, question your existing business, and this goes for a bank, but this goes for any corporate, in any oil and gas corporate or any corporate. What I'm doing right now, is this helping or is this deteriorating the starting picture. And so you have to do this. You have to start the homework with what you're doing today. And then a bank with the capacity that we have, with our position in these value chains at the heart of production of new technologies. We've been financing, as you know, renewables for 30 years, when this was much more risky and much more unusual in the '90s than it is today. So by having this whole wealth of experience, understanding of the technologies, understanding of the transition mechanisms and ability, again, to take specific risk there, including technology risk, in supporting the transition, well, you have to do it.

All this expertise that you can put into the mix so that you can to support the transition of your particular clients, but also the overall transition of the economies. I think here, you need also to remember that it is a process, that this idea that is sometimes put forward by, let's say, more radical parts of the society, and don't get me wrong, they have their own virtue in the global scheme of things. But this somewhat radical idea that we could move from one state to another overnight is profoundly wrong. While, yes, it pushes people maybe to think more about the urgency of the state of affairs in this space, it is also, I think, profoundly mistaken because it ignores the reality, right? I mean, the social cost, the political cost of going too fast could overwhelm the cost stemming from the climate risk in the short run. And again, it's a balance between this radical risk, short term one, and the radical risk, not less radical risk of climate change, but which is a little further out. Balancing these things to reach some form of optimum path is very important. This is where it gets trickier.

Kokou

Yeah, it's quite amazing, the challenge of having short term priorities and this massive some long-term risks that needs to be optimised as well. Actually, it leads me to the next question, which is time. With the passage of time, generations come and go, how do banks adapt and stay relevant to the evolving needs and demands of each generation or customers?

Slawomir

I think, again, by being profoundly embedded in society in the economy, by being this cog, again, the system changes. We start with whatever steam machines or steam-powered machines. We go into AI over the course of, let's say, 150 years. By being at the heart of the economy, by supporting this change, like almost every day at a very granular level. And by supporting clients like we do, sometimes, I mean, very often for decades, but we have a whole bunch of clients. We've banked for 100 years. And so at some point, I'm sure we were not financing their cars through leasing, but maybe financing some horses. I mean, I'm making that up. But we were there. We were there in the state in which they were at the end of the 19th century. And we're here today helping with their current challenges. And so by being as proactive as possible at the heart of what happens every day, This is how we stay relevant. But also in our case, I think what was really brilliant, and I thank our forebearers for this, people who were running this bank 20, 30, 40 years ago, that as change was happening, they also took on proactively the responsibility of thinking about new solutions to address these new challenges.

And one of the very concrete and specific example is 'project finance' was somewhat invented at Societe Generale 40 years ago because someone started to think when you have massive investments into infrastructure or big energy projects or whatever, there was this realisation that you can't simply finance this off your balance sheet through an overdraft, if I exaggerate my point, and that you had to come up with a different set of parameters and the different technology from a banking perspective to address this need for a long construction period that no one wants to take the risk of financing, especially at the time, but even today. And so the need for specific banking capital to cover this. And then how do you bank something that will basically be paid off a very long period of time and therefore coming up with this idea that you have to contractualize the future cash flows, etc. And this different modelling of your credit risk will actually allow for these investments to happen. And so that's another example. So being at the heart of what happens, but also taking on the responsibility of being part of the solution. And this goes back to your previous question, our previous discussion on climate change.

How can we be both in the middle of this transition, in the middle of this change, but how can we also come up with new solutions? And this is why also we came up with that fund, this investment fund, to which we want to commit a billion of equity, which is quite unusual for a bank. Why do we do this? Because we believe that today, if you want to support bold initiatives in terms of trying to come up with new technology solutions to address climate change or carbon capture or whatever, you need to be taking more risk, equity risk, with the wealth of expertise that you have. So that's another example of the thing.

Kokou

Well, this is interesting, cause it’s at the same time, this concept of Darwinism or your ability to adapt to change and also being pretty much thinking outside the box, looking at the mix that didn't exist before. Moving on to the next question. Obviously, banks have faced and continue to face an important regulatory constraint environment, putting pressure on balance sheet capital and equity and even funding, and you mentioned some of that. What measures should banks take to adapt? Almost from a Darwinian perspective in terms of adapting to their environment, regulatory environment, and making sure they are stronger for the future?

