From car insurance to banking, a new digital age is dawning

How we handle money, what we drive and how we even divorce will become cheaper and simpler soon, says a leading futurist

Juliet Stott   Sat 31 Mar 2018 07.00 BST

Borrowing cash may soon come from friends in your social network. Photograph: Donald Iain Smith/Getty/Blend Photograph: Donald Iain Smith/Getty Images/Blend Images

The way we bank, borrow money and buy products such as insurance, cars and legal services will change dramatically due to exponential advances in technology. Leading futurist Gerd Leonhard, whose clients include Vodafone, Prudential, Lloyds Bank and UBS, spoke to Guardian Money about how handling money will change more in the next 20 years than it has done in the previous 300.

“What’s happening in finance is what has already happened in music. Spotify digitised it, made it easier to access, more convenient and cost-efficient. People can access 20m songs for £10 a month, rather than £1 per song as before. A very similar change is going to happen with money and financial services,” says Leonhard.

In the not-too-distant future, transactions such as cross-border payments, small business and personal loans, and sharing the bill with friends, will be conducted within social networks and run by artificially intelligent systems. "Increasingly, things will be done by cloud apps and intelligent assistants. You won't need the banks for that. It will be a boon for consumers," claims Switzerland-based Leonhard.

Borrowing money

Forget going to a bank – soon you will turn to your friends and family, or those in your social network. The borrowing process will all be facilitated by digital platforms such as Facebook, Google, Alibaba and Baidu, divisions of which all have banking licences, so it's not a question of if, but when. Currently, Leonhard says, this isn't happening fast enough, but "within the next five years, low-level loans will be increasingly done via leading digital platforms".

Buying a car

Where most families now own or lease their car, in the next five years they will subscribe to a mobility service, says Leonhard. "Non-ownership will rise, and people will borrow, share or use cars on demand."

Last year, Cadillac launched a month-to-month subscription service called BOOK in New York, later extended to Los Angeles and Dallas. Subscribers pay a one-time $500 (£355) initiation fee and $1,800 monthly to access a "curated selection of vehicles". This fee includes taxes, insurance and maintenance costs.

Similarly, Daimler is operating its car2go car-sharing service across parts of Europe, the US, Canada and China, and last month claimed to have passed the 3 million member mark - though, notably, it couldn't crack Britain: car2go set up operations in London and Birmingham, but withdrew from the UK in 2014, saying that "the unique challenges we encountered were more significant than expected". Nevertheless, car2go claims studies project that the number of people who car-share "will increase fivefold over the next few years”.

Banking

Many have already ditched traditional banks in favour of the new wave of smartphone-based challengers. One of the players making the biggest waves in the UK, particularly among under-30s, is app-based Monzo, which started out offering a prepaid debit card before switching customers over to a full-blown current account. Earlier this month it announced it had hit 500,000 current accounts, with boss Tom Blomfield setting a target of 1bn customers. Monzo offers various whizzy features but is keen to stress it is a fully licensed UK bank where your money is protected by the Financial Services Compensation Scheme.

However, it faces competition from a whole stack of rivals. The German smartphone-based bank N26 plans to launch in the UK and the US this year, and says more than 850,000 people across 17 European markets have already signed up. Leonhard suggests that there are other players, such as US-based Moven – which launched a money-monitoring app in the UK last year – that aims to disrupt the current banking model even further.

The shift to digital payments and money transfers will be mind-boggling, insists Leonhard, who believes anything at a low-level range of £5 to £500 will increasingly be done outside of a traditional bank for a fraction of the cost. Services such as TransferWise are already circumventing the costs for international money transfers. It claims its rates are up to eight times cheaper than those of banks.

Leonhard says you only have to look to African countries to see where things are going. M-Pesa, partly owned by Vodafone, claims to be the world’s most successful money transfer service, enabling millions who have access to a mobile phone – but not to a bank account – to send and receive money, make bill payments and so on.

At the last count M-Pesa had 32 million active customers, and says its latest figures show numbers growing by 13% year-on-year. It is currently available in the Democratic Republic of Congo, Ghana, Kenya, Lesotho, Mozambique, Tanzania, Egypt and India.

Insurance

Car sharing and the rise of self-driving cars will eventually make motor insurance, as we know it, obsolete, says Leonhard.

“It’s very likely that you won’t need this kind of traditional insurance any more. The vehicles will be insured, not the drivers, and self-driving cars will have a greatly reduced accident rate. Manufacturers will bundle insurance into the car package, so you’ll always be insured,” he says. Of course, this month’s accident in the US in which a pedestrian was killed by a self-driving car has cast a cloud over the sector. But Leonhard says that as the technology gets better and cars aren’t used for racing around the city, “there will be very few accidents. Less accidents means lower premiums”.

Other types of insurance, such as for buildings, will be upended due to the “internet of things” (IoT). As homes begin to accumulate smart gadgets connected online, the chances of unexpected failures leading to fire, flood etc will diminish – and, as risk is reduced, premiums should fall. Or at least that’s the theory. With all the data available from the IoT, drones and so on, Leonhard says “an algorithm can either augment or even replace a human actuary and accurately predict the chance of a fire”.

Legal services

Costly fees for routine legal work are also set to fall as “robot lawyers” gain a foothold. One pioneering “chatbot” in the UK is DoNotPay, which has helped people overturn tens of thousands of parking tickets, and is on a mission to help avoid paying legal fees altogether. Now its latest robot lawyer is turning to other tasks such as lodging a workplace discrimination complaint or cancelling an online marketing trial, even applying for political asylum or getting a divorce.

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