Slawomir

I mean, this is at the heart of our challenge for the future, right? And I'm not going to repeat what you just said. It's spot on. And in the end, the way I think about it, the way I model this in my head, if you will, in my brain, is we have to focus on where we bring the most value and where our role is the most specific. Let me explain. If constraints are mounting around us, if you will, if we're surrounded by all kinds of sharks, so to speak, and the sharks being changed, being constrained and change, it's not our competitors. If we have one shark being the massive technology revolution that could lie ahead of us, if the other shark is the mountain constraints from a regulatory standpoint, which create an unlevel playing field, but not so much between... I mean, yes, between us and other regions, but more profoundly between us and other players, well, then what is it that is the most specific to us, where we can bring the most value? And what are the parts of what we do today that maybe eventually they are going to be done by somebody else?

So even more precisely, I do have the belief that what we're the best at is the ability to understand the overall needs, banking needs and investment needs of our clients overall, not just one vertical or one particular sector, one particular geography. But we're today, the banks, the only ones to be able to look at a client which is active in 60 countries all over the world in diversified businesses and have the ability to understand the needs globally and to be able and willing to support all of their development all over the world. Today, no one else than the bank can do that. Maybe this is at the heart, and actually it speaks back to that mission statement and core purpose I referred to at the beginning. So if we focus on this, maybe twenty, thirty years from now, we don't hold some of the credit. Maybe the entire credit, if I push it, maybe the entire balance sheet is with some private credit players which hold the entire balance sheet of the world economy, if you will. But we're still the operators of the client. We're still the underwriters of this risk. We're still the ones who understand it globally.

But then we channel these things to where the balance sheet is. While it's more complex and more difficult to imagine this for capital markets, you can draw a parallel on the risk-taking side of it. Again, the mechanics, maybe today we're the best at operating this, although we're also challenged by new players. So maybe we're the best market makers and market participants because of our overall understanding, overall capacity. But maybe the underlying risk-taking could also be outsourced to some end money, so to speak. So that's how I see this a little bit. Again, we're being this cog, able to operate the clients and able to intermediate the need for risk-taking, where the risk capacity is. And the same could be said about the resources. French banks spend, I guess, more than 25 billion, that would be my guess, in terms of technology every year. Does it make sense for five, six, whatever players to spend 25 billion in technology every year, each one in its own little silo? Or at some point, is there going to be a player out there who's actually a technology player who's going to be much better, much better at operating these 25 billions and probably this 15 billion instead of 25.

So I see something where the specificity of everybody is what makes everybody win. And we will need to be very clear about what is specific about us and what is the value that only us banks can bring to the table. And again, I think it goes back to this ability to understand the banking needs and the risk overall in a particular jurisdiction for a particular client, for a particular sector, and then being the integrator of that service based on everybody else's capacity.

Kokou

It reminds me of the division of labour in Taylorism. When you build a car, you have different processes or even a value chain. What you're saying is that there could be a different and better optimal allocation of tasks around the banking system in terms of clients, et cetera.

Slawomir

You see, if I may, just to make it a bit clearer, we would alleviate a lot of the regulatory constraints if we did that. Because again, most of the capital and liquidity constraints, which are obviously the core ones for a bank, would actually also be outsourced to end risk capacity.

Kokou

Yes, very interesting. Just a couple of questions, I'm sure, as we are short on time. But you talked about the disruption. The founder of the World Economic Forum has called AI a key driving force, behind the fourth industrial revolution. We know SocGen was obviously a big player in the first industrial revolution. Is AI, according to how you see the world, as much a threat or as it is an opportunity for the banking industry?

Slawomir

I mean, it's a very difficult question, right? Because as far as I'm concerned, at least, and if you have your own views, I'll be very interested to hear them, but it's very difficult today to grasp conceptually, intellectually, what the end game of this revolution is. Because if the end game is that there's no more work for us humans, then every single task can be performed by some form of artificial intelligence. I don't know where that leaves us ultimately, and what role we have as humans on this Earth. But without going there, because that's going to take a few decades at least, it's clearly an opportunity for efficiency because I think everybody, any industry, any sector can benefit from this. But in banks, we have a high number of industrial processes that are suboptimal because of the way for all of us, we're more advanced, less advanced, but all of us, we have systems that are 40 years old in terms of initial original architecture and way less optimised than in most other industries. Therefore, we have a lot of industrial processes because in the end, banking, from an industrial perspective, it's only IT on some level, right?

And these are suboptimal processes with a lot of breaks and a lot of manual rework. So from this perspective, I think we're a massive opportunity for AI efficiency improvements. And I think it's very important because we, in our industry, got probably a little lazy. We were much less disrupted despite all the fintech talk and everything than any other industry because of the mediaeval walls that surround us from a regulatory standpoint. So we're in this village. We're all in this mediaeval village with very high walls of regulations. And this is why we've been a little lazy within the village. Not so disrupted in the end, here and there on some small pockets of our value chains, but not profoundly. Now, if within the village, one of us figures out this whole AI opportunity from an efficiency standpoint, I'm not even talking about the front ends here, which obviously would be a second wave of disruption in my view. But if somebody in the village, within the village, figures out that much faster than the others, then there's going to be massive disruption within the village. That's going to be much more difficult to handle because the one thing that happens in the village is that we're all competing for our investors.

And this competitive dynamic could be really all of a sudden unbalanced if someone can shed another 10, 15, 20 % of cost to 20 points of cost to income ratio because they figured this out before the others. So it's both an opportunity, but also a challenge. You don't want to be the last one to figure it out.

Kokou

Yeah, fascinating. The walls are a bit like a resistance to change in a way. Here you could have an opportunity of change within the village, which can disrupt the equilibrium of the village.

Slawomir

Absolutely interesting.

Kokou

All right, so let's finish with a more personal question, Slawomir. Sure. Who has been a major influence in your life and career and has contributed to shaping you into the leader you are today?

Slawomir

I want to say most of the people I had the honour and the privilege to work for or with. I'm a bit of a sponge, right? I listen, I watch other people doing what they're doing. I've done that my entire life, but I continue to it today. I'm reasonably good at challenging myself, right? There's not one day where I go to sleep without asking myself, like a cow, right? Going back on what happened during the day, ruminating a little bit what happened and trying to ask myself, Okay, what's the thing that I could have done better? How could I have listened more or done things in a better way, prepared myself for a meeting in a better way? And that is a state of mind which allows me to take on a lot from what everybody is doing well around me. And even today, again, people who work on my team, clients of course, big source of inspiration what clients are managing to do. So I would say the collection of all these people that I was able to work with.

I think we can learn every day from everybody if we just both dare and take the time to open our eyes and our ears to what's going on around us. There's inspiration all over, all around us.

Kokou

Yeah, incredible. I think what you just said reminded me of this idea of generation and time. It's almost like there's a passing of the baton of skills and leadership insights from one generation of leaders to the next, and then they make their own views and insights from what they learn from their predecessors.

Slawomir

Absolutely. I think the point you're, I think, making indirectly here is very important, too, is that we all have the responsibility. You're a brilliant part of our bank, and we're very proud to have you and you, but everybody, we all have the responsibility wherever we are, to pass that knowledge, experience, and vision that we all have to the people that work for us, younger generation, of course, because this is where we give them the foundation from which they're going to build their own vision and take it further, better, to a better place than what we managed to do. Hopefully much better, especially from a climate risk perspective. Absolutely.

Kokou

It reminded me of the motto, 'The Future is You', of Societe Generale. I had to put it in there. Before we let you go, do you have any final thoughts or advice about the future for our listeners?

Slawomir

I think this combination of being aware and being honest about what's going on, it's very important. Nothing great can be built or addressed in terms of challenge if we don't start from a position of awareness, not telling ourselves stories. It's true for Societe Generale today, it's true for the banking industry, it's definitely true for the world from a climate transition, climate risk perspective. So starting from a position of awareness and insight about the situation is where we need to start. And then we need to believe in us as a species and as a bank, as an industry, as a country, as whatever. We need to believe that we can, we can affect change and that we can make things better. This has been our story for forever as a species, and it needs to be the one. There's nothing worse than a combination of lack of awareness and some form of, let's say, fear, anxiety, and depression when looking at the future. The combination, this combination is lethal and is going to drive us nowhere. It's the opposite, the combination of awareness and some form of hope and belief that we can make it.

Kokou

It's reminding me of another quote, “There's nothing to fear than fear itself”. Absolutely. It gets stuck and paralysed. Well, thank you so much, Slawomir, for those inspiring words and discussion. It's been a real pleasure having you on the 2050 Investors podcast.

Slawomir

The pleasure was mine. Thank you very much, Kokou. Thank you. Take care.

To conclude, here are some key takeaways: as we look to the future of banking and the challenges ahead, one thing is clear: the role of banks remains as vital as ever. They serve as a trusted partner to safeguard client’s money, provide guidance, support their goals and help turn their dreams into reality, whether it is buying a home, starting a business or planning for the future.
This is a role that banks have played for centuries and have proven to stand the test of time, with clients always at the centre of everything they do.
In light of this, I’d like to leave you with this quote by Peter Drucker: “The best way to predict the future is to create it!”
Thank you for listening to this episode of 2050 Investors. Thanks to Slawomir Krupa for his invaluable insights. I hope this episode has helped you understand the role of banks in today’s world and that of tomorrow. You can find the show on your regular streaming apps. If you enjoyed the show, help us spread the word! Please take a minute to subscribe, review and rate it on Spotify or Apple Podcasts.
See you at the next episode!